



Oil & Gas  
Authority

# OGA Annual Report and Accounts

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2016–17

(for the year ended 31 March 2017)



# **Annual Report and Accounts of the Oil and Gas Authority 2016–17:**

Accounts presented to the House of Commons pursuant to  
Section 7(2) of the Government Resources and Accounts Act 2000

Report presented to the House of Commons by Command of Her Majesty

Ordered by the House of Commons to be printed 20 July 2017

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Any enquiries related to this publication should be sent to us at:

Oil & Gas Authority  
AB1 Building  
48 Huntly Street  
Aberdeen AB10 1SH

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# Annual Report and Accounts

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2016–17

(for the year ended 31 March 2017)

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# Principal objective

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The Oil and Gas Authority's (OGA) role is to regulate, influence and promote the UK offshore oil and gas industry in order to achieve the statutory principal objective of maximising the economic recovery of the UK's oil and gas resources (MER UK).

The OGA also regulates the exploration and development of the UK's onshore oil and gas resources and the UK's offshore carbon storage, gas storage and offloading activities.



## Chairman's statement

Last year I wrote that “2016-17 will be another demanding and interesting year”. And it was.

The rest of this Annual Report spells out in great detail what has happened, what has been done and how the OGA has lived up to its remit. The Chief Executive's report describes succinctly the key events and programmes in our work and provides a clear impression of our performance. I will not duplicate his account.

A key change for the board was our transformation to a Government Company. This provides our licensees and others bound by the MER Strategy with greater assurance of our independence as a regulator.

For this year now completed I would claim that we have delivered successfully more than might have been expected. This has not been easy for OGA staff; the pressure on individuals has been constant but their contribution has not wavered. My thanks to them, together with the hope that now the start-up phase is virtually complete life might become less hectic. But then experience tells us that the unexpected can happen, and we will respond quickly and surely as we have already done in the short space of our existence.

My thanks also to the Sponsor team in DECC and then BEIS; their help and forbearance were of great value.

My term of office ends in March next year so this will be my last Chairman's statement. I am pleased that I will leave behind me a competent and well-performing organisation, which has given me much pleasure to lead. I hope my successor will adopt my mantra that the OGA should be neither autocratic, bureaucratic nor a growth industry, and a good place to work.

Finally I must again pay tribute to the effort and leadership of Andy Samuel, our Chief Executive. A truly outstanding performance.

A handwritten signature in blue ink that reads "Patrick Brown". The signature is written in a cursive style with a horizontal line underneath.

**Sir Patrick Brown**  
Chairman





## Chief Executive's statement

2016-17 was a period of ongoing change for companies operating on the UK Continental Shelf, as the industry continued to adapt to lower oil prices with a sustained focus on reducing costs and improving efficiency.

It was also a time when the regulatory framework changed significantly for the first time in more than four decades.

The implementation of the Energy Act 2016 and the Maximising Economic Recovery Strategy for the UK created new regulatory powers for the OGA and we completed our journey to become an independent government company.

Despite this ambitious target, we delivered strongly against a constantly evolving industry backdrop and while establishing our organisation.

To set direction and create alignment, we published strategies and delivery programmes for all the key areas of our work from exploration to technology to decommissioning.

We introduced new asset stewardship expectations for operators and licensees, across the oil and gas lifecycle, and created a new asset stewardship survey, replacing and integrating multiple existing surveys.

To help revitalise exploration activity we released almost 40,000km of new seismic data to the industry and implemented the second £20 million government-funded package to acquire a further 20,000km of new seismic data in prospective frontier areas.

We successfully completed the 14th Onshore Licensing Round and ran the 29th Offshore Licensing Round – the first frontier round since 1997 – attracting 29 applications, from 24 companies, across 113 blocks.

The MER UK Forum and Taskforces continued to be an important focal point for engagement between the industry, government and the OGA, and we continued to promote the sector with UK and international investors.

We also completed our second annual MER UK Awards Programme, recognising the excellent work of companies whose innovative and sustainable contributions are helping to maximise economic recovery and highlight best practice.

In March 2017 we published our Activity Plan 2017 and 2018, which retains our ambition, strategic priorities and operating framework and focuses on our planned activity for the coming 24 months.

The plan includes clear milestones and targets for each area of activity, together with leading and lagging indicators, so we can measure and communicate our progress effectively.

I am pleased with the progress we made in 2016-17 with continued strong support from the industry and government.

The OGA's work to create a 2035 vision for the UK oil and gas industry indicates that maximising economic recovery, while doubling our share of the global technology and services market, can create £300 billion of additional value for the UK.

We will continue to work in partnership with the industry, government and other key stakeholders in pursuit of this considerable prize, using our powers and influence to create greater transparency, increased collaboration and sustained cultural change.

A handwritten signature in blue ink that reads "Dr Andy Samuel". The signature is fluid and cursive, with a long, sweeping underline.

**Dr Andy Samuel**  
Chief Executive

# Strategic report

## About the Oil and Gas Authority

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The OGA was formed in April 2015 as one of the key recommendations of a review of the United Kingdom Continental Shelf (UKCS) by Sir Ian Wood.

In October 2016 the OGA became a government company, limited by shares, under the Companies Act 2006, with the Secretary of State for BEIS as the sole shareholder. The establishment of the OGA as an independent government company formalised the transfer to the OGA of the Secretary of State's regulatory powers, in respect of the oil and gas licensing regime, and granted it new powers.

The OGA seeks to be a progressive and highly effective authority, seeking to attract investment and with that jobs, helping to anchor valuable skills and expertise in the United Kingdom.

The OGA recovers its costs via direct fees for specific activities and a levy on licence holders. This is in line with the established principle across regulation and service delivery of 'user pays', where the regulator recovers its costs from those benefitting from its services.

The OGA is headquartered in Aberdeen with another office in London.

On 1 October 2016 the OGA gained significant new powers in order to effectively regulate the UK oil and gas industry. The OGA will exercise its powers when appropriate to ensure timely achievement of the principal objective. It will do so in a transparent, consistent and targeted manner as a complement to its collaborative and facilitative work.

The OGA is working with industry to create a culture that identifies disputes early and resolves these (with the aid of OGA facilitation if needed) wherever possible without recourse to the formal powers of the OGA or the courts.

The OGA works closely with industry and government, including BEIS, HM Treasury and other key government departments providing expertise and evidence where appropriate. The OGA also works with the Scottish government.

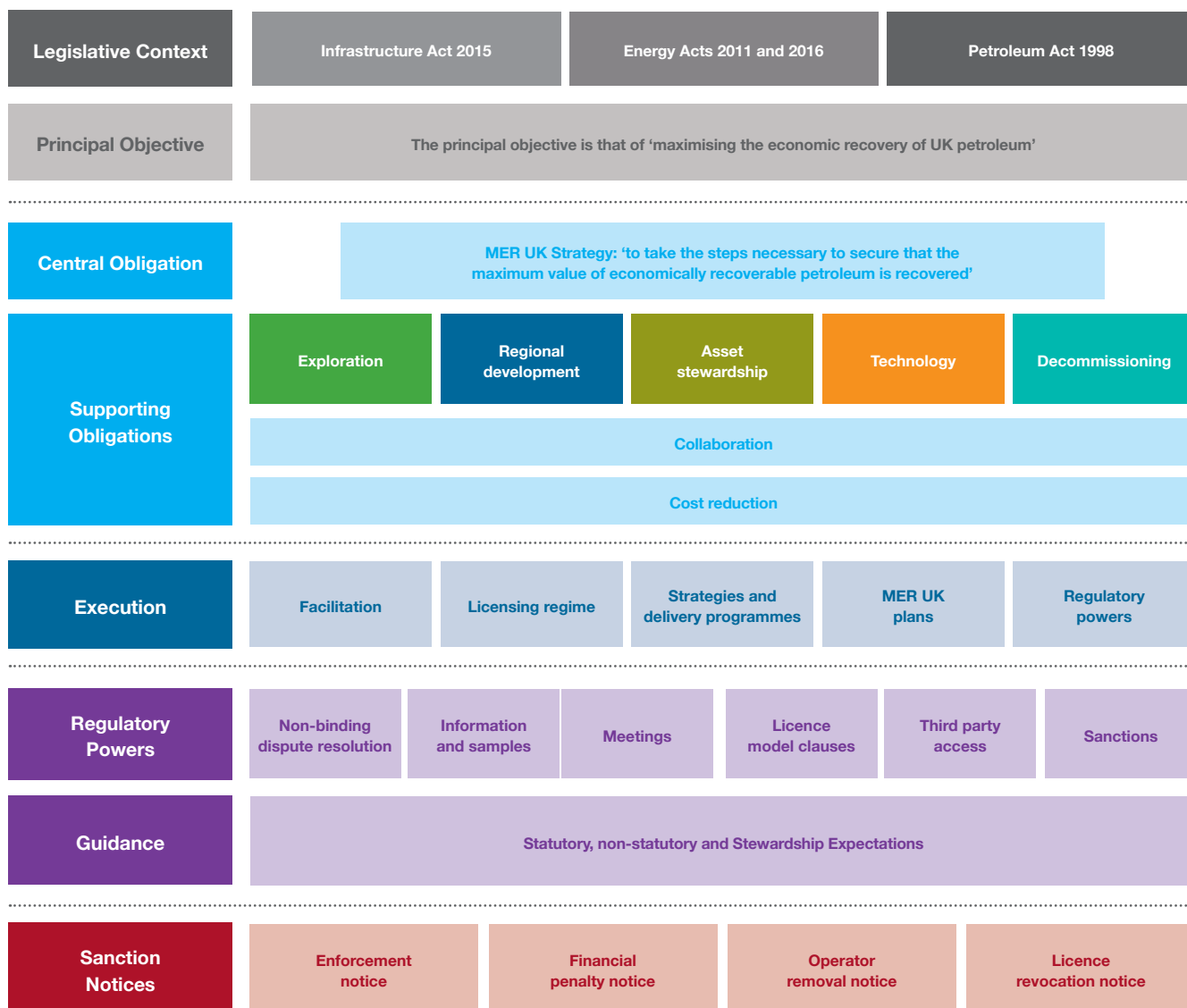
The MER UK Forum and task forces (previously boards) continue to support the delivery of MER UK. Bringing together government, industry and the OGA, the forum provides strategic direction and oversight. The forum is part of Oil and Gas Day, which takes place twice a year and includes the HM Treasury-chaired Fiscal Forum.

The task forces and their workgroups encompass a wide spectrum of participants from the OGA, industry and government and have delivered important results since they were created, including contributing to the development of the series of strategies.

Following a review of the forum and task forces in early 2017, the number of task forces was reduced from seven to six, the work of the Regional Development and Infrastructure board having been completed. The MER UK Steering Group has been established to steer and provide assurance on the delivery of the task forces' activities.

The following figure illustrates the regulatory framework in which the OGA operates.

### Regulatory framework



# OGA Corporate Plan 2016–2021

The OGA's ambition, purpose, priorities and values were articulated in its Corporate Plan 2016-2021, published in March 2016.

The plan, developed in collaboration with industry, was deliberately ambitious and articulated a number of high level objectives across seven priority areas. These were accompanied by activity plans in each priority area, covering the planning period 2016-2021 but with a focus on the near term (one to two years).

In March 2017 the OGA published an Activity Plan 2017 and 2018. This retains the aims, priorities and operating framework articulated in the corporate plan, updated with a set of milestones and targets for achievement over 24 months.

## Corporate Plan delivery

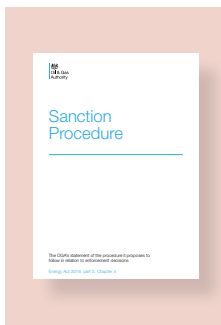
### Strategies



#### Strategic overview:

Published, with industry seven sector strategies setting direction.

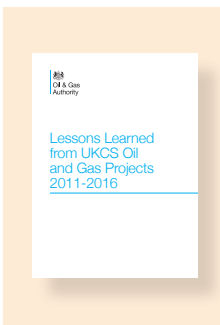
### Guidance



#### Explaining how the OGA works:

Worked with industry to provide guidance on the new powers and how they would be used.

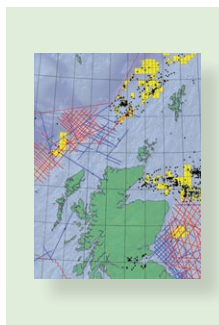
### Data



#### Making valuable data available:

Published small pools data pack, Projects Lessons Learned report and released almost 40,000km of new and legacy seismic data.

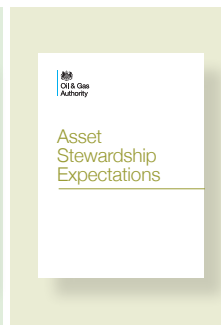
### Licence rounds



#### Revitalising exploration:

Completed the 29th Seaward Licensing round for frontier offshore areas and the 14th Onshore Licensing Round.

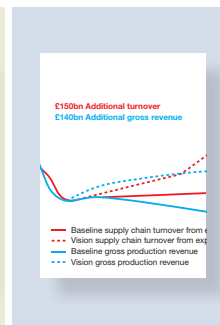
### Stewardship



#### New stewardship regime:

Worked with industry to develop 10 expectations spanning the whole lifecycle and carrying out face-to-face tier reviews with operators.

### Promotion



#### Promoting the UKCS:

Worked to identify and mitigate the perceived barriers to investment in the UKCS.

# Performance report

## Key achievements in 2016-17

April	Released 20,000km new seismic data to industry				
May	Energy Bill received Royal Assent to become Energy Act 2016				
June	SNS Plugging and Abandonment (P&A) Hackathon	Decommissioning Strategy published	Information Management Forum established Launch of the 2016 seismic programme		
July	29th Offshore Licensing Round launched	First Annual Report and Accounts 2015-2016	Publication of EOR Strategy	Launch of the 2016 seismic programme	
August	HR, regulatory and finance systems established for GovCo		82 licenses covering 145 blocks offered under the 14th Onshore Round		
September	Decom Delivery Programme	GovCo framework in place		Technology Strategy published	
October	Third Party Access guidance published	Undeveloped Discoveries Info Pack published	OGA established as independent Government Company	IM Strategy published	Sanctions guidance published
	Publication of Exploration Strategy	Supply Chain Strategy and Programme published	MER UK in Practice event	OGA Stewardship Expectations published	Dispute Resolution guidance published
November	SNS Rejuvenation Group launched	Publication of Competition and Collaboration paper	Asset Stewardship Survey 2016 live	UKCS Production Efficiency 2015 results	Second MER UK Awards
December	Well Construction Hackathon	EOR Delivery Programme published	Information and samples powers commencement under Energy Act 2016	Offshore 2016	
January					
February	MER UK Forum and Boards Annual update published		Asset Stewardship Survey 2016 closed		
March	Activity Plan 2017-2018 published	25 licences awarded in 29th Offshore Licensing Round		Lessons Learned 2011-2016 report published	

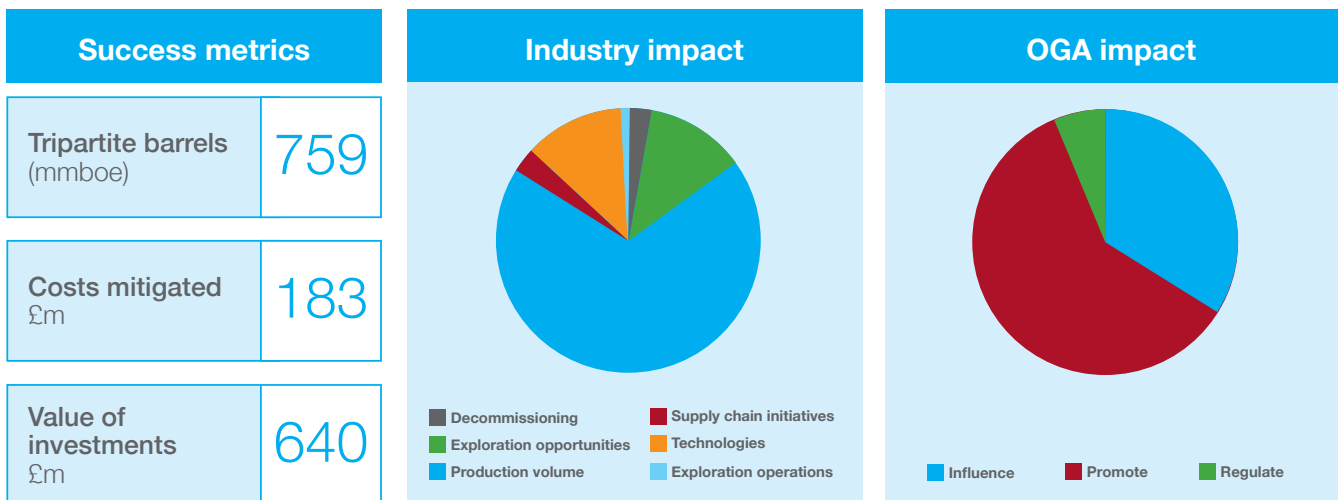
## Measuring success

The OGA has developed a success stories tracker, dashboard and methodology which allows impact to be quantified using three key metrics which look at expected future volume of oil and gas production, capital expenditure committed to new projects and reduced or avoided costs through improved or accelerated outputs.

The success stories which were recorded across the OGA in 2016-17 are shown in figure below. Among them were examples of cost savings achieved by the OGA consents team through the fast tracking of applications to avoid lost production and vessel costs. Others highlighted a flexible approach to working with operators for example by swapping firm well commitments in order to ensure the most prospective targets were drilled; and successes achieved by facilitating industry collaboration, for example, to enable a new production hub to connect to existing infrastructure.

The OGA will continue to demonstrate where its activities and interventions have made a beneficial impact relative to what could have happened in the absence of support or intervention. As part of this process, the OGA will continue to publish a series of selected case study illustrations of MER UK in action.

