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

File No.O-22015/55/2014-ONG-IV/EO

4th October, 2017

To

CEO

Cairn India Ltd.

DLF Atria, Jacaranda Marg,

DLF CITY, Phase-2,

Gurugram – 122002

Sub.: Audit Exceptions in respect of KG-ONN-2003/1 for the year 2014-15.

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: Chart of Accounts

It has been observed that the Operator has not submitted the Chart of Accounts of the Block to MC for its approval.

Auditor View & Recommendation:

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

Chart of Accounts need to be approved by MC.

Exception No. 2: Accounting Policies

Para 1.6 of section 1 of Accounting procedure of PSC: For conversions purpose between USD and INR or any other currency, the monthly average of the daily mean of buying and selling rates of exchange as quoted by the State Bank of India for the month in which the said transaction are recorded, shall be used. However, in the case of any single non US Dollar transaction in/ excess of the equivalent of 50,000 USD, the conversion into USD shall be performed on the basis of the average of the applicable exchange rate for the day on which the transaction occurred.

Audited Accounts Blocks- Para 3.6 of significant accounting policies: All transactions, except allocated costs, 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 (SBI)

It is clear from above two Para that, the operator has implied the daily mean of the buying and selling rate for conversion of USD/INR in all the transactions instead of implying the monthly mean of the buying and selling rate for the transaction below

Shah

45180/2012



Dy. No.
Date

7/10/2012

-2/-
Sh. P. Kromar
2/10

50,000 USD and daily mean of the buying and selling rate for the transaction in excess of the equivalent of 50,000 USD.

Auditor View & Recommendation:

An approval for deviation in procedure should be taken from MC.

MC approval is required to be obtained as pointed out by the auditors.

Exception No. 3: Statements

Statements (Format 1, 2, 2A, 3, 4, 5 and 5A) submitted to DGH along with Audit Report were not strictly as per the format prescribed by DGH.

Due to "NIL" amount several heads prescribed in the DGH format has not been mentioned in the statements.

This is a repeat observation from Last year.

Auditor View & Recommendation:

It is recommended to strictly follow the formats prescribed by the DGH

All statements need to be submitted as per PSC provisions.

Exception No. 4: PEL Fees

PEL fees expenditure of USD 2,872 (INR 179,507) is mentioned in the Audited Accounts under Pre Development expenditure (Operator ONGC) which we were not able to verify, as the records are maintained by ONGC.

All statements are required to be shown to the auditors. Copy of document need to be sent to DGH for verification.

Exception No. 5: Time & Cost Allocation

Based on the information and explanation given by the management and as stated by the Statutory Auditors of the Block, the allocation of personnel, common and other general administrative costs is based on procedures set out by the Operator and the basis of allocation is certified by the auditors of the operator.

It was observed that the formal report of the auditors was addressed to the company as a letter with disclaimers and is not a certificate.

Further, the letter does not in any way certify or assure that the procedure set out by the operator for such allocation is correct and as per industry practice. As per the letter the auditors have restricted their 'comments' and scope, to carry out procedures as given in the Annexure of the report, only and that they have found that allocation is based on costs incurred and recorded by the company and is 'in all material respects' in accordance with the procedures given and payroll costs are as per Operators Personnel Policies. Hence, clearly they have not examined or tested the applicability or correctness of the procedures themselves.

Still further, the letter carries various disclaimers in Para 5, 6 & 8 that dilute the very purpose of the engagement / assignment.

This is a repeat observation from Last year.

[Signature]

Auditor View & Recommendation:

The Operator needs to ensure that they obtain a formal certificate of Time Cost allocation clearly stating for the assignment and other similar assignments in the future. It may be pointed out that the operator is specifically giving that a certificate is obtained in Note 4 of Schedule 5. Further, the certificate should clearly state that the basis of allocation of costs is correct and as per prevalent industry practice and that ALL costs have been allocated as per that practice. In our opinion in case such an exercise / certificate is diluted then the very purpose of the exercise is defeated and it may not be able to provide the relevant comfort to the Management Committee or Auditors.

Certificate as suggested by the auditors need to be provided by the operator.

Exception No. 6: Non Submission / late Submission

Article or Section number	Reference	Statement Name	Frequency	Time Frame	Due Date	Actual Date of Submission
Article 5.9& section 12.2 Appendix C	PSC	Work programme and budget	Annually	90 Days before commencement of each Year	31st Dec 2013	31st Dec 2014 / 29th Dec 2014

Auditor View & Recommendation:

Since, the due dates envisaged in PSC have some sacrosanctity, as a matter of principle, it is suggested that in future, Operator/OC/MC should comply the same.

Reasons for non compliance be recorded.

2. The contractor is required to forward their compliance reports / further comments directly to DGH as per provisions of PSC.

Yours faithfully



(D.K. GHOSH)

Under Secretary to the Govt. of India

Tel.No.23388164

Copy to :-

- ✓ 1. DG, Directorate General of Hydrocarbons, Noida with the request to monitor the progress and to ensure compliance of the audit exception. DGH may also obtain acknowledgement from operator for receipt of the notification.