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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
CY-ONN-2002-2
FOR THE YEAR 2014 - 15**

**CHATTERJEE & CO.
CHARTERED ACCOUNTANTS**

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

**Sub : Auditor Report of NELP Block CY-ONN-2002-2,
For The Years 2014-15
Kind Attention : Mr. Rupam Barua**

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 2014-15 in terms of your appointment letter no. DGH/MM-12016/2/2016-DGH/ENQ-037/ORD-168 dated 24.10.2016 and the scope of Audit given in Annexure A(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 – A(a) of the letter of appointment No.MM-12016/2/2016-DGH/ENQ-037/ORD-168 dated 24.10.2016, a **Certificate is also appended** with this report.

Thanking you.

Date : 31.07.2017
Place : Kolkata

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




(A.K. Basu)
Partner
M. No. 051104

Annexure-A (a)

Scope of Govt.-Audit of PSCs

CY-ONN-2002/2

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.	The contractor is maintaining all the records in JV module in SAP system where all the expenses relating to JV can be verified.
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.	The block has made extended production testing but yet to make commercial production and the sale proceeds net of levies shown as incidental income. All these entries were made 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.	Since the Block is yet to make commercial production, hence the measurement of Petroleum is not required. However for testing production the quantity of petroleum is reconciled considering handling loss of 1%.
	(d)	Whether investment multiple and profit petroleum to GOI has been calculated as per the provisions laid down in the PSC and is correct	Since the Block is yet to make commercial production, hence this clause is not applicable.
	(e)	Whether significant	We observed that the significant accounting

		accounting policies adopted by contractor are in accordance with the requirements of PSC such as for foreign currency translation, fixed assets, inventories, etc.	policies adopted by the JV 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 of the books and records of the NELP block (CY-ONN-2002/2) and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weakness in the aforesaid internal control system. The JVC does not have any fixed asset in its own. Fixed assets are in the books of the Operator and the charges for the usage of such assets are booked to the JVC on cost basis of the services rendered. As inform to us no fraud was detected during the year 2014-15.
		In case it is not so, the financial impact should be quantified against each and stated in audit exceptions.	Not Applicable.
3		Whether all costs and expenditures have been classified into proper heads of expenditures as defined in the PSC namely Exploration, Development and Production.	The project is under Exploration stage as such, all the expenses have been booked and classified under Exploration Expenditure.
4		Audit Report and Statement of Audited Accounts	
		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.	Since the Block is yet to make commercial production, hence this clause is not applicable.
	(c)	Valuation of petroleum as per PSC for crude oil/natural gas and condensate and financial impact in case of deviations.	Since the Block is yet to make commercial production, hence this clause is not generally applicable. However the valuation of crude oil sold during testing period is in compliance with PSC provisions.
	(d)	Extent of allowable and recoverable costs as defined in section 3 of Accounting Procedures (format 2, 2A, 3 &4)	The expenses to the tune of USD 14583927 are allowable and recoverable costs as defined in section 3 of Accounting Procedures (format 2, 2A, 3 &4).
	(e)	Calculation of Profit petroleum, as per PSC (Formate-5,5A)	Since the Block is yet to make commercial production, hence this clause is not applicable.
	(f)	Calculation of Notional Income tax, Investment Multiple/PTRR as applicable, as per PSC.	Since the Block is yet to make commercial production, hence this clause is not applicable.
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"	Since the Block is yet to make commercial production, hence this clause is not applicable.
6		Whether the "Notional tax" considered by contractor while calculating the "Investment Multiple" / "PTRR" has been accurately determined as per Income Tax Act and PSC provisions. If not,	Since the Block is yet to make commercial production, hence this clause is not applicable.

	notional tax liability and investment multiple / PTRR and impact on profit petroleum have to be worked out and stated in the audit exception.	
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.	The essentiality certificates have not been provided to us hence we are unable to comment in this matter. (1)
8	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.	The Operator (ONGC) has a well laid down policy on procurement of materials. The Operator made import and local purchase in bulk as per requirements of different blocks under it, as per procurement policy of the Operator (ONGC). Though it is not strictly as per procedures of PSC yet it is more elaborate and transparent compared to the procedures prescribed in the PSC for acquisition of goods and services. (2)
9	Whether there are cases of procurement from affiliates and others, other than at arm's length.	No record is available for procurement from affiliates and others, at arm's length price. However, management certified that they have procured materials and others from ONGC, the Operator, at cost and no profit element is included therein.
10	Whether the contractor has claimed cost recovery of items still lying in store/inventory and not consumed.	The contractor does not hold any stock in its book and only the actual inventory consumed out of the inventories supplied by Parent Company ONGC, has been booked and claimed as cost recovery.
11	Whether the contractor has accounted expenditure prohibited under section 3.2 of Accounting Procedure of PSC.	During our verification we have not come across any expenditure prohibited under section 3.2 of Accounting Procedure of PSC charge to revenue.

