Report of the Comptroller and Auditor General of India

for the year ended March 2003

Union Government (Commercial)
Public Sector Undertakings
(Telecommunications Sector)
No.5 of 2004

CONTENTS

PREFACE

This Report for the year ended March 2003 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 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 Department of Telecommunications (Ministry of Communications and Information Technology).

The Report contains 62 paragraphs divided into 15 chapters.

Chapters I to IV pertaining to Bharat Sanchar Nigam Limited contains

- 43 paragraphs;
- one review on the working of Telecom Maintenance wing

Chapters V to VIII pertaining to Mahanagar Telephone Nigam Limited (MTNL) contains

- 5 paragraphs;
- two performance reviews on (i) Cellular Mobile Telephone Services in Mahanagar Telephone Nigam Limited and (ii) Cable duct works in MTNL.

Chapters IX & X pertaining to ITI Limited contains six paragraphs

Chapters XI & XII pertaining to Telecommunications Consultants India Limited contains two paragraphs

Chapter XIII contains a paragraph on the organisational set-up and financial management of Intelligent Communication Systems India Limited.

Chapter XIV contains a paragraph on the organisational set-up and financial management of Millennium Telecom Limited.

Chapters XV contains a paragraph on follow up on Audit Reports

118 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 99 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 2002-03 and early part of 2003-04. This Report includes cases noticed during earlier years wherever relevant.

Telecom Sector Profile

1. Background

Telephone services have been recognized the world over as an important tool for socio-economic development for a nation and hence telecom infrastructure is regarded as a crucial factor in achieving the socio-economic objectives in India. 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 August 2003 there were 45.6 million telephone connections in the country with a telephone density of 5.72 telephones per hundred population.

Various administrative and functional aspects of the telecom sector in the country 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 various aspects of telecommunications. The Telecom Commission and the Department of Telecommunications (DoT) are responsible for policy formulation, licensing, wireless spectrum management, administrative monitoring of Public Sector Undertakings (PSUs) engaged in telecommunication services, research and development and standardization/validation of equipment, etc.

3. Telecom Reforms

Telecom services and most of the manufacturing activities were totally under Government domain till Telecom Reforms began in 1980s with the launch of a "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 namely, Mahanagar Telephone Nigam Limited (MTNL) in February 1986 for Delhi and Mumbai and Videsh Sanchar Nigam Limited (VSNL) in March 1986 for all international services. This began the process of corporatisation of services that had hitherto been under a Government department.

4. Entry of Private Sector

A paradigm shift in Government Policy came in the early nineties when the telecommunication 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

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 add to the value of the existing basic telephone services.

5. *Regulatory control*

Entry of private service providers brought with it the inevitable need for independent regulation. Telecom Regulatory Authority of India (TRAI) was thus established with effect from 20 February 1997 by an Act of Parliament called Telecom Regulatory Authority of India Act, 1997, to regulate the 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 separating the adjudicatory and disputes functions from the TRAI by establishing a Telecommunications Dispute Settlement and Appellate Tribunal (TDSAT). TDSAT adjudicates any dispute between a licensor and a licensee, between two or more service providers, between a service provider and group of consumers, and to hear and dispose of appeals against any direction, decision or order of TRAI. A better model would have been to put the independent regulator in place early in the nineties alongwith the opening up of services to the private sector.

Keeping in view the increasing convergence of telecom, computers, television and electronics the Government of India introduced the Communication Convergence Bill 2001 in the Lok Sabha on 31 August 2001; this was thereafter sent to the Parliamentary Standing Committee on Communications and Information Technology which has presented its Report to the Parliament in November 2002 and the observations and recommendations made by it were under consideration. The bill aims at promoting, facilitating and developing in an orderly manner the carriage and content of communications (including broadcasting, telecommunications and multimedia), in view of the necessity to facilitate development of a national infrastructure for an information based society, and to enable access thereto. It also seeks to provide a choice of services to the people with a view to promoting plurality of news, views and information. This regulatory and licensing authority will be known as the "Communication Commission of India". The licensing function, presently being handled by DoT, will pass on to this Commission. However, the Bill is yet to be passed.

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 totaling Rs 3779.45 crore payable to Government. A major landmark in the telecom sector came with the New Telecom Policy 1999 (NTP-99) which allowed private operators to migrate from fixed license fee regime to a revenue sharing regime. Other provisions in NTP-99 were to permit 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 services to competition and carrying of both voice and data traffic by service providers. As of 31 March 2003, unrestricted entry has been allowed in basic services on revenue sharing basis, all telecom services have been opened up for private sector participation, national and international data connectivity has been opened to all and internet services have also been opened up without any restriction on the number of entrants and without any entry fee. National frequency allocation plan (NFAP-2002) has been evolved in line with the Radio Regulations of the International Telecom Union (ITU) for catering to the conflicting demand on spectrum.

7. *Corporatisation*

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

8. *Other Government organisations under Telecom Sector*

Besides MTNL, BSNL and VSNL, other Government owned public sector undertakings under telecom sector were ITI Limited (ITI), Hindustan Teleprinters Limited (HTL), 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 includes electronic switching equipment, transmission equipment and telephone instruments of various types. HTL was established in December 1960 for manufacture of Teleprinters and ancillary equipment. TCIL was established in 1978 for providing know-how in all the fields of telecommunications at 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 provisioning of Internet services in the country. It is pursuing establishment of Broadband Internet access for the corporate segment and Voice Over Internet Protocol (VOIP) telephony services throughout India with use of relevant technologies like VSATs etc.

In addition to C-DOT and Telecom Commission, other Government organisations engaged in the telecom sector (as a part of DoT) were 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. C-DOT has developed a wide range of switching and transmission products both for the rural and urban applications. TEC is an institution, which works as a part of DoT and is devoted to product validation and standardization for the user agencies. It also provides technical and engineering support to Telecom Commission and field units. WPC is a wing of DoT that deals with the policy of spectrum management, licensing, frequency assignments, international coordination for spectrum management and administration of the Indian Wireless Telegraph Act 1933.

9. Disinvestment of PSUs

Government has disinvested its major shareholding in HTL during October 2001 and in VSNL during February 2002 and since then these undertakings have ceased to be Government owned PSUs.

10. Financial performance of PSUs under Telecom Sector

As on 31 March 2003, six PSUs namely BSNL, MTNL, ITI, TCIL, ICSIL and MTL were in the telecom sector. Some of the important financial performance indicators of these PSUs for the year ended 31 March 2003 were as under:

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	7501.00	28192.60	250.00	54612.57	2657.90	5
MTNL	354.37	0.00	354.37	0.00	6030.67	159.47	8451.15	1237.19	15
ITI	67.47	0.00	67.47	0.00	1767.96	0.00	1460.49	(376.67)	(26)
TCIL	14.40	0.00	14.40	0.00	590.44	21.60	411.01	51.50	13
ICSIL	0.00	0.00	0.00	0.00	16.92	0.00	0.44	0.57	130
MTL	0.00	0.00	0.00	0.00	2.66	0.00	3.21	1.02	32
Total	**5436.24**	**7500.00**	**12936.24**	**7501.00**	**36601.25**	**431.07**	**64938.87**	**3571.51**	**5**

As could be seen from the above table, on Equity capital investment of Rs 5,436.24 crore in these five PSUs, Government received dividend of Rs 431.07 crore which works out to only 7.93 *per cent*. On Preference capital investment of Rs 7,500 crore Government did not receive any dividend as BSNL has been exempted from payment of dividend up to 31 March 2004. The total income and 'profit before tax' earned by these PSUs during the year were Rs 36,601.25 crore and Rs 3,571.51 crore, respectively. On total capital employed of Rs 64,938.87 crore in above PSUs, the overall percentage of 'profit before tax' worked out to only 5 *per cent*.

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

11. Foreign Direct Investment

As a result of positive response to the investment policy being pursued for the telecom sector, more than 11 *per cent* of the total inflow of foreign direct investment (FDI) of Rs 9,562 crore during August 1991 to December 2002 has come during the last one year (January to December 2002) itself. Of Rs 9,562 crore of FDI in telecom sector, more than 28 *per cent* has come for cellular mobile and basic telephone services.

12. Employment generation

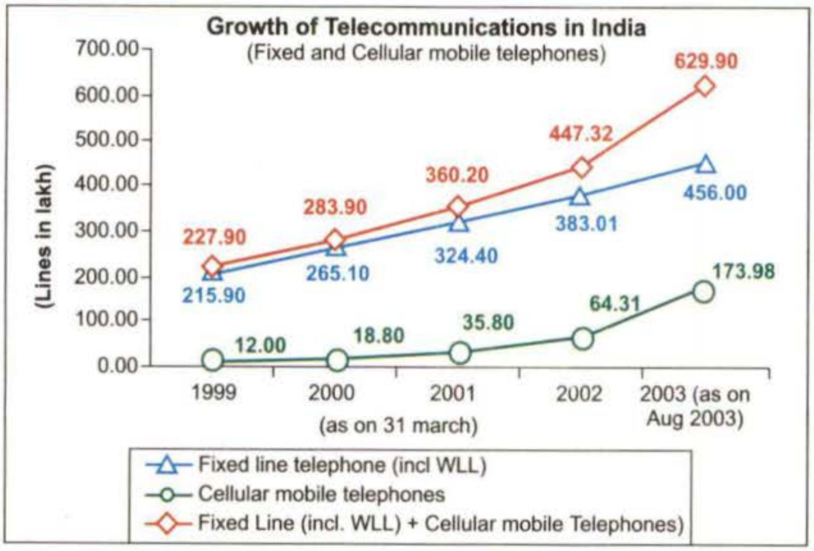
As on 31 March 1981 there were around 2.80 lakh Government employees (excluding industrial workers) working in the telecom sector. With the growth of the sector, this number has also gone up and as at the end of 31 March 2003 there were around 4.12 lakh Government employees (excluding industrial workers) working in this sector (DoT, BSNL and MTNL); this represented growth in employment generation by around 47 *per cent* over the last 22 years.

13. Contribution of the private and public sectors in telecom network

Private sector has been allowed entry in basic as well as value added services such as cellular mobile telephone service, radio paging, internet, national and international long distance services, global mobile personal communication service, V-SAT service, etc. The contribution of private sector and public sector (MTNL & BSNL) in some of the important fields of national telecom network as on 31 August 2003 was as under:

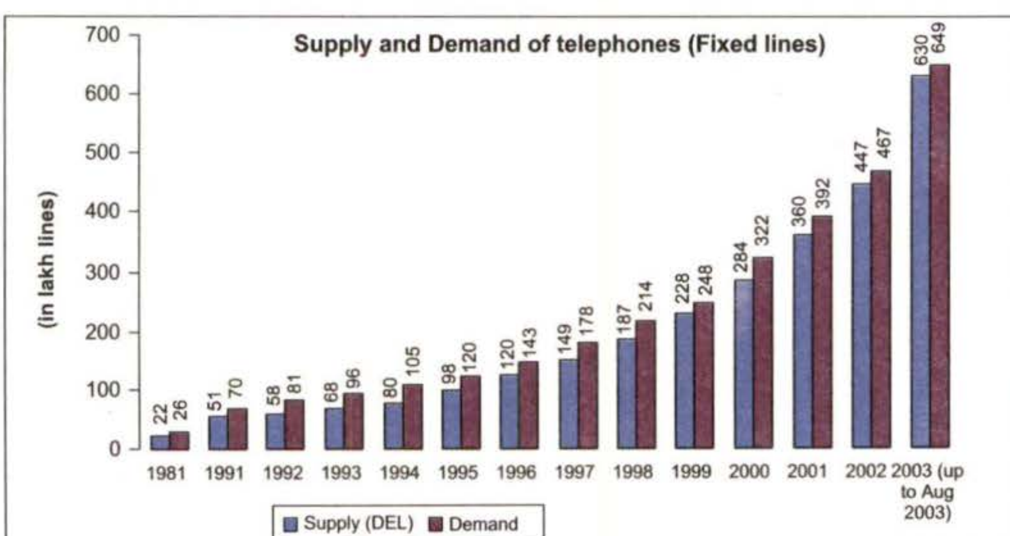
Sl. No.	Telecom Network	Public sector (MTNL & BSNL)	Private sector	Total
		(figures in lakh)		
1.	Direct exchange lines (including WLL)	404.20	51.80	**456.00**
2.	Rural direct exchange lines (including WLL)	114.97	Nil	**114.97**
3.	Village public telephones	5.05	0.12	**5.17**
4.	Cellular mobile connections	39.90	134.00	**173.90**
5.	Public Call Offices (as on 30 June 2003)	14.80	Nil	**14.80**
6.	Internet connections (as on 31 March 2003)	9.91	22.00	**31.91**

The growth in fixed lines (DELs) and cellular mobile telephones in India during 31 March 1999 to 31 August 2003 was as given in the chart.



Fixed lines telephones (DELs including WLL) increased from 215.90 lakh as on 31 March 1999 to 456.00 lakh as of 31 August 2003 which represented growth of more than 111 *per cent* during this period. In case of cellular mobile telephones, however, the number of connections has increased dramatically from 12.00 lakh as on 31 March 1999 to 173.90 lakh as of 31 August 2003, which represented a tremendous growth of more than fourteen-fold during this period.

Similarly the position of demand and supply of telephones (DELs, WLL and Cellular) in India during the years 1980-81 to 2002-03 (up to August 2003) was as under:



As can be seen, against the demand of 26 lakh telephones as on 31 March 1981, the demand as on 31 August 2003 was 649 lakh representing around twentyfour-fold growth in demand. The supply of telephones against above demand was 22 lakh telephones as on 31 March 1981 and 630 lakh as on 31 August 2003 representing around twentyeight-fold growth in supply. However, supply of telephone connections in India was never adequate to meet the demand fully in any of the last over 22 years.

14. Wireless in local loop (mobile) service vs Cellular mobile telephone service

Based on TRAI's recommendations of 8 January 2001, DoT allowed in January 2001 the Basic Service Providers (BSPs) to provide mobility to their subscribers restricted to local area i.e. short distance charging area (SDCA). However, cellular mobile service providers (CMSPs) challenged this decision of DoT in the Telecom Disputes Settlement and Appellate Tribunal (TDSAT), particularly on the ground that the decision was against the NTP-99. Initially TDSAT dismissed CMSPs' petition on 15 March 2002 but on the direction of Hon'ble Supreme Court of India to reconsider the matter on specific points, TDSAT on 8 August 2003 observed that it was important to ensure that mobility of WLL (M) service remained restricted to SDCA and no handover from one SDCA to another was allowed under any circumstance. TDSAT further observed that TRAI should consider issuing recommendations to Government on the following issues to resolve the matter between WLL (M) operators and cellular mobile operators:

- Additional entry fee payable by BSPs for providing WLL (M) service,
- Additional spectrum fee chargeable for the additional spectrum beyond 5 MHz for WLL (M) service,
- Relief to cellular mobile operators with regard to points of interconnection between CMSPs and BSPs, and
- Increasing the retention of 5 *per cent* access charge to a reasonable level.

Accordingly, DoT on 18 August 2003 sought TRAI's recommendations on the above issues. Thereafter, on 28 August 2003 TRAI has released a consultation paper to all stakeholders for obtaining their feedback on these issues before it formulates recommendations to the Government.

15. 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 facilities for the subscribers at lower cost. Even by way of coverage, the tele-density is proposed to be increased from the present 5.72 telephones per hundred population to 7 by 2005 and to 15 by 2010.

OVERVIEW

This Audit Report for the year 2002-03 containing 62 paragraphs including three performance reviews is presented in 15 chapters:

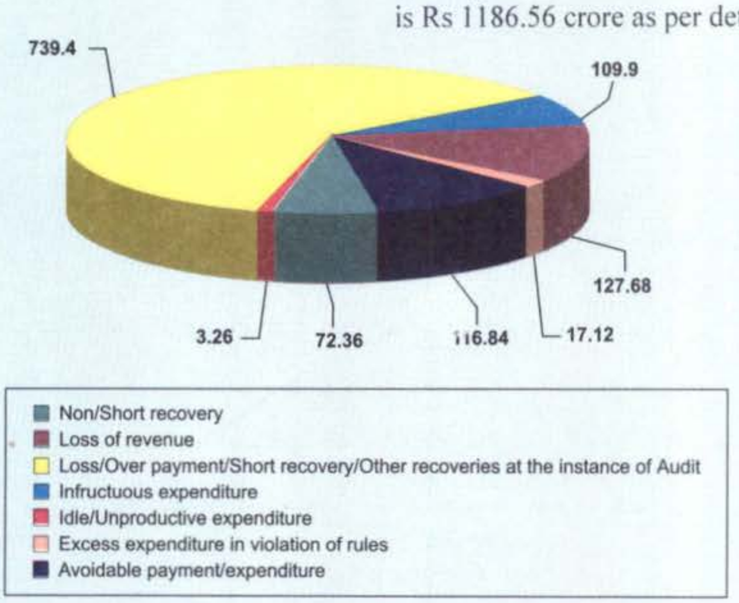
Chapters I to IV	Bharat Sanchar Nigam Limited
Chapters V to VIII	Mahanagar Telephone Nigam Limited
Chapters IX and X	ITI Limited
Chapter XI and XII	Telecommunications Consultants India Limited
Chapter XIII	Intelligent Communication Systems India Limited
Chapter XIV	Millennium Telecom Limited
Chapter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

Financial implications

The total quantifiable financial implication of paragraphs and reviews included in this Report is Rs 1546.16 crore. The Company-wise details with reference to the nature of irregularity are given as under:

(i) Bharat Sanchar Nigam Limited

The financial implication in respect of performance reviews and paragraphs relating to Bharat Sanchar Nigam Limited (BSNL), which could be quantified, is Rs 1186.56 crore as per details given below:

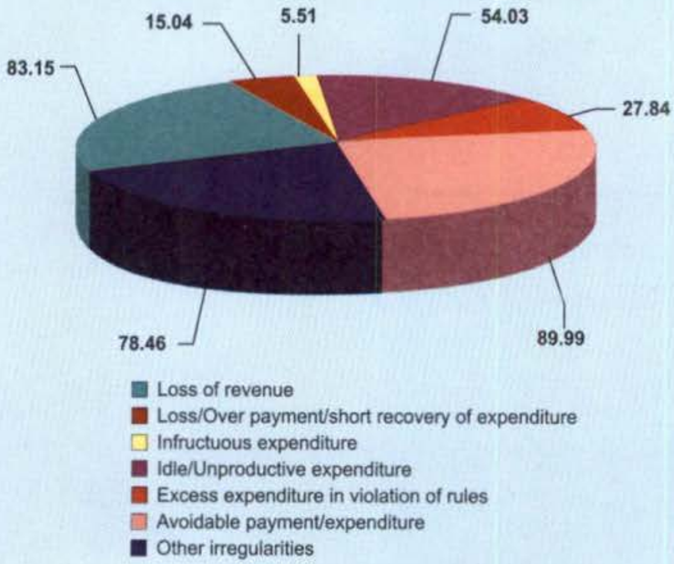


(Rs in crore)

Revenue paragraphs	
Non/Short recovery	72.36
Loss of revenue	3.26
Comprehensive performance reviews and expenditure paragraphs	
Loss/Over payment/Short recovery/ Other recoveries at the instance of Audit	739.40
Infructuous expenditure	109.90
Idle/Unproductive expenditure	127.68
Excess expenditure in violation of rules	17.12
Avoidable payment/expenditure	116.84
Total	**1186.56**

ii) Mahanagar Telephone Nigam Limited

The financial implication in respect of performance reviews and paragraphs relating to Mahanagar Telephone Nigam Limited (MTNL), which could be quantified, is Rs 354.02 crore as per details given below:



(Rs in crore)

Revenue, expenditure paragraphs and performance reviews	
Loss of revenue	83.15
Loss/Over payment/short recovery of expenditure	15.04
Infructuous expenditure	5.51
Idle/Unproductive expenditure	54.03
Excess expenditure in violation of rules	27.84
Avoidable payment/expenditure	89.99
Other irregularities	78.46
Total	**354.02**

(iii) ITI Limited

The financial implication in respect of paragraphs relating to ITI Limited which could be quantified, is Rs 5.06 crore as per details given below:

Loss/Over payment/short recovery of expenditure	0.74
Infructuous expenditure	3.40
Avoidable payment/expenditure	0.52
Other irregularities	0.40
Total	**5.06**

(iv) Telecommunications Consultants India Limited

The financial implication in respect of paragraph relating to Telecommunications Consultants India Limited, which could be quantified is Rs 0.52 crore.

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 set-up, investment and return, physical and financial performance, revenue arrears, manpower and productivity.
II	Revenue paragraphs based on the results of transaction audit.
III	Performance review on Working of Telecom Maintenance Wing of BSNL
IV	Expenditure paragraphs based on the results of transaction audit.

I) Introduction, organisational set-up, investment and return, physical and financial performance, revenue arrears, etc. – BSNL

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 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 2003, the entire paid-up equity share capital of Rs 5,000 crore and preference share capital of Rs 7,500 crore of BSNL were treated as investment by Government of India. In addition, another amount of Rs 7501 crore has been treated as loan from Government of India. While no interest on loan of Rs 7500 core was paid to Government due to exemption/moratorium on the same enjoyed by BSNL, the loan of Rs 1 crore was payable alongwith interest to the Government.

- BSNL was also exempted from payment of dividend on equity share capital up to 31 March 2002 and further enjoys 50 *per cent* and 25 *per cent* waiver on dividend for the years 2002-03 and 2003-04, respectively. Accordingly, BSNL has declared an interim dividend of Rs 250 crore for the year ending 31 March 2003.

- At the end of March 2003, BSNL had a network of 36,136 telephone exchanges with an equipped capacity of 457.66 lakh lines. Out of this equipped capacity, 359.33 lakh telephone connections, i.e., 79 *per cent* were given, though number of persons on the waiting list was 18.07 lakh. The number of village public telephones increased from 4.86 lakh as on 31 March 2002 to 5.05 lakh as on 31 March 2003.

- For the year ended on 31 March 2003, BSNL earned Rs 25293.15 crore from its services. The profit before tax was Rs 2657.90 crore and after providing for tax, the net profit stood at Rs 1444.45 crore.

- The arrears of telephone revenue of Rs 3596.86 crore came down to Rs 2684.18 crore at the end of June 2003 for the bills issued upto March 2003.

- For the bills issued up to March 2003, an amount of Rs 1861.21 crore (as of 1 July 2003) was outstanding for one or more years, which constituted 69.34 *per cent* of the total outstanding revenue of Rs 2684.18 crore.

- In respect of category-wise outstanding revenue, out of the total outstanding amount (Rs 2684.18 crore), 92.29 *per cent* was outstanding against the private subscribers, 1.53 *per cent* against the Central Government departments and 6.18 *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 159.56 crore in 1999-2000 to Rs 282.52 crore in 2002-2003, while those of telex/intelex charges reduced marginally from Rs 19.30 crore to Rs 17.21 crore during the same period.

(Paragraph 1)

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

Chapter II, on revenue paragraphs, based on results of transaction audit, contains cases of loss/non-recovery/outstanding dues, etc. of Rs 75.62 crore. BSNL has realised Rs 9.17 crore at the instance of Audit.

Non collection of revenue from mobile subscribers — Rs 1.87 crore

In Durgapur division under Asansol SSA in West Bengal telecom circle, BSNL failed to collect revenue of Rs 1.87 crore from 31 subscribers who were provided with "Cell One" mobile telephones having roaming with ISD facility between March and May 2003 due to improper management of revenue collection and non-availing of software driven facilities

(Paragraph 2.1)

Non realisation of revenue of Rs 1.14 crore

In violation of rules GMT Asansol under West Bengal Telecom circle failed to maintain records and ensure internal control on depositing the cheques, drafts and banker's cheques into the bank in time. This resulted in non realisation of revenue to the extent of Rs 1.14 crore on account of cheques/drafts and banker's cheques received during the period falling between March 1996 to February 2001.

(Paragraph 2.3)

Non/Short realisation of security deposit of Rs 67.20 lakh

Senior General Manager Bangalore Telecom District failed to review security deposit due from Direct in dialing (DID) subscribers and Chief General Managers (CGMs) Chennai Telephones and Tamil Nadu Telecom circle failed to collect security deposit from Integrated Service Digital Network (ISDN) subscribers resulting in short/non realisation of security deposit of Rs 67.20 lakh.

(Paragraph 2.5)

Continuation of telephone facilities despite non-payment

Test check by Audit in 24 Secondary Switching Areas (SSAs) in 10 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 arrears of Rs 37.45 crore during the period August 1989 to February 2003.

(Paragraph 2.9.1)

Lines and wires and speech circuits leased to Railways

Scrutiny of 7 Secondary Switching Areas (SSAs) under 4 Telecom circles revealed that BSNL failed to claim revised rental from the Railways which resulted in short recovery of Rs 7.93 crore during the period April 1991 to March 2003. Out of this an amount of Rs 1.44 crore in 3 SSAs was recovered on being pointed out by Audit.

(Paragraph 2.9.3)

III) Performance Review relating to BSNL

Chapter III containing one performance review has quantifiable financial implication of Rs 698.06 crore.

Working of Telecom Maintenance Wing of BSNL

Maintenance wing of BSNL is responsible for planning of systems as per requirements after analysis of traffic and public demand. BSNL failed to follow the departmental instructions emphasizing coordination at all levels which led to adaptation to new technology in transmission media without correspondingly relinquishing the old technology. Lack of clear and uniform policy towards the desired shift in requirement due to technological changes led to persistence with microwave medium, idling of media, incurring avoidable expenditure on maintenance and loss of revenue due to delay in providing leased circuits.

- A projection by Bharat Sanchar Nigam Limited indicated that the company incurred an annual recurring expenditure of Rs 556 crore on microwave media and earned a revenue of only Rs 135 crore resulting in annual loss of Rs 421 crore.

- At Bangalore and Hubli sub-region, 56 microwave systems valued at Rs 13.69 crore were not functional and had no traffic being put through them. Similarly, another 22 microwave systems in Hyderabad sub region also did not carry any traffic.

- Western Telecom Region (WTR) did not take any action to decommission the microwave systems after commissioning of OFC on those routes and incurred infructuous expenditure of Rs 2.37 crore on maintenance of these schemes. On the other hand, in the same region, microwave systems at a cost of Rs 3.42 crore were installed as late as in April 2002 without taking into account the availability of OFC media on the route rendering the entire expenditure unfruitful.

- The Planning Wing of BSNL failed to include an additional switching matrix unit while framing the generic requirement for procurement of STM 16 equipment. As a result, 148 STM 16 equipment worth Rs 93.10 crore continued to give trouble in maintenance operations.

- The quality of Optical Fibre Cable supplied by M/s. RPG Telecom, Mysore during 1998-99 degraded substantially due to higher attenuation leading to diversion of traffic and resultant idling of cables worth Rs 11.92 crore.

- In Eastern, Western and Northern Regions, 85 MCPC VSAT systems valuing Rs 47.83 crore were either idle or faulty.

- Despite the fact that coaxial cables did not carry any traffic, 7881.27 kms of coaxial cables worth Rs 42.50 crore laid in Southern, Eastern and Western Regions were not recovered.

- Claims amounting to Rs 40.46 crore towards damage of BSNL cable were yet to be recovered.

- Excess retention of the posts of Phone Mechanics in Northern and Southern regions resulted in irregular drawal of pay and allowances to the tune of Rs 10.40 crore.

(Paragraph 3)

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

Chapter 4, on expenditure paragraphs, based on the results of transaction audit, brings out loss/over payment/short recovery of expenditure, infructuous expenditure, idle/unproductive expenditure, excess expenditure in violation of rules, avoidable payment/expenditure, etc aggregating Rs 412.90 crore. Replies of the Ministry/Management in many cases were still awaited.

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

Non recovery of advance of Rs 229.18 crore

Bharat Sanchar Nigam Limited (BSNL), based on a policy decision of the Cabinet, paid an advance of Rs 243.68 crore to M/s Hindustan Cables Limited (HCL) against two purchase orders during 2001-02. BSNL failed to adjust this advance at the time of receipt of supply and payment of balance amount to M/s HCL. As a result the company received cables worth Rs 170 crore, out of which only Rs 95.46 crore were adjusted leaving Rs 148.22 crore as outstanding. Further, on directions from Minister of Communications, BSNL provided an additional rolling advance of Rs 218.65 crore to HCL without linking the total cost of order with the recovery mechanism, resulting in accumulation of outstanding advance to the tune of Rs 229.18 crore as of May 2003.

(Paragraph 4.1)

Non recovery of Rs 12.01 crore from MTNL

Bharat Sanchar Nigam Limited failed to recover from Mahanagar Telephone Nigam Limited Rs 12.01 crore being the cost of switching equipment procured by BSNL on behalf of MTNL between March 1996 and November 2001. The claim was raised only after audit pointed this out.

(Paragraph 4.2)

Non recovery of Excise Duty of Rs 1.89 crore

Chief General Manager Telecom Factory Mumbai failed to recover the excise duty and special excise duty on the telecom equipment sold to M/s Mahanagar Telephone Nigam Limited and M/s Hindustan Teleprinter Limited. This resulted in blocking of funds of Rs 1.89 crore from March 1999 up to July 2003 besides loss of interest of Rs 0.72 crore on the funds remaining blocked.

(Paragraph 4.3)

(C) Idle/unproductive expenditure

Blocking of funds of Rs 4.90 crore

Chief General Managers, Kolkata Telephones and Andhra Pradesh Telecommunications circle failed to implement the decision of Bharat Sanchar Nigam Limited Board to scrap CT-2 Wireless in local loop equipment. This resulted in blocking of funds of Rs 4.90 crore from January 1997 up to May 2003 with consequential loss of interest.

(Paragraph 4.7)

Idling of computer software valuing Rs 3.24 crore

Chief General Managers, Telecommunications, Maharasthra and Tamil Nadu circles could not utilize the software for Oracle Relational Data Base Management System (RDBMS) received by them in June 2002 either due to its incompatibility with the existing application package or non availability of hardware. This resulted in blocking of funds of Rs 3.24 crore and recurring loss of interest of Rs 30.78 lakh per annum on the funds remaining blocked.

(Paragraph 4.8)

Idling of radio equipment worth Rs 3 crore

Chief General Manager, Southern Telecom Project failed to take cognizance of the availability of optical fibre media and ordered in January 2001 for radio equipment for Nagercoil-Trivandrum 6 GHz 140 Mbs wide band microwave scheme. This resulted in idling of the radio equipment worth Rs 3 crore since July 2001.The project also could not be commissioned due to non-completion of civil works. As a result the microwave scheme which was sanctioned as a standalone scheme was labelled as a standby even before its commissioning.

(Paragraph 4.9)

Avoidable expenditure of Rs 2.24 crore due to non utilisation of building

Principal General Manager, Telecommunications District, Chandigarh failed to construct a building for official purposes on a plot of land taken on lease in 1984. Finally the building was constructed only in November 2001, but could not be put to use as it could satisfy the requirement for occupancy/completion certificate only by February 2003. This resulted in an avoidable expenditure of Rs 0.26 crore on lease rent and Rs 1.59 crore on rent for hired premises, in addition to avoidable payment of extension fee of Rs 0.39 crore for delayed construction of the building.

(Paragraph 4.11)

Blocking of funds of Rs 1.61 crore on CCB Telephone

Without taking into account the past consumption pattern and stock already in hand the Chief General Manager Telecommunication Stores (CGMTS) Kolkata continued to allocate coin collection box (CCB) telephone instruments to the Chief General Manager (CGM) Chennai Telephones during 1999-2003. This led to accumulation of stock from 91 in April 1999 to 1795 CCB telephone instruments worth Rs 1.61 crore as of March 2003, resulting in blocking of funds to that extent.

(Paragraph 4.12)

Blocking of Capital of Rs 1.37 crore

Telecom District Manager, Nanded, invested Rs 1.37 crore in land and partial construction of staff quarters without obtaining the requisite approval from the Nanded Municipal Corporation. The Corporation objected to the construction because the land was reserved as per the town plan; as a result fund to the tune of Rs 1.37 crore remained blocked since January 1998.

(Paragraph 4.13)

Blocking of Capital of Rs 93.67 lakh

Delay in inspection of land, issue of site suitability certificate and payment of deposit towards cost of land purchased from Ghaziabad Development Authority and failure to take a decision for payment of interest by General Manager Telecom District (GMTD) Ghaziabad resulted in blocking of capital of Rs 93.67 lakh for about three and a half years. As of July 2003 possession of land had not been taken.

(Paragraph 4.14)

Injudicious exemption of pre-despatch quality checks leading to purchase of unsuitable antenna worth Rs 78.87 lakh

General Manager Telecommunications, Satellite Communication Project Chennai procured 11 metre antenna at a cost of Rs 78.87 lakh which was not conforming to TEC specifications. This was because the company, at the request of the supplier, exempted pre-despatch inspection. This resulted in idling of the equipment and blocking of funds to that extent.

(Paragraph 4.15)

Blocking of funds of Rs 82.54 lakh on construction of foundation

The Chief General Manager Telecom Chennai Telephones constructed foundation for a multi-storied building without getting the building plan approved from the Chennai Metropolitan Development Authority. This resulted in blocking of funds of Rs 82.54 lakh, besides loss of interest of Rs 32.68 lakh, on the funds remaining blocked from March 1998 up to May 2003.

(Paragraph 4.16)

(D) Excess expenditure in violation of rules

Irregular expenditure of Rs 4.07 crore on engaging contract labour

Chief General Managers Telecommunications Haryana, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh and Uttaranchal circles and Chief General Manager Telecom Maintenance Eastern Telecom Region failed to follow the instructions of Director General of Resettlement for engaging ex-serviceman security agencies on their panel instead of hiring security agencies on contract through tender. This resulted in irregular expenditure of Rs 4.07 crore on contract labour for security purposes during the period from August 2001 to Mach 2003

(Paragraph 4.19)

Irregularities in procurement of stores and award of work - Rs 1.27 crore

Telecom District Manager, Hazaribagh in utter disregard of financial norms/propriety and instructions of the company committed various omissions and commissions in procurement of computers, stores etc., and award of work. This resulted in irregular and unauthorised expenditure of Rs 1.27 crore.

(Paragraph 4.20)

Irregular payment of allowance of Rs 53.98 lakh to phone mechanics

Nine Secondary Switching areas (SSAs) in Kerala circle paid cycle maintenance allowance, telephone duty allowance, washing allowance and house rent allowance in lieu of rent free quarters to phone mechanics without any authority which resulted in irregular payment of Rs 53.98 lakh during the period from June 1996 to April 2002.

(Paragraph 4.22)

(E) Avoidable Expenditure

Avoidable excess payment of Rs 96.53 crore on procurement of PIJF cable

BSNL, on receipt of communication about lower rates of PIJF cable against the tender invited by MTNL (June 2000) in comparison to rates received in response to its own tender (February 2000), constituted a re-evaluation committee with the approval of Member (Production) and Member (Finance) of Telecom Commission to work out a fresh appropriate ordering price for PIJF cable. The re-evaluation committee recommended a weighted lower average cost of Rs 7.201 crore per lckm. However, complete information regarding constitution of the committee and its recommendations was not placed before the Telecom Commission, leading to a decision of placement of purchase orders at a higher rate of Rs 7.375 crore per lckm obtained in the BSNL tender and consequent avoidable excess payment of Rs 96.53 crore in procurement of 554.745 lckm of PIJF underground cable during 2000-01.

(Paragraph 4.23)

Undue benefit given to suppliers

BSNL placed firm purchase orders for 13950 km of 12 fibre OFC and 2800 km of 24 Fibre OFC during January 2001. Although the rate of basic customs duty on OFC was reduced to 15 per cent from 25 per cent with effect from 1 September 2000, BSNL failed to effect the correction in the rate of customs duty, resulting in excess payment of Rs 5.67 crore in the procurement of 11605.97 km of 12 Fibre OFC and 2403.18 km of 24 Fibre OFC

(Paragraph 4.24)

Avoidable expenditure of Rs 2.94 crore

In violation of instructions of Corporate office to assess reasonableness of rates by comparing those with the prevalent market rate Chief General Manager, Southern Telecom Projects, (CGMT) Chennai incurred an avoidable expenditure of Rs 2.94 crore on procurement of permanently lubricated high density polyethylene (PLBHDPE) duct pipes between November 2002 and April 2003 by not taking into cognizance of the lower rate obtained by CGM Tamil Nadu Circle, Chennai during the same period..

(Paragraph 4.25)

Excess payment of Rs 2.27 crore cable laying work

General Managers, Telecom Districts (GMsTDs) Aurangabad and Sangli and Telecom District Manager (TDM) Sindhudurg in Maharashtra Circle and GMsTDs Chengalpattu, Salem, Trichy, Vellore and Virudhunagar in Tamil Nadu circle made an excess payment of Rs 2.27 crore to Public Sector Undertakings on cable laying work during 1999-2002 by irregularly allowing contractor's profit percentage on cost of material supplied at market rate.

(Paragraph 4.26)

Avoidable extra expenditure of Rs 1.81 crore on procurement of PIJF cable

Bharat Sanchar Nigam Limited failed to assess the reasonableness of the cost of armouring. This resulted in payment of higher armouring cost for smaller gauge PIJF armoured cable as compared to that of higher gauge cable leading to extra expenditure of Rs 1.81 crore.

(Paragraph 4.27)

Avoidable expenditure of Rs 1.72 crore on use of costly junction cable

The Chief General Manager Telecommunications Punjab circle procured and used 201 km of higher specification polyethylene insulated jelly filled (PIJF) cable viz. 20/0.9 mm dia PIJF cable meant for junction lines in local network during 1998-2003. This resulted in avoidable expenditure of Rs 1.72 crore.

(Paragraph 4.28)

Excess payment of Rs 91.61 lakh to supplier

Failure of the Chief Pay and Accounts Officer (ITI Bills) Bangalore under Bharat Sanchar Nigam Limited (BSNL) to regulate payment to a supplier in accordance with the provisions of the purchase order regarding final rate led to excess payment of Rs 91.61 lakh to the supplier during 2000-2001 on procurement of MAX-XL equipment for Punjab circle.

(Paragraph 4.29)

Orders placed on a banned firm

BSNL procured PIJF underground cable from a private firm in March 2002 although this firm was blacklisted and banned by Government of India in January 2002 for business dealings for five years. This led to undue benefit of Rs 37.37 lakh to the firm.

(Paragraph 4.32)

Mahanagar Telephone Nigam Limited

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

Chapter No.	Deals with
V	Introductory chapter giving in brief the introduction, organisational set-up, investment and return, physical and financial performance, revenue arrears, manpower and productivity.
VI	Revenue paragraphs based on the results of transaction audit.
VII	Performance reviews on: • Cellular Mobile Telephone Services in MTNL • Cable duct works in MTNL
VIII	Expenditure paragraphs based on the results of transaction audit

I) Introduction, organisational set-up, investment and return, physical and financial performance, revenue arrears, etc. – MTNL

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 5 are as under:

- Against the authorised equity share capital of Rs 800 crore, the paid-up capital, as on 31 March 2003, was Rs 630 crore of which Rs 354.37 crore had been invested by the Government of India. At the end of 31 March 2003, 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 86 *per cent* in 1998-99 to 79 *per cent* in 2002-03. The number of public telephones more than doubled from 0.90 lakh in 1998-99 to 2.04 lakh in

2002-03 and no. of cellular mobile subscribes increased from 2.00 lakh in 2001-02 to 2.92 lakh in 2002-03.

- At the end of 31 March 2003, MTNL earned Rs 5806.53 crore from its services. The profit before tax was Rs 1237.19 crore and after providing for tax, the net profit stood at Rs 877.16 crore. However, analysing the trend over the last five years ending March 2003, profit after tax for the year 1999-2000 decreased by 16 *per cent* compared to the previous year 1998-99, while profit after tax during the next year 2001-02 increased by 42 per cent whereas in subsequent two years ending March 2003 it showed a continuous downward trend.
- The revenue arrears during the last five years up to 2002-03 ranged from Rs 1408 crore to Rs 1601 crore.

(*Paragraph 5*)

II) Revenue paragraph relating to MTNL based on transaction audit findings

Chapter VI, on revenue paragraph, based on results of transaction audit, contains cases of loss of revenue of Rs 0.85 crore. Out of this, MTNL realised Rs 0.03 crore at the instance of Audit. The important irregularities noticed were as under:

Loss of Rs 81.67 lakh due to non-recovery of telephone revenue

There was inordinate delay as well as non-compliance of the existing Departmental rules on the part of the Management of Delhi unit of MTNL in taking action for recovery of telephone revenue from 24 defaulting subscribers despite favourable awards from the Hon'ble Courts/Arbitrators. This resulted in a loss of telephone revenue amounting to Rs 81.67 lakh as of September 2003.

(*Paragraph 6*)

III) Performance Reviews relating to MTNL

Chapter VII contains two Performance reviews on the working of MTNL. Review on 'Cellular Mobile Telephone Service in MTNL' contains overall functioning of mobile services, generation of revenue and achievement/non-achievement of targets, cases of non/short recovery of revenue, etc. of Rs 5.29 crore, besides loss of revenue of Rs 25.55 crore. Financial irregularities by way of avoidable expenditure/payment of Rs 12.08 crore, on account of loss of Rs 0.62 crore and other irregularities of Rs 75.43 crore were also noticed. Other performance review of 'Cable duct works in MTNL' contains overall working in regard to the planning, construction, utilization and maintenance of underground cable ducts. During the review idle/unproductive expenditure of Rs 54.03 crore, excess expenditure/payments in violation of rules of Rs 27.84 crore and non/short recovery of Rs 9.13 crore were noticed. Besides these, financial irregularities by way of infructuous and avoidable expenditure/payment of Rs 6.95 crore and other irregularities of Rs 3.03 crore were also noticed.

Important aspects highlighted in each of the above reviews were as under:

Cellular Mobile Telephone Services in Mahanagar Telephone Nigam Limited

The overall performance of cellular mobile telephone services (CMTS) in Mahanagar Telephone Nigam Limited (MTNL) has not been satisfactory since their commencement in February 2001. MTNL failed to achieve its own targets for growth in subscribers' base, generation of revenue as well as other physical and financial parameters owing to their failure in obtaining the licence for adjoining areas of Delhi & Mumbai at the right time, delays in procurement, installation and commissioning of system/equipment, delay in commencement of CMTS, poor quality of services, deficient billing system, etc. The growth rate in its subscribers' base was much lower than that of other private cellular mobile operators; at times it was negative. Consequently, MTNL had been incurring recurring losses on the operation of its CMTS.

MTNL needs to review and strengthen its planning mechanism, improve the coverage of its CMTS and make the latest add-ons in facilities and quality of services along with efficient subscriber's complaint redressal system and have a complete, flawless and best CMTS billing system.

- The overall loss of Rs 2.03 crore incurred by CMTS of MTNL during the year 2001-02 increased to Rs 31.35 crore during the year 2002-03, a fourteen-fold increase in one year.

- Failure in initial planning for obtaining licence for adjoining areas of Delhi & Mumbai, cancellation of the initial global tender and failure to order for vital equipment for prepaid service system in time, resulted not only in non-achievement of targets but also in incurring of an additional expenditure of Rs 12.08 crore.

- Procurement of mediation device, billing and customer care equipment from an inexperienced and ineligible firm led to non/short billing and loss of revenue; the entire system valued at Rs 9.70 crore was now planned to be scrapped due to its functional deficiencies.

- The addition to subscribers' base of Delhi and Mumbai units during the year 2002-03 was less by 55 *per cent* and 46 *per cent*, respectively in comparison to previous year's growth due to delay in obtaining license for adjoining areas, delay in procurement, installation and commissioning of equipment & BTS and deficiencies in billing system.

- Against the projected revenue of Rs 1119.00 crore for the three years ended March 2003 from its CMTS, actual revenue earned by MTNL was only Rs 244.29 crore. The shortfall was attributable mainly to delay in commencement of CMTS, negative growth in subscribers' base and constant downward revision of tariff.

- Deficiencies in the billing system, frauds, fraudulent booking of connections by franchisees, delay in disconnection due to non payment (DNP), etc., led to huge accumulation of debtors as on March 2003, of which debtors amounting to Rs 75.43 crore (71 *per cent* of total debtors) have already become doubtful of recovery.

(Paragraph 7.1)

Cable duct works in Mahanagar Telephone Nigam Limited

- Lack of proper planning led to non utilisation / under utilisation of most of the duct routes constructed during the period April 1998 to July 2002. This led to blocking of funds of Rs 49.84 crore in the Mumbai and Delhi units. The Nigam also incurred a doubtful expenditure of Rs 1.44 crore on construction of 28 way duct route through directional drilling in March 2001 where another duct was constructed subsequently in May 2002 at a cost of Rs 1.41 crore. Construction of three duct routes on the same routes where ducts already existed also resulted in infructuous expenditure of Rs 1.99 crore in Mumbai unit.

- Failure of the civil wing Mumbai to carry out detailed survey before award of work led to huge increase in the quantum of work ranging between 12 to 260 per cent over the awarded cost. This led to irregular extra expenditure of Rs 20.35 crore during 1998-2003.

- Civil wing vitiating the tendering procedure got executed 10 independent duct works worth Rs 4.84 crore relating to other duct routes as extra items to work awarded during 1998-2003.

