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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/23/LKC/2021

4th January 2021

The Chairman & Managing Director
M/s Oil & Natural Gas Corporation (ONGC)
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Sub: Audit Exceptions for the block KG-DWN-98/2 for the year 2018-19

Sir,

This has reference to the Audit report submitted by M/s Ashok Chhajer & Associates, Chartered Accountants, for the block KG-DWN-98/2 operated by ONGC for the year 2018-19. Audit exceptions reported by the auditor for which necessary compliance and corrective action required by the operator are notified as under:

Exception no. 1: Approval of Annual Accounts
Annual Accounts are approved till 2006-07.

Auditors View & Recommendation:

Operator is directed to take approval for Annual Accounts since 2007-08 to FY 2018-19 on priority.

Exception no. 2: Foreign Exchange Conversion

As per Accounting Policy note no 3.6 "Foreign Currency Transactions / Translation"

- All transactions except allocated cost, are accounted in their respective currencies and converted / translated into USD/INR based on mean exchange rate of the buying and selling prevailing at the date of the transactions as provided by the State Bank of India.
- Cost allocated to NELP Blocks by ONGC in INR are converted into USD at the rate prevailing on the date of such cost allocation, calculated at the mean exchange rate of buying and selling provided by State Bank of India.

As per Clause 1.6.1 of Accounting Procedure-Production Sharing Contract, for conversion purpose between US dollars & INR or any other currency, **the monthly average of daily mean of buying & selling rates of exchange as quoted by State Bank of India** (or any other financial body as mutually agreed by parties) for the month prior to the month in which the revenues, cost expenditure, receipt or income are recorded, shall be used. However, in the



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case of any single non US dollars transaction in excess of the equivalent of fifty thousand dollars (50000 \$), the conversion into US dollars shall be performed on the basis of the average of the applicable exchanges rate for the day on which the transaction is occurred. Cost accruals that are based on estimates of work perform (not on specific invoice received) shall be reversed at the same currency conversion rate used for the original accrual.

Auditors View & Recommendation:

Operator should follow the provision of PSC.

Exception no. 3: Excess of Actual Expenditure over Budget

Excess of Actual Expenditure over Estimated as provided in Appendix H.

The Block has incurred actual expenditure in excess of Estimated Cost during the year 2018-19 as under:

(In USD)			
Particulars	Budget	Actual	Difference
PEL Fees	118292	130464	12172
3D interpretation	0	1071791	1071791
Special Processing	0	2218	2218
Geophysical study by Vessel Jayadurga	0	63694	63694
Marine Survey-Nio	0	852305	852305
Indp Estimation of Reserves	0	1094187	1094187
Cram Processing	0	422423	422423
G & G	0	719626	719626
G & A- Exploration	1505277	3874097	2368820

Auditors View & Recommendation:

The Operator shall be advised to get approval for excess expenditure incurred over the budgeted expenditure.

Exception no. 4: Procurement Procedure

It is conveyed that "the Operator has written letter no ONGC/EXCOM/Procurement Procedure dated 10.01.2019 to DGH for MC Approval of Procedure Adopted by Operator and further communication is awaited".

Auditors View & Recommendation:

Operator should follow up the matter and secure approval at the earliest and submit the same to 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.

Exception 6: Exploration in Mining Lease Area after expiry of Exploration period

Audit has observed that Exploration cost other than reclassification pertaining to earlier years booked during 2018-19 along with Development cost which is not allowable till monetization as under:

		(In USD)
Sr No	Particulars	Amount
1.	G&G	719,626
2.	PSDM Survey	81,896
3.	Indp. Estimation of Reserves - Robertson (UK) Ltd.,	1,094,187
4.	Cram Processing	422,423
5.	Marine Survey- NIO	852,305
6.	Geophysical Study by Vessel Jayadurga	63,694
7.	3D Interpretation	1,071,791
8.	Special Processing	2218

This exploration cost can be considered as recoverable once revenue is generated from said efforts and shall be separately carried forward with such identity. As already development work is going on against already approved FDP.

Contractor's Reply: Out of the given cost, item no 3 to 6 pertains to reclassification / regrouping of cost from Development to Exploration head.

The balance cost pertains to cost booked for current year only and not for any previous year. The cost pertains to Survey, Interpretation and manpower cost booked for current year by Basin and Geodic, Dehradun.

