

Government of India  
**Ministry of Petroleum and Natural Gas**  
 Shastri Bhawan, New Delhi-110001  
 ☎ 011-23073859 (Off.) (Fax : 23383585 & 23383100)

File No. O-22015/99/2013-ONG-IV/EO

November 28<sup>th</sup>, 2013

To,

**Chairman & Managing Director**  
 Oil & Natural Gas Corporation Limited  
 8<sup>th</sup> Floor, Jeevan Bharti Building,  
 Tower-II, 124, Rejiv Chowk  
 Connaught Place,  
 New Delhi – 110001

Sub.: **Audit exceptions in respect of CY-ONN-2002/2 block for the financial years 2009-10 & 2010-11**

Sir,

I am directed to refer to Auditor's Reports on the subject cited above and to forward the following exception for taking necessary action:

**Exception No. 1: Procurement**

Appendix-F of the PSC specifies different procedures, depending upon value of the contract, to be followed by the operator while awarding contracts for procuring material and services.

During the audit, it was observed that operator have made contractual payments of US\$ 30,105 and US\$ 27,361 for 'site preparation services' and 'provisional services' respectively during the FY 2009-10. When we asked for the tender documents of awarding these contracts, the operator stated that Chennai office does not maintain the tender documents since these services have been obtained through common procurement procedures followed for various wells of PEL/NELP blocks of Cauvery basin and that the above mentioned expenses are booked through cost cycles allocation.

The operator also stated that they have been following a standardized and approved Material Management procedures for procurement of materials and services which is as per CVC guidelines applicable to a PSU and the same procedure is an improvement over the ones prescribed under the PSC.

Since, tender awarding documents and value of contracts is not provided to us; we are unable to comment on whether the operator had properly followed the procedures with regard to procurement of these services.

Further, the operators view cannot be taken into account since the provisions of PSC are mandatory to be followed by all the operators who have signed the PSC with GOI. When PSC has specifically mentioned the procurement procedure for material and services, the operator is bound to follow the same.

**Operator is hereby advised to submit reasons for not complying with PSC provisions / not supplying documents to auditors.**

Contd...2/p

Sh-K. Chaitanya

Sh. Anirudh K. V.  
 RL  
 3/12



### **Exception No. 2: Prior Year's Audit Exceptions**

Exceptions raised by the previous DGH auditor are dealt with by the operator, the points which are not rectified by the operator in the FYs 2009-10 and 2010-11 are as follows:

- In exception No. 2, it is stated that the operator has not included the name of GOI as co-insured in all its insurance policies.

In relation to the said exception, we also found that the operator had not included the name of GOI as co-insured in its insurance policies taken for drilling activities during the FYs 2009-10 and 2010-11.

- In exception No. 3, it is stated that stipulated procurement procedure in the PSC is not followed by the operator.

In this regard, the operator stated that they have been following a standardized and approved Material Management procedures for procurement of materials and services which is as per CVC guidelines applicable to a PSU and the same procedure is an improvement over the ones prescribed under the PSC.

We have not been provided any documents related to procedure followed for awarding contracts during the audit period. Hence, we are unable to comment on whether the stipulated procurement procedure in the PSC is followed by the operator.

The provisions of PSC are mandatory to follow by all the operators who have signed the PSC with GOI. When PSC has specifically mentioned the procurement procedure for material and services, no operator can ignore the same.

**Operator is required to send replies to the prior year's audit exceptions.**

### **Exception No. 3: Insurance**

The operator had not included the name of GOI as co-insured in its insurance policies taken for drilling activities during the FYs 2009-10 & 2010-11.

**Contractor is required to explain the exception and take remedial action urgently.**

### **Exception No. 4: Statements / Reports**

The operator has not submitted the following quarterly reports to GOI during the FYs 2009-10 and 2010-11:

- Statement of Costs, Expenditures and Receipts
- Cost Recovery Statement

However, the above mentioned reports have been submitted annually to the GOI as a part of annual audited accounts.

Also, the operator has not submitted the annually 'Local Procurement Statement' to GOI during the FYs 2009-10 and 2010-11.

**Operator is advised to submit all statements / reports on time.**

**Exception No. 5: Sundry Receipts**

The operator has earned interest income of US\$ 153 and US\$ 165 on PEL deposits during the FYs 2009-10 and 2010-11 respectively and the same has not been adjusted with the cost recoverable expenses during the year.

**Operator is advised to correct Accounting treatment.**

**Exception No. 6: Currency Exchange Rates**

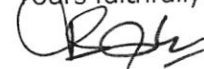
As per Section 1.6 of accounting procedure of Appendix C of PSC, for the purpose of foreign currency conversion from Indian Rupee or any other currency to US Dollar, the operator should have considered the monthly average of daily mean of the buying & selling rates of exchange rates for the transaction less than US\$ 50,000 and daily average rate for the transaction more than US\$ 50,000, provided by SBI or any other financial body being mutual agreed between the parties.

However, the operator has used the daily average rate of SBI for all the transactions i.e. also for the transactions of less than US\$ 50,000.

**Operator is hereby advised to follow PSC provisions and to make necessary adjustments, if any.**

2. The Operator is required to forward their compliance reports / further comments directly to DGH within 15 days from receipt of this letter.

Yours faithfully



(K. K. Sharma)

**Under Secretary to the Govt. of India**

**Copy to :**

- ✓ 1. **DG, Directorate General of Hydrocarbons, Noida** with the request to monitor the progress and to ensure compliance of the audit exception.