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## हाइड्रोकार्बन महानिदेशालय

### DIRECTORATE GENERAL OF HYDROCARBONS

Date: 31.08.2022

DGH/Audit/OP/2022

To,

Oil & Natural Gas Corpn. Ltd. (ONGC),

Rajamundry-533106,

East Godavari District (A.P.)

Fax: 0883-2434386

**Sub: Audit Exceptions for the Block KG-ONN-2003/1 for the year 2019-20.**

Sir,

This has reference to the Audit report submitted by M/s Agarwal & Dhandhanian, Chartered Accountants, for the block KG-ONN-2003/1 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 01: Accounting Policy & Physical Inspection of Inventory**

On review of accounting policy adopted by contractor we are of the opinion that all the accounting policies except as stated are in accordance with the requirement of PSC. Details of the same are as follows: Inventories: As per clause 4.21. of PSC it has been stated that the contractor shall take (i) Inventories not less than once in 12 months for movable assets and (ii) not less than once in 3 years for immovable assets. However, during the review of FY 2018-19 it has been observed that inventories of the assets has not been taken as per the provision specified by PSC.

**Auditor's view & Recommendation:** - Operator is directed to explain the reason for noncompliance. Further they should follow the provision specified in the clause 4.2.1 of PSC provisions strictly.

#### **AUDIT EXCEPTION 02: Procurement of material and services**

As per clause 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 subcontractor in India are given adequate opportunity to complete for the supply of goods and services. The tender procedure shall include, inter alia, the financial amounts or value of contracts which will be award on the basis of selective bidding or open competitive bidding, the procedure for such bidding and shall be subject to the approval of Management Committee.

As per clause 3.3 of the notes to accounts of the auditor's report and as verified, Majority of the Procurement of material and services and other related activities are carried out as per the material management manual of ONGC Policy. Inventory costs are booked to the venture based on actual consumption.

**Auditor's view & Recommendation:** - The Contractor is directed to follow the procedure for procurement given at Appendix F of the PSC or seek the approval of MC for the deviations.

**AUDIT EXCEPTION 03: -Site Restoration Fund:**

**Auditor's view & Recommendation:** - Operator and DGH to discuss the said exception at the earliest MC and to take decision on the same. And we also recommend the operator to submit estimation and computation of site restoration fund done by the third party and ensure the adequacy of the funds deposited in SRF accounts with the DGH and to take MC approval for the same during the FY 2021-22.

Operator is directed to submit the third party report for the computation of site restoration fund requirement. The contractor should ensure the adequacy of the funds deposited in SRF accounts and obtain the necessary MC approval for the same.

**AUDIT EXCEPTION 04: -Separate Bank Account Transaction:**

As per the Information and explanation provided to us separate bank account has been maintained for this block by the operator of the block. Details of the same are as follows:  
- State Bank of India (A/c No. 38748466298 with balance as 0.13 credit and verified with the bank certificate. The balance certificate has been appropriately provided by the operator which is duly verified by us. On review of bank account transactions, we have observed that all the only the JV transactions have been accounted for the period Feb'20 to Mar, 20 through this account. Note: - As informed by the operator, all the operational transactions have been accounted through the ONGC central bank account.

**Auditor's view & Recommendation:** - The Operator is directed to ensure that all the cash inflows and outflows are transacted through the Block Bank account only.

**AUDIT EXCEPTION 05: - Adjustment of Past Audit Observations:**

Replies/Compliance report of the Prior Year's Audit exceptions was still pending at Operator's end. Details are as per Annexure-1.

**Auditor's 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 PSC provisions.

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Yours faithfully,



(MD Gupta)

ED & HOD- Audit

Encl.: As above

cc: ① Nodal Officer - Shri Jatinsh Jain  
② HOD (CR)



**Annexure-1****Previous Years Audit Exceptions For the block KG-ONN-2003/1**

YEAR	AUDIT EXCEPTION	ACTION TO BE TAKEN BY CONTRACTOR/OPERATOR
2018-19	Procurement of Material & Services	Operator is advised to obtain necessary approval on priority.
2018-19	Site restoration fund	operator is required to submit estimation and computation of site restoration fund done by the third party and ensure the adequacy of funds deposited in SRF account.
2018-19	Approval of Audited Accounts	Operator is advised to explain the reason of such delay in the approval for appointment of auditor and submission of audited accounts for MC approval. Operator is further advised to get the audited accounts approved from MC on priority.
2015-16	Physical Verification of Assets	Operator is required to explain the reasons for Noncompliance.
2015-16	Work programme & Budget	Operator is required to obtain MC approval at the earliest and send the same to DGH.
2014-15	Charts of Accounts	Send us a copy of the GOI approved chart of accounts as the same is required to be sent to MOP&NG.
2014-15	Accounting Policy :foreign exchange Transactions	Operator is advised to follow the exchange rates prescribed in PSC for maintaining block accounts and submit a compliance report.
2014-15	Statements	All statements need to be submitted as per PSC provisions.
2014-15	PEL Fees	All statements are required to be shown to the auditors. Copy of document need to be sent to DGH for verification.
2014-15	Time and cost allocation of personnel, common and other	The Operator (ONGC) is now required to obtain the desired certificate from their auditors as the ownership has changed from cairn to ONGC.

	general administrative costs	
2014-15	Non Submission /late submission	Reasons for noncompliance be recorded.
2013-14	Functioning of MC Meetings	Operator Needs to explain the exceptions raised by the auditor(Only One MC Meeting against Two)
2013-14	Actual Vs. Budget	All actuals more than budget need to be approved by MC
2013-14	Delay in submission of Local Procurement Statement	Operator Needs to ensure submission of all documents in time.
2013-14	Delay in Recovery of cash calls	Operator needs to settle the issues between the contractors.
2013-14	Delay in adoption of annual accounts	Annual Accounts are required to be adopted as per PSC provisions.
2013-14	Submission of Audited Accounts to Govt., without MC approval	Reasons for noncompliance need to be recorded.
2013-14	Statements	Reasons for noncompliance need to be recorded. Corrective action required.
2013-14	Disclosure of Significant Accounting Policy in financial Statement	Disclosure needs to be made as suggested.
2013-14	Internal Audit	Operator Needs to explain the exceptions raised by the auditor
2013-14	Time and cost allocation	Proper certificate need to be obtained giving proper reasoning for correctness of the procedure adopted for allocation of time & cost.
2013-14	Reconciliation between the	Reconciliation needs to be prepared.

	contractors	
2013-14	Minimum Work Program(MWP)	A note on MWP as suggested needs to be prepared.
2009-10&2010-11	Procurement of Goods and Services	Operator is required to explain the reasons for Noncompliance and indicate financial impact due to noncompliance.
2009-10&2010-11	Management Committee Meeting	Operator needs to explain the exception

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