Chapter VII Management of Receivables

Management of receivables or debtor management is required to ensure collection of money when it is due. Good debtor management is essential to maintain healthy cash flow on one hand and avoid bad debts on the other.

7.1 Billing and cash collection system

Contracts entered into by BHEL generally provided terms of payment as under:

- 5 to 20 *per cent* of ex-works price component as initial advance on award of contract;
- 60 to 65 *per cent* of ex-works price on dispatch of material and on submission of dispatch documents, Test Certificates and Material Dispatch Clearance Certificates (MDCC) issued by customer;
- 15 to 20 *per cent* of ex-works price on receipt of material at site and on submission of Material Receipt Certificate (MRC) issued by the customer;
- 2.5 to 5 *per cent* of ex-works price on successful commissioning of the facility and on submission of trial operation protocol issued by customer; and
- 2.5 to 5 *per cent* of ex-works price on successful completion of Performance Guarantee (PG) tests and on submission of final PG test report approved by customer.

In some contracts, instead of payments against dispatch and MRC, activity-wise milestone payments were specified.

Accounting of revenue was done using percentage completion method. Under this method, revenue is recognised as the contract activity progresses based on the stage of completion reached. The costs incurred in reaching the stage of completion are matched with this revenue, resulting in the reporting of results which can be attributed to the proportion of work completed. Customers, however, are billed as per terms of contract which could be different from the revenue accounted. The difference is recognized in accounts as 'Valuation Adjustment[38].

Manufacturing units of BHEL raise invoices as per billing schedule approved by customers. Manufacturing units follow up for payment and realisation of sales proceeds. While outstanding invoices against progressive payments are pursued by units, deferred bills and issues relating to liquidated damages are pursued by Business Sectors.

Receivables from customers, on a specified date, include

(i) Collectible dues,

(ii) Deferred dues[39],

(iii) Accrued revenue[40].

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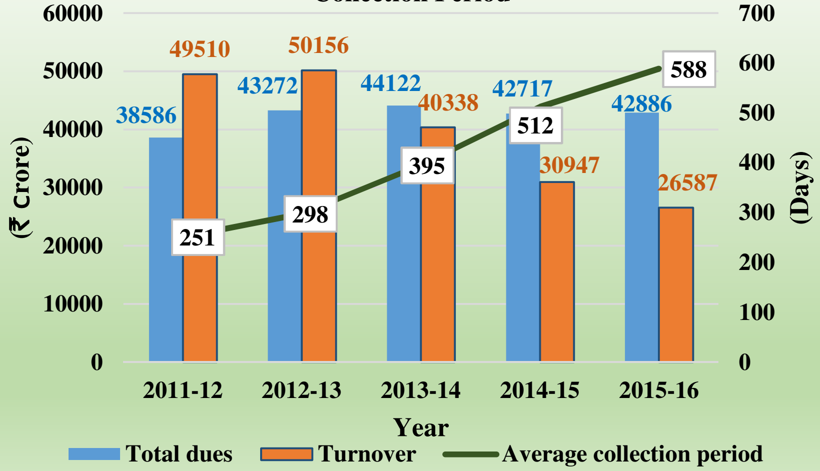
[38] *The difference between the billed value and intrinsic value of dispatches is booked as valuation adjustment*
[39] *Consisting of MRC, milestone and final payments*
[40] *Comprising of Goods Dispatched Pending Billing (GDPB), Price Variation Claim (PVC) and Valuation Adjustment*

7.2 Debtors position in BHEL

The trend of turnover and average collection period (for collectibles, deferred and accrued dues) at year end for the period 2011-16 is depicted in the chart alongside. The average collection period increased steadily from 251 days in 2011-12 to 588 days in 2015-16. As a result, outstanding amounts increased from ₹38586 crore to ₹42886 crore despite turnover dropping by 46.30 *per cent* during this period (2011-16).