### 102 success stories between April 2016 and March 2017







Clair Ridge platform – photo courtesy of BP



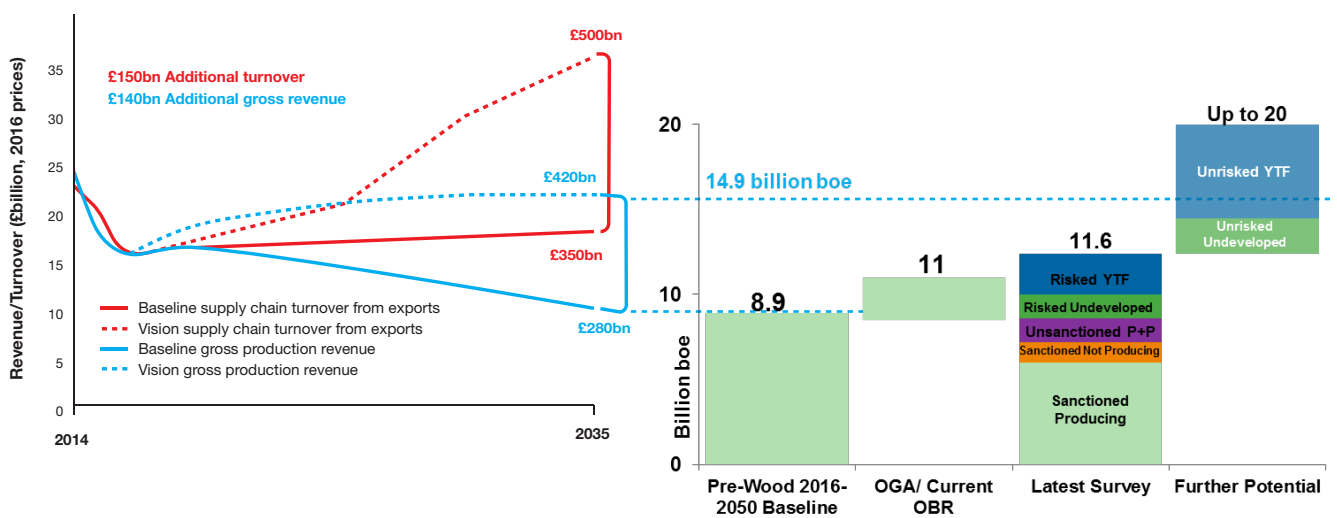
### Vision 2035 – MER UK progress

The OGA has worked with the industry, governments and others to develop a single, compelling vision for the UK oil and gas industry; Vision 2035.

By maximising economic recovery and doubling the UK’s share of the global oil field services and technology market, the opportunity exists to increase the value of the UK oil and gas industry by half again by 2035.

Strong progress has already been made; industry is adding extra barrels with the OGA acting as a catalyst to this success. The OGA estimates the baseline figure for remaining recoverable oil and gas to have increased to around 11 billion barrels, with a potential of up to 20 billion barrels including unrisks prospects and yet to find fields.

### Vision2035: MER UK Progress



All volumes 2016 to 2050

## Developing the organisation and our people

2016 was a pivotal year for the OGA. The organisation grew from 130 at the beginning of the year to 157 by December, remaining within the current self-imposed cap of 168 personnel. With the growth of the organisation, a number of changes to the organisational structure were implemented, including the consolidation of six directorates to five.

On 1 October 2016 the organisation “vested” and became an independent government company (GovCo), bringing into force new regulatory powers and completing the work envisioned in establishing the new regulator.

The OGA team has been through a significant amount of change in recent years. For some it has been a journey out of the Civil Service into a government owned company and for others it has been a career move out of industry into the public sector. The OGA has made it a priority to be, and remain, a great place to work.

Ensuring that the OGA attracts, develops and retains the talent needed to deliver on its responsibilities and objectives is essential. To achieve this, the organisation focuses on effective policies, processes and systems to underpin professional recruitment, performance management, training, reward, and employee engagement.

Specific targets are in place to embed the use of performance and development activities and meaningful employee engagement.

### The OGA way forward

Way forward	2017 programme priorities – Top 10	KPIs <sup>1</sup>	
		Leading	Lagging
Revitalise exploration	1. Increase in quality E&A drilling	Attain 90% 2017 programme	200mboe additional recoverable resources
Improve asset stewardship	2. Enhance asset stewardship	90% Tier 1 reviews complete	Production efficiency 80% by end 2018 Increase average recovery factor % by end 2020
Drive regional development	3. Area and MER UK plans to deliver barrels and value	50% of area plans identified in opportunity matrix 2017	
Improve decommissioning efficiency	4. Delivery of efficient decommissioning	Review all operator decom programmes to improve cost and efficiency	Reduce abandonment expenditure by 35% from 2017 baseline estimate
Leverage technology and data	5. Delivery of Information Management (IM) and technology plans	Attain 75% IM programme Attain 90% tech programme	10% reduction in well drilling and construction costs
Create the right conditions	6. Use powers to maximise economic recovery 7. Inform UK Government's Industrial Strategy 8. Drive investment, efficiency, and new business models	Zero cases lost for process	
Develop people processes and systems	9. Transform the OGA IT systems 10. Make the OGA a great place to work	Attain 75% IT programme Development objective in place Employee engagement %	

<sup>1</sup>Where KPI targets identify an achievement of less than 100% this is in acknowledgement of the ambitious nature of the target and/or the early phase of the work required both within the OGA and with industry to deliver these activities

## Financial overview

The OGA had two financial reporting periods during 2016-17; the first six months operating as an Executive Agency of BEIS, and the second six months as a government company. The financial statements show: a twelve month set of accounts (with no transactions in the last six months) for the Executive Agency; a twelve month set of government company accounts (with no transactions in the first six months), and a full year Trust Statement. The Trust Statement shows the revenue collected on behalf of HM Treasury during the year. The figures in this section relate to the full twelve month period of the Executive Agency and the government company.

### Revenue

In setting the budget for the 2016-17 financial year, the intention was to raise revenues of £25.3m: £21.3m through industry levy, £3m as a contribution from the Secretary of State for BEIS, and direct fees and charges of £1m. During the year a higher volume of chargeable work was undertaken, resulting in revenues higher than projected. Over time, the OGA will monitor chargeable work and refine the budgets in order to better understand and project this revenue stream. Expenditure for the year was underspent by £78,000 which will be repaid to licensees as a levy repayment.

### Expenditure

Staffing accounts for over half the OGA's spend. An underspend on the total staffing budget is the major contributor to the underspend for the year, arising from the organisation building up its staffing gradually as it developed. The total future paybill is anticipated to remain relatively constant compared to this year's budget.

The OGA is committed to keeping firm control of its costs and expects staff to obtain the best value for money when booking travel for OGA business. Travel arrangements are planned and booked as early as possible, to benefit from better value fares, and video conferencing is used wherever practicable.

With underspends in some areas, investment was put into IT and data, including additional work on GIS, Energy Portal developments and the commencement of the replacement of core IT. Additional investment was also put into hydrocarbons additional recovery and other competitiveness projects.

The OGA received a second tranche of £20m from HM Treasury, to fund seismic work. The funding was put to good use in the year, to acquire new seismic data from the frontier areas of Mid-North Sea High and East Shetland Platform. In total, approximately 13,000 kilometres was acquired in addition to 23,000 kilometres of reprocessed legacy seismic data. The funding also allowed the OGA to contribute to the 21 Century Exploration Road Map Project, alongside Oil & Gas UK and 49 operators, to fund two petroleum system related studies in the East Shetland Platform and South West Approaches. £123,000 of the funding was unspent in the year and has therefore been returned to HM Treasury.

### 2015-16 accounts restatement

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Following discussion with the National Audit Office and the audit and risk committee, the OGA has restated last year's (2015-16) accounts. Prior to April 2017 the OGA did not operate its own bank account and payment and receivables facilities were provided by BEIS. At 31 March 2016 the OGA did not recognise cash held on its behalf by BEIS. Instead, grant-in-aid was deemed to be received when BEIS made payments on OGA's behalf. This gave rise to negative equity at the Statement of Financial Position date due to a timing difference between incurring costs and making payments. Whilst this treatment is appropriate for public sector accounting, it is not appropriate for a government company. The "grant in aid" for supply balance at 31 March 2016 has therefore been reclassified as a receivable (from equity) in the Executive Agency financial statements. No other restatements have been made. The receivable was transferred to the government company when the Executive Agency transferred its operations at 30 September 2016.

### Viability Statement

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Directors have assessed the company's prospects, taking into account its current position and the principal risks it faces over the 2016-21 Corporate Plan period. The company has undertaken a strategic financial review and is confident that its financial management processes will ensure that its expenditure and liabilities will be covered by its income, as set out in the Plan. Directors do not foresee any changes to the regulatory or legal environment which would impact the company's operations. Directors have a reasonable expectation that the company will continue in operation and meet its liabilities as they fall due.

### Summary

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In summary, the OGA has used the available funding to deliver value adding activities, ensuring best value for money for both the industry and the Exchequer.

## Principal risks

The risks to which the OGA is exposed reflect the novel nature of its remit and its ambitious objectives. The OGA board has defined the organisation's risk appetite and oversees its risk management activities, ensuring the strategic risk register is regularly reviewed and satisfying itself that adequate mitigation actions are in place. Although unable to control external risks, the OGA works hard to understand their potential impact on the OGA and prepare accordingly.

The principal risks identified by the OGA, and the mitigation actions deployed, include the following:

Risk	Risk description	Mitigation action
1	Political and economic uncertainty.	Maintain cross government dialogue on trade and industrial strategy. Structured and responsive horizon scanning activity. Develop plans for changing scenarios.
2	IT systems attacked and breached.	Existing government secure system offers strong protection. Cyber security strategy and risk regime being developed for new OGA IT platform. Online and physical data and IT security training being developed for new OGA IT platform.
3	Impact of public perceptions of onshore exploration on the OGA's capacity to deliver.	Clear communication of context and factual information about overall regulatory regime. Effective engagement with industry bodies, planners and the public.
4	Uncertainty over future revenue.	Review fees and charges projections to highlight additional or reduced anticipated income based on existing policies. Review expenditure trends to highlight budgets which could be reduced. Review likely changes to existing licences when setting the levy.

## Environment report

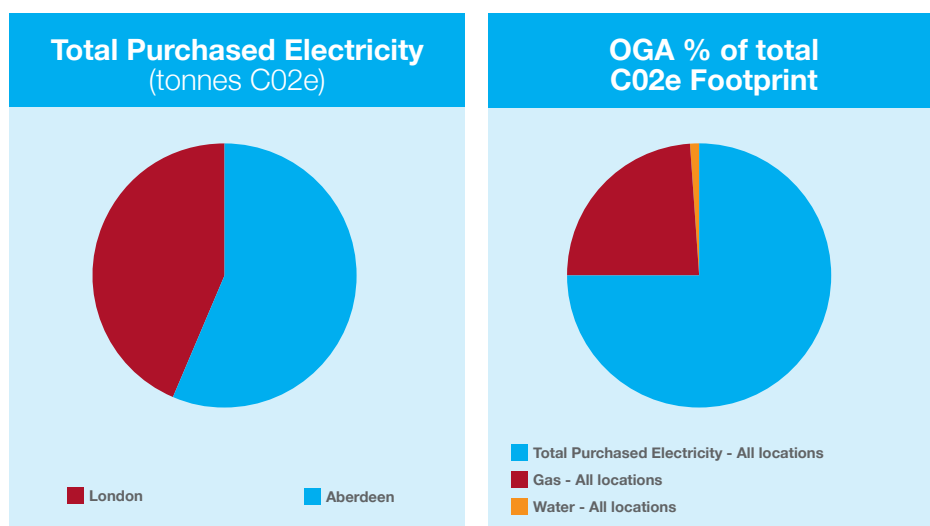
The OGA's total carbon emissions for April 2016 to March 2017 were 92.11 tonnes of carbon dioxide equivalent (CO<sub>2</sub>e). The largest source of emissions is electricity consumption, which accounts for 71.66 tonnes of CO<sub>2</sub>e (77% of the total).

### Breakdown of annual greenhouse gas emissions by activity type April 2016 – March 2017:

Activity	Units	(t CO <sub>2</sub> e)	% of total
<b>Total Purchased Electricity (kWh)</b>	<b>174,039</b>	<b>71.66</b>	<b>77%</b>
Aberdeen	75,675	31.18	
London	98,364	40.48	
<b>Gas</b>	<b>49,127</b>	<b>20.22</b>	<b>22.5%</b>
Aberdeen	0	0	
London	49,127	20.22	
<b>Water</b>	<b>1,028 (m<sup>3</sup>)</b>	<b>0.23</b>	<b>0.5%</b>
Aberdeen	1,028 (m <sup>3</sup> )	0.23	
London	No figures available		
<b>Waste</b>			
Aberdeen – general waste	3,900 Kg		
Aberdeen – recycled waste	2,600 Kg		
London	No figures available		

This is the first year for which figures have been captured so it was not possible to make a comparison with previous usage. Data capture processes have been put in place to gather all required information for both Aberdeen and London offices for 2017-18.

The OGA segregates all waste on its premises for recycling or landfill. The OGA's waste is amalgamated with that of other tenants in our multi-tenanted buildings so it was not possible for the OGA to precisely quantify its own waste volumes. As such, we have estimated our waste volumes based on the proportion of the building occupied.



Signed for and on behalf of the board

**Dr Andy Samuel**  
 Chief Executive  
 12 July 2017



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# Accountability report

## Corporate Plan performance

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The OGA Corporate Plan 2016-2021 identified 85 activities across seven priority areas. Seventy of these were targeted to be delivered in 2016.

Within this ambitious target, 70% of the 2016 workplan for 2016 was successfully completed, including 100% of the key commitments both internally and externally. This included, for example, the vesting of the OGA as a government company; establishing the regulatory framework; the publication of a series of strategies and delivery programmes; and the MER UK in practice event. The latter, held in Aberdeen in October 2016, was a significant milestone. The event articulated what the OGA expects from industry and what industry can expect from the OGA. It detailed how the OGA, as an independent government company, regulates, influences and promotes the industry and how it planned to use its new suite of powers to maximise economic recovery.

Activities which were carried forward are typically those which have changed or grown in scope as the OGA's role and the industry landscape have evolved during the year. These have been prioritised for 2017 and 2018 and will continue to be monitored by the OGA leadership team and board.

Fourteen additional activities were identified during the course of 2016, a number of which have been completed or are nearing completion. The remainder are detailed in the Activity Plan 2017-18 [<https://www.ogauthority.co.uk/news-publications/publications/2017/oga-activity-plan-2017-and-2018/>], published in March 2017, which sets out corporate plan activities by delivery year and retains the aims, priorities and operating framework articulated in the corporate plan – updated with a set of milestones and targets for achievement over 24 months.

The OGA continuously improves organisational processes and practices and applies lessons learned. As with industry, efficiency is a key focus for the OGA.

## Financial information

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The OGA recovers its costs via direct fees for specific activities and a levy on licence holders apportioned between in-production (89%) and pre-production (11%) licence holders. This is in line with the established principle, across regulation and service delivery, of 'user pays' – with the regulator recovering its costs from those benefitting from its services.

The financial overview on page 19 sets out the OGA's financial outcomes for 2016-17.

## Parliamentary accountability and audit report

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### **Regularity of Expenditure (audited)**

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No losses have been incurred in excess of £300,000.

No special payments have been made which exceed £300,000.

No material gifts have been made by the OGA.

One severance payment was made in 2016-17, as detailed in the remuneration report.

### **Fees and charges disclosures (audited)**

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The OGA, as a Public Sector Information Holder, has complied with the cost allocation and charging requirements set out in HM Treasury and the Office of Public Sector Information guidance.

Analysis disclosed for fees and charges includes:

- i. The financial objective(s) and performance against the financial objective(s)
- ii. The full cost and unit costs charged in year
- iii. The total income received in year
- iv. The nature/extent of any subsidies or overcharging.

As detailed in the financial overview in section 1 above, a higher volume of chargeable work than anticipated was undertaken in 2016-17. In line with its statutory function, the OGA does not seek to make a profit from its charges but merely to recover costs in carrying out these functions. All payers of the levy will receive a proportional rebate on any surplus payments.









### **Remote contingent liabilities (audited)**

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The OGA is not exposed to any remote contingent liabilities.

# Board and leadership

## Board of Directors and Company Secretary

	Chairman				
	Sir Patrick Brown	Chief Executive Dr Andy Samuel	Shareholder Representative Director Rebecca Vallance	Non-Executive Director Frances Morris-Jones	Non-Executive Director Robert Armour
					
		Non-Executive Director Mary Hardy	Chief Financial Officer Nic Granger	Company Secretary and General Counsel Dr Russell Richardson	

Accountable to BEIS Secretary of State

## Leadership Team

					
Chief Executive Dr Andy Samuel	Director of Operations Gunther Newcombe	Director of Regulation Tom Wheeler	Director of Strategy Hedvig Ljungerud	Director of HR and Supply Chain Stuart Payne	Chief Financial Officer Nic Granger

## Directors' report

The directors present their annual report on the company, together with the financial statements and auditor's report, for the period from 1 April 2016 – 31 March 2017.

The OGA had two distinct financial reporting periods during 2016-17. For the first six months it operated as an Executive Agency of BEIS, and the second six months as a government company. The financial statements therefore show a twelve month set of accounts for the Executive Agency (with no transactions in the last six months), a twelve month set of company accounts (with no transactions in the first six months), and a full year Trust Statement. The figures in this overview cover the full twelve month period.

A report on corporate governance matters is included separately below.

The OGA is a fair and considerate employer which values diversity and treats staff with respect. The board recognises the considerable contribution of its skilled, experienced and committed staff in delivering the company's objectives and its functions. The OGA supports staff with training opportunities and encourages career and personal development. A code of conduct and related policies are in place and are available to all staff on the OGA intranet. All applications for employment are treated equally and are fully considered.

The company encourages open and honest communication between employees and senior management. Regular company briefings are held in both locations and an employee engagement forum has been established for staff to express their views and share ideas.

The OGA had 137 employees as at 31 March 2017 (including secondees and executive directors, but excluding interim contractors and non-executive directors). There were 25 interim contractors as at 31 March 2017.

The OGA takes its environmental responsibilities seriously. Details are set out on in the Environment Report above.

During the year, the company made no direct charitable or political contributions but staff were involved in to a number of fund raising activities.

Directors are satisfied that the company pays its suppliers in accordance with contractual provisions, subject to compliance by the suppliers with their obligations.

The company has prepared its 2016-17 financial statements in accordance with International Financial Reporting Standards (IFRS). The Executive Agency 2016-17 financial statements have been prepared in accordance with the government financial reporting manual (FReM). The audited financial statements for the year ended 31 March 2017 are set out on pages 49-113. The OGA is a not-for-profit company largely funded by fees and a levy on industry. Additional interim grant funding is provided by its shareholder. Any surplus operational costs from the levy collected from industry are refunded to levy payers. [This refund is recognised in the financial statements.] On this basis the financial results for the period reflect a neutral profit position.

### Directors' third party indemnity provisions

Directors have been provided with an indemnity against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such third party indemnity remains in force as at the date of approving this directors' report.

## Going concern statement

The directors have a reasonable expectation that the company has adequate resources to continue to operate for the foreseeable future and the company financial statements have been prepared on a going concern basis. The basis of this view is outlined in more detail in note 2.5 to the financial statements. The Executive Agency is not a going concern.

The directors have assessed the company's prospects and are satisfied that company's financial arrangements minimise the risk of the company being unable to meet its liabilities.

Furthermore, the directors do not envisage any changes to the current regulatory and legal regime which will adversely affect the operation of the company within the two year Activity Plan period.

## Directors' responsibility statement

The company's financial statements have been prepared in accordance with IFRS. The Executive Agency's financial statements have been prepared according to the FReM. Directors are satisfied that they give a true and fair view of the assets, liabilities and financial position of the company for the period.

