




Audit of Extractive Industries: Our Experience

Presentation to the WG on Audit of EI
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from SAI India

Introductory

EI is defined as Oil, Gas and Minerals

From the public sector audit perspective, there is a perceived value in conducting EI Audits, with a focus on the following at a minimum:

- ▶ the collection (calculation and payment) of public revenue generated from the extractives sector,
 - ▶ any public money invested in the sector, and
 - ▶ the oversight function of government in the extractives sector.
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Who is SAI India?

India, a democracy provides for several institutional mechanisms like the Judiciary, Vigilance bodies and an independent Supreme Audit Institution (SAI). The Comptroller and

Auditor General of India (CAG) and the Indian Audit and Accounts Department (IAAD) functioning under him, constitute the Supreme Audit Institution of India. Senior functionaries of the SAI representing the CAG in the states are called Accountants General.

The Parliament sanctions the budget on how Government will collect money through taxes and how much and for which purposes it shall spend. Government also must follow existing financial rules to receive and spend public money.

Government departments are accountable to the Parliament.

Articles 148 to 151 of the Constitution prescribe a unique role for the Comptroller and Auditor General of India in assisting the Parliament to enforce the said accountability of the Government departments.

The SAI of India audits both Central and State Governments and also maintains the accounts of the State Governments.



SAI India scope of EI

- ▶ SAI India: Mandate to audit public funds
- ▶ Concern on Environment
- ▶ To ensure transparency in exploitation of Natural Resources



Indian Economy : selected Indicators

Geographical Area: 3.29 million
Sq KM

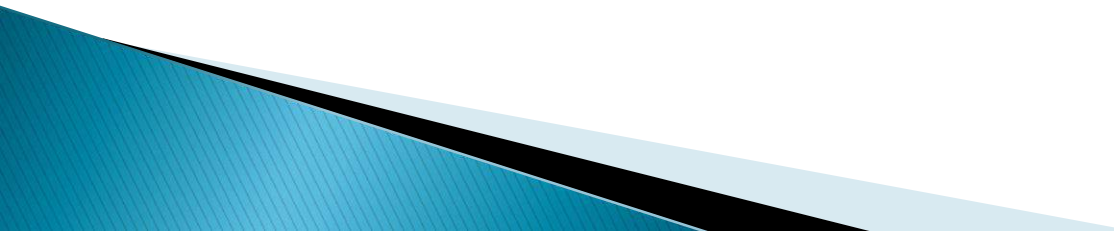
Population : 1 217 Million (2012-13)

GDP : approx. \$ 1 000 Billion

Per Capita NNP : \$ 784



El in India

- ▶ India is a resource rich country
 - ▶ India so far has been managing extractive industries through Public Sector Enterprises who have monopoly over such extraction
 - ▶ Mining rights are controlled by the Government
 - ▶ Recent endeavor of Government to give mining rights to private businesses : brings in new scopes of audit
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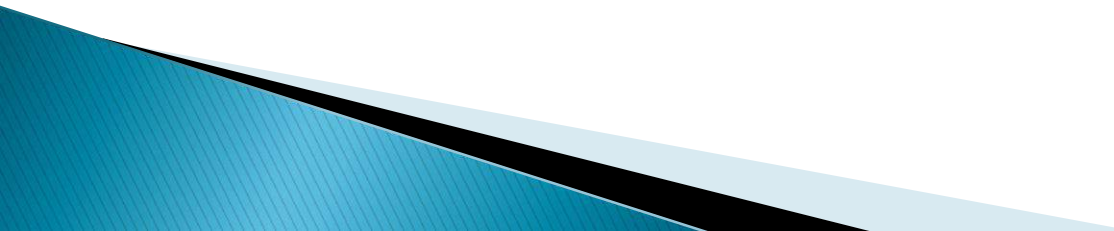
India: Energy Generation

