

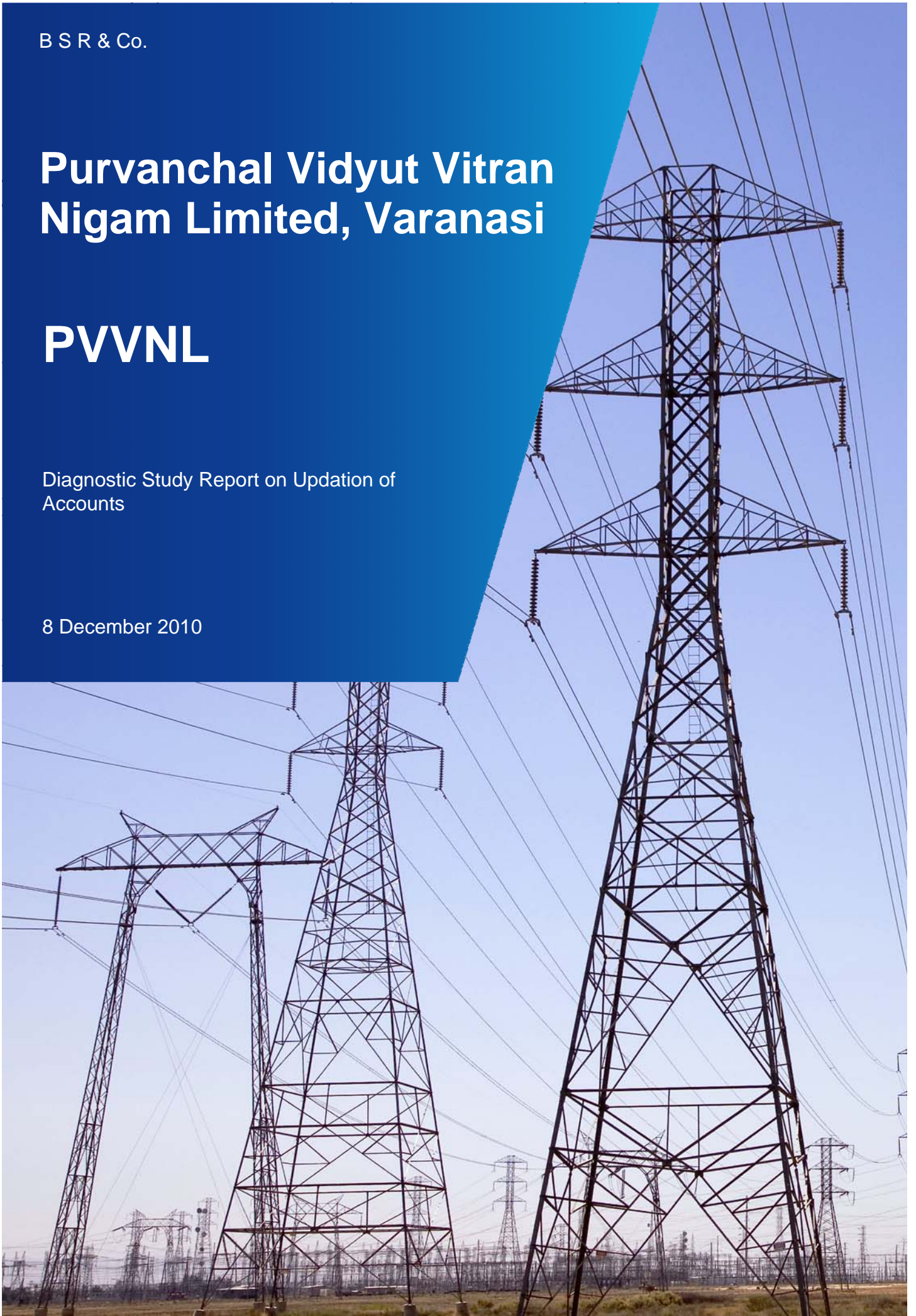
B S R & Co.

Purvanchal Vidyut Vitran Nigam Limited, Varanasi

PVVNL

Diagnostic Study Report on Updation of
Accounts

8 December 2010



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1. Purpose and Basis

Prepared for the “HIGH LEVEL PANEL ON FINANCIAL POSITION OF DISTRIBUTION UTILITIES” for the purpose of information on status update and summarising the key issues/road blocks noticed in relation to finalisation of financial statements upto March 31, 2010 of the Utilities’. This is based solely on the discussions with the Utility’s management and does not constitute an audit/review in accordance with the generally accepted auditing standards.