- Failure of the civil wing authorities to keep in view the DGS&D rates as market indicator in allowing the cost of HDPE and GI pipes led to excess payment of Rs 2.65 crore in Mumbai unit.

- Unnecessary cement concreting over the ducts within two metres from the edge of the road and over the HDPE pipes led to irregular expenditure of Rs 3.03 crore in Mumbai unit.

- MTNL failed to recover compensation of Rs 5.14 crore towards damage of ducting by outside agencies during 1998-2003.

- MTNL failed to levy penalty of Rs 3.20 crore on the contractors during 1998-2003 for delay in completion of works besides avoidable payment of escalation charges of Rs 78.75 lakh to the contractors by the Mumbai unit.

- There was expenditure of Rs 3.52 crore on maintenance of ducts during 1998-2003 which was not supported by documents.

(Paragraph 7.14)

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

Chapter VIII, on expenditure paragraphs, based on the results of transaction audit, brings out loss of revenue of Rs 56.75 crore and avoidable expenditure/payment of Rs 76.47 crore. Besides above, there is one paragraph on investment of Rs 250.00 crore, which reveals that the investment was neither based on sound commercial judgement nor was in the best financial interests of the Company.

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

Imprudent investment decision to invest surplus funds of Rs 250 crore

Mahanagar Telephone Nigam Limited (MTNL) during May 2002 invested its surplus funds of Rs 250 crore for a period of 10 years in a loss making State Government enterprise in contravention of Department of Public Enterprises (DPE) guidelines directing PSEs not to invest in any debt instruments which did not have the highest credit rating or newly issued instruments whose final maturity period exceeded one year. Although the guidelines were relaxed as a special case and the bond issue had the guarantee from Govt. of Maharastra, the market response to the bond issue was poor on account of its poor financial status and continual loss incurred by MKVDC. Therefore, the investment was not based on sound commercial judgement and ignored the principles of financial propriety.

(Paragraph 8.1)

Avoidable loss of interest of Rs 55.44 crore

MTNL, due to delay in formation of approved Gratuity Trust, had to suffer a loss of interest of Rs 55.44 crore besides avoidable payment of Income Tax of Rs 76.47 crore during the period 1998-99 to 2001-02.

(Paragraph 8.2)

Avoidable loss of Rs 1.31 crore due to non-pursuance of refund of insurance premium.

There was improper planning on the part of the Management of MTNL in obtaining unified insurance cover for its entire assets (except motor vehicles) with effect from 8 June 2001. Owing to this, there was inordinate delay in claiming refund of insurance premium on three redundant insurance policies of its Mumbai unit and failure to get this refund on pro-rata scale basis as per relevant rules. All these led to incurring of an avoidable loss of Rs 1.31 crore by MTNL during 2001-02.

(Paragraph 8.3)

ITI LIMITED

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

Chapter No.	Deals with
X	Introductory chapter giving in brief the introduction, organisational set-up, investment and return, physical and financial performance, revenue arrears, manpower and productivity.
XI	Expenditure paragraphs based on the results of transaction audit

Introduction, Organisational set-up, investment and return, physical and financial performance, revenue arrears, etc. – ITI Limited

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.

- Against the authorised equity share capital of Rs 250 crore, the paid-up capital was Rs 188 crore (equity capital: Rs 88 crore and cumulative redeemable Preference share: Rs 100 crore) as on 31 March 2003. Out of this, Rs 67.47 crore had been invested by Government of India.

- The return on the above investment in the form of dividend paid by ITI was six *per cent* (1998-99 and 1999-2000) and five *per cent* (2000-01 and 2001-02).

- During the last four years upto 2002-03, in respect of switching products, though the installed capacity was almost fully utilised upto 2000-01, it declined sharply in 2001-02 to 70 *per cent* and to 34 *per cent* in 2002-03. However, in respect of transmission and terminal equipment products the utilisation of installed capacity ranged from 13 *per cent* to 96 *per cent* and 87 *per cent* to 100 *per cent*, respectively during the above period of the years.

- At the end of 31 March 2003, the earning from sales and services was Rs 1701.11 crore. The loss before tax was Rs 376.67 crore and after providing for deferred tax, the net loss stood at Rs 374.87 crore. However, analysing the trend over the last five years ending March 2003, profit after tax for the year 1999-2000 increased by 69 *per cent* compared to the previous year 1998-99, but thereafter it showed a declining trend and during the current year 2002-03 it turned into a huge loss of Rs 374.87 crore.

- During the last five years ending 31 March 2003, the yearly income from sales of services (excluding excise duty) showed an increasing trend except during 2002-03, while the doubtful debts have shown a decreasing trend upto 2000-01 but thereafter there had been an increasing trend upto 2002-03. However, out of this income, the yearly unrealised income that remained in arrears for more than six months has shown an increase from 27 *per cent* in 1999-2000 to 57 *per cent* in 2002-03.

(Paragraph 9)

TELECOMMUNICATIONS CONSULTANTS INDIA LIMITED

This chapter deals with the introduction, organisational set-up, investment and return, financial performance and manpower.

Telecommunications Consultants of India Limited (TCIL) was incorporated in March 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 15 crore, the paid-up capital was Rs 14.40 crore as on 31 March 2003, which had fully been invested by Government of India. The return on the above investment in the form of dividend paid by ITI was 210 *per cent*, 220 *per cent*, 300 *per cent,* 150 *per cent* and 150 *per cent* in each of the last five years ending 31 March 2003.

At the end of 31 March 2003, the total income from projects was Rs 550.31 crore. The profit before tax was Rs 51.50 crore and after providing for tax, the net profit after tax stood at Rs 39.89 crore. However, during the current year 2002-03 the profit after tax has decreased by 30.60 *per cent* compared to that of previous year 2001-02.

(Paragraph 11)

INTELLIGENT COMMUNICATION SYSTEMS INDIA LIMITED

This chapter deals with the introduction, organisational set-up, investment and return, 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.

- Authorised as well as paid-up equity capital of the Company, as on 31 March 2003, was Rs 1.00 crore.
- At the end of 31 March 2003, the total income earned was Rs 16.71 crore. The profit before tax and after providing for tax, for the year 2002-03 was Rs 0.57 crore and Rs .0.55 crore, respectively.

(Paragraph 13)

MILLENNIUM TELECOM LIMITED

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 provisioning of Internet services throughout India.

- After signing a Memorandum of Understanding with HPSEC Limited (a Government of Himachal Pradesh Enterprise) for provisioning of Internet Service Provider (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.
- MTL is also pursuing establishment of Broadband Internet access for the Corporate segment and Voice over Internet Protocol (VOIP) telephony services throughout India.
- Against the authorised equity capital of Rs 100 crore, the paid up capital as on 31 March 2003 was Rs 1.002 crore which was fully subscribed by MTNL.
- Though during previous years 2001-02, MTL incurred a net loss of Rs 0.20 crore but during current year 2002-03 it earned a net profit after tax of Rs . 1.02 crore.

(Paragraph 14)

CHAPTER I
ORGANISATIONAL SET-UP 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 telecommunications services in the country, entrusted to the Department of Telecom Services (DTS) and 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 Department of Telecommunications (DoT) and Telecom Commission.

BSNL is carrying out the duties and responsibilities relating to establishment, maintenance and working of all types of telecommunications 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 set-up

The administrative and overall functional control is vested with the Board of Directors headed by the Chairman and Managing Director (CMD), who in day to day management of BSNL is to be assisted by five functional Directors (Finance, Commercial and Marketing, Operations, Human Resource Development and Planning and New Services).

The operations of BSNL are managed with the help of 24 telecom circles excluding the project and maintenance circles. In addition, seven Telecom Factories at Mumbai, Kolkata (Alipore and Gopalpur), Jabalpur (Wright Town and Richhai), 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 Return

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 2003 were Rs 5,000 crore and Rs 7,500 crore, respectively.

In consideration of taking over the business of erstwhile Department of Telecom Operations and Department of Telecom Services with effect from 1 October 2000 alongwith all the assets, liabilities and all 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 Government of India. In addition, another amount of Rs 7,500 crore has been treated as a loan to BSNL from Government of India.

BSNL has been exempted from payment of dividend on preference share capital up to 31 March 2004. Besides, BSNL was also exempted from payment of dividend on equity share capital up to 31 March 2002 and further enjoys 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 has declared an interim dividend of Rs 250 crore for the year ending 31 March 2003. Further, 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 in its approval of a package of measures in the form of financial/fiscal relief for BSNL decided that BSNL will be liable to pay licence fee and spectrum charges in full. These charges, however, would be set off against reimbursement, up to 31 March 2003, against the losses incurred on account of rural telephony operations or other socially desirable projects. During the year ending 31 March 2003, an amount of Rs 2300 crore was reimbursed by the Government on this account.

Further, the Government has granted a loan of Rs 720 crore to BSNL during the year with no liability of repayment of principal and payment of interest for the ongoing Village Public Telephones (VPT) programme for network expansion in rural areas. Accordingly, this loan amount has been treated as 'Deferred Government Grant' by BSNL. In addition, during the year Government also extended a loan of Rs 1 crore to BSNL, which is repayable in ten equal instalments commencing after one year from the date (31 March 2003) of disbursement alongwith interest in accordance with the existing instructions of Ministry of Finance, Department of Economic Affairs.

BSNL also received Rs 230.20 crore and Rs 67.03 crore for the years ended 31 March 2003 and 2004, respectively, from Universal Service Fund towards reimbursement for maintenance of VPTs.

BSNL had also issued (31 March 2001) secured, redeemable and non-convertible five years' bonds of Rs 510 crore on private placement basis, on which interest (at the rate of 10.40 *per cent*) amounting to Rs 53.04 crore is payable annually.

1.4 Physical and Financial Performance

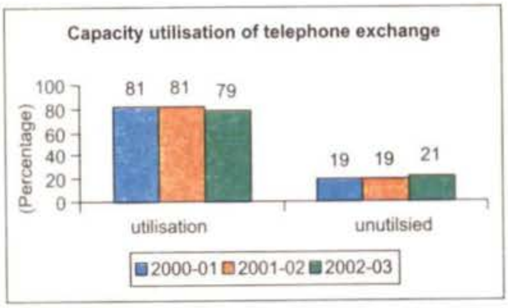
1.4.1 Physical performance

Since the Department of Telecom Services (DTS) was corporatised as BSNL, the complete network of the telecommunications of DTS came under the control of BSNL w.e.f. 1 October 2000. The physical performance of BSNL as at the end of each of the last three years ended 31 March 2003 is given below:

Telephone Network	As on 31 March 2001	As on 31 March 2002	As on 31 March 2003
❖ No. of telephone exchanges	31589	34592	36136
❖ Total equipped capacity of direct exchange lines (DELs) including WLL (in lakh)	347.93	411.67	457.66
❖ No. of telephone connections (DELs) including WLL (in lakh)	281.09 (81%)	332.04 (81%)	359.33 (79%)
❖ No. of persons on the waiting list (in lakh)	28.71	16.49	18.07
❖ No. of cellular mobile telephone connections (in lakh)	Nil	0.18	22.56
❖ No. of village public telephones (in lakh)	4.08	4.86	5.05
❖ No. of ISD stations linked with STD	25679	25679*	49868

* As on 31 December 2001

- As seen from the table, inspite of increase in equipped capacity of direct exchange lines (DELs) there was a marginal decline in the percentage of utilisation of equipped capacity of DELs during 2002-03 as compared to the previous year.



- Number of persons on waiting list also increased by almost 10 *per cent* during 2002-03 compared to previous year.
- However, during 2002-03 the number of village public telephones increased marginally by around 4 *per cent* compared to previous year.

1.4.2 Financial performance

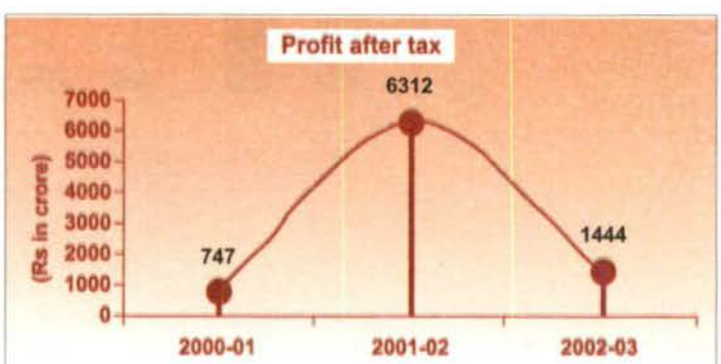
The financial results of BSNL for the last three years ending 31 March 2003 were as follows:

(Rs in crore)

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

** BSNL was exempt 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 recasted in the certified annual accounts for the year 2002-03.



The decrease in the profit after tax for the year ended 31 March 2003 compared to previous year's profit was mainly on account of increase in the expenditure incurred on payment of leave encashment to employees (other than on deemed deputation) and provisions made for future liability by Rs 642.70 crore, as BSNL has changed the policy of providing leave encashment from cash to accrual basis, besides increase in net prior period expenditure by Rs 787.92 crore and provisions for tax by Rs 673.44 crore.

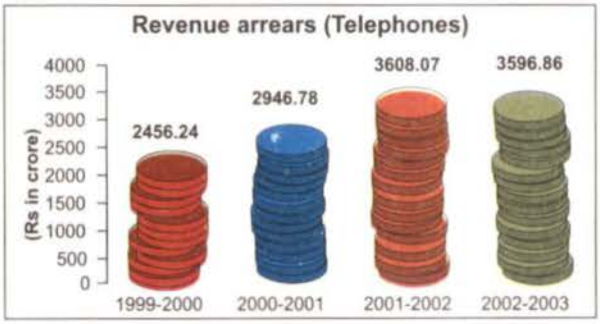
1.5 Revenue Arrears

Mounting telephone 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 2003 is given in table below:

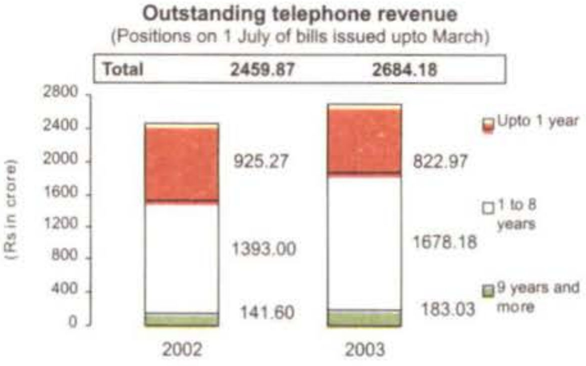
(Rs in crore)

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 the 31 March (4-5)
1	2	3	4	5	6
1999-2000	1832.08	15508.21	17340.29	14884.05	2456.24
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



At the end of March 2003, the revenue arrears on account of telephone services increased to Rs 3596.86 crore as compared to Rs 2456.24 crore at the end of March 2000. In fact, the increase in arrears over the four years 1999-2003 (46 *per cent*) outstripped the increase in demand (43 *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 3596.86 crore came down to Rs 2684.18 crore at the end of June 2003 for the bills issued upto March 2003. Age-wise break up of the amount outstanding on 1 July 2003 as compared to the previous year is given in the chart.



Outstanding revenue of Rs 1861.21 crore for over one year

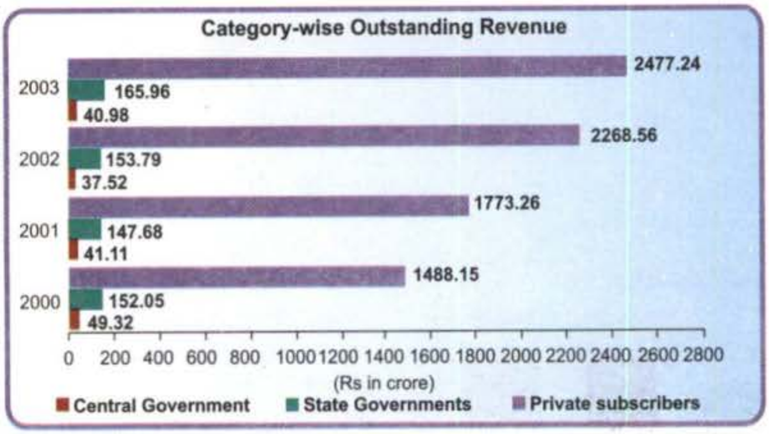
An amount of Rs 1861.21 crore (as of 1 July 2003) was outstanding for one or more years which constituted 69.34 *per cent* of the total outstanding revenue.

1.5.3 Category-wise break up of total telephone dues between June 2000 and June 2003 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
1999-2000	49.32	2.92	152.05	9.00	1488.15	88.08
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

An amount of Rs 2684.18 crore was outstanding against various categories of the telephone subscribers at the end of June 2003. Of the total outstanding amount, 92.29 *per cent* was outstanding against the private subscribers, 1.53 *per cent* against the Central Government departments and 6.18 *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 208.68 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)					
1999-2000	137.83	186.99	324.82	165.26	159.56
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
Telex/intelex charges					
1999-2000	19.41	22.44	41.85	22.55	19.30
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

The revenue arrears overdue for collection in respect of circuits had gone up from Rs 159.56 crore in 1999-2000 to Rs 282.52 crore in 2002-03, while those of telex/intelex charges reduced marginally from Rs 19.30 crore to Rs 17.21 crore during the same period. Thus, the total outstanding revenue on account of circuits/telex/intelex worked out to Rs 299.73 crore, which was subsequently reduced to Rs 223.44 crore as on 1 July 2003 as shown in paragraph 1.5.5 below.

1.5.5 The arrears of outstanding dues in respect of circuits and telex/intelex charges reduced to Rs 223.44 crore at the end of June 2003 for the bills issued up to March 2003. Year-wise break up of the outstanding dues as on 1 July 2003 is given below:

(Rs in crore)

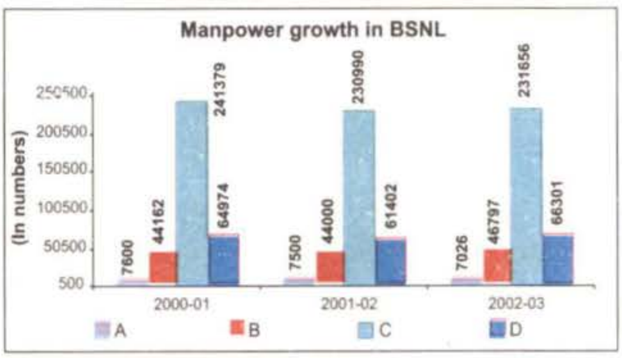
Period	Rent for communication circuits	Telex/intelex charges	Total
Upto 1993-94	17.06	1.28	18.34
1994-95 to 2001-02	107.10	8.16	115.26
2002-03	88.69	1.15	89.84
Total	**212.85**	**10.59**	**223.44**

1.5.6 Total arrears of revenue of over Rs 2907.62 crore (telephone: Rs 2684.18 crore and circuits/telex/intelex : Rs 223.44 crore) at the end of June 2003 in respect of telephone, telegraph, teleprinter services etc., impinge seriously on the financial health of a commercial undertaking like BSNL.

1.6 Manpower

The total manpower strength of BSNL as at the end of each of the last three years ended 31 March 2003 is given below:

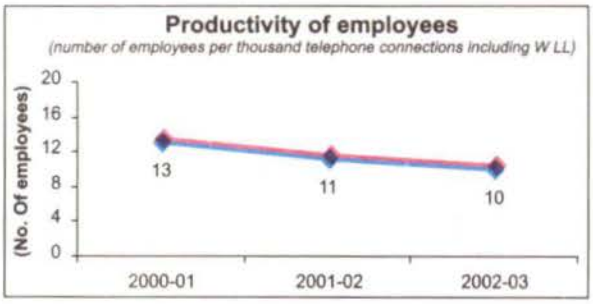
Year	Group A	Group B	Group C	Group D	Industrial workers	Total manpower
2000-01	7600	44126	241379	64974	7970	**366049**
2001-02	7500	44000	230990	61402	6040	**349932**
2002-03	7026	46797	231656	66301	4632	**356412**



There was an overall increase in the manpower during 2002-03 compared to the previous year except in categories of Group 'A' and 'Industrial workers', under which categories manpower decreased to the extent of almost 6 *per cent* and 23 *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 which improved to 11 during 2001-02 to almost 10 during 2002-03.



CHAPTER II
REVENUE

2.1 Non collection of revenue from cellular mobile subscribers — Rs 1.87 crore

Improper management of revenue collection and non availing of software driven facilities in West Bengal Telecom circle led to accumulation of outstanding dues of Rs 1.87 crore on post paid mobile telephony which remained unreaslied as of August 2003.

Improper management of revenue collection led to accumulation of outstanding dues of Rs 1.87 crore

Outstanding telephone revenue on post paid mobile telephony accumulated to the extent of Rs 1.87 crore over a period of 4-5 months and remained unrealised as of August 2003 due to improper checking of customer status at the time of providing connections (at SSA level), non implementation of software driven facilities (at zonal HQrs level) and non-monitoring of revenue collection by West Bengal Telecom circle.

Bharat Sanchar Nigam Limited started post-paid mobile telephony under the brand name "Cell One" with effect from October 2002 in West Bengal Telecom circle.

Threshold limits fixed by Company to avoid pilferage and loss of revenue

To avoid pilferage and loss of revenue under the post paid system the Company fixed for different categories of customers software driven threshold limits as under:

- Bills shall be generated dated 1st of each month taking the call detail records upto 2400 hrs on the last date of previous calendar month.
- SMS message shall be sent to all customers informing them of bill despatched and amount of the bill. Due date for payments would be 15th of the same month.
- Second SMS shall be sent as a reminder on 18th day of the month if payment is not received within due date.
- Withdrawal of outgoing facility if payment is not received by 21st day of the month and customers will be intimated through SMS.
- Withdrawal of both incoming and outgoing facility if payment is not received by 26th day of the month.

Provisions were also made to generate interim bills in between the regular monthly bills where the total calls of a customer exceeded the prescribed threshold limit.

In Durgapur division under Asansol SSA in West Bengal Telecom circle 31 customers were provided with "Cell One" mobile telephones having roaming with ISD facility between March and May 2003.

Audit scrutiny revealed that the outstanding dues in each case ranging between Rs 1 lakh and over Rs 12 lakh accumulated for two to three successive monthly bills due to non exercise of call restrictions and timely disconnection by the Management. This resulted in accumulation of outstanding telephone revenue against 31 customers amounting to Rs 1.87 crore.

The chances of recovery from these subscribers were remote as courier service failed to deliver the bills to 29 customers out of 31 due to wrong address and for the remaining two no details were made available to audit.

On this being pointed out by Audit, Chief Accounts Officer (Mobile), West Bengal Telecom circle stated that threshold server had not operated/ implemented; as well as it was a unique case and also it was not practicable to monitor such huge outstanding even after setting call detail records.

The matter was referred to the Ministry in October 2003; their reply was awaited as of October 2003.

2.2 Loss of potential revenue of Rs 1.39 crore

Due to delay in provision of OFC system, the subscriber cancelled the firm demand, which led to loss of potential revenue to the tune of Rs 1.39 crore during March 2001 to February 2011.

The Principal General Manager Telecom District (PGMTD), Surat during March 2001 failed to provide Optical Fibre Cable (OFC) system on 10 years Rent and Guarantee basis to a customer within the stipulated period of nine months after receipt of firm demand. Consequently the subscriber due to undue delay in commissioning of OFC withdrew the demand which resulted in potential loss of revenue of Rs 1.39 crore over a period of 10 years beginning from March 2001.

Cancellation of firm demand by subscriber due to delay in provision of OFC system resulted in loss of potential revenue of Rs 1.39 crore

M/s Satyam Infoway had placed a firm demand in December 1999 for provision of 12 Fibre 140 Mb OFC system on Rent and Guarantee for a period of 10 years. The PGMTD, Surat issued the demand note only in August 2000 after a delay of eight months and this was paid by the subscriber in November 2000. The work order for commissioning the system was issued in March 2001, in anticipation of receipt of 140 Mb Optical Fibre equipment. However, the same could not be installed as it was not received. In April 2001, the subscriber withdrew his demand due to undue delay in commissioning of the system and the amount paid by the party was refunded. Thus, BSNL suffered a potential loss of revenue of Rs 1.39 crore (Rs 13.86 lakh x 10 years guarantee) which it would have earned, had the facility and service been provided in time.

On this being pointed out by Audit, Ministry stated in November 2003 that on payment of demand note, action was taken for completion of work. The time schedule for construction and provision of cable transmission system was nine months. The payment of demand note was made during November 2000. The work was started in March 2001. As the party cancelled the demand during April 2001, there was no loss which BSNL has suffered. The reply is not tenable as PGMTD Surat took eight months for issuing the demand note. Further, as per the work order issued in March 2001 the time for completion of work was given as 14 days only as no new construction was involved.

2.3 Non realisation of revenue of Rs 1.14 crore

Failure of GMT Asansol under West Bengal Telecom circle to deposit into the bank the cheques, drafts and banker's cheques resulted in non realisation of revenue of Rs 1.14 crore.

General Manager Telecom (GMT) Asansol under West Bengal Telecom circle failed to deposit into the bank the cheques, draft and banker's cheques received during the period March 1996 to February 2001 towards telephone dues which resulted in non realisation of revenue of Rs 1.14 crore as of February 2003.

Rules provide that cheques received in payment of telephone and telegraph dues etc., should be entered in the prescribed register of cheques received and cleared to exercise a watch over their encashment and action should be taken for the clearance of the cheques as soon as they are received. At the end of each month a bank reconciliation statement of remittances from and to bank should also be prepared for unadjusted items of receipts and payments.

GMT did not maintain proper records as required under Rules

GMT Asansol had neither prepared any bank reconciliation statement nor maintained the register of cheques received and cleared. The revenue collected from subscribers through account payee cheques or drafts is remitted to bank through remittance challans; after its clearance, bank in turn issues a banker's cheque in favour of Accounts Officer (Cash) which is required to be deposited into the bank for credit to the Company's account.

BSNL failed to deposit banker's cheques/drafts etc., which resulted in non-realisation of revenue of Rs 1.14 crore with consequential loss of interest

Audit scrutiny (February 2003) revealed that the GMT failed to present 51 banker's cheques amounting to Rs 48.39 lakh received during the period from February 1998 to February 2000 to bank and as a result, the cheques became time expired. Further 86 cheques/drafts amounting to Rs 2.15 lakh received during the period from March 1996 to February 2001 were not presented to bank for collection and 43 banker's cheques amounting to Rs 63.52 lakh received during the period March 1998 to March 2000 were yet to be traced and remitted to bank. This resulted in non-realisation of revenue of Rs 1.14 crore with consequential loss of interest.

On this being pointed out by Audit, Management stated that banker's cheques amounting to Rs 48.39 lakh were deposited in SBI in February 2003 and that action was being taken to deposit cheques/drafts for the remaining amount into the bank.

The matter was referred to the Ministry in July 2003; their reply was awaited as of October 2003.

2.4 Short recovery of infrastructure charges of Rs 91.44 lakh

Failure of six Secondary Switching Areas in Haryana, Punjab and Karnataka Telecom circles to levy charges for infrastructural facilities provided to private licensed service providers resulted in short recovery of Rs 91.44 lakh for the period November 1996 to December 2003.

Heads of six Secondary Switching Areas (SSAs) in Haryana, Punjab and Karnataka Telecom circles failed to levy the charges fixed on regular basis for infrastructural facilities provided to private licensed service providers which resulted in short realisation of infrastructural charges of Rs 91.44 lakh for the period November 1996 to December 2003.

BSNL issued instructions for fixing charges for facilities provided and levy charge for infrastructure sharing

Department of Telecommunications (DoT) now Bharat Sanchar Nigam Limited (BSNL), in April 1997, fixed provisional charges for facilities such as accommodation, power supply, tower space and duct provided to private licensed service providers at Rs 2 lakh per site. In February 2001 BSNL issued instructions for fixing charges on regular basis for the above facilities and also decided to levy charges for infrastructure sharing annually in advance. These charges were to be recovered retrospectively.

BSNL failed to recover charges fixed on regular basis from private licensed operators amounting to Rs 91.44 lakh

Scrutiny of records of six SSAs of Karnal, Jind and Sonipat in Haryana Telecom circle between April 2002 and December 2002, Jalandhar SSA in Punjab Telecom circle in February 2003 and Belgaum and Mysore SSAs in Karnataka Telecom circle in June 2002 revealed that the charges fixed on regular basis as per orders of BSNL were not recovered from private licensed service providers after adjusting the provisional charges. This resulted in short realisation of Rs 91.44 lakh for the period from November 1996 to December 2003 as detailed in Appendix-1.

On this being pointed out by Audit, GMTD Karnal issued bills for Rs 12.19 lakh in May 2002. SSAs Jind, Sonipat and Jalandhar stated that the cases would be examined and amount would be recovered. The Sub-Divisional Engineer (SDE) of the office of the GMTD Belgaum stated in June 2002 that the approval of CGMT Bangalore was awaited. The SDE of office of the GMTD Mysore stated in September 2002 that the circle office had been reminded.

This indicated that review mechanism of SSA to follow compliance of orders/instructions issued by BSNL headquarters from time to time was weak.

The Ministry in their reply in October 2003 stated that an amount of Rs 23.09 lakh in respect of Punjab Telecom circle and Rs 11.25 lakh in respect of TDM Belgaum under Karnataka Telecom circle were recovered. Reply in respect of Haryana Telecom circle and recovery particulars of balance amount were awaited as of October 2003.

2.5 Non/short realisation of security deposit of Rs 67.20 lakh

Failure of Bangalore Telecom District to review security deposit in respect of Direct in dialing subscribers of Group EPABX and of Chennai Telephones and Tamil Nadu Telecom circle to collect security deposit from integrated service digital network subscribers resulted in short/non realisation of Rs 67.20 lakh.

Sr. General Manager (Sr.GM) Bangalore Telecom District failed to review security deposit due from Direct in dialing (DID) subscribers and Chief General Managers (CGMs) Chennai Telephones and Tamil Nadu Telecom circle failed to collect security deposit from Integrated Service Digital Network (ISDN) subscribers resulting in short/non realisation of security deposit of Rs 67.20 lakh.

Rules provide that for each outgoing junction from EPABX DID group, the EPABX licensees have to deposit as security Rs 5000 or twice the average monthly bill averaged over the previous six months, whichever is higher, in cash or in the form of bank guarantee. The amount of security deposit was required to be reviewed every year.

Rules further provide that security deposit of Rs 4500 should be collected for providing network termination to ISDN subscribers.

Audit scrutiny between November 2000 and May 2002 revealed the following:

Bangalore Telecom district short realised security deposit amounting to Rs 49.29 lakh

General Manager Central under Sr. GM Bangalore Telecom District failed to conduct the required review of the security deposit in 10 cases (with 284 junction lines) and did not revise the security deposit upward with reference to increase in revenue of such DID subscribers. As against the required security deposit of Rs 73.64 lakh due for recovery from the DID subscribers, an amount of only Rs 24.35 lakh was available with the BSNL. Failure to follow the prescribed rules and procedures led to short realisation of security deposit amounting to Rs 49.29 lakh during the period from April 2002 to September 2002.

Chief Accounts Officer (Central) Bangalore Telecom District while apprehending that demand of additional security deposit from DID franchisees would result in their migration/shift to other competitors stated (January 2002) that the matter would again be taken up with the Administration and audit would be informed. Recovery particulars were awaited as of October 2003.

Chennai Telephones and Tamil Nadu circle failed to realise security deposit of Rs 17.91 lakh

CGM, Chennai Telephones and Tamil Nadu circle failed to collect security deposit from 398 ISDN subscribers for providing network termination to them resulting in non-realisation of Rs 17.91 lakh as per details given in Appendix-2.

Tamil Nadu circle and Chennai Telephones realised Rs 11.43 lakh at the instance of Audit

Deputy General Manager (F&A) of Tamil Nadu Circle stated in March 2003 that entire amount of Rs 4.10 lakh pointed out by Audit had been recovered in respect of Chengalpattu and Salem SSAs. Chief Accounts Officer/Sr. Accounts Officer, Telephone Revenue, South West, Central and North East Zone of Chennai Telephones stated between March 2002 and May 2003 that recovery of Rs 7.33 lakh had been made. Recovery particulars of balance Rs 6.48 lakh were awaited as of October 2003.

The Ministry in their reply in November 2003 stated that at the instance of audit a fresh review was undertaken and security deposit amounting to Rs.0.09 lakh was still short realised.

2.6 Non recovery of cost of telephone instruments amounting to Rs 39.18 lakh

General Managers Telecom Satara and Kolhapur failed to recover the cost of 6426 telephone instruments amounting to Rs 39.18 lakh in respect of disconnected telephone connections as of June 2003.

As of June 2003, General Managers Telecom (GMsT) Satara and Kolhapur failed to recover the cost of 6426 telephone instruments amounting to Rs 39.18 lakh on account of disconnection of telephones due to non payment of bills.

Rules stipulate that in the case of telephones not restored within three months of their disconnection the cost of instrument should be intimated to the Telephone Revenue Account (TRA) branch for recovery, if the instrument is not recovered.

DEs of Satara and Kolhapur under Maharashtra circle failed to recover cost of instruments of Rs 39.18 lakh

Test check of records of GMsT, Satara and Kolhapur under Maharashtra Telecom circle by Audit during December 2002 and February 2003 revealed that 2321 connections in Satara and 4105 connections in Kolhapur remained disconnected for non payment of bills for more than 3 months. The Divisional Engineers concerned, however, either failed to recover the telephone instruments amounting to Rs 39.18 lakh or intimate the cost to TRA branch for recovery/adjustment. It was noticed that the amount was not adjusted in the final bill but taken to outstanding dues as the subscribers did not have deposit with the Company.

On this being pointed out by Audit, SDE of the office of the GMT, Satara stated in December 2002 that advice notes in respect of 2321 subscribers were sent to TRA by field SDEs; final settlement would be intimated to Audit. In respect of SSA Kolhapur the AO/TR office of the GMTD Kolhapur stated in

February 2003 that action was being taken to recover the cost of instruments in respect of those cases where instruments had not been recovered.

Recovery particulars were awaited as of October 2003.

The Ministry in their reply in November 2003 stated that a decision had been taken in August 2003 and according to that an amount of Rs. 200 was to be added to the dues of the subscriber in case he did not surrender the instrument.

2.7 Non billing of Rs 26.25 lakh towards CLIP facility

Department failed to bill CLIP facility charges amounting to Rs 26.25 lakh during 1999-2002.

Secondary Switching Areas (SSAs) under Andhra Pradesh circle failed to collect installation charges and bimonthly rental from subscribers having Calling Line Identification Processing (CLIP) facility resulting in non billing to the tune of Rs 26.25 lakh between January 1999 and May 2002.

According to orders adopted by BSNL where CLIP facility is provided to telephone subscribers served by electronic exchanges, one time installation charges of Rs 50 and bimonthly rental at the rate of Rs 100 were chargeable with effect from 1st January 1999.

Hyderabad Telecom District failed to issue bills of Rs 26.25 lakh in respect of installation charges and bi-monthly rental of CLIP facility

Scrutiny by Audit of the records of General Manager (West), GMTD, Ongole and GMTD Visakhapatnam of Hyderabad Telecom District, during March 2001 to October 2001 revealed that in 2302 cases, installation charges and bi-monthly rental were not recovered from the subscribers from the date of provision of CLIP facility. This resulted in non billing of Rs 26.25 lakh for the period from January 1999 to May 2002 as shown in Appendix – 3. It was also noticed that the circle not only failed to incorporate required provision in the billing software from January 1999 to May 2002 but also failed to monitor the billing cycles.

When this was pointed out by Audit the Deputy General Manager (F&A), who was the Nodal officer of CGMT Andhra Pradesh circle, stated in August 2002 that bills for the entire amount of Rs 2.34 lakh, as pointed out by Audit in respect of SSA Visakhapatnam, were issued and Rs 1.42 lakh were realised. In the case of SSA Ongole the entire amount of Rs 5.24 lakh was realised and reply from Hyderabad Telecom District was awaited as of October 2003.

The Ministry in their reply in September 2003 stated that an amount of Rs 23.67 lakh had been realised and realisation of balance of Rs 2.58 lakh was being pursued.

2.8 Non realisation of service tax of Rs 18.71 lakh

Failure of General Manager Telecom, Chandigarh to levy service tax on telecommunications services resulted in non-realisation of service tax of Rs 18.71 lakh for the period August 1999 to February 2003.

General Manager Telecommunications (GMT) Chandigarh failed to levy service tax on telecommunication services provided to subscribers as per orders of Ministry of Finance resulting in non realisation of service tax of Rs 18.71 lakh for the period August 1999 to February 2003.

Ministry of Finance levied five per cent service tax on Telecommunication services

Ministry of Finance imposed a service tax of 5 per cent on the total charges claimed in the bills with effect from 1 July 1994 on service provided to subscribers by telegraph authorities in relation to telephone connections. Subsequently, Ministry of Finance in July 2001 brought telegraph services, leased circuits, telex service and facsimile communications service under the purview of service tax with effect from 16 July 2001. Consequent upon this BSNL issued instructions to all heads of circles in July 2001 itself that service tax was chargeable in respect of these services also.

Failure to charge service tax of Rs 18.71 lakh by GMT Chandigarh

Test check of the records of GMT Chandigarh by Audit in February 2003 revealed that service tax was not charged on the telecommunication services viz., speech circuits, data circuits, cable, EPABX etc. Thus negligence of management to enforce instructions of Ministry of Finance to levy service tax resulted in non-recovery of service tax amounting to Rs 18.71 lakh for the period August 1999 to February 2003.

On this being pointed out by Audit, Ministry stated (October 2003) that an amount of Rs 16.96 lakh on account of service tax, was recovered and efforts were being made to recover balance amount of Rs 1.75 lakh.

2.9 Non/Short recovery of revenue

2.9.1 Continuance of telephone facilities despite non-payment of dues

Continuance of telephone facilities despite default in payment of bills resulted in accumulation of dues of Rs 37.45 crore in 24 Secondary Switching Areas under 10 telecom circles during the period August 1989 to February 2003.

5521 subscribers and STD operators in 24 Secondary Switching Areas (SSAs) under 10 Telecom Circles continued to enjoy telephone facilities despite non payment of dues resulting in accumulation of arrears of Rs 37.45 crore for the period August 1989 to February 2003 out of which Rs 0.88 crore was recovered at the instance of Audit. Recovery particulars of balance amount of Rs 36.57 crore were awaited as of May 2003.

Rules provide that telephone bills are payable within 15 days of the date of issue of bills failing which the connection is liable to be disconnected.

Test check of records of 24 SSAs in Assam, Bihar, Chhatisgarh, Gujarat, Jharkhand, North East, Rajasthan, Uttar Pradesh (East) and (West) and West Bengal telecom circles during April 2001 to March 2003 revealed that 5521 subscribers and STD operators continued to enjoy telephone facilities despite non payment of dues ranging from 1 billing cycle to 49 billing cycles. This resulted in accumulation of arrears of Rs 37.45 crore during the period from August 1989 to February 2003 as detailed in Appendix-4. Out of this Rs 0.88 crore was recovered in Rajasthan, Uttar Pradesh (East) and (West) telecom circles.

The heads of SSAs of the concerned telecom circles, stated between November 2001 and May 2003 that action was being taken to recover the amount outstanding in respect of closed connections and that notices were being issued to defaulting subscribers.

Comments regarding continuance of telephone facilities despite non-payment of dues were made in Reports of the Comptroller and Auditor General of India for each of the last five years. The Ministry in their ATN stated in November 2002 that the officers/officials had been warned suitably and had also been instructed to be careful in future. Audit however noted that the deficiency continued to persist despite issue of instructions.

The matter was referred to the Ministry in June -August 2003; their reply was awaited as of October 2003.

2.9.2 Failure to demand and collect rent/licence fee Rs 16.42 crore

Failure of BSNL to demand and collect rent/licence fee for various telecom facilities led to non/short recovery of revenue of Rs 16.42 crore.

Non/short recovery of Rs 16.42 crore towards rent/licence fee for telecom facilities

Test check in audit revealed non/short realisation of rent of Rs 16.42 crore for the period June 1987 to January 2011 for various telecom facilities in 14 telecom circles as shown in Appendix - 5. These were mainly due to failure to issue bills, recover licence fee, advance rental and installation charges on upgradation of exchange capacity etc.

When this was pointed out by Audit, out of Rs 16.42 crore identified by Audit, the department recovered Rs 2.89 crore in nine circles up to October 2003.

The matter was referred to the Ministry during June 2003 to October 2003. Ministry in their replies received in September/October 2003 while accepting the facts and figures stated that partial recoveries had been effected in respect of Andhra Pradesh, Kerala and Tamil Nadu circles. Replies in respect of other circles were awaited as of October 2003.

2.9.3 Lines and wires and speech circuits leased to Railways.

Failure of BSNL to take timely action to recover the rental in respect of lines and wires and speech circuits provided to Railways.

Rental for lines and wires/circuits leased to Railways is initially recovered on a provisional basis pending finalisation of rates, which are decided later, for a block of five years by the BSNL in consultation with the Railway Board.

The BSNL fixed rental applicable for the block of five years 1991-92 to March 1996. The rental for April 1996 onwards was to be recovered on provisional basis at the tariff decided for the previous five year's block.

Company's failure to recover revised rental resulted in short recovery of Rs 7.93 crore

Scrutiny of records of 7 Secondary Switching Areas (SSAs) under Haryana, Orissa, Kerala and Uttar Pradesh (East) Telecom circles revealed that the BSNL failed to recover the revised rental from the Railways. This resulted in short recovery of Rs 7.93 crore during the period April 1991 to June 2004 as detailed in Appendix – 6.

On this being pointed out BSNL realised Rs 1.44 crore in three SSAs under Kerala, Orissa and Uttar Pradesh (East) Telecom circles.

The matter was referred to the Ministry during June and July 2003; their reply was awaited as of October 2003.

2.9.4 Non receipt of advice notes

Department failed to realise Rs 6.24 crore due to non-receipt of completed advice notes in Telephone Revenue Accounting branches.

Operating branch of the telephone district is required to send completed advice notes to the Telephone Revenue Accounting (TRA) branch within a week of providing telecommunication facilities to enable them to post the details in the Subscriber Record Card (SRC) and issue bills to the subscribers. TRA branch is 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 rent in respect of all the telecommunication facilities has been recovered.

Test check disclosed non/short billing of Rs 6.24 crore in five telecom circles

Cases of delayed billing/non-billing due to non-receipt of advice notes by TRA branch were commented in the Reports of the Comptroller and Auditor General of India, Union Government (Post and Telecommunications) in the past. In November 1998, DoT issued instructions where it referred to the manualised provisions and reiterated its earlier detailed instructions on the subject. DoT's instructions of 1998 were again reiterated by BSNL in December 2001 for strict observance, in view of repeated Audit observations. Despite this the deficiency persisted; this indicated that the accountability mechanism was weak. Test check by Audit revealed non-billing due to non-receipt of advice notes amounting to Rs 6.24 crore for the period December 1993 to March 2004 in five telecom circles involving 14 cases as shown in Appendix - 7.

When this was pointed out by Audit, out of Rs 6.24 crore identified by Audit, the department recovered Rs 2.50 crore. Recovery particulars of balance amount of Rs 3.74 crore were awaited as of October 2003.

The matter was referred to the Ministry during June-July 2003. Ministry in their reply received in October 2003 in respect of Bihar, Gujarat and Punjab circles while confirming the facts and figures stated that Rs 8.02 lakh was reduced to Rs 3.03 lakh in Munger SSA, Rs 219 lakh was recovered in Gujarat circle and Rs 26.68 lakh was recovered by PGMTD Chandigarh. Replies in respect of other circles were awaited as of October 2003.

2.9.5 *Bills issued at old lower tariff*

Department short recovered rent of Rs 0.76 crore due to billing at the old lower tariff.

The department failed to charge the revised tariff for telecommunication services such as leased telecom services including rental charges for telephone connections. Cases of short recovery of rental due to non-application of revised tariff by Telephone Revenue Accounting (TRA) branch of the department were included in the Reports of the Comptroller and Auditor General of India, Union Government (Post and Telecommunications) for the years 1986-87 to 2001-2002. In response to audit observations, DoT issued instructions in September 1991 making it imperative that any revision in tariff should be brought to the notice of all concerned dealing with fixing of rent and guarantee terms and issue of bills. Since the deficiency persisted, DoT again directed the Heads of circles in November 1998 to refer to the instructions issued in September 1991 and take urgent steps to circulate revised tariff to the SSAs whenever such orders reached them.

Circles continued to issue bills at old lower tariff despite repeated instructions of DoT

Despite these instructions, Audit continued to notice cases of issue of bills at old lower tariff. This indicated that basically the accountability mechanism was weak. Test check by Audit revealed short billing of Rs 0.76 crore for periods from October 1994 to June 2002 in three Telecom circles in five SSAs as shown in the Appendix-8.

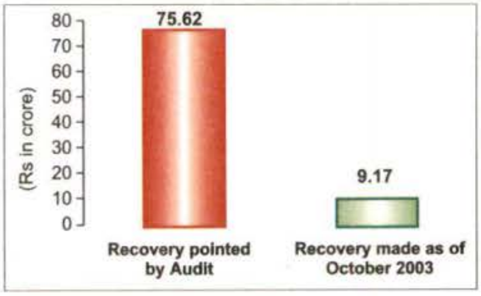
When this was pointed out by Audit, the department recovered Rs 0.13 crore. Recovery particulars of the balance amount of Rs 0.63 crore were awaited as of October 2003.

