

COMMENTS OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF ONGC VIDESH LIMITED FOR THE YEAR ENDED 31ST MARCH 2010

The preparation of financial statements of ONGC Videsh Limited for the year ended 31st March 2010 in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the Management of the Company. The Statutory Auditor appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 is responsible for expressing opinion on these financial statements under Section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body, the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 21st May, 2010.

I, on behalf of the Comptroller and Auditor General of India have conducted a supplementary audit under Section 619 (3) (b) of the Companies Act, 1956 of the financial statements of ONGC Videsh Limited for the year ended 31st March 2010. This supplementary audit has been carried out independently without access to the working papers of the Statutory Auditors and is limited primarily to the inquiries of the Statutory Auditors and Company personnel and a selective examination of some of the accounting records. Based on my supplementary audit, I would like to highlight the following significant matter under Section 619 (4) of the Companies Act, 1956 which has come to my attention and which in my view is necessary for enabling a better understanding of the financial statements and the related Audit Report:

A. Comment on Profitability

Profit and Loss account

Provisions and write offs (Net) (Schedule-22): ₹ 130.17 crore

A reference is invited to comment No. 1 of the Comptroller and Auditor General of India on the accounts for the year 2008-09 under Section 619(4) of the Companies Act, 1956 relating to overstatement of 'Provisions & write-off' due to provisioning for commercially proved oil reserves at Farsi Block at Iran.

Despite the CAG's comment in the previous year and submission of Master Development Plan in April 2009, the provision of ₹ 141.87 crore made upto 31 March 2009 has not been reversed and an additional provision of ₹ 2.59 crore has been made during 2009-10.

This has resulted in overstatement of 'Provisions & write-offs' and understatement of 'Profit' to the extent of ₹ 144.46 crore.

**For and on the behalf of the
Comptroller and Auditor General of India**

Sd/-

(Naina A. Kumar)

**Principal Director of Commercial Audit &
Ex-officio Member, Audit Board-II, New Delhi**

Place : New Delhi


Dated : 09.07.2010

Management Reply

The accounting treatment for the wells drilled under Exploration Service Contract (ESC) of Farsi Project, Iran has been done in accordance with the disclosed Accounting Policy 3.3 and Guidance Note on the 'Accounting for Oil and Gas producing activities'.

The ESC provides that upon establishment of a commercial field, National Iranian Oil Corporation (NIOC) and the contractor (OVL) will enter into negotiations for reaching agreement on the relevant Master Development Plan (MDP). Subject to conclusion of Development Service Contract (DSC), the exploration expenditures incurred, shall be consolidated for the purpose of reimbursement during the amortization period in the manner to be set out in the DSC. Even though commerciality was announced in August 2008, both the MDP and DSC are still under discussions and there are uncertainties with respect to ultimate approval of MDP, finalization of DSC and consequential recovery of exploration expenditure under the ESC.

In view of the above, and following a conservative approach, it was felt prudent to continue with the provisions made for expenditure incurred during ESC period. Accordingly, following prudent accounting principles, a provision of ₹ 2.59 crore for the year 2009-10 and ₹ 141.87 crore up to the previous year 2008-09 (cumulative ₹ 144.46 crore) has been made.



(R.S. Sharma)
Chairman

New Delhi
13th August, 2010