CHAPTER III: MINISTRY OF PETROLEUM AND NATURAL GAS

Indian Oil Corporation Limited

3.1 Wasteful Expenditure

The Company went ahead with the execution of Guwahati ATF pipeline project and procured the materials thereof without finalization of the commercial terms with OIL who was the owner of more than 50 *per cent* of the required land for laying the pipeline. Proper survey of the exact terrain of the land was also not conducted before planning of the project. All these led to abnormal increase in project cost and consequent abandonment of the project resulting in an idle investment of ₹ 17.80 crore and loss of ₹ 2.57 crore.

Indian Oil Corporation Limited (Company) decided (November 2009) for laying a 35 kilometre (km) long Aviation Turbine Fuel (ATF) pipeline from Guwahati Refinery (refinery) to the Aviation Fuel Station (AFS) at Guwahati Airport at an estimated cost of ₹ 44 crore as this would ensure safe, economical and faster movement of ATF from the refinery to AFS. It was planned to lay the pipeline in the common right of way (RoW) of Oil India Limited (OIL) upto Betkuchi (18 km.) and thereafter it would traverse in the independent RoW for 17 kms. upto AFS. The orders for supply of mainline pipes were issued in April 2011 at a value of ₹ 14.53 crore and the supply was completed in August 2011.

The management, however, approached OIL for permission to lay the pipeline in its corridor in August 2011. In response, OIL intended to undertake laying of the pipeline for the entire length of 35 km. After several round of discussions, the commercial offer of OIL for laying of pipeline was received in May 2013. OIL's offer towards mainline pipe laying charges (including RoW) and PMC[♦] charges was higher by ₹ 30 crore (approx.) than the estimated cost. While planning for the project, laying of the pipeline was assumed in the normal terrain. After survey it was, however, found that most of the stretches of the OIL's corridor was on marshy land which led to the above increase in mainline laying cost. The project cost was subsequently increased to ₹ 87 crore i.e. ₹ 43 crore higher than the earlier estimate. The Company, therefore, decided (December 2013) to abandon the project as the advantages envisaged did not justify such a high investment. In the meantime, till March 2014 the company had incurred an expenditure of ₹ 21.81 crore on this abandoned project of which ₹ 17.80 crore was related to cost of mainline pipe and other capital stores and ₹ 1.44 crore was for construction of control building. The balance amount of ₹ 2.57 crore incurred towards survey etc. was written off.

Audit observed that the management went ahead with the execution of the project and procured the materials thereof without finalisation of the commercial terms with OIL who was the owner of more than 50 *per cent* of the required land for laying the pipeline.

[♦] ***Project Management Consultancy***

Further, proper survey of the exact terrain of the land was not conducted before planning of the project. All these resulted in abnormal increase in project cost and consequent abandonment of the project which indicates injudicious project planning.

Management in its reply stated (September 2014) that the project was approved only after initiation of discussions with OIL about laying of the pipeline in their common RoW and after conducting a route survey. It was also stated that due to reasons beyond the control of the Company like OIL's delay in agreeing to take up the entire work with the condition of appointing them as PMC, the project cost was increased leading to shelving of the project. The above reply is not tenable as the management took initiative to discuss only the technical feasibility of the project with OIL prior to approval of the project. In fact, the initiative for finalization of commercial terms and conditions with OIL for laying the above pipeline was commenced after such approval and even procurement of majority of the materials was completed before finalization of such terms and conditions.

Management's further contention that the materials procured for the project were proposed to be utilized in other ongoing projects viz Goa ATF Pipeline project, Ennore-Trichy-Madurai (ETM) LPG Pipeline project etc. appear to be afterthought. The proposed technical specification (WT i.e. wall thickness) of the mainline pipes of ETM project was not similar to that of the mainline pipes of Guwahati ATF pipeline project. Further, the length of mainline pipe procured for the abandoned Guwahati ATF pipeline project was 35 km. whereas the same for the proposed Goa ATF pipeline project was 9.3 km. only.

This case would show the anxiety to procure the material much ahead of details of the project being worked out. It is a case of wasteful expenditure.

The matter was reported to the Ministry in November 2014; their reply was awaited (March 2015).

3.2 Avoidable expenditure due to non-rescheduling mechanical completion of tankage facilities within the stipulated period

Failure to reschedule mechanical completion of tankage facilities for a refinery project in line with provisions in the BOOT contract resulted in an avoidable expenditure of ₹ 12.10 crore without deriving any benefit.

In order to meet the requirement of crude oil and finished product tanks for the Paradip Refinery Project (PDRP), Indian Oil Corporation Limited (the Company) signed (June 2010) an agreement on build-own-operate-transfer (BOOT) basis with M/s IOT Utkal Energy Services Limited (BOOT Contractor). The works were to be completed within 24 months (by November 2011) from the issue of Fax of Acceptance (23 November 2009), which was extended by two months at the request of BOOT Contractor (i.e., completion by January 2012). As per clause 4.4 of the contract, in case the Company failed to supply utilities by the date set forth or was unable to supply crude oil/product through no default of the Contractor, the commissioning shall be deemed to have taken place after three months from the time schedule or actual commissioning, whichever occurred earlier. The tankage facilities were completed in July 2013. Since the refinery was not commissioned, and in line with clause 4.4 of the contract, the Company paid invoices from November 2013 (i.e., after 3 months from completion).

Audit observed that as per the contract (clause 4.6), the Company had the right to extend the commissioning schedule of tankage facilities for six months and such right was to have been exercised within six months of acceptance of work order. It was also noticed that while accepting the request of BOOT contractor to extend the contract period for two months, the Company reiterated its right to extend the commissioning schedule up to 22 July 2010. However, the Company failed to extend the commissioning schedule despite the Project Appraisal Group (PAG) of the Company having noticed (November 2009) the risk of time overrun in the PDRP and possible payments to the contractor without utilizing the facilities.

The Company stated (October/November 2014) that the risk highlighted by PAG had been taken care of by incorporating a provision for extending commissioning schedule by a maximum period of six months. The Ministry further clarified (February 2015) that the provision for extending commissioning by six months was kept in the tender as a pre-emptive action and the Company had exercised it to the extent of two months, at that point of time. The Ministry also stated that after completion of tankage facilities in July 2013, O&M activities were necessary to preserve the health of the equipment and maintain the facilities in working order.

Replies need to be viewed in the light of the fact that extension of two months was granted at the request of BOOT Contractor and not as a measure to mitigate the time overrun highlighted by PAG. Further, the mandatory O&M activities would have been carried out by BOOT contractor at his cost for a period of six months, had the Company opted for extending commissioning schedule as per contract. It is also pertinent to mention that the overall physical progress of the PDRP was 23.10 *per cent* against scheduled progress of 33.31 *per cent* at the end of July 2010.

Thus, the fact remains that the Company failed to utilize the available opportunity to extend the commissioning schedule that would have avoided payment of O&M charges of ₹ 12.10 crore for six months for the BOOT contract.

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).

3.3 Deficient tender document coupled with Company's failure to negotiate with L1 bidder in view of reduced rate of withholding tax led to avoidable expenditure

Tender documents of the Company were deficient because the bidders were asked to quote price inclusive of tax and duties. Further, the Company failed to negotiate with M/s Basell Poliolefine Italia, Italy, L1 bidder to reduce the price in view of downward revision of withholding tax rate which led to avoidable expenditure of ₹ 9.56 crore.

Indian Oil Corporation Limited (the Company) issued (October 2005) limited tender enquiry/Notice Inviting Tender (NIT) to line up the process licensor for its Polypropylene (PP) unit at Paradip Refinery (PDRP). The bidders were requested to submit their offers by 15 February 2006 and required to quote gross of withholding tax (WHT) instead of indicating the rate and amount of WHT included in the price bid separately. M/s Basell Poliolefine Italia, Italy (Basell), being the L1 bidder, was awarded the work at a price of ₹ 169.60 crore[1].

As Basell was already rendering similar services at Panipat refinery of the Company, it accepted the price with same terms and conditions as applied in respect of Panipat refinery. The rate of WHT applied in respect of Panipat refinery was 20 *per cent* for royalty or fees for technical services. This rate was, however, reduced to 10 *per cent* (after including surcharge and cess, effective rate was 10.56 *per cent*) vide Finance Act, 2005, with effect from 1 June 2005.

While approving the draft agenda note for consideration of the Board of Directors of the Company (Board), General Manager (Finance) [(GM (F)] noted (October 2006) that quoted rates of Basell were inclusive of WHT at the rate of 20 *per cent* and accordingly payments would be released after deducting 20 *per cent* WHT. However, tax remittance would be at the rate prevailing as per Income Tax Act, but this remark was not apprised to the Board which accorded (November 2006) its approval to award the job to Basell at ₹ 169.60 crore inclusive of taxes & duties. The Company entered into agreement with Basell in March 2007.

As per Clause 8.8 of the agreement all fees and charges to be paid by the Company to Basell were subject to deduction of all WHT applicable in India at prescribed rates on any money payable as applicable from time to time. Further, as per Clause 8.7, in case of delays in paying fees in accordance with terms of the agreement, Basell could give written notice to the Company specifying the claimed particulars of default. If such default was not remedied by the Company within 60 days after receipt of such notice, Basell might assess finance charges (not exceeding the maximum amount permitted by applicable law) for the period of delay.

For the invoices raised during July 2007 and January 2008, the Company made payments to Basell after deduction of 10.56 *per cent* towards WHT, while for invoices raised in November 2007 and March 2008, it deducted WHT at 20 *per cent*. Further, the Company asked (February 2008) Basell to refund the excess amount paid due to adoption of WHT at the rate of 10.56 *per cent* instead of 20 *per cent*. Basell accepted the same and remitted (February 2008) USD 881191 (₹ 3.54 crore)[2]. However, after receipt of tax deduction certificate in July 2009, Basell realized that the Company had deposited only 10.56 *per cent* of WHT to tax authorities against the deduction of 20 *per cent* from its invoices. Basell, therefore, demanded (November/December 2009) refund of 9.44 *per cent* of the license fee. It also demanded (September 2010) financial charges of USD 5,05,096 (₹ 2.30 crore[3]) under clause 8.7 of the agreement.

The Company obtained (December 2010) legal opinion from Additional Solicitor General of India (ASGI). ASGI opined that as per the terms of agreement, Basell was entitled to

---

[1] ***Initial rate quotes by M/s Basell was ₹ 173.30 crore. Price after negotiation came to ₹ 169.60 crore.***
[2] ***At the rate of ₹. 40.1623 per USD.***
[3] ***At the rate of ₹. 45.54 per USD.***

the refund of the difference of 9.44 *per cent* aggregating to USD 1685382.20 and advised the Company to negotiate with Basell to bring it down to the extent possible.

Basell served (February 2011) legal notice claiming USD 1685382.20 (₹ 7.60 crore)[1] towards additional WHT deducted from the invoices and USD 626869 (₹ 2.83 crore)[2] towards finance charges under clause 8.7.

Left with no alternative, the Company paid (May 2011) USD 1685382.20 (₹ 7.65 crore)[3] towards excess deduction on account of WHT. The Company also settled finance charges, after negotiation with Basell, by paying USD 358264 (₹ 1.91 crore)[4].

Audit examination revealed that –

- The tender document was deficient as the bidders were required to quote licence fee inclusive of tax rather than obtaining rate for contract and taxes separately.

- Even after the remarks of GM (F) regarding reduction of withholding tax rate, the Company did not exchange any correspondence with Basell to reduce the license fee in view of reduced rate of WHT at the time of entering into the licensing agreement. Consequently, the Company lost an opportunity to get the license fee reduced to the extent of ₹ 7.65 crore.

The Company replied (November 2014) that the License agreement was executed in line with the tender, licensor's offer and Board approval. The remarks of GM (F) were neither in line with tender document nor in line with the offer of Basell and therefore in the absence of written document could not have been considered in the Agenda note.

