Report of the Comptroller and Auditor General of India

for the year ended March 2004

Union Government (Commercial)
Public Sector Undertakings
(Telecommunications Sector)
No.5 of 2005

PREFACE

This Report for the year ended March 2004 has been prepared for submission to the President of India under Article 151(1) of the Constitution. It features the results of audit of the public sector undertakings of the telecom sector. The Companies covered are Bharat Sanchar Nigam Limited, Mahanagar Telephone Nigam Limited, ITI Limited, Telecommunications Consultants India Limited, Intelligent Communication Systems India Limited and Millennium Telecom Limited which are under the Department of Telecommunications (Ministry of Communications and Information Technology).

The Report contains 62 paragraphs divided into 13 chapters.

Chapters I to IV pertaining to Bharat Sanchar Nigam Limited contain

- 49 paragraphs;
- one IT Audit review on Dotsoft Package

Chapters V to VII pertaining to Mahanagar Telephone Nigam Limited (MTNL) contain

- four paragraphs;
- one performance review on Planning, Procurement and Utilisation of Wireless-in-Local Loop (WLL) System

Chapters VIII and IX pertaining to ITI Limited contain four paragraphs

Chapter X contains a paragraph on the organisational setup and financial management of Telecommunications Consultants India Limited

Chapter XI contains a paragraph on the organisational setup and financial management of Intelligent Communication Systems India Limited.

Chapter XII contains a paragraph on the organisational setup and financial management of Millennium Telecom Limited.

Chapter XIII contains a paragraph on follow up on Audit Reports

71 Draft Audit Paragraphs (DAPs) and three draft performance reviews were forwarded to the Secretary, Department of Telecommunications (DoT) for furnishing their replies. Replies to three reviews and 65 paragraphs pertaining to Bharat Sanchar Nigam Limited, Mahanagar Telephone Nigam Limited, ITI Limited, Telecommunications Consultants India Limited, Intelligent Communication Systems India Limited and Millennium Telecom Limited were not received from the Ministry.

The cases mentioned in the Report are among those which came to notice in the course of audit conducted during the year 2003-04 and the early part of 2004-05. This Report also includes cases noticed during earlier years, wherever relevant.

Telecom Sector Profile

1. Background

The development of telecommunication infrastructure is a crucial factor in achieving socio-economic development of the country. Indian telecom is more than 160 years old, beginning with commissioning of the first telegraph line between Kolkata and Diamond Harbour in 1839. In 1948, India had only 0.1 million telephone connections with a telephone density of about 0.02 telephone per hundred population. Since then, India has come a long way and by 31 July 2004, there were 82.95 million telephone connections in the country with a telephone density of 7.67 telephones per hundred population.

Various administrative and functional aspects of the telecom sector in India are discussed below:

2. Administration and Control

The Telecom Commission, set up in April 1989, has the administrative and financial powers of the Government of India to deal with the various aspects of telecommunications. The Commission and the Department of Telecommunications (DoT) are responsible, inter alia, for policy formulation, licensing, wireless spectrum management, administrative monitoring of the Public Sector Undertakings (PSUs) engaged in telecommunication services, research and development, and standardization/validation of equipment.

3. Telecom Reforms

Telecom services and most of the manufacturing activities related to the sector were totally under the Government domain till telecom reforms began in the 1980s with the launch of the "Mission Better Communication" Programme. Private manufacturing of equipment for customers' use was allowed in 1984 and the Centre for Development of Telematics (C-DOT) was established for the development of indigenous technologies. Two large corporate entities were spun off from DoT, viz, the Mahanagar Telephone Nigam Limited (MTNL) in February 1986 for Delhi and Mumbai and the Videsh Sanchar Nigam Limited (VSNL) in March 1986 for all international services.

As a part of the continuing process of telecom reforms and in pursuance of the New Telecom Policy 1999 (NTP-99), the Department of Telecom Services (DTS) and the Department of Telecom Operations (DTO) were carved out from DoT in October 1999 for providing telecommunication services in the country. DTS and DTO were finally corporatised into a wholly owned Government Company namely, the Bharat Sanchar Nigam Limited (BSNL) (incorporated on 15 September 2000) and their business was transferred to this Company with effect from 1 October 2000. The creation of BSNL was expected to provide a level playing field in all areas of telecom services, between Government operators and private operators.

4. Entry of Private Sector

A paradigm shift in Government policy came in the early nineties when the telecommunications sector was opened up to the private sector. The process of entry of private operators in providing telecommunication services in India commenced in 1992. Apart from privatizing basic telephone services, the Government also decided to introduce a number of value added services through private operators, such as cellular mobile telephones, radio paging, e-mail, internet, closed user groups (CUG), etc., which added to the value of the existing basic telephone services.

5. Regulatory control

The entry of private service providers brought with it the inevitable need for independent regulation. The Telecom Regulatory Authority of India (TRAI) was, thus, established with effect from 20 February 1997 by an Act of Parliament, called the Telecom Regulatory Authority of India Act, 1997, to regulate telecom services, including fixation/revision of tariffs for telecom services which were earlier vested in the Central Government. The TRAI Act was amended by an ordinance, effective from 24 January 2000, establishing a Telecommunications Dispute Settlement and Appellate Tribunal (TDSAT) to take over the adjudicatory and disputes functions from TRAI. TDSAT was set up to adjudicate any dispute between a licensor and a licensee, between two or more service providers, between a service provider and a group of consumers, and to hear and dispose of appeals against any direction, decision or order of TRAI.

6. Telecom Policies

The first National Telecom Policy was announced in 1994 with a major thrust on universal service and qualitative improvement in telecom services and also, opening of private sector participation in basic telephone services. In the initial enthusiasm of opening up of the telecommunications sector, the private operators, in their bids, offered much higher amounts of licence fee than they could eventually muster. As a result, by May 1999, they had accumulated arrears totalling Rs 3779.45 crore payable to the Government. The New Telecom Policy 1999 (NTP-99), allowed the private operators to migrate from the fixed licence fee regime to a revenue-sharing regime. Other provisions of NTP-99 were: permitting of interconnectivity and sharing of infrastructure among various service providers within the same areas of operations; separation of policy and licensing functions of DoT from the service provision function; opening of National Long Distance (NLD) and International Long Distance (ILD) services to competition and carrying of both voice and data traffic by service providers. As of 31 March 2002, unrestricted entry was allowed in basic services on a revenue-sharing basis. All telecom services were also opened up for private sector participation; national and international data connectivity were opened to all and internet services were also opened up without any restriction on the number of entrants and without any entry fee. A National Frequency Allocation Plan (NFAP-2002) was evolved in line with the Radio Regulations of the International Telecom Union (ITU) for catering to the conflicting demands on the spectrum.

7. Other Government organisations in the Telecom Sector

Besides MTNL and BSNL, other public sector undertakings under the telecom sector are ITI Limited (ITI), Telecommunications Consultants India Limited (TCIL), Intelligent Communication Systems India Limited (ICSIL) and Millennium Telecom Limited (MTL). ITI Limited was formed in 1948 for manufacturing a wide range of equipment, which included electronic switching equipment, transmission equipment and telephone instruments of various types. TCIL was established in 1978 for providing know-how in all fields of telecommunications at the global level. The core competence of TCIL is in communications network projects, software support, switching and transmission systems, cellular services, rural telecommunications and optical fibre based backbone network. ICSIL was established in April 1987 for manufacturing computer based communication systems and equipment. It also provides engineering, technical and management consultancy services for computers and communications systems in India and abroad. MTL was established in February 2000 as a wholly owned subsidiary of MTNL for providing internet services in the country. It is pursuing the establishment of broadband internet access for the corporate segment and Voice Over Internet Protocol (VOIP) telephony services throughout India with the use of relevant technologies like VSATs.

In addition to C-DOT and the Telecom Commission, other Government organisations engaged in the telecom sector (as a part of DoT) are the Telecom Engineering Centre (TEC) and the Wireless Planning and Coordination (WPC) wing. C-DOT was established in 1984 with the objective of developing a new generation of digital switching items. It has developed a wide range of switching and transmission products both for rural and urban applications. TEC is devoted to product validation and standardization for user agencies. It also provides technical and engineering support to the Telecom Commission and the field units.

WPC deals with the policies of spectrum management, licensing, frequency assignments, international coordination for spectrum management and administration of the Indian Wireless Telegraphy Act, 1933. In order to administer the use of radio frequencies, the licences/renewals for use of wireless equipment and the frequencies are authorised by WPC. The licences are granted for specific periods on payment of prescribed licence fees and royalty in advance and are renewed after expiry of the validity periods. The receipts of WPC on account of licence fees/royalty during each of the last five years ending 2003-04 were as under:

Rs in crore

	1999-2000	2000-01	2001-02	2002-03	2003-04
Receipts of WPC	66.49	125.03	695.08	640.16	677.39

While there has been increase in the receipts of WPC from the year 2000-01 onwards, mainly on account of increase in spectrum allotment for cellular mobile and wireless-in-local loop telephone service, the pricing of spectrum should reflect the fact that spectrum is a finite global natural resource with a high economic value and whose demand is constantly increasing.

8. Financial performance of PSUs in the Telecom Sector

As on 31 March 2004, six PSUs namely BSNL, MTNL, ITI, TCIL, ICSIL and MTL were in the telecom sector. Some of the important financial performance indicators of these telecom PSUs for the year ended 31 March 2004 were as follows:

PSU	Investment in shares by Government			Govt. Loans	Total income earned	Dividend paid on Govt. equity investment	Capital employed	Profit before tax (PBT)	Percentage of PBT to capital employed
	Equity shares	Preference shares	Total						
	(Rupees in crore)								%
BSNL	5000.00	7500.00	12500.00	7500.00	36218.59	281.25	64976.09	8996.16	13.85
MTNL	354.37	---	354.37	---	6683.93	159.47	9945.98	1601.83	16.11
ITI	67.47	---	67.47	---	1250.80	---	983.15	(705.83)	(71.79)
TCIL	28.80	---	28.80	---	544.44	21.60	347.76	50.77	14.60
ICSIL	---	---	---	---	23.98	---	0.64	0.33	51.56
MTL	---*	---	---	---	1.77	---	4.33	0.96	22.17
Total	**5450.64**	**7500.00**	**12950.64**	**7500.00**	**44723.51**	**462.32**	**76257.95**	**9944.22**	**13.04**

* Rs 2.88 crore of equity share capital of MTL was fully subscribed by MTNL.

As may be seen from the above table, on equity capital investment of Rs 5450.64 crore in these five telecom PSUs, the Government received dividend of Rs 462.32 crore which worked out to only 8.48 *per cent*. On preference capital investment of Rs 7500.00 crore in BSNL, the Government did not receive any dividend as BSNL was exempted from the payment of dividend up to 31 March 2004 on preference capital. The total income and the profit before tax earned by the six telecom PSUs during the year were Rs 44723.51 crore and Rs 9944.22 crore, respectively. On the total capital employed of Rs 76257.95 crore in the above PSUs, the overall percentage of profit before tax worked out to 13.04 *per cent*.

The individual financial performance of each of these PSUs is also discussed in the succeeding chapters.

9. Foreign Direct Investment

As a result of the positive response to the investment policy being pursued for the telecom sector, 926 proposals of foreign direct investment (FDI) of Rs 57,260.14 crore were approved for this sector during August 1991 to January 2004, which was second only to the power and the oil refinery sector. From these proposals, the actual inflow of FDI during August 1993 to January 2004 was Rs 9872.48 crore, of which Rs 310.35 crore had been received during January 2003 to January 2004.

10. Employment generation

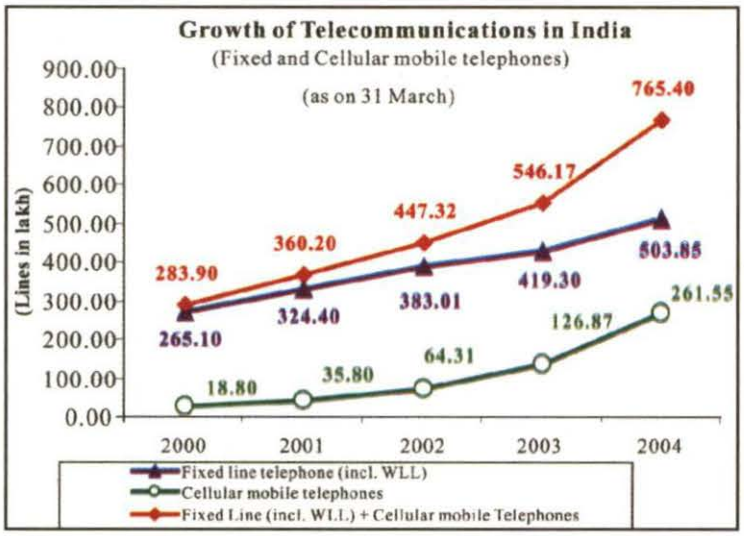
As on 31 March 1991, there were around 3.75 lakh Government employees (excluding industrial workers) working in the telecom sector (DoT and MTNL). With the growth of the sector, this number went up and as at the end of 31 March 2004, there were around 4.00 lakh Government employees (excluding industrial workers) working in this sector (DoT, BSNL & MTNL); this represented growth in employment generation by around 7 *per cent* over the last 13 years.

11. Contribution of private and public sectors to the telecom network

The contributions of the private sector and the public sector (MTNL and BSNL) in some of the important fields of national telecom network as on 31 March 2004 were as under:

Sl. No.	Telecom Network	Public sector (MTNL & BSNL)	Private sector	Total
		(figures in lakh)		
1.	Direct exchange lines* including WLL	408.68	95.17	**503.85**
2.	Cellular mobile connections	56.15	205.40	**261.55**
3.	Village public telephones	5.10	0.13	**5.23**
4.	Public Call Offices	17.59	---	**17.59**
5.	Rural direct exchange lines including WLL	122.72	---	**122.72**
6.	Internet connections	18.95	16.24	**35.19**

The growth* in fixed lines (i.e. DELs) and cellular mobile telephones in India during 31 March 2000 to 31 March 2004 was as given in the chart below.



Fixed line telephones (i.e. DELs including WLL) increased from 265.10 lakh as on 31 March 2000 to 503.85 lakh as of 31 March 2004, which represented a growth of more than 90 *per cent* during this period. In the case of cellular mobile telephones, however, the number of connections increased drastically from 18.80 lakh as on 31 March 2000 to 261.55 lakh as of 31 March 2004, which represented a tremendous growth of about fourteen-fold during this period.

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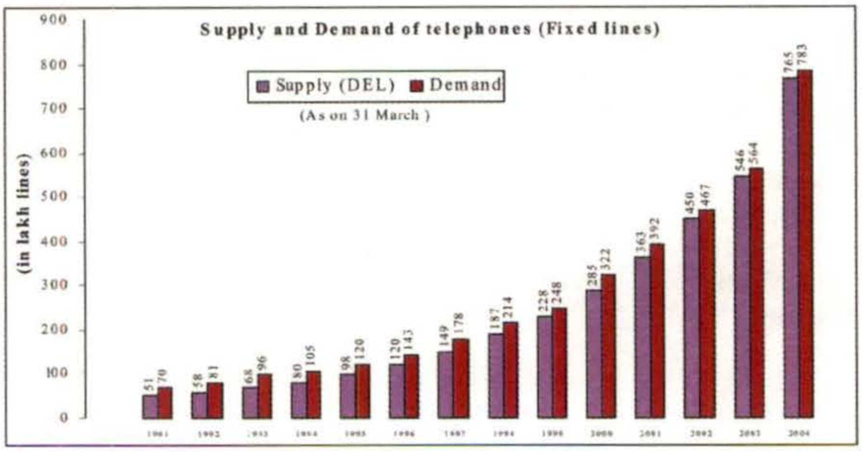
* This includes rural direct exchange lines including WLL shown at serial no. 5.

* The figures for the years 2002 and 2003 in the chart have been recast as of 31 March of these years compared to August and July, respectively, shown in the previous Audit Report.

Similarly, the position[π] of demand and supply of telephones (DELs, WLL and Cellular) in India during the years 1990-91 to 2003-04 was as under:



As can be seen from the above, against a demand of 70 lakh telephones as on 31 March 1991, the demand as on 31 March 2004 was 783 lakh, representing more than eleven-fold growth in demand. The supply of telephones against the above demand was 51 lakh telephones as on 31 March 1991 and 765 lakh telephones as on 31 March 2004, representing a fifteen-fold growth in supply. However, the supply of telephone connections in India has never been adequate to meet the demand fully in any of the last 14 years.

12. Unified Access (Basic & Cellular) Services Licence

Taking into account the technological developments in the telecom sector, the extended scope of services provided by the new technologies, the falling cost of wireless services, etc., TRAI felt that there was no justification in continuing a service-wise licensing regime and in October 2003 recommended movement towards a unified licensing regime. As a first step, basic and cellular services were to be unified within the service area. Based on the recommendations, guidelines for a Unified Access Service Licence regime were issued in November 2003. The guidelines stipulated, inter-alia, that:

a) The existing operators had an option to continue under the present licensing regime (with present terms and conditions) or migrate to the new Unified Access Service Licence (UASL) in the existing service areas with the existing allocated/contracted spectrum.

b) The service providers migrating to UASL would continue to provide wireless services in the spectrum already allocated/contracted to them and no additional spectrum would be allotted under the migration process for UASL.

c) In addition to the services permissible under the current licences, Cellular Mobile Service Providers (CMSPs) could also offer limited mobility facilities existing within the Short Distance Charging Area

[π] The figures in the bar diagram for the years 2000 to 2003 have been recast as of 31 March of these years.

(SDCA) as permitted to the Basic Service Providers at appropriate tariffs through concepts such as home-zone operations.

d) The unified access service providers were free to use any technology without any restriction.

e) No additional entry fee was to be charged from CMSPs for migration to UASL. For Basic Service Operators (BSOs), the entry fee for migration to UASL for a service area would be equal to the entry fee paid by the fourth cellular operator for that service area, or the entry fee paid by the BSO itself, whichever was higher. While applying for migration to UASL, the BSO would pay the difference between the said entry fee for UASL and the entry fee already paid by it.

f) Notwithstanding anything stated in para (e) above, no additional entry fee was to be paid by the existing BSO, where no fourth CMSP had bid.

g) BSOs who had provided the use of wireless access terminals and multiple registration facilities to their subscribers in more than one SDCA, could also migrate to UASL. In that case, in addition to the entry fee based on the principles stated in paras (e) & (f) above, they had to pay till the date of payment from the date of their having signed the Basic Service Licence Agreement, penal interest at the rate of 5 *per cent* above the prime lending rate of the State Bank of India on the day the payment became due, i.e., the date they signed the Licence Agreement.

h) The existing BSOs, after migration to UASL, could offer full mobility. However, they were required to offer limited mobility services also for customers who desired the same.

Consequently, 27 out of 31 basic service licences were converted to Unified Access Service Licences, which was likely to result in better services at lower tariffs. This regime would offer greater participation of private and public sector operators and would increase competition and the provision of improved facilities for the customers.

13. Interconnection Usage Charges

In January 2003, TRAI notified the Interconnection Usage Charges (IUC) Regulation, 2003 and issued the same in October 2003, which covered arrangements amongst service providers for payment of IUC, covering Basic Services, including Wireless-in-Local Loop (Mobile), Cellular Mobile Services, National Long Distance (NLD) and International Long Distance (ILD) services. This regulation provided for charges payable by one operator to another for origination, transit and termination of calls in a multi-operator environment. It came into force with effect from 1 February 2004. The main features of the new IUC regime were lower Access Deficit Charges (ADC), uniform termination charges of Rs 0.30 per minute irrespective of the terminating network, reduction of ADC on NLD and ILD calls, all of which resulted in lower tariff environment on voice telephony.

14. The picture ahead

With the rapid upgradation of technology and the entry of private players in the telecom sector, it is expected that the competitive environment will lead to greater value added services and facilities for the subscribers at lower cost. With this rapid expansion in the telecom sector, the tele-density is expected to be increased to 15 by 2010.

OVERVIEW

This Audit Report for the year 2003-04 containing 62 paragraphs including one IT Audit review and one performance review is presented in 13 chapters:

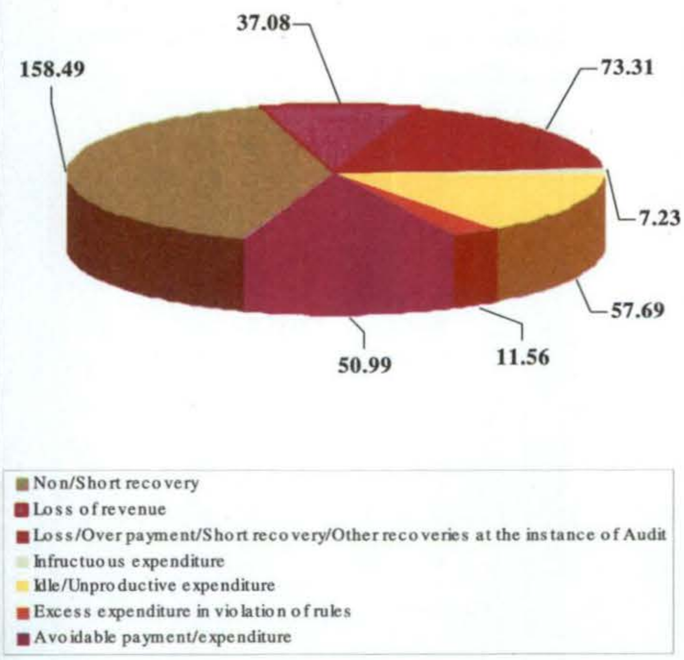
Chapters I to IV	Bharat Sanchar Nigam Limited
Chapters V to VII	Mahanagar Telephone Nigam Limited
Chapters VIII and IX	ITI Limited
Chapter X	Telecommunications Consultants India Limited
Chapter XI	Intelligent Communication Systems India Limited
Chapter XII	Millennium Telecom Limited
Chapter XIII	Follow up on Audit Report

Financial implications

The total quantifiable financial implication of paragraphs and reviews included in this Report is Rs 689.48 crore. The Company-wise details with reference to the nature of irregularities are given as under:

(i) Bharat Sanchar Nigam Limited

The financial implication in respect of the IT Audit review and paragraphs relating to Bharat Sanchar Nigam Limited (BSNL), which could be quantified, is Rs 396.35 crore as per details given below:

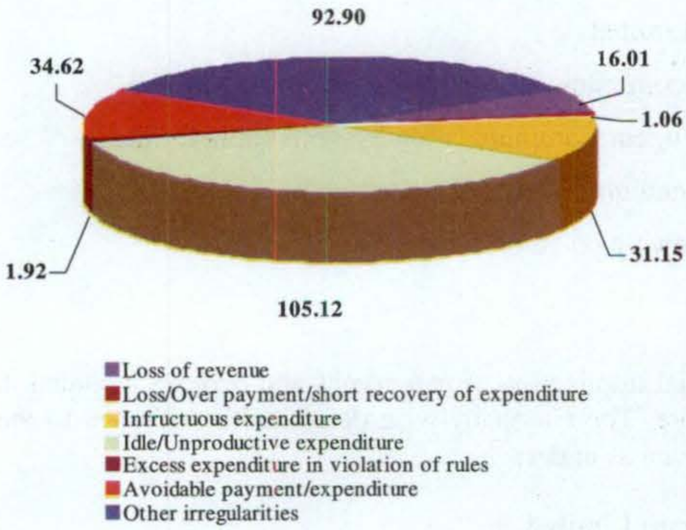


(Rs in crore)

Revenue paragraphs	
Non/Short recovery	158.49
Loss of revenue	37.08
Comprehensive performance review and expenditure paragraphs	
Loss/Over payment/Short recovery/ Other recoveries at the instance of Audit	73.31
Infructuous expenditure	7.23
Idle/Unproductive expenditure	57.69
Excess expenditure in violation of rules	11.56
Avoidable payment/expenditure	50.99
Total	**396.35**

ii) Mahanagar Telephone Nigam Limited

The financial implication in respect of performance review and paragraphs relating to Mahanagar Telephone Nigam Limited (MTNL), which could be quantified, is Rs 282.78 crore as per details given below:



(Rs in crore)

Revenue, expenditure paragraphs and performance review	
Loss of revenue	16.01
Loss/Over payments/Short recovery of expenditure	1.06
Infructuous expenditure	31.15
Idle/Unproductive expenditure	105.12
Excess expenditure in violation of rules	1.92
Avoidable payment/expenditure	34.62
Other irregularities	92.90
Total	**282.78**

iii) ITI Limited

The financial implication in respect of paragraphs relating to ITI Limited, which could be quantified, is Rs 10.35 crore as per details given below:

(Rs in crore)

Idle/unproductive expenditure	4.74
Loss/Overpayment	5.61
Total	**10.35**

BHARAT SANCHAR NIGAM LIMITED

Four chapters, each dealing with a specific subject, are as shown below:

Chapter No.	Deals with
I	Introductory chapter giving in brief the introduction, organisational setup, investment and returns, physical and financial performance, revenue arrears, manpower and productivity.
II	Revenue paragraphs based on the results of transaction audit.
III	Performance review on IT Audit of Dotsoft Package working in BSNL
IV	Expenditure paragraphs based on the results of transaction audit.

I) Introduction, organisational setup, investment and returns, physical and financial performance, revenue arrears, manpower and productivity

Bharat Sanchar Nigam Limited (BSNL) was incorporated on 15 September 2000 as a wholly owned Central Government Company under the Companies Act, 1956. The business of providing telecommunication services in the country, entrusted to the Department of Telecom Services (DTS) and the Department of Telecom Operations (DTO), was transferred to the newly formed company, BSNL, with effect from 1 October 2000. Other aspects highlighted in Chapter 1 are as under:

- The operations of BSNL are managed with the help of 24 telecom circles excluding the project and maintenance circles. In addition, seven telecom factories are also managed by BSNL.

- As on 31 March 2004, the entire paid-up equity share capital of Rs 5000 crore and preference share capital of Rs 7500 crore of BSNL were treated as investment by Government of India. In addition, Rs 7,500 crore has been treated as loan from Government of India. No interest on the loan of Rs 7,500 crore was paid to Government due to exemption/moratorium on the same, enjoyed by BSNL.

- BSNL was also exempted from payment of dividend on equity share capital up to 31 March 2004 and further enjoys 50 *per cent* and 25 *per cent* waiver on dividend for the years 2002-03 and 2003-04, respectively. Accordingly, BSNL proposed dividend of Rs 281.25 crore for the year ending 31 March 2004.

- At the end of March 2004, BSNL had a network of 36,618 telephone exchanges with an equipped capacity of 485.60 lakh lines. Out of this equipped capacity, 363.94 lakh telephone connections, i.e., 75 *per cent* were given, though the number of persons on the waiting list was 18.15 lakh. The number of village public telephones increased from 5.05 lakh as on 31 March 2003 to 5.10 lakh as on 31 March 2004.

- For the year ended 31 March 2004, BSNL earned Rs 31,399.34 crore from its services. The profit before tax was Rs 8,996.16 crore and after providing for tax, the net profit stood at Rs 5,976.52 crore.
- The arrears of telephone revenue increased from Rs 2,684.18 crore to Rs 3,074.63 crore at the end of June 2004 for the bills issued upto March 2004.
- For the bills issued up to March 2004, an amount of Rs 2,107.15 crore (as of 1 July 2004) was outstanding for one or more years, which constituted 68.53 *per cent* of the total outstanding revenue of Rs 3,074.63 crore.
- In respect of category-wise outstanding revenue, out of the total outstanding amount (Rs 3,074.63 crore), 92.90 *per cent* was outstanding against private subscribers, 1.32 *per cent* against Central Government departments and 5.78 *per cent* against various State Governments. The amount as well as the proportion of outstanding bills against private subscribers was persistently increasing every year.
- The revenue arrears overdue for collection in respect of telegraph circuits had gone up from Rs 180.22 crore in 2000-01 to Rs 355.86 crore in 2003-04, while those of telex/intelex charges reduced from Rs 18.30 crore to Rs 16.92 crore during the same period.
- The number of employees per thousand telephone connections including WLL decreased from 13.02 in 2000-01 to 9.50 in 2003-04.

(Paragraph 1)

II) Revenue paragraphs relating to BSNL based on transaction audit findings

Chapter II, on revenue paragraphs based on the results of transaction audit, contains cases of loss/non-recovery/outstanding dues, etc. of Rs 195.57 crore. BSNL has realised Rs 122.21 crore at the instance of Audit.

Delay in realisation of dues and loss of interest

Chief General Manager, Maharashtra Telecom Circle failed to realise outstanding dues of Rs 107.28 crore in time from Videsh Sanchar Nigam Limited which resulted in loss of interest of Rs 17.72 crore. Delays in issue and realisation of bills resulted in further loss of interest of Rs 17.77 crore.

(Paragraph 2.1)

Non-collection of revenue from cellular mobile subscribers

BSNL laid down certain safeguards while introducing post-paid mobile telephony under the brand name "Cell One", such as establishment of credentials of applicants, generation of interim bills where calls exceeded the threshold limit, disconnections due to non-payment of dues, etc. Failure to implement these safeguards resulted in accumulation of outstanding dues of Rs 13.98 crore in 10 telecom circles within one year of introduction of the scheme.

(Paragraph 2.2)

Continuation of telephone facilities despite non-payment of dues

Test check by Audit in 16 Secondary Switching Areas in six telecom circles revealed that BSNL continued to allow telephone facilities to various telephone subscribers despite non-payment of telephone bills by due dates. This resulted in accumulation of dues of Rs 11.51 crore during the period April 1990 to March 2004.

(Paragraph 2.3)

Short realisation of rentals due to non-application of revised tariff

Scrutiny of six Secondary Switching Areas (SSAs) under three telecom circles revealed that Bharat Sanchar Nigam Limited failed to claim rentals at revised rates from the Railways, which resulted in short recovery of Rs 2.58 crore during the period April 1986 to November 2004. Out of this, an amount of Rs 1.13 crore had been recovered in five SSAs as of November 2004.

(Pararaph 2.5)

Non-billing of penal interest

Chief General Manager, (Maintenance) Northern Telecom Region (CGM NTR) provided three services viz., Satellite Speech circuits, Data circuits and annual maintenance of Earth Stations at various locations to Nuclear Power Corporation of India Limited (NPCIL). The CGM NTR did not charge penal interest amounting to Rs 1.74 crore towards the delayed payments received from NPCIL for these services.

(Paragraph 2.6)

Loss of revenue

General Manager, Telecommunications, Calicut failed to fix the final rental in a rent and guarantee case within the prescribed time limit. A belated attempt to realise the final rental was turned down by the Telecom Disputes Settlement and Appellate Tribunal, resulting in loss of revenue of Rs 1.59 crore.

(Paragraph 2.7)

Short billing of installation charges and rentals

Eight Secondary Switching Areas under two telecom circles failed to recover installation charges and rentals at enhanced rates, consequent on increase in exchange capacity. This resulted in short billing of Rs 1.59 crore between January 1999 and December 2003.

(Paragraph 2.8)

Non/Short billing of rentals in respect of interconnection facilities to Defence

Chief General Manager Telephones, Calcutta Telephones did not revise interconnection charges corresponding to periodical revisions of rentals of Defence owned speech circuits. In respect of some of these circuits, the billing authority did not even raise bills for interconnection charges. The failure to revise the charges and raise bills for the interconnection facilities resulted in non/short billing of Rs 1.03 crore for the period 1983 to 2005.

(Paragraph 2.9)

Short billing of revenue

Rules provide for charging of rentals of leased circuits within Short Distance Charging Areas as per the resources utilised. However, three General Managers under the Kerala Telecom Circle failed to charge rentals as per these rules, resulting in short billing of Rs 92.89 lakh.

(Paragraph 2.10)

Non billing of rentals in respect of lines and wires leased to the Railways

Failure of the Circle Telecom Accounts branch under the Jharkhand Telecom Circle and three Secondary Switching Areas under the Tamil Nadu Telecom Circle to recover rentals for lines and wires leased to the Railways after changes in billing authorities, resulted in non-billing of Rs 60.07 lakh for the period between April 2001 and March 2004.

(Paragraph 2.11)

Short billing of rentals for leased circuits

Failure of three Secondary Switching Areas under the Andhra Pradesh Telecom Circle to calculate chargeable distances as per revised instructions resulted in short billing of rentals for leased circuits to the tune of Rs 55.37 lakh between April 1999 and June 2005. Out of this, Rs 4.09 lakh was recovered as of November 2004.

(Paragraph 2.12)

Loss of revenue due to incorrect fixation of rental

Incorrect fixation of rental by the Principal General Manager Telephone, Patna Telephone District for eight circuits provided to Videsh Sanchar Nigam Limited at a flat rate instead of on Rent and Guarantee terms, resulted in loss of revenue of Rs 38.66 lakh upto April 2004.

(Paragraph 2.16)

III) Performance Review relating to BSNL

Chapter III containing one Information Technology Audit review has a quantifiable financial implication of Rs 51.61 crore.

IT Audit of DotSoft Package of BSNL

The DotSoft Package developed in-house by the Department of Telecommunications is an integrated telecom database system comprising modules for commercial services, billing services, accounting services, fault repair services and directory enquiry services. It was introduced in September 1998 for implementation all over India.

Some of the major deficiencies observed by Audit in respect of implementation of the package were as follows:

- There were unaddressed bills worth Rs 39 crore lying in the database in 33 SSAs of eight telecom circles from the year 2000 onwards, as the integrated package could not eliminate these bills.
- Deficiencies like non-revision of rental and installation charges due to change in exchange capacity and excess payment due to non-revision of interest rates led to short billing of revenue of Rs 81 lakh.
- The package did not have any provision for reconciliation of calls metered in the telephone exchanges and actually billed through the package for each billing cycle, to prevent leakage of revenue. It also had no provision for calculation of rent on pro-rata basis.
- System resources were not utilised for immediate disconnection of telephone connections in five SSAs under three telecom circles which led to accumulation of dues of Rs 1.17 crore.
- There were no monitoring measures in place to prevent data manipulation and tampering.

BSNL needs to improve its computerised billing process; address the issue of non-reconciliation of calls metered and billed; frame an Information Technology security policy and prepare a disaster recovery and business continuity plan to achieve the objectives of computerisation.

(Paragraph 3)

IV) Expenditure paragraphs relating to BSNL based on transaction audit findings

Chapter IV, on expenditure paragraphs based on the results of transaction audit, brings out losses/over payments/short recovery of expenditure, infructuous expenditure, idle/unproductive expenditure, excess expenditure in violation of rules, avoidable payments/expenditure, etc. aggregating Rs 149.17 crore. Replies of the Ministry/Management in many cases are still awaited.

(A) Loss/Over payments/Short recovery/Other recoveries at the instance of Audit

Excess payment of customs duty

BSNL placed purchase orders for 500.35 k lines WLL equipment between November 2002 and January 2003. The rate of customs duty on Base Station Controller and Base Transreceiver Station was shown as 39 *per cent* in the lowest quote of M/s UTL. From 1 April 2002, the rate was reduced from 39 *per cent* to 21.8 *per cent* for the year 2002-03. BSNL failed to take cognizance of the reduction in customs duty, resulting in excess payment of Rs 16.29 crore in procurement of WLL equipment.

(Paragraph 4.1)

(B) Infructuous expenditure

Irregularities in the execution of cable duct works

The Chief General Manager Telecommunications, Uttar Pradesh (West) Circle prescribed (August 1999) a target of 3.20 km for the Aligarh SSA for the year 1999-2000 for cable duct construction which was subsequently revised to 4.60 km. The General Manager Telecom, Aligarh, however, sanctioned 16.15 km of cable duct work at Aligarh and Hathras, ignoring the above target. This not only resulted in unauthorized expenditure of Rs 3.60 crore, but also blocked funds to the tune of Rs 1.27 crore due to idling of four duct routes handed over to project authorities.

(Paragraph 4.6)

Unfruitful expenditure

The Chief General Manager, Telecom Stores, (CGM, TS) Kolkata placed a purchase order in November 2002 on M/s Infinity EV Motors Private Limited, Hyderabad for supply of Switch Mode Power Supply power plants of different types at a unit price of Rs 1.77 lakh. The CGM allotted 86 power plants to the Rajasthan Circle. All the power plants, received between December 2002 and April 2003 which were mostly used for commissioning in rural areas, failed to work since they were not in conformity with the specifications of rural areas.

Audit observed that the CGMT Rajasthan had failed to indicate the nature of application of the power plants. This resulted in unfruitful expenditure of Rs 1.52 crore on procurement of the power plants.

(Paragraph 4.7)

(C) Idle/unproductive expenditure

Idling of Digital Loop Carrier equipment

Bharat Sanchar Nigam Limited placed purchase orders on four firms between June 2001 and August 2002 for procurement of 500 DLC systems. Out of these, 46 systems were allotted to the Tamil Nadu and Himachal Pradesh Telecom Circles. Test check of records of five SSAs in these two circles disclosed that these systems were procured either without assessment or were not technically suitable. The procurement and allotment of DLC systems without assessing the actual requirement and technical suitability at the places of installation resulted in idling of 31 DLC systems worth Rs 19.26 crore with remote prospects of future utilisation because of fast changing technology.

(Paragraph 4.9)

Injudicious procurement

Department of Telecommunications decided in April/July 2000 to lay 5 pair cables since it was more economical than erecting new alignments for giving new phone connections and instructed circles not to procure overhead material to the full extent as per norms. Despite this, the Chief General Manager, Telecommunications, Maharashtra Circle invited (March 2000) tenders for procurement of galvanised tapered steel tubes required for erecting poles for providing new telephone connections for the year 2000-01 and finalized the prices at 30 to 36 *per cent* higher rates than the 1999-2000 prices. At the time of finalisation of the tender, the CGMT had a stock balance of A8/B8 types of tubes equal to three months' consumption and of C8 type tubes equal to 11 months' consumption. The CGMT could utilise only 55 to 58 *per cent* of the stock of A8/B8 tubes available during the year 2000-01. The C8 tubes procured were not utilised at all as the previous stock was more than sufficient to meet the requirement. Failure of the CGMT to assess the actual requirement and to follow the guidelines on procurement resulted in blocking of funds of Rs 15.22 crore. Further, had he gone for procurement during 2001-02, he could have saved avoidable expenditure of Rs 2.94 crore, incurred on the procurement of tubes during 2000-01.

(Paragraph 4.10)

Idling of equipment

The Principal General Manager (Development), Mumbai procured Synchronous Transfer Mode-4 (STM-4) equipment in excess of requirement during 2001-02, resulting in idling of 83 STM-4 equipment worth Rs 6.03 crore since their receipt. The conversion of STM-4 terminals to ADM-4 would cost the Company an additional expenditure of Rs 83 lakh.

(Paragraph 4.11)

Idle investment

The Chief General Manager, Chennai Telephones, constructed staff quarters at Poonamallee, Perungudi and Korattur and a telephone exchange building at Korattur between December 2001 and April 2003 at a total cost of Rs 3.62 crore without obtaining the approval of the building plans from the Chennai Metropolitan Development Authority (CMDA). Electricity connections could not be obtained as the Tamil Nadu Electricity Board insisted on planning clearance and completion certificates from the CMDA which were pre-requisites for applying for electricity connections. As a result, the completed buildings could not be taken over by Chennai Telephones. Thus the expenditure of Rs 3.62 crore incurred on the construction of the buildings remained blocked and they could not be put to their intended use.

(Paragaph 4.12)

Blocking of capital

Telecom District Manager (TDM), Khagaria installed Base Transreceiver Stations (BTSs) at Saharbani and Beldaur in Bihar Circle in July 2001/February 2002 prior to sanction of the estimates. These BTSs were not commissioned since installation, as the area was not suitable due to lack of power supply and road communication. As a result, not only were BTSs worth Rs 3.11 crore lying idle for over two to three years but also the purpose of connecting the villages through Village public telephones stood defeated.

(Paragaph 4.13)

Injudicious expansion of exchanges

The Principal General Manager Telecom, Vadodara under the Gujarat Circle and General Managers Telecom, Darbhanga and Noida under the Bihar and Uttar Pradesh (West) Circles, respectively expanded the capacity of four exchanges during the period May 2002 to April 2003 without proper justification and in contravention of instructions issued in September 1997 by the Department of Telecommunications. This resulted in unproductive expenditure of Rs 2.69 crore.

(Paragraph 4.14)

Idle investment on construction of staff quarters

Department of Telecommunications approved the construction of 73 staff quarters and a Regional Telecom Training Centre (RTTC) at Jaipur. This was reduced to 39 after a decision taken in a coordination meeting of the Telecom Directorate in

March 1998. Audit scrutiny revealed that the re-assessed projected demand for 39 quarters was not realistic as RTTC functioned on diverted posts which varied from 7 to 12 since its formation in January 1997 till March 1998. As per the revised target of 18 *per cent* of staff quarters for the Ninth Plan, the target for construction of staff quarters worked out to six considering the staff strength at the maximum level of 31 officials. Out of the 39 quarters, four quarters were utilised for inspection, store and office purposes while the remaining 35 quarters were lying vacant as of March 2004. This resulted in idle investment of Rs 1.68 crore.

(Paragraph 4.15)

Blocking of capital of Rs 1.55 crore

Haryana Urban Development Authority (HUDA) offered a plot measuring 8000 sq.m. valuing Rs 1.55 crore to General Manager Telecommunications (GMT), Ambala for construction of a telephone exchange. The site suitability certificate furnished by the team deputed for the purpose, erroneously pointed out that there was green land on the back along the Amritsar-Delhi Railway line. A joint inspection conducted in October 2001 by the Company and HUDA officials disclosed shortage in area by 250 sq.m. The Company requested HUDA to allot the balance land from an adjoining vacant plot, but the request was turned down by HUDA which intimated that the green land was included in the site earmarked for the telecommunications department and this area could not be deleted from the total area of the plot. Thus the issue of a defective site suitability certificate and failure to highlight the facts regarding the green land and short measurement of the plot resulted in blocking of capital of Rs 1.55 crore for over two years, besides defeating the purpose for which the site was being purchased.

(Paragraph 4.16)

Idle investment on construction of staff quarters

General Managers, Telecom, Mathura and Noida under the Uttar Pradesh (West) Circle constructed 85 quarters during 1996 to 2000 without proper assessment of demand of staff quarters and availability of basic amenities. Out of these, 36 quarters were lying vacant for periods ranging from 42 to 75 months as of March 2004. This resulted in idle investment of Rs 1.01 crore, besides avoidable expenditure of Rs 16.96 lakh on payment of house rent allowance to eligible staff and potential loss of Rs 3.82 lakh towards licence fees recoverable from the occupants.

(Paragraph 4.17)

Blocking of funds

General Manager, Telecom, Belgaum, under the Karnataka Circle, received stores (cables and Centre for Development of Telematics accessories) worth Rs 69.80 lakh during 2000-03 against dummy estimates, merely sanctioned for the purpose of the stores transaction. These stores, received on indents from the Circle Telecom Store Depot, remained idle for over one to three years, which indicated that they were indented without ascertaining the actual requirement. This resulted in blocking of funds of Rs 69.80 lakh.

(Paragraph 4.20)

(D) Excess expenditure in violation of rules

Irregular expenditure on engaging contract labour

Chief General Managers, Telecommunications of six telecom circles engaged security agencies on contract through open tenders instead of getting sponsored ex-servicemen empanelled from the Directorate General of Resettlement, in violation of the directives of their Corporate Office. This resulted in irregular expenditure of Rs 6.30 crore on contract labour during the period from August 2001 to March 2004, besides denying ex-servicemen the benefit of resettlement.

(Paragraph 4.23)

Irregular expenditure

Telecom District Manager (TDM), now General Manager Telecom District, Deoria, under the Uttar Pradesh (East) Circle, sanctioned two estimates on the same day, one for installation and another for expansion of a C-DOT exchange at Ravindra Nagar (Padrauna) costing Rs 2.63 crore each, by splitting the project estimate to avoid seeking sanction of the Chief General Manager. The exchange was commissioned in March 2003 and expansion work was completed by March 2004. Only 98 connections could be provided since there was no waitlist and 87 connections were technically non-feasible. Besides, the TDM laid 7472 ckm cable in excess of norms resulting in infructuous expenditure of Rs 60 lakh.

(Paragraph 4.24)

(E) Avoidable Expenditure/Payment

Avoidable excess payment

Bharat Sanchar Nigam Limited (BSNL) floated tenders for procurement of patch panel antennae for rural stations and WLL equipment for expansion in rural areas, which included DC-DC converters for expansion of Base Transreceiver Stations. Audit observed that M/s LG Electronics Systems, on whom the purchase order was placed by BSNL, procured both the items from sub-contractors, who made direct supplies to BSNL's consignees. However, the prices paid by BSNL to M/s LG Electronics Systems for these items were higher by 77.76 per cent and 247.33 per cent than those paid by the former to its sub-contractors. This resulted in excess payment of Rs 21.53 crore in procurement of these items.

(Paragraph 4.25)

Avoidable extra expenditure on repair of faulty E-10B cards

Chief General Managers Telecommunications (CGMT) of Andhra Pradesh, Gujarat, Karnataka, Kerala, Maharashtra, Rajasthan, Uttar Pradesh (East) and Uttar Pradesh (West) circles entered into annual maintenance contracts with M/s ITI for repair of faulty E-10 B cards on the basis of total capacity of exchanges instead of fixing the rate on per card basis. A comparison with the rates charged by Intelligent Communication System India Limited indicated that the circles had incurred avoidable expenditure of Rs 9.22 crore during the period 1999-2004 on repairs of the faulty cards.

(Paragraph 4.26)

Avoidable expenditure in procurement of 12F Optical Fibre Cable

Bharat Sanchar Nigam Limited placed purchase orders in September 2001 for supply of 55,399 km of 12F and 10,865 km of 24F Optical Fibre Cable (OFC) at a total cost of Rs 413 crore. The price of 12F OFC was Rs 57402 per km. In October 2001, the BSNL Headquarters decided to procure additional quantity of 15,800 km of 12 F OFC against the above tender and called for details of tenders floated by different circles for the item. Although the prices communicated by the circles showed a downward trend, BSNL Headquarters procured the additional quantity at Rs 57,402 per km against the current market rate of Rs 51,500 per km resulting in excess expenditure of Rs 8.89 crore.

(Paragraph 4.27)

Undue benefit to contractor and short levy of penalty

The Chief General Manager, Chennai Telephones and the Principal General Manager Telecom, Kalyan under the Maharashtra Telecom Circle entered into contracts for printing and supply of telephone directories in June 1999 and July 2001 respectively. They levied inadequate penalties on the contractors for short supply of telephone directories, non-printing of Marathi information pages and not adhering to the specifications of directory size as envisaged in the contracts, thereby extending undue benefit of Rs 5.72 crore.

(Paragraph 4.28)

Undue benefit to suppliers in procurement of WLL Cordect equipment

Bharat Sanchar Nigam Limited placed purchase orders between August 2002 and February 2003 for procurement of WLL Cordect supporting voice and Internet and WLL Cordect supporting voice only equipment. The option of procuring WLL Cordect supporting voice only and then converting the same to voice with internet worked out to be cheaper by Rs 2.56 lakh per DIU than the procurement of WLL Cordect supporting voice with internet. This resulted in excess payment of Rs 5.06 crore in procurement of 198 DIU with voice and Internet during 2002-03 and 2003-04.

(Paragraph 4.29)

MAHANAGAR TELEPHONE NIGAM LIMITED

Three chapters, each dealing with a specific subject, are as shown below:

Chapter No.	Deals with
V	Introductory chapter giving in brief the introduction, organisational setup, investment and returns, physical and financial performance, revenue arrears, manpower and productivity.
VI	Performance review on 'Planning, procurement and utilisation of Wireless-in-local loop (WLL) system in MTNL'.
VII	Expenditure paragraphs based on the results of transaction audit.

I) Introduction, organisational setup, investment and returns, physical and financial performance, revenue arrears, manpower and productivity

Mahanagar Telephone Nigam Limited (MTNL) was incorporated in February 1986 under the Companies Act 1956 and commenced its operations by taking over the management, operations and control of the telephone network (except public telegraph services) of the erstwhile Union Territory of Delhi and three Municipal Corporations of Mumbai. Other aspects highlighted in Chapter V are as under:

- Against the authorised equity share capital of Rs 800 crore, the paid-up capital, as on 31 March 2004, was Rs 630 crore, of which Rs 354.37 crore had been invested by the Government of India. At the end of 31 March 2004, the return on the said investment in the form of dividend paid by MTNL was 45 *per cent.*
- The overall capacity utilisation of telephone exchanges went down from 87 *per cent* in 1999-2000 to 73 *per cent* in 2003-04 due to lack of demand.
- There was 80 *per cent* increase in the number of cellular mobile telephone connections in 2003-04 compared to 2001-02. The number of public telephones increased from 1.09 lakh in 1999-2000 to 2.40 lakh in 2003-04.
- During 2003-04, MTNL earned Rs 6369.60 crore from its services. The profit before tax was Rs 1601.83 crore and after providing for tax, the net profit stood at Rs 1150.48 crore. The profit after tax increased by 31 *per cent* in 2003-04 compared to the previous year mainly on account of increase in income (including other income) by 11 *per cent* over the last year's income,

although the expenditure increased by 5 *per cent* in 2003-04 over the previous year's expenditure.

- The revenue arrears during the last five years upto 2003-04 ranged between 27 *per cent* to 32 *per cent* of the total revenue. The unrealised revenue which was considered doubtful of recovery increased from 15 *per cent* at the end of March 2000 to 24 *per cent* at the end of March 2002, but at the end of March 2003, it decreased to 19 *per cent* and remained at 19 *per cent* at the end of 31 March 2004.
- The number of employees per thousand telephone connections (including cellular mobile connections) decreased from 15.11 in 1999-2000 to 11.53 in 2003-04.

(Paragraph 5)

II) Performance Review relating to MTNL

Chapter VI contains one performance review on the planning, procurement and utilisation of the Wireless-in-Local Loop (WLL) system, which has a quantifiable financial implication of Rs 256.17 crore.

