



Specialist Group
Cauvery Basin
10th (East), CM DA Tower-I
Egmore, Chennai-600 008.

File No. ONGC/CB/SPG/Audit /DGH/Audit Exceptions/2013-14 Dated 14.03.2014

From: M.R. Satyanarayana, DGM (E&T), Audit Coordinator, Cauvery Basin, Chennai

To: The Directorate General
Directorate General of Hydrocarbons
OIDB Bhavan Sector-73
Noida- 201301(UP)

Sub: Replies for the Audit Exceptions in respect of CY-ONN-2002/2 for the Years 2009-10 & 2010-11

Ref: MoPNG letter No.O-22015/99/2013-ONG-IV/EO dt.28.11.2013

Please find enclosed herewith the replies along with the supporting documents for the Audit Exceptions given in the above referred letter in respect of CY-ONN-2002/2 for the FY 2009-10 & 2010-11

Submitted for your kind perusal.

Regards

(M.R. Satyanarayana)
DGM (E&T)-Audit Coordinator
Cauvery Basin

Copy for kind information to:

1. ED- Basin Manager, Cauvery Basin, Chennai
2. ED-Head EXCOM, ONGC Scope Complex, New Delhi – 110003
3. GGM-Chief Internal Audit, ONGC, scope Minar, Delhi-110092
4. GM-Block Manager I, Cauvery basin, Chennai
5. GM-In charge Finance, Cauvery Basin, Chennai
6. Regional Audit Head, SS, ONGC, Chennai
7. Office copy

h. A. et Jambh

Sh. K.C. Mathur
21/3



Replies to DGH Audit Exceptions in respect of NELP Block CY ONN 2002/2 for 2009-10&2010-11		
Status of the Block		Active
Exception No.	Exception	Reply
1	Procurement	Procurement of goods and services is generally done on a centralized and consolidated basis in ONGC and not Block wise, in order to reap the obvious benefits of consolidated procurement including the associated economies. The procurement policy of ONGC is being constantly reviewed and upgraded as per CVC Guidelines and has hitherto been accepted by all Auditors. Since the system of procurement in vogue in ONGC is based on ONGC's Corporate Policy on centralized procurement, the observation / recommendation of DGH is being forwarded to the Nodal Agency in ONGC for NELP Blocks (EXCOM – Exploration and Contract Management Group, ONGC) for review.
2	Prior Year's Audit Exceptions: (a) Inclusion of name of GOI as co-insured	The error is regretted. It is further confirmed that from the year 2011-12 onwards, GOI is being included as co-insured. Copy of the Policy for 2011-12 and 2012-13 is enclosed for kind information. In view of the above, it is requested to treat the observation as settled.
	(b) Procurement procedure:	Reply already provided under Exception No.1 above.
3	Insurance	Reply already provided under Exception No.2 (a) above
4	(a) Statements / Reports:	Quarterly statements of Costs, Expenditure and Receipts were prepared for every quarter including the audit period and sent to JV partner. However, inadvertently, the same was not sent to MC. A copy of the same is being sent to DGH shortly.
	(b) Local Procurement Statement:	Statement regarding local procurement and purchases as required under Section 10 of Accounting Procedure is being submitted to DGH shortly.

Mh

Exception No.	Exception	Reply
5	Sundry Receipts	<p>The interest referred to is on account of interest accrued on the deposit made by the Operator with the State Government concerned by way of initial deposit as per Rule-11(1) of Petroleum and Natural Gas (Amendment) Rules, 2003.</p> <p>It is felt that the interest accrued on the Initial PEL Deposit made by the Operator with the State Government does not fall under the category of "Interest received from Bank on the Account maintained by Joint Venture for the petroleum operations" covered under Clause 3.4 (viii) referred to above. In view of the above, the same has not been considered for adjustment against the cost recoverable expenses during the respective years. Hence, this para may please be treated as settled.</p>
6	Currency Exchange Rates	<p>In accordance with the conventions of GAAP (Generally Accepted Accounting Principles), the SAP system of the Operator is so designed to consistently follow the daily average mean rates of SBI (for buying and selling) for the conversion of its INR transactions to USD. It is further submitted that since the method of daily average is being consistently followed, it has no ultimate material financial impact on the Accounts of PSC.</p> <p>It is also stated that ONGC is following the same practice (centralized system) for all the Blocks awarded under the various rounds of NELP, consistently. Further it is stated that once a policy on currency conversions is followed consistently by a company, the impact becomes negligible over a period of time. Hence, the observation may please be treated as settled.</p>

