



**PAMS & ASSOCIATES**  
**CHARTERED ACCOUNTANTS**

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30<sup>th</sup> May, 2017

The Director General  
Directorate General of Hydrocarbons  
(Under Ministry of Petroleum & Natural Gas)  
OIDB Bhawan, Plot no.-2  
Sector-73, Noida

**Kind Attention:** L K CHAWALA (Manager, Contract Finance)

**Subject:** Submission of Audit Report for the Financial Year 2014-15 of KG-DWN-98/2

**Operated by:** Oil and Natural Gas Corporation Limited.

Dear Sir,

We refer to DGH letter no DGH/MM/12016/2/2016-DGH/ENQ-037/ORD-169 dated 24<sup>th</sup> October 2016 from Manager (CF) for conducting audit of the above mentioned block.

We have conducted the as per the mandate given to us in accordance with the provisions of clause 25.5 of the Productions Sharing Contracts (PSC) dated 2<sup>nd</sup> March 2007 under which the said block is awarded to the auditee. The period of audit covered is Financial Year 2013-14.

We enclose herewith our Audit report (Two sets). The soft copy of the report is separately mailed to you. Also enclosed herewith our bill for Audit Fee for above block under reference 019/May/2017-18 for Rs 93,266. We request for early release of first tranche of 75%, and balance 25% payment against this bill may be released as per terms of payment of the contract in due course.

Thanking you

For PAMS & Associates  
Chartered Accountants



Sudhir Kumar Dash

Partner

HOD (CF), Dh

*[Signature]*  
30/07/2017

40787/2017/Dr-cell (72)  
31/7/2017



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## INTRODUCTION

### **Status of Block ::**

Block Name	KG-DWN-98/2
Round	NELP - I
Operator	Oil & Natural Gas Corp. Ltd.
Consortium	ONGC-100%
Status	ACTIVE
Basin	KRISHNA-GODAVARI
State	CHENNAI
Date of Signing	12-April-2000
Effective Date	25 <sup>th</sup> -Sept-2000
Initial Area	7294.6km <sup>2</sup>
Present Area	7294.6km <sup>2</sup>
Relinquished Area	NIL

### **Minimum Work Program:**

### **Work Done:**

**As on 31-March-2013**

ONGC (operator) Board in its 26<sup>th</sup> board meeting approved acquisition of 10% participating interest of Crain Energy Limited (CEIL) in the Block KG-DWN 98/2. Accordingly a heads of Agreement (HOA) was signed Between ONGC&CEIL on 11.01.2012. The effective date of transfer OF PI will be the date of government approval .the government has approved the assignment on 27.09.2012.

All joint operations under this agreement are conducted by the operator, OIL & Natural Gas Corporation Limited and the Participating Interest Of the joint Venture Partners is as follows as on 31.03.2015

COMPANY	PARTICIPATING INTEREST
OIL AND NATURAL GAS CORPORATION LIMITED (ONGC)	100%





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**OBSERVATION FOR THE FINANCIAL YEAR 2014-15**

SL. NO.	AREAS COVERED	OBSERVATION
1.0	<b>Accounting Procedure</b>	
	As per Section 1.4.1 of Appendix C of the PSC, the contractors are required to submit to the Government of India (GOI) a proposed outline of chart of accounts, operating records and reports within 90 days from the effective date (Effective date: 25th-Sept-2000 i.e., Petroleum Exploration License issued date).	<p><b><u>Audit Exception</u></b></p> <p><i>The operator has not submitted the chart of accounts to GOI within specified time as per PSC.</i></p>
	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 Operator has maintained all proper book of accounts for all its transaction pertaining to PSC in the On-Line SAP system.</p> <p>We have verified the transaction and other expenses allocated to the block. As per management the basis on which such cost has been allocated i.e. cost driver like man days, time writings, rig working days, are being verified as per their internal routine system.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
	Whether all costs and expenditures have been classified into proper heads of expenditures as defined in the PSC namely Exploration, Development and Production.	<p>During the Financial year 2014-15, All the costs has been appropriately classified as defined in the Accounting Procedures, Section 2 of PSC.</p> <p>General &amp; Administrative Costs have been allocated to Exploration Costs.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
2.0	<b>Whether all Expenditures and Incomes have been accounted for accurately, as per PSC.</b>	<p>There is no income pertaining to the block (other than interest on PEL deposits) as production has not commenced yet.</p> <p>All G&amp;A Costs, G&amp;G Costs And Exploratory Drilling Costs which are block specific and identifiable are</p>





