Audit-11/38/2022-DGH

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DGH

हाइड्रोकार्बन महानिदेशालय

पेट्रोलियम और प्राकृतिक गैस मंत्रालय
भारत सरकार

DIRECTORATE GENERAL OF HYDROCARBONS

Ministry of Petroleum & Natural Gas
Government of India

DGH/Audit/2023 08.05 2023

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Sub: Audit Exceptions for the block CB-OS/2 for the year 2019-20

Sir,

This has reference to the Audit report submitted by M/s AMAA & Associates, Chartered Accountants, for the block CB-OS/2 operated by Cairn Energy India Pvt Ltd. for the year 2019-20. Audit exceptions reported by the auditor for which necessary compliance and corrective action required by the operator are notified as under:

Audit Exception no. 1: Bank Receipts from sales of crude Oil and Gas

Article 25.1 of the PSC provides that-
"The Contractor shall maintain at an office in India accurate and current books, records, reports and accounts of its activities for and in connection with Petroleum Operations so as to present a fair, clear and accurate records of all its activities, expenditures and receipts. The Contractor shall also keep representative samples of cores and cuttings."

Further Article 25.7 mentions that-
"For the purpose of any audit referred to in Article 25.3 and 25.5, the Contractor shall make available to the auditor all such books, records, accounts and other documents and information as may be reasonably required by the auditor."

Receipts from sales of crude oil and gas are being credited in the Contractors corporate level bank accounts. Further, the operator refused to provide the access to such corporate level bank account since it also receives income from other business operations. In absence of the same, Auditor is unable to comment whether current books, records and accounts present a fair, clear and accurate records of all its receipts.

Auditors View & Recommendation: The Operator is directed to route all the transactions through block's bank account to comply with the provisions of PSC.

Audit Exception no. 2: Non-accounting of closing stock in the computation of Profit Petroleum

As per Article 1.72 of the PSC, the Profit oil should also include value of the closing stock of Crude oil at the end of each year. Non-adherence to this provision of the PSC results in decrease in the share of Profit Petroleum paid to GOI.

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The Profit Oil had been computed based on sales from Crude Oil. The Operator did not consider the value of closing stock of Crude Oil at the end of each year in the computation of profit petroleum, which is in contravention to the provisions of the PSC.

Auditors View & Recommendation: The Operator is directed to include value of closing stock of Crude Oil at the end of each year in the computation of profit petroleum and pay the Government share of profit petroleum along with interest.

Audit Exception no. 3:Non-segregation of Development area wise booking of expenditure in SAP

The Operator manually allocates the expenditure to each development Area based on the WBS element, and there is no functionality configured in SAP to account for the development area wise break-up of expenditure.

Auditors View & Recommendation: The Operator is directed to ensure the compliance of the provisions of PSC and booking of expenditure according to development area.

Audit Exception no. 4: Recovery of expenses incurred beyond delivery point

As per Article 27.2 of the PSC, "Title to Crude Oil and/or gas to which Contractor is entitled under this contract, and title to Crude Oil and/or Gas sold to Government or its nominee by the Companies shall pass to the relevant Party or, as the case may be, to Government or its nominee at the Delivery Point. Contractor shall be responsible for all costs and risks prior to the Delivery Point and each Party shall be responsible for all costs and risks associated with such Party's share after the Delivery Point and where the Government or its nominee purchases all or some of the Companies' share of Crude Oil in accordance with Article 18, Government or its nominee shall be responsible for all costs and risks in respect of the amount purchased, after the Delivery Point."
Further, Para 3.2 (iii) - Section 3 Appendix – C of the PSC states that costs of marketing or transportation of petroleum beyond the Delivery Point are costs which are not recoverable and not allowed under the PSC.

The Operator had claimed recovery of expenses incurred beyond Delivery Point aggregating to USD 70,824,422 upto 31 March 2020. The Operator had claimed these expenses by reducing it from gross revenue in the End of Year Statement for each year.

Table 1: Details of cost recovery of expenses incurred beyond Delivery Point

(Amount in USD)

S. No.	Name of Development Area	Up to 31-Mar-2019	For FY 2019-20	Up to 31-Mar-2020
1	Lakshmi	50,023,834	8,273,114	58,296,948
2	Gauri	10,768,923	1,758,551	12,527,474
	Total	**60,792,757**	**10,031,665**	70,824,422

Auditors View & Recommendation: Operator is directed to comply with the provisions of the PSC and calculate the profit petroleum correctly and pay to the GOI with interest.

