Report of the Comptroller and Auditor General of India

for the year ended March 2007

Union Government (Commercial)

(Telecommunications Sector)

Compliance Audit Observations

No. CA 12 of 2008

CONTENTS

PREFACE

Report No. 12 of the Comptroller and Auditor General of India for the year ending March 2007 has been prepared for submission to the Government in terms of the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended in 1984. 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 37 paragraphs divided into 11 chapters.

Telecom Sector Profile

1. Background

Indian telecom is more than 165 years old, beginning with the commissioning of the first telegraph line between Kolkata and Diamond Harbour in 1839. In 1948, India had 0.1 million telephone connections with a telephone density of about 0.02 telephone per hundred population. As of June 2007, there were 225.21 million telephone (including cellular mobile) connections in the country with a telephone density of 19.86 telephones per hundred population. Out of total 225.21 million telephone connections, 185.13 million (nearly 82 percent) connections pertained to wireless and mobile phones.

Some 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 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 and control of the Public Sector Undertakings (PSUs) engaged in telecommunication services, research and development, standardization/ validation of equipment, and international relations.

The Centre for Development of Telematics (C-DOT) is an autonomous body 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.

Two important wings of DoT are the Telecom Engineering Centre (TEC) and the Wireless Planning and Coordination (WPC) wing. 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, wireless licensing, frequency assignments, international coordination for spectrum management and administration of Indian Telegraph Act, 1885 for radio communication systems and 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 renewal on expiry of the validity periods.

3. Regulatory control

The entry of private service providers in 1992 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 DoT. 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.

4. Telecom Policies

The first National Telecom Policy was announced in 1994 with a major thrust on universal service and qualitative improvement in telecom services; and starting of private sector participation in basic telephone services. The New Telecom Policy 1999 (NTP-99) allowed private operators to migrate from the fixed licence fee regime to a revenue-sharing regime. Other provisions of NTP-99 included 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.

NTP-99 laid emphasis on universal service and sought to achieve telephone on demand and increase in rural tele-density. In pursuance of these objectives, a fund named Universal Service Obligation Fund (USO Fund) was established in April 2002 under the administrative control of DoT, to exclusively meet the universal service obligations. The resources for implementation of USO are raised through a Universal Service Levy which has presently been fixed at 5 *per cent* of the Adjusted Gross Revenue of all telecom service providers except the pure value added service providers like internet, Voice Mail, and E-Mail service providers.

As of 31 March 2002, unrestricted entry was allowed in basic services on a revenue-sharing basis. All telecom services were 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) to cater to the conflicting demands on the spectrum.

5. Government PSUs in the Telecom Sector

There are six Public Sector Undertakings in the Telecom Sector. Mahanagar Telephone Nigam Limited (MTNL) and Bharat Sanchar Nigam Limited (BSNL) are basically in the business of providing telecommunication services in the country and were incorporated in 1986 and 2000, respectively. MTNL provides telecommunication services in Mumbai and Delhi and rest of the country is covered by BSNL. Besides these two, other public sector undertakings in the telecom sector are Indian Telephone Industries Limited (ITI), Telecommunications Consultants India Limited (TCIL), Intelligent Communication Systems India Limited (ICSIL) and Millennium Telecom Limited (MTL). ITI Limited was established 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 to meet the growing demand in communication and information technology sector. However, the company ceased its manufacturing activities and surrendered its manufacturing license. At present, the company is engaged in trading of computers and other telecommunication system. 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. The company is handling a project for laying submarine cable from India to south East Asia and Middle East with the ultimate intent to extend it eventually to the USA and Europe.

6. Financial performance of PSUs in the Telecom Sector

Some of the important financial performance indicators of the telecom PSUs, for the year ended 31 March 2007, were as follows:

PSU	Investment in shares by Government			Govt. Loans	Total income earned	Dividend paid on Govt. investment	Capital employed	Profit before tax (PBT)	Percentage of PBT to capital employed
	Equity shares	Preference shares	Total						
	(Rupees in crore)								%
BSNL	5000.00	7500.00	12500.00	3720	39715.11	1175.00	86805.98	8153.81	9.39
MTNL	354.37	-----	354.37	----	5582.85	141.75	10464.17	792.68	7.58
ITI	267.47	-----	267.47	100	1873.98	----	3003.49	(404.70)	(13.47)
TCIL	28.80	-----	28.80	----	410.61	----	273.43	5.94	2.17
ICSIL	---	---	---	---	5.60	---	0.80	0.06	7.50
MTL	-----*	-----	----	-----	0.22	----	5.06	0.04	0.79
Total	*5650.64*	*7500.00*	*13150.64*	*3820*	*47588.37*	*1316.75*	*100552.93*	*8547.83*	*8.50*

