

To
The Director General
Directorate General of Hydrocarbons
(Under Ministry of Petroleum & Natural Gas)
OIDB Bhawan, Plot no.-2,
Sector-73, Noida, Uttar Pradesh

Kind Attention: Mr. Ajit Jain(Manager, Contract Finance)

Subject: Submission of Audit Report for the F.Y. 2011-12 & 2012-13 of Block KG-DWN-98/2 Operated By: Oil & Natural Gas Corporation Limited.

Dear Sir

Reference to DGH letter no. DGH/MM/Audit/072/13-14/ENQ-126/ORD/162 dated 28/03/2014 from Chief Manager (MM) for conduct of Audit of our Block mentioned at S.N. 41 of enclosed Annexure-I addressed to our firm intimating award of 5 Blocks.

We have conducted the audit of the financial statements for F.Y. 2011-12 & 2012-13 for NELP-I Block KG-DWN-98/2 of Oil & Natural Gas Corporation Limited. This audit has been conducted by us as per the mandate given by the DGH in accordance with the provisions of clause 25.5 of the Production Sharing Contracts (PSC) under which the said Block, was awarded to the auditee M/S Oil & Natural Gas Corporation Limited.

We enclosed herewith our Audit Report (In Duplicate) and also soft copy of the same having folder name 'KG-DWN-98/2' on USB Thumb Drive, as per requirement of above mentioned letter.

We also attach herewith our bill for Audit Fee for above Block under reference no. **NGA/SKN/032/2014-15** for Rs.39,326 (Rs. Thirty Nine Thousand Three Hundred and Twenty Six Only) (Inclusive of Service Tax) & request for early release of first tranche of 75%, and balance 25% payment against this bill may be released as per terms of payment of the contract in due course.

Thanking you

FOR NEMANI GARG AGARWAL & Co.

Chartered Accountants



Place: New Delhi

Date: 27th June, 2014



Head Office: 1517, Devika Tower, 6 Nehru Palace, New Delhi-110019

Extension of Delhi Office: Chamber No.5, Kamadgiri Apts., Kaushambi, Ghaziabad-201010, U.P

Gurgaon Office: LG-01, U-5/46-47, DLF CITY, PHASE-III, GURGAON-122002

***New Delhi * Mumbai * Kolkata * Luknow**

AUDIT REPORT FOR 'KG-DWN-98/2'

To
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 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 mis-statements.
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 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, the company has kept proper books of accounts 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 NEMANI GARG AGARWAL & Co.
Chartered Accountants

CA S.K. Nemani
M.No: 037222
(Partner)



Place: New Delhi
Date: 27th June'2014

Head Office: 1517, Devika Tower, 6 Nehru Palace, New Delhi-110019

Extension of Delhi Office: Chamber No.5, Kamadgiri Aptts., Kaushambi, Ghaziabad-201010, U.P

Gurgaon Office: LG-01, U-5/46-47, DLF CITY, PHASE-III, GURGAON-122002

***New Delhi * Mumbai * Kolkata * Luknow**

Annexure-‘S’*(To be read in conjunction with para 6(a) of our report of even date)*

Block : **KG-DWN-98/2**
Operator : **Oil & Natural Gas Corporation Ltd.**
Effective Date : **12-04-2000**
NELP Round : **NELP-I**
On shore/Off shore block : **Off Shore**
Stage Covered under Audit : **Exploration Stage – Appraisal**
Current Status as on date of reporting : **Exploration Stage – Appraisal**

| S.N. | PARTICULARS | 2011-12 | 2012-13 | Comments |
|------|---|---------|---------|---|
| 1 | Whether proper books of accounts are maintained for all of its transactions pertaining to the PSC and reports of Production statement, value of production & pricing statement etc. as required under section 4 to 12 of Accounting Procedure of PSC. | YES | | The Operator maintains the books in computerized environment – SAP & from our examination of Accounting Records, It appears that proper books of accounts are maintained. As the block is under Exploration Phase the applicable reports under section 4 to 12 of Accounting Procedure of PSC are maintained by operator and submitted to DGH periodically. |
| 2 | Whether all Expenditures and Incomes have been accounted accurately. | YES | | There is no Income during Audit Period. |
| 3 | Whether validation of quantity of hydrocarbons produced and saved, sales and income has been done on accrual basis. | N.A | | |
| 4 | Whether the methods of measurement of petroleum used by the contractor were approved by the MC and whether material balancing of the quantity of petroleum has been reconciled. | | | |
| 5 | Whether Investment multiple and profit petroleum to GOI has been calculated as per the provisions of PSC and is correct. | | | |



