

# APPROACH TO THIS PERFORMANCE AUDIT

Hydrocarbon exploration, being one of the core activities of ONGC, has been studied over the years by Audit. As mentioned in Preface to this Report, Performance Audit of exploration activities of ONGC was conducted and printed in C&AG Audit Reports of 2008, 2009-10 and 2010-11.

### 2.1 Audit Objective

The Performance Audit attempts a holistic view of ONGC's exploration performance. The audit objective has been ***to ascertain whether ONGC'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 hydrocarbon goal of the country and ONGC.*** The following issues have been examined:

- Are the results of ONGC's exploration efforts satisfactory?
- Did ONGC drive its exploration process efficiently and economically?
- Does ONGC possess required capacity for hydrocarbon exploration?
- Was the governance framework robust and was the leadership role as expected of ONGC in hydrocarbon exploration effective?

The audit effort has been to answer these questions not only from ONGC's perspective, but from the overall institutional framework within which ONGC operates. As such, the role of MOPNG as the key stakeholder and that of DGH as the regulator of the upstream sector has also been studied.

Another significant objective of this audit has been a follow up on the recommendations and observations of the three recent performance audits on exploration activities of ONGC in onshore, deepwater and shallow water areas wherein Audit made 24 recommendations. The results of the follow up have been suitably incorporated in this report under the issues that they pertain to.

### 2.2 Audit Scope

The Performance Audit covers ONGC's exploration efforts for the period from 2007-08 to 2010-11.

### 2.3 Audit Criteria

The audit criteria have been derived from the following sources:

- Strategic Documents regarding hydrocarbon exploration - The documented policy on India Hydrocarbon Vision 2025, targets set in the MOU signed by ONGC with the Ministry, targets fixed in the Strategic plan and annual plan of the Company;

- ONGC's policies, rules & regulations – bidding strategy for acquisition of NELP blocks, rules for application of re-grant of Nomination blocks, Material Management Manual and policies formulated for contracting, Minutes of the meetings of the 'Board of Directors' (Board), Strategy Meets, Key Executives Meet, Conclaves, Exploratory Board Meetings, Reports of Committees of both Houses of the Parliament;
- Comparisons based on performance of other national and international players, internal and international benchmarks, rates indicated in the Rig locator publications and internal documents relating to Five Year Plan (FYP), Annual Plans, Rig Deployment Plan, prescribed norms for drilling, Performance contracts entered into with Basins, Service Level agreements entered into by Basins with Services *etc.*;
- Human resources policies, policies for engagement of consultants/experts, policy of adoption of new technologies;
- International/national data of various E&P operators for the last four/five years.

## 2.4 Audit Methodology

- An Entry Conference with ONGC Management was held on 12 September 2011 for discussion on the audit objectives, scope and methodology.
- Audit reviewed the records of various units of ONGC like Basins, Corporate office, Exploration & Development Directorate, office of the Director (Exploration), Corporate Planning Cell, Exploration Contract Monitoring Cell, Costing Cell, Performance Management and Benchmarking Cell, ONGC's Institutes, *etc.* and also reviewed the related records at MOPNG and DGH.
- The draft audit report was issued (February/March 2012) to ONGC. Reply of ONGC received in March 2012 has been suitably incorporated in the report. The report was also discussed with ONGC Management at an Exit Conference held on 30 March 2012. ONGC's responses have been suitably included in the report.
- The draft audit report was also issued to MOPNG in March 2012. No response has been received from the Ministry till date despite issue of reminders in March, June and July 2012.

## 2.5 Audit Sample

All the seven Basins in ONGC have been covered through sampling techniques to select blocks for conducting Performance Audit. Sampling has also been applied in selection of contracts of goods and services for scrutiny.

- **Selection of Blocks** - Both Nomination and NELP blocks (onshore and offshore), were selected using the following criteria:
  - Nomination blocks – Twenty five *per cent* for onshore and fifty *per cent* for offshore, on random selection basis.

- NELP blocks – Twenty five *per cent* for onshore and fifty *per cent* for offshore, selected on random sampling basis. In both Nomination and NELP blocks, stratified sampling was done by going for 50 *per cent* live and 50 *per cent* surrendered blocks. Blocks awarded in NELP VIII (14 blocks awarded in 2010) were not selected since these blocks were under first year of exploration.
- **Selection of wells** - During 2007-11, ONGC drilled 457 exploratory wells. A 20 *per cent* sample was selected for detailed audit.
- **Purchase Order/Service Contracts** – Twenty five *per cent* of high value contracts/purchase orders based on materiality in descending order was selected for audit.

Sl. No.	Area	Sample size percentage	Population	Sample size
1.	Block audit at 'Basin' <sup>13</sup> .	25 <i>per cent</i> for onshore and 50 <i>per cent</i> for offshore blocks	200	94
2.	Contracts for hiring for goods and services.	25 <i>per cent</i>	191	88

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<sup>13</sup> 'Basin(s)' refers to ONGC's Unit(s) engaged in exploration activities.