Chapter

6

Conclusion and Recommendations

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6.1 Conclusion

Out of 36 assets acquired at a cost of ₹ 6,206.83 crore at exploration stage, the company achieved success in five projects of which four were under development stage and only one project was producing, eight projects with a cost of ₹ 1,066.17 crore had to be abandoned and remaining 23 projects were still in the process of exploration. Producing and developed assets of the Company had proven hydrocarbon reserves of 185.995 Million Metric Tonne Oil Equivalent.

The Company had been consistently making profit during the last six years, mainly due to rise in prices of the crude oil. Production of crude oil and gas increased in 2004-05 to 2007-08 and remained almost constant thereafter. The profit of the Company was mainly from seven out of nine producing assets, of which eight assets (having an investment of ₹ 46,086.19 crore) were acquired at producing/ discovered stage. The Company has not been successful in discovering hydrocarbons in any of the blocks (excluding service contracts) as sole operator. The Company did not have documented policy for evaluation of investment opportunities and guidelines for formation of joint ventures. As a result, the Company was unable to reap the benefits of risk mitigation and incurred an unfruitful expenditure of ₹ 2367.77 crore.

In essence, in the absence of structured documented policy for exercise of due diligence process for evaluation of investment opportunities as also for formation of joint ventures , the Company was not able to mitigate the risk and leverage the benefits from the combined financial strength and expertise of the JV partners. Further, although joint operating agreements did contain provisions for audit arrangements, the Company could not adequately secure its financial interests due to delayed exercise of their audit rights. The fact that the Company operates in a varied political and operational environment, it is essential for the company to have a robust internal control system including effective internal audit mechanism to provide assurance to the stakeholders. Though the Company is performing profitably, inadequacies noticed in audit indicate that there is a scope of improvement and the Company needs to have more professional approach in conducting its operations.

Recommendation # 4

Based on the significant audit findings, the following recommendations are proposed:

- **The Company should formulate a policy and prepare standard guidelines in line with practices of Petroleum Resource Management System for evaluation of investment opportunities for acquisition of producing, discovered and exploration assets so as to mitigate the risks.**
- **The Company should prepare guidelines for formation of Joint Ventures so as to mitigate the risk, leverage the combined financial strength and share experience of the Joint Venture partner.**
- **In view of its presence in 16 countries and significant investment as non-operator, the Company should strengthen its internal audit and control system and put in place timely audit arrangements for audit of the Joint Ventures.**

(SUNIL VERMA)
Deputy Comptroller and Auditor General
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Countersigned

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