- ▶ Coal : 558 Million Tonne
 - ▶ Crude Oil : 38 Million Tonne
 - ▶ Natural Gas : 41 Billion Cubic Metre

 - ▶ Electricity Generated
 - ▶ Thermal 761 BKWH
 - ▶ Hydel 114 BKWH
 - ▶ Neuclear 33 BKWH
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Trends in Indian Petroleum Industry

(Figures at 2012–13)

- ▶ Oil Reserve: 758 Mn Tonne
 - ▶ Oil Consumption: 219 Mn Tonne
 - ▶ Crude Oil production 38 Mn Tonne
 - ▶ Other Petro prod.s production 218 Mn Tonne
 - ▶ Petroleum Export value : \$ 64 billion
 - ▶ Petroleum (Crude oil) Import Value \$106.6 billion
 - ▶ Contribution of oil sector to Centre/State Resources: \$52.5 billion
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Public sector vis a vis Pvt sector in Oil

Upstream Oil Production companies	No of Rigs	No of Wells	Metreage drilled (,000)
Oil and natural Gas Commission	121	431	1024
Oil India Limited	17	40	132
Private/ JVs	23	107	270
Total	161	578	1426

Public vis-à-vis Private enterprise in Coal

Coal producing companies	Production in MT for 2012-13
Coal India Limited (comprising 8 subsidiary companies: earlier private, nationalised during 1970-80s)	462.42
Singareni Collieries Limited	50.47
Others (Private sector)	45.11
Total Coal produced in India	558

Audit of Revenues from Extractive Industries



Audit Findings

Test check of the records of the Mining Department of State Governments (under the Federal Structure of India, Mining is a State Subject) revealed:

- ▶ Under-assessments and loss of rent, royalty, fee etc.which broadly fall under the following categories:
- ▶ Non/short levy of dead rent/surface rent
- ▶ Non-levy of penalty/fees
- ▶ Non/short levy of royalty
- ▶ Non/short levy of auction money due to nonsettlement/
- ▶ irregular settlement of sand *ghats*
- ▶ Non-levy of interest
- ▶ Short levy of royalty due to downgrading of coal

Audit Findings contd.

- ▶ Failure of the department to grant mining leases and issue notification for granting of fresh lease in case of surrendered leases resulted in the mines remaining idle and consequent loss of revenue as surface rent and dead rent.
- ▶ Failure of the DMOs/AMOs to scrutinise the returns submitted by the lessees resulted in non/short levy and evasion of revenue
- ▶ Absence of a system of inter departmental cross verification of information resulted in non/short realisation of royalty and evasion of revenue
- ▶ Failure of DMOs to maintain the register of illegal mining resulted in non-levy of penalty/loss of revenue


Audit of public money invested in the sector



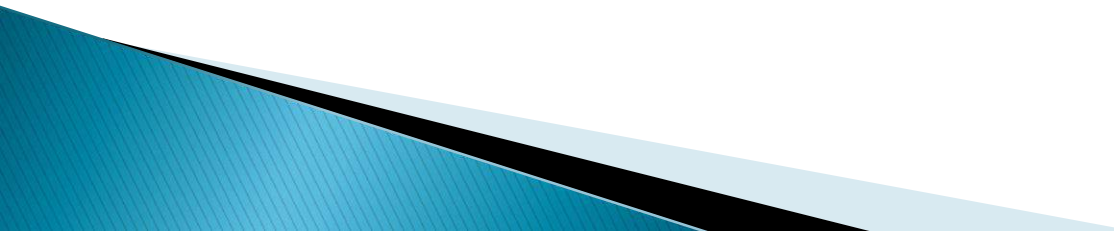
Performance Audit of Hydrocarbon Exploration Efforts 2012–13

- ▶ Done on Oil and Natural Gas Commission, a large PSU doing upstream oil exploration and production.

