

**AUDIT REPORT FOR CY-ONN-2002/2**

The Director General  
Directorate General of Hydrocarbons  
(Under Ministry of Petroleum & Natural Gas)

1. We confirm having received & reviewed all the Financial Statements as applicable to the Auditee as per Annexure -A of the "Scope of Govt.-Audit of PSCs" as given by DGH, However the compilation of above statements together with notes thereon, was the primarily responsibility of the Auditee's Management.
2. Our responsibility is to express an opinion on these statements and also to give definite recommendations on all audit exceptions made by us during the conduct of the audit to the DGH on the specific points as mentioned in the "Scope of Govt.-Audit of PSCs" for conducting the Audit.
3. Our audit includes examining of, on a test basis, the evidence supporting the amounts and disclosures made by the Auditee in the financial statements.
4. We conducted our audit in accordance with Auditing Standards generally accepted in India. We planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.
5. Our audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentations
6. Further to our comments in Para 1 to 5 above, we report as follows:-
  - a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of conducting our audit as per the requirement mentioned in scope of audit prescribed by DGH. Our point wise comments to the scope of the audit are enclosed herewith as per Annexure-S, which constitute integral part of our report.
  - b) In our opinion, proper books of accounts have been kept by the company so far as it appears from our examination of those books Facilitating Compilation of the financial statements as per the per-forma of DGH.

For SARC & ASSOCIATES  
Chartered Accountants

CA Kamal Aggarwal  
M.No. 090129  
(Partner)

Place: New Delhi  
Date: 10<sup>th</sup> September, 2013

CY-ONN-2002/2

**Annexure-'S'***(To be read in conjunction with Para 6(a) of our report of even date)*

Block : CY-ONN-2002/2  
 Operator : Oil and Natural Gas Corporation Limited  
 Effective Date : 31<sup>st</sup> August, 2004  
 NELP Round : NELP - IV  
 On shore/Off shore block : On Shore  
 Current Status as on date of reporting : Exploration Phase

S. NO.	PARTICULARS	2009-10	2010-11	COMMENTS
1	Whether proper books of accounts are maintained for all of its transactions pertaining to the PSC.	YES		The operator maintains the books in computerized environment.  Accounting software used is <b>SAP</b> . From our examination of accounting records, it appears that proper books of accounts are maintained.
2	Whether all Expenditure and Income have been accounted accurately.	YES		On the basis of our examination, it appears that Expenditures & Incomes are accurately accounted for.
3	Whether validation of quantity of hydrocarbons produced and saved, sales and income has been done on accrual basis.	Not Applicable		Hydrocarbons are not produced till date since block is still in Exploration Phase.
4	Whether Investment Multiple/PTRR and profit petroleum to GOI has been calculated as per the provisions of PSC and is correct.			
5	Whether significant accounting policies adopted by operator for the following, are in accordance with PSC:  a) Revenue Recognition, b) Foreign currency translation, c) Fixed assets,	See comments		As per Para 1.6 of accounting procedure specified in Appendix-C of PSC for the purpose of <b>foreign currency conversion</b> from Indian Rupees or any other currency to US Dollar, the operator should have considered the monthly average of daily mean of buying and selling rates for the





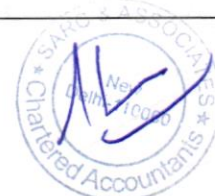
	d) Inventories, e) Others.		<p>transactions less than US\$ 50,000 and daily average rate for the transactions more than US\$ 50,000, provided by SBI or any other financial body being mutually agreed between the parties.</p> <p>However, the operator has used the daily average rate of SBI for all the transactions i.e. also for the transactions of less than US\$ 50,000. The operator has stated that they are using centralised accounting software for all blocks and it is not practically possible to abide by PSC for every block. Hence, daily rate of SBI is taken for currency translation in all blocks.</p> <p>The operator neither has the fixed assets nor has any inventory.</p>
6	Whether all costs and expenditures have been classified into proper heads of expenditures as defined in the PSC namely Exploration, Development and Production.	YES	The entire costs have been debited under the head Exploration as the block is still in Exploration Phase.
7	<p>Whether "Notional Tax" considered by operator while calculating "Investment Multiple"/"PTRR" has been accurately determined as per Income Tax Act and PSC.</p> <p>(If not, notional tax liability and investment multiple/ PTRR and impact on profit petroleum have to be worked out and to be stated in the audit exception).</p>	Not Applicable	Since the block is in Exploration Phase so there is no income.
8	Whether all the conditions, provided in the essentiality certificate, issued for import at concessional rates of Customs duty, were fulfilled.	Not Applicable	No Essentiality Certificate (EC) was issued in respect of this block during the period under reference.



