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# हाइड्रोकार्बन महानिदेशालय

पेट्रोलियम और प्राकृतिक गैस मंत्रालय  
भारत सरकार

## DIRECTORATE GENERAL OF HYDROCARBONS

Ministry of Petroleum & Natural Gas  
Government of India

DGH/Audit/LKC/2022

16<sup>th</sup> September 2022

The Chairman & Managing Director  
M/s Oil & Natural Gas Corporation (ONGC)  
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New Delhi – 110070  
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**Sub: Audit Exceptions for the block KG-DWN-98/2 for the year 2019-20**

Sir,

This has reference to the Audit report submitted by M/s Agarwal & Dhandhanja, Chartered Accountants, for the block KG-DWN-98/2 operated by ONGC for the year 2019-20. Audit exceptions reported by the auditor for which necessary compliance and corrective action required by the operator are notified as under:

### **Audit Exception no. 1: Methods of measurement of petroleum**

As per Article 13.1 of the PSC, Petroleum used for internal consumption for Petroleum Operations, flared, saved and sold from the Contract Area shall be measured by methods and appliances generally accepted and customarily used in Good International Petroleum Industry Practices and approved by the Management Committee and the Government.

As per Article 13.3 of the PSC, the operator before commencement of production from the Contract area, the Parties shall mutually agree on:

- (a) Methods to be employed for measurement of volumes of Petroleum production;
- (b) The point or points at which Petroleum shall be measured and the respective shares allocated to the parties in accordance with the terms of this Contract;
- (c) The frequency of inspections and testing of measurement appliances and relevant procedures relating therein; and
- (d) The consequences of a determination of an error in measurement.

As informed by the operator, Methodology and appliances for measurement of Petroleum for the U fields was already prepared by ONGC. However, as per the DGH requirement, such proposals have to be submitted through PSC Management Portal in the prescribed format for which authorizations for accessing and uploading the data have been obtained recently from DGH. The uploading of data in the portal is under process and the same is expected to complete shortly.

### **Auditors View & Recommendation:**

Operator is directed to upload the required data in the PSC management system portal of DGH and the approval of Government for methods of measurement of petroleum must be obtained.



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## Audit Exception no. 2: Procurement of Materials and Services

As per Article 23.2 of the PSC Subject to Article 8.3(f), the Contractor should establish appropriate procedures, including tender procedures, for the acquisition of goods and services which ensure that suppliers and Subcontractors in India are given adequate opportunity to compete for the supply of goods and services. The tender procedures shall include, inter alia, the financial amounts or value of contracts which will be awarded on the basis of selective bidding or open competitive bidding, the procedures for such bidding, and shall be subject to the approval of the Management Committee.

Procurement of materials and services and other related activities are carried out as per the materials management manual of ONGC policy.

### Auditors View & Recommendation:

The Operator is directed to either follow the procedure for procurement given at Appendix F of the PSC or in case of deviations, seek the approval of MC for the deviations reported by the auditor.

## Audit Exception no. 3: Excess of Actual Expenditure over Budget

The actual expenditure incurred by the contractor is in accordance with Section 4 to 12 of Accounting Procedure of PSC but not in pursuance to an approved/reviewed work program and budget by MC. It is also to be noted that the said actual expenditure in Appraisal, Development and Production phase (Testing of oil sold) which was incurred over the budgeted estimates is required to take MC approval on priority meanwhile it should be considered as disallowed expenses as the same is neither proposed nor approved in MC.

The Block has incurred actual expenditure in excess of Budgeted Cost during the year 2019-20 as under:

Particulars	(In USD)		
	Budget	Actual	Difference
OEC	0	210146	210146
Royalty on Oil Production (Testing oil sold)	0	50290	50290
Tolling Charges	0	218769	218769
General & administration	0	7591	7591
LD Cluster I and III	0	563549	563549
G & G	590000	1701194.16	1111194.16
Foreign Exchange/ Loss	0	2468883	2468883

### Auditors View & Recommendation:

Reversal of expenses incurred on account of local community facility/CSR of Rs. 53,576/- to be made.

The Operator is directed to take approval from MC for expenditure incurred over the budgeted estimates which was neither proposed nor approved in MC.

## Audit Exception no. 4: Approval of Annual Accounts

Annual Accounts are approved till 2006-07.

