

To  
Directorate General of Hydrocarbons  
(Under Ministry of Petroleum & Natural Gas)  
OIDB Bhawan, Plot No 2,  
Sector 73, Noida – 201 301 U.P.

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*27/11/2022*

**Sub : Auditors' Report of NELP Block ONGC/ CY-ONN-2002/2**  
**For The Years 2019-20**  
**Kind Attention : Mr. Om Prakash**

We have audited and inspected the accounting records of contractors on behalf of the Govt. of NELP Block CY-ONN-2002/2 operator ONGC for the years 2019-20 in terms of your appointment letter no. MM-12016/1/2020-DGH/C 5369/ENQ/194/ORD/693 dated 13.08.2021 and the scope of Audit given in Annexure IV(a) and appendices thereto attached with the appointment letter. Our responsibility is to express an opinion on the records produced before us based on our audit and to give definite recommendations on all audit exceptions such as disallowance of contract cost, re-computation of revenue or any other remedial measure.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit also includes an examination, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as overall presentation of statement. We believe that our Audit provide a reasonable basis, for our opinion .

On the basis of our audit and inspection carried out in terms of your appointment letter stated above and the scope of audit we report that:

In pursuance of Clause No. 24 of Annexure –IV (a) of the letter of appointment No. MM-12016/1/2020-DGH/C 5369/ENQ/194/ORD/693 dated 13.08.2021, a **Certificate is also appended** with this report.

Thanking you.

For **CHATTERJEE & Co.**  
Chartered Accountants  
FRN 302114E

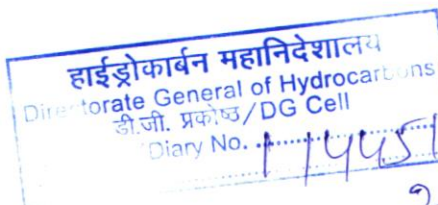
Dated: 22.11.2022  
Place: Kolkata

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*28/11/22*  
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(CA KEYA DEY)  
Partner

Membership No. 307323



**DIRECTORATE GENERAL OF HYDROCARBONS**

(Under Ministry of Petroleum & Natural Gas)

OIDB Bhawan, Plot No 2,  
Sector 73, Noida - 201 301 U.P

**Audit Report of  
ONGC- CY-ONN-2002/2  
FOR THE YEAR 2019-20.**

**CHATTERJEE & CO.  
CHARTERED ACCOUNTANTS**

153, Rash Behari Avenue  
3rd Floor  
Kolkata - 700 029.

PHONE: 4804 5129  
E-Mail : chatterjee.ca@rediffmail.com  
chatterjee.ca1955@gmail.com

**Exception Report**

**BLOCK: CY-ONN/2002/2**

BLOCK	Recommendation/ Suggestion
<b><u>CY-ONN/2002/2</u></b>	Approval of management committee regarding the methods of measurement of petroleum used by the contractor is required to be taken by the contractor. ( Refer to point number: 2(c) of our audit report.)
	Value of petroleum produced and sold including the government's share of profit petroleum and sales schedule and found that it has been prepared without taking into consideration the factor of Notional Tax. Matter to be looked into at the appropriate level. ( Refer to point number: 4(b) & 12 of our audit report.)
	Budget allocated for the cost of Setting up of CPE & Pipelines Projects under Development cost is less than actual expenditure reported which is required to be maintained within the budget. ( Refer to point number: 4(d) & 15 of our audit report.)
	It was observed that Notional Income tax was not considered while calculating Government and Contractor share of profit petroleum. Matter to be looked into at the appropriate level. ( Refer to point number: 4(f) of our audit report.)
	It was seen that while calculating Profit petroleum notional tax was not considered which has resulted into excess payment to contractor and Government. Matter to be looked into at the appropriate level. ( Refer to point number: 6 of our audit report.)
	DGH audit report for the F.Y 2018-19 was not available at the time of our visit. Hence we are not in a position to comment on 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. ( Refer to point number: 16(b) of our audit report.)
	Site Restoration Fund was opened on 02.09.2022. As the restoration fund account was opened after our visit in June 2022 we are unable to comment upon the funding to such account. ( Refer to point number: 18 of our audit report.)