Audit Exception no. 5: Inappropriate methodology adopted for allocation of common development cost (i.e. Facilities cost) between Laxmi, Gauri & Transition zone

As per Article 14.5 and 14.6 of the PSC, cost incurred by the Contractor in any Development Area should be aggregated and recovered from that Development Area. Hence, the common cost should be allocated and recovered from the value of the Crude Oil, Condensate and/or Natural Gas produced and saved from that Development Area.

Article 14.5 of the PSC states, "Development Costs incurred by the Contractor in any Development Area up to the date of Commercial Production from such Development Area shall be aggregated, and the Contractor shall be entitled to recover out of the Cost Petroleum from that Development Area the aggregate of such Development Costs at the rate of one hundred percent (100%) per annum of such Development Costs beginning from the date of such Commercial Production from the said Development Area"

Article 14.6 of the PSC states, "The Contractor shall be entitled to recover out of the Cost Petroleum from a Development Area the Development Costs which it has incurred on such Development Area after the date of Commercial Production from that Development Area at the rate of one hundred percent (100%) per annum of such Development Costs' beginning from the date such Development Costs are incurred."

There is one common onshore processing facility utilized to process oil and gas extracted from all three Development Areas (i.e. Laxmi, Gauri & Transition Zone). The Contractors had incurred and recovered Development cost aggregating to USD 542.32 million for the three Development Areas up to 31 March 2020.

Further, this Development cost also includes the cost pertaining to the processing facility (i.e., Project Studies, Major Capital Works & Major Capital Purchases), which is common between the three Development Areas, i.e., Laxmi, Gauri & Transition Zone.

These costs should be recovered from all the three Development Areas in the ratio of recoverable reserves of FDP. However, the Operator informed that these costs have been allocated and recovered between the three Development Areas on the basis of the approved annual Work Program Budget (WPB) in the ratio of the annual production volumes of the respective Development Areas.

Table 2: **Variation in cost recovery & allocation of common facilities cost**

Amount in USD Million

S No.	Name of Development Area	Cost recovery as per Operator	Allocation of cost based on recoverable reserves of FDP	Variation
1	Laxmi	119.12	137.67	18.55
2	Gauri	61.55	44.70	-16.86
3	Transition Zone	3.63	1.93	-1.69
	Total	**184.30**	**184.30**	

Auditors View & Recommendation: Operator is directed to comply with the provisions of the PSC and calculate the profit petroleum correctly and pay to the GOI with interest.

Audit Exception no. 6: Cost recovery of local community charges in contravention to the Provisions of PSC

Para [illegible] Section 3 Appendix – C of the PSC states that donations and contributions are considered as cost not recoverable and not allowed under the PSC.

Impact on Profit Petroleum payable to GOI

Cost recovery of local community charges would result in a decrease in the ... Profit Petroleum paid to GOI.

Table 3: Details of cost recovery of local community charges

(Amount in ...)

S. No.	Name of Development Area	Up to 31-Mar-2019	For FY 2019-20	Up to 31-Mar-2020
1	Laxmi	0.08	0.00	0.08
2	Gauri	0.04	0.00	0.04
3	Transition Zone	-	-	-
	Total	0.12	0.00	0.12

Auditors View & Recommendation: Operator is directed to comply the provision ... and reverse the local community charges claimed as cost recovery.

Audit Exception no. 7: Computation of short paid Royalty to the GOI

On the basis of information and data provided to us, we have found that requisite ... Gas was not correctly paid to the Government of India by the operator for USD 1... 2019-20.

Auditors View & Recommendation: Contractors are required to remit the short ... GoI alongwith applicable penal royalty.

Audit Exception no. 8: Computation of revised profit petroleum to the GOI

The potential short Profit Petroleum payable to GOI aggregates to USD 37.18 Mil... below for details:

(Amount in ...)

