

Chapter 1 Introduction

1.1. Introduction

Liquefied Petroleum Gas (LPG) is a clean fuel. Government of India (GoI) has been subsidising the domestic supply of LPG to popularise the use of this fuel for domestic use and render it affordable to the domestic consumers. Traditionally, LPG was made available to domestic consumers by the Government of India owned Oil Marketing Companies (OMCs) at a subsidised price. The under-recoveries of OMCs arising from subsidising LPG were compensated partly through budgetary support from GoI and partly through subsidy given by upstream companies on purchase of crude. GoI introduced (15 November 2014) “Pratyaksh Hanstantrit Labh Yojana” (PAHAL (Direct Benefit Transfer for LPG) Scheme) for transferring the subsidy on LPG gas directly to the consumers. The Scheme is being implemented by three OMCs, viz., Indian Oil Corporation Limited (IOCL), Hindustan Petroleum Corporation Limited (HPCL) and Bharat Petroleum Corporation Limited (BPCL) through their network of LPG distributors. Considering the significance of the Scheme and its implementation, an audit was carried out for examination of the implementation of PAHAL (DBTL) Scheme.

1.2. Audit objective and scope

The audit objectives includes whether the implementation of the Scheme:

- Effectively removed incentive for diversion of LPG cylinders;
- Weeded out fake/duplicate LPG connections effectively;
- Provided for protecting entitlement and ensuring subsidy to the consumers;
- Effectively improved availability/delivery of LPG cylinders to genuine users;
- Allowed self-selection in subsidy (*i.e.*, subsidy giving up);
- Was carried out efficiently and in compliance with the laid down process.

Audit covered the implementation of the Scheme by the three OMCs for the period from 1 January 2015 to 31 October 2015.

1.3. Audit sample and sampling methodology

As on 31 October 2015, there were 16,781 LPG distributors in the country servicing 19.26 crore registered domestic LPG consumers. The OMC-wise LPG distributors and consumers are indicated in the table below:

Table-1: Details of OMC-wise LPG distributors and consumers

Particulars	IOCL	HPCL	BPCL	Total
Total number of LPG distributors	8,343	4,271	4,167	16,781
<i>Number of active LPG domestic consumers (in crore)</i>				
Aadhaar Cash Transfer Compliant (ACTC) consumers	4.17	2.08	2.25	8.50
Bank Cash Transfer Compliant (BCTC) consumers	2.82	1.58	1.55	5.95
Total Cash Transfer Compliant (CTC) consumers	6.99	3.66	3.81	14.45
Non-Cash Transfer Compliant (NCTC) consumers	0.83	0.40	0.48	1.72
Total active domestic LPG consumers	7.82	4.06	4.29	16.17
Number of other than active consumers	1.58	0.76	0.74	3.09
Total registered domestic LPG consumers	9.40	4.82	5.03	19.26
Cash Transfer Compliant to total active consumers (%)	89.34	90.08	88.75	89.37
Non-Cash Transfer Compliant to total active consumers (%)	10.66	9.92	11.25	10.63

Audit adopted risk based sampling and selected 34 *per cent* of the LPG distributors for further scrutiny.

The risk parameters considered for such selection were:

- Subsidy pay-outs pertaining to the distributor with *distributors accounting for higher subsidy pay-outs being considered as higher risk category.*
- The number of Bank Cash Transfer Compliant (BCTC) consumers with *distributors having a higher number of BCTC consumers being considered higher risk category since such consumers do not have the added safeguard of Aadhaar number check.*
- Changes made to name, address or bank account based on probability that *higher the frequency of changes, the higher the perceived risk.*
- Number of complaints with *higher number of complaints receiving the higher the risk.*
- Number of failed transactions¹; *higher the number of failed transactions, higher the risk of consumers being deprived of advance or subsidy.*

While selecting the distributors, due consideration was given to representation of geographical regions in the sample. The database of each OMC was ordered zone-wise (north, south, east and west) and a sample of the top 34 *per cent* was selected. It was also ensured that distributors were in each OMC was represented in the sample to the extent the Company's market share. IOCL accounts for half the distributors while the other two OMCs have one-fourth share each and this ratio was maintained in the selection of sample.