12	<p>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>	<p>Since the block has not gone to commercial production stage</p> <p>a) Profit Petroleum is not applicable in 2014-15.</p> <p>b) As it is a NELP block, so payment of cess is exempted.</p> <p>c) Though there was no commercial production yet the block has made royalty payments as it has made initial PML application in November 2014 and netted off from Sales value and shown as Incidental income in accounts.</p> <p>The value of the same was determined correctly and payments were made in time as per PSC provisions except there was a delay in payment of Royalty for November 2014, which is due to rate difference amounting to Rs. 82552/- payable by 31.12.2014 and paid on 28.01.2015.</p> <p>d) License fees are applicable and timely paid.</p>
13	<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>The JVC does not have any fixed asset and inventories in its own. Fixed assets and inventories are in the books of the parent company (ONGC) and the charges for the usage of such assets are booked to the JVC on cost basis of the services rendered and inventories are booked on the basis of actual consumption. As there are no fixed assets and inventories in the books of the JV hence the question of physical verification and reconciliation does not arise.</p>
14	<p>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</p>	<p>Overheads charged to the JV consist of main office expenditure amounting to USD 435834 which comes to 3.08% of total cost excluding this cost which is as per norms of ONGC and is in tune with section 2.6.1 of Accounting Procedure of PSC.</p>



		alongwith recommendation.																	
15		<p>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.</p>	<p>The expenditure during the year was above the budgeted estimates. The budgeted estimate was USD 6951780 and the actual expenditure was USD 14583927. However the OC has approved a revised estimate of USD 15794097 which is under MC Review. The MC subsequently approved the actual expenditure of USD 14583927 in its 50th MC meeting for NELP-IV block. Though the actual expenditure is within the revised estimates, yet there are some variations in the following heads:</p> <table border="1"> <thead> <tr> <th>Description</th><th>Budget USD</th><th>Actual USD</th><th>Variance USD</th></tr> </thead> <tbody> <tr> <td>Geological & Geophysical Support</td><td>253100</td><td>284453</td><td>31353</td></tr> <tr> <td>Seismic Spl Processing-3D</td><td>103000</td><td>188147</td><td>85147</td></tr> <tr> <td>Project Management & Interpretation-3D</td><td>281735</td><td>315510</td><td>33775</td></tr> </tbody> </table> <p>Management's Reply : Additional work carried out on PSDM studied based on new appraisal discoveries, hence increase in cost of special processing.</p> <p>G&G Studies & Interpretation cost are based on actual time writing for the activities of the block . However it marginally increased over budget estimates.</p> <p><u>Our Observation:</u> In view of Management's reply this point may be dropped.</p>	Description	Budget USD	Actual USD	Variance USD	Geological & Geophysical Support	253100	284453	31353	Seismic Spl Processing-3D	103000	188147	85147	Project Management & Interpretation-3D	281735	315510	33775
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16	(a)	Whether contractor has carried out the satisfactory adjustment of observations	There were no adverse observations having financial impact have been given by the Auditors appointed by the operator.																

		raised by the Auditors appointed by the operator with approval of MC in the past.	
	(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.	Not applicable.
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.	Provision for abandonment to the extent USD 46486.37 was created but no fund was created as the block is in exploration stage and commercial production has not yet started.
19		Whether the contractor during the term of the contract, maintained and	A comprehensive insurance policy covering all the NELP blocks have been taken by ONGC centrally at Corporate level covering a period

	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. 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.	of Insurance from 15.03.2014 to 14.03.2015 and are allocated to the blocks.
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 with waiver of subrogation against GOI.
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.	Since the Block has completed Minimum Work Programme, hence no bank guarantees/performance guarantees as per provision of PSC(article 29.2) is required.
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 31.03.2015 was done by an independent firm of chartered accountants whose appointment was approved by the Management Committee.
24	Certification regarding procurement of material	:enclosed

This is the end of our present report.

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

Date :31.07.2017
Place : Kolkata



lem
(A.K. Basu)
Partner
M. No. 051104

CERTIFICATION BY THE AUDITOR

(IN PURSUANCE OF CLAUSE NO. 24 OF ANNEXURE-A(a) OF THE LETTER OF APPOINTMENT
NO. MM-12016/2/2016-DGH/ENQ-037/ORD-168 dated 24.10.2016)


BLOCK – CY-ONN-2002/2

This is to certify that all the procurements, in connection with the petroleum operation of **BLOCK – CY-ONN-2002/2** is made centrally by the Corporate Office/Head Office/Unit level of ONGC (the operator). The operator has a well laid down policy on procurement of materials which is consonance with the procedure laid down in JOA and PSC and in some considerations like e-tendering is more elaborate and transparent as compared to prescribed procedure in PSC for acquisition of goods and services.

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

Date : 31.07.2017
Place : Kolkata




(A.K. Basu)
Partner
M. No. 051104