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EXCOM BD-JV Group

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No: Excom/DGH_Corresp/Compliance Reports/KG-PG/ 2009

Dt. 04.05.09

To

The Director General,
Directorate General of Hydrocarbons,
C-139, Sector-63,
Noida-201301.

Attention : Shri K C Mathur, Consultant (CF)

Sub : Compliance Reports and comments to Draft Audit Exceptions in respect of Four NELP blocks w.r.t KG-PG Basin for the year 2004-05,2005-06 and 2006-07

Sir,

Pl find enclosed herewith the compliance reports and comments to Draft Audit Exception for 4 (Four) NELP Blocks for the year 2004-05,2005-06 and 2006-07 as per the details given below:-

S. N	BLOCK NAME	Reference letter no. of Draft Exception raised by MOP&NG	Replies (No. of pages)	Annexures No . (Exception no.) – No. of Pages	Total no.of Pages
1	KG-DWN-98/2	No. O-22014/15/2006-ONG/US(EO) dtd 19.06.2008	7	A (Exception No.-1) – 3 pages 1 (Exception No.-2) – 2 pages 2 (Exception No.-2) - 1 page 3 (Exception No.-3) - 2 pages	15
2	KG-DWN-98/5	No. O-22014/6/2008-ONG/US(EO) dtd 10.06.2008	4	1 (Exception No.-2) – 2 pages 2 (Exception No.-2) - 1 page 3 (Exception No.-3) - 2 pages	9
3	KG-DWN-2002/1	No.-O-22014/11/2008-ONG/US(EO) dtd. 30.04.2008	5	1 (Exception No.-2) – 2 pages 2 (Exception No.-2) - 1 page 3 (Exception No.-3) - 3 pages 4 (Exception No.-4) - 4 pages	15
4	PG-ONN-2001/1	F.No. O-19025/69/2006-ONG/US(EO) dtd 30.06.2008	5	1(Exception No.-2) – 1 page	6
Total			21	24	45

Regards,

K K P SINGH
Dy Manager(F&A)
EXCOM-BD JV

Harmeet
Pl process these reports
Kumar
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DGH AUDIT EXCEPTIONS AND REPLY FOR 2004-05, 2005-06 AND 2006-07

I) KG DWN 98/2

DGH AUDIT EXCEP TION NO	EXCEPTION	REPLY
1	<p>Transfer of Share</p> <p>In the year 2004-05 when M/s. Cairn India Pvt.Ltd; transferred it's share to ONGC Ltd; the total expenditure shown in the books of M/s.Cairn India Pvt.Ltd. was US \$ 100,667,536 and drilling material in hand was to the tune of US\$ 1,262,680. ONGC Ltd. in the year 2005-06 while taking the opening balances showed opening exploratory costs, b/f from M/s. Cairn India as US \$ 101,930,216 i.e (US \$ 100,667,536 and 1,262,680) thus inflating the cost by US \$ 1,262,680 and deflating the current assets (inventory) by US \$1,262,680</p> <p>This needs rectification and cost should be reduced to this extent.</p>	<p>The assignment of 90% PI (Participating Interest) and transfer of Operator ship to ONGC of the Block KG DWN 98/2 was effective from March 3, 2005. There were no operations carried out between 03.03.2005 and 31.03.2005.</p> <p>In the Audited Statement of Joint Account Sources and Application of Funds as at March 31, 2005, Drilling Material for US \$ 1,262,680 appears under the Head "Application of Funds" – sub head " Joint Venture Expenditure". If the Drilling Materials would have been "drilling material on hand as at 31.03.2005" then the same would have appeared under the head " Current Assets" in the Audited</p>

