Report of the Comptroller and Auditor General of India

for the year ended March 2005

Union Government (Commercial)

(Telecommunications Sector)

Transaction Audit Observations

No.13 of 2006

(Regularity Audit)

CONTENTS

PREFACE

A reference is invited to the prefatory remarks in Report No. 10 of 2006 of the Comptroller and Auditor General of India where a mention has been made that observations on individual topics of interest noticed in course of Audit of the Companies under the Telecommunication Sector are presented in Report No. 13.

Report No. 13 for the year ending March 2005 has been prepared for submission to the President of India under Article 151(1) of the Constitution. It features the results of audit of the public sector undertakings of the telecom sector. The Companies covered are Bharat Sanchar Nigam Limited, Mahanagar Telephone Nigam Limited, ITI Limited, Telecommunications Consultants India Limited, Intelligent Communication Systems India Limited and Millennium Telecom Limited which are under the Department of Telecommunications (Ministry of Communications and Information Technology).

The Report contains 61 paragraphs divided into 12 chapters.

Chapters I to IV pertaining to Bharat Sanchar Nigam Limited contain

- 43 paragraphs;
- one IT Audit review on Chennai Telephone Billing System of Bharat Sanchar Nigam Limited

Chapters V to VI pertaining to Mahanagar Telephone Nigam Limited (MTNL) contained eight paragraphs;

Chapters VII and VIII pertaining to ITI Limited contain five paragraphs

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

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

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

Chapter XII contains a paragraph on follow up on Audit Reports

Seventy one Draft Audit Paragraphs (DAPs) and one Information Technology (IT) Audit Report were forwarded to the Secretary, Department of Telecommunications (DoT) for furnishing replies. Replies to none of the above were 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 2004-05 and the early part of 2005-06. This Report also includes cases noticed during earlier years, wherever relevant.

Telecom Sector Profile

1. Background

Indian telecom is more than 160 years old, beginning with the 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. By 30 September 2005, there were 113.39 million telephone connections in the country with a telephone density of 10.24 telephones per hundred population.

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

2. Administration and Control

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

3. Telecom Reforms

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

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

4. Entry of Private Operators

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

5. Regulatory control

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

6. Telecom Policies

The first National Telecom Policy was announced in 1994 with a major thrust on universal service and qualitative improvement in telecom services besides the starting 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 fees than they could eventually muster. As a result, by May 1999, they had accumulated arrears totalling Rs 3,779.45 crore payable to the Government. The New Telecom Policy 1999 (NTP-99) allowed the private operators to migrate from the fixed licence fee regime to a revenue-sharing regime. Other provisions of NTP-99 included the permitting of interconnectivity and sharing of infrastructure among various service providers within the same areas of operations; separation of the policy and licensing functions of DoT from the service provision function; opening of National Long Distance (NLD) and International Long Distance (ILD) services to competition and carrying of both voice and data traffic by service providers. As of 31 March 2002, unrestricted entry was allowed in basic services on a revenue-sharing basis. All telecom services were also opened up for private sector participation; national and international data connectivity were opened to all and internet services were also opened up without any restriction on the number of entrants and without any entry fee. A National Frequency Allocation Plan (NFAP-2002) was evolved in line with the Radio Regulations of the International Telecom Union (ITU) for catering to the conflicting demands on the spectrum.

7. Other Government organisations in the Telecom Sector

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

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

The Wireless Planning and Coordination wing deals with the policies of spectrum management, licensing, frequency assignments, international coordination for spectrum management and administration of the Indian Wireless Telegraphy Act, 1933. In order to administer the use of radio frequencies, the licences/renewals for use of wireless equipment and the frequencies are authorised by WPC. The licences are granted for specific periods on payment of prescribed licence fees and royalty in advance and are renewed after expiry of the validity periods.

8. Financial performance of PSUs in the Telecom Sector

As on 31 March 2005, six PSUs namely BSNL, MTNL, ITI, TCIL, ICSIL and MTL were in the telecom sector. Some of the important financial performance indicators of these telecom PSUs for the year ended 31 March 2005 were as follows:

(Rs in crore)

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	7500	12500	7500	36090.09	117.50	75282.72	7920.08	10.52
MTNL	354.37	---	354.37	---	6084.10	283.50	10173.78	1206.22	11.86
ITI	267.47	---	267.47	---	1374.17	---	1107.76	(309.82)	(27.97)
TCIL	28.80	---	28.80	---	449.14	21.60	354.78	13.68	3.86
ICSIL	---	---	---	---	24.34	---	0.80	0.11	13.75
MTL	---	---	---	---	1.32	---	5.08	0.71	13.98
Total	**5650.64**	**7500**	**13150.64**	**7500**	**44023.16**	**422.60**	**86924.92**	**8830.98**	**10.15**

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

As may be seen from the above table, on equity capital investment of Rs 5,650.64 crore in these six telecom PSUs, the Government received dividend of Rs 422.60 crore, which worked out to only 7.48 *per cent*. On preference capital investment of Rs 7,500 crore in BSNL, the Government did not receive any dividend as BSNL was exempted from the payment of dividend up to 31 March 2005 on preference capital. On the total capital employed of Rs 86,924.92 crore in the above PSUs, the overall percentage of profit before tax worked out to 10.15 *per cent*.

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

9. Foreign Direct Investment

Foreign Direct Investment (FDI) up to 100 *per cent* has been allowed in the telecom manufacturing sector and services like e-mail, voice-mail, internet (without gateways) and infrastructure providers. Seventy four *per cent* FDI is allowed in case of radio paging service, internet (with gateway) and end-to-end bandwidth providers. In the case of basic, cellular, NLD, ILD and value added services, FDI was limited to 49 *per cent*. This was increased to 74 *per cent* in October 2005.

As a result of the positive response to the investment policy being pursued for the telecom sector, 930 proposals of FDI of Rs 41,369.11 crore were approved for this sector during August 1991 to September 2004, which was second only to the power and the oil refinery sector. From these proposals, the actual inflow of FDI during August 1993 to August 2004 was Rs 10,273.05 crore, of which Rs 99.17 crore had been received during January to August 2004.

10. Employment generation

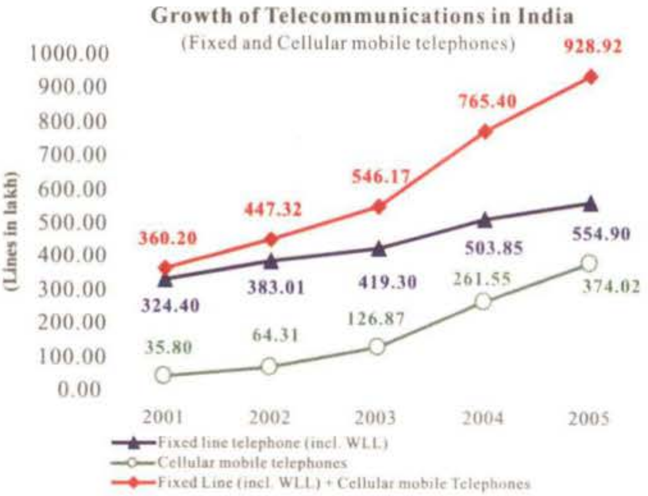
As on 31 March 1991, there were approximately 3.75 lakh government employees (excluding industrial workers) working in the telecom sector (DoT and MTNL). With the growth of the sector, this number went up and as on 31 March 2005, there were around 4.03 lakh government employees (excluding industrial workers) working in this sector (DoT, BSNL and MTNL). This represented growth in employment generation by around 7 *per cent* over the last 14 years.

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

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

Sl. No.	Telecom Network	Public sector (MTNL & BSNL)	Private sector	Total
		(figures in lakh)		
1.	Direct exchange lines[♣](DELs) including WLL	411.92	142.98	554.90
2.	Cellular mobile connections	90.56	283.46	374.02
3.	Village public telephones	5.12	0.13	5.25
4.	Public Call Offices	20.24	---	20.24
5.	Rural direct exchange lines including WLL	130.37	---	130.37
6.	Internet connections	28.51	27.03	55.54

The growth[*] in fixed lines and cellular mobile telephones in India during 31 March 2001 to 31 December 2004 was as given in the chart below.



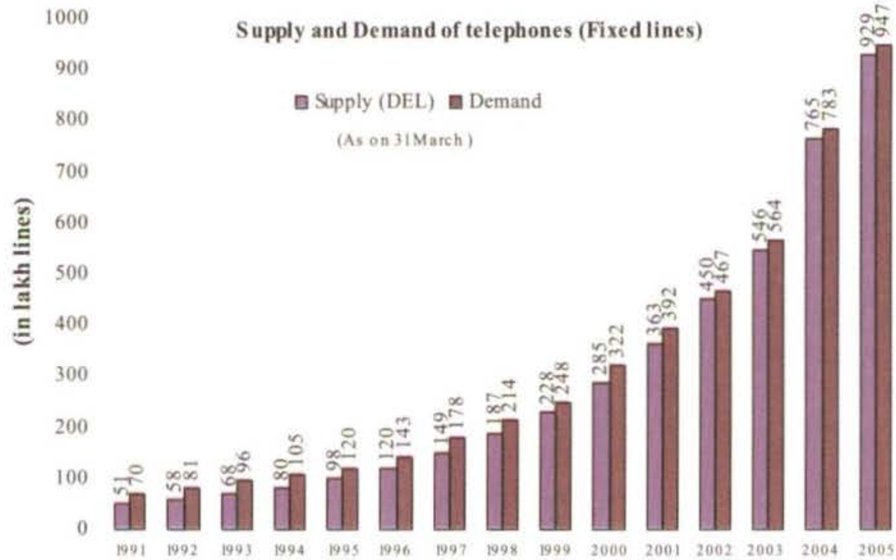
Fixed line telephones (i.e. DELs including WLL) increased from 324.40 lakh as on 31 March 2001 to 554.90 lakh as on 31 December 2004, representing a growth of more than 71 *per cent* during this period. In the case of cellular mobile telephones, however, the number of

[♣] This includes rural direct exchange lines including WLL shown at serial no. 5.

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

connections increased remarkably from 35.80 lakh as on 31 March 2001 to 374.02 lakh as on 31 December 2004, representing of about ten-fold growth during this period.

Similarly, the position[π] of demand and supply of telephones (DELs, WLL and Cellular) in India during the years 1990-91 to December 2004 was as under:



As can be seen from the above, against a demand of 70 lakh telephones as on 31 March 1991, the demand as on 31 December 2004 was 947 lakh, representing more than thirteen-fold growth in demand. The supply of telephones against the above demand was 51 lakh telephones as on 31 March 1991 and 929 lakh telephones as on 31 December 2004, representing an eighteen-fold growth in supply. However, the supply of telephone connections in India has never been adequate to meet the demand fully in any of the last 15 years.

12. Unified Access (Basic and Cellular) Services Licence

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

a. The existing operators had an option to continue under the present licensing regime (with present terms and conditions) or migrate to

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

the new Unified Access Service Licence (UASL) in the existing service areas with the existing allocated/contracted spectrum.

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

c. In addition to the services permissible under the current licences, Cellular Mobile Service Providers (CMSPs) could also offer limited mobility facilities existing within the Short Distance Charging Area (SDCA) as permitted to the Basic Service Providers at appropriate tariffs through concepts such as home-zone operations.

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

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

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

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

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

Consequently, 27 out of 31 basic service licences were converted to Unified Access Service licences. This regime offered greater participation of private and public sector operators and led to increased competition and the provision of improved facilities for customers.

13. Interconnection Usage Charges

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

14. Broadband service

BSNL and MTNL introduced broadband services in January 2005. 'Broadband' is an 'always on' data connection that is able to support interactive services including internet access and has the capability of the minimum download speed of 256 kbps for an individual subscriber.

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 result in more value added services and facilities for the subscribers at lower cost. With the continuous expansion in the telecom sector, tele-density in the country is expected to rise to 15 by 2010.

OVERVIEW

This Audit Report for the year 2004-05 contains 61 paragraphs and one IT Audit review and is presented in 12 chapters:

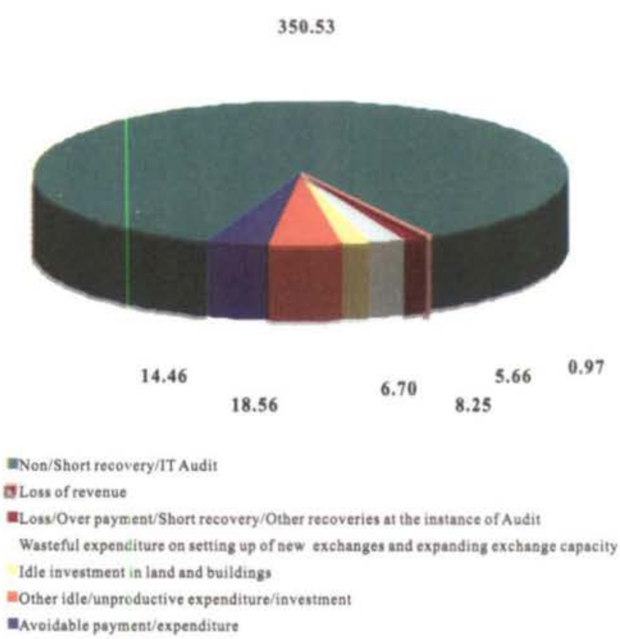
Chapters I to IV	Bharat Sanchar Nigam Limited
Chapters V to VI	Mahanagar Telephone Nigam Limited
Chapters VII to VIII	ITI Limited
Chapter IX	Telecommunications Consultants India Limited
Chapter X	Intelligent Communication Systems India Limited
Chapter XI	Millennium Telecom Limited
Chapter XII	Follow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

Financial implications

The total quantifiable financial implication of paragraphs and reviews included in this Report is Rs 527.52 crore. The Company-wise details with reference to the nature of irregularities are given as under:

(i) Bharat Sanchar Nigam Limited

The financial implication in respect of paragraphs and the IT Audit relating to Bharat Sanchar Nigam Limited (BSNL), was Rs 405.13 crore as per details given below:

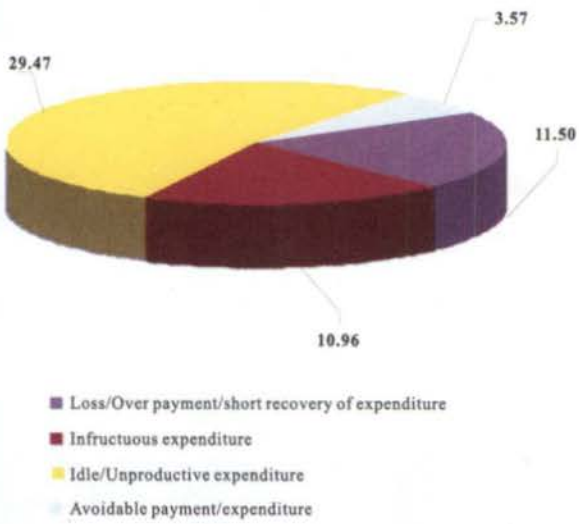


(Rs in crore)

Revenue paragraphs and IT Audit	
Non/Short recovery/IT Audit	350.53
Loss of revenue	0.97
Expenditure paragraphs	
Loss/Over payment/Short recovery/ Other recoveries at the instance of Audit	5.66
Wasteful expenditure on setting up of new exchanges and expanding exchange capacity	8.25
Idle investment in land and buildings	6.70
Other idle/unproductive expenditure/ investment	18.56
Avoidable payment/expenditure	14.46
Total	**405.13**

ii) Mahanagar Telephone Nigam Limited

The financial implication in respect of paragraphs relating to Mahanagar Telephone Nigam Limited (MTNL), was Rs 55.50 crore as per details given below:



(Rs in crore)

Expenditure paragraphs	
Loss/Over payments/Short recovery of expenditure	11.50
Infructuous expenditure	10.96
Idle/Unproductive expenditure	29.47
Avoidable payment/expenditure	3.57
Total	**55.50**

iii) ITI Limited

The financial implication in respect of paragraphs relating to ITI Limited was Rs 66.89 crore as per details given below:

(Rs in crore)

Expenditure paragraphs	
Idle/irregular expenditure	52.97
Loss/Overpayment	13.92
Total	**66.89**

Highlights of individual chapters of each Company are presented below:

BHARAT SANCHAR NIGAM LIMITED

Chapter I

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

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

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

- As on 31 March 2005, the entire paid-up equity share capital of Rs 5,000 crore and preference share capital of Rs 7,500 crore of the Company were treated as investment by the Government of India. In addition, Rs 7,500 crore had been treated as loan from the Government of India. No interest on the loan of Rs 7,500 crore was paid to the Government due to exemption/moratorium on the same, enjoyed by the Company.

- The Company was also exempted from payment of dividend on equity share capital up to 31 March 2004 and further enjoyed 50 *per cent* and 25 *per cent* waiver on dividend for the years 2002-03 and 2003-04 respectively. The Company proposed dividend of Rs 1,337.88 crore for the year ending 31 March 2005.

- At the end of March 2005, the Company had a network of 37,040 telephone exchanges with an equipped capacity of 498.20 lakh lines. Out of this equipped capacity, 374.88 lakh telephone connections, i.e., 75 *per cent* were given, though the number of persons on the waiting list was 17.16 lakh. The number of Village Public Telephones increased from 5.10 lakh as on 31 March 2004 to 5.19 lakh as on 31 March 2005.

- For the year ending 31 March 2005, the Company earned Rs 33,450.04 crore from its services. The profit before tax was Rs 7,920.08 crore and after providing for tax, the net profit stood at Rs 10,183.29 crore.

- The arrears of telephone revenue increased from Rs 3,074.63 crore at the end of June 2004 to Rs 3,184.79 crore at the end of June 2005 for the bills issued upto March 2005.

- For the bills issued up to March 2005, an amount of Rs 2,404.53 crore (as of 1 July 2005) was outstanding for one or more years, constituting 75.50 *per cent* of the total outstanding revenue of Rs 3,184.79 crore.

- In respect of category-wise outstanding revenue, out of the total outstanding amount of Rs 3,184.79 crore, 94.96 *per cent* was outstanding against private subscribers, 1.03 *per cent* against Central Government departments and 4.01 *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 188.31 crore in 2000-01 to Rs 399.45 crore in 2004-05, while those of telex/intelex charges reduced from Rs 13.79 crore to Rs 11.54 crore during the same period.

- The number of employees per thousand telephone connections including WLL, decreased from 13.02 in 2000-01 to 7.23 in 2004-05.

(Paragraph 1)

Chapter II

Revenue paragraphs relating to the Company based on transaction audit findings

This Chapter on revenue paragraphs based on the results of transaction audit, contains cases of loss/non-recovery/outstanding dues, etc. of Rs 323.66 crore. The Company has realised Rs 8.30 crore at the instance of Audit.

Non-realisation of interconnection charges from M/s Data Access (India) Ltd.

The Company failed to safeguard its financial interest, by not obtaining appropriate bank guarantees from the International Long Distance Operators as per the agreement and also delayed disconnection of Point of Interconnection between October 2003 and April 2005 resulting in non-realisation of interconnection charges of Rs 219.62 crore.

(Paragraph-2.1)

Non-collection of revenue from cellular mobile subscribers

Failure of the company to implement stipulated safeguards resulted in accumulation of outstanding dues of Rs 41.82 crore in seven telecom circles on post-paid mobile telephones.

(Paragraph-2.2)

Non-realisation of interest on delayed payments

Twenty eight Secondary Switching Areas (SSAs) under 10 telecom circles failed to realise interest on delayed payments from private operators for the period August 2002 to April 2005 resulting in non-realisation of Rs 18.34 crore.

(Paragraph-2.3)

Continuation of telephone facilities despite non-payment of dues

Eleven SSAs under three telecom circles continued to provide telephone services despite non-payment of dues by subscribers and STD/PCO operators resulting in accumulation of dues of Rs 10.39 crore for the period May 1991 to January 2005.

(Paragraph-2.4)

Blocking of funds and loss of interest

Delay by the Company in execution of an agreement with Videsh Sanchar Nigam Limited for space segment usage charges resulted in blocking of funds of Rs 9.73 crore and loss of interest amounting to Rs 44.08 lakh thereon.

(Paragraph-2.5)

Non-realisation of charges from M/s Reliance Infocomm Limited for ISD calls with tampered Calling Line Identification

Failure of three SSAs under the Kerala Telecom Circle to compute the correct arrear charges due from M/s Reliance Infocomm for international calls with tampered Calling Line Identification terminated on other than earmarked ports, resulted in short realisation of revenue to the tune of Rs 6.42 crore.

(Paragraph-2.6)

Non-billing due to non-receipt of Advice Notes

The Company failed to raise bills for the rentals in respect of telecommunication facilities provided to various subscribers due to non-receipt of completed Advice Notes in Telecom Revenue Accounting branch resulting in non-billing of Rs.6.06 crore for the period September 1997 to November 2005

(Paragraph-2.7)

Short billing of rentals for leased circuits

Rules provided for charging of rentals of leased circuits within Short Distance Charging Areas as per the resources utilised. However, nine SSAs under seven telecom circles failed to charge the rentals as per rules, resulting in short billing of Rs 3.54 crore.

(Paragraph-2.8)

Non-billing of interconnect licence fees

Nine SSAs under the Andhra Pradesh Telecom Circle failed to collect interconnect licence fees in respect of 32 data circuits provided to the Director, e-Seva resulting in non-billing of Rs 2.15 crore for the period August 2003 to March 2006.

(Paragraph-2.9)

Non-realisation of charges

Two SSAs under the Kerala Telecom Circle failed to bill M/s Reliance Infocom Limited at higher rates for terminating calls in wrong trunk groups, resulting in non realisation of revenue of Rs 1.29 crore.

(Paragraph-2.10)

Loss of revenue due to delayed /non implementation of revised pulse rates

Delayed implementation/non-implementation of revised pulse rates of calls made from local public call offices by three SSAs under the West Bengal Telecom Circle resulted in loss of revenue of Rs 96.57 lakh for the period September 2004 to March 2005.

(Paragraph-2.11)

Non-realisation of infrastructure sharing charges

Four SSAs under the Tamil Nadu Telecom Circle did not raise bills for infrastructure sharing charges as per the instructions of the corporate office resulting in non-realisation of Rs 96.19 lakh for the periods ranging from December 2003 to May 2005.

(Paragraph-2.12)

Loss of potential revenue due to inordinate delay in providing leased circuits

Failure of the Principal General Manager, Patna Telecom District under the Patna Telecom Circle and the General Manager, Dibrugarh Telecom District under the Assam Telecom Circle to provide leased circuits within the stipulated time resulted in loss of potential revenue of Rs 95.94 lakh.

(Paragraph-2.13)

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

Failure of the General Manager, Telecom District, Jhansi under the Uttar Pradesh (East) Telecom Circle to issue bills at revised rates in respect of five speech circuits leased to the Railways resulted in short billing of Rs 93.21 lakh for the period June 1990 to March 2005.

(Paragraph-2.14)

Short billing of installation charges and rentals

General Manager, Telecom District (GMTD), Itanagar under the North East-II Telecom Circle and GMTD, Nagaon under the Assam Telecom Circle failed to recover installation charges and rentals at enhanced rates consequent to increase in exchange capacity resulting in short billing of Rs 83.27 lakh.

(Paragraph-2.15)

Non-billing of rentals

General Manager, Telecom District, Bhuj under the Gujarat Telecom Circle failed to fix final rentals in respect of optical fibre cable provided on rent and guarantee basis resulting in non-billing of Rs 67.46 lakh.

(Paragraph-2.16)

Chapter III

Information Technology Audit

This Chapter contains one Information Technology Audit with quantifiable financial implication of Rs 27.84 crore.

Information Technology Audit of Chennai Telephones Billing System

The Chennai Telephone Billing System (CTBS) is a non-integrated billing system used by the Chennai Telephone District (CTD) of the Company with 10.02 lakh working lines as on March 2005. The CTBS was commissioned in February 2002 and generates 6.85 lakh bills every month. CTBS functions in a client/server environment on Oracle Relational Database Management System (RDBMS) with a Sun Solaris Operating System.

(Paragraph 3.1)

Some of the major deficiencies observed by Audit in the system were as follows:

- The system could not make full use of Information Technology in ensuring timely and accurate billing by minimizing unaddressed bills and expediting the processing of Advice Notes and disconnections. 26,198 unaddressed bills amounting to Rs 3.83 crore were generated out of which

9,190 unaddressed bills valuing Rs 1.57 crore were pending for more than three billing cycles.

(Paragraph 3.6.3)

- Due to delays in processing Advice Notes potential revenue worth Rs 5.49 crore could not be generated.

(Paragraph 3.6.4)

- Delays in disconnection resulted in accumulation of dues amounting to Rs 8.03 crore.

(Paragraph 3.6.5)

- Data migration from the old COBOL package to CTBS was not completed inasmuch as deposit data to the pre-CTBS period were kept in suspense status entailing manual intervention for refunds.

(Paragraph 3.7.1)

- CTBS failed to bill telephone connections for 14.65 lakh metered calls from January 2003 to March 2005. In addition 2.37 lakh local calls and trunk calls amounting to Rs 2.92 lakh registered in ISDN child numbers were not billed.

(Paragraph 3.8.1)

- Despite availability of required inputs, CTBS did not bill phonograms worth Rs 14.37 lakh.

(Paragraph 3.8.2)

Based on its findings Audit recommended, CTD should attempt on-line integration of CTBS with the existing commercial application software like CANMAPS, FRS, etc after proper cost benefit analysis. CTD should also conduct necessary modifications in the CTBS software so that the billing of leased circuits and I-NET can be done through it. Logical access controls of CTBS should be strengthened by adequate logging of changes to critical data like master data, meter readings, etc. The audit trail function should be activated. CTD should formulate policies for anti virus, data backup and prepare a 'Business Continuity Plan' and 'Disaster Recovery Plan', for early implementation.

Chapter IV

Expenditure paragraphs relating to the Company based on transaction audit findings

This Chapter on expenditure paragraphs based on the results of transaction audit, brings out losses/over payments/short recovery of expenditure, infructuous expenditure, idle/unproductive expenditure, excess expenditure in violation of rules, avoidable payments/expenditure, etc. aggregating Rs 53.63 crore.

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

Excess payment of electricity charges

The Punjab State Electricity Board (PSEB) issued notice in January 1997 and allowed a rebate of 7.5 *per cent* for power consumers falling under the non-residential supply category subject to the condition that the supply of power was given at 11 KV, provided the consumer installed their own transformer. The Chief General Manager Telecommunications, Punjab circle failed to claim the admissible rebate on electricity charges even though the supply of power was given at 11 KV and the Company installed its own transformers. This resulted in excess payment of Rs 2.31 crore to PSEB.

(Paragraph 4.1)

Non-disposal of hazardous waste

Zinc dross, a by-product of the galvanising process is a hazardous metal waste which if allowed to accumulate has an adverse impact on ecosystems, including the human environment. Departmental instructions as adopted by the Company, envisage that zinc dross produced in telecom factories should be disposed of by offering the same to any Central/State Government Department/PSU/autonomous body and in case none is willing to purchase it, it should be disposed of by way of auction after wide publicity, as per the existing procedure of telecom factories. Audit scrutiny of the records of the Telecom Factory, Bhilai (October 2004) revealed that the Management failed to dispose of zinc dross of 360.23 MT generated during the period 1994-1995 to 2000-01, the net realisable value of which was Rs 1.26 crore.

(Paragraph 4.2)

Non-recovery of compensation for damage to underground cables

M/s Reliance Infocomm Limited (RIL), while undertaking digging work, damaged underground cables of the Company on 237 occasions during August 2001 to May 2003. Audit observed that the Area Managers under Chief General

Manager (CGM), Calcutta Telephones, belatedly intimated (December 2003/January 2004) the Deputy General Manager (Switching Planning) about damages to the cables. In most of the cases a formal compensation claim was not lodged with RIL and a consolidated claim for recovery of compensation of Rs 1.26 crore in respect of 237 cases from RIL was lodged only in January 2004. The firm while accepting claims (April 2004) for Rs 4.82 lakh for damages on 19 occasions rejected 192 claims on the ground that intimation had not been received from Calcutta Telephones regarding damages during the project period of RIL. Thus delay on the part of the CGM to prefer claims resulted in non-recovery of compensation of Rs 1.21 crore from RIL for the cables damaged by the latter.

(Paragraph 4.3)

Non-recovery of compensation charges for delays in repairing E-10-B cards

General Managers, Telecom District (GMsTD), Rourkela and Bhubaneswar under the Orissa Telecom Circle, entered into agreements with M/s Indian Telephone Industries (ITI) in June 2001 and September 2003 respectively for repair of all types of cards used in E-10-B exchanges. ITI delayed repairing of 1496 cards pertaining to GMTD Rourkela and 1169 cards pertaining to GMTD, Bhubaneswar. However compensation charges of Rs 87.57 lakh were not recovered from ITI.

(Paragraph 4.4)

(B) Wasteful expenditure on setting up of new exchanges and expanding existing exchange capacity

Injudicious expansion of exchanges

The General Managers, Telecom District, Ghaziabad under the Uttar Pradesh(West) Circle and Surendranagar under the Gujarat Circle injudiciously expanded the equipped capacity of five telephone exchanges considering a growth rate of 30 to 40 *per cent* resulting in under utilisation and consequent idle investment of Rs 3.46 crore on expansion of these exchanges.

(Paragraph 4.5)

Unproductive expenditure on installation of an exchange

The Principal General Manager, Telecom (PGMT) Coimbatore, sanctioned the project for installation of a 1K EWSD Remote Switching Unit (RSU). The exchange was commissioned (October 2003) at a cost of Rs 2.83 crore. But no connections were released till July 2004. Only 20 centrex connections were working from the EWSD RSU as on September 2005. Thus the decision of PGMT, Coimbatore to install a 1K EWSD RSU at Peelamedu was injudicious, resulting in unproductive expenditure of Rs 2.83 crore.

(Paragraph 4.6)

Wasteful expenditure on installation of C-DOT exchanges

Telecom District Manager, Banda under the Uttar Pradesh (East) Telecom Circle sanctioned nine project estimates for installation of nine C-DOT-256 exchanges for providing telephone connections to rural areas during August 1999 to March 2000. The exchanges were installed between December 1999 and March 2001 at a cost of Rs 1.96 crore. These could not be fruitfully utilised due to non-availability of optical fibre cable equipment, control cards and underground cables and it was subsequently proposed to cover the area with WLL technology. Thus the basic objective of providing telephone connections could not be achieved resulting in wasteful expenditure of Rs 1.96 crore.

(Paragraph 4.7)

(C) Idle investment in land and buildings

Idle investment on purchase of land and construction of building

The General Manager Telecom District, Uttar Pradesh (West) circle procured a plot at a cost of Rs 76.72 lakh from Ghaziabad Development Authority in July 1997 for opening of a telephone exchange in Govindpuram, Ghaziabad. The exchange building was constructed at a cost of Rs 67.95 lakh after delays at each stage, resulting in idle investment of Rs 1.45 crore.

(Paragraph 4.8)

Idle investment on construction of telephone exchange buildings

The Chief General Manager, Telecom, under the Bihar Circle during 2000 sanctioned the construction of three telephone exchanges which were yet to be commissioned due to a) secondary switching area (SSA) did not take over the building from the civil wing, b) project estimates were either not sanctioned or sanctioned belatedly. Thus improper planning and lack of synchronization between SSAs and the civil wing resulted in idle investment of Rs 1.44 crore.

(Paragraph 4.9)

Idle investment on purchase of land

The Principal General Manager Patna under the Bihar Telecom Circle could not take possession of the plot till April 2003 though the payment was made in March 2000 for construction of telephone exchange at Transport Nagar, Patna due to non-identification of the location of the plot. This resulted in idle investment of Rs 1.26 crore.

(Paragraph 4.10)

(D) Other idle/unproductive expenditure/investment

Idling of Digital Loop Carrier system

The corporate office of the Company placed three purchase orders (PO) (July 2001 to May 2004) and allotted 25 DLC systems to the Assam Telecom Circle as against the requirement of 11 DLC systems.Out of the 25 DLC systems received, only six systems were commissioned in four SSAs under the Circle. This resulted in idling of 19 DLC systems worth Rs 8.36 crore. Even in the case of the six DLC systems commissioned it was noticed that the average utilisation was only to the extent of 18 *per cent* as of September 2005.

(Paragraph 4.14)

Blocking of funds due to non-commissioning of optical fibre routes.

To provide optical fibre connectivity to various telephone exchanges, high-density polyethylene (HDPE) pipes and optic fibre cables (OFC) were laid along 31 routes of seven SSAs under the Uttar Pradesh (East) and Gujarat Telecom circles, out of which 25 routes were completed during 2002-04 at an expenditure of Rs 3.31 crore but could not be commissioned till September 2005 due to a) coverage of the area by mobile or WLL services b) non receipt of Synchronous Digital Hierarchy (SDH) equipment c) non completion of cable jointing. Thus lack of proper planning and coordination led to blocking of funds of Rs 3.31 crore.

(Paragraph 4.15)

Wasteful expenditure on idle stores

The General Manager Telecommunications (GMT), Mangalore, received line and wire stores meant for overhead alignments valuing Rs 3.11 crore based on the purchase orders placed by the Karnataka Circle. These stores were received by the Circle Telecom Stores Depot, Bangalore during 1998-99 to 2002-03 but were lying unutilized even after two years of their last receipt.

(Paragraph 4.16)

Infructuous expenditure on payment of electricity charges

Ten SSAs under the Madhya Pradesh and Chhattisgarh circles, Electrical Division II under the Tamil Nadu Circle and seven SSAs under the Karnataka Circle had contracted electricity demands more than required and minimum demand charges on higher contracted demands continued to be paid (October 2005). This resulted in infructuous expenditure of Rs 1.29 crore.

(Paragraph 4.17)

Unfruitful expenditure on procurement of power plants

Power plants supplied by M/s Infinity were lying idle since January 2002 either from the dates of installation due to defects or became faulty after working for a few months in different exchanges of Andhra Pradesh, Orissa and Jharkhand circles. Thus the procurement of power plants without taking into account the voltage fluctuations and other technical parameters of the areas in which these were to be installed resulted in their faulty performance and consequent unfruitful expenditure of Rs 1.17 crore

(Paragraph 4.18)

(E) Avoidable Expenditure/Payment

Avoidable expenditure on procurement of PIJF cable

The Company invited open tenders during June 2003 for procurement of PIJF cables and issued authorisations to telecom circles for placement of purchase orders. The Company had not considered two *per cent* additional discount offered by the bidders for centralised payments although in the previous tender centralised payment was agreed to. This resulted in avoidable expenditure of Rs 11.88 crore.

(Paragraph 4.21)

Avoidable extra expenditure on procurement of PLB HDPE pipes

The Chief General Manager, Telecom Stores (CGMTS), Kolkata invited tenders for procurement of PLB HDPE pipes during 2001 to 2004. Based on the rates approved by the Stores Purchase Committees (SPCs), purchase orders were placed during October 2001 to February 2004. The basic rates fixed by CGMTS, Kolkata, for procurement of the PLB HDPE pipes were higher than those fixed by CGMT, Rajasthan Telecom Circle, during the same period. Thus, failure to compare the basic rates of PLB HDPE pipes with other circles resulted in avoidable extra expenditure of Rs 1.76 crore.

(Paragraph 4.22)

MAHANAGAR TELEPHONE NIGAM LIMITED

Chapter V

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

Mahanagar Telephone Nigam Limited (Company) 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. The aspects highlighted in the Chapter are as under:

- Against the authorised equity share capital of Rs 800 crore, the paid-up capital, as on 31 March 2005, was Rs 630 crore, of which Rs 354.37 crore had been invested by the Government of India. At the end of 31 March 2005, the return on the said investment in the form of dividend paid by the Company was 45 *per cent.*
- The overall capacity utilisation of telephone exchanges went down from 85 *per cent* in 2000-01 to 58 *per cent* in 2004-05 due to mismatch between capacity created and demand.
- There was 341 *per cent* increase in the number of cellular mobile telephone connections in 2004-05 compared to 2001-02. The number of public telephones increased from 1.34 lakh in 2000-01 to 2.79 lakh in 2004-05.
- During 2004-05, the Company earned Rs 5,592.38 crore from its services. The profit before tax was Rs 1,206.22 crore and after providing for tax, the net profit stood at Rs 938.98 crore. The profit after tax decreased by 18 *per cent* in 2004-05 compared to the previous year mainly on account of decrease in income from services 12 *per cent* over the last year's income, although the expenditure also decreased by 3 *per cent* over the previous year's expenditure.
- The revenue arrears during the last five years upto 2004-05 ranged between 28 *per cent* to 37 *per cent* of the total revenue. The unrealised revenue which was considered doubtful of recovery increased from 20 *per cent* at the end of March 2001 to 24 *per cent* at the end of March 2002, but at the end of March 2005, it decreased to 15 *per cent*.
- The number of employees per thousand telephone connections (including cellular mobile connections) decreased from 13.97 in 2000-01 to 10.56 in 2004-05.

(Paragraph 5)

Chapter VI

Expenditure paragraphs relating to the Company based on transaction audit findings

This Chapter on expenditure paragraphs based on the results of transaction audit, brings out infructuous expenditure of Rs 49 crore and avoidable expenditure/payment of Rs 6.50 crore.

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

Imprudent Investment

The company invested surplus funds of Rs.100 crore in M/s. Indian Telephone Industries (ITI) which was incurring losses since 2001-02 in contravention of DPE guidelines. Dividend of Rs.17.50 crore for the years 2002-03 and 2003-2004 was also not paid by M/s ITI. Due to the imprudent investment, the Company lost interest of atleast Rs.1.31 crore.

(Paragraph 6.1)

Blocking of capital on purchase of land

The Delhi unit of the Company failed to utilise various plots purchased from Delhi Development Authority and Municipal Corporation of Delhi over 20 years for construction of staff quarters. This resulted in blocking of funds to tune of Rs 24.24 crore besides loss of interest of Rs 8.57 crore.

(Paragraph 6.2)

Infructuous expenditure on leasing of land

The Delhi unit of the Company during March 1992 purchased a land on lease from New Okhla Industrial Development Authority (NOIDA) for setting up a training centre and staff quarters at a total premium of Rs 6.53 crore. No plan had been prepared to utilize the land till April 2005. This had resulted in avoidable infructuous expenditure of Rs 10.96 crore.

(Paragraph 6.3)

Avoidable expenditure

The General Manager, (East I) of the Mumbai unit failed to review the utilisation and surrender of excess accommodation of the rented buildings inspite of Corporate office instructions and incurred avoidable expenditure to the tune of Rs 3.57 crore towards rent .

(Paragraph 6.4)

Idle Investment on establishment of a Fraud Management Control Centre

The Company's Board approved a project of a Fraud Management Control Centre (FMCC) in January 2000 to plug the leakage in revenue in Mumbai unit. The purchase orders were placed in March 2002 at a cost of Rs 11.82 lakh on M/s Ectel Limited, Israel to design, supply, install, test, commission and make over the FMCC on turnkey basis to Mumbai unit. Due to delays at each stage the project had not been commissioned even after a lapse of five years resulting in idle investment of Rs 5.23 crore.