6

| | | | |
|----|---|-------------|--|
| 6 | Whether significant accounting policies adopted by contractor for the following, are in accordance with PSC: a) Foreign currency translation b) Fixed assets c) Inventories d) Revenue recognition | See Comment | A) <u>Foreign Currency Translation :-</u> All Non-US \$ transaction converted as per PSC provisions i.e, SBI rate of exchange for the transaction day. B) There were no Fixed Assets, Inventories and Revenue during the Audit Period. |
| 7 | Issues of Internal control, Fixed Assets and fraud as per CARO 2003 | See Comment | There were no issues reported regarding Internal control, Fixed Assets and Fraud as per CARO 2003 |
| 8 | Whether all costs and expenditures have been classified into proper heads of expenditures as defined in the PSC namely Exploration, Development and Production. | YES | From our examination of the petroleum activities undertaken during the period under audit, we report that there were only Exploratory Activities and accordingly Operator has correctly classified its expenditure under Exploratory head. |
| 9 | Whether "Notional Tax" considered by contractor while calculating "Investment Multiple"/"PTRR" has been accurately determined as per Income Tax Act and PSC. (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.) | N.A | Applicable to Pre -NELP Blocks only, this clause not applicable to this block. |
| 10 | Whether following Statement of Audited Accounts are true and fair :- | | |
| A | Statement of source & utilization of funds along with its various schedules (Format-1) | YES | |
| B | Value of petroleum produced and sold including the government's share of profit and sales schedule. | N.A | |
| C | Valuation of Petroleum as per PSC for crude Oil/natural gas and condensate. | N.A | |
| D | Extent of allowable and recoverable costs as defined in section 3 of Accounting procedure (Fomat - 2,2A,3 & 4) | YES | |
| E | Calculation of Profit petroleum, as per PSC (Fomat - 5 & 5A) | YES | |
| F | Calculation of Notional Income tax, Investment Multiple/PTRR as applicable as per PSC. | N.A | |



| 11 | Whether the cost petroleum and profit petroleum taken by the contractor was in accordance with the allocation done by the management committee and whether the cost petroleum is within the maximum limits stipulated in PSC under Articles "Recovery of Cost Petroleum". | N.A | Since there was no production in Audit Period. There were no any Recovery of Cost Petroleum and Profit Petroleum. | | | | | | | | | | | | |
|-------|--|--------------|--|-----|--------|--------------|-----------|-------|----------------------|-------------|----------|-------|----------------------|-------------|----------|
| 12 | Whether all the conditions, provided in the essentiality certificate, issued for import at concessional rates of Customs duty, were fulfilled. | See Comment | It is reported that ONGC avails custom duty benefits wherever applicable which is common to both PEL/PML & NELP blocks and adheres to the conditions mentioned in the E.C's | | | | | | | | | | | | |
| 13 | Whether the procedures with regard to procurement of materials and services, as provided in the PSC and JOA are 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. | See Comment | The Operator-ONGC has not procured any material separately for this block. In ONGC, Centralized Procurement carried out for NELP Blocks in accordance with ONGC material management manual which has detailed and well-documented Procedure & has been relied by other Regulatory/Audit like CAG | | | | | | | | | | | | |
| 14 | Whether the contractor has claimed cost recovery of items still lying in store/inventory and not consumed. | NO | There was no inventory during the Audit period | | | | | | | | | | | | |
| 15 | Whether the contractor has accounted expenditure prohibited under section 3.2 of Accounting Procedure of PSC | NO | | | | | | | | | | | | | |
| 16 | <p>-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 & NG Rules, OI DB Act and PSC wherever applicable.</p> <p>- Auditors to certify the month wise / Year wise payment of Royalty, Cess amount etc. for crude oil, Natural Gas and or condensate separately.</p> <p>- 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.</p> | See Comments | <p>Only PEL Fees is applicable which is in Order.</p> <table border="1"> <thead> <tr> <th>F.Y</th><th>Period</th><th>Date of Pyt.</th><th>Amt in Rs</th></tr> </thead> <tbody> <tr> <td>11-12</td><td>12/04/11 to 11/04/12</td><td>31/03 /2011</td><td>29178400</td></tr> <tr> <td>12-13</td><td>12/04/12 to 11/04/13</td><td>10/04 /2012</td><td>29178400</td></tr> </tbody> </table> | F.Y | Period | Date of Pyt. | Amt in Rs | 11-12 | 12/04/11 to 11/04/12 | 31/03 /2011 | 29178400 | 12-13 | 12/04/12 to 11/04/13 | 10/04 /2012 | 29178400 |
| F.Y | Period | Date of Pyt. | Amt in Rs | | | | | | | | | | | | |
| 11-12 | 12/04/11 to 11/04/12 | 31/03 /2011 | 29178400 | | | | | | | | | | | | |
| 12-13 | 12/04/12 to 11/04/13 | 10/04 /2012 | 29178400 | | | | | | | | | | | | |