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

As may be seen from the above table, on capital investment of Rs 13,150.64 crore in these six telecom PSUs, the Government received dividend of Rs 1,316.75 crore, which worked out to 10.01 *per cent*. The total income and the profit before tax earned by the six telecom PSUs during the year were Rs 47,588.37 crore and Rs 8,547.83 crore, respectively. On the total capital employed of Rs 1,00,552.93 crore in the above PSUs, the overall percentage of profit before tax worked out to 8.50 *per cent*.

OVERVIEW

This Audit Report for the year 2006-07 containing 37 paragraphs is presented in 11 chapters:

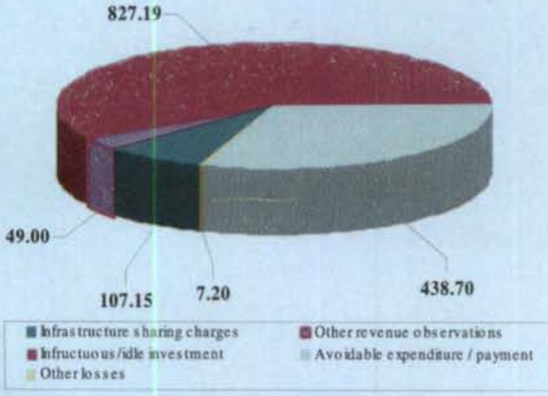
Chapters I to III	Bharat Sanchar Nigam Limited
Chapters IV to V	Mahanagar Telephone Nigam Limited
Chapters VI to VII	ITI Limited
Chapter VIII	Telecommunications Consultants India Limited
Chapter IX	Intelligent Communication Systems India Limited
Chapter X	Millennium Telecom Limited
Chapter XI	Follow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

Audit Methodology and Financial implications

The findings set out in this Report are among those which came to notice during the course of audit based on test check of the records of the Companies mainly during 2006-07 as well as the earlier part of 2007-08. The total quantifiable financial implication of the paragraphs included in this Report is Rs 1795.62 crore. The Company-wise details with reference to the nature of irregularities are given as under:

(i) Bharat Sanchar Nigam Limited

The financial implication in respect of the paragraphs relating to Bharat Sanchar Nigam Limited (BSNL), which could be quantified, is Rs 1429.24 crore as per details given below:

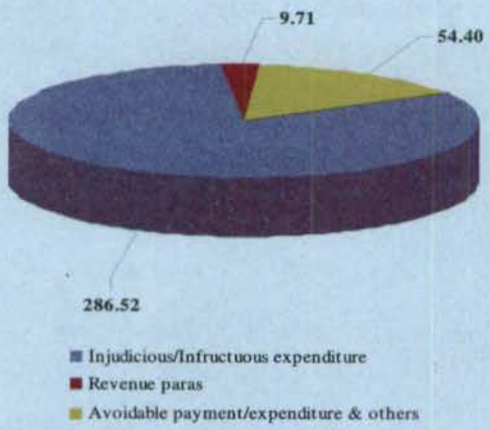


(Rs in crore)

Revenue and Expenditure paragraphs	
Infrastructure sharing charges	107.15
Other revenue observations	49.00
Infructuous/idle investment	827.19
Avoidable expenditure / payment	438.70
Other losses	7.20
Total	**1429.24**

(ii) Mahanagar Telephone Nigam Limited

The financial implication in respect of paragraphs relating to Mahanagar Telephone Nigam Limited (MTNL), which could be quantified, is Rs 350.63 crore as per details given below:



(Rs in crore)

Revenue and Expenditure paragraphs	
Injudicious/Infructuous expenditure	286.52
Revenue paras	9.71
Avoidable payment/expenditure & others	54.40
Total	**350.63**

(iii) ITI Limited

The financial implication in respect of paragraphs relating to ITI Limited, which could be quantified, is Rs 15.75 crore.

