

CHAPTER 2

AUDIT FRAMEWORK

2.1 Why did Audit select this subject

The Indian economy is at a critical stage of development. While the energy requirement of the country continued to increase, with the limited domestic availability of oil and gas, the country is compelled to import over 75 per cent of its domestic requirement every year. Keeping in view the growing requirement of energy in the country, Ministry of Petroleum and Natural Gas, Government of India has adopted a multi-pronged strategy for giving momentum to exploration and production in the country by taking several measures during New Exploration Licensing Policy regime for enhancing the domestic production of crude oil and natural gas through involvement of public sector and private sector companies in a time bound manner.

In the above backdrop, the role of Oil India Limited (OIL) in hydrocarbon exploration is of great importance. Exploration of sedimentary basins, being one of the main objectives of OIL, helps to meet the hydrocarbon requirement of the nation. As such, the 'Performance Audit on Exploration Efforts of Oil India Limited' was undertaken considering the importance of exploration in the oil-gas sector and energy security of the nation.

2.2 Audit Objectives

The Performance Audit attempts to have a holistic view of OIL's exploration performance. The purpose of this audit was to ascertain whether OIL's exploration efforts had been taken up with proper planning and executed with efficiency and effectiveness to achieve its own and the nation's envisioned hydro-carbon goal.

The objectives of the Performance audit were to assess the extent to which:

- OIL had achieved hydrocarbon reserve accretion through exploration efforts;
- Efficiency and economy were achieved in conducting survey;
- Efficiency and economy were achieved in conducting drilling operations;
- Exploration efforts of OIL were effective under nomination and NELP regime; and

- OIL was effective towards utilization of financial, technological and human resources and oversight role of Board of Directors of OIL, MOPNG and DGH towards exploration efforts.

2.3 Audit Scope

The performance audit covered review of the major operational efforts of OIL covering the period from 2009-10 to 2013-14 in four operational basins i.e. Assam, Assam-Arakan⁹, Krishna-Godavari and Rajasthan as operator towards hydrocarbon exploration which were carried out from Registered office at Duliajan, Assam, Project office at Kakinada, Andhra Pradesh, Project office at Jodhpur, Rajasthan and Corporate Office at Noida, Uttar Pradesh respectively. Activities in Mahanadi basin were also reviewed from Corporate Office at Noida and Audit also visited MOPNG and DGH for the purpose.

2.4 Audit Methodology

The common approach and methodology used for the Performance Audit were as follows:

- In order to brief the objectives, scope and methodology, an entry conference with OIL management was held on 16 September 2014.
- Entry conferences with Directorate General of Hydrocarbon and Ministry of Petroleum and Natural Gas were held on 20 November 2014 and 4 December 2014 respectively.
- During field audit (September 2014 to December 2014), the records maintained at Corporate Office at Noida (UP), Registered Office at Duliajan (Assam) and Project Office at Jodhpur (Rajasthan) of OIL were reviewed. The related records maintained at MOPNG and DGH were also reviewed. Based on the scrutiny of records, preliminary audit observations were issued during field audit.
- The draft audit report was issued (February 2015) to OIL. The relevant portion of draft audit report was also issued (February 2015) to MOPNG/DGH, however, no response was received. Reply of OIL to the draft report was received in April 2015 and the same has been suitably incorporated in the present report. The report was also discussed with OIL management in Pre-Exit Conference held on 15 May 2015. Responses received from OIL in the meeting have been suitably incorporated in the present report.

⁹ Excluding 2 blocks under Joint Venture and one Coal Bed Methane block.

- The draft report was issued to MOPNG with a copy to DGH on 18 June 2015. The reply of MOPNG was received on 22 July 2015.
- As per the Comptroller and Auditor General of India standard practice, an Exit Conference was held on 22 July 2015 to provide an opportunity to the audited entities (MOPNG, DGH and OIL) to discuss the audit findings and present their views. The views expressed during the Exit Conference and reply received from MOPNG has been duly considered while finalizing the Report.
- Draft Final Performance Audit Report (DFPAR) after incorporating views expressed during Exit Conference was issued to audited entities on 8 September 2015 soliciting response thereto within one week. MOPNG stated (5 October 2015) that they do not have any further comments to offer in the matter.

2.5 Sources of Audit Criteria

The audit criteria have been derived from the following sources:

- India Hydrocarbon Vision 2025 issued by MOPNG;
 - MOU signed by OIL with the Ministry
 - CVC guidelines/ MOPNG Directions;
- Other OIL documents:**
- OIL Strategic & Corporate Plan 2011-20
 - Minimum Work Programme committed for the Plan period;
 - Annual Plan;
 - Annual Performance Budgets;
 - Annual Financial Budgets;
 - Relevant rules/ guidelines issued by Statutory Authorities;
 - Contract Manual and internal rules;
 - Policies and guidelines prescribed for Management Information System/ Internal Control and Internal Audit.

2.6 Audit Sample

Audit selected twenty six Nominated and NELP blocks in total in Assam, Assam-Arakan, Krishna-Godavari, Rajasthan and Mahanadi basins wherein OIL is operator, including seven NELP blocks which were relinquished during the period of Performance Audit. The selection

and study of Nominated and NELP blocks and exploration contracts was done as shown in Table 2.1:

Table 2.1 - Basis of sample selection in audit

Selection of Blocks/Contracts	Total	Number Selected	Percentage covered	Basis
Nominated Blocks (PEL)	16	5	31	Volume of operations/Risk perception
Nominated Blocks (PML)	22	7	32	
NELP Blocks –Operational	11 ¹⁰	7	64	Significant activities
NELP Blocks -Relinquished	7	7	100	Risk perception
Exploration and Man-Management Contracts	73	33	45	Materiality and Risk perception

Audit had undertaken overall review of OIL's exploration activities. In reviewing OIL's activities in Nomination Regime, audit had selected 5 PEL blocks (including 3 relinquished blocks) and 7 PML blocks considering the volume of operations/risk perceptions. For review of activities under NELP, 7 operational blocks were selected where significant activities were carried out till date of audit. In addition all the 7 relinquished NELP blocks were selected. Further 33 exploration and man-management contracts were selected manually out of 73 contracts based on materiality and risk factors involved.

¹⁰ Excluding one jointly operated block.