

GENERAL INSTRUCTION MANUAL**286.031**ISSUING ORG. **ACCOUNTING POLICIES & SYSTEMS DEPARTMENT**

ISSUE DATE

10-08-07

REPLACES

10-24-05

SUBJECT **FINANCIAL REPORTING CONTROLS ASSESSMENT PROGRAM**

APPROVAL

RAK

PAGE NO.

1 OF 4

CONTENT

This General Instruction (GI) outlines the policies and procedures for self-assessing internal controls under the Financial Reporting Controls Assessment (FRCA) program.

The text includes the following:

1. Background
 2. Roles & Responsibilities
 3. Proponent Self-Assessments
 4. Independent Validations
 5. FRCA Consolidated Opinions
 6. Periodic Certifications
- Appendix I – Proponent Self-Assessment
Appendix II – Financial Reporting Assessment Guidance

1. BACKGROUND

1.1 Finance has implemented the FRCA program to formally assess Saudi Aramco's internal controls over financial reporting. The primary objectives of this program are to;

- Help ensure the accuracy and reliability of the Company's financial statements,
- Enhance risk and control understanding throughout business processes and across organizations,
- Strengthen individual and organizational accountability for financial reporting controls, and
- Improve business process transparency.

Under the FRCA program, all key financial reporting controls within the Company's business processes are formally assessed each year by proponent organizations. These controls and associated assessments are cataloged in SAP's Management of Internal Controls (SAP-MIC) module.

2. ROLES & RESPONSIBILITIES

2.1 FRCA Group: The FRCA Group is comprised of risk and control specialists within AP&SD that are responsible for administering the FRCA Program. This includes initiating the program's self-assessment tasks, as well as, evaluating their results and assisting departments in resolving any identified control issues. This group is also responsible for updating the control documentation in SAP-MIC resulting from business process changes or departmental self-assessments. NOTE: No change will be made to an organization's SAP-MIC data without specific concurrence by the proponent Department Head.

2.2 Departments: Department heads are fully responsible for their organization's SAP-MIC data. This includes ensuring that this data continues to accurately reflect the significant controls utilized within their respective departments to address the risk of financial reporting errors. To accomplish this, department heads are to

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APPROVAL

RAK

PAGE NO.

2 OF 4

immediately notify the FRCA Group when their SAP-MIC data requires change, as well as, concur with any data changes made by the FRCA Group.

Department heads are also responsible for ensuring that their designated staff perform the program's self-assessments in accordance with instructions provided by the FRCA Group. This includes ensuring that sufficient documentation is retained on file to adequately support self-assessment results. This documentation must be retained in either hard or soft copy format and be readily available. In instances where there is a massive amount of documentation, these documents can be referred to. Refer to Appendix 2 for more specific guidance. Additionally, at the end of each year, department heads are responsible for issuing a certification letter to the Controller on the overall state of their department's financial reporting controls.

- 2.3 **Internal Auditing:** Proponent self-assessments may be subject to an independent validation by Internal Audit at their discretion. The timing and scope of this work is based on Internal Audit's risk assessment methodology. Any deficiencies identified by Internal Auditing in validating these assessments will be treated in accordance with GI 289.000, Audit Communication/Reporting Procedures.
- 2.4 **Controller:** The Controller is responsible for issuing a year-end certification as to the state of the Company's financial reporting controls to the President & CEO and Senior VP-Finance. This certification is derived from the FRCA Group's consolidated business process opinions.

3. PROPONENT SELF-ASSESSMENTS

- 3.1 The purpose of the proponent self-assessments is to determine whether the department's financial reporting controls, as documented in SAP-MIC, are functioning as intended. These assessments take place during the 2nd half of each year in accordance with guidelines provided by the FRCA Group. Assessment results are displayed within SAP-MIC reports as follows:

3.1.1 **Adequate (Green Symbol):** The control is functioning as intended and any self-assessment exception (e.g. issue) identified for it has been satisfactorily resolved.

3.1.2 **Adequate with open issue (Yellow Symbol):** The control is functioning as intended; however an isolated exception was identified during the self-assessment which has not yet been fully resolved.

NOTE: A self-assessment exception is deemed to be isolated only if an additional self-assessment sample was selected and no further exception was identified for it.

3.1.3 **Deficient (Red Symbol):** The control is not functioning as intended. Specifically, a non-isolated exception was identified during the self-assessment and remains unresolved.

- 3.2 The FRCA Group will assist departments in evaluating their self-assessment results and provide guidance on how best to resolve any identified issues. A decision tree is included in the attached Appendix to clarify how proponent self-assessment exceptions are to be handled.

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REPLACES

10-24-05

SUBJECT **FINANCIAL REPORTING CONTROLS ASSESSMENT PROGRAM**

APPROVAL

RAK

PAGE NO.

3 OF 4

4. INDEPENDENT VALIDATIONS

- 4.1 Proponent self-assessments may be subject to an independent validation by Internal Audit at their discretion. The timing and scope of this work is based on Internal Audit's risk assessment methodology. Any deficiencies identified by Internal Auditing in validating these assessments will be treated in accordance with GI 289.000, Audit Communication/Reporting Procedures.