Highlights of individual chapters of each Company are presented below:

BHARAT SANCHAR NIGAM LIMITED

Chapter I

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

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

- The Company is organized into 24 telecom territorial circles and 19 non-territorial circles covering the whole country, besides two Metro Telecom Districts at Chennai and Kolkata. The territorial circles are further divided into Secondary Switching Areas (SSAs), which are the basic management units of the Company. The non-territorial circles such as Telecom Stores, Telecom Factories, Quality Assurance, Training, Projects and Maintenance are responsible for specialized activities.

- As on 31 March 2007, the paid-up equity share capital and preference share capital were Rs 5,000 crore and Rs 7,500 crore respectively. In addition, there was a loan of Rs 3,000 crore from Government of India.

- At the end of March 2007, BSNL had a network of 37,808 telephone exchanges with an equipped capacity of 526.75 lakh lines. Out of this equipped capacity, 372.95 lakh telephone connections (71 *per cent*) were given, though the number of persons on the waiting list was 8.97 lakh. The number of village public telephones increased from 5.35 lakh as on 31 March 2006 to 5.53 lakh as on 31 March 2007.

- For the year ended 31 March 2007, BSNL earned Rs 34,616.21 crore from its services. The net profit stood at Rs 7,805.87 crore. Findings of Audit under section 619 of the Companies Act, 1956 include overstatement of Profit by Rs 905.36 crore in addition to some persistent irregularities in the accounts of the Company since its incorporation.

- For the bills issued up to March 2007, an amount of Rs 2,892.40 crore (as of 1 July 2007) was outstanding for one year or more, which constituted 78.91 *per cent* of the total outstanding revenue of Rs 3,665.51 crore.

- The number of employees per thousand telephone connections including WLL decreased from 9.21 in 2002-03 to 4.95 in 2006-07.

(Paragraph 1)

Chapter II

Revenue paragraphs relating to BSNL based on test audit findings

This chapter on revenue paragraphs is based on the results of test audit, contains cases of loss/non-recovery/non-short billing of Rs 156.15 crore. BSNL has realised Rs 0.66 crore at the instance of Audit.

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

Non/short billing of Infrastructure Sharing Charges from private service providers

Deficiencies in billing and collection of charges for providing infrastructure facilities resulted in non-billing of infrastructure charges; port charges; incorrect fixation of charges; non-recovery of interest on delayed payments; non-recovery of prescribed dues in respect of surrendered ports and consequent non-realisation of revenue of Rs 35.26 crore from private service providers, besides accumulation of dues of Rs 71.89 crore due to control weakness.

(Paragraph 2.1)

Loss of subsidy

Failure of Andhra Pradesh, Madhya Pradesh and Orissa telecom circles as well as 12 Secondary Switching Areas under Bihar, Jharkhand, Uttar Pradesh (East), Uttar Pradesh (West) and West Bengal telecom circles to maintain fault free and/or functional Village Public Telephones led to loss of subsidy of Rs 31.26 crore for the period April 2003 to March 2007.

(Paragraph 2.2)

Continuation of telephone facilities despite non-payment of dues

Failure to disconnect telephone connections of subscribers and STD PCO operators by due dates, for non-payment of rentals in 13 Secondary Switching Areas under Rajasthan, Uttar Pradesh (East) and Uttaranchal telecom circles resulted in non-recovery of revenue of Rs 3.69 crore.

(Paragraph 2.3)

Continuous generation of unaddressed bills led to loss of revenue

Failure of Dimapur Secondary Switching Area under North Eastern – II Telecom Circle to follow the codal provision to reconcile the working telephone connections with the connections billed led to continuous generation of unaddressed telephone bills resulting in loss of revenue of Rs 3.62 crore.

(Paragraph 2.4)

Non-recovery of compensation for damage to underground cables

Failure of 13 Secondary Switching Areas under Punjab, Maharashtra, Rajasthan, Uttar Pradesh (East) and Uttar Pradesh (West) telecom circles to raise compensation claims for damages to underground copper cables resulted in non-recovery of compensation of Rs 2.49 crore from private agencies and telecom service providers.

(Paragraph 2.5)

Short charging of rentals

Failure of two Secondary Switching Areas under Andhra Pradesh Telecom Circle to issue rental bills at higher rates commensurate with the enhanced total capacity of exchanges resulted in short billing of Rs 2.35 crore.