Planning, procurement and utilisation of Wireless-in-Local Loop (WLL) system

Mahanagar Telephone Nigam Limited (MTNL) commenced its Wireless-in-Local Loop (WLL) service in Delhi and Mumbai in May 1997 and January 2002, respectively, by using Code Division Multiple Access (CDMA) technology. MTNL failed to formulate any detailed plan and monitoring mechanism before launching the WLL system, which led to financial losses due to repeated procurement of obsolete/deficient technologies, capacity constraints and operational deficiencies. A review of MTNL's WLL systems revealed that these were commissioned after considerable time overruns and even after that, capacity constraints were not addressed. Owing to persistent deficiencies in the purchase orders, no penal action could be taken against the suppliers for delays in installation and commissioning and deficiencies in the systems. When the bottlenecks of capacity constraints were removed, fresh connections could not be given due to inadequate number of handsets. The quality of service offered was poor in terms of area coverage and billing. Consequently, while private operators commenced their WLL services five years after MTNL commenced its first WLL service in 1997, their subscriber bases in Delhi and Mumbai stood at 20.31 lakh as on March 2004, which was 14 times more than the 1.42 lakh subscriber base of MTNL.

Some of the major deficiencies observed by Audit in procurement and utilisation of WLL system in MTNL were as follows:

- Procurement of old technology and suppliers' failure to rectify frequency interface problems led to unjustified expenditure of Rs 88.96 crore.

- Delay in finalisation of a tender and placement of purchase orders led to avoidable expenditure of Rs 11.47 crore.

- Faulty and damaged handsets valuing Rs 16.49 crore were lying in the stores of MTNL. Chances of their utilisation were remote due to obsolescence.

- Fixed wireless and mobile handsets procured for Rs 52.80 crore in Delhi and Mumbai were lying idle in spite of a large number of pending cases.

- Defective payment terms in a purchase order led to infructuous expenditure of Rs 10.95 crore, as the 10,000 lines system had to be prematurely decommissioned mainly due to inherent defects, which the supplier did not rectify.

- The Management failed to recover Rs 13.94 crore from defaulting subscribers and also failed to take remedial measures.

- A short-equipped system and non-availability of handsets led to loss of potential revenue of Rs 15.75 crore.

- A WLL Cordect system procured at a total cost of Rs 52.32 crore remained grossly underutilised.

MTNL needs to review and strengthen its planning mechanism to avoid future delays and bottlenecks in general and particularly in execution of turnkey projects. The procurement procedures need to be thoroughly reviewed to ensure laying down of the contractual commitments for safeguarding the commercial interests of MTNL and adherence of the same by the suppliers. Capacity constraints of the systems due to technical deficiencies need to be promptly attended to for ensuring their optimal use. Their billing system should be strengthened for timely issue and realisation of bills.

(Paragraph 6)

III) Expenditure paragraphs relating to MTNL based on transaction audit findings

Chapter VII, on expenditure paragraphs based on the results of transaction audit, brings out infructuous expenditure of Rs 3.71 crore and avoidable expenditure/payment of Rs 22.90 crore.

Some of the important cases highlighting the above aspects were as under:

Infructuous expenditure on setting up of Customer Service Centres

Injudicious decision of the Delhi unit of Mahanagar Telephone Nigam Limited (MTNL) to set up Customer Service Centres for its Mobile services despite having Sanchar Haats in nearby areas, resulted in infructuous expenditure of Rs 1.93 crore on their rent, civil and electrical works.

(Paragraph 7.1)

Avoidable excess expenditure on productivity linked incentive to employees

MTNL made payment of productivity linked incentive to its employees for the years 2001-02 and 2002-03 in violation of instructions issued by the Department of Public Enterprises, resulting in avoidable excess expenditure of Rs 22.90 crore.

(Paragraph 7.2)

Irregularities in hiring of accommodation and its utilisation

Failure to adhere to the provisions of a lease agreement and improper utilisation of hired accommodation resulted in infructuous expenditure of Rs 1.78 crore by MTNL.

(Paragraph 7.3)

ITI LIMITED

Two chapters, each dealing with a specific subject, are as shown below:

Chapter No.	Deals with
VIII	Introductory chapter giving in brief the introduction, organisational setup, investment and returns, physical and financial performance, revenue arrears, manpower and productivity.
IX	Expenditure paragraphs based on the results of transaction audit

Introduction, organisational setup, investment and returns, physical and financial performance, revenue arrears, manpower and productivity

Indian Telephone Industries Limited, Bangalore was incorporated in January 1950 as a Company and was renamed as ITI Limited in January 1994. The Company has production units located at Bangalore, Palakkad, Naini, Raibareli, Mankapur and Srinagar, where various categories of telecommunications products like switching equipment, transmission equipment, satellite communication equipment, optical equipment and telephone instruments are manufactured. Other aspects highlighted in Chapter VIII are as under:

- Against the authorised equity share capital of Rs 500 crore, the paid-up capital was Rs 388 crore (equity capital: Rs 88 crore and cumulative redeemable preference shares: Rs 300 crore) as on 31 March 2004. Out of this, Rs 67.47 crore had been invested by Government of India.

- The returns on the above investment in the form of dividend paid by ITI were six *per cent* (1998-99 and 1999-2000) and five *per cent* (2000-01 and 2001-02). Since the Company was incurring losses since 2002-03, no dividend was paid for the years 2002-03 and 2003-04.

- During the last five years upto 2003-04, in respect of switching products, though the installed capacity was almost fully utilised upto 2000-01, it declined sharply to 70 *per cent in* 2001-02, 34 *per cent* in 2002-03 and 19 *per cent* in 2003-04. However, in respect of transmission and terminal equipment products, the utilisation of installed capacity ranged from 13 *per cent* to 96 *per cent* and 26 *per cent* to 100 *per cent*, respectively during the above period.

- At the end of 31 March 2004, the earning from sales and services was Rs 1197.86 crore. The net loss stood at Rs 705.83 crore. However, analysis of the trend over the last five years ending March 2004, showed that profit after tax for the year 2000-01 decreased by 39.83 *per cent* compared to the previous year 1999-2000, underwent further decline and during the current year 2003-04, turned into a huge loss of Rs 705.83 crore.

- During the last five years ending 31 March 2004, the yearly income from sales of services (excluding excise duty) showed an increasing trend except during 2002-03 and 2003-04. While the doubtful debts showed a decreasing trend up to 2000-01, there was an increasing trend thereafter upto 2003-04. However, out of this income, the yearly unrealised income that remained in arrears for more than six months showed an increase from 32 *per cent* in 2000-01 to 58 *per cent* in 2003-04.

(Paragraph 8)

TELECOMMUNICATIONS CONSULTANTS INDIA LIMITED

This chapter includes the introduction, organisational setup, investment and returns, financial performance and manpower.

Telecommunications Consultants India Limited (TCIL) was incorporated in 1978 as a Company to provide know-how in the area of expansion and modernisation of telecommunications network. The Company has taken up consultancy services and turnkey projects not only in India, but also globally.

- Against the authorised equity share capital of Rs 30 crore, the paid-up capital was Rs 28.80 crore as on 31 March 2004, which had been fully invested by Government of India. The returns on the above investment in the form of dividend paid by the Company were 220 per cent, 300 per cent, 150 per cent, 150 per cent and 75 per cent for each of the last five years ending 31 March 2004, respectively.

- At the end of 31 March 2004, the total income from projects was 508.94 crore. The profit before tax was Rs 50.77 crore and after providing for tax, the net profit after tax stood at Rs 47.02 crore. However, during the current year 2003-04, the profit after tax increased by 17.87 per cent compared to that of the previous year 2002-03.

(Paragraph 10)

INTELLIGENT COMMUNICATION SYSTEMS INDIA LIMITED

This chapter comprises the introduction, organisational setup, investment and returns, financial performance and manpower.

Intelligent Communication Systems India Limited (ICSIL), a joint venture of TCIL and Delhi State Industrial Development Corporation (DSIDC) was established in April 1987 for manufacturing computer based communication systems and equipment. It also provides engineering, technical and management consultancy services for computers and communications systems in India and abroad.

- The authorised as well as paid-up equity capital of the Company, as on 31 March 2004, was Rs 1.00 crore.
- At the end of 31 March 2004, the total income earned was Rs 22.86 crore. The profit before tax and after providing for tax, for the year 2003-04 was Rs 34.03 lakh and Rs 33.46 lakh, respectively.

(Paragraph 11)

MILLENNIUM TELECOM LIMITED

This chapter includes the introduction, organisational setup, investment, financial performance and manpower.

Millennium Telecom Limited (MTL) was incorporated in February 2000 under the Companies Act 1956 as a wholly owned subsidiary of Mahanagar Telephone Nigam Limited (MTNL) for providing of Internet services throughout India.

- After signing a Memorandum of Understanding (MOU) with HPSEC Limited (a Government of Himachal Pradesh Enterprise) for providing Internet Software Package (ISP) Services at Shimla, Himachal Pradesh, MTL commenced its services with effect from 25 February 2002. In order to associate State Electronic Development Corporations to provide Internet services in various States, MTL signed MOU with Karnataka Electronic State Development Corporation, West Bengal Electronics State Development

Corporation Limited and Beltron Communications Limited, Patna for providing Internet services in Karnataka, West Bengal and Bihar, respectively.

- Against the authorised equity capital of Rs 100 crore, the paid up capital as on 31 March 2004 was Rs 2.88 crore which was fully subscribed by MTNL.
- MTL incurred a net loss of Rs 20 lakh during the year 2001-02, whereas it earned net profit before tax of Rs 1.02 crore and Rs 76 lakh during 2002-03 and 2003-04 respectively.

(Paragraph 12)

CHAPTER I
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

Bharat Sanchar Nigam Limited

1.1 Introduction

In pursuance of the New Telecom Policy 1999, the Government of India decided to corporatise the service provision functions of Department of Telecommunications (DoT). Accordingly, Bharat Sanchar Nigam Limited (BSNL) was incorporated on 15 September 2000 as a wholly owned Central Government Company under the Companies Act, 1956, with its registered and corporate offices located in New Delhi. The business of providing telecommunication services in the country, entrusted to the Department of Telecom Services (DTS) and the Department of Telecom Operations (DTO), was transferred to the newly formed company, BSNL, with effect from 1 October 2000. However, the functions of policy formulation, licensing, wireless spectrum management, administrative control of Public Sector Undertakings (PSUs), standardisation and validation of equipment and research and development (R&D) were retained by the Government under the responsibility of the Department of Telecommunications (DoT) and the Telecom Commission.

BSNL is carrying out the duties and responsibilities relating to establishment, maintenance and working of all types of telecommunication services in the country in accordance with and under the terms and conditions of the licence granted by the Central Government under the Indian Telegraph Act, 1885 and such other directions as may be given by the Central Government from time to time.

1.2 Organisational setup

The administrative and overall functional control is vested with the Board of Directors headed by the Chairman and Managing Director (CMD), who is assisted by five functional Directors (Finance, Commercial and Marketing, Operations, Human Resource Development and Planning and New Services). Consequent upon the retirement of the CMD with effect from 31 December 2003, the Director (Planning and New Services) held the additional charge of CMD from 1 January 2004 to 15 September 2004 and thereafter, the regular CMD was appointed by the Government.

The operations of BSNL are managed in 24 telecom circles excluding the project and maintenance circles. In addition, seven telecom factories at Mumbai, Alipore and Gopalpur in Kolkata, Wright Town and Richhai in Jabalpur, Bhilai and Kharagpur are also managed by BSNL. These factories manufacture various types of ancillary equipment such as microwave towers, modems, sockets, pay phones, cable termination boxes etc.

1.3 Investment and Returns

Against the authorised equity share capital of Rs 10,000 crore and preference share capital of Rs 7,500 crore, the paid-up equity share capital and preference share capital as on 31 March 2004 were Rs 5,000 crore and Rs 7,500 crore, respectively.

In consideration of taking over the business of the erstwhile Department of Telecom Operations and Department of Telecom Services with effect from 1 October 2000 along with all the assets, liabilities and other contractual obligations, BSNL's total paid-up equity capital of Rs 5,000 crore and preference share capital of Rs 7,500 crore were treated as investment by the Government of India. In addition, another amount of Rs 7,500 crore has been treated as a loan to BSNL from the Government.

BSNL has been exempted from payment of dividend on preference share capital up to 31 March 2004. Besides, BSNL has also been exempted from payment of dividend on equity share capital up to 31 March 2002 and enjoyed 50 *per cent* and 25 *per cent* waiver on dividend due on equity share capital for the years 2002-03 and 2003-04, respectively. Accordingly, BSNL proposed dividend of Rs 281.25 crore for the year ending 31 March 2004. The Government will not receive any interest or repayment of principal amount on the loan of Rs 7,500 crore, as BSNL has a moratorium on repayment of principal and interest thereon up to 31 March 2004. Even interest will not accrue on this loan up to 31 March 2004.

DoT, while approving a package of measures in the form of financial/fiscal relief for BSNL, decided (June 2002) that BSNL would be liable to pay licence fees and spectrum charges in full and BSNL would also be allowed reimbursement of losses incurred by it on rural telephony operations and other socially desirable projects. It was also decided that the amount of reimbursement to BSNL was to be decided annually by DoT in consultation with the Ministry of Finance. Accordingly, BSNL has been paying the due amounts of licence fees and spectrum charges to DoT annually. In turn, DoT, in consultation with the Ministry of Finance, has been annually reimbursing the amount of losses incurred by BSNL on rural telephony operations and other socially desirable projects. During the year ending 31 March 2004, an amount of Rs 2,300 crore was reimbursed by the Government on this account.

BSNL also received Rs 230.20 crore and Rs 310.25 crore for the years ended 31 March 2003 and 2004, respectively, from the Universal Service Fund towards reimbursement for maintenance of village public telephones (VPTs).

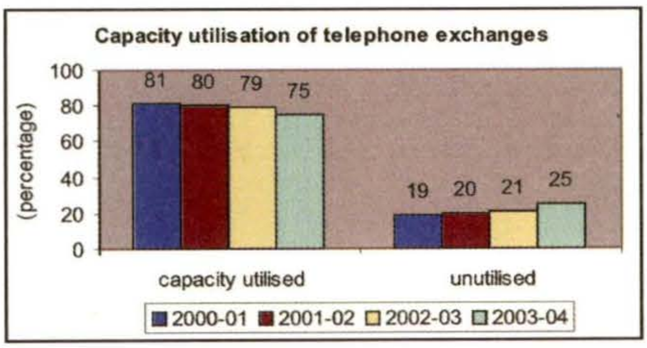
During the year, BSNL redeemed its bonds worth Rs 510 crore with interest.

1.4 Physical and Financial Performance

1.4.1 Physical performance

Since the Department of Telecom Services (DTS) was corporatised as BSNL, the complete network of telecommunications of DTS came under the control of BSNL with effect from 1 October 2000. The physical performance of BSNL as at the end of each of the last four years ended 31 March 2004 is given below:

Telephone Network	As on 31 March 2001	As on 31 March 2002	As on 31 March 2003	As on 31 March 2004
No. of telephone exchanges	31589	34592	36136	36618
Total equipped capacity of direct exchange lines (DELs) including WLL (in lakh)	347.93	415.90	457.66	485.60
No. of telephone connections (DELs) including WLL (in lakh)	281.09 (81%)	334.01 (80%)	359.33 (79%)	363.94 (75%)
No. of persons on the waiting list (in lakh)	28.71	16.49	18.07	18.15
No. of Cellular Mobile telephone connections (in lakh)	Nil	*1.78	22.56	52.54
No. of village public telephones (in lakh)	4.09	*4.68	5.05	5.10
No. of stations linked with STD	25677	*29673	31371	31667



- As seen from the table, in spite of increase in equipped capacity of direct exchange lines (DELs) the overall capacity utilisation of telephone exchanges went down from 81 *per cent* in 2000-01 to 75 *per cent* in 2003-04.

- Despite availability of equipped capacity, persons were still on the waiting list during each of the years 2000-01 to 2003-04; the reasons for which could be the presence of large 'technically not feasible' (TNF) areas, enhancement in equipped capacity towards the year-end leading to release of connections in subsequent years, etc.

- The number of cellular mobile telephone connections increased from 1.78 lakh in 2001-02 to 52.54 lakh in 2003-04.

- The number of village public telephones increased from 4.09 lakh in 2000-01 to 5.10 lakh in 2003-04.

* *These figures have been recast by the Management.*

1.4.2 Financial performance

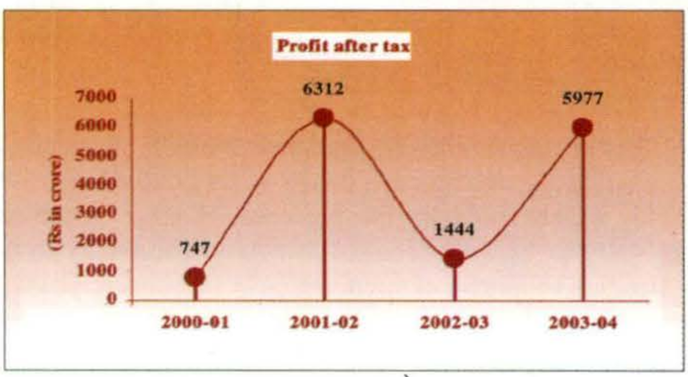
The financial results of BSNL for the last four years ending 31 March 2004 were as follows:

(Rs in crore)

Particulars	2000-01 (15 September 2000 to 31 March 2001)	2001-02 @	2002-03 @	2003-04
Income from services	11596.66	24297.21	25293.15	31399.34
Other income	102.81	384.49	599.45	2519.25
Expenditure (excluding interest and prior period adjustments)	10395.13	19993.49	24714.42	27075.29
Interest	274.29	468.21	364.55	88.24
Profit before tax and prior period adjustments	1030.05	4219.99	813.63	6755.07
Prior period adjustments	Nil	332.19	(455.73)	(58.90)
Profit before tax & extraordinary items of income	1030.05	4552.18	357.90	6696.17
Extraordinary items of income (reimbursement by Govt. of losses incurred on rural telephony operations)	Nil	2300.00	2300.00	2300.00
Profit before tax	1030.05	6852.18	2657.90	8996.16
Tax provision	283.00	540.01	1213.45	3019.64
Profit after tax	747.05	6312.17	1444.45	5976.52
Proposed dividend	*	*	250.00	281.25

** BSNL was exempted from payment of dividend on equity share capital up to 31 March 2002 and on preference share capital up to 31 March 2004.*

@ The figures of the year 2001-02 have been recast in the certified annual accounts for the year 2002-03.



It may be seen that there was a fourfold increase in profit after tax for the year ended 31 March 2004 compared to the previous year's profit, mainly on account of increase in income from cellular services, other income, Interconnection Usage Charges (IUC) and Wireless-in-Local Loop (WLL). Although there was a rise in overall expenditure by 8 *per cent* over the previous year's expenditure, the increase of 24 *per cent* income in 2003-04 offset the said increase in expenditure.

As BSNL is in the telecom sector, the tax provision shown in the above table for the years 2000-01 to 2002-03 had been arrived at after claiming 100 *per cent* deduction of its profit and gains for the purpose of income tax under Section 80-IA of the Income Tax Act, 1961 and consequently liability for

Minimum Alternate Tax at the rate of 7.5 *per cent* of the book profits (after availing of eligible adjustments) under Section 115 JB of the Income Tax Act, 1961 had been provided. For the year 2003-04, BSNL had provided the normal tax liability at the rate of 35 *per cent* of its profit under the Income Tax Act, 1961 due to misinterpretation of the amendment in Section 80-IA of the Income Tax Act, 1961 made in the Finance Act, 2004, presuming that BSNL would not be eligible for tax benefit under Section 80-IA of the Act. However, based on subsequent clarifications received from the Finance Ministry that BSNL was eligible for tax benefits under Section 80-IA of the Act, the income tax return for the financial year 2003-04 has been filed by BSNL after claiming income tax benefit under Section 80 IA of the Act.

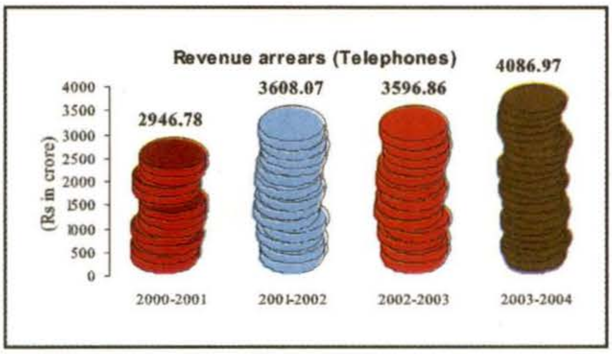
1.5 Revenue Arrears

1.5.1 The position of demand raised, amount collected and arrears for telephone services (excluding revenue details of value added services like, cellular mobile services, private basic service operators, etc.) for the four years ending March 2004 is given in the table below:

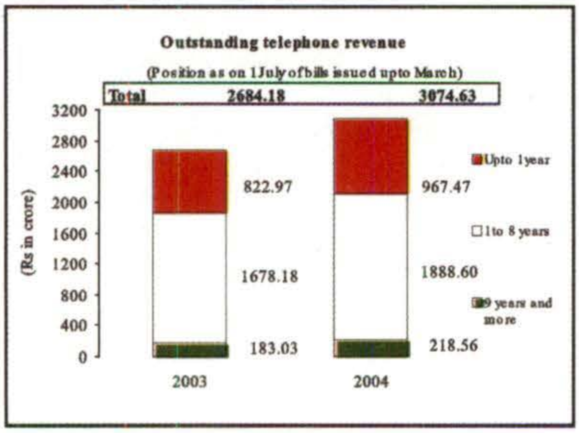
(Rs in crore)

Year	Arrears as on 1 April	Demand raised during the year	Total Demand (2+3)	Amount collected during the year	Arrears at the close of 31 March (4-5)
1	2	3	4	5	6
2000-2001	2456.24	18954.71	21410.95	18464.17	2946.78
2001-2002	2946.78	21979.94	24926.72	21318.65	3608.07
2002-2003	3608.07	22102.30	25710.37	22113.51	3596.86
2003-2004	3596.86	24101.51	27698.37	23611.40	4086.97

At the end of March 2004, the revenue arrears on account of telephone services increased to Rs 4,086.97 crore as compared to Rs 2,946.78 crore at the end of March 2001. In fact, the increase in arrears over the four years 2000-2004 (39 *per cent*) outstripped the increase in demand (27 *per cent*) during the period. The percentage of collection of revenue to the total demand, however, remained more or less at the same level from year to year.



1.5.2 The arrears of telephone revenue of Rs 4,086.97 crore came down to Rs 3,074.63 crore at the end of June 2004 for the bills issued up to March 2004. Age-wise break up of the amount outstanding on 1 July 2004 as compared to the previous year is given in the adjacent chart. An amount of Rs 2,107.15 crore (as of 1 July 2004) was outstanding for one or more years which constituted 68.53 *per cent* of the total outstanding revenue.

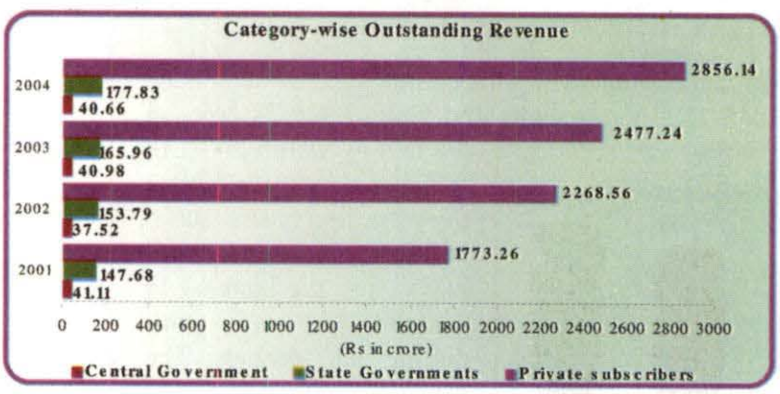


The main reasons for outstanding dues, as observed in Audit, were delays in payments by customers; customers not being traceable; billing for disconnected connections due to delays in receipt of closing advice notes in the billing sections; wrong billing; disputed bills etc. The continuous increase in this unrealised income over the years indicated that BSNL needed to exercise greater control over the management of debtors as well as in extending credit to customers.

1.5.3 Category-wise break up of total telephone dues between June 2001 and June 2004 was as under:

(Rs in crore)

Year	Central Government		State Governments		Private subscribers	
	Amount	Percentage of total outstanding	Amount	Percentage of total outstanding	Amount	Percentage of total outstanding
2000-01	41.11	2.09	147.68	7.53	1773.26	90.38
2001-02	37.52	1.52	153.79	6.25	2268.56	92.23
2002-03	40.98	1.53	165.96	6.18	2477.24	92.29
2003-04	40.66	1.32	177.83	5.78	2856.14	92.90



An amount of Rs 3,074.63 crore was outstanding against various categories of telephone subscribers at the end of June 2004. Of the total outstanding amount, 92.90 *per cent* was outstanding against private subscribers, 1.32 *per cent* against Central Government departments and 5.78 *per cent* against various State Governments. The amount as well as the proportion of outstanding bills against private subscribers was persistently increasing every year and in the last one year alone, the outstanding amount against this category had increased by Rs 378.90 crore. BSNL should make concerted efforts to recover the huge outstanding amount from the private subscribers.

1.5.4 Arrears of rent on telegraph, teleprinter and telephone circuits and telex/intelex charges

The position of arrears of revenue on renting of telegraph, teleprinter and telephone circuits and telex/intelex connections to the various categories of subscribers is indicated below:

Telegraph, telex/intelex etc.

(Rs in crore)

Year	Arrears as on 1 April	Demand raised during the year	Total demand (2+3)	Amount collected during the year	Arrears as on 31 March (4-5)
1	2	3	4	5	6
Circuits (telephones and telegraph)					
2000-01	159.56	280.43	439.99	259.77	180.22
2001-02	180.22	326.96	507.18	310.69	196.49
2002-03	196.49	514.45	710.94	428.42	282.52
2003-04	282.52	585.70	868.22	512.36	355.86
Telex/intelex charges					
2000-01	19.30	16.92	36.22	17.92	18.30
2001-02	18.30	11.53	29.83	11.55	18.28
2002-03	18.28	7.03	25.31	8.10	17.21
2003-04	17.21	4.03	21.24	4.32	16.92

The revenue arrears for collection in respect of circuits had gone up from Rs 180.22 crore in 2000-2001 to Rs 355.86 crore in 2003-04, while those in respect of telex/intelex charges decreased marginally from Rs 18.30 crore to Rs 16.92 crore during the same period. Thus the total outstanding revenue on account of circuits/telex/intelex worked out to Rs 372.78 crore, which was subsequently reduced to Rs 312.92 crore as on 1 July 2004 as shown below:

1.5.5 The arrears of outstanding dues in respect of circuits and telex/intelex charges decreased to Rs 312.92 crore at the end of June 2004 for the bills issued up to March 2004. Break-up of the outstanding dues as on 1 July 2004 is as follows:

(Rs in crore)

Period	Rent for communication circuits	Telex/intelex charges	Total
Upto 1994-95	28.45	3.07	31.52
1995-96 to 2002-03	164.62	8.31	172.93
2003-04	107.85	0.62	108.47
Total	**300.92**	**12**	**312.92**

1.5.6 The total arrears of revenue of over Rs 3,387.55 crore (telephone: Rs 3,074.63 crore and circuits/telex/intelex : Rs 312.92 crore) at the end of June 2004 in respect of telephone, telegraph, teleprinter services etc., would have a serious adverse impact on the financial health of a commercial undertaking like BSNL.

1.6 Manpower

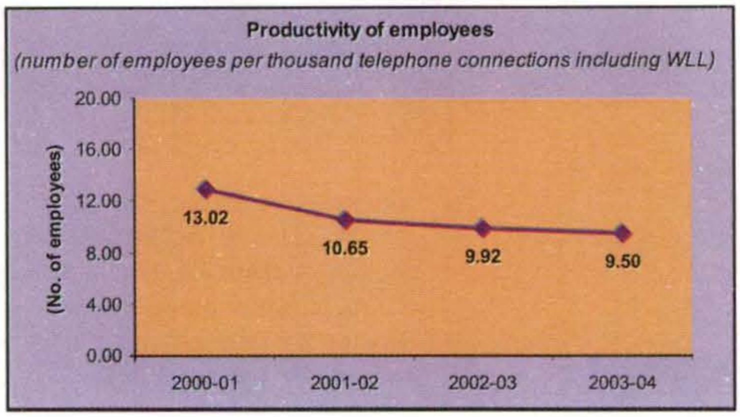
The total manpower strength of BSNL at the end of each of the last four years ended 31 March 2004 is given below:

Year	Group A	Group B	Group C	Group D	Industrial workers	Total manpower	Daily Rated Mazdoors
2000-01	7600	44126	241379	64974	7970	**366049**	6103
2001-02*	7071	44662	236705	63997	3237	**355672**	5211
2002-03	7026	46797	231656	66301	4632	**356412**	4435
2003-04	7889	49158	238042	47090	3673	**345822**	3899

There was an overall decrease in the manpower during 2003-04 compared to the previous year except in categories of Group 'A', Group 'B' and , Group 'C', under which manpower increased to the extent of almost 12 *per cent*, 5 *per cent* and 3 *per cent*, respectively.

1.7 Productivity

The employees' productivity per thousand telephone connections including WLL (i.e., ratio of employees per thousand telephone connections) of BSNL for the year 2000-01 was 13.02 which improved to 9.50 during 2003-04.



* The figures for the year 2001-02 have been recast by the Management.

CHAPTER II
REVENUE

2.1 Delay in realisation of dues and loss of interest

Failure of Bharat Sanchar Nigam Limited to realise outstanding dues of Rs 107.28 crore in time from Videsh Sanchar Nigam Limited resulted in loss of interest of Rs 17.72 crore. Delays in issue and realisation of bills resulted in further loss of interest to the tune of Rs 17.77 crore.

The Department of Telecommunications signed a Memorandum of Understanding (MoU) (July 1999) with Videsh Sanchar Nigam Limited (VSNL), an international long distance operator (ILDO) providing international long distance services. As per the terms and conditions of the MoU, super group charges* in respect of the leased circuits were to be paid by VSNL within two weeks of their becoming due.

BSNL delayed issue of bills to VSNL for super group charges and VSNL delayed payments

A test check of records of Chief General Manager (CGM), Maharashtra Telecom Circle (MTC), (January 2003 and April 2004) revealed that bills were issued for super group charges to VSNL, quarterly upto June 2002 and monthly thereafter, with delays ranging from 14 days to 143 days. VSNL further delayed the payments for periods ranging from 28 days to 107 days. VSNL also availed of a discount of 30 *per cent* on its own, claiming that they were entitled to the discount as per BSNL's order issued in January 2002. The order granted discount to high-end users of leased circuits and not to ILDOs. However, as the orders were silent about the applicability of the discount to ILDOs, VSNL claimed the discount, which resulted in short-realisation of dues to the extent of Rs 107.28 crore during January 2002 to March 2003.

VSNL unilaterally claimed a discount resulting in short realisation of Rs 107.28 crore

BSNL informed VSNL that it was not entitled to the discount

CGM, MTC sought (June 2002) a clarification from BSNL Corporate Office and on their advice, negotiated with VSNL, offering discount on certain terms and conditions including matching discount for BSNL, which did not materialise. Finally, BSNL Corporate Office, after an inordinate delay of one year and eight months, conveyed to VSNL (February 2004) that it was not entitled to the discount. VSNL paid the entire amount of Rs 107.28 crore in March/April 2004.

Delay in issue of bills and realisation resulted in loss of interest of Rs 35.49 crore

Thus, delay in realisation of the above dues resulted in loss of interest accrued thereon, which worked out to Rs 35.49 crore, calculated conservatively at the Prime Lending Rate of the State Bank of India, Rs 9.74 crore due to delay in issue of bills by BSNL, Rs 8.03 crore due to delay in payment of bills by VSNL and Rs 17.72 crore on account of delayed realisation of Rs 107.28 crore.

* *super group charges - Leased line charges for high usage routes.*

On this being pointed out by Audit in January 2003 and April 2004, the CGM, MTC stated in reply (June 2004) that there was no provision in the MoU to charge interest on delayed payments and that the services to VSNL could not have been terminated, considering the common interests of BSNL and VSNL.

The reply is not tenable as BSNL took unduly long time in clarifying the non-extension of discount to VSNL. It also failed to enter into a MoU with VSNL for the subsequent period (i.e. 2000-01 onwards) to safeguard its own interest by providing adequate penal interest clause for delayed payment by VSNL in spite of knowing that VSNL was routinely making delayed payment.

This indicates that there is a need for BSNL authorities to ensure prompt realisation of dues and not lose sight of the loss of interest that accrues on delayed payments.

The matter was referred to the Ministry in September 2004; its reply was awaited as of November 2004.

2.2 Non-collection of revenue from cellular mobile subscribers

Failure of Bharat Sanchar Nigam Limited to implement stipulated safeguards resulted in accumulation of outstanding dues of Rs 13.98 crore in 10 telecom circles on post-paid mobile telephony which remained unrealised as of August 2004.

Bharat Sanchar Nigam Limited (BSNL) started post-paid mobile telephony under the brand name "Cell One" with effect from October 2002. Five Zonal Billing Centres were formed at Tiruchirapalli, Hyderabad, Pune, Chandigarh and Kolkata under General Manager, Cellular Mobile Telephone Service (CMTS) of their respective circles. The Zonal Billing Centres were made responsible for processing of bills, monitoring of payments, generation of various reports for monitoring of revenue collection and processing for withdrawal of outgoing/incoming calls in cases of non-payment of dues for all circles under their billing jurisdiction.

To avoid pilferage and loss of revenue, BSNL fixed certain safeguards in respect of post-paid mobile telephony

The manual for CMTS billing, accounting and commercial practices stipulated the following guidelines to avoid pilferage and loss of revenue:

- Establishment of the credentials of the applicants through identity documents and introduction of the process of post-verification of address and credit-worthiness of customers through outsourcing as also internal efforts.
- Collection of appropriate security deposit for optional facilities like STD/ISD/National/International roaming and other services.
- Fixation of a credit limit for all customers based on the calling profile and restriction of calls based on their credit limit.

- Generation of interim bills in between the regular monthly bills where the total calls of a customer exceeded the prescribed threshold limit and disconnection of outgoing and incoming facility due to non-payment of dues by due dates.
- Dealers appointed for marketing and distribution were required to ensure that no fraud of any kind was committed by any prospective subscribers and they were to be held responsible for the costs and consequences thereof.

Failure to follow these safeguards resulted in outstanding of Rs 13.98 crore against subscribers in 10 telecom circles

A test-check of records in 25 Secondary Switching Areas (SSAs) under 10 telecom circles involving all the five Zonal Billing Centres revealed that the above safeguards were not put in place. As a result, Rs 13.98 crore was outstanding against 395 subscribers within one year of introduction of "Cell One". Out of 395 mobile subscribers, subscribers of BSNL and its authorised dealers were 206 and 189 respectively as shown in Appendix – 1.

The main reasons for huge outstanding dues were:

- Threshold server could not be made operational in the Zonal Billing Centres, as a result of which safeguards of monitoring credit limits, call restrictions, generation of interim bills, auto disconnection and generation of reports for monitoring of revenue collection could not be implemented.
- Inadequate verification of identity documents by the SSAs and by the dealers.
- Failure of the SSAs to disconnect due to non-payment of bills in the event of threshold server at Zonal Billing Centres being non-operational.
- Delay in issue of bills and delayed billing of roaming charges.

On this being pointed out by Audit, SSAs in their reply accepted the facts and figures as also the reasons for huge outstanding. They also stated that the threshold server had been made operational at the Zonal Billing Centres at Hyderabad, Kolkata, Tiruchirapalli and Pune during August, November, December 2003 and May 2004 respectively. It was yet to be made operational at Chandigarh (September 2004).

It is imperative that all the safeguards stipulated for prevention of pilferage and loss are followed scrupulously to avoid recurrence of such instances. The recovery of outstanding dues should be vigorously pursued. BSNL should also recover the loss from the dealers who provided connections to the subscribers as stipulated in the agreement.

The matter was referred to the Ministry in September 2004; its reply was awaited as of November 2004.

2.3 Continuation of telephone facilities despite non-payment of dues

Failure to disconnect telephone connections of subscribers/STD PCO operators by the due date despite non-payment of dues in 16 SSAs under Bihar, Gujarat, Jharkhand, Karnataka, Maharashtra and Rajasthan Telecom circles resulted in accumulation of dues to the extent of Rs 11.51 crore.

Telephone bills are payable within 15 days from the date of issue and STD/PCO bills are payable within four working days of the date of receipt of bills

Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL), envisage that telephone bills are payable by the subscribers within 15 days of the date of issue of bills. In case of non-payments, the telephones are liable to be disconnected on the 40th day. In the case of STD/PCOs bills are payable within four working days from the date of the receipt of bills, failing which the connections are liable to be disconnected.

Test check disclosed accumulation of dues to the extent of Rs 11.51 crore due to continuation of facilities despite non-payment

Audit scrutiny of records of 16 SSAs under six telecom circles during May 2001 to June 2004 revealed that the company continued to provide telephone services despite non-payment of dues by subscribers and STD/PCO operators. This resulted in accumulation of dues to the extent of Rs 11.51crore for the period April 1990 to March 2004, as shown in Appendix -2.

While accepting the facts and figures, the SSAs stated that action was being taken to recover the outstanding dues and disconnect the telephone facilities of defaulting subscribers. Out of Rs 11.51 crore, an amount of Rs 1.53 crore was recovered in Bihar, Maharashtra and Rajasthan Telecom circles. Recovery in respect of balance amount was awaited as of November 2004.

Comments regarding continuance of telephone facilities despite non-payment of dues had been included in the Audit Reports of the Comptroller and Auditor General of India for the last 6 years. The Ministry, in its Action Taken note (ATN), had stated (December 2003) that there was no deficiency in the existing system but failure to follow the system and procedures. This indicates that there is a need to fix responsibility and take appropriate action in such cases to avoid recurrence of this persistent irregularity.

The matter was referred to the Ministry in July 2004/November 2004; its reply was awaited as of November 2004.

2.4 Non-billing due to non-receipt of advice notes

Company failed to raise bills to the tune of Rs 4.56 crore due to non-receipt of completed advice notes in Telephone Revenue Accounting branches.

The operating branch of the telephone district is required to send completed advice notes to the Telephone Revenue Account (TRA) branch within seven days of providing telecommunication facilities to enable the latter to post the details in the Subscriber Record Cards (SRCs) and issue bills to the subscribers. The TRA branch is also required to obtain a list of non-directory items from the operating branch in April each year and check it with SRCs to ensure that the rentals in respect of all the telecommunication facilities had been recovered.

Test check disclosed non-billing of Rs 4.56 crore in eight telecom circles due to non-receipt of completed advice notes

Test-check of records pertaining to Andhra Pradesh, Assam, Bihar, Gujarat, Jharkhand, Maharashtra, North East – I and Rajasthan Telecom circles during June 2003 to April 2004 revealed non-billing to the tune of Rs 4.56 crore towards the rentals in respect of telecommunication facilities provided to 27 subscribers for the period October 1995 to December 2004 due to non-receipt of completed advice notes.

On this being pointed out by Audit (June 2003 to April 2004), the Management recovered Rs 2.27 crore. Recovery particulars of the balance amount of Rs 2.29 crore were awaited as of November 2004. The details are given in Appendix - 3.

Cases of delayed billing/non-billing due to non-receipt of completed advice notes by TRA branch have been commented upon in the Reports of the Comptroller and Auditor General of India in the past. Bharat Sanchar Nigam Limited (BSNL), in December 2001 reiterated the instructions for the receipt of completed advice notes in TRA branches for strict observance. Despite this, the deficiency still persists.

BSNL should fix responsibility and take appropriate action in such cases to ensure that the prescribed procedure and instructions are scrupulously followed so that the recurrence of this persistent irregularity is avoided.

The matter was referred to the Ministry in August 2004; the Ministry in its reply (October 2004) confirmed the facts and figures in respect of the Gujarat Circle and stated that Rs 9.33 lakh had been recovered. Replies in respect of the other circles were awaited as of November 2004.

2.5 Short realisation of rentals due to non application of revised tariff

Failure of six Secondary Switching Areas (SSAs) under three telecom circles to revise rentals of lines and wires and speech circuits leased to the Railways led to short realisation of Rs 2.58 crore.

Rentals for lines and wires and speech circuits leased to the Railways are initially recovered on provisional basis pending finalisation of rates, which are decided later, for a block of five years in consultation with the Railway Board. Bharat Sanchar Nigam Limited (BSNL) fixed the final rentals applicable for the block 1986-87 to 1990-91 in August 1998 and those for the block 1991-92 to 1995-96 in February 2002. Supplementary bills were to be issued for billing the differential amounts between the final rentals fixed and provisional rentals already billed and differential amounts between the provisional rentals due and already claimed.

BSNL failed to recover differential rentals resulting in short recovery of Rs 2.58 crore

Test-check of records of six Secondary Switching Areas (SSAs) under the Karnataka, Uttar Pradesh (West) and Orissa Telecom Circles revealed that the Company failed to issue supplementary bills for the differential amounts. This resulted in short recovery of rentals to the tune of Rs 2.58 crore for the period April 1986 to November 2004 in respect of lines and wires and speech circuits leased to Railways as detailed in Appendix - 4.

On this being pointed out by Audit, five SSAs issued bills for Rs 1.91 crore and recovered Rs 1.13 crore. SSA Bareilly stated that bills for Rs 67 lakh would be issued after verification. Recovery particulars for the balance amount were awaited as of November 2004.

Comments regarding non-revision of rentals in respect of lines and wires and speech circuits provided to Railways had been included in the Audit Reports of the Comptroller and Auditor General of India in the last three years (Para 7.1 (5) of 6 of 2002, Para 14.3 (10) of 5 of 2003 and Para 2.9.3 of 5 of 2004). The Ministry, in its Action Taken Note, stated (September 2003) that there was no deficiency in the existing system but failure to follow the system and procedures due to unintended omission. This indicates that there is a need to fix responsibility and take appropriate action in such cases to avoid recurrence. Timely revision of rentals immediately after the completion of each block period would also help in preventing recurrence of such omissions.

The Ministry stated (November 2004) that a sum of Rs 1.13 crore out of Rs 1.33 crore under the Karnataka Telecom Circle has been recovered. The recovery particulars of the balance amount were awaited as of November 2004.

2.6 Non-billing of penal interest

Bharat Sanchar Nigam Limited failed to claim and recover penal interest of Rs 1.74 crore from Nuclear Power Corporation of India Limited.

Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL), stipulate that penal interest at the rate of 18 *per cent* of the amounts due is to be charged if payments are not received by the due date and services are to be withdrawn for non-payment of dues along with the penal interest within two months of the due dates. Penal interest is to be recovered from all subscribers of satellite circuits including PSUs/Government agencies.

BSNL failed to charge penal interest of Rs 1.74 crore for delayed payments by NPCIL

BSNL provided three services viz., Satellite Speech circuits, Data circuits and annual maintenance of Earth Stations at various locations to Nuclear Power Corporation of India Limited (NPCIL). Audit scrutiny (June 2003) of records pertaining to the Northern Telecom Region (NTR), revealed that the Company had not charged penal interest amounting to Rs 1.74 crore towards the delayed payments received from NPCIL (delay ranged from 101 days to five years 91 days) for the billing period April 1998 to June 2003.

On this being pointed out by Audit (June 2003), the company disconnected the services on 30 June 2003 and raised bills for penal interest amounting to Rs 1.68 crore in July 2003 and Rs 6 lakh in April 2004. The recovery particulars were awaited as of June 2004.

The Management, in its reply, stated (April 2004) that the case would be forwarded to the Corporate Office for review and waiver on the lines of microwave circuits, where such penal interest was not applicable, since realisation of penal interest from Government organisations was very difficult.

The reply of the Management is not tenable since the instant case pertains to satellite circuits and not microwave circuits. The clarification of DoT issued in September 1999 envisages that penal interest was recoverable from all the subscribers of satellite circuits including PSUs/Government agencies. The Company needs to vigorously pursue the case with NPCIL for recovery of the outstanding penal interest of Rs 1.74 crore.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

2.7 Loss of revenue

DoT/BSNL failed to fix the final rental in a rent and guarantee case within the prescribed time limit. Their belated attempt to realise the final rental was turned down by the Telecom Disputes Settlement and Appellate Tribunal resulting in loss of revenue of Rs 1.59 crore.

Rules provide for quoting of final rentals in all Rent and Guarantee cases before commissioning or within one year of commissioning

Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL), stipulate that the final rental in all Rent and Guarantee (R&G) cases should be quoted before commissioning of the services. If the same cannot be done due to unavoidable circumstances, the rental quoted would be provisional and the final rental should be quoted within one year of commissioning of the services. Further, if it is observed that due care has not been taken while calculating the provisional rental based on project estimates, the concerned Chief General Manager (CGM) should take necessary action to fix responsibility.

General Manager, Telecommunications (GMT), Calicut under the Kerala Telecom Circle, provided (May 1997) a 2 GHz Digital Microwave Link for Public Switched Telephone Network (PSTN) connectivity to M/s Escotel Mobile Communications Limited (party) on R&G basis, the minimum guarantee period for which was five years. The provisional rental for the facility was fixed and billed at Rs 11.42 lakh per annum (November 1996).

Final rental had not been quoted despite lapse of two years, resulting in loss of revenue of Rs 1.59 crore

Audit scrutiny (February 1999) revealed that the rental worked out to Rs 19.92 lakh based on the detailed estimates sanctioned in January 1997 instead of Rs 11.42 lakh per annum. It was also observed that the final rental had not been quoted despite the lapse of two years since its provision, in violation of departmental rules.

On this being pointed out by Audit, the Chief General Manager Telecom, Kerala Circle, replied (May 2000) that the final rental in this case could not be quoted within the time limit due to delay in getting the actual cost of the work from the Director, Transmission Installation. He added that the case had been reviewed and the final rental had been fixed and billed at a flat rate of Rs 40 lakh per annum since the flat rate was higher than the rental fixed on the basis of capital cost. The party approached (2001) the Telecom Disputes Settlement and Appellate Tribunal (TDSAT) which turned down the revision of rental as DoT had failed to quote the final rental within the stipulated period.

Thus lack of co-ordination between different wings of the BSNL led to the failure in fixing the final rental within the prescribed time limit. This resulted in loss of revenue of Rs 1.59 crore for the period from May 1997 to December 2002. No action was taken to fix responsibility for erroneous calculation of provisional rental and delay in fixing final rental. This indicated that the mechanism to ensure that SSAs followed the orders/instructions issued by BSNL from time to time required improvement.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

2.8 Short billing of installation charges and rentals

Failure to recover installation charges and rentals at the enhanced rates consequent on the increase in exchange capacity resulted in short billing of Rs 1.59 crore.

Installation charges and rentals are required to be increased with increase in exchange capacity

Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL), provide for installation charges and rentals based on the capacity of an exchange and nature of its location i.e. urban or rural. Whenever equipped capacity of an exchange is increased, the installation charges and rentals are also to be increased. For the purpose, the Telecom Revenue Accounts (TRA) branch should be furnished with a half-yearly statement of the equipped capacity of various exchanges by the Engineering Wing. The TRA branch should revise the rentals from the next prescribed date of changeover, wherever necessary.

BSNL failed to realise installation charges and rentals at enhanced rates amounting to Rs 1.59 crore

Test check of records of Telecom District Managers (TDMs), Pratapgarh, Bahraich and Gonda under the Uttar Pradesh (East) Telecom Circle and General Managers Telecom Districts (GMsTDs) Vishakhapatnam, Kurnool, Eluru, Khammam and Nalgonda under the Andhra Pradesh Telecom Circle revealed that they failed to issue bills for installation charges and rentals at the enhanced rates consequent on the increase in exchange capacity from lower configuration to 500/1000 lines and above. This resulted in short billing of Rs 1.59 crore between January 1999 and December 2003 as shown in Appendix-5.

On this being pointed out by Audit between November 2002 and December 2003, the TDMs, Pratapgarh and Gonda, stated that due to non-receipt of actual date of commissioning of 1000 lines for each exchange from the Engineering Wing, the revision of rentals was pending. The TDM Gonda and the GMsTDs Vishakhpatnam, Eluru, Khammam, Kurnool and Nalgonda issued the bills for Rs 61.69 lakh and realised/adjusted Rs 45.86 lakh. Recovery particulars of the balance amount were awaited.

Thus, lack of coordination between different wings of BSNL led to short realisation of installation charges and rentals.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

2.9 Non/Short billing of rentals in respect of interconnection facilities to Defence

Chief General Manager Telephones, Calcutta Telephones failed to charge additional rentals of Rs 1.03 crore from Defence authorities for providing interconnection facilities.

Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL), stipulate that additional charges for interconnection facilities between the Defence network and the Department of Telecommunications (DoT)/BSNL network are to be levied at the rate of 33.33 *per cent* of the notional rental of trunk circuits at the prevailing rates, besides the normal rentals for Defence owned speech circuits.

Failure of Calcutta Telephones to revise/raise bills for additional rentals on account of interconnection facilities between Defence and DoT/BSNL networks resulted in non/short billing of Rs 1.03 crore

Audit scrutiny of records of Calcutta Telephones revealed that the billing authority, while raising the bills for rentals in respect of Defence owned speech circuits, did not revise the interconnection charges corresponding to the periodical revisions of rentals of the circuits. In respect of certain Defence speech circuits, the billing authority did not even raise the bills for interconnection charges. The failure to revise/raise bills for additional rentals on account of interconnection facilities resulted in non/short billing of Rs 1.03 crore for the period 1983 to 2005.