| 17 | -Whether all assets (movable/immovable) and inventory are properly recorded, accounted for, maintained, reconciled and verified at reasonable intervals. - If any discrepancy is found then the same has to be corrected. If not details to be provided. | N.A | As there are no Assets and Inventories with the block till 31/03/2013. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-------------------------------|---|---|--|-------------|--------|--------|----------|----------|---------|---------|---------|-------------------------------|---|-------|-------|--------------|----------------|----------------|----------------|-------------|--------|--------|----------|----------------------------|---|--------|--------|--------------|----------|---------------|---------------|
| 18 | -Whether the overheads charged by the JV are reasonable, verifiable and devoid of any duplication, as per the provisions of PSC. - If not, details of deviations shall be indicated along with recommendation. | YES | The Overheads exp. charged by the Operator is reasonable and devoid of any duplication | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 19 | -Whether the actual expenditure incurred by contractor is in pursuance to an approved/reviewed work programme and budget by MC (as the case may be as per provisions of PSC) - 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. | <p>We report that the expenditure has been incurred in accordance with approved work program by M.C. However, there is an excess expenditure totaling to US\$ 307,280.00 during the FY 2011-12& 2012-13. The year wise details of which are as follows:</p> <p style="text-align: center;">FY 2011-12 Amount in USD</p> <table border="1"> <thead> <tr> <th>Particulars</th><th>Budget</th><th>Actual</th><th>Variance</th></tr> </thead> <tbody> <tr> <td>G&G Cost</td><td>520,833</td><td>758,741</td><td>237,908</td></tr> <tr> <td>G&G Study for Appraisal plans</td><td>0</td><td>5,834</td><td>5,834</td></tr> <tr> <td>Total</td><td>520,833</td><td>764,575</td><td>243,742</td></tr> </tbody> </table> <p style="text-align: center;">FY 2012-13 Amount in USD</p> <table border="1"> <thead> <tr> <th>Particulars</th><th>Budget</th><th>Actual</th><th>Variance</th></tr> </thead> <tbody> <tr> <td>Seismic spl processing -3D</td><td>0</td><td>63,538</td><td>63,538</td></tr> <tr> <td>Total</td><td>0</td><td>63,538</td><td>63,538</td></tr> </tbody> </table> <p>Above Excess Expenditure are not Allowable for Cost Recovery as per PSC. However, The Audited Accounts for both the F.Y. are submitted to MC for Approval. Hence, these expenditures are cost recoverable, if MC Approved the Audited Accounts for the actual expenditure Incurred in the respective F.Y.</p> | | Particulars | Budget | Actual | Variance | G&G Cost | 520,833 | 758,741 | 237,908 | G&G Study for Appraisal plans | 0 | 5,834 | 5,834 | Total | 520,833 | 764,575 | 243,742 | Particulars | Budget | Actual | Variance | Seismic spl processing -3D | 0 | 63,538 | 63,538 | Total | 0 | 63,538 | 63,538 |
| Particulars | Budget | Actual | Variance | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| G&G Cost | 520,833 | 758,741 | 237,908 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| G&G Study for Appraisal plans | 0 | 5,834 | 5,834 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 520,833 | 764,575 | 243,742 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Particulars | Budget | Actual | Variance | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Seismic spl processing -3D | 0 | 63,538 | 63,538 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 0 | 63,538 | 63,538 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |



| | | | |
|----|---|--------------|--|
| 20 | <ul style="list-style-type: none"> - Whether contractor has carried out the satisfactory adjustment of observations raised by the Auditors appointed by the operator with approval of MC in the past. - 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. | See Comments | There is no pendency of any past DGH and/or Annual audit observations for the block under our review. |
| 22 | <ul style="list-style-type: none"> - Whether the salary and compensation in respect of nationals and expatriate manpower has been charged to cost petroleum as per contractor's standard personnel policy, as per provision of PSC. - If not, deviations should be provided. - Suggestions to be made if any avoidable cost required adjustment due to such deviations. | YES | We report that there is no expatriate manpower cost charged during the financial years 2011-12 & 2012-13. |
| 23 | <ul style="list-style-type: none"> - Site Restoration Fund has been created as per PSC and Govt. Site Restoration Fund Scheme 1999. - Comment regarding adequacy of SRF as required in PSC and Schemes. | N.A. | As there was only exploratory activity during the Audit period, so site restoration fund is not required to be maintained. |
| 24 | Whether the contractor during the term of contract, maintained and obtained insurance coverage for and in relation to petroleum operation for such amount and against such risks as are customarily or prudently insured in the international petroleum industry. Whether the premium paid for joint insurance policies has been duly segregated and only premium which was related to the specific PSC is accounted as contract cost. | YES | Insurance is taken for only drilled well by the Operator for whole of the Off Shore basin |
| 25 | -Whether the Contractor has included the name of GOI as co-insured in all its insurance policies and Whether waiver of subrogation against GOI has been taken in all such policies. | YES | |



| | | | |
|----|---|--------------|--|
| 26 | 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. | See comments | There was no transfer of material from one block to another block. |
| 27 | Whether the contractor submitted the bank guarantees/performance guarantees as per provision of PSC | See Comment | The Operator has already been completed the MWP. Hence, No requirement to submission of Bank Guarantees as per PSC Article 29.1(d) |
| 28 | Whether annual audit of accounts was carried out on behalf of the contractor by an independent firm of chartered accountants whose appointments was approved by the Management Committee. | YES | For F.Y.2012-13 M/s S. SunderAssociates, Appointment Approved In 38 th MCM For F.Y.2011-12 M/s S. SunderAssociates, Appointment Approved In 38 th MCM |

For Nemani Garg & Agarwal Co.

Chartered Accountants

CA Nemani Garg

M.No. 037222

(Partner)



Place: New Delhi

Date: 27th June, 2014

Nemani Garg Agarwal & Co.

(Chartered Accountants)

1517 Devika Towers, 6 NEHRU PLACE NEW -DELHI-110019

E-mail:- sknemani@sknemani.com; nemani61@gmail.com

PAN NO. AACFS 1243 B

Service Tax Code: AACFS1243BST001

Duplicate · ①

Bill No. NGA/SKN/032/2014-15

Date: 27th June, 2014

TO

Sr. Advisor (CF)
DIRECTORATE GENERAL OF HYDROCARBONS
Ministry of Petroleum & Natural Gas
Government of India
OIDB Bhawan Tower-A,
Plot No-2, Sector-73,
Noida-201301

KIND ATTN.: K.C. Mathur (CF)

Subject: Invoice for Professional Services DGH Audit of F.Y 2011-12 & 2012-13 of Block No.: KG-DWN-98/2

| S. No. | Particulars of the Assignment | Amount(INR) |
|--------|--|--------------------|
| 1. | Professional Services Charges for Conduct of DGH Audit for the Two F.Y.: 2011-12 & 2012-13 For Block No.: KG-DWN-98/2 Ref No.: DGH/MM/Audit/072/13-14/ENQ-126/ORD/162 dated 28 th 24 th March, with block at S.N. 41 of Annexure -1 attached thereto | 35,000/- |
| 2 | Service Tax @12.36% | 4,326/- |
| 3 | Total Amount Payable | Rs.39,326/- |
| 4 | Amount Payable -75% Ist Payment | Rs.29495/- |
| 5 | Amount Payable -25% IInd Part | Rs.9831/- |
| 6 | Less: Advance Received | NIL |
| 7 | Total Amount Payable | Rs.39,326/- |

(Rupees Thirty Nine Thousand Three Hundred and Twenty Six only)

Thanking you,

For: **NEMANI GARG AGARWAL & Co.**

Chartered Accountants

**Detail for NEFT:**

Name: Nemani Garg Agarwal & Co.

A/c No - 26680200000109

IFSC Code: BARB0KAUMOR (highlighted character is numeric "zero")

Bank : Bank of Baroda

Branch : Kaushambi, Ghaziabad

