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CHARTERED ACCOUNTANTS

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8th November, 2014

The Director General
Directorate General of Hydrocarbons
(Under Ministry of Petroleum & Natural Gas)
OIDB Bhawan, Plot no.-2
Sector-73, Noida

Kind Attention: Mr. Ajit Jain (Manager, Contract Finance)

Subject: Submission of Audit Report for the Financial Year 2011-12 & 2012-13 of CY-ONN-2002/2

Operated by: **Oil and Natural Gas Corporation Limited.**

Dear Sir,

We refer to DGH letter no. DGH/CF/GOVT AUDIT/7/2011-12 & 2012-13/34 dated 28th March 2014 from Manager (CF) for conducting audit of the above mentioned block.

We have conducted the as per the mandate given to us in accordance with the provisions of clause 25.5 of the Productions Sharing Contracts (PSC) dated 2nd March 2007 under which the said block is awarded to the auditee. The period of audit covered is Financial Year 2011-12 & 2012-13.

We enclose herewith our Audit report (Two sets). The soft copy of the report is separately mailed to you. Also enclosed herewith our bill for Audit Fee for above block under reference 159/Nov/2014-15 for Rs 35,000. We request for early release of first tranche of 75%, and balance 25% payment against this bill may be released as per terms of payment of the contract in due course.

Thanking you

For PAMS & Associates
Chartered Accountants

Sudhir Kumar Dash

Partner



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12/11/14

Sh. K.C. Mathur P1
Sh. Rupam Baruah P1
13/11

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INTRODUCTION

Status of Block:

Block Name	CY-ONN-2002/2 (Madanam Block)
Round	NELP - VI
Operator	Oil & Natural Gas Corp. Ltd.
Consortium	ONGC-60% & BPRL-40%
Status	ACTIVE
Basin	CAUVERY
State	TAMIL NADU
Date of Signing	06-FEB-2004
Effective Date	31-Aug-2004
Initial Area	280
Present Area	210
Relinquished Area	70

PEL Grant & Extension

PEL was granted on 31-08-2004 and extended upto 30.08.2014 for appraisal of MD#3

Exploration Period

<u>Exploration Phase</u>	<u>Period</u>	
PHASE I	31.08.2004 to 30.08.2006	MWP Completed
PHASE II	31.08.2006 to 09.03.2012 (Extended upto 09.03.2010) Additional period of 190days in lieu of excusable delay for environmental clearance	MWP Completed MD#2 gave indication of HC
PHASE III	10.03.2010 to 09.03.2012 MoPNG approve extension beyond Phase-III till 25.05.2012 i.e. completion of drilling well MD#3	MWP Completed for drilling of Two well (MD-3 & 4) Oil Discovery in MD#3

Appraisal Period

After confirmation of Discovery of Oil in MD#3, the appraisal period was determined from 10.10.2012 to 09.04.2014.



OBSERVATION FOR THE FINANCIAL YEAR 2011-12 & 2012-13.

SL. NO.	AREAS COVERED	OBSERVATION
1.0	Accounting Procedure	
	As per Section 1.4.1 of Appendix C of the PSC, the contractors are required to submit to the Government of India (GOI) a proposed outline of chart of accounts, operating records and reports within 90 days from the effective date (Effective date: 18 th June 2007 i.e., Petroleum Exploration License issued date).	<p><u>Audit Exception</u></p> <p><i>The operator has not submitted the chart of accounts to GOI as per PSC.</i></p>
	Whether contractor is maintaining proper books of accounts for all its transactions pertaining to the PSCs and reports of production statement, value of production & pricing statement etc as required under section 4 to 12 of Accounting Procedure of PSC.	<p>The Operator has maintained all proper book of accounts for all its transaction pertaining to PSC in the On-Line SAP system.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
	Whether all costs and expenditures have been classified into proper heads of expenditures as defined in the PSC namely Exploration, Development and Production.	<p>During the Financial year 2011-12 and 2012-13, All the costs has been appropriately classified as defined in the Accounting Procedures, Section 2 of PSC.</p> <p>General & Administrative Costs have been allocated to Exploration Costs.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
2.0	Whether all Expenditures and Incomes have been accounted for accurately, as per PSC.	<p>Revenue from sale of crude-oil and gas produced from exploratory wells is deducted from expenditure on such wells. Sales are inclusive of all statutory levies except VAT.</p> <p>In-house costs i.e. the G&G cost and G&A cost follow an allocation process through cost cycles (SAP) comprising essentially the manpower related cost and asset usage charges. For services related expenditure on drilling and seismic acquisition ONGC, awards and executes centralised, umbrella contracts encompassing a large number of blocks operated by ONGC (covering</p>