5. FRCA CONSOLIDATED OPINIONS

- 5.1 The purpose of these opinions is to provide a consolidated assessment of each business process' financial reporting controls. Each opinion is based on the status and significance of any open self-assessment issues. One of the following opinions is issued at year-end for each business process documented in SAP-MIC:

5.1.1 **Adequate (Green Symbol):** The business process is adequately controlled for financial reporting purposes.

5.1.2 **Adequate with open issue (Yellow Symbol):** The business process is adequately controlled for financial reporting purposes; however one or more minor control issues require attention.

5.1.3 **Deficient (Red Symbol):** The business process is not adequately controlled for financial reporting purposes.

- 5.2 The FRCA Group ultimately decides the opinion assigned to each business process, after consultation with proponent organizations.

6. PERIODIC CERTIFICATIONS

- 6.1 The FRCA Program is composed of two distinct annual certifications: Department Head Certification and Controller's Certification. These certifications are performed at the end of each year using certification letter formats provided by the FRCA Group. Certification can also be performed online via SAP-MIC.

- 6.2 Department Head Certification: This certification is issued annually by each Department Head with a business process having a significant impact on the accuracy and reliability of the Company's financial statements, as documented in SAP-MIC. This certification provides a summation of the overall state of the department's financial reporting controls. It is based directly on the results of the department's own self-assessments, FRCA's consolidated opinions, and the status/significance of any open issues documented in SAP-MIC.

- 6.3 Controller's Certification: This joint certification to the President & CEO and the Senior VP - Finance is a summation of the overall state of the Company's financial reporting controls as of the end of each calendar year. It is based directly on the FRCA Group's compilation of Department Head certification results, as well as, the status and significance of any unresolved financial reporting control issues. This certification is the

SAUDI ARABIAN OIL COMPANY (Saudi Aramco)

GENERAL INSTRUCTION MANUAL

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SUBJECT FINANCIAL REPORTING CONTROLS ASSESSMENT PROGRAM

APPROVAL

RAK

PAGE NO.

4 OF 4

basis for the expanded internal control representations to be included annually in the Report of Management beginning December 31, 2005.