Auditors View & Recommendation:

In this respect, we would like to refer GOI Policy order no O-19025/10/2005-ONG-DV Dated 01.02.2013, related to Exploration in Mining Lease Area after expiry of Exploration period stipulating as under:

Government of India [GoI] has decided that exploration will be allowed in Mining Lease Area with cost recovery on establishment of commerciality. All approved exploration costs will be allowed for cost recovery on such Declaration of Commerciality. The permission to explore in ML area will be according to following mechanism:

The point no 1 of said order further provides that:

"Cost of such exploration activities will be recoverable after a resultant discovery is proved commercially and techno economically viable at FDP stage, in the manner stipulated below and the development plan is approved under the provisions of the PSC. Such Exploration cost incurred till then will be recovered as provided in the PSC. Cost of any further

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exploration done subsequently will be recoverable only after any of those subsequent exploration efforts result in a commercially viable discovery as seen from approved FDP for that discovery".

In continuation OM dated 01.02.2013 on the subject titled "Exploration in Mining Lease Area after expiry of Exploration period – regarding" MoPNG issued an OM No O-19025/10/2005-ONG-D-V [Pt-IV] [FTS-23492] dated 24.10.2019 which, inter alia, states that existing cash inflows / revenue arising out of already monetized discoveries will not be used for recovery of past explorations costs, development costs or production costs. It also states that the revenue from existing monetized discoveries in ML area shall not be adversely impacted.

In view of above, following expenditure recorded during 2018-19 is not allowable:

Sr No	Particulars	Amount
1.	G&G	719,626
2.	PSDM Survey	81,896
3.	3D Interpretation	1,071,791
4.	Special Processing	2218
	Total	1,875,531

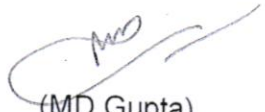
Exception 7: Past Audit Exceptions

Status of year wise audit exception with operator's reply and audit comments are enclosed herewith (**Refer Annexure 1**).

Auditors View & Recommendation:

Operator is directed to submit compliance of all the open audit exceptions of earlier years.

Yours faithfully,


(MD Gupta)
ED & HOD- Audit

Encl.: As Above

Annexure 1

Status of year wise audit exception Compliances

Exception No and Financial year.	Exception in brief	Reply in brief	Our Opinion
1 2002-03 and 2003-04	Cost of inventory on hand was charged to JV cost without actual consumption.	Material Purchased for petroleum operations as per approved work program not used shall be considered as cost recoverable. Operator opines that inventory held should be considered as excess inventory over and above work program. Operator is required to follow good international petroleum industry practice and material is ordered as per work program considering its lead time. Later on if material is not used due to change in circumstances should not prevent operator from cost recovery.	Cost recovery of 1.85 Million USD may be reversed as PSC terms do not allow cost recovery before consumption. Hence para may be continued. Mater of Inventory and mobilisation and demobilisation is considered in 65 th MCR of Sept 2018 and seems to have been settled after disallowance / adjustment with approval of accounts by MC. Which is given effect in Accounts of Financial Year 2018-19.
2	Reasonableness of cost to be established for expenses to be cost recoverable. In future prescribed procedure should be followed. Procurement Procedure not followed.	At the time of award JOA was not in place hence approval of operating committee does not arise.	There is deviation from PSC provisions with respect to procurement procedure which is common in case of all the Blocks operated by ONGC for which its own manual shall be got approved from MC. Hence para may be continued.
3	Payment of PEL fees for 2002-03 and 2003-04 was delayed. The interest / penalty for delayed payments will not be cost	Operator will ensure that future license fees will be paid well in Advance. License fees for the year 2005-06 was paid in advance during April 2005.	Operator has agreed to make payment in timely manner. There is only suggestion of the Auditor in this regard which seems to be accepted by the Contractor. Hence para may be dropped.