Restrictions on distribution:

Includes information which has been provided based on preliminary discussions with the Utility’s management only. It is produced on the basis that it is for your information only and that it will not be quoted or referred to, in whole or in part, without our prior written consent.

2. Coverage

This report covers Purvanchal Vidyut Vitran Nigam Limited, Varanasi (herewith referred to as the ‘Utility’)

3. Background

Planning Commission (Power & Energy Division) vide its office memorandum ref. F. No. I-22/2/32/2010-P&E dated 28.07.2010 has intimated that Prime Minister has approved a High Level Panel (HLP) on 'Financial Position of Distribution Utilities' to look into the financial problems of the SEBs/Distribution Utilities and to identify potential corrective steps particularly in relation to their accounting practices as mentioned in the TOR given therein.

In accordance with the above, we have been appointed to carry out a diagnostic study, covering status of updation of accounts of the utility till 31 March 2010 vide letter no. 4-3/I/HLP/2010 of HLP dated 13 October 2010. The diagnostic study covers the following:

- Status of accounts
- Identification of key issues / road blocks in completion of accounts
- Work plan / road map for updation of accounts upto the year 2009-10, in consultation with the Utility

Detailed Scope of Work

Carrying out Diagnostic study for updating of accounts till 31st March 2010 covering the following:

- Preparation of an initial questionnaire to facilitate carrying out diagnostic study
- Visit the Utility
- Carrying out Diagnostic study covering
 - ✓ Status of accounts
 - ✓ Identification of key issues / road blocks in completion of accounts
 - ✓ Work plan / road map for updation of accounts upto the year 2009-10 in consultation with the Utility
- Visit the Utility periodically to oversee the progress of the work and ensure that the working is going as per the work plan.
- To make efforts in association with Institutional Service Providers towards the plan to complete the accounts by 31st December 2010.

- Ascertain overall status of computerization of financial accounting systems in the Utility and the steps being taken by the Utility for implementation of IFRS applicable from FY 2011-12.

4. Our Approach

This section provides the approach adopted by us to carry out the diagnostic study.

4.1 Key objective of the study

The prime objective of the study is to draw a road map to clear the backlog in the preparation of accounts of the Utility upto financial year 2009-10. Accordingly, the backlog in annual audited accounts for the years upto 2009-10 should be cleared and simultaneously the accounts for the year 2010-11 should be audited on time.

4.2 Our Approach

The approach adopted by us to carry out the diagnostic study involves the following key steps:

- Preparation of an initial questionnaire
- Field visit to the Utility
- Analysis of the status and indentifying key issues / road blocks in completion of accounts in discussions with the Utility's management
- Based on the above and feedback from the Utility's management, drawing a tentative work plan /road map for updation of accounts upto the year 2009-2010
- Closing meeting / presentation to the Managing Director and officials of the Utility to discuss our findings and obtaining additional observations and recommendations, if any.

During the field visits, we coordinated with the Institutional Service Providers (ISP's) officials, took their inputs/support into the account while developing the road map.

We prepared an initial questionnaire to gather the primary information regarding the status of accounts preparation as on date (refer to Point no. 8). The questionnaire primarily covered the following aspects:

- Status of present accounting system
- Status of Computerisation of accounts
- System of internal audit
- Status of accounts preparation and audit
- Status on compilation/consolidation of annual accounts:
 - ✓ at Head Office

- ✓ at zones
- ✓ at field offices/accounting units
- Key issues/constraints faced in timely preparation of annual accounts/expediting clearance of backlog in preparation of annual accounts

The above information was compiled by the Utility with the assistance of ISP. A study of the information provided by the Utility an above was done by us, prior to making field visit to have a focused discussion with Utility's personals.