		<p>different work centres) of high value in order to gain economies of scale and utilisation of core expertise. The Contract is executed from Mumbai office and originating debits are captured in the JV books through service entry sheets as explained above.</p> <p>The GD13 data dump was tallied with the financial statements and was found to be in order.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
3.0	Currency Exchange Rates	
	Whether significant accounting policies adopted by contractor are in accordance with the requirements of PSC such as for foreign currency translation, fixed assets, inventories, etc.	<p>The System keeps the records of all assets, liabilities, incomes & expenditures individually in respect of the blocks. As per the provisions of PSC, all the transactions are maintained in dual currency.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
	Whether, for conversion purposes between United States Dollars and Indian Rupees or any other currency, the Reserve Bank of India Reference Rate of Exchange for the transaction day on which the revenues, costs expenditure, receipts or income are recorded, was used	<p>In compliance of the clause 1.6 of PSC by the operator, SBI exchange rates were followed for conversion of the rates.</p> <p>The exchange rates are all maintained in the online system by ONGC, Mumbai.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
4.0	Measurement of Petroleum	
	Whether the methods of measurement of petroleum used by the contractor were approved by the management committee and whether material balancing of the quantity of petroleum has been reconciled.	<p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
5.0	Recovery of Cost Petroleum	
	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	<p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>

	the maximum limits stipulated in PSC under Article " Recovery of Cost Petroleum'	
6.0	Overheads Charged by JV.	
	Whether the Overheads charged by the JV are reasonable, verifiable and devoid of any duplication, as per provisions of PSC.	<p>All G&A Costs which are block specific and identifiable are charged directly to the block and in other cases costs are allocated from ONGC Corporate books to the block on the basis of actual physical parameters.</p> <p>The Accounting policies practised ensure that the Overheads charged by the JV are reasonable, verifiable and devoid of any duplication in conformity with the provisions of PSC (Section 2.6 of Appendix C of PSC). The rate of Main Office Expenditure (MOE) for FY 2011-12 works out to 4.34% and for FY 2012-13 works out to 4.49%.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
7.0	Domestic Supply, Sale, Disposal and Export of Crude Oil and Condensate	
	Whether contractor followed the PSC provisions concerning supply, sale, disposal of crude oil, condensate and natural gas.	<i>No adverse compliance is reportable under this section by us during the period covered under audit.</i>
8.0	Valuation of Petroleum	
	Valuation of petroleum as per PSC for crude oil/natural gas and condensate and financial impact in case of deviations.	<i>No adverse compliance is reportable under this section by us during the period covered under audit.</i>
9.0	Insurance and Indemnification.	
	Whether the contractor during the term of the 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.	<p>ONGC at Corporate level takes a comprehensive insurance policy covering all its NELP operated blocks.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
10.0	Records, Accounts and Audit, Appointment of Auditors.	

	<p>Whether annual audit of accounts was carried out on behalf of the contractor by an independent firm of chartered accountants whose appointment was approved by the Management Committee.</p>	<p>For the FY 2011-12, M/s GHG & Associates was appointed auditor in 35th Management Committee Meeting dated 18/05/2012.</p> <p>For the FY 2012-13, M/s GHG & Associates. was appointed auditor in 40th Management Committee Meeting dated 12/07/2013.</p> <p><u>Audit Exception</u></p> <p><i>For both the years audit has been completed before their appointment in Management Committee. This is violation of Article 25.4.2 of PSC.</i></p>
	<p>Whether the contractor submitted the audited accounts to the Management Committee for the approval within the prescribed timelines.</p>	<p>For the FY 2011-12, audited accounts has been submitted on 24th May 2012 & for FY 2012-13 on 27th May 2013.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
11.0	Guarantees	
	<p>Whether the contractor submitted the bank guarantees/performance guarantees as per provision of PSC.</p>	<p>Bank Guarantee for this block has been exempted as per Article 29.1(d) of PSC being a Government Company.</p> <p><i>No adverse compliance is reportable under this clause by us during the period covered under audit.</i></p>
12.0	Assets & Inventory	
	<p>Whether all assets (movable/immovable) and inventory have been properly recorded, accounted for, maintained, reconciled and verified at reasonable intervals and if any discrepancy found the same has been corrected. If not details to be provided.</p>	<p>On Verification of documents and as stated by the operator there were no Fixed Assets or Inventory being carried out in the block and no fresh assets were purchased.</p> <p>All the fixed Assets and inventories are owned by ONGC as a corporate and charges for the usage of such assets/inventories are charged to JV blocks.</p> <p><i>No adverse compliance is reportable under this clause by us during the period covered under audit.</i></p>
	<p>Whether the Contractor has claimed cost recovery of items still lying in store / inventory and not consumed.</p>	<p>The Same was not applicable as the operator does not possess any inventory during the period covered under audit.</p> <p><i>No adverse compliance is reportable under this clause</i></p>