While Audit pointed out the above non-revision/non-levying of additional rentals to Calcutta Telephones way back in August 1998, the billing authority did not raise the bills to recover the outstanding amount, awaiting certain information from the Engineering wing. They pursued the matter with the Engineering wing for confirmation/information regarding the number of Defence speech circuits working with interconnection facilities. It was only after a lapse of more than four years and after vigorous pursuance by Audit that the Deputy General Manager (Corporate Customer) instructed (February 2003) the concerned Accounts officer to realise the outstanding amount by issuing supplementary bills.

The matter was referred to the Ministry in July 2004 and it replied (November 2004) that BSNL had issued bills to the extent of Rs 1.14 crore to the Defence authorities and payment was yet to be received.

2.10 Short billing of revenue

Failure of three General Managers under the Kerala Telecom Circle to charge rentals for leased circuits within a short distance charging area as per the resources utilised, resulted in short billing of Rs 92.89 lakh.

Rules provide for charging of rental of leased circuits within a SDCA as per the resources utilised

The Department of Telecommunications (DoT) issued instructions in February 2000 that for the purpose of calculating rentals for leased circuits within a Short Distance Charging Area (SDCA), services provided would be considered as the Main Circuit and chargeable distance would be the distance between the customer's premises at either end. DoT further clarified (April 2002) that these circuits may be charged as per the resources utilised i.e. 2 wire charges if single pair was used and 4 wire charges if two pairs were used.

Rentals for leased circuits provided on 4 wire modems were billed at 2 wire charges, resulting in short billing of Rs 92.89 lakh

Audit scrutiny of records of Calicut, Ernakulam and Kollam Secondary Switching Areas (SSAs) under the Kerala Telecom Circle during September 2003 and March 2004 revealed that rentals for leased circuits provided on 4 wire modems within the respective SDCAs had been billed at 2 wire charges instead of 4 wire charges resulting in short billing to the tune of Rs 92.89 lakh during the period March 2000 to June 2004.

On this being pointed out, Kollam and Calicut SSAs issued bills for Rs 10.68 lakh except to one subscriber in Calicut SSA as their connections were already closed. Recovery particulars were awaited. Ernakulam SSA took up the matter in April 2004 with BSNL Corporate office pleading that only 2 wire charges be fixed as rentals since corporate customers were likely to close their circuits as competitors were likely to offer lesser rates. BSNL Corporate office clarified (June 2004) that the proposal was not acceptable since it was the choice of the customer to use 2 wire or 4 wire modem and pay accordingly. Ernakulam SSA was in the process of issuing the bills for Rs 82.21 lakh (July 2004).

The matter was brought to the notice of the Ministry in July 2004; its reply was awaited as of November 2004.

2.11 Non billing of rentals in respect of lines and wires leased to Railways

Failure of Circle Telecom Accounts branch under the Jharkhand Telecom Circle and three Secondary Switching Areas under the Tamil Nadu Telecom Circle to recover rentals for the lines and wires leased to the Railways after change in billing authority, resulted in non-billing of Rs 60.07 lakh.

Rules provide for preferring half-yearly bills to Railways

Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL), provide that bills in respect of lines and wires provided to the Railways for their exclusive use should be preferred, half-yearly, in arrears for the period ending March and September at the rates fixed from time to time. Circle Telecom Accounts (CTA) branch was responsible for preferring of bills and collection of rentals for the lines and wires leased to the Railways. However, some of the circles transferred the work relating to billing to the concerned Secondary Switching Areas (SSAs).

After creation of the Jharkhand Telecom Circle (April 2001), the bills for the rentals in respect of the lines and wires leased to the Railways were to be raised by CTA, Ranchi, under that circle. However, test check of records (March 2004) of CTA, Ranchi, revealed that the bills were not raised, resulting in non-billing of Rs 48.13 lakh for the period April 2001 to March 2004.

Similarly, test check of records of General Managers Telecom Districts (GMsTDs) Tuticorin, Thanjavur and Karaikudi (September/October 2003) under the Tamil Nadu Telecom Circle revealed that the billing of lines and wires leased to the Railways was decentralised (December 2002) from the CTAs to the concerned SSAs, but the concerned GMsTDs failed to issue the bills for rentals for the period April 2003 to March 2004 resulting in non-billing of Rs 11.94 lakh.

BSNL units in two telecom circles did not raise bills amounting to Rs 60.07 lakh

Thus, failure to follow the orders/instructions by the concerned billing authorities resulted in non-billing of Rs 60.07 lakh between April 2001 and March 2004. On this being pointed out by Audit, the concerned SSAs issued bills for Rs 60.07 lakh and realised Rs 4.70 lakh as shown in Appendix - 6. Recovery particulars of the balance amount were awaited as of November 2004.

The Deputy General Manager (Finance), Office of the Chief General Manager Telecom, Jharkahand, stated (May 2004) that the delay in submission of bills was due to late receipt of related documents and records from the Bihar Telecom Circle. This indicates lack of proper monitoring mechanism to ensure prompt billing by SSAs.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

2.12 Short billing of rental for leased circuits

Failure of three Secondary Switching Areas (SSAs) under the Andhra Pradesh Circle to calculate chargeable distances as per revised instructions resulted in short billing of rentals for leased circuits to the tune of Rs 55.37 lakh.

A leased circuit is a dedicated link provided between two fixed locations for exclusive use by a customer. The rentals for leased circuits are calculated on the basis of chargeable distances for the local leads and the main circuits. Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL), revised (April 1999) and subsequently clarified (February 2000) the method of calculating the chargeable distance for main circuits and local leads.

Failure to follow revised instructions regarding chargeable distances resulted in short billing of rentals for leased circuits totalling Rs 55.37 lakh

Test check of records of Principal General Manager Telecom District (PGMTD) Hyderabad and General Managers Telecom Districts (GMsTDs) Tirupati and Kurnool under the Andhra Pradesh Telecom Circle (October 2003 to December 2003) revealed that while calculating the rentals for leased circuits, the chargeable distances between the two end-exchanges were treated as main circuits and the chargeable distances between the end-exchanges* and customer's premises were treated as local leads, instead of treating the chargeable distances between the two charging centres** as main circuits and charging centres to customer's premises as local leads as per revised instructions. The failure to follow the revised instructions resulted in short billing of Rs 55.37 lakh as shown in Appendix – 7 for the period May 1999 to April 2004. On this being pointed out by Audit, the SSAs issued bills for Rs 55.37 lakh and recovered Rs 4.09 lakh. Recovery particulars of balance amount were awaited as of November 2004.

The General Manager (Finance), Office of the PGMTD Hyderabad stated (January 2004) that the short billing was mainly due to the failure of the Commercial Branch to intimate correct distances as per the revised instructions, to the Accounts Branch. He also stated that the Commercial Branch had been suitably instructed to furnish distances as per the revised instructions in the Advice Notes itself. This indicates that there is a need for greater coordination between different wings for ensuring that the SSAs follow the instructions issued by BSNL.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

*Exchange from where connectivity is given to a subscriber.

** Particular exchange declared as charging centre by Telegraph Authority

2.13 Non-recovery of compensation for the unexpired period of guarantee

Failure of the Chief General Manager, Chennai Telephones, to issue bills for compensation for the unexpired period of guarantee on premature surrender of dedicated cables provided on rent and guarantee basis resulted in non-recovery of rentals of Rs 51.86 lakh.

Rules provide for recovery of compensation for premature surrender of cables provided on R&G basis

Rules, adopted by Bharat Sanchar Nigam Limited (BSNL), stipulate that cables laid for the exclusive use of subscribers which involve new construction are to be provided on rent and guarantee (R&G) basis. The R&G based on the capital cost should be quoted before commissioning of the services. If the same cannot be done due to unavoidable circumstances, the rental quoted would be provisional, based on the estimated capital cost. The final rental, based on the actual capital cost, should be quoted within one year of the commissioning of the services. The initial period of guarantee for dedicated cables would be 10 years. When the cables are surrendered before the expiry of the initial period of guarantee, the compensation recoverable for the unexpired period would be 10 *per cent* of the capital cost for each of the remaining years including the year in which it is surrendered.

BSNL failed to recover compensation of Rs 51.86 lakh on premature surrender of dedicated cables

Test check of the records of the Deputy General Manager (Long Distance) under Chennai Telephones (September 2003) revealed that the final rentals were not quoted in respect of eight subscribers, who were provided dedicated cables, even after one year of commissioning of services, in contravention of the rules. In all these eight cases, the subscribers surrendered the facilities before the expiry of their guarantee periods. The Commercial Branch issued advice notes for the closure of the facilities and asked the Telephone Revenue Accounts (TRA) Branch to recover the compensation. The TRA Branch failed to recover the compensation for the unexpired period of guarantee, even on provisional rentals, resulting in non-recovery of Rs 51.86 lakh as shown in Appendix – 8.

On this being pointed out by Audit, the Chief General Manager, Chennai Telephones stated (May 2004) that only provisional rentals were being recovered since the final rentals had not been fixed due to non-receipt of completion reports from the Transmission Planning Unit. The Accounts Branch also could not issue the bills for compensation due to non-receipt of completed advice notes/completion reports. He, further, stated that the work of calculation of R&G and compensation was in progress. Bills for Rs 50.17 lakh on provisional basis were issued and Rs 3.55 lakh was recovered. Recovery particulars of the balance amount were awaited as of November 2004.

Thus, lack of co-ordination between different wings of the Company led to the failure in fixing the final rentals within the prescribed time limit and non-recovery of compensation for premature surrender of dedicated cables. This indicates that there is a need for greater coordination between different wings of the Secondary Switching Areas.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

2.14 Non-billing of rental

Bharat Sanchar Nigam Limited failed to fix the final rental within the prescribed time limit and even provisional rent was not collected for more than three years, resulting in non-billing of Rs 48.18 lakh.

Rules provide for quoting of final rental in all R&G cases before commissioning or within one year of commissioning of services

Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL), stipulate that the final rental in all rent and guarantee (R&G) cases should be quoted before commissioning of the services. If the same cannot be done due to unavoidable circumstances, the rental quoted would be provisional and the final rental should be quoted within one year of commissioning of the services.

Chennai Telephones provided a 6 Fibre Optical Fibre Cable (OFC) for the exclusive use of M/s Satyam Infoway Ltd. between their premises and K.K. Nagar Telephone Exchange on R&G basis. The advance annual rental of Rs 12.68 lakh was collected by issue of demand note in July 1999 covering the period of one year from the date of commissioning. The work was completed and cable was commissioned in August 1999.

BSNL failed to quote final rental and collect provisional rent of Rs 12.68 lakh per annum

Scrutiny of records (September 2003) of Deputy General Manager (long distance/non-voice services), Chennai Telephones, revealed that the final rental had not been quoted despite lapse of four years of its provision, in violation of the rules. Even the provisional rent of Rs 12.68 lakh per annum for the period August 2000 to March 2004 amounting to Rs 48.18 lakh inclusive of Service Tax was not collected.

On this being pointed out by Audit, the Chief General Manager Telecom, Chennai Telephones, replied that the final rental in this case could not be quoted within the time limit due to non-receipt of completion report.

The reply is not tenable as according to the rules, the completed advice notes should be forwarded by the Divisional Engineers to Telephone Revenue Accounting (TRA) branch within a week of effecting the connections. Also Accounts Officer (TRA) should ensure that all the advice notes are received and immediate action is taken on them. Moreover, in the absence of final rental, at least provisional rental should have been recovered.

Thus, lack of co-ordination between different wings of BSNL led to failure to fix final rental within the prescribed time limit and in non-billing of at least Rs 48.18 lakh. At the instance of Audit, a supplementary bill for Rs 48.18 lakh was issued in October 2003 for which realisation particulars were awaited. Action to fix the final rental was also due.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

2.15 Non/short realisation of service tax

Failure of six Secondary Switching Areas under two telecom circles to levy service tax resulted in non/short realisation of service tax of Rs 40.40 lakh.

Ministry of Finance levied service tax on telecommunication services

Bharat Sanchar Nigam Limited (BSNL) issued orders to recover service tax at the rate of 5 *per cent* with effect from 16 July 2001 and 8 *per cent* with effect from 14 May 2003 on leased circuits, interconnect link charges and on set-up charges for interconnectivity ports provided to private operators, as per the instructions of the Ministry of Finance.

BSNL units in two circles failed to levy service tax of Rs 40.40 lakh

Test check of records of Principal General Manager Telecom (PGMT) Pune and General Manager Telecom District (GMTD) Ahmednagar under the Maharashtra Telecom Circle and GMsTDs Ananthapur, Nellore, Tirupati and Kurnool under the Andhra Pradesh Telecom Circle (September 2003 to March 2004) revealed that they failed to implement the orders regarding levying of the service tax at the rates prescribed from time to time. This resulted in non/short billing of Rs 40.40 lakh for the period July 2001 to March 2004 as shown in Appendix - 9.

On this being pointed out by Audit, the concerned Secondary Switching Areas (SSAs) issued bills for Rs 40.40 lakh and recovered Rs 19.68 lakh. Recovery particulars of the balance amount were awaited as of November 2004.

Comments regarding non-realisation of service tax had been included in the Audit Reports (ARs) of the Comptroller and Auditor General of India for the last five years (Paras 8, 5 and 7.3 of ARs 6 of 2000, 2001 and 2002, Para 14.4 and 2.8 of ARs 5 of 2003 and 2004). The Ministry in its Action Taken Note admitted (July 2004) that the Management failed to enforce instructions of the Ministry of Finance to levy service tax and the same would be recovered. This indicated that the BSNL Corporate office did not review and enforce the orders/instructions from time to time at field/SSA level in spite of the failure being pointed out in Audit Report repeatedly.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

2.16 Loss of revenue due to incorrect fixation of rental

Incorrect fixation of rental by the Principal General Manager Telephones (PGMT), Patna on flat rates instead of on rent & guarantee terms, in contravention of rules, resulted in loss of revenue of Rs 38.66 lakh upto April 2004. Since the PGMT did not execute the rent and guarantee agreement, the possibility of recovery was remote.

Rules state that rental should be charged on capital cost basis under R&G terms if provision of an E_1R_2 link involves new cable construction

An E_1R_2 link is a circuit provided for E-mail licensees and Internet Service Providers (ISP) for connecting Remote Access Servers to the nearest telephone exchanges. Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL), provide that whenever E_1R_2 links are provided to an ISP for an exchange area in which their node is located, a flat rate of rental equivalent to 30 direct exchange lines (DELs) is to be realised. Rules further stipulate that if an E_1R_2 link is provided from an exchange other than the one in which the ISP's node is located, the applicable 2 Mbps lease line rental at a flat rate is to be charged in addition to the 30 DELs' rental. If, however, the provision involves new cable construction, the rental is to be charged only on capital cost basis under rent & guarantee (R&G) terms and not on the basis of flat rates. Rules also envisage that the R&G terms in such cases should be quoted and got accepted by the subscriber before provision of the facility.

BSNL charged rent at flat rates resulting in loss of revenue of Rs 38.66 lakh

Videsh Sanchar Nigam Limited (VSNL), an ISP, placed (December 2000) a firm demand for provision of eight E_1R_2 links from the Patna main exchange to its internet node at Indira Bhavan, Patna. BSNL provided the service in May 2001. Audit scrutiny of records (June 2003) revealed that PGMT, Patna charged rental of Rs 7.20 lakh per annum at a flat rate even though they had sanctioned (May 2001) new construction work estimating Rs 38.84 lakh. Since new construction work was involved, R&G terms should have been invoked. The amount of rental on R&G terms worked out to Rs 15.89 lakh per annum for eight links. This resulted in loss of revenue of Rs 38.66 lakh for the period from May 2001 to April 2004.

At the instance of Audit, BSNL issued the bill on R&G terms but VSNL disputed the claim on the ground that the agreement had not been executed under R&G terms.

The Management stated (June 2004) that this lapse had occurred due to oversight and lack of information in the Commercial Section, which issued bills on flat rates, without realising that new construction work was involved, which required billing on R&G terms. They admitted that the possibility of recovery was remote since no agreement on R&G terms had been entered into initially. The Management also stated that instructions had been issued for vetting in all cases of provision of circuits/non-directory items, by the Finance and Accounts wing and obtaining approval of heads of the Secondary Switching Areas in cases with heavy financial implications before issue of demand notes, to safeguard against such lapses in future. These instructions need to be followed scrupulously to avoid recurrence of such lapses.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

2.17 Short recovery of revenue

Incorrect computation of radial distance resulted in short-billing of rental amounting to Rs 33.72 lakh.

Rules as adopted by Bharat Sanchar Nigam Limited (BSNL), provide that advance annual rental has to be charged for leased circuits based on the chargeable distance (CD) which is 1.25 times of the radial distance (RD) between the two points connected and the actual route of the used circuit should be reckoned for computing the distance.

Failure to compute the correct radial distance resulted in short collection of rental of Rs 33.72 lakh

Audit scrutiny of the records of General Manager, Telecom District, Mehsana under the Gujarat Telecom Circle during November 2003 revealed that M/s Arvind Mills were provided a 2 Mega Bits Per Second (Mbps) point-to-point data circuit between Khatrej and Ahmedabad during January 1999. The RD of the main circuit was computed based on the distance between Khatrej and Ahmedabad (RD : 19.5 km i.e. CD : 25 km) instead of the distance between Mehsana and Ahmedabad (RD: 66.25 km i.e. CD : 83 kms) and local lead Mehsana to party premises (Khatrej) (RD: 55.35 km i.e. CD 70 km) and Ahmedabad to party premises (Naroda) (RD: 3.2 km i.e. CD: 4 km) respectively which was the route of the leased circuit as per the slot allocation. Due to this incorrect computation of RD, there was short collection of rental to the tune of Rs 33.72 lakh for the period January 1999 to March 2004.

On this being pointed out by Audit (November 2003), the Ministry stated (October 2004) that supplementary bills for Rs 36.13 lakh were issued in November 2003 and recovery of the outstanding amount was being pursued.

The short billing occurred due to incorrect computation of radial distance by the Commercial Branch on the basis of which the Telephone Revenue Accounts Branch issued the bills. This indicates that there is a need for the Commercial Branch to exercise greater control to ensure that the computation of RD is done correctly in future.

2.18 Recovery at the instance of Audit

Out of Rs 10.01 crore outstanding against the subscribers due to short/non-billing pointed out by Audit, BSNL recovered Rs 9.25 crore.

Test check of records pertaining to 41 Secondary Switching Areas under 12 Telecom circles during the period from January 2001 to May 2004, revealed that an amount of Rs 10.01 crore was short billed mainly due to non-receipt of advice notes in Telecom Revenue Accounts Branch, issue of bills at old/lower tariff, non-revision of rentals on increase in exchange capacity, non-implementation of revised tariff order, incorrect application of tariff and incorrect fixation of rent as brought out in Appendix - 10.

At the instance of Audit, BSNL recovered Rs 9.25 crore outstanding against subscribers

On this being pointed out by Audit, Bharat Sanchar Nigam Limited issued bills for Rs 10.01 crore and recovered Rs 9.25 crore. Recovery particulars of balance amount of Rs 76 lakh were awaited as of November 2004.

This indicates that there is an urgent need to improve upon the existing system of internal control mechanism for monitoring revenue recovery.

The matter was referred to the Ministry in October 2004; its reply was awaited as of November 2004.

CHAPTER III
COMPREHENSIVE PERFORMANCE REVIEWS

Information Technology Audit of DotSoft package of Bharat Sanchar Nigam Limited

Highlights

> - **The integrated package could not eliminate unaddressed bills with the result that bills worth Rs 39 crore were lying in the database in 33 SSAs of eight telecom circles from the year 2000 onwards.**

(Paragraph 3.5.1)

> - **The package did not have checks to ensure whether changes in exchange capacity, tariff and interest rates had been regularly updated. This resulted in short billing of rentals amounting to Rs 42.68 lakh, short billing of installation charges totalling Rs 30.19 lakh and excess payment of interest of Rs 7.55 lakh.**

(Paragraph 3.5.2, 3.5.3 and 3.5.4)

> - **No audit trail was available for cancelled bills.**

(Paragraph 3.5.6)

> - **The package did not have any provision for checking of unbilled trunk call tickets, which resulted in tickets worth Rs 37 lakh lying unbilled in eight telecom circles.**

(Paragraph 3.6.1)

> - **The package did not have any provision for reconciliation of calls metered in the telephone exchanges and actually billed for particular billing cycles, so as to prevent leakage of revenue.**

(Paragraph 3.6.2)

> - **There was no provision in the package for calculation of rent on pro-rata basis.**

(Paragraph 3.6.5)

> - **System resources were not utilised for immediate disconnection of telephone connections in five SSAs under the Gujarat, Karnataka and Orissa Telecom circles which led to accumulation of arrear bills of Rs 1.17 crore.**

(Paragraph 3.7.2)

> - **Sub-ledger accounting was being done manually and the package was not being utilised.**

(Paragraph 3.7.3)

- **No monitoring measures were in place to prevent data manipulation and tampering.**

(Paragraph 3.8.1)

- **The Company did not have any Information Technology security policy or a documented disaster recovery and business continuity plan.**

(Paragraph 3.8.2 and 3.8.3)

3.1 Introduction

The DotSoft package, introduced in September 1998, is an integrated telecom database system comprising modules for commercial services, billing services, accounting services, fault repair services and directory enquiry service. It is designed to make the billing of basic telephony services of BSNL fully computerised.

DotSoft was developed in-house by the Department of Telecommunications (DoT) at the Software Development Centre of the Office of the Chief General Manager, Andhra Pradesh Telecommunications Circle, Hyderabad. It was approved by the Telecommunication Engineering Centre (TEC), New Delhi, for implementation all over India from 1998 onwards. At present, the package is functioning in 76 Secondary Switching Areas (SSAs) under 13 telecom circles out of a total of 332 SSAs in 26 circles of the Company.

The package, which functions in a Client/Server environment, runs on the Oracle Relational Database Management System (RDBMS) and the UNIX and Windows Operating Systems (OS).

3.2 Scope of Audit

The audit of this package was conducted during April 2003 to July 2004 covering the period from September 1998 to July 2004 in 35 SSAs of 10 circles[1]. The main objective of this audit was to examine the effectiveness of the functioning of the package, maintenance of data integrity, incorporation of rules and regulations as per codes and manuals and also to evaluate and test the effectiveness of general IT controls specific to the computerised database system operated by the Company, ensuring non-leakage of revenue.

3.3 Organisational setup

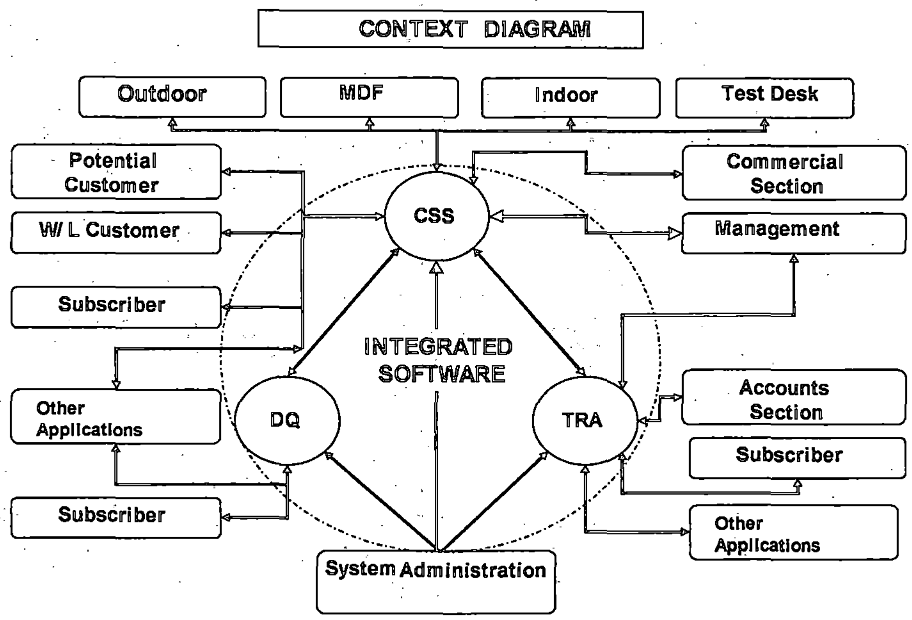
At the apex level, the Director (Finance) is the head under whom the Senior Deputy Director General (TRF) monitors the functioning of the General Managers of the various circles. The Telephone Revenue Billing and

[1] Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Orissa, Punjab, Tamil Nadu, Madhya Pradesh, Uttaranchal and Uttar Pradesh (West) circles.

Accounting (TRBA) wing functions under the heads of SSAs, who function under the heads of the circles, assisted by the General Managers (Finance/Telephone Revenue Accounts).

3.4 Outline of the package

The functioning of the various modules of the package and its integration are as shown below:-



CSS – Commercial Services Section ; DQ – Directory Enquiry ; TRA – Telephone Revenue Accounts
MDF – Main Distribution Frame ; W/L – Wait listed
(The Commercial Services Section interacts with the customer, TRA deals with the billing functions and DQ deals with Directory Enquiry functions of the customer queries. All these are handled by a single package)

The Commercial Services Section of the package interacts with the customers and the subscribers. Once a customer applies for a telephone connection, an Advice Note is issued by the Commercial Section for installation of a new telephone connection after conducting a feasibility study. The Advice Note flows from the Commercial Section to the Outdoor for checking of wires and cables, then to the Main Distribution Frame, Indoor and Test Desk where the line is activated in the telephone exchange. The Commercial Services Section, Directory Enquiry and Telephone Revenue Accounting modules are all inter linked and all activities can be viewed from any terminal. The system administrator is the overall incharge of the computerised system.

During the course of audit (April 2003 to July 2004), a number of deficiencies were observed in the DotSoft package. The principal ones are discussed under the broad categories of billing deficiencies, package related mapping deficiencies, non-utilisation of package facilities and IT security.

3.5 Billing Deficiencies

3.5.1 Deficiencies in handling unaddressed bills

The complete details of each subscriber such as name, address, etc., are there in the Subscriber Record Card (SRC) which is the master data. The bills which remain incomplete due to want of these details, are termed unaddressed bills. These details are entered into the SRC on receipt of the completed Advice Note. An unaddressed bill implies that only call charges are being billed and rentals are not being charged for want of addresses as different rentals are levied for urban/rural subscribers.

In the computerised environment, DotSoft is an integrated package running on a Local Area Network, where the electronic flow of the Advice Notes is controlled by the system itself. The system can track the flow of Advice Notes from the Commercial Office, Outdoor, the Main Distribution Frame, Indoor and the Test Desk, which indicates the different phases that the Advice Note is passing through[2]. Hence the concept of unaddressed bills should not arise, as the complete data pertaining to a subscriber is already available in the system.

Unaddressed bills valuing Rs 39 crore were lying in the system

However, test-check during the period (April 2003 to June 2004) of database of 33 SSAs in eight telecom circles, revealed that unaddressed bills amounting to Rs 39 crore were lying in the system from the year 2000 onwards, as detailed in Appendix-11. Audit also observed that once an addressed bill is generated for a particular telephone number, the package does not have an automatic provision for cancellation of unaddressed bills. This indicated that the Company had so far not formulated any mechanism for monitoring/reviewing the continuation of unaddressed bills for the last four years.

On this being pointed out the Andhra Pradesh, Madhya Pradesh, Tamil Nadu and Uttar Pradesh (West) circles replied (January to June 2004) that unaddressed bills were being generated mainly due to non-cancellation of unaddressed bills after creation of the master data, non-completion of Advice Notes in the package, non-receipt of completed manual Advice Notes in TRA section, data pertaining to the old package lying unmatched and issue of manual Advice Notes.

The replies were not tenable because the package has a procedure for cancellation of unaddressed bills manually once the bills are treated as addressed. The issue of Advice Notes, allocation and completed Advice Notes is on-line, and the data pertaining to each subscriber is available in the system. The migration of data from the old package to the new package should have been carried out to ensure that there were no unaddressed bills.

[2] By using COMIT - Commercial Office (C), Outdoor (O), the Main Distribution Frame (M), Indoor (I) and the Test Desk (T)

3.5.2 Short-billing of rentals due to failure to update database

The package calculates the rental from the data entered into the relevant data tables, i.e., exchange capacity and rental to be charged. The changes in exchange capacity and tariff are fed into these data tables. Rent and installation charges are calculated by the package based on the exchange capacity. Company rules stipulate that rentals for rural exchanges having capacity of less than 1000 lines and of 1000 lines and above are to be charged at Rs 110 and Rs 220 respectively for bi-monthly period with effect from February 2001.

The package did not calculate rent based on increase in exchange capacity due to non-updation of the increase in the system

It was observed in the course of audit that though the exchange capacity had been increased to 1000 lines and above, the package was not calculating rent based on the increased exchange capacity, as the relevant updation pertaining to the exchange capacity had not been carried out. Short-billing could have been avoided had the data on increased capacity been provided by the exchanges. Audit observed (December 2003) that an amount of Rs 40.72 lakh in three SSAs of Andhra Pradesh, Rs 1.12 lakh in one SSA of Uttaranchal and Rs 0.84 lakh in one SSA of Uttar Pradesh (West) Circles, had been short billed.

3.5.3 Installation charges

Company rules provide that installation charges for rural subscribers in respect of new telephone connections, for an exchange having capacity of 500 lines and above were to be charged at Rs 300 upto April 1999 and at Rs 800 from May 1999 onwards. The charges are calculated by the package from the data entered in the relevant tables.

Installation charges were calculated by the package at old rates due to incorrect data fed into the system

Test-check by Audit in four SSAs of the Andhra Pradesh Circle, during the period December 2003 to February 2004, revealed that installation charges at the old tariff of Rs 300 were being collected even after increase in the exchange capacity, resulting in short billing of installation charges to the tune of Rs 30.19 lakh. This was due to incorrect data fed into the system.

On this being pointed out by Audit, the Chief Accounts Officer (CAO)(TRA-I) of Vijayawada SSA, while confirming the fact of short billing, replied (December 2003) that the amount was being recovered.

3.5.4 Excess interest paid on telephone deposits

Subscribers are eligible for interest on Own Your Telephone (OYT) and Non-OYT deposits made by them, at the time of registration of new phone connections. The interest is admissible as per the rate fixed by the State Bank of India, from time to time. The revision of interest rates, needs to be immediately entered into the system, failing which the calculation would be done by the package at the pre-revised rates, which may lead to excess interest to the subscriber.

Interest rates on telephone deposits were not revised periodically in the system

Audit scrutiny (January 2004) revealed that an excess amount of Rs 2.71 lakh and Rs 4.84 lakh towards interest was allowed in the subscriber bills in the Punjab and Orissa Circles during the period September 1995 to July 2004, as the Company failed to update the revised SBI interest rate in the system from time to time.

3.5.5 Discrepancy in Meter Reading

A computerised billing package should have in-built controls to detect any variation in meter-reading of a telephone, when the exchange data in terms of calls made by a subscriber is downloaded. The Closing Meter Reading (CMR) of the previous bill date and the Opening Meter Reading (OMR) of the current bill date of each DEL[3] should be the same, for billing purpose. Any variation on the positive side will lead to loss of revenue.

Test-check by Audit during the period (January 2004 to July 2004) of the billing database of the Gujarat, Karnataka and Uttar Pradesh (West) Circles, revealed that there was a variation between the OMR of the current bill date and the CMR of the previous bill date in 25,706, 151 and 10,156 cases in these circles.

The package lacked input controls for detecting variations in OMR and CMR

This should not occur in a computerised environment, and in case of changes in telephone indicators, the reasons should be available in the database. The package lacked proper input controls for checking any variation in OMR or CMR, while accepting the data for processing of Local Call Charges (LCC).

3.5.6 Cancellation of bills

A computerised billing system, should have proper audit trails of bills generated and cancelled, so that the reasons for cancellation of bills can be easily traced. This is vital to the management for analysis of reasons and also serves as a check against fictitious cancellation. Hence database should have the complete particulars pertaining to authorisation of bills cancelled among other documentation.

No audit trail was available in the system for cancelled bills

On review of cancellation of bills in the database during the month of April 2004, it was noticed that in the Uttar Pradesh (West) Circle, 3,283 bills amounting to Rs 84 lakh for the period April 2003 to September 2003 and in the Rajasthan Circle, 117 bills amounting to Rupees five lakh were found cancelled. Similarly, in Tamil Nadu and Uttaranchal Circles, 15,559 and 31 bills were cancelled. No indication was available in the database as to why these bills were cancelled.

In the Tamil Nadu Circle, it was also observed that almost in every billing cycle from January 2003 to December 2003, between 100 and 500 bills were

[3] DEL – Direct Exchange Line

cancelled after issue. On certain occasions, more than 1000 bills also had been cancelled.

The DotSoft package itself takes care of all commercial activities and there is no manual interface right from registration to issue of bills and therefore the cancellation of bills, after their issue, should not arise. In the Tamil Nadu Circle, analysis revealed that in about 1,400 bills issued in 2003, bills where the difference in old value and new value was greater than Rs 10,000 had been cancelled and no reasons for cancellation were found available in the system. However, the reasons and the records for cancellation which were called for were neither provided nor a reply was given.

3.5.7 Unavailable master data and resultant non-billing

A computerised billing database should have the complete details of a subscriber i.e., name, address, telephone number etc., which is called the master data. The bills are generated and issued on the basis of the available master data.

Non-creation of master data led to Rs 2.40 crore lying unbilled

Audit scrutiny of the database revealed that in one SSA each of the Uttaranchal and Uttar Pradesh (West) Circles an amount of Rs 1.38 crore was lying unbilled for the period September 1997 to July 2004 on account of master data not being created in the system. It was also observed that in the Karnataka Circle (July 2004) an amount of Rs 1.02 crore for the period from October 2000 to November 2002 remained unrealised.

On this being pointed out, the Management replied (July 2004) that the details of the subscribers were not available and efforts were being made to trace the relevant master data. This showed that the data lying in the system was not being reviewed.

3.6 Package-related mapping deficiencies

3.6.1 Non-provision for checking of unbilled trunk call tickets

Trunk call booking is a service extended to subscribers at their request, and the charges thereof are included in the consolidated bills of the subscribers as per the billing schedules. The billable trunk call tickets from the exchanges are received in the Telephone Revenue Accounting (TRA) branch for feeding in the package and inclusion in the periodical bills.

The package did not have provision for valuing trunk call tickets booked from STD PTs

Audit analysis of the database (April 2003 to July 2004) showed that in eight telecom circles, trunk call tickets valuing Rs 37 lakh (Appendix-12) were lying unbilled, due to the trunk calls being booked prior to creation of the master data (details of subscriber not entered in the system) and calls were booked from Public Telephones (PT) having Subscriber Trunk Dialing (STD) facility, though there was no provision in the package to bill these tickets while processing the bills of STD PTs.

In reply, the Deputy General Manager (DGM)(F&A), Andhra Pradesh Circle, stated (February 2004) that the SSAs had already been asked to bill the trunk call tickets after verification and that provision existed in the finalisation module to check the trunk call tickets which were lying unbilled.

The reply of DGM (F&A) is not tenable as the package does not generate any error report for unprocessed trunk call tickets at the time of generating the bills. Though provision was available in the package for checking unbilled trunk call tickets, it was not being utilised and the Company had not taken steps to modify the package for billing of trunk call tickets in respect of STD PTs.

3.6.2 Non-provision for reconciliation

The exchange data which contain the number of calls made by the subscriber, are transferred to the DotSoft package through tapes/cartridges. Once the bills are processed and generated, proper controls should be in place to reconcile the exchange data in terms of number of calls with actual calls that have been billed by the package for a particular billing cycle. During manual billing, reconciliation of the total calls generated from exchanges with the total calls billed was done, along with reconciliation between the actual bills issued (bill register) and charges due to be claimed from the subscriber through documents such as Rent Control Register, Local Call Charges, Trunk Reconciliation Register, Supplementary Bill Register etc.

The package had no provision for reconciliation between metered and billed calls

Test check by Audit (February 2004 to July 2004) revealed that in the Andhra Pradesh, Kerala and Uttar Pradesh (West) circles, no such reconciliation procedure was available in the package. Absence of this reconciliation procedure gives scope for leakage of revenue and further showed that the system had not been properly designed.

While accepting the contention of Audit, the Andhra Pradesh Circle stated (February 2004) that a mediation device would be required to link the system to the switch (exchange), till then, as an interim measure, Accounts Officer (AO) (TR) could obtain bulk meter reading from the exchange and compare it with the reports generated in DotSoft.

The above showed that reliance was being placed on manual intervention and no efforts had been made to rectify this deficiency persisting in the package in order to ensure that revenue leakage possibilities were plugged.

3.6.3 Off-line billing of ISDN/Non-directory items

Non-directory items like Private Wires, Non-Exchange Lines, Circuits, etc., are services provided by the Company to commercial customers. The revenue from these services should also be handled by the package, which will result in its computerised billing and accounting becoming complete in its coverage of subscribers.

The package did not have provision for billing non-directory items

In all the circles, the activities involved in non-directory items were being done manually. On this being pointed out (October 2003), DGM (F&A), Andhra Pradesh Circle replied (February 2004) that inclusion of billing activities pertaining to non-directory items involved extensive software development. The reply shows that computerisation was being done in a piece-meal manner and all the billing activities were not being processed through the package. This defeated the very purpose of having an integrated billing software.

3.6.4 Non-integration of Fault Repair Service and Directory Enquiry modules

Though there was a provision to integrate Fault Repair Service (FRS) in DotSoft system, Audit observed (November 2003 to April 2004) that the same had not been installed in the Tamil Nadu, Rajasthan, Maharashtra and Madhya Pradesh circles. Similarly, Directory Enquiry (DQ) modules were yet to be integrated in the Madhya Pradesh Circle even after one year of operation of DotSoft package.

Fault Repair Service and Directory Enquiry modules were not integrated

The system also did not have a provision to give automatic rebate to the customer in case of faults not being set right within specified time. This defeated the very purpose of an integrated package, and also the Company's objective of establishing a customer-friendly approach.

3.6.5 Lack of provision in the package for calculation of rent on pro-rata basis

Company rules stipulate that free calls are to be provided to a telephone subscriber. These free calls are different for urban subscribers (60 free calls) and for rural subscribers (120 free calls). When a subcriber transfers his telephone connection from an urban area to a rural area or vice-versa, the free calls are to be allowed proportionately.

The package lacked provision for proportionately calculating free calls and rent

It was noticed (October 2003) in the Andhra Pradesh Circle that when a subscriber shifted from an urban area to a rural area, the package was processing the bill for the subscriber as per the status on the date of issue of bill instead of calculating the pro-rata rent, free calls and local call charges applicable from time to time (i.e., splitting the period prior to category change and after change of category). On this being pointed out, while accepting the facts, DGM (F&A), Andhra Pradesh Circle, stated that the modification of the software was in process.

3.7 Non-utilisation of package facilities

3.7.1 Loss of potential revenue due to delay in provision of new phone connections

Advice Note is issued by the Commercial Section for opening a new telephone connection after feasibility studies are conducted. Once an Advice Note is issued, the Company rules state that a telephone connection should be installed within seven days. The rules also stipulate that the Company has to pay interest to subscribers on the deposit made for a new telephone connection till its installation. DotSoft being an integrated package for commercial, engineering and TR billing activities, any delay in the various processing stages of the Advice Note can be tracked online.

The package lacked provision for reconciling Advice Notes issued and received

Audit noticed during the period April 2003 to July 2004 that there was delay ranging from eight to 823 days in 1,09,559 cases (Appendix-13) in eight SSAs in providing new phone connections resulting in potential loss of revenue. The delay was also due to the fact that there was no provision in the package for reconciliation of Advice Notes issued and received. The occurrence of delay reflected non-utilisation of the online tracking aspects available in the package in a Local Area Network (LAN) environment.

3.7.2 Non-utilisation of computerised facilities for disconnection

Company rules provide that a telephone bill should be paid within 15 days from the date of issue of the bill. In case of non-payment, the telephones in respect of individual subscribers are liable to be disconnected on the 40^{th} day.

Non-utilisation of facilities for speedy disconnection led to accumulation of arrears of Rs 1.17 crore

Audit noticed (April 2003 to July 2004) that in three SSAs of the Gujarat Circle, in one SSA of the Karnataka Circle and in one SSA of the Orissa Circle, subscribers continued to avail of telephone facilities despite non-payment of bills ranging from 6 to 24 months (3 to 12 billing cycles), which led to accumulation of arrears of Rs 1.17 crore. Also in respect of Itarsi SSA of the Madhya Pradesh Circle and Davengere SSA of the Karnataka Circle, it was noticed by Audit that there was delay in generation of disconnection list.

The package was setup in a network environment and the disconnection list processed by the package could be viewed online through the computer placed in the exchange (Test Desk). Hence there should not have been any delay in disconnection, which showed that the computerised facilities available were not being utilised.

3.7.3 Sub-ledger (accounting function) not being utilised

A Sub-ledger account is a progressive account and shows the outstanding amounts brought forward, the amounts billed during the month, the amounts recovered, cancelled, written off, etc. during the month and the balances carried over. Separate sub-ledger accounts are to be prepared in respect of Telephone Charges and Deposits. The package processes the sub-ledger on the basis of the data available i.e., bills issued, bills received, outstanding list, etc., in the system. The sub-ledger module performs the accounting functions of the various activities processed by the package and as such it should not be amenable to manual intervention. Such intervention would have adverse implications on the integrity of the package.

Sub-ledger accounting facilities available in the package were not utilised

Audit noticed (June 2003 to July 2004) that in Gujarat, Orissa, Madhya Pradesh and Uttaranchal circles, the sub-ledger accounting was being done manually and the system facilities were not being fully utilised. In the Maharashtra Circle, though the system facility was being utilised, there was discrepancy between the ledger figure and the outstanding list.

On this being pointed out, the CAO (Telephone Revenue), Madhya Pradesh Circle, replied (January 2004) that the manual processing of the sub-ledger could be avoided only after upgradation of the DotSoft versions, which was not possible on account of the huge investment required in upgrading to higher versions of OS and Oracle RDBMS. The AO (TR) of the Maharashtra Circle stated (June 2003) that the matter had already been brought to the notice of the Software Development Centre at Hyderabad.

The replies were not tenable as sub-ledger processing is an integral part of the package, and it does not depend on the version. This is further testified by the fact that the sub-ledger facility was being utilised by the Maharashtra Circle. Manual sub-ledger accounting only showed that the objectives of computerisation had not been met.

3.7.4 Discrepancies in MIS and actual DELs billed

In every SSA, exchange-wise monthly Management Information System (MIS) statements in respect of equipped capacity and working lines are prepared. Bills are generated through the package for the working lines. As such, there should not be any difference between the MIS data on working lines and working lines for which bills are generated through the package. Otherwise, it would give scope for leakage of revenue.

Differences existed between MIS data and database data

Audit scrutiny (April 2003 to July 2004) of the billing database in five telecom circles revealed that there was a difference of 45,119 DELs (Appendix-14) in a bi-monthly billing period between the number of working lines as per MIS and number of DELs billed as per the DotSoft package. This indicated that all the billing particulars were not available in the package and the data available in the system were not being regularly reconciled with the MIS statement.

3.8 Information Technology Security related issues

3.8.1 Lack of system integrity permitted data manipulation and tampering

Computerised system should have a provision for exercising complete control over the activities pertaining to the data to be entered, how it is to be fed, where it should be stored etc., as the package would be relying on the data for starting its processing and billing activities. RDBMS environment has the tools to monitor all the activities of the various users. These activities are recorded in the system log files.

Changing of data downloaded from exchanges indicated lack of system security measures

In the DotSoft package, the data from exchanges are downloaded into the relevant data tables through tapes/cartridges. Audit scrutiny (April 2004) of the database in Orissa and Rajasthan Circles revealed that when the data from the exchanges were transferred to the billing package, the exchange data were being reconfigured[4] in respect of unaddressed bills. Consequently, the bills could not be generated for subscribers/telephone numbers whose data had been reconfigured.

In the Orissa Circle, it was also observed that the reconfigured data[5] of unaddressed bills were worth Rs 7.86 crore, which the package could not process. This showed that there was no monitoring mechanism to review the system log files, the number of tables created and the activities of the System Administrator to ensure system integrity.

3.8.2 No Information Technology security policy

BSNL did not have any Information Technology security policy

It is imperative that an organisation which uses Information Technology (IT) tools on a large scale, should establish an IT security policy which is normally expressed in the form of a concise narrative. This would contain a definition of general and specific responsibilities for all aspects of information security and an explanation of the process for reporting suspected security incidents. There should be a monitoring mechanism for compliance with the policy and also to ensure that the policy remains uptodate, keeping pace with the latest developments. Security policy should be made available to all employees responsible for information security, as the Company has a huge database with commercial value which is accessed in a LAN environment. It was, however, noticed that the Company had not framed any IT security policy.

[4] The data were downloaded from the exchanges into the main tables. These tables were directly accessed and data pertaining to unaddressed bills were transferred to duplicate/dummy tables created in the system.

[5] Dummy table.

3.8.3 Lack of adequate disaster recovery and business continuity plan

BSNL had no documented disaster recovery and business continuity plan

BSNL is dependent on its computerised billing package for accounting, billing and realisation of revenue dues against services rendered by it to the customers. The computerised system is the backbone of its revenue stream and a critical tool that works along with its internal controls. This has a major impact on the Company's operations viz., capacity utilisation, resources allocation, provision of services, customer care, realisation of revenue and correct accounting thereof. In the event of human error, failure on account of electric and magnetic fluctuations, natural calamities or the computerised system crashing, all its activities would be affected, which would have adverse impact on a key aspect of the Company's business process.

Audit observed (April 2003 to July 2004) that the Company did not have a documented disaster recovery and business continuity plan which would ensure that its activities are carried on without any delays and business processes are not affected in the event of occurrences like natural calamities, etc.

3.8.4 Inadequate password access controls

As per the internationally accepted standards and also as per the computer security guidelines issued by the Government of India, it is imperative to build adequate controls in any IT system. Computer password, which is a key ingredient of such controls, should be alphanumeric with at least eight characters in length. Normally the system should also have a limitation on multiple sign-ons, and there must be password-protected screen-savers for control of unattended terminals.

The package accepted passwords not in conformity with required standards

It was observed in Audit (July 2003) that the access controls in DotSoft application were inadequate, exposing the system to serious risks. There was no clearly defined policy available with the SSAs regarding monitoring of access by different users, change in passwords, password length etc. Some of the short-comings noticed were: the system was accepting even single character passwords, the passwords were not changed since their creation, the user-ids and passwords were not changed even after transfer of personnel, there was no limitation on multiple sign-ons and there were no password protected screen savers for control of unattended terminals. All of this resulted in scope for unauthorised manipulation of data and adverse revenue implication for the Company.

The matter was referred to the Ministry in September 2004; its reply was awaited as of November 2004.

3.9 Conclusion

Audit of the DotSoft package revealed that all the activities of the integrated package were not being used/implemented. There was no review mechanism to monitor the functioning of the package. Deficiencies existed in the package, such as non-billing, short-billing, non-reconciliation, non-working of various modules, gaps in coverage of all subscribers etc. These facts indicated that the objectives of computerisation had not been fully achieved.

3.10 Recommendations

- In order to improve BSNL's billing process, the DotSoft package should be redesigned to take care of un-addressed bills, ensure regular updation of data in tables in respect of tariff changes, address the issues of discrepancies in meter reading, etc. The package should ensure that proper audit trails are created by the system to ensure that changes are duly recorded and authorised.

- The package needs to address issues of non-reconciliation since it has revenue implications for BSNL. Accordingly the package should be redesigned to reconcile calls downloaded from exchange and billed. It should also generate all MIS reports so that reliance on manual methods is avoided.

- There should be a mechanism to control and monitor the activities of Data Base Administrator. Internal systems audit should be carried out regularly, in order to ensure that confidentiality and integrity aspects of the IT system are not put to risk.

- Proper disaster recovery and business continuity plan and an IT Security policy should be framed and made available to all the SSAs and staff.

CHAPTER IV
MAJOR FINDINGS IN TRANSACTION AUDIT

(A) Loss/over payment/short recovery/other recoveries at the instance of Audit

4.1 Excess payment of customs duty

BSNL failed to consider the reduction in customs duty while finalising a WLL tender resulting in excess payment of customs duty of Rs 16.29 crore.

BSNL placed purchase orders for 500.35 k lines of WLL equipment between December 2002 and January 2003

Bharat Sanchar Nigam Limited (BSNL) floated a tender in May 2002 for procurement of 3.5 lakh line Wireless in Local Loop (WLL) CDMA equipment with V 5.2 connectivity. The tender was opened on 1 August 2002 and purchase orders were placed on M/s United Telecom Limited (UTL) and M/s Advance Radio Masts (ARM) (now ICCOM) between December 2002 and January 2003 for 245.35 k[1] lines and 105 k lines respectively. In addition, purchase orders for 150 k lines were placed on M/s Indian Telephone Industries (ITI) under reservation quota.

The Company failed to take into account the reduction in customs duty

Audit scrutiny of the tender revealed that two major items i.e., Base Station Controller (BSC) and Base Transreceiver Station (BTS) forming part of WLL equipment contained an import content and the lowest quote of M/s UTL had 87 *per cent* import content in the above two items. M/s UTL had shown customs duty as 39 *per cent* in its bid. The rate of customs duty on BSC and BTS was reduced from 39 *per cent* to 21.8 *per cent* from 1 April 2002 for the year 2002-03. Audit observed that the Committee for evaluation of tender (CET) failed to take cognizance of the reduction in customs duty from 39 *per cent* to 21.8 *per cent* while evaluating the tender and submitted its report recommending the lowest itemised prices of BSC and BTS as quoted by M/s UTL. The proposal was also seen by the Material Management (MM) Cell of the Company in October 2002 and approved by the Management in November 2002. This was done despite the fact that for another tender of WLL expansion equipment opened in May 2002, the MM cell, just two months earlier in August 2002, had considered the reduction in customs duty for the year 2002-03 and finalised the prices.