During our field visits, we commenced the diagnostic study with a kick off meeting with the Head of Accounts and other key officials at the Head office of the Utility. The objective of the meeting was to obtain an overall understanding of the following aspects:

- An overview of the organisation and accounting set-up
- Preliminary discussions of the information provided as per the questionnaire, status of accounts and key issues
- Preparation of work plan for the field visits

Based on the above, we met the concerned key officials at select offices as under:

- Head office – Compilation and Accounts Department/Section
- Zone – Compilation and Accounts Department/Section
- Circle/Division/Sub-Division
- In addition, we also had discussions with the statutory auditors of the Utility

The main objectives of the above meetings were:

- To gain understanding of the process of preparation and compilation of accounts, broadly covering the following:
 - ✓ Preparation of books of account by the accounting units
 - ✓ Compilation of Accounts by Divisions
 - ✓ Compilation of Accounts by Zones
 - ✓ Branch audit
 - ✓ Compilation of Accounts by HO
 - ✓ Approval of accounts by Board of Directors
 - ✓ Statutory Audit
 - ✓ CAG Audit

✓ Adoption of Accounts in the AGM

- Understand in detail the current status on the compilation of accounts and audit
- Understand and discuss the key issues involved/constraints faced in timely preparation of accounts and audit thereof
- Understanding the likely completion dates as provided by the Utility in the initial checklist and the assumptions behind it.
- Arrive at practicable and implementable road map, including time frame, responsibility and actions required

The above discussions also included ascertaining the status of computerisation of accounts and implementation plan for IFRS.

List of Officials met

A broad list of officials / consultants interacted with during the diagnostic study is as follows:

- Mr. Suresh Ram– Managing Director (H.O. Varanasi)
- Mr. S.K. Mishra – Director (Finance) (H.O. Varanasi)
- Mr. P.P. Dixit – Chief Engineer Planning (H.O. Varanasi)
- Mr. Rama Shankar Prasad – Senior Accounts officer (H.O. Varanasi)
- Mr S.N. Vashisth – Deputy Chief Accounts Officer (Varanasi Zone)
- Mr. Sharad Mohan – Assistant Accountant (Varanasi Zone)
- Mr. Nankau – Assistant Accounts Officer (Varanasi Zone)
- Mr. D.S. Trivedi - Accounts Officer (H.O. Varanasi)
- Mr. P.K. Chaudhari – Assistant Accountant (H.O. Varanasi)
- Mr. B.L. Srivastava – Assistant Accountant (Varanasi Zone)
- Mr. A.K. Verma – Assistant Accounts Officer (Varanasi Zone)
- Mr. R.P. Dwivedi – Assistant Accountants Officer (H.O. Varanasi)
- Mr. S.K. Agarwal - Superintendent Commercial (Varanasi Zone)
- Mr. S.P. Trapathi – Staff Officer (H.O. Varanasi)
- Mr. Manoj Rai – Outside Consultant (Dataman)
- Mr. Sandeep Paul – Outside Consultant (Computronics Limited)
- Mr. Prakash Tulani – Representative of Statutory Auditors (Partner - M/s Jaisawal Brijesh & Co.)
- Mr. Rinkoo Maurya – Representative of Statutory Auditors (M/s Jaisawal Brijesh & Co.)

5. Broad Structure of the Utility

The Utility's structure may be divided into the following functional / operational units:

Head Office ('HO'):

HO is primarily responsible for compiling the financial information received from ZO.

4 Zonal Offices ('ZO'):

ZOs are primarily responsible for compiling the financial information received from COs and Dos.

12 Circle Offices ('CO'):

COs are primarily responsible for administrative oversight over DOs.

93 Divisional Offices ('DO'):

All activities relating to operations / works and revenue generation, collection etc. resides with Dos.

Size of PVVNL

The size of the Utility in terms of revenue, customers and accounting units may be summarised as under:

Revenue – Approx 3,200 crores (as per provisional Financial statements for the year ended 31 March 2010)

Customers – 30 lakhs +

Accounting Units – 109 (approximately)

HO, ZO, CO and DO prepare the following books of account

- Section Journal 1 – Staff related payments i.e. salaries
- Section Journal 2 – Staff related payments other than salaries e.g., PF, ESI etc
- Section Journal 3 – Payments made to outside agencies e.g. vendors, suppliers, contractors etc
- Section Journal 4 – Financial adjustment entries e.g. rectification entries, inter-unit reconciliation entries, stock account adjustment entries etc.

- Cash book – Cash payment (one part of the transaction is recorded in the cash book and the other part is recorded in the respective Section journal).

