

Audit of Extractive Industries

SAI India

Outline

- Extractive Industries in India
- Legal and Institutional Framework
- Audit Framework
- Value chain in the Extractive Industries
- Audit risks and procedures
- The Way Forward

Extractive Industries in India

- Oil and Gas – Approximately 635 million metric tonne of proven oil reserves & 54 trillion cubic feet of proven natural gas reserves
- Coal-Geological reserves of approximately 300 million tonne
- Other solid minerals- Bauxite, iron ore, manganese, copper, dolomite, gypsum, etc.

Legal and Institutional Framework (Oil and Gas)

- Ministry of Petroleum and Natural Gas frames policies and procedures for regulation of exploration, production, refining and marketing operations in the oil and gas sector.
- Companies under Government as well as private sector operate within the framework.
- Divided between upstream (exploration and production) and Downstream (refining and marketing)
- Major upstream Government companies are Oil and Natural Gas Corporation Limited and Oil India Limited.
- Major Downstream Government Companies are Indian Oil Corporation, Hindustan Petroleum Corporation and Bharat Petroleum Corporation.

Legal and Institutional Framework (Coal)

- Ministry of Coal frames policies and procedures for allocation of coal blocks and fixes performance parameters for various activities related to production, supply, distribution and pricing of coal.
- Ministry enters into Memorandum of Understanding with the Government coal companies based on the performance parameters and its own Results Framework Document.
- The major Government coal companies are Coal India Limited and its subsidiaries.

Audit Framework

- SAI India's mandate (Comptroller and Auditor General's Duties, Powers and Conditions of Service) Act 1971
- Audit Regulations
- Government Auditing Standards
- Performance Auditing Guidelines
- Compliance Auditing Guidelines
- Financial Attest Audit Manual
- Accounting Standards/Indian Accounting Standards and Guidance Notes issued by the Institute of Chartered Accountants of India

Value chain in oil and gas exploration

- Identification and selection of blocks for bidding
- Advertising for participation
- Initiation of bidding process including framing the bid evaluation criteria and putting the data for inspection by the prospective bidders
- Award of the block based on bidding
- Survey, data management and interpretation
- Reserve assessment, geological modelling and assessment of commercial viability
- Drilling and development of field
- Production and sales

Audit risks and procedures (Oil and Gas)

Identification and selection of blocks for bidding

- Whether the blocks were identified as per the laid down policy
- Whether the data pertaining to the identified blocks were sufficient

Advertising for participation

- Whether wide publicity was given to elicit better response
- Whether the bid conditions were as per the laid down policies and procedures

Audit risks and procedures (contd..)

Initiation of bidding process

- Whether the bidding process was transparent and as per the policies and procedures
- Whether the bid evaluation criteria were well defined and published in the bid documents

Award of the block

- Whether the commercial evaluation of bids are done properly.
- Whether the blocks are awarded timely and to the highest bidders
- Whether the successful bidder has discharged all his obligations

Audit risks and procedures (contd..)

Survey, exploratory drilling, data management and interpretation

- Whether the contractor completed the minimum work program of survey and drilling as per the commitments in the bids
- Whether the data acquired were of good quality
- Whether the contractor submitted the data to the Government

Assessment of commercial viability

- Whether the reserve assessment was done as per the procedure
- Whether commercial viability of the field was arrived at after due diligence as prescribed

Audit risks and procedures (contd..)

Drilling and development of field

- Whether the contracts for hiring rigs were as per the procedures and based on best commercial considerations
- Whether the procurement of equipment and machineries was as per the requirement and there was no 'gold-plating of capex'
- Whether the production platforms were completed as per the schedule, following all the safety and environmental guidelines
- Whether the product transfer lines were constructed in synchronization with the completion of platforms

Audit risks and procedures (contd..)

Production and sales

- Whether the production/extraction of oil/gas was in line with production plan
- Whether the production level was on the basis of sustainability
- Whether safety and environmental guidelines on the emission, site restoration, water pollution etc. were strictly followed
- Whether proper marketing arrangements were in place for the products
- Whether costing of the products was worked out as per the procedures
- Whether transfer prices were fixed in a transparent manner

Some Performance Audits by SAI India (www.cag.gov.in)

- PA on utilization of rigs in ONGC
- PA on hydrocarbon exploration efforts of OIL
- PA on supply and infrastructure development for natural gas
- PA on production & sale of iron ore by NMDC
- PA on allocation of coal blocks & augmentation of coal production

The way forward

- Extractive industries are backbone of any economy. Hence, its audit assumes a great national responsibility.
- Highly technical and knowledge based. SAIs, therefore, require training and capacity building.
- Given the resource-intensity of the sector, allocation of blocks do not always follow the regular competitive procedure (auction vs nomination). This makes audit rather challenging.
- Involves significant health, safety and environmental issues. Hence, health and safety audit and environmental audit assume great significance.

Thank you