In particular they are satisfied that:

- i) the company's accounting policies are reasonable and have been applied correctly
- ii) judgements and accounting estimates are reasonable and prudent
- iii) applicable IFRS and FReM standards have been followed and any material departures have been disclosed and explained in the company and Executive Agency financial statements
- iv) the financial statements have been prepared on a going concern basis
- v) the company has taken reasonable steps to prevent and detect fraud and other irregularities
- vi) adequate accounting records have been kept to demonstrate that the financial statements comply with the FReM, IFRS and Companies Act 2006 requirements, as applicable.

Directors consider that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholder to assess the company's position, performance, business model and strategy.

## Principal risks

Directors carefully consider the way the company manages and mitigates the risks which could adversely impact the company's ability to deliver its principal objective.

The OGA's principal risks are set out on page 21 above.

## Auditor

Directors are not aware of any relevant audit information of which the auditor is unaware when giving its opinion on the accounts.

In line with the expected 2017 HM Treasury GRAA Order, the Comptroller and Auditor General has been appointed as the company's auditor.

As the company became active only on 1 October 2016, directors have yet to review the effectiveness of the external auditor. No non-audit services were provided by the external auditor.

By order of the board



**Dr Russell Richardson**

Company Secretary  
12 July 2017

## Corporate governance report

The Oil and Gas Authority Limited was incorporated on 1 July 2015, remaining dormant until 30 September 2016. The company number is 09666504.

The company became operational as the Oil and Gas Authority on 1 October 2016, when the OGA was vested with its powers under the Energy Act 2016. The OGA is a government company whose sole shareholder is the Secretary of State for Business Energy and Industrial Strategy (BEIS).

Previously, between 1 April 2015 and 30 September 2016, the OGA was an Executive Agency of BEIS (and previously DECC).

The board was established in April 2015 and its seven board members were appointed by the shareholder as directors of the company shortly before the company became active on 1 October 2016. In addition to being a director of the company, the Chief Executive is the OGA's Accounting Officer, as delegated by its Principal Accounting Officer, the BEIS Permanent Secretary.

Mary Hardy, Robert Armour and Frances Morris-Jones are deemed by the board to be independent.

Directors are collectively responsible for the overall strategic direction of the company and for monitoring its performance. The OGA recognises the value of good corporate governance and complies with all applicable principles of the Code of Good Practice for Corporate Governance in Public Bodies (Executive Agency) and the UK Corporate Governance Code (the 'Code') (company). Section E of the Code is not deemed to be applicable as the OGA fulfils its responsibilities to its sole shareholder through the board and other operational activities.

The company's primary constitutional document is its Articles of Association. In addition, there is a Framework Document which sets out the OGA's financial and performance accountabilities to Parliament and to its shareholder.

The board met on thirteen occasions in 2016-17 and has ten meetings scheduled for 2017-18. Meetings are normally held at its Aberdeen headquarters.

The chairman holds meetings with the non-executive directors without the executives being present.

The board held a separate meeting in September 2016, with the leadership team, to discuss strategy.

### Delegated powers

The OGA has set out clearly those powers which are reserved to directors and those which have been delegated to management.

Matters reserved to the board are:

- Approving the OGA's annual budget and overall financial policy.
- Approving the OGA's annual report and accounts.
- Approving the OGA's annual corporate plan, long term objectives and overall strategic policy framework.
- Undertaking a formal regular review of the board's own performance and that of board committees. Approving the terms of reference of board committees.
- Making Sanction and Third Party Access decisions.

### Induction of directors

Directors receive a comprehensive induction to the OGA and its broader context, including a programme of meetings with key stakeholders, to enhance and support their understanding of issues brought to the board. Directors are briefed on their own roles, including on matters of propriety, such as their duties under the Companies Act 2006 and the Code of Conduct for Board Members of Public Bodies.

## BOARD SUB-COMMITTEES

The board has three sub-committees: audit and risk committee, remuneration committee and nominations committee

### Audit and risk committee

The audit and risk committee is chaired by Mary Hardy and met on four occasions in 2016-17. Robert Armour and Frances Morris-Jones are committee members.

The committee reviewed financial policies and financial statements; the year-end accounting timetable; risk management and assurance mapping; and internal audit planning and progress.

The committee discussed the restatement of the 2015-16 Executive Agency financial statements and agreed the proposed change to the treatment of 'grant in aid'.

### Nomination committee

The nomination committee is chaired by Sir Patrick Brown and met twice in 2016-17. Mary Hardy, Robert Armour and Frances Morris-Jones are committee members.

In October 2016 it recommended the appointment of Nicola Granger as a director following her appointment as Chief Financial Officer and Director of Corporate. Recruitment for this role was conducted in accordance with Public Appointments protocols, using open advertising and external advisors to facilitate the search. Candidates from a range of backgrounds were evaluated on merit and against objective criteria.

The committee met in March 2017 to assess the performance of the Chairman and to plan his succession.

Led by the senior independent director, the non-executive directors reviewed the performance of the Chairman and judged him to be a very good first Chairman of the OGA.

### Remuneration committee

The remuneration committee is chaired by Sir Patrick Brown and met twice in 2016-17. The board agreed that the company Chairman, as an experienced non-executive director, should chair the committee whilst the OGA was being established.

Provision D.2.1. of the UK Corporate Governance Code recommends that the company chairman should not chair the remuneration committee and that the company should explain any alternative arrangements. The Code of Good Practice for corporate governance in central government departments, which applied to the OGA when an Executive Agency, included no such provision. Mary Hardy, Robert Armour and Frances Morris-Jones are committee members.

In July 2016 the committee reviewed and approved proposed changes to OGA pay policy and a new staff performance plan.

In March 2017 it reviewed proposals for 2016-17 bonus setting and 2017-18 pay awards.

### Board evaluation

In January 2017 all directors returned a questionnaire with their assessment of the functioning of the board and its committees, the board mix of skills and experience, and the support provided to directors. Directors met to discuss the anonymised results and agreed that board discussions are constructive and open, that materials provided to the board are of sufficient quality and the board meets sufficiently regularly to discharge its duties effectively. Directors are satisfied with the current balance of skills and experience on the board and its committees. Directors identified a number of areas for improvement, which will be addressed in the coming year.

### Conflicts of interest

In accordance with the general OGA conflict of interest policy, directors declared any financial interests which may, or may be perceived to, influence their judgment in performing their functions or obligations. The board seeks updates on this information at the start of each board meeting and on the appointment of new members, updating the record accordingly. Where a board member has a specific conflict of interest, he or she will not take part in any related discussion at board or other meetings. One new financial interest was declared in 2016-17. The board does not consider the interests held by Frances Morris-Jones and Robert Armour to be sufficiently significant to impair their independent judgement in board discussions. Their interests being in major oil companies, the board does not consider that any decision within the OGA's powers could materially impact the value of their shareholdings.

## Directors – register of interests

The OGA conflicts of interest policy states that a register will be maintained of the interests of board members and their families in oil and gas companies. Board members' relevant interests are shown below.

Member	Date advised board secretary	Nature of interest	Total current value
<b>Robert Armour</b>	21 March 2017	8,807 BP ordinary shares	<b>£40,247</b>
		1,702 Shell ordinary shares (family member holdings)	<b>£41,903</b>
<b>Frances Morris-Jones</b>	19 October 2015	33,738 BP ordinary shares	<b>£158,846</b>
		3,715 ConocoPhillips ordinary shares	<b>£139,439</b>
		1,857 Phillips 66 ordinary shares	<b>£120,355</b>

Dr Andy Samuel placed his oil and gas interests in a blind trust prior to joining the OGA.

## Directors – other directorships and offices

Member	Remunerated activities	Non-remunerated activities	Memberships of professional bodies
<b>Sir Patrick Brown</b>	Non-executive director, Camelot		
<b>Mary Hardy</b>	Non-executive director and audit committee chair, Royal Navy board Non-executive member of Ministry of Defence audit committee	Trustee and chair of audit committee, Chartered Accountants' Benevolent Association	ICAEW CIIA IOD
<b>Robert Armour</b>	Deputy Chair of NuGeneration Ltd Non-executive director of Albion Community Power plc Non-executive director of the Nuclear Liabilities Fund Chair of UK Nuclear Practice, Gowlings WLG Solicitors		
<b>Frances Morris-Jones</b>	Non-executive, Standards Policy and Strategy Committee of the board of BSI Group	Trustee, Anti-Slavery International Trustee and remuneration committee member, Public Concern at Work External Governor, University of Portsmouth, and Audit and Quality Committee member	AIPN Chatham House Women on Boards POWERful Women
<b>Andy Samuel</b>		Director, Oil and Gas Technology Centre Director, Opportunity North East	PES GB Geological Society
<b>Nic Granger</b>			ICAEW CIPFA IOD
<b>Rebecca Vallance</b>			



## Board members – dates of appointment

Name	Date of appointment (Executive Agency)	Date of appointment (company director)
Sir Patrick Brown	16 March 2015	27 September 2016
Robert Armour	19 October 2015	27 September 2016
Frances Morris-Jones	19 October 2015	27 September 2016
Mary Hardy	1 November 2015	27 September 2016
Andy Samuel	1 January 2015	27 September 2016
Nic Granger	2 November 2016	2 November 2016
Rebecca Vallance	–	8 December 2016
Stephen Speed	29 April 2016	27 September 2016 (resigned 7 December 2016)
Philip Lloyd	16 April 2016	27 September 2016 (resigned 11 November 2016)

## Board members – attendance at meetings and committees

	Board of directors	Audit and risk committee	Nomination committee	Remuneration committee
<b>Total number of meetings: 1 April 2016-31 March 2017</b>	13	4	2	2
Sir Patrick Brown	13	–	2	2
Mary Hardy	12	4	2	2
Frances Morris-Jones	13	4	2	2
Robert Armour	13	4	2	2
Andy Samuel	13	4	0	2
Nic Granger	5 (5)	3 (3)	0	0
Rebecca Vallance <sup>2</sup>	4 (4)	3 (3)	0	1 (1)
Stephen Speed	8 (9)	–	–	1 (1)
Philip Lloyd	7 (7)	2 (2)	–	–

Numbers in brackets denote the number of meetings held during a director's tenure.

<sup>2</sup> Rebecca Vallance took over from Stephen Speed as Shareholder Representative Director in December 2016.

### Implementation of staff policies

On its transition from an Executive Agency to a government company, the OGA introduced a code of conduct and a number of associated policies which set out the obligations and responsibilities of staff and board members, including under Data Protection, Freedom of Information and anti-fraud law. A new policy and procedures for raising concerns at work ('whistleblowing') was introduced at this time. The code of conduct and all internal policies are periodically reviewed and updated if necessary.

### Conflicts of interest

In February 2017, following an annual review of potential conflicts of interest among staff and board members, the OGA identified no new material conflicts.

### Fraud and whistleblowing

During 2016-17, the OGA detected a small number of 'phishing' attempts to subvert our financial approvals processes. Staff followed the correct procedure in all cases and no fraudulent activity resulted from these attempts. Reminders were sent to all staff to reinforce the procedure for reporting such attempts.

Management has not detected any attempt by staff to commit fraudulent activity.

No concerns have been raised by staff under the raising concerns at work (whistleblowing) policy.

### Data protection

No personal data incidents were reported to the Information Commissioner's Office (ICO) during 2016-17.

### Risk management

Directors reviewed the strategic and operational risks facing the company on a quarterly basis. The OGA maintains a strategic risk register which identifies the top risks it faces, including those identified and escalated from within the organisation and those identified by the leadership team or by a board committee.

All risks in the strategic risk register have a named leadership team risk owner. All risks have mitigation measures in place to reduce the potential impact to an acceptable level wherever possible. Material changes to the risks, including any new or escalated risks, are reviewed quarterly by the leadership team and the audit and risk committee, and annually by the full board.

The Chief Executive and the leadership team continue to embed a strong culture of risk awareness and risk management in the organisation. The principal risks identified by the OGA are detailed on page 21.

### Irregular harmonisation of staff terms and conditions

During the year the OGA decided to revise staff terms and conditions, in an attempt to standardise employment contracts across the organisation. The OGA believed it had the authority to make this change and was unaware that standard Civil Service terms applied to all new appointments. HM Treasury judged the OGA harmonisation to be irregular, as the revised terms and conditions were in excess of the standard Civil Service terms offered to new staff. The differences in terms and conditions are that staff appointed prior to February 2017 will receive more beneficial sick leave, receive an additional 1.5 days annual leave after five years' service and have working hours of one hour less a week. Whilst the OGA felt it acted in good faith, it accepts that it should have sought the advice of BEIS colleagues before revising and implementing new staff terms and conditions. The OGA, working with BEIS and HM Treasury colleagues, has now implemented the standard Civil Service terms and conditions. The OGA has undertaken additional training on Managing Public Money principles.

By order of the board



**Dr Russell Richardson**  
Company Secretary  
12 July 2017

## Internal audit statement

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Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit (HIA) to give the Accounting Officer an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, timed to support the Governance Statement.

The OGA continues to go through major change and internal audit work had focused heavily on the development of new strategies, systems and processes. Governance, risk management, and the development of proportionate controls over these has been effective overall. No recommendations from internal audit reviews were classed as high priority, as no major weaknesses were found in the course of the work.

Overall, the HIA offered a 'moderate' assurance, as the framework of governance, risk management and control operating in the OGA is generally adequate and effective, though some improvements are required in certain areas. Whilst the overall opinion is the same as for 2015-16, the HIA has highlighted that in 2016-17 66% of audits were given an overall 'substantial' assurance, and 34% 'moderate', compared to 14% 'substantial' and 86% 'moderate' in 2015-16.

# Remuneration and staff report

## Remuneration policy

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OGA remuneration policies and procedures changed during the reporting year 2016-17.

While the OGA was an Executive Agency (EA) of BEIS, all permanent OGA staff continued to be members of the Civil Service. On 1 October the OGA ceased to be an Executive Agency and became a government-owned, private limited company (a GovCo). On this date, all staff ceased to be civil servants and became public servants, employed by the company rather than the Crown.

Prior to 1 October 2016, the remuneration policy for senior civil servants, including those in the OGA, was set by the Prime Minister on the independent recommendation of the Review Body on Senior Salaries. The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com)

After 1 October 2016, whilst the OGA continues to be governed in large part by rules relating to public bodies, any specific arrangements are agreed in consultation with HM Treasury and the OGA remuneration committee.

In addition, a modest increase in the amount available for variable pay was supported to underpin the OGA's new performance management system

## Performance and reward

On the recommendation of the remuneration committee, the board approved and management implemented a new policy and procedure to manage staff performance which focuses on driving performance and rewarding delivery against clearly articulated goals.

All staff are reviewed during the year and a final assessment of their delivery against agreed goals is made in May. Payment of annual bonus awards is dependent on the consistent attainment or exceeding of goals. No bonus payments are made if staff fail to meet their goals.

## Recruitment policy

During its time as an Executive Agency, the OGA was party to the Constitutional Reform and Governance Act 2010, which requires Civil Service appointments to be on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission ([www.civilservicecommission.org](http://www.civilservicecommission.org)) specify the circumstances when appointments may be made otherwise.

Since becoming a government company, OGA recruitment is underpinned by our values, and appointments are made on this basis of those values:

**Considerate:** the best available candidate will be appointed.

**Accountable:** those involved take responsibility for their campaigns.

**Robust:** the selection processes must be objective, impartial and applied consistently.

**Fair:** opportunities are advertised openly and there is no bias in the assessment of candidates.

Staff covered by this report hold open-ended appointments, with one exception: the Chief Executive holds a fixed term appointment which terminates on 31 December 2020. Early termination of any appointment other than for misconduct would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

## Payments to Directors (audited)

Salary and pension entitlements for Executive members of the OGA Board to 31 March 2017:

Executive Agency 2016-17	Salary (actual and full year/ time equivalent) (£'000)		Bonus Payment (full year)* (£'000)		Pension Benefits (actual and full year/ time equivalent) (to £1,000)		Total (£'000)		Accrued pension at pension age at 31/03/2017 (£'000)	Real increase in pension and related lump sum at pension age at 31/03/17 (£'000)	CETV at 31/3/2017 (£'000)	CETV at 31/3/2016 (£'000)	Real increase in CETV (£'000)
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16					
Member	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16					
Dr Andy Samuel	135-140 (FYE 280-285)	280-285	60-65	50	-	-	200-205	330-335	-	-	-	-	-
John Ogden (to 10 June 2016)	15-20 (FYE 80-85)	70-75 (FYE 80-85)	-	-	6	28	20-25	95-100	0-5	0-2.5	24	19	3
Philip Lloyd	110-115 (FYE 265-270)	N/A	-	N/A	-	N/A	110-115	-	-	-	-	-	-

Government Company 2016-17	Salary (actual and full year/ time equivalent) (£'000)		Bonus Payment (full year)* (£'000)		Pension Benefits (actual and full year/ time equivalent) (to £1,000)		Total (£'000)		Accrued pension at pension age at 31/03/2017 (£'000)	Real increase in pension and related lump sum at pension age at 31/03/17 (£'000)	CETV at 31/3/2017 (£'000)	CETV at 31/3/2016 (£'000)	Real increase in CETV (£'000)
	2016-17	2016-17	2016-17	2016-17	2016-17	2016-17							
Member	2016-17	2016-17	2016-17	2016-17	2016-17	2016-17	2016-17	2016-17					
Dr Andy Samuel	135-140 (FYE 280-285)	-	-	-	135-140	-	-	-	-	-	-	-	-
Nicola Granger (from 1 November 2016)	50-55 (FYE 125-130)	-	20	70-75	0-5	0-2.5	9	-	5	-	-	-	
Philip Lloyd** (to 2 December 2016)	40-45 (FYE 265-270)	-	-	40-45	-	-	-	-	-	-	-	-	

FYE – Full year/time equivalent

\* 2016-2017 bonus is due to be paid in 2017 subject to remuneration committee approval.

\*\* Philip Lloyd's disclosed remuneration reflects the full cost to the company of his engagement, and includes agency costs which are not passed on to him personally.

Date John Ogden left was 10/06/2016

Date Philip Lloyd started was 18/04/2016

Date Philip Lloyd left was 02/12/2016

Date Nicola Granger started was 01/11/2016

Fees and benefits in kind paid to non-executive board members to 31 March 2017:

	Contract end date	Fee 2016-17 (£)		Benefits in kind (£)		Fee 2015-16 (restated)* (£)
		EA	GovCo	EA	GovCo	EA
<b>Sir Patrick Brown</b> Non-executive director and chairman of board	15 March 2018	50,000 (FYE 100,000)	49,000 (FYE 80,000)	–	–	100,000 (2.5 days per week)
<b>Mary Hardy</b> Independent non-executive director and chairman of audit and risk committee	1 October 2019	12,500 (FYE 25,000)	12,500 (FYE 25,000)	1,000	1,300	10,416 (FYE 25,000)
<b>Frances Morris-Jones</b> Independent non-executive director and senior independent director	1 October 2018	10,000 (FYE 20,000)	10,000 (FYE 20,000)	1,700	100	11,666 (FYE 20,000)
<b>Robert Armour</b> Independent non-executive director	1 October 2017	10,000 (FYE 20,000)	10,000 (FYE 20,000)	2,300	–	11,666 (FYE 20,000)

FYE – Full year equivalent. Figures are shown on an accruals basis

\* Restated to recognise prior year fees on an accrual basis rather than a cash basis.