The matter was referred to the Ministry in July-September 2003 and Ministry in their reply in November 2003 while confirming the facts stated that Rs 13.45 lakh had been recovered under Maharashtra Telecom circle.

2.10 Recovery at the instance of Audit

Out of Rs 75.62 crore outstanding against the subscribers due to short billing, non-recovery of revenue etc., pointed out by Audit, BSNL recovered Rs 9.17 crore.

Test check in audit disclosed non/short billing in many cases aggregating to Rs 75.62 crore due to non-receipt of advice notes in TRA branch, issue of bills at old lower tariff, incorrect fixation of rent, non-recovery of service tax and non/short-recovery of revenue etc., as brought out in paragraphs 2 to 10 of this chapter.



When this was pointed out by Audit, the BSNL confirmed recovery of Rs 9.17 crore as of October 2003.

CHAPTER III
COMPREHENSIVE PERFORMANCE REVIEWS

Working of Telecom Maintenance Wing of BSNL

Highlights

- **Microwave systems installed in August 2001 at a cost of Rs 3.42 crore in Western Telecom Region without taking into account the availability of OFC media on the route rendered the entire expenditure unfruitful.**

  (Paragraph 3.4.1)

- **At Bangalore and Hubli sub-region 56 microwave systems valued at Rs 13.69 crore were not functional and had no traffic put through them. Another 22 microwave systems in Hyderabad sub region also did not carry any traffic.**

  (Paragraph 3.4.2)

- **Western Telecom Region (WTR) had not taken any action to decommission the microwave systems after commissioning of OFC on those routes resulting in infructuous expenditure of Rs 2.37 crore on maintenance of these schemes.**

  (Paragraph 3.4.3)

- **A projection indicated that an annual recurring expenditure of Rs 556 crore incurred on microwave media earned a revenue of only Rs 135 crore resulting in annual loss of Rs 421 crore.**

  (Paragraph 3.4.4)

- **Company suffered loss of revenue of Rs 3.81 crore due to delay in providing the leased circuits.**

  (Paragraph 3.4.5)

- **The planning wing of BSNL failed to include an additional switching matrix unit while framing the generic requirement for procurement of STM 6 equipment. As a result, 148, STM 16 equipment worth Rs 93.10 crore continued to give trouble in maintenance operations.**

  (Paragraph 3.5.1)

- **The quality of Optical Fibre Cable supplied by M/s. RPG Telecom, Mysore degraded substantially due to higher attenuation leading to diversion of traffic and resultant idling of cables worth Rs 11.92 crore.**

  (Paragraph 3.5.2)

- **In Eastern, Western and Northern Regions, 85 MCPC VSAT systems valuing Rs 47.83 crore were either idle or faulty.**

  (Paragraph 3.6)

- **Despite the fact that coaxial cables did not carry any traffic, 7881.27 kms of coaxial cables worth Rs 42.50 crore laid in Southern, Eastern and Western Regions were not recovered.**

  (Paragraph 3.7)

- **Claims amounting to Rs 40.46 crore towards damage of BSNL cable were yet to be recovered.**

  (Paragraph 3.8.1)

- **Failure to adhere to the departmental instructions and ineffective pursuance of dues recoverable resulted in undue delay in realisation of Rs 5.16 crore from National/State Highway authorities.**

  (Paragraph 3.8.2)

- **Excess retention of the posts of Phone Mechanics in Northern and Southern regions had resulted in irregular drawal of pay and allowances of Rs 10.40 crore.**

  (Paragraph 3.9)

3.1 Introduction

In order to keep the transmission network of Bharat Sanchar Nigam Limited (BSNL) in good operational condition, systematic maintenance and prompt rectification of faults and repairs are essential. Maintenance wing of BSNL is entrusted with the operation and maintenance of long distance communication network. Chief General Managers, Maintenance, of all the four Regions viz., Northern, Southern, Eastern and Western look after operation and maintenance of long distance communication networks within their territorial jurisdiction. The main functions of maintenance wing are:

(i) Operation and maintenance of all kinds of media such as microwave, optical fibre cable (OFC), satellite earth stations etc.
(ii) Network planning
(iii) Network management
(iv) Fault control

3.2 Scope of Audit

This review was conducted during April to June 2003 covering the period 1998-99 to 2002-03. The objective of this review was to examine the effectiveness of the maintenance regions in the maintenance of various telecom networks entrusted to them, including their planning and management.

3.3 Organisational set up

All the four maintenance regions are headed by the respective Chief General Managers who in turn report to Member (Services), Telecom Commission before corporatisation. After formation of BSNL they report to Director (Operations).

3.4 Network planning

Planning of any network is a continuous exercise. Maintenance wing of BSNL is responsible for planning of systems as per requirements after analysis of traffic and public demand. Allocation of Trunk Automatic Exchange (TAX) streams based on traffic is also entrusted to the Maintenance set up.

Departmental instructions stipulated that

(i) The views of the Maintenance heads should be taken into account while finalizing the schemes.

(ii) Coordination meetings should be held at intervals not exceeding one quarter between the GMsP and heads of Maintenance Regions to review the current position of the projects

(iii) Maintenance staff should visit installations at suitable intervals for more effective coordination relating to specific matters

(iv) Maintenance heads should associate themselves with the Acceptance Testing (A/T) team

Audit however observed that the above instructions emphasizing coordination at all levels were not followed. This resulted in adaptation to new technology in transmission media without correspondingly relinquishing the old technology. Lack of a clear and uniform policy towards the desired shift in requirement due to technological changes led to persistence with microwave medium, idling of media, incurring avoidable expenditure on maintenance and loss of revenue due to delay in providing leased circuits.

3.4.1 Persistence with microwave medium

Unfruitful expenditure of Rs 3.42 crore.

(a) Chief General Manager Projects (CGMP), Western Telecom Projects (WTP), Mumbai installed microwave systems between Prabhadevi–Pune and Prabhadevi–Pen at a cost of Rs 3.42 crore in April 2002 though both the routes were connected by STM regional rings and could handle the total traffic. The Chief General Manager Maintenance (CGMM), Western Telecom Region (WTR) Mumbai belatedly in August 2001 requested CGMP (WTP) not to install the systems. As the systems by then were at an advanced stage of commissioning they could not be cancelled. Thus, failure to take into account the availability of OFC system led to the entire expenditure of Rs 3.42 crore being rendered unfruitful apart from regular maintenance expenditure and spectrum charges being incurred.

22 microwave systems continued to exist despite availability of OFC

(b) In Ernakulam sub region 22 microwave systems of 6 GHz and 7 GHz continued to exist despite the route being already covered by 12/24 OF and STM rings. To an audit query, the SDE (NM), O/o DGM (M)STR Ernakulam replied in June 2003 that 6 GHz MW system could not be decommissioned as they were used as alternate route for OF system. The reply is not tenable as OF ring routes are already auto protected and do not require any standby. Regarding 7 GHz systems, they had already been switched off and approval for scrapping from BSNL headquarters was awaited.

3.4.2 Idling of media

56 microwave systems worth Rs 13.69 crore were not functional and had no traffic put through them

In Bangalore and Hubli sub region 56 microwave systems worth Rs13.69 crore were not functional and had no traffic being put through them. In Hyderabad sub region also, while 38 systems carried low traffic, 22 systems did not carry any traffic at all. The microwave systems continued to be commissioned up to July 2002. To an audit query, the management replied that these microwave systems were replaced by more reliable OFC media and some of the idle systems were switched off to reduce electricity charges. The shutting down of these systems would be done on receipt of directions from BSNL Corporate Office. However, these 78 microwave systems continued to remain idle.

3.4.3 Avoidable expenditure on maintenance of systems

Infructuous expenditure of Rs 2.37 crore towards maintenance on microwave systems

Four microwave systems were working in the Western Region where OFC STM rings were commissioned between August 2000 and May 2002 and consequently the microwave systems were not required. WTR, however, had not taken any action to decommission the above microwave systems. This resulted in infructuous expenditure of Rs 2.37 crore towards maintenance during the period from July 1999 to June 2003.

3.4.4 Annual loss of Rs 421 crore on microwave systems

BSNL incurred annual loss of Rs 421 crore on microwave systems

In July 2002 CGM, Southern Telecom Region (STR) observed that the traffic carried by microwave circuits was 8.43 per cent assuming that all circuits were evenly loaded. But in actual practice bulk of the traffic (99 per cent) was carried by OFC circuits because of adequacy and reliability and revenue contribution of microwave media was at the most 8.5 per cent. A projection for all India microwave routes by CGM (STR) indicated that an annual recurring expenditure of Rs 556 crores earned revenue of only Rs 135 crores through microwave media resulting in annual loss of Rs 421 crore.

The continuance of the microwave media was not economical from the angle of financial viability. The maintenance wing failed to evaluate the requirement of microwave systems vis-à-vis OFC at the planning stage. The recurring expenditure on establishment and upkeep of infrastructure like microwave stations and repeaters, besides expenditure on deployment of private security, continued to increase.

Management in its reply in November 2003 stated that the microwave media was not technically obsolete though the capacity of the media was less as compared to the requirements on the main routes. It added that OFC media was planned for most of the routes to obtain larger capacity and greater reliability. It also stated that the traffic was auto protected in the rings only in case of single fault and in case of two or more faults the traffic was not auto protected and alternate media was required for protection of traffic.

The reply is not tenable as Management had earlier observed that the OFC connectivity would cater for the traffic from microwave route also. Further the TX Cell of DTS had given clear instructions in June 2000 to cover as many stations as possible on OFC so that the need for microwave systems was kept to bare minimum.

The Management's contention that the microwave would be kept as a standby is not acceptable because at the time of sanction of microwave project, department justifies each and every microwave scheme as independent media carrying traffic at full capacity. Therefore, the concept of stand by scheme only is a justification since they continue to exist in spite of advent of new technology media which was carrying almost the entire traffic. Moreover, even the Company's functionaries viz., GM Maintenance NTR in June 2001 had observed that the performance of microwave system was not satisfactory, specially for data circuits, as the flexibility and capacity was a limitation. CGM Maintenance, Southern Telecom Region in July 2002 had also observed the maintenance of microwave system which does not carry any traffic or carries minimum traffic was not cost effective. He further added that in actual practice bulk of traffic (99 per cent) was carried by OFC circuits because of its adequacy and reliability and added utilization of microwave circuits was only minimal. BSNL apart from maintenance of the microwave media paid spectrum charges of Rs 289 crore and Rs 600 crore during 2001-02 and 2002-03 respectively. After Corporatisation, since the Company has to incur heavy expenditure on its maintenance and pay spectrum charges also, there is an urgent need to review these projects and take a decision on their continuance.

3.4.5 Channel allocation

Telecom Regulatory Authority of India (TRAI) issued directions in August 2001 for provision of local leased circuits within a maximum of four weeks and national long distance circuits within eight weeks.

Loss of revenue of Rs 3.81 crore due to delay in providing leased circuits

Delays ranging between 25 and 1000 days occurred in providing leased circuits to 537 subscribers by the four maintenance regions due to non receipt of advice notes, non provision of end links and local leads by the Secondary Switching Areas and non provision of modem by the subscribers who were not ready to take over due to delay in providing circuits. This resulted in loss of revenue of Rs 3.81 crore during the period 2000-2003.

Management while accepting the loss of revenue of Rs 3.88 crore stated in November 2003 that delay was not always on the part of BSNL and sometimes some delay was unavoidable due to operational reasons. It further added that many times the reason for pendency of leased circuits was due to the party/subscriber concerned.

The reply of the Management is not tenable as in most of the cases the delay was on the part of the Management and in few cases only the delay was on the part of the subscriber.

3.5 Maintenance of Network

Departmental instructions provide that Maintenance branch should associate with the Acceptance Testing team. Before taking over the systems for maintenance, one of the important duties of the Technical cell under CGM Maintenance is to scrutinize the test results and field comments on the equipment and get the faults rectified by the project/circle installation wing of the Territorial Telecom Circles.

Failure to comply with the above instructions resulted in poor performance of STM 16 equipment rings and poor quality of OF cable as discussed below:

3.5.1 Poor performance of HFCL STM ring equipment

STM 16 procured at a cost of Rs 93.10 crore went faulty frequently

Failure on the part of the Planning wing to convey its requirement to the TEC while framing the Generic Requirement (G.R.) resulted in non-inclusion of additional switching matrix unit in the procurement of STM 16 equipment. This led to the system, procured at a cost of Rs 93.10 crore, going faulty frequently as discussed below.

Performance of HFCL make STM 16 equipment not satisfactory

STM-16 equipment of Himachal Futuristic Communication Limited (HFCL) was installed in Nagpur-Wardha-Yavatmol-Nanded-Aurangabad-Dhulia-Akola-Amravati-Nagpur route which was commissioned in March 2001 and loaded for traffic in July 2001. CGM (Projects) WTP, Mumbai encountered various problems at the time of installation and observed that performance of HFCL equipment installed on the above ring was extremely poor and that HFCL had not given satisfactory support service.

Failure of ADM led to traffic failure on several occasions

While software problems were set right by HFCL, the hardware problems i.e. faulty cards and frequent failure of switching matrix unit of ADMs led to traffic failure on several occasions. Recurrence of faults could not be stopped.

Planning Cell had not ordered for additional switching matrix unit which was critical for successful operation

TEC observed in February 2003, that in HFCL system switching matrix units were not located in the optical card and therefore only one number of switch unit was supplied. The Planning Cell had not ordered for additional switching matrix unit which was critical for successful operation in case of failure of the only matrix unit available. This failure of the Planning Cell to order for the additional switching matrix unit and consequent absence of the same resulted in failure of traffic on several occasions.

Audit observed that neither compensation for the poor performance nor demand for replacing the faulty equipment had been placed on the supplier. Further purchase order for 148 number of this equipment worth Rs 93.10 crore was placed on HFCL even before they got type approval. These equipment supplied by HFCL to Northern, Eastern and Western regions continued to affect adversely the maintenance operations.

3.5.2 Poor quality of optical fibre cable

2300.277 kms of optical fibre cable worth Rs 11.92 crore supplied by RPG Telecom Mysore were installed during 1999-2000 in Eastern and Southern Regions.

Quality of OFC supplied by RPG degraded substantially

The quality of Optical Fibre Cable supplied degraded substantially due to attenuation which was beyond the prescribed limit. Consequently, the traffic on the said cables was diverted to alternate routes.

Quality Assurance Wing in its report stated that the higher attenuation was attributable to

(a) Defective manufacture as to colouring agent used in the cable not being able to minimize hydrogen generation and concentration and non observance of the strict moisture control measures.

(b) Failure of TEC to include the above aspects in its specifications.

Maintenance wing failed to scrutinize the test results and get the faults rectified

However, maintenance wing failed to scrutinize the test results and field comments on the quality of cables and get the faults rectified before taking over the system for maintenance. This resulted in idling of cables worth Rs 11.92 crore rendering the expenditure unfruitful.

In May 2002, BSNL corporate office directed STP and STR circles to take up the matter with the supplier for replacement of entire length of faulty cable.

3.6 Maintenance of Satellite Earth Stations (SES)

Multi Channel Per Carrier Very Small Aperture Terminal (MCPC VSAT) is the satellite based network connecting RAX (Rural Automatic Exchanges) to TAX (Trunk Automatic Exchanges) directly.

108 MCPC VSATs worth Rs 68.41 crore procured

71 systems valuing Rs 44.98 crore were lying either idle or faulty

Scrutiny of the relevant records relating to procurement and utilisation of MCPC VSAT system revealed that 108 MCPC VSAT systems were procured and installed at a cost of Rs 68.41 crore at various places in Shillong, Itanagar, Guwahati and Gangtok against target of installation of 118 systems. Out of 108 systems, only 37 VSAT systems were in working condition leaving 71 systems valuing Rs 44.98 crore lying either idle or faulty. Even the 37 systems were not required in respective field units as reported by one of the field units. Moreover, no action had been taken by the respective circles either for diversion of idle equipment or for repairing of faulty equipment.

BSNL was deprived of the spectrum charges paid

Non installation of 10 MCPC VSAT systems where frequency was already allotted by Network Operation Control and Corporation (NOCC), deprived BSNL of any benefit against the spectrum charges @ Rs 52.64 lakh per annum. In respect of the faulty and idle systems, such charges worked out to Rs 4.06 crore per annum, against which also the intended benefit could not be derived by BSNL.

Audit scrutiny also revealed that 3 MCPC VSAT systems pertaining to Maharashtra circle and 11 systems pertaining to J&K Circle valuing Rs 0.61 crore and Rs 2.24 crore respectively were lying idle.

On this being pointed out by Audit, Maharashtra Circle stated that they had revised their requirement and desired further diversion of the equipment. DGM Satellite Project, New Delhi replied in respect of J&K Circle that the sites in respect of eight systems were not decided and three systems could not be commissioned due to non-readiness of infrastructure.

3.7 Undue delay in disposal of coaxial cables worth Rs 42.50 crore

7881.27 km of coaxial cable not recovered

Amount realisable was Rs 42.50 crore

With the introduction of optical fibre cable, coaxial cable had become redundant and in most cases did not carry any traffic. Moreover, spares for maintenance of these systems were not available and the suppliers were not able to provide maintenance support for the coaxial cables. BSNL Corporate Office approved even premature scrapping of digital coaxial systems. However despite the fact that such cables did not carry any traffic, test check by audit revealed that 7881.27 kms of coaxial cables laid in Southern, Eastern and Western Regions were not recovered. The amount realisable on the sale of coaxial cable worked out to Rs 42.50 crore as detailed below:

Region	Length of coaxial cable (in kms.)	Remarks
Southern	5130.76	The amount has been arrived at based on the rate of Rs 53,926 per km. realized on sale of coaxial cable in Tumkur section in Bangalore sub region.
Eastern	1145.27	
Western	1605.24	
Total	**7881.27**	

Management, while accepting that 7881.27 kms of coaxial cable were lying in various regions, stated in November 2003 that the recovery of cable laid underground was not always technically feasible and financially viable.

The reply is not satisfactory. Since these coaxial cable have now become obsolete the Management should take a decision to dispose them on as is where is basis as was done in one unit of Southern Region. As regards the contention of the Management that it would not be cost effective, Management should have coordinated with the Highways authorities or the local agencies during their digging process itself to get their coaxial cables recovered from underground.

3.8 Damage to underground cable by outside agencies

3.8.1 Failure to claim compensation of Rs 40.46 crore for damages caused to BSNL cable

Compensation for damage to be claimed from the party responsible for the same

Damage to the BSNL's fixed assets, especially cables, necessitates not only repair and replacement of the affected cable but also diversion of the traffic through alternate routes. BSNL Corporate Office instructions require that compensation for damage be claimed from the party responsible for the same.

No clear instructions regarding method of calculation of compensation was in vogue

Despite the above instructions, no clear directions regarding the method of calculation of compensation was in vogue. In October 2001, STR Chennai forwarded to BSNL Corporate Office, a sample calculation for claiming of damages from private operators based on the decision, in the CGMM conference, to introduce a uniform method for claiming compensation which *inter alia* provided recovery towards expenditure incurred and loss of revenue due to damage. DGM (Mtce.), NTR also suggested in May 2002 modalities for claim of compensation from private operators which included goodwill loss due to customer dissatisfaction arising from frequent interruption in service besides recovery of restoration charges and revenue loss.

BSNL gave instructions to charge Rs 1.50 lakh per damage per occasion

However, no instructions from BSNL Corporate Office were issued till January 2003. In January 2003, BSNL Corporate Office instructed the Telecom Circles to charge Rs 1.50 lakh per damage per occasion from all external agencies and private operators causing damage to optical fibre cables.

In majority of cases, no claims were preferred

Audit observed that only in some cases State/Central Govt. agencies such as National Highways Authority of India (NHAI), PWD, State Municipalities etc., were presented with claims for damages caused by them. In majority of the cases, however, no claim was preferred for damages caused by these agencies.

Claims amounting to Rs 40.46 crore yet to be recovered

Audit scrutiny of records of the various maintenance regions revealed that claims amounting to Rs 40.46 crore were yet to be recovered as brought out below.

Region	Claimed but not recovered		Claims not preferred (No. of cases)	Total No. of cases	Amount (Rs in crore)	
	No. of cases	Amount (Rs in crore)			Recovered	Not recovered
Northern	98	24.55	35	133	0.24	24.31
Southern	50	0.80	446	496	0	0.80
Eastern	19	12.74	10	29	0	12.74
Western	116	2.79	5	121	0.18	2.61
Total	**283**	**40.88**	**496**	**779**	**0.42**	**40.46**

3.8.2 Shifting of cable at the instance of local bodies – non-recovery of Rs 5.16 crore

BSNL Corporate Office instructions of May 2001 require that periodical details of shifts carried out at the instance of local bodies should be furnished to NHAI for claiming reimbursement.

Claims for Rs 3.65 crore towards cost of shifting preferred in one lump sum

Claims for Rs 1.51 crore not preferred

Audit scrutiny of records of the Company revealed that a claim for Rs 3.65 crore towards the cost of shifting carried out during the period April 2001 to February 2003 was preferred in one lump, only in March 2003 to NHAI contrary to the above directions. Claims for Rs 1.51 crore had not even been preferred (July 2003), as indicated below:

(Rs in crore)

Region	Period of damage	Time of claim	Amount	Remarks
Southern	April 2001 to February 2003	March 2003	3.65	Claim for shift done during February 2001 to February 2003 preferred only in March 2003. Yet to be realized.
Western	1999-2000 to 2002-03	-	1.51	Claims not preferred
Total			**5.16**	

Management stated in November 2003 that the Ministry of Surface Transport and NHAI had not agreed till now to provide compensation for damages and shifting of cables due to Highway expansion activities. It further added that the matter was still under consideration at the level of Committee of Secretaries and no decision had been conveyed as yet.

The contention of the Management that a decision for payment of compensation by NHAI for the cable damage and shifting is yet to be taken is not acceptable to Audit as departmental rules provide that shifting charges should be reimbursed by the local bodies when shifting is done at the instance of the local bodies. Moreover, just as BSNL pays road restoration charges to the local bodies while laying cables, it should recover compensation from the NHAI for the damages or for shifting of its cables.

3.9 Man-power management

Irregular drawal of salary and allowances of Rs 10.40 crore

A general review of the sanctioned posts vis-à-vis persons in position revealed that the persons in position in the cadre of Phone Mechanics were far in excess of the sanctioned strength in Northern and Southern Regions resulting in irregular drawal of salary and allowances to the tune of Rs 10.40 crore.

In reply it was stated that the sanctioned strength of the Phone Mechanics was less than the posted strength because regular mazdoors who had been promoted to Phone Mechanic cadre by local SSAs had been posted against posts diverted from local SSAs/Circle as per BSNL's directions. The reply is not tenable as the redeployment, if required, was to be done keeping in view the work assigned. Records pertaining to redeployment were not made available to audit.

3.10 Other points of interest

3.10.1 Infructuous expenditure of Rs 47.15 lakh on provision of security for closed/shut-down system

Avoidable expenditure of Rs 47.15 lakh due to provision of security for closed/shut down system

The Company had been entrusting the security of the maintenance of buildings/stations to the State Police Authorities. During review it was observed in Northern and Southern Regions that the Company had been paying large sums for providing security to the maintenance of buildings/stations where the systems already stood closed/shut down. This became a dead loss to the Company. Thus failure of BSNL to take timely action to divert/dismantle the equipment on the closure of the systems and to withdraw security led to avoidable and wasteful expenditure of Rs 47.15 lakh.

3.10.2 Unwarranted procurement of spares costing Rs 62.22 lakh leading to premature scrapping

Life span of the microwave schemes were rescheduled to be over in 1998

Purchase order for spares for analogue systems placed in December 1996

4 GHz and 6 GHz analogue microwave systems with a prescribed life of 20 years were commissioned in May/August 1978 at Kozhikode-Kadungapuram-Payyoli and Bombay-Madras routes respectively. Although OFC systems started getting installed around 1995, and the life of the analogue microwave systems was scheduled to be over in 1998, CGM STR Chennai placed a purchase order for procurement of spares for these analogue microwave systems at a cost of Rs 62.22 lakh in December 1996; the spares were received in June 1997.

To an audit query in July 2003 seeking the necessity for placement of orders for spares for microwave systems which were about to be phased out, DE (Tech), STR, replied that the said microwave systems were carrying full traffic and failure of the system would have resulted in loss of traffic and revenue.

This reply is not convincing considering the induction of digital technology equipment in the telecom network in a big way at the time the spares were ordered. The analogue systems alongwith spares were finally decided to be disposed off as scrap in September 2000 through a tender floated. The action of the Management to procure spares worth Rs 62.22 lakh just three years before the main equipment was scrapped indicated that the purchase was made on the basis of unsubstantiated requirement.

3.11 Conclusion

Failure to ensure effective coordination between the heads of Maintenance Regions and the heads of the Project Wings led to continuance of microwave schemes on the routes where optical fibre cable had been introduced and was handling the total traffic. As a result, the Company was incurring recurring loss of over Rs 421 crore per year in the form of maintenance expenditure and spectrum charges for operation of microwave projects. Further, lack of coordination between the Quality Assurance Wing and the Telecom Engineering Centre led to acquisition of poor quality equipment worth

Rs 105.02 crore. The Maintenance Regions also failed to realise Rs 45.62 crore towards damage to departmental cables. Operation of more posts than sanctioned resulted in irregular drawal of pay and allowances worth Rs 10.40 crore.

3.12 Recommendation

- BSNL should review and strengthen its Planning mechanism and enhance coordination between the heads of maintenance regions and the heads of the projects wings. Corrective measures should be taken to decommission microwave schemes on the routes where optical fibre cable has been introduced and was handling the total traffic. The realisation else disposal and surrender of frequency of microwave system not in use should be immediately considered by BSNL.

- BSNL should review and strengthen co-ordination of the Quality Assurance Wing and the Telecom Engineering Centre in order to avoid acquisition of poor quality equipment.

- BSNL should also introduce a uniform method for claiming and recovery of compensation for the cost of repair and loss of revenue and goodwill.

CHAPTER IV
MAJOR FINDINGS IN TRANSACTION AUDIT

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

4.1 Non recovery of advance of Rs 229.18 crore

Injudicious decision of BSNL for the payment of rolling advance in addition to advance already paid to M/s HCL for supply of PIJF cable resulted in un-recovered amount of Rs 229.18 crore and loss of interest of Rs 23.66 crore as of May 2003.

During 2001-03 Bharat Sanchar Nigam Limited (BSNL) failed to recover/adjust the advance given to M/s Hindustan Cable Limited (HCL) against two purchase orders. Further it provided an additional rolling advance of Rs 218.65 crore to HCL resulting in accumulation of outstanding advance to the tune of Rs 229.18 crore as of May 2003. This led to blocking of capital to that extent besides loss of interest of Rs 23.66 crore.

The Cabinet approved a policy decision to place supply orders on M/s HCL to the extent of 25 per cent of cable requirement of BSNL alongwith 50 per cent advance

An advance of Rs 243.68 crore was paid to M/s HCL during 2001-02

The Cabinet in January 2001 approved a policy decision which provided for placement of supply orders by BSNL to the extent of 25 per cent of its requirement of telephone cables on M/s HCL alongwith advance of 50 per cent of the value of the order. BSNL placed two purchase orders on M/s HCL during May and October 2001 for supply of Polyethylene Insulated Jelly Filled (PIJF) cables valuing Rs 487.37 crore with delivery schedules up to October 2001 and March 2002 respectively. An amount of Rs 243.68 crore towards 50 per cent of value of two purchase orders was paid to M/s HCL during 2001-02. The firm, however, could supply PIJF cables worth Rs 170 crore by March 2002 out of which Rs 95.46 crore was adjusted against the advance and the outstanding advance came down to Rs 148.22 crore as of March 2002.

Minister of Communications directed BSNL for payment of rolling advance

BSNL Board on 8 May 2002, considering the bad performance of M/s HCL against these two purchase orders, decided that no further orders would be placed on the firm till balance cable against pending purchase orders was supplied and outstanding advance adjusted/recovered. However, Minister of Communications on 10 May 2002 directed BSNL to provide rolling advance to M/s HCL against supply of balance PIJF cable, worth Rs 317 crore.

Total advances outstanding rose to Rs 366.87 crore during 2002-03

Accordingly, inspite of defaults in its delivery schedule commitments and non-recovery of old advances rolling advance to the tune of Rs 218.65 crore was paid to M/s HCL between May 2002 and January 2003 towards the supply of balance cable. Thus the total outstanding advances against HCL rose to Rs 366.87 crore during 2002-03.

BSNL could adjust only Rs 137.69 crore leaving Rs 229.18 crore unrecovered

From subsequent supplies BSNL could adjust only Rs 137.69 crore leaving an amount of Rs 229.18 crore unadjusted against the pending supply orders of Rs 77 crore (approximately) as of May 2003. Thus, a financially imprudent decision to enhance the advance to a defaulting company against two pending purchase orders, followed by failure to formulate a suitable method of recovery led to un-recovered balance of Rs 229.18 crore from M/s HCL besides blocking of capital to that extent.

Though BSNL was charging penal interest from its own PSU, it decided not to charge interest from M/s HCL resulting in loss of interest of Rs 23.66 crore.

Further it was noticed that although BSNL was charging penal interest on the amount of advance from other PSU i.e. M/s ITI under Ministry of Communications it was decided (July 2002) not to charge interest on the rolling advance paid to M/s HCL under Ministry of Industry. This resulted in loss of interest of Rs 23.66 crore for the period from May 2002 to May 2003.

The matter was referred to the Ministry in September 2003; their reply was awaited as of October 2003.

4.2 Non recovery of Rs 12.01 crore from MTNL

Failure of Bharat Sanchar Nigam Limited to take timely action to recover the cost of equipment supplied to MTNL resulted in non realisation of Rs 12.01 crore from MTNL as of June 2003.

As of June 2003, Bharat Sanchar Nigam Limited (BSNL) failed to recover Rs 12.01 crore from Mahanagar Telephone Nigam Limited (MTNL) being the cost of switching equipment procured by BSNL on behalf of MTNL between March 1996 and November 2001.

Purchase order for procurement of packet switching equipment for INET was placed by BSNL

Department of Telecommunications now BSNL procured Packet Switching Equipment for INET worth Rs 12.01 crore for use of MTNL against a purchase order placed in November 1994 on M/s Alcatel Modi Network System Limited, New Delhi. The payments were made by the office of the Chief General Manager (CGM) (Data Network) during the period March 1996 to November 2001 on behalf of MTNL.

Non-realisation of Rs 12.01 crore from MTNL due to non submission of claim

Audit scrutiny (August 2002 to October 2002) revealed that the CGM (Data Network) did not raise the claim against MTNL for recovery of Rs 12.01 crore paid to the supplier on behalf of MTNL. Only a part sum of Rs 52.12 lakh was shown recoverable from MTNL in the accounts of CGM (Data Network) for the year 2001-2002. Non submission of claim for recovery, therefore, not only resulted in non-realisation of Rs 12.01 crore form MTNL but also resulted in consequential loss of interest.

The Management in reply stated (August 2003) that the claim for Rs 12.01 crore was raised on MTNL after this case was pointed out by audit. Separate claims for interest were also being raised shortly. Recovery particulars, however, were awaited (October 2003).

The matter was referred to the Ministry in June 2003; their reply was awaited as of October 2003.

4.3 Non-recovery of Excise Duty of Rs 1.89 crore

As of February 2003, the Telecom Factory Mumbai failed to recover Excise duty of Rs 1.89 crore charged by the Excise department on sale of telecom equipment to M/s MTNL and M/s HTL.

The Chief General Manager (CGM) Telecom Factory (TF) Mumbai, failed to recover the Excise duty (ED) of Rs 1.89 crore from M/s Mahanagar Telephone Nigam Limited (MTNL) and M/s Hindustan Teleprinters Limited (HTL) which was charged by the Excise department in February 1999 for sale of telecom equipment to these PSUs. This resulted in blocking of funds of Rs 1.89 crore since March 1999 besides loss of interest of Rs 0.72 crore on the blocked funds.

Exemption from levy of excise duty on items procured by the Telecom Factories under Government of India for departmental use

Under the Central Excise Rules, telecommunication equipment are exempt from the levy of ED provided that such goods are manufactured by a factory belonging to the Central Government and are intended for use by any department of the Central Government.

Demand for ED and SED for Rs 3.56 crore and 0.23 crore respectively by excise authorities in respect of sales made to MTNL and HTL

The CGM TF Mumbai sold goods manufactured by the Telecom Factory to MTNL and HTL. The Excise authorities in March 1995 issued a show cause cum demand notice to the CGM TF to pay ED and special excise duty (SED) of Rs 3.56 crore and Rs 0.23 crore respectively since neither of these companies qualified for exemption in ED.

Payment of Rs 1.89 crore as ED and SED

The CGM TF protested the levy of above ED and filed an appeal with the Collector of Central Excise (CCE) Mumbai in April 1995. The case was settled under the Kar Vivad Samadhan Scheme in February 1999 directing CGM TF to pay an amount of Rs 1.89 crore as ED and SED towards final settlement. Accordingly the CGM TF made the payment thereof in March 1999.

Case not taken up with MTNL and HTL for recovery of ED and SED levied for sale of stores

Examination of the case by Audit revealed that despite payment of ED and SED on the goods sold to both the above Government Undertakings the CGM TF Mumbai failed to take up the case with these undertakings for recovery of the amount due from them. Thus inaction by the CGM TF to recover the amount of ED and SED due from MTNL and HTL led to blocking of funds of Rs 1.89 crore from March 1999 up to July 2003 besides loss of interest of Rs 0.72 crore on the funds remaining blocked.

The matter was referred to the Ministry in August 2003; their reply was awaited as of October 2003.

4.4 Non realisation of testing charges of Rs 86.63 lakh

Laxity on the part of the management in insisting on full payment and allowing Telecommunications Consultants India Limited (TCIL) to make part payment coupled with indecision of the Corporate Office led to non realisation of testing charges of Rs 86.63 lakh.

As of April 2003, Bharat Sanchar Nigam Limited (BSNL) failed to recover testing charges of Rs 86.63 lakh for the period from February 1991 to September 1999 from TCIL due to laxity on the part of Management in insisting on full payment and allowing TCIL to make part payment coupled with indecision of BSNL Corporate office.

Departmental rules prescribe testing charges to be levied for testing of material at the request of other organisations

Department of Telecommunications (DoT), now BSNL prescribed (November 1988) testing charges to be levied by its Quality Assurance Circle (QAC) for testing of material at the request of other organisations at two per cent of the value (Ex-factory price) of the material tested. QAC had been testing telecom equipment for TCIL on chargeable basis.

Part payment made by TCIL

Audit scrutiny (February 2003) revealed that as against the testing charges of Rs 117.56 lakh due for the period from February 1991 to September 1999 TCIL made part payment of Rs 30.93 lakh between February 1991 and September 1999 and assured (April 1998) to make the balance payment after a decision regarding down-ward revision of testing charges, as requested by them, was taken by DoT. However, no decision was taken by DoT.

Meanwhile, TCIL intimated QAC in March 2000 that for all future bills, they would make payment at 2 per cent in respect of all such consignments where they had collected 2 per cent from their customers; in respect of past cases, where no testing charges were claimed or collected from their customers, they would make payment at 0.5 per cent only. These unilateral conditions put forth by TCIL were not in consonance with DoT's orders. The contention of TCIL, therefore, was not tenable and payment of the prescribed fee of 2 per cent was not dependent on whether or not they had collected the testing charges from their own customers at the prescribed rates.

Non-realisation of Rs 86.63 lakh from TCIL due to laxity in insisting of payment of full testing charges

On being pointed out by Audit (September 2000 and November 2001) QAC took up (August 2002 and December 2002) the matter regarding the outstanding amount of Rs 86.63 lakh with BSNL corporate office; final decision of BSNL was awaited (October 2003).

The matter was referred to the Ministry in July 2003; their reply was awaited as of October 2003.

4.5 Excess payment of Rs 57.16 lakh to supplier

Failure to deduct LD charges while arriving at deferred payment amount led to excess payment of Rs 57.16 lakh to M/s HCL.

The General Manager Telecommunications (GMT) Patiala made an excess payment of Rs 57.16 lakh to M/s Hindustan Cables Limited (HCL) on account of failure to re-calculate and refix the Equated Quarterly Amount (EQA) after taking into account the Liquidated Damages (LD) levied on M/s HCL. The entire amount was recovered as of 30th September 2002 at the instance of audit.

Agreement with M/s HCL for supply of PIJF cable on deferred payment basis

The GMT Patiala entered into an agreement with M/s HCL, Kolkata, (April 1995) for supply of PIJF underground cable on deferred payment basis and the payments were to be made on a fixed EQA @ Rs 57 per Rs 1000 of invoice value for each quarter. The supply was to be completed within three months of placing the purchase order failing which the supplier was liable to pay liquidated damage charges. The agreement also stipulated that liquidated damages so levied shall be deducted from the invoice value for computation of Equated Quarterly Amount (EQA).

Excess payment of Rs 57.16 lakh due to non consideration of LD charges while fixing EQA

Audit scrutiny of records (November 2001) of the GMT Patiala revealed that there was a delay in supply of PIJF cable and HCL was liable to pay LD charges. However, at the time of fixation of EQA the Department did not take into account the amount of LD charges leviable on HCL which resulted in excess payment to the firm amounting to Rs 57.16 lakh.

On this being pointed out by Audit, the Ministry stated in September 2003 that the EQAs were re-fixed after deduction of LD charges from invoice value and the total recovery of Rs 57.16 lakh was recovered in full from the supplier.

(B) Infructuous expenditure

4.6 Infructuous expenditure of Rs 78.22 lakh on procurement of Network synchronisation equipment

Failure of the Chief General Managers Telecommunications Haryana and Chattisgarh circles to use Network Synchronisation Equipment resulted in infructuous expenditure of Rs 78.22 lakh.

Network Synchronisation Equipment (NSE) procured during April – December 2000 and June 2002 by various secondary switching areas (SSAs) under Haryana and Chattisgarh circles remained idle as of April 2003 resulting in wasteful expenditure of Rs 78.22 lakh as detailed below:

Haryana circle

Infructuous expenditure of Rs 31.01 lakh on procurement of NSE equipment

The Chief General Manager Telecommunications (CGMT) Haryana circle procured 19 NSE equipment worth Rs 58.37 lakh between April and December 2000 from M/s ITI. Audit noticed in April 2003 that the CGMT could use only seven of these equipment. This was because these equipment were not required any longer due to conversion of exchanges and for want of clock cards. Thus the expenditure of Rs 31.01 lakh incurred on procurement of 12 NSE proved infructuous as chances of their utilization were remote because of technological changes.

The Management stated (April 2003) that eight C-DoT exchanges were being converted into C-DoT MAX-XL and hence 8 NSE were not required for these exchanges. It also added that action for procurement of clock cards for utilising the remaining 4 NSE would be taken up.

Chattisgarh circle

Idling of equipment worth Rs 47.21 lakh

Similarly, the CGMT Chattisgarh by June 2002 procured 52 numbers of NSE worth Rs 47.21 lakh, from M/s United Telecom Limited Bangalore. Audit noticed, in December 2002, that all these equipment were lying unutilized and the chances of their utilisation were also doubtful in view of likely conversion of C-DoT 512 exchanges to MAX-XL which do not require NSE for synchronization.

When pointed out the Sub-Divisional Engineer (Planning) under the Telecom District Engineer, Raigad stated in December 2002 that the NSE cards could not be used due to upgradation of C-DoT 512 switches.

Thus CGMsT Haryana and Chattisgarh circle failed to co-relate the procurement of clock cards and programme for conversion/upgradation of C-DoT exchanges resulting in non-utilisation of NSE worth Rs 78.22 lakh. Moreover, the chances of their utilisation were also doubtful in view of the likely conversion of such exchanges to MAX-XL which do not require NSE for synchronization.

The matter was referred to the Ministry in July 2003; their reply was awaited as of October 2003.

(C) Idle/Unproductive expenditure

4.7 Blocking of funds of Rs 4.90 crore

Failure of Chief General Manager Kolkata Telephones and Andhra Pradesh Telecommunications circle to implement the decision of Bharat Sanchar Nigam Limited Board to scrap CT-2 WLL equipment resulted in blocking of funds of Rs 4.90 crore.

The Chief General Manager, Kolkata Telephones and Andhra Pradesh Telecommunications circle failed to implement the decision of Bharat Sanchar Nigam Limited Board to scrap CT-2 WLL equipment resulting in blocking of funds of Rs 4.90 crore as of May 2003 with consequential loss of interest.

BSNL placed purchase order for supply of two systems of trial equipment

Department of Telecommunications, now Bharat Sanchar Nigam Limited, (BSNL) in June 1995, placed a purchase order on a French firm for supply of two systems of trial equipment of 1000 subscribers capacity each of CT-2 technology for Wireless in Local Loop valuing Rs 7.80 crore for field trials in Kolkata Telephones and Vijaywada Telecom District in Andhra Pradesh Circle.

The equipment was received between May 1996 and January 1997 at both the places and were installed during August 1996 to February 1997.

Equipment decommissioned in January 1997

Blocking of funds of Rs 4.90 crore due to non-scrapping of CT-2 WLL equipment

Audit scrutiny (June 2002) revealed that the equipment was decommissioned as early as in January 1997 due to unsatisfactory performance and technological obsolescence. Since then the equipment worth Rs 7.80 crore has been lying unutilised. After two years, DoT set up a committee in March 1999 to suggest alternative use of equipment. The committee, after detailed deliberations for over six months, came to the conclusion in December 1999 that the equipment could not be deployed at any place due to obsolescence of technology and therefore should be scrapped. It took another fifteen months for the BSNL Board to direct CGMsT Andhra Pradesh Circle and Kolkata Telephones in March 2001 to scrap the equipment. A further two years down the line no action had been taken by CGMT Andhra Pradesh Circle up to May 2003. Andhra Pradesh Circle had not even finalised the scrap value of the equipment. The equipment pertaining to Kolkata Telephones, although recommended for scrapping at scrap value of Rs 2.45 crore, was also yet to be disposed of (May 2003).

DGM, Andhra Pradesh Circle stated that instructions of BSNL for scrapping the equipment were not received by them and without proper guidelines the scrapping process could not be taken up.

This indicated defective management working.

The matter was referred to the Ministry in July 2003; their reply was awaited as of October 2003.

4.8 Idling of computer software valuing Rs 3.24 crore

Procurement by Bharat Sanchar Nigam Limited of the software for ORACLE Relational Data Base Management System without ensuring its compatibility with the existing application package resulted in blocking of funds to the tune of Rs 3.24 crore as of September 2003 in Maharashtra and Tamil Nadu circles due to its idling since its receipt in June 2002. This also resulted in recurring loss of interest of Rs 30.78 lakh per annum on the funds remaining blocked.

The Chief General Manager Telecommunications (CGMsT) Maharashtra and Tamil Nadu circles could not utilise (September 2003) the software for ORACLE Relational Data Base Management System (RDBMS) valuing Rs 3.24 crore received by them in June 2002, either due to its incompatibility with the existing application package or non availability of hardware resulting in blocking of funds of Rs 3.24 crore and consequent recurring loss of interest of Rs 30.78 lakh per annum on the funds remaining blocked.

Placement of orders for Oracle RDBMS worth Rs 20.75 crore

Receipt of supplies valuing Rs 3.32 crore

Pursuant to a decision taken by BSNL Board in September 2001 to procure Oracle RDBMS in bulk for all the circles and its authorisation, the CGMT Andhra Pradesh placed a consolidated order worth Rs 20.75 crore in May 2002 on M/s GTL Limited for supply of Oracle RDBMS enterprise edition 8i/9i consisting of 100 processor licences (PL) and 3862 Named User Licences (NUL). CGMT Maharashtra circle received 14 PL and 719 NUL valuing Rs 3.32 crore in June 2002 for use in various units under his control.

Audit scrutiny (April 2003) revealed that CGMT Maharashtra circle allocated the software in August 2002 to various field units under his control but only 7 units could lift 7 PL and 140 NUL till April 2003. The remaining units did not lift the software due to its incompatibility with the existing application package Oracle 7x. Even out of the 7 PL which were lifted, only four could be utilised in Oracle 8x. In the remaining three the existing package Oracle 7x with form 3.0 needed upgradation to Oracle form 6.0 for compatibility with the new version Oracle 8i/9i, this would involve additional cost. Thus 10 PL and 719 NUL worth Rs 2.85 crore remained unutilised. The CGMT took up the matter with BSNL Headquarters in November 2002 for upgradation of the existing application package.

Since majority of secondary switching areas of BSNL all over the country are using the existing application software viz. Trichur Package, the Management should have considered the compatibility of software with the existing software and hardware before resorting to bulk procurement. Failure to do so resulted in blocking of funds of Rs 2.85 crore with consequential recurring loss of interest of Rs 27.08 lakh (9.5 per cent per annum) in Maharashtra circle alone.