(Paragraph 6.5)

Loss due to procurement of cables at higher rates without invoking risk and cost clause

The Company placed two purchase orders (POs)for supply of PIJF cables on M/s. Gujarat Telephone Cables Ltd.(GTCL) for supply of 65.2 km on the condition that in case of delays in supply, the Company reserved right to cancel/short close the POs and purchase the balance unsupplied quantities at the risk and cost of the defaulting supplier. M/s. GTCL supplied only 2.519 km of cables and the Company purchased similar cables at higher rates without invoking risk and cost clause on the defaulting vendor resulting in loss of Rs.1.12 crore.

(Paragraph 6.6)

ITI LIMITED

Chapter VII

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

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

- Against the authorised equity share capital of Rs 700 crore, the paid-up capital was Rs 588 crore (equity capital: Rs 288 crore and cumulative redeemable preference shares: Rs 300 crore) as on 31 March 2005. Out of this, Rs 267.47 crore had been invested by the Government of India.

- The returns on the above investment in the form of dividend paid by the Company were six *per cent* (1998-99 and 1999-2000) and five *per cent* (2000-01 and 2001-02). Since the Company was incurring losses since 2002-03, no dividend was paid for the years 2002-03, 2003-04 and 2004-05.

- During the last five years upto 2003-04, in respect of switching products, though the installed capacity was almost fully utilised upto 2000-01, it declined sharply to 70 *per cent in* 2001-02, 34 *per cent* in 2002-03 and 19 *per cent* in 2003-04 but improved to 47 *per cent* in 2004-05..

- At the end of 31 March 2005, the earning from sales and services was Rs 1,317.87 crore. The net loss stood at Rs 309.82 crore. The loss during the year 2004-05 came down to Rs 309.82 crore from Rs 705.83 crore (2003-04) mainly due to a grant in aid of Rs 447.78 crore received from the Government of India.

- The debtors ranging from 48 *per cent* to 103 *per cent* remained in arrears at the end of the last five years upto 2004-05

(Paragraph 7)

Chapter VIII

Major findings in transaction audit

Delay in claiming differential amount

The Company obtained an advance purchase order from BSNL (December 2000) for supply of 900 KL digital local exchange equipment at a provisional price of Rs 1978.84 per line. The final price was to be fixed after taking into consideration the terms and condition of 2001-02 tender. Audit observed that the Company delayed in filing differential claims which resulted in blockade of funds of Rs 29.12 crore and loss of interest thereon of Rs 4.36 crore.

(Paragraph 8.1)

Levy of liquidated damages and penal interest

The Company received (August 2002) purchase order from BSNL for supply of 60,000 lines of digital wireless access system at a price of Rs 68.29 crore. BSNL advised (June 2000) the Company to obtain validation certificate♦ within seven months (i.e. January 2001) in order to be eligible to participate in tender process for supply of equipment under CorDect technology. The Company applied (March 2001) for Type Approval Certificate♠ (TAC) to the regional Telecommunication Engineering Centre (TEC). Failure of the Company to initiate timely action and effectively pursue with TEC delayed the delivery resulting in recovery of LD of Rs 6.83 crore and penal interest of Rs 1.06 crore on advance drawn.

(Paragraph 8.2)

Loss due to injudicious purchase

Injudicious purchase of components for Digital Pair Gain Systems resulted in loss of Rs.1.45 crore on inventory written off and blocking of Rs. 93.44 lakh on unsold systems.

(Paragraph 8.3)

♦ It is required for effecting supplies and is needed when the 'Type Approval Certificate' is not there or expired.

♠ It is essential for any new product developed and certifies the product. 'Type approval Certificate' is required to be submitted for obtaining Validation Certificate clearance.

Irregular payment of Annual Performance Reward

As per instructions (June 1976 and January 1997) of Department of Public Enterprises (DPE), any scheme introduced under the Bonus Act for payment of annual bonus linked with production or productivity in lieu of bonus based on profits payable under the Act, should be with the prior approval of the Government. Though the employees of the Company became ineligible to draw bonus as their salaries exceeded the limits prescribed under the Act, the Board of Directors of the Company approved in April 1999 and July 2000 Annual Performance Reward (APR) for these employees. This resulted in irregular payment of Rs 23.14 crore for the year 1998-99 to 2001-02

(Paragraph 8.4)

TELECOMMUNICATIONS CONSULTANTS INDIA LIMITED

Chapter IX

Introduction, organisational setup, investment and returns, financial performance and manpower

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

- Against the authorised equity share capital of Rs 30 crore, the paid-up capital was Rs 28.80 crore as on 31 March 2005, which had been fully invested by the Government of India. The returns on the above investment in the form of dividend paid by the Company was 300 *per cent*, 150 *per cent*, 150 *per cent*, 75 *per cent* and 75 *per cent* for each of the last five years ending 31 March 2005 respectively.
- At the end of 31 March 2005, the total income from projects was Rs 418.49 crore. The profit before tax was Rs 13.17 crore and after providing for tax, the net profit after tax stood at Rs 10.73 crore. The profit after tax declined by 78 *per cent* in 2004-05 as compared to 2003-04 due to fall in total income.

(Paragraph 9)

INTELLIGENT COMMUNICATION SYSTEMS INDIA LIMITED

Chapter X

Introduction, organisational setup, investment and returns, financial performance and manpower.

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

- The authorised as well as paid-up equity capital of the Company, as on 31 March 2005, was Rs 1.00 crore.
- At the end of 31 March 2005, the total income earned was Rs 23.94 crore. The profit before tax and after providing for tax, for the year 2004-05 was Rs 10.53 lakh and Rs 8.24 lakh respectively.

(Paragraph 10)

MILLENNIUM TELECOM LIMITED

Chapter XI

Introduction, organisational setup, investment, financial performance and manpower

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

- Against the authorised equity capital of Rs 100 crore, the paid up capital as on 31 March 2005 was Rs 2.88 crore which was fully subscribed by MTNL.
- The Company incurred a net loss of Rs 20 lakh during the year 2001-02, whereas it earned net profit before tax of Rs 1.02 crore and Rs 76 lakh and Rs 71 lakh during 2002-03, 2003-04 and 2004-05 respectively.

(Paragraph 11)

BHARAT SANCHAR NIGAM LIMITED

CHAPTER I
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

1.1 Introduction

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

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

1.2 Organisational setup

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

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

1.3 Investment and Returns

Against the authorised equity share capital of Rs 10,000 crore and preference share capital of Rs 7,500 crore, the paid-up equity share capital and preference share capital as on 31 March 2005 were Rs 5,000 crore and Rs 7,500 crore, respectively.

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

The Company was exempted from payment of dividend on preference share capital up to 31 March 2004. The Company was also exempted from payment of dividend on equity share capital up to 31 March 2002 and enjoyed 50 *per cent* and 25 *per cent* waiver on dividend due on equity share capital for the years 2002-03 and 2003-04, respectively. The Company proposed a dividend of Rs 1337.88 crore for the year ending 31 March 2005. The Government did not receive any interest or repayment of the principal amount on the loan of Rs 7,500 crore, as the Company had a moratorium on repayment of principal and interest thereon up to 31 March 2005. No interest accrued on this loan up to 31 March 2005.

DoT, while approving a package of measures in the form of financial/fiscal relief for the Company, decided (June 2002) that the Company would be liable to pay licence fees and spectrum charges in full and would also be allowed reimbursement of losses incurred by it on rural telephony operations and other socially desirable projects. The amount of reimbursement was to be decided annually by DoT in consultation with the Ministry of Finance. Accordingly, the Company has been paying the due amounts of licence fees and spectrum charges to DoT every year. In turn, DoT, in consultation with the Ministry of Finance, has been annually reimbursing the amount of losses incurred by the Company on rural telephony operations and other socially desirable projects. During the year ending 31 March 2005 the reimbursement of the licence fee was restricted to 2/3rd of licence fee excluding Universal Service Fund (USF) levy and an amount of Rs 1,765.90 crore was reimbursed to the Company by the Government on this account.

The Company also received Rs 310.25 crore and Rs 1,117.07 crore for the years ended 31 March 2004 and 2005, respectively from the USF towards reimbursement for maintenance of Village Public Telephones (VPTs).

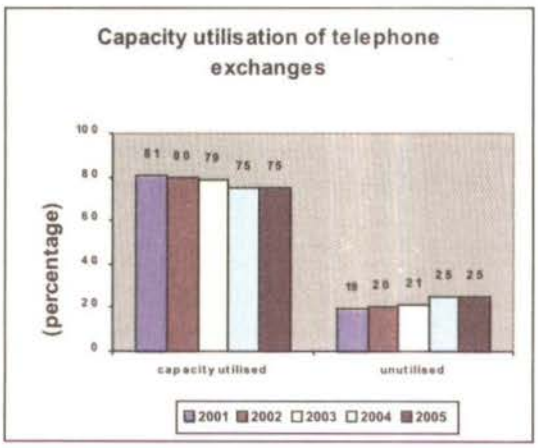
1.4 Physical and Financial Performance

1.4.1 Physical performance

Since DTS was corporatised as the Company, the complete network of telecommunications of DTS came under the control of the Company with effect from 1 October 2000. The physical performance of the Company as at the end of each of the last five years ending 31 March 2005 is given below:

Telephone Network	As on 31 March 2001	As on 31 March 2002	As on 31 March 2003	As on 31 March 2004	As on 31 March 2005
❖ No. of telephone exchanges	31589	34592	36136	36618	37040
❖ Total equipped capacity of direct exchange lines (DELs) including WLL (in lakh)	347.93	415.90	457.35*	485.60	498.20
❖ No. of telephone connections (DELs) including WLL (in lakh)	281.09 (81%)	334.01 (80%)	359.33 (79%)	363.94 (75%)	374.88 (75%)
❖ No. of persons on the waiting list (in lakh)	28.71	16.49	18.07	18.14*	17.16
❖ No. of cellular mobile telephone connections (in lakh)	Nil	*1.78	22.56	52.54	94.47
❖ No. of village public telephones (in lakh)	4.09	*4.68	5.05	5.10	5.19
❖ No. of stations linked with STD	25677	*29673	36027*	36646*	37035

- As seen from the table, in spite of increase in the equipped capacity of direct exchange lines (DELs), the overall capacity utilisation of telephone exchanges went down from 81 *per cent* in 2000-01 to 75 *per cent* in 2004-05.



- Despite the availability of equipped capacity, persons were still on the waiting list during each of the years 2000-01 to 2004-05; the reasons for which were the presence of large 'technically not feasible' (TNF) areas, enhancement in equipped capacity towards the year-end leading to release of connections in subsequent years, etc.

- The number of cellular mobile telephone connections increased from 1.78 lakh in 2001-02 to 94.47 lakh in 2004-05. The number of village

* These figures have been recast by the management.

public telephones increased from 4.09 lakh in 2000-01 to 5.19 lakh in 2004-05.

1.4.2 *Financial performance*

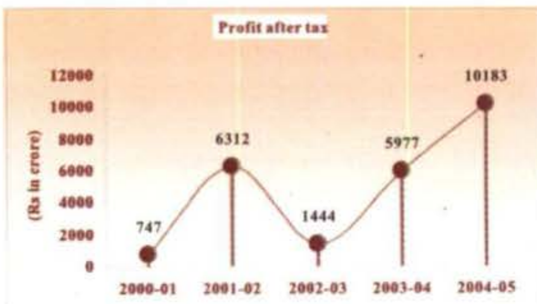
The financial results of the Company for the last five years ending 31 March 2005 were as follows:

(Rs in crore)

Particulars	2000-01 (15 September 2000 to 31 March 2001)	2001-02 @	2002-03	2003-04	2004-05
Income from services	11596.66	24297.21	25293.15	31399.34	33450.04
Other income	102.81	384.49	599.45	2519.25	2640.05
Expenditure (excluding interest and prior period adjustments)	10395.13	19993.49	24714.42	27075.29	29372.24
Interest	274.29	468.21	364.55	88.24	29.29
Profit before tax and prior period adjustments	1030.05	4219.99	813.63	6755.07	6688.56
Prior period adjustments	Nil	332.19	(455.72)	(58.90)	(534.38)
Profit before tax & extraordinary items of income	1030.05	4552.18	357.91	6696.17	6154.18
Extraordinary items of income (reimbursement by Govt. of losses incurred on rural telephony operations)	Nil	2300.00	2300.00	2300.00	1765.90
Profit before tax	1030.05	6852.18	2657.91	8996.17	7920.08
Tax provision	283.00	540.01	1213.46	3019.64	(2263.21)
Profit after tax	747.05	6312.17	1444.45	5976.53	10183.29
Proposed dividend	#	#	250.00	318.01	1337.88

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

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



It may be seen that there was an almost twofold increase in profit after tax for the year ending 31 March 2005 compared to the previous year's profit, mainly on account of increase in income from Wireless-in-Local Loop

(WLL) services, cellular services, interconnection usage charges from basic and cellular service providers and access deficit charges, besides write back of excess provision of income tax on account of availing of the benefit under Section 80 IA of the Income Tax Act, 1961.

1.5 Revenue Arrears*

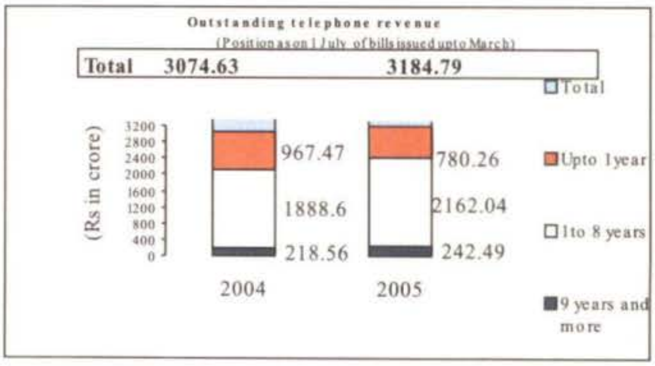
1.5.1 The position of demand raised, amount collected and arrears for telephone services (excluding revenue details of value added services like cellular mobile services, private basic service operators, etc.) for the five years ending March 2005 is given in the table below:

(Rs in crore)

Year	Arrears as on 1 April	Demand raised during the year	Total Demand (2+3)	Amount collected during the year	Arrears at the close of 31 March (4-5)
1	2	3	4	5	6
2000-2001	2472.45	18873.75	21346.20	18464.17	2882.03
2001-2002	2882.03	21966.29	24848.32	21300.39	3547.93
2002-2003	3547.93	22102.30	25650.23	22113.51	3536.72
2003-2004	3536.72	23995.97	27532.69	23611.40	3921.29
2004-2005	3921.29	22794.08	26715.37	22855.00	3860.37

At the end of March 2005, the revenue arrears on account of telephone services increased to Rs 3,860.37 crore as compared to Rs 2,882.03 crore at the end of March 2001. In fact, the increase in arrears over the five years 2000-2005 (33.95 *per cent*) outstripped the increase in demand raised (20.77 *per cent*) during the period. The percentage of collection of revenue to the total demand per year, however, remained more or less at the same level (97 % to 100 %) during these years.

1.5.2 The arrears of telephone revenue of Rs 3,860.37 crore came down to Rs 3,184.79 crore at the end of June 2005 for bills issued up to March 2005. Age-wise break up of the amount outstanding on 1 July 2005 as compared to the previous year is given in the adjacent chart. An amount of Rs 2,404.53 crore (as of 1 July 2005) was outstanding for one or more years, which



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* figures for all the years had been revised by the management due to reconciling the differences in the balances between the subsidiary records and control accounts at the circles. The point was also qualified by the Statutory Auditors in their report since 2002-03.

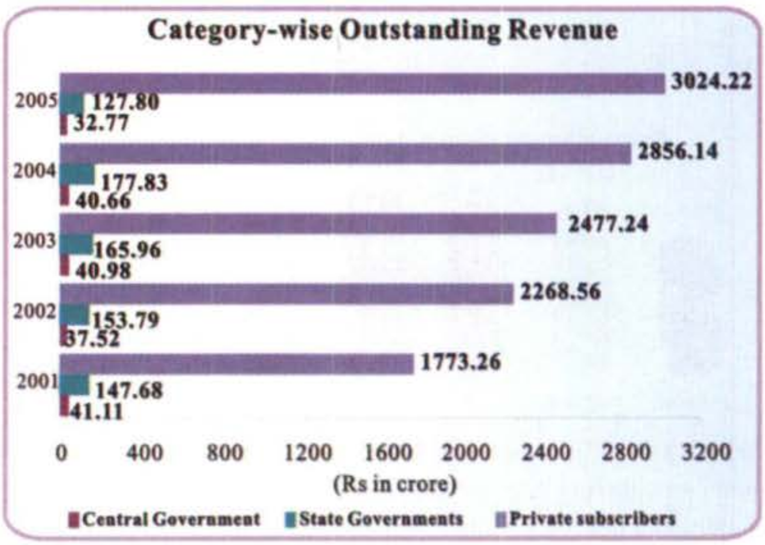
constituted 75.50 *per cent* of the total outstanding revenue.

1.5.3 Category-wise break up of total telephone dues between June 2001 and June 2005 was as under:

(Rs in crore)

Year	Central Government		State Governments		Private subscribers	
	Amount	Percentage of total outstanding	Amount	Percentage of total outstanding	Amount	Percentage of total outstanding
2000-2001	41.11	2.09	147.68	7.53	1773.26	90.38
2001-2002	37.52	1.52	153.79	6.25	2268.56	92.23
2002-2003	40.98	1.53	165.96	6.18	2477.24	92.29
2003-2004	40.66	1.32	177.83	5.78	2856.14	92.89
2004-2005	32.77	1.03	127.80	4.01	3024.22	94.96

An amount of Rs 3,184.79 crore was outstanding against various categories of telephone subscribers at the end of June 2005. Out of the total outstanding amount, 94.96 *per cent* was outstanding against private subscribers, 1.03 *per cent* against Central Government departments and 4.01 *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 168.08 crore.



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:

Telephones, telegraph, telex/intelex etc.

(Rs in crore)

Year	Arrears as on 1 April	Demand raised during the year	Total demand (2+3)	Amount collected during the year	Arrears as on 31 March (4-5)
1	2	3	4	5	6
Circuits (telephones and telegraph)					
2000-2001	165.91	280.43	446.34	258.03	188.31
2001-2002	188.31	324.57	512.88	309.81	203.07
2002-2003	203.07	514.48	717.55	428.41	289.14
2003-2004	289.14	583.28	872.42	502.43	369.99
2004-2005	369.99	567.76	937.75	538.30	399.45
Telex/intelex charges					
2000-2001	14.79	20.25	35.04	21.25	13.79
2001-2002	13.79	11.53	25.32	11.55	13.77
2002-2003	13.77	7.04	20.81	8.10	12.71
2003-2004	12.71	4.02	16.73	4.32	12.41
2004-2005	12.41	0.59	13.00	1.46	11.54

The revenue arrears for collection in respect of circuits had gone up from Rs 188.31 crore in 2000-01 to Rs 399.45 crore in 2004-05, while those in respect of telex/intelex charges reduced marginally from Rs 13.79 crore to Rs 11.54 crore during the same period. Thus the total outstanding revenue on account of circuits/telex/intelex worked out to Rs 410.99 crore, which was subsequently reduced to Rs 328.11 crore as on 1 July 2005 as shown in paragraph 1.5.5.

1.5.5 The arrears of outstanding dues in respect of circuits and telex/intelex charges reduced to Rs 328.11 crore at the end of June 2005 for bills issued up to March 2005. Break up of the outstanding dues as on 1 July 2005 is given below:-

(Rs in crore)

Period	Rent for circuits	Telex/intelex charges	Total
Upto 1995-96	28.84	3.32	32.16
1996-97 to 2003-04	193.92	7.71	201.63
2004-05	94.18	0.14	94.32
Total	**316.94**	**11.17**	**328.11**

1.5.6 Total arrears of revenue of over Rs 3,512.90 crore (telephone: Rs 3,184.79 crore and circuits/telex/intelex : Rs 328.11 crore) at the end of June 2005 in respect of telephone, telegraph, teleprinter services, etc, would have a serious adverse impact on the financial health of a commercial undertaking.

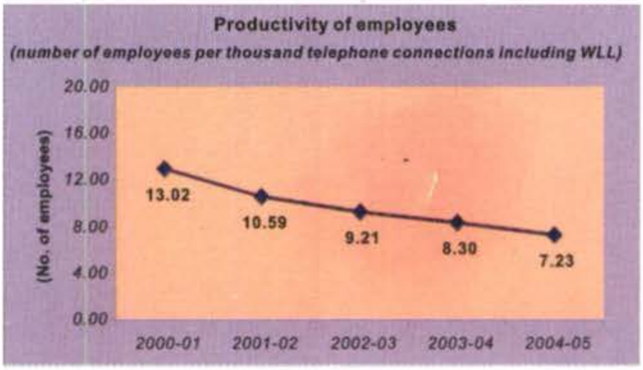
1.6 Manpower

The total manpower of the Company at the end of each of the last five years ending 31 March 2005 is given below:

Year	Group A	Group B	Group C	Group D	Industrial workers	Total manpower	Daily Rated Mazdoors
2000-01	7600	44126	241379	64974	7970	**366049**	6103
2001-02*	7071	44662	236705	63997	3237	**355672**	5211
2002-03	7026	46797	231656	63189@	3112@	**351780@**	4974
2003-04	7889	49158	238042	47090	3673	**345822**	3899
2004-05	6947	51242	230556	47525	3583	**339853**	3867

There was an overall decrease in the manpower during 2004-05 compared to the previous year except in the Group 'B' and Group 'D' categories, under which manpower increased to the extent of almost four *per cent* and one *per cent,* respectively.

1.7 Productivity



The productivity per thousand telephone connections including WLL and cellular mobile telephone connections (i.e. the ratio of employees per thousand telephone connections) of the Company for the year 2000-01 was 13.02, which improved to 7.23 during 2004-05.

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

@ Figures resubmitted by the Management

CHAPTER II
MAJOR FINDINGS IN TRANSACTION AUDIT - REVENUE

2.1 Non-realization of interconnection charges from M/s Data Access (India) Limited

Failure of the Company to enforce the provisions of interconnect agreement with M/s Data Access (India) Limited resulted in accumulation and non realisation of dues of Rs 219.62 crore.

The Company entered (July 2002) into an agreement with M/s Data Access (India) Limited, an International Long Distance Operator (ILDO), for providing interconnect facilities. Seventeen points of interconnection (POIs) were provided to the ILDO between May 2002 and October 2003. According to the agreement, the bills for interconnection charges for each POI were to be issued on monthly basis and were payable within 15 days from the dates of their issue. Bills were to be paid through cheques/demand drafts, drawn on local branches of any scheduled bank at the places where the designated authorities of the Company were located. In the event of delay in payment by the ILDO beyond 30 days, interest at the rate of 24 per cent, was to be charged.

Interconnect agreement provided for encashment of bank guarantee and levy of interest on delayed payments, besides disconnection

Further, if the payments were not received within the specified period, the Company had the right to discontinue the facility provided to the ILDO after giving 30 day's notice besides encashing the bank guarantees. The ILDO was required to furnish an initial bank guarantee of Rs 10 crore, valid for one year, to the Corporate office to cover the payment of the dues and thereafter bank guarantee was to be submitted separately for each POI. In July 2003, the Corporate office issued instructions that the ILDO should deposit with the Circle offices bank guarantees of rupees one crore or double the average billed amount at any of the POIs during the last three months, whichever was higher.

The Company failed to obtain due amounts of bank guarantee for the POIs

Audit scrutiny of the records of the Company's Corporate office and its field units from February 2004 to May 2005 revealed that the Company had failed to safeguard its financial interest, as it did not obtain appropriate bank guarantees from the ILDO as per the agreement. The ILDO deposited the initial bank guarantee of Rs 10 crore but subsequently deposited bank guarantees for only Rs 40.10 crore in respect of seven POIs, and did not deposit the bank guarantees due for the remaining 10 POIs.

The Company failed to disconnect the facilities in time. This resulted in non-realisation of dues of Rs 219.62 crore

Further, the Company accepted post dated cheques from the ILDO although there was no provision in the agreement for accepting the same. Fifty two post dated cheques for Rs 84.90 crore, accepted from the ILDO, bounced for want of funds. The Company also did not disconnect the facilities in time as per the agreement despite non-deposit of the required bank guarantees and delays in payment of dues.

Thus failure of the Company to obtain adequate bank guarantee and delayed disconnection of POIs between October 2003 and April 2005 resulted in accumulation and non-realisation of dues of Rs 219.62 crore as of December 2004. The possibility of recovery of the outstanding dues was remote since the ILDO was in the process of liquidation.

On this being pointed out by Audit, the Corporate office replied (July 2005) that some field units failed to adhere to the provisions of the interconnect agreement and that efforts were on to recover the outstanding dues through various legal measures.

The matter was referred to the Ministry in September 2005; its reply was awaited as of November 2005.

2.2 Non-collection of revenue from cellular mobile subscribers

Failure of the company to implement stipulated safeguards resulted in accumulation of outstanding dues of Rs 41.82 crore in seven telecom circles on post-paid mobile telephones.

The Company started its post-paid mobile telephone service under the brand name "Cell One" with effect from October 2002. Five Zonal Billing Centres were formed at Tiruchirapalli, Hyderabad, Pune, Chandigarh and Kolkata under the General Managers, Cellular Mobile Telephone Service (CMTS) of the respective circles. The Zonal Billing Centres were responsible for processing bills, monitoring payments, generating various reports for monitoring revenue collection and processing withdrawals of outgoing/incoming calls in cases of non-payment of dues for all the circles under their billing jurisdiction.

Mention was made in the Report of the Comptroller and Auditor General of India, Union Government, for the years 2004 and 2005, about the failure of the Company to implement the stipulated safeguards to avoid pilferage and loss of revenue resulting in non collection of revenue from the subscribers of "Cell One". The Ministry, in their Action Taken Note, stated (November 2004) that the department had sustained loss due to negligence of the staff and fraudulent subscribers.

Company failed to realise revenue amounting to Rs 41.82 crore due from 73,362 mobile subscribers

Further scrutiny of 48 Secondary Switching Areas (SSAs) under seven telecom circles, involving four zonal billing centres at Chandigarh, Kolkata, Pune and Tiruchirapalli revealed that the Company failed to realise revenue amounting to Rs 41.82 crore due from 73,362 mobile subscribers as detailed in the Appendix-I for reasons such as inadequate/non-verification of identity documents in time by the SSAs and the dealers, delays in issue of bills and delayed billing of roaming charges, failure/delays in disconnection of phones even after non-payment of the bills, malfunctioning/non-operation of the threshold servers at the Zonal Billing Centres and failure of the Company to make recoveries from the dealers, in cases of defaults of the subscribers booked through them, though the agreements provided for the same.

On this being pointed out by Audit, the heads of SSAs of the Bihar and Uttar Pradesh (East) Telecom circles and heads of the Haryana, Maharashtra and Rajasthan Telecom circles stated that necessary efforts were being made for the recovery of outstanding dues. The head of the Gujarat Telecom Circle stated that out of the outstanding dues of Rs 40.44 lakh, an amount of Rs 10 lakh had been recovered from the dealers through encashment of Bank Guarantees.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

2.3 Non-realisation of interest on delayed payments

Twenty eight Secondary Switching Areas under 10 telecom circles failed to realise interest of Rs 18.34 crore on the delayed payments from private telecom service providers.

As per the interconnect agreements, interest was chargeable on delayed payments by private service providers

The Company entered into interconnect agreements with private telecom service providers for interconnection of its network with their network facilities. As per the agreements, private service providers had to pay access charges up to April 2003 and Interconnect Usage Charges (IUC) from May 2003. The bills were to be issued on a monthly basis and were to be paid within 15 days from the dates of their issue. In the event of delayed payments by operators, interest at the prescribed rates was to be charged on the due amounts.

Twenty eight SSAs under 10 telecom circles failed to realise interest of Rs 18.34 crore, on delayed payments

Test check of the records by Audit between December 2003 and March 2005 revealed that 28 SSAs under the Andhra Pradesh, Haryana, Kerala, Calcutta Telephones, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh (East), Uttar Pradesh (West) and Uttaranchal circles failed to realise interest on belated payments, amounting to Rs 18.34 crore for the period August 2002 to April 2005 as shown in Appendix-II. This resulted in non-realisation of Rs 18.34 crore.

On this being pointed out by Audit, 12 SSAs under the Andhra Pradesh, Haryana, Kerala, Punjab, Tamil Nadu and Uttar Pradesh (East) circles issued bills for interest, recovery particulars for which were awaited as of July 2005. Nine SSAs under the Haryana, Kerala, Maharashtra, Uttar Pradesh (East), Uttar Pradesh (West) and Uttaranchal circles stated that bills would be issued. The heads of Eluru SSA under the Andhra Pradesh Circle, the Coimbatore and Virudhunagar SSAs under the Tamil Nadu Circle referred the matter to their Circle offices for clarification. Replies from the Thiruvalla SSA under the Kerala Circle, the Tuticorin and Coonor SSAs under the Tamil Nadu Circle and Deharadun SSA under the Uttaranchal Circle had not been received till July 2005.

The matter was referred to the Ministry in October 2005; its reply was awaited as of November 2005.

2.4 Continuation of telephone facilities despite non-payment of dues

Failure to disconnect telephone connections of subscribers and STD/PCO operators by due dates, despite non-payment of bills in 11 SSAs under the Bihar, Jharkhand and Uttar Pradesh (East) Telecom circles resulted in accumulation of dues of Rs 10.39 crore.

Rules, as adopted by the Company, envisage that telephone bills are payable by subscribers within 15 days of the date of issue of bills. In cases of non-payment, the telephones are liable to be disconnected on the 40th day. In the case of STD/PCOs, bills are payable within four working days from the date of receipt of bills, failing which the connections are liable to be disconnected.

Test check disclosed accumulation of dues to the extent of Rs 10.39 crore due to continuation of facilities despite non-payment

Audit scrutiny of records of 11 SSAs under three (Bihar, Jharkhand and Uttar Pradesh (East)) telecom circles during June 2004 to March 2005 revealed that the Company continued to provide telephone services despite non-payment of dues by subscribers and STD/PCO operators. This resulted in accumulation of dues of Rs 10.39 crore for the period May 1991 to January 2005, as shown in the Appendix-III.

While accepting the facts and figures, the SSAs stated that action was being taken to recover the outstanding dues and disconnect the telephone facilities of defaulting subscribers. Out of Rs 10.39 crore, the Bihar Telecom Circle recovered an amount of Rs 1.18 crore. In respect of the balance amount recovery was awaited as of June 2005.

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

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

2.5 Blocking of funds and loss of interest

Delay by the Company in execution of an agreement with Videsh Sanchar Nigam Ltd for Space Segment Usage Charges resulted in blocking of funds of Rs 9.73 crore and loss of interest amounting to Rs 44.08 lakh thereon.

DoT associated with VSNL for providing VPT, which was based on INMARSAT technology

The Department of Telecommunications (DoT) under a pilot project programme started providing (December 1997) Village Public Telephones (VPT), using satellite based technology through INMARSAT[•] in association with Videsh Sanchar Nigam Ltd (VSNL). DoT finalized (March 1999) Space Segment Usage Charges (SSUC) at the rate of US $ 0.35 per minute, payable to VSNL.

The Company on its formation in October 2000 also reiterated (July 2001) that SSUC at the rate of US $ 0.35 per minute were payable to VSNL.

The Company failed to enter into an agreement with VSNL resulting in unilateral upward revision by VSNL

Audit scrutiny (March 2004) of the records of the Maharashtra Telecom Circle, the nodal unit nominated for settlement of consolidated claims, revealed that VSNL proposed (March 2003) a revision of SSUC from US $ 0.35 to US $ 0.75 per minute effective from September 2002 and asked the Company's Corporate office to enter into an agreement for continuation of the VPT service. In the absence of any response from the Company, the Corporate office of VSNL unilaterally started (September 2002) charging SSUC at the rate of US $ 0.75 per minute by adjusting the charges from the Net International Traffic Account payable to the Company.

Subsequent downward revision of rates with retrospective effect resulted in excess payment

Subsequently, VSNL on its own reduced (July 2003) the charges to US $ 0.70 per minute effective from September 2002 and adjusted the resultant excess paid amount of Rs 1.89 crore from September 2002 to July 2003 in the accounts for July 2003. Thereafter, VSNL continued to charge SSUC at the rate of US $ 0.70 per minute.

After audit pointed out (March 2004) the unilateral determination of rates by VSNL in the absence of any response from the Company, it entered into (May 2004) an agreement with VSNL wherein SSUC was fixed at the rate of US $ 0.55 per minute with effect from September 2002. VSNL refunded (June 2004) the excess paid amount of Rs 9.73 crore from September 2002 to March 2004.

Excess payment resulted in blocking of funds of Rs 9.73 crore and consequent loss of interest of Rs 44.08 lakh

Thus inordinate delay by the Company's Corporate office in entering into an agreement to finalize the rates of SSUC with VSNL resulted in blocking of funds of Rs 9.73 crore and consequent loss of interest amounting to Rs 44.08 lakh[°].

[•] International Maritime Satellite organisation

[°] Calculated at a conservative rate of five percent during 2003-05

The matter was referred to the Ministry in September 2005; its reply was awaited as of November 2005.

2.6 Non-realization of charges from M/s Reliance Infocomm Limited for ISD calls with tampered Calling Line Identification

Three Secondary Switching Areas under the Kerala Telecom Circle failed to compute the correct arrear charges due from M/s Reliance Infocomm for terminating international calls with tampered Calling Line Identification other than earmarked ports, resulting in short realisation of revenue to the tune of Rs 6.42 crore.

The interconnect agreement for National Long Distance Service (November 2002) between the Company and M/s Reliance Infocomm Limited (RIL) stipulates that RIL should hand over incoming international calls to BSNL at its tandem exchanges on designated ports. In case it is detected that calls have been handed over to any port other than the earmarked one, termination charges applicable to the highest slab for all the calls recorded on that port for the preceding two months or the date of provisioning of that point of interconnection (POI), whichever is later, would be charged.

As per the Company's instructions, calls with non-existent CLI should be treated as cases of tampering of CLI

As a follow up action to reports from field units that international calls had been handed over by RIL at ports meant for STD calls, the Company headquarters instructed (September 2004) the Chief General Manager Telecommunications (CGMT) Kerala Circle to treat calls with non existent Calling Line Identification (CLI) as cases of tampering of CLI and to bill RIL for Interconnection Usage Charge (IUC) at the rate of Rs 4.55 per minute. Accordingly CGMT, Kerala Circle issued (October 2004) billing instructions to all heads of Secondary Switching Areas (SSAs).

Three SSAs in Kerala Telecom Circle failed to claim arrear charges from RIL for tampering of CLI, resulting in short collection of revenue to the tune of Rs 6.42 crore

Audit scrutiny (November 2004 to March 2005) of the records of Kollam, Thiruvalla and Palakkad SSAs under the Kerala Circle revealed that though these SSAs received international calls handed over by RIL with tampered CLI in ports meant for inter/intra Circle calls, arrear bills were not issued, resulting in short realisation of revenue to the tune of Rs 6.42 crore for the period from February 2004 to January 2005 as detailed in the Appendix-IV.

On this being pointed by Audit, all the three SSAs issued arrear bills to RIL between January 2005 and July 2005. Recovery was awaited as of August 2005.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

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

The Company failed to raise bills of Rs 6.06 crore due to non-receipt of completed advice notes in Telephone Revenue Accounting branches.

The Engineering unit of a telephone district is required to send completed advice notes to the Telephone Revenue Accounting (TRA) branch within seven days of providing telecommunication facilities to enable the latter to post the details in the Subscriber Record Cards (SRCs) and issue bills to the subscribers.

Test check disclosed non-billing of Rs 6.06 crore in eight telecom circles due to non-receipt of completed advice notes

Test-check of records pertaining to Andhra Pradesh, Bihar, Gujarat, Jharkhand, Karnataka, Maharashtra, Punjab, and Tamil Nadu Telecom circles between April 2003 and May 2005 revealed non-billing to the tune of Rs 6.06 crore towards rentals in respect of telecommunication facilities provided to various subscribers for the period from September 1997 to November 2005 due to non-receipt of completed advice notes in the TRA branch as shown in the Appendix-V.

On this being pointed out (April 2003 to May 2005) by Audit, the Management recovered Rs 3.86 crore. Recovery particulars of the balance amount of Rs 2.20 crore were awaited as of August 2005.

Cases of delayed billing/non-billing due to non-receipt of completed advice notes by TRA branch have been commented upon in the Reports of the Comptroller and Auditor General of India in the past. The Ministry while submitting the Action Taken Note on a similar para in June 2005 stated that the Company had reiterated (October 2003 and January 2005) the instructions for tightening internal controls to prevent errors and irregularities due to non-receipt of completed advice notes in TRA branches. Despite this, the deficiency persists.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

2.8 Short billing of rentals for leased circuits

Failure of nine Secondary Switching Areas to charge correct rentals for leased circuits within Short Distance Charging Areas, resulted in short billing of Rs 3.54 crore.

The Company's Corporate office clarified (April 2002) that the rentals of leased circuits provided from the existing capacity within Short Distance Charging Area (SDCA) should be charged according to the number of pairs of wires utilised to provide the circuits i.e. single rate for two wires and double the rate for four wires.

Rentals for leased circuits provided on four wire were billed at two wire charges, resulting in short billing of Rs 3.54 crore

Audit scrutiny of the records of nine Secondary Switching Areas (SSAs) under the Andhra Pradesh, Karnataka, Kerala, Maharashtra, Punjab, Rajasthan and Tamil Nadu Telecom circles revealed that the rentals for leased circuits provided on four wires within the respective SDCAs had been billed at two wire charges. This resulted in short billing to the tune of Rs 3.54 crore for the period April 1999 to April 2006 as shown in the Appendix-VI.

On this being pointed out by Audit, the SSAs gave different reasons for not recovering the four wire charges as below:

- It would not be correct to charge the customers at four wire charges since conventional modems available in the market for two Mbps[•] circuits, were designed to work only on four wires.
- A large number of circuits using four wire modems were being charged at the two wire rate before receipt of the Company's orders of April 2002 and if payment at double the rate was enforced, it was likely that most of the customers would surrender the circuits and approach their competitors.
- GMTD, Madurai, under the Tamil Nadu Circle, issued revised bills in January 2005 and recovered the entire amount in February/June 2005.

The replies are not tenable since the Corporate office had issued clarificatory orders in April 2002, November 2002 and June 2004 that TEC approved modems for two Mbps circuits working on two wires were also available in the market. The Corporate office had also clarified that it was the choice of the customers to use either two wire or four wire modems and pay accordingly.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

2.9 Non-billing of interconnect licence fees

Failure of nine Secondary Switching Areas under the Andhra Pradesh Telecom Circle to collect interconnect licence fees from e-Seva, Andhra Pradesh resulted in non-billing of Rs 2.15 crore.

The Company's instructions provide for recovery of interconnect licence fees

The Company revised (April 2001) interconnect licence fees in respect of direct interconnection of one private network with another private network to Rs 4 lakh per annum per 64 Kbps[•] link, subject to a maximum of Rs 15 lakh per annum per 2 Mbps[♦] link.