The reply needs to be viewed against the fact that despite getting clear indication from the note of GM (F) about difference in withholding tax rate that would have been considered by Basell and actual rate in force, the Company did not clarify the issue with Basell and incurred an avoidable expenditure of ₹ 9.56 crore. As Basell had accepted same terms and conditions as were applied in respect of Panipat refinery where WHT deduction was 20 *per cent*, the Company ought to have taken cognizance of remarks of GM (F) and negotiated further with Basell at the time of entering into agreement, in view of reduced rate of WHT and avoided extra expenditure of ₹ 9.56 crore.

Thus, deficient tender document and failure to negotiate with Basell in view of reduced rate of withholding tax led to avoidable expenditure of ₹ 9.56 crore[5].

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).

---

[1] ***At the rate of ₹45.106 per USD***

[2] ***At the rate of ₹45.106 per USD***

[3] ***At the rate of ₹45.39 per USD***

[4] ***At the rate of ₹53.31 per USD***

[5] ***(₹7.65 crore towards excess deduction on WHT + ₹1.91 crore towards finance charges)***

3.4 *Non achievement of envisaged benefits from Flue Gas Cooler*

The Company could not achieve intended benefits from Flue Gas Cooler (FGC) due to frequent failure leading to excess consumption of fuel. Further the replacement of tubes alone of FGC contrary to advice of BHEL at a cost of ₹ 7.62 crore did not yield desired results and has become wasteful as the Company has decided to install new FGC unit.

Flue Gas Cooler (FGC) is a part of Resid Fluidized Catalytic Cracking Unit of Barauni Refinery of Indian Oil Corporation Limited (Company) wherein thermal energy of flue gas is recovered by generating high pressure superheated steam for utilisation in the processing units of the refinery. In case of FGC not functioning, there would be loss in steam generation by about 75 MT/hour thereby increasing the fuel consumption of the refinery. Leakages from FGC were often encountered since commissioning of RFCCU. There were 23 such failures between August 2002 and June 2011. The reasons for the above leakages were got examined (2003 and 2004) initially by Samsung (LSTK contractor) and Alstom (Original Equipment Manufacturer). Both the agencies pointed out that the tubes of FGC were damaged by corrosion due to condensation of sulphur containing gases. It was also pointed out that there were vibrations in the boiler and some of the tubes inside the boiler were found oscillating even at non-operative conditions. The Company requested (November 2004) Thermax–Babcock & Wilcock (TBW) to carry out design study etc. for failure of FGC. TBW submitted (January/February 2005) its offer with the proposal for three months shutdown of the FGC for such study. However, such proposal was not accepted considering longer outage period of FGC. BHEL, to whom the matter was also referred, opined (July 2006) that the replacement with a totally new design of steam/mud drums and various tubes of FGC would be a permanent solution. It was further stated that replacement of tubes alone would not ensure reliability of FGC.

The company, however, replaced the tubes of FGC at a cost of ₹ 7.62 crore during July to November 2011. Despite replacement of tubes there were frequent failures and the FGC remained inoperative for 257 days during the period from January 2012 to June 2014.

In view of the persistent failure of the FGC, the management decided to replace the entire Unit. The Company in its 596th Board Meeting on 20 March 2013, while according approval for replacement of FGC at an estimated cost of ₹ 105 crore, expressed concern that such a defect was not detected by the Engineering Consultant or by the construction team at the time of installation. The Board, therefore, desired a detailed investigation should be carried out.

In pursuance of the Board's directions, a detailed investigation was carried out which came to the conclusion that this was manufacturing defect. The Committee also concluded that responsibility for quality assurance during execution was that of the Project Management Consultant (PMC), namely M/s. Engineers India Limited.

This case highlights the failure of management in identifying the defects in the FGC. Taking ad hoc decisions where an investment of ₹ 7.62 crore was made during November 2011 also did not address the real cause of the problem. This case further highlights the inability of the management to take appropriate action against the PMC for deficiencies in the performance.

The matter was reported to the Ministry in October 2014; their reply was awaited (March 2015).

Oil India Limited

3.5 Loss of revenue on account of discount allowed on sale of crude oil containing basic sediments and water content above the norm

Failure to create facilities in time to contain the basic sediments and water content in the crude oil supplies within the prescribed limit resulted in loss of revenue of ₹ 105.55 crore during 2008-09 to 2013-14.

Oil India Limited (the Company) is primarily engaged in exploration, production and transportation of crude oil and natural gas, both in the country and overseas. The presence of Basic Sediment and Water (BS&W) in the crude oil affects the quality of the oil supplied to oil refineries. Therefore, it is desirable for the oil producing companies to create necessary dehydration facilities for improving the quality of crude oil. Moreover, under the post Administrated Price Mechanism regime (2002), it became very stringent for the oil producing companies to maintain BS&W content in the crude oil at 0.2 *per cent* and below since the sale price was subject to discount at slab rates in case the content of the same in the crude oil exceeded the norm.

Audit observed (December 2012) that in the north eastern region, 35 *per cent* of production of the Company was from Greater Tengakhat Area, 60 *per cent* from Naharkatiya Area and rest 5 *per cent* from Shalmari and Moran Area, which after processing in the nearby production installations was transported to Central Tank Farm at Naharkatiya Area for onward dispatch to refineries through a main trunk pipeline. However, the crude despatched to the oil refineries contained higher BS&W than the desired level for which the Company had to allow discount to the customers over the years.

It was seen from the records that:

- In order to address the BS&W content in the crude oil, the Company constituted a Committee (March 2005) to study the feasibility for installation of crude dehydration facilities at the existing Central Tank Farm at Naharkatiya Area taking into account safety norms and other related aspects. The Committee recommended (June 2005) installation of a dehydration facility at Central Tank Farm at Naharkatiya Area. As the Central Tank Farm was very old and the site could not meet safety norms, an alternate site at Oil Collecting Station-3 (OCS-3) was selected for installation of Secondary Tank Farm with dehydration facility, though the same was rejected earlier on environment consideration and a new place at Naholia was selected. The Company could not acquire the required land at Naholia due to land related problems and shifted the project to a new site at Central Gas Gathering Station (CGGS) (near Madhuban tea estate, Assam) by redesigning the plant layout so that the plant fitted in the available land. However, the said dehydration facility is yet to be set up (July 2014) for catering to crude oil produced at Naharkatiya Area.

- The Company had commissioned Intermediate Tank Firm with dehydration facility at Greater Tengakhat Area in May 2007 but failed to commission the Tengakhat – Shalmari Pipeline (TSPL) till May 2012, which was the best option to inject the crude oil into the main trunk pipeline as per the report on feasibility conducted by the task force in August 2005.

- Commissioning of dehydration facility at Greater Tengakhat Area and delayed commissioning of TSPL project without commissioning dehydration facility for crude oil produced at Naharkatiya Area resulted in intermixing of crude in the main trunk pipeline and untreated crude oil of Central Tank Firm with the treated crude oil of Intermediate Tank Farm.

Though more than nine years have passed since the recommendation of the Task Force (June 2005) to create dehydration facilities for crude oil produced at Naharkatiya Area, the facility remains to be created. Failure of the Company to create necessary facilities in time to reduce the BS&W content in the crude oil has led to it foregoing revenue of ₹ 105.55 crore during the period 2008-09 to 2013-14, on account of discounts allowed to various refineries for BS&W content in the supplied crude exceeding norms.

While accepting the audit observation, the Management/Ministry stated (October 2013/February 2014) that:

- OIL management was sincerely concerned about the loss of revenue to the Company on account of higher BS&W content. The loss on account of deductions effected by various refineries for BS&W content in crude exceeding norms by OIL was not intentional but due to technical factors and certain environmental issues beyond OIL's control.

- The task force recommendation for setting up a crude dehydration facility at Naharkatiya Central Tank Farm was reviewed by the local management and OIL decided to look at an alternative site taking cognizance of the vintage of Central Tank Farm and safety issue.

- Currently 60 *per cent* of OIL's total production was being handled at Central Tank Farm at Naharkatiya, where there was no requisite infrastructure for dehydration facility. Once Secondary Tank Farm project was commissioned, all the crude oil delivery lines which were presently connected to Naharkatiya Central Tank Farm would be re-routed to Secondary Tank Farm and only treated crude oil would be despatched to Naharkatiya Central Tank Firm from Secondary Tank Farm for onward delivery to refineries. Therefore, Intermediate Tank Farm and Secondary Tank Farm together were expected to keep BS&W content lesser than the desired level.

- OIL is committed to supply the customers with quality crude. With this intention projects like Intermediate Tank Farm and Secondary Tank Farm were undertaken. Considering the cost of setting up of new Secondary Tank Farm was about ₹ 352 crore, the Company could have contemplated paying penalty rather than striving to set up a CAPEX and OPEX intensive BS&W reduction unit amidst the hostile environment. However, being a responsible company, OIL had initiated action to set up the required facilities to bring down BS&W content in refinery supplied crude oil. Results of the action initiated by the Company would show in future.

The contention of the Management/Ministry is not tenable in view of the following:

- Audit has emphasized that OIL being a responsible company should have been able to address technical factors and environment issues within a reasonable time and this ought not have taken almost a decade in supplying quality crude to consumers.

- The fact remains that the Company is yet to establish required facilities for dehydration of crude oil of Naharkatiya area even after a lapse of nine years, which was recommended by the task force in June 2005. The site for construction of Secondary Tank Farm with dehydration facility at Oil Collecting Station-3 was agreed upon in August 2005 in place of Central Tank Farm, Naharkatiya. But the same is yet to be commissioned as there were repeated changes of site for the project on environmental and technical grounds which indicated deficiencies in project planning and management.

- Environment and land related problems are common to any project. OIL has been continuing with its other core activities like exploration and production of crude in the same environment and these issues could have been tackled through better co-ordination with local administrative authorities.

- CAPEX of ₹ 352 crore for setting up the dehydration facility should not be a core issue for a cash rich company like Oil India Limited having cash and cash equivalents of ₹ 12133 crore as at 31 March 2013. Moreover, the full benefit of the investment of ₹ 92.66 crore already made on Intermediate Tank Farm and Tengakhat-Shalmari Pipeline project would be possible only when Secondary Tank Farm is put to operation without further delay.

- Similar issue was pointed out in the Audit Report (Para 14.7.1 of Report No. 11 of 2008) in respect of Oil and Natural Gas Corporation Limited (ONGC), another upstream oil sector company. ONGC has made significant improvement in the quality of crude oil as the discounts allowed were brought down from ₹ 30.47 crore in 2009-10 to ₹ 7.47 crore in 2012-13. As against this, the discounts allowed by OIL have increased from ₹ 12.53 crore in 2008-09 to ₹ 21.72 crore in 2013-14.

Thus due to delay in installation of required facilities for dehydration of crude oil of Naharkatiya area, the Company continued to forgo revenue by way of discounts to refineries for not maintaining quality norms.

Oil and Natural Gas Corporation Limited

3.6 Avoidable assumption of liabilities and incurring avoidable expenditure in development of two oil and gas bearing fields due to acceptance of unfavourable terms in Settlement Agreement with a defaulting contractor

Pursuant to award (November 2004) of a contract for Engineering and Construction works as part of development of a deepwater and a shallow water oil and gas bearing field, and subsequent termination (June 2007) of the contract due to stalling (June 2006) of work by the contractor, Oil and Natural Gas Corporation Limited (ONGC) entered into a Settlement Agreement with the defaulting contractor without conducting due diligence whereby it obtained a reduction of only USD 0.7 million while it ended up paying a settlement sum USD 32 million (₹ 149.37 crore) to the contractor through 'out of court' resolution of disputes, besides incurring additional expenditure of USD 66.34 million (₹ 342.34 crore) in implementing the agreement in deviation of the approval accorded by its Board in October 2008. The expenditure (₹ 342. 34 crore) was irregular as it did not have approval of the Board and was not in the financial interests of ONGC. In addition, ONGC incurred an avoidable expenditure of USD 13.7 million (₹ 63.79 crore) on payment of rental for tools which was included in the amount paid for the work completed by the contractor under the already terminated contract. The project for development of the oil and gas fields remained incomplete (January 2015) as against the revised target date of April 2010 while projected revenues of ₹ 1,500 crore per annum remained unrealised (January 2015).