Period	Lakshmi	Gauri	Transition Zone	Total Short / (excess) Profit Petroleum Payable to GOI
UPTO FY 2005-06		1.86		1.86
FY 2006-07	(2.45)	1.61		(0.84)
FY 2007-08	(0.11)	(0.21)	0.23	(0.09)
FY 2008-09	0.04	(0.14)	(0.21)	(0.31)
FY 2009-10	0#	0.01	(2.49)	(2.48)
FY 2010-11	0.95	0.38		1.33
FY 2011-12	1.58	0.17		1.75
FY 2012-13	1.14	0.21		1.35
FY 2013-14	2.99	0.28	0#	3.27
FY 2014-15	3.41	0.37		3.78
FY 2015-16	2.91	0.52		3.43
FY 2016-17	2.53	0.82	0#	3.35
FY 2017-18	2.36	1.42	2.69	6.47
FY 2018-19	4.35	0.93	0#	5.28
FY 2019-20	8.53	1.52	-0.02	10.03
Total	**28.23**	**8.75**	**0.19**	**37.18**

Auditors View & Recommendation:

Contractor is directed to remit the short paid Profit Petroleum to GoI along ... interest.

Audit Exception no. 9: Management committee meeting not conducted as per PSC

As per PSC Article 6.8 Management committee shall meet at least once every six (6) months or more frequently at the request of any MC member.
As per the MOM (Minutes of Committee Meeting) provided to audit, meeting was conducted on 16th May, 2019 after that no meeting has been conducted by the management which is a contravention to the terms of the PSC.

Auditors View & Recommendation: Operator is directed to explain the reason of not holding the meetings as required by PSC provisions.

Audit Exception no. 10: Service Tax Demands

The Operator had received nine show cause notices (SCNs) for non-payment of service tax on various services. Operator is in process of finalization of the reply and opines that the demand alleged for the period April 2014 to march 2016 amounting $2.25 million (INR 169.82 million) is beyond limitation period prescribed under the service tax law and the balance demand alleged amounting $ 1.59 million (INR 119.66 million) pertaining to the period April 2016 to June 2017.

Auditors View & Recommendation:
Operator is directed to comply the provisions of the applicable law and pay the due taxes timely and to inform the DGH present status with supporting documents.

Audit Exception no. 11: Approval of Audited Annual Accounts

Annual Accounts are approved by MC till 2010-11.

Auditors View & Recommendation: The Operator is directed to take approval for Annual Accounts for FY 2011-12 to FY 2019-20 on priority.

Audit Exception no. 12: Excess consideration of allowable cost recovery
While reviewing Format 2A of Lakshmi Development Area, we found that actual expenditure for Major Capital Works under Facility Cost was incurred for USD 1,956,447, however, amount considered for allowable cost recovery was booked as USD 1,957,070 i.e., excess 623 USD was booked as cost recovery. It has an impact on GOI's share of profit petroleum.

Auditors View & Recommendation:

The Operator is directed to reverse the excess amount of USD 623 claimed as cost recovery and confirm with supporting document.

Audit Exception no. 13: Variation between Planned Production and Actual Production

Actual Production of Fields Lakshmi and Gauri were less than Planned Production for the FY [illegible]

Field Name	Commingled Oil		Associated Natural Gas	Non-Associated Natural Gas
	BBL	MT	m3	m3
Planned (I)	5,654,789	719,232	94,029,766	22,590,219
Actual (II)	4,616,683	588,707	88,794,420	21,198,639
Variance (I-II)	1,038,106	130,525	5,235,346	1,391,581

Budget Cost as per MC:

Particulars	Laxmi	Gauri	Total
Budget Proposed in MC meeting	43278000	8736000	52014000
Less: by ONGC during MC Deliberations	395000	65000	460000
Less: Community Development & PCO	0	0	44440
Final Budget Approved in MC Meeting	42883000	8671000	51509560

Calculation of Actual Cost Incurred during the FY 19-20:

Particulars	Laxmi	Gauri	Transition zone	Tot[illegible]
Exploration	0	0	0	[illegible]
Development	3321487	714980	0	[illegible]
Production	19510758	4326674	0	[illegible]
General & Admin cost	2112550	883995	0	[illegible]
Total Cost Excluding Royalty, Cess & NCCD (A)	24944795	5925649	0	[illegible]
Final Budget Approved in MC Meeting (B)	42883000	8671000	0	[illegible]
Variance (B-A)	17938205	2745351	0	[illegible]
Variance %age	42	32	0	[illegible]

Auditors View & Recommendation: The Operator is directed to explain th[illegible] difference in Planned Production and Actual Production & Budget cost and actual [illegible]

Audit Exception no. 14: Insurance

The Contractor has not included the name of GOI as co-insured in the Insurance Po[illegible]

Auditors View & Recommendation: The Operator is directed to explain the [illegible] including name of GOI as coinsured and to include the name of GOI to comp[illegible] provisions of PSC.