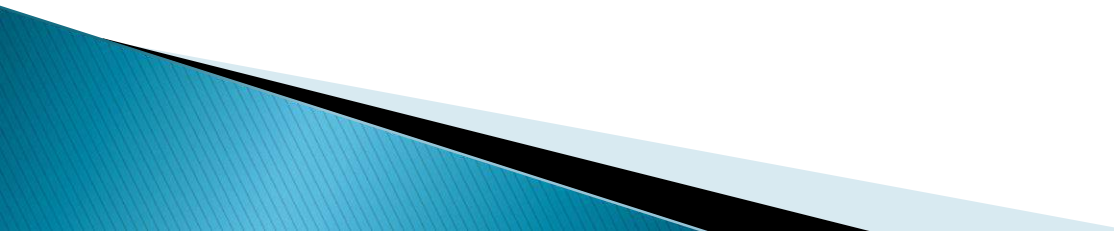
To see:

- ▶ Results of exploration efforts
 - ▶ Efficiency of exploration process
 - ▶ Reasonableness of costs of exploration
 - ▶ Capacity for hydrocarbon exploration
 - ▶ Robustness of governance framework and role of leadership
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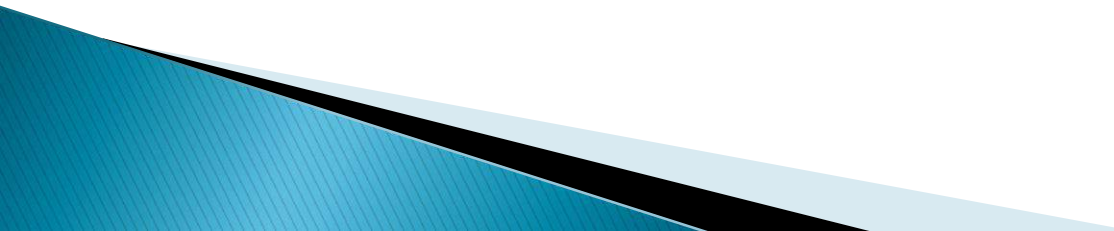
Audit results: exploration efforts

- ▶ Not achieving set targets
 - ▶ Relatively low number of discoveries
 - ▶ Non completion of committed work in prospective blocks.
 - ▶ Despite large acreage and rich experience, lesser discoveries in blocks than private parties/new entrants.
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Audit results: efficiency of exploration efforts

- ▶ Use of hired survey vessel leading to extra cost
 - ▶ Delay in award of survey contracts
 - ▶ Shortfall of exploration performance
 - ▶ Failure to acquire planned rigs
 - ▶ Non productive time of rigs above international norms
 - ▶ Shortfall in achievement of exploratory drilling targets
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Audit results, other areas:

- ▶ Under utilisation of allocated budgets
 - ▶ Acute shortage of operating crew
 - ▶ Performance accountability of company did not place desired emphasis on exploration efforts
 - ▶ Envisioned objectives of Government of India's Hydrocarbon Vision 2025 not followed.
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Audit of oversight function of government in the extractives sector



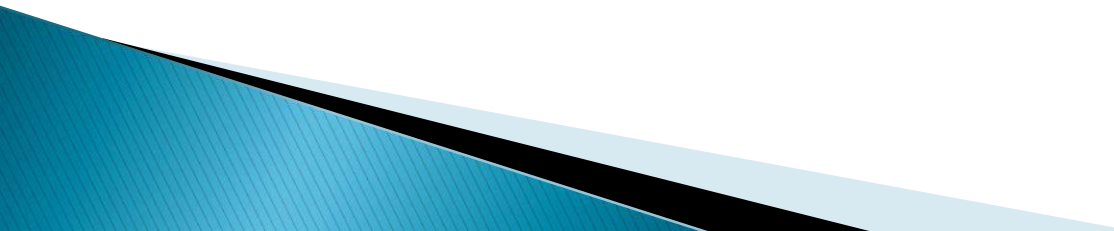
Focus: Environment protection

- ▶ SAI India conducts reviews on Environment protection by the extractive industries regularly.
- ▶ Results of Performance Review on “Corporate Social Responsibility of Coal India Limited” conducted in 2011–12 shared :
- ▶ C&AG of India’s Audit Report Number 9 of 2011–12
- ▶ url :
http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/union_audit/recent_reports/union_performance/2011_2012/Commercial/Report_No_9/Report_No_9.html