3.6.1 Introduction

3.6.1.1 Oil and Natural Gas Corporation Limted (ONGC) entered (November 2004) into a contract on lumpsum turnkey basis with M/s Clough Engineering Limited, Australia (CEL) in November 2004 for Engineering and Construction work in connection with development of (i) a deepwater field (G1) and (ii) a shallow water field (GS15) in the Krishna Godavari basin, at a cost of USD 215.25 million (₹ 992.91 crore). The scheduled date of completion was April 2006. This contract was part of the integrated development project of G1 and GS15 fields which involved contracts for Well Completion and on land Oil Export Pipelines with different contractors and constituted 70 *per cent* of the total project cost. Drilling was done by ONGC on its own.

3.6.1.2 As CEL had stalled work since June 2006, ONGC terminated the contract in June 2007, initiated action to encash performance bank guarantee (PBG) furnished by CEL and notified CEL that the balance work would be completed at the risk and cost of the latter. ONGC had estimated, while terminating the contract, that 70 *per cent* of the work had been completed and it had paid USD 142.69 million (₹ 632.11 crore) to CEL, by then.

3.6.1.3 CEL took up (June 2007) the matter of termination of contract as well as invoking PBG by ONGC, for arbitration. ONGC filed (August 2007) a petition in the High Court of Mumbai for obtaining, *inter alia*, the custody of equipment and material that had remained with CEL, so that it could proceed with getting the work completed through alternate means.

3.6.1.4 In its 'ad interim' order (September-October 2007), the High Court ordered maintenance of status quo with respect to custody of balance project material. Neither would ONGC get custody, nor would CEL be able to dispose of any project material. Despite this order, CEL had disposed of some project material and ONGC had filed a contempt petition before the High Court (October 2007) against CEL.

3.6.1.5 ONGC decided (April 2008) to explore possibilities of an 'out of court' settlement with CEL as it felt that it had spent around ₹ 1,000 crore on the project and that setback in project completion would delay production of oil and gas. ONGC expected that it would then be able to complete the project by April 2010 and also earn revenue of the order of ₹ 1,500 crore per annum. Accordingly, ONGC held four rounds of negotiations with CEL between June 2008 and September 2008.

3.6.1.6 On being approached by CEL against the termination of the contract and attempts by ONGC to encash PBG, Federal Court of Australia had, in the meantime (July 2008), allowed ONGC to encash PBG when ONGC realised USD 21.535 million (₹ 91.39 crore).

3.6.1.7 Negotiations with CEL centred around (i) ONGC acquiring titles and rights in equipment/material and services, (ii) settlement sum payable to CEL, and (iii) payment of rentals for Tree Running Tools (TRT) and Installation, Workover and Control System (IWOCS) to CEL.

3.6.1.8 The fourth round of negotiations was held (September 2008) by ONGC with CEL when the following terms were agreed upon:

(i) The settlement sum payable to CEL would be USD 32.7 million;

(ii) ONGC would now assume financial liability and responsibility for payments due from CEL to all Indian vendors and sub-contractors including the cost of inspection, completion, refurbishment, replacement, transportation and insurance relating to equipment/materials; and

(iii) CEL would assume financial liability and responsibility only in respect of contracts of CEL with offshore vendors and sub-contractors. Even here, CEL would not bear the liability towards ex-works cost of inspection, transportation and insurance of offshore equipment/materials.

3.6.1.9 ONGC obtained (October 2008) approval of its Board of Directors (Board) to these terms of settlement. No agreement was, however, signed by ONGC with CEL incorporating the agreed upon terms of settlement.

3.6.1.10 ONGC had entered (November 2008) into further negotiations with CEL and following revised terms of settlement were agreed upon with the approval of Chairman and Managing Director (CMD), without the concurrence of the Board. Settlement Agreement was also signed (December 2009) with CEL with the approval (June 2009) of CMD without approval of the Board. The terms of settlement were, now, as under:

(i) The settlement sum was reduced from USD 32.7 million to USD 32 million, which meant a reduction of USD 0.7 million;

(ii) CEL would supply only those equipment/materials and services as specified in the agreement at the locations (India and abroad) in the quantity and condition that they were, on 42nd day of execution of the agreement;

(iii) CEL and ONGC would jointly inspect the specified equipment/materials for confirming the quantity and their existence, within 39 days of signing the agreement;

(iv) On the expiry of 42 days from the signing of the settlement agreement, ONGC would assume all financial and other liabilities including all obligations that were previously imposed upon CEL, and

(v) CEL would supply project documents and verification documents, assign possession, titles and rights to ONGC relating only to specified equipment/materials and services.

ONGC paid USD 32 million (₹ 149.37 crore) in December 2009 for the settlement[1].

3.6.2 Audit Findings

3.6.2.1 Audit examination revealed that the Settlement Agreement of December 2009 was not approved by the Board of ONGC. A comparison of the terms of settlement decided in September 2008 which were approved by the Board in October 2008, with the terms of the Settlement Agreement of December 2009 can be appreciated in the following table:

Sl. No	Issue	Settlement approved by Board (October 2008)	Settlement of December 2009	Remarks
1.	Settlement sum payable to CEL	USD 32.7 million	USD 32 million	Though there was a reduction of USD 0.7 million (₹ 3.26 crore), ONGC ended up accepting additional liability for purchase, refurbishment/ revalidation of warranties of offshore equipment/ materials.
2.	Supply of Equipment/ materials	CEL was to supply all the 'balance' onshore and offshore equipment/materials	CEL was to supply only those equipment/ material that were specified in the agreement	ONGC allowed CEL to reduce its liability as it was now required to supply only the equipment/materials that were specified in the agreement and not all the balance[2] equipment/ materials. Correspondingly, ONGC took upon itself additional liability without assessment of the cost.
3.	Financial liability towards offshore vendors/sub contractors	CEL was to assume full responsibility for this except for cost of inspection, transportation and insurance of offshore equipment/ materials.	ONGC had assumed full responsibility, now, on the expiry of 42nd day of the agreement.	The condition and usability of offshore equipment/material, thus, became the responsibility of ONGC rather than CEL. ONGC accepted the equipment/materials without verifying either their actual condition or the number required for the work under

[1] The amount of 32 million USD includes 23 million USD paid to CEL and USD 9 million paid to income tax authorities towards tax liabilities.

[2] Such of the equipment/materials required to complete the project, whose possession CEL had not transferred to ONGC during the original contract period from November 2004 to June 2007.

				the contract, though there was more than one year time available with ONGC to carry out physical verification. This was an additional benefit conferred upon CEL without assessment of cost on ONGC.

3.6.2.2 Additional financial liabilities assumed by ONGC in settlement agreement of December 2009

Audit attempted to ascertain the extent of additional financial liabilities (after taking into account the reduction of USD 0.7 million in the settlement sum) that ONGC had taken upon itself because of the benefits that were conferred upon CEL in the agreement of December 2009 which did not have the approval of the Board.

(i) ONGC had accepted (December 2009) that CEL would supply only specified equipment/materials as per the Settlement Agreement. As a result, three offshore equipment/materials[♥] necessary to complete GS-15-1 deck fabrication were not supplied by CEL which had to be procured by ONGC at a cost of USD 3.46 million (₹ 16.11 crore).

(ii) ONGC had accepted (December 2009) to receive sub-sea equipment (SSE) from CEL on 'as is where is' basis according to the Settlement Agreement though warranty for the same had expired. CEL was to be responsible for the condition of these equipment according to the terms of settlement approved by the Board in October 2008. However, ONGC had to incur (over January 2011 to September 2012) an expenditure of USD 3.52 million (₹ 16.39 crore) on the work of refurbishment of SSE by the original equipment manufacturer (OEM). This was an additional liability that ONGC had taken upon itself which was beyond the terms of approval granted by the Board in October 2008.

3.6.2.3Additional expenditure resulting from un-favourable Settlement Agreement of December 2009

(i) The warranties on all materials/equipment had lapsed by the time ONGC had received them. ONGC decided (February 2010) that warranty for SSE was critical and approached the OEM (Cameron) for re-validation of the warranty clause. Being in an unenviable position vis-a-vis the vendor, ONGC agreed (September 2010) to bear the expenses on retrieval and transportation of defective SSE to OEM for repair or replacement even though this condition was a deviation from the standard practice. One of the components of SSE, Cameron Vertical Connector (CVC) failed in installation (March 2012) and ONGC (June 2013) had to incur an expenditure of USD 9.80 million (₹ 56.33 crore) on its retrieval and transport. CEL was responsible for offshore materials including CVC as per the settlement terms of September 2008 and could have been held responsible for the damage to the materials had the terms remained un-altered. By accepting this responsibility (as per settlement agreement of December 2009), ONGC was left in a disadvantageous position of having to negotiate with OEM on the latter's terms leading to an avoidable expenditure of USD 9.80 million (₹ 56.33 crore).

[♥] ***Pressure relief valves, chemical injection skid and valves***

(ii) ONGC had also not verified the condition of SSE before accepting full responsibility for its components. Another component of SSE, namely Hydraulic Power Unit (HPU) failed during factory acceptance test (January 2011) and could not be installed on time. The installation could not be carried out in the 2012 season following detection of mechanical problem in CVCs (March 2012) and had to be rescheduled to 2013 season. The re-scheduling of installation led to derailment of project schedule and resulted in payment of escalation of USD 50.26 million (₹ 256.77 crore) to the concerned contractor (Subsea 7).

3.6.2.4 Avoidable payment of rentals USD 13.7 million (₹ 63.79 crore) towards rentals for TRT and IWOCS as a part of settlement sum paid to CEL

The settlement sum of USD 32 million (₹ 149.37 crore) paid to CEL included USD 13.7 million (₹ 63.79 crore) towards rentals for TRT and IWOCS, which was not payable by ONGC as the rentals for use of the tools (TRT and IWOCS) had already been paid to CEL as part of the payment for the work done by CEL till termination of the contract.

3.6.2.5 Overall, ONGC ended up

(i) incurring an additional expenditure of USD 6.28 million[♠] (₹ 29.24 crore) on purchase and refurbishment of offshore equipment/ material, after adjusting the reduction of USD 0.7 million (₹ 3.26 crore secured in the agreement of December 2009) without obtaining revised approval of the Board.

(ii) assuming additional financial liability of USD 60.06 million (USD 9.80 million in paragraph 3.6.2.3 (i) plus USD 50.26 million in paragraph 3.6.2.3 (ii) or ₹ 313.10 crore, by accepting responsibility of offshore equipment/ material without ascertaining its condition or usability.

(iii) incurring of avoidable expenditure USD 13.7 million (₹ 63.79 crore) towards rentals for TRT and IWOCS, as a part of settlement sum paid to CEL.

3.6.2.6 Thus, ONGC assumed additional financial liabilities of USD 80.04 million (₹ 406.13 crore) in settlement of the contract with CEL. Even accounting for the encashment of PBG (July 2008) amounting to USD 21.54 million (₹ 91.39 crore) received by ONGC, the net additional burden on the Company was USD 58.50 million (₹ 314.74 crore). More important, ONGC's objectives of completing the integrated project even by the revised date of April 2010 and realising revenues of around ₹ 1,500 crore per annum remained only on paper (January 2015).