6. Financial Reporting and Audit Process

As explained to us, following is the financial reporting and audit process of the Utility. As informed to us, the process of the financial reporting is very prolonged and takes substantial period of time to complete due to various processes involved to compile financial information and multiple audits. The following is the summary:

- The accounting policy manual of Uttar Pradesh Power Corporation Limited (UPPCL), the holding company of PVVNL, prescribes the accounting treatment of each of the specific accounting items.
- Standard account codification process prescribed by UPPCL needs to be followed by the distribution companies.
- The Company initially follows cash basis of accounting during the year and provides for expenses as at the year end to ensure that the financial statements are based on the accrual concept.
- COs and DOs provide accounting information to their respective zonal offices for consolidation.
- The respective ZOs have purchased third party software having certain basic in-built functionalities, e.g., checking the sum totals, checking that the contra entries are matching, etc.
- The Company hires independent consultants, like Dataman, for compiling the data received from CO's and DO's for consolidation purposes.
- The compiled information is audited by the respective Zonal office auditors and the audited financial statements along with the audit report, are forwarded by the respective ZOs to the HO.
- HO also has an independent third party software which it uses to consolidate the respective ZO results.
- Consolidated results at HO are audited by the HO auditors. The Statutory Audit takes approximately 4 to 6 weeks to complete.
- Audited financial statements along with the auditors' report, are sent to the State Auditor General office ('State AG office') for their audit and comments.
- State AG office reviews the audited financials and discusses its findings with the Company's management.
- State AG office clears the financial statements and forwards them to Comptroller and Auditor General office ('CAG Office') for final clearance.

- CAG office clears the financial statements after discussions with the State AG office and thereafter the financial statements are adopted in the Annual General Meeting of the Company.
- It takes approx 6-8 months to complete the audit of accounts (i.e. commencing from the branch audit till completion of audit by CAG office).

7. Status of Computerisation

There is largely no computerization of the financial reporting process i.e. initiation, authorization, recording and financial reporting. The Utility uses computers for compilation of financial information for consolidation purposes at ZOs and HO. Trail balances received by ZOs from COs and DOs are entered into the computer software (fox-pro). Software systems have limited functionality and essentially apply information compiling procedures. In selected areas, meter reading and bill processing, mainly for domestic customers, is outsourced to external vendors/franchisees.

Following key issues were identified under status of computerisation

- No computerisation for monitoring and tracking of capital projects and revenue expenditure.
- No computerization for monitoring of human resource and related data.
- Billing, collections, customer care and dispute management systems have not been implemented.
- Energy data generated is a mix of manual and system efforts. This lacks a robust reconciliation process.
- Legal cases are updated manually by the various consultants on the basis of advice received from the Divisional Offices and are not system controlled.
- The systems / software used either by the Utility or the vendor are outdated. These, lack modern functionality of processing and reporting.
- The system used by the Entity is mainly for data consolidation instead of data processing and generation.

8. Status of Accounts and Utility's Plan for Completion

Following is the status of accounts for the years 2007-08, 2008-09, 2009-10 and Utility's plan for completion based on the discussions with the Utility's officials:

| Particulars | FY 2007-08 | FY 2008-09 | FY 2009-10 |
|--|--|---|--------------|
| | Plan | Plan | Plan |
| Compilation of provisional financial statements of the Company | 30-Nov-2010 | 30-June-2011 | 30-June-2011 |
| Completion of Branch Audits | Already done | 30-June-2011 | 30-June-2011 |
| Completion of Statutory Audit | 31-Dec-10 | 30-June-2011 | 30-June-2011 |
| Review by State AG office / CAG offices | Not planned | Not planned | Not planned |
| Approval from State AG / CAG offices | Not planned | Not planned | Not planned |
| Annual General Meeting for adoption of account | Not planned | Not planned | Not planned |
| Completion of Primary Books of account | Completed | ENTITY TO COMMUNICATE THE ACTIVITY WISE PLAN TO COMPLETE THE FINANCIALS BY 30 JUN/31 DEC 2011 | |
| Compilation of Monthly Trial Balances | Completed | | |
| Branch Audit of Zonal Accounts | Completed | | |
| Preparation of Consolidated Accounts | 30-Nov-2010 | | |
| Completion of Statutory Audit | 31-Dec-2010 | | |
| Adoption of final accounts by Board of Directors | Not planned | | |
| <i>IUT reconciliation</i> | <i>Entity to advice a separate plan</i> | | |
| <i>For financial year 2006-07, board meeting and AGM are planned in December 2010</i> | | | |

9. Key Issues/Road Blocks Noticed

Key issues/road blocks identified in completion of accounts for the years upto 2009-10 based on the following:

Study/review and analysis of the overall accounting structure and accounting process followed at the Utility

Current status on preparation of accounts and discussions held with the Utility's officials

Discussions with the Branch/Statutory auditors of the Utility to the extent feasible.