9	<p>Whether the procedures with regard to procurement of materials and services, as provided in the PSC and JOA is properly followed by the Joint Venture. (If not, deviation should be reported). Whether there are cases of procurement from affiliates and others, other than are at arm length.</p>	<p style="text-align: center;">See comments</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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</p>
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		(1)	the procurement procedure for material and services, the operator is bound to follow the same.
10	<ul style="list-style-type: none"> <li>- Whether Royalty, Cess, PLP (CBM), License Fee, Profit Petroleum and statutory payments have been correctly determined and timely paid to the Government in line with ORD Act, P &amp; NG Rules, OIDB Act and PSC wherever applicable.</li> <li>- Auditors to certify the Month wise/Year wise payment of Royalty, Cess amount etc. for crude oil, Natural Gas and or condensate separately.</li> <li>- The certified statement should show the amount of Royalty, Cess etc. payable as per PSC, actual amount paid to the concerned authorities and excess / shortfall amount of Royalty, Cess etc.</li> </ul>	See comments	<p>Royalty &amp; Cess is not applicable in both the financial years.</p> <p>Payment of Petroleum Exploration License (PEL) fees has been paid in timely manner.</p>
11	<ul style="list-style-type: none"> <li>- Whether all assets (movable/immovable) and inventory are properly recorded, accounted for, maintained, reconciled and verified at reasonable intervals.</li> <li>- If any discrepancy is found then the same has to be corrected. If not details to be provided.</li> </ul>	Not Applicable	It was found that no fixed assets and inventories were acquired during the audit period.
12	<ul style="list-style-type: none"> <li>- Whether the overheads charged by the JV are reasonable, verifiable and devoid of any duplication, as per the provisions of PSC.</li> <li>- If not, details of deviations shall be indicated along with recommendation.</li> </ul>	YES	





13	<ul style="list-style-type: none"> <li>- Whether the actual expenditure incurred by operator is in pursuance to an approved/reviewed work programme and budget by MC (as the case may be as per provisions of PSC)</li> <li>- Whether in the process of charging such costs to Cost Petroleum, the specific stipulations/points raised by the MC (if any) in regard to Budget have been taken care of. If not, details shall be provided by the auditors with recommendation.</li> </ul>	See comments	<p>The actual expenditure incurred by the operator is in pursuance to the work programme and budget reviewed by the MC.</p> <p>Also, the audited accounts and variances related to FYs 2009-10 and 2010-11 have been approved and adopted by MC.</p>
14	<ul style="list-style-type: none"> <li>- Whether operator has carried out the satisfactory adjustment of observations raised by the Auditors appointed by the operator with approval of MC in the past.</li> <li>- Whether Compliance on satisfactory adjustment of past audit exceptions of audit reports of auditors appointed by Govt. / DGH by the operator as directed by MOPNG/DGH may be indicated by the audit firm by giving definite recommendations for either dropping the exception or pursuing it further.</li> </ul>	See comments	<p>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:</p> <ul style="list-style-type: none"> <li>- 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.</li> </ul> <p>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.</p> <ul style="list-style-type: none"> <li>- In exception No. 3, it is stated that stipulated procurement procedure in the PSC is not followed by the operator.</li> </ul> <p>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</p>





			<p>applicable to a PSU and the same procedure is an improvement over the ones prescribed under the PSC.</p> <p>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.</p> <p>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.</p>
15	<ul style="list-style-type: none"> <li>- Whether the salary and compensation in respect of nationals and expatriate manpower has been charged to cost petroleum as per operator's standard personnel policy, as per provision of PSC.</li> <li>- If not, deviations should be provided.</li> <li>- Suggestions to be made if any avoidable cost required adjustment due to such deviations.</li> </ul>	See comments	Salary and compensation has been charged to cost petroleum as per operator's standard personnel policy, as per provision of PSC.
16	<ul style="list-style-type: none"> <li>- Site Restoration Fund has been created as per PSC and Govt. Site Restoration Fund Scheme 1999.</li> <li>- Comment regarding adequacy of SRF as required in PSC and Schemes.</li> </ul>	Not Applicable See comments	No Site Restoration Fund is maintained by the operator, as the block is in Exploration Phase.
17	Whether the Operator has included the name of GOI as co-insured in all its insurance policies and Whether waiver	NO	The operator had not included the name of GOI as co-insured in its insurance policies taken for drilling activities during the FYs