3.6.3 Reply of ONGC

3.6.3.1 ONGC, in its reply, stated (January 2015) that:

(i) it did not feel the necessity of seeking separate approval or ratification of its Board as the details of negotiations and the settlement agreement of December 2009 were explained to the Board in its meeting of June 2010. It also stated that if it had

---

[♠] ***{USD 3.46 million (paragraph 2.2.1) plus USD 3.52 million (paragraph 2.2.2) minus USD 0.7 million reduction obtained in negotiation of December 2009}*** not resolved the disputes through mutually acceptable agreement, the entire project works would have had to be re-tendered and expenditure to the tune of ₹ 1,000 crore would have idled;

(ii) it consented to the proposal of CEL as it was a *'fait accompli'* situation since signing of the Settlement Agreement with CEL was crucial to restart the project work;

(iii) CEL was ready to give project materials only on 'as is where is' basis and not accepting this would have further delayed revival of the project. The usability or 'fit for use' status of equipment could be checked by the respective OEMs and that refurbishment could be taken up subsequently based on the recommendation of OEM. Joint inspection of inventory was carried out for all project equipment/materials lying outside India and that failure of certain equipment could not be predicted and was part of the risk which it had to take while arriving at a mutually acceptable settlement agreement with CEL. It had to accept Cameron's condition that the latter would not bear the cost of recovery, transportation and installation of SSE as the latter was OEM. It was not feasible for ONGC to check the quality of equipment/materials prior to signing the settlement agreement as most of the materials/equipment were lying with OEM; and

(iv) CEL had not agreed to joint inspection/verification of project equipment/materials. It insisted that ONGC should take the equipment/materials on 'as is where is' basis. Testing of the material would also have delayed the project. As far as rentals for tools, namely, TRT and IWOCs were concerned, ONGC stated that as the tools were in its custody for 221 days beyond the period provided in the terminated contract with CEL, it had paid USD 10.4 million. In addition, it paid USD 3.3 million to CEL as a part of negotiated settlement which was not attributable to rentals.

3.6.4 Comments on reply of ONGC

(i) The terms of settlement of December 2009 entailed huge additional liabilities and responsibilities on ONGC compared to the terms approved by the Board in October 2008. Agenda papers for the Board meeting of June 2010 did not highlight or seek approval or even ratification of the terms of settlement of December 2009 from the Board. The fact remains that the Board was not apprised of the implications and details of the terms of settlement reached with the approval of CMD in December 2009. The contention that investment in the project would have idled for want of settlement agreement needs to viewed in the light of the fact that the project was yet (January 2015) to be completed. The expenditure incurred by ONGC on the contract with CEL was, thus, irregular as it did not have the approval of its Board.

(ii) As far as the replies to the audit findings on the adverse financial implications of the terms of settlement of December 2009 are concerned, the fact remains that ONGC had agreed to the same without taking even preliminary precautions as it had restricted the joint verification exercise to only the number of packets and boxes (only for specified equipment/materials) without inspecting the equipment/materials contained therein. Thus, ONGC had taken the risk of additional liability towards quality and usability of equipment/materials without due diligence and went beyond the approved terms of settlement of October 2008.

(iii) Coming to the additional liability that ONGC had taken upon itself on account of accepting the equipment/materials on 'as is where is' basis, without ascertaining their usability and quality, ONGC had time available from October 2008 to December 2009 during which the status of critical equipment/materials could have been verified. As regards the payment of rentals (USD 10.4 million) for tools, namely TRT and IWOCs for additional 221 days, the fact remains that CEL had not resumed work beyond June 2006 even when repeatedly asked to do so by ONGC. Also, the tools had become unusable as these were damaged and lost on 'parting of riser'[•] (August 2006) due to rough seas when CEL personnel were not available for operating the tools. Moreover, rentals for TRT and IWOCS, were not payable by ONGC as the same had already been paid to CEL as part of the payment for the work done by CEL till termination of the contract. CEL had also got the benefit of additional amount of USD 3.3 million which, ONGC had admitted, was not on account of rentals.

Conclusion

By entering into a Settlement Agreement with CEL, without conducting due diligence, and whose terms and conditions were not approved by its Board, ONGC obtained a reduction of only USD 0.7 million while it ended up paying (i) a settlement sum USD 32 million (₹149.37 crore) to CEL for 'out of court' resolution of disputes with CEL, besides incurring additional expenditure of USD 66.34 million (₹ 342.34 crore) in deviation of terms approved by the Board in October 2008 for such a resolution. The assumption of additional financial liabilities (₹ 342.34 crore) was irregular as it did not have the approval of the Board and was not in the financial interests of ONGC. In addition, ONGC incurred an avoidable expenditure of USD 13.7 million (₹ 63.79 crore) on payment of rental for tools which had been paid to CEL under the already terminated contract. The project for development of the oil and gas fields remained incomplete (January 2015) as against the revised target date of April 2010 while projected revenues of ₹ 1,500 crore per annum remained unrealised.

The matter was reported to the Ministry (March 2015); their reply was awaited (March 2015).

3.7 Follow-up IT Audit of implementation of Material Management module in Oil and Natural Gas Corporation Limited

3.7.1 Introduction

In October 2003, Oil and Natural Gas Corporation Limited (Company) implemented enterprise resource planning (ERP) package, the SAP-mySAP Financials and Logistics, under the project Information Consolidation for Efficiency (ICE) incorporating all ten

[•] ***Riser: It is a conduit that provides a temporary extension of a sub-sea well to a surface drilling facility.***

modules[1] along with mySAP Oil & Gas Upstream Solutions. ICE went live across the organization between October 2003 and January 2005[2].

The implementation of Material Management (MM) module in the ERP System of the Company was reviewed by Audit during 2005-06 and the audit findings were reported in Chapter VI of C&AG's Audit Report No.10 of 2007. Audit had also made a set of recommendations based on the audit findings and the Company had assured corrective action to address these concerns.

A follow-up audit of the present status of implementation of MM module of ERP package in the Company was taken up to review the action taken by the Company's Management on the audit recommendations made in the chapter VI of the Audit Report no. 10 of 2007. The implementation of the MM module was reviewed for the period April 2011 to March 2014.

3.7.2 Audit Methodology and limitations

The methodology adopted during audit was as below:

- Discussion with the Company, correspondences and questionnaire issued to the management and its feedback.
- Data extraction using the standard and in-house Reports and analysis thereof using MS EXCEL/MS ACCESS.

The limitations faced by Audit were:

- Audit Information System (AIS), an auditing tool configured within SAP and designed for facilitating business and system audits was not implemented.
- Access to SAP Query and SAP Data Browser was not available.

3.7.3 Audit Findings

The follow up audit findings are discussed in subsequent paragraphs:

3.7.3.1 Recommendation 1 - Strengthening input controls, validation controls and internal control procedures to ensure accurate and timely capture of data

Analysis during the follow-up audit revealed that data inconsistencies resulting from inadequacy of input controls, validation controls, internal control procedures as observed in the past audit *continued to exist* as brought out below:

(a) Purchase Order with wrong valuation type

Split Valuation Procedure (SVP) was configured in the ERP System for stores and spares items where separate weighted average cost was maintained for each 'material type'

[1]Financial (FI), Controlling (CO), Material Management (MM), Plant Maintenance (PM), Project Systems (PS), Investment Management (IM), Asset Management (AM), Treasury (FM), Sales & Distribution (SD), Business Information Warehouse (BW).

[2] Initially, SAP version 4.6C was installed on HP UNIX operating system and platforms with Oracle database management system to store data in SAP which was upgraded to ERP 6.0 in 2009 with Oracle 10g as data base.

based on corresponding 'valuation types' configured in the System. It was commented in para 6.7.1.1 of Chapter VI of Report No.10 of 2007 of the Comptroller and Auditor General of India (C&AG) that the inadequacy of input controls resulted in wrong entries of 'valuation type' of material in purchase orders (POs), leading to incorrect material accounting, lack of data integrity and incorrect MIS.

The Company had stated (November 2007) that a validation would be put in the System to ensure that POs on indigenous vendors do not accept valuation types for imported materials and vice versa.

Analysis in the follow up audit, however, revealed that 47 POs for 371 items valuing ₹ 7.45 crore were posted during 2011-14, in which the 'valuation type' of material was inconsistent with the PO types i.e. the valuation types relevant for imported PO were entered in case of indigenous PO and vice versa (**Annexure-III**).

The Company replied (March 2015) that the valuation type entered in all the 47 POs was correct except in case of one PO; however, while creating these POs, error in entering the "document type" led to creation of an indigenous PO instead of an imported PO and vice-versa.

This implies that validation to ensure that POs on indigenous vendors do not accept valuation types for imported materials and vice versa had not been put in place to prevent such errors yet, though it had been assured by the Company in November 2007.

(b) Delivery date in Purchase Order

The entry of correct scheduled delivery dates for materials in the ERP System as per the terms and conditions of relevant PO was vital to monitor the supply of materials against requirement, performance of the vendors and the completion of POs.

It was commented in para 6.7.1.3 of Chapter VI of C&AG's Audit Report No.10 of 2007 that no input controls were in place for entering the scheduled delivery date of material in the POs and that the scheduled delivery dates were prior to the date of the PO in certain cases. It was further observed that the date of actual delivery of the supplies was not being captured in the System.

The Company had stated (November 2007) that the scheduled date of delivery depended upon the delivery period quoted by vendor and it was not possible to put any validation in the System for that. The actual date of delivery was proposed to be captured through manual entry by purchase officers in a report developed for the purpose.

During follow up audit it was observed that the date of actual delivery of the supplies was being captured in the System through an in-house developed programme. However, test check♥ revealed that 48 POs for 159 items had been created with scheduled delivery dates prior to the PO dates by a period ranging from 2 to 614 days. Thus, incorrect scheduled delivery dates in the POs continue to be entered. It was further observed that POs with

♥ ***POs released during 2011-14 with actual delivery of materials incomplete as of September 2014 and February 2015.***

future 'document dates'♣ also existed in the System indicating deficient input controls/validation checks **(Annexure-IV)**.

Due to incorrect capturing of the scheduled delivery date, the MIS data on procurement and execution of PO could not be correctly generated, liquidated damages continued to be worked out manually and the inbuilt reminder feature in the SAP for issuing automatic reminders in case of delays in delivery could not be used.

The Company replied (March 2015) that validation for delivery date could not be implemented because in certain situations like Board purchase and urgent procurements PO had to be placed for regularization after materials are delivered. The Company also stated that liquidated damages are partly subjective in nature and are required to be worked out manually based on the PO and the contract conditions. As regards 'document dates', it stated that system modification to default the date of creation of PO as the document date to avoid such discrepancies shall be examined.

Contention of the Company that the anomaly in PO dates was to regularize emergency purchases was not acceptable. The analysis of Audit was based on POs in 2011-14 with incomplete delivery as of September 2014/February 2015, hence, these could not be cases of regularization of materials already received. Further, the requirement in case of emergency/regularization cases can be taken care of as exception while putting in place the validation for delivery dates in POs.

(c) Non clearance of Stock in Transfer

Stock Transport Orders (STOs) are created for internal transfer of material. A Goods Issue document posted by the issuing store was to be complemented by a Goods Receipt document by the receiving store to complete the documentation, pending which the material transfers remain as 'stock in transfer' under inventories.

It was commented in para 6.7.1.5 of Chapter VI of C&AG's Audit Report No.10 of 2007 that there were instances of delayed posting and non-posting of Goods Receipt documents in respect of internal transfer of goods resulting in accumulation of large balances in 'Stock in transfer' indicating lack of internal controls in ensuring timely capture of all the stocks received in the System. It had also been observed that there were cases of stock transfers where the items were included as 'Stock in transfer' in the System even though the transferred materials had already been posted as consumed in financial records.

The Company had stated (November 2007) that a validation would be put in the System to disallow further STOs where material remained in transit for more than two months and where the available stock at site was more than two months average consumption.

The follow up audit indicated that, stock transfers for 68,904 items worth ₹ 75.77 crore were found lying un-cleared (August 2014) for over six months with the period of non-clearance of stock transfers ranging up to more than ten years (**Annexure-V**). Analysis of the Goods Issue documents remaining in transit as of August 2014 further revealed that

♣ ***Document date denotes the date of creation of PO.***

89 cases valuing ₹ 0.82 crore which were included as 'Stock in transfer' in the System, had already been posted as consumed in financial records.

The Company replied (March 2015) that validation was already in place in the system to stop further procurement if stock in hand was more than twice of maximum consumption during last four years. The stock in hand figure was derived after including stock transfer out documents lying un-cleared with the indentors, thereby systematically compelling the indentors to clear the stock transfers. As to the 89 cases pointed out by audit, it was stated that 87 of these cases had been settled.

The reply is not acceptable as the stated validation had not been effective to ensure timely clearance of Stock Transfers. Further, the corrective action had not been taken to check instances of material remaining as 'Stock in Transfer' even though consumption had been posted.