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दि न्यू इन्डिया एश्योरन्स कंपनी लिमिटेड The New India Assurance Company Limited

पंजीकृत एवं प्रधान कार्यालय: न्यू इन्डिया एश्योरन्स बिल्डिंग, ८७ महात्मा गांधी मार्ग फोर्ट मुम्बई ४०० ००१.
Regd. & Head Office : New India Assurance Bldg., 87, Mahatma Gandhi Marg, Fort, Mumbai-400 001.

जारीकर्ता कार्यालय Issuing Office : Mumbai Divl. Office 120500	मरीन पोतकाय पॉलिसी क्रमांक : MARINE POLICY NO. 121400/22/10/10/00200000
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जब कि यहां अनुभूति में नामांकित बीमाधारक ने दि न्यू इन्डिया एश्योरन्स कंपनी लिमिटेड (जिसे इसके बाद कंपनी कहा गया है) के पास अभिप्रेक्ष्य प्रस्तुत किया है कि वह यहां वर्णित बीमा लेने का इच्छुक है अथवा बीमा लेने के लिए विधिवत अधिकृत है। तथा उसने यहां इसके पश्चात अंकित प्रीमियम का भुगतान कर दिया है अथवा भुगतान के लिए अपनी स्वीकृति दे दी है।

WHEREAS the ASSURED named in the schedule hereto, have represented to The New India Assurance Company Limited (hereinafter called the 'Company,') that they are interested in or duly authorised to make the Insurance mentioned and described and have paid or agreed to pay the premium hereinafter stated.

कंपनी एतद्वारा बीमाधारक, उसके निष्पादक, प्रशासक और समनुदेशिनी को आश्वासन देती है और उसके साथ बिकार करती है कि अनुभूति में विहित या उसके पत्र पृष्ठंकित क्लोजेस पृष्ठंकित प्रतिबंधों और वादंतियों के अध्याधिन कंपनी हानि क्षतिदायित्व या व्यय के प्रति बीमा करेगी।

THE COMPANY HEREBY PROMISES AND AGREES with the Assured, their Executors, Administration and Assigns that the Company will insure against loss damage liability or expense subject to the clauses, endorsements, conditions and warranties contained in the schedule and/or attached hereto.

अनुभूति / SCHEDULE

Name & Address of the Assured(s) M/s.OIL & NATURAL GAS CORPORATION LTD. Risk Management Cell, Mumbai - 400 017.		
Name(s) of the Risk : Insurance of On-shore Wells coming under NELP Blocks / pre-NELP Blocks	Amount Insured hereunder : As per Schedule attached.	
Period from : 15.03.2011 to 14.03.2012 (b.d.i.)	Premium	Amount (Rs.)
Interest Insured :	Deposit Premium @ 25% of Annual Premium (Rs.)	70,89,317/-
Section I - Operators Extra Expense	Service Tax @ 10.3% (Rs.)	7,30,199/-
Section II - General Third Party Liabilities	(S.T.Regd.No.:AAA-CN-4165-CST-178)	
Section III - Property Damage	Stamp Duty (Re.)	1/-
Section IV - Terrorism covering interests under Section - I, II & III	TOTAL (Rs.)	<u>78,19,517/-</u>
Coverage : As per Policy Wordings attached.	Actual Adjustment of the Premium at the expiry of the Policy based on Actual Footages	

For THE NEW INDIA ASSURANCE CO. LTD.

