

**Name of Block:** KG-DWN-98/2  
**Name of Operator:** ONGC  
**Audit Period:** 2018-19

Sr No	Particulars	Auditors Remarks
1	Whether contractor is maintaining <b>proper books of accounts</b> for all its transactions pertaining to the PSCs and <b>reports of production statement, value of production &amp; pricing statement</b> etc as required under <b>section 4 to 12</b> of Accounting Procedure of PSC.	<p><b>1. It is further conveyed that Annual Accounts are approved till 2006-07 only.</b></p> <p>2. As per following notes to format 2 expenditures booked in Development and Pre Development category in earlier years has been transferred to Exploration Category.</p> <p>Note 1 to format 2 – An amount of USD 32952575.23 incurred during the period 2015-17 pertaining to Survey earlier booked under Development Head has been regrouped as Exploration Expenditure in current year.</p> <p>Note 2 to format 2 – An amount of USD 6868818.85 incurred during the period 2015-17 pertaining to Survey earlier booked under Pre Development Head has been regrouped as Exploration Expenditure in current year.</p> <p>In this regard we have asked for approval of MC for revision in budget of earlier years for which reclassification has been carried out.</p> <p>In this regard following is replied to us:</p> <p>As per PSC, expenses are classified under 3 heads only i.e. Exploration, Development and Production. There is no phase such as Pre Development.</p>

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		<p>Thus the amount shown under Predevelopment head has now been correctly reclassified under Exploration head. The FDP for block was approved in March 2016 and thus expenses incurred before FDP approval pertains to Exploration. The same has been correctly regrouped under Exploration head by transferring from development head.</p> <p>Only reclassification and regrouping of previous year expenditures have been done in current year for correct depiction. No changes have been made for current year figures. Hence, MC approval is not required for same. Further, the same has been depicted in DGH Statements and hence will be automatically taken care off once MC adopts the accounts of current year.</p> <p><b>Hence it is advised to draw attention of MC on this issue at the time of approval of Accounts of those years so that approval can encompass the same.</b></p> <p><b>3. 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.</b></p>
2	(a) Whether <b>all Expenditures and Incomes have been accounted for accurately</b> , as per PSC.	We have not come across any discrepancy in this regard.
	(b) Whether validation of <b>quantity of hydrocarbons produced and saved, sales and income</b> has been done on <b>accrual basis</b> or not.	Block has not achieved production stage hence not applicable.
	(c) Whether the <b>methods of measurement of petroleum used by the contractor were approved by the management committee</b> and whether <b>material balancing of the quantity of petroleum has been reconciled</b> .	Block has not achieved production stage hence not applicable.
	(d) Whether <b>investment multiple and profit petroleum to GOI</b> has been calculated as per the provisions laid down in	Block has not achieved production stage hence not applicable.