The above relates only to board members, non-executive directors and those covered by the Government's Disclosure of Senior Salaries Agenda.

'Salary' includes gross salary, recruitment and retention allowances and any other allowance that is subject to UK taxation.

The banded remuneration of the highest-paid director in the OGA in the financial year 2016-17 was £340,000-£345,000 (2015-16, £330,000-£335,000). This was 6.1 times (2015-16, 6.4 times) the median remuneration of the workforce, which was £56,368 (2015-16, £51,996). In 2016-17, no (2015-16, nil) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £20,000 to £342,500 (2015-16 £17,500-£332,500). Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

No senior management or non-executive board members were in receipt of benefits in kind for the financial year 2016-17.

No senior managers have received compensation for loss of office in the financial year 2016-17.

The shareholder representative director receives no remuneration from the OGA. The post is held by a senior civil servant employed by BEIS.

**Staff costs 2016-17 (audited)**

	Permanent staff (£'000)		Others (£'000)		Total (£'000)	
	EA	GovCo	EA	GovCo	EA	GovCo
Wages and salaries	4,166	4,409	982	1,414	5,148	5,823
Social security costs	480	528	0	0	480	528
Pension costs	747	814	0	0	747	814
<b>Sub total</b>	<b>5,393</b>	<b>5,751</b>	<b>982</b>	<b>1,414</b>	<b>6,375</b>	<b>7,165</b>
Other staff costs	0	0	0	0	0	0
Less recoveries in respect of outward secondments	(88)	(95)	0	0	(88)	(95)
<b>Total</b>	<b>5,305</b>	<b>5,656</b>	<b>982</b>	<b>1,414</b>	<b>6,287</b>	<b>7,070</b>

**Staff costs 2015-16 (audited)**

	Permanent staff (£'000)	Others (£'000)	Total (£'000)
Wages and salaries	6,316	1,230	7,546
Social security costs	651	0	651
Pension costs	1,149	0	1,149
<b>Sub total</b>	<b>8,116</b>	<b>1,230</b>	<b>9,346</b>
Less recoveries in respect of outward secondments	(182)	0	(182)
<b>Total</b>	<b>7,934</b>	<b>1,230</b>	<b>9,164</b>

**Average number of people employed**

	EA	GovCo	Average for 2016-17	2015-16
Permanent staff	130	134	132	88
Others	16	23	19	23
<b>Total</b>	<b>146</b>	<b>157</b>	<b>151</b>	<b>111</b>



### The cash equivalent transfer value

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A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service Pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### Real increase in CETV

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This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

## Pension arrangements

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of five defined benefit schemes: a final salary scheme (classic, premium or classic plus) or a whole career average scheme (nuvos or alpha). The statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase Legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a ‘money purchase’ stakeholder pension with an employer contribution (partnership pension account). The new career average pension scheme, alpha, was introduced on 1 April 2015. The majority of classic, premium, classic plus and nuvos members transferred into the new scheme.

Employee contributions are salary-related and range between 3.8% and 8.05% of pensionable earnings for classic (or where in classic and transferred into alpha) and 4.6% and 8.05% for premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos and alpha a member builds up a pension based on the pensionable earnings during the period of scheme membership. At the end of the scheme year (31 March) the member’s earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase Legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer’s basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos and the relevant state pension age for members of alpha.

Further details about the Civil Service pension arrangements can be found at: <http://www.civilservice.gov.uk/pensions>.

## Diversity report

The OGA is committed to promoting equality and valuing diversity. The table below shows the current available data, as recorded from staff declarations.

%	Males	Females
<b>Gender</b>	64	36

%	Full Time	Part Time
<b>Working Pattern</b>	93	7

%	Not Disabled	Declared Disabled	Unknown	Prefer Not to Say
<b>Disability</b>	65	2	30	2

%	White	Non-White	Unknown	Prefer Not to Say
<b>Ethnicity</b>	20	8	72	0

%	Below 20	21–30	31–40	41–50	51–60	61 and over
<b>Age</b>	1	11	28	26	25	9

%	Heterosexual/ Straight	Gay Man	Gay Woman/ lesbian	Bisexual	Unknown	Prefer Not to Say
<b>Sexual Orientation</b>	56	2	1	0	37	4

%	No Religion	Buddhist	Christian	Hindu	Muslim	Sikh	Other	Unknown	Prefer Not to Say
<b>Religion and Belief</b>	25	0	32	2	2	1	1	34	3

### Sickness Absence data

The OGA is committed to supporting the physical and mental health of its people. There is a comprehensive attendance management policy in place. We also have an occupational health provision and employee assistance provider in place. The average number of days lost due to sickness absence was 1.9 days for 2016/17.

## Consultancy and temporary staff

Spend on consultancy and temporary staff:

	EA	GovCo	EA
	2016-17		2015-16
Consultancy	£1,172	£2,859	£280,362
Temporary staff	£1,030,601	£1,307,807	£1,358,982
<b>Total</b>	<b>£1,031,773</b>	<b>£1,310,666</b>	<b>£1,639,344</b>

The OGA has introduced model 'payment of tax' clauses into its standard terms and conditions, following HM Treasury's review of the tax arrangements of public sector appointees. Crown Commercial Service has provided assurance that its resourcing frameworks, which the OGA uses to source all its contractors, meet the new tax requirements.

For 2016-2017 we undertook a risk-based, in-depth review of tax assurance for certain individuals, based upon the cost, length and nature of contracts. We sought further specific assurance for those identified as high-risk.

## Off-payroll engagements

Off-payroll engagements (for more than £220 per day and lasting for longer than six months) as at 31 March 2017 were:

	2016-17	2015-16
<b>Total existing engagements</b>	<b>20</b>	<b>10</b>
Engagements of less than one year duration	17	8
Engagements of one to two years duration	3	2
Engagements of two to three years duration	0	0
Engagements of three to four years duration	0	0
Engagements of four or more years duration	0	0

Off-payroll engagements or those of up to six months in duration between 1 April 2016 and 31 March 2017 (for more than £220 per day and that last for longer than six months) were:

	2016-17	2015-16
New engagements at more than £220 per day lasting longer than six months, or those that reached six months in duration, between 1 April 2016 and 31 March 2017	13	11
Those which include contractual clauses in the relevant CCS Framework which give the Shareholder the right to request assurance in relation to income tax and National Insurance obligations	13	11
Those for whom assurance has been requested	13	10
Those for whom assurance has been received to date	13	3
Those for whom assurance has not been received (response pending)	0	0
Those which have been terminated as a result of assurance not having been provided	0	0

There were no off-payroll engagements of board members and/or senior officials with significant financial responsibility between 1 April 2016 and 31 March 2017.

The OGA has noted the Alexander review of off-payroll workers.

## Exit Packages (audited)

Reporting of civil service and other compensation schemes – exit packages to 31 March 2017.

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
< 10,000	0	0	0	0	0	0
£10,001 – £25,000	0	0	0	0	0	0
£25,001 – £50,000	0	0	1	1	1	1
£50,001 – £100,000	0	0	0	0	0	0
£100,001 – £150,000	0	0	0	0	0	0
£150,001 – £200,000	0	0	0	0	0	0
<b>Total number of exit packages</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Total cost (£000)</b>	<b>0</b>	<b>0</b>	<b>35-40</b>	<b>35-40</b>	<b>35-40</b>	<b>35-40</b>

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. When the OGA has agreed early departures, the additional costs are met by the OGA and not the Civil Service pension scheme.

By order of the board



**Dr Russell Richardson**

Company Secretary

12 July 2017

# Accounting Officer statement

As the Accounting Officer, I am responsible for reviewing the effectiveness of our corporate governance. My review is based on the work of our internal auditors and the directors and managers who are responsible for developing and maintaining our governance framework. I also take into account the comments of the external auditors.

During 2016-17, we undertook the following work:

- The Oil and Gas Authority became an active company and the shareholder appointed seven directors: a non-executive Chairman, three non-executive directors, two executive directors and the shareholder representative director.
- Introduced a new code of conduct and related policies and reviewed and updated them as necessary.
- Introduced a new performance management system and conducted a pay review.
- The leadership team and the board reviewed our strategic risks on a quarterly basis.
- Put in place all statutory and other appropriate insurance cover.
- Designed and implemented bespoke HR and finance systems.
- Worked closely with the Government Internal Audit Agency on the 2016-17 audit and the 2017-18 audit plan.
- Worked collaboratively with the National Audit Office on the 2016-17 audit.

I confirm that, as far as I am aware, there is no relevant audit information of which the auditor is unaware.

I have taken all the steps necessary to make myself aware of any relevant audit information and to establish that the OGA's auditor is aware of that information.

I confirm that the annual report and financial statements are fair, balanced and understandable.

I take personal responsibility for the annual report and financial statements and the judgments required for determining that it is fair, balanced and understandable.



**Dr Andy Samuel**  
Accounting Officer  
12 July 2017

# Future developments

## Priorities for 2017 and 2018

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The OGA has identified ten programme priorities over and above business as usual for 2017 and 2018, as shown on page 18.

These priorities have been identified by the OGA Leadership Team and industry. They reflect the experience of the past year, including the commitments made in the various strategies and delivery programmes. They focus on the industry's immediate requirements and build on the work done and the milestones achieved to date.

Each priority is linked to one or more leading or internal Key Performance Indicator (KPI), which will enable the organisation to track progress in achieving the priorities set out in this document. Lagging indicators will also be used as identified in the Corporate Plan to monitor key areas of industry performance along with impact.

The OGA will continue to regulate, influence and promote the UK oil and gas industry in a way that seeks to create the right conditions for operators, service companies and investors to maximise economic recovery from the UKCS.



# Executive Agency

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Financial statements

# THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of the Oil and Gas Authority for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Accountability Report disclosures that is described in those reports and disclosures as having been audited.

## Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Accounting Officer's statement, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Oil and Gas Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Oil and Gas Authority; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Oil and Gas Authority's affairs as at 31 March 2017 and of the total net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### Emphasis of Matter – Preparation on a basis other than a going concern

Without qualifying my opinion, I draw attention to the disclosures made in note 2.5 of the financial statements concerning management's decision to apply a basis other than going concern in the preparation of the financial statements. This was made following commencement of the provisions in the Energy Act 2016 which transferred all the functions of the Oil and Gas Authority into a separate company on 1 October 2016.

### Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and Accountability Report disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Strategic Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and Accountability Report disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Corporate Governance report does not reflect compliance with HM Treasury's guidance.

### Report

I have no observations to make on these financial statements.

### Sir Amyas C E Morse

Comptroller and Auditor General  
14 July 2017

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

## Statement of Comprehensive Net Expenditure for the year ended 31 March 2017

		31 March 2017	31 March 2016
	Note	£'000	£'000
<b>Income</b>			
Income from sale of goods and services	4	(8,872)	(9,322)
<b>Total operating income</b>		<b>(8,872)</b>	<b>(9,322)</b>
<b>Expenditure</b>			
Staff costs	5	6,287	9,164
Seismic costs	6.1	9,404	17,803
Other operating costs	6.2	3,799	5,962
Depreciation and amortisation charges	6.3	181	128
Provision expense	6.4	(1)	190
<b>Total operating expenditure</b>		<b>19,670</b>	<b>33,247</b>
<b>Net operating expenditure</b>		<b>10,798</b>	<b>23,925</b>
Loss on transfer by absorption		–	710
<b>Total net expenditure</b>		<b>10,798</b>	<b>24,635</b>
<b>Other comprehensive net expenditure</b>			
Net (gain) on revaluation of property, plant and equipment		–	(16)
<b>Total comprehensive net expenditure for the year</b>		<b>10,798</b>	<b>24,619</b>

These financial statements cover the year ended 31 March 2017. The Oil and Gas Authority (OGA) operated as an executive agency of Business, Energy and Industrial Strategy until 30 September 2016. From 1 October 2016, the agency's responsibilities and powers transferred to the OGA government company and the transactions for the period 1 October 2016 to 31 March 2017 have been recorded in the financial statements of the company.

Further detail on the accounting period is included in note 1.

The notes on pages 56–65 form part of these financial statements.

## Statement of Financial Position as at 31 March 2017

	Note	31 March 2017 £'000	Restated 31 March 2016 £'000
<b>Non-current assets:</b>			
Property, plant and equipment	7	–	1,686
Intangible assets	7	–	197
Trade and other receivables	7	–	–
<b>Total non-current assets</b>		<b>–</b>	<b>1,883</b>
<b>Current assets:</b>			
Trade and other receivables	7	–	3,806
<b>Total current assets</b>		<b>–</b>	<b>3,806</b>
<b>Total assets</b>		<b>–</b>	<b>5,689</b>
<b>Current liabilities:</b>			
Trade and other payables	7	–	(5,213)
Provisions	7	–	(157)
<b>Total current liabilities</b>		<b>–</b>	<b>(5,370)</b>
<b>Total assets less current liabilities</b>		<b>–</b>	<b>319</b>
<b>Non-current liabilities:</b>			
Trade and other payables	7	–	(284)
Provisions	7	–	(19)
<b>Total non-current liabilities</b>		<b>–</b>	<b>(303)</b>
<b>Total assets less total liabilities</b>		<b>–</b>	<b>16</b>
<b>Taxpayers' equity and other reserves:</b>			
General fund	7	–	–
Revaluation reserve	7	–	16
<b>Total equity</b>		<b>–</b>	<b>16</b>

The OGA's asset, liability and equity balances at 30 September 2016 were transferred to the OGA government company on 1 October 2016 and details are included in note 7. The OGA's financial statements for 2015-16 have been restated and details are included in note 2.2.

Further detail on the accounting period is included in note 1.

The notes on pages 56-65 form part of these financial statements.

The financial statements were approved by the Board of Directors and signed on its behalf by:



**Dr Andy Samuel**  
Accounting Officer  
12 July 2017

## Statement of Cash Flows for the year ended 31 March 2017

	Note	31 March 2017 £'000	Restated 31 March 2016 £'000
<b>Cash flows from operating activities</b>			
Net operating expenditure	SoCNE	(10,798)	(23,925)
Adjustments for non-cash transactions		323	414
Decrease/(increase) in trade and other receivables		3,806	(3,806)
Movements in receivables relating to items not passing through the Statement of Comprehensive Income		(13)	140
Transferred to OGA government company	7	1,914	–
(Decrease)/increase in trade and other payables		(5,497)	5,497
Movements in payables relating to items not passing through the Statement of Comprehensive Income		(50)	(1,790)
Use of provisions		(101)	(14)
<b>Net cash outflow from operating activities</b>		<b>(10,416)</b>	<b>(23,484)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(25)	(784)
Purchase of intangible assets		(198)	(225)
<b>Net cash outflow from investing activities</b>		<b>(223)</b>	<b>(1,009)</b>
<b>Cash flows from financing activities</b>			
Funding from core department	SoCTE	10,911	24,493
Funding from core department – capital	SoCTE	(272)	–
<b>Net financing</b>		<b>10,639</b>	<b>24,493</b>
<b>Net increase/(decrease) in cash and cash equivalents in the year</b>		<b>–</b>	<b>–</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>–</b>	<b>–</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>–</b>	<b>–</b>

The OGA's financial statements for 2015-16 have been restated and details are included in note 2.2.

Further detail on the accounting period is included in note 1.

The notes on pages 56-65 form part of these financial statements.

## Statement of Changes in Taxpayers' Equity for the year ended 31 March 2017

	Note	General fund £'000	Revaluation reserve £'000	Total £'000
<b>Balance at 1 April 2015</b>		–	–	–
Transfers under absorption accounting		(710)	–	(710)
Funding from core department		24,493	–	24,493
Notional costs	6.2	142	–	142
Net operating expenditure for the year	SoCNE	(23,925)	–	(23,925)
Revaluation of property, plant and equipment		–	16	16
<b>Balance at 31 March 2016 (restated)</b>		<b>–</b>	<b>16</b>	<b>16</b>
Funding from core department		10,927	(16)	10,911
Funding from core department – capital		(272)	–	(272)
Notional costs	6.2	143	–	143
Net operating expenditure for the year	SoCNE	(10,798)	–	(10,798)
<b>Balance at 31 March 2017</b>		<b>–</b>	<b>–</b>	<b>–</b>

The OGA's financial statements for 2015-16 have been restated and details are included in note 2.2.

Further detail on the accounting period is included in note 1.

The notes on pages 56-65 form part of these financial statements.

# Notes to the Financial Statements

## 1. General information

The Oil and Gas Authority (OGA) was established as an Executive Agency by the Department of Energy and Climate Change (DECC) on 1 April 2015. The Energy Act 2016 (which received Royal Assent in May 2016) created the legislative framework to establish the OGA as a government company. Following the Energy Act receiving Royal Assent, the OGA Executive Agency's responsibilities and powers to impose a levy on persons holding licences for the exploration of petroleum transferred to the OGA government company on 1 October 2016. All of the OGA Executive Agency's functions were transferred to the government company which is a private company limited by shares, incorporated and domiciled in the United Kingdom and registered in England and Wales under the Companies Act 2006. The company is wholly owned by the Secretary of State for Business, Energy and Industrial Strategy (BEIS) (the shareholder).

The financial statements cover the year ended 31 March 2017. The OGA was an executive agency for the period 1 April to 30 September 2016 and its transactions during this period have been included in these financial statements. The comparative information included in these financial statements represents the full year from 1 April 2015 to 31 March 2016 and therefore, a year on year comparison of the OGA Executive Agency's operations is not available. The OGA government company's separate financial statements present the transactions for operations during the period 1 October 2016 to 31 March 2017.

## 2. Accounting policies

### 2.1 Basis of preparation

The OGA Executive Agency's financial statements and supporting notes have been prepared in accordance with the 2016-17 Government Financial Reporting Manual (FReM) and the accounts direction issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the OGA Executive Agency for the purpose of giving a true and fair view has been selected. The particular policies adopted by the OGA Executive Agency are described below. They have been applied consistently in dealing with items that are considered material to the financial statements.

These financial statements have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment, and intangible assets. The financial statements are presented in pounds sterling, with all values rounded to the nearest thousand pounds (£'000).



## 2.2 Restatement of 2015-16 accounts

The OGA Executive Agency's financial statements for 2015-16 have been restated to classify the general fund reserve balance of £3,426k as at 31 March 2016 as a trade and other receivable. The balance is due to the OGA Executive Agency from the core department and includes monies owed as the OGA Executive Agency did not have an active bank account during this period.

## 2.3 New or amended accounting standards and interpretations

The OGA Executive Agency has reviewed all new accounting standards, amendments and interpretations of standards that are effective during the year ended 31 March 2017 to determine the impact on the agency's financial statements. There are no new standards, amendments and interpretations of standards that have had a material impact on the agency's financial statements.

## 2.4 New or amended accounting standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2017, and accordingly have not been applied in preparing these financial statements. These standards include: IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers, and IFRS 16 Leases. The OGA Executive Agency has not sought early adoption of any standards or amendments.