Excess payment of Rs 16.29 crore was made to suppliers

Thus failure of CET and Management to apply reduced customs duty while finalising the itemised prices of WLL equipment resulted in excess payment of Rs 16.29 crore as shown in Appendix 15. Out of this, Rs 3.39 crore was for the supply of equipment received after the scheduled delivery period as shown in Appendix 16.

[1] k = 1000 lines

On this being pointed out, the Management in their interim reply, stated that (i) the CET had decided the ranking based on the composite prices in the bids of the vendors, (ii) the prices approved by BSNL vide clause 9.6 under section II of bid document would be inclusive of levies and taxes, packing, insurance, freight etc. The details of levies and taxes provided under clause 9.2 was for information of the purchaser (i.e., BSNL) and any change in these would have no effect on the price during the scheduled period of delivery. Owing to these reasons the CET recommended the prices without considering the 39 *per cent* customs duty quoted by M/s UTL. However, the information was used to get price advantage, if any, during the extended delivery period and (iii) M/s ICOMM had supplied the material in extended delivery period and excess payment, if any, made to them could be considered for recovery.

The Management has partially agreed to the audit contention and agreed to recover any excess payment arising out of supplies made during extended delivery period. But the Management's contention of ignoring the downward revision in customs duty as per provisions of bid document at the time of finalisation of prices is not tenable as the relevant provisions do not prohibit BSNL from taking cognizance of reduction in the rates of levies and taxes before finalisation of tenders. Clause 9.6 of the bid document provides that once BSNL approves the price inclusive of levies and taxes, any change in levies and taxes would not have effect on price during the scheduled delivery period. Audit has pointed out that BSNL failed to consider the reduced rate of customs duty at the time of finalisation of price and not after the prices were approved. Hence quoting of clause 9.6 by the Management as a reason for failure to consider reduced customs duty is not relevant. Also BSNL, in a similar tender finalised during the same period, gave due consideration to reduction in the rates of customs duty by reducing the prices. Hence, failure of the Company to consider the reduced rates of customs duty led to excess payment of Rs 16.29 crore.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.2 Negligence leading to loss in fire

Chief General Manager Telecommunications, Bihar Circle, circulated the instructions of the Department of Telecommunications regarding precautions/preventive measures to be taken against fire incidents, after a delay of five years. Failure to take necessary precautions resulted in loss of Rs 2.12 crore.

DoT issued instructions on preventive measures to be taken against fire in telephone exchanges

The Department of Telecommunications (DoT) issued detailed instructions to all heads of telecom circles (March 1998) on precautions/preventive measures to be taken against fire incidents in telephone exchange buildings. Taking a serious note of non-compliance of these instructions, BSNL reiterated (September 2001) the aforesaid instructions for strict adherence. The instructions mainly emphasised proper maintenance of fire fighting devices by BSNL's Electrical Wing that was to work in tandem with the exchange authorities. The instructions, *inter alia*, stated that (i) power cables, both AC and DC, intersuit wiring and subscriber cables should be laid separately, (ii) fire barriers should be provided at all floor/wall crossings of all cables and (iii) hazardous materials such as old files, wooden cases etc., should not be dumped near the exchange building. DoT also issued (September 2000) instructions to circles to get proper insurance cover for their assets.

CGMT, Bihar Circle circulated the instructions after a delay of five years

Audit scrutiny of records during November/December 2003 revealed that the instructions of March 1998 were circulated (March 2003) by the Chief General Manager Telecommunications (CGMT), Bihar Circle, to his staff after a delay of five years. The Electrical Wing of the circle did not take up the maintenance of the automatic fire detection and alarm system as well as fire extinguishers on different floors of the exchange building although these systems were installed between December 2000 and October 2001. Fire drills were not conducted at regular intervals and Assistant Engineer (AE) Electrical did not furnish the required certificate in this respect. No round the clock watch and ward was provided in Electronic Wheeler System of Digital Trunk Automatic Exchange (EWSD TAX) and guarding was provided from 6 am to 9 pm only. AE, Electrical intimated (December 2003) to Audit that preventive measures against fire accidents were not taken up as the instructions in this regard had not been received.

Fire broke out in the main telephone exchange at Darbhanga and equipment worth Rs 2.12 crore was burnt

A fire broke out in the main telephone exchange at Darbhanga on the night of 29/30 November 2003 and the 8.5K EWSD TAX equipment, along with accessories valuing Rs 2.12 crore, was burnt. The report given by the Committee enquiring into the fire accident revealed serious lapses and violation of instructions like dumping of inflammable material like old files, wooden cases etc., in the store shed just beside the battery room, cables hanging from ceiling to floor near the window in the battery room, the power cable and the subscriber cable being laid through the same hole in the battery room and the automatic fire and smoke detection system not being in working condition. Had the DoT's instructions on fire safety measures been circulated in time and preventive measures taken, the loss could have been avoided/minimised. Moreover, in the absence of insurance cover of the exchange building, the possibility of making good the loss was also ruled out.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.3 Non recovery of Sales Tax

Failure of tax deducting authorities in six Telecom Districts in the Orissa Circle to follow statutory provisions of the Orissa Sales Tax Act led to non-recovery of Sales Tax to the tune of Rs 50.97 lakh, besides inviting the risk of imposition of penalty to the tune of Rs 1.02 crore.

Orissa Sales Tax Act 1947 stipulates deduction of 4 *per cent* Sales Tax at source from a contractor where the value of a works contract exceeds Rupees one lakh

The Act also provides for imposition of penalty in the case of non-recovery of Sales Tax

The Orissa Sales Tax Act, 1947 provides for deduction of 4 *per cent* Sales Tax at source from a contractor where the value of a works contract exceeds Rupees one lakh. It further stipulates that with respect to any works contract involving both transfer of property in goods and labour or services, if the Commissioner is satisfied about justification of deduction of tax on a part of the sum, or no deduction of tax, he shall grant a certificate as may be appropriate. The deducting authority shall either make deduction or no deduction of tax, as the case may be according to that certificate. It will be the responsibility of the contractor to apply and obtain such a certificate from the Sales Tax Authority (STA) and produce the same before the tax deducting authority for claiming the justified amount of deduction. The Act also provides for imposition of penalty not exceeding twice the amount required to be deducted in the case of non-recovery of Sales Tax.

In six Telecom Districts under the Orissa Circle, deducting authorities did not deduct Sales Tax of Rs 50.97 lakh on the value of works contracts exceeding Rupees one lakh in 89 cases

BSNL was liable for penalty of Rs 1.02 crore

Audit scrutiny (September 2002 to June 2003) in six Telecom Districts under the Orissa Circle viz., Baripada, Balasore, Berhampur, Koraput, Bolangir and Phulbani revealed that the tax deducting authorities did not deduct Sales Tax amounting to Rs 50.97 lakh in 89 cases during the period 2001-03, on the value of the works contract (estimates/work orders/bills) exceeding Rupees one lakh. Certificates, from the STA had also not been produced by the contractors for not deducting the Sales Tax. Consequently, the Company would also be liable to pay penalty upto Rs 1.02 crore to the State authorities for violation of the Sales Tax Act.

On this being pointed out by Audit, five Telecom Districts replied (September 2002 to June 2003) that ST had been recovered wherever the work orders exceeded Rupees one lakh. The reply is not tenable as the works contract estimates/work orders/bills exceeding Rupees one lakh, were split up into number of bills with a view to restricting the amount to less than Rupees one lakh. The General Manager, Telecom District, Berhampur, contended (June 2003) that cable laying work did not involve transfer of property in goods. The reply is not tenable because (i) Sales Tax is leviable on the value of the works contracts and (ii) cable laying works come under the purview of works contracts, as opined by the Commercial Tax authorities of the State of Orissa.

The matter was referred to the Ministry in June 2004; its reply was awaited as of November 2004.

4.4 Non-recovery of compensation for damage to underground cables

Failure of four SSAs in the West Bengal and Uttar Pradesh Telecom circles to issue demand notes for carrying out repair work estimated at Rs 1.10 crore resulted in non-recovery of compensation for damage caused to underground cables by outside agencies.

Rules, as adopted by BSNL, provide that when any of its property is damaged by an outside agency compensation should be claimed from the party concerned. Further, the compensation claim should be levied as per the provisions, taking into account the actual cash outlay and value of stores utilised in repairing the damage, along with overheads.

Mention was made in para 18 of Audit Report No. 6 of 2002 of the Comptroller and Auditor General of India (Union Government) Posts and Telecommunications for the year ended 31 March 2001 regarding non-recovery of compensation of Rs 55.17 lakh for damage caused to departmental property. The Ministry in its Action Taken Note stated that the compensation recoverable was Rs 7.84 lakh and the same was yet to be recovered. The difference in the figures was stated to be due to wrong bookings which were subsequently reconciled.

Management did not prefer recovery claims of Rs 1.10 crore on agencies responsible for damaging cables

Audit scrutiny (December 2002 to November 2003) in four SSAs in West Bengal and Uttar Pradesh Circles revealed cases of damage to underground cables by local agencies and optical fibre cable contractors on 14 occasions during 2001-02. Subsequently, the Management replaced the damaged cables at their own expense by sanctioning estimates for Rs 1.10 crore but the claim for recovery of compensation was not preferred on the agencies concerned.

On this being pointed out, the Management (December 2002 – November 2003) agreed to issue demand notes for recovery.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.5 Excess payment to supplier

Chief General Manager, Southern Telecom Project, Chennai failed to restrict payment to a supplier to 90 *per cent* of the provisional price of the purchase order and released 100 *per cent* payment pending finalisation of the price. This resulted in excess payment of Rs 66.40 lakh to the supplier.

BSNL placed a purchase order in March 2001 for supply of DWDM and OLA

Bharat Sanchar Nigam Limited (BSNL) placed a purchase order in March 2001 on M/s Siemens Public Communications Network Limited, Gurgaon for the supply of Dense Wavelength Multiplexing Terminal Equipment (DWDM) and Optical Line Amplifiers (OLA) with spares. The provisional value of equipment under the purchase order was Rs 7.40 crore. This was to be finalised after taking into consideration the duties/taxes for the budget year 2001-02.

The supplier failed to supply the equipment within the original delivery schedule of six months of placement of purchase order. BSNL, in January 2002, agreed to extend the delivery schedule upto 28 March 2002 subject to the following conditions:

The delivery period was extended with LD and 90 *per cent* payment

- extension of delivery period would be with levy of liquidated damage (LD) charges as per tender conditions;
- the supplies made during the extended delivery period would be paid for at 90 *per cent* of the provisional prices as indicated in the purchase order. These would be finalised based on the purchase order price with budgetary reduction and/or approved prices in the new tender opened on 19 July 2001, whichever were lower;
- all other terms and conditions of the purchase order would remain unaltered.

The supplies were completed in the last week of March 2002 and a payment of Rs 6.52 crore was released to the supplier in May 2002.

BSNL after finalising the prices in September 2003 and fixing the value of equipment under the purchase order at Rs 6.66 crore asked the heads of the circles to recover excess payment made, if any, from the supplier.

Audit scrutiny of the records of Chief General Manager (CGM), Southern Telecom Project (STP), Chennai during October/November 2003, revealed that:

BSNL made 100 per cent payment leading to excess payment of Rs 66.40 lakh, besides loss of interest

- in spite of BSNL's directions of January 2002, CGM made payment of Rs 6.52 crore to the supplier (May 2002) at 100 *per cent* of the provisional price of the purchase order placed in March 2001, instead of 90 *per cent* after adjustment of 12 *per cent* LD charges amounting to Rs 88.84 lakh;
- as per the rate finalised by BSNL in September 2003, the payment due to the supplier was only Rs 5.86 crore. This resulted in excess payment of Rs 66.40 lakh besides loss of interest thereon of Rs 6.74 lakh.

The excess payment was recovered at the instance of Audit

The Management, while confirming the facts and figures, stated (October 2004) that 100 *per cent* payment of the provisional bill was made by oversight and the excess payment had been recovered. The recovery was made at the instance of Audit. It was further stated that the interest would be recovered from the 5 *per cent* payment still due to the supplier.

The matter was referred to the Ministry in May 2004; its reply was awaited as of November 2004.

(B) Infructuous expenditure

4.6 Irregularities in the execution of cable duct works

Violation of instructions in the execution of cable duct works by the General Manager Telecom, Aligarh Secondary Switching Area under the Uttar Pradesh (West) Circle led to unauthorised expenditure of Rs 3.60 crore, besides blocking of funds of Rs 1.27 crore due to idling of four duct routes.

The Chief General Manager Telecommunications (CGMT), Uttar Pradesh (West) Circle prescribed in August 1999 for the year 1999-2000, targets for duct construction in Secondary Switching Areas (SSAs) falling under his jurisdiction. The target for Aligarh SSA was fixed as 3.20 km. Subsequently it was decided that duct work of 4.60 km for which work was in progress should be completed. On being brought to the notice of the CGMT by the Civil wing that work was allotted to them by the SSA head without his approval, the CGMT issued specific instructions to GMT, Aligarh and Ghaziabad in January 2001 that no duct work should be undertaken without his approval. This included duct works in Hathras.

GMT, Aligarh sanctioned 15 duct routes of 16.15 km in violation of instructions

Test check of the records of General Manager Telecom (GMT), Aligarh SSA, during May 2002 and May 2003, revealed that the GMT sanctioned a project estimate for Rs 4.17 crore (November 2000) for the construction of 10.95 km cement concrete cable duct on 10 routes in Aligarh city and another project estimate for Rs 1.64 crore (December 2000) for construction of 5.20 km of similar work on five routes in Hathras.

Unauthorised construction led to irregular expenditure of Rs 3.60 crore

The construction of 6.35 km* cable duct work in the case of Aligarh city at a cost of Rs 2.25 crore and 5.20 km in Hathras at a cost of Rs 1.35 crore was therefore in contravention of the instructions of CGMT leading to unauthorised expenditure of Rs 3.60 crore.

Rupees 1.27 crore were blocked due to idling of four duct routes

Further, out of 15 duct routes, four routes handed over to project authorities between March and September 2002 were lying idle as of May 2004. This resulted in blocking of funds of Rs 1.27 crore.

The GMT stated (May 2002) that the cable ducts were essential for laying of underground cables immediately for achievement of DELs. The cable duct routes were being used for laying of cable as per the necessity of cable for different areas. He further stated (May 2004) that cable would be pulled as per availability of cable on the remaining four routes.

The reply is not acceptable as this does not explain the violation of instructions issued by the CGMT. This rendered the expenditure of Rs 3.60 crore incurred on cable ducting irregular and unauthorised.

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* The difference between the authorisation of 4.60 km and what was actually undertaken viz., 10.95 km

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.7 Unfruitful expenditure

Chief General Manager, Telecommunications, Rajasthan Circle, failed to indicate the locational utility (rural/urban) in the requisition for supply of Switch Mode Power Supply power plants, leading to unfruitful expenditure of Rs 1.52 crore.

The Telecommunication Engineering Centre (TEC), New Delhi, specified (February 2001) the input voltage range for Generic Requirement (GR) for Switch Mode Power Supply (SMPS) power plants for rural and urban application as below:

	Rural application	Urban application
Single phase (Nominal 230V)	150V to 275V	165V to 260V
Three phase/4 wire (Nominal 400 V)	320V to 480V	340V to 440V

CGMTS Kolkata allotted 86 power plants to the Rajasthan Circle

The Chief General Manager, Telecom Stores (CGMTS) Kolkata placed purchase orders in November 2002 on M/s Infinity EV Motors Private Limited, Hyderabad, for supply of SMPS power plants of different types. The CGMTS, allotted 60 power plants of (3+1) x 100 A with u/c 600 A at Rs 1,76,580 per unit based on the requirement of Rajasthan circle. The supplies were received between December 2002 and January 2003. The CGMTS, Kolkata, issued additional purchase order for 26 power plants in March 2003 based on the Circle's requirement on the same vendor for the same type. The supplies against additional order were received in April 2003.

All the plants failed to work due to non-conformity with AC input specifications

CGMT Rajasthan failed to indicate the nature of application (rural or urban) resulting in unfruitful expenditure of Rs 1.52 crore

Audit scrutiny of records of CGMTS, Kolkata, (May 2004) revealed that all the 86 power plants which were mostly used for commissioning in rural areas failed to work since these power plants could work only in the AC input voltage range 340V to 440V. As most of the Single Base Modules (SBMs)/0.5K Remote Switching Units (RSUs) were installed in rural areas, these power plants could operate in the input voltage range 320V to 480V applicable for rural areas. It was further noticed that as per GR the systems using basic modules of rating upto 50 A were envisaged for rural application and systems using basic modules of rating 50A, 100A and 200A were envisaged for urban application. But while placing requirement (September 2002 and February 2003) CGMT, Rajasthan Circle, failed to indicate the nature of application (rural or urban) of power plants. Thus due to non conformity with the AC input specifications the power plants could not be put to use in the Rajasthan Circle where the AC supply voltage goes beyond 440V and upto 480V. This resulted in unfruitful expenditure of Rs 1.52 crore.

Rajasthan Circle requested the vendor in October 2003 to replace or modify the AC supply voltage to suit rural areas i.e., input range 320V to 480V so that the power plants could be utilised in rural areas. The vendor replied that power plants were in conformity with TEC specification and the systems using basic modules of rating 100A were envisaged for urban application. Quality Assurance, BSNL, Hyderabad, also tested and cleared for urban application only.

Thus failure of CGMT, Rajasthan Circle, to indicate the nature of application (rural or urban) in the requisition for power plants resulted in unfruitful expenditure of Rs 1.52 crore on procurement of power plants.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.8 Irregular expenditure and payment of penalty due to delay

General Manager Telecom District, Ghaziabad, under the Uttar Pradesh (West) Circle incurred irregular expenditure of Rs 51.84 lakh during 1996-2003 on unauthorised construction. He also failed to construct the administrative building on it within the stipulated period of two years from the date of allotment leading to a penalty of Rs 32.19 lakh imposed by the Authority.

Rules provide that the commencement of construction work should be started only after getting the land registered in the name of the Company and receipt of approval to the building plan from the local authorities.

GDA allotted a plot to GMTD Ghaziabad for a telephone exchange

Ghaziabad Development Authority (GDA) allotted (August 1988) a plot of land measuring 4052.22 sq.m. at a cost of Rs 21.17 lakh to the General Manager, Telecom District (GMTD), Ghaziabad for construction of telephone exchange building with the condition that the construction work should be completed within two years from the date of allotment after getting the drawings/building plan approved by GDA. The GMTD made the payment in January 1989 and took possession of the land in March 1990.

GMTD failed to get the land registered in the name of the Company

Audit scrutiny (November/December 2003) revealed that the GMTD failed to take action to get the land registered in the name of the Company, which was a pre-requisite for getting approval of drawings from the local authorities and to complete the construction of the building within the stipulated period of two years.

Delay in submission of drawings to GDA led to levy of penalty of Rs 32.19 lakh

The GMTD took more than six years for finalising the schedule of accommodation (SOA) for construction of an administrative building which was approved by the DoT in May 1997 although originally a telephone exchange was planned. He submitted (September 1999) the architectural drawings to GDA for clearance after delay of more than two years of approval of SOA. But, the GDA rejected (February 2000) the drawings due to non-compliance of its requirements intimated to GMTD in December 1999 and levied a penalty of Rs 27.51 lakh for the period August 1990 to April 2002 due to non construction of building within the stipulated period of two years. Upto April 2004 the total amount of penalty worked out to Rs 32.19 lakh.

The approval of drawings was still awaited (July 2004) due to non-payment of penalty and non-registration of land in the name of the Company.

GMTD incurred unauthorised expenditure of Rs 51.84 lakh on construction of exchange building, staff quarters and other structures

Meanwhile, however, the GMTD unauthorisedly constructed a building for installation of 3K Remote Switching Unit exchange, staff quarters and other civil structures such as conference hall, store shed and DOTSOFT customer service centre between 1995-96 and 2003-04 at a total cost of Rs 51.84 lakh though the schedule of accommodation approved by DoT in May 1997 was for administrative building and its drawings awaited the approval of GDA. Thus the entire expenditure of Rs 51.84 lakh, incurred on construction of civil structures in violation of rules and contrary to approved SOA was irregular.

The Management stated in April 2004 that the proposal for payment of levy imposed by GDA amounting to Rs 32.19 lakh was under active consideration for which the necessary formalities such as allotment of funds/financial approval were being completed. They added that after making the payment of penalty the land would be registered in the name of BSNL. Only then the drawings would be approved by GDA. Further, the Assistant General Manager (SP) stated (July 2004) that the construction was started as there was immediate requirement of building for telephone exchange.

Thus the failure of the Management to get the land registered in the name of the Company even after a lapse of about 16 years of allotment and to commence the construction work after getting the drawings approved by GDA within two years from the date of allotment of land led to levy of penalty amounting to Rs 32.19 lakh. The penalty of Rs 32.19 lakh would further increase till the construction is authorised. Further, the entire expenditure of Rs 51.84 lakh incurred on construction of civil structures in violation of rules was irregular. The Company should ascertain the reasons for non-registration of the land and fix responsibility for the construction of the unauthorised structures.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

(C) Idle/Unproductive expenditure

4.9 Idling of Digital Loop Carrier equipment

Chief General Managers, Tamil Nadu and Himachal Pradesh Circles procured Digital Loop Carrier systems without assessing the actual requirement. This led to idling of equipment worth Rs 19.26 crore.

Digital Loop Carrier (DLC) on optical fibre is a system used in access network to provide reliable and latest type of services to the customers. This is also economical as compared to conventional cable.

BSNL placed purchase orders on four firms for procurement of 500 DLC systems

Bharat Sanchar Nigam Limited (BSNL) placed purchase orders on four firms between June 2001 and August 2002 for procurement of 500 DLC systems to meet the requirement of various circles for the years 2001-02 and 2002-03. BSNL allotted 44 systems to Chief General Manager Telecom (CGMT), Tamil Nadu Circle, against his requirement for 2001-02. The systems were received in Tamil Nadu Circle between March 2002 and March 2003. CGMT, Himachal Pradesh Circle, received two systems in January 2003.

Test-check of records between June and December 2003 in Salem, Tuticorin and Pondicherry Secondary Switching Areas (SSAs) under the Tamil Nadu Circle revealed that CGMT allotted 13 DLC systems to these SSAs without ascertaining their actual requirement. No indent had been placed by these SSAs and there was no demand for new connections. Out of the 13 systems, six were installed and seven were lying unutilised since their receipt (September 2002/January 2003) out of which four were in Salem SSA where chances of their utilisation were remote, considering the availability of spare capacity in all the exchanges and the absence of demand for new connections.

Further review of records of CGMT, Tamil Nadu Circle, to ascertain the utilisation of the systems in the Circle as a whole revealed that in all 29 systems were lying idle in the Circle. The CGMT (May 2003) proposed diversion of the systems to Corporate Office on the ground that the deployment of DLC systems was not financially viable in the Circle as (i) in most of the areas, the demand was scattered and there would not be much savings from the cable component and (ii) most of the skipped-over connections and pending waiting lists were being cleared by deploying Wireless in Local Loop (WLL) technology.

Audit scrutiny (January – March 2004) of records of Solan and Mandi SSAs under Himachal Pradesh Circle revealed that in the Solan SSA the systems were not installed as these were not found technically suitable for 'ring deployment'. The systems were diverted (May 2003) to Mandi SSA where they could not be installed due to coverage of the proposed area through WLL technology and were lying in store (January 2004).

31 DLC Systems worth Rs 19.26 crore were lying unutilised due to procurement without assessing the requirement

Thus, the procurement and allotment of DLC systems without assessing the actual requirement and technical suitability at the places of installation resulted in idling of 31 DLC systems worth Rs 19.26 crore with remote prospects of future utilisation because of fast changing technology.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.10 Injudicious procurement

Chief General Manager, Telecom, Maharashtra Circle injudiciously procured galvanised tapered steel tubes in excess of the actual requirement leading to blocking of funds of Rs 15.22 crore.

The Department of Telecommunications (DoT) decided in April/July 2000 to lay 5 pair cable since it was more economical than erecting a new alignment for giving new telephone connections (NTC) and instructed the circles not to procure overhead material to the full extent as per norms.

Guidelines stipulated disciplined procurement and expeditious utilisation of material

Guidelines on decentralised procurement stipulate that circles should ensure proper and expeditious utilisation of the material ordered by them and that they should also exercise utmost discipline in their procurement to ensure that there was no unnecessary piling up of inventory.

CGMT invited tenders for galvanised tapered steel tubes

The prices finalised were 30 to 36 *per cent* higher than the prices of 1999-2000

The Chief General Manager, Telecom, Maharashtra Circle, invited tender (March 2000) for procurement of galvanised tapered steel tubes required for erecting poles in order to provide NTCs for the year 2000-01. Out of 61 bidders who participated, 60 bidders had quoted the same price and one bid was cancelled for want of validity. As the prices offered by the bidders were much higher than the prices of tubes procured during the previous year (1999-2000), the Stores Purchase Committee (SPC), after negotiating with the bidders, finalised the price at 30 to 36 *per cent* higher than the prices of 1999-2000. The SPC did not consider the option of re-tendering as it felt that the target of provisioning of NTCs would be affected and it was unlikely to receive lower prices. Purchase orders were placed on 55 bidders and the total quantity to be procured was evenly distributed among them.

While finalising the tender, CGMT had a stock equal to 3 to 11 months' consumption

Audit scrutiny (March 2003) revealed that the CGMT, at the time of finalisation of tender, had a stock balance of A8/B8 types of tubes equal to three month's consumption and of C8 type equal to 11 months' consumption based on average monthly consumption of previous year. As the prices quoted by all the 60 bidders were the same and were higher than the prices of previous year by 30 to 36 *per cent* even after negotiation, the CGMT could have gone for re-tendering for competitive rate thereby breaking the possibility of cartel.

CGMT utilised only 55 to 58 *per cent* of the stock during 2000-01. C 8 tubes were not utilised

The CGMT could utilise only 55 to 58 *per cent* of the stock of A8/B8 tubes available during the year 2000-01 including the quantities procured during 2000-01. The C8 tubes procured were not at all utilised as the previous stock was more than sufficient to meet the requirement. Despite this, the CGMT procured nearly the full quantity (84 to 92 *per cent*) as per norm ignoring the instructions of April/July 2000 not to procure overhead material to the full extent as per norm.

Thus, the failure of the CGMT to assess the actual requirement as per instructions of April/July 2000 and to follow the guidelines on procurement resulted in blocking of funds of Rs 15.22 crore.

Rates obtained in 2001-02 were lower than the rates of 2000-01

The Management stated (September 2003) that though the bidders did not accept the counter offer prices, the SPC succeeded in finalising the price 12 *per cent* lower than the price offered by the bidders, which was considered reasonable at that time. The option of retendering was examined but it was unlikely to receive lower prices and retendering would have delayed procurement by two months. The reply is not acceptable as the prices finalised during 1998-99, 1999-2000 and 2001-02 showed a declining trend, whereas the prices of 2000-01 were much higher than the prices of previous years as also of succeeding year. The option of retendering was possible. This would not have caused difficulty as the Circle had a stock of three months' consumption at the time of finalisation of tender and the utilisation was only between 55 and 58 *per cent* during 2000-01.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.11 Idling of equipment

Excess procurement of Synchronous Transfer Mode equipment during 2001-02 by Maharashtra Circle resulted in idling of equipment and resultant blocking of capital of Rs 6.03 crore.

BSNL allotted 158 STM-4 terminals to the Maharashtra Circle

Bharat Sanchar Nigam Limited (BSNL) placed (December 2001) three purchase orders on two firms for procurement of 189 terminals of Synchronous Transfer Mode-4 (STM–4) equipment at a unit price of Rs 7.26 lakh to meet the requirements of Maharashtra, North East, Madhya Pradesh, Uttar Pradesh (East) Telecom Circles and Northern Telecom Project for the year 2001-02. BSNL allotted 158 terminals to Maharashtra Circle against its requirement of 158 for 2001-02. The Circle received the equipment by June 2002. It also had a stock of 20 terminals diverted by Kolkata Telephones in May 2001.

25 terminals worth Rs 1.95 crore were lying idle in Kalyam SSA

Maharashtra Circle had 110 surplus terminals

Scrutiny of the records of Principal General Manager, Telecom District (PGMTD), Kalyan (July 2003) revealed that 25 terminals of STM-4 equipment received in June and August 2002 worth Rs 1.95 crore were lying idle (March 2004). On further review of utilisation of the equipment in Maharashtra Circle as a whole, it was noticed from the records of Principal General Manager (Development), Mumbai that the Circle had a balance of 172 terminals as of August 2002. The Circle proposed (October 2002) to utilise 62 terminals for the year 2002-03 and the balance 110 terminals were identified as surplus. BSNL Corporate Office decided (December 2002) that STM-4 equipment available in Maharashtra Circle should be converted into Add/Drop Multiplexers (ADM 4) equipment before diverting these equipment to Western Telecom Project (WTP), Madhya Pradesh and Chattisgarh Circles so that these equipment could be utilised during 2002-03. However, out of 110 terminals, 16 were diverted (June 2003) to WTP Madhya Pradesh without converting them into ADM-4 and 11 were commissioned during 2003-04. Since planning of STM-4 had been stopped being a linear system and ring system with ADM-4 was planned for the future, the chances of uilisation of STM-4 equipment seemed to be remote.

83 STM-4 terminals worth Rs 6.03 crore were lying idle since receipt

The proposal to float tenders for conversion of STM-4 into ADM-4 was still under process (March 2004). The Circle still had a balance of 83 terminals worth Rs 6.03 crore in stock as of April 2004 which remained idle since their receipt in June 2002 as shown in Appendix 17.

Thus due to improper forecast of requirement and injudicious purchase of STM-4 terminals, the Company incurred wasteful expenditure of Rs 6.03 crore. Besides, conversion of STM-4 terminals to ADM-4 would further cost the Company Rs 83 lakh i.e. Rs 1.00 lakh per terminal (approximately).

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.12 Idle investment

Chief General Manager, Chennai Telephones, failed to follow the instructions regarding plan approval from the Municipal Corporation prior to commencement of construction. This resulted in idle investment of Rs 3.62 crore.

Instructions prescribe that building plans should be prepared as per bye-laws of local bodies and actual construction works should be started only after receipt of approval of the building plans from these bodies.

CGMT completed construction of buildings between December 2001 and April 2003 at a cost of Rs 3.62 crore

The Chief General Manager, Chennai Telephones, accorded administrative approval and expenditure sanction for construction of staff quarters at Poonamallee, Perungudi and Korattur and a telephone exchange building at Korattur between February 1998 and January 2000. The civil wing of Bharat Sanchar Nigam Limited (BSNL) commenced construction of the buildings between August 1999 and November 2001 and completed the construction between December 2001 and April 2003 at a total cost of Rs 3.62 crore.

Chennai Telephones had not obtained approval of building plans from CMDA

Audit scrutiny in March and November 2003, revealed that Chennai Telephones had not obtained approval of the building plans from the Chennai Metropolitan Development Authority (CMDA). Hence, electricity connections could not be obtained as the Tamil Nadu Electricity Board (TNEB) insisted on planning clearance and completion certificates from the CMDA which were pre-requisites for applying for electricity connections. As a result, the completed buildings could not be taken over by Chennai Telephones. Planning clearance and permission for construction of the Perungudi and Poonamallee staff quarters which were completed in December 2001 and May 2002 respectively were applied for only in February 2004. Construction of the Korattur staff quarters and the exchange building was completed in November 2002 and April 2003 respectively, but planning permission had not been applied for till April 2004. Thus, due to disregard of the rules and procedures of the Company, an expenditure of Rs 3.62 crore incurred on the construction of staff quarters/exchange building remained blocked and the buildings could not be put to their intended use.

Expenditure of Rs 3.62 crore remained blocked and the buildings could not be used

On this being pointed out, the Management replied (June 2003) that till the previous year, the TNEB authorities had been extending power supplies to buildings owned or hired by BSNL without much problems. However, they started insisting upon submission of applications for planning clearance and completion certificates for construction of buildings, before processing electricity connections, which was a change from the normal procedure. The Management further stated that a Remote Line Unit was functioning in two Type C quarters using HT connection taken for Poonamallee Exchange since no power supply connection had been obtained so far.

The reply is not tenable since rules clearly specified that building plans should be prepared as per the bye-laws of local bodies. The construction works should have been started only after receipt of approval of the building plans from these bodies.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.13 Blocking of Capital of Rs 3.11 crore

Telecom District Manager, Khagaria, failed to commission Base Transreceiver Stations under the Wireless-in-Local Loop system at Saharbani and Beldaur in Bihar Circle, resulting in blocking of capital of Rs 3.11 crore.

Telecom District Manager (TDM), Khagaria under the Bihar Circle, sanctioned (August 2001/June 2002) detailed estimates for installation of Base Transreceiver Stations (BTSs) under the Wireless-in-Local Loop (WLL) system at Saharbani and Beldaur in order to provide better telecom facilities by replacing the existing analogue system and to provide village public telephones (VPTs) to connect the villages. The estimates further stated that no technical difficulties were anticipated.

BTSs were installed in July 2001/February 2002 before sanction of estimates

The BTSs were not commissioned as the area was not feasible for want of power supply/road communication

Audit scrutiny (March and April 2004) of records of TDM Khagaria revealed that BTSs at Saharbani and Beldaur were installed in July 2001/February 2002 even prior to sanction of the estimates. However, these BTSs were not commissioned since installation, as the area was not feasible for want of power supply/road communication as observed by the Sub-divisional Engineer. Ten and 46 telephone connections were shown to have been provided through Saharbani and Beldaur BTSs respectively since March 2004 as per the Net and Gross statements of the SSA, despite the fact that the said BTSs had not been actually commissioned. In fact, these telephone connections stated to have been working by receiving signals from other nearby BTSs, indicated not only distortion of facts in order to show commissioning of BTSs at Saharbani and Beldaur but also raised doubt on justification for installing BTSs at these places.

In reply, the Executive stated (April 2004) that the BTSs were installed as per instructions of the circle office (CO).

BTSs worth Rs 3.11 crore were lying idle for over two to three years

The purpose of connecting villages through VPTs was defeated

The reply is not tenable as the Circle failed to assess the requirement of the WLL system and make a detailed study of coverage by other BTSs installed in adjoining areas. The TDM, instead of identifying the infrastructural requirement for successful installation of the system in the villages identified, sanctioned the estimates merely stating that no difficulties were anticipated. This indicated that TDM, Khagaria merely complied with the CO's instructions without ascertaining the actual need and feasibility of the area to be covered under the WLL system. As a result, not only were BTSs worth Rs 3.11 crore lying idle for over two to three years, but also the purpose of connecting the villages through VPTs stood defeated.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.14 Injudicious expansion of exchanges

Injudicious expansion of exchanges in Darbhanga, Vadodara and Noida under the Bihar, Gujarat and Uttar Pradesh (West) circles, respectively, led to unproductive expenditure of Rs 2.69 crore.

The Department of Telecommunications (DoT), while issuing (September 1997) guidelines for optimum utilisation of telephone exchanges, re-fixed the average capacity utilisation as 75 *per cent* for exchanges having capacity between 1001 and 5000 lines.

There was injudicious expansion of exchanges without proper forecasting of demand

Audit scrutiny of the records of Principal General Manager, Telecom (PGMT), Vadodara, under the Gujarat Circle and General Managers, Telecom (GMsT), Darbhanga and Noida under the Bihar and Uttar Pradesh (West) circles, respectively, between December 2002 and January 2004, revealed that four exchanges were expanded during the period from May 2002 to April 2003. Out of these, three exchanges viz., G.R.Plot (23.30 *per cent*) under Vadodara Secondary Switching Area (SSA), Bela (59.27 *per cent*) under Darbhanga SSA and Greater Noida (64 *per cent*) under Noida SSA, were utilised below the DoT norm of 75 *per cent* at the time of expansion as shown in Appendix-18. The number of applicants waitlisted for these exchanges was one, 80, and nil, respectively, at the time of expansion. In view of this, the expansion of these exchanges without judicious forecasting of demand was not justified.

It was further observed that in Vasana exchange under Vadodara SSA, against the equipped capacity of 4500 lines, only 3530 connections (78.44 *per cent*) with a waiting list of eight applicants were utilised as of August 2002 and expansion was done in accordance with DoT norms. However, after expansion (September 2002) the total working connections were 3555 with waiting list of nine applications which declined to 3057 with nil waiting list (March 2004). Hence, there was no immediate need for expansion of the exchange.

Under utilisation of exchanges due to meagre demand for new connections resulted in unproductive expenditure of Rs 2.69 crore

The justification for expansion of these exchanges was made on the basis of average growth, policy of providing connection on demand, anticipated future demand and in compliance with the target fixed by the Circle. However, review of the records relating to the equipped capacity, working connections, waiting list etc., indicated that the justification was not based on factual details and data of utilisation and waiting list/demand available with the SSAs. The expanded capacities of these exchanges could not be utilised (March 2004) as there was meagre demand in these areas as shown in Appendix-18. This resulted in unproductive expenditure of Rs 2.69 crore.

PGMTD, Vadodra and Deputy General Manager (TD), Darbhanga stated in December 2002 and June 2004 that the planning for installation/expansion of exchanges was made purely on estimation, taking into account the future average growth and anticipated public demand. The GMTD, Noida stated (March 2004) that the exchange was installed/expanded keeping in view that Noida SSA, being a part of the National Capital Region, was a fast developing area.

The replies are not acceptable as there was either nil or meagre demand for new telephone connections and there was no immediate need for expansion which was done just to achieve the target fixed by the Circle without actual requirement. Moreover, after expansion of these exchanges, the growth rate of demand was inadequate to utilise even the pre-expansion capacity.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.15 Idle investment on construction of staff quarters

Construction of staff quarters by Chief General Manager, Rajasthan Telecom Circle, in excess of norms and actual demand led to idle investment of Rs 1.68 crore.

CGMT, Rajasthan constructed 39 staff quarters

The Ninth Plan target for construction of staff quarters for the Department of Telecommunications (DoT) was fixed at a minimum of 20 *per cent* of the staff strength. This target was reduced to 18 *per cent* in August 1999 with directions to fix the targets on a realistic basis, keeping in view the anticipated demand by the staff side. Contrary to the above, staff quarters were constructed by the Chief General Manager (CGMT) Rajasthan Telecom Circle without properly assessing the demand.

DoT accorded approval (June 1988) for the Schedule of Accommodation (SoA) for the construction of 73 staff quarters including Regional Telecom Training Centre (RTTC) at Jaipur. Subsequently, in a co-ordination meeting of Telecom Directorate held in March 1998 a decision was taken to reduce the number of quarters from 73 to 39. However, 12 quarters were constructed in January 1994 at a cost of Rs 60 lakh and remaining 27 staff quarters were constructed in November 2000 at a cost of Rs 1.27 crore.

As per the Ninth Plan target, six staff quarters were to be constructed

Audit scrutiny of the records of the Divisional Engineer, RTTC Jaipur, Chief Engineer (Civil) and Executive Engineer Telecom, Civil Division-I between September 2000 and April 2003 revealed that the re-assessed projected demand for 39 quarters in March 1998 was not realistic as RTTC functioned on diverted posts which varied from 7 to 12 since its formation in January 1997 till March 1998 when the decision was taken to reduce the staff quarters. Thereafter, also the strength varied only from 25 to 31 during the period March 1999 to March 2004. As per revised target of 18 *per cent* (March 1998) of staff quarters for the Ninth Plan, the target for construction of staff quarters worked out to six quarters instead of 39 quarters considering the staff strength at the maximum level of 31 officials. Out of these 39 quarters constructed, four quarters were utilised for inspection, store and office purposes while the remaining 35 quarters were lying vacant as of March 2004. Thus, the construction of 35 staff quarters without demand from staff side resulted in idle investment of Rs 1.68 crore.

35 quarters were lying vacant as of March 2004, resulting in idle investment of Rs 1.68 crore.

In reply, the Management stated (October 2003) that the construction of quarters was planned as probable need for RTTC staff at that time and that the reluctance of staff to opt for Government accommodation due to revision of pay scales and consequent lucrative HRA rates was also the probable cause. The reply is not acceptable as (i) not a single quarter was utilised for the purpose for which it was intended and (ii) the total number of quarters constructed was much more than the sanctioned strength even after seven years of functioning of the RTTC.

Thus, construction of quarters, far in excess of prescribed norms and actual requirement led to an idle investment of Rs 1.68 crore on the construction of staff quarters in Rajasthan circle.

The matter was referred to the Ministry in June 2004; its reply was awaited as of November 2004.

4.16 Blocking of capital of Rs 1.55 crore

Issue of a defective site suitability certificate in purchase of land resulted in blocking of capital of Rs 1.55 crore for over two years.

Site to be purchased should have a clear title, should be free from all encumbrances and encroachments and should not fall within a green belt

Rules, as adopted by the Company provide that a site to be purchased should have a clear title and should be free from all encumbrances and encroachments. The rules also stipulate that consultation with the proper authorities should be made to make sure that the site does not fall within a green belt area and is within the zoning plan of the area. The rules further provide that the officers should visit the site to adjudge its suitability and issue a site suitability certificate.

Haryana Urban Development Authority (HUDA) offered (December 2000) a plot of land measuring 8,000 sq. m. valuing to Rs 1.55 crore to General Manager Telecommunications (GMT), Ambala for construction of a telephone exchange at Ambala. In compliance with the company rules regarding purchase of land, the officers of the Company visited the site and issued a site suitability certificate in February/March 2001. Thereafter, the Company deposited (March 2001), 10 *per cent* cost of the plot amounting to Rs 14.03 lakh as earnest money to HUDA. The land was allotted to the Company on freehold basis in August 2001 and the balance payment of Rs 1.41 crore was made to HUDA in September 2001.

Audit scrutiny revealed (May 2002) that a team consisting of Assistant Engineer (Civil), Assistant Surveyor of Works and Executive Engineer (Civil) in their site suitability certificate, erroneously pointed out that there was green land on the back along the Amritsar-Delhi Railway line. The team also failed to notice that there was shortage in the site area. The Divisional Engineer in February 2001 also gave a suitability certificate for construction of a telephone exchange building. These deficiencies came to light only when the site was jointly visited in October 2001 by the Company and HUDA officials after full payment had been made to HUDA.

Issuance of a defective site suitability certificate by GMT Ambala, ignoring green land and short measurement of the plot, resulted in blocking of capital of Rs 1.55 crore

The Company requested (November 2001) HUDA to allot the balance land from an adjoining vacant plot, but the request was turned down (January 2002) by the latter with the intimation that the 2,400 sq. m. of green land was included in the site earmarked for telecommunication department and this area could not be deleted from the total area of the plot, and requested the Company to take over possession of the area measuring 7,750 sq. m. (including green land). The cost of the short provided area would be refunded. Accordingly, the amount of Rs 6.10 lakh in respect of short measurement of area measuring 250 sq. m. was refunded (March 2004) by HUDA. The sequence of events reveals issuance of a defective site suitability certificate on account of failure to highlight the facts regarding the green land and short measurement of the plot by GMT, Ambala. Further, failure to verify the master plan before making payment towards cost of land resulted in blocking of capital of Rs 1.55 crore for over two years. The very purpose of construction of the telephone exchange building for which the site was being purchased was defeated. It was observed that no action had been taken by the Company to fix responsibility for these lapses.

In reply, the Management stated (June 2004) that the broad dimensions of the plot were all approximate until the final demarcation was given by HUDA at the time of giving possession of the same. Therefore, it was not practically possible to check the actual dimensions and boundaries of the plots at the time of issuing the site suitability certificate. The reply is not acceptable since the site suitability certificate is expected to take into account municipal restrictions like zoning, green area and height of the building. Failure to take cognizance of the restriction reflected negligence on the part of the officers issuing suitability certificate.

The matter was referred to the Ministry in June 2004; its reply was awaited as of November 2004.

4.17 Idle investment on construction of staff quarters

General Managers Telecom (GMsT), Noida and Mathura constructed staff quarters during 1996-2000 without proper assessment of basic amenities. These quarters remained vacant, resulting in idle investment of Rs 1.01 crore.

Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL), stipulate that the type of locality, nearness to offices, shopping centres and schools should be considered before construction of staff quarters. The rules further stipulate that staff representatives should be consulted as far as possible and their opinion should be obtained in writing.

Out of 85 quarters constructed in Mathura and Noida SSAs, 36 were lying vacant due to non-availability of basic amenities

Scrutiny of the records of General Managers Telecom (GMsT), Mathura and Noida under Uttar Pradesh (West) Circle in July 2002 and March 2003 revealed that 85 quarters of Type II, III and IV were constructed in Radhapuram, Sadabad, Chatta and Govardhan under the Mathura SSA and Tilpatta under the Noida SSA during 1996 to 2000. These quarters were handed over to the concerned GMsT during 1997 to 2000. It was observed that there was no demand for these quarters from the staff side due to non-availability of basic amenities like market, school, transport, etc. in the area. As a result, 36 out of the 85 quarters constructed were lying vacant for periods ranging from 42 to 75 months (March 2004).

There was idle investment of Rs 1.01 crore, besides avoidable payment of HRA and potential loss of licence fee

This resulted in idle investment of Rs 1.01 crore besides avoidable expenditure of Rs 16.96 lakh towards payment of House Rent Allowance (HRA) to the eligible category of staff posted in areas where quarters were constructed and potential loss of Rs 3.82 lakh towards licence fees recoverable from the occupants.

On this being pointed out by Audit, GMT Noida stated (May 2003) that the staff members had not applied for quarters located at Tilpatta, as the area was remote and basic facilities like market, school and transport were not available. GMT Mathura replied (July 2002) that the staff quarters had been constructed to provide residential facilities to the working staff, but could not be occupied due to insecurity.

Thus, construction of staff quarters without proper assessment of demand and non-availability of basic amenities resulted in idle investment, besides avoidable payment of HRA and loss of licence fee.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.18 Premature expansion of TAX exchanges

Premature expansion of two Trunk Automatic Exchanges under the Kerala Telecom Circle led to avoidable expenditure of Rs 73.91 lakh.

Instructions as adopted by Bharat Sanchar Nigam Limited (BSNL) stipulate that expansion of Trunk Automatic Exchange (TAX) should be planned as and when 70 *per cent* capacity is utilised.

Injudicious expansion of TAX resulted in avoidable expenditure of Rs 73.91 lakh

Audit scrutiny of records of the General Manager Telecom (GMT) Kollam (February 2003 and July 2004) and Tiruvalla Secondary Switching Areas (SSAs) (October 2003) under the Kerala Telecom Circle revealed that the expansion of TAX from 21 KC[2] (circuits) to 25 KC and 17 KC to 18 KC respectively, at a total cost of Rs 73.91 lakh was undertaken in 2003. The utilisation in Kollam and Tiruvalla exchanges was only 64.22 *per cent* (June

[2] 1 KC- thousand circuits

2003) and 62.98 *per cent* (July 2003) respectively. After expansion, the spare capacity in Kollam and Tiruvalla exchanges increased to 12 KC and 7 KC. The additional circuits that were used (Appendix-19) could have been easily met with the pre-expansion capacity. Thus, injudicious expansion of TAX in these SSAs resulted in avoidable expenditure of Rs 73.91 lakh.

On this being pointed out by Audit (March 2004), the General Manager (Development), Kerala Telecom Circle stated (July 2004) that the TAX capacity requirement was assessed based on the anticipated growth in equipped capacity of local lines/wireless in local loop/cellular mobile telephone service etc, increase in traffic due to increase in number of direct exchange lines and reduction in long distance traffic. He further stated that loading of TAX upto 70 *per cent* was only envisaged in normal circumstances and the present loading of 60 to 65 *per cent* was considered satisfactory.

The Management's reply that capacity requirement was based on anticipated growth is not tenable as the utilisation in respect of Kollam TAX ranged from 10KC in November 2001 to 14 KC in March 2004 while the equipped capacity was 19 KC in November 2001 itself. In the case of Tiruvalla TAX, the actual utilisation was between 10.80 KC to 11 KC between December 2002 and March 2004 and the equipped capacity was 17 KC in December 2002 itself. Hence, based on utilisation trends there was no justification for expansion of Kollam TAX from 21 KC to 25 KC and Tiruvalla TAX from 17 KC to 18 KC during 2003.

The matter was referred to the Ministry in September 2004; its reply was awaited as of November 2004.

4.19 Blocking of capital of Rs 72 lakh

Calcutta Telephones failed to utilise the land procured at a cost of Rs 72 lakh even after 15 years of acquisition and to protect the same from encroachment, resulting in blocking of capital.

The Department of Telecommunications issued (September 1991) instructions that departmental land should not be kept unutilised for a long period to avoid the possibility of any encroachment. They also stressed the need for inspection of sites at least once in six months followed by action to remove encroachments, if any.

Calcutta Improvement Trust leased (June 1986) a plot measuring 4815.94 sq. m. under CIT scheme No. VIII-M, block 50 at Ultadanga to the Chief General Manager Telecommunications (CGMT), West Bengal Circle, for construction of staff quarters at a premium of Rs 72 lakh. The CGMT took possession of the land in December 1988, but after one year, the same was handed over (December 1989) to Calcutta Telephones, which constructed (1998) a telephone exchange covering an area of 172 sq. m. inside the plot.

Periodic inspections of the site were not conducted till August 2002

The land was encroached upon from all sides

Audit scrutiny (January 2004) of the records of Calcutta Telephones revealed that periodic inspections of the site had not been conducted till August 2002. During a special inspection in August 2002, the Assistant Architect noticed that the plot had been encroached upon by local people. A review of the site plan prepared on the basis of site inspection by the Assistant Architect indicated that the land was encroached upon from all sides. A temple, a mosque and some temporary huts had also been constructed. The Senior Architect reported this fact to the General Manager (Planning), Calcutta Telephones (August 2002), with the request to evict the outsiders as it was felt that taking up of a proper survey of the site plan without eviction was quite impossible. However, even though nearly two years had passed, no action had been taken to clear the encroachments. The Management in their reply (January 2004) stated that construction of staff quarters was being expedited to curb further possibility of encroachment.