[•] Mega bits per second

[•] Kilo bits per second

[♦] Mega bits per second

The Chief General Manager, Telecommunications, Andhra Pradesh Telecom Circle, accorded (July 2003) permission for installation, maintenance and operation of a single party network on leased lines to the Director, e-Seva, Government of Andhra Pradesh for linking up its various e-Seva centres. The General Managers, Telecom Districts (GMsTDs) of the concerned Secondary Switching Areas (SSAs) were to be the controlling and billing authorities for recovering the licence fees.

Nine SSAs failed to collect interconnect licence fees of Rs 2.15 crore

Audit scrutiny of records (March 2004 to May 2005) of nine SSAs viz, Cuddapah, Nalgonda, Eluru, Tirupathi, Ongole, Rajahmundry, Vijayawada, Guntur and Warangal under the Andhra Pradesh Telecom Circle revealed that they had failed to collect interconnect licence fees in respect of 32 data circuits provided to the Director, e-Seva. This resulted in non-billing of Rs 2.15 crore for the period August 2003 to March 2006, as per Appendix-VII.

On this being pointed out by Audit, the General Manager, Telecom District Ongole, stated (August 2005) that the bills were not issued as interconnectivity charges were not leviable in the case of the e-Seva network. The Chief Accounts Officer of the office of the GMTD, Eluru and the Accounts Officer (Value Added Services) of the office of the GMTD, Tirupathi stated (December 2004) that they issued (October 2004) demand notes for Rs 61.73 lakh, but also informed that the Government of Andhra Pradesh had taken up the case at the Circle level for waiver of the fees and that the matter was under correspondence between the Circle office and the Corporate office. These replies are not tenable as the Company had issued (September 2003) clear instructions that it had no policy to waive off interconnect licence fees for the e-Seva network. The remaining six SSAs replied (between December 2004 and June 2005) that bills for Rs 1.37 crore had been issued.

Thus the failure of the SSAs to raise the bills resulted in non-recovery of interconnect licence fees of Rs 2.15 crore for the periods ranging from August 2003 to March 2006.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

2.10 Non realisation of charges

Two Secondary Switching Areas under the Kerala Telecom Circle failed to bill M/s Reliance Infocom Limited at higher rates for terminating calls in wrong trunk groups, resulting in non realisation of revenue of Rs 1.29 crore.

The interconnect agreements between RIL and the Company stipulate higher charges for wrong routing of calls

The interconnect agreements (January 2002 and November 2002) for provision of Basic Telephone Services and National Long Distance Services (NLDS) between the Company and M/s Reliance Infocom Limited (RIL), stipulate that a trunk group in an exchange, designated to carry a particular type of call, should not carry any other traffic. In the event of any wrong routing being detected by the Company i.e. calls being handed over to a group not meant for carrying such calls, all the calls recorded in those trunk groups are to be billed at a higher rate from the date of provisioning of that Point of Interconnection (POI) or for the preceding two months, whichever is less. The rate applicable for wrong routing is Rs1.14 per metered unit as per the Basic Telephone Services agreement. As per the agreement for NLDS, the rate is to be the termination charges applicable to the highest slab.

Two SSAs under the Kerala Circle failed to charge higher rates for wrongly routed calls resulting in non recovery of Rs 1.29 crore

Audit scrutiny (June 2004/October 2004) of the records of the Kollam and Trichur Secondary Switching Areas (SSAs) under the Kerala Telecom Circle revealed that wrong routings of calls by RIL detected at different POIs in these SSAs were not billed at the prescribed higher rates resulting in non-recovery of revenue of Rs 1.29 crore.

On this being pointed by Audit, General Manager Telcommunications (GMT), Kollam issued (July 2004) a demand note for Rs 4.88 crore to RIL and GMT, Trichur reviewed all the cases and issued (January 2005) bills for Rs 11.07 crore to RIL. Recovery particulars were awaited as of August 2005.

Thus failure of the GMsT, Kollam and Trichur SSA to take timely action to charge RIL for wrong routing of calls resulted in non realisation of revenue of Rs 1.29 crore.

The matter was referred to the Ministry in September 2005; its reply was awaited as of November 2005.

2.11 Loss of revenue due to delayed /non implementation of revised pulse rates

Delayed implementation/non-implementation of revised pulse rates of calls made from local public call offices by three Secondary Switching Areas under West Bengal Telecom Circle, resulted in loss of revenue of Rs 96.57 lakh.

Delayed implementation/non-implementation of the revised pulse rates of calls made from local public call offices resulted in loss of revenue of Rs 96.57 lakh

The Company revised (September 2004) pulse rate of all calls made from local public call offices from 180 seconds to 90 seconds and further revised it to 120 seconds (January 2005) and raised the rate per unit call from Re 1 to Rs 2.

Test check of the records of the Kolkata, Asansol and Bankura Secondary Switching Areas (SSAs) under the West Bengal Telecom Circle revealed that the Kolkata SSA did not implement any of these orders, the Asansol SSA implemented the revised pulse rate from February 2005 and Bankura SSA did not revise the pulse rate from September 2004, but implemented the subsequent revision, effective from January 2005.

On this being pointed out by Audit, General Manager, Telecom District (GMTD), Kolkata stated (May 2005) that the revision of the pulse rate to 90 seconds was not carried out fearing public pressure and the software version did not have the facility of providing the pulse rate of 120 seconds. GMTD, Bankura attributed (May 2005) the non-implementation of orders to not receiving the same. The reply from GMTD, Asansol had not been received till July 2005.

Thus delayed implementation/non-implementation of the Company's orders resulted in a loss of revenue of Rs 96.57 lakh for the period September 2004 to March 2005 as shown in the Appendix-VIII.

The above clearly indicates that there is an immediate need for timely implementation of rules, orders and instructions by the heads of SSAs to guard against such losses of revenue.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

2.12 Non-realisation of infrastructure sharing charges

Four Secondary Switching Areas under the Tamil Nadu Telecom Circle failed to realise infrastructure-sharing charges amounting to Rs 96.19 lakh for facilities provided to private operators.

Rules provide for recovery of infrastructure sharing charges in advance annually

The Corporate office of the Company issued (February 2001) instructions for fixing the infrastructure sharing charges for facilities provided to private operators. These charges were to be levied in advance every year. Prior to February 2001, these charges were being levied at ad hoc rates.

The Company failed to realise infrastructure sharing charges amounting to Rs 96.19 lakh

Test check of the records of General Managers, Telecom Districts (GMsTDs), Thanjavur, Nagercoil, Trichy and Cuddalore under the Tamil Nadu Telecom Circle between June 2004 and March 2005 revealed that they did not raise bills for infrastructure sharing charges for the periods ranging from December 2003 to May 2005. This resulted in non-realisation of Rs 96.19 lakh as detailed in the Appendix-IX.

On this being pointed out by Audit, GMTD, Thanjavur raised (June 2004) a bill for Rs 24.58 lakh against a private operator. CGMT, Tamil Nadu Circle however, meanwhile issued (August 2004) instructions to all their Secondary Switching Areas for recovery of the infrastructure sharing charges at ad hoc rates, lower than those fixed by BSNL in February 2001. This was an interim measure pending clarification from the Corporate office, since the private operators had disputed the method of calculating the charges and had taken up the matter with the Corporate office. The claim of Rs 24.58 lakh was accordingly revised to Rs 10.05 lakh and the same was realised (October 2004) from the concerned party.

Similarly, GMTD, Trichy issued (September 2004) bill at the rates intimated by the CGMT, Tamil Nadu Circle in August 2004 for Rs 10.80 lakh and realised the entire amount. Further GMTD Nagercoil in the case of one private operator raised bill at the ad hoc rate of Rs 15.76 lakh and on another private operator issued a bill for Rs 10.35 lakh based on the rates of Corporate office against which Rs 10.35 lakh were recovered. GMTD, Cuddalore also issued (March 2005) bills at the rates fixed by the Corporate office for Rs 16.78 lakh and the same had not been recovered as of July 2005.

Thus delay on the part of the GMsTDs to collect infrastructure-sharing charges at the rates prescribed by the Corporate office resulted in non claiming of Rs 96.19 lakh, out of which an amount of Rs 31.20 lakh was recovered at the instance of Audit. The balance amount of Rs 64.99 lakh is yet to be recovered.

The matter was referred to the Ministry in September 2005; its reply was awaited as of November 2005.

2.13 Loss of potential revenue due to inordinate delay in providing leased circuits

Failure of the Principal General Manager, Patna Telecom District and the General Manager, Dibrugarh Telecom District to provide leased circuits within the stipulated time resulted in loss of potential revenue of Rs 95.94 lakh.

Leased circuits should be provided within stipulated time frame

The Company issued (March 2001) instructions regarding provision of leased circuits within seven days of receipt of the final advice notes and delegated (September 2001) the powers of according approval for provision of single party point-to-point leased circuits of speed up to 2 Mbps within Secondary Switching

Areas (SSAs). The Company further delegated (February 2002) these powers to the heads of circles in cases where the circuits did not originate and terminate within the same SSAs. The Company also issued (September 2002) instructions regarding special constructions for local leads and local circuits, on Optical Fibre Cable (OFC), wherein a time limit of three months was stipulated for provision of such facilities.

Test check of the records of the Principal General Manager, Patna Telecom District (PGMTD) (January 2005) under the Bihar Telecom Circle and the General Manager Telecom District (GMTD), Dibrugarh (July 2005) under the Assam Telecom Circle revealed inordinate delays in providing leased circuits in the following three cases, which resulted in loss of potential revenue.

Case-I

Delay in provision of 2x2 Mbps circuits to M/s Sahara India Media Communication Ltd resulted in loss of potential revenue of Rs 52.01 lakh

M/s Sahara India Media Communication Ltd placed (June 2003) a firm demand for provision of 2x2 Mbps data circuits between Patna and Noida and paid (October 2003) advance annual rentals, installation and registration charges etc. amounting to Rs 47.05 lakh. PGMTD, Patna issued (November 2003) the final advice note without obtaining the approval of the competent authority i.e. the Chief General Manager Telecommunications (CGMT), Bihar Circle for providing the leased circuits. When the General Manager Telecom District (GMTD), Noida demanded (November 2003) the sanction of the head of the Circle for providing the local lead at Noida end, PGMTD, Patna referred (December 2003) the case to CGMT, Bihar Circle, but no approval came forth. Meanwhile, the subscriber cancelled (December 2004) the demand, due to delay in providing the circuits. Thus the failure of PGMTD, Patna to provide the circuits in time resulted in loss of potential revenue of Rs 52.01 lakh for the period November 2003 to December 2004.

On this being pointed out, PGMTD, Patna stated that the approval of the head of the Circle could not be obtained at the first instance due to non-availability of the relevant orders and that when GMTD, Noida sent the orders, the case was referred to CGMT, Bihar for according approval. However, CGMT, Bihar Circle stated (June 2005) that no such case till date had been received in their office.

Case-II

Delay in provision of leased circuits to Defence authorities resulted in loss of potential revenue of Rs 15.59 lakh

The Defence authorities placed (February 2003) a firm demand for provision of a 2 Mbps circuit between Danapur and Ranchi Military exchange and paid (May 2003) advance annual rentals and installation and registration charges amounting to Rs 14.31 lakh. PGMTD, Patna issued (May 2003) the final advice note. Subsequently, on raising (May 2004) the bills for annual rentals, the Defence authorities replied (June 2004) that the bill should be cancelled, as the circuit had not been commissioned at both the ends. They further requested that their demand for the circuit be kept pending. At that stage it was noticed that wrong feedback was received from the Sub Divisional Engineer (SDE) (Telex) Patna regarding commissioning of the circuit. Thus the failure of PGMTD, Patna to provide the circuit within the stipulated period resulted in loss of potential revenue of Rs 15.59 lakh for the period May 2003 to June 2004.

On this being pointed out, PGMTD, Patna stated (May 2005) that the local lead of the circuit at the Ranchi end could be made available only in August 2004 by which time the Defence authorities had requested (June 2004) to keep their demand for the circuit pending till further orders.

Case-III

Delay in provision of 2MBPS OFC connectivity to Defence authorities resulted in loss of potential revenue of Rs 28.34 lakh

The Defence authorities placed (October 2002) a firm demand for provision of a 2 Mbps capacity OFC connectivity between Air Force Station, Chabua and the Company's microwave stations at Dibrugarh. Accordingly, the SDE (Commercial), Office of the GMTD, Dibrugarh issued (December 2002) a demand note for Rs 14.19 lakh and was paid (March 2003) by the Defence authorities. The SDE (Commercial) issued (March 2003) the advice note but the desired OFC connectivity was not provided (June 2005), due to non-availability of OFC link. This resulted in loss of potential revenue of Rs 28.34 lakh for the period July 2003 to June 2005.

On this being pointed out, GMTD, Dibrugarh stated (July 2005) that the work had been physically completed but could not be commissioned as acceptance testing was pending.

Thus the failure of PGMTD, Patna under the Bihar Telecom Circle and GMTD, Dibrugarh under the Assam Telecom Circle in following the Company's instructions to provide the leased circuits within the stipulated time, together with the lack of coordination between different wings, resulted in loss of potential revenue to the tune of Rs 95.94 lakh.

The matter was referred to the Ministry (July 2005); its reply was awaited as of November 2005.

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

Failure of the General Manager, Telecom District, Jhansi to revise rentals of speech circuits leased to the Railways led to short realisation of Rs 93.21 lakh.

Rentals for speech circuits leased to the Railways are to be finalised every five years in consultation with the Railway Board. The fixation of rentals was however regularly delayed by the Department of Telecommunications (DoT)/Company. DoT fixed the final rentals applicable for the block 1986-87 to 1990-91 in August 1998 and the Company fixed rentals for the block 1991-92 to 1995-96 as late as in February 2002. Thereafter, the Company did not fix rentals for subsequent blocks and the rentals were to be billed on provisional basis at the tariff fixed for the preceding block.

GMTD, Jhansi failed to recover revised rentals resulting in short recovery of Rs 93.21 lakh

Test check of the records of the General Manager, Telecom District (GMTD), Jhansi under the Uttar Pradesh (East) Telecom Circle revealed that GMTD, Jhansi failed to issue bills at revised rates in respect of five speech circuits leased to the Railways for the period June 1990 to March 2005. Non-implementation of the revised tariff led to short billing of Rs 93.21 lakh as detailed in the Appendix-X.

On this being pointed out by Audit, GMTD, Jhansi issued (July 2004) bills for Rs 90.78 lakh. Recovery particulars were awaited (October 2005).

Comments regarding non-revision of rentals in respect of speech circuits provided to the Railways were included in the Audit Reports of the Comptroller and Auditor General of India pertaining to the preceding three years. The Ministry, in its Action Taken Note on Para 14.3(10) of Report No. 5 of 2003, stated (September 2003) that there was no deficiency in the existing system but there were unintended omissions. This indicates that there is a need to fix responsibility and take appropriate action in such cases. Further, the Company should revise the rentals immediately after the completion of each block period to prevent blockage of funds.

The matter was referred to the Ministry in May 2005; its reply was awaited as of November 2005.

2.15 Short billing of installation charges and rentals

Failure to recover installation charges and rentals at enhanced rates consequent to increase in exchange capacity resulted in short billing of Rs 83.27 lakh.

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

Rules of the Company provide for rates of rentals based on the total equipped capacity of an exchange/multi-exchange/Short Distance Charging Area (SDCA) for rural and urban areas. Whenever the equipped capacity of an exchange/exchange system is increased beyond a particular slab prescribed in the tariff, the rentals are also increased. Further the installation charges for providing a telephone connection is fixed at Rs 300 and Rs 800 for exchange capacity of up to 500 lines and beyond 500 lines respectively.

Test check of the records of the General Manager, Telecom District (GMTD), Itanagar under the North East-II Telecom Circle revealed that in respect of 19 exchanges, though the equipped capacities of the exchanges crossed 500 lines, the installation charges for new telephone connections were being billed at the rate of Rs 300 instead of the stipulated rate of Rs 800. This resulted in short billing of Rs 28.13 lakh for the period ranging from January 2001 to March 2003. Besides this, in respect of eight rural exchanges, though the capacity crossed 1000 lines, rentals continued to be billed at the rate of Rs 50 per month instead of the correct rate of Rs 110 per month. This resulted in short billing of Rs 20.17 lakh for periods ranging from October 2001 to April 2003.

Further, test check of the records of GMTD, Nagaon under the Assam Telecom Circle revealed that though the equipped capacity of the Nagaon, SDCA exceeded 30,000 lines with effect from 30 September 2003, bills in respect of five urban exchanges continued to be issued for rentals at the rate of Rs 120 per month instead of the correct rate of Rs 180 per month resulting in short billing of Rs 34.97 lakh for the periods ranging from October 2003 to April 2004.

The Company failed to realise installation charges and rentals at enhanced rates amounting to Rs 83.27 lakh

Thus failure to issue bills at enhanced rates consequent to the increase in exchange capacity in rural and urban areas resulted in short billing of Rs 83.27 lakh between January 2001 and April 2004 as shown in the Appendix-XI.

On this being pointed out by Audit, GMTD, Itanagar stated (May 2005) that action was being taken to realise the outstanding amount pointed out by Audit. The Chief General Manager, Telecommunications, Assam Circle while agreeing to the short billing (April 2005) issued bills at the correct rate (Rs 180 per month) for Rs 37.18 lakh from October 2003 to September 2004 and recovered Rs 32 lakh towards arrears pointed out by Audit. The recovery particulars in respect of the balance amount were awaited as of July 2005.

Comments regarding short billing of installation charges and rentals have been included in the Audit Reports of the Comptroller and Auditor General of India for the last six years, starting with the Report for the year 2000. In view of the Ministry's reply in their latest Action Taken Note (August 2004) that there was no deficiency in the existing system, there is a need to fix responsibility and take appropriate action to avoid recurrence of this persistent irregularity.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

2.16 Non-billing of rentals

General Manager, Telecom District, Bhuj failed to fix the final rentals in respect of optical fibre cable provided on rent and guarantee basis. Even provisional rent was not collected, resulting in non-billing of Rs 67.46 lakh.

General Manager, Telecom District (GMTD), Bhuj under the Gujarat Telecom Circle provided an optical fibre cable (OFC) for the exclusive use of Defence authorities between Khavda and Kuarbet on rent and guarantee (R&G) basis. The advance annual rental of Rs 33.73 lakh was collected (November 2000) by issue of a demand note (August 2000), covering the period of one year from the date of commissioning. The work was completed and the cable was commissioned in December 2001.

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

Rules stipulate that the final rentals in respect of telephone installations provided on R&G basis should be quoted before commissioning of the services. If the same cannot be done due to unavoidable circumstances, the rentals quoted will be provisional and the final rentals should be quoted within one year of commissioning of the services.

Audit scrutiny (May 2004) of the records of GMTD, Bhuj revealed that the final rentals had not been quoted despite a lapse of two years. Even the provisional rent of Rs 33.73 lakh per annum for the period December 2002 to December 2004 amounting to Rs 67.46 lakh had not been collected till May 2004.

Company failed to quote final rental and collect provisional rent of Rs 67.46 lakh

Audit further observed that in violation of the rules, the OFC was provided without issuing the Advice Note. The covering Advice Note was issued only in January 2004, two years after the provision of the facility. In the absence of Advice Note, proper billing and realisation of revenues could not be ensured.

On this being pointed out by Audit, GMTD, Bhuj issued (May 2004) bills for Rs 54.95 lakh for the period December 2001 to March 2005. Recovery particulars were awaited as of July 2005.

The matter was referred to the Ministry in September 2005; its reply was awaited as of November 2005.

2.17 Short billing of port charges in respect of private operators

Failure of eight Secondary Switching Areas under the Tamil Nadu Telecom Circle to issue bills for port charges resulted in short billing of Rs 53.24 lakh.

Port charges are entry charges for allowing private operators access to the Company's network. In order to obtain access and interconnectivity, the private operators have to enter into interconnect agreements, which among other things provide for collection of annual charges for the ports as prescribed from time to time.

The Chief General Manager Telecommunications (CGMT), Tamil Nadu Circle issued (December 2003) instructions to all Secondary Switching Areas (SSAs) in its jurisdiction that with effect from January 2003, the date of provision of a port would be the actual date of its commissioning or the date on which one month is completed from the date of sanction, whichever is earlier.

Contrary to instructions, the bills for port charges were issued from the date of commissioning instead of from the date of sanction resulting in short billing of Rs 31.24 lakh

Test check of the records of Salem, Madurai, Erode and Tirunelveli SSAs under the Tamil Nadu Telecom Circle revealed that contrary to the instructions of the CGMT, the SSAs continued to bill port charges from the dates of commissioning of the ports, though the period of one month from the dates of sanction were earlier. This resulted in short billing of port charges to the tune of Rs 31.24 lakh for the period January 2003 to November 2004. On this being pointed out by Audit, Erode and Salem SSAs issued (March 2005) supplementary bills, and Madurai and Tirunelveli SSAs assured that supplementary bills would be issued on verification of dates of sanction.

Port charges were not billed which resulted in non-billing of Rs 22 lakh

Further, test check of the records of Nagercoil, Cuddalore, Thanjavur and Coimbatore SSAs under the Tamil Nadu Telecom Circle, revealed that the rentals for the ports allotted to private operators were not billed for the period July 2003 to May 2005. This resulted in non-billing of Rs 22 lakh. On this being pointed out by Audit, the SSAs issued (June 2004 to April 2005) bills and recovered Rs 14.42 lakh. Recovery particulars of the balance amount were awaited (June 2005).

Thus failure to follow instructions resulted in short billing of Rs 53.24 lakh, as detailed in the Appendix-XII, in eight SSAs of the Tamil Nadu Telecom Circle indicating lack of a proper mechanism to monitor the implementation of instructions in respect of collection of revenue.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

2.18 Non-realisation of port charges

Failure of two Secondary Switching Areas to realise port charges from M/s Bharti Cellular Limited after their migration to the Unified Access Service Licence regime, resulted in non-realisation of Rs 40.10 lakh.

The Company's Corporate office intimated the Chief General Manager, Tamil Nadu Telecom Circle, that M/s Bharti Infotel Limited had surrendered (3 October 2004) their Basic Services Licence for the Tamil Nadu service area, pursuant to their migration to the Unified Access Service Licence (UASL) regime. The intimation stipulated that the Points of Interconnection (POI) of M/s Bharti Infotel Limited would stand transferred to their group Company (M/s Bharti Cellular Limited) having UASL in that service area, with effect from 4 October 2004. However, the port charges for all the ports in these POIs were to be charged afresh in the name of the group Company in that service area.

Failure of two SSAs to issue the bills for port charge resulted in non realisation of Rs 40.10 lakh

Test check of the records of two Secondary Switching Areas of Madurai and Coimbatore under the Tamil Nadu Telecom Circle revealed that claims for port charges with effect from 4 October 2004 were not raised against M/s Bharti Cellular Limited in respect of 41 ports at Coimbatore and 36 at Madurai resulting in non realisation of Rs 40.10 lakh for the period October 2004 to October 2005, as detailed in the Appendix-XIII.

On this being pointed out, the General Manager, Telecom District (GMTD), Madurai realised (February 2005) Rs 19.80 lakh. The Principal General Manager Telecom District, Coimbatore, issued bills (March 2005) for 41 ports amounting to Rs 20.30 lakh and recovery was made (March 2005).

The above indicates that the Company lacks a proper mechanism to monitor the implementation of instructions in respect of billing and collection of revenue and has weak internal control relating to billing and collection of revenue.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

2.19 Recovery at the instance of Audit

Out of Rs 8.30 crore outstanding against the subscribers due to short/non-billing pointed out by Audit, the company recovered Rs 7.98 crore.

Besides the cases discussed in this chapter, test check of the records pertaining to 24 Secondary Switching Areas under nine telecom circles revealed that Rs 8.30 crore was non/short billed mainly due to issue of bills at old/lower tariffs, non-implementation of revised tariff orders, incorrect application of tariffs, irregular grants of concession in rent and incorrect fixations of rentals, as detailed in the Appendix-XIV .

At the instance of Audit, the Company issued bills and recovered Rs 7.98 crore from its subscribers

On this being pointed out by Audit, the Company issued bills for Rs 8.30 crore and recovered Rs 7.98 crore. Recovery particulars of the balance amount of Rs 32 lakh were awaited as of August 2005.

The matter was referred to the Ministry in October 2005; its reply was awaited as of November 2005.

CHAPTER III
INFORMATION TECHNOLOGY AUDIT

Information Technology Audit of Chennai Telephones Billing System

HIGHLIGHTS

- **Chennai Telephone Billing System (CTBS) is a non-integrated billing system used by the Chennai Telephones District (CTD), which could not make full use of Information Technology in ensuring timely and accurate billing by minimizing unaddressed bills and expediting the processing of advice notes and disconnections.**

  (Paragraph 3.6.1)

- **During the period April 2002 to March 2005, 26,198 unaddressed bills amounting to Rs 3.83 crore were generated, which remained unpaid till August 2005. There were 9,190 unaddressed bills valuing Rs 1.57 crore which were pending for more than three billing cycles.**

  (Paragraph 3.6.3)

- **During the period April 2002 to July 2005, potential revenue worth Rs 5.49 crore could not be generated due to delays in processing advice notes.**

  (Paragraph 3.6.4)

- **Delays in disconnections resulted in accumulation of dues of Rs 8.03 crore.**

  (Paragraph 3.6.5)

- **Inadequate Contract Management resulted in delays in implementation of the project. Moreover, certain important segments such as billing of leased circuits and I-Net could not be implemented due to deficiencies in firming up of the System Requirement Specification.**

  (Paragraph 3.6.6)

- **Data migration from the old COBOL package to CTBS was not complete inasmuch as deposit data of the pre-CTBS period were kept in suspense status entailing manual intervention for refunds.**

  (Paragraph 3.7.1)

- **CTBS failed to bill telephone connections, which registered 14.65 lakh metered calls from January 2003 to March 2005. Also, 2.37 lakh local calls and trunk calls amounting to Rs 2.92 lakh registered in ISDN child numbers were not billed.**

(Paragraph 3.8.1)

- **CTBS did not bill phonograms worth Rs 14.37 lakh despite the availability of the required inputs.**

(Paragraph 3.8.2)

- **Processing of rental rebates for faulty lines and billing of service tax from non-exempted subscribers could not be done in certain cases because of weak internal controls.**

(Paragraph 3.8.3)

- **IT security related control measures were not adequate.**

(Paragraph 3.9.2, 3.9.3 and 3.9.4)

- **CTD did not have a proper disaster recovery and contingency plan for business continuity.**

(Paragraph 3.9.6)

LIST OF RECOMMENDATIONS

- **The Company should strive towards having a standard integrated billing software for all its circles. For this purpose, the process of switching over to Call Detail Records (CDR) based billing system initiated in 2002, should be expedited. Pending introduction of the CDR based billing system, CTD should attempt on-line integration of CTBS with the existing commercial application software like CANMAPS, FRS*, etc, after a proper cost-benefit analysis.**
- **The facility available in CTBS for linking of unaddressed bills and consumer numbers should be enabled immediately for minimizing unaddressed bills.**
- **CTD should enable online access of disconnection lists to ensure timely disconnections.**
- **CTD should incorporate billing of leased circuits and I-Net in CTBS**

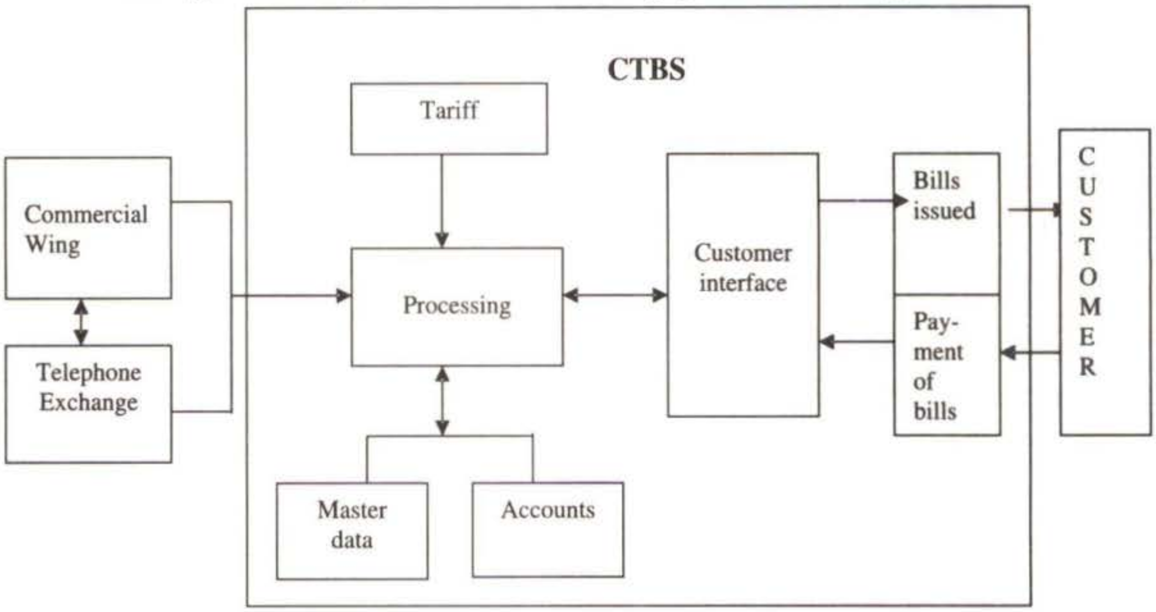
* Fault Repair System

- **The Company should issue instructions, clearly specifying the IT system development methodology to be adopted by its units. These instructions should invariably include detailed steps to be followed for stages like project initiation, user requirement specifications, system requirement specifications, system design and acceptance testing.**
- **The Company should ensure that implementation plans of IT projects are well defined and the results of implementation are well documented to facilitate change management and business process reengineering at later dates.**
- **CTD should urgently validate the deposit details available in CTBS.**
- **CTD should examine the reasons for non-billing of telephone connections in spite of availability of the required inputs, and rectify the deficiencies. The reconciliation procedures should be strengthened.**
- **CTBS should be re-engineered for more effective validation checks to ensure data integrity and introduction of exception reporting mechanism.**
- **An internal audit team should regularly audit the database.**
- **CTD should formulate and implement an IT security policy and review it periodically.**
- **Logical access controls of CTBS should be strengthened by adequate logging of changes to critical data like master data, meter readings, etc. The audit trail function should be activated.**
- **CTD should ensure proper segregation of duties between the Data Base Administrator and the System Administrator.**
- **CTD should maintain an offsite storage location for backup data.**
- **CTD should formulate policies for anti virus, data backup and prepare a 'Business Continuity Plan' and 'Disaster Recovery Plan', for early implementation.**
- **CTD should prepare a plan for alternate arrangements for personnel in contingent situations.**

3.1 INTRODUCTION

Chennai Telephone District (CTD) under Bharat Sanchar Nigam Limited (Company) is one of the biggest telephone districts with 10.02 lakh working lines as of March 2005. The revenue from Landlines and Wireless in Local Loop (WLL) lines is billed and accounted for through a computerized billing system, viz., the Chennai Telephone Billing System (CTBS), commissioned in February 2002. The system generates up to 6.85 lakh bills every month. The amount billed during 2004-2005 was to the tune of Rs 1153 crore. CTBS functions in a client/server environment on Oracle Relational Database Management System (RDBMS) with a Sun Solaris operating system.

A diagrammatic representation of the billing system of CTD is given below:



The Commercial wing authorizes the provision of telephone connections through Advice Notes (ANs), that are issued to the telephone exchanges for execution. Processing and monitoring of ANs in the Commercial wing is carried out by another software viz. the Commercial Advice Note Monitoring and Processing System (CANMAPS). Completed ANs, containing details of consumer number, address, telephone number etc., which form the basis for creating master data for billing the consumers, are transferred from CANMAPS to CTBS on a fortnightly basis through a file transfer protocol. Details of meter readings, trunk calls, etc are received from the exchanges. With this data and tariff details stored in the database, CTBS generates bills for rent, call charges and other dues.

The General Manager (GM), Telephone Revenue (TR), CTD is in charge of billing and accounting under the overall charge of the Chief General Manager (CGM), CTD. The GM (TR) is assisted by the Deputy General Manager (TR), Chief Accounts Officer (TR) and Chief Accounts Officer (Computer). The Organizational chart of the TR wing of CTD is given at Appendix-XV.

3.2 SCOPE OF AUDIT

The COBOL based billing package of CTD was replaced by CTBS in February 2002. Audit reviewed the development and implementation of the new system and its functioning for the period February 2002 to March 2005.

3.3 AUDIT OBJECTIVES

Whether the :

- System development methodology was in line with the requirements of computerization;
- Selection of technology was appropriate;
- System was implemented properly; and
- System was functioning in an economical, efficient and effective manner.

3.4 AUDIT CRITERIA

The main criteria used for audit were as follows:

- Standard business practices for Information Technology (IT) System development and implementation.
- Adequate validation checks to ensure completeness and accuracy of bills issued and accounting thereof.
- Adequate internal control mechanism to detect and plug revenue leakages.
- Standard IT security controls.
- Availability of trained personnel to ensure smooth and efficient functioning of the billing system.

3.5 AUDIT METHODOLOGY

During the Information Technology Audit of CTBS the CoBIT[*] framework was utilised. Audit adopted system based techniques like use of CTBS menu facilities, SQL[‡] for queries and data analysis through spreadsheets for evaluating the performance of the billing system against the audit criteria broadly outlined earlier.

3.6 AUDIT FINDINGS

Ideally, a telephone billing system should ensure complete, accurate and timely billing and accounting. To accomplish this objective, the system should ensure that the basic data needed for billing are created and maintained properly in a secure manner. The system should check and validate the inputs and monitor the outputs to ensure correct and prompt billing. The controls around the system i.e the monitoring mechanism should be strong.

In order to achieve the above, it is imperative that the System Development methodology adopted is sound, the implementation is effective and the functioning is efficient. Audit observed that although CTBS served the needs of billing, certain deficiencies needed to be addressed for improvement in its functioning. Also, the Management needs to take into account the experience gained from the implementation of CTBS, while planning and implementing the future billing projects.

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[*] Control Objectives for Information and related Technology – Audit framework followed by Information Systems Audit and Control Association (ISACA)

[‡] Structured Query Language

3.6.1 INADEQUACIES IN THE SYSTEM DEVELOPMENT METHODOLOGY

A sound IT system development methodology should, *inter alia*, ensure that:

- the objective and scope of the IT project are well defined to meet the business requirements of the organization.
- the various options available are evaluated before freezing the scope of the project.
- the systems requirements are well specified so that the developed system delivers the desired outputs.
- there should be adequate acceptance testing of the system before its implementation.
- the contracts with vendors, if any, are effectively managed to ensure timely delivery with desired specifications, besides safeguarding the financial interests of the organization.

Shortcomings in the system development methodology adopted for developing CTBS are discussed in the following paragraphs.

3.6.2 Failure to opt for a standard integrated billing software

A telephone revenue billing software which integrates the functions of the Commercial and TR wings would facilitate on-line updating of data, thereby making better use of IT in ensuring timely and accurate billing. Since all the applications would access the same database, unaddressed bills would be minimized and processing of ANs and disconnections would be expedited.

Audit, however, observed that CTD opted for a non-integrated package and thereby missed the opportunity of implementing DOTSOFT, an integrated software package for customer services and telephone revenue billing, standardized (October 1998) by the Department of Telecommunications (DoT) for implementation in all the units of DoT.

In order to have additional features not available in its existing billing system, such as on-line cash counters, deposit refund system, billing of leased circuits/I-Net and other value added services, CGM, CTD awarded (December 1998) the work of development and implementation of a new TR billing and accounting system to M/s Tata Infotech Limited (TIL) at a cost of Rs 53 lakh. Audit, however, observed that the billing system was to be a stand-alone one rather than an integrated package. CTD had not carried out any cost-benefit analysis to compare the advantages of developing a stand-alone package for telephone revenue billing vis-à-vis an integrated package. It was also noticed that DoT had not insisted upon the implementation of the integrated standardized DOTSOFT package in a major telecom district like CTD. The Management stated that a cost-benefit analysis had not been done since no norms for it had been prescribed by DoT. The reply is not tenable as a cost-benefit analysis should invariably be undertaken before implementation of any major project.

Implementation of a stand-alone billing package like CTBS hampered the efficient functioning of revenue realization of CTD as discussed below:

3.6.3 Unaddressed bills

Bills in CTBS are generated based on customer profiles in the master data and meter readings from telephone exchanges. Wherever meter readings are recorded in the exchanges for telephone lines but the master data for these phone connections has not been created due to non-receipt of completed ANs, the billing system generates unaddressed bills for call charges without the consumer numbers, names and addresses of the customers. Generation of unaddressed bills not only entails the risk of leakage of revenue but also puts the customers to hardship due to steep arrear bills later. As per the instructions of BSNL, an unaddressed bill should be cleared within three billing cycles.
Audit observed that during the period April 2002 to March 2005, 26,198 unaddressed bills amounting to Rs 3.83 crore were generated, which remained unpaid as of August 2005. Further analysis of database revealed that there were 9,190 unaddressed bills valuing Rs 1.57 crore which were pending for more than three billing cycles.

On-line integration of the commercial and billing systems would have greatly helped in minimizing the generation of unaddressed bills as also in their clearance.

Audit also observed that during the same period, there were 4,583 unaddressed bills amounting to Rs 66.80 lakh, for which master details were available but the same had not been linked with the consumer numbers. It was observed that though a facility for automatic linking of unaddressed bills with consumer numbers was available in CTBS, it was not used. On this being pointed out the Management accepted the fact and replied that the facility was not implemented due to difficulties like raising of credits and debits after creation of the master data. The reply showed that the package was not designed to handle such functional requirements.

3.6.4 Delays in processing advice notes

As per the rules of the Company, ANs for new phone connections should be completed within 15 days from the dates of their issue and those for shifting of phone connections should be completed within 30 days of their issue. Audit observed that 83,921 ANs for new connections and 8,339 ANs for shifting had not been completed within the prescribed period during April 2002 to July 2005. Non-completion of these ANs within the prescribed period resulted in loss of potential revenue of Rs 5.49 crore[+]. An integrated billing package, through its on-line monitoring features, would have aided the Management in the tracking of ANs and identifying bottlenecks.

[+] Average revenue per telephone line x (Delay in days / 365)

3.6.5 Delay in disconnection of telephone connections

The Company instructed (February 2003) that telephone connections of defaulting customers should be disconnected on the 35th day after the issue of their bills. Any delay in disconnection entailed the risk of further accumulation of dues on account of charges for calls made after the prescribed dates for disconnection. It was seen in audit that the disconnection lists created in CTBS were being sent to the telephone exchanges through messengers. Scrutiny revealed that in 54,180 cases, bills amounting to Rs 23.75 crore were outstanding against defaulters, of which Rs.8.03 crore pertained to defaulters with three or more bills outstanding. Call charges appearing in these bills proved that the disconnections had not been effected in time. An integrated billing system functioning in a network environment would have facilitated timely disconnections by providing access terminals in the exchanges for online viewing of the disconnection lists.

