Chapter 8

Transactions Audit Observations

Compliance audit refers to examination of the transactions relating to expenditure, receipts, assets and liabilities of the auditee units to ascertain whether the provisions of Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with.

Government Companies

8.1 Indraprastha Power Generation Company Limited

8.1.1 Loss due to under insurance

Imprudent decision of not getting insurance cover on basis of current valuation of assets resulted in loss of ₹ 2.33 crore due to under insurance.

The Indraprastha Power Generation Company Limited (Company) took (September 2006) an Industrial All Risk Insurance Policy, covering all risks including fire and special perils with add on coverage of Earthquake and Terrorism, Fire Loss of Profit (FLOP) and machinery breakdown, for its Gas Turbine Power Station (GTPS) for ₹ 740.25 crore at a premium of ₹ 2.62 crore for the period from 18 September 2006 to 17 September 2007 on current replacement cost basis.

A steam turbine rotor was damaged (27 November 2006) and the Company lodged a claim for ₹ 13.60 crore with the Insurance Company. The surveyor's report (22 January 2010) assessed the loss at ₹ 4.81 crore, which was mutually agreed upon. Out of the net liability of ₹ 4.81 crore, Insurance Company paid ₹ 2.80 crore (July 2011). It was noticed that for arriving at net liability, insurance company deducted ₹ 2.33 crore, from the assessed value of loss of ₹ 7.14 crore, due to damage of the steam turbine rotor, on account of under-insurance.

Clause 9 of General Conditions of the Insurance Policy (2006-07) stipulated that if the property insured, at the time of reinstatement/ replacement/repair, following a loss or damage indemnifiable under the policy, was of greater value than the sum insured, then the insured shall be considered as being his own insurer for the difference and shall bear a rateable proportion of loss provided that if the sum insured is not less than 85 *per cent* of the value, then

this condition shall be of no purpose and effect. Audit observed that while initiating the process for taking insurance policy for the first time during 2002-03, GTPS had worked out its current replenishment cost at ₹ 3.50 crore per MW which translated into ₹ 987 crore as the replenishment cost of the 282 MW plant. However, later on, it approached the National Thermal Power Corporation (NTPC) seeking assistance for valuation of plant, who intimated that they did not possess any gas power station of the size of GTPS and advised that they should employ an expert value assessor to ascertain the exact value of the plant. But the Company neither employed a market value assessor nor considered its own worked out replacement cost of ₹ 3.50 crore per MW and took first insurance policy with plant valuation at ₹ 2.50 crore per MW for 282 MW, aggregating to ₹ 705 crore and thereafter, in the following years, insured the plant, after applying indexing only, without assessing current replacement value.

The surveyor's report assessed the 282 MW IPGCL GTPS's plant value at ₹ 913.68 crore in 2002-03, based on value of similar plant installed @ ₹ 3.24 crore per MW, and with RBI indexing, the replacement/indexed value of the plant at the inception of the present policy at ₹1081.27 crore (2006-07). Surveyor concluded, as the sum insured under the policy was ₹ 740.25 crore, which was lower than ₹ 919.08 crore i.e. 85 *per cent* of replacement value of ₹ 1081.27 crore, the under-insurance of 31.54 *per cent* (740.25/1081.27) was applicable, as per the Insurance Policy, and ₹ 2.33 crore was deducted on the same account from the computed value of loss.

Thus, the imprudent decision of the Company of not appointing a market value assessor, and thereafter, taking the insurance cover at less than the current replacement value, resulted in loss of ₹ 2.33 crore on account of under-insurance.

The Government while accepting the contents of the above para stated (February 2013) that comparison of cost of plant based on per MW is a complex factor as the cost of individual plant depends on number of factors, so considering ₹ 2.5 crore/ MW or ₹ 3.5 crore/MW is very subjective. Taking reference to NTPC, the average of ₹ 2.5 crore/ MW was taken which also matched with the calculation of capital cost derived from escalating the initial cost of the installation of the projects by five *per cent* every year on an average. Accordingly, the capital cost worked out in the year 2006 was quite rational. In the referred case of the insurance claim, Surveyor had chosen to go for higher valuation considering ₹ 3.5 crore/ MW for the interest of Insurance

Company. It further stated that if valuation based on ₹ 3.5 crore/ MW had been considered, the premium would have increased to ₹ 2.90 crore for the insured sum of ₹ 920 crore. However, the observation of audit to obtain a formal valuation report is noted and shall be taken care of in future.