Audit Exception no. 15: Adjustment of Past Audit exceptions

Compliance report of the Prior years' Audit exceptions were still pending at Operator's end. Details are as per Annexure-1.

Auditors View & Recommendation: Operator is directed to send Compliance report immediately on prior year's Audit exceptions.

Accordingly, **the above audit exceptions are forwarded to Operator for adjustments and compliance within 120 days in line with the PSC provisions.**

Yours faithfully,

(MD Gupta)
ED & HOD- Audit

Encl: As Above

Previous Years Audit Exceptions for the block CB-OS/2

S.no.	Exception no.	Year	Audit Exception	Action taken / to be taken by the Operator
1	1	2018-19	Separate bank accounts maintained by contractors at corporate level for receipts of sale of crude oil and gas	Maintenance and recording ... from sale of crude oil and ... different bank accounts ... the bank account of the ... contravention to the provi... Article 25.1 of the PSC
2	2	2018-19	Non-accounting of closing stock in the computation of Profit oil	As per Article 1.72 of the P... oil should also include the ... closing stock of Crude oil ... each year
3	3	2018-19	Non-segregation of Development area wise booking of expenditure in SAP	The Operator manually ... expenditure to each develo... based on the WBS element ... no functionality configur... account for the developm... break-up of expenditure ... required to ensure compli... provisions with respect to ... expenditure development ... the SAP ERP system
4	4	2018-19	Cost recovery of expenses incurred beyond delivery point	As per Article 27.2 of the P... 3.2 (iii)-section 3 appendi... expenses incurred beyond deli... point are not recoverable and ... allowed under the PSC.
5	5	2018-19	Inappropriate methodology adopted for allocation of common development cost (i.e. Facilities cost) between Laxmi, Gauri & Transition zone	As per Article 14.5 and 14... cost incurred by the cont... development area should be a... and recovered from that dev... area. Hence, the common cost ... allocated and recovered ... respective development ... ratio of the approved ... reserves of FDP
6	6	2018-19	Cost recovery of local community charges in contravention to the Provisions of PSC	As per Para 3.2 (vi)-S... Appendix-C of the PSC, donation... contributions are not rec... not allowed under the PSC ... required to reverse the ... cost and remit GOI share ... Petroleum with applicable ...

7	7	2018-19	Computation of penal rate on short Royalty payable to the GOI	The short payment of Royalty upto FY 2018-19 and the penal Royalty upto 30 June 2021 payable to GOI has been calculated as per provisions of ORD Act, 1948 and PNG Rules, 1959 as amended and the amount is required to be paid to Government along with applicable penal Royalty till the date of payment. (USD 16.18 million plus INR 4.71 crores)
8	8	2018-19	Computation of revised profit petroleum to the GOI	Contractors are required to remit the short paid Profit petroleum to GOI along with applicable interest (i.e. USD 27.15 mn. plus USD 5.07 mn.)
9	5	2018-19	Delay in submission of Production statement to DGH	As per Para 5.4 - Section 3 appendix-C of the PSC, Production statement for each month should be submitted to the Government not later than 10 days after the end of such month. However during FY 2018-19, the operator did not submit the Production statement within the due dates.
10	2	2016-17 and 2017-18	Non-approval of Annual accounts	Operator is required to explain the reasons for not taking MC approval for Annual Accounts and advised to get the annual accounts upto FY 2017-18 approved by MC
11	8	2016-17 and 2017-18	Format not in line with DGH formats	Operator is advised to submit the data in prescribed formats and confirm the corrective action.(Quarterly statements i.e. Statement of costs, expenditure and receipts, Cost recovery statement, Profit sharing statement)
12	1	2016-17 and 2017-18	Cost and Profit petroleum	Operator is required to work out profit petroleum based on value of crude oil produced and saved including impact of closing stock and submit the statement in prescribed formats.
13	5	2016-17 and 2017-18	Transportation cost beyond delivery point	Operator is advised to make the payment of Profit petroleum FY 2016-17 US$ 3360620/- and FY 2017-18 US$ 3789953/- to GOI and correct the books of accounts accordingly
14	6	2016-17 and 2017-18	Local community development	Operator is required to reverse the community development expenses of previous years and confirm the corrective action taken with documentary evidence.
15	9	2016-17 and 2017-18	No approved vendor list	The operator is required to explain the reasons for not maintaining approved vendor list and maintain the same at the earliest
16	10	2016-17 and	No approved vendor	The operator is required to explain the reasons of non maintenance of