## 2.5 Going concern

The OGA operated as an executive agency of BEIS until 30 September 2016. From 1 October 2016, the agency's responsibilities and powers transferred to the OGA government company. On this basis the OGA's financial statements have not been prepared on a going concern basis.

The OGA's Statement of Financial Position as at 31 March 2017 shows total assets, liabilities and equity of nil. The balances were transferred to the OGA government company on 1 October 2016.

## 2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the OGA Board.

## 2.7 Government Grants

### (i) Grant in Aid

Grant in Aid financing represents funding received from BEIS. As the OGA Executive Agency does not operate its own bank account, financing from BEIS is deemed to be received, when cash payments are made on the OGA Executive Agency's behalf by BEIS. Therefore, the funding is treated as a financing transaction and credited directly to the general reserve in the Statement of Financial Position and does not pass through the Statement of Comprehensive Net Expenditure. The grant funding provides assistance with the OGA Executive Agency's day to day operations and is recognised in the financial statements at fair value.

### (ii) Seismic

In January 2016, the government announced that £20 million of funding for seismic acquisition on the UK continental shelf would be provided to the OGA Executive Agency in the 2016-17 financial year. This funding is provided by HM Treasury to the OGA Executive Agency as seismic expenditure is incurred. The funding receipts are credited directly to the general fund.

## 2.8 Income

Income represents the amounts, exclusive of VAT, arising from the operating activities of the OGA Executive Agency. Income is recognised when contractual obligations have been performed, the income can be measured reliably, and it is probable that the economic benefits will flow to the OGA Executive Agency.

### (i) Industry Levy

The OGA Executive Agency is primarily funded by an industry levy. The legal basis for the OGA Executive Agency to charge a levy was introduced by the Infrastructure Act 2015, which states that regulations must be brought forward every year to set the levy rate. The Oil and Gas Authority (Levy) Regulations 2016 were laid in Parliament to set the levy charges rate for the year from 1 April 2016 to 31 March 2017. The levy income raised by the OGA Executive Agency has been credited to the Statement of Comprehensive Net Expenditure. As the levy rate is based on estimates of the OGA Executive Agency's expenses, the amount collected is unlikely to match actual expenditure. The regulations state that any surplus at the end of the financial year will be reimbursed to levy payers.

The industry levy is recognised as income from goods and services in the financial year to which it relates. The levy is recognised on an accrued basis and is collected by invoices issued in two parts, each one covering six months of the financial year, to assist levy payers in managing their annual cashflow requirements. Any unused levy at 30 September 2016 was transferred to the OGA government company on 1 October 2016 as deferred income to be set against future activity and any unspent levy as at 31 March 2017 will be repaid to levy payers by the OGA government company.

### (ii) Fees and charges

Licensing fees and charges income is received mainly through the assignment and relinquishment of petroleum licences. Other income is received in relation to development plans, decommissioning, and well consents. This income is credited to the Statement of Comprehensive Net Expenditure.

### (iii) Seismic

In January 2016, the government announced that £20 million of funding for seismic acquisition on the UK continental shelf would be provided to the OGA in the 2016-17 financial year. This funding is provided by HM Treasury to the OGA as seismic expenditure is incurred. The funding receipts are credited directly to the income reserve.

## 2.9 Depreciation and amortisation

Property, plant and equipment are depreciated on a straight line basis in order to write-off the value of the assets less any estimated residual values over the assets expected useful life or the period of the lease, if shorter. The OGA Executive Agency reviews the useful lives of assets on a regular basis. The useful lives are as follows:

### Depreciation

Furniture and fittings	5 to 10 years
Information technology equipment	4 to 5 years

### Amortisation

Software licences	3 to 5 years or economic life
Information technology	5 years

A full month's depreciation is provided in the month when the asset is available for use and is charged to the Statement of Comprehensive Net Expenditure on that basis. Amortisation of intangible assets is charged on a straight-line basis when the assets are available for use to the Statement of Comprehensive Net Expenditure.

## 2.10 Leases

The OGA Executive Agency's operating leases were transferred to the OGA government company. The rentals payable under the operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into the operating lease (if any), are also spread on a straight-line basis over the lease term.

## 2.11 Employee benefits

Under IAS19 Employee Benefits legislation, all staff costs must be recorded as an expense as soon as the OGA Executive Agency has an obligation to pay them. This includes the cost of any untaken leave as at the reporting date. In accordance with IAS 19 Employee Benefits the OGA Executive Agency recognises all staff costs as soon as there is an obligation to pay. This includes the recognition of an accrual for untaken annual leave. The OGA Executive Agency's untaken leave accrual was transferred to the OGA government company.

### 3. Statement of operating costs by operating segment

The reporting segments below are those reported to the Board and which the Board uses to manage budgets, direct resources and staff to activities that the OGA Executive Agency carries out. Information for the segments is reported to the Board on a monthly basis. The income and expenditure information in relation to the OGA Executive Agency's operations during the period 1 April to 30 September 2016 is detailed below:

	2016-17		
	Gross expenditure	Income	Net operating expenditure
	£'000	£'000	£'000
Offshore exploration and production	3,460	–	3,460
Licensing and legal	1,063	–	1,063
Technology and project	2,449	–	2,449
Seismic and other geo-scientific surveys	9,570	–	9,570
Policy, performance and economics	932	–	932
Board	188	–	188
Executive, finance, HR and change	1,217	–	1,217
Office accommodation	791	–	791
Non-attributable income	–	(8,872)	(8,872)
<b>Total</b>	<b>19,670</b>	<b>(8,872)</b>	<b>10,798</b>

	2015-16		
	Gross expenditure	Income	Net operating expenditure
	£'000	£'000	£'000
Offshore exploration and production	5,516	–	5,516
Licensing and legal	1,677	(7)	1,670
Technology and project	2,894	(64)	2,830
Seismic and other geo-scientific surveys	17,803	–	17,803
Policy, performance and economics	1,057	–	1,057
Board	299	–	299
Executive, finance, HR and change	2,736	–	2,736
Office accommodation	1,265	–	1,265
Non-attributable income	–	(9,251)	(9,251)
<b>Total</b>	<b>33,247</b>	<b>(9,322)</b>	<b>23,925</b>

Income allocated to operating segments is not reported regularly to the Board. Income is shown in the non-attributable income column.

## Purpose of operating segments

**Offshore exploration and production:** revitalises exploration, drives regional development, protects critical infrastructure and improves asset stewardship.

**Licensing and legal:** involves the licensing and stewardship of offshore and onshore oil and gas exploration and production.

**Technology and project:** involves the leverage of technology and data to improve efficiency in the UK continental shelf.

**Seismic and other geo-scientific surveys:** promotes investment in exploration by providing new seismic data in frontier and under explored areas.

## 4. Income

In the financial year 2016-17, the OGA Executive Agency received income from fees and charges and a levy on industry. The table below details the breakdown of income received for the period 1 April to 30 September 2016.

	2016-17	2015-16
	£'000	£'000
<b>Income</b>		
Income from the industry levy	8,283	8,231
Income from fees and charges	589	1,091
<b>Total income</b>	<b>8,872</b>	<b>9,322</b>

The legal basis to charge a levy was introduced by the Infrastructure Act 2015, which states that regulations must be brought forward every year to set the levy rate. In the prior period regulations were laid in Parliament to set the levy rate for the six-month period 1 October 2015 to 31 March 2016. Therefore in 2015-16 the OGA Executive Agency received income from fees and charges for the full year, and a levy on industry for six months (October to March). In addition for the first six months of 2015-16, the OGA Executive Agency received funding directly from its core department.

## 5. Staff costs

Staff costs comprise:

	2016-17		2015-16	
	Permanently employed staff	All other staff	Total	Total
	£'000	£'000	£'000	£'000
Wages and salaries	4,166	982	5,148	7,546
Social security costs	480	–	480	651
Other pension costs	747	–	747	1,149
<b>Sub total</b>	<b>5,393</b>	<b>982</b>	<b>6,375</b>	<b>9,346</b>
Less recoveries in respect of outward secondments	(88)	–	(88)	(182)
<b>Total net costs</b>	<b>5,305</b>	<b>982</b>	<b>6,287</b>	<b>9,164</b>

The average number of staff employed by the OGA Executive Agency (including executive directors) during the financial year:

	2016-17	2015-16
	FTE	FTE
Permanent staff	65	88
BEIS secondees	1	–
Agency and contracted staff	8	23
<b>Total</b>	<b>74</b>	<b>111</b>

The average of 74 FTEs (full time equivalent) includes the second six months of the financial year when the OGA Executive Agency was not operating.

The FTE staff employed by the OGA Executive Agency on the 30th September 2016 was:

	FTE
Permanent staff	135
BEIS secondees	2
Agency and contracted staff	18
<b>Total</b>	<b>155</b>

The remuneration of directors and the disclosure of the highest paid director is included in the Remuneration and Staff Report.

## 6. Other expenditure

	SoCNE Reference	2016-17 £'000	2015-16 £'000
Seismic	6.1	9,404	17,803
Legal, professional and consultancy	6.2	1,638	3,074
Accommodation	6.2	577	918
Outsourcing	6.2	850	708
Personnel related	6.2	35	490
Travel and subsistence	6.2	226	347
Office services	6.2	52	103
Training	6.2	90	70
Subscriptions	6.2	49	52
IT expenditure	6.2	95	47
Other	6.2	44	11
<b>Non-cash items</b>			
Notional overheads – shared services	6.2	115	96
Auditors' remuneration and expenses	6.2	28*	46
		<b>3,799</b>	<b>5,962</b>
Depreciation	6.3	144	100
Amortisation	6.3	37	28
		<b>181</b>	<b>128</b>
Provision provided for in year	6.4	(1)	190
<b>Total</b>		<b>13,383</b>	<b>24,083</b>

\* The auditors national remuneration and expenses of £28k includes £8k for the audit of the trust statement.

The seismic costs relate to seismic exploration in respect of the grant funding received from HM Treasury.

Other costs include credit card charges and other programme expenses.

Accommodation costs include operating lease rental expense of £292k for the six month period to 30 September 2016 and the utilisation of the Kings building onerous contract provision.

The OGA Executive Agency has disclosed the full cost of its activities including notional costs as well as those actually incurred.

The notional overheads costs incurred relate to the OGA Executive Agency's usage of the shared service centre, which has been paid for by BEIS.

## 7. Transfer of balances

The OGA Executive Agency transferred its responsibilities and powers to the OGA government company on 1 October 2016. The Statement of Financial Position therefore shows nil balances at 31 March 2017. The balances that transferred to the OGA government company are recorded below:

	£'000
<b>Non-current assets:</b>	
Property, plant and equipment	1,581
Intangible assets	407
<b>Total non-current assets</b>	<b>1,988</b>
<b>Current assets:</b>	
Trade and other receivables	21,163*
<b>Total current assets</b>	<b>21,163</b>
<b>Total assets</b>	<b>23,151</b>
<b>Current liabilities:</b>	
Trade and other payables	(22,447)*
Provisions	(40)
<b>Total current liabilities</b>	<b>(22,487)</b>
<b>Non-current liabilities:</b>	
Trade and other payables	(630)*
Provisions	(34)
<b>Total non-current liabilities</b>	<b>(664)</b>
<b>Total assets less total liabilities</b>	<b>–</b>
<b>Taxpayers' equity and other reserves:</b>	
General fund	–
Revaluation reserve	–
<b>Total equity</b>	<b>–</b>

\* The total cash that transferred to the OGA government company of £1,914k comprises: Trade and other receivables of £21,163k less Trade and other payables of £22,447k (current) and £630k (non-current). Trade and other receivables includes amounts due from BEIS of £2,520k. Trade and other payables includes deferred levy income of £9,335k and deferred grand in aid income of £272k.

## 8. Commitments under operating leases

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The OGA Executive Agency does not have any commitments under operating leases as at 31 March 2017. The OGA Executive Agency's operating leases related to the premises it occupied: one at 48 Huntly Street, Aberdeen; and the other at 4th Floor, 21, Bloomsbury Street, London. These leases were transferred to the OGA government company on 1 October 2016.

## 9. Capital commitments

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The OGA Executive Agency does not have any capital commitments as at 31 March 2017.

## 10. Other financial commitments

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The OGA Executive Agency does not have any other financial commitments, including non-cancellable contracts as at 31 March 2017.

## 11. Contingent assets and liabilities

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The OGA Executive Agency does not have any contingent assets and liabilities as at 31 March 2017.



## 12. Related party transactions

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The OGA was considered to be an Executive Agency of BEIS until 30 September 2016. BEIS published a consolidated Annual Report and Accounts for the core department for the year to 31 March 2017. These accounts incorporate executive agencies, including the OGA agency, which are classified within its consolidation boundary. Any transactions that the agency carries out within the BEIS consolidation boundary are considered a related party transaction. The agency received grant in aid of £1.5m during the year from BEIS.

The agency received seismic funding of £9,570k during the year from HM Treasury which passed to the agency through BEIS. The agency has £2,520 included in Trade and other receivables which is due from BEIS as at 30 September 2017, at which point the Executive Agency's assets and liabilities transferred to the government company.

No board member, key manager or other related parties have undertaken any material transactions with the OGA Executive Agency during the year. There are no conflicts of interest to report.

### 12.1 Compensation of key management personnel

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Key management personnel include executive directors and their compensation is disclosed in the Remuneration Report on pages 36-46.

The agency received seismic funding of £9,570k during the year from HM Treasury, which passed to the agency through BEIS. The agency has £2,520k included in Trade and other receivables which is due from BEIS as at 30 September 2017, at which point the Executive Agency's assets and liabilities transferred to the government company.

## 13. Events after the reporting period

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In accordance with the requirements of IAS 10, Events after the Reporting Period, the Accounting Officer duly authorised the issue of these financial statements on the date of the Comptroller and Auditor General's audit certificate. There have been no events since 31 March 2017 that would have a material impact on the OGA Executive Agency's financial statements.

# Company

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Financial statements

# INDEPENDENT AUDITOR'S REPORT TO THE SOLE SHAREHOLDER OF THE OIL AND GAS AUTHORITY

## Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of the profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006.

## Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied by the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Basis of opinions

I have audited the financial statements of the Oil and Gas Authority ("the company") for the year ended 31 March 2017 which comprise:

- the Statement of Comprehensive Income,
- the Statement of Financial Position,
- the Statement of Cash Flows,
- the Statement of Changes in Equity; and
- the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Remuneration and Staff Report that is described as having been audited.

The regularity framework that has been applied is the Companies Act 2006; the articles of association of the company; the Framework Document between the Secretary of State and the company; and HM Treasury authorities and other relevant legislation to the extent they are applicable to the company.

## Overview of my audit approach

### Key audit matters

Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements for the year ended 31 March 2017 and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, the auditor does not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the presumed risk of management override of controls under International Standard on Auditing (UK & Ireland) 240, the Auditor's Responsibility Relating to Fraud in Financial Statements, an area where my work has not identified any matters to report.

The areas of focus were discussed with the Audit and Risk Committee; their report on matters that they considered to be significant to the financial statements is set out on page 31.

Risk	My response and findings
<p><b>First time reporting operations as a Government Company</b></p> <p>The provisions of the Energy Act 2016 transferred the functions of the Oil and Gas Authority (OGA), operating as an executive agency of the Department for Business, Energy and Industrial Strategy, to the Oil and Gas Authority company on 1 October 2016.</p> <p>As part of my initial risk assessment for the 2016-17 audit of the company, I identified the risk associated with the company reporting operations for the first time to be one of the most significant assessed risks of material misstatement.</p> <p>The company is reporting under International Financial Reporting Standards (IFRS) and was required to extract the balances from the Executive Agency. I therefore identified a risk that the balances transferred from the Executive Agency were incomplete or incorrectly valued upon inception in accordance with International Financial Reporting Standard (IFRS).</p>	<p>In response, I:</p> <ul style="list-style-type: none"> <li>• reviewed the financial statements and accounting policies, as set out on pages 74-97, against the requirements of IFRS and the Companies Act;</li> <li>• substantively sampled the balances that transferred to the company on 1 October 2016; and</li> <li>• ensure the balances transferred from the Executive Agency were appropriately recognised in the financial statements of the Company.</li> </ul> <p>Accounting policies for the company are broadly in line with those used by the executive agency, which reported under IFRS as adapted by the Government Financial Reporting Manual. Company-specific disclosure requirements have been addressed.</p> <p>In assessing the adequacy of company disclosures in this exceptional year where the Oil and Gas Authority's activities moved from agency to company mid-year, I am content that key company law requirements have been complied with, and that the overall presentation responds to user needs in the context of a mid-year changeover in how activities are discharged.</p> <p>I also found that the balances which transferred into the company on 1 October 2016 had been properly valued and accounted for.</p>

Risk	My response and findings
<p><b>Risk of irregular expenditure</b></p> <p>The Oil and Gas Authority is required to act in accordance with the terms of its Framework Document, Managing Public Money and other instructions and guidance issued by the Department, the Treasury and the Cabinet Office, including public sector spending controls.</p> <p>I consider the risk of irregular expenditure to be more sensitive to users of the accounts so I assess any irregular expenditure against a lower qualitative materiality threshold.</p> <p>Although the Oil and Gas Authority, operating as an executive agency, was required to act in accordance with the same framework of authorities, I identified a heightened risk of irregular expenditure during the transiting phase and early operating phase as a Government Company.</p>	<p>I have reviewed all transactions selected as part of my testing to ensure compliance against the relevant framework of authorities.</p> <p>As part of my work, it was brought to my attention by the Oil and Gas Authority that, in an attempt to harmonise staff terms and conditions, the company had standardised employment contracts across the organisation, resulting in a number of new employees being engaged on revised terms and conditions that were in excess of the standard Civil Service terms offered to new staff. As reported in the company's governance report on page 34, HM Treasury judged the harmonisation to be irregular.</p> <p>I have considered the nature, intent and impact of the irregularity in forming my judgement that this issue does not materially impact my opinion on the financial statements. Nevertheless, I draw this episode to the attention of users of these accounts, and note the importance of Oil and Gas Authority avoiding any further breaches of its framework of authorities.</p>

Risk	My response and findings
<p><b>Extraction of balances from the Department of Business, Energy and Industrial Strategy</b></p> <p>As an Executive Agency of the Department of Business, Energy and Industrial Strategy (“the Department”), the company operated during the year using the Department’s financial systems. All cash transactions of the Oil and Gas Authority were processed through a bank account controlled by the Department.</p> <p>These arrangements remained in place as the operations of the Oil and Gas Authority transitioned to a Government Company.</p> <p>I therefore identified a heightened risk associated with the complete and accurate extraction of the transactions and balances relating to the company from those relating to the Department.</p>	<p>I have developed an understanding of the nature of the company’s relationship with the Department and the transactions that are required to be processed by the Department on behalf of the company.</p> <p>I have substantively tested the transactions used to produce the company’s financial statements and performed procedures to ensure those transactions are materially complete and accurate.</p> <p>I have also obtained sufficient appropriate assurance over those transactions expected to pass through the Department’s bank account, and obtained confirmation from the Department over the amount that company has recognised as the element of the Department’s cash due to the company as at 31 March 2017, which is reasonably recognised as a receivable. Relevant disclosures are included on page 92.</p>

## Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the company's financial statements at £487,000, which is approximately 2% of gross expenditure. I chose this benchmark as I consider it to be of principal interest to users of the financial statements.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in the Remuneration and Staff Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit and Risk Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £10,000 as well as differences below this threshold that, in my view, warranted reporting on qualitative grounds.