The matter was referred to the Management in August 2005 and their reply was awaited.

3.6.6 Delay in implementation of the project

Effective contract management ensures that a project is completed within the scheduled period and with all the desired specifications. Commitments of both the Management and the contractor have to be identified and spelt out clearly in the agreement to ensure compliance.

The contract required TIL to complete the project in 69 weeks in four stages from the date of signing of the agreement (November 1999), i.e. by March 2001, as shown in Appendix-XVI. Audit observed that TIL did not fully complete all the stages and left out certain important items of work like leased circuit billing, I-NET billing and data conversion/validation of deposits. Audit also observed delays in completion of the stages ranged from 40 to 135 weeks. In terms of the agreement, liquidated damages (LD) were recoverable in case of delay. However, it was noticed that no LD was recovered from TIL.

The Management stated (August 2004) that LD had been waived as the delays were mainly due to reasons attributable to CTD such as delays in providing circuit billing data, data for verification, site availability, and connectivity as well as deputing officials for training. This showed that CTD had not been able to effectively carry out its commitments for the implementation of the contract with TIL.

3.6.7 Non-imposition of penalty for non-compliance of the terms and conditions of the contract.

The agreement with TIL for development and implementation of the billing software for CTD had specified that any penalty for delay in completion of work or for non-compliance with the terms and conditions of the contract was to be adjusted from the security deposit submitted by them. The payment terms of the agreement stipulated that before releasing payments for each phase of work the vendor's invoices should be certified by CTD for completion of all items envisaged in the contract.

It was observed in audit that no penalty was imposed on the vendor despite failure on their part to complete the work as envisaged in the contract. As per the agreement with the vendor, a testing report was to be submitted on completion of every stage of work, but it was seen that detailed checking of each and every specification contained in the System Requirement Specifications (SRS) was not done. Instead, simple completion certificates were relied upon for releasing the payments.

A post implementation review was carried out in March 2005 and the report of the certification committee pointed out many shortcomings in the system such as non provision of billing extra rent for Direct Inward Dialling (DID) facility, data down loading from certain type of exchanges, etc. Further, as the performance guarantee submitted by TIL towards security deposit was not renewed beyond March 2003, CTD could not recover any penalty for the incomplete work.

The Management stated that renewal of the Performance Bank Guarantee(PBG) beyond March 2003 was not insisted upon as TIL had completed all major works except circuit billing for which CTD was responsible. The reply is not tenable, as a valid PBG should have been retained till successful completion of all the stages and satisfactory acceptance testing.

3.6.8 Deficiency in System Requirement Specifications

Defining the SRS is one of the most important stages in the development of an IT system, as all the requirements have to be identified at this stage for inclusion in the system to be developed. Inadequate specifications may result in non-fulfillment of planned requirements as described below:

The SRS for CTBS required that the system should include billing of leased circuits and I-Net. Audit, however, observed that the billing of these services, which amounted to Rs 64.88 crore in 2004-2005, was being done outside CTBS. On this being pointed out, the Management stated that telephone numbers comprised 8 digits but circuit numbers had 13 digits and thus they were not being accepted by the system. The reply showed that scalability[§] options were not kept in mind before firming up the SRS for the leased circuit and I-Net Billing module.

Further, the Company has proposed to implement next generation state of art Call Detail Records (CDR) based Customer Care and Convergent billing system, along with plans for deployment of Centralized Integrated Billing System. The process for the same was started in 2002. Convergent billing based on CDR is expected to facilitate the Company to face new challenges due to competition by providing effective and efficient billing with countrywide intranet.

As would be seen from the above observations, the billing and revenue realization through CTBS suffered on account of it being a non-integrated

[§] Scalability- How well a solution to some problem will work when the size of the problem increases.

package and the deficiencies at various stages of its system development methodology.

Recommendations:

- **The Company should strive towards having a standard integrated billing software for all its circles. For the purpose, the process of switching over to Call Detail Records (CDR) based billing system initiated in 2002, should be expedited.**
- **Pending introduction of the CDR based billing system, CTD should attempt on-line integration of CTBS with the existing commercial application software like CANMAPS, FRS*, etc, after proper cost-benefit analysis.**
- **The facility available in CTBS for linking of unaddressed bills and consumer numbers should be enabled immediately for minimizing unaddressed bills.**
- **CTD should enable online access of disconnection lists to its exchanges to ensure timely disconnections.**
- **CTD should incorporate billing of leased circuits and I-Net in CTBS**
- **The Company should issue instructions, clearly specifying the IT system development methodology to be adopted by its units. These instructions should invariably include detailed steps to be followed for stages like project initiation, user requirement specifications, system requirement specifications, system design and acceptance testing.**

3.7 INADEQUACIES IN IMPLEMENTATION OF THE SYSTEM

Implementation of an IT system should be a well-planned process to fully derive the envisaged benefits. CTD implemented CTBS through a parallel run. Audit observed the following deficiencies in implementation of the system:

3.7.1 Non-validation of deposits data

One of the most important considerations before CTD was to ensure that the data from the existing COBOL billing package was properly migrated to CTBS. As per the agreement, TIL was to convert and validate deposit data from the old system and migrate them into CTBS. Audit examination of the database revealed that deposit data of both pre and post CTBS period were kept under suspense as unconfirmed deposits.

Due to non-validation of deposit data in CTBS, the function of refunds had to be necessarily done outside the system.

The Management stated that the deposits were being maintained under suspense till the refunds were made and that efforts were on to reconcile the

* Fault Repair System

deposits maintained at the zonal level with the centralized deposit details in CTBS.

3.7.2 Parallel Run

As per the agreement, TIL was to conduct parallel runs for two full billing cycles for telephone connections where bi-monthly bills are issued and for two consecutive months for other services like Public Call Offices (PCOs), Integrated Service Digital Network (ISDN), etc, which were billed on a monthly basis. Audit, however, observed that a parallel run was conducted (January 2002) for just one month for all the connections and not for complete billing cycles. The results of the parallel run were not documented. Adherence to the specified duration for parallel runs would have helped the Management in detecting and rectifying the inconsistencies in the functioning of the system.

Recommendations:

- **The Company should ensure that implementation plans of IT projects are well-defined and the results of implementation are well-documented to facilitate change management and business process re-engineering at later dates.**
- **CTD should urgently validate the deposit details available in CTBS.**

3.8 DEFICIENCIES IN THE FUNCTIONING OF THE SYSTEM

A computerized billing package should be designed to ensure that there are no deficiencies, which can impact billing and revenue realization. IT applications should have in-built controls for validation of data. Further, procedures should be in place for dealing with transactions, which fail to meet the input requirements. Management should effectively monitor the information system to ensure its proper functioning and early detection and rectification of deficiencies. It was noticed that CTBS provided various tools in the form of data analysis, exception reports, etc for the Management to monitor the performance of various functions as also to optimize performance. However, it was observed that effective monitoring was lacking in the following areas of revenue billing and accounting.

3.8.1 Working telephone connections not billed

The calls recorded in a telephone exchange are downloaded to CTBS, and the billing system generates a bill for the relevant billing cycle. After the bill is generated, CTBS updates the master data with the meter reading and date, up to which the connection is billed. Such entries act as a control to ensure up to date billing of all connections.

A scrutiny in audit of the bills, meter readings and master data tables showed that CTBS had failed to generate bills for 143 telephone connections which registered 14.65 lakh metered calls during January 2003 to March 2005 even though meter readings were available in it.

It was also observed that the system had not billed trunk calls valuing Rs.2.92 lakh and 2.37 lakh local calls of 199 ISDN child numbers[**] from July 2004. These charges, which were required to be billed against the parent numbers, were not billed.

The Management accepted the fact and stated that supplementary bills had been issued for the unbilled connections. Instances of non-billing by the system despite the availability of the required inputs raised doubts about the credibility of the system.

3.8.2 Non-billing of phonogram charges

It was observed (July 2005) that phonogram charges were not billed by CTBS, despite the availability of the required inputs and a module for their billing being available in the system.

The Management replied that phonograms valuing Rs 1,81,804 only were unbilled as on May 2005 and efforts were on to bill the unbilled phonogram charges. On further verification it was found that phonograms valuing Rs 14.37 lakh were unbilled (August 2005). The reply is thus not tenable.

3.8.3 Non-processing of rental rebates for faulty telephones

CTD keeps track of all its faulty telephone connections through its Fault Repair System. Details of telephone connections, which are faulty for seven days and above, are downloaded into CTBS and based on these data, the rent-processing module of CTBS calculates rent rebates for the respective numbers.

It was observed in audit that rebates were not processed by CTBS in respect of 3,507 telephone connections, which remained faulty for seven days and above, for which the data was received in CTBS during the period February 2002 to July 2005.

3.8.4 Non-billing of service tax from non-exempted subscribers

Service tax on telephone bills is chargeable from all subscribers except certain exempted categories of subscribers notified by the Central Excise department from time to time.

Audit scrutiny revealed that service tax amounting to Rs 9.14 lakh for different months in respect of 8,823 bills was not levied on non-exempted subscribers during the period April 2002 to July 2005. The Management replied that service tax was levied in all cases by the system and there was no short claim. The reply of the Management is not tenable, as service tax was not claimed in the above cases as revealed through database examination.

[**] ISDN child numbers – Secondary numbers of the main (parent) number.

3.8.5 Discrepancies between Management Information Systems and actual telephone connections billed

Telephone bills are issued fortnightly, monthly or bimonthly on the basis of the type of connections. In the case of bimonthly billing, bills are issued by dividing the numbers into two groups of odd and even months. A bill should therefore, be generated for all connections at least once in two months. A check of the number of connections working at the end of a month and the number of connections billed in the subsequent bimonthly period provides a control to monitor whether all the telephones are being billed.

A comparison of the number of connections billed in the two month period of April and May 2005 as per CTBS with the working connections shown as per the Management Information Systems (MIS) report of CTD for March 2005 revealed that against 10.02 lakh working connections, 9.38 lakh connections were billed during these two months, leaving 64,000 connections unbilled. The SRS for CTBS envisaged generation of an MIS report containing details of equipped capacity, working numbers etc. but this feature was not available in the software which resulted in inadequate reconciliation between working lines as shown in the MIS and billed lines.

3.8.6 Inadequate validation checks

Adequate validation checks are necessary to ensure that only complete and valid inputs are accepted by the system so that data integrity is maintained and the output generated is reliable. Absence of adequate validation checks entails manual intervention which may lead to errors. The system should generate exception reports to identify transactions or data that are inconsistent.

A test check in audit revealed the following cases of data integrity violations due to inadequate validation checks in the system:

- Telephone connections provided one month after the date of application are entitled to interest on the initial deposit, to be adjusted as credit in the first bill. In 899 cases, CTBS generated credit vouchers for Rs.0.35 lakh erroneously though the connections were provided within one month of payment of the deposit.
- dates of completion of transactions were beyond the system dates. In such cases, the 'date field' could not be utilised for the purpose of billing and accounting.
- the end dates of the billing package option to be exercised by the customer on the basis of which bills were to be processed were earlier than the start dates.
- rental concessions to educational institutions were provided beyond the prescribed limits.

Recommendations:

- **CTD should examine the reasons for non-billing of telephone connections in spite of availability of the required inputs, and rectify the deficiencies.**

- **CTBS should be re-engineered for more effective validation checks to ensure data integrity and introduction of exception reporting mechanism.**

3.9 DEFICIENCIES IN INFORMATION TECHNOLOGY SECURITY

Information systems play a vital role in an organization's business operations and the achievement of its business objectives. For a computerized system to work efficiently and effectively, IT security policy and controls should be formulated and implemented. Observations on the IT security policy and controls of CTBS are detailed below.

3.9.1 Lack of comprehensive IT Security policy

The Company operates in a technology dependent environment which is IT driven. CTBS, being the billing system of an important unit of the Company unit, handles a large customer database with huge revenue implications, which calls for a properly documented IT security policy and procedure. However, the Company has framed no such policy which, *inter alia*, covered threats from viruses, tampering of customer data, network access threats and compliance requirements. The security procedures should be made available to all employees responsible for IT security.

3.9.2 Weak access controls

The orders (July 2001) of DoT as adopted by the Company, stipulated that passwords should have a minimum of eight characters and be a combination of upper and lower case alphabets, numerals and special characters. The CTBS system accepted password compositions of alpha numeric and special characters with a minimum length of four characters, which was in violation of the security instructions.

3.9.3 Use of generic user-id in transactions

Audit scrutiny of the CTBS database revealed that all users were accessing the database with a common user-id and all types of critical transactions were being done under this common user-id. For instance, it was observed that out of 21,786 cases valued at Rs 10.16 crore where refunds for excess payment by customers were authorised during the period April 2002 to March 2005, 15,216 cases valued at Rs.8.52 crore were authorised through the common user-id instead of through individual user-ids. Accessing and processing the database using a common user-id could lead to difficulties in fixing responsibility for errors/omissions and could give unnecessary scope for manipulation, unauthorized access and breach of system integrity.

3.9.4 Inadequate logging

Audit observed that though logs were available to capture the identity of users who carried out changes to critical data like tariff rates, bills, meter readings, etc., these logs were not effective as no transactions pertaining to tariff changes, status changes of customers, deletion and updating of data in various tables, changes to the user master, meter reading and bills were captured in the log files.

It was further observed that

- The tariff change log table had not captured tariff changes that came into effect after the commissioning of CTBS. Telephone tariffs were changed in May 2003, October 2004, etc. The relevant log tables did not have fields to capture user-ids and dates of entry.
- the billing package options exercised by the subscribers were stored in a table. Although this data was crucial for determination of the tariffs applicable to consumers, user-ids and entry dates had not been captured in the case of 3.02 lakh records out of the 3.36 lakh records in this table.

3.9.5 Lack of segregation of duties

One of the methods to ensure that transactions are properly authorized and recorded, is effective segregation of duties. Even if the IT department consists of few personnel, compensating controls must exist in order to mitigate the risks resulting from a lack of segregation of duties.

In an RDBMS and a multi-user operating system environment, the database function should be monitored by a Database Administrator (DBA) who should have access to the database tables and be responsible for ensuring the integrity of the data. The System Administrator (SA) should be responsible for checking the log files pertaining to the system access. It was observed that the CTBS database had more than 200 data tables, which formed the core data for collection of revenue from basic services, but the same person was performing the duties of both the DBA and the SA.

The matter was referred (August 2005) to the Management and their reply was awaited.

3.9.6 Business Continuity Plan

The objectives of preparing a business continuity and disaster recovery plan and associated controls are to ensure that the Management is able to process, retrieve and protect the information maintained in the system in the event of an interruption or disaster leading to temporary or partial loss of computer facilities. No documented business continuity and disaster recovery plan had, however, been formulated by CTD. There was no offsite storage of backup data, which was being stored in the same premises.

The Chief General Manager, CTD appointed (July 2004) M/s. S.B.Billimoria & Co., Chennai at a cost of Rs.1.95 lakh to conduct a review of CTBS applications and general computer controls. The major observations included in the report (November 2004) of the consultant were that CTD should formulate and implement a security policy, a business continuity plan and a disaster recovery plan. The Management stated (August 2005) that these were being implemented in a phased manner. However, its implementation had not been started till September 2005.

3.9.7 Inadequate alternative arrangements for personnel to meet contingencies.

Availability of trained personnel is a vital requirement for smooth functioning of an IT system. The billing centre of CTD was manned by officials of the level of Chief Accounts Officers, Senior Accounts Officers, Assistant Accounts Officers and Junior Telecom Officers of CTD who had been trained to handle the systems including system administration and database administration. Audit observed that there was no documented procedure for handing over of DBA passwords, the system duties to be performed by the incumbent in contingent situations such as non-availability of key personnel like DBA/SA due to leave, promotion or transfer.

Recommendations:

- **CTD should formulate and implement an IT security policy and review it periodically.**
- **Logical access controls of CTBS should be strengthened by adequate logging of changes to critical data like master data, meter readings, etc. The audit trail function should be activated.**
- **CTD should ensure proper segregation of duties between the Data Base Administrator and the System Administrator.**
- **CTD should maintain an offsite storage location for backup data.**
- **CTD should formulate policies for anti virus, data backup and prepare a 'Business Continuity Plan' and 'Disaster Recovery Plan', for early implementation.**
- **CTD should prepare a plan for alternate arrangements for personnel in contingent situations.**

3.10 Conclusion

The efforts of CTD in replacing the COBOL billing package with CTBS though sincere, suffered from non-adoption of systematic procedures like IT system development methodology and deficiencies in implementation, internal controls, monitoring mechanism, IT security and human resources management as brought out in the report. The billing deficiencies as brought out point to existence of revenue leakages. An effective revenue assurance mechanism could help the Management in plugging these revenue leakages emanating from manipulation of billing databases, billing errors, inefficient collection and detecting frauds and ensure the completeness of revenue generation and collection. This would have a positive impact on the functional and operational efficiency of CTD. Switching over to a uniform CDR based billing system; issuing of detailed instructions on system development methodology and implementation; strengthening of internal controls, the monitoring mechanism and IT security controls and introduction of a revenue assurance mechanism should assist CTD and the Company in achieving greater effectiveness and efficiency in billing and revenue realization as also in IT project management.

CHAPTER IV
MAJOR FINDINGS IN TRANSACTION AUDIT-EXPENDITURE

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

4.1 Excess payment of electricity charges

Failure of seven Secondary Switching Areas under the Punjab Telecom Circle to claim the admissible rebate on electricity charges under the rules resulted in excess payment of Rs 2.31 crore to Punjab State Electricity Board.

7.5 *per cent* rebate was admissible for power supply at 11 KV

According to Punjab State Electricity Board (PSEB) notification dated January 1997, power consumers falling under the non-residential supply (NRS) category were to be allowed a rebate of 7.5 *per cent* of the billed amount if the supply of power was given at 11 KV, provided the consumer installed its own transformer. The units of the Company fall under the NRS category.

Failure to claim admissible rebate by seven SSAs in the Punjab Telecom Circle resulted in excess payment of Rs 2.31 crore

During Audit (between August 2004 and May 2005) of seven Secondary Switching Areas (SSAs) at Amritsar, Ludhiana, Pathankot, Patiala, Hoshiarpur, Ferozpur and Sangrur under the Punjab Telecom Circle it was noticed that though supply of power was given at 11 KV and BSNL had installed its own transformers, PSEB did not give the admissible rebate on the billed amounts. The SSAs failed to claim the admissible rebate resulting in excess payment of Rs 2.31 crore, as detailed in the Appendix-XVII, for the billing months from January 1998 to April 2005 in different SSAs.

On this being pointed out by Audit, the General Managers, Telecom (GMsT) Amritsar, Ludhiana, Patiala, Hoshiarpur, Ferozpur and Sangrur stated that the matter would be taken up with PSEB for adjustment of excess paid amounts while GMT Pathankot stated that the matter had been taken up for grant of rebate as per orders.

Thus the failure of the SSAs to claim admissible rebate on electricity charges resulted in excess payment of Rs 2.31 crore to PSEB in seven SSAs alone.

The matter was referred to the Ministry in July 2005; its reply was awaited as of November 2005.

4.2 Non-disposal of hazardous waste

Telecom Factory, Bhilai failed to dispose off 360.23 MT of zinc dross, a hazardous waste violating the instructions of the Ministry of Environment and Forests and resulting in non-realisation of Rs 1.26 crore through its disposal.

Zinc dross, a by-product of the galvanising process is a hazardous metal waste which if allowed to accumulate has an adverse impact on ecosystems, including the human environment. As per the Hazardous Wastes (Management and Handling) Rules 1989, amended in 2003, issued by the Ministry of Environment and Forests, such wastes are not to be stored for more than 90 days. Departmental instructions as adopted by the Company, envisage that zinc dross produced in telecom factories should be disposed of by offering the same to any Central/State Government Department/PSU/autonomous body and in case none is willing to purchase it, it should be disposed of by way of auction after wide publicity, as per the existing procedures of telecom factories.

The factory accumulated 360.23 MT of zinc dross, a hazardous waste, the net realisable value of which was Rs 1.26 crore

Audit scrutiny of the records of Telecom Factory, Bhilai (October 2004) revealed that Management failed to dispose of zinc dross of 360.23 MT generated during the period 1994-1995 to 2000-01, the net realisable value of which was Rs 1.26 crore (August 2005).

On this being pointed out by Audit, the Chief Accounts Officer, Telecom Factory, Bhilai, accepted (June 2005) the facts and stated that tenders were floated from time to time but the rates were not accepted, as they were lower than the reserve prices.

The reply is not tenable as the Departmental Instructions (April 1993) clearly stipulate that in case of auction, the price at which the zinc dross was to be disposed of could be either higher or lower than the reserve price fixed from time to time, depending on the prevailing market conditions.

Thus by allowing the accumulation of the zinc dross, a hazardous waste, the Company not only violated the instructions issued by the Ministry of Environment and Forests but also failed to realise Rs 1.26 crore through its disposal.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

4.3 Non-recovery of compensation for damage to underground cables

Delay in preferring claims by the Chief General Manager, Calcutta Telephones resulted in non-recovery of compensation of Rs 1.21 crore from M/s Reliance Infocomm Limited for the cables damaged by the latter.

Rules provide that when the Company's property is damaged by an outside agency, compensation should be claimed from the concerned party. Further, the compensation claim should be levied, taking into account the actual cash outlay and value of stores utilized in repairing the damage, along with overheads.

RIL on 237 occasions damaged underground cables

Audit scrutiny (March 2005) of the records of the Chief General Manager (CGM), Calcutta Telephones revealed that M/s Reliance Infocomm Limited (RIL), while undertaking digging work, damaged underground cables of the Company on 237 occasions during August 2001 to May 2003. Audit observed that the Area Managers belatedly intimated (December 2003/January 2004) the Deputy General Manager (Switching Planning) about damages to the cables. In most of the cases a formal compensation claim was not lodged with RIL and a consolidated claim for recovery of compensation of Rs 1.26 crore in respect of 237 cases from RIL was only lodged in January 2004. The firm while accepting claims (April 2004) for Rs 4.82 lakh for damages on 19 occasions rejected 192 claims on the ground that intimation had not been received from Calcutta Telephones regarding damage to its cables during the project period of RIL.

When delay in lodging the claim was pointed out (March 2005) by Audit, the Deputy General Manager (Telephone Revenue), Calcutta Telephones stated (July 2005) that necessary steps were being taken to realize the damage charges. He added that the lower formations of Calcutta Telephones had been instructed to maintain proper records for such incidents of damage to substantiate their claims. This indicated that the Company lacked a proper internal control mechanism for timely lodging of compensation claims.

Delay in lodging claims by the company resulted in non-realisation of compensation claim of Rs 1.21 crore from RIL

Thus delay on the part of the CGM to prefer claims resulted in non-recovery of compensation of Rs 1.21 crore from RIL for the cables damaged by the latter.

The matter was referred to the Ministry in October 2005; its reply was awaited as of November 2005.

4.4 Non-recovery of compensation charges for delays in repairing E-10-B cards

General Managers, Telecom Districts, Rourkela and Bhubaneswar under the Orissa Telecom Circle failed to recover compensation charges of Rs 87.57 lakh from Indian Telephone Industries for delays in repairing E-10-B cards.

General Managers, Telecom District (GMsTD), Rourkela and Bhubaneswar under the Orissa Telecom Circle, entered into agreements with M/s Indian Telephone Industries (ITI) in June 2001 and September 2003, respectively for repair of all types of cards used in E-10-B exchanges. These agreements were initially for one year from the dates of commencement and were to be automatically renewed annually till three years, unless notified otherwise by either party. Clause 7 of the agreements stipulated levy of compensation charges on ITI for delay in repairing of cards. Clause 5 of the agreements provided that GMsTD Rourkela and Bhubaneswar were to pay 10 *per cent* and 20 *per cent* respectively of the annual repair contract (ARC) charges in advance. The balance 90 *per cent* and 80 *per cent* were to be paid in four quarterly instalments, after deducting the compensation charges.

GMsTD failed to recover compensation of Rs 87.57 lakh from ITI for delays in repairing of E-10-B cards

Audit scrutiny (February 2004) of the records of GMTD, Rourkela revealed that while ITI delayed in repairing 1496 cards, GMTD, Rourkela failed to recover compensation charges of Rs 15.89 lakh from the quarterly payment of ARC charges to ITI. Similarly, Audit scrutiny (November 2004) of the records of GMTD, Bhubaneswar revealed that ITI had delayed in repairing 1169 cards but GMTD, Bhubaneswar failed to recover the compensation charges of Rs 71.68 lakh from the quarterly payment of ARC charges to ITI. This resulted in non-recovery of compensation charges of Rs 87.57 lakh from ITI.

On this being pointed out by Audit, GMTD Rourkela stated (September 2005) that an amount of Rs 11.48 lakh had been recovered in September 2005 and recovery of the balance Rs 4.41 lakh was in progress. Divisional Engineer, E-10-B, Bhubaneswar, stated (July 2005) that the calculation of the compensation charges was in progress and would be submitted shortly.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

(B) Wasteful expenditure on setting up of new exchanges and expanding existing exchange capacity

4.5 Injudicious expansion of exchanges

The General Managers, Telecom Districts, Ghaziabad under the Uttar Pradesh (West) Circle and Surendranagar under the Gujarat Circle injudiciously expanded the equipped capacity of five telephone exchanges, resulting in under utilization and consequent idle investment of Rs 3.46 crore on expansion of these exchanges.

Departmental guidelines, as adopted by the Company, after considering a growth rate of 15 to 20 *per cent*, advance planning period of one year for expansion of exchanges and providing equipment required, fixed the average utilization of exchange capacity up to 5K[1] and beyond 5K lines at 75 percent and between 82 and 85 *per cent*, respectively.

Exchanges were expanded considering a growth rate of 30 to 40 *per cent* resulting in their under utilisation

Audit scrutiny of the records of the General Managers, Telecom Districts (GMsTDs), Ghaziabad under the Uttar Pradesh (West) Circle (November 2004) and Surendranagar under the Gujarat Circle (August 2004) revealed that five project estimates were sanctioned between June 2001 and November 2002 for expansion of exchanges. The exchanges were expanded during the period from April 2002 to March 2003. Audit scrutiny of four project estimates relating to GMTD, Ghaziabad revealed that an anticipated growth rate of demand of 30 to 40 *per cent* was considered. However, even after two years of expansion of the four exchanges by 7K lines, the utilization varied between 57 *per cent* and 78 *per cent*. The working connections in all these exchanges as of October 2004 were such that the same could have been accommodated from their pre-expansion capacities. This resulted in idling of Rs 2.31 crore on expansion of exchanges by 7K lines.

Similarly, in the case of the Surendranagar Secondary Switching Area (SSA), the project estimate relating to Sayla exchange considered an anticipated growth rate of demand of 32 *per cent* and even after two years of expansion, the capacity utilisation of the exchange was only 27 *per cent*. This resulted in idling of Rs 1.15 crore incurred on expansion by 2K lines.

Under utilisation of exchanges for two years resulted in idle investment of capital to the extent of Rs 3.46 crore

On this being pointed out, GMTD, Ghaziabad confirmed the facts and stated (December 2004) that the excess exchange capacity would be diverted and that in one case, it had been shifted and commissioned. The Accounts Officer, Surendranagar SSA replied (April 2005) that marketing agents had been appointed and all out efforts were being made to load the system to the optimum level. Thus injudicious expansion of exchanges resulted in under utilization to the

[1] 1K – 1000 lines

extent of 9K lines for two years and consequent idle investment of Rs 3.46 crore as detailed in the Appendix-XVIII.

The matter was referred to the Ministry in October 2005; its reply was awaited as of November 2005.

4.6 Unproductive expenditure on installation of an exchange

Principal General Manager, Telecom, Coimbatore SSA, installed 1K RSU at Peelamedu in October 2003, when the Centrex connections released (20) till September 2005 could have been given from the existing AXE exchange, resulting in unproductive expenditure of Rs 2.83 crore.

Chief General Manager Telecom (CGMT), Tamil Nadu Telecom Circle, sanctioned (January 1997) a project estimate for expansion of a new technology AXE exchange at Peelamedu, Coimbatore Secondary Switching Area from 10K to 15K lines at a cost of Rs 9.45 crore. However, taking into account the demand pattern, the Principal General Manager, Telecom (PGMT) Coimbatore, changed the proposal from expansion of 5K lines to installation of a 1K EWSD Remote Switching Unit (RSU). The new exchange was commissioned (October 2003) at a cost of Rs 2.83 crore.

Only 20 subscribers were availing the Centrex facility from the EWSD RSU till September 2005 though the exchange was commissioned in October 2003

Audit scrutiny of the records of the PGMT, Coimbatore revealed that though the exchange was commissioned in October 2003, no connections were released till July 2004. Only 20 subscribers were availing the Centrex facility from the EWSD RSU as on September 2005. When Audit pointed out that these demands could have been met from the spare capacity available with existing AXE exchange at Peelamedu, PGMT, Coimbatore replied (July 2005) that it was thought advisable to install an EWSD RSU so that value added services such as the Centrex* facility could be provided to the customers. It was also stated that the Centrex facility was available only in the EWSD switch.

PGMT Coimbatore did not take into account the capabilities of the existing AXE exchange

The reply is not tenable since AXE exchange, was also capable of offering Centrex facility by activating a set of commands but without any additional equipment. Further, this facility was being offered on AXE exchanges under Chennai Telephones. Hence, the telephone lines released from 1K EWSD RSU could have been given from the existing spare capacity of AXE Main Exchange. Thus the decision of PGMT, Coimbatore to install a 1K EWSD RSU at Peelamedu was injudicious, resulting in unproductive expenditure of Rs 2.83 crore.

* Centrex is a virtual EPABX, which integrates all the multi located telephone lines (existing and new) of a subscriber into a single highly functional communication group without any additional equipment at the subscriber's premises

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

4.7 Wasteful expenditure on installation of C-DOT exchanges

Telecom District Manager, Banda Secondary Switching Area under the Uttar Pradesh (East) Telecom Circle failed to commission nine C-DOT exchanges even after four to five years of their installation, resulting in wasteful expenditure of Rs 1.96 crore.

Nine exchanges were installed during 1999-2001

In order to provide telecom facilities in rural areas, the Telecom District Manager (TDM), Banda under the Uttar Pradesh (East) Circle sanctioned nine project estimates (August 1999 to March 2000) for installation of nine C-DOT-256 exchanges. The exchanges were installed between December 1999 and March 2001 at a cost of Rs 1.96 crore.

Audit scrutiny of the records of the Banda Secondary Switching Area (SSA) revealed that seven exchanges having an installed capacity of 256 connections each were initially put in service/installed (December 1999 to October 2000) without media connectivity and worked intermittently with few connections ranging from 30 to 72 in number. These exchanges could not be commissioned properly due to non-availability of OFC equipment, control cards and underground cables. Further, due to non-connectivity with media, the subscribers could not talk to places outside their village and therefore wanted their telephones disconnected. Telephone Revenue Account (TRA) section could not issue bills as giving connections without proper media connection was not justified. Two exchanges under Simauni and Dehruch were commissioned in March 2005 and July 2004 after delays of four to five years and were working with only eight and 20 connections, respectively.

On this being pointed out by Audit, the Chief Accounts Officer, Banda SSA accepted (January 2005) that these exchanges were not in operation. He also stated that operating these exchanges was no longer remunerative and it was proposed to cover the area with WLL technology.

Exchanges could not be used resulting in infructuous expenditure of Rs 1.96 crore

Thus due to lack of proper coordination in commissioning these nine exchanges, seven exchanges were yet to be commissioned and two were working with a few telephone connections, resulting in wasteful expenditure of Rs 1.96 crore, as detailed in the Appendix-XIX, on installation of these exchanges. Consequently, the objective of providing telephone connections to rural areas also remained largely unfulfilled.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

(C) Idle investment in Land and Buildings

4.8 Idle investment on purchase of land and construction of building

The General Manager, Telecom District, Ghaziabad purchased a piece of land in July 1997 and constructed a telephone exchange building without any proposal for installation of an exchange. This resulted in idle investment of Rs 1.45 crore.

GMTD Ghaziabad purchased a plot in 1997 for Rs 76.72 lakh and constructed a telephone exchange in 2004 at a cost of Rs 67.95 lakh

The General Manager, Telecom District (GMTD), Ghaziabad under the Uttar Pradesh (West) Telecom Circle purchased (July 1997) a plot in Govindpuram, for opening a telephone exchange at a cost of Rs 76.72 lakh from the Ghaziabad Development Authority (GDA). The possession of the plot was taken in June 1998 and a telephone exchange building was constructed (February 2004) at a cost of Rs 67.95 lakh.

There were delays at every stage of implementation of the project

Audit scrutiny (November 2004) of the records of GMTD, Ghaziabad revealed that while possession of the plot was taken in June 1998, the sale deed was executed in March 2001 after a delay of more than two years due to non availability of funds from Circle office. GMTD, Ghaziabad sanctioned (September 2001) the preliminary and detailed estimates for construction of the telephone exchange building and the building was completed and handed over (February 2004) to GMTD by the Civil wing. There was no immediate plan (February 2004) for installation of telephone exchange and it was only in March 2005 that a project estimate for shifting of telephone exchange was sanctioned. Hence, the building remained unutilised (July 2005).

On this being pointed out by Audit, the Deputy General Manager stated (August 2005) that the Govindpuram exchange would be shifted to the new building after allotment of cable from the Circle office.

Non-utilisation of building resulted in idle investment of Rs 1.45 crore

Thus the delays at every stage of implementation together with lack of coordination with the Circle office resulted in idle investment of Rs 1.45 crore on purchase of land (more than 8 years) and construction of an exchange building (for more than one and a half years).

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

4.9 Idle investment on construction of telephone exchange buildings

Improper planning and lack of synchronization between Secondary Switching Areas (SSAs) and the civil wing resulted in non-commissioning of exchanges and consequent idle investment of Rs 1.44 crore on construction of telephone exchange buildings.

Three telephone exchange buildings were to be completed by September 2001

The Chief General Manager, Telecommunications, Bihar Circle sanctioned (during the Year 2000) the construction of three telephone exchange buildings at Beldaur under Khagaria and Raghopur and Triveniganj under Saharsa Secondary Switching Area (SSA). The buildings at Beldur and Raghopur, were proposed for shifting the existing exchanges which were housed in a shed and an optical fibre cable (OFC) project building respectively. In case of Triveniganj, a new exchange was to be commissioned. The Civil wing awarded (September 2000) the contracts for execution of the work and the buildings were to be completed between July and September 2001.

Exchange buildings were completed by July 2003 but could not be put to use due to lack of synchronisation

Audit scrutiny of the records of the Khagaria and Saharsa SSAs revealed that the buildings were completed after delays of one to two years. The delays were mainly on account of non-availability of drawings and non-supply of building materials by the Civil wing. Even after completion of the buildings (December 2002 to July 2003) at a cost of Rs 1.44 crore, these remained unutilized, as the SSAs did not take them over from the Civil wing. It was further noticed that the project estimate for shifting and installation of the exchange at Beldaur had not been sanctioned (December 2004), and in case of Raghopur and Triveniganj, the estimates were sanctioned only in February 2005. The exchanges were yet to be commissioned (October 2005).

On this being pointed out by Audit, the Telecom District Manager (TDM), Khagaria stated (December 2004) that the building at Beldaur had not been taken over by them because the environmental work for the switch room and the construction of a boundary wall were still to be done by the Civil wing. The Civil wing, Khagaria stated that the execution of environmental work had been held up on account of non-availability of approved drawings from the Circle authorities.

As regards construction of the telephone exchange buildings at Raghopur and Triveniganj, TDM, Saharsa stated (September 2004) that the Civil wing had not handed over the buildings to them. Audit scrutiny revealed that the Civil wing had already requested (March and June 2003) TDM, Saharsa to take over the buildings. TDM, Saharsa further stated (March 2005) that technical staff of the OFC project was using the building at Raghopur and the Sub Divisional Engineer's office was functioning in two rooms in Triveniganj and the exchange would be commissioned on receipt of the necessary equipment.

Non-utilisation of buildings resulted in idle investment of Rs 1.44 crore

Thus due to improper planning and lack of proper synchronization between the SSAs and the Civil wing, the project for shifting and commissioning of the exchanges was delayed by four years, resulting in idle investment of Rs 1.44 crore. This also resulted in continuance of telephone exchanges at inappropriate places like a shed and a cramped project building, besides non-realisation of potential revenue of Rs 86 lakh *per annum* in the case of Triveniganj.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

4.10 Idle investment on purchase of land

Construction had not been commenced (June 2005) on land purchased in March 2000 for a telephone exchange resulting in idle investment of Rs 1.26 crore.

The Patna Regional Development Authority (PRDA) requested (December 1999) the Principal General Manager Telecom District (PGMTD), Patna to provide a telephone exchange at Transport Nagar due to high demand for telephone connections and offered a piece of land measuring 52,920 sq.ft at a cost of Rs 1.14 crore for the purpose. PGMTD Patna, accepted the proposal and paid (March 2000) Rs 1.14 crore for the land. The project estimate for installation of 2K new tech. Remote Switching Unit (RSU) was approved (August 2000) at a cost of Rs 4.50 crore. Further, PGMTD, Patna paid (January 2003) Rs 12.44 lakh as maintenance cost.

PGMTD, Patna purchased a plot of land for Rs 1.26 crore in March 2000

Audit scrutiny (February 2005) of the records revealed that PGMTD could not take possession of the plot till April 2003, as the same was not identified/located. The Committee constituted by GM (D) PTD observed (September 2003) that the land could be used for shifting of Bahadurpur Exchange and installing Mobile and WLL BTS instead of having a separate exchange for Transport Nagar. It was also decided to initially construct a tower and a temporary shed, as construction of exchange building would take some time. The Civil wing prepared the preliminary estimate for the project only in January 2005. The construction of the exchange building thus could not be started even after five years from the release of payment for the plot.

On this being pointed out by Audit, the Chief Accounts Officer, PGMTD, Patna replied (June 2005) that though the offer letter was given by PRDA in October 2000, the possession could not be taken in spite of repeated communication with them due to non-identification of the location of the plot. After taking possession in July 2003, the plot was developed and used for mobile towers in 2004. It was further stated that the Civil wing had been asked to submit an estimate for the telephone exchange and a store godown.

Non-utilisation of land for five years resulted in idle investment of Rs 1.26 crore

The reply is not tenable, as PGMTD should have addressed these issues, including site suitability, before making payment for the land. Infact, the rules of the Company required that when a site was to be purchased, there should be a careful consideration of all the aspects by not only the Telecom Officers but also by the Architects and the Civil Engineers of the Company. A suitability certificate was to be provided jointly by these officers, which required them to personally inspect the site. Moreover, only a small portion of 4,067 sq.ft out of 52,920 sq.ft was used for erection of mobile towers. This not only resulted in idle investment of Rs 1.26 crore, but also defeated the very objective of providing a dedicated telephone exchange at Transport Nagar, Patna.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

4.11 Idle investment on construction of staff quarters

Staff quarters constructed in Anishabad under the Patna SSA remained idle for over two years resulting in idle investment of Rs 87.48 lakh.