PLACE : MUMBAI

DATE : 10/08/2011



(Authorised Signatory)

POLICY NO.121400/22/10/10/00200000

**INSURANCE OF ON-SHORE WELLS COMING UNDER NELP BLOCKS /
PRE-NELP BLOCKS**

POLICY SCHEDULE

01. ORIGINAL ASSURED

OIL AND NATURAL GAS CORPORATION (ONGC) and / or parent and / or associated and / or affiliated and / or subsidiary and / or inter operations, in NELP Blocks are concerned. Including any person, organisation, trustee, any Government (including Govt. of India) or estate to whom the Insured is obligated by virtue of a written contract or agreement to provide insurance such as is afforded by this policy, but only to the extent of such obligation and in respect of operations by or on behalf of facilities used by the Assured.

02. PERIOD OF INSURANCE

15 March 2011 to 14 March 2012

03. OPERATIONS

The Assured's oil and / or gas and / or energy related interests and / or activities in the NELP Blocks and pre-NELP Blocks (PSC)

04. COVERING :

Section I – Operators Extra Expense

Operator's Extra Expense, including Control of Well, Redrill (limited to 130% of original drilling cost), Seepage and Pollution, Clean-up and Containment costs; extended redrill, making wells safe, Evacuation Expenses, fire fighting costs; Underground Blowout, Deliberate Well Firing and Joint Venture Contingent Liability coverage.

Section II – General Third Party Liabilities

General Third Party coverage arising out of this operation.

Section III – Property Damage

Section IV – Terrorism covering interests under Section – I, II & III



Mudrank 2004 / 4125/ C.R. 690 / M - 1dt. 31.12.2004
Consolidated stamp fees paid by pay order No. 466758
Vide Receipt No. 71230 dated 27-9-2011
and the stamp duty under this policy is Rs. 1/-



दि न्यू इन्डिया एश्योरन्स कंपनी लिमिटेड The New India Assurance Company Limited

पंजीकृत एवं प्रधान कार्यालय न्यू इन्डिया एश्योरन्स लिमिटेड, ८७ महात्मा गांधी मार्ग पोर्ट मुम्बई ४०० ००१.
Regd. & Head Office : New India Assurance Bldg., 87, Mahatma Gandhi Marg, Fort, Mumbai-400 001.

जारीकर्ता कार्यालय
Issuing Office : Mumbai
Divl. Office 120500

मरीन पोतकाय पॉलिसी क्रमांक :

MARINE POLICY NO. 120500/22/11/10/00000035

जब कि यहां अनुसूची में नामांकित बीमाधारक ने दि न्यू इन्डिया एश्योरन्स कंपनी लिमिटेड (जिसे इसके साइकंपनी कहा गया है) के पास अभिप्रेदन प्रस्तुत किया है कि वह यहां वर्णित बीमा लेने का इच्छुक है अथवा बीमा लेने के लिए विधिवत अधिकृत है। तथा उसने यहां इसके पश्चात अंकित प्रीमियम का भुगतान कर दिया है अथवा भुगतान के लिए अपनी स्वीकृति दे दी है।

WHEREAS the ASSURED named in the schedule hereto, have represented to The New India Assurance Company Limited (hereinafter called the 'Company,') that they are interested in or duly authorised to make the Insurance mentioned and described and have paid or agreed to pay the premium hereinafter stated.

कंपनी एतद्वारा बीमाधारक, उसके निष्पादक, प्रशासक और समनुदेशिनी को आश्वासन देती है और उसके साथ दिव्यकार करती है कि अनुसूची में विहित या उस पर पृष्ठांकित क्लोजेस पृष्ठांकन प्रतिबंध और पारंटियों के अधीन कंपनी हानि क्षतिपूर्ति या प्यर के प्रति बीमा करेगी।

THE COMPANY HEREBY PROMISES AND AGREES with the Assured, their Executors, Administration and Assigns that the Company will insure against loss damage liability or expense subject to the clauses, endorsements, conditions and warranties contained in the schedule and/or attached hereto.

