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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-22015/18/2014-ONG-IV/EO

9th May, 2014

To,

Mr. Rahul Dhira,
CEO,
Cairn Energy India Ltd.,
3rd / 4th Floor, Orchid Plaza,
SUNCITY, Sector - 54,
Gurgaon - 122002

Sub.: **Audit exceptions in respect of Block KG-ONN-2003/1 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 of Goods & Services

Auditors have verified the compliance of procedure for procurement of Goods & Services specified in **Appendix-F** to PSC of some contracts on sample basis, details of which are given below:

| S. No. | Name of Vendor | Services | Contract Value in US\$ | Procedure |
|--------|--|---|------------------------|-----------|
| 1 | Baker Hughes | Drilling & completion fluid and mud engineering | 1,915,703 | C |
| 2 | Schlumberger | Drill stem testing | 730,000 | C |
| 3 | Schlumberger | Surface well testing | 496,000 | B |
| 4 | SAR chandra environ solutions Pvt ltd | Drilling waste disposal (solid waste mgt. of 5 wells & liquid waste mgt. of 1 well) | 12,12,427 | C |
| 5 | Hari Chandna Technologies & Consultancy Services | Drilling waste disposal (liquid waste mgt. of 4 wells) | 2,44,878 | B |
| 6 | Schlumberger | Wireline logging | 1,274,792 | C |
| 7 | Geoservices | Mud logging | | C |
| 8 | Baker Hughes | Directional drilling services | 1,265,317 | C |
| 9 | Schlumberger Asia Services Limited | Provision of cementing service 3 well/5 well | 666,952/ 932,190 | C |

We report some deviations in compliance of procedure for procurement of goods & services specified in Appendix-F to PSC as follows:

- (a) The operator has not complied with procedure C of Appendix-F of PSC. Procedure C requires that a list of all entities fulfilling the pre-qualification and those added by the operating committee is to be submitted to 'Management Committee' (MC) but the same was not complied by the operator in any of above contracts.

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ss. to C. Mathur

Dr. Anirudh K. V

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(b) In relation to the contracts mentioned in the table above, the deviation in the contractual procedure in following is discussed as under;

I. Drilling waste disposal service of 5 wells

In relation to Serial No. 4 and 5, under procedure-C, for awarding a contract, the operator was required to publish invitation in at least 3 daily national newspapers. In the course of our examination, it was observed that the operator has invited only two entities on call-out basis without giving an advertisement in the newspapers.

Further, it was also observed that after getting no response from the entity selected from the above two entities, the operator once again invited the entities without giving any advertisement in the newspaper and awarded the contract. On asking the reason for not following the procedure, the operator replied that in view of paucity of time and fast approaching monsoons which were unsuitable to drill the waste, the prescribed procedure could not be followed.

II. Drill stem testing

In relation to Serial No. 2, the operator was required to follow the procedure C of the PSC, here operator is required to publish invitation in at least 3 daily national newspapers but the same was not followed. It was also observed that the operator has invited two entities on call-out basis.

On enquiry the reason for not giving the advertisement, the company officials stated that these contracts were given on **an emergency** basis and hence the prescribed procedure could not be followed.

Operator is required to explain the reasons for non compliance and indicate financial impact due to non compliance.

Exception No.2 : Management Committee meeting

As per the provision of the PSC, the management committee was required to meet at least once in every 6 month but the same is not followed.

Operator needs to explain the exception

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

Yours faithfully,



(AMBRISH KUMAR)

~~(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.

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