	of subrogation against GOI has been taken in all such policies.	3	2009-10 and 2010-11.
18	Whether, in the case of transfer of material from one block/field to another block/field, DGH's prior approval has been obtained and whether the conditions stated by DGH in the permission of such transfer, have been fulfilled/adhered to.	Not Applicable	There was no transfer of material from one block to another block.
Other observations			
19	<p>Whether the contractor has submitted reports to the Government relating to the petroleum operations:</p> <ul style="list-style-type: none"> <li>• Statement of Costs, Expenditures and Receipts</li> <li>• Cost Recovery Statement</li> <li>• Local Procurement Statement</li> <li>• End of year Statement</li> <li>• Budget Statement</li> </ul>	<p>See comments</p> <p>4</p>	<p>The operator has not quarterly submitted the following reports to GOI during the FYs 2009-10 and 2010-11:</p> <ul style="list-style-type: none"> <li>• Statement of Costs, Expenditures and Receipts</li> <li>• Cost Recovery Statement</li> </ul> <p>However, the above mentioned reports have been submitted annually to the GOI as a part of annual audited accounts.</p> <p>Also, the operator has not annually submitted the 'Local Procurement Statement' to GOI during the FYs 2009-10 and 2010-11.</p> <p>All others report have been submitted to the Government on time.</p>
20	<p>- Whether the operator has completed the work as per the work programme and budget so approved for the year.</p> <p>- If the work has not been completed as per approved work programme, whether the budgeted expenditure has been shown proportionately.</p>	See comments	A part of the budgeted work programme for the year was carried forward and completed in the next year within the same phase.





<p>21 Whether the operator has incurred following costs and expenses which are not recoverable or allowable whether directly or indirectly as part of any other charges or expense for cost recovery and profit sharing purpose under the contract:</p> <p>(i) Costs and charges incurred before the effective date including costs in respect of preparation, signature or ratification of this contract;</p> <p>(ii) Expenditures in respect of any financial transaction to negotiate, float or otherwise obtain or secure funds for petroleum operations including, but not limited to, interest, commission, brokerage and fees related to such transactions, as well as exchange losses on loans or other financing, whether between Affiliates or otherwise.</p> <p>(iii) Costs of marketing or transportation of petroleum beyond the delivery point;</p> <p>(iv) Expenditures incurred in obtaining, furnishing and maintaining the guarantees required under the contract and any other amount spent on indemnities with regard to non-fulfilment of contractual obligations;</p> <p>(v) Attorney's fees and other costs and charges in connection with arbitration proceedings and sole expert determination pursuant to the contract;</p> <p>(vi) Fines, interest and penalties imposed by courts of law of the republic of India;</p> <p>(vii) Donations and contributions;</p> <p>(viii) Expenditure on creation of any</p>	<p>NO</p>	<p>The operator has not charged any of such costs and expenses for cost recovery.</p>
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	<p>partnership or joint venture arrangement;</p> <p>(ix) Amounts paid with respect to non-fulfilment of contractual obligations;</p> <p>(x) Costs incurred as a result of failure to insure where insurance is required pursuant to the contract, or of failure to follow procedures laid down by an insurance policy or where the operator has elected to self insure, or has under-insured;</p> <p>(xi) Costs and expenditures incurred as a result of misconduct or negligence of the operator; and expenses of the members of the MC for the meetings;</p> <p>(xii) All the expenses of the members of the MC for attending meetings.</p>		
22	<p>Whether the operator has received any incidental income and proceeds from the petroleum operations as per Section 3.4 of the Appendix-C of the PSC and the same has been taken into account for cost recovery.</p>	<p><b>See comments</b></p>	<p>The operator has earned interest income of <b>US\$ 153 and US\$ 165</b> 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.</p>

For SARC & ASSOCIATES  
Chartered Accountants

CA Kamal Aggarwal  
M.No. 090129  
(Partner)

Place: New Delhi  
Date: 10<sup>th</sup> September, 2013