		<i>by us during the period covered under audit.</i>
13.0	Cost Recovery	
	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), and 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.	<i>No adverse compliance is reportable under this clause by us during the period covered under audit.</i>
14.0	Whether the share of Profit Petroleum (Production level payment in case of CBM blocks) to Government has been properly determined and paid as per the provisions of PSC. If incorrect figures are calculated by the operator, correct figures shall be stated by the auditors.	Not Applicable
15.0	Whether all the conditions in the Essentiality certificates for imports at concessional rates of Customs Duty were being fulfilled.	<i>Not Applicable</i>
16.0	Whether the Joint venture is properly following the procedures as laid down in JOA and PSC with regard to procurement of materials and services. If not, deviations should be detailed. Cases of procurement from affiliates and other than at arm's length should be commented on.	<i>Not Applicable</i>
17.0	Whether Royalty, Cess, License Fee, Profit Petroleum and other statutory payments have been correctly determined and timely paid to the Government in line	<i>No adverse compliance is reportable under this clause by us during the period covered under audit.</i>



	with ORD Act., P&NG Rules, OIDB Act and PSC wherever applicable. If not, correct liabilities shall be stated by auditors. 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 access / shortfall amount of Royalty, Cess etc.	
18.0	Whether the salary & compensation in respect of nationals and expatriate manpower has been charged to Cost Petroleum as per contractor's standard personnel policy, as per provisions of PSC. If not, deviations should be detailed by auditors.	<p>On verification of documents and as stated by the operator the ONGC follows duly approved DPE guidelines for remuneration to officers and for unionized category the corporation enters into an agreement with the union for pay and perks. The same is allocated to the block on actual usage.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
19.0	Site Restoration Fund	<p><u>Audit Exception.</u></p> <p>Site Restoration Fund has not been created by the operator even the operator has successfully completed the exploration phase and appraising its discovery in MD#3.</p>
20.0	Whether, in the case of transfer of material from one block to another block/ field, the conditions stated by DGH in the permission of such transfer, have been fulfilled /adhered to.	<p>As stated by the operator, there was no transfer of material from one block to another.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>

21.0	<p>Compliance of Section 10 of Appendix C of PSC provisions: As per Section 10 of Appendix C of PSC the operator shall submit a local procurement statement to the Government within 60 days after the end of each financial year.</p>	<p><u>Audit Exception.</u></p> <p><i>For both the years, the Local Procurement Statement was not submitted which is a contravention of section 10 of PSC.</i></p>
22.0	<p>Compliance on satisfactory adjustment of past audit exceptions of audit reports of auditors appointed by Govt. / DGH by the operator as directed by MOP&NG /DGH may be indicated by the audit firm by giving definite recommendations for either dropping the exception or pursuing it further.</p>	<p><u>Audit Exception No. 2(b)</u></p> <p>In respect of contractual payment of USD 30,105 & USD 27,361 for site preparation service were not provided to auditors.</p> <p>Our Observation:- The operator has not provided any document supporting the above exception.</p> <p>Auditee View:- Recommendation of OC & MC may be brought on record for a final decision in the matter.</p>
23.0	<p>Further reporting as per PSC:</p>	
	<p>Production statement. (Section 5)</p>	<p><u>Audit Exception.</u></p> <p><i>Production Statement has not been submitted by the operator that is applicable for FY 2012-13.</i></p>
	<p>Value of production and Pricing Statement.(Section 6)</p>	<p>During the period covered under Audit, the Block was under Exploration Phase, Hence compliance of section 5 of PSC was not required.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
	<p>Statement of cost, expenditure and Receipts (Section 7)</p> <p>The contractor shall prepare with respect to each quarter a statement of cost, expenditures and receipts under the contract. The statement of each quarter should be submitted to government not later than thirty (30) days after the end of each such quarter.</p>	<p><u>Audit Exception.</u></p> <p><i>On our verification of documents the Statement of cost, expenditure and Receipts has been submitted to DGH from 2nd Quarter of 2011-12.</i></p> <p><i>However, none of the statement has been submitted within 30 days after the end of each quarter.</i></p>

	Cost recovery Statement (Section 8) The Contractor shall prepare with respect to each calendar Quarter a cost recovery statement for each development area. The cost recovery statement for each quarter should be submitted to Government not later than thirty (30) days after the end of such quarter.	<u>Audit Exception.</u> <i>On our verification of documents and as stated by the Operator, the operator submitted any Cost Recovery Statement for FY 2011-12 & FY 2012-13.</i>
24.0	Procurement for acquisition of Goods & Services as per Appendix F of PSC	
	Whether contractor is maintaining proper books of accounts for all its transactions pertaining to the PSCs Whether the Joint Venture is properly following the procedures as laid down in JOA and PSC with regard to procurement of materials and services. If not, deviations should be detailed.	<u>Audit Exception</u> 1) <i>The Operator is not having pre- approved Vender list along with pre-qualification criteria for specified activities (as prescribed in Appendix F of the PSC).</i> 2) <i>The operator (ONGC) procure materials & equipment on behalf of all the blocks under the companies operatorship and these are used and/or consumed for carrying out the work programme of the venture.</i> 3) <i>For services related expenditure on drilling and seismic acquisition, ONGC awards and executes centralised, umbrella contracts encompassing a large number of blocks operated by ONGC. The originating debits are captured in the JV books through service entry sheets as explained above.</i>

ACKNOWLEDGMENT

We are thankful to the company officials for the co-operation extended to us during the course of our audit work.

Thanking you,

For PAMS & Associates





Sudhir Kumar Dash
Partner

Chartered Accountants