The land remained unutilised for over 15 years, resulting in blocking of capital of Rs 72 lakh

Thus, the failure of the Company (i) to protect the land from encroachments by carrying out periodical inspections, (ii) to take suitable preventive measures and (iii) to utilise the land for over 15 years, resulted in blocking of capital of Rs 72 lakh as well as encroachment.

The matter was brought to the notice of the Ministry in July 2004; its reply was awaited as of November 2004.

4.20 Blocking of funds

General Manager Telecommunications, Belgaum indented stores on dummy estimates resulting in blocking of funds of Rs 69.80 lakh.

Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL) envisage that the stores required for works are to be obtained on indents passed by the authorities, provided the project estimate for which stores are required, has been sanctioned by the competent authority.

GMT Belgaum received stores worth Rs 69.80 lakh, against dummy estimates, which remained idle for over one to three years

Audit scrutiny (October 2003) revealed that General Manager Telecom (GMT), Belgaum under Karnataka Circle, received stores (cables and Centre for Development of Telematics accessories) worth Rs 69.80 lakh during 2000-03 against dummy estimates merely sanctioned for the purpose of stores transaction. These stores received on indents from Circle Telecom Store Depot (CTSD), remained idle over one to three years. Non-utilisation of stores over one to three years indicated that these stores were indented without ascertaining actual requirement. Since these stores were not utilised immediately they could have been diverted to other Circles/Secondary Switching Areas (SSAs) where there was possibility of utilisation.

On this being pointed out, Accounts Officer (Works), GMT, Belgaum, while accepting non-utilisation, replied (January 2004) that the stores would be utilised as and when required. Further, DGM (Planning) stated (July 2004) that while preparing estimates the phrase 'dummy estimates' was used in specification only to ensure that this estimate was not for actual execution of works and booking expenditure, but it was only for collecting the stores from CTSD and for easy regulation of the transactions when store vouchers were received.

The reply is not tenable as rules and procedures do not provide for the sanctioning of dummy estimates and drawal of stores thereagainst.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.21 Blocking of capital

Delay in commissioning of an exchange as a result of failure to lay underground cables in time, led to blocking of funds of Rs 65.65 lakh, besides loss of interest of Rs 3.94 lakh and potential loss of revenue of Rs 16.69 lakh during February 2003 to February 2004.

Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL), provide that while preparing a project for opening/expansion of an exchange, simultaneous action should be taken for preparation of component estimates for cable schemes, approval of the estimates, procurement of cable stores and laying of cables. The rules also stipulate that advance planning of cable network and procurement of stores need to be done to ensure that new connections are actually cleared to the maximum extent possible on the date of the cut-over. In any case, all the associated cable component works should be completed about three months in advance of the commissioning of the exchange.

GMTD, Muzaffarpur commissioned a C-DOT 512 exchange

General Manager Telecom District (GMTD), Muzaffarpur, sanctioned (May 2001) a project estimate for a 1 K SBM exchange, envisaging, a profit of 4.48 *per cent* per annum of capital cost of Rs 2.21 crore against which, a C-DOT 512 exchange at Basantpurpatti with an equipped capacity of 356 lines was technically commissioned (February 2003) at a cost of Rs 65.65 lakh.

The exchange could not be utilised despite a waiting list of 309 applicants

Audit scrutiny in March 2004 revealed that the exchange had not been utilised till February 2004 despite a waiting list of 309 applicants, as the external plant was not ready for want of underground cable-laying work.

Action was taken for procurement of cable after two years

The Management took action (May 2003) for procurement of cable after delay of over two years from the date of sanction of the project instead of taking simultaneous action for procurement and laying of cable during execution of the project. The work of cable-laying commenced in October 2003 i.e., eight months after technical commissioning of the exchange, but was stopped in between due to disturbance by anti-social elements.

The Management stated (March 2004) that due to non-availability of a regular General Manager, the tender could not be finalised and the cable-laying work started in October 2003 was stopped (November 2003) by anti-social elements. In a subsequent reply, Divisional Engineer (Planning) stated (July 2004) that the cable was short received from the circle office and a fresh requirement for Basantpurpatti was sent in May 2003.

The reply of the Management is not tenable because cable-laying and all associated cable component works should have been completed three months in advance of the commissioning of the exchange. Further, the chronology of events indicated delayed action in addressing the problems which led to stoppage of cable-laying work. The Company had taken action for procurement of cable only after commissioning of exchange. Further, non-availability of a General Manager was an administrative matter which should have been settled by the Company to ensure that the project work did not suffer.

The delay resulted in blocking of capital of Rs 65.65 lakh, besides loss of interest and potential loss of revenue

Thus, the failure of the Management resulted in blocking of capital of Rs 65.65 lakh, besides loss of interest of Rs 3.94 lakh (calculated at the borrowing rate of Government of India i.e. 6 *per cent*) and potential loss of revenue of Rs 16.69 lakh during February 2003 to February 2004.

The matter was referred to the Ministry in August 2004; its reply was awaited (November 2004).

4.22 Idling of stock

Procurement of Cable Distribution cabinets during 2000-01 and 2001-02 by Chief General Manager Telecom, Haryana Circle, without proper assessment of requirement led to idling of stock worth Rs 65.65 lakh as of March 2004.

Instructions of the Department of Telecommunications, stipulate that while assessing the requirement of telecom stores, the existing inventory, supplies in the pipeline and the past pattern of consumption should be taken into account.

Audit scrutiny of records of the Circle Telecom Stores Depot (CTSD) under Chief General Manager Telecom (CGMT), Haryana Circle, Ambala (September 2003) revealed the position of procurement and utilisation of cable distribution (CD) cabinets of 2000 pairs during the period 2000-01 to 2003-04 as given below:

Year	Opening balance	Quantity received	Total	Quantity issued	Closing balance
2000-01	Nil	152	152	19	133
2001-02	133	354	487	27	460
2002-03	460	Nil	460	16	444
2003-04 up to 31/8/03	444	Nil	444	11	433
1/9/03 to 31/3/04	433	Nil	433	62	371

In spite of sufficient stock of CD cabinets, CGMT Haryana procured 354 CD cabinets in 2001-02

From the above, it would be seen that the consumption of CD cabinets varied from 11 to 27 units during 2000-01 to 2003-04 (upto August 2003). The trend of consumption showed that the stock of 133 units at the beginning of 2001-02 could have met the requirement for the next few years. In spite of this, the circle procured another 354 units of CD cabinets during 2001-02, raising the total stock to 487 units. The consumption in 2001-02 was approximately 5 *per cent* of the stock. Even in the following year, i.e., 2002-03, the consumption of CD cabinets was 16 units only (approximately 3 *per cent* of stock). In 2003-04, when Audit scrutinised the stock of CD cabinets, it was found that 11 units had been issued till August 2003. After the matter was pointed out by Audit, 62 CD cabinets were issued to Secondary Switching Areas (SSAs) between September 2003 and March 2004. To assess the actual utilisation, Audit test checked one of the consignees of the stock i.e., Karnal SSA and noticed that out of 35 CD cabinets issued to the SSA, only six units had actually been utilised. This indicated that the procurement was not based on assessment of actual requirement, trend of consumption and supply in pipeline. Consequently, accumulated stock of 400 CD cabinets (including the unutilised stock of Karnal SSA) was lying unutilised (March 2004) resulting in blocking of capital of Rs 65.65 lakh (400 X Rs 16,414 per unit).

Procurement was not based on actual requirement, resulting in blocking of capital of Rs 65.65 lakh

The CGMT, while justifying the procurement of CD cabinets on the basis of norms, admitted (June 2004) that the full quantity could not be utilised in the field as there were sudden changes in outdoor network management due to introduction of Remote Line Unit (RLU)/Remote Switching Unit (RSU) technology, use of Optical Fibre Cable (OFC) technology etc. He further added that it was not possible for any organisation to fully visualise the impact of change of technology in every corner of the organisation. However, efforts were being made to utilise the balance stock by diverting it to other circles.

From the reply, it is evident that the circle had not assessed the requirements meticulously but made the assessment merely on norms instead of linking it with technological changes, trend of consumption, stock in hand etc. As RLU/RSU and OFC technology had been introduced in the telecom sector in the early nineties, it was not correct to state that due to sudden introduction of new technology, CD cabinets could not be utilised.

Thus, the procurement of CD cabinets of 2000 pairs by the circle, without visualising the likely requirement in the changed scenario and their non-utilisation resulted in blocking of funds of Rs 65.65 lakh.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

(D) Excess expenditure in violation of rules

4.23 Irregular expenditure on engaging contract labour

Failure of Chief General Managers Telecommunications of six circles to follow the instructions of the Corporate Office of Bharat Sanchar Nigam Limited led to irregular expenditure of Rs 6.30 crore on engagement of contract labour.

The Corporate Office conveyed instructions of DGR to obtain security services through them for sponsoring ex-servicemen, instead of through open tender

The Corporate Office of Bharat Sanchar Nigam Limited (BSNL) in July 2001 conveyed to all circles the instructions of the Directorate General of Resettlement (DGR) to obtain contract security services from them for sponsoring ex-servicemen security agencies on their panel without engaging security agencies on contract through open tender. The Ministry of Communications reiterated these instructions in August 2001.

Six circles failed to follow the instructions and incurred irregular expenditure of Rs 6.30 crore

Audit scrutiny between September 2001 and March 2004 revealed that Chief General Managers Telecom (CGMsT) of six circles failed to follow the above instructions and continued to allow their heads of units to engage labour for security purposes on contract through open tenders. This led to irregular expenditure of Rs 6.30 crore during the period from August 2001 to March 2004.

Ex-servicemen were denied the benefit of resettlement

In reply, GMT Vellore stated (August 2003) that the open tender for engagement of security guards in Vellore SSA had already been terminated with effect from June 2003 and DGR-approved agencies were being utilised. CGMT Bhopal, reiterated (January 2004) the instructions for compliance, while other heads of units stated (October 2003 to January 2004) that hiring security guards through open tender was cheaper than through DGR. Their reply is not acceptable as their action was contrary to the instructions of BSNL, besides denying ex-servicemen the benefit of resettlement.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.24 Irregular expenditure

Telecom District Manager Deoria, incurred irregular expenditure of Rs 5.26 crore. Also, failure to assess the projected demand before installing the exchange resulted in infructuous expenditure of Rs 60 lakh on cable laying works.

Guidelines on project planning stipulate that full reasons for the necessity of the project should be detailed in the justification attached to the project. They further envisage that in the case of new telephone exchanges, particulars should always be given for the number of connections which were anticipated to be taken immediately. As per the Company's Delegation of Financial Powers, the Telecom District Manager (TDM) and the Chief General Manager (CGM) have powers to sanction projects upto Rs 3 crore and Rs 15 crore respectively. The norm for laying cable is eight conductor kilo meter (ckm) per direct exchange line.

TDM Deoria prepared two estimates for installation and expansion of an exchange costing Rs 2.63 crore each on the same day by splitting the project

Telecom District Manager, now General Manager Telecom District Deoria, under Uttar Pradesh East Circle, took up a work of installation of 2 K C-DoT exchange at Ravindra Nagar (Padrauna). The estimated cost of the project was Rs 5.26 crore. However, two estimates were prepared on the same day i.e., 7 February 2002, viz., one for installation of 1K C-DoT exchange and another for expansion of the above exchange by 1K at Ravindra Nagar (Padrauna) costing Rs 2.63 crore each. TDM sanctioned both the project estimates in February 2002. The exchange was commissioned in March 2003 and expansion work was completed by March 2004. Only 98 connections could be provided since there was no waitlist and 87 connections were technically non-feasible. As demand for new connections was not forthcoming 1.2K capacity of the exchange was utilised for Trunk Automatic Exchange purpose and the balance capacity was proposed to be utilised for providing telephone connections in future.

Only 98 connections could be provided since there was no waitlist and 87 connections were technically non-feasible.

Audit scrutiny (May 2003/March 2004) revealed that the TDM had, in order to avoid seeking sanction of CGM, irregularly split up the project estimate and incurred expenditure when there existed no necessity for it. There was evidence of failure to assess the capacity requirement of the exchange to be installed with reference to the present demand and projected demand based on growth analysis resulting in non-utilisation of equipped capacity and consequent diversion of 1.2 K capacity.

Laying of 7,472 ckm cable worth Rs 60 lakh was infructuous

Further, the revised capacity of 0.8 K for providing new telephone connections justified 6400 ckm cables as per norm whereas, 13,872 ckm of cables were laid between February and December 2002. Thus, laying of 7,472 ckm cable worth Rs 60 lakh was infructuous since chances of recovering the cables laid underground were remote.

Thus, the sanction of estimate for Rs 5.26 crore by the TDM by splitting it was highly irregular. In addition, lack of proper assessment of exchange capacity with reference to present and projected demand, resulted in infructuous expenditure of Rs 60 lakh incurred on laying of excess cable. The Company should fix responsibility for the irregularities committed, both by way of incurring expenditure without justification and undertaking cable-laying work in excess of norms.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

(E) Avoidable expenditure/payment

4.25 Avoidable excess payment

Bharat Sanchar Nigam Limited failed to restrict the rates of subsidiary items of WLL equipment to reasonable prevailing market rates. This resulted in avoidable excess payment of Rs 21.53 crore.

For the establishment of Wireless in Local Loop (WLL) system for rural application in various telecom circles, a tender was floated in May 2000. This tender included subsidiary item of patch panel antenna for remote stations. In April 2002 another tender was invited for supply of WLL equipment for expansion in rural areas. In the tender seeking expansion of WLL, DC-DC converter for expansion of Base Transreceiver Station was included. Based on the evaluation of tenders, in the case of initial tender of May 2000, purchase orders were placed on M/s LG Electronics Systems[1] in January and April 2001 for 191595 patch panel antennae at the lowest price of Rs 1761.57 per unit and against the tender of April 2002, purchase order was placed in November 2002 for 540 DC-DC converters at Rs 1,75,990 per unit. As per the provisions contained in the manual of procurement, the Committee for Evaluation of Tenders (CET), while deciding the ordering price of the equipment, should take into consideration the reasonableness of the price.

M/s LG Electronics Systems included an exorbitantly high profit margin while supplying WLL equipment to BSNL

Scrutiny of records (February/May 2004) of paying authority in the Gujarat Circle and in the Corporate Office revealed that M/s LG Electronics Systems had procured patch panel antenna and DC-DC converter from its sub-contractors who, in fact, supplied directly to the BSNL consignees in October 2001 and February 2003. It transpired from the records that the invoice price of the sub-contractors for patch panel antenna and DC-DC converter was Rs 990.99 and Rs 50668.75 per unit. The price paid to M/s LG Electronics System was higher by 77.76 *per cent* and 247.33 *per cent*, respectively, than the rates offered to LG Electronics by the sub-contractors.

Failure to assess reasonableness of the rates led to avoidable excess expenditure of Rs 21.53 crore

Scrutiny of records further revealed that the Chief General Manager (Telecom), Andhra Pradesh Circle, brought to the notice of the Company in November 2003 the issue of wide variation between the rates of sub-contractors for DC-DC converter and rates approved by the Company. However, BSNL failed to take cognizance of this fact and finalised the price per unit of DC-DC converter for the year 2003-04 to all the consignees in December 2003. The failure of the Company to assess reasonableness of rates of DC-DC converter and patch panel antenna in the purchase of 540 DC-DC converters and 191595 patch panel antennae, led to an avoidable excess expenditure of Rs 21.53 crore by way of accepting exorbitantly high rates of M/s LG Electronics.

[1] Formerly M/s Escorts Communications Limited.

On this being pointed out by Audit (May 2004), the Management stated (July 2004) that the CET had taken into consideration the configuration, capacity and specifications of the system and assessed the reasonableness by comparing the price of the items quoted in the previous approved tenders. The evaluation of the tenders was done on package basis and the lowest/negotiated rates were only offered as package, which were received after competitive bidding process.

The reply is not tenable because CET in its report stated that it could not compare the rates of the above items included in the package with the earlier approved tender due to non–availability of those items in the earlier approved tenders and that the configuration, capacity and specification of the system under the instant tender were different from earlier tender. CET should have, therefore, taken into account the market prices before finalising the prices.

The matter was referred to the Ministry in September 2004; its reply was awaited as of November 2004.

4.26 Avoidable expenditure on repair of faulty E-10 B cards

Twenty four Secondary Switching Areas (SSAs) in eight telecom circles incurred an avoidable expenditure of Rs 9.22 crore during the period 1999-2004 on repair of faulty E-10 B cards from M/s ITI at exorbitant rates.

Instructions were issued in August 1999 and September 2000 to the heads of Circles to get faulty E-10 B cards repaired either through department's own repair centre or through M/s ITI by entering into Annual Maintenance Contract (AMC) at the rates approved by DoT/BSNL from time to time. As per agreement entered into with ITI fixed annual per line charges were to be paid based on the total capacity/lines of the E-10B telephone exchange irrespective of number of E-10B cards actually repaired.

AMC with M/s ITI were entered into by 24 SSAs for repair of faulty E-10 B cards

Audit scrutiny of records of 24 SSAs in eight circles viz., Andhra Pradesh (2000-03), Gujarat (2001-04), Karnataka (2000-02), Kerala (2000-03), Maharashtra (2000-04), Rajasthan (2000-03), Uttar Pradesh (East) (2002-03) and Uttar Pradesh (West) (1999-2004) disclosed that SSAs entered into AMC with ITI for repair of faulty cards although there was one departmental repair centre each under Andhra Pradesh, Gujarat, Karnataka, Kerala, Rajasthan and Uttar Pradesh (East) circles and three centres in Maharashtra circle. Further, audit noticed that the percentage of faulty cards ranged between 0.65 and 6.80 of the equipped capacity and the average rate of repair of faulty cards by ITI ranged between Rs 1103 and Rs 13766 as shown in Appendix-20.

The Management failed to get the cards repaired on piece rate basis which resulted in avoidable expenditure of Rs 9.22 crore, when compared with the rates charged by ICSIL

Audit observed that General Managers Telecom Kolhapur (May 2001), Calicut (April 2002) and Principal General Manager Telecom Coimbatore (September 2001) entered into agreement with M/s Intelligent Communication System India Limited (ICSIL), also a Public Sector Undertaking (PSU), for repair of E-10B cards on per faulty card basis at the rate of Rs 900 for Line cards, Rs 1,900 for Control cards and Rs 4,000 for TIMIC cards, whereas the rate for repair of cards by ITI was quite uneconomical ranging between Rs 1,103 and Rs 13,766 per card. Thus, the Management failed to take the economics into consideration while entering into agreement with ITI for repair of cards on the basis of the total equipped capacity instead of fixing the rate on per card basis. This resulted in avoidable expenditure of Rs 9.22 crore during the period 1999-2000 to 2003-04 in the repair of 82,676 cards through M/s ITI as shown in Appendix-20.

On this being pointed out by Audit, the Ministry stated (January 2004) that instructions were issued to get the faulty E-10B cards repaired by M/s ITI to ensure reliable and continuous maintenance support to obtain the best services out of E-10 B system in DoT/BSNL network. Further it added that the matter of quality of repairs of sophisticated E-10 B equipment could not be entrusted to any agency without proven credentials.

The reply of the Ministry is not acceptable because BSNL failed to take into consideration the competitive cost before entering into AMCs with M/s ITI for total equipped capacity of the exchange instead of fixing the rate per faulty card. Moreover, the contention that E-10-B cards could not be entrusted to any agency without proven credentials is not borne out by fact as three SSAs where the contracts were entered into with M/s ICSIL, a PSU, for repair of faulty cards on per card basis from 2002 onwards were found to be satisfactory.

4.27 Avoidable expenditure in procurement of 12F optical fibre cable

Bharat Sanchar Nigam Limited (BSNL) procured 15,065 kms of 12 F Optical Fibre Cable during 2001-02 at higher rates than the market rate, resulting in avoidable extra expenditure of Rs 8.89 crore.

BSNL decided to purchase 12F OFC at Rs 57,402 per km in September 2001

In July 2001, a short notice tender was floated by BSNL for procurement of 60,000 km of 12 Fibre (F) optical fibre cable (OFC) and 12,000 km 24F OFC and purchase orders were placed in September 2001 for 55,399 km of 12F and 10,865 km of 24F OFC at a total cost of Rs 413 crore. The price of 12F OFC was Rs 57,402 per km.

In October 2001, BSNL decided to procure an additional quantity of 15,800 km of 12F OFC against the above-mentioned short notice tender. Before finalising the additional quantity, the BSNL Headquarters called for details of tenders floated by different circles for procurement of 12F OFC. The prices obtained by different circles showed a downward trend as below:

Circle	Month of opening the tender	L-1/approved rate (Rs per km)
Kerala	June 2001	103545
Uttar Pradesh	July 2001	86000
Tamil Nadu	August 2001	57402
Northern Telecom Project (NTP)	September 2001	53400
Northern Telecom Region (NTR)	October 2001	51500

Rates of OFC showed a declining trend and in October 2001 it was Rs 51500 per km.

BSNL decided to procure an additional quantity at the earlier rate

This price difference resulted in excess expenditure of Rs 8.89 crore

Although the prices of 12F OFC showed a declining trend and in October 2001 it was Rs 51500, the Board in November 2001 decided to procure additional quantity of 15800 km of 12F OFC at the earlier rate (August 2001) of Rs 57402, without even counter offering the current market rate of Rs 51500. This price difference resulted in excess expenditure of Rs 8.89 crore on the procurement of additional quantity of 15065 km of 12F OFC during 2001-02.

On this being pointed out (May 2004) the Management replied (July 2004) that BSNL Headquarters decided to procure 12F OFC at the rate of Rs 57402 for the following reasons:

- The tenders for NTR and NTP were just opened and yet to be finalised.
- The tenders for NTR and NTP were for a limited area whereas the BSNL Headquarters tender was for the whole country and the rates offered were inclusive of freight and insurance covering nationwide consignees.
- The firms quoting in NTR and NTP tenders had a limit for their production capacity and would not have been able to supply large quantities.

As such, taking into consideration the time left during that financial year and to meet the targets of that year it was not found worthwhile to wait any more and it was decided to order the quantity required immediately on the existing approved rate.

The reply is not tenable on account of the following reasons:

- Contrary to the argument, BSNL Headquarters itself had cancelled (July 2001) a global tender for procurement of OFC as the rates obtained in one of the circles was lower.
- The rates obtained in NTR and NTP were a fair index of the current market rate, which should have been counter offered by BSNL Headquarters to the vendors.

- BSNL, in another tender of PIJF cable had obtained the rates of MTNL, which were lower and adopted the same for its countrywide supply. Hence NTR/NTP rates could have been considered for negotiations.
- The production capacity of firms quoting in NTR and NTP tender was not relevant as supplies were to be made by the existing vendors of BSNL.

The BSNL Procurement Cell was aware on 4 October 2001 that the cost of OFC had come down to Rs 53000 and that the cost was on a downward trend. Further on 30 October 2001 NTR obtained a rate of Rs 51500. However, on 22 November 2001 BSNL Headquarters finalised the existing rate of Rs 57402. Hence, BSNL had ample time to negotiate the rate at Rs 51500 and procure the additional quantity.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.28 Undue benefit to contractor and short levy of penalty

Chief General Manager, Chennai Telephones District and Principal General Manager Telecommunications, Kalyan under the Maharashtra Telecom Circle entered into a contract for printing of telephone directories and extended undue benefit to the contractors to the tune of Rs 5.72 crore.

Chief General Manager (CGM), Chennai Telephones District (CTD) and the Principal General Manager Telecom District (PGMTD), Kalyan under the Maharashtra Circle, entered into contracts for printing of telephone directories. They extended undue benefit of Rs 5.72 crore to the contractors as brought out below:

As per the agreement, the contractor was to supply 7.32 lakh copies of the directory for the 2002 issue

4.28.1 CGM, CTD entered into an agreement in June 1999 with M/s M&N Publications Limited, (later named M/s GETIT Limited) for printing and supplying telephone directories in five consecutive annual issues from the year 1999 onwards. The contract provided for printing and supply of required copies of directories of CTD each year, free of cost, by the contractor. As per the agreement, the contractor was to supply 7,32,050 copies of the directory of the 2002 issue.

As per Clause 33.7 of the agreement, in case of short supply of specified number of copies of the directory, a penalty at the rate of Rs 50 per copy was to be levied for the 1999 issue from the contractor. For subsequent years, CGM, CTD had the right to decide the penalty per copy. The rate of additional copy for the 2002 issue was fixed as Rs 125 per set.

Instructions were issued by CGM, CTD for supply of only five lakh copies of the main directory and 1.5 lakh free copies of CDs for the 2002 issue

As against the agreement for supply of 7.32 lakh copies of the directory, the CTD instructed the contractor (February 2003) for supply of 4.5 lakh copies of the main directory in the first phase and two sets of 25,000 copies each subsequently. The Management separately agreed to the proposal made by the contractor for supply of 1.5 lakh free copies of CDs.

The contractor supplied 4,46,439 hard copies and 1,38,403 CDs of the 2002 issue between July and December 2003. A committee formed by the CTD to decide the penalty for short supply, recommended a penalty of Rs 51.28 lakh at Rs 62.50 per copy for 82,050 unprinted copies being the difference between the supply as per the agreement (7.32 lakh) and the total of what was subsequently agreed for both the printed directory and the CD (5 lakh + 1.5 lakh = 6.5 lakh). Further, an amount of Rs 66.95 lakh was levied for short supply of 53,561 copies of the directory at Rs 125 per copy. Accordingly, an amount of Rs 1.18 crore was deducted from the share of white pages revenue of the contractor.

Undue benefit of Rs 5.48 crore was extended to the contractor

Audit scrutiny of records revealed (June 2004) that the approximate cost of production per directory was Rs 233 each. The short supply of 2.86 lakh copies thus entailed a benefit of Rs 6.66 crore to the contractor, at the given cost of production. Taking into account the levy of penalty of Rs 1.18 crore, the contractor was still given an undue benefit of Rs 5.48 crore by the Company.

The committee, while deciding the penalty, treated the free supply of CDs as hard copies in contravention of contractual terms and conditions. This decision was not in order.

On this being pointed out by Audit, the Deputy General Manager stated (June 2004) that the quantity of the directories was reduced to five lakh hard copies and 1.5 lakh CDs as out of 6.65 lakh copies of the printed issue of 2001 (agreed quantity), one lakh copies were lying without any takers.

The decision of the CGM to reduce the number of copies from 7.32 lakh to 5.00 lakh was not justifiable as the number of working connections in CTD as on 31 March 2002 was 10.3 lakh and therefore justified the requirement of 7.32 lakh copies.

An agreement was entered into by PGMTD Kalyan for three successive biennial issues

4.28.2 In July 2001, PGMTD, Kalyan under the Maharashtra Telecom Circle, entered into an agreement with M/s Karishma Associates for printing and supplying telephone directories of the Kalyan Telecom District for three successive main biennial issues commencing from September 2001 for three years i.e. 2001, 2003 and 2005. For the first issue of 2001, 3.5 lakh copies were to be supplied at Rs 65/- per directory. As per clause 21, the directory was to have a trimmed size of 200 mm x 287 mm with printed area of 180 mm x 267 mm and was to contain information pages in English and Marathi.

PGMTD placed a purchase order (January 2002) on the contractor for supply of 3.5 lakh copies of the 2001-02 issue of the directory. The contractor supplied 3.5 lakh directories between March and June 2002. A committee constituted to decide the penalties for omission with regard to two items as per the contract, recommended a penalty of Rs 2.27 lakh only for non-inclusion of information pages in Marathi.

Undue benefit was extended to the contractor through non-levy of penalty

Audit scrutiny revealed (December 2003) that the contractor was liable to pay Rs 15.19 lakh towards the cost of non-printing of the Marathi information pages in directories against which a token penalty of Rs 2.27 lakh was levied, thereby extending undue benefit of Rs 12.92 lakh to the contractor. Further, a penalty of Rs 11.20 lakh for not adhering to the specifications of directory size as envisaged in the contract was leviable on the contractor.

On this being pointed out by Audit, the Management accepted the audit observations (September 2004) and proposed to recover the amount from the contractor.

The matter was referred to the Ministry in September 2004; its reply was awaited as of November 2004.

4.29 Undue benefit to suppliers in procurement of WLL Cordect equipment

Bharat Sanchar Nigam Limited (BSNL) finalised two different rates for the same item in a tender resulting in undue benefit of Rs 5.06 crore to suppliers.

Bharat Sanchar Nigam Limited (BSNL) in May 2002 invited tenders for procurement of 3.85 lakh lines of Wireless in Local Loop (WLL) Cordect equipment with Internet access. Bids were received from four vendors i.e. M/s Hindustan Futuristic Communication Limited (HFCL), Indian Telephone Industries (ITI), Shyam Telecom Limited and Hindustan Teleprinters Limited (HTL).

The option of conversion of WLL Cordect supporting voice to voice with Internet was cheaper by Rs 2.56 lakh per unit than the option with supporting voice and Internet

After finalisation of bids, purchase orders were placed for procurement of 1.54 lakh lines of WLL Cordect supporting voice and Internet and 2.31 lakh lines of WLL Cordect supporting voice only equipment from M/s HFCL, ITI and Shyam Telecom between August 2002 and February 2003. In addition, 1.32 lakh lines were ordered from M/s HTL and M/s ITI on reservation quota.

An examination of records pertaining to above procurement revealed that the Company placed purchase orders under two options as below:

(Rs in lakh)

Type of Technology	OPTION-I	OPTION-II			Difference
	DIU with voice and Internet (Main item)	DIU with voice only (Main item)	Conversion of DIU to voice & Internet (Optional item)	Total DIU with voice & Internet on conversion (Col 3+4)	(Col 2-5)
(1)	(2)	(3)	(4)	(5)	(6)
V5.2 Connectivity	10.66	5.74	2.36	8.10	2.56
R2 Connectivity	10.76	5.84	2.36	8.20	2.56

Undue benefit of Rs 5.06 crore was given to suppliers due to difference in prices of the two options

From the above, it can be seen that BSNL counter-offered two different rates for the same equipment, which was accepted by the vendors. One rate was for DIU with voice and Internet Rs 10.66 lakh (V 5.2) and Rs 10.76 lakh (R2) and the other rate was for DIU with voice only convertible to voice and Internet Rs 8.10 lakh (V 5.2) and Rs 8.20 lakh (R2), which worked out cheaper than the first option by Rs 2.56 lakh per unit of DIU. This price difference resulted in undue benefit of Rs 5.06 crore to suppliers in the procurement of 198 DIU with voice and Internet at a higher price.

On this being pointed out by Audit in June 2004, the Management stated (August 2004) that if the prices of all the items i.e. main DIU as well as field upgradation were considered for L1 vendor i.e. M/s HFCL, then the unit prices for DIU with voice and Internet i.e. Rs 10.66 lakh would be lower than the sum of the DIU with voice only together with field upgradation i.e. Rs 11.39 lakh.

The reply is not tenable, as the Tender Evaluation Committee (TEC) considered and finalized the prices of L1 only for main items, and for optional items i.e. upgradation to voice and Internet, the lower price (Rs 2.36 lakh) of M/s ITI was considered. Accordingly the Management should have purchased DIU with voice only from the suppliers and upgraded it to DIU with voice and Internet using the optional items instead of ordering directly for DIU with voice and Internet.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.30 Avoidable expenditure on procurement of jointing kits

Procurement of jointing kits at higher rates by Chief General Manager Telecom Stores, Kolkata, led to avoidable expenditure of Rs 57.42 lakh during 2001-02.

The Department of Telecommunications, while issuing guidelines in January 2000 for decentralised procurement of stores, emphasised that the heads of circles should examine the reasonableness of the rates obtained in the tenders by comparing them with the rates of product/items at which these were procured in the previous few years and the procurement should be done on reasonable rates.

The Chief General Managers (CGMs) Telecom Circles, Karnataka, Rajasthan and Chief General Manager, Telecom Stores (CGM,TS) Kolkata invited tenders for procurement of jointing kits during 2001-02. The tenders were opened between March and May 2001. The purchase orders were placed by the respective circles between July and December 2001. The bidders who participated in all the three tenders and those that were issued purchase orders were almost the same.

Against the ordered quantity of 1,07,506 jointing kits placed by CGM, TS, Kolkata, 1,07,501 jointing kits were received and an amount of Rs 6.23 crore was paid to the suppliers during 2001-02.

Failure to compare the rates of jointing kits with other circles resulted in avoidable extra expenditure of Rs 57.42 lakh

Examination of the records by Audit (November 2003) revealed that the rates fixed by CGM, TS, Kolkata for procurement of jointing kits (TSF I to VI) were much higher than those fixed by CGMsT, Karnataka and Rajasthan Telecom circles though the rates were fixed during the same time and the same suppliers participated in all the three tenders. Failure to compare the rates with other circles even after including freight element of 1 *per cent* resulted in avoidable extra expenditure to the tune of Rs 57.42 lakh as shown in Appendix -21.

On this being pointed out by Audit, the Management stated in February 2004 that the composite rates finalised were inclusive of freight element for delivery to consignees located in remote circles like Jammu and Kashmir, North East Telecom, Assam and Andaman and Nicobar Islands.

The reply of the Management is not acceptable because at the time of fixation of rate, the Stores Purchase Committee assumed freight element as 1 *per cent* in the composite price when compared with the previous tender of March 2000. However, even after inclusion of the freight element, the procurement rate of CGM, TS, Kolkata was still high.

Thus, procurement made without considering the reasonableness/non-comparison of rates with other circles led to avoidable extra expenditure of Rs 57.42 lakh during the year 2001-02.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

CHAPTER V
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

Mahanagar Telephone Nigam Limited

5.1 Introduction

Mahanagar Telephone Nigam Limited (MTNL), with its registered and corporate office located in New Delhi, was incorporated in February 1986 under the Companies Act 1956 and commenced its operations by taking over the management, operations and control of the telephone network (except public telegraph services) of the erstwhile Union Territory of Delhi and three Municipal Corporations of Mumbai (namely Mumbai Municipal Corporation, Navi Mumbai Municipal Corporation and Thane Municipal Corporation) from the Department of Telecommunications (DoT). MTNL, Delhi and Mumbai, through their networks, provide basic services of telephone, telex, etc., and value added services such as Integrated Service Digital Network (ISDN), voice mail, internet telephony, Wireless in Local Loop (WLL), cellular mobile services, etc.

5.2 Organisational setup

The administrative and overall functional control is vested with the Board of Directors headed by the Chairman and Managing Director (CMD) who is assisted by three functional Directors (Technical, Finance and Human Resources) and a Company Secretary. The Director (Finance), who was also officiating as CMD of the Company with effect from 1 November 2003, was appointed as the regular CMD with effect from 10 August 2004. The post of Director (Finance) was lying vacant since then. The Delhi and Mumbai units of MTNL and the Mobile Services unit at Delhi are headed by the respective Executive Directors.

5.3 Investment and Returns

Against the authorised equity share capital of Rs 800 crore, the paid-up capital, as on 31 March 2004, was Rs 630 crore, of which Rs 354.37 crore had been invested by the Government of India. The return on this investment (Rs 630 crore) by way of dividend paid by MTNL increased from 30 *per cent* for the year 1999-2000 to 45 *per cent* for each of the years 2000-01 to 2003-04, as can also be seen from the table at sub-paragraph 5.4.2.

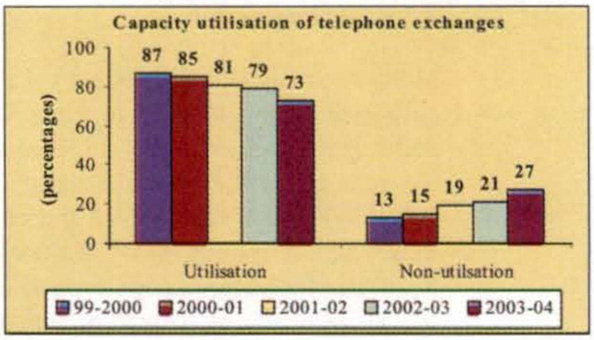
5.4 Physical and Financial Performance

5.4.1 Physical performance

The physical performance of MTNL as at the end of each of the five years ended 31 March 2004 is given in Appendix-22.

A review of the same revealed the following:

- The overall capacity utilisation of telephone exchanges went down from 87 *per cent* in 1999-2000 to 73 *per cent* in 2003-04 mainly due to lack of demand.



- There was 80 *per cent* increase in the number of cellular mobile telephone connections from 2.00 lakh in 2001-02 to 3.60 lakh in 2003-04.
- The number of public telephones more than doubled from 1.09 lakh in 1999-2000 to 2.40 lakh in 2003-04.

5.4.2 Financial performance

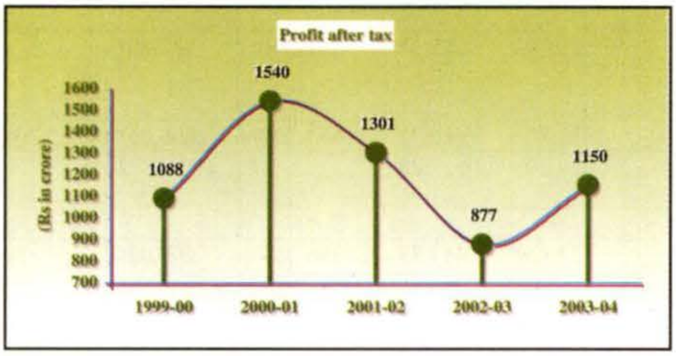
The financial results of MTNL for the five years ending 31 March 2004 were as follows:

(Rs in crore)

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
Income from services	5182.20	5784.58	6143.72	5806.53	6369.60
Other income	174.70	318.02	248.35	* 223.69	314.33
Expenditure (excluding interest and prior period adjustments)	3948.53	4374.08	* 4560.92	* 4737.64	4963.36
Interest	8.42	8.30	* 28.83	32.82	34.62
Profit before tax and prior period adjustments	1399.95	1720.22	1802.32	1259.76	1685.95
Prior period adjustments	(-)149.10	(-) 17.04	(-) 7.88	(-) 22.57	(-) 84.12
Profit before tax	1250.85	1703.18	1794.44	1237.19	1601.83
Tax provision	163.00	163.00	493.76	360.03	451.35
Profit after tax	1087.85	1540.18	1300.68	877.16	1150.48
Proposed dividend including tax	216.72	312.42	283.50	319.82	319.82
➢ Final dividend	189.00	283.50	283.50	283.50	283.50
➢ Tax on dividend	27.72	28.92	0.00	36.32	36.32

** The figures have been recast during the years 2002-03 and 2003-04 by the Management*

As seen from the table, in the year 2000-01, profit after tax increased substantially by 42 *per cent* over the earlier year, primarily due to (a) increase in income (including other income) by 14 *per cent* as well as (b) decrease in the net prior period expenditure by almost 89 *per cent* over the earlier year.



However, the profit after tax for the next two consecutive years ending 31 March 2003 showed a continuous downward trend mainly on account of increase in expenditure (including prior period expenditure). In addition, there was a three-fold increase in provision for tax in 2001-02 and decrease in income from services (including other income) by more than 5 *per cent* in 2002-03, which also contributed to this continuous downfall of profit after tax. However, the profit after tax increased by 31 *per cent* in 2003-04 compared to the previous year mainly on account of increase in income (including other income) by 11 *per cent* over the last year's income, although the expenditure increased by 5 *per cent* in 2003-04 over the previous year's expenditure.

The tax provision shown in the table included provisions towards income tax, wealth tax and deferred tax liabilities. The amounts of income tax provision included in the tax provision were Rs 162.00 crore, Rs 162.00 crore, Rs 489.00 crore, Rs 301.10 crore and Rs 374.91 crore for the years 1999-2000 to 2003-04, respectively. As MTNL is in the telecom sector, the above tax provisions had been arrived at after claiming 100 *per cent* deduction of its profit and gains for the purpose of income tax under Section 80-IA of the Income Tax Act, 1961 and consequently, liability for Minimum Alternate Tax at the rate of 7.5 *per cent* of the book profits (after availing of eligible adjustments) under Section 115 JB of the Income Tax Act, 1961 had been provided.

5.5 Revenue Arrears

Income due from regular customers on account of telecommunication services provided to them, for which bills could not be raised upto 31 March every year, were shown as 'Other current assets' by the Management of MTNL and were not categorised as 'Sundry Debtors' in its Annual Accounts up to the year ended 31 March 2003. After this was pointed out by Audit, the Management took the unrealised revenue income as 'Sundry Debtors' in their annual accounts for the year 2003-04. The position of revenue arrears during the last five years upto 31 March 2004 was as under:

(Rs in crore)

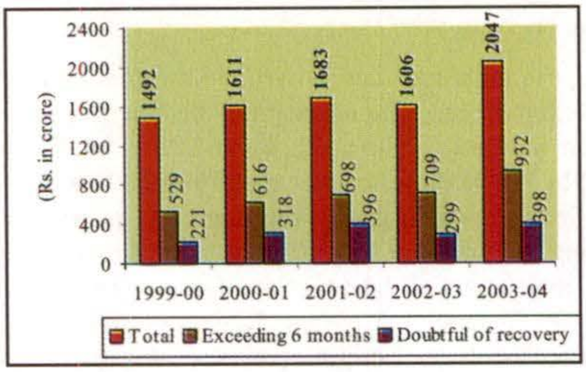
Sl. no.	Particulars	1999-00	2000-01	2001-02	2002-03	2003-04
1.	Total revenue income	5182.20	5784.58	6143.72	5806.53	6369.60
2.	Total Sundry Debtors					
	(a) Exceeding 6 months	529.03 (35%)*	615.90 (38%)*	698.41@ (41%)*	709.03@ (44%)*	932.33 (46%)*
	(b) Upto 6 months	342.65	309.43	433.79@	339.69@	1114.98
	(c) Total (a + b)	**871.68**	**925.33**	**1132.20@**	**1048.72**	**2047.31**

Sl. no.	Particulars	1999-00	2000-01	2001-02	2002-03	2003-04
3.	Income accrued from services incorrectly shown under other current assets upto 2002-03	620.19	685.38	551.00@	557.29@	-----
4.	Total revenue arrears [2(c)+3]	1491.87	1610.71	1683.20@	1606.01@	2047.31
5.	Percentage of total revenue arrears to total revenue income [sl. no. (4 / 1) X 100]	29	28	27	28	32
6.	Revenue arrears considered doubtful of recovery	221.46	317.97	396.05@	299.02@	397.85
7.	Percentage of doubtful revenue arrears to total revenue arrears [sl. no. (6 / 4) X 100]	15	20	24@	19	19

* *Figures in brackets indicate percentage of Debtors (revenue arrears) exceeding six months to total revenue arrears [sl. no. 2(a) / 4 X 100]*

@ *These previous year figures have been recast in the annual accounts of MTNL for the years 2002-03 and 2003-04.*

It may be seen that there was a downward trend in the ratio of total revenue arrears to total revenue income from 29 *per cent* in 1999-2000 to 27 *per cent* in 2001-02. But the ratio of total revenue arrears to total revenue income showed an upward trend from 27 *per cent* in 2001-02 to 32 *per cent* in 2003-04. Of this yearly unrealised revenue, the revenue which remained in arrears for more than six



months also showed an increasing trend. It increased from 35 *per cent* as at 31 March 2000 to 46 *per cent* as at 31 March 2004. The unrealised revenue which was considered doubtful of recovery increased from 15 *per cent* at the end of March 2000 to 24 *per cent* at the end of March 2002, but at the end of March 2003, it decreased to 19 *per cent* and remained at 19 *per cent* at the end of 31 March 2004. The main reasons for revenue arrears, as observed in Audit, were delays in payments by customers; customers not being traceable; billing for disconnected connections due to delays in receipt of closing advice notes in billing sections; wrong billing; disputed bills etc. The continuous increase in this unrealised income over the years indicated that MTNL needed to exercise greater control over the management of debtors as well as in extending credit to customers.

5.6 Manpower

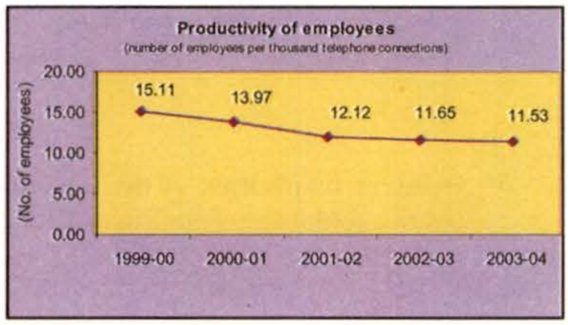
The total manpower strength of MTNL as at the end of each of the last five years ended on 31 March 2004 is given below:

Year	Group A	Group B	Group C	Group D	Total manpower	Daily Rated Mazdoors
1999-2000	1045	5978	34814	19071	**60908**	196
2000-01	1065	5862	35222	18409	**60558**	188
2001-02	1083	5967	33943	16534	**57527**	100
2002-03	1128	6429	33901	16526	**57984**	88
2003-04	1083	6042	33083	15552	**55760**	82

As could be seen from the above table, the overall manpower decreased by 8 *per cent* over the last five years. In addition to the overall decrease, the number of daily rated mazdoors also showed a downward trend from 196 in March 2000 to 82 by March 2004.

5.7 Productivity

The productivity* of MTNL employees (i.e., ratio of the number of employees per thousand telephone connections or DELs including cellular mobile connections) for each of the last five years up to 31 March 2004 showed a gradual improvement during the last five years. As indicated in the chart, the number of employees per thousand telephone connections (including cellular mobile connections) decreased from 15.11 in 1999-2000 to 11.53 in 2003-04.



* *The productivity figures have been recast for the years 2001-02 and 2002-03 due to change in data.*

CHAPTER VI
COMPREHENSIVE PERFORMANCE REVIEWS

Planning, procurement and utilisation of Wireless-in-Local Loop (WLL) system in MTNL

Highlights

- **MTNL failed to formulate a detailed plan and monitoring mechanism before launching the WLL system, thereby suffering financial losses due to repeated procurement of obsolete/deficient technologies, capacity constraints and operational deficiencies.**

(Paragraph 6.5)

- **Procurement of old technology and suppliers' failure to rectify the frequency interface problems led to unjustified expenditure of Rs 88.96 crore.**

(Paragraph 6.6.1)

- **Delay in finalisation of the tender and placement of purchase orders led to avoidable expenditure of Rs 11.47 crore.**

(Paragraph 6.6.2)

- **Faulty and damaged handsets valuing Rs 16.49 crore were lying in stores of MTNL. Chances of their utilisation were remote due to obsolescence.**

(Paragraph 6.7.2.)

- **Fixed wireless and mobile handsets procured for Rs 52.80 crore in Delhi and Mumbai were lying idle in spite of a large number of pending cases.**

(Paragraph 6.7.3)

- **Defective payment terms in the purchase order led to infructuous expenditure of Rs 10.95 crore, as the 10,000 lines system had to be prematurely decommissioned mainly due to inherent defects, which the supplier did not rectify.**

(Paragraph 6.8.1)

- **MTNL failed to monitor the survey and design of the WLL system. Resultantly, coverage problems persisted in both Delhi and Mumbai, which adversely affected the subscribers' satisfaction and quality of service.**

(Paragraph 6.8.2)

- **Management failed to recover Rs 13.94 crore from defaulting subscribers and also failed to take remedial measures.**

(Paragraph 6.10.2)

- **MTNL suffered loss of potential revenue of Rs 15.75 crore due to short-equipped system**

(Paragraph 6.10.3)

- **WLL Cordect system procured at a total cost of Rs 52.32 crore remained grossly underutilised.**

(Paragraph 6.12)

6.1 Introduction

Low reliability of cable network has led to emergence of the Wireless-in-Local Loop system

Traditionally telephone subscribers are connected with local telephone exchange by a pair of cables known as 'loop'. The reliability of cable network is not of a high order due to man-made faults, vagaries of nature and constraints in their provision in technically non-feasible areas, besides requirement of long lead time for installation. An alternative has emerged under the name of Wireless-in-Local Loop (WLL) Code Division Multiple Access (CDMA). WLL is designed to substitute the underground copper cable in the external plant network, as it utilises radio/wireless link from exchange to the subscriber instead of conventional copper cable.

The typical WLL system consists of a Base Station Controller (BSC) or Mobile Switching Centre (MSC) connected to the main Telephone Exchange or Public Switched Telecom Network (PSTN) and Base Stations, Network Management System (NMS) and Remote Stations. The Remote Stations are the subscribers' terminals (Telephones), which communicate within the Base Station area. In case of fixed WLL system, the subscribers' terminals are fixed and in case of mobile system, the subscribers' terminals are mobile. Depending upon the technology and engineering, the coverage area in case of mobile WLL system varies from 100 meter to several kilometers. WLL CDMA is marketed under brand name "Garuda" by MTNL. MTNL has introduced two types of CDMA technology[1].

[1] CDMA IS-95-A and CDMA 1 X. CDMA 1X is the latest technology and provides congestion-free network, high speed data handling capacity and supports value added service like voice mail service, internet connectivity, etc.

6.2 Organisational setup

The respective Executive Directors (EDs) head both the Delhi and Mumbai CDMA units of MTNL. In MTNL Mumbai, the ED is assisted by General Manager (WLL) supported by Deputy General Managers dealing with WLL operations. ED, MTNL Delhi unit is assisted by concerned General Managers dealing with Administration and Operation, Commercial and Billing operations. Till November 2003, officers were not specifically designated in the case of Delhi for WLL operations at the managerial level, unlike in the case of Mumbai.

6.3 Scope of Review

The review covers aspects relating to planning, procurement, utilisation and operational performance of WLL CDMA system in MTNL along with billing and collection of revenue. The review was conducted during the period 2003-04 covering a period of seven years since the commencement of WLL operations in 1997 by MTNL.