	recoverable. In future PEL fees should be paid in advance.		
4	Unresolved audit exceptions of previous audit.	Reply is provided however, supporting documents are not submitted.	Reply does not seem to be addressing the issue raised with supporting documents. Mater of Inventory and mobilisation and demobilisation is considered in 65 th MCR of Sept 2018 and seems to have been settled after disallowance / adjustment with approval of accounts by MC. Which is given effect in Accounts of Financial Year 2018-19.
5	Approval of DGH not obtained for Inter Block Transfers	Request will be made to DGH for approving the transfers.	Approval copy is not submitted with reply hence para may be continued.
6	MC meetings are not held as per terms of PSC.	In future meetings will be conducted as per norms stipulated in PSC.	Conducting meetings may be need based and depend upon availability of time with Government Representatives as well. Hence this para may be dropped.
7	Various statements are not being submitted in time.	Timely submission will be ensured in future.	As operator has agreed to follow timelines in future para may be dropped.
2007-08 to 2010-11			
1	Minutes of MC meeting not signed: The assignment of 15% PI of M/s Petrobras and 10% of M/s Statoil to ONGC in the block KG-DWN-98/2 has been approved and the same has been conveyed to DGH vide letter dated 22.08.2014. DGH is requested to get the pending MCMs signed by Me.	-	No compliance is shown to us for this point.
2	Audited Accounts Not approved for long time	-	Approval of Accounts is not provided since 2005-06.

3	Annual Work Program and Budgets.	-	Compliance is not submitted.
4	Approval of Budget vs Actual: The operator has already submitted required to inform that exception no. 4 (FY 2005-06 ; disallowed USD 11,003,321 for well D1) will prevail till approval of audited accounts by Me DGH is requested to keep this Ministry apprised progress in this regard.		Compliance is not submitted.
2013-14			
1	Chart of Accounts not approved	-	Chart of Accounts is submitted by the Contractor vide letter no ONGC/SS/NELP/Chart of Accounts/2016-17/1 dated 14.10.2016 for approval however, approval of the same is conveyed to be awaited.
2	Quarterly Statements are not submitted in timely manner.	-	Operator shall acknowledge that same will be submitted in timely manner in future.
3	Late submission of local procurement statement	-	-do-
4	Quarterly statement of cost, expenditure and receipt to Govt.	-	-do-
5	Late submission of Budget.	-	-do-
6	Approval of Procurement Procedure	-	Approval of MC is not provided for verification for procurement procedure being followed by ONGC.
2014-15			
1	Procurement Procedure:	-	Approval is not yet obtained.

	MoPNG has directed ONGC to get their Procurement Policy approved by MC. The same needs to be explained.		
2015-16			
1	Approval for Chart of Accounts is not obtained.	-	Chart of Accounts is submitted by the Contractor vide letter no ONGC/SS/NELP/Chart of Accounts/2016-17/1 dated 14.10.2016 for approval however, approval of the same is conveyed to be awaited.
2	Exchange Conversion all transactions converted at daily rate instead of those only in excess of 50000 USD.	-	Approval is not provided / obtained.
3	Incidental Income not considered as part of revenue. USD 52513.	-	No compliance submitted.
4	Faulty exchange rate used for transactions originating in Mumbai Office.	-	Approval of MC for methodology to be used is not provided to us.
5	Essentiality Certificates	-	ONGC has centralised procurement system hence block wise procurement is not done hence this para may be dropped.
6	Procurement System		There is deviation from PSC provisions with respect to procurement procedure which is common in case of all the Blocks operated by ONGC for which its own manual shall be got approved from MC. Hence para may be continued. MC approval is still awaited.
7	MC approvals not provided excess over budget.	-	Approval of Accounts is yet to be obtained.

2016-17 Exception report not provided to us as per our report major pending points are as under:			
1	Approval of Annual Accounts	-	Approval is not provided / obtained.
2	Exchange Conversion all transactions converted at daily rate instead of those only in excess of 50000 USD.	-	Approval of MC is not provided.
3	Variation between Budget and Actual Expenditure	-	Approval of Accounts by MC is not obtained.
4	Approval for Chart of Accounts is not obtained.	-	Chart of Accounts is submitted by the Contractor vide letter no ONGC/SS/NELP/Chart of Accounts/2016-17/1 dated 14.10.2016 for approval however, approval of the same is conveyed to be awaited.
2017-18			
1	Approval of Annual Accounts	-	Approval is not provided / obtained.
2	Variation between Budget and Actual Expenditure	-	Approval of Accounts by MC is not obtained.
3	Approval of procurement procedure	-	There is deviation from PSC provisions with respect to procurement procedure which is common in case of all the Blocks operated by ONGC for which its own manual shall be got approved from MC. Hence para may be continued.
4	Approval for Chart of Accounts is not obtained.	-	Chart of Accounts is submitted by the Contractor vide letter no ONGC/SS/NELP/Chart of Accounts/2016-17/1 dated 14.10.2016 for approval however, approval of the same is conveyed to be awaited.