Idling of software worth Rs 3.24 crore and consequential recurring loss of Rs 30.78 lakh per annum

Similarly, Tamil Nadu circle also received in June 2002 the supply of 180 NUL of Oracle 9i for Windows NT environment and 25 NUL of Oracle 8.1.7 for Unix Operating system worth Rs 0.48 crore against the above purchase order. Of the 180 NUL of Oracle 9i, 40 remained idle due to non-availability of hardware. 25 NUL of Oracle 8.1.7 also could not be used for want of compatibility in the Unix platform. This further resulted in blocking of funds of Rs 0.39 crore besides recurring loss of interest of Rs 3.70 lakh per annum (9.5 per cent per annum) on the funds remaining blocked.

Similar situation in other circles could not be ruled out and it would result in blocking of the total investment of Rs 20.75 crore in the procurement of software for all the circles.

The CGMT stated in April 2003 that the instructions from the corporate office were awaited for taking further necessary action.

The matter was referred to the Ministry in July 2003; their reply was awaited as of October 2003.

4.9 Idling of radio equipment worth Rs 3 crore

Failure of Chief General Manager, Southern Telecom Project to take cognizance of the availability of optical fibre cable media resulted in idling of radio equipment worth Rs 3 crore procured in July 2001 for the microwave scheme

Chief General Manager, Southern Telecom Project (CGM/STP) failed to take cognizance of the availability of optical fibre cable media and procured radio equipment for a microwave scheme in July 2001. This resulted in idling of equipment worth Rs 3 crore as of June 2003. The microwave scheme also could not be commissioned due to non completion of civil works.

CGM STP sanctioned a project estimate for installation of microwave scheme between Nagercoil and Trivandrum

CGM/STP, in May 1994, sanctioned a project estimate for installation and commissioning of 6 GHz 140 Mbs Microwave scheme between Nagercoil and Trivandrum with a repeater station at Thayalmodu at an estimated cost of Rs 4.99 crore to provide Digital Microwave connectivity between these two stations. The detailed estimates for procurement and installation of radio equipment, antenna, waveguide etc., were sanctioned in 1995; the project was scheduled to be completed within one year of supply of equipment and completion of building.

Land for construction of the repeater station at Thayalmodu was acquired in October 1999; Administrative approval and expenditure sanction for construction of the microwave building was accorded in June 2000. The civil and allied works were yet to be completed (June 2003).

CGM STP also sanctioned a project for connecting Trivandrum-Nagercoil-Trivandrum by an optical fibre cable

In the meanwhile, in March 1999 CGM STP also sanctioned a project for connecting Trivandrum-Nagercoil-Trivandrum by an optical fibre cable (OFC) ring route (C1-STM4 ring) which was commissioned in December 2001. While reviewing the necessity of microwave schemes CGM STP observed (October 2000) that sufficient OFC connectivity was available. Despite this he approached BSNL Headquarters to order radio equipment and other related accessories for Tirunelveli-Nagercoil-Trivandrum microwave scheme. Radio equipment worth Rs 3.78 crore ordered in January 2001 was received in July 2001 and Tirunelveli-Nagercoil segment was commissioned in April 2002. However, Nagercoil-Trivandrum segment was not commissioned as the civil works were not completed. An amount of Rs 3 crore had been incurred till June 2003 towards the cost of radio equipment and other Masts and Aerials (excluding the cost of land and Buildings) which were lying idle.

On this being pointed out by Audit, the Sub-divisional Engineer stated (February 2003) that Nagercoil-Trivandrum 6 GHz microwave scheme would be used as an alternative medium as the C1-STM 4 Ring was fully loaded. The reply is not tenable and the chances of its gainful utilisation were remote because the C1-STM 4 Ring was loaded to the extent of less than 50 per cent only and OFC ring route has auto protection and needs no standby/alternative medium. Further CGM Maintenance Southern Telecom Region in July 2002 recommended shutting down of Microwave routes where reliable OFC medium was available and traffic was minimal, because Microwave routes had become uneconomical due to payment of heavy spectrum charges by BSNL to DoT.

Idling of radio equipment worth Rs 3 crore due to availability of alternate reliable media

Thus failure to take timely stock of changing technology and changed requirement due to availability of alternate reliable media resulted in idling of radio equipment, masts and aerials, worth Rs 3 crore since July 2001 besides rendering the microwave scheme, which was sanctioned as a standalone scheme, to be labelled as a standby even before its commissioning.

The matter was referred to the Ministry in August 2003; their reply was awaited as of October 2003.

4.10 Avoidable expenditure of Rs 2.56 crore on procurement of software

Computer software valuing Rs 2.10 crore procured by Chief General Manager Chennai Telephones in March 2002 alongwith Annual Technical support costing Rs 46.10 lakh was not put to use as of June 2003 resulting in avoidable expenditure of Rs 2.56 crore.

Chief General Manager, (CGM) Chennai Telephones failed to avail the facility of free upgradtion under Annual Technical Support (ATS) and procured Oracle 9i database software at a cost of Rs 2.10 crore alongwith ATS at Rs 46.10 lakh in March 2002. The software was not put to use as of June 2003 resulting in avoidable expenditure of Rs 2.56 crore

Purchase order for procurement of Oracle 9i placed by CGM Chennai Telephones

As a part of computerisation activities in Chennai Telephones, CGM placed (February 2002) a purchase order on M/s Tata Consultancy Services for supply of Oracle 9i RDBMS Enterprise Edition license at a total price of Rs 2.56 crore which included a fee of Rs 46.10 lakh for ATS covering the period 11 March 2002 to 10 March 2003.

Oracle 7.3.4 version and Oracle 8.0.5 edition was already in use in Chennai Telephones

Chennai Telephones was already using Oracle 7.3.4 version and Oracle 8.0.5 Enterprise Edition with 200 user licenses each procured in March 2000 at a cost of Rs 99.75 lakh. ATS for this software was renewed up to March 2003.

ATS on Oracle 7.3.4 version provided for free upgradation of Oracle RDBMS software 7.3.4, migration to the latest version of Oracle and Oracle tools free of cost, and migration to new hardware and operating system without any additional cost.

Accordingly, one media copy of Oracle 7.3.4 version was upgraded to Oracle 8i version during the year 2001-02. The option for further free upgradation of Oracle 8i/8.0.5 version to Oracle 9i version was also available to Chennai Telephones during the ATS for the period March 2000 to March 2003.

Avoidable expenditure of Rs 2.56 crore on procurement of Oracle 9i as the software was not put to use

Audit scrutiny in January 2003 revealed that instead of availing the option of free upgradation available under ATS, Chennai Telephones procured afresh Oracle 9i version at a cost of Rs 2.10 crore in March 2002. However, this software was not put to use and remained idle up to June 2003. Consequently the ATS costing Rs 46.10 lakh for this software for the period from 11 March 2002 to 10 March 2003 became infructuous.

Chennai Telephones stated that Oracle 9i version was put to use on the date of purchase itself i.e. 11 March 2002. The licenses were paper licenses with the option to use the older version or new version as per convenience.

The reply was not tenable as the Management was using only Oracle 7.3.4 version as stated by DGM (IT) in his report given to DGM (Operations) in December 2002 for the Heads of circles conference. Further he had also reported that the call centres for which the Oracle 9i was procured were targeted to be set up only by March 2003. Oracle 7.3.4 version continued to be in use as was evident from the ATS taken at a cost of Rs 17.95 lakh up to March 2003. Since only one of the versions 7.3.4 or 9i could be used at a time as per conditions of license, the contention that Oracle 9i was put to use immediately on the date of procurement did not appear to be correct.

The matter was referred to the Ministry in August 2003; their reply was awaited as of October 2003.

4.11 Avoidable expenditure of Rs 2.24 crore due to non utilisation of building

On account of delay at different stages, a building constructed in November 2001 on a plot of land taken on lease in 1984 had not been utilised by the Principal General Manager, Telecommunications, Chandigarh as of February 2003 resulting in an avoidable expenditure of Rs 1.59 crore on continued payment of rent for hired premises in addition to payment of extension fee of Rs 0.39 crore and Rs 0.26 crore on lease rent.

As of February 2003, the Principal General Manager, Telecommunications District (PGMTD), Chandigarh could not utilise a building constructed in November 2001 on a plot of land taken on lease in 1984 due to delays at different stages which resulted in an avoidable expenditure of Rs 0.26 crore on lease rent, Rs 1.59 crore on rent for hired premises in addition to avoidable payment of extension fee of Rs 0.39 crore.

Allotment of land on lease basis by Chandigarh Administration

Chandigarh Administration allotted (July 1984) to the then Telecom District Manager, Chandigarh, now the PGMTD, Chandigarh a plot of land measuring 13788.89 sq. yards at a cost of Rs 55.16 lakh on 99 years lease basis for construction of office building with the condition that the building was to be completed within three years of allotment. The possession of the plot was taken in April 1985.

Management took more than six years in finalisation of architectural design

Audit scrutiny (February 2001 and February 2003) revealed that Management took more than six years in finalisation of architectural designs which were approved by Chandigarh Administration in September 1991; and another 4 years for finalising working designs, approved in 1995. The tender for work was awarded in November 1998 only with a period of completion of 33 months. Though the work was over in November 2001, the management could satisfy requirement for occupancy certificate only by February 2003.

Unfruitful payment of lease rent of Rs 0.26 crore

Hence Management could not utilise the land for the intended purpose even after lapse of more than 18 years, involving unfruitful payment of lease rent aggregating to Rs 0.26 crore upto July 2002.

Extension fee of Rs 0.39 crore imposed

Meanwhile, with effect from 3 September 1991, the amended Chandigarh Lease Hold of Sites and Building Rules 1973 imposed extension fee of Rs 0.39 crore (upto 31.3.2002) for delayed construction of the building.

Avoidable expenditure of Rs 1.59 crore due to non-occupation of building

As a result of delay in getting occupancy certificate even after the building was completed in November 2001, PGMTD incurred an avoidable expenditure of Rs 1.59 crore on payment of rent for the hired premises during the period from December 2001 to February 2003.

The Management stated (February 2003) that the case for issue of occupancy certificate had been taken up with Chandigarh Administration.

The Management, however, failed to take action to investigate the delays and lapses on the part of authorities which resulted in an avoidable expenditure of Rs 2.24 crore.

The matter was referred to the Ministry in July 2003; their reply was awaited as of October 2003.

4.12 Blocking of funds of Rs 1.61 crore on CCB Telephone

Excess allocation of CCB telephone instruments by the CGMTS Kolkata led to blocking of funds of Rs 1.61 crore during 1999-2003.

Chennai Telephones during 1999-2003 received Coin Collection Box (CCB) type telephone instruments far in excess of requirement resulting in non utilisation of 2315 instruments and blocking of funds of Rs 1.61 crore.

Past consumption pattern to be kept in view while assessing the requirement of stores

Instructions provide that while assessing the requirement of stores the Chief General Managers (CGMs) should take into account the stock position and consumption pattern.

As on 1 April 1999 Chennai Telephones had a stock of 91 CCB telephone instruments. Between 1999-2002 it received a supply of 3105 such telephone instruments either against supply orders or through depot transfer as per allocation made by the CGM Telecom Stores (TS) Kolkata. Audit in June 2003 noticed that the CGM Chennai Telephones had a surplus stock of 1795 instruments as of June 2003.

Year	Outstanding as on 1 April	Received during the year	Total	Issued to field units	Balance in stock
1999-00	91	685	776	131	645
2000-01	645	1130	1775	309	1466
2001-02	1466	1290	2756	332	2424
2002-03	2424	-	2424	629	1795
Total		**3105**		**1401**	

Blocking of funds of Rs 1.61 crore besides recurring loss of Rs 15.31 lakh per annum

It can be seen from the above that BSNL without considering the stock position, average consumption pattern and future requirements procured CCB instruments resulting in 1795 unutilised instruments as of June 2003. Further out of 1401 CCB instruments issued to field units 520 instruments remained idle. This led to blocking of funds to the extent of Rs 1.61 crore besides recurring loss of interest of Rs 15.31 lakh per annum thereof.

On being pointed out the CGM Chennai Telephones stated in February 2003 that CBT-95 type instrument was a slow moving item and added that the balance quantity would be utilized in various hostel blocks of new colleges in and around Chennai city during 2002-03. The reply is not acceptable, as there was no immediate requirement of these telephone instruments. Continued allocation of these telephone instruments by BSNL headquarters, CGMTS

Kolkata without any immediate demand led to accumulation of stock and resultant blocking of funds.

The matter was referred to the Ministry in August 2003; their reply was awaited as of October 2003.

4.13 Blocking of capital of Rs 1.37 crore

TDM, Nanded without proper verification and permission of NMC purchased land and commenced construction of staff quarters in Hanumangad. The construction was stopped by NMC as the plot was categorised as 'reserved' resulting in blocking of capital of Rs 1.37 crore.

Nanded Municipal Council (NMC) objected to construction of staff quarters by BSNL in a 'reserved' plot as per town plan. Consequently Rs 1.37 crore invested in land by Telecom District Manager (TDM) Nanded without proper verification and partial construction of building without approval resulted in blocking of funds for five years since 1998.

Rules prescribe that during land acquisition proceedings the boundaries, titles, etc., should be obtained by a reference to the Revenue authorities and the same should be carefully verified by a responsible officer of the Department. The rules further specify that the building plans should be prepared as per bye-laws of the local bodies and actual construction works are to be started only after receipt of approval of building plan.

Blocking of funds of Rs 1.37 crore due to purchase of land without proper verification and partial construction of building without approval

Audit scrutiny revealed that TDM, Nanded purchased two pieces of land at Hanumangad, Nanded from a private party at a cost of Rs 87.21 lakh for construction of staff quarters and possession of the land was taken by May 1996. Construction work was started without obtaining the approval of NMC. After an amount of Rs 50 lakh was spent on the construction, Chief Officer, Nanded Municipal Council objected to the construction of the building in January 1997 because the plot was stated to be 'reserved' as per the town plan, and he filed a civil suit against the TDM, Nanded. The construction work was stopped in January 1998. In spite of the efforts of BSNL to convince NMC for the need for de-reservation of the land, the council confirmed in March 2001 that in the revised draft development plan of Nanded the land remained reserved and that building permission could not be granted. This resulted in blocking of capital of Rs 1.37 crore (Rs 87.21 lakh towards the cost of the land and Rs 50 lakh towards the construction) for more than five years.

On this being pointed out by Audit, the Management stated that the case was under investigation.

The matter was referred to the ministry in August 2003; their reply was awaited as of October 2003.

4.14 Blocking of capital of Rs 93.67 lakh.

Delays at various stages by the General Manager Telecom District Ghaziabad in purchase of a land resulted in blocking of capital of Rs 93.67 lakh for about 3½ years. Possession of the land had not been taken as of July 2003

Delays in inspection of land, issue of site suitability certificate and payment of deposit towards cost of land and failure to take a decision for payment of interest by General Manager, Telecom District (GMTD) Ghaziabad resulted in blocking of capital of Rs 93.67 lakh for about 3½ years. As of July 2003 possession of the land had not been taken.

Offer of land for construction of building

Ghaziabad Development Authority (GDA) offered in March 1998 a plot of land measuring 6034.02 sq. metre costing Rs 83.63 lakh to GMTD Ghaziabad for construction of a telephone exchange with instructions to deposit Rs 93.67 lakh by 30 April 1998 towards cost of the land, lease rent and free hold charges failing which interest at 21 per cent would become due.

Acceptance of offer and delayed issue of site suitability certificates

Audit scrutiny (December 2001) revealed that GMTD conveyed the acceptance of offer to GDA in April 1999 after inspection of the land and issue of site suitability certificate which took about a year from the date of allotment. He also requested to reduce the cost of the land. However, in January 2000, GDA insisted GMTD to make payment of the cost of the land alongwith interest. GMTD made payment of Rs 93.67 lakh towards cost of land in January 2000 without paying the interest of Rs 34.42 lakh. The GDA insisted in February 2000 for payment of interest. The GMTD requested GDA in March 2000 for grant of exemption from payment of interest which was yet to be resolved (July 2003).

Blockade of Rs 93.67 lakh due to failure in timely pursuing the case for possession of the land

Thus due to delay/failure of GMTD to pursue the case with GDA possession of the land could not be taken as of July 2003 thereby frustrating the stated objective of setting up an exchange and blocking of capital of Rs 93.67 lakh for about 3½ years.

The matter was referred to the Ministry in July 2003; their reply was awaited as of October 2003.

4.15 Injudicious exemption of pre-despatch quality checks leading to purchase of unsuitable antenna worth Rs 78.87 lakh

BSNL Headquarters exempted pre-despatch inspection at the supplier's premises by the Quality Assurance Wing resulting in procurement of antenna worth Rs 78.87 lakh not in conformity with the specification.

Procurement of 11 m Earth Station antenna without carrying out the pre-despatch inspection by the Quality Assurance (QA) Wing led to blocking of funds of Rs 78.87 lakh since March 2002; the antenna could not be put to use because it did not meet the Telecom Engineering specifications and remained idle as of July 2003.

Placement of purchase order for supply of 11 m earth station antenna

Department of Telecommunications (DoT) placed a purchase order in August 2000 on M/s Electronic Corporation of India Limited (ECIL) for supply of 11 m Earth Station antenna at a cost of Rs 79.87 lakh. The purchase order provided for pre-despatch inspection of the antenna by the QA wing at the supplier's premises. However, Bharat Sanchar Nigam Limited (BSNL) Headquarters at the request of the supplier, exempted pre-despatch inspection of the antenna in March 2001. Instead post despatch joint inspection was provided for.

Exemption by BSNL Hqrs for pre-despatch inspection at the request of the supplier led to procurement of antenna which did not conform to specifications

The General Manager Telecom (GMT) Satellite Communication Project (SCP) Chennai, received the antenna in April 2001 against which payment of Rs 78.87 lakh was made in March 2002 without conducting any test for ensuring the quality of the antenna received. The joint inspection was conducted subsequently between July 2002-April 2003, i.e., after 15 months of receipt of antenna. The antenna, however, could not pass the inspection due to technical problems. Thus the injudicious decision of BSNL to exempt the pre-despatch QA inspection led to procurement of antenna which did not conform to specifications. Consequently the antenna procured at a cost of Rs 78.87 lakh could not be put to use.

Blocking of funds of Rs 78.87 lakh besides loss of interest of Rs 10.61 lakh

In the meantime GMT, SCP provided the proposed Integrated Data Rate (IDR) connectivity between Earnakulam and Lakshadweep during 2000-02 by utilising the existing 7 m antenna, thus rendering the 11 m antenna surplus. This led to blocking of funds of Rs 78.87 lakh on procurement of 11 m antenna besides loss of interest of Rs 10.61 lakh on the funds remaining blocked since March 2002 up to July 2003.

On being pointed out, the GMT SCP stated in May 2003 that the joint testing was completed and the report was submitted to BSNL headquarters alongwith the deviations noticed. However, he failed to justify the dilution in the terms of procurement by way of exemption from pre-despatch inspection by the QA wing.

The matter was referred to the Ministry in August 2003; their reply was awaited as of October 2003.

4.16 Blocking of funds of Rs 82.54 lakh on construction of foundation

Chennai Telephones laid foundation for a multistoreyed building without building plan approval resulting in blocking of Rs 82.54 lakh from March 1998 to May 2003.

Chief General Manager (CGM) Chennai Telephones embarked upon construction of foundation work for a multistoreyed building at Chennai before getting the building plan approved by the Chennai Metropolitan Development Authority (CMDA). Due to this the building could not be completed which led to blocking of funds of Rs 82.54 lakh from March 1998 up to May 2003 on construction of foundation.

DoT instructions provide that the actual construction works should be started only after receipt of approval to the building plans.

Administrative Approval and Expenditure Sanction by Telecom Commission

The CGM, Chennai Telephones proposed to construct a multistoreyed administrative building in Chennai and took up the case for approval of the building plan with CMDA in September 1990. Telecom Commission gave expenditure sanction for Rs 7.5 crore in February 1993. The Executive Engineer (Civil wing), awarded the foundation work to a contractor and the work was completed in September 1998 at a cost of Rs 62.38 lakh. Subsequently, Management asked the contractor for provision of top steel for the pile cap as an extra item, which was also, completed in May 2002 at an additional cost of Rs 20.16 lakh.

Blocking of funds of Rs 82.54 lakh on foundation besides loss of interest of Rs 32.68 lakh

Audit noticed that the construction of foundation was undertaken by Chennai Telephones and completed in May 2002 without getting the building plan approval from CMDA. Consequently Chennai Telephones could not proceed further in construction of building which led to blocking of funds of Rs 82.54 lakh on foundation and loss of interest of Rs 32.68 lakh thereon during March 1998 to May 2003. Further any subsequent change by the CMDA in the building plan would render the expenditure on construction of the foundation infructuous.

The CGMT stated in November 2002 that getting the plan cleared from CMDA usually would take a lot of time. He further added that foundation work was taken up on verbal assurance given by CMDA for early clearance of the building plan. The reply is not acceptable as the CMDA was yet to clear the building plan even after a gap of 13 years. Moreover, no work was to be carried out without getting the building plan approved as emphasized in the DoT's instructions.

The matter was referred to the Ministry in July 2003; their reply was awaited as of October 2003.

4.17 Idle investment of Rs 73.68 lakh

Improper selection of site led to idle investment of Rs 73.68 lakh on the cost of the land and construction of a building thereon.

Failure of Chief General Manager Telecom (CGMT) Project, Eastern Zone, Kolkata to obtain site suitability certificate before purchase of land for construction of telephone exchange building coupled with failure of General Manager Telecommunications (GMT) Muzzaffarpur in Bihar circle to verify the suitability of the land before commencement of construction of telephone exchange building led to idle investment of Rs 73.68 lakh since January 2002 on the cost of the land and building constructed thereon.

Verification of suitability of land and issue of site suitability certificate mandatory

Departmental rules provide that before purchase of a site for departmental purposes, the suitability of the site should be examined and a site suitability certificate should be given by the head of Secondary Switching Area, the Architect and the Civil engineer jointly.

Transfer of land in October 1999

Accord of administrative approval and expenditure sanction

Construction of building costing Rs 56.73 lakh

CGMT Project, Eastern Zone, Kolkata transferred a land procured in May 1991 costing Rs 16.95 lakh to Telecom District Manager (TDM), now General Manager, Telecommunications (GMT) Muzzaffarpur in October 1999 at Mithanpura in Muzzaffarpur. GMT Muzzaffarpur went ahead with construction of telephone exchange building without verifying that the land was suitable for construction of telephone exchange building. CGMT Bihar Circle Patna accorded administrative approval and expenditure sanction in July 2000 for construction of single storeyed building with provision of one more floor in future at an estimated cost of Rs 40.03 lakh for housing Single Base Module type telephone exchange. As per decision of GM (Development) of the circle in May 2000 to house Multiple Base Module type exchange in the building in future, civil wing enlarged the scope of the work for provision of two floors in future. However, civil wing submitted the revised estimate for Rs 66.62 lakh only in April 2002, which was awaiting sanction as of May 2003. The work for construction was awarded in July 2000 on the basis of original sanctioned estimate and was to be completed by June 2001; the work was completed only in January 2002 at a tentative cost of Rs 56.73 lakh pending submission of final bill.

Audit scrutiny (December 2002) revealed that the GMT Muzaffarpur refrained from taking over the building from the civil wing in March 2002 on the ground of improper/inaccessible location of the site where cable laying for connecting the exchange network was not possible. As a result, the telephone exchange functioning in a rented building could not be shifted to the new building.

Divisional Engineer (Planning), Office of GMTD Muzaffarpur stated in September 2003 that the land was acquired by the CGMT Project Eastern Zone, Kolkata and was transferred to TDM Muzaffarpur by him. He added that since the land was not purchased by him, permission for purchase and site suitability did not arise.

The reply is not tenable in view of the fact that the TDM should have ensured the suitability of the site for construction of telephone exchange before starting construction. Thus, improper selection of site resulted in idle investment of Rs 73.68 lakh on cost of land and construction of a building thereon besides avoidable payment of rent of Rs 2.19 lakh due to its non utilisation.

The matter was referred to the Ministry in July 2003; their reply was awaited as of October 2003.

4.18 Blocking of funds of Rs 58.08 lakh

Procurement of Galvanised Iron Pipes during November-December 2001 without proper assessment of requirement led to blocking of funds of Rs 58.08 lakh as of March 2003.

Idling of stock of GI pipes worth Rs 58.08 lakh

The General Manager Telecom (GMT), Kalyan under Maharasthra circle procured Galvanised Iron (GI) pipes at a cost of Rs 79.16 lakh during November – December 2001 without proper assessment of requirement. This resulted in idling of stock worth Rs 58.08 lakh as of March 2003, leading to blocking of funds to that extent.

Stock in hand and past pattern of consumption to be taken into account for working out requirement of stores

Instructions of Department of Telecommunications now Bharat Sanchar Nigam Limited (BSNL) stipulated that while assessing the requirement of telecom stores the existing inventory, supply in the pipeline and past pattern of consumption should be taken into account.

The GMT, Kalyan had a stock of 36.20 Km of GI pipes as on April 2001. Despite this, he procured 47.40 Km of pipes at a cost of Rs 79.16 lakh under the DGS&D rate contract during November - December 2001.

Procurement of GI pipes despite having sufficient stock

Audit scrutiny in July 2002 revealed that the GMT while projecting the demand of pipes as 47.40 Km failed to take into account the stock available and the consumption pattern thereof during the previous years as brought out below:-

(in Km)

Year	Opening balance	Quantity procured	Estimated requirement	Quantity issued/used	Closing balance
1998-1999	5.02	16.38	16.5	10.22	11.18
1999-2000	11.18	32.11	32.00	18.52	24.77
2000-2001	24.77	34.66	41.14	23.23	36.20
2001-2002	36.20	47.40	47.46	10.38	73.22
2002-2003	73.22	-	-	38.44	34.78

It would be seen from above that the actual consumption of these pipes was much less, year after year than what was estimated or actually procured. The actual consumption ranged between 22 and 62 per cent of the estimated requirement during the above period. The procurement of these pipes, too, was 1 ½ to 4 ½ times the actual consumption. As a result, the stock of GI pipes kept on accumulating and was seven times the actual consumption during 2001-02.

Diversion of 38.20 km at the instance of audit and blocking of funds of Rs 58.08 lakh

After this was pointed out by audit, the GMT diverted 38.20 Km of these pipes to other units and also utilised a quantity of 3.90 Km during July 2002 - March 2003, leaving a balance of 34.78 Km valuing Rs 58.08 lakh and resultant blocking of funds to that extent from November - December 2001 up to March 2003.

The Chief General Manager Telecommunications (CGMT) Maharashtra circle stated in May 2003 that the stock of these pipes had piled up due to non execution of optical fibre cable (OFC) and polyethylene insulated jelly filled (PIJF) cable laying works on account of non-availability of OFC, PIJF cable and PLB pipes. He further added that pending works of 2001-02 were taken up during 2002-03.

The reply is not convincing because these pipes were required mainly for OFC works and not for PIJF cable. Moreover, under the DGS&D rate contract the lead period for supply of these pipes was only 45 days; pipes could have been procured at a short notice and there was no justification for their advance procurement.

The matter was referred to the Ministry in June 2003; their reply was awaited as of October 2003.

(D) Excess expenditure in violation of rules

4.19 Irregular expenditure of Rs 4.07 crore on engaging contract labour

Failure of Chief General Managers, Telecommunications of seven circles to follow the instructions of the corporate office of Bharat Sanchar Nigam Limited led to irregular expenditure of Rs 4.07 crore on account of irregular engagement of contract labour for security purposes during August 2001 to March 2003.

During August 2001 to March 2003, the Chief General Managers, Telecommunications (CGMsT) Haryana, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh, Uttranchal circles and Chief General Manager Telecom Maintenance, Eastern Telecom Region incurred an irregular expenditure of Rs 4.07 crore on contract labour for security purposes in total disregard of instructions of Bharat Sanchar Nigam Limited (BSNL).

BSNL Headquarters instructions to follow DGR's orders

Corporate Office of BSNL in July 2001 conveyed to all circles the instructions of 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. Ministry of Communications reiterated these instructions in August 2001.

Irregular expenditure of Rs 4.07 crore on contract labour for security purposes

Audit scrutiny between October 2001 and May 2003 revealed that CGMsT of seven 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 tender. This led to irregular expenditure of Rs 4.07 crore during the period August 2001 to March 2003 besides denying the ex-servicemen the benefit of resettlement and resultant setback to the Government's policy of their resettlement.

The heads of units stated between October 2001 and June 2003 that the security guards on contract were engaged to guard vital telecom exchange and installation. The reply was silent on non-engagement of security agencies through DGR.

The matter was referred to the Ministry in August 2003; their reply was awaited as of October 2003.

4.20 Irregularities in procurement of stores and award of work - Rs 1.27 crore

Various omissions and commissions in procurement and awarding of work by TDM Hazaribagh resulted in irregular and unauthorised expenditure of Rs 1.27 crore during 2000-2003.

Telecom District Manager (TDM) Hazaribagh during 2000-2003 in violation of Rules procured computers, stores and awarded work to contractors without tendering resulting in irregular expenditure of Rs 1.27 crore.

Audit scrutiny of records relating to TDM, now General Manager Telecom District (GMTD) Hazaribagh, revealed irregularities in procurement of computers, stores and award of work as detailed below:

(i) Procurement of computer without tendering

Procurement of 31 computers (Rs 40.50 lakh) without inviting tender

Rules provide for invitation of tender for all procurement costing more than Rs 0.50 lakh. TDM Hazaribagh procured 31 computers including 1 laptop valued at Rs 40.50 lakh during 2000-2002 without inviting tenders resulting in irregular expenditure.

It was further observed that seven computers valuing Rs 8.48 lakh were lying idle/unutilised since their receipt in March-May 2002 and another seven computers costing Rs 8.97 lakh were missing/not installed at places to which they were issued.

(ii) Irregular purchase and refilling of fire extinguishers

Irregular expenditure on purchase and refilling of fire extinguishers

An expenditure of Rs 10.42 lakh was irregularly incurred on purchase and refilling of fire extinguishers for use in different exchanges during 2001-02 from a private firm without tendering. It was noticed that DEs/SDEs of Telephone exchanges without proper justification and prior approval of TDM carried out these work which questions the propriety of expenditure of Rs 10.42 lakh.

(iii) Irregular execution of works

Execution of work without inviting tender

The TDM irregularly got the internal wiring work in subscribers' premises at a cost of Rs 32.48 lakh during 2001-03 without inviting tenders, thereby depriving BSNL the benefit of competitive rates. Before awarding the work to contractors no justification/urgency was received from field units.

In another case of optical fibre cable laying work, TDM made a payment of Rs 7.41 lakh in April 2002 to a contractor who was not in the list of approved cable contractors and was not selected on tender basis. The relevant records were reported missing and in the absence of records, the genuineness of payment could not be verified.

(iv) Unauthorised procurement of stores.

Unauthorised procurement of decentralised items

Under the system of decentralised procurement, BSNL authorised heads of circles to make procurement of decentralised items of equipment and stores and these powers were not to be delegated to lower levels. However TDM Hazaribagh unauthorisedly procured decentralised items valuing Rs 15.25 lakh during 2000-2003 out of which feeder cable valuing Rs 8.38 lakh was lying idle as of March 2003.

Idling of 26 stabilsers and 14 stabilisers missing

TDMs are not authorised to procure electrical goods as per instructions. However, TDM, Hazaribagh procured 48 voltage stabilisers including batteries worth Rs 20.71 lakh during 2001-2003 from two private firms on quotation basis. Out of these 14 stabilisers valuing Rs 3.35 lakh were not found in stock and 26 stabilisers valuing Rs 15.45 lakh were lying idle in store for 15 to 32 months since their receipt.

Thus, various acts of omission and commission of TDM Hazaribagh in disregard of financial norms/propriety and instructions of the Company resulted in irregular/unauthorised expenditure of Rs 1.27 crore.

On this being pointed out, the GMTD Hazaribagh, while accepting the irregularities in all the cases, stated that the subscribers' fitting work was executed as per the decision of then TDM and that a committee was being constituted to probe the missing computer and voltage stabilisers. The events reflect poor responsibility and accountability.

The matter was referred to the Ministry in August 2003; their reply was awaited as of October 2003.

4.21 Unauthorised expenditure and blocking of capital of Rs 84.39 lakh

A telecom store godown created by Chief General Manager, West Bengal circle in July 2000 without obtaining approval of DoT Headquarters could not be made functional as of June 2003 resulting in irregular expenditure and blocking of funds of Rs 84.39 lakh.

Chief General Manager, (CGM) West Bengal Telecom circle got constructed a store godown at a cost of Rs 84.39 lakh at Barangar Wireless Station in July 2000 without the required sanction of DoT Headquarters and could not make it functional even upto June 2003 for want of approach road. This resulted in irregular expenditure and blocking of funds of Rs 84.39 lakh for a period of three years.

Departmental rules provide that authorisation of Department of Telecommunications (DoT) is necessary for creation and functioning of wholesale depots, retail depots and store dumps.

Unauthorised approval for construction of store godown

In violation of above provisions Director (Strategic Business Planning), office of the Chief General Manager, West Bengal circle of Bharat Sanchar Nigam Limited, accorded administrative approval in November 1997 for construction of a store godown at Baranagar wireless station (Kolkata) at a cost of Rs 1.08 crore beyond his delegated power.

Blocking of capital of Rs 84.39 lakh due to non-utilisation of godown for want of approach road

Audit observed that though there was a provision for the construction of approach road in the Master Plan, the estimate had no provision for the same. The realisation of the necessity for construction of an approach road emerged only after a joint inspection of the construction by a team of six officers in February 2000. The construction of said store godown was completed in July 2000 at a cost of Rs 84.39 lakh. The godown could not be operated (June 2003), however, for want of approach road not provided for in the estimate.

Divisional General Manager (DGM) Planning-I stated in June 2003 that the CGM was fully responsible for safe custody of the stores being procured by that Circle and was also having powers to construct technical building upto Rs 5 crore and non-technical building upto Rs 3 crore, and his approval was taken for construction of the store godown. DGM added that estimate for the approach road had been prepared by the Civil Wing and was awaiting sanction.

The reply is not tenable because although the CGM had the power for construction of buildings, authorization for opening a store depot could be given only by DoT headquarters. Thus, lack of proper planning led to construction of a store godown which, although completed in July 2000, could not start functioning up to June 2003 for want of approach road.

The matter was referred to the Ministry in August 2003; their reply was awaited as of October 2003.

4.22 Irregular payment of allowances of Rs 53.98 lakh to phone mechanics

Nine Secondary Switching Areas in Kerala circle paid certain allowances to phone mechanics without any authority which resulted in irregular payment of Rs 53.98 lakh during the period June 1996 to April 2002.

Nine Secondary Switching Areas (SSAs) in Kerala circle made irregular payment of certain allowances to the phone mechanics without any authority for the period from June 1996 to April 2002 amounting to Rs 53.98 lakh.

There was no provision for payment of certain allowances to phone mechanics

Departmental rules do not provide for payment of allowances such as cycle maintenance allowance, telephone duty allowance, washing allowance and house rent allowance in lieu of rent free quarters to phone mechanics. In October 2001 DoT clarified to audit that the proposal for grant of such allowances was not agreed to; the same was communicated to Maharashtra circle in January 2002 and to Karnataka circle in June 2002.

Nine SSAs made irregular payment of these allowances to phone mechanics, amounting to Rs 53.98 lakh

Audit scrutiny between May 2000 and February 2003 revealed that in nine SSAs in Kerala circle irregular payment of cycle maintenance allowance, telephone duty allowance, washing allowance and house rent allowance in lieu of rent free quarters was made without any authority to the phone mechanics for the period from June 1996 to April 2002 amounting to Rs 53.98 lakh.

On this being pointed out by Audit, Chief General Manager Telecom (CGMT) Kerala in May 2002 issued instructions to all SSAs to stop the payment of these allowances and took up the matter with DoT HQrs regarding recovery of over payment. DoT in July 2002 intimated to CGMT Kerala to effect the recovery. CGMT Kerala circle issued instructions in October 2002 to Heads of SSAs to effect the recovery. Recovery particulars were awaited as of October 2003.

Had DoT directed BSNL to issue instructions to all circles in October 2001 itself, at the time when DoT had clarified the issue to Audit, the impact of the avoidable payment could have been reduced. BSNL on its part, too, did not pass on the instructions when Maharashtra circle was advised in January 2002.

Since the audit observation was based on test check in one circle quantum of this irregular payment in all other circles would also require to be examined by the company.

The matter was referred to the Ministry in June 2003; their reply was awaited as of October 2003.

(E) Avoidable expenditure/payment

4.23 Avoidable excess payment of Rs 96.53 crore on procurement of PIJF underground cable

BSNL failed to take into account lower rates obtained by MTNL resulting in excess payment of Rs 96.53 crore on procurement of cables during 2000-2001

BSNL during 2000-01 while finalising the tender for procurement of PIJF cable failed to consider the lower rates obtained by MTNL in another tender during the same period. This resulted in higher price fixation and consequent avoidable excess payment of Rs 96.53 crore between September 2000 and May 2001.

BSNL finalised the rates at weighted average cost of Rs 7.375 crore per lakh conductor kilometer (LCKM)

The Department of Telecommunications (now BSNL) floated a tender (February 2000) for procurement of 403 LCKM of polyethylene insulated jelly filled (PIJF) underground cable of 36 sizes. BSNL after finalisation of prices authorised circles to place purchase orders for procurement of 567.33 LCKM of PIJF cable at weighted average cost of Rs 7.375 crore per lakh conductor kilometer (LCKM).

MTNL obtained lower rates during the same period

Re-evaluation committee recommended weighted average cost of Rs 7.201 crore per LCKM

Audit scrutiny of the records of the company during December 2002–February 2003 revealed that the prices for the above mentioned tender were finalised between June and August 2000 based on weighted average cost of Rs 7.375 crore per LCKM recommended by the Committee for Evaluation of Tender (CET). During the same period MTNL also floated a tender for procurement of 13 LCKM of PIJF cable of 18 sizes and obtained lower rates. Hence Member (Production) and Member (Finance) of Telecom Commission constituted a re-evaluation committee on 7 August 2000 to work out afresh appropriate ordering price for all the 36 sizes of PIJF cable after considering MTNL tender rates. On 9 August 2000 the re-evaluation committee submitted its report recommending reduction in weighted average cost of Rs 7.201 crore per LCKM. In the meanwhile, without waiting for the recommendations of the re-evaluation committee, a memo was prepared on 8 August 2000 for consideration of Telecom Commission for adoption of rates. The Telecom Commission met on 9 August 2000 and finalised the rate of Rs 7.375 crore per LCKM. This led to excess fixation of weighted average cost by Rs 0.174 crore per LCKM resulting in excess payment of Rs 96.53 crore in the procurement of 554.745 LCKM of PIJF underground cable against the tender for 2000-01 during September 2000 to May 2001.

Excess fixation of weighted average cost by Rs 0.174 crore per LCKM resulted in excess payment of Rs 96.53 crore

On this being pointed out by Audit in April 2003, the company accepted in June 2003 the facts that a communication regarding lower rates obtained in the MTNL tender was received and that a committee was constituted on 7 August 2000. It stated, however, that the CET recommended price was at weighted average cost of Rs 7.042 crore per LCKM and not Rs 7.375 crore per LCKM as pointed out by Audit. The company clarified that the main thrust of the memo for the Telecom Commission was on the issue of 200 pair cable and allied factors but not on the subject of acceptance of CET prices. It added that no further action was taken on the report of the re-evaluation committee because, although its report was ready on 9 August 2000, the Telecom Commission had already taken a decision on the counter offer prices based on CET recommended rates.

The reply is not tenable as the weighted average cost of Rs 7.042 was initially calculated by CET which was revised to Rs 7.375 crore per LCKM by the company after taking into account the revised price of 200/0.5 mm pair cable. The purchase order was also placed at enhanced rate of Rs 7.375 crore per LCKM. Further, the procurement branch failed to impress upon the Telecom Commission in time to adopt the lower rates obtained by MTNL and recommended by the re-evaluation committee, before finalisation of higher rates by the commission. This led to avoidable excess payment of Rs 96.53 crore. Incidentally, in the procurement of PIJF underground cable in the succeeding year i.e. 2001-02, BSNL went in for all inclusive prices of the MTNL tender.

The matter was referred to the Ministry in July 2003; their reply was awaited as of October 2003.

4.24 Undue benefit given to suppliers

BSNL did not avail benefit of reduction of customs duty on procurement of OFC which resulted in excess payment of Rs 5.67 crore

BSNL placed purchase orders for 13950 km of 12F OFC and 2800 km of 24 fibre OFC during January 2001

BSNL failed to take into account the reduction in customs duty which resulted in excess payment of Rs 5.67 crore

Bharat Sanchar Nigam Limited (BSNL) invited a short notice limited tender in November 2000 for procurement of 35000 km 12 Fibre Optical Fibre Cable (OFC) and 5000 km 24 Fibre OFC. The tender was opened on 1 December 2000. The firm purchase order for 13950 km 12 Fibre OFC and 2800 24 Fibre OFC were placed on 11 firms during January 2001. The lowest quote of M/s Aksh Optic Fibre Limited for both the types of OFC contained an import content of 40 per cent. As a result of notification issued on 31 August 2000, the rate of basic customs duty on OFC was reduced to 15 per cent from 25 per cent to be effective from 1 September 2000. M/s Aksh Optic Fibre Limited had shown basic customs duty on OFC as 25 per cent in its bid. This was allowed by BSNL, resulting in excess payment of Rs 5.67 crore in procurement of 11605.97 km of 12 F OFC and 2403.18 km of 24F OFC within delivery schedule i.e. 31 March 2001.

The Company in their reply stated in May 2003 that the orders were placed on the prices as quoted by lowest bidder which was recommended by Committee for Evaluation of Tenders (CET) and approved by the competent authority.

The reply is not tenable. The quote was offered on the basis of 25 per cent customs duty, which was universally applicable on all bidders. It cannot be extrapolated by saying that L1 quote being lowest was accepted and this acceptance was indifferent to the rate of customs duty, because lower customs duty would have lowered the quote proportionately. Therefore, accepting the quote based on higher rate of customs duty and not reducing the amount payable with change in the rate of customs duty with government notification gave undue benefit to the bidders.

BSNL, therefore, paid an extra amount of Rs 5.67 crore to the suppliers towards procurement of 11605.97 km of 12 F OFC and 2403.18 km of 24 F OFC.

The matter was referred to the Ministry in June 2003; their reply was awaited as of October 2003.

4.25 Avoidable expenditure of Rs 2.94 crore

Failure of Chief General Manger, Southern Telecom Projects Chennai to assess reasonableness of rates obtained in a tender by comparing it with the prevalent market trend resulted in avoidable expenditure of Rs 2.94 crore on procurement of permanently lubricated high density polyethylene duct pipes between November 2002 and April 2003.

The Chief General Manager, Southern Telecom Projects (CGMT) Chennai incurred an avoidable expenditure of Rs 2.94 crore on procurement of permanently lubricated high density polyethylene (PLBHDPE) duct pipes between November 2002 and April 2003 by not taking into cognizance of the lower rate obtained in a tender called for by Chief General Manager Tamil Nadu circle (CGMTN) Chennai during the same period to assess the prevalent market trend.

CGM STP approved higher rate per km for procurement of PLBHDPE duct pipe than the approved rate of CGM TN

Audit scrutiny (May 2003) revealed that the rate of Rs 26465 per km approved by CGM STP against a tender called for in July 2002 for supply of PLBHDPE pipes 4033 mm was higher than the rate of Rs 20910 per km approved by CGMTN against the tender for the same item during the same period by Rs 5555 per km.

BSNL guidelines stipulate that reasonableness of rate obtained in a tender should be assessed by comparing it with rates of previous tender and prevalent market trend

According to BSNL guidelines of June 2001 reasonableness of rate obtained in the tender should be assessed by comparing them with the rates of previous procurement and also prevalent market trend for the same. CGMSTP Chennai failed to follow the instruction which led to avoidable expenditure of Rs 2.94 crore on the procurement.

The Divisional Engineer stated (May 2003) that the rates could not be compared as the purchase order was released by STP prior to finalisation of rate by Tamil Nadu circle and that higher price was natural due to inclusion of clause for random checks to ensure quality. He further stated that the specification of Tamil Nadu circle did not have 10 years warranty with replacement clause.

The reply is not acceptable due to the following:

i) The financial bid of Tamil Nadu circle was opened prior to finalisation of tender by STP and the L1 rates could have been obtained for comparison

ii) Since all samples are required to be sent to quality assurance wing of BSNL only for surveillance tests allowing higher price for provision of clause for random checks was not justifiable

iii) The material was as per TEC specification and quality and did not require any additional specification justifying higher price.

The matter was referred to the Ministry in July 2003; their reply was awaited as of October 2003.

4.26 Excess payment of Rs 2.27 crore on cable laying work

BSNL in Maharashtra and Tamil Nadu Circle irregularly allowed contractor's profit percentage on cost of materials which resulted in excess payment of Rs 2.27 crore to PSUs during 1999-2002.

General Managers, Telecom Districts (GMsTDs) Aurangabad and Sangli and Telecom District Manager (TDM) Sindhudurg in Maharashtra circle and GMsTDs Chengalpattu, Salem, Trichy, Vellore and Virudhunagar in Tamil Nadu Circle made an excess payment of Rs 2.27 crore to Public Sector Undertakings (PSUs) on cable laying work during 1999-2002 by irregularly allowing contractor's profit percentage on cost of material supplied at market rate.