Approved: Original Approved by R. A. Krygsman

R. A. Krygsman, Manager (A)

Accounting Policies

& Systems Department

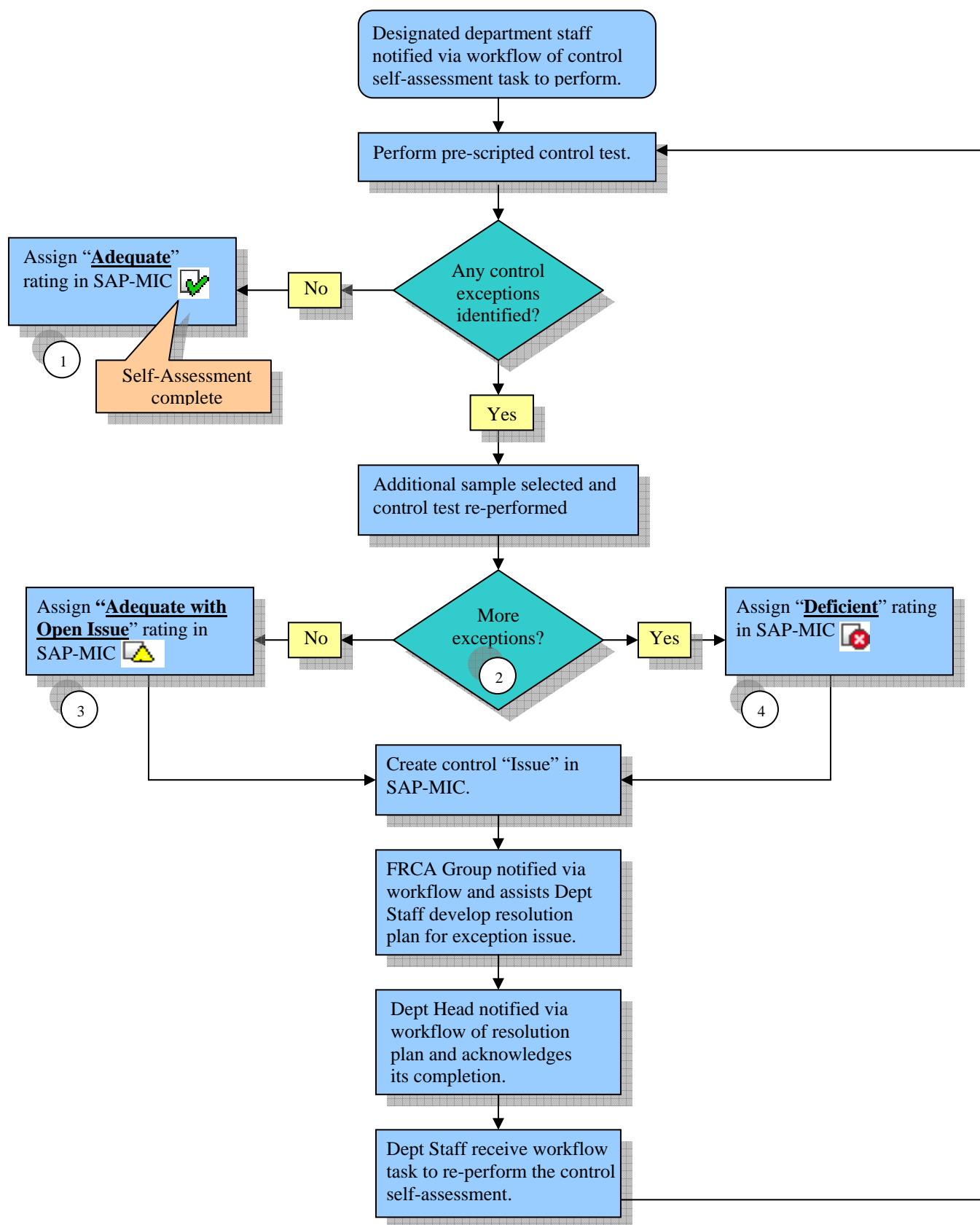
EPB

* CHANGE

** ADDITION

NEW INSTRUCTION ☐

COMPLETE REVISION ☐



1 - This rating is displayed in SAP-MIC reports when the Test Log's "Exception" field is set to "No".

2 - Exception is deemed to be "isolated" if another test exception is not identified in the additional sample.

3 - This rating is displayed in SAP-MIC reports when the Issue's "Priority" field is set to "Low" or "Medium".

4 - This rating is displayed in SAP-MIC reports when the Issue's "Priority" field is set to "High".

FINANCIAL REPORTING ASSESSMENT GUIDANCE

1. **SAMPLE SIZE** – The table below reflects the minimum sample size to be used for self-assessing a financial reporting control. As indicated, the size of a sample is based directly on how frequently the control is performed. Specifically, a sample size of 2 is to be used for a financial reporting control that is performed twice per year, whereas a sample size of 20 is to be used for one that is performed daily. Again, this table only specifies minimum sample sizes; they can always be increased at the department's discretion to gain added assurance over a financial reporting control's operating effectiveness.

Frequency of Control	Minimum Number of Samples to Assess
Annually	1
Semi-Annual	2
Quarterly	2
Monthly	3
Weekly	6
Daily	20

2. **SAMPLE SELECTION CRITERIA** – In order for a self-assessment sample to appropriately reflect its population, it must be selected without bias (preferably at random) and cover the period being assessed. Consequently, be sure to include samples from throughout the year (e.g. from the first of the year through the test date). Do not simply select a sample covering a single day/week/month/quarter or that was performed by a single person (where multiple persons perform it). Remember, no matter how you select your samples, they must be representative of their respective populations. The sample selection criteria and the source from which the sample is selected should be documented.
3. **DOCUMENTATION** – Documentation over each self-assessment must be sufficient to evidence that it was appropriately performed. At a minimum such documentation should include any documents/forms that were reviewed (refer to source/selection), as well as what was specifically checked for each. Remember, Internal Auditing will be validating self-assessment documentation as part of their annual audit process and you'll need to be able to provide them with the documents you tested. This documentation must be retained by each department in hard or soft copy format and be readily available. In instances where there is a massive amount of documentation, these documents can be referred to in the SAP-MIC testing result.

4. **TESTING INDEPENDENCE** – A person should not assess the controls for which he is responsible. Instead, ensure that self-assessments are performed by an individual who has no responsibility for the control he is testing.
5. **TESTING RESULTS REVIEW** – The testing performed by an independent person should be reviewed by another employee to ensure the following:
 - The sample selected for testing is reasonably representative of the whole population and covers the total period
 - The testing cover all controls considered for testing in the control spreadsheet developed by FRCA Group.
 - The testing was performed properly
 - The testing results have been properly documented.
 - All supporting documents substantiating the completeness of the testing are made available (or referred to) and can be accessible for further validation (e.g., Internal Auditing).
6. **EXCEPTION HANDLING** – Upon discovering any exception condition (the control is not functioning as intended), double the sample size (2x) and test the extended selections. Document the exception and report it to the FRCA Group for evaluation and to receive further guidance.
7. **DEPARTMENT HEAD CERTIFICATION** – This certification will provide a summation of the overall state of the department's financial reporting controls. It will be based directly on the results of the department's own self-assessments. This certification will be done via letter (non-Finance Departments) or online via SAP-MIC (Finance Departments).
8. **AUDITING VALIDATION** – The proponent self assessment (testing) **may** be subject to Internal Auditing validation at their discretion. Any deficiencies identified by Internal Auditing in validating the proponent self-assessments will be treated in accordance with GI 289.000, Audit Communication/Reporting Procedures.