For **CHATTERJEE & Co.**  
Chartered Accountants  
FRN 302114E

Dated: 22.11.2022  
Place: Kolkata



**(CA KEYA DEY)**  
Partner

Membership No. 307323  
UDIN: 22307323BDTJPU7763





## Annexure-IV (a)

**Scope of Govt.-Audit of PSCs**  
**CY-ONN-2002-2**  
**2019-20**

1		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 Production Sharing Contract (PSC) was made on 6<sup>th</sup> February, 2004, between:</p> <p>(1) Government of India (GOI)-1<sup>st</sup> Part,</p> <p>(2) Oil and Natural Gas Corporation Ltd and Operator -2<sup>nd</sup> Part; Participating Interest 60%</p> <p>(3) Bharat Petro Resources Ltd (BPRL)- Participating Interest 40%</p> <p>The Joint Operating Agreement was signed on 8<sup>th</sup> June, 2004.</p> <p>Contractor was maintaining proper books of Accounts in JV module in SAP system. It maintains computer generated books namely:</p> <ul style="list-style-type: none"> <li>- Bank Book,</li> <li>- Cash Book,</li> <li>- Journal,</li> <li>- General Ledger and</li> <li>- Fixed Assets Register;</li> </ul> <p>which covers all its transactions pertaining to the PSCs and reports of production statement, value of production &amp; pricing statement etc as required under section 4 to 12 of Accounting Procedure of PSC.</p>
2	(a)	Whether all Expenditures and Incomes have been accounted for accurately, as per PSC.	We have perused the system of keeping expenditure and also the incidental income arisen from sale of testing production and found that all are accounted for correctly.
	(b)	Whether validation of quantity of hydrocarbons produced and saved, sales and income has been done on accrual basis or not.	Yes, quantity of hydrocarbons produced and saved, sales and income has been done on accrual basis.
	(c)	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>The methods of measurement of petroleum used by the contractor were approved by the operating committee and material balancing of the quantity of petroleum has been reconciled. However, such approval from management committee was not made available to us.</p> <p>Management Reply: MC approval is awaited.</p>
	(d)	Whether investment multiple and profit petroleum to GOI has been calculated as per the provisions laid down in the PSC and is correct	Investment multiple and profit petroleum to GOI has been calculated as per the provisions laid down in the PSC.



	(e)	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.	The significant accounting policies adopted by contractor are in accordance with the requirements of PSC.
	(f)	Issues of internal control, fixed assets and fraud as per CARO 2003	On the basis of our examination, on test basis, together with Independent Auditor's Report dated 30.05.2020, in our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with size of the Joint Venture and the nature of its operations under the PSC with regard to the expenditure incurred / allocated and sale of petroleum. The block does not have any Fixed Assets of its own. No depreciation has been provided and charged to the JV. As informed to us no fraud has been reported or noticed during the year 2019-20.
		In case it is not so, the financial impact should be quantified against each and stated in audit exceptions.	
3		Whether all costs and expenditures have been classified into proper heads of expenditures as defined in the PSC namely Exploration, Development and Production.	All costs and expenditures have been classified into proper heads as defined in the PSC namely Exploration, Development and Production expenditures.
4		<b>Audit Report and Statement of Audited Accounts</b>	
		Auditor should validate inter-alia the following statements:	
	(a)	Statement of sources & utilization of funds along with its various schedules(Format-1)	We have perused the audited statements of accounts and found the statement of sources and utilization of funds along with its various schedule are as per Format-1.
	(b)	Value of petroleum produced and sold including the government's share of profit petroleum and sales schedule.	We have perused the Value of petroleum produced and sold including the government's share of profit petroleum and sales schedule and found that it has been prepared without taking into consideration the factor of Notional Tax. Management Reply: The Value of petroleum produced and sold including the government's share of profit petroleum have been prepared as per the PSC.