As per agreement BSNL was to pay the PSUs the actual cost of the work plus their service charges

As per agreement between Bharat Sanchar Nigam Limited (BSNL) and Public Sector Undertakings (PSUs) for execution of cable laying works, BSNL was to pay the PSUs the actual cost of the work plus their service charges. The schedule of rates approved by the GMsTDs was adopted as reference rate for finalising the rates in tenders for subcontracting the work to private contractors through PSUs. While inviting the tenders, the sub contractors were asked to quote their profit percentage over and above the schedule of rates.

Excess payment of Rs 2.27 crore to PSUs on cable laying work due to irregular admission of contractor's profit percentage on cost of material supplied at market rate

Audit scrutiny between February 2001 and September 2002 revealed that the GMsTDs/TDM allowed contractor's profit percentage on the rates fixed by them towards supply and laying of GI/RCC pipes which was inclusive of cost of pipes and labour charges instead of allowing on labour charges alone because profit percentage on cost of material was not covered by the agreement with PSUs. This resulted in excess payment of Rs 2.27 crore representing the profit percentage on cost of material allowed to PSUs.

GMsTDs Aurangabad and Sangli stated (June/December 2002) that calculations arrived at by Audit by segregating the cost of material and labour charges were hypothetical and that comparing the tender rate of another telecom district was not acceptable. TDM Sindhudurg stated (May 2002) that it would be difficult to assess the tender had the work been split. GMsTDs Chengalpattu, Salem and Trichy recovered Rs 21.87 lakh from the PSUs at the instance of Audit whereas GMsTDs Vellore and Virudhunagar stated (August 2001 and September 2002) that the marked up percentage was justified on account of transportation, store keeping etc., and that no separate rate for labour and materials was available.

The replies are not acceptable because allowing profit percentage on cost of materials is not covered by the terms and conditions of the agreement.

The matter was referred to the Ministry in June/August 2003; their reply was awaited as of October 2003.

4.27 Avoidable extra expenditure of Rs 1.81 crore on procurement of PIJF cable

BSNL allowed higher armouring cost for smaller gauge PIJF armoured cable which resulted in avoidable extra expenditure of Rs 1.81 crore during 2001- 02.

Bharat Sanchar Nigam Limited (BSNL) in 2001-02 tender for procurement of PIJF cable finalised rates which included higher armouring cost for smaller gauge armoured cable as compared to that of higher gauge armoured cable, resulting in avoidable extra expenditure of Rs 1.81 crore during 2001-02.

BSNL procures every year about 35 to 40 types of armoured and unarmoured polyethylene insulated jelly filled (PIJF) cable with different numbers of conductor pairs ranging from 10 to 2400 and gauges ranging from 0.4 mm to 0.9 mm for use in the underground cable network.

Cost of armouring is the price difference between armoured and unarmoured cable

Unarmoured cables can be given extra protection of steel armouring to convert them into armoured cables. Hence the price difference between armoured and unarmoured cable is the cost of armouring. Further the main elements of the armouring are galvanized steel tape and low density polyethylene (LDPE) and these raw materials will increase with increase in the gauge of the cable. Hence the cost of armouring will be more in the case of higher gauge cable and vice-versa.

Placement of Advance Purchase Order and issue of authorisation

BSNL in March 2001 invited tenders for procurement of 441 lakh Conductor Kilometres (LCKM) PIJF underground cable of different sizes in four gauges. Tenders were finalised and Advance Purchase Orders were placed on vendors for supply of 427 LCKM in September 2001 and authorisations were issued to circles in October 2001 for placement of purchase orders at the rate approved by BSNL Headquarters.

Analysis of rates of various sizes of armoured and unarmoured cable

Audit analysed the finalised rates of various sizes of armoured and unarmoured cable in March 2001 tender and noticed that in two common sizes i.e. 400 pairs and 1200 pairs the cost of armouring of 0.4 mm smaller gauge armoured cable was more than the cost of armouring of 0.5 mm higher gauge armoured cable as shown below:

Sl. No.	Item PIJF Cable	Price of armoured cable per km (Rs)	Price of unarmoured cable per km (Rs)	Cost of armouring per km (Col 3-4) (Rs)	Excess cost on armouring of 0.4 mm cable per Km (Rs)	Quantity of 0.4 mm armoured cable procured (Km)	Total extra expenditure (Col 6x7) (Rs in lakh)
1	2	3	4	5	6	7	8
1	0.4 mm / 400 pair	340766.10	300817.29	39948.81	2001.42	1398	27.98
2	0.5 mm / 400 pair	443148.22	405200.83	37947.39			
3	0.4 mm / 1200 pair	904928.66	811705.10	93223.56	37150.04	413	153.50
4	0.5 mm / 1200 pair	1126323.29	1070252.77	56073.52			
	Total						**181.48**

Avoidable expenditure of Rs 1.81 crore due to finalisation of rates allowing higher armouring cost for smaller gauge armoured cable

The Tender Evaluation Committee failed to work out the armouring cost and compare the rates of lower gauge armoured cables with higher gauge armoured cable of relevant cable pairs wherever available and cross check the reasonableness of rates of lower gauge armoured cables. Consequently, BSNL failed to restrict the armouring cost of smaller gauge PIJF armoured cable to that of higher gauge PIJF armoured cable while fixing the price of lower gauge armoured cable as shown in the above table. Thus finalisation of rates allowing higher armouring cost for smaller gauge 0.4 armoured cable in the March 2001 tender resulted in avoidable extra expenditure of Rs 1.81 crore.

The matter was referred to the Ministry in September 2003; their reply was awaited as of October 2003.

4.28 Avoidable expenditure of Rs 1.72 crore on use of costly junction cable

CGMT, Punjab circle procured and used a higher gauge cable resulting in infructuous expenditure of Rs 1.72 crore during 1998-2003.

The CGMT Punjab circle during 1998-2003 used costlier higher gauge PIJF cable instead of lower gauge cable in local area network. Consequently the cost differential led to avoidable extra expenditure of Rs 1.72 crore.

Junction line is a cable connecting any two Telephone exchanges in a multi exchange system. Local network, on the other hand, implies cables connecting the exchange to the distribution point box towards subscribers end. Instructions provide that the gauge of polyethylene insulated jelly filled (PIJF) cable to be used in the local network should be of 0.4 or 0.5 mm diameter. For junction lines, however, higher gauge cables such as 0.9 mm are required which are costlier.

Unjustified procurement of 20/0.9 mm PIJF (A) junction cable worth Rs 2.36 crore

Use of costly junction cable in local network resulted in avoidable extra expenditure of Rs 1.72 crore

Scrutiny of records by Audit revealed that the CGMT Punjab circle procured 195.711 Km of PIJF 20 pairs/0.9 mm cable worth Rs 2.36 crore between July-August 1998 and there was no demand for this cable from the field units. The CGMT unilaterally issued this cable to the field units during the period from receipt of this cable up to July 2003. Since the field units concerned did not require this for junction line due to introduction of optical fibre cable, they utilized this cable for local network in providing telephone connections. Thus use of costly 20/0.9 mm dia PIJF junction cable in the local network as against the cheaper 20/0.5 mm dia PIJF cable led to avoidable extra expenditure of Rs 1.72 crore on 201 km of 20/0.9 mm PIJF cable.

The heads of all the Secondary Switching Areas concerned uniformly stated in July 2003 that the 20/0.9 mm PIJF cable was issued by the CGMT without their asking for it.

The matter was referred to the Ministry in August 2003; their reply was awaited as of October 2003.

4.29 Excess payment of Rs 91.61 lakh to supplier

Non regularization of payment made to the supplier as per final rates fixed by BSNL Headquarters led to excess payment of Rs 91.61 lakh.

Chief Pay and Accounts Officer (CPAO) (ITI Bills) Bangalore of Bharat Sanchar Nigam Limited (BSNL) failed to regulate payment to supplier as per final rates fixed by BSNL headquarters leading to excess payment of Rs 91.61 lakh during 2000-2001 on procurement of exchange equipment for Punjab circle.

Placement of purchase order at provisional cost

The Chief General Manager Telecommunications (CGMT) Punjab circle placed a purchase order in July 2000 on M/s ITI Limited, Bangalore for the supply of 17 K lines MAX-XL equipment at a provisional cost of Rs 6.30 crore. CPAO (ITI Bills) was the paying authority who was to raise the debit against the Chief Accounts Officer (CAO) under Punjab circle.

Prices to be regularised on finalisation of rates for 2000-01 tender

As per clause 7.1 of the purchase order, the supply would be governed at provisional rate of 90 per cent of the itemized rates of 1999-2000 tender which was subject to further finalisation by BSNL headquarters against the tender for 2000-01. BSNL headquarters finalised the rates against the tender for 2000-01 in November 2000 which were lower than 90 per cent of 1999-2000 tender rates.

The CPAO made provisional payment to M/s ITI at 90 per cent of 1999-2000 tender rates during 2000-2001 for equipment supplied to Punjab circle. However, the above payment was not regulated as per the final rates fixed by BSNL headquarters against tender for 2000-2001. This led to excess payment of Rs 91.61 lakh to the supplier.

Excess payment of Rs 91.61 lakh

The CGMT stated in July 2003 that payment could not be regularised due to non availability of certain item rates which were awaited from BSNL Headquarters and on their receipt the payment would be regularised.

The matter was referred to the Ministry in August 2003; their reply was awaited as of October 2003.

4.30 Avoidable expenditure of Rs 52.24 lakh on procurement of jointing kits.

Procurement of jointing kits at higher rates by Chief General Manager Telecommunications Tamil Nadu circle led to avoidable extra expenditure of Rs 52.24 lakh during 2000-01.

Chief General Manager Telecommunications (CGMT) Tamil Nadu circle procured jointing kits during 2000-01 at higher rates approved by Karnataka circle without considering the lower rates of Gujarat circle which led to avoidable expenditure of Rs 52.24 lakh.

Reasonableness of rates to be assessed before procurement of stores

The Corporate office of Bharat Sanchar Nigam Limited (BSNL) in January 2000, while issuing detailed guidelines under the decentralised procurement of stores, emphasized that the heads of circles should examine the reasonableness of the rates obtained in the tenders by comparing them with the rates of products/items at which these were procured in last few years and the procurement should be done on reasonable rates.

Lower Gujarat circle rates not offered to the bidders

The CGMT Tamil Nadu circle invited a tender in April 2000 for supply of jointing kits (TSF I to VI version) to meet the requirement for 2000-01. The Tender Evaluation Committee (TEC) in July 2000, after considering the Gujarat circle rates, recommended the counter offer rates by increasing 25 per cent of previous year's Tamil Nadu circle's procurement rates which were lower than Gujarat circle rates. But, the CGMT did not approve these rates stating that these rates were on lower side in comparison to rates finalised by Chennai Telephones, and Gujarat and Kerala circles. He opined that the suppliers would not accept these rates. The CGMT, however, failed to offer Gujarat circle rates to the suppliers. In the meantime, the CGMT received approved rates of the Karnataka circle which were higher than Gujarat circle rates. The TEC, in a revision of their earlier recommendation, recommended in October 2000 the Karnataka circle rates which were approved by CGMT.

CGMT approved higher Karnataka rates

Avoidable expenditure of Rs 52.24 lakh in procurement of jointing kits at higher rates

As a result 1.95 lakh jointing kits were procured at higher rates, without examining the reasonableness of rates amongst the approved rates of other circles. This led to avoidable extra expenditure of Rs 52.24 lakh during 2000-01.

The Deputy General Manager (SBP) stated in March 2003 that the bidders did not agree to supply the jointing kits either at Gujarat circle rate or with 25 per cent increase in the previous year's rate of Tamil Nadu circle and hence the TEC recommended Karnataka circle rates being the lowest of the adjacent circles' rates. There was nothing on record, however, to confirm the DGM's reply and indicate that the Gujarat circle rates were offered. Infact the Assistant General Manager (Tender) under the PGMT had stated in December 2002 that the Gujarat circle rate was not offered to the bidders as the same was not approved by the CGMT.

The matter was referred to the Ministry in July 2003; their reply was awaited as of October 2003.

4.31 Avoidable expenditure of Rs 51.20 lakh on execution of work at higher rates

Cable laying work executed at higher rates by Kerala Telecom circle resulted in avoidable expenditure of Rs 51.20 lakh during 2000-02.

The General Manager Telecom Pathanamthitta under Kerala circle executed cable laying work during 2000-02 at rates higher than the finalised tender rates resulting in avoidable extra expenditure of Rs 51.20 lakh.

Rate of trenching and laying of 5 pair cable was Rs 7 per metre

The General Manager Telecommunications (GMT) Pathanamthitta under Kerala circle finalised cable laying tender for 2000-01. The rate for trenching and laying of 5 pair cable was Rs 7 per metre.

Audit, however, noticed that the GMT concerned, instead of getting this work executed through contractors as per above approved rates, entrusted this job to departmental staff. The departmental staff carried out the work of trenching and laying of 5 pair cable for a length of 1706.69 km through petty contractors, at Rs 10 per metre as against the approved rate of Rs 7 per metre. Thus execution of work at rates higher than the approved rates led to an avoidable expenditure of Rs 51.20 lakh during 2000-02.

The GMT stated in September 2002 that the SSA had tried to entrust this work to the approved contractors, but could not do so due to opposition by the staff unions. Hence the work was entrusted to departmental staff to be carried out through petty contractors. However, categorisation of work as petty works was irregular as per rules as it involved an outlay of Rs 1.71 crore and should not have been entrusted to petty contractors leading to an excess payment of Rs 51.20 lakh.

The matter was referred to the Ministry in July 2003; their reply was awaited as of October 2003.

4.32 Orders placed on a banned firm

A blacklisted and banned private firm by Government of India was provided with a supply order of Rs 37.37 lakh by BSNL during March 2002.

Government of India banned business dealings with M/s Anilmaa Associates effective from 29 January 2002

Ministry of Commerce and Industry in January 2002 conveyed the decision of Government of India to all the Ministries / Department of the Government of India to ban business dealings with M/s Anilmaa Associates, New Delhi for a period of five years. The ban was to be effective from 29 January 2002. Based on this the Vigilance cell of Department of Telecommunications (DoT) on 8 March 2002 issued a circular for compliance of above orders to BSNL.

BSNL issued circular to this effect on 8 March 2002

BSNL placed advance purchase order for 0.069 lckm on 7 March 2002 and faxed authorisation dated 11 March 2002 on 13 March 2002

BSNL Headquarters placed an Advance Purchase Order on M/s Anilmaa Associates (the black listed firm) on 7 March 2002 for procurement of 0.069 lakh conductor kilometres (LCKM) of polyethylene insulated jelly filled (PIJF) underground (U/G) cable. Subsequently authorisation dated 11 March 2002 for placement of Purchase Order (PO) to Haryana Telecom Circle was faxed on 13 March 2002 inspite of a ban on the said company. PO was placed on 14 March 2002 and the supplies were completed by 25 March 2002. This resulted in undue benefit of Rs 37.37 lakh to the firm.

PO was placed on 14 March 2002 resulting in undue benefit of Rs 37.37 lakh

On this being pointed out by Audit, the company in their reply stated in June 2003 that it was not aware of the ban on business dealings with the said firm at the time of placement of order and further stated that the letter banning the business dealings was received only on 13 March 2002. The reply of company is not tenable because although the authorisation was faxed on 13 March 2002, the instructions to black list the firm were also received on the same day. In spite of this, no fax was sent to Haryana Telecom Circle for cancellation of authorisation and withholding of purchase order.

Disregard of the decision of Government of India to ban business activities with M/s Anilmaa Associates, therefore, resulted in BSNL giving undue favour of Rs 37.37 lakh to the firm in procurement of PIJF cable.

The matter was referred to the Ministry in July 2003; their reply was awaited as of October 2003.

CHAPTER V
ORGANISATIONAL SET-UP 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 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 set-up

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 MTNL by three functional Directors (Technical, Finance and Personnel) and a Company Secretary. However, the post of Director (Technical) was lying vacant since November 2002. Delhi and Mumbai units of MTNL and its Mobile Services unit at Delhi are headed by the respective Chief General Managers (CGMs).

5.3 Investment and Return

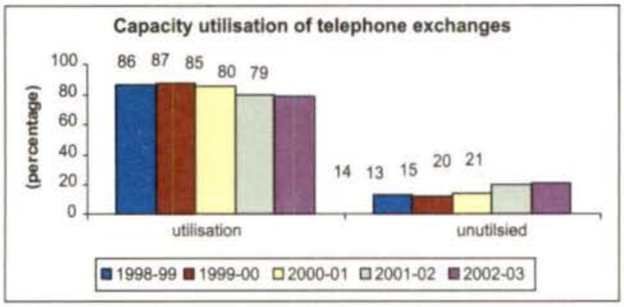
Against the authorised equity share capital of Rs 800 crore, the paid-up capital, as on 31 March 2003, was Rs 630 crore of which Rs 354.37 crore had been invested by the Government of India. The return on this investment (Rs 630 crore) by way of dividend paid by MTNL increased from 30 *per cent* for each of the years 1998-99 and 1999-00 to 45 *per cent* for each of the years 2000-01 to 2002-03, as can also be seen from the table at subsequent sub-paragraph 45.4.2.

5.4 Physical and Financial Performance

5.4.1 Physical performance

The physical performance of Mahanagar Telephone Nigam Limited as at the end of each of the last five years ended 31 March 2003 is given in the Appendix - 9.

A review of the same revealed the following:



- As the increase in release of direct exchange lines (telephone connections) did not keep pace with the increase in equipped capacity of telephone exchanges, the overall capacity utilisation of Telephone exchanges went down from 86 *per cent* in 1998-99 to 79 *per cent* in 2002-03.
- The number of Public Telephones more than doubled from 0.90 lakh in 1998-99 to 2.04 lakh in 2002-03. The number of cellular mobile telephone subscribers also increased from 2.00 lakh in 2001-02 to 2.92 lakh in 2002-03, an increase of 46 *per cent*, the increase being higher in Mumbai unit (51 *per cent*) as compared to 40 *per cent* in Delhi unit.

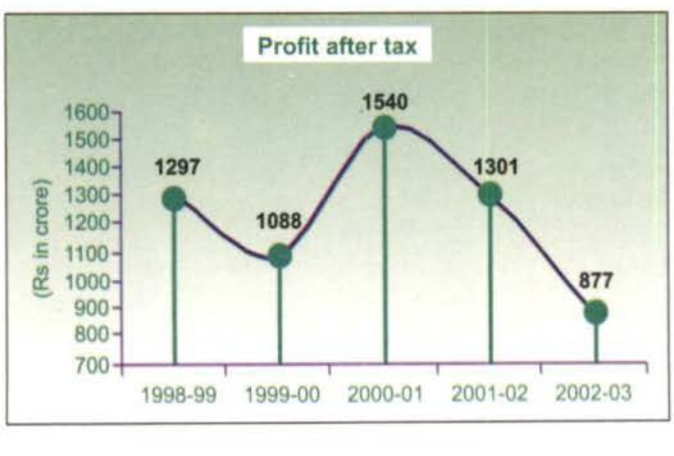
5.4.2 Financial performance

The financial results of MTNL for the five years ending 31 March 2003 were as follows:

(Rs in crore)

Particulars	1998-1999	1999-2000	2000-01	2001-02	2002-03
Income from services	5032.46	5182.20	5784.58	6143.72	5806.53
Other income	226.83	174.70	318.02	248.35	224.14
Expenditure (excluding interest and prior period adjustments)	3296.51	3948.53	4374.08	* 4560.92	4738.09
Interest	72.92	8.42	8.30	* 28.83	32.82
Profit before tax and prior period adjustments	1889.86	1399.95	1720.22	1802.32	1259.76
Prior period adjustments	8.98	(-)149.10	(-) 17.04	(-) 7.88	(-) 22.57
Profit before tax	1898.84	1250.85	1703.18	1794.44	1237.19
Tax provision	601.60	163.00	163.00	493.76	360.03
Profit after tax	1297.24	1087.85	1540.18	1300.68	877.16
Proposed dividend including tax	209.79	216.72	312.42	283.50	319.82
➢ Final dividend	189.00	189.00	283.50	283.50	283.50
➢ Tax on dividend	20.79	27.72	28.92	0.00	36.32

* The figures have been recast during the year 2002-03 by the Management.



As seen from the above table, in 1999-2000 profit after tax decreased by 16 *per cent* compared to the earlier year 1998-99 mainly on account of increase in overall revenue expenditure (including interest and prior period expenditure) from Rs 3360.45 crore in 1998-99 to Rs 4106.05 crore in 1999-2000 which was due to increase in expenses on employees' remuneration and benefits, increase in rates & taxes, increase in the amount of disputed bills, prior period expenditure, etc.

In the year 2000-01, however, profit after tax increased substantially by 42 *per cent* over the earlier year. This increase was 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.

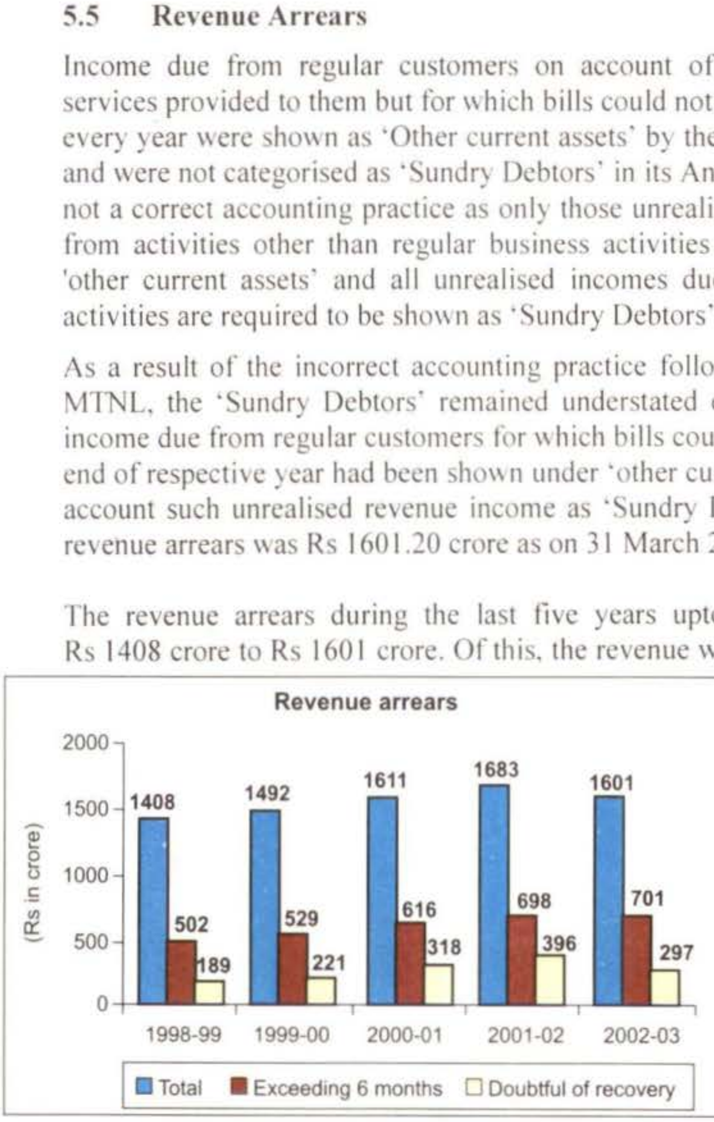
However, the profit after tax for the next two consecutive years ending 31 March 2003 showed a continuous downward trend mainly because of increase in expenditure (including prior period) in each of these years compared to its previous year. Besides, three times increase in provision for tax in 2001-02 over the last year and more than 5 *per cent* decrease in income from services (including other income) in 2002-03 over the earlier year 2001-02 also contributed to this continuous decline in profit after tax of MTNL.

5.5 Revenue Arrears

Income due from regular customers on account of the telecommunication services provided to them but 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. This was not a correct accounting practice as only those unrealised incomes which arise from activities other than regular business activities are to be shown under 'other current assets' and all unrealised incomes due from normal business activities are required to be shown as 'Sundry Debtors'.

As a result of the incorrect accounting practice followed by Management of MTNL, the 'Sundry Debtors' remained understated every year to the extent income due from regular customers for which bills could not be raised up to the end of respective year had been shown under 'other current assets'. Taking into account such unrealised revenue income as 'Sundry Debtors', the position of revenue arrears was Rs 1601.20 crore as on 31 March 2003.

The revenue arrears during the last five years upto 2002-03 ranged from Rs 1408 crore to Rs 1601 crore. Of this, the revenue which remained in arrears for more than six months showed an increasing trend and had increased from Rs 502 crore as at 31 March 1999 to Rs 701 crore as at 31 March 2003. The unrealised revenue which was considered doubtful of recovery increased from Rs 189 crore at the end of March 1999 to Rs 396 crore at the end of March 2002 but thereafter decreased to Rs 297 crore as at the end of March 2003. This indicated that Management needed to exercise greater control over the debt' management as well as in extending credit to customers.



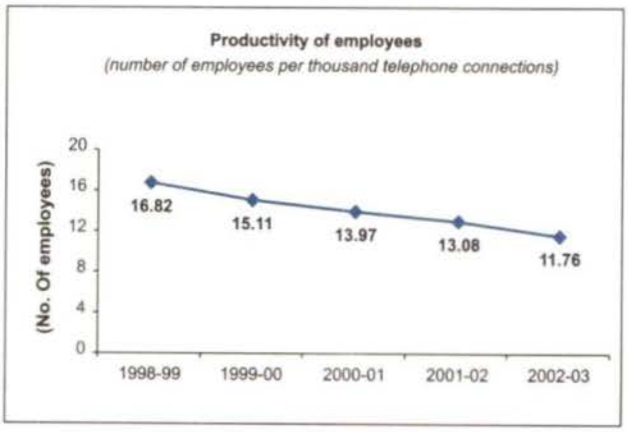
5.6 Manpower

The total manpower strength of MTNL in 2002-2003 was 57984 of which the strength of Group A was 1128, Group B 6429, Group C 33901 and Group D 16526.

While the overall manpower decreased by 7 *per cent* over the last five years, the number of Group B employees almost doubled and the number of Group A employees increased by almost a fifth. This was primarily because a number of posts of Junior Telecom Officers (JTOs) of Group C level were upgraded to Group B level during 1999-2000. In addition, the number of daily rated mazdoors showed a welcome downward trend from 511 in March 1999 to 88 by March 2003.

5.7 Productivity

The productivity of MTNL employees (i.e., ratio of number of employees per thousand telephone connections or DELs including cellular mobile connections) for each of the last five years upto 31 March 2003 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 16.82 in 1998-99 to 11.76 in 2002-03.



CHAPTER VI
REVENUE

6.1 Loss of Rs 81.67 lakh due to non-recovery of telephone revenue

Despite favourable awards by the Hon'ble Courts/Arbitrators, Delhi unit of MTNL failed to recover telephone revenue from defaulting subscribers resulting in loss of revenue of Rs 81.67 lakh.

MTNL failed to recover telephone revenue of Rs 81.67 lakh

Inordinate delays as well as non-compliance of the existing Departmental rules by the Management of Delhi unit of MTNL in taking action for recovery of telephone revenue from 24 defaulting subscribers despite favourable awards from the Hon'ble Courts/Arbitrators, resulted in a loss of telephone revenue amounting to Rs 81.67 lakh as of September 2003.

Departmental rules, as adopted by MTNL, provide for expeditiously instituting legal proceedings for the recovery of the telephone revenue; where recovery cannot be effected in spite of all possible efforts, the case may finally be recommended for write off.

Courts/Arbitrators ordered to recover outstanding amount of disputed telephone bills of Rs 84.69 lakh against 25 subscribers

MTNL failed to recover Rs 81.78 lakh even after a period of three to seven years

Test check of records of Legal Cell of MTNL in June 2000, revealed that during the period from April 1996 to August 2000 awards were pronounced in favour of MTNL by Hon'ble Courts/Arbitrators for recovery of outstanding amount of telephone revenue of Rs 84.69 lakh against disputed telephone bills pertaining to 25 subscribers of MTNL Delhi. Management started recovering the dues only in five cases and as of May 2003, could recover Rs 2.91 lakh (including Rs 0.20 lakh being the full amount in one case) out of Rs 8.40 lakh. In the remaining 20 cases, Management not only failed to recover the dues amounting to Rs 81.78 lakh but also could not find out the whereabouts of the defaulting subscribers. No documentary evidence was made available to Audit to indicate that Management vigorously pursued the matter for recovery of awarded amounts. Resultantly, MTNL failed to recover Rs 81.78 lakh (Appendix-10) from defaulting subscribers even after a period of three to seven years from the date of awards.

Management further recovered Rs 0.11 lakh

On this being pointed out (October 2003), Management stated (November 2003) that out of 24 cases, in two cases the amount was being recovered in installments (a further sum of Rs 0.11 lakh was already recovered in one case up to September 2003), in 18 cases efforts were being made to recover the amount and in the remaining four cases write off proceedings were pending for want of reports from Police/Revenue authorities.

Rs 81.67 lakh still remained unrecovered

The reply was not satisfactory as this situation occurred due to failure to have a constant check over the defaulting subscribers, which led to non-recovery of Rs 81.67 lakh from such subscribers so far.

The matter was referred to the Ministry in October 2003; their reply was awaited.

CHAPTER VII
COMPREHENSIVE PERFORMANCE REVIEWS

Cellular Mobile Telephone Services in Mahanagar Telephone Nigam Limited

Highlights

- **The overall loss of Rs 2.03 crore incurred by Cellular Mobile Telephone Services (CMTS) of MTNL during the year 2001-02 increased to Rs 31.35 crore during the year 2002-03, a fourteen-fold increase in one year.**

(Paragraph 7.4)

- **Failure in initial planning for obtaining licence for adjoining areas of Delhi and Mumbai, cancellation of the initial global tender and failure to order for vital equipment for prepaid service system in time, resulted not only in non-achievement of targets but also in incurring of an additional expenditure of Rs 12.08 crore.**

(Paragraphs 7.5, 7.5.1,7.5.2 and 7.6.1)

- **Procurement of mediation device, billing and customer care equipment from an inexperienced and ineligible firm led to non/short billing and loss of revenue; the entire system valued at Rs 9.70 crore was now planned to be scrapped due to its functional deficiencies.**

(Paragraph 7.6.2)

- **Failure of MTNL to get prior approval for Base Trans-receiver Station (BTS) sites from Municipal Authority and delay in installation and integration of BTS resulted in poor quality of services besides loss of Rs 2.18 crore due to non-recovery of liquidated damages.**

(Paragraphs 7.7)

- **The addition to subscribers' base of Delhi and Mumbai units during the year 2002-03 was less by 45.94 per cent and 54.50 per cent respectively in comparison to previous year's growth due to delay in obtaining license for adjoining areas, delay in procurement, installation and commissioning of equipment and BTS and deficiencies in billing system.**

(Paragraphs 7.8.1)

- **Against the projected revenue of Rs 1119.00 crore for the three years ended March 2003 from its CMTS, actual revenue earned by MTNL was only Rs 244.29 crore. The shortfall was attributable mainly to delay in commencement of CMTS, negative growth in subscribers' base and constant downward revision of tariff.**

(Paragraph 7.8.2)

- **Total 795 fake and fraud cases relating to post-paid connections involving Rs 1.62 crore were reported in Delhi unit upto February 2003, but no action to check such frauds was taken by the Management.**

(Paragraph 7.9.3)

- **Deficiencies in the billing system, frauds, fraudulent booking of connections by franchisees, delay in disconnection due to non payment (DNP), etc., led to huge accumulation of debtors as on March 2003, of which debtors amounting to Rs 75.43 crore (71 *per cent* of total debtors) have already become doubtful of recovery.**

(Paragraph 7.9.4)

7.1 Introduction

MTNL started post-paid and pre-paid cellular mobile service in February 2001 and January 2002, respectively

As a reliable service provider, Mahanagar Telephone Nigam Limited (MTNL) had the commitment of bringing the latest technologies in the field of telecommunications within the reach of the common man. Towards this end, MTNL ventured into Global System for Mobile Communication (GSM) to launch Cellular Mobile Telephone Services (CMTS) in Delhi and Mumbai. MTNL obtained the licence from the Department of Telecommunications (DoT) for operation of CMTS in Delhi and Mumbai in October 1997 and for adjoining areas of these cities in January 2001. Thereafter, MTNL started its CMTS by launching post-paid mobile service (Dolphin) in February 2001 and pre-paid mobile service (Trump) in January 2002. Some of the multi-service facilities provided by the GSM are roaming, high speed data (HSD) transmissions, tele services, bearer services, supply services, voice mail service (VMS), intelligent network (IN) services, short message service (SMS) and broadcast services.

7.2 Organisational Set-up

The cellular mobile telephone services of MTNL are organised and managed by its two mobile service (MS) units located at Mumbai and Delhi along with their Circle office (being administrative office) at Delhi. An Executive Director, functioning from Delhi heads these units, while their various functional operations are performed by concerned General Managers with the assistance of Deputy General Managers (DGMs).

7.3 Scope of Review

The review mainly covers the aspects of MS units of MTNL relating to obtaining licence, planning, procurement, utilization, operational performance of Cellular Mobile Services as well as revenue billing and collection system. These aspects have been evaluated against the norms/targets prescribed for the same. Inter-unit (Delhi and Mumbai) comparison of performance of CMTS has also been made, wherever possible.

7.4 Working Results of Cellular Mobile Telephone Services

During 2002-03, the overall loss of CMTS increased 14 times than that of the previous year

The working results of Delhi and Mumbai Mobile Service units along with their administrative Circle office at Delhi for the last two years up to 2002-03 are summarised in Appendix - 11. During the year 2001-02, although Mumbai unit earned profit of Rs.7.79 crore, due to loss incurred by both Delhi unit (Rs.7.80 crore) and the Circle office (Rs.2.02 crore), CMTS incurred overall loss of Rs.2.03 crore. However, during the year 2002-03, all the units of CMTS incurred loss, which aggregated to Rs.31.35 crore. The overall loss of CMTS increased fourteen-fold during the year 2002-03 as compared to the loss during the year 2001-02.

The loss in CMTS during the above years was mainly attributable to the following:

The reasons for such huge loss

- Huge expenditure on administrative, operating and other expenses.
- Non-achievement of the expected growth in the subscribers' base due to delay in commencement of mobile services.
- Poor quality of services due to delay in commissioning of Base Trans-Receiver Stations (BTS).
- Deficiencies in billing software supplied by M/s Tata Infotech Limited leading to non/short billing of revenue.
- Huge provision of Rs 75.43 crore for bad and doubtful debts as on 31 March 2003 due to non-realisation of revenue.
- Avoidable/wasteful expenditure on purchase of equipment.

Above aspects have been discussed in detail in the succeeding paragraphs.

On this being pointed out (September 2003), Management stated (November 2003) that the increase in administrative and other operational expenses was mainly due to increase in expenditure on BTS rent, licence fee to NDMC, electrical and fuel consumption of new BTS sites, payment to call centre agency, network / PSTN charges and revision of salary of Group 'C' and 'D' employees. Further, the delay in installation and implementation of BTS was attributed to the time taken in selection of suitable buildings and taking measures in ensuring structural safety of such buildings. Besides, deficiencies in billing software was attributed to time taken in customization before deployment and increase in bad and doubtful debts was attributed to fraudulent booking of connections by some unscrupulous people.

However, the Management was required to exercise strict control over expenditure and ensure achievement of planned targets for various activities besides strengthening its control mechanism.

7.5 Planning for the Cellular Mobile Telephone Services

First global tender (April 1998) was cancelled in April 1999 for pending Court cases

MTNL floated a global tender in April 1998 for procurement of equipment for a total of 10 lakh connections each for Delhi and Mumbai, but due to various court cases by private cellular operators, scrapped this tender in April 1999. Subsequently, all these court cases against MTNL were dismissed as withdrawn by Hon'ble Delhi High Court in August 1999. Incidentally, MTNL floated its above global tender on one occasion when the outcome of court case against the decision of Telecom Regulatory Authority of India (TRAI) to declare MTNL's licence for CMTS invalid was not known, while on another occasion when again on a similar issue on which MTNL had already won the case against TRAI in July 1998, the court case was pending, MTNL scrapped the above global tender.

Dismissal of the court case as withdrawn is indicative that private operators simply wanted to keep MTNL out of the CMTS business for some time in order to capture the subscribers' base. Due to these factors MTNL has so far not been able to catch up with the subscribers' base of the private operators despite being in the CMTS business for more than two years.

On this being pointed out (September 2003), Management stated (November 2003) that though the validity of the global tender was extended upto April 1999, in the absence of any decision on the above court cases, the tender was scrapped in the end of April 1999. However, Management accepted that a deliberate attempt was made by the private cellular operators to delay the launch of cellular services of MTNL.

The reply relating to cancellation of global tender was not acceptable as MTNL had already won a court case on the similar issue and, as the Hon'ble Court had already permitted, MTNL should have gone ahead with finalisation of this global tender which could have avoided the delay in implementation of its CMTS project.

MTNL failed to capitalise the growing mobile market for its delayed action

MTNL, which had a virtual monopoly in landline telephony, failed to diversify to the growing mobile market at the opportune time. Although during April 1998 itself it had planned for 10 lakh lines each in Delhi and Mumbai in five years and floated global tender, thereafter it lost its initiative and revised its plan to four lakh lines each in Delhi and Mumbai in three years i.e. from 2000-01 to 2002-03.

The following further deficiencies were noticed in MTNL's planning for CMTS: -

7.5.1 Delay in providing services in areas adjoining Delhi and Mumbai

MTNL also delayed in obtaining licence for adjoining areas of Delhi and Mumbai

MTNL failed to assess the requirements of a number of satellite towns in and around Mumbai (Kalyan, Dombivli and New Mumbai) and Delhi (Ghaziabad, Noida, Faridabad and Gurgaon) and to apply for licence to cover these areas. However, the private operators obtained licence right from day one to cover these areas. MTNL obtained license for these areas only in January 2001 i.e. after more than three years of obtaining licence for Delhi and Mumbai in October 1997. This delay led to non-achievement of the planned growth in the subscribers' base of CMTS.

On this being pointed out (September 2003), Management admitted (November 2003) the audit observations and stated that DoT initially granted the licence to MTNL for operation of CMTS in the municipal limits of Delhi and Mumbai only.

7.5.2 Non-provision for pre-paid service system

Failure of MTNL to procure system of pre-paid service in time led to loss of subscriber base for pre-paid service in favour of private operators

MTNL initially planned to provide both post-paid (Dolphin) and pre-paid (Trump) services together at the time of launching the CMTS. But, while the entire system was ready for commissioning by end of January 2001, Management noticed that it had failed to procure Recharge Coupon Management System (RCMS) and Customer Care Management System (CCMS), alongwith the main GSM system which were required for managing and tracking the records of the customers of prepaid service system. Consequently the pre-paid service could be launched in January 2002 after a delay of 11 months.

The pre-paid service (Trump) of MTNL made tremendous growth since its 5,862 connections in September 2002 in Mumbai alone increased to 92,046 by March 2003. The excellent response to the pre-paid service indicated that as a result of the error in the initial procurement, and consequent loss of time, MTNL lost the chance to capitalise on the rapid growth during the initial years, besides forgoing its potential subscribers' base to private operators.

On this being pointed out (September 2003), though the Management admitted (November 2003) the initial lapse in procurement of RCMS and CCMS, it attributed this to limited expertise available in MTNL, this being its first cellular mobile service project. Management further stated that there was lot of potential for growth in cellular mobile services in India, as the penetration so far was less than 2 *per cent* .

However, the growth achieved during the current year in subscribers' base of CMTS by MTNL had been negative compared to that in previous year and the overall growth had remained very poor compared to other private operators as discussed in subsequent paragraphs 47.9.1 (a) and (b).

7.6 Procurement of Cellular Mobile Telephone Service system

7.6.1 Procurement of equipment for CMTS

MTNL placed purchase order for CMTS equipment on ITI

After scrapping of the earlier global tender for various equipment for twenty lakh lines in April 1999, MTNL floated another global tender for various equipment for only two lakh lines (one lakh each for Delhi and Mumbai) in August 1999. Against this tender, a final purchase order was placed on ITI in March 2000 for Rs 39.74 crore and Rs 42.13 crore in respect of its Delhi and Mumbai unit, respectively. Subsequently in September 2001, MTNL issued another purchase order to ITI for procurement of various hardware and software relating to the projects of CMTS for adjoining areas of Delhi and Mumbai.

Avoidable expenditure of Rs 12.08 crore in procurement of equipment for adjoining areas

It was also noticed that besides delay of more than three years in obtaining licence for adjoining areas of Mumbai and Delhi, MTNL also delayed placement of purchase order on ITI for procurement of equipment for these areas by more than eight months (purchase order placed in September 2001) after obtaining the licence in January 2001. This inordinate delay led to excess expenditure of Rs 12.08 crore (Delhi: Rs 8.79 crore and Mumbai: Rs 3.29 crore) as compared to the rates obtained in the earlier purchase order placed on ITI in March 2000, which could have been avoided.

On this being pointed out (September 2003), Management stated (November 2003) that there has not been any undue delay in placement of order for procurement of equipment for adjoining areas as immediately after obtaining the licence, radio frequency planning and design was carried out and the order was placed in September 2001 on the basis of open tender price finalised in the year 2000.

The reply was not tenable as MTNL took eight months to place order after obtaining the licence and the prices were also higher compared to the prices obtained in the earlier purchase order placed on the same supplier (i.e. ITI) in March 2000 which resulted in excess expenditure.

7.6.2 Procurement of mediation device, billing and customer care equipment

For mediation devices, etc. M/s Tata Infotech Limited was selected

A global tender for procurement of mediation devices, billing and customer care equipment for CMTS on GSM platform was invited by MTNL in February 2000 for both Delhi and Mumbai units. After evaluation of bids of four participating firms, final purchase order was placed on M/s Tata Infotech

Limited in September 2000 for Rs 9.70 crore, with the stipulated date of completion within November 2000.

Tata Infotech failed to fully commission billing system

According to tender conditions, the bidder should have been a manufacturer, supplier and experience in installation and commissioning of the above equipment, besides having a valid trade or joint venture agreement with an international manufacturer and supplier of the same equipment. None of the bidders to the above tender, however, met these eligibility conditions. Despite this, the work was awarded to M/s Tata Infotech, an ineligible firm. As a result, due to its inexperience in the field, M/s Tata Infotech Limited has failed to fully commission and hand over the entire system to MTNL so far (July 2003), although the target date for the same was November 2000. Further, due to deficiencies in this billing system supplied by M/s Tata Infotech, MTNL had to suffer a huge loss of revenue due to non/short billing. As a result, Board of Directors approved a proposal in May 2002 for inviting offers directly from two established billing systems suppliers, viz., M/s SEMA (Schlumberger) and M/s Kenan, without bringing any intermediary with further instructions that the existing billing system of M/s Tata Infotech could be operated in parallel with the new system till the new system was got established.

Thus, selection of an ineligible firm by MTNL for procurement of above equipment led to non-commissioning of equipment and loss of revenue, besides the prospective loss due to scrapping of the entire existing billing system in the near future.

Billing problems seriously affected service

Audit noted that MTNL's post-paid service (Dolphin) showed a drastic reduction, as its 1,01,467 connections in September 2002 in Mumbai decreased to 67,454 in March 2003, whereas its 63,562 connections in September 2002 in Delhi decreased to 43,260 in March 2003, mainly on account of billing problems.

On this being pointed out (September 2003), Management stated (November 2003) that desired solution for customer care, billing and mediation involved several servers, billing and mediation platform and software and M/s Tata Infotech were considered eligible for this tender as they were the system integrators for the above systems having authorisation from the manufacturers of the components for these systems.

The reply was not acceptable, as M/s Tata Infotech were not the manufacturers or suppliers, were not experienced in installation and commissioning of the equipment and did not even have a valid trade or joint venture agreement with an international manufacturer and supplier of such equipment. Hence, they did not meet the eligibility conditions prescribed in the tender.

7.7 Installation and commissioning of the System

The entire project for installation and commissioning of CMTS was badly delayed and was yet to be completed

Mobile service is operated through wireless media for which Base Trans-receiver Station (BTS) are the primary links. The density of BTS provides strong radio frequency signals to a Mobile set. Thus, the close network created through BTS would provide a better network coverage in Mobile network in buildings and public places.

The scheduled date of commissioning of CMTS system was September 2000 and the main equipment was commissioned in February 2001. However in Delhi, out of 147 BTS, only 80 BTS were commissioned by the end of February 2001, while at Mumbai out of 149 BTS, only 103 BTS were commissioned before commencement of post-paid CMTS in February 2001. Subsequently, Management allowed several extensions to ITI for commissioning of remaining BTS and as on March 2003, the entire project was still to be completed.

Thus, failure to provide the required number of BTS in a synchronized way along with commissioning of main equipment led to poor quality of service (Appendix - 12).

On this being pointed out (September 2003), Management stated (November 2003) that the roll out for this complex project cannot be termed as slow as it involved extensive survey and acquisition of a large number of sites of private parties due to their suitability from the point of radio frequency and structural stability.

The reply was not acceptable as BTS are the primary links for providing network for CMTS and for successful operation of CMTS it was essential to ensure their timely installation and commissioning.