6.4 Growth of WLL

MTNL commenced its WLL operations in 1997. However, private operators, who entered the WLL market much later viz. in the year 2002, achieved tremendous growth in their subscribers' base in comparison to MTNL. The status of growth in subscribers' base of MTNL vis-à-vis that of private operators in Delhi and Mumbai as on 31 March 2004 was as under: -

Name of the operator	Month & year of commencement of operation	Total number of subscribers at the end of March 2004
A	B	C
Delhi		
MTNL	May 1997	78015
Tata Teleservices Ltd.	December 2002	241421
Reliance Infocomm Ltd.	May 2003	877378
Mumbai		
MTNL	January 2002	64269
Tata Teleservices Ltd.	August 2003	195756
Reliance Infocomm Ltd.	May 2003	716295

MTNL could not attain a substantial subscriber base compared to private operators, who came to the WLL market much later

The above table reveals that private operators made rapid expansion in their subscribers' base since introduction of their services. As on 31 March 2004, M/s Reliance Infocomm Limited, in less than one year, had 8.77 lakh and 7.16 lakh WLL subscribers' base in Delhi and Mumbai, respectively. M/s Tata Teleservices Limited also, within a period of about one year, had 2.41 lakh WLL connections in Delhi and 1.96 lakh connections in Mumbai. But MTNL, being a pioneer in the field of WLL CDMA since 1997, could attain a subscriber base of only 0.78 lakh and 0.64 lakh in Delhi and Mumbai, respectively.

6.5 Planning

MTNL commenced field trials of a 1,000 lines WLL system in Delhi in May 1996

MTNL Delhi, in May 1996, as pioneer commenced field trials of 1,000 lines WLL system with CDMA technology in Delhi. MTNL was to gain technical experience, introduce personal communication services, evaluate suitability of the technology in Indian conditions, finalise the generic requirement (technical parameters) and observe the feasibility of the provision of telephones particularly in technically non-feasible (TNF) areas[1].

For assessment and achievement of these objectives of field trials and the fact that the WLL system was a new telecom project for MTNL which was to be executed on turnkey contract basis, it was necessary for MTNL to formulate a detailed Plan and also devise a monitoring and review mechanism.

Before launching the WLL system, MTNL failed to formulate any detailed plan and monitoring mechanism

However, MTNL before launching the WLL system did not formulate detailed plan and monitoring mechanism either for setting up of the system or for its operational performance. Consequently, it not only suffered financial losses due to repeated procurement of obsolete/deficient technologies, capacity constraints, operational deficiencies and non-realisation of revenue but also could not sustain the rate of subscribers' growth compared to private operators, quality and credibility of its service owing to poor coverage and system deficiencies as discussed in succeeding paragraphs.

MTNL went in for further expansion without stabilising the deficient existing system

The Management in their reply (November 2004) stated that after installation of 1,000 lines small network and loading upto 70 *per cent*, the same was expanded by 9,000 lines. However, due to deficiencies only 25 *per cent* payment was made to the vendor for 1,000 lines system and 50 *per cent* against 9,000 lines system. This shows that MTNL, without stabilising the system, went ahead with further expansion over the years and consequently, most of the systems did not meet the technical specifications.

The Management further stated that MTNL planned WLL services for limited mobility, while the other operators entered the WLL service market very late during 2002-03 keeping mobile service in their mind and not limited mobility. Therefore, these operators introduced advanced features like SMS, VMS, multiple registrations and roaming, etc., which were meant for mobile service and which, as per regulatory norms, were not allowed for limited mobility. This resulted in a higher subscriber growth for private operators. Hence, the growth rate of MTNL limited mobility service should not be compared to the other operators' fully mobile service. This was purely a change in regulatory environment for MTNL, which was beyond the imagination and control of MTNL.

MTNL failed to adapt itself to the rapid changes in telecom business

MTNL had the option of switching to mobile service under the unified access service licensing regime like any other private operator. However, the Management's reply indicates that MTNL failed to adapt itself to the rapid

[1] TNF areas - where cables could not be laid.

changes in telecom business from limited mobility to mobile services and therefore, failed to reap the benefit of being a pioneer WLL service provider. There was also no reason for MTNL to have opted for an inferior technology for Mumbai in December 2002 when they had already opted for an advanced technology in Delhi in July 2002 and thereby adversely affecting their subscribers' base. Further, working within the same technology of CDMA 1X in Delhi, the private service providers showed much faster WLL subscribers' growth.

6.6 Procurement of WLL system

MTNL procured three lakh lines WLL system for Rs 320 crore during 1997 to 2003

Since the introduction of WLL CDMA in Delhi during 1997, MTNL Delhi and Mumbai units procured three lakh lines WLL system valued at Rs 320 crore during the period 1997 to 2003 as below.

Chronology of procurement of WLL system

Sl. No.	Purchase order Date/Place	Vendor's name	Month/Year of Commissioning	Quantity	Value (Rs in crore)
1	PO Dt 8-9-1995 Delhi	M/s Qualcomm	May 1997	1000 lines	5.45
2	PO Dt 7-7-1998 Delhi	M/s ITI	October 1999	9000 lines	14.40
3	PO Dt 2-7-1999 Mumbai	M/s Fujitsu	January 2002	50000 lines	77.23
4	PO Dt 7-3- 2000 Delhi	M/s Motorola	October 2001 (34800 lines) March 2003 (15200 lines)	50000 lines	50.66
5	PO Dt 9-8-2002 Delhi	M/s Motorola	March 2003	100000 lines	84.93
6	PO Dt13-12-2002 Mumbai	M/s Fujitsu	August 2003	92230 lines	87.04

6.6.1 Procurement of 50,000 lines and one lakh lines WLL system for Mumbai

MTNL paid Rs 1.92 crore for 174 filters which should have been provided free of cost by the supplier

➢ The Cellular Mobile operators reported frequency interference problems in Mumbai when M/s Fujitsu in Mumbai was carrying out the coverage test for commissioning of 50,000 lines WLL system during April 2001. To overcome the problem of frequency interference, MTNL procured 174 filters from M/s Fujitsu at a cost of Rs 1.92 crore. Audit noticed that the Delhi unit of MTNL did not encounter any such frequency interference problem because its supplier, M/s. Motorola, had provided additional filters. According to purchase order, any extra material required for successful installation, commissioning and operation of the complete system was required to be supplied by the supplier free of cost. But MTNL failed to insist on the supplier to provide the filters free of cost in terms of the purchase order. Thus, MTNL incurred an unjustified excess expenditure of Rs 1.92 crore.

On this being pointed out, the Management replied (November 2004) that MTNL at the time of installation at one of the Base Transreceiver Station (BTS) sites observed that the radiation of this site was leading to interference with other GSM operators. Hence, MTNL had no option but to procure the interference suppression filters.

The reply is not tenable as M/s Fujitsu had conducted field survey during the pre-bid phase when Global System for mobile communication (GSM) operations was in existence. Yet it failed to assess the requirement of filters at that time. Further, the General Manager, Material Management, in August 2001, had asked the supplier to provide filters without any extra cost to MTNL. Hence, procurement of filters at additional cost was not in order.

MTNL procured old technology for Mumbai ignoring the availability of latest technology

➢ Audit scrutiny also revealed that there was a proposal (April 2002) from the Mumbai unit of MTNL for expansion and migration of existing 50,000 lines capacity to the latest CDMA 2000 1X technology having advanced features. However, ignoring the fact that the latest technology had already been introduced in Delhi, MTNL took a decision (December 2002) for expansion of the existing system by one-lakh lines in Mumbai with old technology at a cost of Rs 87.04 crore. Resultantly, MTNL, on the one hand, lost the opportunity to provide competitive services on par with other operators and, on the other hand, incurred imprudent expenditure of Rs 87.04 crore owing to its failure to migrate from old technology to the latest one.

On this being pointed out, the Management stated (November 2004) that keeping in view the pressure of competition and in order to retain the subscribers, it was decided to expand the system by 92,230 lines with the existing older technology from M/s Fujitsu. Inviting fresh tender would have resulted in loss of time and consequent loss of potential subscribers.

The reply is not acceptable as CDMA 2000 1X networks were commercially launched globally in 2001 and had MTNL planned in advance, it could have easily migrated to CDMA 2000 1X during December 2002.

6.6.2 Avoidable extra expenditure of Rs 11.47 crore

MTNL delayed issue of a purchase order for 50,000 lines, which led to extra expenditure of Rs 11.47 crore on customs duty

As per MTNL's standards, the entire procurement process (i.e. issue of Notice Inviting Tender to issue of Purchase Order) should be completed within 106 days. But in the case of procurement of 50,000 lines (June 1998) for Mumbai, MTNL took more than 360 days to issue the purchase order (July 1999). Audit noticed that at the time of inviting bids (June 1998), the customs duty was at the rate of 22.22 *per cent* of CIF (cost including freight) price, but during the year 1999-2000 the infrastructure project benefit on CDMA WLL equipment was withdrawn due to which the rate of customs duty was enhanced to 53.82 *per cent*. Consequently, due to the delays in tendering process and placement of purchase orders, MTNL incurred an avoidable expenditure of Rs 11.47 crore on customs duty, besides delays in installation and commissioning of the system.

On this being pointed out, the Management replied (November 2004) that as the CDMA technology was new there were delays at every stage of finalisation of the bids. The reply is not tenable as MTNL had already conducted field trial and installed 1,000 lines CDMA system in Delhi during 1997. Further, MTNL's procurement manual provides relaxation only in the delivery period, which is enhanced to eight months from normal six months in cases where validation of new technology is involved.

It was also stated that taxes were charged by the Government keeping in view the fiscal policies and loss/gain on account of these policies was only on account to Government and not to any private party and should be treated as notional loss/gain.

The procurement manual of MTNL stipulates that during the extended delivery period for supply of equipment any increase in taxes shall be to the supplier's account. Further, MTNL as a commercial entity must safeguard its interest, which has clearly not been the case on account of inordinate delay in issue of purchase order.

6.6.3 Irregular advance payment of Rs 5.86 crore

MTNL extended undue benefit of Rs 5.86 crore as excess advance payment to the supplier

Against the purchase order of March 2000 by MTNL Delhi, M/s Motorola commissioned (October 2001) only 34,800 out of the total ordered capacity of 50000 lines. The remaining 15,200 lines were supplied and put to use belatedly in March 2003. As per terms and conditions of the purchase order, advance payment of Rs 10.55 crore was payable. However, MTNL paid Rs 16.41 crore (Appendix-23). This lapse on the part of MTNL resulted not only in acceptance of short-equipped capacity but also in extending undue benefit of excess advance payment of Rs 5.86 crore to the supplier.

6.6.4 Irregular placement of purchase order for expansion of capacity

A purchase order for expansion of capacity was placed on the existing supplier without inviting fresh tenders

The 50,000 lines system supplied and installed by March 2003 in Delhi by M/s Motorola did not meet the technical specifications. In spite of this, MTNL placed another purchase order on turnkey basis for expansion of capacity up to 1.5 lakh lines based on latest CDMA 2000 1X technology on M/s Motorola in August 2002 for Rs 84.93 crore without inviting fresh tenders. In the absence of competitive rates, MTNL had no choice but to accept the price offered by M/s Motorola, which was irregular and not in the overall financial interests of MTNL.

On this being pointed out by Audit, it was stated by the Management (November 2004) that after upgradation of the system, all the deficiencies had been resolved.

The reply is not relevant and procurement of WLL CDMA amounting to Rs 84.93 crore without inviting tenders was irregular and reflected lack of transparency in the tendering process.

6.7 Procurement of WLL handsets

The success of WLL system is dependent on the availability of WLL handsets {both fixed wireless terminals (FWT) and mobile terminals (mobile sets)} for without handsets request for WLL connections from the subscribers could not be accepted. It was, therefore, very important for MTNL to make advance procurement of sufficient number of WLL handsets at most economical rates so as not to hinder the growth in subscribers' base.

A review of the records pertaining to procurement of WLL handsets revealed the following:

6.7.1 Extra expenditure of Rs 24.50 lakh due to procurement of handsets at higher rates

In the process of tender evaluation before finalisation of prices, the reasonableness of rates should be checked with reference to market rates. A good yardstick of market rate is the rate obtained by Bharat Sanchar Nigam Limited (BSNL).

MTNL failed to consider the reasonable market rate or the rate paid by BSNL while procuring handsets

In the course of audit, it was noticed that MTNL, in the case of procurement of WLL handsets failed to check the reasonableness of rates. Against a limited tender enquiry (December 2002), MTNL placed (March 2003) a purchase order for supply of 60,000 (30,000 each for Delhi and Mumbai) mobile handsets without data cable at the rate of Rs 5,000 per handset on M/s XL Limited. MTNL placed (May 2003) separate purchase order on the same supplier for procuring 32,000 data cables at a price of Rs 200 per data cable. The total cost per handset including data cable for MTNL worked out to Rs 5,200. It was noticed in audit that during the same period, BSNL had also placed (April 2003) a purchase order on the same supplier at a price of Rs 4,995 per handset including data cable. The price of handsets and data cable procured by MTNL was higher by Rs 205 per set. This resulted in avoidable extra expenditure of Rs 24.50 lakh in procurement of 11,950 data cable. The balance quantity was short-closed. Also, after receipt of 33,000 mobile handsets out of 60,000 ordered, MTNL stopped the procurement of balance 27,000 handsets due to difference in prices.

On this being pointed out by Audit, the Management replied (November 2004) that it was not appropriate and logical to compare the prices obtained against two different tenders since the specification of quantity and the terms and conditions would differ between the two tenders. It also stated that due to urgency the rates of MTNL could not be compared with those of BSNL. It further stated that after intervention of Central Vigilance Commission the rates of BSNL were negotiated with vendor and balance 27,000 terminals were procured at Rs 4,995 per terminal.

The reply confirms that MTNL, in the first instance, failed to consider the reasonable market rate i.e. BSNL rate before finalising the rates for procurement of 60,000 handsets.

6.7.2 Infructuous expenditure of Rs 16.49 crore due to non repair of faulty/damaged handsets

Stringent quality tests were not conducted for handsets. As a result, many handsets were found to be faulty

The purchase order for WLL handsets provides for stringent quality checks by MTNL before the supplies are made. During the course of verification of records by audit, it was observed that 5,499 handsets were diverted from Delhi unit to Mumbai unit in January/March 2002 at the time of launching Garuda service in Mumbai. Out of these, 300 handsets were sent back to Delhi, being faulty. Thereafter, another 1,017 handsets valuing Rs 1.74 crore became faulty and were lying at MTNL stores in Mumbai as of March 2004.

Similarly, as of March 2004, 5,882 faulty handsets and 2,393 damaged handsets valued at Rs 14.75 crore (Appendix-24), were lying in the MTNL stores in Delhi. There was no arrangement to get all these handsets repaired and MTNL had taken no action in this matter.

The entire expenditure of Rs 16.49 crore on procurement of handsets was infructuous due to obsolescence and lack of compatibility

From the above, it is evident that quality checks were not adequate. Further, the chance of their utilisation was remote due to technological obsolescence and lack of compatibility. Thus, the entire expenditure of Rs 16.49 crore on procurement of these handsets was infructuous.

On this being pointed out by Audit, the Management accepted (November 2004) that these handsets were faulty. It further stated that as the life of these handsets was two years and the cost of repairs exorbitant, efforts were not made to repair them.

6.7.3 Idling of FWT/mobile handsets valued at Rs 52.80 crore

The CDMA WLL Project was conceived with the main objective to clear the technically non-feasible (TNF) areas. Deploying Fixed Wireless Terminals (FWTs) is one of the ways of clearing TNF cases within the shortest possible time.

Non-utilisation of FWTs and mobile handsets for TNF areas defeated the purpose of their procurement

On the scrutiny of records, it was noticed in audit that Mumbai unit had received 25,000 FWTs during the calendar year 2002. Out of these, 4,826 FWTs valuing Rs 7.33 crore (Appendix-25) were lying in stock as on 31 March 2004 despite the fact that 35,179 TNF cases were pending for clearance in Mumbai on that date. Similarly, in comparison to working connections as on 31 March 2004, 9,361 FWTs and 17,374 mobile sets valuing Rs 45.47 crore were lying idle in Delhi unit.

Thus, non utilisation of FWTs and mobile handsets procured two years earlier, resulted not only in blocking of funds amounting to Rs 52.80 crore in Delhi and Mumbai but also defeated the very purpose of clearing TNF cases.

On this being pointed out by Audit, the Management stated (November 2004) that providing connection on FWTs for TNF cases was not always possible due to customers' unwillingness to take wireless connection. It was further stated that in some areas the coverage was deficient and in some areas the capacity of CDMA system was not able to cater to all TNF cases. From the reply it is evident that MTNL failed to estimate the requirement of FWTs and provide adequate capacity of CDMA system.

6.8 Purchase Orders

WLL project was a turnkey project and included procurement of equipment, survey, preparation of design, installation and commissioning. The terms and conditions of purchase order should have been comprehensive in their coverage.

MTNL failed to safeguard its interest in purchase orders

Audit noticed that MTNL not only relaxed clauses of prescribed quality checks, but also failed to make essential provisions safeguarding its interest within the scope of purchase order as discussed below:

6.8.1 No penal action on supply of defective system

There was no clause in the purchase orders to initiate penal action for supply of defective systems

The WLL systems of 1,000 lines and 9,000 lines supplied by M/s Qualcomm, USA and M/s ITI during 1997-99 had deficiencies which were not rectified by these suppliers. These systems were procured at a cost of Rs 5.45 crore and Rs 14.40 crore, respectively, against which payments of Rs 3.75 crore and Rs 7.20 crore, respectively were released. There was no clause in the purchase order empowering the Management to initiate penal action for supply of defective system. Hence, MTNL could not initiate any penal action against these firms.

Scrapping of the deficient system led to infructuous expenditure of Rs 10.95 crore

MTNL launched the service commercially in May 1997 (1,000 lines) and October 1999 (9,000 lines) subject to rectification of the deficiencies. However, the suppliers did not rectify these deficiencies and the system was never declared commissioned. Ultimately MTNL Delhi proposed scrapping of the 10,000 lines system in March 2004. This resulted in infructuous expenditure of Rs 10.95 crore.

On this being pointed out, the Management stated (November 2004) that M/s Qualcomm was paid only 25 *per cent* of the cost for 1000 line equipment and M/s ITI was paid 50 *per cent* for 9,000 lines expansion equipment. Since no payment against installation and commissioning were made, the remaining amount was tantamount to more than 100 *per cent* LD. The reply is not tenable, as the purpose was not served and the expenditure became infructuous.

6.8.2 Inaccuracy in survey and design – poor coverage of areas

Purchase orders were deficient in ensuring proper survey and design by the suppliers

Audit scrutiny of purchase orders revealed that suppliers were to conduct survey and prepare design of equipment before supply. But there was no clause in the purchase orders specifying the role of MTNL in ensuring adequacy and accuracy of the survey and design. As the systems were not performing well and had operational problems like call drops, no tone, speech cutting, poor speech quality and inadequate area coverage, it is evident that survey and design of the equipment was not adequate.

In the case of MTNL Mumbai, it was observed that 50,000 lines WLL system was put into commercial use in January 2002 without carrying out acceptance testing such as coverage test, link quality test and tower structure erected on building. Major areas in Mumbai were either under partial coverage or inadequate/no coverage. Further, on expanding the WLL capacity to 1,42,230 lines (August 2003) against MTNL's coverage standards in buildings, car and on road, the actual coverage was inadequate. The latest survey conducted by MTNL in March 2004 based on written complaints from the customers again confirmed the coverage deficiency in Mumbai and Navi Mumbai area.

Inaccuracy in survey and design of the systems led to coverage problems in Delhi and Mumbai

In the case of MTNL Delhi, it was observed that the service coverage problem in 50,000 lines system supplied by M/s Motorola existed since the installation of the system. As such, the system had not been taken over by MTNL. Further, the coverage issue in respect of expanded capacity of 1.5 lakh lines (March 2003) remained pending (March 2004) though the same was taken up with the supplier (M/s Motorola).

Thus, due to non-provision of MTNL's role in ensuring the adequacy and accuracy of the survey and design, MTNL was not only misled by the supplier on coverage issue, but the quality of service remained poor and adversely affected its commercial utilisation.

Deficiencies in the systems and quality of service in Mumbai and Delhi were accepted by the Management

The Management accepted (November 2004) that the network was found deficient in coverage, capacity and quality of service in both Mumbai and Delhi and the matter was being pursued with vendors to improve upon those parameters. It also stated that a committee had been formed to look into these issues. These failures occurred as the Management failed to associate itself in the survey and design of the systems.

6.9 Utilisation and operational performance of the WLL Systems

The overall installed capacity of the WLL systems in Delhi and Mumbai and its utilisation during the period ended 31 March 2004 was as under:

Year ending on	Total equipped capacity (Lines)	No. of working connections (Lines)	Capacity utilised (%)	Reason for under-utilisation
DELHI				
31.03.2000	10.000	6.636	66.36	Deficiencies in the system
31.03.2001	10.000	6.913	69.13	Deficiencies in the system
31.03.2002	44.800	38.182	85.23	Deficiencies in the system
31.03.2003	1.50,000	41.289	27.53	Non-opening of registration & deficiencies in the system
31.03.2004	1,50.000	78.015	52.01	Non-availability of handset & deficiencies in the system
MUMBAI				
31.03.2004	1,42,230	64.269	45.00	-Shortage of handsets. -Entry of private operators with new CDMA 2000 1X technology, -Limited features -Inadequate coverage.

The installed capacity of the systems in Delhi and Mumbai was underutilised

From the above table, it is seen that the utilisation of capacity in Delhi during March 2000 to March 2004 ranged between 27.53 *per cent* and 85.23 *per cent.* In Mumbai, the WLL service was introduced in January 2002 and as of 31 March 2004, the utilisation of capacity was only 45 *per cent.*

The under utilisation of capacity was on account of deficiencies in the system and non-availability of handsets.

6.10 Revenue

6.10.1 Revenue Generation

The details of actual revenue earned in Delhi and Mumbai units of MTNL from WLL subscribers compared to estimated revenue during the last four years up to 2003-04 are as below:

(Rs in crore)

Year	Revenue projected		Actual revenue earned		Shortfall in revenue realisation	
	Delhi	Mumbai	Delhi	Mumbai	Delhi	Mumbai
2000-01	30.08	NA	5.60	NA	24.48	NA
2001-02	53.83	54.52	9.38	0.57	44.45	53.95
2002-03	87.09	65.42	18.26	18.49	68.83	46.93
2003-04	72.24	86.12	27.98	21.13	44.26	64.99
Total	**243.24**	**206.06**	**61.22**	**40.19**	**182.02**	**165.87**

There was shortfall of Rs 347.89 crore in actual generation of revenue compared to the projected revenue

From the above table, it is seen that as per project estimate, Rs 243.24 crore revenue for Delhi and Rs 206.06 crore revenue for Mumbai was projected for the last four years up to 2003-04, against which only Rs 61.22 crore and Rs 40.19 crore respectively, was actually earned. Hence, there was shortfall of Rs 182.02 crore and Rs 165.87 crore in generation of actual revenue compared to the projected revenue in Delhi and Mumbai respectively.

In reply, the Management stated (November 2004) that the projected revenue could not be realised due to introduction of other private operators, TRAI tariff guidelines, calling party pays (CPP) regime for GSM customers and various promotional schemes by other operators.

The reply is not tenable as the private operators started their operations only from December 2002/May 2003, whereas MTNL had been in this field since 1997. Besides, TRAI tariff guidelines, CPP regime, etc., were also applicable to other operators and it was for MTNL to introduce competitive promotional schemes to enhance its subscribers' base and revenue.

6.10.2 Revenue billed, collected and outstanding for collection

The details of revenue billed, collected and outstanding against CDMA WLL subscribers in Delhi and Mumbai at the end of each year from 2000-01 to 2003-04, as furnished by the Management to Audit, were as under:

Delhi

Year	Revenue billed during the year (Rs in crore)	Revenue collected during the year (Rs in crore)	Percentage of revenue collected to revenue billed
2000-01	5.60	4.89	87
2001-02	9.38	5.23	56
2002-03	18.26	14.33	78
2003-04	27.98	15.16	54

Mumbai

Year	*Revenue billed during the year (Rs in crore)	*Revenue collected during the year (Rs in crore)	Percentage of revenue collected to revenue billed
2001-02	0.18	0.18	100
2002-03	13.94	13.04	94
2003-04	13.71	11.14	81

There was poor revenue collection in Delhi and Mumbai as compared to the billed revenue

From the above tables, it is seen that in Delhi the percentage of collection of revenue showed a decreasing trend from 87 *per cent* in 2000-01 to 54 *per cent* in 2003-04. Similarly, the collection of revenue in Mumbai decreased from 100 *per cent* in 2001-02 to 81 *per cent* in 2003-04. Examination in audit revealed that the main reason for short collection of revenue was bulk booking of WLL connections without verification of the subscribers' identities prior to activation as well as non-pursuance on the part of the Management to recover outstanding amounts from the defaulters.

On this being pointed out, the Management stated (November 2004) that in Delhi more than 85 *per cent* revenue billed had been realised during the three year period 2000-03 and 66 *per cent* for the year 2003-04. The reply of the Management confirmed that out of Rs 61.22 crore billed during 2000-04 an amount of Rs 13.94 crore was outstanding as of September 2004. The sharp

* Figures relate to WLL Mobile Services and do not include WLL fixed services

decline in revenue realisation in the year 2003-04 was also confirmed by the Management. It was also stated that in Mumbai verification of bonafides of subscribers and recovery of outstanding amount had been entrusted to authorised agents.

6.10.3 Loss of potential revenue due to supply of short equipped system

Capacity constraints led to loss of potential revenue

Against the ordered (March 2000) quantity of 50,000 lines system, only 34,800 lines were received and put to use (October 2001) by M/s Motorola, which got exhausted by December 2001. The remaining 15,200 lines were belatedly supplied and put to use by M/s Motorola in March 2003. Hence, despite having demand for new WLL connections, no new connections could be booked by MTNL during January 2002 to March 2003 due to capacity constraints. Hence, there was a loss of potential revenue of Rs 15.75 crore for the period January 2002 to March 2003 due to initial shortfall of 15,200 lines in equipped capacity worked out based on average per line actual revenue realized by MTNL during 2002-03.

In reply, the Management stated (November 2004) that liquidated damages on account of delay in services would be recovered from the supplier while releasing the payment.

The fact remained that the Company had suffered loss of potential revenue on account of short supply of equipped capacity by the supplier.

6.11 Billing system of WLL

MTNL did not procure any billing system/device for billing of WLL mobile as well as fixed connections. The existing computerised system of billing of landline connections, known as Customer Service Management System (CSMS), was modified to accommodate the online registration, tariff issued from time to time for WLL and generation of bills.

6.11.1 Incomplete generation of bills

Inadequate monitoring and control over feeding data in the billing system led to incomplete generation of bills

In Delhi, Audit noticed discrepancies between the number of bills issued and actual number of working connections (Appendix-26). On this being pointed out, the Management stated that the variations were due to delay in completion of Order Book (OB) at different stages, issue of manual OBs due to non-availability of data and opening of connections at the end of the month. The reply indicates discrepancies in billing and booking of connections due to inadequate monitoring and control over the feeding of subscriber data in the billing system as well as lack of co-ordination between commercial and billing sections.

Similarly, in Mumbai, scrutiny of records in respect of WLL working lines for the last four months ending March 2004 revealed that there was a large difference between the lines shown as working at exchanges and CSMS terminal (Appendix-27). The differences were due to non-feeding of subscribers' data in

CSMS terminals, non-removing lines of surrendered connections, non-deletion of closed connections etc.

6.11.2 Non-billing and inordinate delays in issue of bills to subscribers

It was noticed in audit that in respect of 43 cases in Delhi, no bills were issued for want of complete subscriber data. This implied that the subscribers' data viz, name, address (billing address) etc., were not fed in the system. This resulted in non-billing of Rs 0.14 lakh. Further, in Delhi, consolidated bills were issued after a gap of 3 to 15 months from the date of their installation. Due to this, Rs 13.32 lakh could not be realised for more than one year in Delhi.

First bills for new connections were not issued in time by MTNL in Mumbai

On review of the position of issue of first bills in respect of new connections in Mumbai, it was noticed in audit that the first bills were not issued in time in case of 9,163 subscribers out of 14,528 cases test checked during the period September 2003 to February 2004. In these cases, the delay ranged from one month to four months and the amount involved was Rs 92.16 lakh (Appendix-28), which was indicative of Management's failure in monitoring and controlling the billing process for new connections.

In reply, the Management, while accepting the facts, stated (November 2004) that necessary corrective measures had been taken and delay in issue of bills was brought down to the barest minimum.

6.11.3 Loss of revenue of Rs 25.50 lakh due to delay in disconnection for non- payment

In the case of landline connections and WLL connections, the telephone must be disconnected positively on the 45th day of the bill date in case of non-payment of bill.

Delays in disconnection of WLL services for non-payment led to loss of revenue

During test-check of records in respect of ten levels of WLL lines, it was noticed that MTNL Mumbai took 18 days to 296 days beyond the prescribed limit of 45 days to debar 434 defaulting subscribers. Further, a random test check on 5,495 cases under 4 levels revealed that delayed disconnections contributed to outstanding dues to the extent of Rs 12.02 lakh.

Similarly, in Delhi, test checks in respect of 541 defaulting subscribers revealed that the WLL services were disconnected after inordinate delay ranging from 47 days to 393 days, which not only violated the instructions in the matter but also resulted in extending undue benefit to these defaulters to that extent. This resulted in accumulation of outstanding dues to the tune of Rs 13.48 lakh.

In reply, the Management, while accepting the facts, stated (November 2004) that corrective action was being taken.

6.12 Wasteful expenditure in acquisition of WLL Cordect system

MTNL introduced the Cordect system in 2000-03

WLL Cordect system, similar to WLL CDMA, was developed by IIT Madras. MTNL procured WLL Cordect system during 2000-03 for a total of 35,000 lines at a cost of Rs 54.74 crore. The system was commissioned during the year 2000-03 in Delhi and Mumbai.

Audit scrutiny revealed that against an equipped capacity of 2,000 lines, (September 2001) of WLL Cordect equipment costing Rs 2.42 crore Delhi unit could provide only 523 and 321 connections in Najafgarh and Badli exchanges respectively. In spite of under-utilisation, MTNL further placed (September 2001) purchase order for procurement of 28,000 lines of WLL Cordect system on the justification to clear the technically non feasible (TNF) cases. As the WLL CDMA system was commissioned by Delhi unit in May 1997 to clear TNF cases and adequate cables were laid for clearing TNF cases, the procurement of WLL Cordect system in September 2001 was not justified and expenditure of Rs 44.09 crore on additional capacity of 28,000 lines proved to be wasteful due to under utilisation. In Mumbai unit, although WLL CDMA having 50,000 lines was already commissioned in January 2002, which was sufficient to clear the TNF cases, induction of WLL Cordect system having 5,000 lines in September 2002, was redundant. Resultantly, the Cordect system remained unutilised, resulting in wasteful expenditure of Rs 8.23 crore.

The system procured at Rs 52.32 crore remained grossly unutilised

On this being pointed out, the Management replied (November 2004) that the utilisation of WLL Cordect systems had decreased due to shift of customers to landline as well as availability of CDMA fixed wireless phones with advantage of mobility over bigger geographical area. The reply indicates that MTNL did not take into account the commissioning of CDMA system and provision of landline in TNF areas due to laying of cables before procuring WLL Cordect system. This resulted in non-utilisation of WLL Cordect system and consequent wasteful expenditure.

6.13 Conclusion

Review of WLL systems reveals that these were commissioned after considerable time overrun and even after that, capacity constraints were not addressed. When these bottlenecks of capacity constraints were removed, fresh connections could not be given due to inadequate number of handsets. Quality of service offered was poor in terms of area coverage. All these translated into comparatively slow expansion of subscribers' base. While private operators started five years after MTNL's initial service commencing in 1997, their base in Mumbai and Delhi at 20.31 lakh in March 2004 was 14 times more than 1.42 lakh subscribers of MTNL.

6.14 Recommendations

- MTNL needs to review and strengthen its planning mechanism to avoid future delays and bottlenecks in general and particularly in execution of turnkey projects.

➢ The procurement procedure for WLL system needs to be thoroughly reviewed with a view to ensuring that contractual commitments are clearly laid down and adhered to by the suppliers so that the commercial interests of MTNL are safeguarded.

➢ After commissioning of the system, capacity constraints due to technical deficiencies should be attended to and the system should be optimally put to use.

➢ Billing system should be strengthened for timely issue and realisation of bills.

CHAPTER VII
MAJOR FINDINGS IN TRANSACTION AUDIT

7.1 Infructuous expenditure on setting up of Customer Service Centres

Injudicious decision of the Delhi unit of Mahanagar Telephone Nigam Limited to set up Customer Service Centres for its Mobile services despite having Sanchar Haats in the nearby areas, resulted in infructuous expenditure of Rs 1.93 crore on their rent, civil and electrical works.

Between January and October 2001, MTNL opened four CSCs for its Mobile services.

The Delhi unit of Mahanagar Telephone Nigam Limited (MTNL) decided (January 2001) to open Customer Service Centres (CSCs) for sale and service functions relating to its Mobile services. Accordingly, possession of sites on hire for four CSCs to be located in South Extension Part-II, Shalimar Bagh, Karol Bagh and Nirman Vihar areas were taken in January 2001, June 2001, July 2001 and October 2001, respectively, for which rent was paid on monthly basis from the date of possession of these sites. After inordinate delays in completion of the civil and electrical works, these CSCs started functioning between February 2003 and November 2003. Subsequently, in order to optimise the resources, MTNL decided to shift the operations of these CSCs to its nearby Sanchar Haats in the respective areas and accordingly these CSCs were closed in March 2004 (South Extension Part-II), May 2004 (Shalimar Bagh and Nirman Vihar) and June 2004 (Karol Bagh). During the period from taking possession of the sites for setting up these CSCs to the date of their closure, MTNL incurred Rs 1.93 crore on rent (Rs 1.19 crore), civil and electrical works (Rs 74 lakh).

These CSCs were closed after incurring Rs 1.93 crore on rent, civil and electrical works

Sanchar Haats already located in the respective areas could have been utilised for providing CSCs

Audit scrutiny of relevant records of Delhi unit of MTNL (January 2004) revealed that Sanchar Haats in these areas were already available in 2001 and could have been used for providing customer services for its Mobile operations. The imprudent decision on the part of the Management to set up separate CSCs by ignoring the existence of its own Sanchar Haats in the respective areas and further delays in carrying out civil and electrical works to make these CSCs operational due to lack of initial planning, resulted in infructuous expenditure of Rs 1.93 crore on rent, civil and electrical works during the period January 2001 to June 2004. Besides the delay of more than two years in setting up the CSCs resulted in inconvenience to the customers.

In reply, the Management stated (January/June 2004) that these CSCs were acquired to facilitate direct interface with customers and to provide single window solutions for all problems. The sites of these CSCs were also used as nodal offices for network maintenance teams operating in the respective areas.

The reply is not acceptable. Had the Management prudently planned the entire activities and initially considered the existing Sanchar Haats for providing

Imprudent planning by the Management led to avoidable expenditure of Rs 1.93 crore

customer services for its Mobile operations, the entire expenditure on setting up of separate CSCs could have been avoided.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

7.2 Avoidable excess expenditure on productivity linked incentive to employees

Payment of productivity linked incentive to its employees for the years 2001-02 and 2002-03 in violation of the instructions issued by the Department of Public Enterprises, resulted in avoidable excess expenditure of Rs 22.90 crore by Mahanagar Telephone Nigam Limited.

The Department of Public Enterprises (DPE) issued (June 1999/March 2000) instructions to all Public Sector Enterprises (PSEs) that payment of perquisites and allowances to their employees could be up to a maximum of 50 *per cent* of the basic pay and payments over and above this ceiling should be entirely in the nature of performance-related payments, which should not exceed 5 *per cent* of the distributable profit of the Enterprise. It was also clarified (March 2000) that the Board of the concerned PSE should exercise the autonomy extended under this order with utmost caution and the decision taken in the Board meeting in that regard should also be transparent. Further, in September 2000, DPE also clarified the definition of distributable profit of an Enterprise for the purpose of calculation of performance-related payments, according to which distributable profit was the profit after tax and providing for transfer to statutory reserves, investment allowance reserve and general reserve [as per Section 205 (2A) of the Companies Act 1956].

The Mahanagar Telephone Nigam Limited (MTNL) paid Rs 64.70 crore and Rs 56.20 crore as productivity linked incentive (performance-related payments) to its employees for the years 2001-02 and 2002-03, respectively.

MTNL paid productivity linked incentive totalling Rs 22.90 crore to its employees in violation of DPE's instructions

During audit scrutiny of the relevant records of MTNL corporate office, (March 2004) it was noticed that the distributable profit of MTNL for the purpose of calculation of performance-related payments to its employees worked out to Rs 1170.61 crore and Rs 789.44 crore for the years 2001-02 and 2002-03, respectively. Based on these distributable profits, the maximum amount of performance related payments (at 5 *per cent* thereof) worked out to Rs 58.53 crore and Rs 39.47 crore for the years 2001-02 and 2002-03, respectively, against Rs 64.70 crore and Rs 56.20 crore actually paid by MTNL to its employees. The above payments of productivity linked incentive were made in violation of the DPE instructions. MTNL had also not formulated any transparent policy in regard to the payment of productivity linked incentive to its employees (June 2004).

Thus, the excess payment of productivity linked incentive (performance-related) to its employees by MTNL for the years 2001-02 and 2002-03 in violation of DPE's instructions, resulted in avoidable excess expenditure aggregating to Rs 22.90 crore during 2001-02 (Rs 6.17 crore) and 2002-03 (Rs 16.73 crore).

In reply, Management stated (June 2004) that the Board of Directors had taken a conscious decision about the quantum of payment of productivity linked incentive to employees for these years after considering the norms laid down by DPE, in the larger interest of the Company and harmonious industrial relations. They further stated that DoT was being requested to condone/approve the excess payment of productivity linked incentive for these years. The Management added that they were already in the process of formulating the parameters for payment of productivity linked incentive.

The reply is not acceptable as DPE had issued the instructions in the larger interests of the Government of India as well as PSEs and their compliance was the responsibility of all PSEs including MTNL. Besides, the Management, instead of obtaining prior approval of DoT for bypassing the DPE guidelines, sought the approval of DoT after the payment was made in violation of DPE instructions. Further, despite having corporate status for the last 18 years, the Management failed to formulate any transparent parameters so far, for payment of productivity linked incentive to its employees and maintain harmonious industrial relations.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

7.3 Irregularities in hiring of accommodation and its utilisation

Failure to adhere to provisions of the lease agreement and lack of planning in optimum utilisation of hired accommodation resulted in infructuous expenditure of Rs 1.78 crore by Mahanagar Telephone Nigam Limited during May 2002 to May 2004.

Only carpet area, exclusive of passages and entrance hall, was to be considered for calculation of rent for hired accommodation

Mahanagar Telephone Nigam Limited (MTNL), Mumbai, renewed a lease agreement of hired premises in Lower Parel area of Mumbai in July 2002 for a period of 33 months effective from May 2002 with Phoenix Mills Ltd. The lease agreement provided for calculation of rent based on carpet area exclusive of the area of passages and entrance hall. The Government of India (Directorate of Estates) has also prescribed the same standards. Scrutiny of the records by Audit (December 2003) revealed the following irregularities in renewing lease agreement and utilisation of the hired premises.

(1) From the report of the Sub-Divisional Engineer (Building) MTNL, Mumbai, it was noticed that in contravention of clause (b) of the lease

Inclusion of non-stipulated areas for calculation of rent led to avoidable excess expenditure of Rs 94.71 lakh

agreement and Government standards, the rentable carpet area of 25,034 square feet included 6,314 square feet area pertaining to passage, toilets, lobby and visitors area. The Management also did not correctly consider the carpet area for the purpose of calculation of rent. As a result MTNL had to incur avoidable excess expenditure of Rs 94.71 lakh (Rs 60 per square foot per month) on payment of rent for carpet area of 6,314 square feet during the period from May 2002 to May 2004.

Management failed to initiate corrective action

On this being pointed out by Audit (December 2003) the Management stated (May 2004) that the toilet, passage and lobby were not common to the premises but were exclusively made for the benefit of MTNL staff and customers; hence rent for these areas was payable. They also stated that on account of its emergency requirements, the unit had no option but to renew the agreement by retaining extra space over and above its requirement. The reply is not acceptable as the Management had failed to adhere to the provisions of the lease agreement and the standard procedure prescribed by the Government of India for hiring of rented accommodation. They also failed to initiate any corrective measures (May 2004).

Nine units did not take possession of allotted space

MTNL spent Rs 55.86 lakh on rent for unutilised space

(2) In the hired premises, the Management allotted (November 2002) space for 26 units of the office of General Manager (North) and Civil Wing, but till May 2004, nine of these units had not taken possession of the allotted space totalling 4,900 square feet, resulting in this area remaining unutilised for a period of 19 months (November 2002 to May 2004). Thus, MTNL incurred infructuous expenditure of Rs 55.86 lakh on rent of space unutilised.

In reply, the Management stated (May 2004) that such shifting required several actions like identification of offices, issue of orders, physical shifting, etc. and compliance to these actions was always associated with delays. The reply is not acceptable because identification of offices and orders for their shifting were issued by the Management in November 2002 itself, but physical shifting of allottees was not done despite a lapse of more than 19 months which is indicative of lack of planning on the part of the Management.

Allotment of space to units in excess of norms led to irregular expenditure of Rs 27.52 lakh on rent

(3) Further, space allotted to the remaining 17 units was 79 per cent in excess of the norms prescribed by MTNL itself and such excess space was 2,414 square feet. This resulted not only in violation of its own existing norms for allotment of space but also in irregular expenditure of Rs 27.52 lakh on rent for the period from November 2002 to May 2004 on this excess allotted space.

In reply, the Management stated (May 2004) that extra space was allotted to various units in order to make provision for accommodating computer, Fax machine etc. The reply is not acceptable as these existing norms, on the directions of the Corporate office of MTNL, had been reviewed by Mumbai unit of MTNL in February 2002 and were found to be in order.

The Management assured (May 2004) that as a step towards fiscal prudence and austerity, a high-powered committee was actively considering the option to vacate the entire premises leased from Phoenix Mills.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

CHAPTER VIII
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

ITI Limited

8.1 Introduction

Indian Telephone Industries Limited, Bangalore, was incorporated in January 1950 as a Company and was renamed as ITI Limited in January 1994. The Company has production units located at Bangalore, Palakkad, Naini, Raibareli, Mankapur and Srinagar. The products manufactured by the Company are mainly classified into switching (OCB 283, C-DOT exchanges etc.), transmission (microwave radio equipment, line equipment, digital MCPC VSAT, IDR equipment, PDH, SDH etc.), access equipment (GSM and CDMA WLL) and telephone instruments. Bharat Sanchar Nigam Limited (BSNL) has been the major customer of the Company over the years and other customers included Mahanagar Telephone Nigam Limited (MTNL), Defence Services, Railways, Power, Steel and Oil sectors.

8.2 Organisational setup

The administrative and overall functional control of the Company is vested with the Board of Directors headed by the Chairman and Managing Director (CMD) who is assisted in day-to-day management of the Company by two functional Directors (Finance and Bangalore Plant) and Company Secretary. Besides, there are six Additional Directors in charge of Human Resources Development, Personnel and Administration, Quality Assurance, Marketing and Export, Production Planning and Business Transformation Group and Operations, respectively. The units other than Bangalore Plant are headed by General Managers/Additional General Managers.

8.3 Investment and Returns

Against the authorised share capital of Rs 500 crore, the paid-up capital, as on 31 March 2004, was Rs 388 crore, consisting of Rs 88 crore as equity and Rs 300 crore as cumulative redeemable preference shares. The investment by Government of India was Rs 67.47 crore towards the equity capital. The return on the above investment in the form of dividend paid by ITI was 6 *per cent* (1998-99 and 1999-2000) and 5 *per cent* (2000-01 and 2001-02). Since the Company was incurring loss since 2002-03, no dividend was paid for the years 2002-03 and 2003-04.

8.4.1 Physical Performance

The physical performance of ITI Limited as at the end of each of the last five years ended 31March 2004 is given in Appendix-29. It was seen that:

(i) In respect of switching products though the installed capacity was almost fully utilised upto 2000-01, it declined sharply to 70 *per cent* in 2001-02, 34 *per cent* in 2002-03 and 19 *per cent* in 2003-04.

(ii) In respect of transmission products, in all the years there was underutilisation of installed capacity ranging from 13 *per cent* to 96 *per cent*. The percentage of capacity utilisation achieved compared to target ranged from 31 *per cent* to 118 *per cent.*

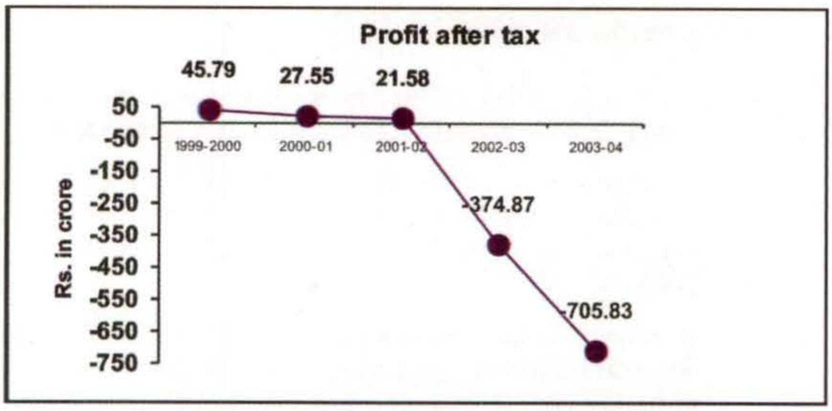
(iii) In respect of terminal equipment the utilisation of installed capacity ranged from 26 *per cent* to 100 *per cent*. The target capacity was achieved only in 2000-01.

8.4.2 Financial Performance

The financial results of the Company for the last five years ending 31 March 2004 were as follows:

(Rs in crore)

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
Sales including services (excluding Excise Duty)	1846.83	1926.38	2121.98	1701.11	1197.86
Other Income	58.96	114.37	70.62	38.21	52.94
Interest earned	1.17	1.36	0.42	0.22	6.09
Transfers from Grant-in-aid	35.07	34.97	110.80	28.42	(52.74)
Expenditure (excluding interest and prior period adjustments)	1769.32	1886.59	2107.18	1985.83	1729.98
Interest	152.88	160.70	171.26	156.02	157.97
Profit before tax and prior period adjustments	19.83	29.79	25.38	(373.89)	(683.80)
Prior period adjustments	25.96	(2.24)	(2.00)	(2.78)	(22.03)
Profit before tax	45.79	27.55	23.38	(376.67)	(705.83)
Tax provision	--	--	--	--	--
Deferred tax	--	--	1.80	(1.80)	--
Profit after tax	45.79	27.55	21.58	(374.87)	(705.83)
Proposed dividend	5.28	4.40	4.40	NIL	NIL



The profit before tax which stood at Rs 45.79 crore in 1999-2000 started declining from 2000-01 onwards. It declined by 40 *per cent* in 2000-01 and 49 *per cent* in 2001-02 as compared to 1999-2000. However, the profit of 1999-2000 had to be viewed in the light of withdrawal of liability no longer required amounting to Rs 20.26 crore. The Company incurred huge losses of Rs 374.87 crore and Rs 705.83 crore during 2002-03 and 2003-04, which was mainly due to poor sales performance and high expenditure constituting 117 and 144 *per cent* of sales, respectively during those years.

8.5 Outstanding dues

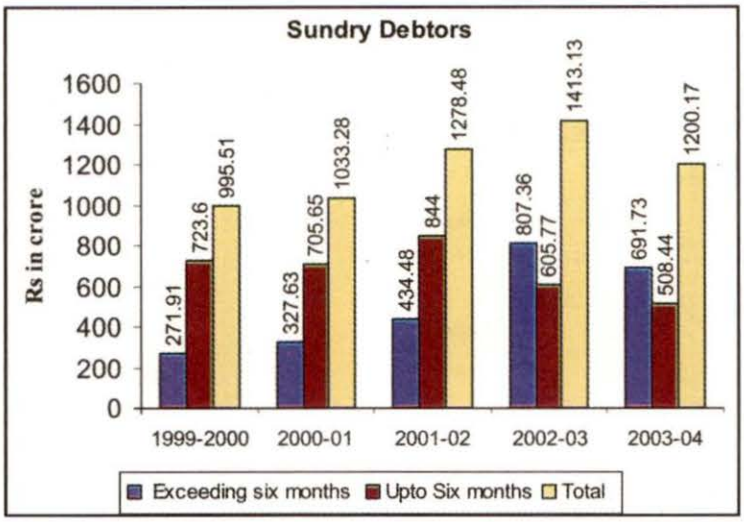
The major customers of the Company are Government companies, viz., BSNL and MTNL. The Company has not laid down any credit policy so far (September 2004).

The position of sundry debtors as at the end of each of five years ended 31March 2004 was as under:

(Rs in crore)

Sl. No	Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
1.	Total sales including services (excluding Excise Duty)	1846.83	1926.38	2121.98	1701.11	1197.86
2.	Total Sundry Debtors					
	(a) Exceeding six months	271.91	327.63	434.48	807.36	691.73
		(27)*	(32)*	(34)*	(57)*	(58)*
	(b) Upto six months	723.60	705.65	844.00	605.77	508.44
	(c) Total (a+b)	995.51	1033.28	1278.48	1413.13	1200.17
3.	Percentage of total Sundry Debtors to Sales	54	54	60	83	100
4.	Doubtful debts	6.40	5.69	5.71	8.61	11.02

**Figures in brackets indicate percentage of debtors exceeding six months to total debtors. i.e., (2a 2c) x 100.*



It could be seen from the above that debtors ranging from 54 to 100 *per cent* of sales remained in arrears at the end of last five years upto 2003-04. Percentage of debtors exceeding six months also showed increasing trend from 34 *per cent* as at the end of March 2002 to 57 *per cent* as at the end of March 2003 and to 58 *per cent* as at the end of March 2004.

