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हाईड्रोकार्बन महानिदेशालय

पेट्रोलियम एवं प्राकृतिक गैसों का निदेशालय
भारत सरकार

DIRECTORATE GENERAL OF HYDROCARBONS

Ministry of Petroleum & Natural Gas
Government of India

DGH/CC/51/2012

6th Aug 2012

Dy. Secretary (E)
MOP&NG, Shastri Bhawan,
New Delhi - 110001

Sub: Audit Report and Draft Audit Exceptions in respect of CY-ONN-2002/2, for the years 2007-08 & 2008-09

Sir,

M/s SARC Associates, Chartered Accountants, have forwarded the subject Audit Report for the period 2007-08 & 2008-09.

Copies of Audit Reports and Draft Audit Exceptions are enclosed herewith.

The final exceptions may be notified to the operator for adjustment / compliance / further comments within 120 days of completion of audit as stipulated in the PSC. The Audit Report has been examined by DGH.

Thanking you,

Yours faithfully,

(Ajit Jain)
Dy. Manager (CF)

Encl.: As above



Draft Audit Exceptions in respect of CY-ONN-2002/2, block for the years 2007-08 and 2008-09

Exception No. 01: Parent Company Overhead

PCO of US\$ 61,962 is not cost recoverable, due to specific disallowance of the above expenditure by MC during Accounts adoption of FY 2007-08

Contractor to reverse the amount which is not approved by MC.

Exception No. 02: Insurance Coverage

As per PSC the operator has to include the name of GOI as co-insured in all its insurance policies and waiver of subrogation against GOI.

Contractor has not included the name of GOI as co-insurer in its insurance policies.

Contractor to take insurance policies and update Insurance as per requirement of Article 24 of PSC and submit the details to DGH/GOI and record the reason for not covering GOI as additional insured and not having subrogation clause in insurance policy.

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

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 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 is 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. Sandeep Garg)

M.No. 089815

Partner



Place: New Delhi

Date: 30th June, 2012

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Annexure-‘S’

(To be read in conjunction with para 6(a) of our report of even date)

Block : **CY-ONN-2002/2**
Operator : **Oil & Natural Gas Corporation Ltd.**
Effective Date : **31.08.2004**
NELP Round : **NELP-IV**
On shore/Off shore block : **On Shore**
Stage Covered under Audit : **Exploration Stage**
Current Status as on date of reporting : **Phase-III extension is over.**

S.N.	PARTICULARS	2007-08	2008-09	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 – SAP & from our examination of Accounting Records, it appears that proper books of accounts are maintained.
2	Whether all Expenditures and Incomes have been accounted accurately.		YES	
3	Whether validation of quantity of hydrocarbons produced and saved, sales and income has been done on accrual basis.	N.A		As there is no production during the period 2007-08 & 2008-09.
4	Whether Investment multiple and profit petroleum to GOI has been calculated as per the provisions of PSC and is correct.			
5	Whether significant accounting policies adopted by contractor for the following, are in accordance with PSC: a) Revenue Recognition b) Foreign currency translation c) Fixed Assets d) Inventories e) Others	YES		a) NA as there is no income during both the FY. b) Yes. c) NA, there is no any Fixed Assets. d) NA, there is no any inventory
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		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.



7	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	As there is no production during the period 2007-08 & 2008-09.												
8	Whether all the conditions, provided in the essentiality certificate, issued for import at concessional rates of Customs duty, were fulfilled.	See Comment	Essentiality Certificates were issued to Operator during the period under Audit and all the condition were fulfilled.												
9	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 Comments	It is reported that the stipulated procurement procedure in the PSC is not followed. ONGC clarified that the expenses relating to services & material shown in the financial statement has been booked on the basis of the actual consumption/time basis, which has been procured by the ONGC in its normal course by following their own detailed procurement procedure in place.												
10	-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, OIBD Act and PSC wherever applicable. - Auditors to certify the month wise / Year wise payment of Royalty, Cess amount etc. for crude oil, Natural Gas and or condensate separately. - 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.	See Comments	Only PEL Fees is applicable which was paid timely. The details are given under below: <table border="1"> <thead> <tr> <th>F.Y</th><th>Period</th><th>Date of Pyt.</th><th>Amt in Lacs</th></tr> </thead> <tbody> <tr> <td>07-08</td><td>31.08.07 to 30.08.08</td><td>14.08.07</td><td>Rs.1.47</td></tr> <tr> <td>08-09</td><td>31.08.08 to 30.08.09</td><td>29.07.08</td><td>Rs. 2.10</td></tr> </tbody> </table>	F.Y	Period	Date of Pyt.	Amt in Lacs	07-08	31.08.07 to 30.08.08	14.08.07	Rs.1.47	08-09	31.08.08 to 30.08.09	29.07.08	Rs. 2.10
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08-09	31.08.08 to 30.08.09	29.07.08	Rs. 2.10												



11	<p>-Whether all assets (movable/immovable) and inventory are properly recorded, accounted for, maintained, reconciled and verified at reasonable intervals.</p> <p>- If any discrepancy is found then the same has to be corrected. If not details to be provided.</p>	N.A	We report that there are no movable or immovable assets till 31 st march, 2009.
12	<p>-Whether the overheads charged by the JV are reasonable, verifiable and devoid of any duplication, as per the provisions of PSC.</p> <p>- If not, details of deviations shall be indicated along with recommendation.</p>	YES	
13	<p>-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)</p> <p>- 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>	See Comment	<p>We report that the expenditure during the year 07-08 and 08-09 incurred in accordance with the approved work programmed by MC.</p> <p>In FY 2007-08, expenditure of US\$ 61,962 for PCO has been disallowed by the MC during the accounts adoption, accordingly this expenditure of US\$ 61,962/ is disallowable expenditure.</p>
14	<p>- 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.</p> <p>- 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.</p>	See Comments	The past govt. audit observation has been settled or complied in respect of this block upto 31.03.3007.
15	<p>-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.</p> <p>- If not, deviations should be provided.</p> <p>- Suggestions to be made if any avoidable cost required adjustment due to such deviations.</p>	YES	We report that there is no expatriate manpower cost charged during the financial year 2007-08 & 2008-09.



16	- 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.	The Operator is not in practice of creating the site restoration fund which according to Operator is not required as per PSC also.
17	-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.	See Comments	Insurance Policies Documents have been provided to us but GOI does not co-insure in all its insurance policies and waiver of subrogation are also not covered in the policy.
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.	See comments	There was no transfer of material from one block to another block.

For SARC & ASSOCIATES

Chartered Accountants

(CA. Sandeep Garg)

Partner

Place: New Delhi

Date: 30th, June 2012