Total unadjusted audit differences reported to the Audit and Risk Committee have to net impact on net assets.

## Scope of my audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition I read all the information and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Other matters on which I report under the Companies Act

### Directors' remuneration

In my opinion, the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Companies Act.

I also report to you if, in my opinion, certain disclosures of directors' remuneration required have not been made. I have nothing to report arising from this duty.

### The strategic and directors' reports

In my opinion, based on the work undertaken in the course of the audit, the information given in the strategic and directors' reports for the financial year are consistent with the financial statements and have been prepared in accordance with applicable law.

Based on my knowledge and understanding of the company and its environment obtained during the course of the audit, I have identified no material misstatements in these reports.

### The corporate governance report

In my opinion, based on the work undertaken in the course of the audit, the information given in the corporate governance report in respect of internal control and risk management systems in relation to financial reporting processes, and about share capital structures, is consistent with the accounts and has been prepared in accordance with applicable law.

Based on my knowledge and understanding of the company and its environment obtained during the course of the audit, I have identified no material misstatements in this information.

## Matters on which I report by exception

### Adequacy of accounting records information and explanations received

I report to you if, in my opinion:

- adequate accounting records have not been kept;
- the financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit.

I have nothing to report arising from this duty.

### Consistency of information in the Annual Report

Under International Standards on Auditing (UK & Ireland), I am required to report to you if, in my opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, the knowledge of the company that I acquired in the course of performing my audit; or
- otherwise misleading.

In particular, I am required to consider:

- whether I have identified any inconsistencies between the knowledge that I acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable; and
- whether the annual report appropriately discloses those matters that I communicated to the Audit, Risk and Assurance Committee which I consider should have been disclosed.

I have nothing to report arising from this duty.



### The directors' assessment of principal risks and future prospects

Under International Standards on Auditing (UK & Ireland), I am required to report to you if I have anything material to add, or to draw attention to, in relation to the directors' disclosures in the annual report and financial statements:

- confirming that they have carried out a robust assessment of principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity;
- describing those risks and explaining how they are being managed or mitigated;
- on whether they considered it appropriate to adopt the going concern basis, and their identification of any material uncertainties to the entity's ability to continue over a period of at least twelve months from the date of approval of the financial statements; and
- explaining how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

I have nothing material to add, or to draw attention to, on these matters.

### Respective responsibilities of the directors and the auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and with International Standards on Auditing (UK & Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.



**Matthew Kay**  
Senior Statutory Auditor  
14 July 2017

For and on behalf of the  
Comptroller and Auditor General (Statutory Auditor)  
National Audit Office  
157-197 Buckingham Palace Road  
London  
SW1W 9SP

## Statement of Comprehensive Income for the year ended 31 March 2017

	Note	Year to 31 March 2017 £'000
<b>Income</b>		
Income from sale of goods and services	4	(785)
Other income	4	(23,607)
<b>Total operating income</b>		<b>24,392</b>
<b>Expenditure</b>		
Staff costs	5	7,070
Seismic costs	6.1	10,199
Other operating costs	6.2	6,945
Depreciation and amortisation charges	6.3	202
Provision expense	6.4	(24)
<b>Total operating expenditure</b>		<b>24,392</b>
<b>Total net income</b>		<b>–</b>
Other comprehensive income for the year		–
<b>Total comprehensive income for the year</b>		<b>–</b>

The Oil and Gas Authority was incorporated on 1 July 2015 and commenced operations on 1 October 2016. These financial statements reflect the year from 1 April 2016 to 31 March 2017, which includes the six month period from 1 April to 30 September 2016 when the company did not trade and the six month period from 1 October 2016 to 31 March 2017 in which the company commenced operations. Further detail on the accounting period is included in note 1.

The notes on pages 78-97 form part of these financial statements.

## Statement of Financial Position as at 31 March 2017

31 March 2017

	Note	£'000
<b>Non-current assets</b>		
Property, plant and equipment	8	2,340
Intangible assets	9	640
<b>Total non-current assets</b>		<b>2,980</b>
<b>Current assets</b>		
Trade and other receivables	10	7,145
<b>Total current assets</b>		<b>7,145</b>
<b>Total assets</b>		<b>10,125</b>
<b>Current liabilities</b>		
Trade and other payables	11	(9,438)
<b>Total current liabilities</b>		<b>(9,438)</b>
<b>Total assets less current liabilities</b>		<b>687</b>
<b>Non-current liabilities</b>		
Trade and other payables	11	(637)
Provisions	12	(50)
<b>Total non-current liabilities</b>		<b>(687)</b>
<b>Total liabilities</b>		<b>(10,125)</b>
<b>Net assets</b>		<b>-</b>
<b>Shareholders' equity and other reserves</b>		
Share capital	13	-
Retained earnings		-
<b>Total equity</b>		<b>-</b>

Under the Companies Act 2006, Section 454, on a voluntary basis, the Directors can amend these financial statements if they subsequently prove to be defective.

The issued share capital of the company is £1, as detailed in note 13.

The notes on pages 78-97 form part of these financial statements.

The financial statements were approved by the Board of Directors and signed on its behalf by:



**Dr Andy Samuel**

Director

12 July 2017

Company registered number: 09666504

## Statement of Cash Flows for the year ended 31 March 2017

	Note	Year to 31 March 2017 £'000
<b>Cash flows from operating activities</b>		
Comprehensive income for the year		–
Adjustments to reconcile comprehensive income to net cash flows:		
Depreciation of property, plant and equipment	6.3	155
Amortisation of intangible assets	6.3	47
Working capital adjustments:		
(Increase)/decrease in trade and other receivables	10	(7,145)
Movements in receivables relating to items not passing through the Statement of Comprehensive Income		21,154
(Decrease)/increase in trade and other payables	11	10,075
Movements in payables relating to items not passing through the Statement of Comprehensive Income		(23,957)
Use of provisions	6.4	(24)
<b>Net cash inflow from operating activities</b>		<b>305</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment		(157)
Purchase of intangible assets		(148)
<b>Net cash outflow from investing activities</b>		<b>(305)</b>
<b>Cash flows from financing activities</b>		
Capital contribution from shareholder: current year	13	–
Capital contribution from shareholder: initial transfer	13	–
<b>Net financing</b>		<b>–</b>
<b>Net increase/(decrease) in cash and cash equivalents in the year</b>		<b>–</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>–</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>–</b>

The notes on pages 78-97 form part of these financial statements.

## Statement of Changes in Equity for the year ended 31 March 2017

	Share capital	Retained earnings	Revaluation reserve	Total equity
	£'000	£'000	£'000	£'000
<b>As at 1 July 2015</b>				
Share capital issued	–	–	–	–
Total comprehensive income for the period	–	–	–	–
<b>Balance as at 31 March 2016</b>	–	–	–	–
<b>As at 31 March 2017</b>				
Total comprehensive income for the year	–	–	–	–
<b>Balance as at 31 March 2017</b>	–	–	–	–

The company has one authorised ordinary share, issued and fully paid to the value of £1. This small amount is included in the 'share capital issued' line above.

The notes on pages 78-97 form part of these financial statements.

# Notes to the Financial Statements

## 1. General information

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The Oil and Gas Authority (OGA) is a private company limited by shares, incorporated and domiciled in the United Kingdom and registered in England and Wales under the Companies Act 2006. The company is wholly owned by the Secretary of State for Business, Energy and Industrial Strategy (the shareholder) (formerly known as the Department of Energy and Climate Change). The company registration number is 09666504. The registered office of the company is situated at 21 Bloomsbury Street London WC1B 3HF. The company's principal activities are to work with government and industry to ensure the United Kingdom (UK) gets the maximum economic benefit from its oil and gas reserves; and to influence, promote and regulate investment in the United Kingdom (UK) continental shelf in the interests of the Maximising Economic Recovery (MER) UK strategy.

The OGA was incorporated on 1 July 2015 and commenced operations on 1 October 2016, following the transfer of assets and liabilities from the OGA Executive Agency. The year covered in these financial statements is from 1 April 2016 to 31 March 2017. This includes six months where the company was not operating from 1 April to 30 September 2016. On 29 April 2016, the OGA filed dormant financial statements to cover the period 1 July 2015 to 31 March 2016 because there was no financial activity in the prior period other than in the Statement of Changes in Equity, reflecting the subscription of share capital to the value of £1, which represented the company's net worth at 31 March 2016. Accordingly, no comparative information has been included in these financial statements.

## 2. Accounting policies

### 2.1 Basis of preparation

These financial statements have been prepared under the historical cost convention and are presented in pounds sterling, with all values rounded to the nearest thousand pounds (£'000), except as otherwise disclosed.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

These financial statements are exempt from the requirements of Part 16 of the Companies Act under section 482 of that Act (non-profit-making companies subject to public sector audit) and are audited by the Comptroller and Auditor General by agreement under the Companies Act. The company expects that in future years it will be subject to the audit under section 25(6) of the Government Resources and Accounts Act 2000.

### 2.2 Prior year comparatives

This is the first set of trading financial statements published by the OGA and therefore there are no prior year comparatives. However, some of the notes show the opening balances transferred to the company as at 1 October 2016. The assets and liabilities transferred are shown in note 3.

The annual report and accounts of the OGA Executive Agency's prior year activities can be found at <https://www.ogauthority.co.uk/news-publications/publications/2016/oga-annual-report-and-accounts-2015-16/>

The annual report and accounts of the OGA Executive Agency's 2016-17 year activities can be found at <https://www.ogauthority.co.uk>

### 2.3 New or amended accounting standards and interpretations

The OGA has reviewed all new accounting standards, amendments and interpretations of standards that are effective during the year ended 31 March 2017 to determine the impact on the company's financial statements. There are no new standards, amendments and interpretations of standards that have had a material impact on the company's financial statements.

### 2.4 New or amended accounting standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2017, and accordingly have not been applied in preparing these financial statements. These standards include: IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers, and IFRS 16 Leases. The company has not sought early adoption of any standards or amendments with the exception of IFRS 16, none of these standards are expected to have a significant effect on the financial statements of the company.

IFRS 9 Financial Instruments, which will replace parts of IAS 39, deals with the classification and measurement of financial assets and liabilities, hedge accounting and the impairment of financial assets (following the July 2014 amendment). IFRS 9 is intended to improve and simplify the treatment of financial instruments in financial statements. According to the International Accounting Standards Board (IASB), application of this standard is required for reporting periods beginning on or after 1 January 2018, though earlier application is permitted.

IFRS 15 Revenue from Contracts with Customers was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted.

IFRS 16 covering Leases was issued in January 2016 and will be effective from January 2019. It establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has a low value. The standard is effective for accounting periods beginning on or after 1 January 2019. As the OGA currently occupy administrative properties under operating leases, this is likely to have an effect on the Statement of Financial Position, and a limited effect on the recognition of expenditure. In line with managing public money, the levy will collect the amounts released to Statement of Comprehensive Income.

## 2.5 Going concern

In accordance with the Energy Act 2016 (which received Royal Assent in May 2016) the OGA has been established as a government company. The legislative powers enable the OGA to impose a levy on persons holding licences for the exploitation of petroleum, providing funding to deliver operations. The day to day operational costs of the company are funded by the oil and gas industry levy and the licensing fees and charges income received through the assignment and relinquishment of petroleum licences. The industry levy is set by new regulations made each year. The directors note the low risk that annual regulations may not be made (resulting in the industry levy set out in relation to the previous year continuing to apply) or may not be made until after the commencement of the relevant financial year (which could result in the company experiencing a timing mismatch in its funding requirements). The directors are of the view that there is no reason to believe that future regulations will not be forthcoming.

During the course of a year, the company may, where it identifies that there is likely to be a shortfall in the collection of the industry levy against its requirements, request the department for Business, Energy and Industrial Strategy (BEIS) provide additional grant in aid funding or alternatively, support an in-year adjustment to the applicable levy rate charged to industry which would require an amendment to the regulations.

The directors also note that there is a low risk of total operational costs exceeding the levy income set for a year or that a timing mismatch might arise between the time when monies are raised by the levy and the time when monies are required to meet spend commitments made by the company.

The Statement of Financial Position as at 31 March 2017 shows net current assets/liabilities of nil.

The directors have a reasonable expectation that the company has adequate resources to continue to operate for the foreseeable future. The financial statements are, therefore prepared on a going concern basis. In forming this view, the directors note that the company:

- a) applies prudent financial management in order to ensure that its commitments are accommodated within the timing of its collection of its levy, fees and charges;
- b) undertakes a robust and detailed annual business planning and budgeting process to establish its operational cost requirements each financial year; and
- c) has considered the potential impact of credit risk and liquidity risk detailed in note 14.

## 2.6 Income

Income represents the amounts, exclusive of VAT, arising from the operating activities of the OGA. Income is recognised when contractual obligations have been performed, the income can be measured reliably, and it is probable that the economic benefits will flow to the company.



### (i) Industry Levy

The OGA is primarily funded by an industry levy. The legal basis for the OGA to charge a levy was introduced by the Infrastructure Act 2015, which states that regulations must be brought forward every year to set the levy rate. The Oil and Gas Authority (Levy) Regulations 2016 were laid in Parliament to set the levy charges rate for the year from 1 April 2016 to 31 March 2017. Levy income is recognised in the Statement of Comprehensive Income to match expenditure not funded from elsewhere. The regulations state that any surplus at the end of the financial year must be reimbursed to levy payers. Therefore any excess collected is not recognised in the Statement of Comprehensive Income and is shown as a payable due to industry on the Statement of Financial Position.

The industry levy is recognised as income in the financial year to which it relates and is presented net of any industry levy repayable to levy payers. The levy is recognised on an accrued basis and in the year was collected by invoices issued in two parts, each one covering six months of the financial year, to assist levy payers in managing their annual cashflow requirements.

### (ii) Fees and charges

Licensing fees and charges income is received mainly through the assignment and relinquishment of petroleum licences. Other income is received in relation to development plans, decommissioning, and well consents. This income is credited to the Statement of Comprehensive Income.

### (iii) Seismic

In January 2016, the government announced that £20 million of funding for seismic acquisition on the UK continental shelf would be provided to the OGA in the 2016-17 financial year. This funding is provided by HM Treasury to the OGA as seismic expenditure is incurred. The funding receipts are credited to the Statement of Comprehensive Income as seismic expenditure is incurred.

### (iv) Other government grant

The OGA receives funding from BEIS to assist the company with its day to day operations. This funding is accounted for in accordance with IAS 20 BEIS grants provided to cover general expenditure are recognised as OGA incurs the costs for which these are intended to compensate. BEIS also provides funding for capital expenditure. At the point the OGA incurs capital costs which give rise to a right to capital funding from BEIS, the company recognises both an assist and deferred income. Deferred income is recognised in the Statement of Comprehensive Income on a systematic basis over the useful life of the relevant asset.

## 2.7 Research and development

Expenditure on research is charged to the Statement of Comprehensive Income in the year in which it is incurred.

Expenditure on development is capitalised as an internally generated intangible asset if the criteria of IAS 38 section 57 are met.

These include:

- it is technically feasible that the asset will be completed and available for use;
- the asset is intended to be used;
- the asset is expected to be usable and identifiable;
- it is probable that the asset created will generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development to allow the use of the asset; and
- the development cost of the asset can be measured reliably.

## 2.8 Property, plant and equipment

The OGA capitalises assets as property, plant and equipment if they are intended for use on a continuing basis and the original purchase cost of the asset on an individual or grouped basis is £5,000 or more. The company's assets are stated at cost or their current value in existing use at the reporting date. Property, plant and equipment are depreciated at rates calculated to write them down to their estimated residual value (if any) on a straight line basis over their estimated useful lives. The depreciation expense is charged to the Statement of Comprehensive Income.

Assets in the course of construction are valued at cost and when they are brought into use the relevant value is transferred to assets, at which point depreciation commences.

## 2.9 Intangible assets

The OGA capitalises assets as intangible if they are without physical substance and the cost of the asset on an individual basis is £5,000 or more and can be reliably measured. The company's intangible assets have finite lives and comprise software licences capitalised at cost where they satisfy the capitalisation criteria. The cost of intangible assets comprises the purchase cost and any directly attributable costs incidental to their acquisition. Software licences are amortised over the shorter of the term of the licence and the useful economic life. The estimated useful life of third party developed software licences is five years.

Following initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment losses, if any. The amortisation expense is charged to the Statement of Comprehensive Income.

## 2.10 Depreciation and amortisation

Property, plant and equipment are depreciated on a straight line basis in order to write-off the value of the assets less any estimated residual values over the assets expected useful life or the period of the lease, if shorter. The company reviews the useful lives of assets on a regular basis. The useful lives are as follows:

### Depreciation

Furniture and fittings	5 to 10 years
Information technology equipment	4 to 5 years

### Amortisation

Software licences	3 to 5 years or economic life
Information technology	5 years

## 2.11 Impairment

The OGA reviews the carrying amount of property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss on an annual basis. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Impairment losses are charged to the Statement of Comprehensive Income and prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

## 2.12 Financial instruments

The OGA does not hold any complex financial instruments. The only financial instruments included in the financial statements are the following assets and liabilities: receivables and payables, as disclosed in notes 10 and 11. These are non-derivative financial assets and liabilities with fixed or determinable payments that are not traded in an active market and, as they are expected to be realised within 12 months of the reporting date, there is no material difference between fair value, amortised cost and historical cost. Trade and other receivables are recognised initially at fair value and a provision is created for impairment when there is evidence that the company will be unable to collect the amount due in accordance with the agreed terms. Trade and other payables are recognised initially at fair value net of transaction costs.

All financial assets and liabilities are recognised when the company becomes party to the contractual provisions to receive or make cash payments. The categorisation of financial assets and liabilities depends on the purpose for which the asset or liability was held or acquired. Management determine categorisation of the asset or liability at initial recognition and then annually re-evaluate.

### 2.13 Receivables

The OGA did not operate its own bank account for the year to 31 March 2017 and the company's cash transactions passed through the BEIS bank account for this year. The company records these transactions in the financial statements through other receivables. From 1 April 2017, the company has its own bank account, however there will be some cash transactions settled by BEIS on behalf of the OGA where these have been included in these financial statements at 31 March 2017.

### 2.14 Leases

Determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. At their inception, leases are classified as operating or finance leases, based on the extent to which the risks and rewards of ownership lie with the lessee. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

At 31 March 2017, the company holds operating leases. The rentals payable under the operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into the operating lease (if any), are also spread on a straight-line basis over the lease term.