(Paragraph 2.6)

Non/short billing of penal interest on delayed remittances by banks

Seven Secondary Switching Areas under the Kerala Telecom Circle and Calcutta Telephone district failed to realise the penal interest on delayed remittances of telephone bills by banks resulted in non/short billing of Rs 2.09 crore.

(Paragraph 2.7)

Chapter III

Expenditure paragraphs relating to BSNL based on test audit findings

This chapter on expenditure paragraphs based on the results of test audit brings out infructuous/idle investment, avoidable expenditure/payment and other losses aggregating Rs 1273.09 crore.

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

(A) Infructuous/idle investment

Injudicious procurement of stores for landline telephone service

Procurement of cable, exchange equipment and other stores for landline telephone service by BSNL without considering the declining trend in the subscriber base of landline telephony and the past consumption pattern of stores, resulted in excess procurement, idling and underutilization of these stores valued at Rs. 794.32 crore.

(Paragraph 3.1)

Injudicious procurement of Trunk Automatic Exchange

The Andhra Pradesh Telecom Circle procured Trunk Automatic Exchange equipment during 2004-05 without considering the available spare TAX capacity and without assessing the actual requirement. This resulted in its idling and consequent unfruitful expenditure of Rs 7.96 crore

(Paragraph 3.2)

Injudicious expansion of mass calling intelligent network

The Hyderabad Telecom District augmented its existing mass calling intelligent network without any requirement. The management failed to forecast the growth in MCIN traffic over a period of time and hence the MCIN could not be optimally used. This resulted in unfruitful expenditure of Rs 14.20 crore on its augmentation

(Paragraph 3.3)

(B) Avoidable expenditure/payment

Non- availing of Cenvat credit

BSNL failed to review and file service tax return at the circle level or through centralized revenue earning nodal offices during the years 2005-07 for availing Cenvat credit against the service tax payments. Consequently some of the SSAs wherein revenue generation was low, could not avail Cenvat credit to the full extent resulting in excess cash outflow of Rs 401 crore

(Paragraph 3.7)

Extra expenditure due to non-availing of Bill Mail Service

Fifty eight secondary switching areas under 11 circles did not avail the cheaper Bill Mail Service provided by the Department of Post for dispatch of telephone bills to its customers. This resulted in extra expenditure of Rs. 15.06 crore.

(Paragraph 3.8)

Excess payment of universal service levy and income tax

Space segment charges of Rs. 83.76 crore collected on behalf of Department of Space was wrongly credited to 'income' head by BSNL. This resulted in excess booking of income and consequent extra payment of universal service levy and income tax to the extent of Rs. 9.39 crore

(Paragraph 3.9)

Irregular extra expenditure on hiring of personnel

Principal General Manager, Bangalore Telecom District under the Karnataka Telecom Circle hired personnel for upkeep services in excess of sanctioned strength resulting in irregular extra expenditure of Rs 8.18 crore

(Paragraph 3.10)

(C) Other losses

Loss due to undue favour to a franchisee

BSNL paid higher rate of commission to a franchisee for sale of India Telephone cards resulting in undue favour to the franchisee and consequent loss of Rs 5.33 crore during November 2005 to September 2006.

(Paragraph 3.13)

MAHANAGAR TELEPHONE NIGAM LIMITED

Chapter IV

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

Mahanagar Telepone 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 2007, was Rs 630 crore, of which Rs 354.37 crore had been invested by the Government of India. At the end of 31 March 2007, the return on the said investment in the form of dividend paid by the Company was 40 *per cent.*

- The overall capacity utilisation of telephone exchanges went down from 79 *per cent* in 2002-03 to 58 *per cent* in 2006-07 due to lack of demand.

- The number of cellular mobile telephones had increased from 2.92 lakh in 2002-03 to 27.47 lakh in 2006-07. The number of public telephones also increased from 2.04 lakh in 2002-03 to 2.79 lakh in 2005-06.

- During 2006-07, the Company earned Rs 4909.32 crore from its services. The profit before tax was Rs 1008.38 crore and after providing for tax, the net profit stood at Rs 681.73 crore. The profit after tax which had decreased over the period from 2003-04 to 2005-06, increased by 17 *per cent* during 2006-07 as compared to previous year. However, income from services had decreased by 12 *per cent* compared to the previous year. Further, one major financial reporting issue relating to non-provision of liability of Rs 988.75 crore on account of post retirement medical benefits of the employees on adhoc basis was referred to DoT for its considered attention.