अनुसूची / SCHEDULE

Name & Address of the Assured(s) M/s.OIL & NATURAL GAS CORPORATION LTD. Risk Management Cell , Mumbai - 400 017.		
Name(s) of the Risk : Insurance of On-shore Wells coming under NELP Blocks / pre-NELP Blocks	Amount Insured hereunder : As per Schedule attached.	
Period from : 15.03.2012 to 14.03.2013 (b.d.i.)	Premium	Amount (Rs.)
Interest Insured :	Deposit Premium @ 25% of Annual Premium (Rs.)	57,79,803/-
Section I - Operators Extra Expense	Service Tax @ 10.3% (Rs.)	5,95,320/-
Section II - General Third Party Liabilities	(S.T.Regd.No.:AAA-CN-4165-CST-178)	
Section III - Property Damage	Stamp Duty (Re.)	1/-
Section IV - Terrorism covering interests under Section - I, II & III	TOTAL (Rs.)	63,75,123/-
Coverage : As per Policy Wordings attached.	Actual Adjustment of the Premium at the expiry of the Policy based on Actual Footages	

For THE NEW INDIA ASSURANCE CO. LTD.

PLACE : MUMBAI
DATE : 07/05/2012



(Authorised Signatory)

ORIGINAL POLICY WORDING
GENERAL CONDITIONS
APPLICABLE TO ALL SECTIONS OF THE POLICY
UNLESS OTHERWISE STATED

1. DEFINITIONS

I. Assured

The unqualified word "Assured" wherever used herein, means :-

- (a) the Assured being Oil and Natural Gas Corporation Ltd;
- (b) any officer, director, partner or employee of the Assured, while acting in his capacity as such;
- (c) any person, organisation, trustee, any Government or estate to whom the Insured is obligated by virtue of a written contract or agreement to provide insurance such as is afforded by this policy but only to the extent of such obligation and in respect of operations by or on behalf of the Insured or of facilities of the Insured or of facilities used by the Assured.
- (d) Any Co-venturer, for their share of interest insured hereunder.
- (e) Government of India.

II. Employee

The word "employee" shall also include any direct or trustee of the Assured while engaged in handling funds or other property of any Employee, Welfare or Pension, Benefit Plan or Thrift Plan owned, controlled or operated by the Assured or any person who is a Trustee, Administrator, Manager, Officer or Employee of any such plan.

III. Occurrence

The term "Occurrence" as used herein shall include an event or a continuous or repeated exposure to conditions, which cause any loss damage liability, or expense, which is insured under this Policy. Any number of such losses which are insured under this Policy resulting from a common cause, or from exposure to substantially the same conditions or all heavy weather damage to vessels and property occurring during a single sea passage between two ports, or losses during one seismic survey shall be deemed to result from one "occurrence" even though some of the losses making up the "occurrence" may occur prior to the inception date, after expiration or cancellation of this Policy.



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Government of India
Ministry of Petroleum and Natural Gas
Shastri Bhawan, New Delhi-110001
☎ 011-23073859 (Off.) (Fax : 23383585 & 23383100)

File No. O-22015/99/2013-ONG-IV/EO

November 28th, 2013

To,

Chairman & Managing Director
Oil & Natural Gas Corporation Limited
8th Floor, Jeevan Bharti Building,
Tower-II, 124, Rejiv Chowk
Connaught Place,
New Delhi - 110001

DEF *P/*
DEF

A. Mohan
05/12/13
(*AMIT NATHAN*)

Sub.: Audit exceptions in respect of CY-ONN-2002/2 block for the financial years 2009-10 & 2010-11

Sir,

I am directed to refer to Auditor's Reports on the subject cited above and to forward the following exception for taking necessary action:

Exception No. 1: Procurement

Appendix-F of the PSC specifies different procedures, depending upon value of the contract, to be followed by the operator while awarding contracts for procuring material and services.

During the audit, it was observed that operator have made contractual payments of US\$ 30,105 and US\$ 27,361 for 'site preparation services' and 'provisional services' respectively during the FY 2009-10. When we asked for the tender documents of awarding these contracts, the operator stated that Chennai office does not maintain the tender documents since these services have been obtained through common procurement procedures followed for various wells of PEL/NELP blocks of Cauvery basin and that the above mentioned expenses are booked through cost cycles allocation.