Position of unbilled debtors included in total debtors during the period from 1999-2000 to 2003-04 was as under:

(Rs in crore)

Year	Total debtors as at the year end (net of provision)	Sundry debtors for the year	Billed	Unbilled	Percentage of unbilled debtors to total debtors for the year
1999-2000	989.11	803.27	288.34	514.93	64.10
2000-01	1027.59	849.25	307.35	541.90	63.80
2001-02	1272.77	1079.00	193.00	886.00	82.11
2002-03	1404.52	1024.00	592.00	432.00	42.19
2003-04	1189.15	631.56	328.44	303.12	47.99

The percentage of unbilled debtors at the end of each year upto March 2002 showed increasing trend ranging from 64 *per cent* to 82 *per cent*, but declined to 42 *per cent* and 48 *per cent* as at the end of March 2003 and March 2004, respectively.

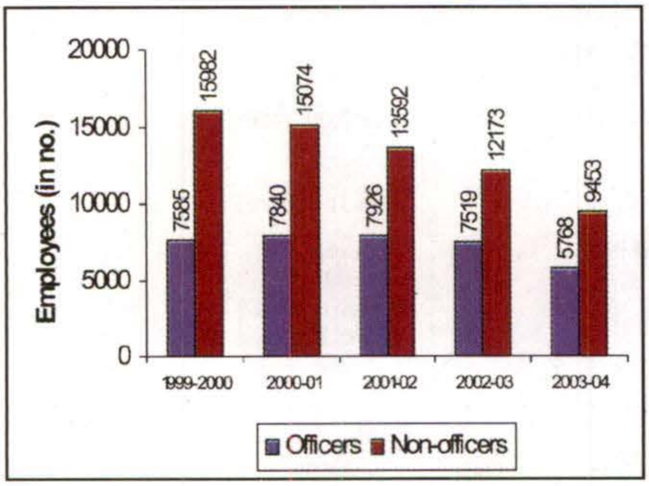
Though there were debts outstanding for more than five years, the Company had not obtained confirmation from the debtors during any of the years. The Statutory Auditors had also repeatedly commented about the Company not obtaining confirmation from the Sundry Debtors.

8.6 Manpower

The total manpower strength of the Company as at the end of each of the last five years ended 31 March 2004 was as given below

Year	Group A	Group B	Group C	Group D	Total Manpower
1999-2000	2408	5177	15553	429	23567
2000-01	2354	5486	14732	342	22914
2001-02	2169	5757	13292	300	21518
2002-03	2034	5485	11875	298	19692
2003-04	1639	4129	9396	57	15221

It would be seen that there has been 35 *per cent* reduction in overall manpower during the last five years. The breakup of officers and non-officers for the last five years was as follows:



Year	Officers	Non-officers
1999-2000	7585	15982
2000-01	7840	15074
2001-02	7926	13592
2002-03	7519	12173
2003-04	5768	9453

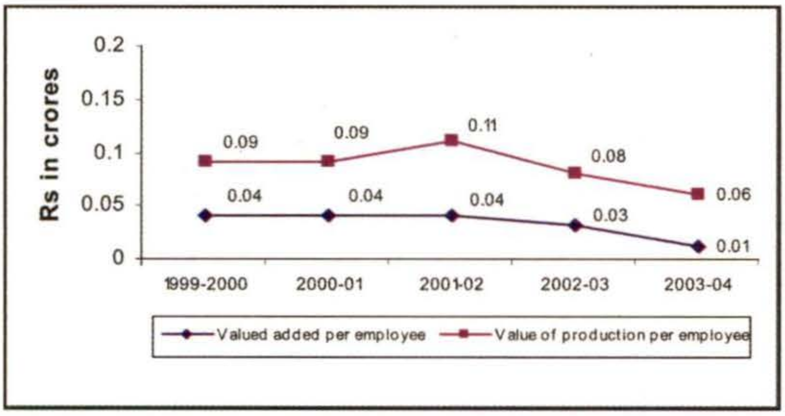
The reduction in overall manpower was mainly due to retirement of employees under voluntary retirement scheme. Though the strength of non-officers has decreased by 41 *per cent*, reduction in the strength of officers was only 24 *per cent*.

8.7 Productivity

The productivity of employees of the Company in terms of value added and value of production for the last five years ended 31 March 2004 was as follows:

(Rs in crore)

Year	Valued added per employee	Value of production per employee
1999-2000	0.04	0.09
2000-01	0.04	0.09
2001-02	0.04	0.11
2002-03	0.03	0.08
2003-04	0.01	0.06



The value of production and value added per employee has been showing a continuous decline since the year 2001-02.

CHAPTER IX
MAJOR FINDINGS IN TRANSACTION AUDIT

9.1 Locking up of funds and consequential loss of interest due to advance procurement of materials without definite order

Advance procurement of materials without definite order resulted in locking up of funds of Rs 4.74 crore and consequential loss of interest of Rs 1.41 crore.

Purchase Orders were placed for materials required for production of equipment, in anticipation of an order from AHQ

ITI Limited received two enquiries (May and July 2001) from Army Headquarters (AHQ), New Delhi, for supply of 2,320 numbers of ADM MUX 6 Channel equipment. The Company submitted the quotations (May and July 2001) and also started procurement action for purchase of materials required for 500 numbers of equipment, without waiting for the order. Purchase orders for procurement of the materials were placed during the period between July 2001 and February 2002 and the materials were received during the period between September 2001 and March 2002. Simultaneously, production activities were also commenced. The Company procured material valued at Rs 4.74 crore for production of equipment besides incurring Rs 12.63 crore towards labour and overhead which were fixed. As no orders were received from AHQ, work in process containing materials worth Rs 4.74 crore was lying in stock (June 2004), resulting in locking up of funds and consequent loss of Rs 1.41 crore towards interest thereon.

As no order was received, materials worth Rs 4.74 crore were lying in stock resulting in locking up of funds and consequent loss of interest of Rs 1.41 crore

The Management stated (January 2004) that advance procurement action was initiated with a view to supplying the equipment in time, in case of receipt of order and that efforts were on to get the order from AHQ.

The reply of the Management is not tenable as initiating production activities involving huge investment based on mere enquiries was an imprudent decision especially when the product was a proprietary item of the Company. Further, the Company may not get any order as there is no user requirement for the equipment.

Thus, procurement of material and initiation of production activities based on mere enquiries without firm order, resulted in locking up of funds of Rs 4.74 crore and consequential loss of interest of Rs 1.41 crore up to June 2004.

The matter was referred to the Ministry in May 2004; its reply was awaited as of November 2004.

9.2 Extra expenditure on procurement of memory modules

Procurement of memory modules from the collaborator, instead of from world market sources in the absence of any clause in the agreement with the collaborator requiring the Company to purchase these items as proprietary items, resulted in an extra expenditure of Rs 3.50 crore.

Memory modules were world market items

M/s Alcatel (collaborator) categorised these as proprietary items

ITI Limited (Company) requires memory modules[1] for manufacture of OCB[2] 283 exchanges. As per agreement[3] with M/s. Alcatel (collaborator) these memory modules were not proprietary items but were world market items[4]. However, the collaborator categorised these as proprietary items in July 2001. The Company procured 4,200 Integrated Circuit Code-1 at a unit rate of Rs 3,089.40 and 9,000 Integrated Circuit Code-2 at a unit rate of Rs 3,861.75 from the collaborator during February 2002 to December 2002 on the ground that these were proprietary items of the collaborator.

The Company incurred extra expenditure of Rs 3.50 crore by purchasing Integrated Circuit Codes 1 and 2 from the collaborator instead of from world market sources

Meanwhile, in order to meet urgent requirement, the Company procured (October 2002) 1000 Integrated Circuit code-2 at unit rate of Rs 1,144 against the collaborator's unit rate of Rs 3,861.75 from M/s. Brepo Systems India Private Limited, New Delhi. The Company also procured (December 2002) from M/s. Brepo Systems India Private Limited, New Delhi, 1,200 Integrated Circuit code-1 at a unit rate of Rs 1,134 against the collaborator's unit rate of Rs 3,089.40. The Company did not face any quality problems in the above purchases. These purchases clearly established that alternative cheaper sources capable of meeting the specifications of the Company were available and the Company incurred an extra expenditure of Rs 3.50 crore in the purchase of these Integrated Circuits from the collaborator.

The Management stated (February 2004) that purchase of memory modules from M/s. Brepo Systems, New Delhi, was only a commercial risk attempted in view of urgent delivery requirement, which cannot be generalised as availability of an alternate source. It was also stated that this issue was taken up with the collaborator but they turned down the request of the Company to purchase these items from the world market. The Ministry endorsed (July 2004) the views of the Management.

The reply of the Management/Ministry is not tenable as

(i) these items were originally in the world market category, which were subsequently transferred arbitrarily by the collaborator to proprietary category though there was no provision in the collaboration agreement for such transfers;

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[1] *Integrated Circuits Code 1-1AB 073210002 and Integrated Circuits Code-2 IAB 109210001*

[2] *Organdy Commanded B-Version*

[3] *Copy of the agreement with the supplier may please be supplied*

[4] *Items which can be procured by the Company from sources approved by the collaborator*

(ii) the decision of the collaborator to categorise these items as proprietary has not been incorporated in the agreement by way of amendment;

(iii) the Company did not face any quality problems in the memory modules procured from sources other than the collaborator; and

(iv) the collaborator also did not take any action against the Company in the absence of any agreement in this regard.

Thus, procurement of memory modules from the collaborator, instead of from world market sources in the absence of any clause in the agreement with the collaborator requiring the Company to purchase these items as proprietary items, resulted in an extra expenditure of Rs 3.50 crore.

9.3 Loss due to advance payment of excise duty

ITI Limited (Company) did not avail of the benefit of fortnightly payment of excise duty resulting in loss of interest of Rs 69.85 lakh.

As per Rule 173 G of Central Excise Rules 1944 and Rule 8(1) of the Central Excise Rules 2001 the duty on goods removed from the factory or the warehouse during the first fortnight of the month shall be paid by the 20th of that month and the duty on the goods removed during the second fortnight shall be paid by the 5th of the following month. Further, Rule 57A of the Central Excise rules 1944 and Rule 3 of the Cenvat Credit Rules 2002, allow a manufacturer or producer of the final products to avail credit of excise duty paid on any inputs received in the factory and such credit may be utilized for payment of excise duty on any final products cleared.

Mankapur and Naini units deposited excise duty in advance instead of availing of the benefit of fortnightly payments and Cenvat credit as stipulated in the rules

Instead of availing of the benefit of fortnightly payment as allowed in the rules, Mankapur and Naini units of the Company had been depositing the amount of duty in advance under the personal ledger account with the Excise authorities. While making advance payment the company also did not take into account full credit available to it under Rule 57A of the Central Excise Rules and Rule 3 of the Cenvat Rules as above. The units have discontinued this system of advance payment of duty from April 2003 after the failure was pointed out by Audit (August 2002/January 2003). As these units were availing cash credit facility, they could have avoided interest amounting to Rs 69.85 lakh (Rs 18.89 lakh in Mankapur unit and Rs 50.96 lakh in Naini unit) during April 2000 to March 2003 if they had availed the benefit of fortnightly payment and Cenvat credit.

The Ministry stated (July 2004) that Naini unit had definite plan to dispatch equipment worth Rs 55 crore up to March 2002 for which the excise duty of Rs 8 crore was deposited. However, these could not be cleared due to quality assurance problem.

Non-availment of the above benefits resulted in loss of interest of Rs 69.85 lakh

The reply of the Ministry is not tenable because the company should have paid the duty on the consignment after the end of the fortnight in which it was cleared as per rules instead of paying it in advance. The problem of blocked funds would not have arisen in that case even if the consignment could not be cleared due to quality assurance problem.

Thus non-availment of the benefit under the excise rules resulted in loss of interest of Rs 69.85 lakh.

CHAPTER X
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

Telecommunications Consultants India Limited

10.1 Introduction

Telecommunications Consultants India Limited (Company), with its registered and corporate office located in New Delhi, was incorporated in 1978 under the Companies Act, 1956 to provide consultancy and know-how in the area of expansion and modernisation of telecommunication networks. The Company has taken up consultancy services and turnkey projects, not only in the field of telecommunication within the country and abroad, but also in the hi-tech area of development of communication related software packages. The operations of the Company are carried out through three regional offices in the country and 17 foreign project offices in African, South East Asian and Middle Eastern countries.

10.2 Organisational setup

The administrative and overall functional control is vested with the Board of Directors headed by the Chairman and Managing Director (CMD) who is assisted in day-to-day management of the Company by two functional Directors (Technical and Finance) and a Company Secretary. The Regional Offices are headed by General Managers.

10.3 Investment and Returns

The authorised equity share capital of the Company was raised to Rs 30 crore from Rs 15 crore (2002-03) and against this the paid-up capital as on 31 March 2004 was Rs 28.80 crore fully invested by the Government of India. The return on above investment in the form of dividend paid by the Company was 220 *per cent*, 300 *per cent*, 150 *per cent*, 150 *per cent* and 75 *per cent* for each of the last five years ended 31 March 2004, respectively.

10.4 Financial Performance

The financial results of the Company for the last five years ending 31 March 2004 were as follows:

(Rs in crore)

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
i) Income from Projects (Sales)					
a) Foreign Projects	320.71	367.49	367.45	327.16	387.92
b) Indian Projects	383.92	387.52	324.06	223.15	121.02
Total Income from Projects	**704.63**	**755.01**	**691.51**	**550.31**	**508.94**

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
ii) Other or Misc. income	26.74	21.13	28.92	40.13	35.50
iii) Profit/Loss before tax and prior period adjustment	62.81	62.16	63.41	48.47	50.56
iv) Prior period adjustment (Net) Credit (+)/Debit (-)	(-) 4.07	(+) 0.99	(+) 0.20	(+) 3.03	(+) 0.21
v) Profit/Loss before tax	58.74	63.15	63.61	51.50	50.77
vi) Tax provision	9.62	4.40	6.13	11.61	3.75
vii) Profit after tax	49.12	58.75	57.48	39.89	47.02
viii) Proposed Dividend	15.84	21.60	21.60	21.60	21.60
ix) Tax on proposed dividend	1.82	2.20	-	0.46	2.82

10.5 Manpower

The total manpower strength of the Company as at the end of each of the last four years ended on 31 March 2004 is given below:

Year	Executive	Non-executive	Total manpower
2000-01	502	1063	1565
2001-02	481	1017	1498
2002-03	468	853	1321
2003-04	509	760	1269

CHAPTER XI
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

Intelligent Communication Systems India Limited

11.1 Introduction

Intelligent Communication Systems India Limited, a joint venture of Telecommunications Consultants India Limited (TCIL) and Delhi State Industrial Development Corporation (DSIDC) was incorporated on 1 April 1987. The main objective of the Company is to manufacture computer based communication systems and equipment to meet the new demand in communication and Information Technology. The Company also provides engineering, technical and management consultancy services for computers and communication systems in India and abroad.

However, the Company ceased to conduct manufacturing activities and surrendered its manufacturing licence to excise authorities in April 1995 for manufacture of excisable goods. At present the Company is engaged in trading of computer and other telecommunication systems.

11.2 Organisational setup

The administrative and overall functional control is vested with the Board of Directors headed by the Managing Director on deputation from TCIL. He is assisted in day-to-day affairs of the Company by a Deputy Manager (Finance) and Company Secretary (part time), who are also on deputation from TCIL. The Board of Directors consists of eight Members {four from TCIL, two from DSIDC and two from Orison Infocom Pvt. Ltd.}.

11.3 Investment and Returns

The authorised and paid up capital of the Company as on 31 March 2004 was Rs 100.00 lakh contributed by the following companies :-

TCIL	36 per cent
DSIDC	25 per cent
Orison Infocom Pvt. Ltd.	24 per cent
Falcom Cable TV Ltd.	15 per cent
TOTAL	100 per cent

As the Company had accumulated losses, it did not declare any dividend during the (past five) years. As of 31 March 2004, the accumulated loss of the Company was Rs 0.41 crore.

11.4 Physical and Financial Performance

The Company discontinued manufacturing business and is concentrating mainly on trading of computers and telecommunication systems, turnkey sales of cables, annual maintenance contracts, repairs of E-10-B and C-DOT cards, franchise business and Kuwait Project.

11.5 Financial Performance

The financial results of the Company for the five year ending 31 March 2004 were as follows:

(Rs in lakh)

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
i) Income from Projects (Sales)	931.13	643.13	1082.56	1671.09	2286.40
ii) Net Sales	931.13	643.13	1082.56	1671.09	2286.40
iii) Other or Misc. Income	3.30	2.67	3.99	20.89	111.45
iv) Profit / Loss before tax and prior period adjustments and extraordinary items	(-)92.61	6.76	36.37	12.03	5.37
v) Prior period adjustments (Net) Credit (+) / Debit (-)	(-)2.58	0.86	0.60	(-)0.01	(-)0.19
vi) Extraordinary items (Net)	5.03	(-)3.03	0.23	44.61	27.78
vii) Tax provision	(-)4.23	(-)0.23	(-)1.65	(-)1.47	0.57
viii) Profit after tax	(-)90.17	4.36	35.75	55.16	33.46
ix) Dividend	-	-	-	-	-

11.6 Manpower

The total manpower of the Company for the last five years was 9 in 'C' and 'D' cadre other than on deputation.

CHAPTER XII
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

Millennium Telecom Limited

12.1 Introduction

Millennium Telecom Limited (MTL), with its registered office located in Mumbai, was incorporated in February 2000 under the Companies Act 1956, as a wholly owned subsidiary of Mahanagar Telephone Nigam Limited (MTNL). The Company obtained a category 'A' licence from the Department of Telecommunications (DoT) for providing Internet services throughout India. It signed a Memorandum of Understanding (MOU) with the Himachal Pradesh State Electronics Development Corporation Limited (a Government of Himachal Pradesh Enterprise) in July 2001 for providing Internet Software Package (ISP) services at Shimla, Himachal Pradesh. The services commenced with effect from 25 February 2002. During 2002-03, MTL also decided to associate with State Electronic Development Corporations to provide Internet services in various States and accordingly, signed MOUs with Karnataka State Electronics Development Corporation, West Bengal Electronics Industry Development Corporation Limited and Beltron Communications Limited, Patna for providing Internet services in Karnataka, West Bengal and Bihar, respectively. MTL has also been providing online tendering services, namely 'Nivida Sewa' and 'Tender Mart' to its clients, mainly Mahanagar Telephone Nigam Limited (MTNL). The ISP Shimla project, however, was closed with effect from 31 January 2004 due to consecutive losses in the last two years.

12.2 Organisational setup

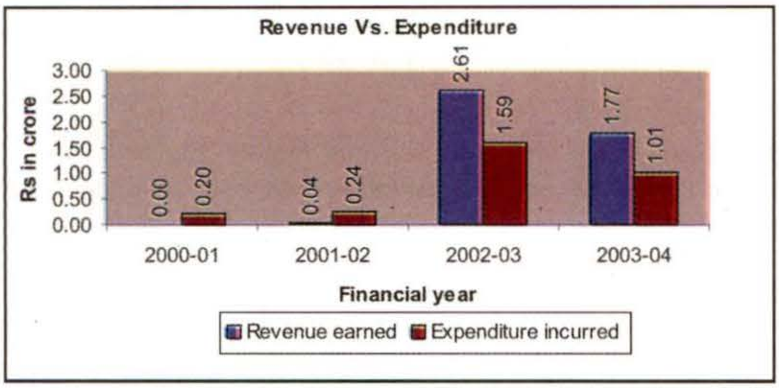
The administrative and overall control of business activities of MTL are vested with the Board of Directors headed by the Chairman and Managing Director (CMD of MTNL), who is assisted in day to day management by a Chief Operating Officer, an Internal Financial Advisor and a Deputy General Manager (Engineering). Besides, there are three other Directors (all from MTNL) on the Board of MTL.

12.3 Investment

Against the authorised equity share capital of Rs 100 crore, the paid-up capital as on 31 March 2004 was Rs 2.88 crore, which was totally subscribed by MTNL, its holding Company.

12.4 Financial Performance

At present, revenue is being generated from e-tendering services, sale of ISP packs and collections from Cyber Café services. However, during its first year (i.e., 2000-01) no profit and loss account was prepared since MTL did not undertake any commercial activity that year and only incurred pre-operative expenditure of Rs 20 lakh. During 2001-02, 2002-03 and 2003-04, the Company earned revenue of Rs 4 lakh, Rs 2.61 crore* and Rs 1.77 crore against which expenditure incurred was Rs 24 lakh, Rs 1.59 crore* and Rs 1.01 crore, respectively.



Hence, MTL incurred a net loss of Rs 20 lakh during the year 2001-02, whereas it earned net profit before tax of Rs 1.02 crore and Rs 76 lakh during 2002-03 and 2003-04, respectively.

12.5 Manpower

The Chief Operating Officer manages the day to day business activities of MTL, mainly with the help of employees of MTNL. The total manpower strength of MTL as at the end of each of the last four years ended on 31 March 2004 is given below:

Year	Group A	Group B	Group C	Group D	Total manpower
2000-01	1	2	Nil	1	4
2001-02	1	2	Nil	1	4
2002-03	1	2	Nil	1	4
2003-04	3	8	Nil	Nil	11

* *These figures, relating to the year 2002-03 have been changed by the Management in the accounts for the year 2003-04.*

CHAPTER XIII
FOLLOW UP ON AUDIT REPORTS

13. Follow up on Audit Reports

The Public Accounts Committee (PAC) decided in 1982 that in order to ensure accountability of the executive in respect of all issues dealt with in various Audit Reports, the concerned Departments/Ministries should furnish final remedial/corrective action taken notes (ATNs) on all paragraphs contained therein.

PAC while reiterating their earlier views in the Ninth Report (Eleventh Lok Sabha) presented to the Parliament on 22 April 1997, took a serious view of inordinate delay and failure to furnish ATNs within the prescribed time frame.

The Lok Sabha Secretariat also requested (July 1985) all the Ministries to furnish notes, (duly vetted by Audit) indicating remedial/corrective action taken by them on the various paragraphs/appraisals contained in the Reports of the Comptroller and Auditor General of India (Commercial) as have been laid on the table of both the Houses of the Parliament. Such notes were required to be submitted even in respect of paragraphs / appraisals which were not selected by the Committee on Public Sector Undertakings (COPU) for detailed examination.

Further, COPU in its Second Report (1998-99 Twelfth Lok Sabha), while reiterating the above instructions of July 1985 issued by the Lok Sabha Secretariat, recommended that follow-up action taken notes duly vetted by Audit in respect of all the Reports of Comptroller and Auditor General of India (Commercial) presented to Parliament should be furnished to COPU within six months from the date of presentation of the relevant Audit Reports.

In the follow-up Action on the Reports of Comptroller and Auditor General of India (Commercial), COPU in its First Report (1999-2000 – Thirteenth Lok Sabha) reiterated its earlier recommendation that Department of Public Enterprises (DPE) should set up a separate Monitoring Cell in the DPE itself to monitor the follow up action by various Ministries / Departments on the observations contained in the Audit Reports (Commercial) on individual undertakings.

A review of ATNs relating to Bharat Sanchar Nigam Limited and Mahanagar Telephone Nigam Limited under the administrative control of Department of Telecommunications (Ministry of Communications and Information Technology) revealed that final ATNs in respect of 146 paragraphs, as detailed in Appendix-30, were awaited as of November 2004.

(T.G. SRINIVASAN)
Deputy Comptroller and Auditor General
cum Chairman, Audit Board

New Delhi
Dated : 22 February 2005

Countersigned

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India

New Delhi
Dated : 22 February 2005

Appendix – 1
(Referred to in paragraph 2.2 at page 11)
Non- collection of revenue from cellular mobile subscribers

(Rs in lakh)

Sl. No.	Name of SSA	No. of subscr ibers	Month of Activation	Amount outstanding	Month of disconnection
Post paid connection through BSNL					
Bihar Telecommunications Circle					
1	Baghalpur	1	May 2003	4.02	September 2003
2	Dumka	2	June 2003	15.35	July 2003
	Sub total	***3***		***19.37***	
Gujarat Telecommunications Circle					
3	Bharuch	**8**	April 2003 and May 2003	**90.20**	July 2003 to October 2003
Kerala Telecommunications Circle					
4	Trivandrum	1		6.79	
5	Ernakulam	2		8.95	
6	Calicut	8		60.96	
7	Palakhad	5		42.72	
	Sub total	***16***		***119.42***	
Maharashtra Telecommunications Circle					
8	Kalyan	**19**	March 2003 to May 2003	**85.54**	June 2003 to September 2003
Orissa Telecommunications Circle					
9	Bhubneshwar	49	November 2002 to November 2003	47.87	March 2003 to December 2003
10	Behrampur	5	December 2002 to April 2003	1.50	May 2003 to June 2003
11	Balasore	4	February 2003 to October 2003	2.61	May 2003 to December 2003
12	Bolangir	1	February 2003	0.73	May 2003
13	Cuttack	28	November 2002 to September 2003	18.88	May 2003 to December 2003
14	Dhenakanl	1	January 2003	0.23	June 2003
15	Koraput	22	January 2003 to August 2003	22.39	June 2003 to December 2003
16	Rourkela	7	December 2002 to June 2003	1.99	May 2003 to October 2003
17	Sambalpur	7	December 2002 to July 2003	1.70	May 2003 to December 2003
	Sub total	***124***		***97.90***	
Punjab Telecommunications Circle					
18	Chandigarh	**2**		**193.05**	
Rajasthan Telecommunications Circle					
19	Ajmer	14	June 2003 to July 2003	80.21	October 2003
20	Bharatpur	2	April 2003	11.38	September 2003
21	Jaipur	8	July 2003 to September 2003	57.98	November 2003
22	Kota	1	Feb 2003 to September 2003	0.10	September 2003 to December 2003
23	Sikar	1	August 2003	0.01	October 2003
	Sub total	***26***		***149.68***	
UttarPradesh (West) Telecommunications Circle					
24	Ghaziabad	1	October 2003	**1.75**	

Sl. No.	Name of SSA	No. of subscribers	Month of Activation	Amount outstanding	Month of disconnection
West Bengal Telecommunications Circle					
25	Gangtok	7	February 2003 to August 2003	**26.52**	July 2003 to September 2003
	Total	**206**		**783.43**	
Post paid connection through authorized dealers					
Kerala Telecommunications Circle					
1	Malapuram	2		1.31	
2	Trivandrum	2		1.51	
3	Trichur	1		8.39	
4	Mananthavady	2		25.61	
5	Erankulam	2		4.80	
6	Calicut	8		53.86	
	Sub-total	***17***		***95.48***	
Rajasthan Telecommunications Circle					
7	Bharatpur	4	May 2003 to August 2003	1.71	September 2003
8	Bikaner	2	October 2003	1.35	December 2003
9	Churu	1	August 2003	5.92	November 2003
10	Jaipur	2	August 2003	26.94	November 2003 to December 2003
11	Kota	19	June 2003 to September 2003	50.69	September 2003 to December 2003
	Sub-total	***28***		***86.61***	
Karnataka Telecommunications Circle					
12	Bangalore	**144**	April 2003 to June 2003	**432.99**	June 2003 to September 2003
	Total	***189***		***615.08***	
	Grand Total	**395**		**1398.51**	

or say Rs 13.98 crore

Appendix - 2
(Referred to in paragraph 2.3 at page 12)
Continuation of telephone facilities despite non-payment of dues

(Rs in lakh)

Sl. No.	Particulars of lines/ cables/circuits	Period of short/non-recovery	Total amount of short/non-recovery	Particulars of recovery made after issue of Audit Note	
				Amount recovered/ month of recovery	Amount to be recovered
1	2	3	4	5	6
Bihar Telecommunications Circle					
1	118 PCO operators and 501 subscribers of GMTD Bhagalpur	June 1998 to July 2003 January 1995 to June 2003	25.23 85.39	14.64 June 2004	95.98
2	74 subscribers of GMTD Gaya	July 1993 to May 2003	14.65		14.65
3	449 PCO operators of GMTD Darbhanga	November 2000 to September 2003	52.17		52.17
4	427 PCO operators and 383 subscribers of TDM Ara	October 1998 to November 2003 August 1996 to September 2003	76.97 58.22		135.19
5	169 PCO operators of TDM Samastipur	April 1990 to August 2003	106.07	76.79 February 2004	29.28
6	383 PCO operators of TDM Munger	August 2001 to January 2004	118.67		118.67
7	320 subscribers of TDE Kishanganj	June 1991 to September 2003	47.09		47.09
8	133 subscribers of TDM Khagaria	January 2002 to March 2004	47.81		47.81
9	204 subscribers of TDM Motihari	March 1993 to December 2003	38.63		38.63
	Sub Total		***670.90***	***91.43***	***579.47***
Gujarat Telecommunications Circle					
10	269 subscribers of GMTD Himmatnagar	March 1999 to February 2003	16.52		16.52
11	293 subscribers of GMTD Palanpur	July 2001 to June 2003	16.02		16.02
	Sub total		***32.54***		***32.54***
Jharkand Telecommunications Circle					
12	98 subscribers of TDM Dumka	January 2002 to August 2003	55.12		55.12
	Sub total		***55.12***		***55.12***
Karnataka Telecommunications Circle					
13	1687 Local/STD PCO operators of GMT Gulbarga	November 1991 to March 2004	55.42	-	55.42
	Sub total		***55.42***		***55.42***

Sl. No.	Particulars of lines/ cables/circuits	Period of short/non-recovery	Total amount of short/non-recovery	Particulars of recovery made after issue of Audit Note	
				Amount recovered/ month of recovery	Amount to be recovered
1	2	3	4	5	6
Maharashtra Telecommunications Circle					
14	147 subscribers and 108 STD PCO operators of GMT Kalyan	March 1994 to September 2000	204.09	25.00 November 2003	179.09
		May 1994 to May 2002	61.18	26.93 June 2004	34.25
	Sub total		***265.27***	***51.93***	***213.34***
Rajasthan Telecommunications Circle					
14	172 STD PCO operators of GMTD Jaipur	May 2000 to February 2002	18.37	9.37 July 2004	9.00
16	286 subscribers of GMTD Kota	December 1994 to March 2004	53.22		53.22
Sub total			***71.59***	***9.37***	***62.22***
Grand Total			***1150.84***	***152.73***	***998.11***
		or say	**Rs 11.51 crore,**	**Rs 1.53 crore,**	**Rs 9.98 crore**

Appendix -3
(Referred to in paragraph 2.4 at page 13)
Non-billing due to non-receipt of advice notes

(Rs in lakh)

Sl. No.	Particulars of lines/ cables/circuits	Advice notes not received		Particulars of bills issued/ recovery made after issue of Audit Note	
		Period	Amount	Amount recovered/ month of recovery	Amount to be recovered
1	2	3	4	5	6
Andhra Pradesh Telecommunications Circle					
1.	Provision of 60I/c junctions and Access to ICICI Bank limited	August 2003 to March 2004	8.56	8.56 January 2004	-
2	Provision of ISDN PRA and Access to PSTN to HSBC Limited	November 2003 to March 2004	4.59		4.59
3.	Provision of 2 Mbps circuit (local) to Vyasa Bank between Madhapur and Saifabad	January 2003 to March 2004	2.32	2.32 November 2003	-
4.	Provision of 2 Mbps circuit to Lucent Technologies between Banjara Hills and Secundrabad	July 2002 to March 2004	1.94	1.94 November 2003	-
5.	Provision of 2 Mbps circuit to UTI between Bank Street and Saifabad	July 2002 to March 2004	2.48	2.48 December 2003	-
6	Provision of Data access to SITA Travels for 9,12 and 1 DEL	April 2001 to March 2004	8.35	8.35 November 2003	-
	Sub total		***28.24***	***23.65***	***4.59***
Assam Telecommunications Circle					
7	Provision of new telephone connections by GMT Bongaigaon	October 2000 to September 2003	18.10		18.10
	Sub total		***18.10***		***18.10***
Bihar Telecommunications Circle					
8	Provision of data and speech circuits to Railway authorities between different stations by GMTD Katihar	December 2001 to July 2003	4.74	-	4.74
9.	Provision of telephone connections by TDM Samastipur	December 2000 to July 2003	38.20	38.00	0.20
10	Provision of telephone connections by TDM Bhagalpur	October 2000 to July 2003	65.25	-	65.25
11	Provision of telephone connections by TDM Darbhanga	September 2003 to October 2003	13.85		13.85
12.	Provision of telephone connections by TDM Kishanganj	May 2003 to September 2003	4.09	-	4.09
13.	Provision of telephone connections by TDM Gaya	October 1995 to July 2003	5.36	-	5.36
	Sub total		***131.49***	***38.00***	***93.49***

Sl. No.	Particulars of lines/ cables/circuits	Advice notes not received		Particulars of bills issued/ recovery made after issue of Audit Note	
		Period	Amount	Amount recovered/ month of recovery	Amount to be recovered
1	2	3	4	5	6
Gujarat Telecommunications Circle					
14	Provision of 6F OFC cable provided to Airforce Authority, Jamnagar	December 2002 to December 2003	6.50	-	6.50
15	Provision of 2 Mbps data circuit to M/s Facell Ltd between Himatnagar and Modasa	September 2002 to March 2004	6.98	6.98 September 2003	
	(i) Provision of E1R2 connectivity on 2 Mb stream to M/s Zindal Information and Technology Limited by GMTD Mehsana	April 2001 to April 2004	4.27	2.35 October 2004	1.92
	(ii) Provision of 64 Kbps data circuit to Secretary IT Government of Gujarat	June 2003 to June 2004			
	(iii) Provision of 64 Kbps data circuit to Secretary IT Government of Gujarat	August 2003 to August 2004			
	(iv) Provision of 9.6 Kbps data circuit to S.K. school Patan	August 2003 to August 2004			
	(v) Provision of 64 Kbps data circuit to D.G.P Windsor	October 2003 to October 2004			
	Sub total		*17.75*	*9.33*	*8.42*
Jharkhand Telecommunications Circle					
16	Provision of data circuits/ticker lines to various subscribers at different locations by GMTD Ranchi	September 1999 to September 2003	9.63	-	9.63
17	Provision of data circuits to M/s L&T Limited by GMTD Dhanbad	December 2002 to December 2004	2.49	-	2.49
18.	Provision of data network to LIC Divisional office, Hazaribagh	June 2003 to June 2004	3.59	-	3.59
19.	Provision of telephone connections by TDM Dumka	January 2002 to August 2003	52.51	-	52.51
	Sub total		*68.22*		*68.22*
Maharashtra Telecommunications Circle					
20	Provision of 2 Mbps data circuit to Ingram Micro (I) Ltd from VSNL Mumbai to Ahmedabad	March 2003 to March 2004	28.15	28.15 February 2004	-
21	Provision of 2 Mbps data circuit to Ingram Micro (I) Ltd from VSNL Mumbai to Indore	April 2003 to March 2004	25.47	25.47 February 2004	-
22	Provision of 2 Mbps data circuit to Ingram Micro (I) Ltd from VSNL Mumbai to Vasai	August 2003 to March 2004	6.29	6.29 January 2004	-

Sl. No.	Particulars of lines/ cables/circuits	Advice notes not received		Particulars of bills issued/ recovery made after issue of Audit Note	
		Period	Amount	Amount recovered/ month of recovery	Amount to be recovered
1	2	3	4	5	6
23	Provision of 64 Kbps data circuit to Dr. Babasaheb Ambedkar Tech. University from Pen to Batu Lonere	October 2003 to January 2004	1.18	1.18 February 2004	-
24	Provision of 64 Kbps data circuit to Loreal India Pvt. Ltd from VSNL Mumbai to Valsad Umbergaon	August 2003 to March 2004	0.87	0.87 January 2004	-
25	Provision of 256 Kbps data circuit to Loreal India Pvt. Ltd from LVSB Dadar to Saputara Nasik	August 2003 to March 2004	2.36	2.36 January 2004	-
	Sub total		*64.32*	*64.32*	-
North East-I Telecommunications Circle					
26	Provision of telephone connections to 98 subscribers - bills remained unaddressed, GMT Aizwal	June 1998 to April 2003	36.58	-	36.58
		Sub total	*36.58*		*36.58*
Rajasthan Telecommunications Circle					
27	Provision of Local Lead to Army Signal Centre on rent and guarantee basis at Jaipur, Kota and Alwar	July 2002 to June 2004	91.27	91.27 April 2004	-
	Sub total		*91.27*	*91.27*	
	Grand Total		**455.97**	**226.57**	**229.40**

or say Rs 2.29 crore

Appendix - 4
(Referred to in paragraph 2.5 at page 14)

Short-realisation of rentals due to non application of revised tariff

(Rs in crore)

Sl. No.	Name of circuits	Short billing pointed out by Audit		Amount	
		Period	Amount	Realised	Balance
Karnataka Telecom Circle					
1	Lines and wires	April 1991 to March 2001	1.33	1.13	0.20
Orissa Telecom Circle					
2	Speech circuits	August 1992 to March 2003	0.58	0.00	0.58
Uttar Pradesh (West) Telecom Circle					
3	Speech circuits	April 1986 to November 2004	0.67	0.00	0.67
Total			**2.58**	**1.13**	**1.45**

Appendix - 5
(Referred to in paragraph 2.8 at page 17)
Short realisation of installation charges and rentals

(Rs. in lakh)

S.No	Name of SSA	No. of Exchanges	Period of short billing	Short realisation of			Bills issued	Amount realised	Balance
				Installation charges	Rental	Total			
RENTAL									
Andhra Pradesh Telecommunications Circle									
1	Kurnool	2	May 2001 to November 2002	-	10.70	10.70	10.70	9.95	0.75
2	Nalgonda	1	April 2003 to December 2003	-	5.13	5.13	5.13	-	5.13
	Sub total				*15.83*	*15.83*	*15.83*	*9.95*	*5.88*
Uttar Pradesh (East) Telecommunications Circle									
3	Pratapgarh	7	April 2001 to October 2003	-	56.42	56.42	-	-	56.42
4	Bahraich	5	April 2001 to July 2003	-	30.03	30.03	-	-	30.03
5	Gonda	7	April 2001 to March 2003	-	41.43	41.43	31.46	28.32	13.11
	Sub total				*127.88*	*127.88*	*31.46*	*28.32*	*99.56*
INSTALLATION									
Andhra Pradesh Telecom Circle									
6	Vishakhapatnam	4	March 2002 to July 2002	3.45	-	3.45	3.45	3.10	0.35
7	Eluru	17	January 1999 to November 2002	3.25	-	3.25	3.25	3.25	-
8	Khammam	1	November 2001	1.32	-	1.32	-	1.24	0.08
9	Kurnool	4	March 2001 and March 2002	0.89	-	0.89	0.89	-	0.89
10	Nalgonda	15	December 2000 to July 2003	6.81	-	6.81	6.81	-	6.81
	Sub total			*15.72*		*15.72*	*14.40*	*7.59*	*8.13*
	Grand Total			**15.72**	**143.71**	**159.43**	**61.69**	**45.86**	**113.57**

or say Rs 1.59 crore

Appendix - 6
(Referred to in paragraph 2.11 at page 19)
Non-billing of rentals in respect of lines and wires leased to Railways

(Rs in lakh)

S.No.	Name of the SSA	Period of short billing	Amount of short billing	Amount realized
Jharkhand Telecommunications Circle				
1.	Circle Telecom Accounts, Ranchi	April 2001 to March 2004	48.13	-
	Sub-total		***48.13***	**-**
Tamil Nadu Telecom Circle				
2.	General Manager Telecom District, Tuticorin	April 2003 to September 2003	2.83	2.83
3.	General Manager Telecom District, Thanjavur	April 2003 to March 2004	4.98	1.87
4	General Manager Telecom District, Karaikudi	April 2003 to September 2003	4.13	-
	Sub-total		***11.94***	***4.70***
	Grand Total		**60.07**	**4.70**

Appendix - 7
(Referred to in paragraph 2.12 at page 20)
Short-billing of rental for leased circuits

(Rs. in lakh)

S.No.	Name of the SSA	Circuits	Periof of short billing	Amount of short billing	Amount realised
Andhra Pradesh Telecommunications Circle					
1.	PGMTD Hyderabad	16 leased circuits	September 1999 to March 2004	45.91	0
2.	GMTD Tirupathi	1 x 2 Mbps leased circuit	June 2002 to March 2004	5.37	-
3.	GMTD Kurnool	3 x 64 Kbps leased circuits	May 1999 to April 2004	4.09	4.09
	Total			**55.37**	**4.09**

Appendix – 8
(Referred to in paragraph 2.13 at page 21)
Non-recovery of compensation for the unexpired period of guarantee

(Rs in lakh)

S.No.	D.C. No.	Name of the subscribers	Date of provision / Period upto which DC to be retained	Month of surrender	Rent paid upto	Capital cost (In Rs.)	Unexpired Guarantee period	Amount of compensation (10% of capital cost x col.8)
1	2	3	4	5	6	7	8	9
1.	77	M/s Standard Chartered Bank	26.11.98 / 25.11.08	March 2003	March 2003	402152	5 years	2.01
2.	37	Bank of America	30.8.94 / 29.8.04	August 2003	August 2003	1541446	1 year	1.54
3.	32	M/s Sanmar Electronics Corp. Ltd.	5.8.94 / 4.8.04	June 2002	June 2002	132066	2 years	0.26
4.	36	M/s American President Lines Ltd.	20.12.94 / 19.12.04	December 2001	June 2002	410501	3 years	1.23
5.	124	M/s Wipro Net Ltd. (140 Mbps OFC system)	1.4.01 / 31.3.11	November 2002	March 2003	3040975	8 years	24.33
6.	125	M/s Wipro Net Ltd. (6 Fibre OFC)	15.3.01 / 14.3.11	November 2002	March 2002	1089166	9 years	9.80
7.	142	M/s Prime Softex Ltd. (6 Fibre OFC)	3.2.01 / 2.2.11	June 2002	February 2002	1123910	9 years	10.12
8.	143	M/s Prime Softex Ltd. (34 Mbps OFC system)	3.2.01 / 2.2.11	June 2002	March 2003	321098	8 years	2.57
		Total						**51.86**

Appendix - 9
(Referred to in paragraph 2.15 at page 23)
Non/short realisation of service tax

(Rs in lakh)

S.No.	Name of the SSA	Period of Non/short recovery	Service Tax non/short recovered	Bills issued	Realised
Andhra Pradesh Telecommunications Circle					
1	GMTD Anantpur	July 2001 to March 2004	12.05	12.05	11.52
2	GMTD Nellore	July 2001 to October 2003	7.90	7.90	7.37
3	GMTD Tirupati	May 2003 to March 2004	3.03	3.03	-
4	GMTD Kurnool	July 2001 to October 2003	2.16	2.16	-
Sub total			*25.14*	*25.14*	*18.89*
Maharashtra Telecommunications Circle					
5	PGMT Pune	May 2003 to March 2004	14.37	14.37	-
6	GMTD, Ahmednagar	May 2003 to March 2004	0.89	0.89	0.79
Sub total			*15.26*	*15.26*	*0.79*
Total			40.40	40.40	19.68

Appendix -10
(Referred to in para 2.18 at page 25)

Statement showing recovery at the instance of Audit

(Rs in lakh)

S.No	Name of SSA	Subject	Short billing		Amount recovered	Amount to be recovered
			Period	Amount		
Andhra Pradesh Telecom Circle						
1	PGMTD Hyderabad	Non billing of charges for additional and bold entries in telephone directory		67.67	59.84	7.83
2	GMTD Srikakulam	Non billing of advance rental in respect of one 2 MBPS circuit leased to M/s Bharati Mobile Ltd.	October 2003 to October 2004	26.90	26.90	0
3	GMTD Ongole	Short realisation of advance rental deposit in respect of new phone connections due to software problem	-	20.12	20.12	0
4	GMTD Warangal	Short billing of rental and installation charges in respect of telephone connections due to non-implementation of revised tariff consequent on increase in Exchange capacity.	February 2000 to March 2001	19.39	19.39	0
5	GMTD Ongole GMTD Eluru	Short realisation of advance rental deposit due to non-application of revised tariff consequent on increase in exchange capacity and due to concession in registration charges as a special offer.	-	8.21 13.85	6.47 12.09	1.74 1.76
6	PGMTD Hyderabad	Non billing of rental in respect of 16X2 MBPS data circuits provided to M/s Data Access (India) Ltd due to non-application of multiplication factor.	May 2003 to February 2004	311.26	311.26	0
7	GMTD Sangreddy GMTD Tirupathi	Non realisation of licence fee in respect of extensions of EPABX and Subscribers owned EPABX.	April 2002 to March 2003 March 1993 to June 2003	2.56 9.61	0 9.61	2.56 0
8	GMTD Mahabubnagar	Short billing of advance rental deposit in respect of telephone connections due to non-application of revised tariff consequent on increase in Exchange capacity.	-	17.40	6.77	10.63
		Sub total		***496.97***	***472.45***	***24.52***
Bihar Telecom Circle						
9	GMTD Bhagalpur	Non realisation of additional security deposit from STD/PCO operators.	January 2003 to June 2003	5.62	4.15	1.47
10	TDM Hazipur	Non realisation of additional security deposit from STD/PCO operators.	July 2002 to December 2002	3.80	2.07	1.73
		Sub total		***9.42***	***6.22***	***3.20***
Gujarat Telecom Circle						
11	PGMTD Vadodara	Non billing of installation charges and rentals of 2 MBPS Data Circuits	August 2003 to February 2004	15.05	15.05	0
		Sub total		***15.05***	***15.05***	***0***
Haryana Telecom Circle						
12	GMTD Gurgaon	Non realisation of rent in respect of data circuits provided to American Express Bank	May 2001 to March 2003	49.86	49.86	0

13	GMTD Sonepat	Non billing of roaming charges	April 2003 to March 2004	37.06	37.06	0
		Sub total		***86.92***	***86.92***	***0***
Karnataka Telecom Circle						
14	PGMTD Bangalore	Non-billing of initial deposit, installation and testing charges from ISDN subscribers	January 2002 to March 2004	19.47	0	19.47
		Sub total		19.47	0	19.47
Kerala Telecom Circle						
15	PGMTD Ernakulam	Non realisation of license fee for Data Networks	October 1995 to June 2004	17.45	14.02	3.43
16	GMTD Thrissur	Non realisation of license fee for Data Networks	March 1995 to March 2002	0.47	0.47	0
17	GMTD Calicut	Non realisation of license fee for Data Networks	May 1996 to July 2003	11.86	10.62	1.24
		Sub total		***29.78***	***25.11***	***4.67***
Madhya Pradesh Telecom Circle						
18	GMTD Indore	Non realisation of rent and interconnectivity charges from M/s RPG Cellcom Ltd.	August 1999 to March 2003	20.10	20.10	
		Sub total		***20.10***	***20.10***	***0***
Maharashtra Telecom Circle						
19	PGMTD Pune	Non realisation of advance rental and annual maintenance charges in respect of Optical Fibre Cable provided to various subscribers on R&G basis due to late receipt of Advice Notes	December 1997 to October 2004	52.67	52.67	0
20	PGMTD Pune	Non billing of rental in respect of 2Mbps data circuit provided to BPL Cellular Ltd.	February 2001 to March 2002	7.64	7.64	0
21	GMTD Kohlapur	Non billing of 2 Mbps data circuits provided to Birla AT&T and BPL Cellular Ltd.	April 1997 to March 2002	8.60	8.60	0
22	GMTD Parbhani	Non billing of rentals in respect of NELs provided to Police, Collector, Railway Offices.	September 1998 to March 2003	9.12	7.16	1.96
23	GMTD Kohlapur	Short billing of rentals in respect of 2 MBPS data circuits, due to incorrect application of tariff.	December 1999 to March 2004	8.06	8.06	0
24	GMTD Ahmednagar	Non revision of rental charges for providing infrastructural facilities in respect of Cellular Mobile Service Providers.	February 1997 to March 2003	11.33	11.33	0
25	GMTD Aurangabad	Excess interest allowed on OYT/Non OYT deposits by TRA Branch.		2.50	1.10	1.40
26	GMTD Latur	Excess interest allowed on OYT/Non OYT deposits by TRA Branch.		1.24	0	1.24
27	TDM Sindhudurg	Excess interest allowed on OYT/Non OYT deposits by TRA Branch.		0.69	0.69	0
28	TDM Chandrapur	Excess interest allowed on OYT/Non OYT deposits by TRA Branch.		0.07	0	0.07
29	GMTD Parbhani	Excess interest allowed on OYT/Non OYT deposits by TRA Branch.		1.42	0	1.42
30	TDM Jalna	Excess interest allowed on OYT/Non OYT deposits by TRA Branch.		4.58	1.08	3.50

31	TDM Bhandra	Excess interest allowed on OYT/Non OYT deposits by TRA Branch.		1.19	0.20	0.99
		Sub total		***109.11***	***98.53***	***10.58***
Orissa Telecom Circle						
32	GMTD Bhubaneswar	Non billing of rental in respect of 6 leased lines provided to different subscribers	December 2000 to March 2004	15.01	15.01	0
33	TDM Koraput	Non billing of rentals on PABX Board provided to the Orissa Hydro Power Corporation Ltd.	July 2000 to April 2004	16.98	16.98	0
		Sub total		***31.99***	***31.99***	***0***
Rajasthan Telecom Circle						
34	GMTD Jhunjhunu	Non/short billing of rent in respect of 2 MBPS leased circuits provided to BITS, Pillani	March 2000 to March 2005	15.28	15.28	0
35	PGMTD Jaipur	Non recovery of rental charges in respect of infrastructural facilities provided to Cellular Mobile Telephone Service Providers	February 1998 to March 2004	49.12	49.12	0
		Sub total		***64.40***	***64.40***	
Tamil Nadu Telecom Circle						
36	GMTD Tiruchirapalli	Non billing of annual rental in respect of data circuits provided to 4 subscribers.	September 2001 to December 2003	17.63	17.63	0
37	DGM, (LD/ NVS) Chennai Telephone District	Non billing of rental in respect of E1R2 links due to non receipt of completed advice notes.	December 2001 to March 2004	32.48	32.48	0
38	GMTD Madurai	Non billing of trunk termination charges in respect of data circuits	1995-2004	14.20	6.40	7.80
39	GMTD Tiruchirapalli	Non billing of trunk termination charges in respect of data circuits	2001-2004	2.40	0	2.40
40	GMTD Nagercoil	Non billing of trunk termination charges in respect of data circuits	1997-2004	1.05	0	1.05
41	GMTD Kumbakonam	Non billing of trunk termination charges in respect of data circuits	1995-2004	2.25	0	2.25
42	GMTD Erode	Non billing of trunk termination charges in respect of data circuits	1995-2002	0.90	0.90	0
43	GMTD Salem	Non billing of trunk termination charges in respect of data circuits	1993-2004	2.75	2.25	0.50
44	GMTD Conoor	Non realisation of additional security deposit from STD/PCO operators	July 2003 to December 2003	24.57	24.57	0
		Sub total		***98.23***	***84.23***	***14.00***
West Bengal Telecom Circle						
45	GMTD Siliguri	Non billing of rentals in respect of 2 MBPS data circuits provided to M/s Reliance Telecom Ltd.	December 2003 to December 2004	20.03	20.03	0
		Sub total		***20.03***	***20.03***	***0***
		Grand Total		**1001.47**	**925.03**	**76.44**

or say Rs 10.01 crore, Rs 9.25 crore

Appendix –11

(Referred to in paragraph – 3.5.1 at page 30)

Unaddressed bills lying in the system

(Rs. in lakh)

S.No.	Name of the Circle	Number of SSAs	Amount
1	Andhra Pradesh	19	304.73
2	Gujarat	6	1890.61
3	Madhya Pradesh	2	1.57
4	Punjab	1	1675.65
5	Tamil Nadu	1	16.83
6	Uttar Pradesh (West)	2	6.06
7	Uttaranchal	1	2.50
8	Karnataka	1	0.93
	Total	**33**	**3898.88**

or say Rs 39 crore

Appendix –12

(Referred to in paragraph – 3.6.1 at page 33)

Unbilled Trunk Call Tickets

(Rs. in lakh)

S.No.	Name of the Circle	Amount
1	Andhra Pradesh	22.74
2	Gujarat	8.38
3	Maharashtra	0.46
4	Orissa	0.41
5	Punjab	1.03
6	Tamil Nadu	1.20
7	Uttaranchal	0.41
8	Uttar Pradesh (West)	2.07
	Total	**36.70**

Appendix –13

(Referred to in paragraph – 3.7.1 at page 36)

Delay in processing/issue of completed advice notes

S.No.	Name of the Circle	No. of cases
1	Gujarat	15188
2	Tamil Nadu	1859
3	Rajasthan	874
4	Punjab	9954
5	Andhra Pradesh	48317
6	Uttaranchal	11094
7	Uttar Pradesh (West)	21821
8	Karnataka	452
	Total	**109559**

Appendix –14

(Referred to in paragraph – 3.7.4 at page 37)

Discrepancies in MIS and actual DELs billed

S.No.	Name of the Circle	No. of cases
1	Gujarat	23685
2	Orissa	2263
3	Madhya Pradesh	1264
4	Rajasthan	2907
5	Uttar Pradesh (West)	15000
	Total	**45119**

Appendix – 15
(Referred to in paragraph 4.1 at page 41)
Excess payment of customs duty
Statement showing extra expenditure of Rs 16.29 crore incurred on procurement of V5.2 based WLL CDMA equipment against TE No. MM/SW/052002000242 dated 7-5-2002

(in Rs.)

