

EXPRESSION OF INTEREST (EOI)

HIRING OF SERVICES OF AUDITOR / CHARTERED ACCOUNTANT FIRM FOR CONDUCTING SPECIAL AUDIT FOR DETERMINING ACTUAL LPG PRODUCTION COST,COST OF LPG MARKETING /DISTRIBUTION AND THEIR MARGINS AND TRANSPORTATION COST

Oil and Gas Regulatory Authority invites Expression of Interest (EOI) from reputed firms of chartered Accountants having AA rating with minimum of ten (10) years experience to ascertain the actual LPG production cost of producers, LPG marketing, distribution and transportation costs of LPG marketing companies and their distributors keeping in view relevant factors and in order to rationalize the LPG prices as per LPG Policy 2016, to assess appropriate / reasonable profit margins of LPG marketing companies and distributors required have sustainable business keeping in view the LPG Rules 2001, LPG Policy 2016 and OGRA Ordinance 2002. The scope of audit shall cover the latest audited financial statements of the company including cost elements of LPG.

2. The firms are required to submit their proposals in a single package containing two separate sealed envelopes. One envelope should contain the Technical Proposals and the other envelope should contain the Financial Proposal. The envelopes shall be properly marked as “**TECHNICAL PROPOSAL**” and “**FINANCIAL PROPOSAL**” in bold and legible letters to avoid confusion; initially, only the envelope marked as “**TECHNICAL PROPOSAL**” will be opened. Those auditors who are already rendering services to the LPG companies for audit shall not be eligible to apply in order to avoid conflict of interest.

3. TECHNICAL PROPOSAL must contain detailed experience of the firm, work plan and methodology to carry out the above assignment including detailed CV(s) of member(s) of core team highlighting relevant experience and annual turnover etc. The Financial Proposal should contain a lumpsum figure, inclusive of all fee, charges, taxes etc. Financial Proposal must contain bid security in shape of call deposit in favour of OGRA payable at Islamabad equal to 3% of total bid value.

4. The Proposals shall be received till 31-05-2019 up to 11:00 a.m. and will be opened in the first instance for technical evaluation on same date at 11:30 a.m. in the presence of the bidders, or their authorized representatives, who may like to be present at OGRA office. The financial proposals of the technically qualified/responsive firms shall be opened in the presence of the bidders for which date and time shall be communicated in advance. The Financial Proposal should be valid for six months from date of opening of technical bids.

5. Terms of reference/scope of services and evaluation criteria can be obtained from the OGRA website www.ogra.org.pk and PPRA website www.ppra.org.pk.

6. OGRA may reject any or all the bids at any time prior to the acceptance of the bids as per Rule 33(1) of PPRA, Rules 2004.

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TERMS OF REFERENCE OF THE SPECIAL AUDIT FOR DETERMINING ACTUAL LPG PRODUCTION COST, COST OF LPG MARKETING /DISTRIBUTION AND THEIR MARGINS AND TRANSPORTATION COST.

(I) BACKGROUND

- i) Oil and Gas Regulatory Authority (OGRA) was established in 2002 by the Federal Government to foster competition, increase private investment and ownership in the midstream and downstream petroleum industry, protecting the public interest while respecting the individual rights and provide effective and efficient regulations and for matters connected therewith.
- ii) Ministry of Petroleum and Natural Resources (now Ministry of Energy, Petroleum Division) notified LPG Policy 2016, which was approved by the CCI.
- iii) As per LPG policy 2016, LPG prices are regulated. In pursuance of LPG Policy 2016, LPG price determination is a mandate of Ministry of Energy, whereas OGRA has to notify and regulate the prices.
- iv) Currently, LPG prices are being charged at exorbitant rates in the market as reported in the press/media. Taking cognizance of the matter, the Ministry of Energy has advised OGRA to conduct third party audit to ascertain the LPG production cost of producers, LPG marketing and distribution margin keeping in view relevant factors in order to rationalize the producer price and marketing and distribution margins for LPG prices.
- v) The auditees are bound to keep / submit records of cost accounting, annual accounts and other records in accordance with clause 22, 23 and 24 of LPG Rules 2001 and no auditee shall willfully hinder, delay or obstruct any information. Section 30 of OGRA Ordinance 2002 stipulates:

“Power to call for Information: The authority may call for any pertinent information required by it for carrying out the purposes of this Ordinance from any person involved directly or indirectly, in the provision of any regulated activity or any matter incidental or consequential thereto. Any person called upon to provide such information shall do within the period prescribed by the Authority and his failure to do so shall be punishable by the imposition of such penalty as may be prescribed”.