Chief General Manager Telecommunications (CGMT) Patna, Bihar Circle, sanctioned (April 1998) construction of 24 Type II and III staff quarters in telephone exchange compound Anishabad Patna at an estimated cost of Rs 1.03 crore. Civil wing awarded (June 2000) the work contract with scheduled date of commissioning as December 2001.The work was completed in June 2003 after a delay of one and a half years mainly due to departmental reasons like non-clearance of site and non-availability of architectural drawings.

In spite of completion of the work by the Civil wing, the staff quarters were not handed over to the user unit i.e. Principal General Manager Telecom District (PGMTD) Patna as the Civil wing did not repair some damages to doors, window handles and basins and did not replace some stolen ceiling fans.

Non-utilisation of staff quarters resulted in idle investment of Rs 87.48 lakh

On this being pointed out by Audit, the Civil wing stated that the PGMTD, Patna had been reminded several times to take over the quarters. However, the office of the PGMTD stated that a reference had been made to the Civil wing to rectify the defects noticed by them in the buildings. Thus due to lack of co-ordination between the Civil wing and the SSA, the staff quarters completed in June 2003 were lying unutilized, resulting in unfruitful expenditure of Rs 87.48 lakh.

Thus due to lack of coordination between the SSA and the Civil wing for utilising newly constructed quarters resulting in idle investment of Rs 87.48 lakh.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

4.12 Blocking of capital

The General Manager, Telecom District, Sriganganagar purchased land and constructed a telephone exchange building without any requirement, resulting in its idling of capital of Rs 86.24 lakh.

The exchange building was ready in February 2002 but could not be used due to lack of demand

The General Manager, Telecom District (GMTD), Sriganganagar under the Rajasthan Telecom Circle sanctioned (July 1999) a project for opening of a 2000 line MAX C-DOT exchange at Sadbhavana Nagar. The justification given in the project estimate was that the telephone connections working in Sadbhavana Nagar area were being provided from the existing telephone exchange at Sriganganagar, which involved laying of five to six kilometers of cable for providing connections, making it a costly affair.

GMTD, Sriganganagar purchased (August 1999) land at a cost of Rs 47.83 lakh and constructed (February 2002) a telephone exchange building at a cost of Rs 38.41 lakh. Audit scrutiny (February 2005) of the records of GMTD, Sriganganagar revealed that GMTD had gone ahead with the project without a realistic assessment of demand exclusively for telephone connections in the Sadbhavana Nagar although the rules stipulate that small exchanges should be planned only where waiting lists for telephone connections are greater than 50 and the exchange capacity should be proposed based on a careful assessment of demand. Subsequently considering the non-profitability of the project, the project estimate for installation of an exchange was cancelled (June 2004) and it was proposed to utilise the building for store and repair workshop. Hence, there was no justification for installation of a 2000 line telephone exchange for Sadbhavana Nagar.

This resulted in blocking of capital of Rs 86.24 lakh

GMTD, Sriganganagar stated (August 2005) that a part of the building was being used as a temporary store and that it was planned to install a GSM* unit there. Thus due to improper planning, the land purchased in August 1999 and the building constructed thereon in February 2002 remained idle, resulting in blocking of capital of Rs 86.24 lakh.

The matter was referred to the Ministry in October 2005; its reply was awaited as of November 2005.

4.13 Unfruitful investment on construction of exchange buildings

Telephone exchange buildings under the Patna SSA remained idle for over one to three years, resulting in unfruitful investment of Rs 81.55 lakh.

The General Manager, now Principal General Manager, Telecom District (PGMTD), Patna accorded approval in October 1997 and February 2000 for

* GSM-Global System for Mobile Communication

construction of telephone exchange buildings at Mokama and Bikram respectively although both the exchanges were functioning in departmental buildings.

The Civil wing awarded the works contract and the buildings which were to be completed by September 1999 at Mokama and by June 2001 at Bikram, were completed in April 2002 and February 2004 respectively after considerable delays of over two and a half years. In case of Mokama, two years were lost in finalization of the site and supply of the architectural drawings to the contractor and in the case of Bikram, there were delays on account of non-finalization of the layout plan and architectural drawings by the Civil wing and delays on the part of the contractor.

No plans to shift the telephone exchange to the newly constructed buildings resulted in unfruitful expenditure of Rs 81.55 lakh

Audit further noticed that PGMTD, Patna failed to take over the newly constructed telephone exchange buildings from the Civil wing as the existing exchanges were already functioning in departmental buildings and no plans were drawn to shift the same to the newly constructed exchange buildings. Thus the exchange buildings remained idle (March 2005) for over one to three years after construction, resulting in unfruitful expenditure of Rs 81.55 lakh.

On this being pointed out by Audit, the Divisional Engineer (Planning) stated that the utilisation of the buildings was being examined and necessary decision would be taken regarding their taking over from the Civil wing.

Thus due to inadequate planning, buildings constructed at the cost of Rs. 81.55 lakh remained unutilised for over one to three years.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

(D) Other idle/unproductive expenditure/investment

4.14 Idling of Digital Loop Carrier system

Corporate Office of the Company allotted 25 Digital Loop Carrier systems to the Assam Circle without considering the actual requirement resulting in idling of 19 systems worth Rs 8.36 crore.

Digital Loop Carrier (DLC) systems are used in access networks to provide services such as the Integrated Services Digital Network and high speed data services to customers on existing telephone connections.

Corporate office allotted 25 DLC systems to Assam Telecom Circle between July 2001 and May 2004

The Corporate office of the Company placed three purchase orders (PO) (July 2001 to May 2004) and allotted 25 DLC systems to the Assam Telecom Circle.

Audit scrutiny of the records of the Chief General Manager Telecom (CGMT), and the General Manager Telecom (GMT), Kamrup under the Assam Circle revealed that the Circle placed an indent (December 2002) for 11 DLC systems on the Corporate office. The Corporate office instead of allotting 11 systems, allotted 25 DLC systems to the Circle.

Out of the 25 DLC systems received, only six systems were commissioned in four Secondary Switching Areas (SSAs) under the Circle. This resulted in idling of 19 DLC systems worth Rs 8.36 crore. Even in the case of the six DLC systems commissioned it was noticed that the average utilisation was only to the extent of 18 *per cent* as of September 2005.

On this being pointed out by Audit, the Deputy General Manager (Planning and Operations), Assam Circle stated (September 2005) that 14 DLC systems were allotted without any requisition from the Circle and efforts were being made to commission the remaining systems.

Allotment of DLC systems more than the requirement resulted in idling of 19 DLC systems worth Rs 8.36 crore

Thus procurement of DLC systems by the Company's Corporate office in excess of the demand of the Assam Circle and the failure of the Circle to realistically assess its own requirement before placing the requisition on the Corporate office resulted in excess procurement and consequent idling of 19 DLC systems worth Rs 8.36 crore.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

4.15 Blocking of funds due to non-commissioning of optical fibre routes

Lack of proper planning and coordination led to non-commissioning of 31 OFC routes in Uttar Pradesh (East) and Gujarat Telecom circles resulting in blocking of funds amounting to Rs 3.31 crore.

In order to provide optical fibre connectivity to various telephone exchanges and to synchronous digital hierarchy (SDH) ring networks, high-density polyethylene (HDPE) pipes and optical fibre cables (OFC) were laid (1999 to 2004) along 38 routes of five Secondary Switching Areas (SSAs) at Azamgarh, Mau, Hardoi, Banda and Sultanpur under the Uttar Pradesh (East) Telecom Circle. Similarly OFC cables were laid along six routes of Valsad and Amreli SSA under Gujarat Circle during 2002-2003.

Optical fibre cable routes were not commissioned despite laying of HDPE pipes and OFC at a cost of Rs 2.66 crore

Audit scrutiny (April 2004 to March 2005) revealed that out of the above 38 routes under Uttar Pradesh (East) Circle, 25 routes were completed during 2002-04 at an expenditure of Rs 2.66 crore but could not be commissioned till September 2005. Examination of the records of the SSAs revealed that eight routes were not commissioned as the telephone exchanges were no longer required due to coverage by mobile or WLL services. Fifteen routes planned for SDH network could not be commissioned due to non-receipt of SDH equipment from the Corporate office, while the balance two routes could not be commissioned due to non-completion of cable jointing.

OF cable laid between July 2002 and March 2003 at a cost of Rs 64.98 lakh could not be commissioned for want of OF equipment

In case of GMsT, Valsad and Amreli though OFC laying works along six routes were completed between March 2002 and March 2003 at a cost of Rs 64.98 lakh, these were not commissioned due to non-receipt of OFC terminal equipment from the Circle Office as of May 2005. In Amreli SSA the cable-laying work was completed between March 2002 and January 2003 but the requisition to the Circle Office for procurement and supply of OF equipment was placed only in July 2004. However, rules stipulate that all necessary activities connected with the execution of a project should be initiated simultaneously so as to avoid blocking of funds.

On this being pointed out by Audit, the Assistant General Manager (Telecom Planning), Uttar Pradesh (East) Telecom Circle, while accepting the facts, stated (September 2005) that the infrastructure of pipes and cables laid could not be used due to changes in the policy of the Company. He further stated that instructions had been issued to the SSAs to utilize the partially completed routes for SDH ring network or Mobile/WLL purposes. The Assistant General Managers, Valsad and Amreli SSAs also accepted (April-May 2005) the facts.

This resulted in blocking of funds of Rs 3.31 crore

Thus lack of proper planning and coordination led to non-commissioning of 31 OFC routes in Uttar Pradesh (East) and Gujarat Telecom Circle, resulting in blocking of funds of Rs 3.31crore.

The matter was referred to the Ministry in August/October 2005; its reply was awaited as of November 2005.

4.16 Wasteful expenditure on idle stores

Idling of line and wire stores in Mangalore SSA for more than two years since their receipt resulting in wasteful expenditure of Rs 3.11 crore on their procurement.

Rules provide that stores purchased must not be held in excess of requirement beyond a reasonable period and stores remaining in stock for over a year should be considered surplus. In order to ensure the observance of this rule, annual inspections must be carried out by responsible officers, who must submit reports of surplus and obsolete stores to the authorities competent to issue orders for their disposal. Further it was decided (April/July 2000) to lay five pair cable for providing new telephone connections instead of erecting new overhead alignments since it was more economical and circles were instructed not to procure overhead material to the full extent as per norms.

Audit scrutiny (January 2005) of the records of the General Manager Telecommunications (GMT), Mangalore revealed that based on the purchase orders placed by the Karnataka Circle, line and wire stores meant for overhead alignments valuing Rs 3.11 crore were received by the GMT from the Circle Telecom Stores Depot, Bangalore during 1998-99 to 2002-03 as follows:

Line and wire stores worth Rs 3.11 crore were lying unutilised for more than two years.

Period of receipt	Value of stores (Rs in lakh)
1998-01	43.83
2001-02	17.91
2002-03	248.80
Total	**310.54**

These stores were lying unutilized even after two years of their last receipt.

On this being pointed out (January 2005) by Audit, the Chief General Manager, Telecommunications, (CGMT) Karnataka Circle stated (September 2005) that the line and wire stores were procured as per the development programme of the year 2002-03. He further added that the line material could not be used as projected due to instructions issued (May 2003) by the Company's Corporate office, stipulating that connections beyond 2.5 km involving more line materials from the last distribution point need not be energized and were to be covered by WLL. Due to this the requirement of line and wire material had fallen drastically. The CGMT added that action would be taken to divert the material to other needy places. It was further stated that permission of the Corporate Office had been sought to dispose off excess materials through the CGM, Telecom Stores, Kolkata.

The reply is not tenable as the instructions of May 2003 were only a continuation of the earlier orders of April and July 2000 to minimise the use of overhead line material. Hence the Company was aware of the declining necessity for overhead materials but procured line materials worth Rs 2.49 crore during 2002-03. Further no action was taken to divert the stores to needy units and only on being pointed out by Audit, Circle office and other SSAs were requested to divert the idle stores.

Thus non-observance of the instructions coupled with inaction of the GMT to utilize or divert the stores to needy units resulted in wasteful expenditure of Rs 3.11 crore.

The matter was brought to the notice of the Ministry in October 2005; its reply was awaited as of November 2005.

4.17 Infructuous expenditure on payment of electricity charges

Karnataka, Madhya Pradesh, Chhattisgarh and Tamil Nadu Telecom circles failed to review and modify their contracted electricity demand on the basis of actual consumption resulting in payment of minimum demand charges of Rs 1.29 crore over actual consumption.

Failure to review the contracted demands and modify them resulted in infructuous expenditure of Rs 1.29 crore

Audit scrutiny of the records of 10 Secondary Switching Areas (SSAs) under the Madhya Pradesh and Chhattisgarh circles, Electrical Division II under the Tamil Nadu Circle and seven SSAs under the Karnataka Circle revealed that contracted demands were more than the required demands and minimum demand charges on higher contracted demands continued to be paid (October 2005) resulting in infructuous expenditure of Rs 1.29 crore as shown in the Appendix-XX.

On this being pointed out by Audit, heads of SSAs in the Madhya Pradesh and Chhattisgarh circles, while accepting the facts stated (May 2004 to June 2005) that action would be taken to minimize the demand charges. They further stated that the matter for revision of contract demand was being pursued with the State Electricity Board. The Principal Chief Engineer (Electrical), Electrical Zone, Tamil Nadu Circle stated (July 2005) that on the basis of the instructions issued by their Electrical Division, the Gudiatham, Vellore and Ambur SSAs had reduced their contracted demands during May 2002 to September 2003 and all the SSAs were again advised to take appropriate steps to reduce the contracted demand. Heads of SSAs in the Karnataka Circle, while accepting the facts, stated (September 2005) that their contracted demand had been reduced in December 2004 and that the matter would be taken up with their higher authorities for further reduction. Audit noticed that the demand was still on the higher side even after reduction.

Although the Company issued (November 2001) instructions for monitoring of energy consumption in telephone exchange buildings, persistence of these deficiencies indicated that the internal control mechanism at the level of SSAs was weak.

The matter was referred to Ministry in October 2005; its reply was awaited as of November 2005.

4.18 Unfruitful expenditure on procurement of power plants

Chief General Manager, Telecom Stores, Kolkata allotted 70 power plants of 100 A to Andhra Pradesh, Orissa and Kolkata circles out of which 52 power plants worth Rs 1.17 crore developed faults on being put to use resulting in their idling.

The Corporate office of the Company issued (April 2001) instructions to the Chief General Manager Telecom Stores (CGMTS) Kolkata to take action for procurement of power plants of 100A for rural networks in different circles. CGMTS, Kolkata placed (November 2001/December 2001) purchase orders on M/s Infinity for procurement of 70, 100A power plants for Andhra Pradesh, Orissa and Jharkhand Circle.

Fifty two power plants supplied by M/s Infinity were lying idle for various reasons

Test check in Audit revealed that 52 power plants supplied by M/s Infinity were lying idle since January 2002/August 2002 in different exchanges of Andhra Pradesh, Orissa and Jharkhand circles as:

- The Mosfets used in power plants and diodes were failing due to variation in load
- The power plant modules were not able to take I/P voltage above 480 V.
- The power plants failed during prolonged power cuts.
- Power plants were not able to withstand frequent power fluctuations.
- Power plants were faulty since the date of installation and continued to default even after rectification by supplier.
- Power plants were functioning smoothly at an exchange equipped with an AVR (Automatic Voltage Regulator) but were not functioning in rural exchanges where A.C. mains voltage fluctuation was more.

Further, it was also observed that some of the faulty power plants of Infinity make were replaced by power plants of ITI make and these were working satisfactorily.

On this being pointed out by Audit, the user units, while accepting the facts, stated (June 2003 and September 2004) that while some power plants were lying idle from the dates of installation due to defects, others had become faulty after working for a few months. CGMTS Kolkata stated (August 2005) that as and when complaints were received, the firm was directed to repair the plants.

Unfruitful expenditure of Rs 1.17 crore on power plants lying idle due to its faulty performance

The reply of the Management is not tenable, as 52 power plants were lying idle due to faults. Thus the procurement of power plants without taking into account the voltage fluctuations and other technical parameters of the areas in which these were to be installed resulted in their faulty performance and resulted in unfruitful expenditure of Rs 1.17 crore

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

4.19 Imprudent investment

The decision to invest surplus funds of Rs 200 crore in M/s ITI was neither based on sound commercial judgement nor was in the best financial interests of the Company.

Company invested Rs 200 crore in cumulative redeemable preference share of ITI

The Company invested (March 2003) surplus funds of Rs 200 crore in seven percent cumulative redeemable preference shares of M/s Indian Telephone Industries Ltd. (ITI) redeemable at par in five equal installments at the end of the third, fourth, fifth, sixth and seventh years. The decision for investment was taken in an emergency meeting (March 2003) of the Board of Directors on a request received from ITI and on the basis of a recommendation of the Department of Telecommunications (DoT)

Audit scrutiny of the records of the Company revealed that the decision to invest surplus funds in ITI was not based on sound commercial judgment and was not in conformity with the instructions laid down by DPE as explained below:

1. The investment was for an unduly long period of seven years as against the prescribed period of one year by DPE.

Company's decision was in violation of DPE's directives and was not in the best financial interest of the \Company

2. The financial position of ITI on the date of investment (March 2003) was not sound as the half yearly results showed (September 2002) a loss of Rs 142 crore. The firm had projected a loss of Rs 73 crore for 2002-03 whereas as per DPE guidelines, investment decision should be based on sound commercial judgement and there should be no element of speculation on yield obtaining from the investment.

3. Credit rating by a reputed organization before investing in ITI was not obtained. As per DPE guidelines the investment can be made only in highest secured instruments rated by a reputed agency.

The Management stated that the investment was made at the behest of DoT and based on the financial projections made by ITI

On this being pointed out by Audit, the Management stated that:

- the investment was made on the recommendation of DoT.
- ITI had the highest credit rating accorded by M/s ICRA and Fitch Rating.
- the financial projections submitted by ITI were also considered.

The reply of the Management is not tenable because of the following reasons:

- Company should have taken the investment decision based on sound commercial judgment and not merely based on the recommendations of the administrative Ministry.

- The rating by M/s ICRA done in November 2002 was for Rs 94 crore bonds of ITI and not for preference shares.

- The rating by M/s Fitch was for short-term borrowings having tenure of less than one year and not for longer periods of investment. Besides, the rating was not valid at the time of the investment, i.e. March 2003.

- The fact that ITI did not have sufficient cash to redeem Bonds of Rs 94 crore clearly indicated that adequate safeguards were not considered at the time of investment.

- The Company was aware of the fact that ITI had actually incurred loss of Rs 55.42 crore[♦] for the year 2001-02 and as per half yearly result ending 30 September 2002, the Company showed loss of Rs 142.25 crore.

Company lost interest of at least Rs 70 lakh

ITI was incurring losses since 2001-02 and had not paid dividend of Rs 14 crore for the year 2003-04. Thus the Company not only lost the interest income of at least Rs 70 lakh *per annum*[*] on the dividend Income (assuming that the dividend on cumulative preference share will eventually be paid) but also lost the opportunity of investing the funds in alternative secure investment options.

The matter was referred to the Ministry in July 2005; its reply was awaited as of November 2005.

4.20 Idle investment on purchase of software

Principal General Manager, Bangalore Telecom District procured Oracle 8i Relational Database Management System software without considering its compatibility with the existing 'Trichur' billing package, resulting in idle investment of Rs 61.54 lakh.

Non-compatibility of Oracle 8i RDBMS software with the Trichur billing package

The Computer Billing Centre, Bangalore Telecom District was using Oracle 7.3.4 Relational Database Management System (RDBMS) software for billing of telephone revenue. In order to speed up the billing process and to ensure faster system response time, the Chief General Manager (CGM), Karnataka Circle, decided (May 2001) to upgrade the entire system. The Principal General Manager (PGM), Bangalore Telecom District placed (January 2002) a purchase order on M/s Tata Infotech for supply, installation and commissioning of hardware and

♦ The profit after tax of Rs 21.58 crore for 2001-02 was arrived at after taking into account the anticipated grant-in-aid which did not fructify.

* Interest calculated at the rate of 5 *per cent* per annum

Oracle 8i software. The vendor was also made responsible for porting of billing data from the existing server to the new server. The total cost of the hardware and software was Rs 2.06 crore with the stipulated date of delivery as eight weeks from the date of placing the purchase order.

Audit scrutiny (May 2004) of the records of PGM, Bangalore Telecom District, revealed that though Oracle 8i RDBMS software was installed in October 2002, it could not be utilized till March 2005 due to its non-compatibility with the existing Trichur billing package. As a result, billing data could not be migrated from the existing package to Oracle 8i, resulting in idle investment of Rs 61.54 lakh towards the cost of procuring Oracle 8i.

On this being pointed out by Audit, Chief Accounts Officer, Computer Billing Centre, Bangalore Telecom District, while accepting the facts, stated (June 2004) that the efforts to modify the application software were not successful but a proposal to migrate the existing data to Oracle 8i and clustering the database was under progress. He further stated (March 2005) that phases of process to be adopted for migration of entire database and application to Oracle 8i was in progress.

Idle investment of Rs 61.54 lakh due to non-utilisation of Oracle 8i RDBMS software

Thus the decision of PGM, Bangalore Telecom District to procure Oracle 8i without considering its compatibility with the existing Trichur billing package not only resulted in idle investment of Rs 61.54 lakh, but also defeated the objective of speeding up the billing process.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

(E) Avoidable expenditure/payment

4.21 Avoidable expenditure on procurement of PIJF cable

The Corporate office of the Company failed to avail the benefit of two *per cent* additional discount offered by bidders for centralized payment, resulting in avoidable expenditure of Rs 11.88 crore on procurement of PIJF underground cable.

The Company invited (June 2003) open tenders for procurement of 120 LCKM♣ PIJF* underground cables of 21 sizes for the year 2003-2004. The Committee for Evaluation of Tenders (CET) observed that the prices approved in the earlier

♣ lakh conductor kilometre

* polythene insulated jelly filled

tender during 2002-03 were lower and recommended the offering of a weighted average rate of Rs 4.80 crore per LCKM as against the weighted average rate of Rs 5.74 crore per LCKM quoted by L-1. Accordingly, advance purchase orders (APO) were issued (January 2004) to 30 eligible and short-listed bidders for 116.87 LCKM at the recommended rate. All the bidders conveyed their non-acceptance of the APO, stating that the prices were not workable.

Two *per cent* additional discount was offered by the bidders for centralized payments

Thereafter, a price negotiation committee (PNC) was constituted and based on its recommendation, a revised APO was issued at the weighted average rate of Rs 5.11 crore per LCKM, which was also not accepted by the bidders. Subsequently, an Empowered Committee was constituted (February 2004) by the Board of Directors to negotiate with five L-1 bidders of different sizes of cables. The Committee negotiated with the bidders and recommended a weighted average rate of Rs 5.42 crore per LCKM. The same was approved by the competent authority and revised APOs were issued in March 2004. After receiving the acceptance of the APOs from 25 bidders, authorizations were issued (March 2004) to telecom circles for placement of detailed purchase orders for a total quantity of 94.992 LCKM plus add on quantity of 17.243 LCKM at a cost of Rs 608.31 crore.

Audit scrutiny (June to August 2005) of the records of the Corporate office of the Company revealed that during negotiations, a two *per cent* additional discount was offered by four L-1 bidders, if centralized payments were made by the circles instead of the Secondary Switching Areas (SSAs). This was not considered by the PNC on the ground that it would be a deviation from bid conditions. Audit further observed that the empowered committee did not consider the above offer, although in the previous tender for procurement of PIJF cable for 2002-03, the Corporate office had agreed to centralized payment by relaxing the payment conditions in the bid documents during price negotiations.

Centralized payments were not considered. The two *per cent* discount could not be availed of resulting in avoidable expenditure of Rs 11.88 crore

Thus failure of the company to avail of the benefit of the additional two *per cent* discount offered by the bidders for centralized payment resulted in avoidable expenditure of Rs 11.88 crore on procurement of 109.570 LCKM of PIJF underground cable up to August 2005.

On this being pointed out by Audit, the Management stated (September 2005) that the PNC and the Empowered Committee did not consider the additional discount of two *per cent* as it was a deviation from the tender condition and considering it could have resulted in legal complications. It was also stated that in the previous tender such a request was considered as an exceptional case, which could not be made a practice. Further, it was mentioned that the discount for all sizes of cables offered by the L-1 bidders worked out to 2.58 *per cent* whereas the prices finalised were about 5.58 *per cent* less than the prices quoted by the L-1 bidders and as such, the Company was not put to any loss.

The reply of the Management is not tenable as centralized payments were made in the previous tender also without any discount being availed on this account. The question of legal complications also would be hypothetical, as centralized payment in relaxation of payment condition in the bid documents was resorted to earlier. Further, the additional discount of two *per cent* offered by the bidders was for centralized payment and was over and above the general reduction of 5.58 *per cent* in the prices finalised by the Company.

The matter was referred to the Ministry in September 2005; its reply was awaited as of November 2005.

4.22 Avoidable extra expenditure on procurement of PLB HDPE pipes

Chief General Manager, Telecom Stores, Kolkata procured permanently lubricated high density polyethylene (PLB HDPE) pipes at higher rates during 2001-2004 which resulted in avoidable excess expenditure of Rs 1.76 crore.

The Company while issuing detailed guidelines relating to decentralised procurement of stores emphasized (June 2001) that the procurements should be done on reasonable rates and heads of circles were to assess the reasonableness of the rates obtained in the tenders by comparing them with the rates of previous procurements as also the current market trends.

The Chief General Manager, Telecom Stores (CGMTS), Kolkata invited tenders for procurement of PLB HDPE pipes during 2001 to 2004. Based on the rates approved by the Stores Purchase Committees (SPCs), purchase orders were placed during October 2001 to February 2004.

Failure to compare the basic rates of PLB HDPE pipes with other circles resulted in higher expenditure of Rs 1.76 crore

The basic rates fixed by CGMTS, Kolkata, for procurement of the PLB HDPE pipes were much higher than those fixed by CGMT, Rajasthan Telecom Circle, during the same period. Thus, failure to compare the basic rates of PLB HDPE pipes with other circles resulted in avoidable extra expenditure of Rs 1.76 crore as shown in Appendix -XXI.

On this being pointed out by Audit, the Chief Accounts Officer, (Budget), CGMTS stated (March 2004 and January 2005) that with the decentralisation of the procurement process, the circles were to procure their requirements by inviting their own tenders. Further, he stated that in the open tender system, the purchaser was to either accept the L1 rate or offer such suitable counter offer rate as per the recommendations of the SPC so that the stores could be procured in time.

The reply of the Management is not tenable as in an open tender system, SPCs was expected to assess the reasonableness of the rates obtained in tender after comparing it with the rates of previous procurements and also the current market trends. The rates obtained by other circles are a good indicator of current market trends.

Thus the failure of CGMTS, Kolkata to examine the reasonableness of the rates obtained in the tenders led to avoidable extra expenditure of Rs 1.76 crore during the years 2001-04.

The matter was referred to the Ministry in July 2005; its reply was awaited as of November 2005.

4.23 Excess expenditure on cable laying works

Malappuram Secondary Switching Area under the Kerala Circle allowed the contractor's bidding percentage applicable for labour rates on purchase of bricks from PSUs for cable laying works resulting in excess expenditure of Rs 81.69 lakh.

As per the agreements between the Company and three Public Sector Undertakings (PSUs)* for laying of underground cables in different exchange areas of the Malappuram Secondary Switching Area (SSA) under the Kerala Circle, the Company was to pay the PSUs the actual cost of the work plus overhead charges. The schedule of labour rates prepared by the PSUs and accepted by the General Manager Telecommunications (GMT) was adopted as the basis for inviting tenders from the sub-contractors through whom the PSUs carried out the work. The tenders were finalized on the bidding percentages♣ quoted by the sub-contractors. The accepted bidding percentages ranged from 79 to 103 percent above the rates included in the schedule of labour rates, depending on the exchange area where the cable laying work was carried out.

The cost of bricks for cable laying works done through the PSUs was abnormally higher as compared to those of private contractors.

Audit scrutiny (September 2004) of the records of GMT, Malappuram SSA revealed that in the schedule of rates for labour and material, the rates for labour on which biddings percentage was payable included the rate for supply of bricks for mechanical protection as well. Thus, even though bricks should not have been classified under 'labour', these rates became eligible for payment of the bidding percentage. As a result, the cost of bricks became unreasonably high for works carried out by the PSUs compared to those undertaken by private contractors engaged by the Company in the SSA. The cost of bricks for cable laying executed through private contractors ranged between Rs 5.94 to Rs 7.50 per metre

* Hindustan Cables Limited (HCL), Indian Telephone Industries Limited (ITI) and Telecommunications Consultants India Limited (TCIL)

♣ Bidding percentage represents the margin of the sub-contractors over and above the adopted basic schedule of labour rates.

longitudinally and Rs 11.88 to Rs 15.50 per metre transversely. However, although the basic rates for PSUs worked out to Rs 7.00 longitudinally and Rs 14.00 transversely but after allowing the bidding percentage ranging from 79 to 103 percent, the effective rate became between Rs 12.53 to Rs 14.21 longitudinally and Rs 25.06 to Rs 28.42 transversely per metre. Audit noticed excess expenditure of Rs 81.69 lakh in respect of 14 cases for work executed by PSUs pertaining to the years 2001 to 2004, as compared to the rates of private contractors.

On this being pointed out, the Chief General Manager Telecommunications (CGMT), Kerala Circle replied (August 2005) that the tender percentage was approved considering the turnkey projects in totality and that compared to the cost of work done through private contractors, the rates offered by the PSUs were reasonable.

The reply is not tenable since GMT, Malappuram, should have analyzed and split the schedule of rates correctly between labour and material before adopting them as the PSUs were asked to quote percentage on the basic rate for labour only. Further, a comparision of the cost of cable laying work executed through private contractors in the Manjeri exchange area of the Malappuram SSA with rates applied for the PSUs revealed that the latter was higher by Rs 1.37 lakh of which Rs 1.10 lakh was due to the difference in the cost of bricks alone.

Thus the failure of GMT Malappuram in segregating the schedule of labour rates between labour and materials before adopting them resulted in excess expenditure of Rs 81.69 lakh in cable laying works executed through the PSUs.

The matter was referred to the Ministry in September 2005; its reply was awaited as of November 2005.

MAHANAGAR TELEPHONE NIGAM LIMITED

CHAPTER V
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

5.1 Introduction

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

5.2 Organisational setup

The administrative and overall functional control of the Company is vested with the Board of Directors headed by the Chairman and Managing Director (CMD) who is assisted by three functional Directors in charge of Technical, Finance and Human Resources departments and a Company Secretary. The Delhi and Mumbai units of the Company and the Mobile Services unit at Delhi are headed by Executive Directors.

5.3 Investment and Returns

Against the authorised equity share capital of Rs 800 crore, the paid-up capital, as on 31 March 2005, was Rs 630 crore, of which the Government of India had invested Rs 354.37 crore. The return on this investment (Rs 630 crore) by way of dividend paid by the Company was 45 *per cent* for each of the years 2000-01 to 2004-05, as can be seen from the table at sub-paragraph 4.2.

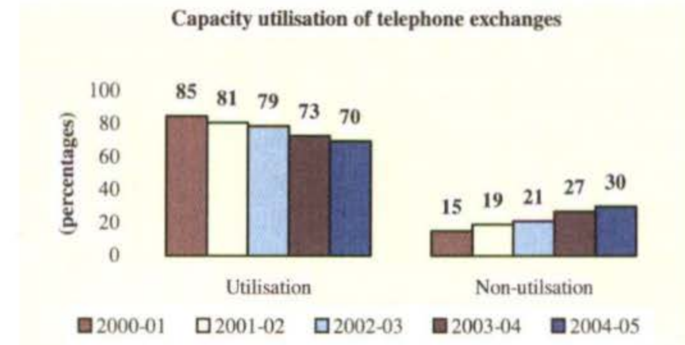
5.4 Physical and Financial Performance

5.4.1 Physical performance

The physical performance of the Company as at the end of each of the five years ending 31 March 2005 is given in Appendix-XXII.

A review of the same revealed the following:

➢ The overall capacity utilisation of telephone exchanges went down from 85 *per cent* in 2000-01 to 70 *per cent* in 2004-05 mainly due to mismatch between capacity created and demand.



➢ There was a 341 *per cent* increase in the number of cellular mobile telephone connections from 2.00 lakh in 2001-02 to 8.82 lakh in 2004-05.

➢ The number of public telephones increased more than double from 1.34 lakh in 2000-01 to 2.79 lakh in 2004-05.

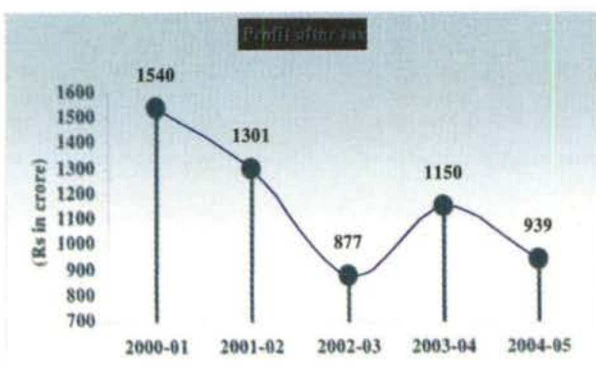
5.4.2 Financial performance

The financial results of the Company for the five years ending 31 March 2005 were as follows:

(Rs in crore)

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
Income from services	5784.58	6143.72	5806.53	6369.60	5592.38
Other income	318.02	248.35	* 223.69	314.33	491.72
Expenditure (excluding interest and prior period adjustments)	4374.08	* 4560.92	* 4737.64	4963.36	4832.62
Interest	8.30	* 28.83	32.82	34.62	35.81
Profit before tax and prior period adjustments	1720.22	1802.32	1259.76	1685.95	1215.67
Prior period adjustments	(-) 17.04	(-) 7.88	(-) 22.57	(-) 84.12	(-) 9.45
Profit before tax	1703.18	1794.44	1237.19	1601.83	1206.22
Tax provision	163.00	493.76	360.03	451.35	267.24
Profit after tax	1540.18	1300.68	877.16	1150.48	938.98
Proposed dividend including tax	312.42	283.50	319.82	319.82	322.78
➢ Final dividend	283.50	283.50	283.50	283.50	283.50
➢ Tax on dividend	28.92	0.00	36.32	36.32	39.28

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



As seen from the table given above, the profit after tax for the two consecutive years ending 31 March 2003 showed a continuous downward trend mainly on account of increase in expenditure (including prior period expenditure). In addition, there was a three-fold increase in provision for tax in 2001-02 and decrease in income from services (including other income) by more than 5 *per cent* in 2002-03, which also contributed to this continuous decrease in profit after tax. However, the profit after tax increased by 31 *per cent* in 2003-04 compared to the previous year mainly on account of increase in income (including other income) by 11 *per cent* over the last year's income, although the expenditure increased by 5 *per cent* in 2003-04 over the previous year's expenditure. During 2004-05, the profit after tax decreased by 18 *per cent* in 2004-05 compared to the previous year mainly on account of decrease in income from services by 12 *per cent* over the last year's income, although the expenditure also decreased by 3 *per cent* over the previous year's expenditure.

5.5 Revenue Arrears

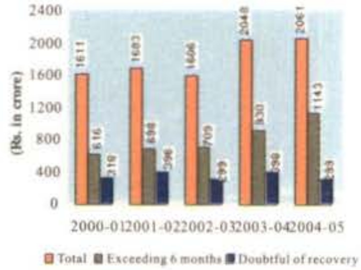
Income due from regular customers on account of telecommunication services provided to them, for which bills could not be raised up to 31 March every year, were shown as 'Other current assets' by the Management of the Company and were not categorised as 'Sundry Debtors' in its Annual Accounts up to the year ended 31 March 2003. After this was pointed out by Audit, the Management took the unrealised revenue income as 'Sundry Debtors' in their annual accounts for the year 2003-04. The position of revenue arrears during the last five years up to 31 March 2005 was as under:

(Rs in crore)

Sl. no.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
1.	Total revenue income	5784.58	6143.72	5806.53	6369.60	5592.38
2.	Total Sundry Debtors					
	(a) Exceeding 6 months	615.90 (38%)*	698.41@ (41%)*	709.03@ (44%)*	930.30@ (45%)*	1142.79 (55%)
	(b) Upto 6 months	309.43	433.79@	339.69@	1117.75@	917.77
	(c) Total (a + b)	**925.33**	**1132.20@**	**1048.72**	**2048.05@**	**2060.56**
3.	Income accrued from services incorrectly shown under other current assets upto 2002-03	685.38	551.00@	557.29@	-----	-----
4.	Total revenue arrears [2(c)+3]	1610.71	1683.20@	1606.01@	2048.05@	2060.56
5.	Percentage of total revenue arrears to total revenue income [Sl. no. (4 / 1) X 100]	28	27	28	32	37
6.	Revenue arrears considered doubtful of recovery	317.97	396.05@	299.02@	397.85	299.41
7.	Percentage of doubtful revenue arrears to total revenue arrears [Sl. no. (6 / 4) X 100]	20	24@	19	19	15

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

@ *These previous year figures have been recast in the annual accounts of the Company for the years 2002-03, 2003-04 and 2004-05.*



It may be seen that there was a downward trend in the ratio of total revenue arrears to total revenue income from 28 *per cent* in 2000-01 to 27 *per cent* in 2001-02. But it showed an upward trend from 27 *per cent* in 2001-02 to 37 *per cent* in 2004-05. Of this yearly unrealised revenue, the revenue which remained in arrears for more than six months also showed an increasing trend. It increased from 38 *per cent* as on 31 March 2001 to 55 *per cent* as on 31 March 2005. The unrealised revenue which was considered doubtful of recovery increased from 20 *per cent* at the end of March 2001 to 24 *per cent* at the end of March 2002, but at the end of March 2003, it decreased to 19 *per cent* and remained at 19 *per cent* at the end of March 2004. It further decreased to 15 *per cent* at the end of March 2005. The main reasons for revenue arrears, as observed in Audit, were delays in payments by customers, customers not being traceable, billing for disconnected connections due to delays in receipt of closing advice notes in billing sections, wrong billing, disputed bills etc. The continuous increase in this unrealised income over the years indicated that the Company needed to exercise greater control over the management of debtors as well as in extending credit to customers.

5.6 Manpower

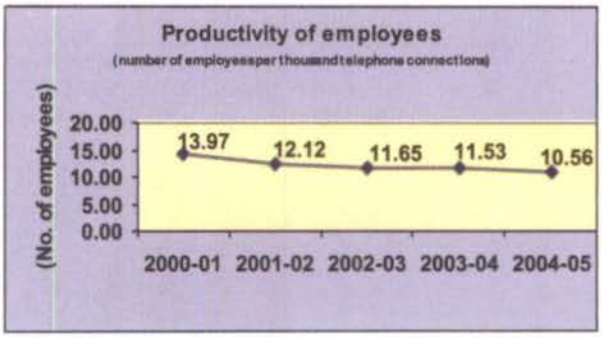
The total manpower strength of the Company as at the end of each of the last five years ending on 31 March 2005 is given below:

Year	Group A	Group B	Group C	Group D	Total manpower	Daily Rated Mazdoors
2000-01	1065	5862	35222	18409	**60558**	188
2001-02	1083	5967	33943	16534	**57527**	100
2002-03	1128	6429	33901	16526	**57984**	88
2003-04	1083	6042	33083	15552	**55760**	82
2004-05	1390	5916	32004	15089	**54399**	82

As may be seen from the above table, the overall manpower decreased by 10 *per cent* over the last five years, although there was an increase of 31 *per cent* in the manpower strength in Group A officers cadre. In addition to the overall decrease, the number of daily rated mazdoors also showed a downward trend from 188 in March 2001 to 82 by March 2005.