		<p>charged directly to the blocks books and in other cases the costs are allocated from ONGC Corporate books to the Block on the basis of actual Physical parameters. Further balance cost of G&amp;A And G&amp;G are allocated to all the active blocks equally.</p> <p>Main office expenses and manpower related expenses are charged to the blocks as per Article 2.6.1 of appendix C to the production shearing contract through the circular issued by corporate account section, Dehradun provisionally for the year under report and adjusted for actuals in the subsequent year.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
3.0	<b>Currency Exchange Rates</b>	
	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.	<p>The System keeps the records of all assets, liabilities, incomes &amp; expenditures individually in respect of the blocks. As per the provisions of PSC, all the transactions are maintained in dual currency.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
	Whether, for conversion purposes between United States Dollars and Indian Rupees or any other currency, the Reserve Bank of India Reference Rate of Exchange for the transaction day on which the revenues, costs expenditure, receipts or income are recorded, was used	<p>In compliance of the clause 1.6 of Appendix C of PSC by the operator, SBI exchange rates were followed for conversion of the rates.</p> <p>The exchange rates are all maintained in the online system by ONGC, Mumbai.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
	<b>Work Programme &amp; Budget</b>	
	Whether the actual expenditure incurred by contractor is in pursuance to an approved/ reviewed	<p>For the FY 2014-15, Revised work program and Budget BE was submitted on 12.02.2015 (ref: KG-DWN/98/2(1)/MCR-40/WP&amp;B/2014-15AND WP &amp; Budget RE for FY 2014-15</p>



	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 auditorswith recommendation.	<p>were submitted on 19.02.2015(ref: KG-DWN/98/2(1))and same was taken for review by management committee in 40<sup>th</sup> management Committee Meeting dated 29/11/2014 amounting to USD 296,756,636.</p> <p><b><u>Audit Exceptions</u></b></p> <p>Re structured exploration is expired on 29.12.2013 and operator is approved by Mop and NG for grant of further force majeure the exploration period again expired on 25.01.2014,</p> <p>Cost recovery entitlement of exploration entitlement will not arise due to the following reason.</p> <ol style="list-style-type: none"> <li>1. Operator has done exploration activity which was also disallowed in BE 2014-15.</li> <li>2. The exploration activity were done after 29.12.2013 and prior to the date of date the MOP &amp; NG policy dated 10.11.2014</li> <li>3. Pre-Development activities may be considered if they fall under appraisal activities as per the submitted MOP&amp; NG.</li> <li>4. The original MWP should be submitted to steering committee 90 days prior the commencement of FY the same has been approved by MC on 19<sup>th</sup> Feb 2015</li> </ol>
4.0	<b>Measurement of Petroleum</b>	
	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>During the Financial year 2014-15 Block was under Exploration phase.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
5.0	<b>Recovery of Cost Petroleum</b>	
	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"	<p>During the Financial year 2014-15 Block was under Exploration phase.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>



6.0	<b>Overheads Charged by JV.</b>	
	Whether the Overheads charged by the JV are reasonable, verifiable and devoid of any duplication, as per provisions of PSC.	<p>The Accounting policies practised ensure that the Overheads charged by the JV are reasonable, verifiable and devoid of any duplication in conformity with the provisions of PSC (Section 2.6 of Appendix C of PSC). The provision rate considered for charging main office expenses is 3.19% of the recoverable expenses for the year 2014-15.</p> <p>During the current year ONGC revised the rate for charging main office expenses for the year 2014-15 from 3.93% to 3.19% and consequently the differential adjustment has been in main office expenses during the year.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
7.0	<b>Domestic Supply, Sale, Disposal and Export of Crude Oil and Condensate</b>	
	Whether contractor followed the PSC provisions concern in gas supply, sale, disposal of crude oil, condensate and natural gas.	<p>During the Financial year 2014-15 Block was in Exploration phase.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
	Whether the agreement for sale of oil and gas had been entered into by the JV with the buyer as per the terms of the PSC.	<p>During the Financial year 2014-15 Block was under Exploration phase.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>
8.0	<b>Valuation of Petroleum</b>	
	Valuation of petroleum as per PSC for crude oil/natural gas and condensate and financial impact in case of deviations.	<p>During the Financial year 2014-15 Block was under Exploration phase.</p> <p><i>No adverse compliance is reportable under this section by us during the period covered under audit.</i></p>