The key issues/road blocks noticed for updation of accounts are summarised below:

SPECIFIC ISSUES

- Liquidity crunch: Huge outstanding receivables
- Pending inter-unit reconciliation ('IUT')
- Preparation of Fixed Assets Register ('FAR')
- Preparation/reconciliation of stock register
- Preparation of provision for expenses
- Substantial distribution losses
- Completion of audit by Statutory Auditors / Branch Auditors
- Completion of audit by CAG

GENERAL ISSUES

- Lack of appropriate manpower
- Lack of computerization (covered per separate details)
- Lack of coordination between Commercial and Accounting/Finance teams
- Opening balances at the time of unbundling of State Electricity Board ('SEB'), which are still pending reconciliation and finalization
- Numerous qualifications in audit report (refer Annexure 1 for a brief on qualifications in the audit report for the year ended 2006-07)

10. Major Items Pending Conclusion

Inter-unit reconciliation ('IUT')

- Pending since 2003;
- Pending for approximately 88 units

Major reconciling items:

- Stock transfer adjustments;
- Credit from UPPCL to DO's;
- Payment made through IUT.

Amounts involved as per provisional financial statements:

- Rs. 1,144 crores (Asset) for FY 2009-2010;
- Rs. 929 crores (Asset) for FY 2008-2009;
- Rs. 393 crores (Asset) for FY 2007-2008;
- Rs. 405 crores (Asset) for FY 2006-2007; (Audit completed)
- Rs. 31 crores (Asset) for FY 2005-06: (Audit completed)
- Rs. 63 crores (Asset) for FY 2004-05: (Audit completed)
(Auditors appointed for all the above years)

Possible items that may need to be adjusted on conclusion of IUT reconciliations:

- Expenses/provision for expenses
- Stores
- Capital assets
- Possible dual payments or payments for non-existent transactions
- Any other corrections

As explained to us, the Utility has not worked out any plan for reconciliation – Utility would need to consider this as a separate project.

However, pending such reconciliation we believe that the Utility may consider the following:

- Accounts may be concluded subject to IUT reconciliations;
- Possible report by Statutory Auditors subject to reconciliation of IUT and holding AGM;
- Separate project to reconcile and conclude IUT and other balances

11. Certain critical issues

Based on various discussions with the Utility's management, certain critical issues are as under:

ENTITY TO CONSIDER

- Physical verification of fixed assets and preparation of fixed assets register
- Maintenance of stock register and physical verification
- Identify specific un-reconciling items (i.e. Inter Circle Transactions, Vendor advances and payments etc) and conclude, considering the size of un-reconciled items and possibility of misappropriation
- Analysis and ageing of receivables and action for recovery
- Preparation of Input / output analysis and action against losses
- Consider separate project for implementation of IT system.

BRANCH / STATUTOY AUDITORS TO CONSIDER

- Parallel Statutory Audit for multiple years
- Possible conclusion of audit of financial statements subject to IUT reconciliation and holding of AGM

SEPARATE PROJECT FOR IUT RECONCILIATION

- Entity to consider IUT Reconciliation as a separate project
- To identify specific items and conclude, considering the size of un-reconciled items and possibility of misappropriation
- Need coordination between Engineering and Finance teams (possibly more authority to Finance teams to reach conclusion)
- Robust process to be in place for periodic reconciliation, going forward
- Consider implementing a real time IT system to track IUT transaction status (to be a part of overall level of computerisation)

HLP TO INTERVENE

- To connect with the Entity for expediting compilation of pending information
- To connect with CAG to expedite the audit process

MATTERS FOR FURTHER DISCUSSIONS

- Lack of appropriate manpower
- Separate project on IT system implementation
- Lack of interdepartmental coordination (largely between Engineering and Accounting / Finance teams)
- Opening balances on unbundling
- Entity to prepare a structured plan for implementation of IFRS

Annexure - 1

AUDITORS' OBSERVATIONS (PER LATEST AUDITED FINANCIALS STATEMENTS FOR 2006-07)