The operator also stated that they have been following a standardized and approved Material Management procedures for procurement of materials and services which is as per CVC guidelines applicable to a PSU and the same procedure is an improvement over the ones prescribed under the PSC.

Since, tender awarding documents and value of contracts is not provided to us; we are unable to comment on whether the operator had properly followed the procedures with regard to procurement of these services.

Further, the operators view cannot be taken into account since the provisions of PSC are mandatory to be followed by all the operators who have signed the PSC with GOI. When PSC has specifically mentioned the procurement procedure for material and services, the operator is bound to follow the same.

Operator is hereby advised to submit reasons for not complying with PSC provisions / not supplying documents to auditors.

Contd...2/p

WGB EXP

→ ED - BM - Cauvery M.

→ GM - Head EXCOM M

A. Prayutho
6/12/13

CMD's Office N. Delhi
Dy. No. M-3528
Date 05/12/2013

Exception No. 2: Prior Year's Audit Exceptions

Exceptions raised by the previous DGH auditor are dealt with by the operator, the points which are not rectified by the operator in the FYs 2009-10 and 2010-11 are as follows:

- In exception No. 2, it is stated that the operator has not included the name of GOI as co-insured in all its insurance policies.

In relation to the said exception, we also found that the operator had not included the name of GOI as co-insured in its insurance policies taken for drilling activities during the FYs 2009-10 and 2010-11.

- In exception No. 3, it is stated that stipulated procurement procedure in the PSC is not followed by the operator.

In this regard, the operator stated that they have been following a standardized and approved Material Management procedures for procurement of materials and services which is as per CVC guidelines applicable to a PSU and the same procedure is an improvement over the ones prescribed under the PSC.

We have not been provided any documents related to procedure followed for awarding contracts during the audit period. Hence, we are unable to comment on whether the stipulated procurement procedure in the PSC is followed by the operator.

The provisions of PSC are mandatory to follow by all the operators who have signed the PSC with GOI. When PSC has specifically mentioned the procurement procedure for material and services, no operator can ignore the same.

Operator is required to send replies to the prior year's audit exceptions.

Exception No. 3: Insurance

The operator had not included the name of GOI as co-insured in its insurance policies taken for drilling activities during the FYs 2009-10 & 2010-11.

Contractor is required to explain the exception and take remedial action urgently.

Exception No. 4: Statements / Reports

The operator has not submitted the following quarterly reports to GOI during the FYs 2009-10 and 2010-11:

- Statement of Costs, Expenditures and Receipts
- Cost Recovery Statement

However, the above mentioned reports have been submitted annually to the GOI as a part of annual audited accounts.

Also, the operator has not submitted the annually 'Local Procurement Statement' to GOI during the FYs 2009-10 and 2010-11.

Operator is advised to submit all statements / reports on time.

Contd...2/p

Exception No. 5: Sundry Receipts

The operator has earned interest income of US\$ 153 and US\$ 165 on PEL deposits during the FYs 2009-10 and 2010-11 respectively and the same has not been adjusted with the cost recoverable expenses during the year.

Operator is advised to correct Accounting treatment.

Exception No. 6: Currency Exchange Rates

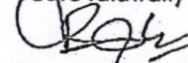
As per Section 1.6 of accounting procedure of Appendix C of PSC, for the purpose of foreign currency conversion from Indian Rupee or any other currency to US Dollar, the operator should have considered the monthly average of daily mean of the buying & selling rates of exchange rates for the transaction less than US\$ 50,000 and daily average rate for the transaction more than US\$ 50,000, provided by SBI or any other financial body being mutual agreed between the parties.

However, the operator has used the daily average rate of SBI for all the transactions i.e. also for the transactions of less than US\$ 50,000.

Operator is hereby advised to follow PSC provisions and to make necessary adjustments, if any.

2. The Operator is required to forward their compliance reports / further comments directly to DGH within 15 days from receipt of this letter.

Yours faithfully



(K. K. Sharma)

Under Secretary to the Govt. of India

Copy to :

1. **DG, Directorate General of Hydrocarbons, Noida** with the request to monitor the progress and to ensure compliance of the audit exception.