### 2.15 Employee benefits

Under IAS19 Employee Benefits legislation, all staff costs must be recorded as an expense as soon as the company has an obligation to pay them. This includes the cost of any untaken leave as at the reporting date. In accordance with IAS 19 Employee Benefits the company recognises all staff costs as soon as there is an obligation to pay. This includes the recognition of an accrual for untaken annual leave.

### 2.16 Pensions

The majority of past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described in the Remuneration Report. The OGA is unable to identify its share of liabilities in these multi-employer schemes so accounts for its expenses as if the schemes were in a defined contribution basis, as required by IAS 19. Expenditure accrues to the extent contributions are payable by the OGA as an employer.

### 2.17 Corporation tax

The OGA is liable for corporation tax in relation to income earned from business activities. The vast majority of the company's activity is non-business as it has a statutory obligation to regulate and provide services to the oil and gas industry and is not in competition with the private sector in carrying out this activity, as no-one else has the right to maintain this role. Non-business activity is further characterised by the fact that the company does not receive any payment in consideration for regulating the oil and gas industry; instead it is funded from levies charged. Non-business activities are not subject to corporation tax.

The company does not have any business activities that are subject to corporation tax in this financial year. Where tax is to be paid, it is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

### 2.18 Value Added Tax (VAT)

The OGA has trading activities where VAT is charged at the prevailing rate and where the related input VAT costs are recoverable. Input VAT is also recoverable on certain contracted-out services. Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised with additions to fixed assets. Where output tax is charged on business activities or input tax is recoverable, the amounts are stated net of VAT.

## 2.19 Provisions

Provisions are recognised when the OGA has a present obligation (legal or constructive) as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle that obligation.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation. The accounting policy allows for an increase in the provision due to the passage of time (time value of money) which would be recognised as an interest expense. The OGA discounts the provision to its present value using the discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The company has a dilapidations provision in respect of the company's leased premises at 48 Huntly Street, Aberdeen and the 4th Floor, 21, Bloomsbury Street, London. The provisions represent the directors' best estimate of the expenditure required to settle the obligation, often with the benefit of technical advice.

## 2.20 Financial risk identification and management

The OGA's financial risk management process seeks to enable the early identification, evaluation and effective management of key risks facing the company.

The company is not exposed to significant interest rate, credit or cash risks. The trade receivables are reviewed at the year end and where it is considered there is a risk in relation to recoverability of these monies, an impairment provision is included within the financial statements. In the current year, no trade receivables impairment provision has been raised against outstanding funds, as these are considered to be fully recoverable.

## 2.21 Critical accounting judgements, estimates and assumptions

The preparation of the OGA's financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The results form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods, if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the company. Such changes are reflected in the assumptions when they occur.

### Estimating useful lives of property, plant and equipment and intangible assets

At each reporting date, the useful lives and residual values of property, plant and equipment and intangible assets are reviewed. Assessing the appropriateness of useful life requires the company to consider a number of factors such as the physical condition of the asset, technological advancement, expected period of use of the asset by the company, and expected disposal proceeds (if any) from the future sale of the asset. An incorrect estimate of the useful life will affect the depreciation/amortisation expense recognised in the Statement of Comprehensive Income and the asset's carrying amount.

### Provisions

Judgement and estimation techniques are employed in the calculation of the best estimate of the amount required to settle obligations, including determining how likely it is that expenditure will be required by the company. The company only has provisions which relate to a future liability for dilapidations costs for its leased premises and legal costs.

### 3. Transfer of assets to the company

On 1 October 2016, the property, rights and liabilities of the Oil and Gas Authority Agency (the Agency) were transferred to the Oil and Gas Authority company (the company) under the Energy Act 2016. The transfer of assets resulted in a corresponding transfer of responsibility to the company to maximise economic recovery of the UK's offshore oil and gas resources, known as the MER strategy. The transfer of assets to the company was for nil consideration and included: property, plant and equipment; intangibles; and trade and other receivables. The corresponding transfer of liabilities included: trade and other payables; and provisions. The transfer of assets to the company is that subject to the OGA remaining within approved budgets, all of its expenditure gives rise to the right to matching funding from either BEIS or industry (via the levy set annually by regulation). This matching effect is reflected in the balanced transfer of assets.

The transfer of balances at 1 October 2016 was as follows:

	£'000
Property, plant and equipment	1,581
Intangibles	407
Trade and other receivables	21,163
Trade and other payables	(23,077)
Provisions	(74)
<b>Net total</b>	<b>–</b>

The assets and liabilities transferred to the company are measured at the carrying value at 30 September 2016 in the Executive Agency's financial statements. This is consistent with current accounting policies and standards and did not require adjustment on transfer to the company. The company has evaluated the transfer and concluded that since that transfer was effected by BEIS which is a controlling party of both the agency and the company, the transfer represents a capital contribution under IFRS. Accordingly, the company has recorded the various assets and liabilities from the Executive Agency at their existing book values in the financial statements of the company in accordance with the guidance for common control transactions with the corresponding credit recorded in equity separately split between capital contributions and the transferred asset revaluation reserve.

## 4. Income

In 2016-17 the OGA received income from fees and charges; a levy on industry; a government grant from HM Treasury in relation to Seismic exploration and passed on in full; and a grant from BEIS to assist with the company's activities. The tables below detail the breakdown of income received for the period 1 October 2016 to 31 March 2017, as well as the expenditure funded by the levy on industry.

	<b>2016-17</b>
	£'000
<b>a) Income</b>	
Income from fees and charges	785
Income from the industry levy	12,971
Income from seismic grant	10,307
Income from other government grant	315
Other	14
<b>Total income</b>	<b>24,392</b>

	<b>Executive Agency</b>	<b>Company</b>	<b>Total</b>
<b>b) Reconciliation of levy collected and levy income recognised</b>	£'000	£'000	£'000
Industry levy collected	10,669	10,663	21,332
Income from the industry levy (matched by expenditure funded by the industry levy)	8,283	12,971	21,254
<b>Underspent levy refundable to industry</b>	2,386	(2,308)	78

## 5. Staff costs

Staff costs comprise:

	2016-17		Total £'000
	Permanently employed staff	All other staff	
	£'000	£'000	
Wages and salaries	4,409	1,414	5,823
Social security costs	528	–	528
Other pension costs	814	–	814
<b>Sub total</b>	<b>5,751</b>	<b>1,414</b>	<b>7,165</b>
Less recoveries in respect of outward secondments	(95)	–	(95)
<b>Total net costs</b>	<b>5,656</b>	<b>1,414</b>	<b>7,070</b>

The average number of staff employed by the company (including executive directors) during the 2016-17 year:

	FTE
Permanent staff	67
BEIS secondees	1
Agency and contracted staff	11
<b>Total</b>	<b>79</b>

The average of 79 FTEs (full time equivalent) includes the first six months of the financial year when the company was not operating.

The FTE staff employed by the company on the 31st March 2017 was:

	FTE
Permanent staff	135
Agency and contracted staff	25
<b>Total</b>	<b>160</b>

The remuneration of directors and the disclosure of the highest paid director are included in the Remuneration Report.

## 6. Other expenditure

	<b>SoCI Reference</b>	<b>2016-17</b> £'000
Seismic	6.1	10,199
Legal, professional and consultancy	6.2	3,203
Outsourcing	6.2	1,849
Accommodation	6.2	600
Travel and subsistence	6.2	497
Other	6.2	273
Training	6.2	185
IT expenditure	6.2	129
Personnel related	6.2	75
Office services	6.2	66
Auditors' remuneration and expenses	6.2	35
Subscriptions	6.2	33
		<b>6,945</b>
<b>Non-cash items</b>		
Depreciation	6.3	155
Amortisation	6.3	47
		<b>202</b>
<b>Provision expense</b>		
Provision provided in year	6.4	15
Provision write back	6.4	(40)
Unwinding of discount	6.4	1
		<b>(24)</b>
<b>Total</b>		<b>17,322</b>

The seismic costs relate to seismic exploration in respect of the grant funding received from HM Treasury. Total seismic costs are £10,307k which includes £10,199k in other expenditure and £108k in staff costs – all other staff.

Other costs mainly include telecommunications, conference, credit card charges and catering costs.

Accommodation costs include operating lease rental expense of £292k for the six month period to 31 March 2017.



## 7. Income and expenditure comparison for year to 31 March 2016 and 31 March 2017

	<b>Executive Agency</b>	<b>Company</b>	<b>Executive Agency and Company</b>	<b>Executive Agency</b>
	<b>Period 1 April 2016 to 30 September 2016</b>	<b>Period 1 October 2016 to 31 March 2017</b>	<b>2016-17 Full Year</b>	<b>2015-16 Full Year</b>
	£'000	£'000	£'000	£'000
<b>Income</b>				
Industry levy	(8,283)	(12,971)	(21,254)	(8,231)
Fees and charges	(589)	(785)	(1,374)	(1,091)
Seismic grant	(9,570)	(10,307)	(19,877)	(17,803)
Government grant	(1,228)	(315)	(1,543)	(6,122)
Other	–	(14)	(14)	–
	<b>(19,670)</b>	<b>(24,392)</b>	<b>(44,062)</b>	<b>(33,247)</b>
<b>Expenditure</b>				
Staff Costs	6,287	7,070	13,357	9,164
Seismic	9,404	10,199	19,603	17,803
Legal, professional and consultancy	1,638	3,203	4,841	3,074
Accommodation	577	600	1,177	918
Outsourcing	850	1,849	2,699	708
Personnel related	35	75	110	490
Travel and subsistence	226	497	723	347
Office services	52	66	118	103
Training	90	185	275	70
Subscriptions	49	33	82	52
IT expenditure	95	129	224	47
Auditors' remuneration and expenses	28	35	63	46
Other	44	273	317	11
Depreciation	144	155	299	100
Amortisation	37	47	84	28
Notional overheads	115	–	115	96
Provision provided in year	(1)	(24)	(25)	190
	<b>19,670</b>	<b>24,392</b>	<b>44,062</b>	<b>33,247</b>
<b>Net comprehensive income</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

## 8. Property, plant and equipment

	IT equipment	Furniture and fittings	Assets under construction	2016-17 Total
	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>				
Balance transferred in 1 October 2016	610	1,304	–	1,914
Transfer from BEIS	32	–	–	32
Additions	124	–	781	905
<b>As at 31 March 2017</b>	<b>766</b>	<b>1,304</b>	<b>781</b>	<b>2,851</b>
<b>Depreciation</b>				
Balance transferred in 1 October 2016	214	119	–	333
Transfers from BEIS	23	–	–	23
Charged in year	85	70	–	155
<b>As at 31 March 2017</b>	<b>322</b>	<b>189</b>	<b>–</b>	<b>511</b>
<b>Net book value as at 31 March 2017</b>	<b>444</b>	<b>1,115</b>	<b>781</b>	<b>2,340</b>
<b>Asset financing</b>				
Owned	444	1,115	781	2,340
<b>Net book value as at 31 March 2017</b>	<b>444</b>	<b>1,115</b>	<b>781</b>	<b>2,340</b>

The transfer from BEIS represents 32 laptops that were used by BEIS prior to their transfer to the OGA on 1 January 2017.

The assets under construction consist of laptops, installation software, servers and firewalls. The laptops are expected to come into use in September 2017. The OGA's existing laptops will be disposed of after this time.

## 9. Intangible fixed assets

	Software licences	Website	Assets under construction	2016-17 Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
Balance transferred in 1 October 2016	225	–	248	473
Additions	–	–	280	280
Reclassifications	–	104	(104)	–
<b>As at 31 March 2017</b>	<b>225</b>	<b>104</b>	<b>424</b>	<b>753</b>
<b>Amortisation</b>				
Balance transferred in 1 October 2016	66	–	–	66
Charged in year	37	10	–	47
<b>As at 31 March 2017</b>	<b>103</b>	<b>10</b>	<b>–</b>	<b>113</b>
<b>Net book value as at 31 March 2017</b>	<b>122</b>	<b>94</b>	<b>424</b>	<b>640</b>
<b>Asset financing</b>				
Owned	122	94	424	640
<b>Net book value as at 31 March 2017</b>	<b>122</b>	<b>94</b>	<b>424</b>	<b>640</b>

The OGA's intranet and internet websites went live in October 2016.

There are two assets under construction: (i) the OGA's Finance and HR system which go live on 1 April 2017; and (ii) software that the OGA use to enhance functionality of interactive maps on the OGA's website.

Software licences include the following: (i) Desktop software with a net book value of £60k at 31 March 2017 and a remaining useful life of 19 months; and (ii) SAP licences business objects with a net book value of £60k at 31 March 2017 and a remaining useful life of 20 months.

## 10. Trade and other receivables

	2016-17
	£'000
<b>Amounts falling due within one year</b>	
Trade receivables	14
Other Receivables	13
Prepayments	855
Accrued income	90
BEIS receivable	6,173*
<b>Total trade and other receivables as at 31 March 2017</b>	<b>7,145</b>

The carrying value of trade and other receivables approximates their fair value.

\* The OGA did not operate its own bank account for the year to 31 March 2017 and the company's cash transactions passed through the BEIS bank account. As a result the OGA is owed £6,173 from BEIS at 31 March 2017.

## 11. Trade and other payables

	2016-17
	£'000
	<b>Note</b>
<b>Amounts falling due within one year</b>	
Trade payables	1,644
Other payables	85
16-17 Levy underspend – refundable to industry	4 78
15-16 Levy underspend – refundable to industry	300*
Taxation and social security	484
Accruals	5,390
Deferred income (government grant)	1,457
<b>Total current payables as at 31 March 2017</b>	<b>9,438</b>
<b>Amounts falling due after more than one year</b>	
Other payables	637
<b>Total non-current payables as at 31 March 2017</b>	<b>637</b>
<b>Total trade and other payables as at 31 March 2017</b>	<b>10,075</b>

The carrying value of trade and other payables approximates their fair value.

\* £300k of the 2015-16 levy underspend is still due to levy holders as at 31 March 2017. The OGA are actively liaising with levy holders to ensure this gets paid.

## 12. Provisions

	<b>Dilapidations</b>	<b>2016-17 Total</b>
	£'000	£'000
Balance transferred in 1 October 2016	74	74
Provided in the year	15	15
Provisions not required written back	(40)	(40)
Unwinding of discount	1	1
<b>At 31 March 2017</b>	<b>50</b>	<b>50</b>

### Analysis of expected timing of discounted flows:

Later than five years	50	50
	<b>50</b>	<b>50</b>

The dilapidations provision relates to the company's leased premises at 48 Huntly Street, Aberdeen and the 4th Floor, 21 Bloomsbury Street, London. Upon moving into the new offices, the company undertook a complete refurbishment which has been capitalised. At the end of the lease term, the company is obliged to return the offices to their original state. The provision represents the best estimate of the expenditure required to settle that obligation, with the benefit of technical advice. During the year, the OGA wrote back the Kings Building provision on the basis that a dilapidations claim will not be made by the landlord.

## 13. Share capital

	<b>2016-17</b>
	Number
<b>Authorised shares</b>	
1 Ordinary share of £1 each	1
<b>Ordinary share capital issued and fully paid</b>	
As at 1 July 2015	–
Ordinary share capital issued £1 each	1
<b>As at 31 March 2016</b>	<b>1</b>
Share capital issued during the year	–
<b>As at 31 March 2017</b>	<b>1</b>

## 14. Financial instruments

IFRS 7 requires minimum disclosures about the nature and extent of credit risk, liquidity risk and market risk that the company faces in undertaking its activities. Due to the way in which Government entities are financed, the company is not exposed to the degree of financial risk faced by many business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 7 mainly applies. The company has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing the company in undertaking its activities. Nevertheless, the company's board of directors has overall responsibility for the establishment and oversight of the company's risk management framework. The core operations of the company are resourced from funds raised through the industry levy and so the company's activities are largely dependent on revenues from customers. This has an impact on the financial risks to which the company is exposed.

### 14.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the company's customers or counterparties fail to fulfil their contractual obligations to the company. The majority of the company's customers are private companies which increases the company's exposure to credit risk. In order to mitigate this, the company has policies and procedures in place to ensure credit risk is kept to a minimum and receivables are impaired where a specific receivable is deemed to be irrecoverable, based on the information available. The carrying amount of financial assets in the financial statements represents the maximum credit risk exposure of the company.

The following table provides an overview of the ageing profile of the financial assets comprising trade and other receivables at 31 March 2017.

	£'000
<b>Ageing of financial assets</b>	
Neither past due nor impaired	2
Past due 1-30 days	8
Past due 30-60 days	1
Past due 61-90 days	1
Past due > 90 days	2
<b>As at 31 March 2017</b>	<b>14</b>

#### 14.1.1 Impairment of financial assets

The company assesses at each year end whether there is objective evidence that financial assets are impaired as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the year end date, and that loss event or events has had an impact on the estimated future cash flows of the financial asset. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Future cash flows from receivables are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## 14.2 Liquidity risk

Liquidity risk is the risk that the company is unable to meet its obligations when they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The company's policy is to determine its liquidity requirements by using forecasts and mitigating funding constraints by requesting bi-annual payments from levy payers in advance. The company believes that its contractual obligations, including those shown in notes 15, 16, and 17, can be met under the short and long term funding structure currently in place.

## 14.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures where these are considered to materially impact the business and operations of the company.

### 14.3.1 Interest rate risk

This is the risk that the company will suffer financial loss due to interest rate fluctuations. The company's financial assets and its financial liabilities carry nil or fixed rates of interest, therefore the company is not exposed to significant interest rate risk.

### 14.3.2 Exchange rate risk

This is the risk that the company will suffer financial loss due to changes in exchange rates. The company undertakes very few foreign currency transactions and is not exposed to significant exchange risk. Given the quantum of transactions in foreign currency, the company has assessed that a strengthening or weakening in these exchange rates will not have any significant impact on the financial statements.

### 14.3.3 Fair values

Set out below are the carrying amounts and fair values of the company's financial assets and liabilities that are carried in the financial statements. The company considers that the carrying amounts for trade and other receivables and trade and other payables approximate their fair value due to the short term maturities of these instruments.

£'000

#### Carrying amounts and fair values

Trade and other receivables	7,145
Trade and other payables	(10,075)
<b>Total as at 31 March 2017</b>	<b>(2,930)</b>

## 15. Commitments under operating leases

The company has the following minimum future lease commitments under non-cancellable operating leases:

	£'000
<b>Buildings</b>	
Not later than one year	752
Later than one year and not later than five years	3,008
Later than five years	1,421
<b>Total commitments under operating leases</b>	<b>5,181</b>

The company's operating leases relate to the premises it occupies at 48 Huntly Street, Aberdeen and the 4th Floor, 21 Bloomsbury Street, London. The Aberdeen office lease expires on 31 May 2025 and is for 10 years. The London office lease expires on 30 September 2022 and is for 6 years and 8 months.

## 16. Capital commitments

The company does not have any capital commitments.

## 17. Other financial commitments

The company has not entered into any non-cancellable contracts (which are not leases or PFI (and other service concession arrangement) contracts).