		2017-18	qualification criteria	approved qualification criteria and maintain the same at the earliest.
17	11	2016-17 and 2017-18	MC meetings	Operator is advised to provide reasons for not arranging MC meetings as per PSC and comply with the same hence forth.
18	1	2015-16	Chart of accounts	The operator is required to get the chart of accounts approved by Govt. as per section 1.4.1 of Appendix C to PSC
19	3	2015-16	Cost Recovery approval	Operator is required to take cost recovery approval on priority.
20	4	2015-16	Transportation cost beyond delivery point	As pointed out by the auditors, under section 3 (Para 3.2-iii) of the Accounting procedure, Cost of marketing or transportation of petroleum beyond delivery point is not recoverable and is not allowable cost under the PSC. US$ 7408,485 need to be reversed and GOI share of profit petroleum (US$ 3469,245) need to be paid to GOI at the earliest with interest.
21	5	2015-16	Local community facilities	The Operator is required to reverse US$ 104,341 and send documentary evidence for reversal made to DGH.
22	6	2015-16	Quarterly profit petroleum	Quarterly profit petroleum would undergo a change in the light of audit exceptions 4 & 5 listed above. Operator is required to pay quarterly profit petroleum accurately and agreed written document should be available for previous year adjustment as pointed out by the auditors.
23	7	2015-16	Profit petroleum	Contractor has recovered contract costs and of total volumes of Petroleum & Gas sold during the year instead of total volumes of Petroleum & Gas produced & Saved during the year. Adjustments are required to be made as per PSC provisions and profit petroleum payable to GOI needs to be reworked. Additional corrected profit petroleum needs to be paid to GOI with due interest at the earliest.
24	1	2013-14	Internal control-fixed assets	Govt. has the right to inspect and see the reports. Therefore, Operator is required to provide the report from Internal Auditor and non-operator auditor's report for inspection to be carried out by the Govt. nominated auditors.

The qualifying amount was wrongly mentioned. However operator reply 14.1.22 assured of its reversal.

25	2	2013-14	**Procurement:** (Exception no. 2A- Sparrows Offshore Services Ltd.), (Exception no. 2B- Charter Hire of support vessel services- Tidewater marine intl. For US$ 1,627,978/-), (Exception no. 2C- Gas Turbine Engine Maintenance & Supply- Solar Turbine Int'l for US$ 831,387/-),	Operator is required to obtain MC Approval FY 13-14 AE- 2
26	3	2013-14	Chart of accounts	Operator is required to send the MC approved copy of the Chart of accounts for CB-OS/2.
27	4	2013-14	Valuation of Petroleum sold and royalty Payment	Operator is required to inform licensee and arrange the reply at the earliest. However, the issue of post Wellhead Cost is being dealt with the operator separately by DGH.
28	5	2013-14	Extent of Allowable & Recoverable Cost as per section 3 of A.P.	Operator is required to reverse and send documentary evidence of reversal made. ofr cutan ?
29	6	2013-14	Post well head Cost for royalty	Operator is required to inform licensee and arrange the reply at the earliest. However, the issue of post Wellhead Cost is being dealt with the operator separately by DGH.
30	7	2013-14	Approval of cost recovery	Operator is required to obtain MC Approval at the earliest.
31	8	2013-14	SRF Contribution	Provision in SRF needs to be immediately provided and funded as per SRF Scheme 1999 pointed out by the auditors.
32	9	2013-14	MC meetings	Operator has to ensure that MC Meetings are held as per PSC provisions.
33	1	2011-12 and 2012-13	Statements	Operator is required to submit all statements as per PSC on time.
34	2	2011-12 and 2012-13	Internal control	Operator is advised to provide copy of Internal Audit reports etc. to Govt. auditors whenever sought.

35	3	2011-12 and 2012-13	Procurement	Operator is required to explain the non compliance point by point.
36	4	2011-12 and 2012-13	Non recoverable expenses	Non recoverable expenses as non MC approved expenses need to be reversed.
37	5	2011-12 and 2012-13	Royalty and cess	ONGC need to expedite payment.