### Auditors View & Recommendation:

The Operator is directed to take approval for Annual Accounts since 2007-08 to FY 2019-20 on priority.



**Audit Exception no. 5: Approval of Chart of Accounts**

It has been observed that Operator has submitted Chart of Accounts of the Block however approval of Competent Authority is still pending.

**Auditors View & Recommendation:**

It is advised that the Operator should get the chart of accounts approved by Competent Authority.

**Audit Exception no. 6: Separate bank account**

As per the information and explanation provided to audit separate bank account has been maintained for this block by the operator of the block, details of the same are as follows:

- i. SBI bank (A/c no. 30011915672) with balance as 8761.00 and verified with the bank certificate
- ii. The balance certificate has been appropriately provided by the operator which is duly verified by us. On review of bank account transactions audit observed that except few cash call contribution by the partners no such transactions were made through this account and the capital contribution was transferred to ONGC main head account on the same day of the transaction
- iii. Further we were informed that all the expenditure incurred by ONGC main head office account.

**Auditors View & Recommendation:**

The Operator is directed to incur expenses through block's bank account to comply with the provisions of PSC.

**Audit Exception no. 7: Adjustment of Past Audit exceptions**

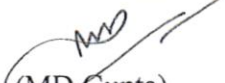
Compliance report of the Prior years' Audit exceptions were still pending at Operator's end. Details are as per Annexure-1.

**Auditors View & Recommendation:**

Operator is directed to send Compliance report immediately on prior year's Audit exceptions.

**Accordingly, the above audit exceptions are forwarded to Operator for adjustments and compliance within 120 days in line with the PSC provisions.**

Yours faithfully,

  
(MD Gupta)  
ED & HOD- Audit

Encl.: As Above

**Annexure-1**

**Previous Years Audit Exceptions for the block KG-DWN-98/2**

Year	Audit Exception	Action taken / to be taken by the Operator
2018-19	Approval of Annual accounts	Operator is directed to take approval for Annual accounts since 2007-08 to FY 2018-19 on priority
2018-19	Foreign Exchange conversion	Operator should follow the provision of PSC.
2018-19	Excess of Actual expenditure over Budget	The Operator shall be advised to get approval for excess expenditure incurred over the budgeted expenditure.
2018-19	Procurement procedure	Operator should follow up the matter and secure approval at the earliest and submit the same to Audit
2018-19	Approval of Chart of Accounts	It is advised that the Operator should get the Chart of Accounts approved by competent authority
2018-19	Exploration in Mining Lease area after expiry of Exploration period	Operator was directed to reverse the expenses of 18,75,531/- in line with the GOI policy order no. O-19025/10/2005-ONG-DV Dated 01.02.2013.
2017-18	Approval of Annual accounts	Operator is required to explain reasons for non-approval of annual accounts and obtain approval of Annual accounts after 2006-07
2017-18	Variation in Budget and Actual Expenditure	Operator is required to explain reasons for variance in actual and budgeted expenditure and obtain MC approval for overspent amount.
2017-18	Approval of Procurement procedure	Operator is required to obtain MC approval of procurement procedure as per PSC.
2016-17	Submission and approval of Reports	Operator is required to explain reasons for non-approval of annual accounts and obtain approval of Annual accounts after 2006-07
2016-17	Variation in Budget and Actual Expenditure	Operator is required to explain reasons for variance in actual and budgeted expenditure and obtain MC approval for overspent

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		amount.
2016-17	Approval of Procurement procedure	Operator is required to obtain MC approval of procurement procedure as per PSC.
2015-16	Chart of Accounts	Operator is required to get their chart of accounts approved by GOI at the earliest.
2015-16	Exchange conversion	Operator is required to explain non-compliance and indicate financial implications due to non-compliance
2015-16	Exchange conversion	Operator is required to make adjustments and send documentary evidence for adjustments made.
2015-16	Cost recovery	Operator need to explain the audit exception.
2015-16	Essentiality Certificate	Operator is required to explain the non-compliance
2015-16	Procurement procedure	Operator is required to get their Procurement procedure approved by MC.
2015-16	Expenditure	Operator is required to elaborate the audit exception and obtain specific MC approval as suggested
2014-15	Procurement procedure	MOPNG has directed ONGC to get their Procurement policy approved by MC. The same needs to be expedited.