As mentioned above, below are some of the key observations in the audit report of the Utility in the audit report for the year ended 31 March 2007:

| Material observation made by Statutory auditor | Possible conclusion and way forward Plan |
|--|---|
| Fixed Assets Register (FAR) not fully prepared by the entity | The activity has been outsourced to M/s Dhawan & Madan Co. Entity to conclude. |
| Internal Audit system needs to be further strengthened | Entity to take initiative and strengthen the internal audit process, considering critical areas for internal audit at regular intervals |
| Opening balances on unbundling not yet finalised | A report on the opening balances, given to the entity by external consultants for cross verification and finalisation, is pending conclusion. The Company needs to take immediate action and to revert to UPPCL |
| Depreciation not charged on the additions made during the year by the entity | Entity to correct the policy |
| Disclosures related to Micro, Small and Medium Enterprises (MSME) as required by Schedule VI of the Companies Act, 1956 not made by the entity | Entity to take initiative in collating the information as required and disclose |
| Balances under Inter Unit Transfer (IUT) are not reconciled | Entity to consider it as a separate project |
| Records / Title deeds in respect of property included in Schedule 4 (Fixed Assets) were not made available | The activity has been outsourced to M/s Dhawan & Madan Co. Entity to conclude. |
| Daily cash / bank balances have not been drawn and hence the balance of cash or bank at a particular date | Possibility of misappropriation may not be ruled out. Entity to |

| | |
|--|--|
| is not available from cash book. Books of accounts have not been maintained strictly in accordance with double entry system of accounting. They have been maintained on the same pattern as followed earlier by UPPCL. | take immediate corrective action. |
| Stores and spares, constructions material and other stocks not valued in accordance with Account Standard 2 "Valuation of Inventories" | Entity to take corrective action to follow appropriate accounting. |
| | |
| Material observation made by Branch auditor | Possible conclusion and way forward Plan |
| Profit and Loss Account and Balance Sheet are not supplied; rather only provided with Trial Balance | Entity to discuss and agree the audit process with the Branch Auditors. |
| In the absence of Ledger, Ledger scrutiny is almost impossible because ledger accounts are not maintained for individual, real, personal and/or nominal accounts | Entity to discuss and agree the audit process with the Branch Auditors. |
| The legacy book keeping of U.P.S.E.B. is still continuing | No specific comments |
| Fixed Assets Register (FAR) is not available | Entity to consider this as a separate project and complete |
| Bank accounts are not reconciled properly. Up to date bank statements are not available and even balance confirmation certificates are not available | Possibility of misappropriation may not be ruled out. Entity to take immediate corrective action. Entity to review old outstanding entries and take corrective actions immediately. |
| Very old entries continue to remain in the bank reconciliation statements | Possibility of misappropriation may not be ruled out. Entity to take immediate corrective action. Entity to review old outstanding entries and take corrective actions immediately. |
| Advances under the head ATD and PC require updating. The balances do not tally with the corresponding figures in trial balance of the respective units. Similarly, temporary imprest, known as TI requires closer scrutiny and adjustments | Entity to take immediate steps to correct the process. |

| | |
|---|--|
| More attention is required for TDS | Entity to take corrective action immediately |
| The dues of debtors are not reconciled with balance as per trial balance | Possibility of misappropriation may not be ruled out. Entity to perform reconciliations with significant debtors on a monthly basis. |
| There are instances of inordinate delay in depositing cash / cheques collected from customers | Possibility of misappropriation may not be ruled out. Entity to take immediate action. |
| Log book for vehicles are not produced for verification | Possibility of misappropriation may not be ruled out. Entity to take immediate action. |
| Huge amounts are outstanding against supply of power since several years | Needs separate discussions |
| Terminated staff are working in an unauthorised way | Possibility of misappropriation may not be ruled out. Entity to correct immediately. |

Annexure - 2

CERTAIN ILLUSTRATIVE PROCEDURES REGARDING:

FIXED ASSETS REGISTER

RECEIVABLES LISTING, AGEING AND RECOVERABILITY

DISTRIBUTION AND OTHER LOSSES

RECONCILIATION OF INTER CIRCLE TRANSACTIONS

FIXED ASSETS REGISTER

OBSERVATION

- No fixed assets register maintained by the utilities
- No tracking of capital work in progress

RECOMMENDATION

- Preparation of Fixed Assets Register ('FAR')
- Reconciliation of Inter Unit Transactions ('IUT')