The reply of the Government regarding the complexity and subjectiveness of taking cost of plant based on per MW and taking the average of ₹ 2.5 crore/ MW with escalation of five *per cent* fortifies the contention of audit that a market value assessor should have been appointed, as advised by NTPC, to have proper valuation of assets. This was not done by the Company even while taking the insurance policies of the plant in the subsequent years. The reply regarding paying an additional premium is not acceptable as the purpose of insurance cover is to provide full cover to the assets/properties against the risk of loss, irrespective of the amount of premium involved. The reply in respect of Surveyor choosing to go for higher valuation in the interest of Insurance Company is not tenable as the net payable liability of ₹ 4.81 crore (excluding ₹ 2.33 crore on account of under insurance) was agreed upon by the Company.

8.1.2 Avoidable expenditure on surplus security personnel

Avoidable expenditure of ₹ 0.41 crore due to delay in withdrawal of surplus CISF personnel after sale of Indraprastha Power Station.

The Central Industrial Security Force (CISF) is entrusted with the security of Indraprastha Power Generation Company Limited (IPGCL) and Pragati Power Company Limited (PPCL) with total authorized strength of 389 (now 292) personnel for all power plants. The GNCTD having approved (September 2009) the decommissioning of Indraprastha Power Station (IP Station), was closed down on 31st December 2009. The auction for sale of IP Station was completed through e-auction by October 2010, the acceptance letter was issued to the successful bidder by 15 November 2010 and the letter containing terms and conditions of sale by 25 January 2011.

Audit observed that after the successful bidder was issued the letter of sale, the responsibility of security of the auctioned material was no longer of the company. But it was only in a meeting held (April 2011) to review the facilities provided to CISF, it was decided that CISF personnel deployed at IP Station be repatriated and the authorized strength was reduced to 292 personnel (August 2011). Thereafter, 24 private security guards were deployed at the closed IP station for security cover.

It was also observed that though the Company was aware of the closure and sale of the IP Station as early as September 2009, it did not take timely steps for reduction and repatriation of CISF personnel posted at the closed IP Station and deployment of lower cost security (as was done later). Para 3.7 of letter issued (January 2011) by Company to the contractor envisaged that the security guards might be provided by the contractor to look after the sold goods etc., even then the CISF personnel were not repatriated till August 2011. Thus, the deployment of CISF personnel which were not required and could be replaced with other security arrangement after auction/sale of plant, led the Company to incur avoidable expenditure of ₹ 0.41[1] crore on salary and allowances of CISF staff.

The Government in its reply (January 2013) stated that though the contractor was required to provide security guards to look after the sold goods, however within the precincts of I.P. Station, there were other vital areas for which services of security personnel were still required. Even after the withdrawal of CISF personnel, the Company hired (August 2011) 17 security guards and employed 7 security guards departmentally incurring an expenditure of ₹ 2.81 lakh and ₹ 2 lakh per month respectively on them. The per capita expenditure incurred on CISF personnel was much higher than that on hired security guards due to various allowances and overheads payable to CISF personnel and therefore it was decided to replace CISF personnel with the privately hired/ departmentally employed security personnel which were more economical though not as effective as CISF personnel. It further stated that though the per capita expenditure on security came down thus ensuring economy in expenditure, the low cost security system has been neither efficient nor effective as is borne out by various incidents of intrusions that have taken place in the IP Station. Thus expenditure of ₹ 0.41 crore cannot be called infructous since as long as the expenditure on CISF deployment was incurred, no untoward incident took place in the plant and the Company was getting value for money spent on them.

The Government's reply regarding efficiency and effectiveness of the private security is not acceptable as it is evident from the reply that the decision to replace CISF security was taken (August 2011) even though the effectiveness of the latter was in doubt considering the reduction in the per capita expenditure on security. The plea of ineffectiveness of the private security is

[1] Total expenditure incurred on the salary and allowances of CISF personnel deployed at IP Station from March-August 2011 minus total expenditure incurred (for the same period) on 24 personnel kept thereafter for security purpose.

further not tenable as private security continues to be deployed for the security of the Station till date (January 2013). The reply of the Government, thus, fortifies the contention of Audit that it was the responsibility of the Company to work out the modalities for timely repatriation of CISF personnel and to expeditiously surrender surplus manpower under Section 14(2)[2] of the Central Industrial Security Force Act, 1968 with effect from March 2011. However, the meeting to review the authorized strength was held only in April 2011 i.e. after a lapse of six months from the date of sale of the plant (November 2010) and the surplus strength remained on roll till August 2011, leading to the incurrence of an avoidable expenditure of ₹ 0.41 crore.

8.2 Delhi Power Company Limited

8.2.1 Loss of opportunity to earn additional interest due to imprudent financial decision

Imprudent financial decision regarding investment of funds by the Company resulted in interest loss of ₹ 0.32 crore.