MTNL Delhi constructed BTS sites without prior approval of Municipal authorities

Further, while hiring of building/roof top for BTS sites in Delhi, MTNL did not invite tenders, but called for quotations from selected parties for identified areas and thus could not obtain competitive rent rates. Besides this, BTS were also installed without prior approval of Municipal Corporation of Delhi (MCD) as a result of which MCD issued show-cause notices for demolition of four sites.

Mumbai unit failed to recover LD for delay in integration of BTS sites

On being pointed out it was stated that the applications seeking permission were submitted to MCD well in advance, but permissions were not yet granted by MCD. No documentary evidence was shown to indicate that MTNL Delhi approached MCD for seeking permission well in advance. In Mumbai unit liquidated damages for delay to the extent of Rs 2.18 crore with respect to 26 BTS sites which became due as per purchase order were not recovered from ITI by Mumbai unit so far (June 2003).

On this being pointed out (September 2003), Management stated (November 2003) that ITI provided a list of 2 to 3 selected buildings for each BTS site which were suitable from the point of radio frequency survey and structural stability and as the selection of any particular BTS was to be limited to those selected sites only, the bids could be called from owners of these buildings only and due to this reason open tenders were not called. It was further stated that MCD asked the operators to deposit Rs 1 lakh as an interim measure only in September 2003. It was also stated that LD charges of Rs. 2.10 crore had already been recovered and further amount of Rs. 0.07 crore has been levied on M/s ITI.

The reply was not acceptable. Firstly, had ITI/MTNL called for open tenders for sites in identified areas, MTNL would have got many more options and better competitive rates for sites. Secondly, MCD had asked MTNL to deposit permission charges for installation of BTS in December 2000 itself and not in September 2003 as now claimed by the Management. Thirdly, collection and levy of LD charges of Rs 2.10 crore and Rs 0.07 crore, respectively, pointed out by the Management in its reply pertained to supply of equipment by ITI and not to the work relating to 26 BTS sites which amounted to Rs.2.18 crore and was still to be recovered.

7.8 Operational performance of the System

7.8.1 Performance in respect of growth of subscriber base

In MTNL, the subscribers' growth of post-paid (Dolphin) CMTS connections of Delhi and Mumbai units of MTNL declined substantially during 2002-03 compared to 2001-02 mainly on account of delays in obtaining license for adjoining areas, delays in procurement, installation and commissioning of equipment and BTS and deficiencies in billing system, as discussed below: -

(a) In Delhi MS unit of MTNL, during the year 2001-02 and in 2002-03, only 64912 and 2489 new connections of post-paid (Dolphin), respectively, were given, while 5716 and 28636 connections of Dolphin, respectively, were permanently closed, leaving the subscribers' base of Dolphin connections, as on 31 March 2003, at 43260 (including 10211 connections as on March 2001) as against 69,407 in 2001-02

Subscribers' base of Delhi unit showed negative growth

Audit noticed that the number of subscribers of Dolphin and Trump (prepaid) added during the year 2002-03 in Delhi was 54.50 per cent less than the number of subscribers added during 2001-02. However, the other private operators showed appreciable growth in their subscribers' base during the above period, as shown in the table below:

DELHI

Name of the operator (Brand Name)	Month and year of commencement of operation	Number of subscribers at the end of March 2001	Number of subscribers added during the year 2001-2002	Number of subscribers added during the year 2002-2003	Percentage of growth in subscribers' base in 2002-03 compared to 2001-02 [{(e-d)/d} x 100]	TOTAL number of subscribers at the end of March 2003 [c+d+e]
A	b	C	d	e	f	g
Bharti Cellular (Airtel)	September 1995	328390	254447	319520	25.57	**902357**
Sterling Cellular (Hutch)	October 1995	218070	172570	214845	24.50	**605485**
MTNL Cellular (Dolphin and Trump)	February 2001 (Dolphin) January 2002 (Trump)	10211	83988	38218	(-) 54.50	**132417**
Idea Cellular	November 2002	0	0	165900	N/A	**165900**

From the above table, it is also seen that while Idea Cellular, being the fourth and the latest operator in Delhi, touched the figure of 1.66 lakh connections within the first five months of commencement of operations of their CMTS, Delhi unit of MTNL could not achieve the same even after a lapse of more than two years of commencement of its CMTS operations.

Mumbai unit too showed a negative growth in subscribers over the years

(b) Audit noticed that the number of subscribers of Dolphin and Trump added during the year 2002-03 in Mumbai was 45.94 per cent less than the number of subscribers added during 2001-02. However, the other private operators showed appreciable growth in their subscribers' base during the above period, as shown in the table below:

MUMBAI

Name of the operator (Brand Name)	Month and year of commencement of operation	Number of subscribers at the end of March 2001	Number of subscribers added during the year 2001-2002	Number of subscribers added during the year 2002-2003	Percentage of growth in subscribers' base in 2002-03 compared to 2001-02 [{(e-d)/d} x 100]	TOTAL number of subscribers at the end of March 2003 [c+d+e]
A	b	c	d	e	f	G
BPL Mobile (MOT)	September 1995	258453	185240	177479	(-) 4.19	**621172**
Hutchison Max (Orange)	October 1995	252053	171987	241046	40.15	**665086**
MTNL Cellular (Dolphin and Trump)	February 2001 (Dolphin) January 2002 (Trump)	8032	98316	53152	(-) 45.94	**159500**
Bharti Cellular (Airtel)	July 2002	0	0	243278	N/A	**243278**

From the above table, it is seen that while Bharti cellular, being the fourth and the latest operator in Mumbai, had captured a subscriber base of 2,43,278 within the first nine months of commencement of their CMTS, Mumbai unit of MTNL, being in the field for the last more than two years, had failed to achieve that base.

On this being pointed out (September 2003), Management stated (November 2003) that the private operators had much more flexibility of operation and decision making, and they could concentrate on work instead of replying to queries from various sources and hence private companies and their performance could not be compared with that of the Government companies on same footing.

The reply was not acceptable as the achievement of performance, compliance of legal formalities and accountability concepts are equally applicable to both Government as well as private sector companies.

7.8.2 Non-achievement of target

MTNL failed to achieve the target of providing connections

(a) As per projected estimate, the capacity of system planned and tendered for the last three years ending 31 March 2003 for each of Delhi and Mumbai units was eight lakh connections (four lakh connections each). Both Delhi and Mumbai units, however, failed to achieve this target. The project was started in March 2000, but Delhi and Mumbai units could achieve only a total equipped capacity of 4.50 lakh connections (2.25 lakh connections each) as at the end of 31 March 2003.

On this being pointed out (September 2003), Management stated (November 2003) that the capacity of 8 lakh connections was projected to be completed in three phases of 2 lakh, 2.5 lakh and 3.5 lakh connections in first, second and third phase, respectively, but the tender was short closed after the second phase.

However, the Management did not indicate the reasons for short closure of the tender after second phase.

(b) Actual revenue generation during the last three years upto 2002-03 by Delhi as well as Mumbai units against the projected revenue as per project report was as under:

(Rs. in crore)

Sl. No.	Year	Revenue projected in the project report for each unit	Actual revenue earned by		Short-fall in revenue earned by [col. 3 –4]	
			Delhi	Mumbai	Delhi	Mumbai
1	2	3	4		5	
1.	2000-01	56.10	0	0	56.10	56.10
2.	2001-02	177.40	31.37	43.61	146.03	133.79
3.	2002-03	326.00	80.83	88.48	245.17	237.52
	TOTAL	**559.50**	**112.20**	**132.09**	---	----

Neither Delhi nor Mumbai unit could achieve the projected revenue

Neither Delhi nor Mumbai unit could achieve the projected revenue in any of three years upto 2002-03. Against the total projected revenue of Rs 1119.00 crore for these three years (Rs 559.50 crore for each unit), the actual revenue earned by both units aggregated to Rs 244.29 crore which works out to only 22 *per cent* of the total projected revenue. The delays in commissioning of CMTS, decline in subscribers' base, deficiencies in billing systems and constant reduction in cellular tariff were the main reasons for shortfall in achievement of projected revenue.

On this being pointed out (September 2003), Management accepted (November 2003) that the revenue earned was less than the projected revenue due to sharp downward revision of tariff time and again.

7.9 Billing and collection of revenue

During scrutiny of records in regard to the billing of the CMTS subscribers, the following irregularities were noticed:

7.9.1 Incomplete generation of bills

Billing wing had no data on actual working connections

MTNL failed to commission the billing system at the time of launch of its CMTS services in February 2001. Consequently, first billing was done in the month of June 2001 after a delay of more than three months from the commencement of cellular mobile telephone service in February 2001 under brand name 'Dolphin'. After that bills were issued in August 2001 for all the connections up to 31 July 2001. However, it was noticed in audit that CAO (Billing) of Delhi and Mumbai units had no figure of actual number of working connections and there was no coordination with the commercial wing in order to keep check on the actual working connections and their billing.

As a result, the position of issue of bills compared to connections booked during the period from May 2001 to March 2003 in respect of Mumbai and Delhi showed wide variations as detailed below:

Period	Mumbai MS unit			Delhi MS unit		
	No. of subscribers	No. of bills issued	Shortfall / Excess (-) in issue of bills [col. 2 – 3]	No. of subscribers	No. of bills issued	Shortfall / Excess (-) in issue of bills [col. 5 – 6]
1	2	3	4	5	6	7
May 2001 to October 2001	105398	59319	46079	74527	46251	28276
November 2001 to April 2002	468406	255176	213230	264367	122402	141965
May 2002 to October 2002	601016	508672	92344	399589	413372	-13783
November 2002 to March 2003	344283	285021	59262	293081	311441	-18360

Wide variations existed between connections billed and actual number of subscribers

As seen from the above table, in Delhi unit up to April 2002 the number of bills issued was mostly very low in comparison to the number of connections booked by the commercial wing, but after April 2002 the number of bills issued was much higher than the connections booked upto April 2003. In the Mumbai unit, however, right from May 2001 to March 2003, the number of bills issued was very low as compared to connections booked. The above discrepancies in billing and booking of connections not only resulted in revenue loss but also indicated MTNL's failure to exercise adequate monitoring and control over the feeding of data of subscribers in the billing and commercial sections.

On this being pointed out (September 2003), Management stated (November 2003) that difference in the number of working connections was mainly due to non-issue of bills for service connections, time lag in feeding data in CRM and issuing of bills till the subscriber's account was settled and his number deleted from the system. It further stated that now the differences were being reconciled.

The reply was not acceptable, as MTNL was required to ensure correct billing and proper reconciliation of the data of the subscribers maintained by commercial and billing wings.

7.9.2. Loss of revenue due to non-issue of bills and delay in disconnection due to non-payment (DNP)

Delay in disconnection was primarily due to non-availability of DNP programme in the billing system

It was noticed that 1,108 connections were disconnected up to March, 2002 from which total revenue outstanding was Rs 2.06 crore. The first disconnection was made in January 2002 after a time lag of one year from the date of starting of service. MTNL intimated (June 2003) that due to non-availability of DNP program in the system, disconnections could commence only in January 2002 after receipt of DNP program from M/s Tata Infotech Limited. However there were several errors and the correct program was received only in August-2002 after which regular disconnections were made. It was further stated that there were 1,108 cases of DNP having outstanding dues of Rs 2.06 crore. The outstanding as on June 2003, after adjustment of security, excess rental and payment, was Rs 1.49 crore.

Thus on the one hand MTNL released the connections without verification of its customers and on the other hand MTNL had no provision for disconnection in case of default, which resulted not only in loss of revenue but prompted the customers as well as franchisees to default.

On this being pointed out (September 2003), Management stated (November 2003) that any billing system needs customization and takes some time to get fully deployed.

The reply was not acceptable as the revenue was not lost due to time taken in customization of the billing system, but it was lost due to procurement of aaddeficient billing system from an inexperienced firm.

7.9.3 Loss of revenue due to fraud/fake cases

MTNL lost Rs 1.62 crore due to fake and fraud cases of postpaid connections

(a) Total 795 fake and fraud cases of postpaid (Dolphin) connections involving loss of Rs 1.62 crore were found upto February 2003 in the Delhi unit. However, no action to check such frauds was initiated by Management.

In Delhi unit M/s Flexifin Cap India Private Limited booked 111 Dolphin connections. The documents submitted by the firm were neither checked by the franchisee nor by MTNL. All the documents submitted by the firm were incorrect.

The connections were opened in January and March 2002 but no records were shown to Audit to indicate that bills were issued to the firm by MTNL. Thus, due to non-billing against this fake firm, MTNL had to suffer a loss of Rs 0.57 crore.

When pointed out, the Management accepted the facts and stated that all these 111 connections were booked through the franchisee and bills could not be issued initially due to problems in billing software. Management further stated that there was no software available in the billing system for making disconnection for non-payment at that time and these connections were disconnected on 15 August 2002.

The reply was not tenable, as MTNL did not have any proof of issuing the bills as a result of which no recovery pursuance was done subsequently. Besides, MTNL also failed to verify the documents and no action against the franchisee had been taken so far (June 2003).

On this being again pointed out (September 2003), Management stated (November 2003) that due to technical problems in the billing system, neither could bills be raised nor defaulters' connections disconnected in time.

Franchisee of Mumbai unit misappropriated Rs 0.22 crore

(b) In Mumbai unit two parties booked 10 Dolphin mobile phones between February 2001 and May 2001 with facilities like STD, ISD etc. These mobile phones were heavily used and the party defaulted payment of Rs 0.22 crore. The misappropriation could take place due to delay in billing as the first bill was issued after a delay of 3 months.

Here again, the parties obtained connections on fraudulent and fictitious applications on which the officials of Mumbai unit carried out no proper verification. Had the applications been subjected to scrutiny the above misappropriation of Rs 0.22 crore could have been prevented.

On this being pointed out (September 2003), Management intimated (November 2003) that strict bonafide verification was being followed since 1 October 2002 and monthly disconnections were being done in time every month.

7.9.4 Revenue outstanding for recovery

Huge amount of revenue was doubtful of recovery

Out of the total CMTS debtors of Rs 106. 09 crore outstanding as on 31 March 2003, MTNL made a provision for doubtful debts amounting to Rs 75.43 crore (71.10 *per cent* of the total debtors) relating to 94185 CMTS subscribers (Rs 42.95 crore for 47346 subscribers in Delhi unit and Rs 32.48 crore for 46839 subscribers in Mumbai unit). The recovery of this amount has become doubtful mainly on account of fraudulent booking of connections by franchisees, frauds, deficiencies in billing system, delays in disconnection of cellular mobile connections due to non payment (DNP), etc.

On this being pointed out (September 2003), Management stated (November 2003) that the provision was made for Rs.41.91 crore for 43260 customers in Delhi and 32.48 crore for 46839 customers in Mumbai which was due to non-verification of bonafide and delay in issue of bills. It further stated that during the year 2003-04 there would be less provision under bad and doubtful debts as strict bonafide verification was being followed since September/October 2002 in Delhi/Mumbai and monthly disconnections were being made in time every month.

The Management reply relating to provision for doubtful debts of Rs 41.91 crore for 43260 customers in Delhi was not accurate as this amount on 31 March 2003 as per certified annual accounts of Delhi branch of Mobile Services unit of the Company as well as other details earlier furnished by the Management was Rs 42.95 crore for 47346 customers. Besides, so far the position of recovery of revenue was not at all encouraging as out of the total outstanding revenue of Rs.106.09 crore as on 31 March 2003, more than 71 *per cent* was doubtful of recovery.

7.10 Appointment of Franchisees for booking of mobile connections

In Mumbai unit lack of periodical scrutiny led to fraudulent bookings of subscribers

Out of the 46,839 cases of bad debts in Mumbai unit, 33,177 (71 *per cent)* cases relate to the subscribers booked by franchisees. The Mumbai unit withheld commission amounting to Rs 0.56 crore payable to these franchisees during the year 2002-03.

The subscribers booked by the franchisees were primarily responsible for losses of Rs 24.93 crore incurred by Mumbai unit during the last two years ended on March 2003. These losses could have been avoided had Mumbai unit undertaken periodical scrutiny of the payment pattern of the subscribers booked by the franchisees and initiated remedial steps to delist such firms/franchisees who were responsible for booking the unscrupulous subscribers.

On this being pointed out (September 2003), Management intimated (November 2003) that since 1 October 2002 the verification of subscribers was being done and 3 franchisees involved in fraudulent booking were terminated.

7.11 Discrepancies in stock of pre-paid recharge coupons and mobile handsets

A review of the stock register and other relevant records relating to pre-paid recharge coupons and mobile handsets revealed the following discrepancies:

7.11.1 Discrepancies in stock of pre paid recharge coupon

Prepaid recharge coupon "Pin" was generated internally seriatim by RCMS system irrespective of denomination and no outside agencies were involved. The "Pin" contained secret code and serial number of the coupon in encrypted format.

No records were maintained for free issue of recharge coupons

During the review of stock register of the said coupons for the year 2001-03, Audit noted that 7,675 pre-paid recharge coupons of different denominations, valued at Rs 0.40 crore, were stated to have been issued as free gift, complimentary and free replacement. However, no record was shown to Audit as to whether these coupons were distributed free with the approval of the competent authority and whether there was any policy of MTNL in the matter.

On this being pointed out (September 2003), Management stated (November 2003) that most of the pre-paid recharge coupons have been issued to the franchisees against incentive schemes and the records relating to the approval of the same were shown to Audit.

The reply does not address the complete issue because MTNL had neither framed any policy for free distribution of pre-paid recharge coupons nor nominated any one officer as competent authority in the matter. Audit noted that the recharge coupons had also been released for free distribution on the approval of different officers to various people including authorities, participants of seminars, etc.

7.11.2 Discrepancies in stock of mobile handsets

Delhi unit made free distribution of 769 mobile handsets

It was observed during the review of the stock register/records, 769 mobile handsets of different makes valued at Rs 0.62 crore, were stated to have been issued by Delhi unit during the year 2001-03 to the officers/officials of MTNL, DoT, Ministry of Communications (MoC) and other related and non related organizations/individuals without showing any justifications for such distribution.

No policy was devised for free distribution of mobile handsets

On this being pointed out by Audit, Management stated (June 2003) that initially there was no policy on what instruments were to be given to different category of officials, except that only entry level handsets were to be provided. It was further stated that handsets were issued with the approval of the competent authority and that these were issued to the officers/officials of DoT, MTNL and Ministry of Communications as well as in other departments as a courtesy. It was also stated that MTNL provided handsets against courtesy connections to the important persons, who mattered to MTNL.

Audit found that there was no laid down policy for free distribution of mobile handsets alongwith service connections to various officials/officers nor records indicated that the same were issued with the approval of the CMD and/or BoD.

On this being again pointed out (September 2003), Management stated (November 2003) that since the beginning of the service, the handsets were provided to different officers / organisations / individuals for proper liaisoning and promotion of service. It further stated that though initially there was no policy regarding provision of mobile handsets to be given to different categories of officials, later on a policy had been devised and Executive Director (Mobile Services) has been authorised to sanction handsets.

However, Management was yet to furnish a copy of this policy in the absence of which the contents of the Management's reply could not be verified.

7.12 Conclusion

The overall performance of cellular mobile telephone services (CMTS) in Mahanagar Telephone Nigam Limited (MTNL) has not been satisfactory since their commencement in February 2001. MTNL failed to achieve its own targets for growth in subscribers' base, generation of revenue as well as other physical and financial parameters relating to procurement, installation, commissioning and performance of various equipment. The growth rate in its subscribers' base was much lower than that of other private cellular mobile operators; at times it was negative. Consequently, MTNL had been incurring recurring losses on operation of its CMTS. The poor performance was primarily because of failure in obtaining the licence for adjoining areas of Delhi and Mumbai at right time, delays in procurement, installation and commissioning of system/equipment, delay in commencement of CMTS, poor quality of services, deficient billing system leading to non/short billing and fraudulent booking of subscribers leading to non-realisation of revenue.

On this being pointed out (September 2003), Management stated (November 2003) that cellular mobile services of MTNL faced many problems in the initial stage of planning and launch of the services, as was expected in any new project of this nature. It further stated that the some of the specific problems faced by MTNL's cellular services were as under:

- As the mobile service was started for the first time by the Government sector, no expertise was available within the organisation for the same and it was a learning experience for MTNL.
- As the Generic Requirement document on cellular mobile services was not available from Telecom Engineering Centre, tender for cellular mobile services was called by MTNL based on the technical specifications drafted by the MTNL officers with their limited expertise.

- As licence for adjoining areas of Delhi and Mumbai was provided by the Government only in January 2001 and not initially in October 1997 alongwith that for Delhi and Mumbai, this delay hampered MTNL's mobile services and services could not take off properly.

- From the very inception of the services, it struggled with court cases.

The Management, however, needs to take some corrective measures as recommended in the succeeding paragraph.

7.13 Recommendations

- In the face of stiff competition MTNL needs to review and strengthen its Planning mechanism to avoid future delays and bottlenecks in initial planning for the projects, which may lead to forgoing of the potential subscribers' base in favour of the other operators.

- MTNL needs to improve the coverage of its CMTS and make the latest add-ons in the facilities and quality of services, particularly for its post-paid service, along with an efficient subscriber's complaint redressal system with a view to increase the subscribers' base and build their confidence in its CMTS.

- Complete and flawless CMTS billing system is necessary for building up confidence of the subscribers for timely and correct revenue collection and for monitoring recovery from the debtors. MTNL needs to review the functioning of its CMTS billing system and bring it at par with the best by removing all its current flaws.

Cable duct works in Mahanagar Telephone Nigam Limited

Highlights

- **Lack of proper planning led to non utilisation / under utilisation of most of the duct routes constructed during the period April 1998 to July 2002. This led to blocking of funds of Rs 49.84 crore in the Mumbai and Delhi units. The Nigam also incurred a doubtful expenditure of Rs 1.44 crore on construction of 28 way duct route through directional drilling in March 2001 where another duct was constructed subsequently in May 2002 at a cost of Rs 1.41 crore. Construction of three duct routes on the same routes where ducts already existed also resulted in infructuous expenditure of Rs 1.99 crore in Mumbai unit.**

(Paragraph 7.17)

- **Failure of the civil wing Mumbai to carry out detailed survey before award of work led to huge increase in the quantum of work ranging between 12 to 260 per cent over the awarded cost. This led to irregular extra expenditure of Rs 20.35 crore during 1998-2003.**

(Paragraph 7.18.1)

- **Civil wing vitiated the tendering procedure and had got executed 10 independent duct works worth Rs 4.84 crore relating to other duct routes as extra items to work awarded during 1998-2003.**

(Paragraph 7.18.2)

- **Failure of the civil wing authorities to keep in view the DGS&D rates as market indicator in allowing the cost of HDPE and GI pipes led to excess payment of Rs 2.65 crore in Mumbai unit.**

(Paragraph 7.18.3)

- **Unnecessary cement concreting over the ducts within two metres from the edge of the road and over the HDPE pipes led to irregular expenditure of Rs 3.03 crore in Mumbai unit.**

(Paragraph 7.18.4)

- **MTNL failed to recover compensation of Rs 5.14 crore towards damage of ducting by outside agencies during 1998-2003.**

(Paragraph 7.19)

- **MTNL failed to levy penalty of Rs 3.20 crore on the contractors during 1998-2003 for delay in completion of works besides avoidable payment of escalation charges of Rs 78.75 lakh to the contractors by the Mumbai unit.**

(Paragraph 7.20)

> **There was expenditure of Rs 3.52 crore on maintenance of ducts during 1998-2003 which was not supported by documents.**
> **(Paragraph 7.21)**

7.14 Introduction

Ducts are underground protective channels of PVC pipes embedded in cement concrete or HDPE laid in sand through which cables are drawn. Ducts are constructed to protect the telephone cables and also to avoid frequent trenching on the same route, payment of reinstatement charges, damage to the existing cable, inconvenience to public and delay in cable laying. With the wide use of Optical Fibre Cable (OFC) in the telecom network since 1992 and also after the introduction of Wireless in Local Loop (WLL) technology in 1998-99, the planning wings were required to review the requirement of ducts and to place requisitions to the civil wing which executes and maintains the ducts.

7.15 Organisational set-up

The Building and Ducting units of MTNL at Delhi and Mumbai were under the overall control of the respective Executive Directors. The civil wing in both the units was headed by the Chief Engineer (Building and Works) assisted by Superintending Engineers (SEs)/Deputy General Managers (DGMs) and Executive Engineers (EEs).

7.16 Scope of Audit

The planning, construction, utilization and maintenance of underground cable ducts in Delhi and Mumbai units of Mahanagar Telephone Nigam Limited (MTNL), were reviewed by Audit between February and July 2003 covering the period from 1998-1999 to 2002-2003.

7.17 Planning of duct works

The planning wings are required to play an important role in the construction and utilisation of cable ducts as per the development programme of MTNL. It was required to assess the ducting requirement keeping in view the reduced requirement of ducts because of subsequent technological changes viz., use of OFC since 1992-93 and introduction of WLL in 1998-99 in the telecom network. The planning wings also conduct preliminary surveys of the entire duct routes.

Audit, however, noticed the following deficiencies in planning :

Technological changes not taken into consideration

- Subsequent technological changes viz wide use of OFC and introduction of WLL was not taken into consideration and the planning wings continued to permit construction of ducts of larger capacity much in excess of the actual requirement.

No centralised system to keep watch on the construction and utilisation of ducts

- Requisitions for duct works were being placed with civil wing independently by the planning wing and transmission wing and Area Manager and there was no centralised system to keep a watch on the timely construction of the ducting works. In the absence of a register of requisitions placed with the civil wing there was lack of proper liaison and coordination between these wings of the Nigam. As a result the planning wing was not in a position to monitor giving rise to the possibility of construction of duplicate ducts and non utilisation of ducts already constructed.
- In Mumbai unit no specific data relating to all duct routes was being maintained except by way of the Interactive Graphic System (IGS) diagram which was not even updated.

7.17.1 Under-utilisation of ducts — blocking of Rs 49.84 crore

Failure of planning wing to assess and revise the requirement keeping in view the subsequent technological changes like wide use of OFC and introduction of WLL led to non utilisation/under utilisation of 46 duct routes out of 71 test checked in both the units as brought out below:

(Rs in lakh)

Position of utilisation	No. of routes		Date of completion		Proportionate Idle cost		Total
	Delhi	Mumbai	Delhi	Mumbai	Delhi	Mumbai	
Lying totally idle	1	3	December 2000	April 2000 May 2000 July 2002	180.86	337.12	517.98
Percentage of utilisation up to 10	1	16	April 2000	July 1998 to August 2002	2.59	1996.59	1999.18
Above 10 but below 25 per cent	-	10	-	June 1998 to July 2001	-	1189.42	1189.42
25 and above but below 50 per cent	2	11	July 1999	June 1998 to January 2001	165	1012.49	1177.49
50 to 70 percent	1	1	March 2001	April 1998	59.74	40.25	99.99
							4984.06

Due to non/under utilisation of ducts Rs 49.84 crore remained blocked

It would be seen from above that due to non utilisation/under utilisation of ducts the Nigam blocked an investment of Rs 49.84 crore. Further in Mumbai unit the Management failed to furnish the particulars of utilisation of the remaining 22 ducts constructed during July 2000 to May 2002 at a cost of Rs 26 crore. The non utilisation/under utilisation of these ducts also could not be ruled out.

7.17.2 Doubtful construction of duct route – Rs 1.44 crore

Doubtful expenditure of Rs 1.44 crore on construction of ducts

For providing connectivity at missing links in Eastern suburb through ducts by directional drilling, MTNL Mumbai incurred an expenditure of Rs 89.75 lakh during 2000-01. While reviewing this work it was observed that a major duct route of 28 ways connecting IOC and Bandra (West) falling under different jurisdiction by conventional and directional drilling method was constructed under the same contract as extra items valuing Rs 144.05 lakh.

Audit scrutiny revealed that the completed route diagram of IOC – Bandra (West) did not indicate any connectivity after Railway crossing to Bandra exchange and this duct route was not even included in the IGS diagram maintained by the planning wing.

Acceptance and Testing (A/T) for directional drilling portion and permission from Railway were also not on record.

Had this route actually existed there would not have been any necessity for constructing another 28 way duct from Bandra (West) to ONGC at a cost of Rs 1.41 crore in May 2002 on the same route.

7.17.3 Infructuous expenditure of Rs 1.99 crore on duplicate ducts

Avoidable expenditure of Rs.1.99 crore

Mumbai unit incurred an expenditure of Rs 1.99 crore during 2000-2003 in the construction of three duct routes namely (i) 20 ways duct between Mulund-Aeroli Part I, (ii) 16 ways duct on Kalwa bridge under Ghatkopar - Thane Charai Part VIII and (iii) 28 duct between Bandra (West) and ONGC although ducts already existed on these routes. This rendered the expenditure infructuous.

In reply, the Management could neither confirm nor deny the existence of these routes. However, the route diagram of maintenance wing indicated existence of earlier ducts.

7.18 Execution of duct works

After carrying out the preliminary surveys the planning wings place requisitions for construction of ducts with the civil wing with the direction that before execution of the ducts a detailed survey should be undertaken.

The review of 20 and 65 works by Audit in Delhi and Mumbai units respectively revealed the following irregularities:

7.18.1 Award of work without route survey — excess expenditure of Rs 20.35 crore

Wide variation between detailed estimates and award of work led to irregular expenditure of Rs 20.35 crore

There were wide variations in Mumbai unit ranging between 12 and 260 per cent over the awarded cost in 45 out of 65 cases during the period 1998-2003. This led to irregular excess expenditure of Rs 20.35 crore. Audit scrutiny revealed that there was failure to carry out detailed survey on the part of civil wing. Despite very large increases in the quantum of work, the civil wing failed to maintain site order book for any instructions issued by the executives to contractors for any deviation or extra work. It also failed to negotiate the rates and obtain volume discount. On the contrary, the civil wing justified the rates for extra items on the basis of market analysis of rates which denied MTNL the benefit of competitive rates. Such large variations indicated incorrect assessment of quantum of work by the civil wing.

7.18.2 Independent works executed as additional items-Rs 4.84 crore

Nigam was deprived of the competitive rates due to award of works as additional item

Civil unit Mumbai executed nine independent duct works worth Rs 4.84 crore during 1998-2003 as additional items of duct routes already awarded thus vitiating the tendering procedure and denying the Nigam the benefit of competitive rates.

7.18.3 Excess payment to contractors — Rs 2.65 crore

MTNL Mumbai procured pipes at exorbitant rates resulting in excess payment of Rs 2.65 crore

In Mumbai unit the contractors procured HDPE/GI pipes from the open market and the civil wing allowed the payment to them at exorbitant rates which did not hold any comparison to the DGSandD rates as market indicator. This led to an excess payment of Rs 2.65 crore as brought out below:

- In 19 duct routes executed during 2000-2002 by civil wing, where HDPE pipes of 110 and 125 mm were used, it allowed the payment to the contractors at exorbitant rates ranging between Rs 225 and Rs 690 per metre as against the DGSandD rate of Rs 101.23 to Rs 163.63 per metre. This led to excess payment of Rs 2.45 crore.
- In another six duct routes executed in the same period where GI pipes were used the civil wing allowed the payment to the contractors at rates ranging between Rs 564.32 and Rs 805.53 per metre as against the DGSandD rate of Rs 455.92 to Rs 470.93 per metre thus resulting in excess payment of Rs 19.89 lakh.

7.18.4 Irregular expenditure on ducts-Rs 3.03 crore

(a) As per the Mumbai unit's statement, if the duct construction was to be carried out within 2 metres from the edge of cement concrete road, the Nigam was supposed to cement the upper portion of the duct to level it with the existing road or road crossing. For this purpose, the Nigam paid an amount of Rs 2.34 crore during 1998-2003 to the contractors in respect of 18 works.

MTNL Mumbai incurred an irregular expenditure of Rs 2.34 crore in cementing the upper portion of the duct

Cement concrete work in the above cases was either not included in the estimate, tenders and in the agreements or included to the extent of 5 per cent of the quantity actually executed. If this item of work was to be carried out as per conditions of the Municipal Corporations then it should have been conceived and included in the tenders, estimates and agreements and should have not been executed as extra item. This resulted in irregular expenditure of Rs 2.34 crore.

(b) HDPE pipes are used for ducting to eliminate the use of cement as these are being laid in sand encasement. It was observed in Mumbai unit that in 10 cases HDPE pipes were encased with cement concrete incurring a wasteful expenditure of Rs 69 lakh during 1998-2003.

7.19 Non recovery of compensation-Rs 5.14 crore

MTNL Delhi and Mumbai failed to recover damages of Rs 5.14 crore from outside agencies

Rules provide for recovery of compensation for damage to Management's property by outside agencies. Audit, however, noticed that although both Delhi and Mumbai units incurred an expenditure of Rs 5.14 crore in the repair of ducts damaged by outside agencies, the Management failed to recover the amount of compensation of Rs 5.14 crore inclusive of overhead charges from these agencies. The Delhi unit, in reply, stated that the civil wing was doing the repair/maintenance of ducts as per the requirements/requisitions received from heads of field units and the ownership of these ducts rested with the field units and as such these units were required to prefer the claims against the agencies at fault. This indicated lack of coordination amongst the civil wing and user field units.

7.20 Non levy of penalty and payment of escalation charges- Rs 3.99 crore

As per agreement with the contractor for execution of duct works, if the contractor failed to complete the work within the prescribed time schedule, he was liable to pay compensation equal to one per cent of the contract value for each week of delay or part thereof, subject to a maximum of 10 per cent of the contract value. However, it was noticed that the management failed to invoke penal clauses for delay leading to non-realisation of Rs 3.20 crore.

MTNL Delhi and Mumbai failed to levy penalty of Rs 3.20 crore for delay in completion of works

As per tender agreement the contractors were responsible for obtaining the clearance from local bodies. Inspite of this it was noticed that although the contractors did not obtain the said clearance in time, the Management instead of invoking penal clauses, kept on sanctioning time extension to the contractors on account of delay in obtaining clearance from local authorities. As a result, while on the one hand the Management violated the conditions of agreement, on the other hand by not enforcing the provisions provided in the agreements, it extended undue benefit to the contractors apart from delay in completion of the works. Even in cases where extension of time was given on the basis of increase in the quantum of work, it was not in order as there was substitution of PVC pipes by HDPE/GI/UPVC pipes with no substantial increase in the quantum of works awarded. This led to non levy of penalty of Rs 3.20 crore during 1998-2003 by both the units for delay in completion of works by the contractors besides unjustified payment of escalation charges of Rs 78.75 lakh by Mumbai unit to the contractors in eight duct works due to delay in obtaining clearance from the local bodies by the contractors concerned.

Management stated that there was very limited time for obtaining permission from local authority and traffic police etc. Written communication was required only when the agency was not adhering to the orders/decisions given at site. The reply indicates that the Nigam failed to observe agreed clauses of contract for exchanging written communication and recovering the penalty for delay attributable to the contractors during the period of review.

7.21 Maintenance of Ducts

The civil wing is also entrusted with repair and maintenance of duct routes on the basis of requisitions received from the Area General Managers. The review of maintenance records in Delhi unit revealed the following irregularities:

7.21.1 Doubtful expenditure of Rs 3.52 crore on maintenance

MTNL Delhi incurred irregular expenditure of Rs 2.67 crore by spliting the works to avoid sanctions of higher authority

Under the delegated financial powers the Assistant Engineer (AE) was empowered to sanction term contracts for maintenance of ducts up to the value of Rs 60,000 in each case. Audit, however, noticed that the AEs (Civil) under Delhi unit split up the maintenance works in each requisition by sanctioning seven to 46 estimates in each case to avoid the sanction of higher authority. This led to irregular expenditure of Rs 2.67 crore during 1998-2003 in 18 job orders test checked, by Audit, as brought out below:

- The AEs concerned did not give wide publicity to these works in newspapers. For the same nature of work such as sealing of bores, raising of neck, locking arrangements and repair of manholes against the same requisitions, they invited repeated tenders in piecemeal. Non invitation of consolidated tender denied the benefit of competitive rates to the Nigam.
- Though only the Area GMs were competent to place requisitions for repair of ducts, some repair works were got done by the civil wing after initiating the case itself.

Records tampered with to enhance the quantity of works

Audit further noticed that initially the field units submitted the requisitions for a small quantity of work for which repair and maintenance was to be carried out. Subsequently, by interpolation, some additions/modifications were carried out in these requisitions by the civil wing, thus enhancing the quantity of the works. When Audit demanded the production of original requisitions, the Sub Divisional Engineers concerned, who placed these requisitions, failed to produce these on the plea that the relevant records were not traceable. Thus the whole expenditure of Rs 2.67 crore on maintenance of ducts is questionable. Management would need to examine the possibility of collusion of user units and the civil wing.

Requisitions received for execution of works not attached with the bills. The expenditure of Rs 85.36 lakh could not be vouchsafed

After completion of work the copies of requisitions were to be enclosed with the bills, to establish the genuineness of the claims. Audit, however, noticed in Delhi unit that no such requisitions were attached with the paid copies of the bills though the payment of Rs.85.36 lakh was made to the contractors during the above period. In the absence of these documents the expenditure could not be vouchsafed by Audit. While confirming the facts, the authorities promised to follow the instructions in future.

7.21.2 Execution of maintenance works without sanctions — Rs 2.76 crore

Civil Wing Delhi incurred an expenditure of Rs 2.76 crore without sanction of estimates

Civil wing Delhi incurred an irregular expenditure of Rs 2.76 crore against 122 term contracts for maintenance of ducts during 1998-2003 without receipt of administrative approval and expenditure sanction.

7.21.3 Cost over run and non revision of estimates — Rs 1.43 crore

MTNL Delhi incurred an irregular expenditure of Rs 1.43 crore for repair and maintenance of ducts

Although there were large increases ranging between 21 and 94 per cent in the maintenance expenditure incurred by Delhi unit under the term contracts for repair and maintenance of ducts during the above period, no action was taken to revise the estimates. This led to irregular expenditure of Rs 1.43 crore in 464 term contracts test checked by Audit.

7.22 Other irregularities

7.22.1 Leasing of ducts to private operators

MTNL Mumbai did not finalise and recover lease charges from private operators

Mumbai unit leased out duct pipes to private operators namely M/s Reliance Limited, M/s Hutchison Max and M/s Hughes Ispat Limited between 1999 and 2002 but failed to fix the lease charges and recover the same. As a result, audit could not quantify the amount due from these agencies.

7.22.2 Irregular maintenance of Measurement Books

MTNL did not account for the MBs purchased, issued violating codal provisions

The Measurement Books (MBs) are considered as important accounts record and maintained very carefully and accurately as these might have to be produced as evidence in a court of law, if and when required. All the MBs belonging to a Division should be numbered serially. A register should be maintained in the prescribed form showing the serial number of each book on receipt, sub division to which it was issued, the date of issue, date of its return to the Divisional Office and date of its record after the required review in the Divisional Office. However, Audit noticed that in both the units the above procedure was not being followed. The respective Executive Engineers in the civil wings were procuring the MBs from the open market and issuing them to field units without any entry in the issue register. Such MBs could have been replaced by another set by manipulation which would lead to misappropriations/frauds.

7.22.3 Non maintenance of record

Civil wing is required to maintain certain basic records to have effective control over the execution of duct works, maintenance of ducts and payments to contractors. Audit noticed in Mumbai unit that the civil wing failed to maintain the register of requisitions/original requisitions received for duct maintenance, register of estimates, register of deviations approved by the Executive Engineer/Superintending Engineer, register of duplicate copies of contractors bills, registers relating to administrative approval and expenditure sanction, register of measurement books, job order book, complaint register and stock register relating to material issued to the contractors. This indicated lack of proper control over the execution of works and payments thereagainst.

7.23 Conclusion

With increase in the use of Optical Fibre Cable (OFC) and introduction of Wireless in Local Loop (WLL) the requirement of underground cable ducts considerably reduced. Despite these developments, Mahanagar Telephone Nigam Limited (MTNL) failed to review and revise the requirement of ducts and continued to construct ducts of large capacity in both, its Mumbai and Delhi units as a result of which most of the capacity of the ducts remained unutilised/under utilised. There were also deficiencies in planning, coordination and liaison amongst various wings of the Nigam which coupled with failure to conduct the mandatory pre-construction surveys, resulted in questionable/infructuous expenditure and blocking of funds etc. The financial impact of the instances noticed during test check was Rs 100.98 crore during 1998-2003.

7.24 Recommendations

The Nigam needs to strengthen the following areas in this field :

- Nigam should review process of planning, coordination and liaison between different functionaries in civil wing, planning wing and field units to bring accuracy in projection of demands, promptly taking into account implication of technological changes.

- There should be detailed survey to avoid subsequent changes in the scope of work, realistic assessment of work, cost escalation and expenditure on duplication of work.

- Nigam should review record maintenance to improve complete and correct accounting, total asset visibility and utilisation of ducts.

- The Acceptance testing should be carried out by the agency other than the executing wing without delay to satisfy the quality of the work.

The functioning and role of internal audit needs to be reviewed to make it effective to avoid doubtful and avoidable expenditure and also to exercise proper control over expenditure.

CHAPTER VIII
MAJOR FINDINGS IN TRANSACTION AUDIT

8.1 Imprudent investment decision to invest surplus funds of Rs 250 crore

The decision of the Board of Directors of Mahanagar Telephone Nigam Limited to invest surplus funds amounting to Rs 250 crore in a financially weak and loss incurring State Government enterprise was neither based on sound commercial judgement nor was in the best financial interests of the Company.

Directives of Department of Public Enterprises regarding investment of surplus funds not followed

Mahanagar Telephone Nigam Limited (MTNL) during May 2002 invested its surplus funds of Rs 250 crore for a period of 10 years in a loss making State Government enterprise in contravention of Department of Public Enterprises (DPE) guidelines directing PSEs not to invest in any debt instruments which do not have the highest credit rating or newly issued instruments whose final maturity period exceeded one year.

BoD of MTNL approved investment of Rs 250 crore in the 10 years' bonds of MKVDC

It was noticed (November 2002/April 2003) during the course of audit of MTNL that the Board of Directors (BoDs) of MTNL, based on the request received in March 2002 from the Government of Maharashtra, approved (April 2002) and invested Rs.250 crore on 10 May 2002 in the 10 years' bonds of Maharashtra Krishna Valley Development Corporation (MKVDC).

BoD's decision was in violation of DPE's directives, as investment was not fully secured

This decision of the BoDs of MTNL to invest surplus funds of Rs 250 crore in MKVDC ignored the principles of financial propriety as MKVDC was a financially weak and loss incurring enterprise, these bonds did not have the highest credit rating and the maturity period of these bonds was 10 years. The investment was also not fully secured as it was covered only under a guarantee from the State Government but no tangible asset of MKVDC was hypothecated in favour of MTNL.

Ministry stated that approval of MoC and M(HI) was taken before investment

On this being pointed out in July 2003, Ministry stated (September 2003) that the investment in MKVDC was made after considering the DPE's guidelines for which due approval was taken on security of investment as well as duration of investment from the Hon'ble Minister of Communications & Information Technology and Hon'ble Minister of Heavy Industries. Ministry further stated that considering the higher rate of interest as well as sovereign guarantee by the Maharashtra Government, the investment was considered a sound commercial judgement.

The reply of the Ministry was not tenable in view of the following:

Investment for unduly long period was not commercially prudent, as MKVDC was a loss making company

- Although the bond issue of MKVDC was covered by guarantee of Govt. of Maharashtra, the market response to the bond issue was not satisfactory. The poor response to the above bond issue of MKVDC was on account of its poor financial status and continual loss incurred by MKVDC. Therefore, the investment was not based on sound commercial judgement and ignored the principles of financial propriety.
- Besides, investment was for an unduly long period of 10 years without tangible security, which was not in the best financial interests of MTNL.

8.2 Avoidable loss of interest of Rs 55.44 crore

Due to delay in formation of approved Gratuity Trust, MTNL had to suffer a loss of interest of Rs 55.44 crore besides payment of Income Tax of Rs 76.47 crore during the period 1998-99 to 2001-02.

Delayed formation of Gratuity Trust led to loss of interest and avoidable payment of income tax

The Mahanagar Telephone Nigam Limited (MTNL) as of 31 March 2003 suffered interest loss of Rs 55.44 crore due to delay in formation of Gratuity Trust and non investment of funds of the Trust in eligible securities. Further, consequent to non formation of Gratuity Trust, MTNL had to pay income tax of Rs 76.47 crore during the financial years 1998-99 to 2001-02.

Provision of annually accruing gratuity liability and its transfer to Gratuity Trust is mandatory for all enterprises

It is mandatory for all enterprises to make a provision towards annually accruing gratuity liability of their employees and this amount can be transferred by the enterprise to a Gratuity Trust formed and approved under Income Tax (IT) Act 1961 and Income Tax (IT) Rules 1962. Besides, under IT Act the yearly contribution towards gratuity liability is allowed as deductible expenditure for assessing the income tax liability of the enterprise if the same is transferred to an approved Gratuity Trust. Further, the funds of such Gratuity Trust shall be invested in prescribed securities, vide Ministry of Finance notification dated March 1999.