(d) Physical Verification Process

Physical verification of fixed assets was conducted by stock verification teams, annually for 'A' and 'B' category assets and every third year by rotation for 'C' category assets. The availability status on verification of each asset was updated in the System and a discrepancy report was sent to the indentors to confirm/ reconcile/ locate the discrepant assets for updating in the System. The physical verification policy also provides for perpetual verification of stores, spares and capital items on stock (CIOS) based upon the category of the material whereby the CIOS are verified annually and 'A', 'B' and 'C' category stores and spares are verified annually, biennially and triennially respectively.

It was commented in para 6.7.5 of Chapter VI of C&AG's Audit Report No.10 of 2007 that physical verification of assets, CIOS and stores and spares was not being conducted regularly and completely. Further, large number of discrepancies in stock verification of assets was outstanding for want of final settlement without any age analysis.

The Company had stated (January 2009/June 2010) that effort would be made to get the inventory verified regularly and age analysis of discrepancies in stock verification would be incorporated in the System.

Analysis in follow-up audit revealed as under:

(i) Physical Verification of Assets and Stores and Spares

Physical verification of assets was not being conducted as per the prescribed frequency. Analysis of assets having gross book value over ₹ One lakh each in February 2015 revealed that 4,052 assets (₹ 391.62 crore) out of 81564 assets (₹ 99,238.49 crore) had been last verified during 1992-2013 **(Annexures VI, VII and VIII).** It was further observed that last inventory date in respect of 4,918 items (₹ 2,864.14 crore) was not available in the System and 3055 assets (₹ 164.08 crore) having gross book value over ₹ One lakh each were in deficit. Further, 417 real estate assets viz. land, buildings, godowns, warehouses, workshops, helipads, bunk houses, roads, walls, canteens, bungalows, drill sites, sheds, garages, etc. were being shown as in deficit in the System. In respect of stores, spares and capital items on stock (CIOS), there were shortfalls ranging from 43 to 86 *per cent* in verification at various locations during 2011-14 (**Annexure-IX**).

The Company replied (March 2015) that many of these Assets were uploaded in the ICE system from the erstwhile legacy data without verification, these are appearing as 'deficit' and all units are being advised to identify and take action for reconciliation of such items. Further, a Real Estate module had been created in ICE to upload Real Estate Assets of the Company with supporting documentation duly reconciled with the Asset Master; once the exercise of mapping and uploading was completed, it was expected that gaps as had been pointed out by Audit will be minimized.

The reply does not explain why the legacy data uploaded as early as in 2003 could not be reconciled even after more than ten years.

(ii) Age Analysis of Deficient Assets

Age analysis of all discrepant assets (on 26 September 2014) revealed that 15,525 items (₹ 221.69 crore) were in deficit for periods ranging up to more than twenty years (**Annexure-X**). It was further observed that whereas the 'date since when an asset was in deficit' could not be later than its last verification date, in case of 919 assets (₹ 15.24 crore), the date of deficit was later than the last inventory dates in Asset Master by up to more than five years (**Annexure-XI**). Further, 1,355 items (₹ 14.61 crore) were reported to be in deficit since their capitalization date.

Thus, the System had not been configured with necessary data input controls leading to incorrect MIS and non-achievement of the organizational objectives attached with the physical verification process.

The Company stated (March 2015) that data for most of the assets which had been deficit for very long periods was migrated to the SAP system from erstwhile legacy data without complete verification. It further stated that the program to update the status of Asset (deficit/Available/surplus), based on Asset verification, was usually run on or after the verification date; this date was captured as the reporting date and there was always a possibility that date of deficit reporting was later than last inventory date.

The reply needs to be viewed in the context that the legacy data had been uploaded in the System in 2003 and it should have been reconciled by now. Further, though the program to update the verification status might be run on after the verification date, but the same could not be five years later than the verification date.

(iii) Reconciliation of discrepant Assets

A capital indentor was authorized in every section to get the assets issued to the ultimate users called custodians of the assets for custody and maintenance of fixed assets. In case of separation/retirement/transfer, the indentors must transfer the assets in the name of the employee taking over the role in their place before relinquishing charge.

Analysis of the indentor details of 14,502 deficit assets (on 02 September 2014) revealed that 984 deficit assets (₹ 11.79 crore) were in the name of 51 indentors who were no longer in the service with the Company, 1,669 deficit assets (₹ 30.21 crore) were with 118 indentors who were no longer working at the place of location of assets, having been transferred long back with period ranging back up to October 2001, 7,200 deficit assets (₹ 75.34 crore) were with 365 dummy indentors and 2,165 deficit assets (₹ 40.31 crore) were with 126 indentors in respect of whom details of current status of service/ posting were not available from the reports generated from Human Resource (HR) master data[1].

The Company replied (March 2015) that Asset Custodian Reports in WEBICE (in-house portal for employees) and another report (ZHRCAPREPO) in SAP are already available to view the assets that are in the custody of the employee. Further, a new functionality in the system was under development to transfer/hand over asset to new indentor at the time of transfer or separation of the existing indentor.

The reply was not acceptable as no procedures had been put in place by using the already available reports to ensure compliance of business process for handing over of assets.

(iv) Discrepancies in In-house developed Reports

In-house reports had been developed by ICE team for generating the MIS data on *age analysis of discrepant assets*[2] as well as *category and indentor wise asset verification status summary*[3]. Comparative analysis of the two reports (on 26 September 2014) revealed that the number and gross book value of 'A', 'B' and 'C' category of assets in deficit in the two reports was not tallying with each other (**Annexure-XII**) leading to incomplete MIS and erroneous reporting.

3.7.3.2 Recommendation 2 - Strengthening the role of the MRP controller through the system and optimizing system use by fixing minimum, maximum and reorder levels

The SAP had Material Requirements Planning (MRP) feature through which minimum, maximum, safety and re-order stock levels for various items of materials can be defined to ensure their continued availability when needed as also to ensure that funds are not unnecessarily tied up in excess inventory holding. The MRP functionality can be utilized to generate a PR for procurement whenever the stock level of material reaches its re-order level.

It was commented in para 6.7.2.1 of Chapter VI of C&AG's Audit Report No.10 of 2007 that the stock holding was not in consonance with the actual requirement or consumption. Further, cases were observed where capital items were lying unused in stores for long periods whereas the same were required to be issued to the users immediately on their receipt.

The Company stated (January 2009/ June 2010) that automatic MRP controller could not be made applicable for the Company because of varied requirement of highly technical nature which depended upon the work plan. However, the feasibility of fixing various levels for items of regular consumption and of general nature was being examined.

---

[1]***SAP T-Codes - ZHR_EMPHIST and ZHREMP_DETAILS***
[2]***SAP T-Code - ZFIAMDFCT***
[3]***SAP T-Code - ZFIVERIABC***

It was observed that the maximum, minimum, safety and reorder levels of inventory holding had not been fixed and despite implementation of the ERP System, material requirement planning was being carried out manually which remained subjective.

(a) Store Items

Analysis of inventory holding vis-à-vis consumption of 12956 store items having average stock value of ₹ 732.41 crore spread over 15 drilling plants[♥] during 2011-14 revealed 536 store items spread over 14 plants with 'nil' consumption where the average stock value (₹ 73.32 crore) exceeded ₹ One lakh each. There was no stock movement in 364 of these items of average stock value of ₹ 42.34 crore and there were 149 store items spread over 14 drilling plants where average inventory holding showed overall increase of more than ten times over 2011-14 with material valuing ₹ 16.24 crore having been purchased afresh despite 'nil' consumption.

The Company replied (March 2015) that a validation to stop further procurement if stock was more than two times/1.6 times of maximum consumption during last four years in case of stores/ spares items respectively was already in place.

The reply was not acceptable as the stated validation was of universal nature and could not substitute for MRP control through the optimization of system by fixing itemized minimum, maximum and reorder levels, as was illustrated from the fact that in case of 149 store items the average inventory holding showed overall increase of more than ten times with material valuing ₹ 16.24 crore having been purchased afresh despite 'nil' consumption.

(b) Capital Stores

While capital items are to be issued to the concerned indentor soon after receipt, 1,132 capital items valuing ₹ 44.28 crore were lying in stores awaiting issue from a period ranging up to more than ten years (**Annexure-XIII**).

The Company replied (March 2015) that necessary guidelines on receipt and issue of capital items had already been issued in October 1996, nevertheless, instructions are being re-iterated to regularize/liquidate CIOS items at the earliest.

3.7.3.3 Recommendation 3 - Cleaning of migrated master data to rectify the errors that had crept into the ERP system and establishing comprehensive procedures for periodical review of master data

While implementing SAP ERP System in 2003, the existing data from the erstwhile 'Integrated Materials Management System' (IMMS) was migrated wherein certain gaps relating to incomplete codification details in the material master data migration processes run by the organization were observed and commented in para 6.7.4 of Chapter VI of C&AG's Audit Report No.10 of 2007.

[♥] ***Agartala, Ahmedabad, Ankleshwar, Baroda, Cambay, Dehradun, Jodhpur, Jorhat, Karaikal, Kolkata, Mehsana, Mumbai, Nazira, Rajahmundry, and Silchar***

The Company had informed (November 2007) about cleaning of material master data whereby materials with duplicate codes without complete details were blocked for further procurement leading to correction of material master data.

During the follow up audit, the errors in the migrated master data pointed out by audit in para 6.7.4 of Chapter VI of C&AG's Audit Report No.10 of 2007 were found rectified.

3.7.3.4 Recommendation 4 - Organizing regular training programmes to raise the level of user awareness and minimize errors of data input and making available updated operational documentation to the end users

Analysis of data and information during the follow-up audit revealed that the data inconsistencies resulting from lack of user awareness and errors in data input as observed in the past audit continued to exist indicating inadequacy of action taken by the Company to raise the level of user awareness as brought out below:

(a) Creation of fresh purchase requisition with earlier requisitions pending

A Purchase Requisition (PR) in the System was the trigger for procurement activity and was the primary document created in the procurement process which shows the genuineness of requirement and indicates administrative approval/sanction for procurement.

It was commented in para 6.7.1.4 of Chapter VI of C&AG's Audit Report No.10 of 2007 that on one hand PRs were pending in the System without either any procurement action or closure for long time, on the other hand, fresh PRs for some of those items were also created and procurement action taken thereon.

The Company had informed (November 2007) about creation of a transaction code for deletion of unedited PRs and training of MRP controllers for not releasing fresh PRs if a requisition for the same material already existed in the System.

Analysis in follow up audit revealed that 12,774 PRs for 34,279 items with delivery dates prior to 31 March 2011 were pending in the System as of September 2014 without any procurement action or closure. Further analysis in four Plants[♠] revealed that while on one hand 173 such PRs of 2008-11 for 997 items were lying without any action, on the other hand 43 fresh PRs for 45 of these items were also created and processed during 2011-14 (**Annexure-XIV**).

The Company replied (March 2015) that functionality for deletion of such PRs had already been made available and a circular had been issued for advising deletion of such PRs where procurement action was not required.

(b) Delay in recording material consumption

Consumption booking of materials was an important process in materials management as materials issued to users from stores remain part of the inventory till actual use in operations. On actual consumption, an entry was required to be made in the System so

[♠] ***Ankleshwar Asset, Ahmedabad Asset, Corporate Services Dehradun and Drilling Services Mumbai*** that it was removed from inventory and its costing takes place in the accounting/financial information.

It was commented in para 6.7.1.6 of Chapter VI of C&AG's Audit Report No.10 of 2007 that the material consumption was not being captured in the System in a timely manner leading to mismatch between the actual physical stock available and the inventory figures appearing in the System and resulting in accounting of material consumption in the incorrect period thereby distorting the accounting/ financial figures.

The Company had stated (November 2007) that a validation would be put in the System to ensure timely booking of the consumption.

Analysis in follow up audit revealed that in 102 exploratory wells completed during 2012-13, materials valuing ₹ 143.39 crore were posted as consumed with delays ranging up to 690 days after the well completion dates (**Annexure-XV**) of which the material valuing ₹ 133.98 crore was of the nature consumed during drilling process (**Annexure-XVI**). Further, material valuing ₹ 18.26 crore consumed prior to 31 March 2013 was booked to consumption during 2013-14.