5.7 Productivity

The productivity* of the Company's employees (i.e. ratio of the number of employees per thousand telephone connections or DELs including cellular mobile connections) for each of the last five years up to 31



* *The productivity figures have been recast by the management for the years 2001-02 and 2002-03.*

March 2005 showed a gradual improvement. As indicated in the chart, the number of employees per thousand telephone connections (including cellular mobile connections) decreased from 13.97 in 2000-01 to 10.56 in 2004-05.

CHAPTER VI
MAJOR FINDINGS IN TRANSACTION AUDIT

6.1 Imprudent investment

The decision of the Company to invest surplus funds of Rs 100 crore in M/s ITI was neither based on sound commercial judgement nor was it in the best financial interests of the Company.

DPE guidelines provide for investment of surplus funds of PSEs only in instruments with maximum safety

The guidelines for investment of surplus funds by Public Sector Enterprises (PSEs) issued by the Department of Public Enterprises (DPE) in December 1994 envisaged that investments should be made only in instruments with maximum safety having no element of speculation and their maturity period should not exceed one year. Eligible investments were term deposits with scheduled commercial banks, inter-corporate loans to Central PSEs and debt instruments having highest credit ratings.

The Company invested Rs 100 crore in cumulative redeemable preference share of ITI

The Company invested surplus funds of Rs 100 crore in 8.75 percent cumulative redeemable preference shares of M/s Indian Telephone Industries Ltd. (ITI) in March 2002. This investment was redeemable at par in five equal instalments at the end of the third, fourth, fifth, sixth and seventh years.

Audit scrutiny of the records of the Company revealed that the decision to invest surplus funds in ITI was not based on sound commercial judgment and was not in conformity with the instructions laid down by DPE as explained below:

The Company's decision was in violation of DPE's directives and the investment did not yield any dividend

1. The cumulative redeemable preference shares offered by ITI formed part of their share capital and did not fall into any of the eligible categories of investments such as term deposits, debt instruments, etc. authorised by DPE.
2. The investment was for an unduly long period of seven years as against the prescribed period of one year.

It was observed that the investment in ITI did not yield any dividend for the years 2002-03 and 2003-04 as the company incurred losses.

On this being pointed out by Audit, the Management stated that:

The Management replied that at the time of investment ITI was a profit making PSU

- the decision was taken at a time when ITI was a profit making PSU and had earned profits continuously during the years 1997-98 to 2000-01, and
- as per Company Law provisions, preference shares were part of a company's share capital. Consequently, if owing to lack of profits, dividend was not distributed in a year, the unpaid dividend would not

lapse in the case of cumulative preference shares and would be payable out of the succeeding years' profits.

The reply of the Management is not tenable because of the following reasons:

- Negligible profits earned in two or three years (Rs 27 crore, Rs 46 crore and Rs 29 crore in 1998-99, 1999-00 and 2000-01, respectively) should not have been the only criterion for judging the viability of ITI. The debt equity ratio of the company (10:1) was very poor at the time of investment.

Profits are not the only criteria for judging the viability of a Company. The debt equity ratio of ITI was poor

- The profits were reviewed only for a selected period. The fact that ITI had a history of losses from 1994-95 to 1996-97 and showed a recent downward trend of profit were apparently ignored.
- Although unpaid dividends do not lapse, delayed receipt of the same results in loss of returns from alternate investment options. ITI did not pay dividends for the years 2002-03 and 2003-04 amounting to Rs 17.50 crore. Consequently, the Company lost interest of at least Rs 1.31 crore[♣] (assuming that the dividend on cumulative preference share would eventually be paid) on this amount for two years, calculated at the prevalent bank rates.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

6.2 Blocking of capital on purchase of land

Delhi unit purchased various plots over a period of 20 years for construction of staff quarters, but kept them vacant, resulting in blocking of capital of Rs 24.24 crore, besides loss of interest of Rs 8.57 crore.

Delhi unit leased land for construction of staff quarters

The Delhi Development Authority (DDA), allotted (December 1983) on a request from the Company (Delhi unit), four plots (9.884 acres) on lease in Sectors III and V of Rohini for construction of staff quarters. The terms and conditions of the lease provided that the land should only be used for construction of staff quarters and the construction should be completed within two years of handing over possession of the land, failing which a composition fee for extension of time was payable. The Company deposited (January 1985) Rs 59.30 lakh and took possession (April 1985) of the plots.

Audit scrutiny (March 2005) of the records of the Assistant General Manager (AGM), (Land), MTNL, Delhi revealed that the construction work on two plots in Sector V measuring 4.94 acres never commenced, resulting in unfruitful investment of Rs 29.65 lakh. Further, the Company paid composition fees of Rs 89.32 lakh till March 2005 for non-construction of staff quarters.

[♣] Interest calculated at the rate of five *per cent per annum*.

While two plots meant for construction of staff quarters remained vacant, the Company leased (December 1993) another plot (7 acres) from DDA at a cost of Rs 12.05 crore plus ground rent of Rs 30 lakh *per annum* in Rohini, Sector-XI extension itself for the same purpose. Audit observed that the Company once again failed to utilize the plot and after a lapse of 10 years requested (November 2003) DDA to grant permission to utilize the plot as a store depot. The decision of DDA was still awaited. The Company had paid ground rent of Rs 3.61 crore to DDA upto December 2005 for this plot.

Four plots leased over a period of 20 years was not used, resulting in blocking of capital of Rs 24.24 crore

Despite vacancy of above three plots, Delhi unit leased (July 2000) from the Municipal Corporation of Delhi (MCD) another plot (1.41 acres) for construction of staff quarters in Sunlight Colony at a cost of Rs 6.61 crore plus ground rent of Rs 17 lakh *per annum.* The Company had paid ground rent of Rs 82.63 lakh to MCD also till March 2005. The construction was yet to be started (October 2005).

On this being pointed out by Audit, the AGM (Building Planning), Delhi stated that there were enough staff quarters in the Company and that there was no demand for more staff quarters. AGM (Admn, Building Planning) further stated (October 2005) that a board note has been processed to surrender the plots at Rohini Sector-XI extension, Sunlight colony and Rohini sectors 5/10 and 5/4.

Thus the Company without reviewing the utilisation of the existing plots, kept acquiring land over a period of 20 years for construction of staff quarters, resulting in blocking capital of Rs 24.24 crore, besides loss of interest of Rs 8.57 crore*.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

6.3 Infructuous expenditure on leasing of land

Delhi unit leased a plot of land in Noida for construction of a training centre and staff quarters. The land remained unutilized for over 13 years, resulting in infructuous expenditure of Rs 10.96 crore.

Delhi unit leased a plot (March 1992) for setting up a telecom training centre for which no plans had been prepared till April 2005

The Board approved (November 1989) purchase of land measuring 80,000 square metre from New Okhla Industrial Development Authority (NOIDA), for setting up a training centre and staff quarters. The total premium of Rs. 6.53 crore was paid to NOIDA by March 1992. As per the lease agreement with NOIDA (March 1992) construction of the building was to be completed within five years of the date of allotment or four years from the date of possession whichever was earlier, failing which an extension charge of four *per cent per annum* of the premium was payable. In addition, lease rent at the rate of 2.5 *per cent per annum* of the total premium was payable in advance.

* Worked out at a conservative interest rate of five per cent *per annum* on simple interest basis.

Audit scrutiny revealed that though the possession of the plot was taken (December 1992), architectural consultant was appointed (July 1999) after a delay of six and a half years for developing the plot and it took another four years for approving (September 2003) the drawings for the construction of the building. In the meantime the Company also approved (March 1999) construction of Regional Telecom Training Centre (RTTC) at Powai, Mumbai and the construction of the same was completed in November 2002.

In January 2004, considering the training facilities developed at Mumbai and the services available at Advance Level Telecom Training Centre (ALTTC) of Bharat Sanchar Nigam Limited at Ghaziabad, the Company was uncertain about the use, the land could be put to. Therefore, alternatives of (i) not to construct the training centre at all (ii) to construct the minimum area to avoid penalty (iii) possibility of diversion of plot to some other institution, or (iv) to put to any other alternative use were considered. It was decided (March 2004) that the utilization of land and buildings should be considered as a part of an overall long-term plan rather than taking decision on the basis of cases in isolation and a future plan be prepared in a time bound manner towards this exercise. No such plan had been prepared/put up (April 2005).

Idling of land for 13 years resulted in infructuous expenditure of Rs 10.96 crore

On this being pointed out by Audit, the Management accepted (March 2005) the facts and stated that the plot was being used as a cable dump yard to avoid encroachment.

Thus due to indecisiveness of the Management for over 13 years, the land remained idle resulting in avoidable infructuous expenditure of Rs. 10.96 crore.[1]

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

6.4 Avoidable expenditure

General Manager, East-I, Mumbai of the Company hired accommodation in excess of requirement to accommodate its Offices, resulting in avoidable expenditure of Rs 3.57 crore.

Mumbai unit hired accommodation in excess of requirement

The Company's corporate office instructed to review utilisation of its rented buildings

General Manager (GM), (East-I), Mumbai unit of the Company hired four buildings in 1999 and one building in 2003 for accommodating its Offices. The area in the four hired buildings (1999) was far in excess of the requirement as per the departmental norms and out of the two floors of the building hired in 2003, one had not been used since the date of taking over. In order to reduce the operating costs, the Company's Corporate Office issued instructions (August 2001) to review and certify whether the accommodation hired was required and that alternate Company accommodation was not available/likely to be available for use.

[1] Lease premium Rs 6.53 crore, lease rental Rs 2.12 crore and extension charges Rs 2.31 crore.

The Company's Fair Rent Committee reviewed (August/December 2002) rent/area of two buildings and was able to reduce rent but no excess hired area was surrendered. On this being pointed out (November 2004) by Audit, GM (East-I) Mumbai unit, reviewed the rented accommodation in its jurisdiction and surrendered (February 2005) 874 sq. ft in one building and proposed (March 2005) to surrender 16,210 sq. ft in the remaining four buildings.

Thus the failure of the Management (Mumbai unit) to review the utilisation of the rented buildings resulted in payment of avoidable rent to the tune of Rs 3.57 crore towards excess hiring of accommodation since January 2003.

The matter was referred to the Ministry in October 2005; its reply was awaited as of November 2005.

6.5 Idle investment on establishment of a Fraud Management Control Centre

Mumbai unit of the Company incurred idle expenditure of Rs 5.23 crore on establishment of a Fraud Management Control Centre, which could not be commissioned even after five years.

Board approved establishment of a FMCC in January 2000

The Board approved (January 2000) a project for provision of a Fraud Management Control Centre (FMCC)* at Mumbai unit of the Company at an estimated cost of Rs 35 crore. According to the justification for the project, it was estimated that there was a revenue leakage of 6.2 *per cent* every year at Mumbai unit by way of non-billing and other billing related issues. The revenue leakage was estimated at Rs 180 crore annually. It was expected that with the introduction of the FMCC, the unit would be able to plug this recurring leakage of revenue.

Placement of PO on M/s Ectel Ltd Israel on turnkey basis in March 2002

The Company's Corporate office placed (March 2002) a purchase order (PO) on M/s Ectel Limited, Israel to design, supply, install, test, commission and make over the FMCC on turnkey basis to the Mumbai unit at a cost of Rs 11.82 crore within three months from the date of issue of the PO. However, the project had not been completed till July 2005.

Audit scrutiny revealed delays at every stage of execution of the project

Audit scrutiny (June 2004) of the records revealed that the project was a part of the development plan for the year 1999-2000 and was to be completed during the same year but the PO was placed after a gap of two years (March 2002). M/s Ectel supplied the equipment between November 2002 and February 2003 after delays of five to eight months though the project was to be completed by June 2002. Further, the Company's corporate office issued departmental instructions (March 2002) to keep the infrastructure ready for installation of the equipment but the same was ready only by January 2003.

* FMCC – A computerised system, which attempts to effectively contain various types of frauds through a combination of real time and near real time analysis. It comprises a control centre and remote sites.

The unit got the hardware and software installed at all the designated sites by November 2004. However, the main application software i.e. Fraud View software, installed in November 2004 and IC Guard software installed in May 2004 could not be put through acceptance testing (AT) till July 2005 as the Acceptance Testing unit insisted upon an approved acceptance-testing plan from the Company's corporate office for these two softwares, which had not been received till July 2005. The unit paid (September 2002 and March 2003) Rs 5.23 crore to M/s Ectel.

The Management stated (July 2005) that installation of fraud view software, which was to be done by Ectel was delayed due to software issues and was completed only in November 2004. There was also some further delay since AT unit was insisting for approved AT plan.

Idle investment of Rs 5.23 crore besides non-achievement of objective

Thus due to delays at every stage of implementation, the project planned for completion during 1999-2000, could not be completed even after the passage of five years and after incurring of expenditure of Rs 5.23 crore. This resulted not only in idling of investment but also in non-achievement of the stated objective of detecting frauds and plugging the leakage of revenue through the FMCC.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

6.6 Loss due to procurement of cables at higher rates without invoking risk and cost clause

The Company failed to invoke the risk and cost clause of a contract on a defaulting cable supplier, resulting in a loss of Rs. 1.12 crore.

The Company placed purchase orders for supply of PIJF cables on GTCL

The Company's Mumbai unit, based on a tender finalised by their corporate office, placed (February and April 2003) two purchase orders (POs) on Gujarat Telephone Cables Ltd (GTCL) for supply of 65.2 km of 2000 pair 0.4 mm unarmoured (UA) PIJF[2] underground cables at a total cost of Rs 5.66 crore. The unit rate was Rs 8.68 lakh per km and the scheduled delivery period was up to July 2003 in the case of the first PO and October 2003 in the case of the second PO. The general conditions of the contract stipulated that in case of delays in supply, the Company reserved the right to cancel/short close the POs and purchase the balance unsupplied quantities at the risk and cost of the defaulting supplier.

GTCL supplied only 2.519 km of cables against the order of 65.2 km

Audit scrutiny of the records of the General Manager (GM), Material Management (MM), Mumbai unit revealed that GTCL supplied only 2.519 km of PIJF cables by October 2003 in respect of both the POs. The Company short closed (December 2003) both the POs and encashed the performance bank guarantee (PBG) of Rs 1.09 crore, submitted by the supplier. The Mumbai unit of the Company, based on subsequent tenders finalised by its

[2] Polythene insulated jelly filled

The Company purchased similar cables at higher rates without invoking risk and cost clause on the defaulting vendor resulting in loss of Rs 1.12 crore

corporate office, placed POs for supply of 157.6 km of 2000 pairs 0.4 mm UA PIJF cables at higher rates, ranging from Rs 11.47 lakh to Rs 13.86 lakh per km. Audit noticed that the Company failed to invoke the risk and cost clause of the contract against GTCL for procuring the balance quantity of 62.681 km of PIJF cable. This resulted in additional expenditure of Rs 2.21 crore on procurement of balance quantity at higher rates. As the total amount recovered by encashing the PBG was only Rs 1.09 crore, the Company lost Rs 1.12 crore due to its failure to invoke the risk and cost clause.

On this being pointed out by Audit, the Mumbai unit replied (May 2005) that POs were placed as per authorization from the corporate office. The Company's Corporate Office stated (September 2005) that no further orders were placed on GTCL.

Thus failure of the Company to invoke risk and cost clause resulted in a loss of Rs 1.12 crore to the company.

The matter was referred to the Ministry in September 2005; its reply was awaited as of November 2005.

6.7 Loss due to delay in submission of insurance claim

Delhi unit of the Company failed to lodge insurance claims for lost and damaged WLL handsets in time, resulting in rejection of the same by the insurance company and consequent loss of Rs 50.28 lakh.

Insurance policy of WLL handsets required intimation of loss/damage within 24 hours

The Company's Corporate office purchased a basic telecom operators' insurance policy from Oriental Insurance Company at premia of Rs 8.47 crore and Rs 4.94 crore for the periods from June 2002 to June 2003 and June 2003 to June 2004, respectively. The policy among other things covered compensation for lost or damaged Wireless-in-Local Loop (WLL) handsets. The terms and conditions of the policy provided that the insured was bound to notify the insurer within 24 hours after the loss or damage had become known either verbally or by registered letter. If the reporting was verbal, the same was to be repeated in writing within one week. In cases of theft, the insured was to notify the police and obtain a police report

Insurance claims rejected due to delay in lodging the claim, resulting in loss of Rs 50.28 lakh

Audit scrutiny (April 2005) of the records of the General Manager (Operations), CDMA, Delhi unit revealed that in 1721 cases of lost and damaged WLL handsets relating to the period October 2002 to May 2004, claims were lodged with the insurance company between May 2004 and July 2004 after delays ranging from two months to one and a half years. The insurance company rejected these claims in September 2004 due to inordinate delays in intimation of the damages or losses resulting in a loss of Rs 50.28 lakh to the Company.

It was also noticed that cases of theft of WLL handsets reported to the Commercial Section were compiled on a monthly/bimonthly/quarterly basis and sent to the Divisional Engineer (DE), CDMA, after gaps of two to three months. Further, the field units sent details of the handsets such as dates of their issue and identification numbers, very late to the DE and consequently the insurance claims got delayed.

On this being pointed out by Audit, the DE stated that it was not possible to intimate the losses of individual subscribers to the respective units of the Company within 24 hours and as such the 24 hour period could not be taken as a basis for settlement of such claims.

The reply is not tenable as the Company agreed to the terms and conditions of the policy and yet claims were lodged after inordinate delays of two months to one and half years resulting in their rejection and consequent loss of Rs 50.28 lakh. The above also indicates that the Company lacked a proper internal control mechanism which would ensure timely lodging of insurance claims.

The matter was referred to the Ministry in September 2005; its reply was awaited as of November 2005.

ITI LIMITED

CHAPTER VII
ORGANISATIONAL SET UP AND FINANCIAL MANAGEMENT

7.1 Introduction

Indian Telephone Industries Limited, Bangalore was incorporated in January 1950 as a Company and was renamed as ITI Limited (Company) in January 1994. The Company has production units located at Bangalore, Palakkad, Naini, Raibareli, Mankapur and Srinagar. The products manufactured by the Company are mainly classified into switching (OCB 283, C-DOT exchanges etc), transmission (microwave radio equipment, line equipment, digital MCPC VSAT, IDR equipment, PDH, SDH etc.), access equipment (GSM and CDMA ,WLL), and telephone instruments. Bharat Sanchar Nigam Limited (BSNL) has been the major customer of the Company over the years and other customers included Mahanagar Telephone Nigam Limited (MTNL), Defence Services, Railways, Power, Steel and Oil sectors.

7.2 Organisational Set up

The administrative and over all functional control of the Company is vested with the Board of Directors headed by the Chairman and Managing Director (CMD) who is assisted in day-to-day management of the Company by three functional Directors (Finance, Marketing and Production) and Company Secretary. Besides there are three Additional Directors in charge of Human Resources Development, Projects and Planning and Internal Audit. The units are headed by Additional General Managers/ General Managers.

7.3 Investment and Returns

Against the authorised share capital of Rs700 crore, the paid-up capital, as on 31 March 2005, was Rs 588 crore, consisting of Rs 288 crore as equity and Rs 300 crore as cumulative redeemable preference shares. The investment by the Government of India was Rs 267.47 crore towards the equity capital. The return on the above investment in the form of dividend paid by the Company was six *per cent* (1998-99 and 1999-2000) and five *per cent* (2000-01 and 2001-02). Since the Company was incurring loss since 2002-03, no dividend was paid for the years 2002-03, 2003-04 and 2004-05.

7.4 Physical Performance

The physical performance of the Company as at the end of each of the last five years ending 31 March 2005 is given in Appendix-XXIII. It was seen that:

(i) In respect of switching products though the installed capacity was almost fully utilized upto 2000-01, it declined sharply to 70 *per cent* in 2001-02, 34 *per cent* in 2002-03 and 19 *per cent* in 2003-04 but improved to 47 *per cent* in 2004-05.

(ii) In respect of transmission products, there was underutilization of installed capacity ranging from 13 *per cent* (2001-02) to 64 *per cent* (2000-01).

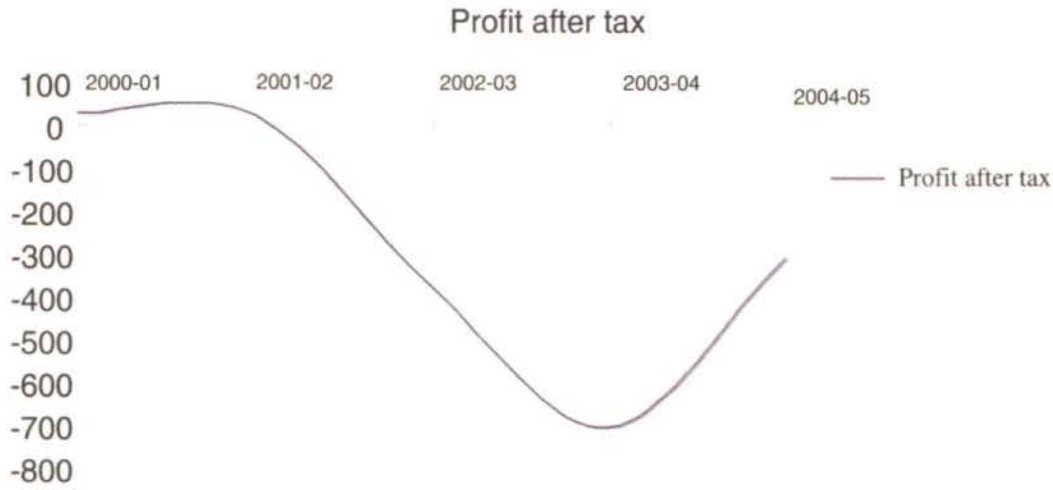
(iii) In respect of terminal equipment, the utilization of installed capacity ranged from 26 *per cent* to 100 *per cent* during the years 2000-01 to 2004-05. The target capacity was achieved only in 2000-01.

7.4.1 Financial Performance

The financial results of the Company for the last five years ending 31 March 2005 were as follows:

(Rs in crore)

Particulars	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**
Sales including Services (excluding Excise Duty)	1926.38	2121.98	1701.11	1197.86	1317.87
Other Income	114.37	70.62	38.21	52.94	56.30
Interest earned	1.36	0.42	0.22	6.09	0.27
Transfers from Grant-in-aid	34.97	110.80	28.42	(52.74)	447.78
Expenditure (excluding interest and prior period adjustments)	1886.59	2107.18	1985.83	1729.98	1931.14
Interest	160.70	171.26	156.02	157.97	187.15
Profit before tax and prior period adjustments	29.79	25.38	(373.89)	(683.80)	(296.07)
Prior period adjustments	(2.24)	(2.00)	(2.78)	(22.03)	(13.75)
Profit before tax	27.55	23.38	(376.67)	(705.83)	(309.82)
Tax provision	--	--	--	--	--
Deferred Tax	--	1.80	(1.80)	--	--
Profit after tax	27.55	21.58	(374.87)	(705.83)	(309.82)
Proposed dividend	**4.40**	**4.40**	**NIL**	**NIL**	**NIL**



The Company started incurring huge losses of Rs 376.67 crore, Rs 705.83 crore during 2002-03 and 2003-04 respectively mainly due to poor sales performance and high expenditure during those years. The loss during the year 2004-05 came down to Rs 309.82 crore mainly due to a grant in aid of Rs 447.78 crore received from the Government of India.

7.5 Outstanding Dues

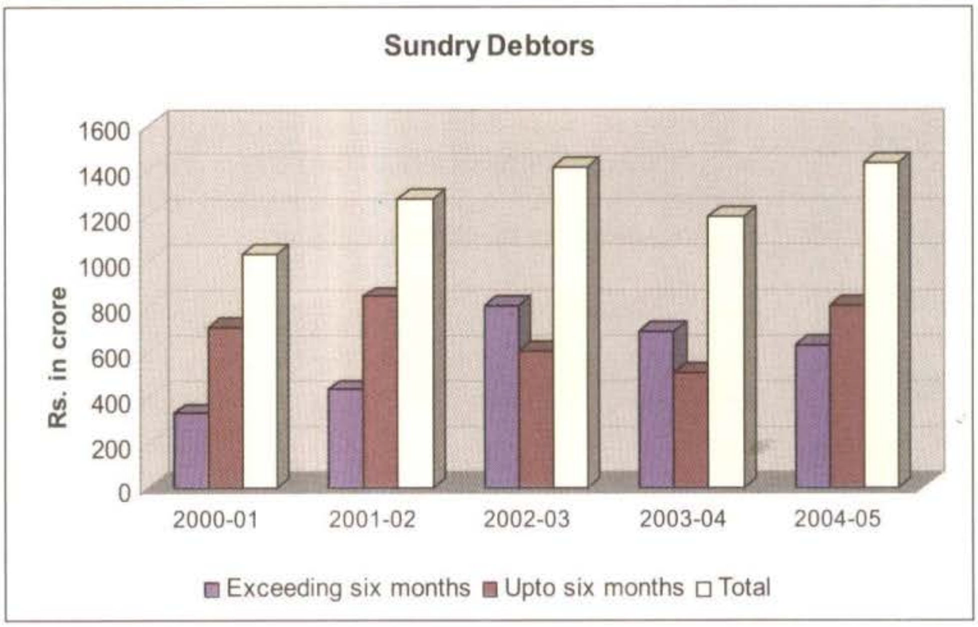
The major customers of the Company are Government Companies, viz., BSNL and MTNL. The Company has not laid down any credit policy so far (November 2005).

The position of sundry debtors as at the end of each of the five years ending 31 March 2005 was as under:

(Rs in crore)

Sl. No	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
1.	Total sales including services (Including excise duty)	2144.20	2317.17	1794.65	1256.57	1389.01
2.	Total sundry debtors					
	(a) Exceeding six months	327.63 (32)*	434.48 (34)*	807.36 (57)*	691.73 (58)*	632.05 (44)*
	(b) Upto six months	705.65	844.00	605.77	508.44	803.69
	(c) Total (a+b)	1033.28	1278.48	1413.13	1200.17	1435.74
3.	Percentage of total Sundry debtors to sales	48	55	79	96	103
4.	Doubtful debts	5.69	5.71	8.61	11.02	15.52

* Figures in bracket indicate percentage of debtors exceeding six months to total debtors i.e. (2a/2c) x 100.



It could be seen from the above chart that debtors ranging from 48 *per cent* to 103 *per cent* remained in arrears at the end of the last five years up to 2004-05. Debtors exceeding six months showed increasing trend from 34 *per cent* as at the end of March 2002 to 58 *per cent* as at the end of March 2004, but reduced slightly to 44 *per cent* as at end of March 2005.

Position of unbilled debtors included in total debtors during the period from 2000-01 to 2004-05 was as under:

(Rs in crore)

Year	Total debtors as at the year end (net of provision)	Sundry debtors for the year	Billed	Unbilled	Percentage of unbilled debtors. to total debtors for the year
2000-01	1027.59	849.25	307.35	541.90	63.80
2001-02	1272.77	1079.00	193.00	886.00	82.11
2002-03	1404.52	*1023.09	*591.09	432.00	42.22
2003-04	1189.15	*632.57	328.44	*303.13	47.92
2004-05	1420.21	853.32	786.24	67.09	7.86

* Modified based on verification of the reply to ATN

The percentage of unbilled debtors increased from 64 *per cent* as at the end of March 2001 to 82 *per cent* as at the end of March 2002, but declined to 42 *per cent*, 48 *per cent* and 8 *per cent* as at the end of March 2003, March 2004 and March 2005, respectively. The decline in the trend of unbilled debtors during

2004-05 was mainly due to the shift in Company's business portfolio from manufacture of equipment and supply to turnkey projects.

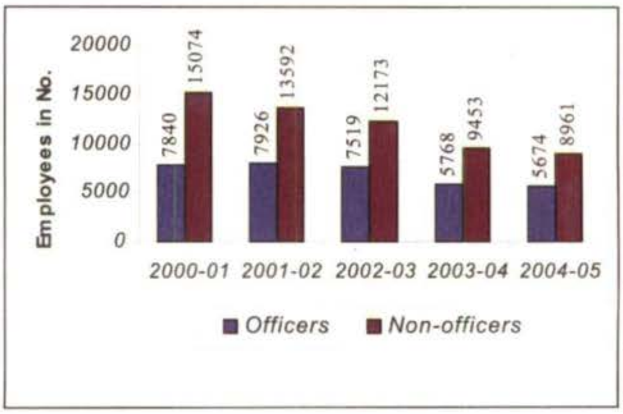
Though there were debts outstanding for more than five years, the Company had not obtained confirmation from the debtors during any of the years. The Statutory Auditors had also repeatedly commented about the Company not obtaining confirmation from the Sundry Debtors.

7.6 Manpower

The total manpower strength of the Company as at the end of each of the last five years ending 31 March 2005 was as given below:

Year	Group A	Group B	Group C	Group D	Total Manpower
2000-01	2354	5486	14732	342	22914
2001-02	2169	5757	13292	300	21518
2002-03	2034	5485	11875	298	19692
200304	1639	4129	9396	57	15221
2004-05	1480	4194	8920	41	14635

It would be seen that there was 36 *per cent* reduction in total manpower during the last five years. The breakup of officers and non-officers for the last five years was as follows:



Year	Officers	Non-officers
2000-01	7840	15074
2001-02	7926	13592
2002-03	7519	12173
2003-04	5768	9453
2004-05	5674	8961

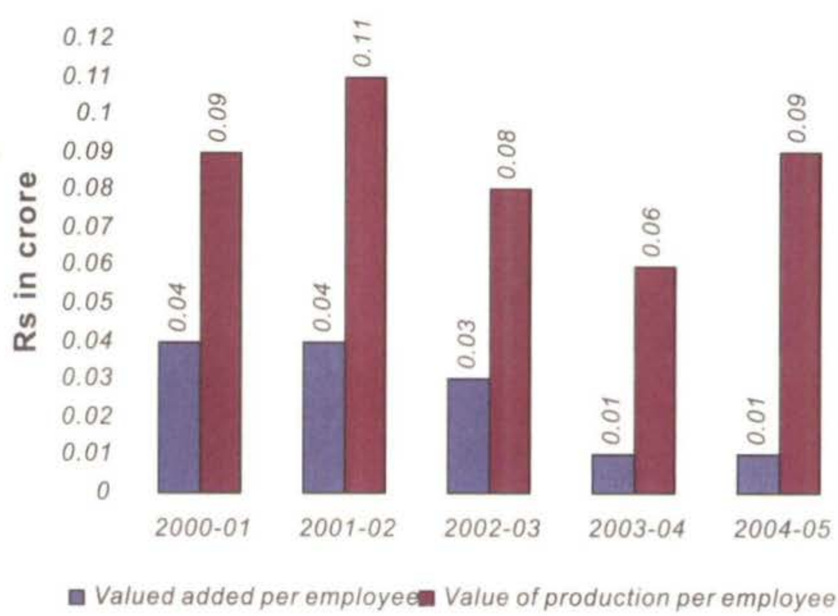
The reduction in total manpower was mainly due to retirement of employees under voluntary retirement scheme. Though the strength of non-officers decreased by 41 *per cent*, reduction in the strength of officers was only 28 *per cent* from 2000-01 to 2004-05.

7.7 Productivity

The productivity of employees of the Company in terms of value added and value of production during the last five years ending 31 March 2005 was as follows:

(Rs in crore)

Year	Valued added per employee	Value of production per employee
2000-01	0.04	0.09
2001-02	0.04	0.11
2002-03	0.03	0.08
2003-04	0.01	0.06
2004-05	0.01	0.09



Though the value of production and value added per employee showed a continuous decline since the year 2001-02, there was a marginal increase in 2004-05.

CHAPTER VIII
MAJOR FINDINGS IN TRANSACTION AUDIT

8.1 Delay in claiming differential amount

Avoidable delay in submission of differential claim resulted in locking up of funds of Rs 29.12 crore and loss of interest thereon of Rs 4.36 crore.

The Company obtained an advance purchase order from Bharat Sanchar Nigam Limited (BSNL) (December 2000) for supply of 900 KL Digital Local Exchange Equipment against the reservation quota of 2001-02. A provisional weighted average price per line was fixed at Rs 1978.84 based on the terms and conditions stipulated in Department of Telecommunication's tender opened in August 2000. The final price was to be fixed after taking into consideration the terms and conditions of 2001-02 tender. The order for 900 KL, was to be executed by Palakkad plant (308 KL), Bangalore plant (406 KL) and Mankapur plant (186 KL). The delivery of the equipment was to commence immediately on placement of purchase orders by circles and completed within eight months.

Based on the authorisation of BSNL (December 2000), the circles placed purchase orders on the Company during December 2000 to January 2001 and supplies were completed by September 2001. The Company realised the provisional price of Rs 1978.84 per line by September 2001. However, based on the repeated representations of the Company for enhancement of the offered prices, BSNL fixed (August 2002) the final price of the equipment supplied at Rs 2695 per line and intimated itemised priced bill of material intimated to the Company.

Delayed submission of differential claim resulted in locking up of funds of Rs.29.12 crore and loss of interest thereon of Rs.4.36 crore.

A review of the differential claims by the Company, with reference to the revised itemised priced bill of material furnished by BSNL, revealed that (i) the differential claim of Rs 13 crore in respect of supplies relating to Palakkad Plant was claimed in June 2003 only i.e. after a delay of 8 months, and (ii) Rs 16.12 crore relating to the supplies of Mankapur Plant was claimed during February to October 2004 after delay of 16 to 24 months. The delay in submission of differential claim was avoidable and injudicious especially when the Company had been facing severe financial crunch and heavily dependent on borrowings to finance its working capital needs. This resulted in delay in realisation of Rs 29.12 crore[♣] and consequent loss of interest on the locked up funds amounting to Rs 4.36 crore on cash credit from October 2002 to October 2004.

The Management stated (May 2004) that as per the BSNL payment procedure, the revised 'Bill of material' had to be vetted by the consignee based on which bills could be submitted. The reply is not tenable as there was no record to support the assertion of the Management. Moreover, the Management

[♣] excluding differential claims of Rs 26.15 crore relating to Bangalore plant subsequently (September 2004) contradicted its own reply stating that vetting of 'Bill of material' was not a precondition for payment. Hence there was no justification for the delay in claiming the differential amount.

Thus, avoidable delay in submission of differential claim resulted in locking up of funds of Rs 29.12 crore and consequent loss of interest of Rs 4.36 crore from October 2002 to October 2004.

The matter was referred to the Ministry in May 2005; its reply was awaited as of November 2005.

8.2 Levy of liquidated damages and penal interest

Failure of the Company to initiate timely action and effective pursuance to obtain TEC approval delayed the deliveries resulting in avoidable payment of liquidated damages of Rs 6.83 crore and penal interest of Rs 1.06 crore on advance drawn.

The Company entered into (December 1999) an MOU with Electronics Corporation of India Limited (ECIL) which was a licensed manufacturer of CorDect technology. As per MOU, ECIL assigned its rights to the Company for manufacturing and marketing of equipment under CorDect technology to enable the Company to participate in the tenders floated by DOT (now Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL)). In April 2000, the Company also entered into a sub license agreement with ECIL according to which, out of the orders received from BSNL/MTNL for supply of equipment under CorDect technology, it would place orders on ECIL for 50 *per cent* of the orders on back to back commercial terms stipulated in BSNL/MTNL orders.

The Company received (August 2002) a reserved quota purchase order (PO) from BSNL for supply of 60,000 lines of Digital Wireless Access system with internet access based on CorDect Technology at an all inclusive price of Rs 68.29 crore. The order was divided among Bangalore complex (15,000 lines) and Rae Bareli unit (15,000 lines) of the Company and ECIL (30,000 lines) in terms of the agreement of April 2000.

The PO *inter alia*, provided for (i) payment of advance of 75 *per cent* of its value, (ii) completion of supplies within six months i.e. by 15 February 2003, and (iii) levy of liquidated damages (LD) and penal interest on the advance drawn in respect of supplies made after the expiry of delivery schedule.

BSNL advised (June 2000) the Company to obtain validation certificate• within seven months (i.e. January 2001) in order to be eligible to participate in tender process for supply of equipment under CorDect technology. The Company applied (March 2001) for Type Approval Certificate♠ (TAC) to the regional Telecommunication Engineering Centre (TEC). TEC did not grant

• It is required for effecting supplies and is needed when the 'Type Approval Certificate' is not there or expired.

♠ It is essential for any new product developed and certifies the product. 'Type approval Certificate' is required to be submitted for obtaining Validation Certificate clearance.

TAC on the ground that the original TAC was issued to ECIL and not to the Company. As the Company did not go back to TEC with clarifications that ECIL was their sub contractor and a licensed manufacturer of CorDect technology, TEC closed the case. The Company initiated (July 2001) action to obtain TAC and received it in October 2002. The supplies were completed within the extended delivery date i.e. by 28 June 2003.

Delayed deliveries resulted in avoidable payment of liquidated damages of Rs 6.83 crore and penal interest of Rs 1.06 crore on advance drawn

Thus, the delay in obtaining TEC approval resulted in delay in supplies beyond the scheduled date of delivery of 15 February 2003. BSNL extended (May 2003) the delivery schedule and recovered Rs 6.83 crore towards LD on delayed supplies and penal interest of Rs 1.06 crore on advance given to the Company.

The Ministry admitted (November 2005) that the PO was accepted without the infrastructure and correct technology partner. It further added that the Company must streamline its operations/activities to ensure timely completion of PO particularly in competitive environment and warned the Company to be careful in future and not to repeat such incidents.

Thus, failure of the Company to initiate timely action and effectively pursue with TEC delayed the delivery resulting in recovery of LD of Rs 6.83 crore and penal interest of Rs 1.06 crore on advance drawn.

8.3 Loss due to injudicious purchase

Injudicious purchase of components for Digital Pair Gain Systems resulted in loss of Rs.1.45 crore on inventory written off and blocking of Rs. 93.44 lakh on unsold systems.

The Raebareli unit of the Company envisaged (February 1997) an annual turnover of Rs 20 crore by manufacturing Digital Pair Gain (DPG) Systems. A production target of 15000 DPG systems each for the years 1997-98 and 1998-99 and 7500 DPG systems for 1999-2000 was also fixed (December 1998). The unit accordingly, initiated action (July 1997) for procurement of components for manufacturing 10000 systems with delivery schedule upto December 1997. The components were received and systems manufactured during 1997-98 and 1998-99. Besides manufacturing 10000 systems, the unit also procured 1800 bought out systems at a landed cost of Rs 3.22 crore during 1997-98 and 1998-99.