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9.0	<b>Insurance and Indemnification.</b>	
	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.	On verification of Records & stated by the operator, they have obtained Insurance for all well except well namely
10.0	<b>Records, Accounts and Audit, Appointment of Auditors.</b>	
	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.	For the FY 2014-15, M/S Padmanabhan Ramani & Ramanujam chartered accountant was appointed on operating committee meeting dated 10.07.2015 and same was approved in 47 <sup>th</sup> Management Committee Meeting dated 28/03/2015.  <i>No adverse compliance is reportable under this section by us during the period covered under audit.</i>
	Whether the contractor submitted the audited accounts to the Management Committee for the approval within the prescribed timelines.	For the FY 2013-14, Audited Accounts of USD Revised Budget Estimated of USD 296,756,636 was submitted on 29/05/2015 vide letter no ONGC/SS/NELP/AUDIT ACCOUNT/2014-15 and same is approved in by management committee meeting.  <i>No adverse compliance is reportable under this section by us during the period covered under audit.</i>
11.0	<b>Guarantees</b>	
	Whether the contractor submitted the bank guarantees / performance guarantees as per provision of PSC.	For the FY 2014-15, the BG has been submitted to DGH As per PSC  <i>No adverse compliance is reportable under this clause by us during the period covered under audit.</i>
12.0	<b>Assets &amp; Inventory</b>	
	Whether all assets (movable/immovable) and inventory	On Verification of documents and as stated by the operator, the block does not hold any inventory in its





	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.	book.  <i>No adverse compliance is reportable under this clause by us during the period covered under audit.</i>
	Whether the Contractor has claimed cost recovery of items still lying in store / inventory and not consumed.	The inventories which are lying in store has not been claimed as cost recovery.  <i>No adverse compliance is reportable under this clause by us during the period covered under audit.</i>
13.0	<b>Cost Recovery</b>	
	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 auditorswith recommendation.	<i>No adverse compliance is reportable under this clause by us during the period covered under audit.</i>
14.0	Whether the share of Profit Petroleum (Production level payment in case of CBM blocks) to Government has been properly determined and paid as per the provisions of PSC. If incorrect figures are calculated by the operator, correct figures shall be stated by the auditors.	Not Applicable
15.0	Whether all the conditions in the Essentiality certificates for imports at concessional rates of Customs Duty were being fulfilled.	<i>No adverse compliance is reportable under this clause by us during the period covered under audit.</i>
16.0	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	<i>No adverse compliance is reportable under this clause by us during the period covered under audit.</i>



	should be detailed. Cases of procurement from affiliates and other than at arm's length should be commented on.	
17.0	Whether Royalty, Cess, License Fee, Profit Petroleum 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 access / shortfall amount of Royalty, Cess etc.	<i>No adverse compliance is reportable under this clause by us during the period covered under audit.</i>
18.0	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.	On verification of documents and as stated by the operator the ONGC follows duly approved DPE guidelines for remuneration to officers and for unionized category the corporation enters into an agreement with the union for pay and perks. The same is allocated to the block on actual usage.  <i>No adverse compliance is reportable under this section by us during the period covered under audit.</i>
19.0	Site Restoration Fund	Site Restoration Fund has not been created by the operator as the block was still under Exploration phase and block is under category of offshore block.  <i>No adverse compliance is reportable under this section by us during the period covered under audit.</i>

