Executive Summary

ONGC Videsh Limited (Company) is a wholly owned overseas arm of Oil and Natural Gas Corporation Limited. It is engaged in oil and gas exploration and production (E&P) projects, with the objective of ensuring energy security for the country. Up to March 2010, the Company had acquired a total of 45 E&P assets with an investment of ₹ 52,491.90 crore in 16 countries worldwide. The Company has consistently earned increasing profits during five of the last six years. In 2009-10 its profit declined sharply to ₹ 4004 crore.

Performance audit[1] of 20 of the Company's 45 E & P assets for the period April 2004 to March 2010 identified two areas of its working that require strengthening, viz., the Company's systems for evaluation of investment opportunities for acquiring E&P assets and for formation of joint ventures as also its internal control systems.

Evaluation of Investment opportunities and formation of Joint Ventures

Investment in exploratory assets involves low cost but high risk. Out of 36 assets that the Company acquired at the exploration stage at an investment of ₹ 6,206.83 crore, only five have been successful. Eight of these assets with an investment of ₹ 1,066.17 crore had to be abandoned (in three of these abandoned assets, the company was the sole owner and operator) and the remaining 23 projects were still in the process of exploration. The Company is yet to succeed as an operator.

The Company's major investment of ₹ 46,285 crore (88 per cent) was in nine assets that were acquired at producing/discovered stage. As exploration & production is a high risk and capital intensive business, it is essential to mitigate the investment risk by exercising due diligence vis-à-vis investment opportunities and formation of joint ventures. It is desirable to have a documented and structured policy for evaluation as also for formation of JVs detailing the extent of acquisition of participation interest in offered E&P assets and farming-in and farming-out of participation interest. The Company, however, did not have such a policy which would have provided a framework for decision making and brought about greater consistency, assurance and transparency in the system.

In audit, inadequacies were noticed in nine out of 20 test cases, in the evaluation process of investment opportunities and formation of joint ventures. Significant shortcomings were:

- *The Company acquired exploration Block-5 B in Sudan despite its consultant's reservations on limited availability of reserve data as also security problems. The consortium could not implement the scheduled seismic and drilling plan and, in view of no hydrocarbon discovery, the block had to be relinquished resulting in unfruitful expenditure of ₹ 423.84 crore.*

- *The Company relied on the oil reserves estimated by Qatar Petroleum without revalidation of maps and data from an independent technical consultant in Najwat Najem Block, in Qatar. The drilling disclosed commercially unviable discovery of oil and the block had to be relinquished resulting in unfruitful expenditure of ₹ 369.45 crore.*

[1] based on the records available in India

The investment risk could have been mitigated at the initial stage itself if the Company had followed international best practices as laid down in the standard guidelines of Petroleum Resources Management System which dwells upon a prudent and consistent approach to reserve estimation and evaluation of developed projects.

- *In case of a producing asset acquired by the Company in Russian Federation (Imperial Energy Corporation Plc.) at a cost of ₹ 10,320 crore, the Company has been able to achieve production of only 15,803 barrels of oil per day (bopd) as against the envisaged production level of 35,000 bopd and has therefore, incurred a loss of ₹ 1182.14 crore during 15 months from January 2009 to March 2010.*

- *In case of a joint venture in Nigeria, the Company could not secure its interests against the violation of local law by the JV partner which had a financial implication of ₹ 77.63 crore and in yet another case, it decided to appraise the block by itself without formation of a JV and exposed itself to an avoidable risk.*

Internal Control

- *The Joint Venture agreements contained provisions for partners audit in all the cases. However, out of 29 E&P assets which were under JV arrangement, the Company exercised partner's audit rights available to it in 11 JVs after an average delay of one to three years. This resulted in irregularities not being noticed in time and consequently impacted timely corrective action.*

- *The internal audit system of the Company needs to be strengthened in view of the Company's presence in 16 countries in varied political environments and diverse array of portfolio, to provide assurance to the stakeholders.*

Recommendations:

- *The Company should formulate a policy and prepare standard guidelines in line with practices of Petroleum Resources Management System for evaluation of investment opportunities for acquisition of producing, discovered and exploration assets so as to mitigate the risks.*

- *The Company should frame a policy and 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.*

- *As Exploration and Production business is high risk and capital intensive, there is an urgent requirement for the Company to strengthen its internal control system including its internal audit and ensure a strong monitoring mechanism with multi level controls for financial and operational activities. Also, the Company should put in place timely audit arrangements for audit of the JV partners.*