Chart 7.1: Trend of Debtors, Turnover and Average Collection Period



Management stated (February 2017) that efforts were being made to realise the dues from customers and that specific focus groups like Project Closure Synergy Group (PCSG), Contract Closing Group (CCG) have been formed to address all the issues in holistic manner for realisation of dues. Post exit conference, Management added (June 2017) that total debtors as on 31 March 2016 included ₹20750 crore (around 48 *per cent*) towards deferred debts and others, which were not due for payment and hence not billed to customers. While assuring that regular actions were being taken to improve realisation of debtors, Management informed that the average collection has reduced by 57 days to 531 days in 2016-17.

7.3 Age-wise analysis of collectible dues

Age-wise analysis of collectible dues of BHEL during five years ending 31 March 2016 was as under:

Table 7.1: Age-wise analysis of collectible dues at the end of 2012-13 to 2015-16

(₹ in crore)

Description	2012-13	2013-14	2014-15	2015-16
Less than 1 year	14229	11385	10454	8348
More than 1 year but less than 2 years	3987	4359	2964	3176
More than 2 years but less than 3 years	1421	3445	2808	2273
More than 3 years	2659	3617	5920	8132
Total	**22296**	**22806**	**22146**	**21929**
Turnover	**50156**	**40338**	**30947**	**26587**

Audit noticed that:

- Collectible debts outstanding under highest age slab, i.e., outstanding for more than three years, increased steadily over the period covered under performance audit. These debts, as a percentage of total collectible debts, increased from 11.93 *per cent* in 2012-13 to 37.08 *per cent* in 2015-16.

- While the turnover of the Company decreased by 46.99 *per cent* during 2012-13 to 2015-16, the collectible debt remained almost at the same level. This indicates that debt realisation was not effective.
- Average collection period of collectible dues has doubled during the period 2012-13 to 2015-16, from 155 days in 2012-13 to 303 days in 2015-16.

Ministry stated (May 2017) that the dues of ₹8132 crore pertaining to more than three years were the amounts withheld by customers towards LD and other reasons and the amount held up in projects on-hold. The amount withheld towards LD would be liquidated at completion of the project on detailed analysis of reasons of delays. Further, the amount outstanding for more than three years has been reduced to ₹7358 crore as on 31 March 2017. Two projects, *viz.*, Ennore and Bhadradri, where total dues of ₹425 crore approximately were outstanding have also been revived.

However, the dues for more than three years as on 31 March 2017 were still almost three times of dues outstanding in the same category as on 31 March 2013. There were significant increases due to supply of equipment to private developers without establishment of Letter of Credit, their subsequent failure to make payment eventually leading to these projects becoming 'on-hold' and non-completion of pending punch points/balance works even after performance guarantee test of projects which could have been controlled by BHEL.

7.4 Analysis of debtor management

Audit analysed debtor management system in BHEL and observations in this regard are discussed in succeeding paragraphs.

7.4.1 Supply of material to private parties without establishment of Letter of Credit

During 2007-11, PS-Marketing secured orders from private developers to commission 6850 MW capacity under eight (seven thermal and one hydro) power projects[41]. Subsequently, these projects were put on-hold between April 2011 and July 2013 by BHEL. From review of records audit noticed that:

(i) Contracts entered into by BHEL with private project developers provided that payments shall be released to BHEL through Letter of Credit (LC). It was, however, observed that BHEL did not ensure compliance of this contract provision and not only started supplies without establishment of LC, but also continued supplying material even after recurrent failures of private developers.

(ii) BHEL dispatched material even in cases where customers had not opened LC. Some instances noticed by Audit are detailed below:

- Monnet Power Company Limited (MPCL), in its reference dated 02.9.2013, stated that in violation of the contract, BHEL supplied material worth ₹133 crore in March 2013, which was not in sequential order and also without the establishment of irrevocable LC, though the same was essential for the lender to satisfy himself that the supplies made were as per project requirement and in sequential manner.