<p>the PSC and is correct. [Appendix D]</p> <p>(e) Whether significant <b>accounting policies</b> adopted by contractor are in <b>accordance with the requirements of PSC</b> such as for <b>foreign currency translation, fixed assets, inventories, etc.</b> [Appendix C Accounting procedure, 1.6]</p>	<p><b>1. Foreign currency translation:</b></p> <p>As per Accounting Policy note no 3.6 "Foreign Currency Transactions / Translation"</p> <ol style="list-style-type: none"> <li>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.</li> <li>Cost allocated to <u>NELP Blocks</u> 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.</li> </ol> <p>As per Clause 1.6.1 of Accounting Procedure-Production Sharing Contract, for conversion purpose between US dollars &amp; INR or any other currency, <b>the monthly average of daily mean of buying &amp; selling rates of exchange as quoted by State Bank of India</b> (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 case of any single non US dollars transaction <b>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</b> 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.</p> <p><b>We are of the view that transactions are converted on more accurate basis by the Operator / Contractor.</b></p>
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		<p>2. Operator does not maintain Fixed Assets / Inventory in Joint Venture Accounts.</p>																											
	(f) Issues of <b>internal control, fixed assets and fraud</b> as per CARO 2003	<p>We have not come across any material weakness in Internal Control.</p> <p>Operator does not maintain Fixed Assets / Inventory in Joint Venture Accounts.</p> <p>According to the information and explanations given to us, no fraud was reported or detected during the year</p>																											
3	Whether all costs and expenditures have been <b>classified</b> into proper heads of expenditures as defined in the PSC namely <b>Exploration, Development and Production.</b>	<p><b>We have not come across any discrepancy in this regard. However, it is noticed that Exploration cost is being recorded during 18-19 along with Development cost which might not be allowable till monetization as under:</b></p> <p><b>Our question:</b></p> <p><b>There is exploration cost other than reclassification pertaining to earlier years booked during the year 2018-19 as under:</b></p> <table border="1"> <thead> <tr> <th>Sr No</th><th>Particulars</th><th>Amount</th></tr> </thead> <tbody> <tr> <td>1.</td><td><b>G&amp;G</b></td><td><b>719,626</b></td></tr> <tr> <td>2.</td><td><b>PSDM Survey</b></td><td><b>81,896</b></td></tr> <tr> <td>3.</td><td><i>Indp. Estimation of Reserves - Robertson (UK) Ltd.,</i></td><td><i>1,094,187</i></td></tr> <tr> <td>4.</td><td><i>Cram Processing</i></td><td><i>422,423</i></td></tr> <tr> <td>5.</td><td><i>Marine Survey- NIO</i></td><td><i>852,305</i></td></tr> <tr> <td>6.</td><td><i>Geophysical Study by Vessel Jayadurga</i></td><td><i>63,694</i></td></tr> <tr> <td>7.</td><td><b>3D Interpretation</b></td><td><b>1,071,791</b></td></tr> <tr> <td>8.</td><td><b>Special Processing</b></td><td><b>2218</b></td></tr> </tbody> </table>	Sr No	Particulars	Amount	1.	<b>G&amp;G</b>	<b>719,626</b>	2.	<b>PSDM Survey</b>	<b>81,896</b>	3.	<i>Indp. Estimation of Reserves - Robertson (UK) Ltd.,</i>	<i>1,094,187</i>	4.	<i>Cram Processing</i>	<i>422,423</i>	5.	<i>Marine Survey- NIO</i>	<i>852,305</i>	6.	<i>Geophysical Study by Vessel Jayadurga</i>	<i>63,694</i>	7.	<b>3D Interpretation</b>	<b>1,071,791</b>	8.	<b>Special Processing</b>	<b>2218</b>
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	<p>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.</p> <p><b>Reply Received:</b></p> <p>Out of the given cost, item no 3 to 6 pertains to reclassification /regrouping of cost from Development to Exploration head.</p> <p>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 Geopic , Dehradun.</p> <p><b>Auditor's Comments:</b></p> <p>In this respect, we would like to refer GOI Policy order no <b>O-19025/10/2005-ONG-DV Dated 01.02.2013</b>, related to Exploration in Mining Lease Area after expiry of Exploration period stipulating as under:</p> <p>Government of India [GoI] has decided that <b>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.</b> The permission to explore in ML area will be according to following mechanism:</p> <p>The point no 1 of said order further provides that:</p> <p>“Cost of such exploration activities will be recoverable after a resultant discovery is proved commercially and techno</p>
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		<p>economically viable at <b>FDP stage</b>, in the manner stipulated below and the development plan is approved under the provisions of the PSC. <b>Such Exploration cost incurred till then will be recovered as provided in the PSC. Cost of any further 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</b>".</p> <p>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 <b>OM No O-19025/10/2005-ONG-D-V [Pt-IV] [FTS-23492] dated 24.10.2019</b> which, inter alia, states that <b>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</b>. It also states that the revenue from existing monetized discoveries in ML area shall not be adversely impacted.</p> <p><b>In view of above, following expenditure recorded during 2018-19 is not allowable:</b></p> <table border="1"> <thead> <tr> <th>Sr No</th><th>Particulars</th><th>Amount</th></tr> </thead> <tbody> <tr> <td>1.</td><td>G&amp;G</td><td>719,626</td></tr> <tr> <td>2.</td><td>PSDM Survey</td><td>81,896</td></tr> <tr> <td>3.</td><td>3D Interpretation</td><td>1,071,791</td></tr> <tr> <td>4.</td><td>Special Processing</td><td>2218</td></tr> <tr> <td></td><td><b>Total</b></td><td><b>1,875,531</b></td></tr> </tbody> </table>	Sr No	Particulars	Amount	1.	G&G	719,626	2.	PSDM Survey	81,896	3.	3D Interpretation	1,071,791	4.	Special Processing	2218		<b>Total</b>	<b>1,875,531</b>
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4	Auditor should <b>validate</b> inter-alia the following statements																			
	a) Statement of sources & utilization of funds along with its various schedules ( <b>Format-1</b> ).	We have not come across any discrepancy in this regard.																		
	b) <b>Value of petroleum produced and saved</b> including the <b>government's share</b> of profit petroleum and sales schedule.	Block has not achieved production stage hence not applicable.																		