The Company replied (March 2015) that instructions are issued for booking consumption in time and close the pending STOs. Further, all work centers are informed of their material at site and material in transit on a regular basis for its liquidation through booking of consumption.

(c) Open Purchase Orders with balance quantities

When the delivered quantity of the material was marginally less than the ordered quantity and the balance quantity was not expected, the PO needs to be closed as completed in the System to free the funds attached with balance quantity for utilization elsewhere.

It was commented in para 6.7.2.3 of Chapter VI of C&AG's Audit Report No.10 of 2007 that the System had neither been configured to close or trigger closing of such POs nor were such POs being reviewed periodically for closure.

The Company had stated (November 2007) that instructions had been issued to Purchase Officers to regularly review such POs.

However, analysis of open POs with delivery date prior to 31 March 2014 and residual quantity of less than 10 *per cent* of the ordered quantity as in August 2014 revealed that 557 POs of this nature involving funds of ₹ 12.87 crore attached with the residual quantities were yet to be closed (**Annexure-XVII**).

The Company replied (March 2015) that though the System was configured to close such POs automatically but the tolerance limit had been set at zero *per cent* because it was felt that closure of such POs should be deliberate and not automatic.

The reply of the Company was not acceptable as appropriate procedures to ensure timely manual closing of such POs should have been put in place as continuation of such open POs resulted in blockade of funds on residual quantity.

Conclusion

The follow up audit indicates that despite the passage of significant time (over eight years) since the earlier audit, input controls, validation checks, compensating internal control procedures and user awareness deficits pointed out in the last audit had not been adequately addressed to ensure accurate and timely capture of data. Of the four recommendations made in the last audit report, action had been taken on only one, despite assurances of the Company for appropriate action as early as 2007-08.

The matter was reported to the Ministry in March 2015; their reply was awaited (March 2015).

3.8 Under-utilization of Water Injection Platform despite revamping

Water Injection platform (WIN) commissioned in 1984 is the main water injection hub in Mumbai High North field of Oil and Natural Gas Corporation Limited (Company). Non-synchronization of WIN revamping project with repair/ replacement of its associated pipelines and delay in overhauling of Main Injection Pumps led to non-achievement of the designed water injection capacity even after incurring an expenditure of ₹ 726.50 crore.

Water injection is the methodology used for better reservoir management to sustain production from a matured field. WIN Platform of Oil and Natural Gas Corporation Limited (Company) was commissioned in 1984 and is the main water injection hub in its Mumbai High North (MHN) field with water injection capacity of 340000 barrels water per day (BWPD). Due to ageing, harsh saline environment, the condition of several systems and main equipment of this major complex deteriorated and leakages developed in pipelines (WIN-WI3, NR-N7 and N8-NQO). Resultantly, the operational capacity of WIN Platform got reduced to 2,90,000 BWPD by March 2008 and the Platform was not able to meet the increasing demand of water injection for reservoirs of MHN field. Hence, the Company felt (March 2008) the need of revamping of water injection facilities on WIN Platform, repair of the pipelines and repair/ replacement for better reservoir management and also to increase the recovery factor from the ageing fields.

In May 2008, the Company approved revamping of WIN platform envisaging average peak water injection at 3,12,720 BWPD. Revamping job broadly included revamping of motors of Main Injection Pumps (MIPs) and other associated equipment/components, control system *etc.* The revamping project was awarded (February 2011) to a consortium of M/s Leighton Contractors (India) Private Limited, Mumbai and M/s. Das Offshore Engineering Private Limited, Navi Mumbai at a cost of US$ 141.24 million (₹ 726.50 crore). The project for revamping of WIN platform was completed in July 2012.

Audit observed that:

- Output from WIN platform declined after revamp instead of targeted improvement. The pre-project operating rate of WIN platform (March 2008) was 2,90,000 BWPD while the post project operating rate (August 2012) was only 2,38,767 BWPD. The performance, however, slightly improved to 2,52,407 BWPD by November 2014. The envisaged improvement in performance

(3,12,720 BWPD) had not been achieved so far (January 2015). In fact, an analysis of the month-wise information from August 2012 to November 2014 revealed that the facility had never reached even the pre-project performance of 2,90,000 BWPD.

- At the time of approval of the project (May 2008), the Company was aware that three pipelines connecting WIN and WI3 platforms (WIN-WI3 pipeline), NR and NR-7 platforms (NR-N7 pipeline) and N8 and NQO platforms (N8-NOQ pipeline) associated with WIN platform for water injection were leaking. However, the Company carried out replacement of WIN-WI3 pipeline in February 2011, and a partial replacement of damaged section of NR-N7 in April 2014. The third pipeline (N8-NQO) had not been repaired/replaced as yet (January 2015).

Thus, non-synchronization of revamping of WIN project with the requisite repair/ replacement of its associated pipelines, shortage of water injectors (WIs) and delay in overhauling of MIPs without planning the remedial action in a holistic manner led to non-achievement of the designed water injection capacity of the platform even after incurring an expenditure of ₹ 726.50 crore.

The Company replied (January 2013) that in WIN Project, the shortfall was on account of leakages in water injection lines *viz.* WI3-WI2, NR-N7 and WIN-NQO. As a result, fourth MIP with a capacity of 90,330 BWPD was not available for water injection. The Management also attributed the issue to shortfall of WIs and stated that overhauling of the fourth MIP would increase the water injection capacity of WIN platform.

Reply of the Company needs to be considered in the light of the tardy and inefficient action as stated below:

- Problems had been experienced in the water injection lines of the WIN platform as early as 2008. Though repairs of the pipelines had been envisaged at the time of seeking approval for revamping of WIN platform (May 2008), and the pipelines had outlived their lives, completion and synchronisation of this activity was not ensured with the completion of revamping of WIN platform. Leakages in the pipelines were being repaired as and when detected.
- Along with the envisaged revamp of the WIN platform, proper functioning of the water injection pipelines was essential for attaining its targeted capacity. As per pipeline replacement policy of the Company, the life of water injection pipeline is 15 years from the date of commissioning. Water injection pipelines associated with WIN platform were also commissioned with the commissioning of the platform in 1984 and, hence, ought to have been replaced after 15 years as per the pipeline replacement criteria decided in October 2003.
- Though the Company had included replacement of pipeline connecting NR and N7 platform in the Pipeline Replacement Project (PRP) (2008-11), NR-N7 had not been taken up for full replacement as yet (January 2015). This also resulted in non-achievement of the water injection targets. Pipeline for WIN-NQO was neither repaired nor included in PRP project though there was continuous leakage from the pipeline.

- The MIPs were as old as the WIN platform. Overhauling of two MIPs was completed during December 2012 to January 2013 and that of the remaining two was pending till January 2015. This also impacted the water injection and non-achievement of the designed capacity.

The matter was reported to the Ministry in February 2014; their reply was awaited (March 2015).

3.9 Avoidable expenditure due to change in scope of work after the award of contract and interface problems among the constituent projects

Oil and Natural Gas Corporation Limited (Company) altered the scope of reconstruction/revamping of an oil complex (*viz.* SHPC) subsequent to its award to the Contractor which led to delay in completion of the project and avoidable expenditure of ₹ 32.29 crore. Also, interface issues not visualized by the Company for execution of reconstruction/modification of another oil complex (*viz.* NQPC) led to delays and avoidable expenditure of ₹ 55.30 crore.

Among others, South Heera Process Complex (SHP Complex) and NQ Process Complex (NQP Complex) of Oil and Natural Gas Corporation Limited (Company) are two of the oldest oil complexes located in Mumbai High field off the west coast of India. SHP Complex comprised five platforms *viz.* SHQ, SHP and SHD commissioned in 1984, and SHG, SHW commissioned in 1994. Similarly, NQP Complex comprised four platforms *viz.* NQO and NQD commissioned in 1985, NQG in 1986 and NQP in 1994.

Due to aging and saline environment, condition of some of the systems and equipment installed at these Complexes/platforms deteriorated resulting in increase in maintenance related problems. Accordingly, the Company decided for a major revamp/reconstruction of these Complexes/platforms and associated facilities. As these oil complexes were brown-fields, their revamping required shutdown of the live platforms. A thorough study and planning prior to award of work was needed so as to avoid delay and extra cost in execution of work. Examination in audit revealed the following:

A. Revamp of SHP Complex

The Company awarded (March 2005) the work (SHRC project) of revamping of SHP Complex to M/s Larson and Toubro (Contractor) for ₹ 185.37 crore for completion by 30 April 2006. The scope of work included revamping of fire and gas system, replacement of main oil line pumps, raising level of helideck on one of the platforms (SHQ), installation of Walkway Bridge and installation/commissioning of distributed control system.

Audit observed that the Company had awarded the project on the basis of a design and drawings prepared on the basis of 25 years old documents/drawings available with it and, thus, in the absence of drawings updated with reference to modifications carried out in the intervening period, the drawings handed over to the Contractor had to be changed during execution of the project. The project was finally completed on 29 May 2008 with a delay of 2 years.

The Company attributed the delay to the Contractor on account of repetitive surveys, incomplete drawing, delay in procurement of equipment and mobilisation of marine spread. The Contractor, however, refuted the Company's arguments and claimed that the delay was due to (a) modification in scope of work after award of the contract; (b) delay in approval of engineering drawings, (c) shut down of SHP complex not allowed as per schedule; (d) delays and denial in issuing and adapting to the mode of working of the other permits; (e) denial of access to worksite and (f) consequent standby/idling of barge. The Contractor claimed ₹ 85.48 crore on these counts.

The Contractor referred the claim to an Outside Expert Committee♣ (OEC) on 18 September 2009. Based on recommendation (11 November 2010) of OEC, the Company paid (17 October 2011) an additional amount of ₹ 28.31 crore to the Contractor.

As the platform was not shut down and not made available to the Contractor for 14 days in season 2005-06, the Contractor had to deploy its barge for additional days and incurred additional expenditure. Claim (₹ 23.62 crore) of the Contractor on this account was paid (October 2011) by the Company to the extent of ₹ 3.98 crore on the recommendation OEC.

Audit observed that scope of the work was not determined clearly by the Company before award of the project to the Contractor and, *inter alia*, it proposed alterations subsequent to award of the project which led to delays and avoidable expenditure of ₹ 32.29 crore during execution of the project.

B. Revamp of NQP Complex

The work of reconstruction of NQP Complex was awarded to the same Contractor as in 'A' above for US$ 76.79 million + ₹ 561.71 crore in June 2007 to be completed by 08 May 2009.

During execution of the project, three constituent projects (*viz.* NQ-RC, NQD-Revamp and PRP-II) of revamping were being concurrently executed at NQP Complex by different contractors which necessitated multiple barge deployment. Progress of work on all the three projects encountered interface issues which were not anticipated by the Company before award of all the three projects simultaneously. As a result, the Company could provide only intermittent access to the barges which hindered the timely completion of the project. The interface problems among the constituent projects led to extension in barge deployment upto 150.6 barge days by the Contractor. The Contractor claimed US$ 18.825 million (₹ 84.71 crore)♦ for the additional days. Claim of the contractor on this account was referred (11 March 2010) to an Outside Expert Committee (OEC). OEC found the Company responsible for the delay of 90.4 barge days. Accordingly, the Company admitted the claim of the Contractor for US$ 11.3 million (₹50.85 crore). Further, OEC also observed (27 April 2011) that deployment of cargo barge for another 30.9 barge days was also attributable to the Company. This led to an additional

♣ ***OEC- A mechanism adopted by the Company to resolve disputes between the contractor and the Company.***

♦ ***For 150.6 barge days @ US$ 125,000 per barge day. 1USD = INR 45.***

expenditure of US$ 0.99 million (₹ 4.45 crore). Thus, on the recommendation of OEC, the Company accepted the contractor's claim of ₹ 55.30 crore.

Thus, interface problem not visualized by the Company before award of project led to delays and avoidable expenditure of ₹ 55.30 crore.

The Management stated (January 2013) that OEC had taken a broad overall view and recommended the claim. OEC's recommendations were accepted by the Company with a view to settle disputes amicably in a time bound manner.