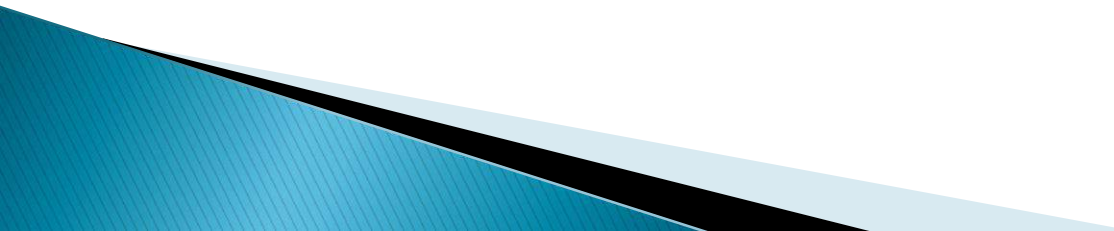
Audit Findings

- ▶ A defined Corporate Social Responsibility policy addressing the following issues was formulated by CIL only in December 2009
 - environment,
 - health care,
 - education,
 - water supply including drinking water,
 - social empowerment, village electricity, solar light,
 - sports and culture
- ▶ However, the Company did not set any measurable targets for the extent of activities proposed to be taken up and schedule of completion under each of these sub-heads.

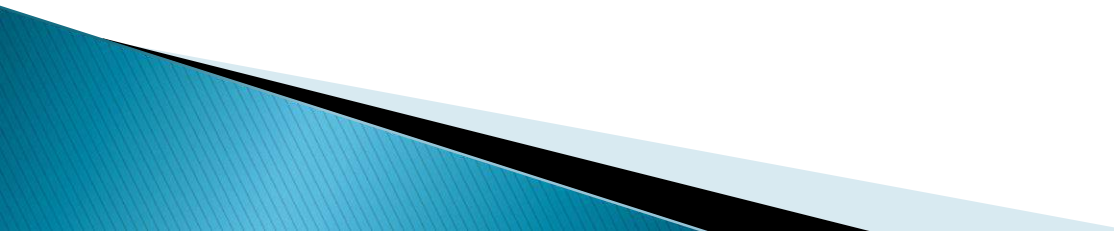
Audit Findings

- ▶ allocated amount was not fully utilized and fell short of budgeted allocation, allowing CSR activities to remain unfulfilled.
 - ▶ The companies were not carrying out any need assessment survey in the periphery to assess the requirements of the society and were also not assessing the impact of their CSR activities on the society
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Audit Findings

- ▶ Coal is extracted predominantly through open cast mining which disfigures the countryside and tends to pollute the atmosphere within the locality.
 - ▶ On the other hand, land subsidence may occur as a result of underground mining, if appropriate precautionary measures are not taken.
 - ▶ Reclamation of land, dust suppression, treatment of effluent and sewage, disposal of slurry and rejects and impact on ground water level due to mining assumes great significance.
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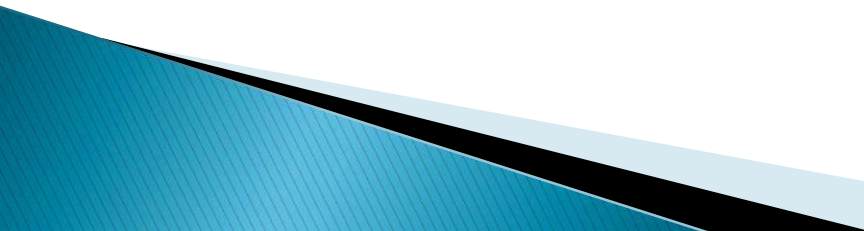
Audit Findings