[41] (i) 2x525 MW Malibrahmani TPS, (ii) 2x210 MWRaichur TPS/Surana Power Ltd., (iii) 2x600 MW Raigarh Project/Visa Power Ltd., (iv) 5x270 MW Nasik Phase-II/ RattanIndia Power Ltd., (v) 5x270 MW Amravati Phase-II/ RattanIndia Power Ltd., (vi) 2x270 MW Chandwa Phase-I/Abhijeet Infra Pvt. Ltd., (vii) 2x270 MW Chandwa Phase-II/Abhijeet Infra Pvt. Ltd, (viii) 10x40 MW SMHPCL Maheshwar HEP

- In case of Nasik Phase II and Amravati Phase II projects, customer {M/s Indiabulls Power Limited (IPL)} informed (17.6.2011) BHEL that though financial closure for the project had been completed, due to need for completing some more formalities, establishment of LC would not be feasible by end September 2011 and, therefore, proposed to make payment by cheque against proforma invoices on readiness of materials till end of September 2011. BHEL accepted the proposal of M/s IPL and continued supplies without insisting for opening LC even after September 2011. However, M/s IPL did not release payment against proforma invoice and outstanding dues mounted to ₹90.3 crore up to 15.11.2011. As BHEL continued supplies without ensuring payments, outstanding dues rose to ₹160 crore by 03.1.2012 and further to ₹230 crore by 06.2.2012.

(iii) Due to supply of material without establishment of LC and subsequent declaration of projects 'on-hold', outstanding dues of BHEL accumulated to ₹2660.77 crore (31 March 2016). Besides, inventory relating to these projects amounting to ₹458.51 crore has been lying at different BHEL units. Interest loss to BHEL due to blockage of funds in outstanding dues and inventory amounted to ₹1099.56 crore[42] up to October 2016.

Ministry stated (May 2017) that as the customer had paid advance and payment were being released regularly, supplies in some cases were made without LC. Moreover, LC provisions, wherever available, were for dispatch payments only and payments towards milestones, price variation, taxes and duties were generally direct payments. The projects were put on-hold due to unforeseen events. Due care of such eventualities were being taken and guidelines in this regard have been issued. Further, out of ₹ 2661 crore outstanding, there was unadjusted advance and valuation adjustment (credit) of ₹1339 crore.

BHEL supplied materials without opening LC as envisaged in the contracts/work orders, despite the fact that the Board Level Audit Committee of the company, while considering an Audit Paragraph (paragraph 11.1.1 of CAG's Report No.11 of 2008), recommended (July 2008) that, as a normal practice, payment against dispatches for private customers should be against LC or payment in advance, prior to dispatch. In some projects, nearly entire amounts were tied up with LCs, examples being the Chandwa project (Phase I & II) where all payments except initial advance were to be made through LC or in Maheswhar and Monnet Power projects, where direct payment option was available only at the stage of commission to the extent of 5 to 10 per cent.

7.4.2 Acceptance of zero date before receipt of initial advance

M/s DB (Power) MP Limited (DBMPL) awarded (27.06.2011) work of 2x660 MW power project in Singrauli District in Madhya Pradesh to BHEL at a cost of ₹3631.50 crore. As per terms of Letter of Award, (LOA), BHEL agreed for zero date to be the date of receipt of first instalment of initial advance of ₹50 crore. BHEL received the advance on 29.9.2011 which was treated as the zero date. Audit noticed that as per circular issued (20.10.2008) by Corporate Finance, at least 10 *per cent* advance should be obtained before agreeing for zero date. In the instant contract, BHEL agreed for zero date on receipt of ₹50 crore, which worked out to 1.38 *per cent* of order value. BHEL was to receive the remaining 10 *per cent* advance progressively by 28.03.2012 which was not received. The project was put on hold in November 2012 due to non-receipt of coal linkage and environmental clearance besides financial constraints. By that time, an inventory worth ₹66.82 crore was created

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[42] ***Worked out based on minimum SBI base rate, i.e., 8.50 per cent since the date of putting the projects 'on-hold'***

against this project, which could not be dispatched. Thus, reckoning of zero date in violation of internal guidelines resulted in avoidable creation of inventory against which BHEL did not hold adequate advance.

Management/ Ministry stated (February/ May 2017) that availability of Fuel Supply Agreement (FSA) and environmental clearance were not prerequisites for the commencement of project activities by BHEL and the same were generally obtained/ tied-up by the developer during the course of the project execution. Further, these agreements/clearances were under various intermediate stages of approval and hence was not a pre-condition for order booking.

The reply is not acceptable. In the instant case, zero date was reckoned before receipt of 10 per cent initial advance which proved detrimental to BHEL's own interests.