Though the sale during the years 1997-98 and 1998-99 was 40 and 2480 systems respectively the Unit decided (December 1998) to procure components for further 5000 systems with delivery schedule upto April 1999.

Soon after placing the repeat orders, the unit found (April 1999) that it had enough finished goods available with it and decided to short close the purchase orders. The unit, however, had to accept supplies of components for 1000 systems that had been received or dispatched by the suppliers by the time the orders were short-closed. This resulted in unutilised inventory of Rs 1.45 crore that had to be written off (January 2005). Out of 11800 finished DPG systems (10000 manufactured and 1800 bought out), the Company could sell only 10915 systems by 2001-02 and the remaining 885 systems valuing Rs 93.44 lakh were lying unsold (March 2005).

The Management stated (March 2004) that the

- raw material to be procured was available in lots of five thousand. The materials were procured in two lots only which was the bare minimum quantity to meet the targets.
- After supply of first batch of production to various circles, it was decided to procure additional 5000 Nos. and thus repeat order was placed. Subsequently, orders beyond 11,000 systems were not received and a decision was taken to stop further procurement. However, the components that had either arrived or been dispatched by the supplier had to be accepted.
- The remaining 885 systems were to be used for warranty coverage besides customer support on chargeable basis.

The reply of the Management is not tenable as:

- ➢ the manufacture of DPG systems was a new venture and their purchase and manufacture should have been guided by the demand/ sale pattern rather than only production targets. Sale of 2520 systems during the years 1997-98 and 1998-99 out of 11800 systems purchased/manufactured did not justify a repeat order for further 5000 systems at that time.
- ➢ There were no chances of further sale of these systems as the buyer (BSNL) had withdrawn (December 2000) the generic requirement for these systems and better technologies like CDMA and GSM were now available in the market.
- ➢ No norms for retaining the products for warranty were fixed.

Injudicious procurement of components without proper assessment resulted in loss of Rs 1.45 crore

Thus, procurement of components and their manufacture without proper assessment of demand/ sale position resulted in loss of Rs 1.45 crore on inventory written off and blockage of funds of Rs 93.44 lakh on finished systems.

The matter was referred to the Ministry in September 2004; its reply was awaited as of November 2005.

8.4 Irregular payment of Annual Performance Reward

The payment of Rs.23.14 crore as Annual Performance Reward to its employees by the Company was irregular and in violation of DPE instructions.

The payment of bonus or *ex-gratia* is regulated by the Payment of Bonus Act, 1965 (Act). As per the instructions (June 1976 and January 1997) of Department of Public Enterprises (DPE), any scheme introduced under the Act for payment of annual bonus linked with production or productivity in lieu of bonus based on profits payable under the Act, should be with the prior approval of the Government.

Payment of Rs.23.14 crore as Annual Performance Reward to its employees by the Company was irregular and in violation of DPE instructions

With periodical revision in wages, employees of the Company became ineligible to draw bonus as their salaries exceeded the limits prescribed under the Act. To cover the employees, the Board of Directors of the Company approved in April 1999 and July 2000 Annual Performance Reward (APR) Scheme in lieu of bonus for the years 1998-99 and 1999-00, respectively. The APR was extended to 2000-02 without taking the approval of the Board of the Company. The approval of the Government was also not taken for any of the years (1998-99 to 2001-02). Thus, payment of Rs 23.14 crore under the APR Scheme by the Company for the years 1998-99 to 2001-02 was irregular and inconsistent with the instructions issued by DPE. The Company, as a cost reduction measure, decided not to implement the APR Scheme during the years 2002-03, 2003-04 and 2004-05.

The Management stated (November 2004) that payment of APR by the Company was not in lieu of the bonus payable under the Act. As the Scheme was not under the Act, the approval of the Government was not needed.

The reply of the Management is not tenable as:

(i) The payment of APR was in lieu of bonus to the employees who were ineligible to bonus as their salaries exceeded the limit prescribed under the Act;

(ii) As per DPE instructions of January 1997 no reward would be paid to the employees by the PSE over and above the provisions of the Act unless the same was authorised under a duly approved incentive scheme approved in accordance with the prescribed procedure.

Thus, payment of Rs 23.14 crore under APR Scheme to the employees was irregular and in violation of DPE instructions.

The matter was referred to the Ministry in May 2005, its reply was awaited as of November 2005.

TELECOMMUNICATION CONSULTANTS INDIA LIMITED

CHAPTER IX
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

9.1 Introduction

Telecommunication Consultants India Limited (Company), with its registered and corporate office located in New Delhi, was incorporated in 1978 under the Companies Act, 1956 to provide consultancy and know-how in the area of expansion and modernisation of telecommunication networks. The Company has taken up consultancy services and turnkey projects not only in the field of telecommunication within the country and abroad but also in the hi-tech area of development of communication related software packages. The operations of the Company are carried out through three regional offices in the country and 23 foreign project offices in African, South East Asia and Middle East countries.

9.2 Organisational setup

The administrative and overall functional control is vested with the Board of Directors headed by the Chairman and Managing Director (CMD) who is assisted in day-to-day management of the Company by two functional Directors (Technical and Finance) and a Company Secretary. The Regional Offices are headed by General Managers.

9.3 Investment and Returns

The authorised equity share capital of the Company was Rs 30 crore as on 31 March 2005. The paid up capital was Rs 28.80 crore. The Government of India owned the entire paid up capital. The return on the above investment in the form of dividend paid by the Company was 300 *per cent*, 150 *per cent*, 150 *per cent*, 75 *per cent* and 75 *per cent* for each of the last five years ending 31 March 2005, respectively.

9.4 Financial Performance

The financial results of the Company for the five years ending 31 March 2005 were as follows:

(Rs in crore)

Particulars	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**
i) Income from projects (Sales)					
a) Foreign project	367.49	367.45	327.16	387.92	327.08

b) Indian projects	387.52	324.06	223.15	121.02	91.41
Total Income from Projects	**755.01**	**691.51**	**550.31**	**508.94**	**418.49**
ii) Other or Misc. Income	21.13	28.92	40.13	35.50	30.65
iii) Profit before tax and prior period adjustment	62.16	63.41	48.47	50.56	13.17
iv) Prior period adjustment	0.99	0.20	3.03	0.21	0.51
v) Profit before tax	63.15	63.61	51.50	50.77	13.68
vi) Tax provision	4.40	6.13	11.61	3.75	3.31
vii) Profit after tax	58.75	57.48	39.89	47.02	10.37
viii) Proposed Dividend	21.60	21.60	21.60	21.60	21.60
ix) Tax on proposed Dividend	2.20	--	0.46	2.82	3.03

The profit after tax declined by 78 *per cent* in 2004-05 as compared to 2003-04 due to fall in total income.

9.5 Manpower

The total manpower strength of the Company as at the end of each of the last four years ending on 31 March 2005 is given below:

Year	Executive	Non-executive	Total manpower
2001-02	481	1017	1498
2002-03	468	853	1321
2003-04	509	760	1269
2004-05	609	318	927

It may be seen from the above that though the total manpower was reduced by 38 *per cent* and there was reduction of 68 *per cent* in manpower of non-executives, there was increase in executive cadre by 26 *per cent* over last four years.

INTELLIGENT COMMUNICATION SYSTEMS INDIA LIMITED

CHAPTER-X
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

10.1 Introduction

Intelligent Communication Systems India Limited (Company) a joint venture of Telecommunications Consultants India limited (TCIL) and Delhi State Industrial Development Corporation (DSIDC) was incorporated in April 1987. The main objective of the Company was to manufacture computer based communication systems and equipment to meet the growing demand in communication and Information Technology sector. The Company also provided engineering, technical and management consultancy services for computers and communication systems in India and abroad.

However, the Company ceased to conduct manufacturing activities and surrendered its manufacturing license to excise authorities in April 1995 for manufacture of excisable goods. At present the Company is engaged in trading of computer and other telecommunication systems.

10.2 Organisational setup

The administrative and overall functional control is vested with the Board of Directors headed by the Managing Director on deputation from TCIL. He is assisted in managing the day to day affairs of the Company by Joint General Manager, General Manager (Finance) and Company Secretary on deputation from TCIL. The Board of Directors consists of eight Members (four from TCIL, two from DSIDC and two from Orison Infocom Pvt. Ltd.).

10.3 Investment and Returns

The authorised and paid up capital of the Company as on 31 March 2005 was Rs100.00 lakh contributed by the following Companies:

TCIL	36 *per cent*
DSIDC	25 *per cent*
Orison Infocom Pvt. Ltd.	24 *per cent*
Falcom Cable TV Ltd.	15 *per cent*
TOTAL	100 *per cent*

The Company earned a profit of Rs 8.24 lakh during the year 2004-05. As the Company had accumulated losses, it did not declare any dividend during the years 2000-01 to 2004-05. As of 31 March 2005, the accumulated loss of the Company was Rs 0.33 crore.

10.4 Physical Performance

The Company discontinued manufacturing business and is concentrating mainly on trading of computers and telecommunication systems, turnkey sales of cables, annual maintenance contracts, repairs of E-10-B and C-DOT cards, franchise business and Kuwait Project.

10.5 Financial Performance

The financial results of the Company for the five years ending 31 March 2005 were as follows:

(Rs in lakh)

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
i) Income from Projects (Sales and Services)	643.13	1082.56	1671.09	2286.40	2394.18
ii) Net Sales	643.13	1082.56	1671.09	2286.40	2394.18
iii) Other or Misc. Income	2.67	3.99	20.89	111.45	39.95
iv) Profit before tax and prior period adjustments and extraordinary items	6.76	36.37	12.03	5.37	15.58
v) Prior period adjustments*	0.86	0.60	(-) 0.01	(-) 0.19	(-) 0.07
vi) Extraordinary items (Net)	(-) 3.03	0.23	44.61	27.78	(-) 4.98
vii) Tax provision	(-) 0.23	(-) 1.65	(-) 1.47	0.57	(-) 2.29
viii) Profit after tax	4.36	35.75	55.16	33.46	8.24
ix) Dividend	-	-	-	-	-

During the year 2004-05, the profit was reduced to Rs 8.24 lakh from Rs 33.46 lakh (2003-04), mainly on account of writing back of provisions on debtors of Rs 30.29 lakh during 2003-04.

10.6 Manpower

The total manpower of the Company as on 31st March 2005 was 9 in 'C' and 'D' cadres other than those on deputation and contract basis.

* (Net) Credit (+) / Debit (-)

MILLENNIUM TELECOM LIMITED

CHAPTER XI
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

11.1 Introduction

Millennium Telecom Limited (Company), with its registered office located in Mumbai, was incorporated in February 2000 under the Companies Act 1956, as a wholly owned subsidiary of Mahanagar Telephone Nigam Limited (MTNL). The Company obtained a category 'A' licence from the Department of Telecommunications (DoT) for providing Internet services throughout India. It signed a Memorandum of Understanding (MOU) with the Himachal Pradesh State Electronics Development Corporation Limited (a Government of Himachal Pradesh Enterprise) in July 2001 for providing Internet Software Package (ISP) services at Shimla, Himachal Pradesh. The services commenced with effect from 25 February 2002. During 2002-03, the Company also decided to associate with State Electronic Development Corporations to provide Internet services in various States and accordingly, signed MOUs with Karnataka State Electronics Development Corporation, West Bengal Electronics Industry Development Corporation Limited and Beltron Communications Limited, Patna for providing Internet services in Karnataka, West Bengal and Bihar, respectively. The Company has also been providing online tendering services, namely 'Nivida Sewa' and 'Tender Mart' to its clients, mainly Mahanagar Telephone Nigam Limited (MTNL). The ISP Shimla project, however, was closed with effect from January 2004 due to consecutive losses in the last two years.

11.2 Organisational setup

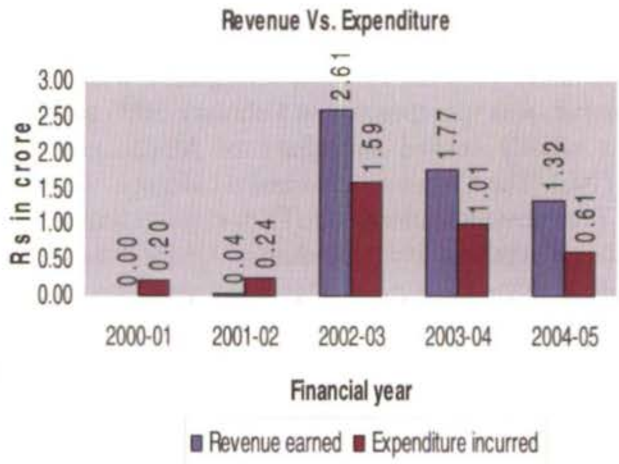
The administrative and overall control of business activities of the Company are vested with the Board of Directors headed by the Chairman (CMD of MTNL), who is assisted in day to day management by a Chief Operating Officer and an Internal Financial Advisor. Besides, there are three other Directors (all from MTNL) on the Board of the Company.

11.3 Investment

Against the authorised equity share capital of Rs 100 crore, the paid-up capital as on 31 March 2005 was Rs 2.88 crore, which was totally subscribed by MTNL, its holding Company.

11.4 Financial Performance

At present, revenue is generated from e-tendering services, sale of ISP packs and collections from cyber café services. However, during its first year of operation (2000-01), no profit and loss account was prepared since the Company did not undertake any commercial activity and only incurred pre-operative expenditure of Rs 20 lakh. During 2001-02, 2002-03, 2003-04 and 2004-05, the Company earned revenue of Rs 4 lakh, Rs 2.61 crore*, Rs 1.77 crore* and Rs.1.32 crore against which expenditure incurred was Rs 24 lakh, Rs 1.59 crore*, Rs 1.01 crore* and Rs 61 lakh, respectively.



Hence, the Company incurred a net loss of Rs 20 lakh during each of the years 2000-01 and 2001-02, whereas it earned net profit before tax of Rs 1.02 crore*, Rs 76 lakh* and Rs 71 lakh during 2002-03, 2003-04 and 2004-05, respectively.

11.5 Manpower

The Chief Operating Officer manages the day to day business activities of the Company, mainly with the help of employees of MTNL. The total manpower strength of the Company as at the end of each of the last five years ending on 31 March 2005 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	2*	1	6
2003-04	3	8	1*	3*	15
2004-05	2	3	0	1	6

* *These figures, relating to the years 2002-03 and 2003-04 have been recast by the Management.*

CHAPTER XII
FOLLOW UP ON AUDIT REPORTS

12. Follow up on Audit Reports

The Public Accounts Committee (PAC) decided in 1982 that in order to ensure accountability of the executive in respect of all issues dealt with in various Audit Reports, the concerned Departments/Ministries should furnish final remedial/corrective action taken notes (ATNs) on all paragraphs contained therein.

PAC, while reiterating their earlier views in the Ninth Report (Eleventh Lok Sabha) presented to the Parliament on 22 April 1997, took a serious view of inordinate delays 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) laid on the table of both the Houses of the Parliament. Such notes were required to be submitted even in respect of paragraphs / appraisals which were not selected by the Committee on Public Sector Undertakings (COPU) for detailed examination.

Further, COPU in its Second Report (1998-99 Twelfth Lok Sabha), while reiterating the above instructions of July 1985 issued by the Lok Sabha Secretariat, recommended that follow-up action taken notes duly vetted by Audit in respect of all the Reports of Comptroller and Auditor General of India (Commercial) presented to Parliament, should be furnished to COPU within six months from the date of presentation of the relevant Audit Reports.

In the follow-up Action on the Reports of Comptroller and Auditor General of India (Commercial), COPU in its First Report (1999-2000 – Thirteenth Lok Sabha) reiterated its earlier recommendation that Department of Public Enterprises (DPE) should set up a separate Monitoring Cell in the DPE itself to monitor the follow up action by various Ministries / Departments on the observations contained in the Audit Reports (Commercial) on individual undertakings.

A review of ATNs relating to Bharat Sanchar Nigam Limited and Mahanagar Telephone Nigam Limited under the administrative control of Department of Telecommunications (Ministry of Communications and Information Technology) revealed that final ATNs in respect of 144 paragraphs, as detailed in Appendix -XXIV, were awaited as of November 2005.

New Delhi
Dated :
7 MAR 2006

(A. BASU)
Deputy Comptroller and Auditor General cum Chairperson, Audit Board

Countersigned

New Delhi
Dated :
7 MAR 2006

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India

APPENDICES

Appendix I
(Referred to in paragraph 2.2 at page 10)
Non- collection of revenue from cellular mobile subscribers

(Rs in lakh)

Sl. No.	Name of SSA	No. of subscribers	Month of Activation	Amount outstanding (Rs in lakh)	Month of disconnection
(A) Post paid connection through BSNL					
Bihar Telecommunications Circle					
1	PGMTD Patna	75	June 2003 to September 2003	36.97	September 2003 to January 2005
2	TDM, Samastipur	15	January 2003 to April 2003	25.09	April 2003 to November 2003
3	GMTD Muzaffarpur	67	January 2003 to March 2004	12.05	August 2003 to November 2004
4	TDM Begusarai	6	April 2003 to June 2003	12.97	June 2003
	Total	**163**		**87.08**	
Kerala Telecom Circle					
5	GMTD,Kollam	2756	Upto February 2005	105.72	
6	GMTD,Kottayam	4099	Do	152.63	
7	GMTD,Alappuzha	3129	Do	108.28	
8	GMTD,Calicut	4072	Do	333.07	
9	PGMTD,Ernakulam	7989	Do	350.95	
10	PGMTD,Kannur	2367	Do	97.68	
11	GMTD,Malappuram	2712	Do	86.45	
12	GMTD,Palakkad	1230	Do	104.01	
13	GMTD,Pathanamthitta	1443	Do	48.52	
14	PGMTD,Trivandrum	7785	Do	336.09	
15	PGMTD,Thrissur	3103	Do	115.85	
	Total	**40685**		**1839.26**	
Maharashtra Telecom Circle					
16	GMTD, Aurangabad	5081	November 2002 to April 2004	856.84	July 2003 to January 2004

Sl. No.	Name of SSA	No. of subscribers	Month of Activation	Amount outstanding (Rs in lakh)	Month of disconnection
17	GMTD, Nasik	7686	November 2002 to September 2004	274.72	April 2003 to February 2005
18	GMTD, Bhandra	265	November 2002 to February 2004	27.46	February 2004 to July 2005
	Total	**13032**		**1159.02**	
Rajasthan Telecommunications Circle					
19	GMTD Ajmer	822	Upto May 2005	36.15	
20	GMTD Alwar	533	Upto May 2005	26.79	
21	GMTD Banswara	296	Upto May 2005	7.33	
22	TDM Barmer	251	Upto May 2005	8.60	
23	GMTD Bharatpur	411	Upto May 2005	22.51	
24	GMTD Bhilwara	596	Upto May 2005	23.26	
25	GMTD Bikaner	1085	Upto May 2005	49.99	
26	TDM Bundi	150	Upto May 2005	5.74	
27	TDM Chittorgarh	379	Upto May 2005	11.74	
28	GMTD Churu	435	Upto May 2005	13.20	
29	PGMTD Jaipur	4847	Upto May 2005	271.42	
30	TDE Jaisalmer	232	Upto May 2005	8.66	
31	TDM Jhalawar	72	Upto May 2005	1.86	
32	GMTD Jhunjhunu	424	Upto May 2005	26.71	
33	GMTD Jodhpur	1791	Upto May 2005	67.88	
34	GMTD Kota	1598	Upto May 2005	65.80	
35	GMTD Nagaur	680	Upto May 2005	25.34	
36	GMTD Pali	414	Upto May 2005	18.89	
37	TDM Sawai Madhopur	311	Upto May 2005	15.64	

Sl. No.	Name of SSA	No. of subscr ibers	Month of Activation	Amount outstanding (Rs in lakh)	Month of disconnection
38	GMTD Sikar	355	Upto May 2005	15.34	
39	GMTD Sirohi	1031	Upto May 2005	37.92	
40	TDM Sri Ganganagar	1095	Upto May 2005	41.51	
41	TDM Tonk	130	Upto May 2005	8.48	
42	GMTD Udaipur	1413	Upto May 2005	67.41	
	Total	**19351**		**878.17**	
Uttar Pradesh Telecommunications Circle					
43	GMTD, Azamgarh	60	December 2002 to October 2003	47.31	December 2003 to September 2004
44	TDM Banda	10	July 2003 to September 03	46.59	November 2003 to December 2004
45	TDM Pratapgarh	01	July 2003	14.26	September 2003
	Total	**71**		**108.16**	
	Grand Total (A)	**73302**		**4071.69**	
(B) Post paid connection through authorised dealers					
Bihar Telecommunications Circle					
1	PGMTD Patna	21	July 2003 to December 2003	7.90	January 2004 to November 2004
2	GMTD Muzaffarpur	26	October 2003 to June 2004	14.99	February 2004 to October 2004
3	TDM Begusarai	1	September 2004	0.09	November 2004
	Total	**48**		**22.98**	
Gujarat Telecommunications Circle					
4	GMTD Junagadh	1	June 2003 to August 2003	21.82	September 2003
5	GMTD Rajkote	4	July 2003 to May 2004	18.62	September 2003 to April 2004
	Total	**5**		**40.44**	
Haryana Telecommunications Circle					
6	GM (CMTS) Ambala Cantt.	7	August 2003	47.37	November 2003
	Total	**7**		**47.37**	
Grand Total (B)		**60**		**110.79**	
Grand Total (A+B)		**73362**		**4182.48**	

Appendix II
(Referred to in paragraph 2.3 at page 11)
Non-recovery of interest on delayed payment of interconnection usage charges by the private telephone service providers

(Rs in lakh)

S.No.	Name of circle/SSA	Delay in payment relating to periods	Amount of interest due	Amount of interest realised Interest	Amount yet to be realised
1	2	3	5	7	8
Andhra Pradesh Telecommunications Circle					
1	GMTD, Visakhapatnam	August 2003 to December 2004	11.98	0	11.98
2	GMTD, Eluru	May 2004 to December 2004	0.59	0	0.59
	Total		**12.57**	**0**	**12.57**
Haryana Telecommunications Circle					
3	GMTD Rohtak	August 2003 to September 2004	20.52	0	20.52
4	GMTD Karnal	June 2003 to April 2005	15.17	0	15.17
	Total		**35.69**	**0**	**35.69**
Kerala Telecommunications Circle					
5	PGMTD Ernakulam	June 2003 to June 2004	2.39	0	2.39
6	GMTD Kannur	August 2003 to November 2004	6.65	0	6.65
7	PGMTD Thiruvananthapura m	May 2003 to February 2005	7.15	0	7.15
8	GMTD Thiruvalla	April 2003 to February 2005	31.22	0	31.22
	Total		**47.41**	**0**	**47.41**
Calcutta Telephones					
9	CGM CTD Kolkata	November 2002 to January 2005	49.93	0	49.93
	Total		**49.93**	**0**	**49.93**
Maharashtra Telecommunications Circle					
10	GMTD Raigad	May 2003 to March 2005	244.04	0	244.04
	Total		**244.04**	**0**	**244.04**
Punjab Telecommunications Circle					
11	GMTD Ludhiana (M/s Reliance)	July 2003 to September 2004	20.20	0	20.20
12	GMTD Ludhiana (M/s HFCL)	March 2003 to January 2004	12.17	0	12.17

S.No.	Name of circle/SSA	Delay in payment relating to periods	Amount of interest due	Amount of interest realised Interest	Amount yet to be realised
1	2	3	5	7	8
13	GMTD Jalandhar	August 2004 to April 2005	13.81	0	13.81
	Total		**46.18**	**0**	**46.18**
Tamil Nadu Telecommunications Circle					
14	GMTD Erode	May 2003 to February 2005	6.18	0	6.18
15	GMTD Tuticorin	July 2003 to September 2004	4.17	0	4.17
16	GMTD Coonoor	January 2004 to December 2004	0.52	0	0.52
17	GMTD Chengalpattu	June 2003 to July 2004	2.42	0	2.42
18	GMTD Salem	February 2003 to December 2004	22.12	0	22.12
19	PGMTD Coimbatore	January 2003 to July 2004	56.02	0	56.02
20	GMTD Madurai	June 2003 to February 2005	30.46	0	30.46
21	GMTD Virudhunagar	April 2004 to August 2004	0.32	0	0.32
	Total		**122.21**	**0**	**122.21**
Uttar Pradesh (East) Telecommunications Circle					
22	PGMTD Lucknow	July 2003 to November 2004	692.02	0	692.02
23	TDM Raibreilly	March 2004 to August 2004	23.00	0	23.00
	Total		**715.02**	**0**	**715.02**
Uttar Pradesh (West) Telecommunications Circle					
24	GMTD Aligarh	Sept 2003 to August 2004	175.00	0	175.00
25	GMTD Bareilly	July 2003 to January 2005	257.00	0	257.00
26	GMTD Meerut	August 2002 to September 2004	32.61	0	32.61
	Total		**464.61**	**0**	**464.61**

S.No.	Name of circle/SSA	Delay in payment relating to periods	Amount of interest due	Amount of interest realised Interest	Amount yet to be realised
1	**2**	**3**	**5**	**7**	**8**
Uttaranchal Telecommunications Circle					
27	GMTD Haldwani	July 2003 to July 2004	37.86	0	37.86
28	GMTD Dehradun	June 2003 to June 2004	11.53	0	11.53
29	GMTD Haridwar	December 2003 to July 2004	47.25	0	47.25
	TOTAL		**96.64**	**0**	**96.64**
	Grand Total		**1834.30**	**0**	**1834.30**

Appendix III
(Referred to in paragraph 2.4 at page 12)
Continuation of telephone facilities despite non-payment of dues

(Rs in lakh)

Sl. No.	Particulars of lines/ cables/circuits	Period of short/non-recovery	Total amount of short/non-recovery	Particulars of recovery made after issue of Audit Note	
				Amount recovered/ month of recovery	Amount to be recovered
1	2	3	4	5	6
Bihar Telecommunications Circle					
1	263 telephone subscribers under Telecom District Manager , Begusarai	February 2002 to October 2004	29.73	-	29.73
2	121 telephone subscribers under General Manager Telecom District Bhagalpur	March 1997 to March 2004	35.59	-	35.59
3	280 telephone subscribers and 191 STD PCOs under General Manager Telecom District Katihar	May 1991 to May 2004	96.15	12.56	83.59
4	250 telephone subscribers and 622 STD PCOs under Telecom District Manager, Samastipur	October 2000 to March 2004	162.86	14.78	148.08
5	151 STD PCOs under General Manager Telecom District Muzaffarpur	January 2001 to March 2004	98.97	90.81	8.16
6	375 telephone subscribers and 178 STD PCOs under Principal General Manager Telecom District, Patna	May 2000 to January 2005	204.76	-	204.76
7	285 STD PCOs under General Manager Telecom District Chapra	July 2000 to March 2004	123.40	-	123.40
	Sub total		**751.46**	**118.15**	**633.31**
Jharkhand Telecommunications Circle					
8	266 STD PCOs under Telecom District Manager Dumka	October 2003 to September 2004	108.24	-	108.24
9	199 STD PCOs under General Manager Telecom District Jamshedpur	May 1998 to June 2004	35.54	-	35.54
10	292 STD PCOs under Telecom District Manager , Daltonganj	February 2002 to July 2004	124.12	-	124.12
	Sub-Total		**267.90**	--	**267.90**

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
Uttar Pradesh (East) Telecommunications Circle					
11	80 STD PCOs under Telecom District Manager, Partapgarh	July 1992 to October 2004	19.87	-	19.87
	Sub-Total		**19.87**	-	**19.87**
Grand Total			**1039.23**	**118.15**	**921.08**

Appendix - IV
(Referred to in paragraph 2.6 at page 14)
Short realisation of Rs 6.42 crore from M/s RIL for ISD calls with tampered Calling Line Identification

(Rs in crore)

SSA	Trunk groups where wrong routing of calls were made	Period of short collection	Amount of short collection (Rs in crore)
Kollam (POI)	AA	May 2004 to November 2004	4.26
Palakkad POI-Olavakkode	AA	February 2004 to October 2004	1.06
Thiruvalla POI-Ranni POI-Pathanamthitta	AA, FA & FD	October 2004 to January 2005. October2004 to January 2005	1.10
Total			**6.42**

Appendix V
(Referred to in paragraph 2.7 at page 15)

Non-billing due to non-receipt of advice notes

(Rs in lakh)

S.No.	Particulars of lines/cables circuits	Non billing		Recovery at the instance of Audit	
		Period	Amount	Amount recovered	Amount to be recovered
1	2	3	4	5	6
Andhra Pradesh Telecom Circle					
1	Provision of 2x2Mbps circuits by GMTD Sangareddy	October 2003 to June 2005	15.62	15.62	0
2	Provision of 7 ports to M/s BML by GMTD Warangal	March 2003 to February 2005	3.85	3.85	0
3	Provision of 2Mbps circuit to M/s Tata Cellular Ltd. By GMTD Warangal	August 2003 to August 2004	2.36	2.36	0
4	Provision of 2Mbps circuit to M/s Reliance Infocomm Ltd. By GMTD Warangal	July 2003 to July 2004	15.40	15.40	0
5	Provision of 2Mbps ports to M/s Reliance Infocomm Ltd. By GMTD Nizamabad	March 2004 to June 2005	12.16	12.16	0
6	Provision of 2Mbps ports/ circuits to M/s Bharati Telecom Ltd. By GMTD Nizamabad	December 2003 to July 2005	9.26	9.26	0
Bihar Telecom Circle					
7	Provision of leased speech/data circuit to East Central Railway by TDM Hajipur	August 2003 to March 2005	23.11	18.07	5.04
8	Provision of 18 data circuits by GMTD, Muzaffarpur	April 2002 to March 2005	28.50	27.07	1.43
9	Provision of 5 data circuits by PGMTD Patna	January 2001 to March 2005	3.95	0	3.95
10	Provision of 73 telephone connections by PGMTD Patna	November 2004 to January 2005	86.03	0	86.03

11	Provision of 913 telephone connections by GMTD Muzaffarpur	December 2003 to January 2004	109.04	109.00	00.04
Gujarat Telecom Circle					
12	Provision of 6 data circuits by GMTD Bhavnagar	February 2001 to March 2005	12.20	8.09	4.11
13	Provision of 2 Mbps speech circuit to M/s Birla AT&T by GMTD Amreli	February 2003 to March 2004	7.67	0	7.67
14	Provision of 20 PCM Ports by GMTD Amreli	July 2001 to March 2005	9.88	0	9.88
15	Provision of Ports by GMTD, Surat	September 1997 to March 2005	129.93	129.22	0.71
Jharkhand Telecom Circle					
16	Provision of 128 Kbps and 256 Kbps internet leased line to CIP and MECON by GMTD Ranchi	August 2003 to November 2005	17.59	0	17.59
17	Provision of 146 telephone connections by GMTD Dhanabad	July 2001 to December 2004	21.94	0	21.94
Karnataka Telecom Circle					
18	Provision of 2 Nos. of 34 Mbps data circuits to M/s Astra Infonet Private Ltd and M/s Ericsson communications Private Ltd.	March 2003 to March 2005	30.50	0	30.50
Maharashtra Telecom Circle					
19	Provision of 2 Mbps stream on OFC media to M/s BPL Cellular Ltd. by GMTD Solapur	September 2001 to March 2005	15.63	0	15.63
Punjab Telecom Circle					
20	Provision of 3x2 Mbps leased lines to M/s Bharati Mobiles Ltd. By PGMTD, Chandigarh	May 2002 to September 2004	35.56	35.56	0
Tamil Nadu Telecom Circle					
21	Provision of 4 data circuits by GMT, Chenglepatu	June 2004 to March 2005	16.00	0	16.00
	Total		**606.18**	**385.66**	**220.52**

Appendix VI
(Referred to in paragraph 2.8 at page 16)
Short billing of rental for leased circuits

(Rs. in lakh)

S.No	Name of the SSA	Circuits	Period of short billing	Amount of short billing
Andhra Pradesh Telecom Circle				
1	General Manager Telecom district Vijayawada	Provision of 12 leased circuits to various subscribers	September 2003 to March 2006	1.59
Karnataka Telecom Circle				
2	Principal General Manager Telecom District Bangalore	Provision of 44 local data circuits to various subscribers.	March 2001 to March 2005	210.30
Kerala Telecom Circle				
3	Principal General Manager Telecom District Trivandrum	Provision of local data circuits to 83 various subscribers	April 1999 to March 2005	37.98
Maharashtra Telecom Circle				
4	Principal General Manager Telecom District Kalyan	Provision of 14 leased data circuits	February 2002 to March 2006	25.60
5	General Manager Telecom District Raigad	Provision of 3 leased data circuits	November 2001 to March 2006	8.22
Punjab Telecom Circle				
6	General Manager Telecom District Chandigarh	Provision of 4 leased data circuits.	June 2000 to March 2005	20.32
Rajasthan Telecom Circle				
7	Principal General Manager Telecom District Jaipur	Provision of 23 leased data circuits	April 2000 to June 2005	41.71
8	General Manager Telecom District Udaipur	Provision of 1 leased data circuits	March 2004 to April 2006	2.15
Tamil Nadu Telecom Circle				
9	General Manager Telecom District Madurai	Provision of 2 Nos of 2 Mbps data circuits	June 2003 to May 2005	7.98
Total				**354.35**

Appendix VII
(Referred to in paragraph 2.9 at page 17)
Statement showing non-billing of inter connect licence fees

(Rs in lakh)

S.No.	Name of SSA	Period of non-billing	Amount of non-billing	Amount of Bills issued at the instance of audit
1	Cuddapah	October 2004 to September 2005	13.22	12.00
2	Nalgonda	April 2004 to March 2005	17.50	16.00
3	Eluru	October 2003 to March 2006	37.85	37.85
4	Ongole	November 2003 to December 2004	86.88	0
5	Rajahmundry	August 2003 to December 2004	17.32	17.32
6	Tirupathi	February 2004 to March 2005	23.89	23.88
7	Vijayawada	November 2003 to March 2005	39.24	35.32
8	Guntur	September 2003 to March 2006	43.95	43.95
9	Warangal	August 2004 to July 2005	13.21	12.00
Total			**214.86**	**198.32**

Appendix VIII
(Referred to in paragraph 2.11 at page 19)
Statement showing SSA wise loss of revenue under WBTC

(Rs in lakh)

Sl.No	Name of SSA	Period of non implementation	Total no. of metered calls	Actual no. of calls if change or pulse rate were implemented	Bill amount	Actual amount to be billed	Amount short charged
1	Kolkata	1.9.2004 31.3.2005	3692335	7384670	45.22	73.84	28.62
			2888234	4332351	35.51	86.64	51.13
2	Asansol	1.1.2005 to 31.1.2005	801176	1201764	10.69	24.03	13.34
3	Bankura	1.9.2004 to 31.12.2004	401481	802962	45.50	8.02	3.48
			Total				**96.57**

Appendix IX
(Referred to in paragraph 2.12 at page 20)
Non-realisation of rentals for infrastructure facilities provided to licensed service providers

(Rs in lakh)

S. No.	Particulars of lines/cables/circuits	Rentals for infrastructural facilities due		Particulars of bills issued/recovery made after issue of Audit Note		
		Period	Amount	Bills issued	Amount recovered/ adjusted	Amount to be recovered
1	2	3	4	7	5	6 (4-5)
1	Provision of space for termination of STM-I System to M/s Reliance Communications Ltd by GMT Thanjavur	31.3.2004 to 30.3.2005	24.58	10.05	10.05	14.53
2	Provision of space for termination of STM-I System to M/s Reliance Infocom Ltd by GMT Nagercoil	27.12.2003 to 31.5.2005	20.14	15.76	0	20.14
3	Provision of space for termination of STM-I System to M/s Bharathi Cellular Ltd by GMT Nagercoil	11.9.2004 to 31.5.2005	10.35	10.35	10.35	0
4	Provision of space for termination of STM-4 System to M/s Reliance Infocom Ltd by GMT Trichy	26.3.2004 to 31.12.2004	24.34	10.80	10.80	13.54
5	Provision of space for termination of STM-I System to M/s Reliance Communication Ltd by GMT Cuddalore	10.4.2004 to 31.3.2005	16.78	16.78	0	16.78
	Total		**96.19**	**63.74**	**31.20**	**64.99**

Appendix-X
(Referred to in paragraph 2.14 at page 23)
Calculation of short charged amount of Rental

(Amount in Rs.)