			The profit petroleum is calculated as per Appendix -D of the PSC. Tax impact is considered at JV-partner level and hence Tax impact is not considered for the block being an UJV.
	(c)	Valuation of petroleum as per PSC for crude oil/natural gas and condensate and financial impact in case of deviations.	The valuations of oil have been done as per PSC Norms.
	(d)	Extent of allowable and recoverable costs as per PSC (Format 2, 2A, 3A, 3B & 4)	<p>The expenses to the tune of US\$ 2,02,62,937 incurred during the year against budgeted USD 2,39,96,528 are allowable and recoverable cost as defined in section 3 of Accounting Procedures (format 2, 2A, 3 &amp; 4). However on scrutiny of Total item wise Expenditure we have observed as follows: 1) For budget allocated for the cost of Setting up of CPE &amp; Pipelines Projects under Development cost is USD 35,61,892 but actual expenditure reported was USD 37,03,208, which shows a variance of USD 141,316.</p> <p>Management Reply:</p> <p>There is a variance of 3.97% only. However, it is within 10%. This is due to increase in actual expenditure compare to the budgeted expenditure due to additional cost booking.</p>
	(e)	Calculation of Profit petroleum, as per PSC (Formate-5,5A)	Yes calculation of profit petroleum is as per PSC but it has not taken into consideration the amount of Notional Tax.
	(f)	Calculation of Notional Income tax, Investment Multiple/PTRR as applicable, as per PSC.	<p>We have perused the calculation of Notional Income tax, Investment Multiple/PTRR. However it was observed that Notional Income tax was not considered while calculating Government and Contractor share of profit petroleum.</p> <p>Management Reply:</p> <p>The calculation of profit petroleum is done as per the PSC.(Appendix-D) Tax impact is considered at JV-partner level and hence Tax impact is not considered for the block being an UJV.</p>
5		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 the maximum limits stipulated in PSC under Article "Recovery of Cost Petroleum"	The cost petroleum and profit petroleum taken by the contractor was in accordance with the allocation done by the management committee and the same is within the maximum limits stipulated in PSC under Article "Recovery of Cost Petroleum".
6		Whether the "Notional tax" considered by contractor while	The block has accumulated profit in the financial year 2019-20 whereas there was loss

		calculating the "Investment Multiple" / "PTRR" has been accurately determined as per Income Tax Act and PSC provisions. If not, notional tax liability and investment multiple / PTRR and impact on profit petroleum have to be worked out and stated in the audit exception.	<p>till 2018-19. Considering the figures of 2018-19 it can be said that Investment multiple was correctly calculated. However for financial year 2019-20 it was seen that while calculating Profit petroleum notional tax was not considered which has resulted into excess payment to contractor and Government.( Please Refer point 17.2.5 &amp; 17.10 of PSC)</p> <p>Considering Income Tax @ 30%, Surcharge @ 12% &amp; Cess @ 4% revised calculation of Profit Petroleum is stated below:</p> <table><tr><td><b>Profit Petroleum for the year</b></td><td><b>32,41,070.00</b></td></tr><tr><td><b>Less: Notional Tax</b></td><td><b>11,32,560.00</b></td></tr><tr><td><b>Profit Petroleum</b></td><td><b>21,08,510.00</b></td></tr><tr><td><b>GOI 10%</b></td><td><b>2,10,851.00</b></td></tr><tr><td><b>Contractor 90%</b></td><td><b>18,97,659.00</b></td></tr></table> <p>Management Reply: The calculation of profit petroleum is done as per the PSC. (Appendix-D) Tax impact is considered at JV-partner level and hence Tax impact is not considered for the block being an UJV.</p>	<b>Profit Petroleum for the year</b>	<b>32,41,070.00</b>	<b>Less: Notional Tax</b>	<b>11,32,560.00</b>	<b>Profit Petroleum</b>	<b>21,08,510.00</b>	<b>GOI 10%</b>	<b>2,10,851.00</b>	<b>Contractor 90%</b>	<b>18,97,659.00</b>
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<b>GOI 10%</b>	<b>2,10,851.00</b>												
<b>Contractor 90%</b>	<b>18,97,659.00</b>												
7		Auditor may check whether all the conditions in regard to all the Essentiality certificates issued for imports at concessional rates of Customs Duty were being fulfilled.	As informed to us no import was done for financial year 2019-20. Hence no essentiality certificate was issued.										
8		Whether the Joint venture is properly following the procedures as laid down in PSC with regard to procurement of materials and services. If not, deviations should be detailed.	The Operator has a well laid down policy on procurement of materials which is in consonance with the procedure laid down in JOA and PSC. On our test check, we found the company has adhered to the above mentioned policy.										
9		Whether there are cases of procurement from affiliates and others, other than at arm's length.	There were no cases of procurement from affiliates and others, other than at arm's length price.										
10		Whether the contractor has claimed cost recovery of items still lying in store/inventory and not consumed.	The contractor has not claimed for cost recovery of items still lying in store/inventory and not consumed.										
11		Whether the contractor has accounted expenditure	We have not come across any expenditure prohibited under section 3.2 of Accounting										