7.4.3 Non-compliance to contract provisions regarding MDCC while dispatching material

Contracts entered into by BHEL provided for payment of 60 *per cent* of ex-works component of the contract price for each identified equipment upon dispatch of equipment from manufacturer's works on pro-rata basis on production of invoices and satisfactory evidence of shipment, including Material Dispatch Clearance Certificate (MDCC) issued by the Employer's representative. However, Trichy unit did not comply with above at the time of dispatch of material, which consequently affected realisation of bills in the following cases.

Table 7.2: Cases where MDCC was not obtained (Trichy unit)

Name of Project	Audit observation
Bongaigaon 1-3 (SG)	Trichy unit dispatched material and billed ₹1.11 crore during March 2009 to December 2010, but payment was pending for want of MDCC.
2x800 MW Darlipali	Between October 2015 and March 2016, Trichy unit dispatched goods worth ₹127.96 crore, which, however could not be billed for want of MDCC from customers.
1x500 MW Unchahar TPP Stage-IV	
2x800 MW Gadarwara STPP	
1x800 MW Kothagudem TPS	
3x660 MW North Karanpura STPP	
3x660 MW Nabinagar STPP	
NBPPL	
3x660 MW Barh-I	
1x500 MW Unchahar TPP Stage-IV	Trichy unit dispatched goods worth ₹3.32 crores but could not bill even after 180 days for want of MDCC from customer; and turnover was reversed in the books of accounts.
3x660 MW Nabinagar SG Package	
2x800 MW Darlipali SG Package	
2x800 MW Gadarwara SG Package	

Management stated (February 2017) that to avoid any difficulty in raising the bills, it has been decided not to dispatch any material without MDCC, wherever MDCC was required as per contract. Ministry did not offer any comment.

7.4.4 Dispatch/procurement of material after putting projects 'on-hold'

Whenever any project was put on hold, Business Sector concerned instructed units not to undertake any work relating to such projects after the date of hold; and resumption of activities should take place only after intimation from the Business Sector. However, it was noticed that units of BHEL placed purchase orders, received and/or dispatched material in contravention to the said instructions.

7.4.4.1 Material dispatched to projects

BHEL secured an order for construction of 4 x 270 MW Bhadradri TPS for Telangana State Generation Corporation (TSGENCO) on 21.3.2015 at a cost of ₹5044 crore. Audit noticed that subsequent to an order (12.12.2015) of Hon'ble National Green Tribunal (NGT) stopping all the works of the project till environmental clearance for the project was obtained, TSGENCO informed (14.12.2015) BHEL to stop all the works immediately till further instructions. Accordingly, Power Sector-Marketing instructed (14.1.2016) all the units concerned to put the project 'on-hold'. However, BHEL units continued with the manufacturing activities and incurred expenditure ₹209 core against this project between January 2016 and March 2017.

Management stated (February 2017) that NGT's order putting the project on hold was dated 12.12.2015 and the same was given to BHEL by customer on 11.01.2016. Immediately on receiving customer letter, BHEL imposed hold on this project. All steps were taken to stop dispatches as soon as hold was imposed by Business Sector and communication time was being minimized through system improvements. Ministry added (May 2017) that environmental clearance was received and TSGENCO has given clearance to restart the work (March 2017).

Even considering that the order was communicated to BHEL only in January 2016, the reply does not explain continuation of manufacturing and dispatch against the project till March 2017.

7.4.4.2 Placement of purchase orders against on-hold projects

Bhopal unit placed eight purchase orders (POs) valuing ₹8.81 crore in respect of five 'on-hold' projects after these projects were put on hold. Similarly, Hyderabad unit issued 203 POs valuing ₹10.87 crore, in respect of 12 projects which were put 'on hold'. Audit also observed that unit managements failed to implement the decision (21.1.2013) of the Management Committee to build a 'lock' into the system for raising of indents and placement of POs against 'on hold' projects as BHEL units continued the practice even after January 2013.

Management explained (February 2017) that orders have been issued after the Business Sector advice as order placed was common for multiple projects or there was gap in business sector communication in reaching the concerned purchase officer. However, in order to avoid any such eventuality in future, system based implementation of advice for 'hold' was being implemented. Ministry did not offer any comment.