S. No.	Name of circuit	Particulars		Final Amount	Provisional Amount	Total short recovered
1	Jhansi – Banda speech circuit No.1, Central Railway	Rental	Due	2130884	3289397	
			Recovered	900380	1061944	
			Short Recovered	**1230504**	**2227453**	**3457959**
		Service Tax	Due	34904	178005	
			Recovered	0	80101	
			Short Recovered	**34904**	**97904**	**132809**
2	Jhansi – Banda speech circuit No.11, Central Railway	Rental	Due	1340448	3289397	
			Recovered	446880	1061944	
			Short Recovered	**893568**	**2227453**	**3121023**
		Service Tax	Due	34904	178005	
			Recovered	0	80101	
			Short Recovered	**34904**	**97904**	**132809**
3	Jhansi Test Room to Mahoba, Central Railway	Rental	Due	0	691446	
			Recovered	0	354600	
			Short Recovered	**0**	**336846**	**336846**
		Service Tax	Due	0	43267	
			Recovered	0	15366	
			Short Recovered	**0**	**27901**	**27901**
4	Jhansi – Orai speech circuit No.1, Central Railway	Rental	Due	14411	1578024	
			Recovered	5520	588436	
			Short Recovered	**8891**	**989588**	**998479**
		Service Tax	Due	720	90725	
			Recovered	276	33765	
			Short Recovered	**444**	**56960**	**57405**
5	Jhansi – Orai speech circuit No.11, Central Railway	Rental	Due	14411	1578024	
			Recovered	5520	588436	
			Short Recovered	**8891**	**989588**	**998479**
		Service Tax	Due	720	90725	
			Recovered	276	33765	
			Short Recovered	**444**	**56960**	**57405**

Consolidation

S. No.	Particulars	Final	Provisional	Total
1	Total due	3571405	11007018	14578424
2	Total Recovered	1358852	3998458	5257310
3	Total Short Recovered	2212553	7108560	9321114

Appendix XI

(Referred to in paragraph 2.15 at page 24)

Short realisation of installation charges and rentals

(Rs. in lakh)

S.No	Name of SSA	No. of Exchanges	Period of short billing	Short realisation of			Bills issued	Amount realised	Balance
				Installation charges	Rental	Total			
RENTAL									
Assam Telecommunications Circle									
1	GMTD Nagaon	5	October 2003 to April 2004	-	34.97	34.97	*37.18*	32.00	5.18
Sub total					***34.97***	***34.97***	***37.18***	***32.00***	***5.18***
North-East (II) Telecommunications Circle									
2	GMTD Itanagar1	8	October 2001 to April 2003		20.17	20.17	-	-	20.17
Sub total					***20.17***	***20.17***			***20.17***
INSTALLATION CHARGES									
North-East (II) Telecommunications Circle									
	GMTD Itanagar	19	January 2001 to March 2003	28.13	-	28.13			28.13
Sub total				***28.13***		***28.13***			***28.13***
Grand Total				**28.13**	**55.14**	**83.27**	**37.18**	**32.00**	**53.48**

Appendix XII
(Referred to in paragraph 2.17 at page 26)
Consolidated statement showing non/short billing of port charges

(Rs in lakh)

S.No.	Name of the SSA	Amount of short billing
1	Thanjavur	8.10
2	Coimbatore	0.57
3	Cuddalore	2.29
4	Nagarcoil	11.04
Sub-Total		**22.00**
5	Salem	10.44
6	Madurai	2.68
7	Erode	6.19
8	Tirunelveli	11.93
Sub-Total		**31.24**
Grand Total		**53.24**

Appendix XIII
(Referred to in paragraph 2.18 at page 27)
Statement showing non-billing of port charges from M/s Bharti Cellular Limited

(Rs in lakh)

S.No.	Place	No. of ports working	No. of ports charged	No. of ports not billed	Rate of rent	Amount of non-billing
	Coimbatore					
1	Ganapathy EWSD	25	-	25	1-16 0.55	8.80
					17-25 0.30	2.70
2	Tirupur EWSD	16	-	16	0.55	8.80
	Total	**41**	**-**	**41**		**20.30**
	Madurai					
1	Madurai Ellisnagar Tax	10	-	10	0.55	5.50
2	Madurai Ellisnagar Tax local	12	-	12	0.55	6.60
3	Madurai Ellisnagar Tax Tandem	1	-	1	0.55	0.55
4	Madurai Tax	1	-	1	0.55	0.55
5	Madurai Ellisnagar EWSD local	12	-	12	0.55	6.60
	Total	**36**	**-**	**36**	**2.75**	**19.80**
	Grand Total					**40.10**

Appendix XIV
(Referred to in paragraph 2.19 at page27)
Statement showing recovery at the instance of Audit

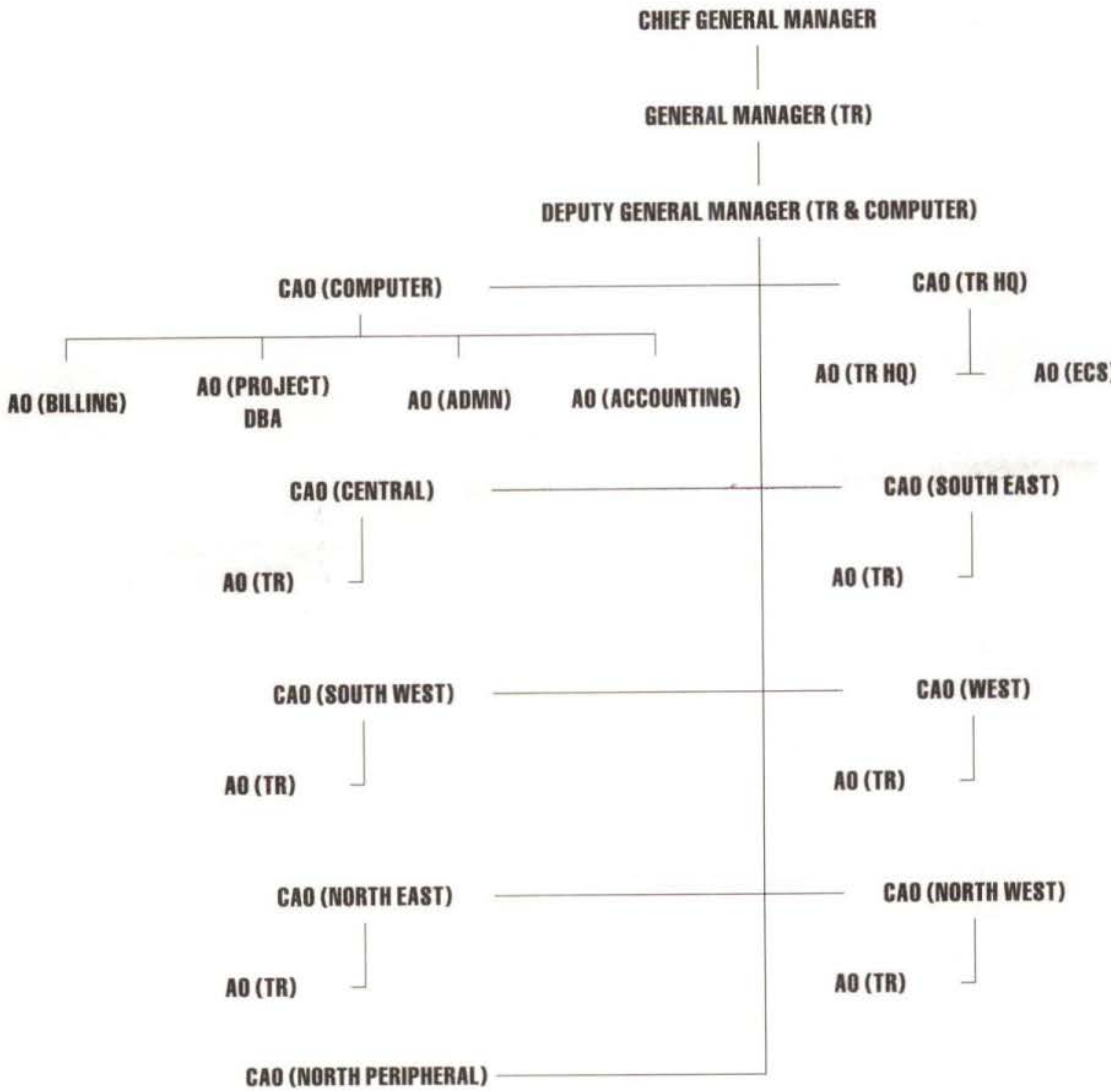
(Rupees in lakh)

S.No	Name of SSA	Subject	Short billing		Amount recovered	Amount to be recovered
			Period	Amount		
Andhra Pradesh Telecommunications Circle						
1	GMTD, Guntur	Short realisation of advance rental deposits in respect of 460 cases	2003-04	3.53	3.52	0.01
2	GMTD, Vijayawada	Short realisation of advance rental deposits in respect of 237 cases	2001-03	1.11	0	1.11
3	GMTD, Srikakulam	Short realisation of advance rental deposits in respect of 2669 cases	November 2002 to June 2005	13.21	13.21	0
4	GM, Cell One Andhra Pradesh Circle	Excess payments of commission to 60 authorised distributors for sale of pre-paid Cellular recharge coupons	October 2002 to March 2004	102.94	102.94	0
5	GMTD, Anantapur	Short billing of rentals due to non implementation of revised charging method for point to point leased circuits	August 2000 to January 2003	33.03	33.03	0
6	GMTD, Rajahmundry	Short billing of rentals due to non implementation of revised charging method for point to point leased circuits	May 2002 to May 2004	12.68	12.68	0
		Sub total		**166.50**	**165.38**	**1.12**
	Chhattisgarh Telecom Circle					
7	GMTD, Raipur	Short billing of port charges due to non implementation of revision in port charges	December 2001 to December 2002	12.60	12.10	0.50
		Sub total		**12.60**	**12.10**	**0.50**
Gujarat Telecommunications Circle						
8	GMTD, Valsad	Short recovery of interconnection usage charges from two private operators due to incorrect application of tariffs	July 2003 to February 2004	6.98	6.98	0
		Sub total		**6.98**	**6.98**	**0**

Kerala Telecommunications Circle						
9	PGMTD, Trivandrum	Irregular grants of concession in rent to 401 freedom fighters	October 2000 to December 2003	5.25	5.25	0
10	GMTD, Kannur	Irregular grants of concession in rent to 401 freedom fighters	October 2000 to April 2003	2.63	2.25	0.38
11	GMTD, Kollam	Short billing of Interconnect Usage Charges due to incorrect application of pulse rate	November 2003 to January 2004	3.07	2.18	0.89
12	GMTD, Calicut	Short billing of Interconnect Usage Charges due to incorrect application of pulse rate	November 2003 to January 2004	11.35	6.56	4.79
13	GMTD, Ernakulam	Short billing of rentals due to non implementation of revised charging method for point to point leased circuits	April 1999 to June 2005	17.56	17.56	0
14	GMTD, Thiruvalla	Short billing of rentals due to non implementation of revised charging method for point to point leased circuits	March 2002 to October 2004	1.31	1.31	0
15	GMTD, Calicut	Short billing of rentals due to non implementation of revised charging method for point to point leased circuits	January 2000 to January 2004	7.55	5.46	2.09
		Sub total		**48.72**	**40.57**	**8.15**
Madhya Pradesh Telecommunications Circle						
16	TDM, Chhatarpur	Non-payment of dues by 134 STD PCOs	January 1996 to March 2002	28.43	18.41	10.02
17	TDM, Chhindwara	Short billing of annual rental of leased line provided to M/s BTA Cell Com between Chindwara and Bhopal	December 2003 to December 2005	13.25	13.25	0
		Sub total		**41.68**	**31.66**	**10.02**
Maharashtra Telecom Circle						

18	CGMT Maharashtra circle	Short billing of leased circuits provided to State Bank of India due to allowing of irregular discount	November 2003 to March 2005	56.28	56.28	0
19	GMTD, Goa	Non-billing of annual rentals for leased circuits and port charges from four private operators	July 2002 to June 2004	35.92	35.92	0
20	GMTD, Bhandara	Short billing of rentals in respect of 34 MB leased lines provided to three private operators on special constructions of OFC	November 2003 to March 2006	42.84	38.38	4.46
21	GMTD Pune	Outstanding revenue and interest on belated payment of IUC in respect of private operators	March 2002 to December 2003	294.20	294.20	0
		Sub total		**429.24**	**424.78**	**4.46**
Rajasthan Telecom Circle						
22	GMTD, Ajmer	Non-recovery of dues and interest on delayed payments from a private operator	January 2003 to March 2004	23.99	22.70	1.29
Sub total				**23.99**	**22.70**	**1.29**
Tamil Nadu Telecommunications Circle						
23	GMTD, Trichy	Short billing of interconnect usage charges due to non-conversion of Minutes of Usage into Metered Call Units	July 2003 to May 2004	27.53	27.53	0
24	PGMTD, Coimbatore	Short realisation of infrastructure charges due to non implementation of orders	April 2003 to March 2005	12.18	12.18	0
25	PGMD Coimbatore	Short realisation of rentals in respect of E_1 R_2 links due to non implementation of revised tariffs	March 2003 to March 2005	21.04	21.04	0
		Sub total		**60.75**	**60.75**	**0**
	Uttar Pradesh (East) Telecom Circle					
26	TDM Sahajanpur	Siphoning of revenue due to fraud	May 2000 to February 2001	39.29	32.75	6.54
		Sub total		**39.29**	**32.75**	**6.54**
		Grand Total		**829.75**	**796.67**	**32.08**

Appendix - XV
(Referred to in paragraph 3.1 at page 31)
Organizational Chart of Cheney Telephones TR Billing



Appendix - XVI
(Referred to in paragraph 3.6.6 at page 35)
Time schedule for completion of CTBS project

Stage	Item description	Agreed cost per stage (Rs. in lakhs)	Time schedule for completion (mile stones)	Actual date of completion	Details of works pending	Delay in weeks
I	1.System study & configuration of Hardware 2.Development of software for all packages 3.Testing of application software 4.Trial run	15.90	25 weeks 30/4/2000	23/7/2001	Circuit/ I-NET billing	40
II	1.Complete Data conversion and Updation 2.Installation of RDBMS, Application software etc and testing before parallel run 3.Parallel Run 4.Sub-ledger for parallel run	10.60	24 weeks 31/10/2000	19/3/2002	Circuit/ I-NET billing	49
III	1.Live run and sub-ledger for all services 2.Provision of On line cash counters 3.Interfaces 4.Training	15.90-	12 weeks 31/1/2001	16/8/2003	Circuit/ I-NET billing	121
IV	1.Handing over of source code, documentation 2.Complete certification of the system	10.60	8 weeks 31/3/2001	26/12/2003	Circuit/ I-NET billing	135

Appendix - XVII
(Referred to in paragraph 4.1 at page 44)
Statement showing details of excess payment made to the PSEB authorities due to non-availing of rebate of 7.5 *per cent*

(Rs in lakh)

S.No.	Name of the SSA	Period during which excess payment made	Amount of excess payment
1	GMT Amritsar	October 2000-June 2004	28.44
2	GMT Ludhiana	October 2000-October 2004	48.82
3	GMT Pathankot	October 2000-September 2004	15.86
4	GMT Patiala	January 2000-August 2004	24.87
5	GMT Hoshiarpur	February 2003-February 2005	5.22
6	GMT Ferozpur	January 1998 –March 2005	64.89
7	GMT Sangrur	August 2002-April 2005	42.61
Total			**230.71**

Appendix - XVIII
(Referred to in paragraph 4.5 at page 49)
Statement showing idle investment on excess exchange capacity

(Rs in lakh)

Sl.No	Name of the exchange	Equipped Capacity (lines)	Working lines as of October 2004	Excess capacity (lines)	Expenditure on excess capacity
Ghaziabad SSA					
1	Model Town (West)	7000	3967	2000	56.95
2	Nehru Nagar	9000	6594	1000	62.52
3	Pilkhuwa	8000	5585	1000	34.20
4	Shahdara (East)	20000	15711	3000	77.69
Sub total				**7000**	**231.36**
Surendranagar SSA					
5	Sayla	3000	804	2000	114.66
Grand Total				**9000**	**346.00**

Appendix - XIX
(Referred to in paragraph 4.7 at page 50)
Statement of expenditure incurred on installation of exchanges

(Rs in lakh)

Sl No	Name of the exchange	Date of commissioning as per asset register 2003-04	Number of connections provided as per MIS 3/2004	A&P, L&W.	Cable	Total cost
1	Garchapa	31.12.1999	40	755248	2021474	27.77
2	Parsauli	19.10.2000	42	775699	1532187	23.08
3	Inguwa	31.03.2000	40	769473	1362060	21.32
4	Gazipur	22.10.2000	30	726658	524690	12.51
5	Bardwara	30.03.2001	45	726658	2007841	27.34
6	Mahuta	22.34.2001	46	794493	464462	12.59
7	Pauhar	02.09.2000	40	801931	1669649	24.72
8	Dehruch	29.02.2000	40	755248	2053587	28.09
9	Simauni	31.03.2000	40	983426	831715	18.15
Total						**195.57**

Appendix - XX
(Referred to in paragraph 4.17 at page 60)
Statement showing infructuous expenditure on payment of electricity charges

(Rs in lakh)

S.No.	Name of the circle	Name of the SSA	Amount	Total
1	Tamil Nadu	Ambur	523300	
		Gudiyatham	516900	
		Vellor	975300	**20.15**
2	Karnataka	Koramangala	341620	
		Taverekere	115940	
		Jayanagar	465280	
		Laser Road	1144800	
		RTTC Mysore	1198020	
		DGM Rural	1323860	
		Indiranagar	1194600	**57.84**
3	Madhya Pradesh	Balaghat	138628	
		Shahdol	392375	
		Seoni	388820	
		Dhar	400857	
		Sagar	373693	
		Mandsaur	138718	
		Dewas	776597	
		Hoshanngabad	1013357	
		Gwalior	1131615	**47.55**
4	Chattisgarh	Raipur	336045	**3.36**
		Grand Total		**128.90**

Appendix XXI
(Referred to in paragraph 4.22 at page 66)
Avoidable extra expenditure as procurement of PLB HDPE pipes

(Rs in lakh)

S.No.	Tender for the year	Basic rate finalised by CGMTS Kolkata	Basic rate finalised by CGMT Rajasthan	Difference in rate	Quantity procured (Kms)	Extra expenditure
1	2001-02	19580	16150	3430	1983.81	68.04
2	2002-03	19300	18072	1228	6044.71	74.23
3	2003-04	19479	17678	1801	1899.6	34.21
Total						**176.48**

Appendix - XXII
(Referred to in paragraph 5.4.1 at page 69)

PHYSICAL PERFORMANCE OF MAHANAGAR TELEPHONE NIGAM LIMITED FOR THE LAST FIVE YEARS UPTO 31 MARCH 2005.

Telephone Network	As on 31 March 2001			As on 31 March 2002*			As on 31 March 2003 *			As on 31 March 2004			As on 31 March 2005 @		
	Delhi	Mumbai	Total	Delhi	Mumbai	Total	Delhi	Mumbai	Total	Delhi	Mumbai	Total	Delhi	Mumbai	Total
❖ No. of telephone exchanges	203	160	**363**	251	180	**431**	310	183	**493**	329	185	**514**	339	187	**526**
❖ Total equipped capacity (in lakh)	24.29	26.92	**51.21**	26.75	29.26	**56.01**	29.67	29.36	**59.03**	31.54	29.49	**61.03**	31.13	30.33	**61.46**
❖ No. of direct exchange lines (DELs) including WLL (in lakh)	19.80	23.55	**43.35**	21.05	24.40	**45.45**	21.95	24.92	**46.87**	20.03	24.71	**44.74**	18.55	24.17	**42.72**
❖ Capacity utilisation	82%	87%	**85%**	79%	83%	**81%**	74%	85%	**79%**	63%	84%	**73%**	60%	80%	**70%**
❖ No. of persons on the waiting list (in lakh)	0.19	Nil	**0.19**	NIL	NIL	**NIL**	NIL	NIL	**NIL**	NIL	NIL	**NIL**	NIL	NIL	**NIL**
❖ No. of cellular mobile connections (in lakh)	--	--	--	0.94	1.06	**2.00**	1.32	1.60	**2.92**	1.70	1.90	**3.60**	4.02	4.80	**8.82**
❖ No. of public telephones (in lakh):															
❖ Local	0.31	0.67	0.98	0.35	0.84	**1.19**	0.47	1.04	**1.51**	0.56	1.20	**1.76**	0.69	1.45	**2.14**
❖ STD	0.15	0.21	0.36	0.19	0.23	**0.42**	0.26	0.27	**0.53**	0.34	0.30	**0.64**	0.32	0.33	**0.65**
❖ Total	0.46	0.88	1.34	0.54	1.07	**1.61**	0.73	1.31	**2.04**	0.90	1.50	**2.40**	1.02	1.78	**2.79**

* For these years the figures have been revised in accordance with the data/figures furnished by the Management.
@ Figures have been taken from the Annual Report 2004-05

Appendix - XXIII
(Referred to in paragraph 7.4 at page 83)
Statement indicating installed capacity, targeted capacity and actual performance of major products of the Company for 5 years (2000-01 to 2004-05)

2000-01					**per cent of Production to**	
Major Products	**Unit**	**Installed Capacity**	**Targeted Capacity**	**Actual Performance**	**Installed Capacity**	**Targeted Capacity**
Switching Products	M.Lines	4.83	4.20	4.78	99.0	114
Transmission Products DIG.RADIO TX/RX (2/6/7/11/13 GHz)	Nos.	2500	1600	1604	64	100
Terminal Equipments Telephones	M. Nos.	1.20	1.20	1.195	100	100
2001-02					**per cent of Production to**	
Major Products	**Unit**	**Installed Capacity**	**Targeted Capacity**	**Actual Performance**	**Installed Capacity**	**Targeted Capacity**
Switching Products	M.Lines	4.83	4.03	3.38	70	84
Transmission Products DIG.RADIO TX/RX (2/6/7/11/13 GHz)	Nos.	2500	1026	320	13	31
Terminal Equipments Telephones	M. Nos.	1.20	1.20	1.176	98	98

2002-03					per cent of Production to	
Major Products	**Unit**	**Installed Capacity**	**Targeted Capacity**	**Actual Performance**	**Installed Capacity**	**Targeted Capacity**
Switching Products	M.Lines	4.83	2.02	1.65	34	82
Transmission Products DIG.RADIO TX/RX (2/6/7/11/13 GHz)	Nos.	2500	2373	1007	40	42
Terminal Equipments Telephones	M. Nos.	1.20	1.20	1.09	91	91
NEW PRODUCTS*						
WLL-INFRA	KL	--	600.00	150.00	--	25
CDMA WLL TML/FWT	KNos	--	300.00	20.5	--	7
GSM	Rs Crs	--	300	608.0	--	--
MLLN/MLDN	Rs.Crs	--	25.00	39.29	--	157
2003-04					**per cent of Production to**	
Major Products	**Unit**	**Installed Capacity**	**Targeted Capacity**	**Actual Performance**	**Installed Capacity**	**Targeted Capacity**
Switching Products	M.Lines	4.83	1.25	0.93	26	74
Transmission Products DIG.RADIO TX/RX (2/6/7/11/13 GHz)	Nos.	2500	1350	1459	58	108
Terminal Equipments Telephones	M. Nos.	1.20	1.20	0.310	26	26

NEW PRODUCTS*						
WLLINFRA	KL	--	660	-	--	-
CDMA WLL TML/FWT	KNOS	--	435	192.51	--	44%
Cordect	KL	--	200	189	--	95%
GSM	Rs Crs	--	330	105.38	--	32%
DLC-SDH	NOS	--	425	100	--	24%
MLLN	Rs Crs	--	140	127.77	--	91%
SMART/SIM CARDS	Rs Crs	--	22	12.40	--	56%
DWDM	NOS	--	25	-	--	-
VRLA BATTERY	Rs Crs	--	15	5.82	--	39%
IT & TURN KEY PROJECTS	Rs Crs	--	200	264.55	--	132%

*** As the products are new the installed capacity is not known.**

		2004-05			Percent of production to	
Major Products	**Unit**	**Installed Capacity**	**Targeted Capacity**	**Actual Performance**	**Installed Capacity**	**Targeted Capacity**
Switching *						
OCB-283 Local incl I/C	KL	1000.0} }	200} }	229.00} }	47.07	100.42
OCB-TAX/TANDEM	KC	600.0}	550}	524.18}		
Transmission						
SATCOM	Nos.	2500Nos.	10@	10.49@	-	104.90@
OPTIC FIBRE EQUIPMENTS	Nos. Rs.cr.	7000 Nos.	126@	25.25@	-	20.04@
DLC.SDH	Nos.	Project Stage	63	30.70	-	48.73
DWDM		Project Stage	32	8	-	25.00
Terminal Equipments						
TELEPHONES	K.Nos	1200	1260	354.09	29.51	28.10
SOLAR PANEL	Rs.cr.	30000 Nos.	5.00	-	-	-
NEW PRODUCTS						
CDMA WLL TML/FWT	K Nos.	Project Stage	136	93.05	-	68.42
CDMA HAND SET (MOBILE)	K Nos.	Project Stage	210	25.37	-	12.08
DSPT	Rs.cr.	Project Stage	81	-	-	-
PAYPHONE	Rs.cr.	Project Stage	10	-	-	-
SMPS	Rs.cr.	125.00	-	12.30	9.84	-
SIMCARDS	Rs.cr.	4 Million	31	21.01	-	67.77
VRLA BATTERY	Rs.cr.	25 Million AH	-	8.12	-	-
PROJECTS						
WLL-CDMA INFRA	KL	Project Stage	1310	654.50	-	49.96
CORDECT	Rs.cr.	360 KL	36	73.35	-	203.75
GSM	KL	Project Stage	2625	1000.0	-	38.10
NGN/SOFT SWITCH/IP TAX	Rs.cr.	Project Stage	131	-	-	-
MLLN	Rs.cr.	Project Stage	126	0.42	-	0.33
IT PRODUCTS	Rs.cr.	-	144	31.80	-	22.08
TURNKEY PROJECTS	Rs.cr.	-	458	409.75	-	89.47

*During the year 2004-05, the installed capacity in respect of switching products is reduced by 630 KL due to closure of E.C. Plant.

@ The information furnished against targeted capacity and actual performance is in Rs. in crore. The physical performance in terms of Nos. called for from the Management was awaited.

Appendix - XXIV
(Referred to in paragraph 12 at page 100)
Position of outstanding ATNs in respect of paras pertaining to Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
1.	Report No. 6 of 1997 for the year ended 31 March 1996	8.4	Rural Telecom Networks and tribal sub-plan. (DoT/BSNL)
2.	Report No. 3 of 1997 (Commercial) for the year ended 31 March 1996	6.3.2	Printing of Telephone Directories (MTNL)
3.	Report No. 6 of 1998 for the year ended 31 March 1997	3	Cellular mobile telephone service in metros – Undue benefit of Rs 837 crore to operators
4.		4	Outstanding licence fee from Cellular operators
5.		9.6 (12)	Procurement of 0.5 mm diameter Drop wire (DoT/BSNL)
6.	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)
7.	Report No.6 of 1999 for the year ended 31 March 1998	8 (8.2.IV.9,8.4, 8.6,8.7.V.34)	Non- billing or short billing
8.		11 (1,2,3,4,8)	Procurement of PIJF cables
9.		12	Laying of cables in local network (DoT/BSNL)
10.		15	Procurement of C-DoT MAX-L exchanges
11.		17	Infructuous expenditure of Rs 10.33 crore in purchase of trunk exchanges (DoT/BSNL)
12.		20	Excess payment of Rs 7.67 crore to suppliers
13.		49	Purchase of disputed land
14.	Report No. 3 of 1999 (Commercial) for the year ended 31 March 1998	5.3	Non-recovery of unadjusted amount of purchase advance (MTNL)
15.	Report No. 6 of 2000 for the year ended 31 March 1999	7	Non-realisation of annual maintenance charges for OFC route (DoT/BSNL)
16.		11 (11.5.i, 11.6.X.2)	Non/Short billing of revenue (DoT/BSNL)
17.		15	Licensing of Radio Paging Services
18.		16	Material Management in Telecom Stores and Circles (DoT/BSNL)
19.		17	Rural Telecommunication Network (DoT/BSNL)
20.		18	Irregularities in procurement of new technologies. (DoT/BSNL)
21.		33	Excess engagement of contract labour (DoT/BSNL)
22.	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/BSNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
23.		6 (6.V.21-23)	Non-realisation of additional security deposits from STD/PCO operators (DoT/BSNL)
24.		9 (9.1.VI.9,20, 21,31/9.2.VII. 3,14/9.3.VIII. 2,4,5,12/9.4. IX.3)	Non/short recovery of revenue (DoT/BSNL)
25.		12	Manpower Management in Department of Telecommunications Services (DoT/BSNL)
26.		13	Performance of Telecom Factories Jabalpur and Mumbai (DoT/BSNL)
27.		14	Computerised Telephone Revenue Billing and Accounting System (DoT/ BSNL)
28.		15	Non-recovery of dues from MTNL Mumbai/Delhi (DoT/BSNL)
29.		17	Excess expenditure of Rs 4.25 crore in procurement of 2 GHz digital microwave terminals (DoT/BSNL)
30.		21	Non-recovery of cable worth Rs 2.02 crore issued to contractors (DoT/BSNL)
31.		25	Non-levy of penal interest on delayed payments
32.		34	Non-recovery of leave salary and pension contribution (DoT/BSNL)
33.		41	Irregular procurement of stores (DoT/ BSNL)
34.	Report No. 6 of 2002 for the year ended 31 March 2001	7 (7.1.10,7.1.13 ,7.2.5,7.2.7, 7.2.11,7.4.13, 7.4.15,)	Non/Short recovery of revenue (DoT/ BSNL)
35.		11	Management of Telecom Stores (DoT/ BSNL)
36.		12	Working of the Telecom Civil Divisions (DoT/ BSNL)
37.		13	Non recovery of unused cable worth Rs 2.96 crore from contractors (DoT/ BSNL)
38.		16	Excess payment of service charges (DoT/ BSNL)
39.		19	Other recoveries at the instance of Audit. (DoT/ BSNL)
40.		23	Unfruitful expenditure in procurement of tower material and laying of foundation (DoT/ BSNL)
41.		26	Idling of raw material and semi finished goods worth Rs 2.32 crore due to unplanned bulk procurement of raw material (DoT/ BSNL)
42.		37	Irregularities in decentralised procurement of C-DoT 256 P exchange equipment (DoT/ BSNL)
43.		40	Excess payment due to inconsistent application of procurement policy (DoT/ BSNL)
44.		41	Transportation of stores by circle Telecommunications Store Depots and Telecommunication units. (DoT/ BSNL)
45.		44	Avoidable payment (DoT/ BSNL)
46.		45	Avoidable expenditure due to poor planning (DoT/ BSNL)
47.		47	Irregular expenditure on procurement of cable route tracers and cable fault locators (DoT/ BSNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
48.	Report No. 3 of 2002 (Commercial) for the year ended 31 March 2001	6.1.3	Continuance of telephone facilities despite non-payment of dues (BSNL).
49.		6.1.4	Failure to demand and collect rent of Rs 1.71 crore (BSNL).
50.		6.1.5	Loss of potential revenue due to non-commissioning of project (BSNL)
51.		6.1.7	Failure to realise Rs 81.31 lakh due to non-receipt of advice notes (BSNL).
52.		6.1.10	Non-recovery of licence fee for interconnectivity of network (BSNL).
53.		6.3.4	Loss due to delay in disconnection of Data Service (MTNL)
54.	Report No. 5 of 2003 (Commercial) for the year ended 31 March 2002	1	Functions, Organisation, traffic, revenue receipts and financial results (BSNL)
55.		2	Non-recovery of dues from pay phone operators due to deficient internal control system (BSNL)
56.		3	Loss of revenue due to misuse of spare numbers (BSNL)
57.		4	Blockage of Government revenue (BSNL)
58.		11	Short realisation of cost of bid documents (BSNL)
59.		14 (14.1.4,14.1.5, 14.2,14.2.1,14.2.2,14.2.3,14.2.4,14.3,14.3.5)	Non/short recovery of revenue (BSNL)
60.		16	Village Public Telephones (BSNL)
61.		20	Excess payment to supplier (BSNL)
62.		27	Wasteful expenditure on procurement of defective power plants (BSNL)
63.		30	Lack of proper planning and resultant idling of 6 Giga Hertz equipment
64.		31	Infructuous expenditure of Rs 2.17 crore on payment of minimum demand charges and low power factor surcharge
65.		42	Excess payment of Rs 14.97 crore on procurement of new technology digital local exchange equipment (BSNL)
66.		43	Irregular payment of customs duty (BSNL)
67.		44	Avoidable expenditure on installation of higher capacity telephone exchange
68.		46	Avoidable extra expenditure in acquisition of land.
69.		50	Function, organisation, traffic, revenue receipts and financial results (MTNL).
70.		51	Loss of revenue due to non-implementation of revised tariff as prescribed (MTNL)
71.		53	Loss of revenue of Rs 90.25 lakh due to failure to implement terms of agreement in time (MTNL)
72.		54	Loss of revenue
73.		55	Review on Quality of services of MTNL
74.		56	Review on Telephone Revenue Billing in MTNL.
75.		61	Material Management in MTNL
76.	Report No. 5 of 2004 for the year ended 31 March 2003	1 (1.4)	Functions, Organisation, traffic, revenue receipts and financial results
77.		2.1	Non collection of revenue from cellular mobile subscribers-Rs 1.87 crore

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
78.		2.2	Loss of potential revenue of Rs 1.39 crore
79.		2.4	Short recovery of infrastructure charges of Rs 91.44 lakh
80.		2.9	Non/short recovery of revenue
81.		2.10	Recovery at the instance of Audit
82.		3	Working of Telecom Maintenance wing of BSNL
83.		4.1	Non recovery of advance of Rs 229.18 crore
84.		4.3	Non recovery of Excise Duty of Rs 1.89 crore
85.		4.6 (i)	Infructuous expenditure of Rs 78.22 lakh on procurement of Network Synchronisation Equipment
86.		4.12	Blocking of funds of Rs 1.61 crore on CCB Telephone
87.		4.13	Blocking of capital of Rs 1.37 crore
88.		4.14	Blocking of capital of Rs 93.67 lakh
89.		4.17	Idle investment of Rs 73.68 lakh
90.		4.19	Irregular expenditure of Rs 4.07 crore on engaging contract labour
91.		4.20	Irregularities in procurement of stores and award of work- Rs 1.27 crore
92.		4.23	Avoidable excess payment of Rs 96.53 crore on procurement of PIJF cable
93.		4.27	Avoidable extra expenditure of Rs 1.81 crore on procurement of PIJF cable
94.		4.29	Excess payment of Rs 91.61 lakh to supplier
95.		5	Functions, Organisation, traffic, revenue receipts and financial results
96.		7.1-7.13	Cellular Mobile Telephone Service in Mahanagar Telephone Nigam Limited
97.		7.14-7.24	Cable duct works in MTNL
98.		8.1	Imprudent investment decision to invest surplus funds of Rs 250 crore
99.		8.2	Avoidable loss of interest of Rs 55.44 crore
100		8.3	Avoidable loss of Rs 1.31 crore due to non-pursuance of refund of insurance premium on pro—rata basis.
101	Report No. 5 of 2005 for the year ended 31 March 2004	1	Introduction, Organisational set-up, Investment and Return, Physical and Financial Performance, Revenue Arrears, Manpower, Productivity.
102		2.1	Delay in realisation of dues & loss of interest
103		2.2	Non collection of revenue from cellular mobile subscribers
104		2.3	Continuation of telephone facilities despite non-payment of dues
105		2.4 (2.4.III.14,16, 17,18,19,26)	Non-billing due to non-receipt of advice notes
106		2.5 (2.5.IV.2,3)	Short-realisation of rentals due to application of revised tariff
107		2.6	Non-billing of penal interest
108		2.7	Loss of revenue
109		2.8 (2.8.V.3,4,5)	Short billing of installation charges
110		2.9	Non/Short billing of rentals in r/o interconnection facilities to defence
111		2.10	Short billing of revenue
112		2.11 (2.11.VI.1)	Non-billing of rentals in respect of lines and wires leased to Railways
113		2.13	Non-recovery of compensation for the unexpired period of guarantee
114		2.16	Loss of revenue due to incorrect fixation of rental

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
115		2.17	Short recovery of revenue
116		2.18	Recovery at the instance of Audit
117		3	IT audit of DotSoft package of BSNL
118		4.1	Excess payment of customs duty
119		4.2	Negligence leading to loss in fire
120		4.3	Non-recovery of Sales Tax
121		4.4	Non-recovery of compensation for damage to underground cable
122		4.6	Irregularities in execution of cable ducts
123		4.8	Irregular expenditure and payment of penalty due to delay
124		4.9	Idling of Digital Loop Carrier equipment
125		4.10	Injudicious procurement
126		4.11	Idling of equipment
127		4.12	Idle investment
128		4.13	Blocking of capital of Rs 3.11 crore
129		4.14	Injudicious expansion of exchanges
130		4.15	Idle investment on construction of staff quarters
131		4.16	Blocking of capital of Rs 1.55 crore
132		4.17	Idle investment on construction of staff quarters
133		4.18	Premature expansion of TAX exchanges
134		4.19	Blocking of capital of Rs 72 lakh
135		4.20	Blocking of funds
136		4.21	Blocking of capital
137		4.22	Idling of stock
138		4.24	Irregular expenditure
139		4.28	Undue benefit to contractor and short levy of penalty
140		4.29	Undue benefit to suppliers in procurement of WLL equipment
141		4.30	Avoidable extra expenditure on procurement of jointing kits
142		6	Planning, Procurement and Utilisation of WLL system in MTNL
143		7.2	Avoidable excess expenditure on setting up of Customer Service Centres
144		13	Follow up on Audit Reports

Appendix - XXV

(Refer overview under the paragraph financial implications at pages xv and xvi)

Statement showing financial implication of paragraphs and reviews included in the Report

Functions, organisation, traffic, revenue receipts and financial results	1.1-1.7	0
Non-realisation of interconnection charges from M/s Data Access (India) Limited	2.1	219.62
Non-collection of revenue from cellular mobile subscribers	2.2	41.82
Non-realisation of interest on delayed payments	2.3	18.34
Continuation of telephone facilities despite non-payment of dues	2.4	10.39
Blocking of funds and loss of interest	2.5	0.44
Non-realisation of charges from M/s Reliance Infocomm Limited for ISD calls with tampered Calling Line Identification	2.6	6.42
Non-billing due to non-receipt of advice notes	2.7	6.06
Short billing of rentals for leased circuits	2.8	3.54
Non-billing of interconnect licence fees	2.9	2.15
Non realisation of charges	2.10	1.29
Loss of revenue due to delayed /non implementation of revised pulse rates	2.11	0.97
Non-realisation of infrastructure sharing charges	2.12	0.96
Loss of potential revenue due to inordinate delay in providing leased circuits	2.13	0
Short realisation of rentals due to non-application of revised tariff	2.14	0.93
Short billing of installation charges and rentals	2.15	0.83
Non-billing of rentals	2.16	0.67
Short billing of port charges in respect of private operators	2.17	0.53
Non-realisation of port charges	2.18	0.40
Recovery at the instance of Audit	2.19	8.30
IT audit of Chennai Telephone Billing System of Bharat Sanchar Nigam Limited	3.1-3.10	27.84
Excess payment of electricity charges	4.1	2.31
Non-disposal of hazardous waste	4.2	1.26
Non-recovery of compensation for damage to underground cables	4.3	1.21
Non-recovery of compensation charges for delays in repairing E-10-B cards	4.4	0.88
Injudicious expansion of exchanges	4.5	3.46
Unproductive expenditure on installation of an exchange	4.6	2.83
Wasteful expenditure on installation of C-DOT exchanges	4.7	1.96
Idle investment on purchase of land and construction of building	4.8	1.45
Idle investment on construction of telephone exchange buildings	4.9	1.44
Idle investment on purchase of land	4.10	1.26
Idle investment on construction of staff quarters	4.11	0.87
Blocking of capital	4.12	0.86
Unfruitful investment on construction of exchange buildings	4.13	0.82
Idling of Digital Loop Carrier system	4.14	8.36

Blocking of funds due to non-commissioning of optical fibre routes	4.15	3.31
Wasteful expenditure on idle stores	4.16	3.11
Infructuous expenditure on payment of electricity charges	4.17	1.29
Unfruitful expenditure on procurement of power plants	4.18	1.17
Imprudent investment	4.19	0.70
Idle investment on purchase of software	4.20	0.62
Avoidable expenditure on procurement of PIJF cable	4.21	11.88
Avoidable extra expenditure on procurement of PLB HDPE pipes	4.22	1.76
Excess expenditure on cable laying works	4.23	0.82
Functions, organisation, traffic, revenue receipts and financial results	5.1-5.7	0
Imprudent investment	6.1	1.31
Blocking of capital on purchase of lands	6.2	32.81
Infructuous expenditure on leasing of land	6.3	10.96
Avoidable expenditure	6.4	3.57
Idle investment on establishment of a Fraud Management Control Centre	6.5	5.23
Loss due to procurement of cables at higher rates without invoking risk and cost clause	6.6	1.12
Loss due to delay in submission of insurance claim	6.7	0.50
Functions, organisation and financial results	7.1 - 7.7	0
Delay in claiming differential amount	8.1	33.48
Levy of liquidated damages and penal interest	8.2	7.89
Loss due to injudicious purchase	8.3	2.38
Irregular payment of Annual Performance Reward	8.4	23.14
Functions, organisation and financial results	9.1-9.5	0
Functions, organisation and financial results	10.1-10.6	0
Functions, organisation, traffic, revenue receipts and financial results	11.1-11.5	0
Follow up on Audit reports	12	0
Total		**527.52**

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