		prohibited under section 3.2 of Accounting Procedure of PSC.	Procedure of PSC charged to revenue.
12		Whether Royalty, Cess, License Fee, Profit Petroleum, PLP (in case of CBM block), and other statutory payments have been correctly determined and timely paid to the Government in line 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 excess / shortfall amount of Royalty, Cess etc.	<p>It was done accordingly for all the cases except Profit petroleum. For financial year 2019-20 it was seen that while calculating Profit petroleum notional tax was not considered which has resulted into excess payment to contractor and Government.</p> <p>Management Reply: The calculation of profit petroleum is done as per the PSC.(Appendix-D) Tax impact is considered at JV-partner level and hence Tax impact is not considered for the block being an UJV.</p>
13		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.	All assets (movable/ immovable) and inventory have been properly recorded, accounted for and maintained.
14		Whether the Overheads charged by the JV are reasonable, verifiable and devoid of any duplication, as per provisions of PSC. If not, details of deviations shall be indicated by the auditors along with recommendation.	Overheads charged to JV are in accordance with PSCs norms.
15		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	<p>The actual expenditure incurred by contractor is well within the approved Budget except on scrutiny of Total item wise Expenditure we have observed this for budget allocated for the cost of Setting up of CPE &amp; Pipelines Projects under Development cost is USD 35,61,892 but actual expenditure reported was USD 37,03,208, which shows a variance of USD 141,316.</p> <p>Management Reply: There is a variance of 3.97% only. However, it is within 10%.This is due to increase in actual expenditure compare to the budgeted</p>



		auditors with recommendation.	expenditure due to additional cost booking.
16	(a)	Whether contractor has carried out the satisfactory adjustment of observations raised by the Auditors appointed by the operator with approval of MC in the past.	Since there was no observation by the Statutory Auditors which required adjustment, hence no adjustment was carried out.
	(b)	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>DGH exception Report for financial year 2018-19 not available.</p> <p>Management Reply:</p> <p>DGH Exception report is attached herewith.</p> <p><u>Our view :</u></p> <p>DGH audit observations were not made available to us during our visit in June 2022. Hence we are not in a position to comment on such.</p>
17		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. Auditors should also suggest if any avoidable cost required adjustment due to such deviations.	There was no expatriate manpower and in case of national man power salary & compensation has been charged to Cost Petroleum as per contractor's standard personnel policy, as per provisions of PSC.
18		Whether contractor has created and funded Site Restoration Fund as per provisions of PSC and Govt. Site Restoration Fund Scheme 1999. Auditors should comment regarding adequacy of SRF as required in PSC & Schemes.	<p>Site Restoration Fund not maintained by the operator.</p> <p>Management's reply:</p> <p>Site restoration fund account(A/C No-41242628310) is opened on 02.09.2022</p> <p><u>Our view :</u></p> <p>As the restoration fund account was opened after our visit in June 2022 we are unable to comment upon the funding to such fund are done as per provisions of PSC and Govt. Site Restoration Fund Scheme 1999 or not.</p>
19		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>The contractor has 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> <p>The premium paid has been properly accounted for.</p>



