

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

FRN: 010192N

CA Ishwer Chand Garg

M.No. 083336

(Partner)

Place: New Delhi

Date: 19th March, 2016

Encl: as stated above.

LG-01, U-5/46-47, DLF City, Phase-III, Gurgaon-122002(Haryana)

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

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Annexure-‘S’ 2013-14

(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	2013-14	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 5 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 5 to 12 of Accounting Procedure of PSC are maintained by operator and submitted to DGH periodically. <i>However, it is ascertained that the Formal Approval of the “Chart of Accounts” as Required per PSc has not been received from O/o of DGH.</i>
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	Block is under Exploration Phase. Hence, there was no production during Audit Period 2013-14.
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	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 Respective Transaction <i>day as against the Stipulated Transactions value exceeding US\$ 50K.</i> 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 2013	See Comment	There were no issues reported regarding Internal control, Fixed Assets and Fraud as per CARO 2013 by the statutory auditors for the FY:2013-14
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	



	Extent of allowable and recoverable costs as defined in section 3 of Accounting procedure (Format – 2,2A,3 & 4)	YES	It is Observed that the Cost Recovery Claim could have been higher for the period under review as well as for the few Earlier Years also, BUT DUE TO INCORRECT / FAULTY CONVERSION METHODOLOGY EMPLOYED for all Expenditure Transactions originating from Mumbai Project for the block relating to Charter Hire of the Off -Shore Rigs & Bundled Services, it is under Stated.
E	Calculation of Profit petroleum, as per PSC (Format – 5 & 5A)	N.A	
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	<p>The Operator-ONGC has not procured any Material/ Services separately for this block.</p> <p>In ONGC, Centralized Procurement is carried out in accordance with ONGC Material Management Manual which has detailed and well-documented Procedure & has been relied by other Regulatory Authorities like Statutory Audit & CAG.</p> <p>However during the year, it was observed that the an Expenditure of US\$ 1,521,607/ for Well named #G2P1AB relating to uses charges of the Rig-SAGAR VIJAY has been claimed as Cost Recovery which is subject to COMPLINACE OF ARMS LENTH Mechanism- <u>WHICH WAS NOT COMPLIED WITH BY THE OPERATOR, as Rig is owned by the Operator.</u> ?</p>								
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/US\$</th></tr> </thead> <tbody> <tr> <td>13-14</td><td>12/04/13 to 11/04/14</td><td>08th April, 2013</td><td>INR: 29.178 M US\$: 533,620</td></tr> </tbody> </table>	F.Y	Period	Date of Pyt.	Amt in Rs/US\$	13-14	12/04/13 to 11/04/14	08 th April, 2013	INR: 29.178 M US\$: 533,620
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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 31/03/2014.
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, The Actual Expenditure Totaling to US\$ 412,100,104 incurred for the block and claimed as cost recovery has been incurred against the Proposed RE for which <u>NO MC Approval received till Date of reporting.</u> However, The Audited Accounts for the F.Y.:2013-14 under review, are timely submitted to MC for Approval</p> <p>Hence, these expenditures are cost recoverable ONLY subject to our observation in para 13 relating to expenditure of US\$ 1,521,607/ & upon the MC Approval of the Audited Accounts for the F.Y.:2013-14, to which Cost Recovery Claim of US\$ 412,100MM .</p>	
20	- 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	-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 Year 2013-14.



23	- 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 were only Exploratory Activity during the Audit Period under review, No Site Restoration Fund is required to be created.
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	M/s Padmanabhan, Ramani & Ramanujam, Chartered Accountants had conducted the Annual Audit

For Nemani Garg & Agarwal Co.
Chartered Accountants

CA Ishwer Chand Garg
M.No. :083336
(Partner)

Place: Gurgaon
Date: 19th March 2016



Details of Periodic Reports submitted to DGH as per Appendix 'C' of KG-DWN-98/2 PSC

Block : KG-DWN-98/2

Operator : ONGC

Reports	Section	Frequency	Submission Date to DGH	Remarks
			2013-14	
Statement of Costs, Expenditure and Receipts	7	Quarterly		
I				
II			29.11.2013	For Ist and IInd Quarter
III			26.03.2014	
Cost Recovery Statement	8		26.03.2014	For all the 3 quarters
Local Procurement	10	Annually	11.08.2014	
End of Year Statement	11	Annually	21.05.2014	
Budget Statement	12	Annually	25/07/2013- BE 02/12/2013 - RE	The annual Budget statement along with annual work programme submission is late by the operator by more than Six months