- The revenue arrears during the five years up to 2006-07 ranged between 28 *per cent* and 35 *per cent* of the total revenue. The percentage of doubtful revenue arrears to total revenue arrears which was 11 *per cent* for the year 2005-06 had increased to 21 *per cent* for the year 2006-07.
- The number of employees per thousand telephone connections (including cellular mobile connections) decreased from 11.65 in 2002-03 to 7.27 in 2006-07.

(Paragraph 4)

Chapter V

Revenue and expenditure paragraphs relating to MTNL based on test audit findings

This chapter contains revenue and expenditure paragraphs based on the results of test audit, bringing out non-payment and accumulation of revenue of Rs 9.71 crore and blocking/avoidable expenditure of Rs 340.92 crore.

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

Injudicious procurement of WLL equipment

MTNL procured Wireless-in-Local Loop equipment for its Delhi and Mumbai units without proper assessment of its requirement. This resulted in non-utilisation of the equipment and consequent infructuous expenditure of Rs 219 crore

(Paragraph 5.1)

Inadequate planning resulted in infructuous expenditure

MTNL procured WLL Fixed Wireless Terminals/Hand Held Terminals for its Delhi unit without forecasting and assessing quantity requirement based on the projected growth of WLL. Inadequate planning resulted in excess procurement of FWT/HHT and consequent infructuous expenditure of Rs 48.60 crore.

(Paragraph 5.2)

Non/underutilization of Digital Loop Carrier system

Procurement of Digital Loop Carrier systems by the Mumbai and Delhi units of MTNL without properly assessing its requirement based on market survey or any other scientific method resulted in non/underutilization of DLCs valuing of Rs 33.02 crore

(Paragraph 5.3)

Injudicious expansion of exchanges

Delhi and Mumbai units of MTNL expanded the equipped capacity of six telephone exchanges without considering the decline in the growth rate in landline telephony. This resulted in underutilization of the exchanges and consequent infructuous expenditure of Rs. 8.16 crore on expansion of exchanges

(Paragraph 5.5)

ITI LIMITED

Chapter VI

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 2007. Out of this, Rs 267.47 crore had been invested by the Government of India.
- Since the Company was incurring losses since 2002-03, no dividend was paid for the years 2002-03 to 2006-07.
- In respect of switching products (except C-DOT exchanges), there was a decline in utilization of installed capacity from 47 *per cent* during 2004-05 to 31 *per cent* during 2005-06 and 2006-07.
- The Company incurred huge losses since 2002-03. The losses of Rs 427.55 crore and Rs 404.70 crore respectively during 2005-06 and 2006-07 were due to increase in cost of sales.
- The percentage of debtors remained almost at par with the sales figures during 2003-04 to 2006-07.

(Paragraph 6)

Absence of due professional care in safeguarding the Company's interest

The Company received advance purchase orders from BSNL for supply of Integrated Fixed Wireless terminals of ZTE model and furnished a Corporate Performance Guarantee (CPG) of Rs 9.90 crore. The Company placed orders for the supply of these terminals to Hindustan Futuristic Communications Limited (HFCL) without proper bank guarantee. HFCL failed to supply the desired number of terminals to the Company and BSNL short closed the order with Company and recovered Rs 19.80 crore of the CPG against the supply bills. The Company, however, could recover only Rs 9.40 crore by invoking the PBG and adjusting from pending bills of HFCL. The Company suffered a loss of Rs 10.40 crore.

(Paragraph 7.1)

Loss in execution of AMC work

The Company suffered a loss of Rs 3.78 crore due to incorrect estimation of the cost of AMC work by Manakpur unit in one of the GSM projects of BSNL.

(Paragraph 7.2)

TELECOMMUNICATIONS CONSULTANTS INDIA LIMITED

Chapter VIII

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 2007, which had been fully invested by the Government of India. Present paid-up share capital include value of Bonus shares of Rs 28.50 crore consisting of one 2:1 and five 1:1 bonus issues. TCIL commenced business with initial seed capital of Rs 30 lakh during 1978-83 invested by Government.
- At the end of 31 March 2007, the total income from projects was Rs 382.59 crore. The profit before tax was Rs 4.86 crore and after providing for tax, the net profit after tax stood at Rs 1.22 crore.