¹ Any transaction which is returned/rejected by Bank/National Payment Corporation of India is classified as a Failed Transaction

The data obtained from the central servers of the three OMCs as on 31 October 2015 was ordered as per the above-mentioned risk parameters and the top 34 *per cent* distributors were selected.

Top one *per cent* of distributors (165 LPG distributors) were also selected for detailed verification at the distributors' end.

In the case of LPG consumers, audit examination was carried out on a sample of 11.89 crore domestic LPG consumers (comprising 9.94 crore active and 1.95 crore other than active consumers) coming under the selected 34 *per cent* distributors out of a total population size of 19.26 crore consumers. The details of the sample selected for examination in audit is given in the table below:

Table-2: OMC-wise sample selected for audit

Name of OMC	Number of LPG Distributors			Registered LPG domestic consumers (in crore)		
	Total	Selected	%	Total	Selected	%
IOCL	8,343	2,840	34.04	9.40	5.80	61.70
BPCL	4,271	1,460	34.18	4.82	3.25	64.61
HPCL	4,167	1,416	33.98	5.03	2.84	56.46
Total	16,781	5,716	34.06	19.26	11.89	61.73

1.4. Audit criteria

The criteria for the audit was drawn from provisions of:

- i) Handbook on -'PAHAL' Pratyaksh Hanstantrit Labh Direct Benefits Transfer For LPG (DBTL) Consumers Scheme (version 2) published by Ministry of Petroleum and Natural Gas
- ii) Dhande Committee Report on Review of Direct Benefit Transfer for LPG Scheme (May 2014)
- iii) Liquefied Petroleum Gas (Regulation of Supply and Distribution) Order, 2000 and Amendment's thereto vide Liquefied Petroleum Gas (Regulation of Supply and Distribution) Order, 2009.
- iv) Office Memoranda and Circulars issued by Ministry of Petroleum and Natural Gas and Petroleum Planning and Analysis Cell (PPAC) regarding implementation and operation of PAHAL (DBTL) Scheme.

1.5. Audit methodology

The data from central server (being the central point of implementation of PAHAL (DBTL) Scheme) as provided by three OMCs in respect of 34 *per cent* LPG distributors was test checked and analysed in audit. Initially one *per cent* of the population of distributors as on 15 August 2015 was selected for audit scrutiny. Instances of multiple connections in this

sample necessitated detailed analysis of a larger sample size and hence, the sample size was subsequently increased to 34 *per cent* with the balance 33 *per cent* pertaining to data as on 31 October 2015. The data analysis was carried out with the help of Interactive Data Extraction and Analysis (IDEA) software.

Audit checked the uniqueness and correctness of customer database, adequacy of systems put in place by OMCs to ensure de-duplication, and correctness of the transactions relating to release of Permanent Advances and refill subsidy to Cash Transfer Compliant customers. Audit also conducted physical verification of records of 165 LPG distributors (one *per cent* of total population of LPG distributors) spread across the four regions of country and three OMCs to examine the procedures followed and documentation maintained at the distributors end. The sample of 'active consumers' were used for audit examination in general, while the data in respect of 'other than active consumers' in combination with the data in respect of 'active consumers' were used for specific checks on multiple connections.

Audit also attempted to validate the overall financial impact of the PAHAL (DBTL) Scheme as worked out by Ministry of Petroleum and Natural Gas and OMCs.

The draft audit report containing audit findings was issued to the three OMCs on 22 February 2016. Replies to the draft audit report were received in April 2016 (BPCL) and May 2016 (IOCL and HPCL), which were duly incorporated in this Report. The draft audit report was issued (June 2016) to the Ministry of Petroleum and Natural Gas (MoPNG). The reply furnished (June 2016) were also duly incorporated in this Report.