7.4.5 Delay in completion of Performance Guarantee tests and pending punch points

Orders secured by BHEL for execution of power projects provide for release of last 5 to 10 *per cent* of contract amount upon successful completion of Performance Guarantee (PG) tests. It was, therefore, important that BHEL conduct PG tests immediately after commissioning. It was, however, noticed in audit that:

(i) Out of 52[43] units of 29 thermal power projects commissioned during performance audit period, PG tests of only 18 units were completed by July 2016. PG tests of these 18 units were completed 7 to 50 months after commissioning.

(ii) PG tests in respect of 34 units were yet to be completed though 2 to 70 months had elapsed (up to July 2016) since their commissioning.

[43] ***Except Harduaganj unit #8&9, the details of conducting PG tests of which were not furnished to audit, though management stated in its reply (February 2017) that PG test was conducted on unit #8***

(iii) PG test reports in respect of seven units of five projects were under approval with customers at the end of July 2016, though more than six months have elapsed since conducting of these tests. PG test report of Lakwa proejct had been under approval with customer since October 2012 because of shortfall in Boiler and Turbine Generator output. Customer's approval of PG test reports in respect of Parichha project were also pending for more than three years.

(iv) As a matter of prudence, all applicable PG tests {i.e., PG tests of Boiler, Turbine Generator (TG), Electro-Static Precipitator (ESP) and Mills}, should be conducted together. However, only in case of seven units, all PG tests were conducted within one months' time. In case of eleven units, time gap between PG tests conducted first and last ranged from 2 to 25 months. In eight out of these eleven cases, more time gap between first and last of the PG tests was due to delays in conducting PG tests of ESP.

(v) In 301st MC meeting held on 19 November 2012, Power Sector –Technical Services (PSTS) informed the Management that customers were not giving clearance for conducting PG tests unless issues of punch points were resolved. MC directed that all efforts should be made for resolution in order to complete PG test before commissioning. It was, however, observed that BHEL's record in clearing punch points was very poor. Contracts for execution of power projects provided for completion of facilities within three months of commissioning of last unit and in any case one year was more than sufficient for clearing punch points/pending works. However, punch points/pending works were not cleared by BHEL till 31 March 2016, even in respect of projects commissioned as back as in 2006-07. This shows that BHEL overemphasized commissioning of generating units (to achieve maximum capacity addition during a financial year) instead of project completion.

As a result, BHEL sustained interest loss on the amount held up in these projects. Loss of interest[44] on the outstanding dues as on 31 March 2016, which could not be realized on account of delay in completion of PG tests and clearing pending works/punch points in respect of commissioned projects selected for performance audit as well as the projects pending closure as on 31 March 2016 worked out to ₹1457.11 crore.

Management stated (February 2017) that for resolving the PG Tests issues, efforts had been synergized by formation of a group coordinated by PSTS[45] with representation from PS-Marketing, Project Management Group, all Regions and units. It was also pointed out that interest loss calculated by Audit was only notional as payments become due after completion of PG test. Management also stated that execution of PG test was beyond the control of BHEL as well as customer, as PG test require unit to be run at rated capacity of machine but the running of unit was guided by grid demand. Ministry added (May 2017) that besides non-availability of grid demand and punch points, PG test conductance was delayed due to other reasons attributable to customers like non-availability of plant shutdown, design coal/coal shortage, power evacuation problem etc.

However, PG tests in respect of 34 thermal units were yet to be completed though two to 70 months had elapsed (up to July 2016) since their commissioning. Had PG tests and punch points been completed within stipulated time, the outstanding amounts could have been realized. Audit also noted that a special task force was constituted for realization of dues. Delays in conducting PG tests up to 50 months cannot be solely due to non-availability of grid demand and other reasons.

