

**OIL & NATURAL GAS CORPORATION LTD****Cauvery Basin**10th (East), CMDA Tower-I
Egmore, Chennai-600 008.**FAX MESSAGE** ✓

File No. ONGC/CB/SPG/GOVT. AUDIT/NELP/ 2008-09

Dated 26.08.08

From : A. Mohan Rebellow CE(P), Audit Coordinator, Cauvery Basin, Chennai

To : Director General, DGH
C-139, Sector-63, Noida U.P.-201301
FAX NO. 0120 4029410 ✓

SUB : Reply to Audit Exceptions in respect of CY- ONN-2002/2

Please refer letter no O - 22014/22/2008 – ONG/ US(EO) dated 14th July, 2008 from Under Secretary to the Government of India, Ministry of Petroleum & Natural Gas, regarding Audit Report & Draft Exceptions in respect of CY- ONN-2002/2 for the years 2004-05, 2005-06 & 2006-07. As directed, the reply / compliance report along with copy of letter referred above is enclosed herewith for your kind perusal.

Regards

A. Mohan Rebellow
26/08/08
(A. MOHAN REBELLOW)
Audit Coordinator,
Cauvery Basin, Chennai.

Copy for kind information to:

1. CEA to Director (Exploration), ONGC, 9TH Floor, Jeevan Bharti Tower- II, New Delhi – 11 001
2. ED –Chief, E&DD, ONGC, Anveshan Bhavan, Kaulagarh Road, Dehradun- 248 195
3. GM- Head EXCOM, ONGC, 5th & 6th Floor, Core –V, Scope Complex, New Delhi – 110 003
4. EA to GGM – Basin Manager, Cauvery, Chennai
5. DGM (Finance) - Finance Coordinator, ONGC, Chennai





REPLY TO AUDIT REPORT & DRAFT AUDIT EXCEPTION IN RESPECT OF CY- ONN- 2002/2 (2004-05, 2005-06 & 2006-07)

EXCEPTION	REPLY
<p>Exception No.1: Delay in presentation of Bug before Managing Committee</p> <p>(i) Year 2004-05</p> <p>The PSC is effective from 6th February 2004 and accordingly the last date of presenting budget before MC ends on 90 days from the effective date i.e. 5th May 2004. The Budget for 2004-05 was reviewed by MC in meeting held on 5th October 2004 only i.e. with a delay of 5 months.</p> <p>(ii) Year 2005-06</p> <p>As per the PSC, the last date of approval is 90 days before commencement of financial year, which falls on 31st December 2004. The budget for the year 2005-06 was reviewed by MC through resolution by circular dated 10th February 2005 i.e. with a delay of 41 days.</p> <p>(iii) Year 2006-07</p> <p>The budget for the year 2006-07 was reviewed by MC in meeting held on 23rd August 2006. i.e. with a delay of 241 days. The budget should have been approved before 90 days of commencement of the year 2006-07 i.e. before 31st December 2005.</p> <p>Budget need to be presented on time.</p>	<p>Delay in submission and adoption of Budget is regretted. However, the delay has been due to review by MC and pending queries raised by the monitoring agencies. ONGC assures that such delays will be avoided in future and will be done as per provisions of PSC.</p>
<p>Exception No.2: Actual Expenditure exceeding the Budgeted Expenditure</p> <p>In case of following expenditure, the PSC has exceeded the budgeted expenditure</p>	<p>The Annual Audited Accounts are submitted to the MC for adoption along with the Audited Annual Accounts for the Block, the various statements prescribed by the DGH. The variance analysis statement for the variance between Budgeted</p>

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Year 2005-06

Sl. No	Nature of Expenditure	Budgeted Expenditure (in USD)	Actual Expenditure (in USD)	Difference (in USD)
1	Exploration G & G	4,18,347	17,89,863	13,71,516
2	General & Administration	74,190	1,05,120	30,930
	Total	4,92,537	19,94,983	14,02,446

Year 2006-07

Sl. No.	Nature of Expenditure	Budgeted Expenditure (in USD)	Actual Expenditure (in USD)	Difference (in USD)
1	General & Administration	32,923	53,276	20,353

All actual expenditure exceeding budgeted expenditure not approved by MC is non-cost recoverable and need to be reversed.

Exception No.3: Management Committee (MC) Meetings

As per Article 6.7 of PSC, the Management Committee shall meet at least once in three months or more frequently at the request of any member. The contractor has not followed the above guidelines. There were only one meeting in the year 2004-05, and two meetings in the year 2006-07. As explained, other seven meetings were held by circulating the Resolutions among the Members. However, overall, the total number of meeting was nine instead of twelve. Further, these meetings were not held within the time schedules. There were regular delays in conducting the meeting.

Management Committee meetings need to be convened as per PSC provisions.

Expenditure Vs Actual Expenditure is also submitted. MC while adopting the Annual Accounts takes into consideration all these things. Further, there are instances wherein the Operator has submitted the revised budget to the MC for review, and the DGH has advised the Operator to submit the Audited Annual Accounts as the Financial Year was over by that time. Moreover,

MC adopted the audited accounts and hence there is no necessity for reversal of expenditure.

Reply: Management committee meetings were conducted to appraise the progress of work and to take any concrete decision in respect of work programme, Budget and important matters like environment clearance. ONGC has conducted nine MC meeting instead of twelve. However ONGC assures to comply the provisions of PSC for conducting MC meeting.

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Exception No.4: Delay in submission of annual accounts before Management Committee

The audited accounts should have been submitted within 90 days from the end of the financial year for the submission to DGH. The operator has delayed in submitting the Audited Accounts for all the three years. The delays were as under:

Year	Due date for submission of accounts	Date of adoption of Accounts before MC	Delay (in days)
2004-05	30 th June 2005	7 th December 2005	160
2005-06	30 th June 2006	13 th October 2006	102
2006-07	30 th June 2007	Not available	NA

Annual Accounts need to be submitted to MC and DGH on time as per PSC provisions

Exception No.5: Delay in submission of End of Year Statement

The Contractor has not provided auditors any details relating to submission of End of Year Statement to DGH. In the absence of the same auditors were unable to comment on the same that whether or not they were submitted within stipulated time limit. The details of these statements being signed by the auditor and adoption of the same in MC meeting were as follows:

Year	Due date for submission of accounts	Date of adoption of Accounts before MC	Date of Signing of Financial Statements by Auditor
2004-05	30 th June 2005	7 th December 2005	18 th May 2005
2005-06	30 th June 2006	10 th October 2006	29 th April 2006
2006-07	30 th June 2007	Not available	27 th April 2007

End of the year statement need to be submitted to the MC and DGH on time as per PSC provisions

Reply: The above table is not factually correct. The correct table is furnished here. The Audited Accounts were submitted to DGH as detailed below:

Year	Date of submission
2004-05	26.09.05
2005-06	07.07.06
2006-07	30.07.07

The delay pointed out is regarding the adoption of Accounts by MC. The exception is noted for compliance.

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4/9