		Whether the premium paid for joint insurance policies has been duly segregated and only premium which was related to the specific PSC is accounted as contract cost.	
20		Whether contractor has included the name of GOI as co-insured in all its" insurance policies and whether waiver of subrogation against GOI has been taken in all such policies.	Contractor has included the name of GOI as co-insured in its insurance policies and waiver of subrogation against GOI has been taken.
21		Whether, in the case of transfer of material from one block/ field to another block/ field, DGH"s prior approval has been obtained and whether the conditions stated by DGH in the permission of such transfer, have been fulfilled /adhered to. Auditors should also verify the transfers of costs of items & services transferred to / from the concerned blocks / operators.	During checking of the transactions we have not come across any transfer in or out of material from one block/field to another block/field during the audit period. Hence, the prior approval of DGH is not applicable.
22		Whether the contractor submitted the bank guarantees/performance guarantees as per provision of PSC.	The block has already completed exploration and development stage and production process is going on. Hence the Contractor do not have a bank guarantee.
23		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.	Yes, the audit for the period ending 31.03.2020 was done by an independent firm of Chartered Accountants whose appointment was approved by the Management Committee.
24		Auditor will be required to submit a certificate that the auditors have satisfied themselves regarding procurements having been made competitively as per the PSC provisions.	The procurement of materials and services are made by the operator –ONGC. As confirmed by the operator and also on our test check, we found the ONGC Ltd has adhered to the procedures as laid down in their own guidelines for procurement of materials and services. (Certificate is enclosed in Annexure-1)
25		Auditor is to check whether a separate bank account for each block is maintained by the Operator of the block. Auditor is required to examine this bank account transactions to ensure that al cash inflows and outflows are transacted through this	The Block maintains separate Bank Account for the block by the Operator.  We have observed that all transactions are routed through the said Bank Account.





		account and report accordingly in the audit report.	
26		Wherever Development Area Wise Accounting stipulated in PSC, the auditor should examine the development area wise correct allocation of expenditures in case of more than one Development Area in the block. The auditor should also examine and certify the correctness of the basis of Apportionment as well as quantum of common expenditure charged to all /development areas where there is more than one.	There is only one development area in the block. All cost related to the block is mapped with respective cost center of the block and cost is booked under the respective cost center. Costs related to wells are charged to Well WBS element.

This is the end of our present report.

For **CHATTERJEE & Co.**  
Chartered Accountants  
FRN 302114E

Date : 22.11.2022

Place : Kolkata

  
**(CA. Keya Dey)**  
Partner  
M. No. 307323  
UDIN : 22307323BDTJPU7763



**CERTIFICATION BY THE AUDITOR**

(IN PURSUANCE OF CLAUSE 24 OF ANNEXURE IV(a) of letter of appointment no. MM-12016/2020DGH/C-5369/ENQ-194/ORD-693 dated 13.08.2021)

**Block -CY-ONN-2002/2**

This is to certify that all procurement in connection with the petroleum operation of **CY-ONN-2002/2** in 2019-20 are made centrally by the corporate office / Head Office / Local Office of Oil & Natural Gas Corporation (ONGC) (Operator).

The policy of the operator for procurement of material ensures

- i) Better competitiveness vis a vis prescribed procedure under PSC provision
- ii) Vendor qualification criteria and technical bid evaluation criteria in PSC procedure is same and no downward deviation was noted .

Date : 22.11.2022  
Place : Kolkata

For **CHATTERJEE & Co.**  
Chartered Accountants  
FRN 302114E

**(CA. Keya Dey)**  
Partner

Membership No. 307323  
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