WAY FORWARD

- Classify assets:
 - ✓ Assets that can be identified based on the available records
 - ✓ Rest of the assets for which its not feasible to trace records
- Formation of a team
 - ✓ HO to form a separate team at various levels to monitor physical verification exercise and compilation of data
- External support
 - ✓ HO to engage external support to supervise the exercise
- Fixation of accountability with each team:
 - ✓ Head Office Level
 - ✓ Circle Level
 - ✓ Division and Sub-Division Level
- Physical verification exercise:
 - ✓ Identification of standard categories of assets
 - ✓ Format for physical verification and data capturing (Refer subsequent slide)
 - ✓ Physical survey and recording of existing assets in a serially controlled format
 - ✓ Confirmation by respective Divisional Heads / Technical Heads
 - ✓ Supervision by Finance Team
 - ✓ Supervision by external agencies

- Compilation of data
 - ✓ Based on serially controlled physical verification sheets
- Allocation of values to assets in existence, based on appropriate method (e.g. replacement value method)
- Tracking of capital work in progress and to identify:
 - ✓ Assets already being used and to be capitalised
 - ✓ Assets ready to use
 - ✓ Reconciliation of ICT to identify additional items for capitalisation (Refer following slides)
- ILLUSTRATIVE FORMAT FOR DATA CAPTURING:
 - Description and category of asset
 - Identification number
 - Make
 - Quantity
 - Location / area of installation
 - Suppliers' name (to the extent feasible)
 - Estimated age of asset
 - Estimated life of asset (to the extent feasible)
 - Responsibility / accountability
 - ✓ Physical verification done by / date
 - ✓ Approved by Divisional / Technical Head
 - Any other details considered relevant

RECEIVABLES

OBSERVATION

- No tracking of receivables per party and Division
- Ageing and other details of outstanding receivables not made available

WAY FORWARD

- Utility is required to prepare detailed schedule of receivables, including the following:
 - ✓ Customer name
 - ✓ Connection and area reference
 - ✓ Category
 - ✓ Amount
 - ✓ Overdue amount
 - ✓ Sur charge on late payment not recognised
 - ✓ Outstanding amount with date of bills and ageing, duly matched with the financial records and sub ledgers
 - ✓ Responsible utility official
 - ✓ Reasons for non recovery
 - ✓ Legal cases, if any
 - ✓ Action plan and scheduled timing for recovery
- Prioritize receivables based on:
 - ✓ Category (Industrial, Government, Agriculture, etc.)
 - ✓ Ageing
 - ✓ Amount involved
 - ✓ Legal cases
 - ✓ Area and population
- Assign responsibility for actual recovery
- Close monitoring on a weekly basis
- Penal action and discontinuation of power supply for defaulters

DISTRIBUTION AND OTHER LOSSES

OBSERVATION

- No regular monitoring of transmission losses
- No periodic targets set for reduction in transmission losses

WAY FORWARD

- UTILITY TO INITIATE STEPS INCLUDING THE FOLLOWING:
 - ✓ To prepare Input/output analysis and setting up of periodic targets
 - ✓ Methods to monitor at the smallest possible distribution units e.g.
 - Grid stations
 - Sub-stations
 - Transformer level
 - Meter line (pole)
 - Any other feasible location for monitoring
 - ✓ Frequent comparison of T&D losses against targets
 - ✓ Identification of areas/locations with maximum losses
 - ✓ Penal action and discontinuation of power supply

RECONCILIATION OF INTER UNIT/CIRCLE TRANSACTIONS

OBSERVATION

- No regular tracking of stock movements between Circles at Division and Sub-Division level
- No physical verification
- No reconciliation of old unadjusted items lying in ICT

RECOMMENDATION

- Identification of old un-reconciled items lying in ICT
- Regular monitoring of stock movements between Circles
- Physical verification at regular intervals

WAY FORWARD

- Head Office to have a separate project for:
 - ✓ Identification of specific unreconciling items (i.e. Inter Circle Transactions, Vendor advances and payments)
 - ✓ Identification of responsible project in-charge
 - ✓ Conclusion as to whether the project is in process or completed
 - ✓ Identification of reasons for pending "Project Completion Reports"
 - ✓ Appropriate accounting treatment based on above to nullify ICT
 - ✓ This may result in:
 - Expenses/provision for expenses
 - Stores/Capital assets
 - Possible dual payments or payments for nonexistent transactions
 - Any other corrections
 - Possible misappropriation

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