Reply is not convincing. OEC had not admitted the claims of the Contractor in totality and as per its judgement awarded the claim in favour of the Contractor to the extent the additional cost was attributable to the Company. Audit has considered only such parts of the claims as were recommended by OEM and were accepted by the Company.

The matter was reported to the Ministry in February 2014; their reply was awaited (March 2015).

3.10 Extra expenditure due to retendering at the instance of a technically disqualified bidder

Oil and Natural Gas Corporation Limited awarded a tender for two projects – (i) Redevelopment of Heera and South Heera Phase II and (ii) Advancement of development of phase III of C-series cluster to the lowest bidder *viz.* 'A'. On representation by a technically disqualified bidder viz. 'B', negotiations were held with party 'A'. On refusal by 'A' to agree to the terms of negotiation, the work was re-tendered resulting in additional expenditure of ₹ 19.45 crore.

Oil and Natural Gas Corporation Limited (the Company) approved (March 2012) 'Heera Redevelopment Phase II pipeline project'. In the same meeting, the Company also approved 'Advancement of development of Phase III of C-series cluster'. A common tender for procurement of pipelines for both the projects was floated in May 2012 with the scheduled placement of Notification of Award (NOA) by 29 October 2012 and scheduled completion of the project by 30 April 2014. Six bidders submitted (September 2012) their bids of which five were found (December 2012) technically acceptable. The bid of a party 'B' was technically not accepted as the party did not fulfill the requisite experience criteria. Party 'B' represented (December 2012) against this decision to ONGC which was turned down.

The Company opened the price bids of five technically qualified bidders on 1 January 2013 and found the bid of party 'A' for USD 190.24 million[1] to be the lowest. Party 'B' again represented (December 2012) to Independent External Monitors (IEM)[2] stating that it had been subjected to discriminatory and unreasonable treatment by the Company. IEM concluded that the Party 'B''s reply to

[1] The quoted price for the portion of Heera Redevelopment Pipeline Project was USD 98.67 million.

[2] This is an internal arrangement devised by the Company consisting of 1 to 3 members from a panel of senior government officials to resolve disputes relating to bid evaluation, awarding of contract etc. Observations of IEM are recommendatory in nature. (Source: ONGC's presentation in 'Business Partners' Meet held on 20 and 21 July 2013.

the Company's request for clarification was factually incorrect and that the party had claimed experience for installation of pipeline works without possessing it. Party 'B' again addressed (January 2013) a letter to the Company stating that its bid was lower by USD 21 million than the lowest offer received in the price bids. IEM decided (January 2013) that as they had concluded the proceedings on the representation of Party 'B' and the bid of Party 'B' was rejected on technical grounds, the price bid remained un-opened by the Company and, therefore, it could not take any view on an un-opened bid.

Tender Committee (TC) decided (January 2013) that as the price bids of only techno-commercially acceptable tenders were opened and considered for further evaluation, the disclosure of prices by a bidder whose offer was technically rejected could not be given any cognizance. It recommended the award of the work to Party 'A' at the quoted lump sum price of USD 190.24 million[•]. The Executive Purchase Committee (EPC) while reviewing the recommendation of TC, noted (February 2013) that as the revealed price of Party 'B' was substantially lower than the prices quoted by Party 'A', negotiations should be held with Party 'A' to match its price to the revealed price of Party 'B'. Party 'A' refused (February 2013) to match its price with the revealed price of Party 'B' and requested for placement of order without any further delay.

Subsequently in February 2013, TC, which had earlier opined that the price quoted by a technically disqualified bidder ought not to be recognized, recommended rejection of the bid of Party 'A', closure of the tender and re-tendering. EPC accepted (March 2013) the recommendations of TC. As the pipeline work of Heera Re-development Phase II Project had to be finalized on fast track basis, EPC also suggested that it be tendered separately.

Tenders for Heera Re-development Phase II Pipeline Project were floated in March 2013 and the work was awarded (April 2013) to a Mumbai based Party 'C', being the lowest bidder on evaluation of bids in the tendering process, at USD 102.22 million as against quote of USD 98.67 million (as worked out by the Company on like to like basis) of Party 'A' in the last tender. The scheduled date of completion was 15 May 2014.

Audit observed the following:

- The work has been delayed and the contract has already been extended up to 15 May 2015 due to non-availability of free issue material to be supplied by the Company to the contractor.

- The bid of Party 'B' being technically un-acceptable, its price bid had not been opened as per the two bid bidding process mandated in Material Management Manual of the Company. The revealed price of Party 'B' should, therefore, not have been considered. Despite this, the Company asked Party 'A' to match its bid to the revealed price of Party 'B'. Since Party 'A' refused

[•] ***Including USD 98.67 million for Heera project as worked out by the Company.***

to oblige, the tender was cancelled. Re-tendering led to a higher price than the price achieved in the earlier tender.

- Notification of Award (NOA) scheduled to be placed in October 2012 was extended to November 2012 and then to January 2013 and finally planned in March 2013. This significantly reduced the project completion time from 18 months as originally envisaged to 14 months. Party 'A' did not unconditionally accept the extension of NOA beyond 21 February 2013. The tender was closed and the work was re-tendered citing imperative of completing the project before 30 May 2014. The project, however, has been delayed with completion date extended by a year to 15 May 2015.

Thus, by giving credence to the unopened price bid of a technically disqualified bidder and delaying the acceptance of a technically acceptable offer, the Company incurred extra expenditure of ₹ 19.45 crore♥ towards Heera Re-development Phase II Pipeline Project with a delay of one year. The Company, thus, failed to achieve both the objectives of cancelling the tender and re-tendering, namely lower price and completion by 30 May 2014.

The Company in reply stated (October 2014) that though Party 'B' had not indicated their sub-contractors for pipe line installation works, its subsidiary had executed similar projects of the Company in the past with the help of another competent sub-contractor and, hence, it was decided that the price revealed by Party 'B' could not be totally ignored. The Company also stated that as Party 'A' had not confirmed unconditional acceptance of project completion date, its bid was found liable for rejection. Further, the Company stated that in lump sum turnkey (LSTK) tenders, bidders quote for entire work and their bid is evaluated based on lump sum price quoted by them with no component-wise comparison as work is to be awarded on LSTK basis.

The reply is not acceptable as the Company, after considering the technical bids and clarifications received by it from the bidders, had decided that Party 'B' was technically disqualified. IEM had also endorsed the same. Hence, giving consideration to the price revealed by Party 'B' was not correct. The fact that the contractor had not confirmed unconditional acceptance of project completion date has to be viewed in the context of compression of project implementation period by four months and the fact that the project completion date had to be extended by a year following re-tendering owing to non-supply of materials by the Company to the contractor. Had the Company awarded the work to Party 'A' in January 2013 as recommended by TC, the question of Party 'A' not confirming unconditional acceptance of project completion date would not have arisen. The Company had arrived at the price of Party 'A' (the previous lowest tender) at USD 98.67 million by component-wise comparison of the work 'on like to like' basis with the awarded price of USD 102.37 million of the current tender. The extra expenditure as worked out by the Company has been brought out in Audit and, hence, the contention that component wise comparison is invalid in a LSTK contract is not acceptable.

♥ ***(USD 102.22 million – USD 98.67 million)*10,00,000*54.79.***

The matter was reported to the Ministry in November 2014; their reply was awaited (March 2015).

3.11 Extra expenditure due to non-availing of concessional customs duty

Oil and Natural Gas Corporation Limited, though eligible, failed to include a clause in the tender for procurement of capital goods in September 2004, for availing concessional customs duty under EPCG Scheme which resulted in extra expenditure of ₹ 7.41 crore.

Export Promotion Capital Goods (EPCG) Scheme was available since August 2004 for import of capital goods. As per para 5.2 of this scheme, import of capital goods for pre-production, production and post-production was allowed at three *per cent* concessional customs duty subject to an export obligation equivalent to eight times of duty saved on capital goods imported under the scheme to be fulfilled in eight years reckoned from authorisation issue date.

To avail of the EPCG benefits under the scheme, Oil and Natural Gas Corporation Limited (the Company) issued (September 2004) an office order deciding the functional responsibilities. The office order included, *inter alia,* the system of identifying eligible supply orders, preparation of application and obtaining EPCG licences in line with the provisions of the scheme. In July 2008, the Company created a separate EPCG cell at Mumbai for availing EPCG benefits and prescribed the role and responsibility of the cell.

The Company invited (June 2009) tenders through open International Competitive Bidding under two bid system for New Propane Gas Compressor project at LPG-I plant at Uran. The scope included design, procurement, installation of new propane gas compressor (motor driven) and hooking it up with the existing facilities.

The Company awarded the contract to M/s Savair Energy Limited (SEL), Navi Mumbai on 31 March 2010 and entered into a contract with SEL on 29 April 2010. The project, scheduled to be completed within 22 months *i.e.* by 30 January 2012, was finally completed on 17 July 2012.

Audit observed as under:

General Conditions of Contract (GCC) for the bidders published at the time of inviting tenders by the Company indicated that the bidders were not eligible for any concessional customs duty and, hence, advised them to quote their prices by considering normal customs duty as applicable for imported materials.

In spite of deciding (September 2004) the functional responsibilities of its executives for obtaining licences to avail of concessional customs duty on eligible goods under EPCG scheme and constituting (July 2008) a dedicated EPCG cell to identify the Purchase Orders/Contracts for the purpose, the Company failed to incorporate suitable provisions for availing of the benefit in the tender and contract for procurement of new propane gas compressor for LPG-I plant, Uran.

After one year of signing the contract with SEL, the Company realised the necessity of availing of the concessional customs duty at the rate of 3.09 *per cent* instead of normal rate of 23.75 *per cent*[1] and invited SEL (29 April 2011) to discuss on the modalities for availing of the benefit. The Company held (May 2011) discussions with SEL on the matter. However, SEL stated (October 2011) that since (i) EPCG clause was not specified at the time of tendering and was not a part of the contract and (b) the procedure involved in seeking approvals was enormous and the same might not be possible to complete in such a short time and the machine was ready for despatch from the vendor and, hence, requested not to consider the EPCG option at that juncture. The Company again held (November 2011) discussions with SEL on the matter. SEL stated that as the clause was not included in the tender, it had not factored this aspect while quoting for the turnkey contract. Finally, the Company conceded (November 2011) that further action to obtain EPCG benefit was not possible.

Hence, by not including the clause regarding EPCG in the tender conditions, the Company lost the opportunity of obtaining concessional customs duty resulting in extra expenditure of ₹7.41 crore.[2]

The Company stated (September 2014) that availability of EPCG benefit was not specifically informed to bidder during pre-bid/tender processing but sincere efforts were made by it to avail of EPCG benefit. It also stated that ₹ 7.41 crore was deposited as custom duty with the Government of India and no financial benefit had passed on to any private party.

Reply is not acceptable as financial propriety demands that any expenditure should not be more than what the occasion warrants. In the instant procurement, the Company incurred a higher expenditure than warranted. Further, though the amount of ₹ 7.41 crore was deposited as custom duty with the Government of India, the Company could have saved this expenditure by properly safeguarding its commercial interests while engaging in business.

The Ministry forwarded (12 January 2015) the reply of the Company which stated that this case was one of the first cases handled by Offshore Technology and Projects (OTP) department of the Company and that non-inclusion of EPCG clause in GCC of the tender was an unintended omission.

Reply of the Company forwarded by the Ministry needs to be viewed against the fact that the tender for present case was issued in 2009 whereas the Company had availed of the concessional customs duty in EPCG cases on the orders placed even in 2008. Further, the Ministry/Company in its reply (January 2015) has accepted the omission of non-inclusion of EPCG clause in the GCC of the tender.

---

[1] ***Based on Bill of Entry and customs duty paid by the Company.***

[2] ***Actual customs duty paid by the contractor ₹ 8.52 crore minus concessional customs duty payable of ₹ 1.11 crore at 3.09 per cent under EPCG.***

3.12 *Avoidable payment of rental due to abnormal delay in restoration and surrender of abandoned drill sites and approach roads*

Oil and Natural Gas Corporation Limited delayed restoration and surrender of land to land owners on time in respect of 125 drill sites/approach roads that had been abandoned between February 2008 and December 2013 which resulted in avoidable payment of ₹ 6 crore towards rental to the land owners.