20.0	Whether, in the case of transfer of material from one block to another block/ field, the conditions stated by DGH in the permission of such transfer, have been fulfilled /adhered to.	As stated by the operator, there was no transfer of material from one block to another.  <i>No adverse compliance is reportable under this section by us during the period covered under audit.</i>
21.0	Compliance of Section 10 of Appendix C of PSC provisions: As per Section 10 of Appendix C of PSC the operator shall submit a local procurement statement to the Government within 60 days after the end of each financial year.	For the FY 2014-15 the Local Procurement Statement was submitted on the 29 <sup>th</sup> may 2015 which was within the stipulated time as per the PSC.  <u><i>Audit Exception.</i></u>  <i>No adverse compliance is reportable under this section by us during the period covered under audit</i>
22.0	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.	It was informed by the Operator that they have not yet received the final audit para from DGH for the block with specific recommendation for adjustments, if any. Hence the same could not be provided.
23.0	Further reporting as per PSC:	
	Production statement. (Section 5)	During the period covered under Audit, the Block was under Exploration Phase, Hence compliance of section 5 of PSC was not required.  <i>No adverse compliance is reportable under this section by us during the period covered under audit.</i>
	Value of production and Pricing Statement.(Section 6)	During the period covered under Audit, the Block was under Exploration Phase, Hence compliance of section 5 of PSC was not required.  <i>No adverse compliance is reportable under this section by us during the period covered under audit.</i>

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<p><b>Statement of cost, expenditure and Receipts (Section 7)</b></p> <p>The contractor shall prepare with respect to each quarter a statement of cost, expenditures and receipts under the contract. The statement of each quarter should be submitted to government not later than thirty (30) days after the end of each such quarter.</p>	<p><b><u>Audit Exception.</u></b></p> <p><i>On our verification of documents and as stated by the Operator, the operator does not possess the acknowledged copy of the statement.</i></p>
<p><b>Cost recovery Statement (Section 8)</b></p> <p>The Contractor shall prepare with respect to each calendar Quarter a cost recovery statement for each development area. The cost recovery statement for each quarter should be submitted to Government not later than thirty (30) days after the end of such quarter.</p>	<p><b><u>Audit Exception.</u></b></p> <p><i>On our verification of documents and as stated by the Operator, the operator does not possess the acknowledged copy of the statement.</i></p>
<p>24.0 <b>Procurement for acquisition of Goods &amp; Services as per Appendix F of PSC</b></p>	
<p>Whether contractor is maintaining proper books of accounts for all its transactions pertaining to the PSCs</p> <p>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.</p>	<p><b><u>Audit Exception</u></b></p> <ol style="list-style-type: none"> <li>1) <i>The operator (ONGC) procure materials &amp; equipment on behalf of all the blocks under the companies operatorship and these are used and/or consumed for carrying out the work programme of the venture.</i></li> <li>2) <i>For services related expenditure on drilling and seismic acquisition, ONGC awards and executes centralised, umbrella contracts encompassing a large number of blocks operated by ONGC. The originating debits are captured in the JV books through service entry sheets as explained above.</i></li> </ol>

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25	Studying and assessing the operation of internal controls	<u>Audit Exception</u> <p>1) <i>Time writing Procedures -</i>  <i>Most of the expenses under the block are allocated from the Head office, Regional office or from basin level expenses. These expenses are mostly allocated on the basis of cost driver i.e. time writing of technical team (this time writing is once approved is considered as final and no cross check, Tracking, Audit of this time writing could be possible).</i>  <i>In fact the technical team give only the specific time allocated on the project i.e. only 35% to 50%. The unspecified time or leave period are allocated on the basis of specific time writing.</i>  <i>This allocation ratio is also used for allocation of management team cost, support team cost and other administrative cost.</i>  <i>We found a material weaknesses in the system of internal control in respect of allocation of cost as costs are not allocated on systematic procedure.</i></p> <p>2) <i>Inventory control -</i>  <i>As per management, all inventories are booked at corporate books of ONGC.</i>  <i>But ONGC at corporate level does not verify inventory at block site or well site. This raise a serious doubt whether the inventory lying in the block are shown as consumption without actual consumption as per PSC.</i></p>
26	Service tax compliance	<u>Audit Exception</u> <p><i>Services tax on the cost of in-house services provided by the operator to the block has not been recognized during the current financial year with retrospective effect. Attention shall be drawn to Circular No. 179/5/2014-ST dated 24th September, 2014 which states that JV and the members of the JV are treated as distinct persons and therefore, taxable services provided for consideration, by the JV to its members or vice versa and between the members of the JV are taxable.</i></p>

**ACKNOWLEDGMENT**

We are thankful to the company officials for the co-operation extended to us during the course of our audit work.





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Thanking you,  
New Delhi  
For PWS & Associates  
Chartered Accountants

Sudhir Kumar Dash  
Partner