MTNL made provision for gratuity liability, but failed to get the amount allowed as deductible expenditure under IT Act 1961

During audit of MTNL, Corporate office in April 2003, it was noticed that MTNL made a provision for gratuity liability towards its employees from the year 1998-99 onwards, and a total amount of Rs 205.27 crore was provided up to 2001-02. However, as MTNL formed the Gratuity Trust only in October 2002, this entire amount of Rs 205.27 crore was not allowed as deductible expenditure under the IT Act. Consequently, MTNL had to pay income tax aggregating Rs 76.47 crore in the last four years ending 31 March 2002.

It also failed to invest the residual funds in eligible securities

It was further noticed that out of Rs 205.27 crore, MTNL transferred Rs 183.19 crore to Gratuity Trust in December 2002 and of this transferred amount, invested only Rs 158 crore in eligible securities upto March 2003. MTNL was yet to invest Rs 47.27 crore (Rs 205.27 crore - Rs 158 crore) as of March 2003 in eligible securities.

Thus, due to delay in formation of Gratuity Trust, non-investment of funds in the eligible securities and avoidable payment of income tax, MTNL further suffered loss of interest amounting to Rs 55.44 crore (Appendix 13 & 14)

On this being pointed out, Ministry stated (November 2003) that only 11,000 employees had opted for EPF & Miscellaneous Provisions Act 1952 and for these employees the provision toward gratuity liability worked out to Rs 60 crore against the amount of Rs 250 crore. They further stated that there was neither any loss due to payment of income tax on account of disallowance of the provision toward gratuity liability, as MTNL would be claiming the rebate while filing Income Tax return for the financial year 2002-03, nor any loss of interest on account of non-investment of funds in eligible securities etc. as pointed out by Audit.

The reply was not tenable as the audit observation was based on the non formation of Gratuity Trust and loss of interest due to non investment of the actual amount of provision of Rs 205.27 crore made by MTNL towards the gratuity liability of its employees from the year 1998-99 onwards in such Trust. The Ministry's reply regarding the number of employees who opted for EPF & Miscellaneous Provisions Act 1952, etc, therefore, was not relevant. Further, MTNL had already incurred avoidable expenditure on payment of Income Tax due to non-formation of Gratuity Trust and now claiming of its rebate will be a time consuming process and no interest on such rebate may accrue to MTNL.

MTNL needs to have a better fund management in the present competitive scenario

Fact remains, however, that owing to delay in formation of the Gratuity Trust, MTNL had to suffer a loss of interest of Rs 55.44 crore. The avoidable payment of Income Tax of Rs 76.47 crore during the period 1998-99 to 2001-02 will also remain blocked till the refund is obtained. In the present competitive scenario in the field of Telecommunication, MTNL needs to have a better funds management, if it is to keep itself abreast of its competitors.

8.3 Avoidable loss of Rs 1.31 crore due to non-pursuance of refund of insurance premium

MTNL Mumbai unit failed to claim refund of insurance premium paid on redundant policies resulting in avoidable loss of Rs.1.31 crore during 2001-02.

Mumbai unit failed to claim refund of premium on pro-rata basis on its redundant policies

Mahanagar Telephone Nigam Limited (MTNL) corporate office obtained a unified insurance cover for its entire assets of Delhi and Mumbai units in June 2001. However, Mumbai unit failed to claim refund of premium of Rs 1.31 crore from the insurer on pro-rata basis for its three existing insurance policies, which became redundant consequent to commencement of unified insurance cover. This led to avoidable loss of Rs 1.31 crore during 2001-02.

Rules of General Insurance regarding refund

General Insurance rules provide that during the currency, if a policy is replaced with the same insurer by a new annual one covering the identical property, refund of premium may be allowed on pro-rata basis at the original rates for the sum insured.

MTNL corporate office obtained unified insurance cover of entire assets of Delhi and Mumbai units in June 2001.

MTNL corporate office with effect from 8 June 2001 obtained a unified insurance cover for its entire assets (except motor vehicles) from a Consortium of insurance companies at an annual premium of Rs 12.88 crore. This Consortium consisted of four insurance companies viz. Oriental Insurance Company Limited (OICL) as lead insurer and New India Assurance Company Limited (NIACL), National Insurance Company Limited (NICL) and United India Insurance Company Limited (UIICL) as co-insurers. Further the date of expiry of the existing insurance policies for the assets of MTNL Delhi unit was June 2001 and that of Mumbai unit was January, March and June 2002. The last policy of Mumbai unit was taken in July 2001 after the unified policy came into effect.

Corporate office belatedly instructed Mumbai unit to cancel their policies already taken

Audit noticed that MTNL corporate office, after a lapse of three months, asked Mumbai unit in September 2001 to cancel all its existing insurance policies for assets (except for motor vehicles) with effect from 8 June 2001. The Mumbai unit in October 2001 requested its insurer, viz. NIACL and UIICL, for cancellation and refund of premium of its three existing insurance policies. However, due to inordinate delay in claiming refund, the insurers allowed the cancellation only from 17 October 2001 instead of giving effect from 8 June 2001.

Delay in cancellation of policies and failure to get refund on pro-rata basis led to loss of Rs 1.31 crore to MTNL

Further Audit also noticed that the said insurers refunded a sum of Rs 0.56 crore to Mumbai unit of MTNL on the basis of short period scale basis although MTNL was eligible to get refund of Rs 1.87 crore on pro-rata scale basis as per rules. Thus, failure of MTNL (i) to cancel the existing insurance policy from 8 June 2001 and (ii) to pursue with the insurance companies for refund of insurance premium on pro-rata basis with effect from 8 June 2001 resulted in avoidable loss of Rs 1.31 crore (Appendix-15).

Management stated that the case would be processed for claiming refund on pro-rata basis

On this being pointed out (September 2003), Management, while admitting the facts and figures, stated (October 2003) that the letter for refund of premium was accepted by the insurers from 17 October 2001, instead of from 8 June 2001, as it was addressed to them on 16 October 2001 and accordingly, Rs 0.56 crore was refunded in terms of short period scale under General Insurance rules. Management, however, stated that the matter was being vigorously pursued with both the Insurance companies to get the refund on pro-rata scale basis.

Fact remains that Management failed not only in avoiding inordinate delay in the cancellation of the redundant insurance policies but also in getting the refund of premium on pro-rata basis in terms of the existing General Insurance rules.

The matter was referred to the Ministry in September 2003; their reply was awaited.

CHAPTER IX
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

ITI Limited

9.1 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, E-10-B, C-DOT exchanges, computerised trunk manual exchanges), transmission (microwave radio equipment, line equipment), satellite communication (Digital MCPC VSAT, IDR equipment), optical equipment (PDH, SDH), access equipment (MARR and WLL), and telephone instruments. Department of Telecommunications (DoT-now 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.

9.2 Organisational Set up

The administrative and over all 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 (Finance and R&D) and Company Secretary. Besides, there are five Additional Directors in charge of Personnel and Administration, Quality Assurance, Marketing, Production Planning and Business Transformation Group and Operations respectively. The units are headed by General Managers.

9.3 Investment and return

Against the authorised equity share capital of Rs 250 crore the paid-up capital, as on 31 March 2003, was Rs 188 crore consisting of Rs 88 crore as equity and Rs 100 crore as cumulative redeemable preference shares. The investment by Government of India was Rs 67.47 crore on equity capital. The return on the above investment in the form of dividend paid by ITI was six *per cent* (1998-99 and 1999-2000) and five *per cent* (2000-01 and 2001-02). Besides, the Company received Rs 200 crore as preference share application money pending allotment as on 31 March 2003.

9.4 Physical and Financial Performance

a) Physical Performance

The physical performance of ITI Limited as at the end of each of the last five years ended 31 March 2003 is given in Appendix- 16. It was seen that:

(i) In respect of switching products though the installed capacity was almost fully utilised upto 2000-01, it declined sharply in 2001-02 to 70 per cent and to 34 per cent in 2002-03. However, as compared to targeted capacity, the utilisation exceeded the target set till 2000-01 and declined subsequently.

(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*.

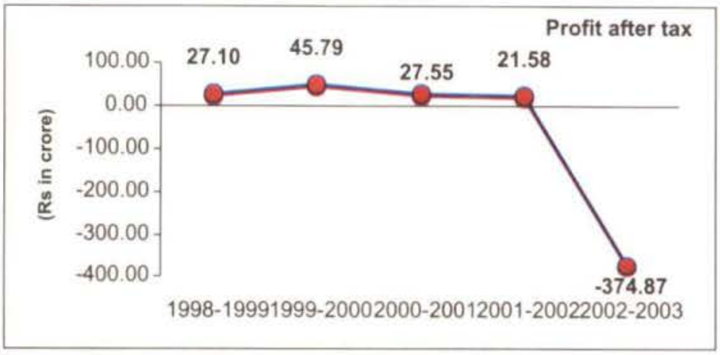
(iii) In respect of terminal equipment the utilisation of installed capacity ranged from 87 *per cent* to 100 *per cent*. The target capacity was achieved only in 2000-01.

b) Financial Performance

The financial results of the Company for the last five years ending 31 March 2003 were as follows:

(Rs in crore)

Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03
Sales including services (excl. Excise duty)	1539.09	1846.83	1926.38	2121.98	1701.11
Other Income	46.02	58.96	114.37	70.62	38.21
Interest earned	3.31	1.17	1.36	0.42	0.22
Transfers from Grant-in- aid	37.73	35.07	34.97	110.80	28.42
Expenditure (excluding interest and prior period adjustments)	1445.76	1769.32	1886.59	2107.18	1985.83
Interest	147.98	152.88	160.70	171.26	156.02
Profit before tax and prior period adjustments	32.41	19.83	29.79	25.38	(373.89)
Prior period adjustments	-5.31	25.96	-2.24	-2.00	-2.78
Profit before tax	27.10	45.79	27.55	23.38	(376.67)
Tax provision	-	-	-	-	-
Deferred Tax	-	-	-	1.80	(1.80)
Profit after tax	27.10	45.79	27.55	21.58	(374.87)
Proposed dividend	5.42	5.28	4.40	4.40	nil



Though the profit before tax (PBT) of the Company increased during the period 1998-99 to 1999-2000, it started decreasing 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, which was mainly due to withdrawal of liability no longer required amounting to Rs 20.26 crore in 1999-2000. The company incurred a huge loss of Rs 374.87 crore in the year 2002-03, which was mainly due to poor sales performance and high expenditure constituting 117 per cent of sales.

9.5 Outstanding dues

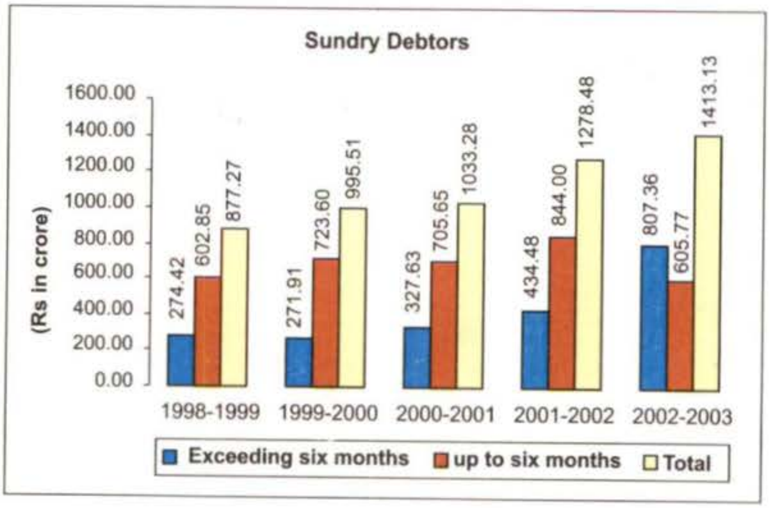
The major customers of the Company are Government companies, viz., BSNL and MTNL. The Company had not laid down any credit policy so far (August 2003).

The position of Sundry Debtors as at the end of each of five years ended 31 March 2003 is as under:

(Rs in crore)

Sl. No	Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03
1.	Total Sales including Services (excl. Excise Duty)	1539.09	1846.83	1926.38	2121.98	1701.11
2.	Total Sundry Debtors					
	(a) Exceeding six months	274.42	271.91	327.63	434.48	807.36
		(31 %)*	(27%)*	(32%)*	(34%)*	(57%)*
	(b) Upto six months	602.85	723.60	705.65	844.00	605.77
	(c) Total (a+b)	877.27	995.51	1033.28	1278.48	1413.13
3.	Percentage of total Sundry Debtors to Sales	57%	54%	54%	60%	83%
4.	Doubtful Debts	10.46	6.40	5.69	5.71	8.61

* Figures in bracket indicate percentage of debtors exceeding six months to total debtors. i.e (2a/2c) x 100.



It could be seen from above, debtors ranging from 54 to 83 *per cent* of sales remained in arrears during the last five years up to 2002-03. Of this, yearly debtors exceeding six months also showed increasing trend from 34 *per cent* as at end of March 2002 to 57 *per cent* as at end of March 2003.

The position of unbilled debtors included in debtors for the period from 1998-99 to 2002-03 was as under:

(Rs in crore)

Year	Total debtors as at the year end	Sundry debtors for the year	Billed	Unbilled	Percentage of unbilled to debtors for the year
1998-1999	866.81	689.72	230.41	459.31	66.59
1999-2000	989.11	803.27	288.34	514.93	64.10
2000-2001	1027.59	849.25	307.35	541.90	63.80
2001-2002	1272.77	1079.00	193.00	886.00	82.11
2002-2003	1404.52	1024.00	592.00	432.00	42.19

The percentage of unbilled debtors to total debtors as at the end of each year from March 1999 to March 2003 ranged between 42 *per cent* to 82 *per cent*.

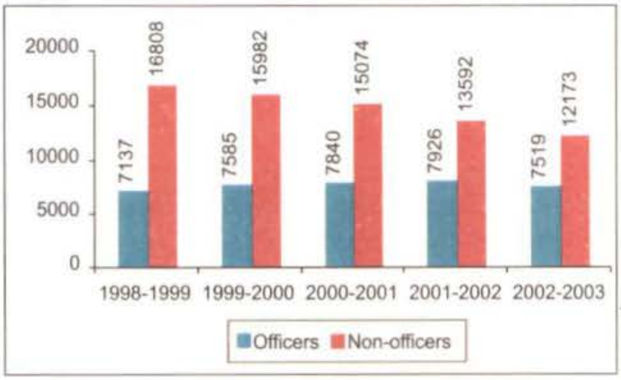
Though there were debts outstanding for more than five years, the Company had not obtained confirmation from the debtors during any of the years. The Statutory Auditors had also repeatedly commented about the Company not obtaining confirmation from the Sundry Debtors.

9.6 Manpower

The total manpower strength of the Company as at the end of each of the last five years ended 31 March 2003 is given below:

Year	Group A	Group B	Group C	Group D	Total Manpower
1998-99	2486	4651	16378	430	23945
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

It can be seen that there has been 18 *per cent* reduction in overall manpower during the last five years in spite of 18 *per cent* increase in Group B employees. The breakup of officers and non-officers for the last five years was as follows:

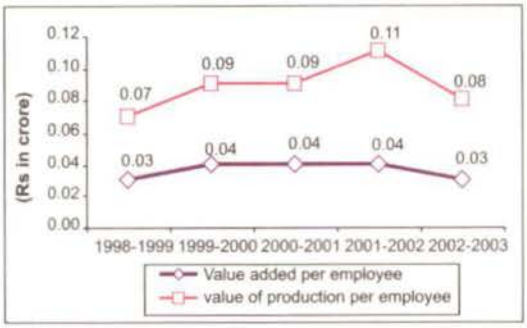


Year	Officers	Non-officers
1998-99	7137	16808
1999-2000	7585	15982
2000-01	7840	15074
2001-02	7926	13592
2002-03	7519	12173

It can be seen that while non-officers declined by 28 *per cent*, there was increase in officers by 5 *per cent* over the years. A major reason for reduction in overall manpower was retirement of employees under Voluntary Retirement Scheme.

9.7 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 2003 was as follows:



(Rs in crore)

Year	Valued added per employee	Value of production per employee
1998-99	0.03	0.07
1999-2000	0.04	0.09
2000-01	0.04	0.09
2001-02	0.04	0.11
2002-03	0.03	0.08

The value of production per employee showed an overall increase from Rs 0.07 crore in 1998-99 to Rs 0.08 crore in 2002-03 which was due to decrease in number of employees.

CHAPTER X
MAJOR FINDINGS IN TRANSACTION AUDIT

10.1 Infructuous expenditure of Rs 1.92 crore due to purchase of defective equipment

The Company failed to safeguard its interests in the import of telephone components and was burdened with the defective inventory of Rs 1.92 crore over the last six years as of March 2003.

The Company imported components for assembling cordless telephone much in excess of its requirements in the trial order without any performance guarantee from the supplier. The components received were found faulty and have remained unutilised for over last six years as of March 2003.

The Company placed (January 1995) a purchase order on M/s ITI Communications Pte. Ltd. Singapore (supplier), its joint venture, for 1000 sets of components @ US $ 36 per set to manufacture cordless telephones on trial basis. At the time of placing order the Company had decided to procure 9000 sets more if the trial was successful. Without ensuring the performance of components, the Company placed (March and July 1995) further purchase order on the supplier for additional quantity of 10000 sets valuing US$ 371687.668 to be delivered by November 1995. The entire quantity of 11000 sets was received between October 1995 and January 1997 in a staggered manner.

When the cordless phones were assembled in 1997, in the first lot of production the Company experienced certain technical problems inter-alia due to defects in the imported components. These problems could not be sorted out till now (April 2003) and the completed sets as well as the components were lying in stock. At the time of purchase, the Company had not insisted on the performance guarantee/warranty from the supplier. The Company did not impose/recover even the liquidated damages for delay in supplies as per the purchase order.

The Management stated (April 2003) that the minimum order quantity was 10000 sets and the supplier did not agree to supply less than this quantity. No rigid commercial terms were imposed as the supplier was a joint venture. This was the first venture for such products by the Naini unit of the Company and there are always some teething problems in any new project. Attempts were being made to find solutions for the technical problems.

Ministry endorsed (September 2003) the views of the Management.

The reply of the Ministry/Management is not tenable because the supplier had neither indicated in their proposal of December 1994 nor in the proforma invoice sent in January 1995 that the minimum order quantity should be 10,000 sets. The proforma invoice sent in January 1995 by supplier was for

1000 sets only. Even if the quantity had to be increased to 10000 units, the Company should have taken adequate safeguards, like performance guarantee/warranty etc., as it was only a trial order. The soft approach adopted by the Company towards supplier was not justified because despite being a joint venture, it was legally and commercially a separate entity. The Company had not taken up the matter with the supplier after 1997 and had also been unable to resolve the problem indigenously even after lapse of more than six years. The possible deterioration of the components as well as completed sets, which have been lying in stock for such a long time, cannot be ruled out.

Thus, failure on the part of the Company to restrict the initial order to 1000 units and to take adequate safeguards rendered the amount of Rs 1.92 crore infructuous.

10.2 Infructuous expenditure due to cancellation of order

ITI Limited could not supply the systems to Department of Telecommunications within delivery schedule/extended schedule leading to cancellation of the order by the latter. The expenditure incurred by the Company on material, labour and overheads amounting to Rs 1.48 crore for making the systems ready, thus, became infructuous.

Department of Telecommunications (DoT) placed an order in April 1998 on ITI Limited (Company) for supply of 285 systems of 10 Channel Digital UHF at a provisional price of Rs 7.61 crore, which was later revised to a firm price of Rs 4.67 crore. The systems were to be supplied within six months i.e. by October 1998. The Company, however, could not adhere to the delivery schedule of six months and obtained extensions of delivery schedule on two occasions, first upto 31 March 1999 and then upto 31 August 1999. While giving extension of delivery schedule upto 31 August 1999, DoT permitted supply of 90 systems only and short-closed the order for the remaining 195 systems. As the Company was unable to supply even 90 systems, DoT cancelled the entire order in October 1999.

Failure to supply the systems to DoT within scheduled/extended delivery period resulted in infructuous expenditure of Rs 1.48 crore

In the meanwhile, Company had incurred an expenditure of Rs 1.48 crore in the production activities (Rs 96.35 lakh - materials and Rs 51.43 lakh - labour and overheads).

The Management stated (April 2003) that the systems could not be supplied due to:

(i) Non-completion of 'Production Qualification Test' (PQT) by DoT which was completed during November 1999; and

(ii) Delay in getting 'Bulk Production Clearance' (BPC) from DoT in December 1999.

The reply of the Management is not acceptable, as the Company offered the systems for PQT only on 30 September 1999 i.e. after completion of extended delivery date of 31 August 1999 and could get BPC on 13 December 1999 after completion of PQT on 11 November 1999, by which time DoT had cancelled the order due to delay.

Thus, failure on the part of the Company to supply the systems within delivery/extended schedule resulted in incurring of infructuous expenditure of Rs 1.48 crore.

The matter was referred to the Ministry in June 2003; their reply was awaited as of October 2003.

10.3 Loss due to imprudent decision to execute orders

Imprudent decision to execute orders for supply of Digital Microwave equipment despite being aware of the cash loss situation resulted in loss of Rs 74 lakh.

ITI Limited (Company) received two Advance Purchase Orders (APOs) from Department of Telecommunications (DoT-now BSNL) for supply of digital microwave equipment in March 1998 and July 1998 respectively. Subsequently, DoT placed purchase orders in August 1998, and November 1998 in respect of these APOs. The delivery schedule for the first order was within six months and for the second was within eight months from the date of the purchase order. The value of the orders were Rs 6.17 crore (amended to Rs 6.21 crore in November 1998) and Rs 2.47 crore, respectively.

Imprudent decision in placing order resulted in loss of Rs 74 lakh

Despite the Company being aware of the cash loss situation in the deal before accepting the orders, it did not take action to make it a profitable venture by negotiating with DoT. The Company finally suffered a cash loss of Rs 74 lakh, which represented the difference between material cost realised (Rs 7.00 crore) material cost incurred (Rs 7.74 crore), in execution of the above two orders.

The Management while accepting the cash loss stated (March/May 2002) that the orders were accepted to maintain good relationship with the customer despite cash loss situation. Ministry also confirmed (October 2002) the reply of the Management.

The reply is not acceptable as the Company, being a separate commercial entity, was not under obligation to accept the orders under cash loss situation without any support from its administrative Ministry. Moreover, the Transmission Division of the Company which executed the order had incurred losses during the years 1996-97 to 1999-2000. Hence the decision to execute the orders under cash loss situation was not prudent.

Thus, imprudent decision to execute the orders resulted in cash loss of Rs 74 lakh.

10.4 Levy of liquidated damages by the customer due to delay in supply

Failure on the part of the Company to initiate procurement action well in time resulted in delay in supply of equipment to the customer leading to incurring of liquidated damages of Rs 52.23 lakh.

ITI Limited entered into a Memorandum of Understanding (MOU) in June 2000 with M/s Ericsson Telecom AB, Sweden (supplier) to market and sell Voice Over Internet Protocol (VOIP) products, *inter alia*, to Department of Telecommunications (now BSNL). In June 2001, the Company received a purchase order from BSNL for supply of VOIP along with accessories and spares (equipment) at a total price of Rs 6.51 crore. The supply was to be completed within three months from the date of issue of purchase order i.e. by September 2001.

The Company, however, placed a purchase order for delivery of the equipment on the supplier only in October 2001 i.e. after the scheduled date of delivery of the equipment to the customer.

Company paid liquidated damages of Rs 52.23 lakh due to failure to initiate procurement action in time

As per general conditions of the purchase order, the customer was entitled to recover liquidated damages @ 0.5 per cent of the value of the delayed supply for each week or part thereof up to 10 weeks and thereafter @ 0.7 per cent for each week or part thereof up to 10 weeks. The Company could, however, supply the equipment to the customer in December 2001. Due to delay the customer recovered Rs 52.23 lakh towards liquidated damages.

The Management stated (April 2003) that:

(i) due to fast changing technology the originally proposed configuration underwent major changes with regard to servers and related software which needed technical clarifications from BSNL; and

(ii) they have taken up the waiver of liquidated damages with BSNL.

The Ministry endorsed (October 2003) the reply of the Management. The reply is not acceptable as rapid technological changes are a part of modern telecommunications business and are to be foreseen. Further, the Company had finalised re-configuration of the equipment with the supplier in July 2001, but could place the order only in October 2001. The delay in placement of firm order after finalisation of re-configuration was due to absence of clear understanding between the Company and the supplier regarding the items to be ordered on them and the final prices of the supplies, which should have been resolved on time. Moreover, the request for waiver of liquidated damages is not sustainable as per terms and conditions of purchase order.

Thus, failure to initiate procurement action well in time resulted in delay in supply of equipment to the customer leading to incurring of liquidated damages of Rs 52.23 lakh.

10.5 Irregular expenditure of Rs 40.38 lakh on foreign travel

Failure of the Company in regulating foreign travel claims of employees in accordance with the instructions of the Department of Public Enterprises resulted in irregular expenditure of Rs 40.38 lakh during the period November 1995 to December 2001.

With a view to bringing about economy in expenditure on foreign travel by the officers of the Public Sector Undertakings (PSUs), the Department of Public Enterprises (DPE) issued (September 1995) instructions according to which the consolidated amount paid in respect of foreign travel as per the guidelines of the Reserve Bank of India (RBI) was to cover room rent, taxi charges, entertainment, official telephone calls and other contingent expenditure apart from daily allowance. This consolidated amount was only an upper limit of foreign exchange one could draw and was not one's entitlement. On return from tour, the officials were required to render accounts for all items of expenditure other than daily allowance (DA) prescribed by the Ministry of External Affairs.

Contrary to the instructions of DPE, foreign travel rules of the Company provided for payment of daily allowance which was more than MEA rates without supporting vouchers. A scrutiny of foreign travel claims of the officials of the Company from November 1995 to December 2001 revealed that it admitted claims amounting to Rs 40.38 lakh without supporting vouchers.

Ministry while accepting (November 2001) the Audit contention advised the Company to follow DPE instructions on foreign travel. Accordingly, the Company regulated the claims of the employees in terms of DPE instructions w.e.f. January 2002.

CHAPTER XI
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

Telecommunications Consultants India Limited

11.1 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 areas 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.

11.2 Organisational set-up

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 a General Manager.

11.3 Investment and Return

Against the authorised equity share capital of Rs 15 crore, the paid-up capital, as on 31 March 2003, was Rs 14.40 crore fully invested by the Government of India. The return on above investment in the form of dividend paid by the Company was *210 per cent, 220 per cent*, 300 *per cent,* 150 *per cent* and 150 *per cent* for each of the last five years ended 31 March 2003, respectively.

11.4 Financial Performance

The financial results of the company for the five years ending 31 March 2003 were as follows:

(Rs in crore)

Particulars	1998-1999	1999-2000	2000-01	2001-02	2002-03
i) Income from projects (Sales)					
a) Foreign projects	374.04	320.71	367.49	367.45	327.16
b) Inland projects	249.62	383.92	387.52	324.06	223.15
Total Income from projects	**623.66**	**704.63**	**755.01**	**691.51**	**550.31**

Particulars	1998-1999	1999-2000	2000-01	2001-02	2002-03
ii) Other or Misc. Income	23.67	26.74	21.13	28.92	40.13
iii) Profit/Loss before tax and prior period adjustments	57.27	62.81	62.16	63.41	48.47
iv) Prior period adjustments (Net) Credit(+)/Debit (-)	(-) 0.36	(-) 4.07	(+) 0.99	(+) 0.20	(+) 3.03
v) Profit/Loss before tax	56.91	58.74	63.15	63.61	51.50
vi) Tax Provisions	6.80	9.62	4.40	6.13	11.61
vii) Profit after tax	50.11	49.12	58.75	57.48	39.89
viii) Proposed Dividend	15.12	15.84	21.60	21.60	21.60
ix) Tax on proposed Dividend	1.66	1.82	2.20	--	0.46

11.5 Manpower

The total manpower strength of the Company as at the end of each of the last four years ended on 31 March 2003 is given below:

Year	Executive	Non -Executive	Total manpower
1999-2000	490	1002	1492
2000-01	502	1063	1565
2001-02	481	1017	1498
2002-03	468	853	1321

CHAPTER XII
MAJOR FINDINGS IN TRANSACTION AUDIT

12.1 Loss of Rs 52.29 lakh due to delay in supply of plant communications equipment

Telecommunications Consultants India Limited suffered a loss of Rs 52.29 lakh on account of deduction of liquidated damages during October 2001 to April 2002 due to delay in supply of plant communications equipment.

Telecommunications Consultants India Limited had to suffer a loss of Rs 52.29 lakh during October 2001 to April 2002 towards liquidated damages as it failed to supply plant communications equipment within the scheduled date of delivery.

The Company received a Purchase order (value Rs 5.84 crore*) from Bharat Heavy Electricals Limited (BHEL), Ranipur / Hardwar on 1 March 2001 for design, engineering, supply of materials including spares and supervision of erection and commissioning of the plant communication system for a project to be executed by the latter in Iraq. The delivery was to be completed by the Company by July 2001**, so as to avoid payment of liquidated damages. Rate of liquidated damages was 1 per cent of the contract value per week of delay subject to a maximum of 10 per cent of the contract value that the Company was liable to pay as per the stipulation of the purchase order.

However, as the Company received imported as well as indigenous materials after the expiry of the scheduled date of delivery (July 2001) because of delay in placement of purchase orders on its suppliers it could start the delivery of the equipment to BHEL from 3 October 2001 to complete the supplies by 17 January 2002. Thus, belated supply on the part of the Company attracted contractual provision relating to liquidated damages of Rs 52.29 lakh which, BHEL deducted from the bills raised by the Company during October 2001 to April 2002.

Management stated (May 2003) that as the approved Billing Break-up unit (BBU) of United Nations and Material Despatch Clearance Certificate (MDCC) from BHEL were received only in September 2001, the Company completed the supply by January 2002 in four months time and hence, there was no delay on its part. It was also stated that the Company was considering going in for arbitration in this matter.

Contention of the Management is not tenable as delay in receipt of approved BBU of United Nations and MDCC from BHEL would have been relevant had material been actually available with the Company. Further, BHEL sent the details about the number of packages to be incorporated in BBU in April 2001 while forwarding the same for approval of United Nations.

Thus, failure on the part of the Company to supply communication equipment within the contracted time schedule resulted in a loss of Rs 52.29 lakh.

The matter was referred to the Ministry in June 2003; their reply was awaited as of October 2003.

---

* Revised to Rs 6.07 crore

** 24 weeks from letter of Intent dated 20th January 2001

CHAPTER XIII
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

Intelligent Communication Systems India Limited

13.1 Introduction

Intelligent Communication Systems India Limited, a joint venture of 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 the critical area of economy i.e., communication and computer. The Company also provides engineering, technical and management consultancy services for computers and communication systems in India and abroad.

However, the Company had ceased to conduct manufacturing activities and had also surrendered its manufacturing licence to excise authorities for manufacture of excisable goods. At present the Company is engaged in trading of computer and other telecommunication system.

13.2 Organisational setup

The administrative and overall functional control is vested with the Board of Directors headed by the Managing Director on deputation from Telecommunications Consultants India Limited (TCIL) who 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 (four from TCIL and two from DSIDC and two from Orisson Infocom (Private) India (OIL). The Company is not having any branch office.

13.3 Investment and return

The authorised and paid up capital of the Company as on 31 March 2003 was Rs 100.00 lakh contributed by the following companies :

TCIL	36 per cent
DSIDC	25 per cent
Dalmia Group	24 per cent
Falcom cables (USA)	15 per cent
Total	**100 per cent**

As the company had accumulated losses it did not declare any dividend so far. As of 31 March 2003 the accumulated loss of the Company was Rs 0.74 crore.

13.4 Physical and Financial Performance

13.4.1 The Company discontinued manufacturing business and is concentrated mainly on trading of goods (personal Computers/Laptops), turnkey sales of cables, annual maintenance contracts, repairs of E-10-B and C-DOT cards, and fees received franchise business.

13.4.2 Financial Performance

The financial results of the Company for the five years ending 31 Mach 2003 were as follows:

(Rs in lakh)

Particulars	1998-1999	1999-2000	2000-01	2001-02	2002-03
i) Income from projects (Sales)	797.81	931.13	643.13	1082.56	1671.09
ii) Net sales	797.81	931.13	643.13	1082.56	1671.09
iii) Other or Misc. income	13.23	3.30	2.67	3.99	20.89
iv) Profit/loss before tax and prior period adjustments and extra ordinary items	28.04	-92.61	6.76	36.37	12.03
v) Prior period adjustments (Net) Credit(+)/Debit (-)	4.68	-2.58	0.86	0.60	-0.01
vi) Extra ordinary items (Net)	-0.39	5.03	-3.03	0.23	44.61
vii) Tax Provisions	-	-4.23	-0.23	-1.65	-1.47
viii) Profit after tax	32.33	-90.17	4.36	35.75	55.16
ix) Dividend	-	-	-	-	-

13.5 Manpower

The total manpower of the Company for the last five years was 10 in 'C' and 'D' cadre other than on deputation.

CHAPTER XIV
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

Millennium Telecom Limited

14.1 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). MTL has obtained category 'A' licence from the Department of Telecommunications (DoT) for provisioning of Internet services throughout India. MTL signed a Memorandum of Understanding with Himachal Pradesh State Electronics Development Corporation Limited (a Government of Himachal Pradesh Enterprise) for provisioning of Internet Software Package Services at Shimla, Himachal Pradesh. The services commenced with effect from 25 February 2002. MTL is also pursuing 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 etc. All tenders of Mahanagar Telephone Nigam Limited (MTNL) are being published through the Internet outlet of MTL, namely 'Nivida Sewa' and 'Tender Mart'.

MTL decided to associate State Electronic Development Corporations to provide Internet services in various States and accordingly, signed MOUs with Karnataka Electronic State Development Corporation, West Bengal Electronics Corporation Limited, and Beltron Communications Limited, Patna for providing Internet services in Karnataka, West Bengal and Bihar, respectively.

14.2 Organisational set-up

The administrative and overall control of business activities of MTL is vested with the Board of Directors headed by the Chairman (CMD of MTNL) who is assisted in day to day management by a Chief Operating Officer, one Internal Financial Advisor and one Marketing Executive. Besides, there were three other Directors (all from MTNL) on the Board of MTL.

14.3 Investment and Return

Against the authorised equity share capital of Rs 100 crore, the paid-up capital as on 31 March 2003 was Rs 1.002 crore which was totally subscribed by MTNL, its holding Company.

14.4 Financial Performance

As no commercial activity was undertaken by MTL during 2000-01 it did not prepare its profit and loss account for this year and only incurred pre-operative expenditure of Rs 0.20 crore. However, during 2001-02 and 2002-03 it earned a revenue of Rs 0.04 crore and Rs 2.66 crore, against which expenditure incurred was Rs 0.24 crore and Rs 1.64 crore, respectively. Hence, MTL incurred a net loss of Rs 0.20 crore during the year 2001-02, whereas it earned net profit before tax of Rs 1.02 crore during 2002-03.

14.5 Manpower

The Chief Operating Officer manages the day to day business activities of MTL mostly with the help of employees of MTNL. However, the total manpower strength of MTL as at the end of each of the last three years ended on 31 March 2003 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

CHAPTER XV

FOLLOW UP ON AUDIT REPORTS

15.1. 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 within various Audit Reports, 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, the 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), the 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 (erstwhile Department of Telecommunications) 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 151 paragraphs, as detailed in Appendix 17 [illegible] aited as of October 2003.

Sudha Rajagopalan

(SUDHA RAJAGOPALAN)
Deputy Comptroller and Auditor General
cum Chairman, Audit Board

signed

(VIJAYENDRA N. KAUL)
mptroller and Auditor General of India

APPENDIX – 1

(Referred to in paragraph 2.4 at page 11)

Details of Non/short recovery of infrastructure charges for facilities provided to private service providers

(Rs in lakh)

Sl.No.	Particulars of lines/ cables/circuits	Rental for infrastructural facilities due		Particulars of bills issued/ recovery made after issue of Audit Note		Remarks
		Period	Amount	Amount recovered/ month of recovery	Amount to be recovered	
1	2	3	4	5	6	7
Haryana Telecom circle						
1	Provision of infrastructural facilities to private service providers by TDM Sonipat	October 1997 to October 2003	19.44	0	19.44	
2	Provision of infrastructural facilities to private service providers by TDM Karnal	December 1997 to December 2002	14.15	0	14.15	
3	Provision of infrastructural facilities to private service providers by TDM Jind	September 2000 to September 2003	2.83	0	2.83	
		Sub total	***36.42***	***0***	***36.42***	
Punjab Telecom Circle						
4	Provision of infrastructural facilities to private operators by GMTD Jalandhar	March 1998 to December 2003	24.73	23.09 September 2003	1.64	
		Sub total	***24.73***	***23.09***	***1.64***	
Karnataka Telecom circle						
5	Provision of infrastructural facilities to private service providers by TDM Mysore	November 1996 to March 2003	19.04	0	19.04	
6	Provision of infrastructural facilities to private operators by TDM Belgaum	March 1998 to April 2003	11.25	11.25 September 2003		
		Sub total	***30.29***	***11.25***	***19.04***	
Grand Total			**91.44**	**34.34**	**57.10**	

Appendix – 2

(Referred to paragraph 2.5 at page 13)

Non/short realisation of security deposit

(Rs in lakh)

S. No.	Name of the circle /unit	No. of existing connections	Security deposit due	Amount recovered	Outstanding amount
A	**CGM Chennai Telephones**				
	(i) South West Zone	114	5.13	3.10	2.03
	(ii) Central Zone	106	4.77	3.20	1.57
	(iii) North East Zone	87	3.91	1.03	2.88
	Sub total		***13.81***	***7.33***	***6.48***
B	**CGMT Tamil Nadu Circle**				
	(i) Salem SSA	47	2.12	2.12	-
	(ii) Chengalpattu SSA	44	1.98	1.98	-
	Sub total		***4.10***	***4.10***	-
	Total (A + B)		**17.91**	**11.43**	**6.48**
C	**Karnataka circle**				
	General Manager Central	284 (junction lines)	49.29	0	49.29
	Sub total		*49.29*	*0*	*49.29*
Grand Total [(A + B) + C]			**67.20**	**11.43**	**55.77**

Appendix - 3

(Referred to paragraph 2.7 at page 14)

Non billing of installation charges /rental for CLIP

(Rs in lakh)

S.No	Name of SSA	No. of cases	Period	Installation charges	Rental	Total	Amount recovered after Audit pointed out
1	GM (West) Hyderabad Telecom Distt	921	January 1999 to 30 September 2000	0.46	4.40	4.86	23.67
	GM (West) Hyderabad Telecom Distt	1482 (Incl. of 921)	1 October 2000 to 31 May 2002	0.28	13.53	13.81	
2	GM Telecom Distt Ongole	400	January 1999 to 30 September 2000	0.20	1.33	1.53	
	GM Telecom Distt Ongole	688 (Incl. of 400)	1 October 2000 to 30 September 2001	0.14	3.57	3.71	
3	GMTD Visakhapatnam	132	January 1999 to 30 September 2000	0	1.02	1.02	
	GMTD Visakhapatnam	132	1 October 2000 to 31 May 2002	0	1.32	1.32	
	Total	**2302**		**1.08**	**25.17**	**26.25**	**23.67**

APPENDIX - 4

(Referred to in paragraph 2.9.1 at page 16)

Continuance 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
Assam Telecommunications Circle					
1	85 subscribers of GMT Jorhat	April 1998 to July 2001	59.73		59.73
		Sub total	***59.73***		***59.73***
Bihar Telecommunications Circle					
2	175 subscribers of TDM Khagaria	January 2002 to April 2002	39.39		39.39
3	28 subscribers of TDM Muger	August 2001 to November 2002	4.77		4.77
4	1170 subscribers of TDM Motihari	January 1999 to October 2002	214.34		214.34
		Sub total	***258.50***		***258.50***
Chhattisgarh Telecommunications Circle					
5	656 subscribers of GMTD Raipur	August 2001 to October 2002	162.02		162.02
6	321 subscribers of GMTD Durg	March 1997 to February 2002	143.20		143.20
		Sub total	***305.22***		***305.22***
Gujarat Telecommunications Circle					
7	504 subscribers of PGMTD Ahmedabad	February 1999 to February 2003	167.83		167.83
8	6 subscribers of PGMTD Baroda	May 2000 to January 2002	9.41		9.41
9	97 subscribers of GMTD Junagadh	February 1999 to July 2002	20.44		20.44
10	85 subscribers of GMTD Mehsana	April 1999 to May 2002	17.18		17.18
11	102 subscriber of GMTD Nadiad	March 1999 to September 2002	7.75		7.75
		Sub total	***222.61***		***222.61***
Jharkhand Telecommunications Circle					
12	447 subscribers of TDM Dumka	January 2002 to August 2002	64.16		64.16
13	194 subscribers of GMT Ranchi	April 1995 to July 2002	77.14		77.14
		Sub total	***141.30***		***141.30***
North East Telecommunications Circle					
14	207 subscribers of GMTD Dimapur	July 1999 to November 2002	2217.20		2217.20
		Sub total	***2217.20***		***2217.20***

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
Rajasthan Telecommunications Circle					
15	319 subscribers of PGMTD Jaipur	April 1998 to March 2002	161.76	36.53 May 2003	125.23
16	123 subscribers of GMTD Sriganganagar	July 1998 to March 2001	17.09		17.09
		Sub total	***178.85***	***36.53***	***142.32***
Uttar Pradesh (East) Telecommunications Circle					
17	173 subscribers of TDM Pratapgarh	August 1989 to March 2001	83.73	18.50 August 2002	65.23
18	42 subscribers of TDM Barabanki	April 1999 to October 2002	21.99		21.99
19	145 STD PCO operators of TDM Mau	May 1999 to October 2002	41.07	16.99 July 2003	24.08
20	90 STD PCO Operators of TDM Unnao	May 1999 to October 2002	8.27		8.27
		Sub total	***155.06***	***35.49***	***119.57***
Uttar Pradesh (West) Telecommunications Circle					
21	93 subscribers of TDM Mathura	December 1990 to February 2001	57.69	15.72 November 2001	41.97
22	44 subscribers of GMTD Mathura	May 2001 to July 2002	8.63		8.63
		Sub total	***66.32***	***15.72***	***50.6***
West Bengal Telecommunications Circle					
23	12 subscribers of GMTD Asansol	April 1994 to January 2003	22.48		22.48
24	403 subscribers of GMTD Kharagpur	May 2001 to July 2002	117.84		117.84
		Sub total	***140.32***		***140.32***
Grand Total			**3745.11**	**87.74**	**3657.37**

Appendix - 5

(Referred to in paragraph 2.9.2 at page 16)

Non/short recovery of revenue – Failure to demand and collect rent/licence fee/royalty charges

(Rs in lakh)

Sl. No.	Particulars of line/cables/ circuits	Audit Observations	Period of short/ non billing	Total amount of short/non billing	Particulars of bills issued/recovery made after issue of audit Note		Remarks
					Amount recovered/ month of recovery	Amount to be recovered	
1	2	3	4	5	6	7	8
	Andhra Pradesh circle						
1	Provision of telephone connection	Incorrect application of tariff	February 1999 to March 2002	15.84	12.16 June-December 2002	3.68	
2	Provision of 1x2 Mbps long distance leased line to M/s Bharti Mobile Limited	Non billing of rentals	2002-03	46.36	46.36 January 2003		
3	Provision of leased circuits to M/s Cellular Limited and Bharti Mobile Limited	Non billing of rental	August 2001 to October 2002	24.22	24.22 July 2002 to March 2003		
4	Provision of new telephone connections in respect of 23252 subscribers	Short billing of advance rental	February 2000 to July 2002	138.42		138.42	
5	Provision of leased circuits to M/s ABK Publications and Ushodaya Publication	Short billing of rental	1999 to August 2002	26.70	12.59 November 2002	14.11	
		Sub total		***251.54***	***95.33***	***156.21***	
	Assam circle						
6	Provision of telephone facilities to subscribers of 7 exchanges of Silchar SDCA	Non revision of bi-monthly rent on re-defining of SDCA	March 2001 to September 2001	86.51		86.51	
7	Provision of telephone facilities to subscribers of 20 exchanges of Dibrugarh SDCA	Non revision of bi-monthly rent on re-defining of SDCA	April 2002	15.28		15.28	
8	Provision of telephone facilities to subscribers of 25 exchanges of Nogaon SDCA	Non revision of bi-monthly rent on re-defining of SDCA	July 2000 to April 2002	58.32		58.32	
		Sub total		***160.11***		***160.11***	
	Bihar Circle						
9	Provision of leased telecom services to NE Railways	Failure to issue bills	January 2000 to December 2001	24.83	24.83		Bills issued in May 2001
			Sub Total	24.83	24.83		
	Chattisgarh circle						
10	Provision of 2420 ports of inter connection	Non billing of annual interconnection port charges	November 1999 to October 2002	18.44		18.44	
		Sub total		18.44		18.44	