Sl No.	Item (Having import content)	Unit price inclusive of a ll duties & taxes	Excise duty (%)	Sale tax & FFI	Basic unit price exclusive of duties & taxes	Import content (in %)	Value of import content inclusive of C.D.	Custom duty allowed to vendor for 2002-03 (%) *	Actual custom duty for year 2002-03 (%)*	Value of new import content inclusive of C.D.	New basic unit price inclusive of C.D. (By Audit)	All inclusive basic unit price (By Audit)	All inclusive Basic unit price (By BSNL)	Difference	Quantity	Total extra expenditure
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12) (6-8+11)	(13)	(14)	(15)	(16)	(17)
1(a)	BSC of 5K capacity along with installation material (HW)	2156892.40	16	0	1859390	87	1617669.30	39	21.8	1417497.27	1659217.97	1924692.84	2156892.40	232199.56	75	17414967.00
2(a)	BSC of 10K capacity along with installation material (HW)	3948243.28	16	0	3403658	87	2961182.46	39	21.8	2594762.76	3037238.30	3523196.43	3948243.28	425046.85	36	15301686.60
4(a)	BTS 1 FA with installation material antenna, RF feeder cable, fixture & acc (HW)	1844629.68	16	0	1590198	87	1383472.26	39	21.8	1212280.01	1419005.75	1646046.67	1844629.68	198583.01	579	114979562.79
5(a)	BTS 2 FA with installation material antenna, RF feeder cable, fixture & acc (HW)	3204105.60	16	0	2762160	87	2403079.20	39	21.8	2105719.76	2464800.56	2859168.65	3204105.60	344936.95	44	15177225.80
															TOTAL	**162873442.19**

or say Rs. 16.29 crore

Appendix – 16
(Referred to in paragraph 4.1 at page 41)
Excess payment of customs duty
Statement showing extra expenditure of Rs 3.39 crore incurred on procurement of V5.2 based WLL CDMA equipment received beyond scheduled delivery period against TE No. MM/SW/052002000242 dated 7-5-2002

(in Rs.)

Sl No.	Item (Having import content)	Unit price inclusive of a ll duties & taxes	Excise duty (%)	Sale tax & FFI	Basic unit price exclusive of duties & taxes	Import content (in %)	Value of import content inclusive of CD	Custom duty allowed to vendor for 2002-03 (%) *	Actual custom duty for year 2002-03 (%)*	Value of new import content inclusive of CD	New basic unit price (By Audit) inclusive of CD	All inclusive basic unit price (By Audit)	All inclusive Basic unit price (By BSNL)	Difference	Quantity	Total extra expenditure
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12) (6-8+11)	(13)	(14)	(15)	(16)	(17)
1(a)	BSC of 5K capacity along with installation material (HW)	2156892.40	16	0	1859390	87	1617669.30	39	21.8	1417497.27	1659217.97	1924692.84	2156892.40	232199.56	16	3715192.96
2(a)	BSC of 10K capacity along with installation material (HW)	3948243.28	16	0	3403658	87	2961182.46	39	21.8	2594762.76	3037238.30	3523196.43	3948243.28	425046.85	7	2975327.95
4(a)	BTS 1 FA with installation material antenna, RF feeder cable, fixture & acc (HW)	1844629.68	16	0	1590198	87	1383472.26	39	21.8	1212280.01	1419005.75	1646046.67	1844629.68	198583.01	116	23035629.16
5(a)	BTS 2 FA with installation material antenna, RF feeder cable, fixture & acc (HW)	3204105.60	16	0	2762160	87	2403079.20	39	21.8	2105719.76	2464800.56	2859168.65	3204105.60	344936.95	12	4139243.40
															TOTAL	**33865393.47**

or say Rs. 3.39 crore

***Custom duty on the parts of WLL for 2002-2003 (Appendices-15 and 16)**

	Allowed by the company In %	Actual as per customs notification dated 1-3-02. In %	**Note:- Col.6=** Col.3X100/116	**Col.-11=** (Col.8X100/139)X21.8%
Basic duty	15	5	**Col.-12=** Col.6 - 8= Value of indigenous content+ Col.11	**Col.13=** Col.12X16% ED
CVD	16	16		
SAD	4	-		
	38.74 or 39%	21.8		

Appendix -17
(Referred to in paragraph 4.11 at page 54)
Idling of equipment

(Rs in lakh)

Sl. No.	Item Description	Rate for PO of December 2001		
		Quantity	Unit Price	Total Value
1.	2.	3.	4.	5.
	Management STM-4 terminal with L4.2 Opt	158	344660.65	544.56
1.1	21* 2 Mb Tributary interface	316	31289.59	98.88
1.2	STM-1 & 140 CMI Elec. Interface	158	32936.41	52.04
1.3	2 Mb trib. Interface cards	1106	31289.59	346.06
1.4	Wired rack for 1 STM terminal	158	9880.92	15.61
1.5	3 years mtce spares sets	15	604877.26	90.73
	Total cost of 158 terminals			**1147.88**
	Cost of terminal per unit			7.27
	Value of 83 terminals lying idle			**603.41**

or say Rs. 6.03 crore

Appendix - 18
(Referred to in paragraph 4.14 at page 57)
Injudicious expansion of exchanges

Sl. No.	Project Estimate No.	Name of Project	Estimated cost (Rs. in lakh)	Month of Expansion	Capacity before expansion	Capacity expanded	Working connection/W/L at the time of installation / expansion	Working connection / W / L as of March 2004	Total expenditure (Rs.in lakh)
				Gujarat Circle					
1.	PL / 1274 / VDR / EP / 02-03	PE for installation of 2 K 5 WSS RSM	190.95	September 2002	4500 lines	2000 lines	3530 / 8 (August 2002) 78.62 per cent	3057 / Nil (March 2004) 47 per cent	52.08
2.	PL / 1274 / VDR / EP / 02-03	PE for installation of 2 K 5 WSS RSM	34.04	May 2002	4000 lines	1000 lines	931 / 1 (April 2002) 23.30 per cent	2064 / Nil (March 2004) 41.28 per cent	16.83
				Bihar Circle					
3	5655 APP 2002-03	PE for expansion of Bela RSU from 3 K to 4 K (NT)	181.83	February 2003	3000 lines	1000 lines	1778 / 80 (January 2003) 59.27 per cent	2124 / Nil (May 2004) 53.1 per cent	52.61
				Uttar Pradesh (West)					
4.	PE NDA / 334 / 02-03 / dated 31.3.2003	Expansion of 1 K 5 ESS RSM	173.40	April 2003	3000 lines	1000 lines	1921 / Nil 64 per cent	2302 / nil (March 2004) 57.55 per cent	147.18*
									268.70

(*Estimated cost of exchange equipment and cable)

or say Rs. 2.69 crore

Appendix – 19
(Referred to in paragraph 4.18 at page 62)
Statement showing details of injudicious expansion of D-TAX

S.No.	Name of project	Month of commissioning of expansion	Expansion capacity	Working circuits at the time of expansion	Working circuits as of March 2004	Additional circuits used	Total expenditure (Rs. in lakh)
1	Expansion of 21K TAX at Kollam by 4K (21K to 25K)	July 2003	4000 circuits	13486 (June 2003)	14086 (March 2004)	600	49.21
2	Expansion of 17K TAX at Thiruvalla by 1K (17K to 18K)	August 2003	1000 circuits	10706 (July 2003)	11280 (March 2004)	574	24.70
	Total						**73.91**

Appendix -20

(Referred to in para 4.26 at pages 70-71)

Avoidable extra expenditure on repair of faulty E-10B cards.

Name of Circle SSA	Period of AMC	Equipped capacity	Amount paid to M/s ITI (Rs in lakh	No. of cards repaired	Average cost of repair per card M/s ITI (in Rs)	Amount payable if the work were given to ICSIL (Rs in lakh)	Percentage of faults	Average cost of repair per card through M/s ICSIL (in Rs)	Avoidable expenditure (Rs in lakh)
1	2	3	4	5	6	7	8	9	10
Andhra Pradesh									
Vishakapatnam	2001-02	57 k	57	2409	2366	28.32	4.23	1176	28.68
Vijayawada	2000-01	24.7 k	24.7	1414	1747	15.31	5.72	1083	9.39
	2001-02	24.7 k	24.7	1584	1559	17.24	6.41	1089	7.46
	2002-03	24.7 k	18.52	1679	1103	17.01	6.8	1013	1.51
Gujarat									
Surat	2000-01	87.3 k	90.13	3320	2715	44.81	3.8	1350	45.32
	2001-02	98 k	97.65	3076	3175	37.56	3.13	1221	60.09
	2002-03	88.7 k	49.9	2281	2188	26.12	2.57	1145	23.78
Junagadh	2001-02	29 k	19	497	3823	5.32	1.71	1070	13.68
	2002-03	30 k	22.5	892	2522	9.45	2.97	1058	13.05
Rajkot	2000-01	49 k	49	663	7391	7.19	1.35	1084	41.81
	2001-02	51 k	51	898	5679	9.67	1.76	1077	41.33
	2002-03	60 k	44	1540	2857	18.38	2.57	1194	25.62
Godhra	1999-00	10.5 k	8.11	167	4855	1.97	1.59	1181	6.14
	2000-01	11 k	9.77	71	13766	0.94	0.65	1337	8.82
	2001-02	14 k	13.49	142	9502	1.78	1.01	1252	11.72
	2002-03	13 k	11.56	91	12707	1.19	0.7	1307	10.37
Karnataka									
Davengere	2001	16.44 k	16.44	983	1672	11.25	5.98	1144	5.19
	2002	16.44 k	14.39	815	1765	8.17	4.96	1002	6.22
Mysore	2000-01	29 k	29	1121	2587	11.77	3.87	1050	17.23
	2001-02	29 k	29	1171	2477	12.62	4.04	1078	16.38
Kerala									
Thiruvanatha puram	2000-01	59 k	57.47	1292	4449	14.26	2.19	1104	43.21
	2001-02	59 k	57.97	2718	2133	27.43	4.61	1009	30.54
	2002-03	59 k	45.5	2965	1535	30.55	5.03	1031	14.95
Ernakulam	2000-01	84.5 k	67.57	3110	2173	36.69	3.68	1180	30.88
	2001-02	84.5 k	80.98	3752	2159	65.98	4.44	1759	15
	2002-03	84.5 k	71.77	4549	1578	51.58	5.38	1134	20.19
Calicut	2000-01	37 k	37	1570	2357	23.82	4.24	1517	13.18
	2001-02	37 k	31	2042	1518	22.05	5.52	1080	8.95
Maharashtra									
Ahmednagar	2000-01	15 k	15	491	3055	5.45	3.27	1112	9.55
	2001-02	15 k	15	519	2890	5.97	3.46	1150	9.03
	2002-03	15 k	11.25	487	2310	5.28	3.25	1085	5.97

Name of Circle SSA	Period of AMC	Equipped capacity	Amount paid to M/s ITI (Rs in lakh	No. of cards repaired	Average cost of repair per card M/s ITI (in Rs)	Amount payable if the work were given to ICSIL (Rs in lakh)	Percentage of faults	Average cost of repair per card through M/s ICSIL (in Rs)	Avoidable expenditure (Rs in lakh)
Aurangabad	2002-03	28.5 k	21.27	1321	1611	16.32	4.64	1236	4.95
	2003-04	28.5 k	21.27	578	3681	7.1	2.03	1229	14.17
Dhule	2002-03	23.25 k	23.25	1382	1682	16.73	5.94	1211	6.52
	2003-04	23.25 k	14.1	949	1486	11.49	4.08	1211	2.61
Kolhapur	2001-02	44.25 k	44.25	670	6604	9.87	1.51	1473	34.38
	2002-03	47.75 k	35.81	921	3888	15.08	1.93	1638	20.73
Nagpur	2002-03	152.2 k	61.06	3381	1806	31.12	2.22	921	29.94
Sangli	2001-02	24 k	26	1456	1786	20.5	5.6	1408	5.5
	2002-03	28 k	14	577	2426	8.36	2.06	1449	5.64
	2002-03	27 k	27	814	3317	10.01	3.01	1230	16.99
Rajasthan									
M.I Road Jaipur	2001-02	20.712 k	20.71	365	5675	4.22	1.76	1158	16.49
	2002-03	20.712 k	15.53	312	4979	3.12	1.51	1000	12.41
Sanganeri	2002-02	23.812 k	23.81	309	7706	4.34	1.3	1407	19.47
	2003 -03	15.684 k	10.78	303	3559	4.13	1.93	1363	6.65
Sriganganagar	2000-01	26.5 k	26.5	626	4233	6.96	2.36	1112	19.54
	2001-02	26.5 k	25.62	694	3692	7.59	2.62	1094	18.03
	2002-03	23.5 k	17.62	716	2462	8.59	3.05	1200	9.03
Kota	2002-03	20 k	11.98	1006	1192	9.86	5.03	981	2.12
	2003-04	20 k	13.41	1010	1328	9.63	4.69	1018	3.78
Uttar Pradesh (East)									
Lucknow	2002-03	93 k	72.49	3089	2347	49.5	3.32	1603	22.99
Uttar Pradesh (West)									
Bareilly	2000-01	26 k	6.5	287	2265	4.89	1.1	1702	1.61
	2001-02	26 k	26	990	2696	11.69	3.81	1181	14.31
	2002-03	26 k	22.21	1118	1986	14.58	4.3	1304	7.63
	2003-04	26 k	3.25	225	1444	2.91	0.87	1295	0.34
Ghaziabad	1999-00	34 k	28.61	2102	1361	27.13	6.18	1290	1.48
	2000-01	57 k	48.15	2739	1758	33.43	4.81	1220	14.72
	2001-02	57 k	49.92	3742	1334	45.76	6.56	1223	4.15
	2002-03	57 k	40.34	2685	1502	29.85	4.71	1112	10.49
				82676					**921.91**

or say 9.22 crore

Appendix -21

(Referred to in paragraph 4.30 at page 77)

Avoidable extra expenditure on procurement of jointing kits

S. No	Name of the Telecom circle	Year of procurement	Rates of jointing kits of different specification (in Rs.)					
			TSF-I	TSF-II	TSF-III	TSF-IV	TSF-V	TSF-VI
1.	CGM Kolkata	2001-02 (A)	400	493	600	992	1331	1849
	Quantity		37295	26760	28372	10440	3435	1199
2.	CGMT Rajasthan Circle Jaipur	2001-02	358.80	440.96	544.96	865	1165	1625
	Rates increased by adding 1 per cent as freight element	(B)	362.39	445.37	550.41	873.65	1176.65	1641.25
3.	CGMT Karnataka circle, Bangalore	2001-02	358.80	440.96	544.96	887.12	1190.8	1653.6
	Rates increased by adding 1 per cent as freight element	(C)	362.39	445.37	550.41	895.99	1202.71	1670.14
	Difference in rates (A-C)		37.61	47.63	49.59	96.01	128.29	178.86
	Avoidable expenditure (Quantity x Difference in rates)		1402665	1274579	1406967	1002344	440676	214453
	Total							5741684

or say Rs. 57.42 lakh

Appendix - 22

(Referred to in para 5.4.1 at page 80)

Physical performance of Mahanagar Telephone Nigam Limited for the last five years up to 31 March 2004.

Telephone Network	As on 31 March 2000			As on 31 March 2001			As on 31 March 2002 *			As on 31 March 2003 *			As on 31 March 2004		
	Delhi	Mumbai	Total	Delhi	Mumbai	Total	Delhi	Mumbai	Total	Delhi	Mumbai	Total	Delhi	Mumbai	Total
❖ No. of telephone exchanges	192	148	**340**	203	160	**363**	251	180	**431**	310	183	**493**	329	185	**514**
❖ Total equipped capacity (in lakh)	21.25	25.15	**46.40**	24.29	26.92	**51.21**	26.75	29.26	**56.01**	29.67	29.36	**59.03**	31.54	29.49	**61.03**
❖ No. of direct exchange lines (DELs) including WLL (in lakh)	18.18	22.13	**40.31**	19.80	23.55	**43.35**	21.05	24.40	**45.45**	21.95	24.92	**46.87**	20.03	24.71	**44.74**
❖ Capacity utilisation	86%	88%	**87%**	82%	87%	**85%**	79%	83%	**81%**	74%	85%	**79%**	63%	84%	**73%**
❖ No. of persons on the waiting list (in lakh)	0.02	Nil	**0.02**	0.19	Nil	**0.19**	NIL	NIL	**NIL**	NIL	NIL	**NIL**	NIL	NIL	**NIL**
❖ No. of cellular mobile connections (in lakh)	--	--	--	--	--	--	0.94	1.06	**2.00**	1.32	1.60	**2.92**	1.70	1.90	**3.60**
❖ No. of public telephones (in lakh):															
❖ Local	0.29	0.51	0.80	0.31	0.67	0.98	0.35	0.84	**1.19**	0.47	1.04	**1.51**	0.56	1.20	**1.76**
❖ STD	0.12	0.17	0.29	0.15	0.21	0.36	0.19	0.23	**0.42**	0.26	0.27	**0.53**	0.34	0.30	**0.64**
❖ Total	0.41	0.68	1.09	0.46	0.88	1.34	0.54	1.07	**1.61**	0.73	1.31	**2.04**	0.90	1.50	**2.40**

* For these years the figures have been revised in accordance with the data/figures furnished by the Management.

Appendix –23
(Referred to in paragraph 6.6.3 at page 90)

Statement showing excess payment made for imported components of the system to M/s Motorola, USA despite supply of short equipped capacity of the system

Sl. No.	Particulars	Amount
i)	Cost of imported equipment for 50000 lines system as per purchase order	Rs 30,31,64,150
ii)	Proportionate cost of imported equipment for 34800 lines system actually supplied by M/s Motorola	Rs 21,10,02,248
iii)	50% of Rs 21,10,02,248 (i.e. the amount to be paid to M/s Motorola) as per terms and conditions of the purchase order	Rs 10,55,01,124
iv)	Amount actually paid to M/s Motorola by MTNL	Rs 16,40,59,949
v)	Excess amount paid to M/s Motorola (iv – iii)	Rs 5,85,58,825 **or say Rs 5.86 crore**

Appendix - 24
(Referred to in paragraph 6.7.2 at page 92)

Statement showing details of faulty and damaged WLL handsets in Delhi Unit of MTNL

Total of handsets (faulty and damaged) 8275

Make of handsets	No. of handsets		Unit price (Rs)	Cost of faulty sets (Rs)	Cost of damaged sets (Rs)	Total cost (Rs)
	Faulty	Damaged				
CDM 120	3607	1782	17288	62357816	30807216	93165032
HGC 110	757	243	17895	13546515	4348485	17895000
SCH 411	727	330	17288	12568376	5705040	18273416
QCP 820	139	27	10000	1390000	270000	1660000
QCP 800	377	0	40000	15080000	0	15080000
DM 110	2	4	8358	16716	33432	50148
Ky 2235	273	7	5000	1365000	35000	1400000
	5882	**2393**		**106324423**	**41199173**	**147523596**

or say Rs 14.75 crore

Appendix– 25
(Referred to in paragraph 6.7.3 at page 92)
Statement showing the cost of FWTs lying idle in Mumbai unit of MTNL

Total FWTs procured (in numbers)	25000
Cost as per Purchase Order (in Rupees)	379916267
Cost per FWT (in Rupees)	15197
Cost of 4826 FWTs lying idle (in Rupees)	**73340722**

or say Rs 7.33 crore

Appendix–26
(Referred to in paragraph 6.11.1 at page 97)

Discrepancies in data maintained in the commercial unit and the billing unit of MTNL Delhi during December 2001 to March 2004

Month & Year	No. of subscribers (maintained in commercial unit)	No. of bills issued (maintained in billing unit)	Shortfall / Excess (-) in issue of bills [col. 2 – 3]	Month & Year	No. of subscribers (maintained in commercial unit)	No. of bills issued (maintained in billing unit)	Shortfall / Excess (-) in issue of bills [col. 6 – 7]
1	2	3	4	1	2	3	4
December 2001	8348	4217	4131	February 2003	21109	17538	3571
January 2002	13194	12117	1077	March 2003	20914	17616	3298
February 2002	20548	19664	884	April 2003	23939	17362	6577
March 2002	23029	21968	1061	May 2003	23670	17213	6457
April 2002	23002	22144	858	June 2003	22930	4	22926
May 2002	22231	23070	-839	July 2003	22413	18529	3884
June 2002	22124	23126	-1002	August 2003	45860	42620	3240
July 2002	21890	22913	-1023	September 2003	45718	44219	1499
August 2002	21912	22008	-96	October 2003	45437	45438	-1
September 2002	21794	22468	-674	November 2003	45898	47908	-2010
October 2002	21701	21221	480	December 2003	46121	48873	-2752
November 2002	21592	21014	578	January 2004	54530	57021	-2491
December 2002	21476	20998	478	February 2004	60766	59722	1044
January 2003	21454	17718	3736	March 2004	61526	63546	2028

Appendix – 27
(Referred to in paragraph 6.11.1 at page 97)

Discrepancies in data regarding working lines maintained in exchanges and Customers Service Management System of MTNL Mumbai during the last four months ending March 2004

Month	Number of subscribers recorded in Exchanges	Number of subscribers recorded in CSMS	Difference between Exchange and CSMS	Number of bills issued
1	2	3	4	5
December 2003	40946	31739	9207	20198
January 2004	44808	37850	6958	22236
February 2004	44980	41354	3626	32061
March 2004	44321	40571	3750	34445

Appendix – 28
(Referred to in paragraph 6.11.2 at page 98)

Details showing delay in issue of first bills for the period September 2003 to February 2004

Month of Installation	No. of cases test checked	Delays found in issue of first bill							
		One month		Two months		Three months		Four months	
		No. of cases	Amount (in Rs.)	No. of cases	Amount (in Rs.)	No. of cases	Amount (in Rs.)	No. of cases	Amount (in Rs.)
September 2003	143	20	14232	1	1430	-	-	-	-
October 2003	125	19	10502	-	-	1	17364	1	166
November 2003	2641	925	679347	816	979827	38	68020	9	25408
December 2003	8674	6040	5623847	515	947565	107	196947	-	-
January 2004	1402	254	230834	55	87334	-	-	-	-
February 2004	1543	362	333457	-	-	-	-	-	-
Total	14,528	7620	6892219	1387	2016156	146	282331	10	25574

Grand Total : Rs.92,16,280 or say Rs 92.16 lakh

Appendix - 29
(Referred to in paragraph 8.4.1 at page 107)

Statement indicating installed capacity, targeted capacity and actual performance of major products of the Company for 5 years (1999-2000 to 2003-04)

			1999-2000		**per cent of production to**	
Major Products	**Unit**	**Installed Capacity**	**Targeted Capacity**	**Actual Performance**	**Installed Capacity**	**Targeted Capacity**
Switching Products	M.Lines	4.33	3.84	4.31	99.5 %	112 %
Transmission Products DIG.RADIO TX/RX (2/6/7/11/13 GHz)	Nos.	2500	2030	2392	96 %	118 %
Terminal Equipments Telephones	M. Nos.	1.20	1.32	1.047	87 %	79 %
			2000-01		**per cent of production to**	
Major Products	**Unit**	**Installed Capacity**	**Targeted Capacity**	**Actual Performance**	**Installed Capacity**	**Targeted Capacity**
Switching Products	M.Lines	4.83	4.20	4.78	99.0 %	114 %
Transmission Products DIG.RADIO TX/RX (2/6/7/11/13 GHz)	Nos.	2500	1600	1604	64 %	100 %
Terminal Equipments Telephones	M. Nos.	1.20	1.20	1.195	100 %	100 %
			2001-02		**per cent of production to**	
Major Products	**Unit**	**Installed Capacity**	**Targeted Capacity**	**Actual Performance**	**Installed Capacity**	**Targeted Capacity**
Switching Products	M.Lines	4.83	4.03	3.38	70 %	84 %
Transmission Products DIG.RADIO TX/RX (2/6/7/11/13 GHz)	Nos.	2500	1026	320	13 %	31 %
Terminal Equipments Telephones	M. Nos.	1.20	1.20	1.176	98 %	98 %
			2002-03		**per cent of production to**	
Major Products	**Unit**	**Installed Capacity**	**Targeted Capacity**	**Actual Performance**	**Installed Capacity**	**Targeted Capacity**
Switching Products	M.Lines	4.83	2.02	1.65	34%	82%
Transmission Products DIG.RADIO TX/RX (2/6/7/11/13 GHz)	Nos.	2500	2373	1007	40%	42%
Terminal Equipments Telephones	M. Nos.	1.20	1.20	1.09	91%	91%
NEW PRODUCTS*						
WLL-INFRA	KL	--	600.00	150.00	--	25%
CDMA WLL	KNos	--	300.00	20.5	--	7%

TML/FWT						
GSM	Rs Crs	--	300	608.0	--	--
MLLN/MLDN	Rs.Crs	--	25.00	39.29	--	157%
		2003-04			per cent of Production to	
Major Products	Unit	Installed Capacity	Targeted Capacity	Actual Performance	Installed Capacity	Targeted Capacity
Switching Products	M.Lines	4.83	1.25	0.93	19%	74%
Transmission Products DIG.RADIO TX/RX (2/6/7/11/13 GHz)	Nos.	2500	1350	1459	58%	108%
Terminal Equipments Telephones	M. Nos.	1.20	1.20	0.310	26%	26%
NEW PRODUCTS*						
WLLINFRA	KL	--	660	-	--	-
CDMA WLL TML/FWT	KNOS	--	435	192.51	--	44%
Cordect	KL	--	200	189	--	95%
GSM	Rs Crs	--	330	105.38	--	32%
DLC-SDH	NOS	--	425	100	--	24%
MLLN	Rs Crs	--	140	127.77	--	91%
SMART/SIM CARDS	Rs Crs	--	22	12.40	--	56%
DWDM	NOS	--	25	-	--	-
VRLA BATTERY	Rs Crs	--	15	5.82	--	39%
IT & TURN KEY PROJECTS	Rs Crs	--	200	264.55	--	132%

* As the products are new the installed capacity is not known.

Appendix – 30
(Referred to in paragraph 13 at page 123)
Position of outstanding ATNs in respect of paras pertaining to Bharat Sanchar Nigam Limited (BSNL - erstwhile DoT) and Mahanagar Telephone Nigam Limited (MTNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
1.	Report No. 6 of 1997 for the year ended 31 March 1996	8.4	Rural Telecom Networks and tribal sub-plan. (DoT/BSNL)
2.	Report No. 3 of 1997 (Commercial) for the year ended 31 March 1996	6.3.2	Printing of Telephone Directories (MTNL)
3.		6.3.3	Infructuous expenditure on procurement of Digital Microwave Radio System (MTNL)
4.	Report No. 6 of 1998 for the year ended 31 March 1997	3	Cellular mobile telephone service in metros – Undue benefit of Rs 837 crore to operators
5.		4	Outstanding licence fee from Cellular operators
6.		12	Procurement of 0.5 mm diameter Drop wire (DoT/BSNL)
7.		19	Wasteful expenditure of Rs. 1.84 crore on Coastal wireless station (DoT/ BSNL)
8.		33	Cash payment in lieu of uniforms (DoT/BSNL)
9.	Report No. 3 of 1998 (Commercial) for the year ended 31 March 1997	7.2.2	Loss of Rs 34.12 lakh due to under insurance of stores (MTNL)
10.	Report No.6 of 1999 for the year ended 31 March 1998	8	Non- billing or short billing
11.		11	Procurement of PIJF cables
12.		12	Laying of cables in local network (DoT/BSNL)
13.		17	Infructuous expenditure of Rs 10.33 crore in purchase of trunk exchanges (DoT/BSNL)
14.		20	Excess payment of Rs 7.67 crore to suppliers
15.		31	Over payment in cable laying work
16.		49	Purchase of disputed land
17.	Report No. 3 of 1999 (Commercial) for the year ended 31 March 1998	5.3	Non-recovery of unadjusted amount of purchase advance (MTNL)
18.	Report No. 6 of 2000 for the year ended 31 March 1999	7	Non-realisation of annual maintenance charges for OFC route (DoT/BSNL)
19.		11	Non/Short billing of revenue (DoT/BSNL)
20.		14	Package of concessions to existing Cellular and Basic telephone service operators
21.		15	Licensing of Radio Paging Services
22.		16	Material Management in Telecom Stores and Circles (DoT/BSNL)
23.		17	Rural Telecommunication Network (DoT/BSNL)
24.		18	Irregularities in procurement of new technologies. (DoT/BSNL)
25.		27	Misappropriation of Government money (DoT/BSNL)
26.		28	Irregular payment of electricity duty, charges etc.
27.		30	Improper decision resulting in infructuous expenditure
28.		33	Excess engagement of contract labour (DoT/BSNL)
29.	Report No. 6 of 2001 for the year ended 31 March 2000	1	Functions, organisation, traffic, revenue receipts land financial results

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
30.		4	Non-recovery of dues amounting to Rs 2.52 crore from Department of Electronics for Educational and Research Network (ERNET) (DoT/BSNL)
31.		6	Non-realisation of additional security deposits from STD/PCO operators (DoT/BSNL)
32.		9	Non/short recovery of revenue (DoT/BSNL)
33.		12	Manpower Management in Department of Telecommunications Services (DoT/BSNL)
34.		13	Performance of Telecom Factories Jabalpur and Mumbai (DoT/BSNL)
35.		14	Computerised Telephone Revenue Billing and Accounting System (DoT/ BSNL)
36.		15	Non-recovery of dues from MTNL Mumbai/Delhi (DoT/BSNL)
37.		17	Excess expenditure of Rs 4.25 crore in procurement of 2 GHz digital microwave terminals (DoT/BSNL)
38.		19	Illegal purchase of stores (DoT/ BSNL)
39.		21	Non-recovery of cable worth Rs 2.02 crore issued to contractors (DoT/BSNL)
40.		28	Damage caused to underground cable
41.		34	Non-recovery of leave salary and pension contribution (DoT/BSNL)
42.		37	Avoidable payment of minimum demand charges and low power factor surcharge
43.		41	Irregular procurement of stores (DoT/ BSNL)
44.		42	Irregular procurement of 10 channel digital equipment (DoT/BSNL)
45.	Report No. 3 of 2001 (Commercial) for the year ended 31 March 2000	6.2.3	Avoidable expenditure on building rent (MTNL)
46.	Report No. 6 of 2002 for the year ended 31 March 2001	7	Non/Short recovery of revenue (DoT/ BSNL)
47.		11	Management of Telecom Stores (DoT/ BSNL)
48.		12	Working of the Telecom Civil Divisions (DoT/ BSNL)
49.		13	Non recovery of unused cable worth Rs 2.96 crore from contractors (DoT/ BSNL)
50.		16	Excess payment of service charges (DoT/ BSNL)
51.		17	Loss of Rs 62.42 lakh in unauthorised procurement of unapproved version of 4 channel Very High Frequency systems (DoT/ BSNL)
52.		19	Other recoveries at the instance of Audit. (DoT/ BSNL)
53.		23	Unfruitful expenditure in procurement of tower material and laying of foundation (DoT/ BSNL)
54.		25	Procurement of high bit rate digital subscriber line systems and their utilisation (DoT/ BSNL)
55.		26	Idling of raw material and semi finished goods worth Rs 2.32 crore due to unplanned bulk procurement of raw material (DoT/ BSNL)
56.		31	Idling of equipment due to inaccurate assessment and poor follow up action (DoT/ BSNL)
57.		37	Irregularities in decentralised procurement of C-DoT 256 P exchange equipment (DoT/ BSNL)
58.		40	Excess payment due to inconsistent application of procurement policy (DoT/ BSNL)
59.		41	Transportation of stores by circle Telecommunications Store Depots and Telecommunication units. (DoT/ BSNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
60.		44	Avoidable payment (DoT/ BSNL)
61.		45	Avoidable expenditure due to poor planning (DoT/ BSNL)
62.		47	Irregular expenditure on procurement of cable route tracers and cable fault locators (DoT/ BSNL)
63.	Report No. 3 of 2002 (Commercial) for the year ended 31 March 2001	6.1.2	Unauthorised procurement of equipment/stores (BSNL).
64.		6.1.3	Continuance of telephone facilities despite non-payment of dues (BSNL).
65.		6.1.4	Failure to demand and collect rent of Rs 1.71 crore (BSNL).
66.		6.1.5	Loss of potential revenue due to non-commissioning of project (BSNL)
67.		6.1.7	Failure to realise Rs 81.31 lakh due to non-receipt of advice notes (BSNL).
68.		6.1.10	Non-recovery of licence fee for interconnectivity of network (BSNL).
69.		6.3.4	Loss due to delay in disconnection of Data Service (MTNL)
70.	Report No. 5 of 2003 (Commercial) for the year ended 31 March 2002	1	Functions, Organisation, traffic, revenue receipts and financial results (BSNL)
71.		2	Non-recovery of dues from pay phone operators due to deficient internal control system (BSNL)
72.		3	Loss of revenue due to misuse of spare numbers (BSNL)
73.		4	Blockage of Government revenue (BSNL)
74.		6	Short recovery of access charges of Rs 1.67 crore from M/s Shyam Telelink Limited (BSNL)
75.		11	Short realisation of cost of bid documents (BSNL)
76.		14	Non/short recovery of revenue (BSNL)
77.		16	Village Public Telephones (BSNL)
78.		18	Excess payment of customs duty (BSNL)
79.		19	Delayed commissioning of exchange and consequential loss of potential revenue (BSNL)
80.		20	Excess payment to supplier (BSNL)
81.		27	Wasteful expenditure on procurement of defective power plants (BSNL)
82.		28	Wasteful/extra expenditure on procurement of battery sets (BSNL)
83.		31	Infructuous expenditure of Rs 2.17 crore on payment of minimum demand charges and low power factor surcharge
84.		32	Avoidable expenditure
85.		33	Injudicious/unwarranted procurement of Polyethylene insulated jelly filled cable worth Rs 1.66 crore (BSNL)
86.		36	Idling of exchange equipment worth Rs 1.23 crore (BSNL)
87.		38	Unproductive expenditure on procurement of conventional type power plants (BSNL)
88.		40	Avoidable expenditure of Rs 36.93 crore (BSNL)
89.		42	Excess payment of Rs 14.97 crore on procurement of new technology digital local exchange equipment (BSNL)
90.		43	Irregular payment of customs duty (BSNL)
91.		44	Avoidable expenditure on installation of higher capacity telephone exchange
92.		46	Avoidable extra expenditure in acquisition of land.
93.		48	Excess expenditure on laying of cable beyond prescribed norms
94.		49	Unauthorised creation of store depots (BSNL)
95.		50	Function, organisation, traffic, revenue receipts and financial results (MTNL).

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
96.		51	Loss of revenue due to non-implementation of revised tariff as prescribed (MTNL)
97.		53	Loss of revenue of Rs 90.25 lakh due to failure to implement terms of agreement in time (MTNL)
98.		54	Loss of revenue
99.		55	Review on Quality of services of MTNL
100.		56	Review on Telephone Revenue Billing in MTNL.
101.		57	Idle investment due to unjustified expansion of capacity of telephone exchange (MTNL)
102.		59	Locking up of funds due to delay in installation of model exchange (MTNL)
103.		60	Avoidable payment of Rs 0.73 crore due to non-conversion of electricity connection (MTNL)
104.		61	Material Management in MTNL
105	Report No. 5 of 2004 for the year ended 31 March 2003	1	Functions, Organisation, traffic, revenue receipts and financial results
106		2.1	Non collection of revenue from cellular mobile subscribers-Rs 1.87 crore
107		2.2	Loss of potential revenue of Rs 1.39 crore
108		2.4	Short recovery of infrastructure charges of Rs 91.44 lakh
109		2.6	Non recovery of cost of telephone instruments amounting to Rs 39.18 lakh
110		2.9	Non/short recovery of revenue
111		2.10	Recovery at the instance of Audit
112		3	Working of Telecom Maintenance wing of BSNL
113		4.1	Non recovery of advance of Rs 229.18 crore
114		4.3	Non recovery of Excise Duty of Rs 1.89 crore
115		4.4	Non realisation of testing charges of Rs 86.63 lakh
116		4.5	Excess payment of Rs 57.16 lakh
117		4.6	Infructuous expenditure of Rs 78.22 lakh on procurement of Network Synchronisation Equipment
118		4.7	Blocking of funds of Rs 4.90 crore
119		4.8	Idling of computer software valuing Rs 3.24 crore
120		4.9	Idling of radio equipment worth Rs 3 crore
121		4.11	Avoidable expenditure of Rs 2.24 crore due to non utilisation of building
122		4.12	Blocking of funds of Rs 1.61 crore on CCB Telephone
123		4.13	Blocking of capital of Rs 1.37 crore
124		4.14	Blocking of capital of Rs 93.67 lakh
125		4.15	Injudicious exemption of pre-despatch quality checks leading to purchase of unsuitable antenna worth Rs 78.87 lakh
126		4.16	Blocking of funds of Rs 82.54 lakh on construction of foundation
127		4.17	Idle investment of Rs 73.68 lakh
128		4.19	Irregular expenditure of Rs 4.07 crore on engaging contract labour
129		4.20	Irregularities in procurement of stores and award of work- Rs 1.27 crore
130		4.21	Unauthorised expenditure and blocking of capital of Rs 84.39 lakh
131		4.22	Irregular payment of allowances of Rs 53.98 lakh to phone mechanics
132		4.23	Avoidable excess payment of Rs 96.53 crore on procurement of PIJF cable
133		4.24	Undue benefit given to suppliers
134		4.25	Avoidable expenditure of Rs 2.94 crore
135		4.27	Avoidable extra expenditure df81 croRson procurement of PIJF cable

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
136		4.28	Avoidable expenditure of Rs 1.72 crore on use of costly junction cable
137		4.29	Excess payment of Rs 91.61 lakh to supplier
138		4.30	Avoidable expenditure of Rs 52.24 lakh on procurement of jointing kits
139		4.31	Avoidable expenditure of Rs 51.20 lakh on execution of works at higher rates
140		4.32	Orders placed on banned firm
Mahanagar Telephone Nigam Limited			
141		5	Functions, Organisation, traffic, revenue receipts and financial results
142		7.1-7.13	Cellular Mobile Telephone Service in Mahanagar Telephone Nigam Limited
143		7.14-7.24	Cable duct works in MTNL
144		8.1	Imprudent investment decision to invest surplus funds of Rs 250 crore
145		8.2	Avoidable loss of interest of Rs 55.44 crore
146		8.3	Avoidable loss of Rs 1.31 crore due to non-pursuance of refund of insurance premium on pro—rata basis.

Appendix - 31

(Refer overview under the paragraph financial implications at pages xiii and xiv)

Statement showing financial implication of paragraphs and reviews included in the Report

	Paragraph No.	Rs in crore
Organisational setup and Financial Management- BSNL	1.1-1.7	0
Delay in realisation of dues and loss of interest	2.1	142.77
Non-collection of revenue from cellular mobile subscribers	2.2	13.98
Continuation of telephone facilities despite non-payment of dues	2.3	11.51
Non-billing due to non-receipt of advice notes	2.4	4.56
Short-realisation of rentals due to non application of revised tariff	2.5	2.58
Non-billing of penal interest	2.6	1.74
Loss of revenue	2.7	1.59
Short billing of installation charges and rentals	2.8	1.59
Non/Short billing of rentals in respect of interconnection facilities to Defence	2.9	1.03
Short billing of Revenue — Rs 92.89 lakh	2.10	0.93
Non billing of rentals in respect of lines and wires leased to Railways	2.11	0.60
Short billing of rental for leased circuits	2.12	0.55
Non-recovery of compensation for the unexpired period of guarantee	2.13	0.52
Non-billing of rental	2.14	0.48
Non/short realisation of service tax	2.15	0.40
Loss of revenue due to incorrect fixation of rental	2.16	0.39
Short-recovery of Revenue	2.17	0.34
Recovery at the instance of Audit	2.18	10.01
IT audit of DotSoft package of Bharat Sanchar Nigam Limited	3.1-3.10	51.61
Excess payment of customs duty	4.1	16.29
Negligence leading to loss in fire	4.2	2.12
Non recovery of Sales Tax	4.3	1.53
Non-recovery of compensation for damage to underground cables	4.4	1.10
Excess payment to supplier	4.5	0.66
Irregularities in the execution of cable duct works	4.6	4.87
Unfruitful expenditure	4.7	1.52
Irregular expenditure and payment of penalty due to delay	4.8	0.84
Idling of Digital Loop Carrier equipment	4.9	19.26
Injudicious procurement	4.10	15.22

Idling of equipment	4.11	6.03
Idle investment	4.12	3.62
Blocking of capital of Rs 3.11 crore	4.13	3.11
Injudicious expansion of exchanges	4.14	2.69
Idle investment on construction of staff quarters	4.15	1.68
Blocking of capital of Rs 1.55 crore	4.16	1.55
Idle investment on construction of staff quarters	4.17	1.01
Premature expansion of TAX exchanges	4.18	0.74
Blocking of capital of Rs 72 lakh	4.19	0.72
Blocking of funds	4.20	0.70
Blockage of capital	4.21	0.70
Idling of stock	4.22	0.66
Irregular expenditure on engaging contract labour	4.23	6.30
Irregular expenditure	4.24	5.26
Avoidable excess payment	4.25	21.53
Avoidable extra expenditure on repair of faulty E-10 B cards	4.26	9.22
Avoidable expenditure in procurement of 12F Optical Fibre Cable	4.27	8.89
Undue benefit to contractor and short levy of penalty	4.28	5.72
Undue benefit to suppliers in procurement of WLL Cordect equipment	4.29	5.06
Avoidable extra expenditure on procurement of jointing kits	4.30	0.57
Organisational set-up and financial management - MTNL	5.1-5.7	0
Planning, procurement and utilization of wireless-in-local loop (WLL) system in MTNL	6.1-6.14	256.17
Infructuous expenditure on setting up of Customer Service Centres	7.1	1.93
Avoidable excess expenditure on productivity linked incentive to employees	7.2	22.90
Irregularities in hiring of accommodation and its utilisation	7.3	1.78
Organisational set-up and financial management – ITI Limited	8.1-8.7	0
Locking up of funds and consequential loss of interest due to advance procurement of materials without definite order	9.1	6.15
Extra expenditure on procurement of memory modules	9.2	3.50
Loss due to payment of excise duty	9.3	0.70
Organisational set-up and financial management – TCIL	10.1-10.5	0
Organisational Set-Up And Financial Management - ICSIL	11.1-11.6	0
Organisational Set-Up And Financial Management – MTL	12.1-12.5	0
Follow up on Audit Reports	13	0
Total		**689.48**

GLOSSARY OF TERMS AND ABBREVIATIONS

ADM	Add/Drop Multiplexers
ANALOGUE	An electrical signal which is analogous to changing physical quantity measured.
BSC	Base Station Controller
BTS	Base Transreceiver Station
C-DOT	Centre for Development of Telematics
CD Cabinet	Cable Distribution Cabinet
CDMA	Code Division Multiple Access
CKM	Cable conductor kilometre – cable sheath kilometres multiplied by the number of conductor pairs in each cable
CLIP	Calling Line Identification Processing
COAXIAL CABLE	A cable with a single wire in the centre of cylindrical conductor forming a pair of carrying electrical signals
CT BOXES	Cable Termination Boxes
DECT	Digital Enhanced Cordless Telecommunications
DEL	Direct exchange lines, one each for every telephone connection
DIGITAL EXCHANGE	The exchange having signals coded into binary pulses and having little or no moving parts
DIU	DECT interface unit
DLC	Digital Loop Carrier
DWDM	Dense Wavelength Multiplexing Terminal
EDX	Electronic Data Exchange
EPABX	Electronic Private Automatic Branch Exchange
ETRP	Electronic Trunk Relay Plates
EWSD TAX	Electronic Wheeler System of Digital Trunk Automatic Exchange
GHz	Giga Hertz
GSM	Global System for Mobile Communications
HDPE	High density polyethylene
HDSL	Highbit rate Digital Subscriber Line
Hertz or Hz	Frequency (cycles per second), named after Heinrich Hertz - usually in ranges of kilo 1000 - KHz, mega 1,000,000 - MHz or giga 1,000,000,000 - GHz
IDR	Intermediate Data Rate

ISDN	Integrated Services Digital Network
LDST	Long Distance Satellite Telephone
LOI	Letter of Intent
MARR	Multi Access Rural Radio
MBM	Multi Base Module
Mbps	Mega bits per second denoting digital frequency
MCPC	Multi Channel Per Carrier
MDF	Main Distribution Frame
MUX	Multiplex
NIT	Notice Inviting Tender
NE Lines	Non Exchange Lines
OFC	Optical Fibre Cable
Optical Fibre (OF)	Glass fibres using lightwaves for transmission of signals
OLA	Optical Line Amplifiers
OYT	Own your telephone
PABX	Private Automatic Branch exchange
PBX	Private branch exchange
PCM	Pulse Code Modulation
PCO	Public Call Offices
PDH	Plesiochronous Digital Hierarchy
PERT Chart	Programme Evaluation Review Technique Chart
PIJF Cable	Polyethylene Insulated Jelly Filled Cable
PSPDN	Packet Switch Public Data Network
PST	Progressive Stock Taking
PSTN	Public Switched Telephone Network
PVC	Polyvinyl chloride
PW	Private Wires
RLU	Remote Line Unit
RSU	Remote Switching Unit
SACFA	Standing Advisory Committee on Radio Frequency Allocation
SDH	Synchronous Digital Hierarchy
SMPS	Switch Mode Power Supply
SRCs	Subscriber Record Cards
SSAs	Secondary Switching Areas
STD	Subscriber trunk dialling

STM	Synchronous Transport Module
TAX	Trunk automatic exchange
TDMA	Time Division Multiple Access – A transmission technique used in digital radio transmission in which the use of a frequency is divided into time slots that are shared amongst several users.
TELEX	Teleprinter exchange
TTH	Triangular Tubular Hybrid
UHF	Ultra high frequency (300 to 3000 MHz)
VHF	Very high frequency
VPT	Village Public Telephones
VSAT	Very small aperture terminal
WLL	Wireless-in-Local Loop