	c) Extent of allowable and recoverable costs as per <b>PSC (format 2, 2A, 3 &amp;4).</b>	<b>1. Excess of expenditure over RE Budget for FY 2018-19:</b> <table><tr><th>Particulars</th><th>Budget</th><th>Actual</th><th>Difference</th></tr><tr><td>PEL Fees</td><td>118292</td><td>130464</td><td>12172</td></tr><tr><td>3D interpretation</td><td>0</td><td>1071791</td><td>1071791</td></tr><tr><td>Special Processing</td><td>0</td><td>2218</td><td>2218</td></tr><tr><td>Geophysical study by Vessel Jayadurga</td><td>0</td><td>63694</td><td>63694</td></tr><tr><td>Marine Survey-Nio</td><td>0</td><td>852305</td><td>852305</td></tr><tr><td>Indp Estimation of Reserves</td><td>0</td><td>1094187</td><td>1094187</td></tr><tr><td>Cram Processing</td><td>0</td><td>422423</td><td>422423</td></tr><tr><td>G &amp; G</td><td>0</td><td>719626</td><td>719626</td></tr><tr><td>G &amp; A- Exploration</td><td>1505277</td><td>3874097</td><td>2368820</td></tr></table> <p><b>Excess is subject to approval of MC at the time of approval of Annual Accounts.</b></p>	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
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	d) Calculation of Profit petroleum, as per PSC ( <b>Format-5,5A).</b>	Block has not achieved production stage hence not applicable.																																								
	e) Calculation of <b>Notional Income tax, Investment Multiple/PTRR</b> as applicable, as per PSC.	Block has not achieved production stage hence not applicable.																																								
5	Whether the <b>cost petroleum and profit petroleum taken by the contractor was in accordance with the allocation done by the management committee</b> and whether the cost petroleum is <b>within the maximum limits stipulated in PSC under Article “ Recovery of Cost Petroleum’</b>	Block has not achieved production stage hence not applicable.																																								
6	Whether the <b>“Notional tax”</b> considered by contractor while calculating the <b>“Investment Multiple” / “PTRR”</b> has been accurately determined <b>as per Income Tax Act and PSC provisions</b> . If not, notional tax liability and investment multiple / PTRR and impact on profit petroleum have to be	Block has not achieved production stage hence not applicable.																																								



	worked out and stated in the audit exception.	
7	Auditor may check whether all the <b>conditions in regard to all the Essentiality certificates issued for imports</b> at concessional rates of Customs Duty were being fulfilled.	Procurements of materials are centralized and as and when the materials are issued to the block, the same are accounted through debit advice. Hence, it is not possible to confirm this.
8	Whether the Joint venture is properly following the <b>procedures as laid down in PSC with regard to procurement of materials and services.</b> [Appendix F].	<i>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".</i>  <b>It is advised to Operator to follow up the matter and secure approval at the earliest.</b>
9	Whether there are cases of <b>procurement from affiliates and others, other than at arm's length.</b>	During the course of audit, we have not come across any cases of procurements from affiliates or others at other than at arm's length.
10	Whether the contractor has <b>claimed cost recovery of items still lying in store /inventory and not consumed.</b>	Procurements of materials are centralized and as and when the materials are issued to the block, the same are accounted through debit advice hence inventory is not maintained at Block level.
11	Whether the contractor has accounted <b>expenditure prohibited under section 3.2</b> of Accounting Procedure of PSC <b>Appendix C.</b>	We have not come across any such cases during the course of audit.
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.	We have not come across any discrepancy in this regard.
13	Whether <b>all assets</b> (movable/ immovable) <b>and inventory</b> have been properly <b>recorded, accounted for, maintained, reconciled and verified at reasonable intervals</b> and if any <b>discrepancy</b> found the same has been corrected. If not details	No fixed assets have been acquired and held in the block. The assets of operator (ONGC) are used for activities carried out in the block. The asset usage cost has been booked to the block accordingly.