Sl. No.	Particulars of line/cables/ circuits	Audit Observations	Period of short/ non billing	Total amount of short/non billing	Particulars of bills issued/recovery made after issue of audit Note		Remarks
					Amount recovered/ month of recovery	Amount to be recovered	
1	2	3	4	5	6	7	8
	Gujarat circle						
11	Provision of leased circuits	Short billing of rental due to incorrect computation of local leads	April 1999 to March 2000	17.13	2.13 August 2001 to November 2002	15.00	Bills for Rs 3.38 lakh issued in June 2001 to December 2002
12	Provision of 6F OFC	Incorrect computation of period of rent	March 1999 to March 2001	1.04		1.04	
		Sub total		***18.17***	***2.13***	***16.04***	
	Karnataka circle						
13	Provision of 268 extension of EPABX	Short billing of licence fee	January 2000 to January 2002	10.07		10.07	
		Sub total		10.07		10.07	
	Kerala Circle						
14	Provision of Telecom network to M/s BPCL in Ernakulam	Non recovery of royalty charges	March 1995 to February 1998	23.46	23.46 May 2003		
15	Provision of EPABX having 512 equipped extension out of which 392 were external extension and microwave system	Non recovery of licence fee and royalty charges	September 1998 to September 2003	19.38		19.38	Bills issued for Rs 14.71 lakh in May 2003
16	Operations of dedicated radio system by port department of Lakshwadeep administration	Non recovery of licence fee	November1 995 to October 2003	50.40		50.40	Bills issued in June 2003
17	Provision of 34 Mbs OFC system to M/s Prime Softex on Rent and Guarantee basis	Non recovery of rent for unexpired period of guarantee	July 2002 to January 2011	16.43		16.43	Bills issued in October 2002
		Sub total		***109.67***	***23.46***	***86.21***	
	Madhya Pradesh circle						
18	Provision of 422 extensions of EPABX	Short billing of licence fee	September 2000 to August 2002	12.07		12.07	
19	Provision of leased speech circuits to SAIL	Short billing of rent	16 August 1989 to 31 October 1992	68.40		68.40	
20	Provision of 5 PCM links of 2Mbps to M/s Reliance Telecom Limited	Non recovery of rent for un-expired period of guarantee	October 1998 to February 2001	262.50		262.50	Bills issued in June 2001
		Sub total		***342.97***		***342.97***	

Sl. No.	Particulars of line/cables/ circuits	Audit Observations	Period of short/ non billing	Total amount of short/non billing	Particulars of bills issued/recovery made after issue of audit Note		Remarks
					Amount recovered/ month of recovery	Amount to be recovered	
1	2	3	4	5	6	7	8
	Maharashtra circle						
21	Provision of new telephone connections	Short realisation of installation charges	May 1999 to March 2002	131.59	0.06 August 2002	131.53	
22	Provision of 28 leased circuits	Non-billing of annual rental	January 1997 to April 2003	118.43	2.92 July 2002	115.51	
		Sub total		*250.02*	*2.98*	*247.04*	
	NE circle						
23	Provision of telephone facilities of subscribers of 7 exchanges of Itanagar SDCA	Non revision of bi-monthly rent on re-defining of SDCA	August 1998 to April 1999	7.18		7.18	
		Sub total		7.18		7.18	
	Orissa circle						
24	Provision of local public telephones in Urban areas	Short realisation of revenue and excess payment of commission	May 1999 to January 2003	45.06		45.06	
25	Provision of 2 Mbps leased line to M/s Reliance Telecom Private Limited	Non recovery of advance rental	August 2001 to March 2002	18.74	18.74 March 2002	-	
		Sub total		63.80	18.74	45.06	
	Tamil Nadu circle						
26	Provision of leased speech circuit to SBI, IOC and RBI	Short billing of rent	June 1987 to October 1992	55.03	32.56 September 2001	22.47	
27	Provision of EIR2 stream to M/s Dishnet Limited, M/s VSNL, M/s Tata Internet and M/s Indicanet	Non billing of annual rent	June 2001 to March 2003	23.67	21.90 April 2003	1.77	Bills issued in April 2003
28	Provision of 54 Data circuits, PGMTD Coimbatore	Non billing of rental charges	July 2001 March 2003	45.07	40.40 March 2003	4.67	
29	Provision of dedicated cables by DGM Chennai Telephones	Non recovery of rent for unexpired period of guarantee	June 2000 to October 2010	61.34		61.34	
		Sub total		185.11	94.86	90.25	
	West Bengal circle						
30	Provision of local leads of various size of long distance data circuits to subscriber on Rent and Guarantee basis by CGM Kolkata Telephone	Failure to raise bills for rental charges	February 1999 to December 2003	23.78		23.78	Bills issued in April 2003
31	Provision of 42 Data circuits of 64 KBps capacity - Sriram Chits, City Union Finance Limited	Failure to raise bills for local leads and trunk termination charges	2001-2003	20.00		20.00	Bills issued in June 2003

Sl. No.	Particulars of line/cables/ circuits	Audit Observations	Period of short/ non billing	Total amount of short/non billing	Particulars of bills issued/recovery made after issue of audit Note		Remarks
					Amount recovered/ month of recovery	Amount to be recovered	
1	2	3	4	5	6	7	8
32	Provision of telephone facilities to subscribers of 22 exchange of Krishnanagar SDCA	Non revision of bi monthly rental on re-defining of SDCA	October 2001 to December 2001	31.35		31.35	
33	Provision of telephone facilities to subscribers of 24 exchanges of Malda SDCA	Non-revision of bi-monthly rent on redefining of SDCA	April 2001 to May 2001	28.96		28.96	
34	Provision of telephone facilities to subscribers of 8 exchanges of Gantok SDCA	Non revision of bi-monthly rent on re-defining of SDCA	April 2002 to September 2002	66.19		66.19	
35	Provision of 147 extension of EPABX	Short billing of rent	April 1999 to May 2001	13.47	10.80 July 2001 and February 2002	2.67	
			Sub Total	***183.75***	***10.80***	***172.95***	
	UP(West) telecom circle						
36	Provision of 200/6.5 LBS UGC on R&G basis to M/s Indian Oil corporation	Non billing of rent	May 1998 to April 2003	16.10	16.10 August 2002		
		Sub total		**16.10**	**16.10**		
	Grand Total			**1641.76**	**289.23**	**1352.53**	

APPENDIX - 6

(Referred to in paragraph 2.9.3 at page 17)

Details of Non/short recovery of revenue in respect of lines and wires and speech circuits provided to Railways

(Rs in lakh)

Sl.No.	Particulars of lines/ cables/circuits	Bills issued at old lower tariff		Particulars of bills issued/ recovery made after issue of Audit Note		Remarks
		Period	Amount	Amount recovered/ month of recovery	Amount to be recovered	
1	2	3	4	5	6	7
Haryana Telecom circle						
	Provision of leased lines and wires and circuits to railways by CGMT, Haryana	April 1991 to March 2003	105.08		105.08	
	Provision of leased lines and speech circuits to Railways by GMTD Hissar	do	13.37		13.37	
		Sub total	***118.45***		***118.45***	
Orissa Telecom Circle						
	Provision of 3 speech circuits to Railways by GMTD Balasore	April 1991 to March 2003	34.34	34.34	0	
		Sub total	***34.34***	***34.34***	***0***	
Kerala Telecom circle						
	Provision of leased speech circuits to Railways by GMTD Thiruvanthapuram	April 1991 to March 2003	44.70		44.70	
	Provision of leased lines and wires to Railways by CGMT Kerala	April 1991 to March 2003	270.40	102.96 March 2003	167.44	
		Sub total	***315.10***	***102.96***	***212.14***	
Uttar Pradesh (East) Telecom circle						
	Provision of 23 speech circuits to Railways by GMTD Moradabad.	do	290.59	6.88	283.71	
	Provision of seven leased speech circuits to Railways by GMTD Varanasi	June 1999 to June 2004	34.72		34.72	
		Sub total	***325.31***	***6.88***	***318.43***	
Grand Total			**793.20**	**144.18**	**649.02**	

APPENDIX - 7

(Referred to in paragraph 2.9.4 at page 17)

Non/short recovery of revenue – 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		Remarks
		Period	Amount	Amount recovered/ month of recovery	Amount to be recovered	
1	2	3	4	5	6	7
Bihar Telecommunications Circle						
1	Provision of data circuits between different stations to Hindustan Times Limited Muzzaffarpur during April – July 2001 by GMTD Muzaffarpur	April 2002 to July 2003	7.67		7.67	
2	Provision of leased circuits between different stations to NE Railways Samastipur by GMTD Muzaffarpur	September 1999 to September 2003	5.00		5.00	
3	Provision of non exchange line to Punjab National Bank Chapra in October 1998 by TDM Chapra	October 1999 to October 2003	0.48		0.48	
4	Provision of 8 Mbps OFC link between DoT exchange Patna and Police PBX Patna to DIG wireless Bihar Police Patna by PGMTD Patna	June 1999 to March 2004	13.30		13.30	
5	Provision of 1249 no. of telephone connections in Muzaffarpur SSA	May 2001 to November 2002	215.00		215.00	
6	Provision of 60 nos of telephone connections in Samastipur SSA	December 1993 to April 2002	24.56		24.56	
7	Provision of 187 no. of telephone connections in Munger SSA	August 2001 to October 2002	8.02	4.99 August 2003	3.03	
		Sub total	***274.03***	***4.99***	***269.04***	
Gujarat Telecommunications Circle						
8	Provision of temporary speech circuits, OFC cable underground cable and internet leased lines	April 2001 to March 2003	8.78		8.78	
9	Provision of 2 Mbps data circuits to Government of Gujarat	March 2000 to November 2003	255.00	219.00 March 2003	36.00	
		Sub total	***263.78***	***219.00***	***44.78***	

Sl.No.	Particulars of lines/ cables/circuits	Advice notes not received		Particulars of bills issued/ recovery made after issue of Audit Note		Remarks
		Period	Amount	Amount recovered/ month of recovery	Amount to be recovered	
1	2	3	4	5	6	7
Haryana Telecommunications Circle						
10	Provision of data circuits to five subscribers by GMTD Gurgaon	November 2000 to February 2004	20.23		20.23	
		Sub total	***20.23***		***20.23***	
J&K Telecommunications Circle						
11	Provision of speech circuits/ 2MB streams to Air force/Army authorities by TDM Udhampur	January 2002 to January 2004	28.58		28.58	
		Sub total	28.58		28.58	
Punjab Telecommunications Circle						
12	Provision of NE lines data/speech circuits provided to 19 subscribers by PGMTD Chandigarh	January 2002 to February 2004	18.48	26.68 October 2003	11.19	
13	Provision of speech/data circuits, TP circuits and NE lines to 28 subscribers by PGMTD Chandigarh	August 2002 to November 2002	12.09			
14	Provision of 2 Mbps data circuits to the Tribune, Chandigarh	September 2002 to September 2003	7.30			
		Sub total	***37.87***	***26.68***	***11.19***	
Grand Total			**624.49**	**250.67**	**373.82**	

Appendix - 8

(Referred to in paragraph 2.9.5 at page 18)

Details of Non/short recovery of revenue – Bills issued at old lower tariff

(Rs in lakh)

Sl.No	Particulars of lines/ cables/circuits	Bills issued at old lower tariff		Particulars of bills issued/ recovery made after issue of Audit Note		Remarks
		Period	Amount	Amount recovered/ month of recovery	Amount to be recovered	
1	2	3	4	5	6	7
Chattisgarh Telecommunications circle						
1	Provision of 2 data circuits to South Eastern Railways by GMTD Raipur	October 1994 to December 2000	40.28	-	40.28	
		Sub total	40.28	-	40.28	
Jammu and Kashmir Telecommunications circle						
2	Provision of under ground cables of various specifications to Army authorities by GMTD Jammu	January 1995 to June 2001	19.14	-	19.14	Bills issued in March 2001
		Sub total	19.14	-	19.14	
Maharashtra Telecommunications Circle						
3	**Provision of telephone connections by**					
	i) P.G.M.T.D. Nagpur	April 2000 to June 2001	4.05	3.25	0.80	
	ii) G.M.T.D. Jalgaon	April 2001 to January 2002	7.61	6.66	0.95	
	iii) T.D.M. Jalna	October 2001 to June 2002	5.10	3.54	1.56	
		Sub total	*16.76*	*13.45*	*3.31*	
Grand Total			**76.18**	**13.45**	**62.73**	

APPENDIX 9

(Referred to in paragraph 5.4.1 at page 65

Physical Performance of Mahanagar Telephone Nigam Limited for the last five years upto 31 March 2003.

Telephone Network	As on 31 March 1999			As on 31 March 2000			As on 31 March 2001			As on 31 March 2002			As on 31 March 2003		
	Delhi	Mumbai	Total	Delhi	Mumbai	Total	Delhi	Mumbai	Total	Delhi	Mumbai	Total	Delhi	Mumbai	Total
❖ No. of telephone exchanges	165	145	**310**	192	148	**340**	203	160	**363**	251	180	**431**	309	183	**492**
❖ Total equipped capacity (in lakh)	19.13	23.12	**42.25**	21.25	25.15	**46.40**	24.29	26.92	**51.21**	27.75	28.76	**56.51**	29.67	28.86	**58.53**
❖ No. of direct exchange lines (DELs) including WLL (in lakh)	16.42	20.12	**36.54**	18.18	22.13	**40.31**	19.80	23.55	**43.35**	20.66	24.31	**44.97**	21.95	24.45	**46.40**
❖ Capacity utilisation	86%	87%	**86%**	86%	88%	**87%**	82%	87%	**85%**	74%	85%	**80%**	74%	85%	**79%**
❖ No. of persons on the waiting list (in lakh)	NIL	NIL	**NIL**	0.02	Nil	**0.02**	0.19	Nil	**0.19**	0.11	0.27	**0.38**	NIL	0.02	**0.02**
❖ No. of public telephones (in lakh):															
❖ Local	0.28	0.39	**0.67**	0.28	0.51	**0.79**	0.31	0.67	**0.98**	0.35	0.84	**1.19**	0.47	1.04	**1.51**
❖ STD	0.10	0.13	**0.23**	0.12	0.17	**0.29**	0.15	0.21	**0.36**	0.19	0.23	**0.42**	0.26	0.27	**0.53**
❖ **Total**	**0.38**	**0.52**	**0.90**	**0.40**	**0.68**	**1.08**	**0.46**	**0.88**	**1.34**	**0.54**	**1.07**	**1.61**	**0.73**	**1.31**	**2.04**
❖ No. of cellular mobile connections (in lakh)	--	--	--	--	--	--	--	--	--	0.94	1.06	**2.00**	1.32	1.60	**2.92**

Appendix - 10

(Referred to in paragraph 6.1 at page 69)

Statement showing number of cases decided by Courts/Arbitrators in favour of MTNL Delhi during 1996-2001 and revenue realisation there against as of May 2003

(Rs in lakh)

Year	Number of cases awarded in favour of MTNL	Amount ordered for recovery by MTNL (Rs)	Recovery Particulars			Balance to be recovered (Rs)
			No of cases	Amount due (Rs)	Amount recovered (Rs)	
1996-97	4	5.20	--	--	--	5.20
1997-98	6	23.55	3	6.48	2.27	21.28
1998-99	5	7.17	--	--	--	7.17
1999-2000	10	48.77	2	1.92	0.64	48.13
	25	**84.69**	**5 ***	**8.40**	**2.91**	**81.78**

***Note: Only in one case entire amount was recovered**

Appendix– 11

(Referred to in paragraph 7.4 at page 72)

Statement showing working results of Mobile Service (MS) units of Mahanagar Telephone Nigam Limited (MTNL) for the last two years upto 2002-03

(figures in Rs in crore)

Sl. No.	Items of income / expenditure	MS Delhi unit of MTNL		MS Mumbai unit of MTNL		MS Circle office Delhi of MTNL		Total	
		2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03
a	b	c	d	e	f	g	h	I	j
	Income								
1	Income from services	31.36	80.83	43.62	88.48	0.00	0.00	74.98	169.31
2	Other income	0.07	1.93	0.35	0.22	0.01	0.01	0.43	2.16
3	Total income (1 to 2)	31.43	82.76	43.97	88.70	0.01	0.01	75.41	171.47
	Expenditure								
4	Employees remuneration & benefits	1.90	3.47	1.48	7.08	1.01	1.22	4.39	11.77
5	Licence fee to DoT	3.02	7.04	5.76	8.12	0.00	0.19	8.78	15.35
6	Administrative, Operating & Other expenses	29.01	88.33	24.08	70.77	1.00	0.48	54.09	159.58
7	Interest	0.00	0.11	0.00	0.00	0.00	0.00	0.00	0.11
8	Depreciation	5.33	8.94	4.84	6.50	0.02	0.04	10.19	15.48
9	Total expenditure (4 to 8)	39.26	107.89	36.16	92.47	2.03	1.93	77.45	202.29
10	Loss before tax (3 - 9)	-7.83	-25.13	7.81	-3.77	-2.02	-1.92	-2.04	-30.82
11	Net prior period adjustments	0.03	-0.29	-0.02	-0.24	0.00	0.00	0.01	-0.53
12	Loss (-) / Profit for the year (10 + 11)	-7.80	-25.42	7.79	-4.01	-2.02	-1.92	-2.03	-31.35

Appendix – 12

(Referred to in paragraph 7.7 at page 77)

Statement showing time overrun on commissioning of CMTS system

Sl. No.	Project	Scheduled date of completion/ commissioning	Actual date of completion/ commissioning	Time Overrun (as on 31st March 2003)	Reasons for time Overrun
Time over-run (Delhi)					
1	**2**	**3**	**4**	**5**	**6**
1	The main project	13.09.2000	Not fully completed	2 years & 10 months	Sites for BTS were not handed over timely to the vendor
2	Extended area	01.03.2002	Not fully completed	1 year	
3	RCMS/ CCMS	07.07.2001	14.01.2002	5 months	
4	Mediation devices and billing software	30.11.2000	Not fully completed	2 years & 5 months	Several problems in the billing software
Time over-run (Mumbai)					
1.	The main Project	13.09.2000	28.02.2001 Last BTS commissioned in November 2002.	5 months (extension given upto 30th June 2001)	Project completed within the extended time.
2.	Extended Area	28.02.2002	Last BTS commissioned in November 2002.	Around 10 months	Due to delay in integration of BTS.
3.	RCMS/ CCMS	07.07.2001	14.01.2002	5 months	
4.	Billing	02.10.2000	Yet to be made over.	30 months	System is not made over so far by the vendor.

Appendix -13

(Referred to in paragraph 8.2 at page 98)

A. Calculation of avoidable Income Tax paid by MTNL on the amount of Gratuity liability the amount of which was disallowed during the last four financial years ending 31 March 2002 under Section 40A(7)(a) of Income Tax Act 1961 and loss of interest due to this avoidable financial outgo

Financial year (Assessment year)	Provision for payment of gratuity made by MTNL but not allowable under Section 40 A(7) (a) of IT Act 1961 (Rs in crore)	Rate of tax (in percent)	Rate of surcharge (in percent)	Total Tax rate Col. [3X(100%+4)] (in percent)	Total tax paid but avoidable Col. (2 X 5) (Rs in crore)
1	2	3	4	5	6
1998-1999 (1999-2000)	17.99	35	Nil	35.00	6.30
1999-2000 (2000-2001)	42.93	35	10	38.50	16.53
2000-2001 (2001-2002)	54.71	35	13	39.55	21.64
2001-2002 (2002-2003)	89.64	35	2	35.70	32.00
	205.27				**76.47**

B. Calculation of loss of interest due to avoidable payment of Income Tax

Financial year	Amount of avoidable Income Tax paid [*Ref. Col. 6 of Table A*] (Rs in crore)	Rate of interest [being the minimum rate of interest offered by MTNL on its Bonds]	Number of years as at the end of 31 March 2003	Loss of interest (Col. 2 X 3 X 4) (Rs in crore)
1	2	3	4	5
1998-1999	6.30	10.75%	4 years	2.71
1999-2000	16.53	10.75%	3 years	5.33
2000-2001	21.64	10.75%	2 years	4.65
2001-2002	32.00	10.75%	1 year	3.44
	76.47	-----	**TOTAL**	**16.13**

Appendix -14

(Referred to in paragraph 8.2 at page 99)

Calculation of loss of interest due to non-investment of yearly contributions towards gratuity liability of employees in eligible securities owing to delay in formation of approved Gratuity Trust and non-transfer of contributions to the Trust

(Rs in crore)

Year	Amount of gratuity	State Govt. Securities (15%) + Additional (20%)^				Central Govt. Securities (25%)				Public Sector Undertaking (40%)				Total loss interest
		Amount	Rate of Interest@	Duration**	Interest Loss	Amount	Rate of Interest	Duration	Interest Loss	Amount	Rate of Interest	Duration	Interest Loss	
1	2	3				4				5				6
1998-99 & 1999-2000	**60.92**	21.32	13%	4/2000 to 11/2002	7.39	15.23	11.29%	4/2000 to 11/2002	4.59	24.37	12.5%	4/2000 to 11/2002	8.12	**20.10**
2000-01	**54.71**	19.15	13%	4/2001 to 11/2002	4.15	13.68	9.81%	4/2001 to 11/2002	2.24	21.88	12.07%	4/2001 to 11/2002	4.40	**10.79**
2001-02	**42.37**	14.83	12.30%	4/2002 to 11/2002	1.22	10.59	6.91%	4/2002 to 11/2002	0.49	16.95	10.15%	4/2002 to 11/2002	1.15	**2.86**
Sub-total	*158.00*	*55.30*	---	---	*12.76*	*39.50*	---	---	*7.32*	*63.20*	---	---	*13.67*	*33.75*
2001-02	**47.27**	16.54	12.30%	4/2002 to 5/2003	2.37	11.82	6.91%	4/2002 to 5/2003	0.95	18.91	10.15%	4/2002 to 5/2003	2.24	**5.56**
TOTAL	**205.27**	**71.84**	---	---	**15.13**	**51.32**	---	---	**8.27**	**82.11**	---	---	**15.91**	**39.31**

Note:

** *As the first investment has been made by the Gratuity Trust on 17.12.02, the loss of interest on invested amount has been calculated upto November 2002. While the same has been calculated upto May 2003 in respect of amount not invested till date.*

^ *As per Ministry of Finance circular dated 31.3.99, the funds of Gratuity Trust can be invested in State Govt. Securities (15%), Central Govt. Securities (25%), PSU Bonds (40%) and remaining 20% in any of the above securities. While calculating the loss of interest of the remaining 20% (in any of the securities), it has been presumed that the same would have been invested in the securities giving highest yield, i.e. State Govt. Securities.*

@ *The loss of interest has been calculated on the basis of yearly average rate at which the investments were made by MTNL out of EPF trust funds in the relevant year.*

Appendix -15

(Referred to in paragraph 8.3 at page 100)

Statement showing avoidable loss to MTNL Mumbai unit due to non-pursuance of refund of insurance premium on pro-rata basis

Sl. No.	Name of assets	Name of the Insurance Company	Period of Policy	Net premium paid * (in Rs)	Refund due from 8 June 2001 to the date of expiry of policy		Refund actually received by Mumbai unit *		Amount short realised [col. 7 – 9] (in Rs)
					No. of Days	Amount [(col. 5x6)/365] (in Rs)	Date of realisation	Amount (in Rs)	
1	2	3	4	5	6	7	8	9	10
1	Exchange equipment etc.	New India Assurance Company & United India Insurance Company	31-3-2001 to 30-3-2002	2,11,69,810	296 (8/6/01 to 30/3/02)	1,71,67,846	30-3-2002 & 24-5-2002	53,13,323	1,18,54,523
2	Inventory at store depots	United India Insurance Company	25-1-2001 to 24-1-2002	22,77,193	231 (8/6/01 to 24/1/02)	14,41,182	24-5-2002	2,86,932	11,54,296
3	Cash	New India Assurance Company	1-7-2001 to 30-6-2002	1,52,486	365 (8/6/01 to 30/6/02)	1,52,486	17-10-2001	43,793	1,08,693
		GRAND TOTAL		**2,35,99,489**		**1,87,61,514**		**56,44,048**	**1,31,17,466**

Appendix 16

(Referred to in paragraph 9.4 at page 102)

Statement indicating installed capacity, targeted capacity and actual performance of major products of the Company for five years (1998-99 to 2002-03)

			1998-99		Percent of production to	
Major Products	Unit	Installed capacity	Targeted capacity	Actual performance	Installed capacity	Targeted capacity
Switching products	M. Lines	3.43	3.12	3.74	109%	120%
Transmission products DIG. RADIO TX/RX 2/6/7/11/13 Ghz)	Nos.	2500	1870	1400	56%	75%
Terminal Equipments Telephones	M. No.	1.20	1.30	1.157	96%	89%
			1999-2000		Percent 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. No.	1.20	1.32	1.047	87%	79%
			2000-01		Percent 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%	114%
Transmission products DIG. RADIO TX/RX 2/6/7/11/13 Ghz)	Nos.	2500	1600	1604	64%	100%
Terminal Equipment Telephones	M. No.	1.20	1.20	1.195	100%	100%
			2001-02		Percent 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. No.	1.20	1.20	1.176	98%	98%
			2002-03		Percent 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. No.	1.20	1.20	1.09	91%	91%
New Products*						
WLL-INFRA	KL	-	600.00	150.00	-	25%
CDMA WLL TML/FWT	K Nos	-	300.00	20.5	-	7%
GSM	KL	-	300	608.0	-	-
MLLN/MLDN	Rs Crs	-	25.00	39.29	-	157%

** As the products are new the installed capacity is not known*

APPENDIX –17

(Referred to in paragraph 15 at page 118)

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 Network and tribal sub-plan. (DoT, now BSNL)
2.		9.15	Injudicious procurement of auto pulling machines Rs 2.45 crore (DoT, now BSNL)
3.	Report No. 3 of 1997 (Commercial) for the year ended 31 March 1996	6.3.2	Printing of Telephone Directories (MTNL)
4.		6.3.3	Infructuous expenditure on procurement of Digital Microwave Radio System (MTNL)
5.		6.3.8	Short recovery of security deposit in respect of ISD/STD payphones (MTNL)
6.	Report No. 6 of 1998 for the year ended 31 March 1997	11	Procurement and utilisation of Cable Pair Gain System (DoT, now BSNL)
7.		12	Procurement of 0.5 mm diameter Drop wire (DoT, now BSNL)
8.		13	Excess payment of Rs. 63.38 crore (DoT, now BSNL)
9.		19	Wasteful expenditure of Rs. 1.84 crore on Coastal wireless station (DoT, now BSNL)
10.		21	Non-recovery of advance (DoT, now BSNL)
11.		28	Loss due to failure to recover copper wire (DoT, now BSNL)
12.		33	Cash payment in lieu of uniforms (DoT, now BSNL)
13.	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)
14.	Report No.6 of 1999 for the year ended 31 March 1998	6	Non realisation of dues from licensees of Voice Mail services (DoT, now BSNL)
15.		8.4	Non payment of licence fee (DoT, now BSNL)
16.		8.5(ii)	Short realisation of rent from data network users. (DoT, now BSNL)
17.		8.6	Misuse of spare numbers (DoT, now BSNL)
18.		12	Laying of cables in local network (DoT, now BSNL)
19.		13	Functioning of Calcutta Telephones (DoT, now BSNL)
20.		17	Infructuous expenditure of Rs 10.33 crore in purchase of trunk exchanges (DoT, now BSNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
21.		19	Procurement of Multi Access Rural Radio Systems (DoT, now BSNL)
22.	Report No. 3 of 1999 (Commercial) for the year ended 31 March 1998	5.3	Non-recovery of unadjusted amount of purchase advance (MTNL)
23.	Report No. 6 of 2000 for the year ended 31 March 1999	7	Non-realisation of annual maintenance charges for OFC route (DoT, now BSNL)
24.		9.1	Leakage of revenue from coin collection boxes. (DoT, now BSNL)
25.		11	Non/Short billing of revenue (DoT, now BSNL)
26.		16	Material Management in Telecom Stores and Circles (DoT, now BSNL)
27.		17	Rural Telecommunication Network (DoT, now BSNL)
28.		18	Irregularities in procurement of new technologies. (DoT, now BSNL)
29.		19	Procurement of Multi Access Rural Radio spectrum (DoT, now BSNL).
30.		26	Non-payment of bills of Telecom Factories (DoT, now BSNL)
31.		27	Misappropriation of Government money (DoT, now BSNL)
32.		33	Excess engagement of contract labour (DoT, now BSNL)
33.		34	Un-authorised engagement of casual labour (DoT, now BSNL)
34.		35	Injudicious purchase of land. (DoT, now BSNL)
35.		37	Procurement of woollen uniforms at higher rates (DoT, now BSNL)
36.	Report No. 3 of 2000 (Commercial) for the year ended 31 March 1999	6.3.1	Loss due to failure in maintaining the prescribed power factor (MTNL).
37.	Report No. 6 of 2001 for the year ended 31 March 2000	4	Non-recovery of dues amounting to Rs 2.52 crore from Department of Electronics for Educational and Research Network (ERNET) (DoT, now BSNL)
38.		5 (ii) and (iv)	Non realisation of service tax. (DoT, now BSNL)
39.		6	Non-realisation of additional security deposits from STD/PCO operators (DoT, now BSNL)
40.		9	Non/short recovery of revenue (DoT, now BSNL)
41.		12	Manpower Management in Department of Telecommunications Services (DoT, now BSNL)
42.		13	Performance of Telecom Factories Jabalpur and Mumbai (DoT, now BSNL)
43.		14	Computerised Telephone Revenue Billing and Accounting System (DoT, now BSNL)
44.		15	Non-recovery of dues from MTNL Mumbai/Delhi (DoT, now BSNL)
45.		16	Avoidable expenditure on unwarranted use of armoured cable in place of unarmoured cable (DoT, now BSNL)
46.		17	Excess expenditure of Rs 4.25 crore in procurement of 2 GHz digital microwave terminals (DoT, now BSNL)
47.		19	Illegal purchase of stores (DoT, now BSNL)
48.		20	Overpayment of Rs 2.35 crore to suppliers (DoT, now BSNL)
49.		21	Non-recovery of cable worth Rs 2.02 crore issued to contractors (DoT, now BSNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
50.		33	Avoidable payment of lease charges of Rs. 15.68 lakh due to non-utilisation of land (DoT, now BSNL)
51.		34	Non-recovery of leave salary and pension contribution (DoT, now BSNL)
52.		35	Avoidable expenditure in procurement of Multi Access Rural Radio Systems (DoT, now BSNL)
53.		37	Avoidable payment of minimum demand charges and low power factor surcharge (DoT, now BSNL)
54.		38	Non-maintenance of minimum power factor and resultant avoidable payment of penal charges (DoT, now BSNL).
55.		39	Avoidable payment of penal charges for overdrawal of electricity and irregular payment of electricity dues. (DoT, now BSNL)
56.		40	Execution of works without sanction of estimates (DoT, now BSNL)
57.		41	Irregular procurement of stores (DoT, now BSNL)
58.		42	Irregular procurement of 10 channel digital equipment (DoT, now BSNL)
59.	Report No. 3 of 2001 (Commercial) for the year ended 31 March 2000	6.2.3	Avoidable expenditure on building rent (MTNL)
60.	Report No. 6 of 2002 for the year ended 31 March 2001	7	Non/Short recovery of revenue (DoT, now BSNL)
61.		10	Production management of Telecom factories at Kolkata, Bhilai and Richai (DoT, now BSNL)
62.		11	Management of Telecom Stores (DoT, now BSNL)
63.		12	Working of the Telecom Civil Divisions (DoT, now BSNL)
64.		13	Non recovery of unused cable worth Rs 2.96 crore from contractors (DoT, now BSNL)
65.		14	Abnormal delay in finalisation of rates and resultant loss of interest (DoT, now BSNL)
66.		16	Excess payment of service charges (DoT, now BSNL)
67.		17	Loss of Rs 62.42 lakh in unauthorised procurement of unapproved version of 4 channel Very High Frequency systems (DoT, now BSNL)
68.		18	Non recovery of compensation of Rs 55.17 lakh for damage caused to departmental property (DoT, now BSNL)
69.		19	Other recoveries at the instance of Audit. (DoT, now BSNL)
70.		20	infructuous expenditure of Rs. 2.19 crore due to contracting excessive power load (DoT, now BSNL)
71.		21	Wasteful expenditure in procurement of defective power plants (DoT, now BSNL)
72.		22	Defective planning and resultant blocking of funds (DoT, now BSNL)
73.		23	Unfruitful expenditure in procurement of tower material and laying of foundation (DoT, now BSNL)
74.		24	Un-productive investment on electronic telex exchanges. (DoT, now BSNL)
75.		25	Procurement of high bit rate digital subscriber line systems and their utilisation (DoT, now BSNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
76.		26	Idling of raw material and semi finished goods worth Rs 2.32 crore due to unplanned bulk procurement of raw material (DoT, now BSNL)
77.		27	Wasteful expenditure of Rs 2.22 crore in procurement of testing instruments (DoT, now BSNL)
78.		30	Unplanned procurement of pulse code modulation cables (DoT, now BSNL)
79.		31	Idling of equipment due to inaccurate assessment and poor follow up action (DoT, now BSNL)
80.		37	Irregularities in decentralised procurement of C-DoT 256 P exchange equipment (DoT, now BSNL)
81.		38	Unauthorised procurement of equipment/stores (DoT, now BSNL)
82.		39	Excess expenditure on laying of cable beyond prescribed norms (DoT, now BSNL)
83.		40	Excess payment due to inconsistent application of procurement policy (DoT, now BSNL)
84.		41	Transportation of stores by circle Telecommunications Store Depots and Telecommunication units. (DoT, now BSNL)
85.		44	Avoidable payment (DoT, now BSNL)
86.		45	Avoidable expenditure due to poor planning (DoT, now BSNL)
87.		47	Irregular expenditure on procurement of cable route tracers and cable fault locators (DoT, now BSNL)
88.	Report No. 3 of 2002 (Commercial) for the year ended 31 March 2001	6.1.2	Unauthorised procurement of equipment/stores (BSNL).
89.		6.1.3	Continuance of telephone facilities despite non-payment of dues (BSNL).
90.		6.1.4	Failure to demand and collect rent of Rs 1.71 crore (BSNL).
91.		6.1.5	Loss of potential revenue due to non-commissioning of project (BSNL)
92.		6.1.7	Failure to realise Rs 81.31 lakh due to non-receipt of advice notes (BSNL).
93.		6.1.10	Non-recovery of licence fee for interconnectivity of network (BSNL).
94.		6.3.1	Unfruitful investment on acquisition of flats for use as staff quarters (MTNL)
95.		6.3.4	Loss due to delay in disconnection of Data Service (MTNL)
96.	Report No. 5 of 2003 (Commercial) for the year ended 31 March 2002	1	Functions, Organisation, traffic, revenue receipts and financial results (BSNL)
97.		2	Non-recovery of dues from pay phone operators due to deficient internal control system (BSNL)
98.		3	Loss of revenue due to misuse of spare numbers (BSNL)
99.		4	Blockage of Government revenue (BSNL)
100.		5	Avoidable loss due to casual handling of defaulter cases (BSNL)
101.		6	Short recovery of access charges of Rs 1.67 crore from M/s Shyam Telelink Limited (BSNL)
102.		7	Non recovery/Short recovery of port charges for basic and cellular services (BSNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
103.		9	Loss of potential revenue to the tune of Rs 44.10 lakh due to delay in commissioning of exchange (BSNL)
104.		10	Non-recovery of penal interest on delayed remittances by Banks into Government Accounts (BSNL)
105.		11	Short realisation of cost of bid documents (BSNL)
106.		12	Irregular grant of concession in rental (BSNL)
107.		13	Non/Short realisation of security/ initial deposit (BSNL)
108.		14	Non/short recovery of revenue (BSNL)
109.		16	Village Public Telephones (BSNL)
110.		17	Utilisation of Microwave Transmission equipment (BSNL)
111.		18	Excess payment of customs duty (BSNL)
112.		19	Delayed commissioning of exchange and consequential loss of potential revenue (BSNL)
113.		20	Excess payment to supplier (BSNL)
114.		21	Non regularisation of over payment (BSNL)
115.		23	Irregular payment of Rs 51.72 lakh on procurement of low height main distribution frames (BSNL)
116.		24	Idling of High Density Polyethylene pipes (BSNL)
117.		25	Telecom Factory, Kharagpur (BSNL)
118.		26	Unproductive investment on electronic telex exchange (BSNL)
119.		27	Wasteful expenditure on procurement of defective power plants (BSNL)
120.		28	Wasteful/extra expenditure on procurement of battery sets (BSNL)
121.		29	Unfruitful expenditure on purchase of disputed land (BSNL)
122.		30	Lack of proper planning and resultant idling of 6 Giga Hertz equipment and accessories (BSNL)
123.		31	Infructuous expenditure of Rs 2.17 crore on payment of minimum demand charges and low power factor surcharge
124.		32	Avoidable expenditure
125.		33	Injudicious/unwarranted procurement of Polyethylene insulated jelly filled cable worth Rs 1.66 crore (BSNL)
126.		34	Inability to take possession of land on account of encroachment and resultant blocking up of funds (BSNL)
127.		35	Idling of capital investment (BSNL)
128.		36	Idling of exchange equipment worth Rs 1.23 crore (BSNL)
129.		37	Unrealistic assessment of requirement of stores and consequential blocking of funds (BSNL)
130.		38	Unproductive expenditure on procurement of conventional type power plants (BSNL)
131.		40	Avoidable expenditure of Rs 36.93 crore (BSNL)
132.		41	Excess payment of Rs 25.97 crore to suppliers (BSNL)
133.		42	Excess payment of Rs 14.97 crore on procurement of new technology digital local exchange equipment (BSNL)
134.		43	Irregular payment of customs duty (BSNL)
135.		44	Avoidable expenditure on installation of higher capacity telephone exchange (BSNL)
136.		46	Avoidable extra expenditure in acquisition of land (BSNL)
137.		47	Avoidable expenditure of Rs 76.20 lakh in procurement of optical fibre cable (BSNL)
138.		48	Excess expenditure on laying of cable beyond prescribed norms (BSNL)
139.		49	Unauthorised creation of store depots (BSNL)
140.		50	Function, organisation, traffic, revenue receipts and financial results (MTNL).

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
141.		51	Loss of revenue due to non-implementation of revised tariff as prescribed (MTNL)
142.		52	Abnormal leakage of revenue from departmental PCOs led to loss of revenue of Rs 14.83 crore (MTNL)
143.		53	Loss of revenue of Rs 90.25 lakh due to failure to implement terms of agreement in time (MTNL)
144.		54	Loss of revenue
145.		55	Review on Quality of services of MTNL
146.		56	Review on Telephone Revenue Billing in MTNL.
147.		57	Idle investment due to unjustified expansion of capacity of telephone exchange (MTNL)
148.		58	Unproductive investment of Rs 3.46 crore on procurement of internet pay phones (MTNL)
149.		59	Locking up of funds due to delay in installation of model exchange (MTNL)
150.		60	Avoidable payment of Rs 0.73 crore due to non-conversion of electricity connection (MTNL)
151.		61	Material Management in MTNL

Appendix - 18

(Refer overview under the paragraph financial implications at page xiii and xiv)

Statement showing financial implication of paragraphs and reviews included in the Report

	Paragraph No.	Rs in crore
Organisational set-up and Financial Management – BSNL	1.1-1.7	0
Non collection of revenue from mobile subscribers — Rs 1.87 crore	2.1	1.87
Loss of potential revenue of Rs 1.39 crore	2.2	1.39
Non realisation of revenue of Rs 1.14 crore	2.3	1.14
Short recovery of infrastructure charges of Rs 91.44 lakh	2.4	0.91
Non/Short realisation of security deposit of Rs 67.20 lakh	2.5	0.67
Non recovery of cost of telephone instruments amounting to Rs 39.18 lakh	2.6	0.39
Non billing of Rs 26.25 lakh towards CLIP facility	2.7	0.26
Non realisation of service tax of Rs 18.71 lakh	2.8	0.19
Non/Short recovery of revenue	2.9	68.80
Recovery at the instance of Audit	2.10	0
Review on Working of Telecom Maintenance wing of BSNL	3.1-3.12	698.06
Non recovery of advance of Rs 229.18 crore	4.1	252.84
Non recovery of Rs 12.01 crore from MTNL	4.2	12.01
Non recovery of Excise Duty of Rs 1.89 crore	4.3	2.61
Non realisation of testing charges of Rs 86.63 lakh	4.4	0.87
Excess payment of Rs 57.16 lakh to supplier	4.5	0.57
Infructuous expenditure of Rs 78.22 lakh on procurement of Network synchronisation equipment	4.6	0.78
Blocking of funds of Rs 4.90 crore	4.7	4.90
Idling of computer software valuing Rs 3.24 crore	4.8	3.24
Idling of radio equipment worth Rs 3 crore	4.9	3.00
Avoidable expenditure of Rs 2.56 crore on procurement of software	4.10	2.56
Avoidable expenditure of Rs 2.24 crore due to non utilisation of building	4.11	2.24
Blocking of funds of Rs 1.61 crore on CCB Telephone	4.12	1.61
Blocking of Capital of Rs 1.37 crore	4.13	1.37
Blocking of Capital of Rs 93.67 lakh	4.14	0.94
Injudicious exemption of pre-despatch Quality checks leading to purchase of unsuitable antenna worth Rs 78.87 lakh	4.15	0.89
Blocking of funds of Rs 82.54 lakh on construction of foundation	4.16	1.15
Idle investment of Rs 73.68 lakh	4.17	0.74
Blocking of funds of Rs 58.08 lakh	4.18	0.58

	Paragraph No.	Rs in crore
Irregular expenditure of Rs 4.07 crore on engaging contract labour	4.19	4.07
Irregularities in procurement of stores and award of work - Rs 1.27 crore	4.20	1.27
Unauthorised expenditure and blocking of capital of Rs 84.39 lakh	4.21	0.84
Irregular payment of allowance of Rs 53.98 lakh to phone mechanics	4.22	0.54
Avoidable excess payment of Rs 96.53 crore on procurement of PIJF cable	4.23	96.53
Undue benefit given to a suppliers	4.24	5.67
Avoidable expenditure of Rs 2.94 crore	4.25	2.94
Excess payment of Rs 2.27 crore cable laying work	4.26	2.27
Avoidable extra expenditure of Rs 1.81 crore on procurement of PIJF cable	4.27	1.81
Avoidable expenditure of Rs 1.72 crore on use of costly junction cable	4.28	1.72
Excess payment of Rs 91.61 lakh to supplier	4.29	0.92
Avoidable expenditure of Rs 52.24 lakh on procurement of joining kits	4.30	0.52
Avoidable expenditure of Rs 51.20 lakh on execution of works at higher rates	4.31	0.51
Orders placed on a banned firm	4.32	0.37
Organisational set-up and Financial Management – MTNL	5.1-5.7	0
Loss of Rs 0.82 crore due to non-recovery of telephone revenue	6.1	0.85
Planning, Procurement, Utilisation and Operational Performance of Cellular Mobile Service System" – MTNL	7.1-7.13	118.97
Cable duct works in MTNL	7.14-7.24	100.98
Imprudent investment decision to invest surplus funds of Rs 250 crore	8.1	0
Avoidable loss of interest of Rs 55.44 crore.	8.2	131.91
Avoidable loss of Rs 1.31 crore due to non-pursuance of refund of insurance premium on pro-rata basis.	8.3	1.31
Organisational set-up and Financial Management – ITI Limited	9.1-9.7	0
Infructuous expenditure of Rs 1.92 crore due to purchase of defective equipment	10.1	1.92
Infructuous expenditure due to cancellation of order	10.2	1.48
Loss due to imprudent decision to execute orders	10.3	0.74
Levy of liquidated damages by the customer due to delay in supply	10.4	0.52
Irregular expenditure of Rs 40.38 lakh on foreign travel	10.5	0.40
Organisational set-up and Financial Management – Telecommunications Consultants India Limited	11.1-11.5	0
Loss of Rs. 52.29 lakh due to delay in supply of plant communications equipment	12.1	0.52
Organisational set-up and Financial Management – Intelligent Communication Systems India Limited	13.1-13.5	0
Organisational set-up and Financial Management – Millennium Telecom Limited	14.1-14.5	0
Follow up on Audit Reports	15.1	0
Total		**1546.16**

GLOSSARY OF TERMS AND ABBREVIATIONS

ANALOGUE	An electrical signal which is analogous to changing physical quantity measured
CBT	Coin Box Telephone
CCB	Coin Collection Boxes
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
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
EDX	Electronic Data Exchange
EPABX	Electronic Private Automatic Branch Exchange
ETRP	Electronic Trunk Relay Plates
GHz	Giga Hertz
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
ISDN	Integrated Services Digital Network
LDST	Long Distance Satellite Telephone
LOI	Letter of Intent
MARR	Multi Access Rural Radio
MBM	Multi Base Module
Mb/s	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

51

Optical Fibre (OF)	Glass fibres using lightwaves for transmission of signals
OYT	Own your telephone
PABX	Private Automatic Branch exchange
PBX	Private branch exchange
PCM	Pulse Code Modulation
PCO	Public Call Offices
PERT Chart	Programme Evaluation Review Technique Chart
PIJF Cable	Polyethylene Insulated Jelly Filled Cable
PSPDN	Packet Switch Public Data Network
PST	Progressive Stock Taking
PVC	Polyvinyl chloride
PW	Private Wires
SACFA	Standing Advisory Committee on Radio Frequency Allocation
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
VSAT	Very small aperture terminal