Oil and Natural Gas Corporation Limited (Company) acquires land for drill sites to drill wells for production of oil and gas and also land for temporary approach roads therefor either through the land acquisition authorities or a direct agreement with the land owners. Land is acquired initially on temporary basis and entails payment of annual rent to land owners. Subsequently, depending upon the result of the drilling, land is either acquired permanently by the Company or handed over to land owners after restoration. In terms of specific conditions of Environment Impact Assessment Notification of 2006 issued by the Ministry of Environment and Forests (MOEF), the Company is required to take measures to restore the drill site to the original condition after completion of drilling process.

During February 2008 to December 2013, 125 drill sites/approach roads for which land was acquired by three Assets[1] of the Company located in Western Region through a direct arrangement with land owners, were abandoned[2] after declaring the wells dry. The Company decided to surrender land related to such abandoned sites/approach roads to land owners. However, the Company had actually surrendered[3] land relating to only 45 such drill sites/approach roads till October 2014. Land relating to remaining 80 abandoned drill sites/approach roads was yet (October 2014) to be restored and returned to land owners.

Paragraph 10 of the Land Acquisition Manual, 2009 (LAQ Manual) of the Company stipulates that, if a well was found to be devoid of hydrocarbons and declared dry by Drilling Services/Sub-Surface Team (SST), the land acquired on temporary basis under a direct arrangement with the land owners should be handed over by the Company to land owners, after obtaining their consent/option, whether they would like to get the land restored through a contractor engaged by the Company or would restore the same themselves against receipt of restoration charges from the Company. Rentals for a period upto three months were payable to land owners beyond the date of payment of restoration charges.

Audit observed that in respect of land surrendered relating to 45 sites, there was delay ranging between 496 and 2,240 days in restoration and surrender of land to the land owners against the permissible time limit of three months for which rentals were payable as per LAQ Manual of the Company. In respect of land relating to 80 abandoned sites and yet (October 2014) to be surrendered, the delay ranged between 311 and 2,397 days which would continue till actual surrender of these locations. The delay had resulted in avoidable payment of rent of ₹ 6 crore from the date of abandonment even after allowing

[1] ***Asset is a unit of the Company having functions relating to, inter-alia, Development and Production.***
[2] ***AnkleshwarAsset-51, MehsanaAsset-53 and AhmedabadAsset-21.***
[3] ***Ankleshwar Asset-16, Mehsana Asset-23 and AhmedabadAsset-6.***

three months' time for restoration of the sites, till surrender in the case of sites actually surrendered and till October 2014 in respect of sites yet to be surrendered.

The Company in its reply (October 2014) stated that:

- In respect of Ankleshwar Asset, restoration of land was initially taken up by it as farmers did not insist on undertaking restoration of site themselves. However subsequently, on farmers' request, the Asset agreed to pay restoration charges to the farmers. It was decided to pay the restoration charges in 2 tranches i.e. 90 *per cent* of the amount to be paid initially and balance 10 *per cent* on completion of restoration. This change in decision delayed the restoration work by over 2-3 years and consequential payment of rentals to farmers. The number of abandoned wells increased as the ongoing restoration cases could not be considered to be complete till necessary certification as per Gujarat Pollution Control Board (GPCB) and MOEF's guidelines was ensured. The Asset again decided (May/June 2014) that all such drill sites would be restored by the Company and restoration costs would no longer be paid to the farmers. The same practice was followed in respect of Ahmedabad and Mehsana Assets.
- Action had been taken to complete the restoration process on top priority in all the three Assets as a result of which the process had been regularized. In those instances where land restoration was going on, every effort was being made to complete the same after following laid down process as per LAQ Manual and in compliance of MOEF/GPCB guidelines. Meanwhile, in those cases where rental payments were being made as compensation to owners till completion of restoration, the same was considered unavoidable business expenditure.

The reply is not convincing in view of the following:

- Ankleshwar Asset made payment of restoration charges to land owners till March 2009. In March 2009, the Asset decided to carry out the restoration work itself. The land owners did not accept this arrangement and in July 2011 the practice of payment of restoration charges to the land owners was restored. From May/June 2014, the Asset had switched back to its policy of carrying out the restoration work itself. Frequent changes in the policy of restoration of the land had contributed to the delay.
- That delay in restoration work had resulted in payment of restoration charges in 2 tranches, is not acceptable as the delay was due to failure in carrying out the restoration work by the land owners/Asset in a time frame as laid down in the LAQ Manual of the Company.
- Land for only 6 sites had been surrendered and 15 sites remained to be surrendered in Ahmedabad Asset while in respect of Mehsana Asset, land for 23 sites had been surrendered and for 30 sites remained to be surrendered.

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).

ONGC Petro additions Limited

3.13 Defective contracts providing interest free advances to contractors and linking their recovery to progress of work in violation of CVC guidelines leading to loss of interest

ONGC Petro additions Limited (Company) entered into defective contracts with three contractors and extended interest free advances during March 2009 to November 2011 and linked the recovery of these advances to the progress of the related project in violation of CVC guidelines instead of effecting the recovery in a time-based manner and, thus, lost interest of ₹ 49.63 crore from February 2012 to October 2014. Besides this, the Company was yet to recover such advances of ₹ 144.20 crore from the contractors as on October 2014 sustaining further loss of interest.

ONGC Petro additions Limited (Company) is a Joint Venture (JV) of Oil and Natural Gas Corporation Limited (ONGC), GAIL (India) Limited (GAIL) and Gujarat State Petroleum Corporation Limited (GSPC). The Company is engaged in setting up a grass root mega Petrochemical Complex at Dahej, Gujarat. For establishing the complex, the Company awarded (December 2008 to June 2011) three high value contracts which had a provision of extending interest free advance to the contractors:

Sl. No.	Contract	Awarded to	Contract value (₹ in crore)	Date of award	Scheduled completion
1.	Duel Feed Cracker Unit and Associated units (DFCU and AU)	Consortium of M/s Linde AG, Germany and M/s Samsung Engineering Company Limited, Korea.	6,835.20	23 December 2008	22 August 2012
2.	Linear Low Density Polyethylene/ High Density Polyethylene (LLDPE/HDPE) swing unit and Polypropylene (PP) units	Consortium of M/s TecnimontSpA, Italy and Tecnimont ICB Private Limited	2,075.80	03 June 2011	02 October 2013
3.	Phase I and II of Captive Power Plant (CPP)	M/s Bharat Heavy Electricals Limited, (BHEL), India.	1,840.00	23 September 2010 15 April 2011	15 October 2013

As per the terms of these three contracts, the Company, on the request of the contractors, shall make an interest free advance payment of 10 *per cent* of the contract price within 30 days after signing of the contract against unconditional, irrevocable and unqualified Bank Guarantees (BG). The said advances shall be recovered at 10 *per cent* of gross value of each invoice (submitted by the contractor as a running bill) towards principal. Any balance amount of principal due on or after completion of respective project shall be recovered by the Company from the final invoice and/or by invoking the BG, at the Company's sole and absolute discretion.

Accordingly, the Company paid (March 2009 to November 2011) interest free advances of ₹ 1075.10 crore to the contractors of these three projects. All the three projects were delayed and were yet (October 2014) to be completed. However, as the recovery of the advances was contractually linked to progress of work, advances of ₹144.20 crore were still outstanding against the contractors as on 31 October 2014.

Audit observed that:

- The guidelines issued (April 2007) by the Central Vigilance Commission (CVC) stipulated that though grant of interest free mobilisation advances is not encouraged, the recovery of such advances, if extended to the contractor, should be time-based and not linked with the progress of work to ensure that even if the contractor was not executing the work or executing it at a slow pace, the recovery of advance could commence and scope for misuse of such advance could be reduced. However, in respect of the above three contracts, the Company entered into defective contracts allowing interest free advances by linking their recovery to progress of work which was in violation of the CVC guidelines. This resulted in loss of interest of ₹ 49.63 crore[♠] to the Company on the amount of advances blocked with the contractors beyond the scheduled date of completion of the respective project till October, 2014.
- Linking the recovery to progress of work led to making the interest free advances available to the contractors for a prolonged period and would be an incentive to the contractors for delay in the completion of the projects, which was specifically prohibited by CVC.
- As against the completion dates of the project (August 2012: one project, and October 2013: two projects), none of the projects had been completed by October 2014. As on that date, advances of ₹ 144.20 crore were outstanding against the contractors, leading to further loss of interest to the Company.

The Company in reply (October 2014) stated that:

a) The Company was promoted with the intent to establish a non - Public Sector JV. About 58 *per cent* equity of the Company was to be firmed up, of which at least 50 *per cent* equity was to be tied up via strategic equity and Initial Public Offer (IPO). Since the Company is a non-government company, CVC guidelines were not mandatorily applicable to it.

b) In all the three cases, the bidders requested for such advances. In case of tender for DFCU and AU contract (Sl. No.1 of the table), the second Pre Bid Conference (PBC) was held on 10 December 2007 in which bidders submitted their request for providing interest free advances. In respect of the limited tender floated for LLDPE/HDPE and PP contract (Sl.No.2 of the table), most of the bidders asked for advance in PBC. Considering the criticality of the project, CPP package (Sl. No. 3 of the table) was awarded on nomination basis to BHEL who also requested for advance. Based on the request from the contractors, the Company agreed for advance payment.

[♠] ***Calculated at the rate of 10.5 per cent per annum, being the rate at which the Company had borrowed the funds for the project.***

The reply is not acceptable in view of the following:

- Initially, the Company was floated (November 2006) as a Special Purpose Vehicle (SPV) by ONGC, GSPC and Financial Institutions (FIs)/Strategic Partners for implementation of Petrochemical Complex project at Dahej. The Petrochemical Complex involved an estimated outlay of ₹13,540 crore envisaging debt equity ratio of 2.55:1. The equity into the SPV was to be contributed by (a) ONGC: ₹ 992 crore (26 *per cent*), (b) GSPC: ₹ 190 crore (5 *per cent*) and (c) FIs and strategic partners (₹ 2,632 crore, 69 *per cent*). GAIL was inducted in March 2009 with 19 *per cent* stake into equity of SPV and corresponding reduction in the stake of FIs. However, with the passage of time, the envisaged equity contribution from FIs has been diluted by ONGC and GAIL by infusing substantial funds into the SPV without insisting for requisite equity contribution by FIs. As a result, 100 *per cent* paid up capital (₹ 2,021.92 crore) of the SPV *viz*. the Company as of 31 March 2014 had been contributed by ONGC (₹ 997.96 crore, 49.36 *per cent*), GAIL (₹ 994.94 crore, 49.21 *per cent*) and GSPC (₹ 29 crore, 1.43 *per cent*). The Company failed to rope in FIs and strategic partners. The meagre contribution of ₹ 2.5 lakh from individuals was static since incorporation.
- In addition to the above, ₹ 670.92 crore had been extended (May 2013) by ONGC as advance against equity of the Company against which shares had not been allotted to ONGC as of March 2014. Thus, the operations of the Company are virtually being run on public funds entirely through ONGC, GAIL and GSPC barring a meagre contribution of ₹ 2.5 lakh by individuals.
- In relation to all the three contracts, the bidders had only requested for interest free advances and did not insist for linking recovery to progress of work. Thus, there did not appear adequate justification for linking recovery to progress of work.
- The Company was following the CVC guidelines on selective basis. It did not agree to extend interest free advance in two cases (contracts with M/s Vijay Tanks Vessels Limited and Samsung Engineering Limited awarded in January/June 2011) though the bidders had requested for such advance.
- Hence, instead of following the CVC guidelines in a selective manner, the Company should have uniformly followed these guidelines, especially when its equity stakeholders *viz.* ONGC, GAIL and GSPC were subject to these guidelines and were following the same.

Thus, the fact remains that the Company entered into defective contracts providing interest free advances to the contractors and linked recovery of the advances to progress of work in violation of CVC guidelines and sustained loss of interest.

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).