

Chapter 2 Audit Approach

The pricing arrangement of petroleum products in the country was reviewed by the Comptroller & Auditor General of India in Audit Report (Commercial) No. 7 of 1989 of the Union Government covering the period up to 1987- 88 and again reviewed in Audit Report (Commercial) No. 19 of 1995 covering the period 1988 - 89 to 1993 - 94.

2.1 Audit objectives

The Performance Audit of pricing of petroleum products was conducted with a view to ascertaining:

- the impact of pricing methodology on OMCs, consumers, Gol and upstream companies; and
- the extent to which the actual cost of operations in OMCs matches with the stipulated norms considered for fixation of price and the effectiveness of the loss sharing mechanism set up by Gol.

2.2 Scope of Audit

Audit involved examination of records relating to the implementation of pricing mechanism of regulated products and consequent under recovery claims of OMCs viz. Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL). Documents related to performance of six selected refineries of all three OMCs (HPCL refinery, Mumbai, est. 1954; BPCL refinery, Mumbai, est. 1955; IOCL refinery, Gujarat est. 1965, IOCL refinery, Haldia, est. 1974; IOCL refinery Bongaigaon, est. 1979 and IOCL refinery, Panipat, est. 1998) and documents regarding compensation of under recoveries that were made available, were also examined at MoPNG/Petroleum Planning and Analysis Cell (PPAC) and MoF. The period covered in audit is 2007-08 to 2011-12.

2.3 Audit Criteria

The following were the sources of audit criteria:

- Elements of cost factored in the norms considered for fixation of pricing formula, PPAC's instructions to OMCs from time to time regarding the pricing of petroleum products.
- Milestones set in the long term plan for de-regulating the petroleum products.

- Recommendations of various Committees including Parliamentary Standing Committee on Petroleum and Natural Gas
- Guidelines of GoI regarding loss sharing among the public sector upstream companies, OMCs and the Government.
- Key performance targets set in MoUs entered by OMCs with MoPNG.

2.4 Audit Methodology

An entry conference was held on 6 September 2012 with MoPNG, MoF, PPAC and OMCs where the audit objectives, scope, and methodology were discussed.

Audit was undertaken from September 2012 to February 2013. Documents relating to pricing of petroleum products that were made available, such as recommendations of various committees appointed by GoI, approval and implementation of these recommendations at MoPNG/PPAC and MoF, the burden sharing mechanism of under recoveries adopted at MoPNG, the system of approval of under recoveries and checks exercised at PPAC were examined. Records at OMCs relating to implementation of pricing of regulated products, cost audit reports of refineries and cost incurred in marketing, claims of under recoveries submitted by OMCs, MoUs with MoPNG and Board Minutes of OMCs were also reviewed. A sample of six refineries *i.e.* one refinery each from BPCL (Mumbai) and HPCL (Mumbai) and four refineries from IOCL (Koyali, Panipat, Haldia and Bongaigaon) were selected for detailed study.

Audit findings were first discussed in a pre Exit meeting in July 2013 and thereafter in an Exit conference on 21 February 2014, in which audit findings were discussed with officers of MoPNG, PPAC and OMCs.

2.5 Acknowledgement

We wish to acknowledge the cooperation extended by MoPNG, PPAC, MoF and OMCs in providing information, records, clarifications and discussions with the concerned officers, which facilitated completion of audit.

2.6 Structure of Audit Report

The findings of Audit are summarized in Chapter 3 under three broad heads:

- Chapter 3.1 – Impact of pricing methodology on Oil Marketing Companies;

- Chapter 3.2 – Impact of pricing methodology on consumers and;
- Chapter 3.3 – Impact of pricing methodology on upstream companies and Gol.