***44** Calculated at 8.50 per cent (minimum of SBI base rate prevailing during 2011-16). Period for interest calculation is worked out after allowing one year from project commissioning for clearing pending issues*

***45** Power Sector Technical Service*

7.4.6 Ineffective implementation of debtors monitoring mechanism

In order to ensure reduction in time to realize debts, Board Level Audit Committee (BLAC) of BHEL suggested (January 2012) a monitoring mechanism for debtors through an Apex Committee with Director (Finance) as Chairman and Executive Directors of business sectors as other members, to identify problems, lay down a clear time bound action plan and monitor progress on monthly basis. This Committee was to apprise the status to BLAC on quarterly basis. BLAC also suggested formulating detailed action plan (focusing on liquidation of top 10 debtors and non-moving debts in each unit) with assignment of clear responsibilities for collection of debts in respect of each project to a specified senior official. Unit-wise responsibility for collection of debts was also suggested to be fixed. The Apex Committee was constituted in March 2012 (from August 2013, the Committee was renamed as 'Cash Collection Review Meetings'). The following shortcomings in implementation of debtor monitoring mechanism were noticed:

(i) Against requirement of apprising status of sundry debtors to BLAC ***on quarterly basis***, during the 16 quarters from April 2012 (when first meeting of Apex Committee held), up to March 2016, status of Sundry Debtors was submitted to BLAC five times[46] only.

(ii) From September 2012 to July 2013, no record notes of debtors' review were furnished to Audit. After the Cash Collection Review Meeting in August 2013, these meetings were not held for 17 months between September 2013 and January 2016[47].

(iii) Based on information made available, a comparison of cash collection targets and achievement for seven months in 2013-14 and eleven months each in 2014-15 and 2015-16 was made. It was noticed that Power Sector could not achieve cash collection target in any of these 29 months and monthly shortfall ranged between 27 to 75 *per cent*. Industry Sector also did not achieve the monthly targets except one month in 2013-14, while other sectors (other than Power and Industry sectors) achieved targets in five out of 29 months. As such, overall cash collection targets could also not be achieved in any of the months and actual overall collection fell short of targets by 30 to 64 *per cent*.

(iv) In 3rd meeting of Apex Committee held on 04.08.2012, business sectors agreed to work on a focused plan during the year for liquidation of dues against 22 old projects. Business sectors also stated that they would submit their plan for liquidation within one month. However, no action plan was formulated /implemented. Outstanding dues in respect of 17 out of 22 old projects amounting to ₹515 crore out of ₹ 1227 crore (after adjusting ₹248 crore towards LD written off against one project) were yet to be realised (31 March 2016).

Ministry stated (May 2017) that presentation on debtors was given to BLAC periodically. Meeting of cash collection with business sectors was held every month, however, the practice of preparing formal record notes of the meeting was in place at present. Stretched targets were given to business sectors for maximizing cash collection and the old outstanding debtors of 22 projects reduced from ₹1404 crore as on 31.03.2012 to ₹481 crore as on 28.02.2017. Significant part of these amounts were towards withheld amount by customers for various reasons including LD. The liquidation in case of old dues was slow.

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[46] ***Once each in 2012-13, 2014-15 and 2015-16 and twice in 2013-14***

[47] ***September 2013, December 2013 to May 2014, July 2014, February 2015, April 2015 to June 2015, August 2015, and October 2015 to January 2016***

The reply, however, has to be viewed against the fact that the reduction of outstanding debts to ₹ 481 crore was not purely on realisation of debts from customers, but also due to write off of ₹ 378 crore. In fact, only ₹ 545 crore (38.82 per cent) from ₹1404 crore could be realised during the last five years.

7.4.7 Violation of guidelines on 'Conversion of collectible dues to withheld dues'

For guidance of units and business sectors, Apex Committee on Debtors approved (August 2012) guidelines on conversion of collectible dues to withheld dues[48]. These guidelines aimed to address:

- Reasons for conversion of collectible dues to withheld dues;
- Approval of conversion of collectible dues to withheld dues;
- Regular review of withheld dues; and
- Timely action on liquidation.

To achieve the above aims, the guidelines provided that collectible dues should be converted to withheld dues after approval from the business sector, so that business sectors could monitor taking of timely action and coordinate with customers for liquidation of withheld dues.