(II) OBJECTIVE

To ascertain the actual LPG production cost of producers, LPG marketing, distribution and transportation costs of LPG marketing companies and their distributors keeping in view relevant factors in order to rationalize the LPG prices as per LPG Policy 2016.

(III) SCOPE OF AUDIT

- i) To carry out special audit of actual LPG production costs of LPG producers, keeping in view the existing LPG regulated price regime while safeguarding the public interest. The auditor shall be required to identify the cost component (direct and indirect) forming part of LPG production cost, separately mentioning the cost of details with regard to imported and indigenous LPG. Auditor will be required to submit separate report to the Authority on actual production cost of producers.

- ii) To carry out special audit of LPG marketing cost and its respective distributors cost keeping in view the existing LPG regulated price regime while safeguarding the public interest. Auditor will be required to submit separate report to the Authority on actual LPG marketing costs and distributors cost alongwith segregation of fixed and variable costs.
- iii) To carry out special audit of LPG marketing and distributors transportation cost keeping in view the existing LPG regulated price regime while safeguarding the public interest. The auditor shall also provide segregation of costs in terms of different modes of transportation used by the selected sample of companies. Auditor will be required to submit separate report to the Authority on actual LPG marketing and distributors transportation costs.
- iv) To assess appropriate / reasonable profit margins of LPG marketing companies and distributors required to run their business smoothly keeping in view the LPG Rules 2001, LPG Policy 2016 and OGRA Ordinance 2002. The scope of audit shall cover the latest audited financial statements of the company.

(IV) **SAMPLE AUDIT / METHODOLOGY**

In LPG sector, there are around 11 LPG producers (**Annexure-I**, 170 LPG marketing companies (**Annexure-II**) operating in the country, having more than 5,000 authorized distributors. It is not feasible to determine LPG production cost, marketing and distribution costs, transportations costs for all of them. Further, currently LPG prices are being charged at an exorbitant rate as reported in the media, therefore, keeping in view the gravity of the situation and urgency OGRA has been advised by the Ministry of Energy to immediately conduct audit of producing and marketing companies on test basis in order to save time as LPG prices usually escalate in winter season. Following LPG producers and LPG marketing company needs to be audited:

(a) **LPG Producers**

- i) Oil and Gas Development Corporation Limited (OGDCL)
- ii) MOL Group
- iii) Pak Arab Refinery Limited (Parco)

(b) **LPG Marketing Company**

- i) Pyramid Gas (Pvt) Ltd
- ii) Pakistan Oil Field Limited (POL)
- iii) Al- Qasim Gas (Pvt) Ltd

(V) **DELIVERABLES:**

1. Submit the course of action and methodology to undertake the audit within three days of award of assignment.
2. To submit following draft reports to the Authority on the 30th day of the commencement of the Audit:
 - i) Actual LPG production costs of LPG producers.
 - ii) Actual LPG Marketing costs of LPG marketing companies.
 - iii) Actual distribution costs of LPG distributors.
 - iv) Transportation costs of the following:

(a). Transportation costs of LPG Marketing companies from source to their filling plants.

(b). Transportation costs of distributors from source to end consumer.

- v) To furnish final report alongwith detailed assumptions and basis to the Authority as per V-(i-iv) above by 40th day.

(VI) **QUALIFICATION OF THE AUDITOR:**

- i) The auditor should have AA rating as per Institute of Chartered of Pakistan. Further, those auditors who are already rendering services to the companies who have been selected for audit shall not be eligible to apply in order to avoid conflict of interest.

(VII) **TERM/DURATION OF AUDIT:**

- i) The audit along with final report shall not exceed 45 **days** of commencement of the audit.

(VIII) **PROPERTY RIGHTS**

- i) All documents prepared by the Auditor shall become and remain the sole property of the Authority. Auditor shall not, during the term of the contract or after expiration, disclose any confidential information relating to the services, or the business or operations of the auditees.
- ii) The audit firm shall be given access to all cost and financial data and books of accounts related to LPG audit and any other information associated with the audit of selected companies which may deemed necessary by the auditor.

(IX) **PAYMENTS**

A payment of 50 (fifty) percent shall be made on submission of first draft and balance 50 (fifty) percent shall be made on submission of final report as per terms of reference.

(X) **LOCATION:**

- i) All correspondence seeking information from the selected companies should be copied to OGRA.

Technical Bid Evaluation Criteria

1. Technical Evaluation

The following criteria will be followed for the technical evaluation of the bids:-

Marks

1) Experience	20
2) Staff Strength	20
3) Clientage	<u>10</u>
	<u>50</u>

2. Financial Evaluation

The contract shall be awarded on lowest bid basis and shall be opened in the presence of the representative of technically qualified bidder as per above technical evaluation criteria.