The electricity distribution companies of Delhi (Discoms) BSES Rajdhani Power Limited (BRPL) and BSES Yamuna Power Limited (BYPL) requested (December 2011) their promoters Reliance Infrastructure Limited (Reliance Infra) and Delhi Power Company Limited (DPCL) for infusion of promoter funding as part of an overall financial package proposed by IDBI Bank to finance them. The Government of NCT of Delhi in pursuance of directions of Delhi Electricity Regulatory Commission (DERC) order dated 20-12-2011 approved infusion of equity by DPCL in both the Discoms to maintain shareholding pattern ratio at 51:49 (Reliance Infra : Government) and also to enable the Discoms to avail loan from IDBI Bank. Accordingly, the GNCTD issued sanction order (28 December 2011) of ₹ 500 crore towards the payment of equity contribution. Clause (xi) of the sanction order stipulated that the equity contribution amount was to be further transferred to the BSES only after receipt of equity contribution from Reliance Infra. DPCL received government share on 29 December 2011.

As there was no information regarding transfer of equity by Reliance Infra to both the Discoms, DPCL decided to invest the said funds with banks under short term deposit so that they are able to earn interest. Accordingly, DPCL invited quotations from empanelled banks for parking of funds in Flexi

[2] by giving three months notice in writing to the Director General, CISF requiring that the members of the Force so deputed be withdrawn and the Company shall be relieved from the charge from the date of expiration of such notice or from earlier date on which the force is so withdrawn

Deposits for a period of 7-30 days. Allahabad Bank having offered the highest rate of interest of 10.05 *per cent* for the period for 7 to 14 days, 15 to 29 days and 30 days was selected. There was no penalty clause for premature withdrawal in the quotation and bank assured that premature payment will be made as per the quoted rate i.e. 10.05 *per cent* for the period for which the funds remain with the bank. However, DPCL invested the funds of ₹ 500 crore for period of 14 days only with date of maturity as 12 January 2012. Thereafter, quotations were called again and the amount of ₹ 501.93 crore (₹ 500 crore + ₹ 1.93 crore interest) was reinvested (12 January 2012) with State Bank of India for 15 days @ 8.50 *per cent*. DPCL transferred (10 February 2012) the amount of ₹ 499.80 crore to both the Discoms (i.e. BRPL and BYPL) after the equity contribution was received by these companies from Reliance Infra.

It was observed that DPCL had to transfer the amount only after equity contribution was received by the Discoms from Reliance Infra and at the time of receiving funds from the GNCTD, there was no urgency to release the funds to BRPL and BYPL, as evident from the records of the company. Therefore, DPCL should have invested the funds for a period of 30 days @ 10.05 *per cent* in the first instance instead of first investing @ 10.05 *per cent* for 14 days and then at a comparatively lower rate for remaining 16 days, which resulted in loss of opportunity to earn additional interest of ₹ 0.32[3] crore.

The Management in their reply (July 2012) accepted the facts and stated that the company received funds from the Government of NCT of Delhi on 29 December 2011 and had invited bids for a period of 7-30 days and settled for 14 days under the fluid situation prevailing at that time. Calling of bids for 7 to 30 days should not be taken to indicate their intention of parking of funds for 30 days only but obviously for the period decided by competent authority by taking into consideration all probable variables operating in the then environment. They further stated that because of urgency of releasing the equity funds to BYPL and BRPL, Government of NCT of Delhi released the funds to DPCL and it could not have blocked these funds for longer period simply with the view to earn higher interest.

The reply of the Management is not tenable as Allahabad bank had offered highest rate of interest of 10.05 *per cent* for a period upto 30 days with no penalty clause for premature withdrawal. Further, the contention of the

[3] Difference between interest when ₹ 500 crore invested @10.05 *per cent* for 30 days and @ 10.05 *per cent* for 14 days and then at a comparatively lower rate for remaining 16 days (@ 8.5 *per cent* for next 15 days & @ 9.10 *per cent* for next 1 day).

Management that it could not have blocked the funds for longer period for earning interest is not acceptable, as in absence of a penalty clause, DPCL had the opportunity to invest the funds for 30 days in the first instance along with an option to withdraw the same, whenever, the need arose without any loss of interest. This was in line with the direction of the Government as the funds were to be transferred only after release of equity by Reliance Infra.

The imprudent financial decision taken by DPCL to invest huge funds at the same rate only for 14 days instead of 30 days, when there was no penalty for premature withdrawal, resulted in loss of opportunity to earn additional interest of ₹ 0.32 crore.

The matter was reported to the Government (June 2012), their reply was awaited (January 2013).

New Delhi **(DOLLY CHAKRABARTY)**
Dated: **Principal Accountant General (Audit), Delhi**

Countersigned

New Delhi **(VINOD RAI)**
Dated: **Comptroller and Auditor General of India**