The following table indicates the turnover, collectible dues and withheld dues during 2012-13 to 2015-16:

Table 7.3: Year-wise details of turnover, collectible dues and withheld dues

Year	Turnover	Collectible dues at year end	Withheld dues at year end	Percentage of withheld dues to collectible dues
	(₹crore)			
2012-13	50156	22296	4960	22.25
2013-14	40338	22806	5637	24.72
2014-15	30947	22146	6031	27.23
2015-16	26587	21929	7170	32.70

From the above, it is noticed that:

(i) While the collectible dues remained at same level during 2012-13 to 2015-16, withheld dues increased from ₹4960 crore in 2012-13 to ₹7170 crore in 2015-16 and registered an increase of 44.56 *per cent*.

(ii) PS-Marketing, which contributed 76.46 *per cent* to 80.53 *per cent* of annual turnover during 2011-12 to 2015-16, did not approve any case for conversion of collectible dues to withheld dues till March 2016. It was informed (September 2016) that no regular requests were received for conversion of collectible dues to withheld dues from the units concerned.

(iii) As per guidelines, unit heads were required to send a quarterly review report on withheld dues indicating action taken for liquidation of withheld dues and action plan for future to the Corporate Debtor Group for review and submission to Apex Committee. Audit, however, observed that project-wise details of withheld dues were submitted before Cash Collection Review Meetings held on 11.11.2013, 04.6.2014, 04.8.2014 and 03.12.2014 only, that too without indication of action taken for liquidation of withheld dues and action plan for future as required.

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[48] *Amounts withheld by customers on account of LD for performance, LD for delay, disallowance of ED/Service Tax/CST/VAT/CD, PVC/ERV claims, payment held up for pending punch points/contract reconciliation, payment held up for shortages/damages/rejection, extra claims disallowed etc.*

(iv) Action plans for liquidation of withheld dues were not submitted to Cash Collection Review Meetings even after its specific instruction to this effect in the meeting held on 04.8.2014.

Management noted the audit observation and stated (February 2017) that as in case of 'withheld towards LD', other outstanding payment shall also be classified as 'withheld dues' on the advice of Business Sector in case of composite projects. Report on project level withheld dues along with major reasons for withheld was sent by units on monthly basis. Due to large number of projects and several units involved, the said report was uploaded by units in the system. Ministry added (May 2017) that all units and Business Sectors have been again intimated to comply the guidelines of withheld dues as advised by Apex Committee for classification of withheld dues and for review and submission of report.

7.4.8 Ineffective functioning of task forces for realisation of dues

For quick realisation of outstanding dues from State Electricity Boards (SEBs), State-wise GM level Task Forces were constituted (17.8.2013) with representatives from Contract Closing Group (CCG), Project Management Group (PMG), Corporate Debtors Group and Power Sector-Marketing. Task Forces identified 45 projects comprising 16 on-going projects and 29 projects where trial operation had been completed. The Task Forces fixed (February 2014) target for completing pending works on the projects, where trial operation had been completed, between March 2014 and December 2014 and to realise the outstanding dues ₹2604.45 crore pending against these 29 projects by December 2014.

Audit, however, noticed that the Task Forces could not liquidate dues within the target dates and ₹2388.10 crore (*91.69 per cent of outstanding dues as on 01 February 2014*) were still (31 March 2016) outstanding. It was also observed that though task forces notified pending works in projects to units concerned and received their commitments to complete such pending works as per target dates, completion of pending works by the units were not monitored. Further, the non-fulfilment of targets by the units along with reasons and fixing responsibility for such slippages was not taken up with MC by the Task Forces.

Management stated (February 2017) that in line with the MC discussion, coordinated efforts were made by PS-Marketing, PMG and CCG for liquidation of dues. In order to give further thrust to contract closing activities and liquidation of outstanding, Project Closure Synergy Group (PCSG) has been formed. Ministry added (May 2017) that the issues and agencies responsible for non-achievement of target were identified and discussed in MC meetings. The realisation takes time as significant amount of dues were withheld pending completion of delay analysis and waiver of contractual LD. As a result of continuous effort, during current year, around ₹500 crore was realised from SEBs.

7.4.9 Delayed raising of invoices

Considering the financial implications involved, invoices should be raised promptly when they become due as per contract. Any delay in billing would result in delay in realisation. Generally billing (invoicing) was done in the same month of dispatch. However, audit noticed substantial delays in raising invoices to customers as discussed in ensuing paragraphs.