## 18. Contingent assets and liabilities

The company does not have any contingent assets and liabilities.



## 19. Related party transactions

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The OGA was considered to be an Executive Agency of BEIS until 30 September 2016. BEIS published a consolidated Annual Report and Accounts for the core department for the year to 31 March 2017. These accounts incorporate executive agencies, including the OGA Agency, which are classified within its consolidation boundary. Any transactions that the company carries out within the BEIS consolidation boundary are considered a related party transaction. The company received grant in aid of £1.5m during the year from BEIS.

The company received seismic funding of £10,307k during the year from HM Treasury, which passed to the company through BEIS. The company has £6,173k included in Trade and other receivables which is due from BEIS as at 31 March 2017.

No board member, key manager or other related parties have undertaken any material transactions with the company during the year. There are no conflicts of interest to report.

## 20. Compensation of key management personnel of the company

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Key management personnel include executive directors and their compensation is disclosed in the Remuneration Report on page 36-46.

## 21. Events after the reporting period

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In accordance with the requirements of IAS 10, Events after the Reporting Period, events are considered up to the date on which the financial statements are authorised for issue, which is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General. There have been no events since 31 March 2017 that would have a material impact on the company's financial statements.

# Trust Statement

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Financial statements

# Accounting Officer's foreword to the Trust Statement

## Scope

The Oil and Gas Authority (OGA) is responsible for the collection and allocation of receipts from the Petroleum Licensing Regime. The Petroleum Licence fees collected by the OGA, and then paid over to the Consolidated Fund, are included in this Trust Statement, along with the revenues, expenditure, assets and liabilities relating to the receipts of Petroleum Licences under The Petroleum Act 1998 for the financial year 2016-17.

This statement is also prepared to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

## Background

The Petroleum Act 1998 vests in the Crown all rights to the nation's petroleum resources. The Act gives the Secretary of State power to grant licences that confer exclusive rights to "search and bore for and get" petroleum. Each of these licences confers such rights over a limited area and for a limited period.

The OGA is responsible for issuing and administering these licences. This process is carried out with a view to realising the full benefit to the UK of its petroleum resources in a way which balances the interests of potential developers with the interests of the nation as the owner of the resource.

Licences are awarded in periodic "rounds" subject to a requirement that the holder will make annual payments (known as 'Licence Rental Fees') to the OGA, which remits them, via BEIS, to the Consolidated Fund. These payments are calculated on the basis of the acreage under licence and incorporate an escalating scale of pre-determined rates per square kilometre. This is to encourage licensee-companies to relinquish acreage not undergoing productive activity, thus making it available for relicensing to other potential interested applicants.

The OGA, having formally started operation on 1 April 2015 as an Executive Agency of the Department of Energy and Climate Change (DECC), now Business, Energy and Industrial Strategy (BEIS), transferred its operations to a Government Company on 1 October 2016.

The responsibility for reporting the Consolidated Fund was transferred to the OGA from this date. In the 2015-16 financial year, the Consolidated Fund was reported in the Department Trust Statement of DECC.

## Future developments

25 Licences have been offered in the 29th Offshore Licensing Round, covering 111 part-blocks. The award of these licences is conditional on compliance with the Offshore Safety Directive Regulations. These licences are all expected to have a start date after 1 April 2017.

A supplementary offshore round recently attracted 15 applications, covering 11 blocks. Awards are expected to be announced later this year.

The OGA expects to announce the 30th Offshore Licensing Round during the latter half of the second quarter of 2017.

## Financial Review

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Fees received in respect of petroleum licences amounted to £66.7m in 2016-17 (£70.2m in 2015-16). Under Section 2 of the Miscellaneous Financial Provisions Act 1968, the Northern Ireland Government is entitled to a share of the proceeds received under the regime. This amounted to £1.7m for the financial year 2015-16, which was paid in the 2016-17 financial year. The NI payment for 2016-17 has been calculated at £1.6m and will be paid towards the end of the 2017-18 financial year. These payments are recognised in the Statement of Revenue, Other Income and Expenditure.

## Auditors

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These financial statements have been audited, under the Government Resources and Accounts Act 2000, by the Comptroller and Auditor General (C&AG), who is appointed under statute and reports to Parliament. The audit opinion is on pages 102-103. The auditor's notional remuneration is included within the OGA Agency's Accounts. There were no fees in respect of non-audit work.

## Basis for preparation

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The HM Treasury Accounts Direction, issued under section 7(2) of the Government Resources and Accounts Act 2000, requires the OGA to prepare the Trust Statement to give a true and fair view of the state of affairs relating to the collection of receipts from the Petroleum Licences regime (together with the revenue, expenditure and cash flows for the financial year). Regard is given to all relevant accounting and disclosure requirements given in Managing Public Money and other guidance issued by HM Treasury.

## Accounting judgements

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As the Accounting Officer, it is my responsibility to apply suitable accounting policies in the preparation of the Trust Statement. These are all detailed in Note 1 to the Trust Statement.

All the transactions within the Trust Statement reflect transactions that have taken place in the financial year and consequently do not require accounting judgements to be made.

## Events after the reporting period

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Details of events after the reporting period are given in Note 10 to the Trust Statement.



### **Dr Andy Samuel**

Chief Executive and Accounting Officer  
12 July 2017

## Statement of the Accounting Officer's Responsibilities in Respect of the Trust Statement

Under section 7 of the Government Resources and Accounts Act 2000, HM Treasury has directed the Oil and Gas Authority to prepare for each financial year a Trust Statement in the form and on the basis set out in the Accounts Direction.

HM Treasury has appointed the Permanent Secretary as Accounting Officer of the Oil and Gas Authority with overall responsibility for preparing the Trust Statement and for transmitting it to the Comptroller and Auditor General.

The Accounting Officer is responsible for ensuring that there is a high standard of financial management, including a sound system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are fully taken into account in decisions on policy proposals; and that risk is considered in relation to assessing value for money.

The Accounting Officer is responsible for the collection of Petroleum Licences receipts and their onward transmission to the Consolidated Fund.

The responsibilities of the Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the assets, are set out in Managing Public Money published by HM Treasury.

The Trust Statement must give a true and fair view of the state of affairs of the Petroleum Licensing Schemes. These streams of income are recognised on an accruals basis.

In preparing the Trust Statement, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the Trust Statement on a going concern basis.

The Accounting Officer confirms that, as far as he is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he or she ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

The Accounting Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

### Governance Statement

The OGA's Governance Statement, covering both the Accounts and the Trust Statement, is included in the Governance section of this report.

# THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of the Oil and Gas Authority Trust Statement for the year ended 31 March 2017 under Exchequer and Audit Departments Act 1921. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit certify and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Oil and Gas Authority Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Oil and Gas Authority; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report and the Accounting Officer's foreword to the Trust Statement, to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on financial statements

In my opinion:

- the Oil and Gas Authority Trust Statement gives a true and fair view of the state of affairs of balances stemming from the collection of Petroleum Licenses as at 31 March 2017 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

### Opinion on other matters

In my opinion:

- the information given in the Accounting Officers Forward for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

### Report

I have no observations to make on these financial statements.

### Sir Amyas C E Morse

Comptroller and Auditor General  
14 July 2017

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

## Statement of Revenue, Other Income and Expenditure for the year ended 31 March 2017

	Note	2016-17 £'000	2015-16 £'000
<b>Revenue</b>			
<b>Licence fees and taxes</b>			
Petroleum licences	2	66,678	70,225
<b>Total licence fees and taxes</b>		<b>66,678</b>	<b>70,225</b>
<b>Total revenue and other income</b>		<b>66,678</b>	<b>70,225</b>
<b>Disbursements</b>			
Payments to Northern Ireland Government	3	(1,738)	(1,600)
<b>Total disbursements</b>		<b>(1,738)</b>	<b>(1,600)</b>
<b>Total expenditure and disbursements</b>		<b>(1,738)</b>	<b>(1,600)</b>
<b>Net revenue for the Consolidated Fund</b>		<b>64,940</b>	<b>68,625</b>

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes on pages 107-113 form part of this statement.



## Statement of Financial Position as at 31 March 2017

	Note	31 March 2017 £'000	31 March 2016 £'000
<b>Current assets</b>			
Receivables and accrued fees	4	6,605	9,109
Cash and cash equivalents	5	22,525	15,177
<b>Total current assets</b>		<b>29,130</b>	<b>24,286</b>
<b>Current liabilities</b>			
Payables	6	(1,620)	(1,600)
Deferred revenue	7	–	(3,470)
<b>Total current liabilities</b>		<b>(1,620)</b>	<b>(5,070)</b>
<b>Net current assets</b>		<b>27,510</b>	<b>19,216</b>
<b>Total net assets</b>		<b>27,510</b>	<b>19,216</b>
<b>Represented by:</b>			
<b>Balance on Consolidated Fund Account</b>	8	<b>27,510</b>	<b>19,216</b>

The notes on pages 107-113 form part of this statement.



**Dr Andy Samuel**  
Chief Executive Officer  
12 July 2017

## Statement of Cash Flows for the year ended 31 March 2017

	Note	2016-17 £'000	2015-16 £'000
<b>Net cash flows from operating activities</b>		<b>63,994</b>	<b>68,505</b>
Cash paid to the Consolidated Fund	8	(56,646)	(72,185)
<b>Increase/(decrease) in cash in this period</b>		<b>7,348</b>	<b>(3,680)</b>

### Notes to the Statement of Cash Flows

#### A: Reconciliation of Net Cash Flow to Movement in Net Funds

Net Revenue for the Consolidated Fund		64,940	68,625
Decrease/(increase) in receivables and accrued fees	4	2,504	(3,440)
(Decrease)/increase in payables and deferred revenue	6, 7	(3,450)	3,320
<b>Net cash flows from operating activities</b>		<b>63,994</b>	<b>68,505</b>

#### B: Analysis in changes in Net Funds

Increase/(decrease) in cash in this period		7,348	(3,680)
Net Funds as at 1 April (net cash at bank)	5	15,177	18,857
<b>Net Funds as at 31 March (closing balance)</b>	<b>5</b>	<b>22,525</b>	<b>15,177</b>

The notes on pages 107-113 form part of this statement.

# Notes to the Trust Statement

## 1. Statement of Accounting Policies

### 1.1 Basis of Accounting

The Trust Statement is prepared in accordance with the accounts direction issued by HM Treasury under section 7(2) of the Government Resources and Accounts Act 2000. The Trust Statement is prepared in accordance with the accounting policies detailed below. These have been agreed between the Oil and Gas Authority (the company) and HM Treasury and have been developed with reference to International Financial Reporting Standards (IFRS) and other relevant guidance. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

The income and associated expenditure contained in these statements are those flows of funds which the company handles on behalf of the Consolidated Fund and where it is acting as agent rather than as principal.

The financial information in the Trust Statement and in the notes is rounded to the nearest thousand.

The Trust Statement is presented in pounds sterling, which is the functional currency of the company.

### 1.2 Prior year comparatives

This is the first Trust Statement published by the OGA. The comparatives at 31 March 2016 were initially recorded in the Department of Energy and Climate Change's (DECC), who are now known as the Department for Business, Energy and Industrial Strategy (BEIS), consolidated Trust Statement for that year. The financial information reported in this Trust Statement represents the full year from 1 April 2016 to 31 March 2017, despite the agency's operations transferring to the government company on 1 October 2016.

The DECC annual report and accounts for financial year 2015-16, which included the Trust Statement with petroleum licence income and associated expenditure, can be found at

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/537390/2015-16\\_DECC\\_Annual\\_Report\\_and\\_Accounts.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/537390/2015-16_DECC_Annual_Report_and_Accounts.pdf)

### 1.3 Accounting convention

The Trust Statement has been prepared in accordance with the historical cost convention.

### 1.4 Revenue recognition

Taxes, licence fees and penalties are measured in accordance with IAS 8. They are measured at the fair value of amounts received or receivable net of repayments. Revenue is recognised when:

- A taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to the Exchequer. A taxable event occurs when a liability arises to pay a tax or licence fee; or
- A penalty is validly imposed and an obligation to pay arises.

Revenue in respect of petroleum licence fees is recognised when it falls due, which is on the anniversary date of each existing licence.

### 1.5 Receivables

Receivables are shown net of impairments in accordance with the requirements of IAS 39.

### 1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised in the Statement of Financial Position when the company becomes a party to the contractual provisions of an instrument.

### 1.7 Financial assets

The company classifies financial assets into the following categories:

- Loans and receivables; and
- Cash and cash equivalents.

Loans and receivables comprise petroleum licence fees where the amounts due from companies for the licence fees invoiced have not been received at the financial year end together with accrued amounts receivable which have not been invoiced at the year-end.

The carrying amount of these assets approximates to their fair value.

Cash and cash equivalents comprises current balances with banks and other financial institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

### 1.8 Financial liabilities

The company classifies financial liabilities into the following two categories:

- Financial liabilities at fair value through profit or loss; and
- Other financial liabilities.

The categorisation depends on the purpose for which the financial liability is held or acquired. Management determines the categorisation of financial liabilities at initial recognition and re-evaluates this designation at each reporting date.

For the purposes of this Trust Statement the company holds financial liabilities in the other financial liabilities category.

Other financial liabilities comprise:

- Payables in the Statement of Financial Position. Payables are amounts established as due at the reporting date, but where payment is made subsequently; and
- Deferred revenue which represents petroleum licence income invoiced and received in advance relating to a future financial year.

Since these balances are expected to be settled within twelve months of the reporting date there is no material difference between fair value, amortised cost and historical cost.

## 2. Revenue

### Petroleum licence income

	<b>2016-17</b>	<b>2015-16</b>
	£'000	£'000
Fees receivable	66,678	70,225
<b>Total</b>	<b>66,678</b>	<b>70,225</b>

The responsibility for the collection of petroleum licences is with the company. The licence fees are net of repayments for surrendered licences.

## 3. Expenditure and disbursements

### Disbursements

	<b>2016-17</b>	<b>2015-16</b>
	£'000	£'000
Payments to Northern Ireland Government	1,738	1,600
<b>Total</b>	<b>1,738</b>	<b>1,600</b>

The company makes payments to the Northern Ireland Government to reflect their share of the proceeds received by the company under the Petroleum Licensing Regime. These payments are made under Section 2 of the Miscellaneous Financial Provisions Act 1968. The amounts outstanding at the reporting date are disclosed under the payables note 6.

## 4. Receivables and accrued fees

	2016-17	2015-16
	£'000	£'000
Petroleum licence fees receivable	5,957	8,719
Accrued petroleum licences receivable	648	390
<b>Total</b>	<b>6,605</b>	<b>9,109</b>

Petroleum licence fees receivable represent the amounts due from the licensees where invoices for payment have been issued but not paid for at the year end.

Accrued petroleum licences receivable represents the amount of revenue from licences which relate to the financial year but for which invoices had not been issued at the year end.

## 5. Cash and cash equivalents

	2016-17	2015-16
	£'000	£'000
Balance as at 1 April	15,177	18,857
Net change in cash and cash equivalent balances	7,348	(3,680)
<b>Balance at 31 March</b>	<b>22,525</b>	<b>15,177</b>
The following balances at 31 March were held at:		
Government Banking Service	22,525	15,177
<b>Total</b>	<b>22,525</b>	<b>15,177</b>

## 6. Payables

	2016-17	2015-16
	£'000	£'000
Accruals	1,620	1,600
<b>Total</b>	<b>1,620</b>	<b>1,600</b>

The company's accrual represents the amounts outstanding to the Northern Ireland Government at 31 March 2017.

## 7. Deferred revenue

	2016-17	2015-16
	£'000	£'000
Deferred revenue	–	3,470
<b>Total</b>	<b>–</b>	<b>3,470</b>

Petroleum licence fees are invoiced in advance to licensees in line with standard commercial practice. However where the start-date of the licence and therefore the equivalent revenue relates to the next financial year, an adjustment is accordingly made to reflect this.

## 8. Balance on the Consolidated Fund Account

	2016-17	2015-16
	£'000	£'000
Balance on the Consolidated Fund as at 1 April	19,216	22,776
Net revenue for the Consolidated Fund	64,940	68,625
Less amounts paid to the Consolidated Fund	(56,646)	(72,185)
<b>Balance on the Consolidated Fund as at 31 March</b>	<b>27,510</b>	<b>19,216</b>

## 9. Financial instruments

### 9.1 Classification and categorisation of financial instruments

	2016-17	2015-16
	£'000	£'000
<b>Financial assets:</b>		
Cash and cash equivalents	22,525	15,177
Petroleum licence fees receivable	5,957	8,719
Accrued petroleum licence fees receivable	648	390
<b>Total cash and receivables</b>	<b>29,130</b>	<b>24,286</b>
<b>Financial liabilities:</b>		
Accruals	(1,620)	(1,600)
Deferred revenue	–	(3,470)
<b>Total other financial liabilities</b>	<b>(1,620)</b>	<b>(5,070)</b>

### 9.2 Risk exposure to financial instruments

The fees receivable under the Petroleum Licensing Regime are subject to credit risk, but this risk is assessed by management as minimal which has been demonstrated by the fact that in the running of this scheme bad debts have been immaterial. There were no write offs in 2016-17 (2015-16: no write offs). There is no foreign exchange risk as all the fees under this regime are receivable in Sterling. The market risk is limited due to there being a constant demand for licences.

## 10. Events after the reporting period

In accordance with the requirements of IAS 10, Events after the Reporting Period, events are considered up to the date on which the Trust Statement is authorised for issue, which is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

There have been no events since 31 March 2017 that would have a material impact on the company's Trust Statement.

The Chief Executive Officer has duly authorised the issue of the Trust Statement on the date of the Comptroller and Auditor General's audit certificate.



## Annex D

### ACCOUNTS DIRECTION GIVEN BY HM TREASURY IN ACCORDANCE WITH SECTION 2 OF THE EXCHEQUER AND AUDIT DEPARTMENTS ACT 1921.

1. This direction applies to the Oil and Gas Authority (OGA), a government company (and previously an executive agency) of the Department for Business, Energy and Industrial Strategy.
2. The OGA shall prepare a Trust Statement (“the Statement”) for the financial year ended 31 March 2017 for the revenue and other income, as directed by the Treasury, collected by the OGA as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury (“FReM”) which is in force for 2016-17.
3. The Statement shall be prepared, as prescribed in appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties and other income by the OGA as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties insofar as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.
4. The Statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
5. When preparing the Statement, the OGA shall comply with the guidance given in the FReM (Chapter 8). The OGA shall also agree with HM Treasury the format of the Principal Accounting Officer’s Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.
6. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.
7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to enable compliance with the administrative deadline for laying the Trust Statement before Parliament before the Summer Recess.
8. The Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 2 of the Exchequer and Audit Departments Act 1921 shall be laid before Parliament at the same time as when the company accounts are published unless HM Treasury has agreed the Trust Statement may be laid at a later date.

**Vicky Rock**

Deputy Director, Government Financial Reporting  
Her Majesty’s Treasury  
2 February 2017





