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
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