7.4.9.1 In the ten projects reviewed in the audit sample, Ranipet unit raised invoices for ₹ 1882 crore. Of this, invoices worth ₹ 540.10 crore (28.70 *per cent*) were raised after 30 days of dispatch of materials. Audit noticed that non-receipt of documents like Lorry Receipt copy, Material Dispatch Clearance Certificate (MDCC) etc. were the main reasons for delayed billing.

Management stated (December 2016/ February 2017) that earlier there was considerable delay in raising invoices, but presently billing delay has been reduced for current projects through measures like review of GDPB (goods dispatched pending billing) done every week and invoices were raised weekly, centralised documents receipt and monitoring, and obtaining of MDCC on dispatch. Ministry added (May 2017) that generally invoices were raised within one month of dispatch and billing delay observed were stray cases due to non-receipt of documents.

Audit notes the corrective action/ proposed action. Delays in invoicing were noticed in 7 out of 10 projects, quantum of delayed invoices to the total invoices raised being in the range of 12.39 per cent to 78.08 per cent cannot be treated as stray cases.

7.4.9.2 Trichy unit raised invoices in respect of 48921 deliveries valuing ₹2617.78 crore with a delay of more than 30 days. Maximum delay noticed was of 1774 days.

Management stated (February 2017) that 85 *per cent* billing was done within first month of dispatch, despite some perennial issues like obtaining MDCC, Billing Break-Up approval etc., which led to delay in other cases. Ministry added (May 2017) that such cases were hardly one per cent of total billing towards specific issues varying from project to projects. However, efforts were continuously on to reduce such delays and the views expressed by Audit were taken for improvement.

7.4.10 Price Variation as per contractual terms not claimed

Uttar Pradhesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) placed (April 2008) order for 2x500 MW Anpara-D project on BHEL. As per the contract, in case of any variation in the import component on account of exchange rate variation (ERV), UPRVUNL would be liable for upward variation up to 5 *per cent* and downward variation up to 10 *per cent*. Variation in foreign exchange and corresponding custom duty (CD) variation was to be computed as per prescribed formula and billing was to be done 18 months after zero date (12.01.2008) in one lot. However, the same was not claimed by Trichy Unit even after lapse of seven years.

Management stated (February 2017) that ERV and CD claims were slightly complicated and the customers do not admit the claims readily. The requirement of documents vary from customer to customer. Hence, provisional claim was raised. In this case, the provisional claim submitted was not accepted by customer. As per advice of PS-Marketing, this would be taken up during final reconciliation and a commercial settlement would be reached. Ministry added (May 2017) that efforts were always made by BHEL to settle the claims as and when they were raised. However, often the customer consolidate issues and take up the same at the end of the contract.

However, price variation billing was not done as per contractual provisions. Interpretation of contractual provisions and/or requirement of specific documents, if any, should have been settled at the time of finalisation of contract. Keeping settlement of price variation bills pending till contract closure could weaken the possibility of their realisation.

7.4.11 Supply beyond contractual scope

Ranipet unit dispatched material valuing ₹22.65 crore to 11 projects[49] as supplies beyond scope of contract. Trichy unit also dispatched 1184 items in 22 boilers at a cost of ₹23.44 crore, but did not raise invoices for the same on the customer.

Management stated (February 2017) that in respect of material dispatched from Ranipet unit, efforts were on for collection of outstanding dues from customer. In case of Trichy unit, Management stated that in line with Audit views, value of such items was now being included in the regular billing break-up approval process. Ministry did not offer any comment.

[49] ***Bellary 3 (₹2.54 crore), NTPC Solapur ESP package (₹0.30 crore), Shree Singaji (₹4.64 crore), HNPCL-Vizag (₹4.29 crore), Vallur (₹0.24 crore), Anpara-D (₹6.28 crore), Koderma (₹1.65 crore), GGSR-Bhatinda (₹0.08 crore), MPPGCL Satpura-10 (₹0.60 crore), Santaldih-6 (₹0.58 crore) and Hindalco (₹1.45 crore)***