- ▶ There was a backlog in backfilling and technical reclamation of 12,643 hectare land in the Company.
 - ▶ Out of 18 open cast mines covered in Audit; topsoil was found preserved only in five mines, density of tree plantation was found satisfactory (more than 2500 plants per hectare) in only eight mines;
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Audit Findings

- ▶ No effluent treatment plant in 2 mines
 - ▶ No sewage treatment plant in 4 mines
 - ▶ Only a handful of projects had the rain water harvesting arrangement.
 - ▶ Out of 239 mines in CIL, which existed prior to 1994, 47 open cast mines, 137 underground mines and 21 combined mines were found to be working without environmental clearance.
 - ▶ As of March 2011 only 71 out of total 629 units of CIL had got Environment Management System certification i.e. ISO 14001 accreditation.
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Audit Findings

- ▶ Activities like backfilling, land reclamation, preservation of topsoil and plantation of trees and other environmental issues not properly identified
 - ▶ Air quality: Respirable particulate Matter (RPM) and Suspended Particulate Matter (SPM) norms were flouted in some subsidiaries
 - ▶ Dust Suppression: Water-spraying arrangements were either non-existent or inadequate
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Focus: Equitable and transparent distribution



PA on “Allocation of Coal Blocks and Augmentation of Coal Production”

- ▶ http://www.saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/union_audit/recent_reports/union_performance/2012_2013/Commercial/Report_No_7/Report_No_7.html
- ▶ Published in 2012–13

Audit Objectives

To obtain assurance that

- ▶ Coal India limited augmented its production capacities as planned;
- ▶ For allocation to private parties, Government followed Procedures ;
- ▶ Government allocated Coal blocks transparently for captive mining and
- ▶ The process of allocation actually augmented production of coal as envisaged.

Allocation Procedure for captive coal blocks–Background

- ▶ Ministry allocated coal blocks on the basis of recommendations of an Inter–Ministerial Screening Committee or directly (Government Dispensation Route)
- ▶ In 2004, Ministry stated that the extant procedure lacked transparency and objectivity, especially with decreasing no. of blocks and increasing no. of applicants.

Allocation Procedure for coal blocks

- ▶ The screening committee recommended the allocation of coal block to a particular allottee / allottees out of all the applicants for that coal block .
- ▶ There was nothing on record in the said minutes or in other documents on any comparative evaluation of the applicants for a coal block which was relied upon by the screening committee.
- ▶ Minutes of the screening committee did not indicate how each one of the applicant for a particular coal block was evaluated.
- ▶ Lack of transparency and objectivity of screening committee

Production Performance of captive coal blocks

- Only 26 out of 86 blocks allocated in that manner which was scheduled to produce commenced production as of 31.3.11.
- The shortfall was 38.36 MT (52.55 %)

Production Performance of captive coal blocks (contd)

- ▶ Delay in Production due to delays in land acquisition, forest clearance, granting of mining lease, approval of mining plan and clearance of environment management plan.
- ▶ Non-seriousness of some of the allocates
- ▶ Non-encashment of Bank Guarantees in case of default and no monitoring by agencies

Controversy regarding jurisdiction

- ▶ when SAI India questioned the lack of transparency in implementation of a competitive bidding process while opening up coal mines to private sector, there was huge uproar and the government fought tooth and nail to say that the SAI India was crossing his jurisdiction, as this was policy matter.
- ▶ Later on a supreme court decision established that as per applicability of the principles of RES communes , some resoureces like natural resources, air and water are vested with the govt as a sovereign and its protection is the duty of the govt. and SAI has the authority to cover all of it in his audits.



Thank you >>

On behalf of SAI India