	to be provided.	Procurements of materials are centralized and as and when the materials are issued to the block, the same are accounted through debit advice hence inventory is not maintained at Block level. Hence clause is not applicable.
14	Whether the <b>Overheads charged by the JV are reasonable, verifiable and devoid of any duplication</b> , as per provisions of PSC. If not, details of deviations shall be indicated by the auditor's along with recommendation.	Main Office Expenses are booked on the basis of Head Office Circular as per ONGC practice.
15	Whether the <b>actual expenditure</b> incurred by contractor is in pursuance to an <b>approved / reviewed work programmed budget</b> 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 <b>specific stipulations/points raised by the MC (if any) in regard to Budget have been taken care of</b> . If not, details shall be provided by the auditors with recommendation.	We have not come across any discrepancy in this regard.
16	(a) Whether contractor has carried out the <b>satisfactory adjustment</b> of observations raised by <b>the Auditors appointed by the operator</b> with approval of MC in the past.  (b) Compliance on satisfactory adjustment of <b>past audit exceptions</b> of audit reports of auditors appointed by Govt. / DGH by the operator <b>as directed by MOP&amp;NG /DGH</b> may be indicated by the audit firm by <b>giving definite Recommendations for either dropping the exception or pursuing it further</b> .	MC Appointed Auditors have not qualified their report.  MC Audit Exception compliance pending:  <b><u>Status of compliance of audit exceptions of earlier years is submitted in Annexure 1.</u></b>
17	Whether the <b>salary &amp; compensation</b> in respect of nationals and expatriate manpower has been charged to Cost Petroleum as <b>per contractor's standard personnel policy</b> , as per provisions of PSC. If not, deviations should be detailed by auditors. Auditors should also <b>suggest if any avoidable cost</b> required adjustment due to such deviations.	We have not come across any discrepancy in this regard during the course of Audit.
18	Whether contractor has <b>created and funded Site Restoration Fund</b> as per <b>provisions of PSC</b> and Govt. Site Restoration Fund Scheme 1999. Auditors should <b>comment regarding</b>	Block has not reached production phase.

	<b>adequacy of SRF as required in PSC &amp; Schemes.</b>	
19	Whether the contractor during the term of the contract, maintained and obtained <b>insurance coverage</b> for and in relation to petroleum operation for such amount and against such risks as are customarily or <b>prudently insured in the international petroleum industry</b> . Whether the premium paid for <b>joint insurance policies has been duly segregated and only premium which was related to the specific PSC is accounted as contract cost.</b>	We have not come across any discrepancy in this regard during the course of Audit.
20	Whether contractor has included the <b>name of GOI as co-insured</b> in all its' insurance policies and whether waiver of <b>subrogation against GOI has been taken in all such policies.</b>	Yes.
21	Whether, in the case of <b>transfer of material from one block/field to another block/field, DGH's prior approval has been obtained</b> and whether the <b>conditions stated by DGH in the permission of such transfer</b> , have been fulfilled /adhered to. Auditors should also <b>verify the transfers of costs of items &amp; services transferred to / from the concerned blocks / operators.</b>	We were informed that since Centralized Procurement of materials & services for NELP blocks is being carried out in ONGC and no procurement is being made in the NELP Block separately hence not applicable.
22	Whether the contractor <b>submitted the bank guarantees/performance guarantees as per provision of PSC.</b>	We have not come across any discrepancy in this regard during the course of Audit.
23	Whether <b>annual audit</b> of accounts was carried out on behalf of the contractor by an <b>independent firm of chartered accountants whose appointment was approved by the Management Committee.</b>	We have not come across any discrepancy in this regard.
24	Auditor will be required to submit certificate that Auditors have satisfied themselves regarding procurements having been made competitively as per the PSC provisions.	<b>As per our remark against point no 8.</b>
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 all cash inflows and outflows are transacted through this account and report accordingly in the audit report.	Yes

26	Wherever Development Area Wise Accounting has been stipulated in PSC, the Auditor should examine the development area wise correct allocation of expenditure 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.	PSC in Article 16.1 provides for computation on the basis of Contract Area.
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**For Ashok Chhajed& Associates**  
**Chartered Accountant**  
**FRN: 100641W**

**Partner**  
**Naresh Bahroo**  
**MN: 117743**  
**Date: 21.10.2021**  
**Place: Ahmadabad**  
**UDIN: 21117743AAAACK3254**

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