

ASHOK CHHAJED
& ASSOCIATES

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To,
Senior Advisor [C F],
Director General of Hydrocarbons,
OIDB Bhavan,
Plot No 2,
Sector 73,
Noida – 201301.

25.03.2019

Sub: Audit for period from FY 2016-17 to 2017-18.

Ref: Your letter No MM-12016/2/2018-DGH/C-3727/ENQ-119/ORD/397
dated 08.11.2018 for **Exploration Blocks under PSC & CBM Blocks.**

Dear Sir,

It is in reference to above, we have been appointed to carry out the Audit of Blocks on behalf of DGH for period from FY 2016-17 to 2017-18. We are sending herewith 2 copies of reports of following blocks

Sr No	Name of Block	Operator	Period
1	KG-DWN-98/2	Oil & Natural Gas Corporation Ltd	2016-17
	KG-DWN-98/2	Oil & Natural Gas Corporation Ltd	2017-18
2	KG-OSN-2009/2	Oil & Natural Gas Corporation Ltd	2016-17
	KG-OSN-2009/2	Oil & Natural Gas Corporation Ltd	2017-18
3	KG-OSN-2009/4	Oil & Natural Gas Corporation Ltd	2016-17
	KG-OSN-2009/4	Oil & Natural Gas Corporation Ltd	2017-18

89065/2019
कार्बन म्हानिदेशालय
Director General of Hydrocarbons
डी.जी. प्रकाश, DG Cell
श्री. से. / Diary No. 29/3/19
Date 29/3/19
HOD(CF), Ph



4	KG-OSN-2004/1	Oil & Natural Gas Corporation Ltd	2016-17
	KG-OSN-2004/1	Oil & Natural Gas Corporation Ltd	2017-18
5	CY-ONN-2004/2	Oil & Natural Gas Corporation Ltd	2016-17
	CY-ONN-2004/2	Oil & Natural Gas Corporation Ltd	2017-18
6	KG-ONN-2004/1	Oil India Ltd	2016-17
	KG-ONN-2004/1	Oil India Ltd	2017-18

We trust that you will find above reports in order. It will be our pleasure to submit any other details in this respect.

Thanking you,
Yours faithfully,

For Ashok Chhajed & Associates
Chartered Accountants

FRN: 100641W

Partner

Naresh Bahroo

MN:117743



Enclosed:

1. Two sets of reports of the Blocks.
2. DVD Containing soft copies of the Blocks.

Name of Block: KG-DWN-98/2

Name of Operator: ONGC

Audit Period: 2016-17

Sr No	Particulars	Auditors Remarks
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.	Yes, There is non submission of Quarterly reports of Ist Quarter for the year 2016-17. <i>It is conveyed to us that generally all reports are being submitted this was as a result of Ind As implementation which is noted for future.</i> It is further conveyed that Annual Accounts are approved till 2006-07.
2	(a) Whether all Expenditures and Incomes have been accounted for accurately , as per PSC.	Yes.
	(b) Whether validation of quantity of hydrocarbons produced and saved, sales and income has been done on accrual basis or not.	Block has not achieved production stage hence not applicable.
	(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 .	Block has not achieved production stage hence not applicable.
	(d) Whether investment multiple and profit petroleum to GOI has been calculated as per the provisions laid down in the PSC and is correct. [Appendix D]	Block has not achieved production stage hence not applicable.
	(e) Whether significant accounting policies adopted by contractor are in	1. Foreign currency translation:

<p>accordance with the requirements of PSCs such as for foreign currency translation, fixed assets, inventories, etc. [Appendix C Accounting procedure, 1.6]</p>	<p>As per Accounting Policy note no 3.6 "Foreign Currency Transactions / Translation"</p> <ol style="list-style-type: none"> 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. Cost allocated to NELP Blocks 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. <p>As per Clause 1.6.1 of Accounting Procedure-Production Sharing Contract, for conversion purpose between US dollars & INR or any other currency, the monthly average of daily mean of buying & selling rates of exchange as quoted by State Bank of India (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 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 exchange rate for the day 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>We are of the view that transactions are converted on more accurate basis by the Operator / Contractor.</p>
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		2. Operator does not maintain Fixed Assets / Inventory in Joint Venture Accounts.																				
	(f) Issues of internal control, fixed assets and fraud as per CARO 2003	We have not come across any material weakness in Internal Control. Operator does not maintain Fixed Assets / Inventory in Joint Venture Accounts. According to the information and explanations given to us, no fraud was reported or detected during the year																				
3	Whether all costs and expenditures have been classified into proper heads of expenditures as defined in the PSC namely Exploration, Development and Production .	Yes																				
4	Auditor should validate inter-alia the following statements																					
	a) Statement of sources & utilization of funds along with its various schedules (Format-1).	We have not come across any discrepancy in this regard.																				
	b) Value of petroleum produced and saved including the government's share of profit petroleum and sales schedule.	Block has not achieved production stage hence not applicable.																				
	c) Extent of allowable and recoverable costs as per PSC (format 2, 2A, 3 & 4).	1. Excess expenditure incurred as compared to revised Budget approved for FY 2016-17: <table><tr><th>Sr</th><th>Activity</th><th>Budget</th><th>Actual</th><th>Difference</th></tr><tr><td>1</td><td>PEL Fees</td><td>435522</td><td>442460</td><td>6938</td></tr><tr><td>2</td><td>Other studies & survey under Pre development</td><td>10738</td><td>42801</td><td>32063</td></tr><tr><td>3.</td><td>Seismic Interpretation under Pre Development</td><td>560000</td><td>729463</td><td>169463</td></tr></table>	Sr	Activity	Budget	Actual	Difference	1	PEL Fees	435522	442460	6938	2	Other studies & survey under Pre development	10738	42801	32063	3.	Seismic Interpretation under Pre Development	560000	729463	169463
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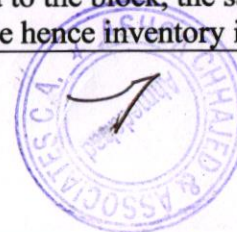
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		<table><tr><td>4.</td><td>Reservoir Connectivity Studies under Development</td><td>0</td><td>827</td><td>827</td></tr><tr><td></td><td>Total</td><td></td><td></td><td>209291</td></tr></table>	4.	Reservoir Connectivity Studies under Development	0	827	827		Total			209291
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		<p>* All the items are within the range of 10%.</p> <p>The above difference are subject to the Approval of Accounts for FY 2016-17.</p>										
	d) Calculation of Profit petroleum, as per PSC (Format-5,5A).	Block has not achieved production stage hence not applicable.										
	e) Calculation of Notional Income tax, Investment Multiple/PTRR as applicable, as per PSC.	Block has not achieved production stage hence 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’	Block has not achieved production stage hence 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, notional tax liability and investment multiple / PTRR and impact on profit petroleum have to be worked out and stated in the audit exception.	Block has not achieved production stage hence not applicable.										
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.	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 procedures as laid down in PSC with regard to procurement of materials and services. [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</i>										



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		<p><i>and further communication is awaited”.</i></p> <p>It is advised to Operator to follow up the matter and secure approval at the earliest.</p>
9	Whether there are cases of procurement from affiliates and others, other than at arm's length.	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 claimed cost recovery of items still lying instore/inventory and not consumed.	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 expenditure prohibited under section 3.2 of Accounting Procedure of PSC Appendix C.	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 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>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.</p> <p>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</p>



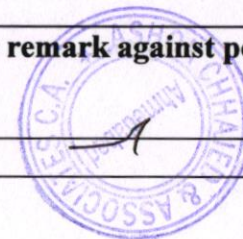
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		Block level. Hence clause is not applicable.
14	Whether the Overheads charged by the JV are reasonable, verifiable and devoid of any duplication , as per provisions of PSC. If not, details of deviations shall be indicated by the auditor's along with recommendation.	Main Office Expenses are booked on the basis of Head Office Circular as per ONGC practice.
15	Whether the actual expenditure incurred by contractor is in pursuance to an approved/ reviewed work programmed 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.	
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. (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 .	MC Appointed Auditors have not qualified their report. MC Audit Exception compliance pending: Chart of Accounts is submitted however, approval of the same is awaited.
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.	We have not come across any discrepancy in this regard during the course of Audit.
18	Whether contractor has created and funded Site Restoration Fund as per provisions of PSC and Govt. Site	No.



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	Restoration Fund Scheme 1999. Auditors should comment regarding adequacy of SRF as required in PSC & Schemes.	
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 . 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.	We have not come across any discrepancy in this regard during the course of Audit.
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.	Yes.
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.	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 submitted the bank guarantees/performance guarantees as per provision of PSC.	We have not come across any discrepancy in this regard during the course of Audit.
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.	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.	As per our remark against point no 8.
25	Auditor is to check whether a separate bank account for	Yes



	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.	
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.	We have not come across any discrepancy in this regard during the course of Audit.

For Ashok Chhajed & Associates

Chartered Accountant

FRN: 100641W



Partner

Naresh Bahroo

MN: 117743

Date: 23.03.2019

Place: Ahmadabad