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	<p>Statement of Joint Account Sources and Application of Funds as at March 31, 2005.</p> <p>M/s. S.R.Batliboi & Associates, Chartered Accountants, who have done the Audit for the block have stated in their report as follows:(Vide copy enclosed)</p> <p>" Drilling material USD 1,262,680 and USD 1,538,509 as at March 31, 2005 and March 31, 2004 respectively, reflected as part of the Venture's expenditure in the audited Joint Account Statements and include as expenditure on consumption, have for the purpose of the Attached Statements been considered by the Operator as Costs"</p> <p>Effectively, M/s.CEIL was the operator for the year 2004-2005 and the Accounts were prepared by them and got Audited by them. However, in view of the fact that Operator ship was transferred to ONGC w.e.f March 03,2005, ONGC had become the signatory to the Audited Accounts.</p>
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	<p>Further, the Asset Sale and Purchase Agreement dtd.31.12.2004 between Cairn Energy Parties and Oil & Natural Gas Corporation Limited reads as under :</p> <p>" 21.Assets Other than the Materials and Material Assets (as each such term is defined in and which will be dealt with in accordance with, the TOOA) , there are not other material assets attributable to Block KG-DWN-98/2."</p> <p>Schedule 3 (Materials) attached to the Asset Sale and Purchase Agreement dtd.31.12.2004 is blank and does not contain any materials. Schedule 4 (Material Assets) contains only the 6 wells drilled by M/s. Cairn.</p> <p>Copies of the relevant pages are enclosed for perusal.</p> <p>In view of the above facts, it is submitted that the drilling materials for USD 1,262,680 considered by the erstwhile operator as costs and shown</p>
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		<p>under the Head "Application of Funds" – sub head " Joint Venture Expenditure" and not under the head " Current Assets" in the Audited Statement of Joint Account Sources and Application of Funds as at March 31, 2005 has been correctly accounted in the Venture Books. Hence, cost is not inflated by USD 1,262,680 and current asset is not deflated by USD 1,262,680. As such, the suggested rectification for reducing the cost is not warranted.</p>
2	<p>Foreign Currency Conversions</p> <p>iii) The Contractors are converting the INR payments in US\$ by taking the day rate in both the circumstances i.e. whether it is equivalent to or more than US\$50000 or less than US\$50,000.</p> <p>iv) PEL fees is converted into US\$ by taking average daily previous month rate.</p> <p>Auditor has observed that in all the instances wherever PEL fees is paid the amount is more than US \$ 50,000. Hence it should be converted by taking day rate.</p> <p>Contractor is required to follow PSC provisions for</p>	<p>PSC prescribed different conversion method of Indian Rupees into USD; for amounts less than USD 50000 and for more than USD 50000. However, ONGC is maintaining its accounts in line with the Accounting Standard No 11 which is mandatory accounting standard issued by the Institute of Chartered Accountants of India. Accordingly, all the transactions are converted into equivalent USD by adopting the exchange rate prevalent on the date of transaction. ONGC vide letter No DLH/EXCOM BD JV.F&A/Accounting Procedure/07</p>

(Relevant documents attached - ANNEXURE - A)

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	<p>conversion of Foreign Currency.</p>	<p>dated 19.7.2007 requested for modification of the relevant clause in PSC. Copy placed at Annexure -1.</p> <p>In line with the accounting standard and ONGC's request, the relevant clause in the PSCs under NELP VII have been modified for conversion of currency rates on daily basis for all transactions. The relevant clause in the signed contract for Blocks under NELP VII is placed at Annexure – 2.</p> <p>The issue raised is only in respect of smaller expenditure items with financial implication of less than USD 50000 each. In any case, the accounting treatment of ONGC is in line with mandatory accounting standard and is more meticulous.</p> <p>In view of above, ONGC's accounts which are in line with the accounting standard 11 may be accepted.</p>
3	<p>Actual expenditure exceeds the budgeted expenditure and no approval has been taken from the MC as per PSC requirement. Variance are as follows:</p>	<p>The audited actual expenditure for the years 2005-06 and 2006-07 had been submitted to DGH on 17.8.2006 and 30.7.2007 respectively. Variance analysis of expenditure vis a vis the budget for the years 2005-06 and</p>

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<u>Year 2005-06</u>			<p>2006-07 were submitted to DGH on 17.8.2006 and 22.10.2007 respectively.</p> <p>Management Committee while adopting the accounts takes in to consideration the cost over runs. Further, DGH has advised the operator to submit the audited accounts instead of seeking revised budget approval, as the financial year was over by that time.</p> <p>Once Management Committee adopts the accounts, then the cost recovery will be restricted, to the approved accounts. Hence, there is no necessity for reversal of excess expenditure.</p> <p>However for the year 2005-06, DGH has disallowed USD 11,003,321 for well D-1 which is being contested by ONGC and it is yet to be resolved between the operator and DGH.</p>
Head of A/C	Budgeted (US \$)	Actual (US \$)	
Seismic acq. 3D	-----	1512882	
Seismic Spl.Pr.2D	--	1818	
Seismic Spl.Pr. 3D	--	269444	
Q marine data Acq.	--	15958857	
Seismic Interpretation	67500	187570	
G & A	1079914	1301853	
Exploratory Drilling	56408997	87373650	
<u>Year 2006-07</u>			
Head of A/C	Budgeted	Actual (US \$)	

(M.C RESOLUTION ATTACHED - ANNEXURE-3)

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		(US \$)		
	Seismic		109119	
	Spl.Pr.2D	5160		
	Q marine data		42009575	
	Acq	13253766		
	G & A		1741707	
		105844		
	Since, MC approvals are not obtained, the excess expenditure needs to be reversed.			

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