(Paragraph 8)

INTELLIGENT COMMUNICATION SYSTEMS INDIA LIMITED

Chapter IX

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 2007, was Rs 1.00 crore.
- At the end of 31 March 2007, the total income earned was Rs 4.94 crore. The profit before tax and after providing for tax, for the year 2006-07 was Rs 5.98 lakh and Rs 1.85 lakh respectively.

(Paragraph 9)

MILLENNIUM TELECOM LIMITED

Chapter X

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 2007 was Rs 2.88 crore which was totally subscribed by MTNL.
- The Company recorded a meager net profit before tax of Rs 4 lakh during 2006-07.

(Paragraph 10)

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 providing 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, licensing, wireless spectrum management, administrative control of Public Sector Undertakings (PSUs), standardisation and validation of equipment and research and development (R&D) were retained by the Government in 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 Company is organized into 24 telecom territorial circles and 19 non-territorial circles covering the whole country, besides two Metro Telecom Districts at Chennai and Kolkata. The metropolitan cities of Mumbai and Delhi and their adjoining areas are served by Mahanagar Telephone Nigam Limited. The territorial circles are further divided into Secondary Switching Areas (SSAs), which are the basic management units of the Company. The non-territorial circles such as Telecom Stores, Telecom Factories, Quality

Assurance, Training, Projects and Maintenance are responsible for specialized activities.

1.3 Investment and Returns

Against the authorised equity share capital of Rs 10,000 crore and 9 *per cent* preference share capital of Rs 7,500 crore, the paid-up equity share capital and preference share capital, as on 31 March 2007, 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, an amount of Rs 7,500 crore had been treated as loan to the Company from the Government. This loan carried a moratorium on repayment of principal and interest up to 31 March 2005 and carried interest at the rate of 14.5 *per cent* per annum from April 2005. The Company repaid the principal amount of Rs 2000 crore and Rs 2500 crore during the years 2005-06 and 2006-07, respectively. As of 31 March 2007, the principal amount of loan and the interest accrued and due was Rs 3000 crore and Rs 1823.09 crore, respectively.

The Company was exempted from payment of dividend on 9 *per cent* preference share capital up to 31 March 2004 and 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. For the years ended 31 March 2006 and 2007, the Company paid a dividend of Rs 500 crore each at the rate of 10 *per cent* on Equity and Rs 675 crore each on Preference share capital.

As part of financial/fiscal relief the Company was liable to pay licence fees and spectrum charges in full and at the same time, could claim reimbursement of licence fee for 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. An amount of Rs 582.96 crore was reimbursed to the Company in 2005-06. However, no such reimbursement had been received by the Company for the financial year ended 31 March 2007.

The Company also received/accounted for Rs 1,765.75 crore and Rs 1,719.15 crore for the years ended 31 March 2006 and 2007, respectively from the Universal Service Obligation Fund towards reimbursement for provision, operation & maintenance of Village Public Telephones (VPTs) and rural household connection.

1.4 Physical and Financial Performance

1.4.1 Physical performance

The physical performance of the Company at the end of each of the five years ending 31 March 2007 is given below:

Telephone Network	As on 31 March 2003	As on 31 March 2004	As on 31 March 2005	As on 31 March 2006	As on 31 March 2007
❖ No. of telephone exchanges	36136	36618	37040	37382	37808
❖ Total equipped capacity of direct exchange lines (DELs) including WLL (in lakh)	457.65	485.60	498.20	513.93	526.75
❖ No. of telephone connections (DELs) including WLL (in lakh)	359.33 *(79%)	363.94 (75%)	374.88 (75%)	379.95 (74%)	372.95 (71%)
❖ No. of persons on the waiting list (in lakh)	18.07	17.55	16.20	12.10	8.97
❖ No. of cellular mobile telephone connections (in lakh)	22.56	52.54	94.47	171.64	274.29
❖ No. of village public telephones (in lakh)	5.05	5.10	5.19	5.35	5.53

*figures in brackets indicate percentage of capacity utilization.

- As seen from the table, inspite of increase in the equipped capacity of direct exchange lines (DELs), the overall capacity utilisation of telephone exchanges steadily went down from 79 *per cent* in 2002-03 to 71 *per cent* in 2006-07.

- Despite availability of equipped capacity, persons were still on the waiting list during each of the years 2002-03 to 2006-07; 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 22.56 lakh in 2002-03 to 274.29 lakh in 2006-07.

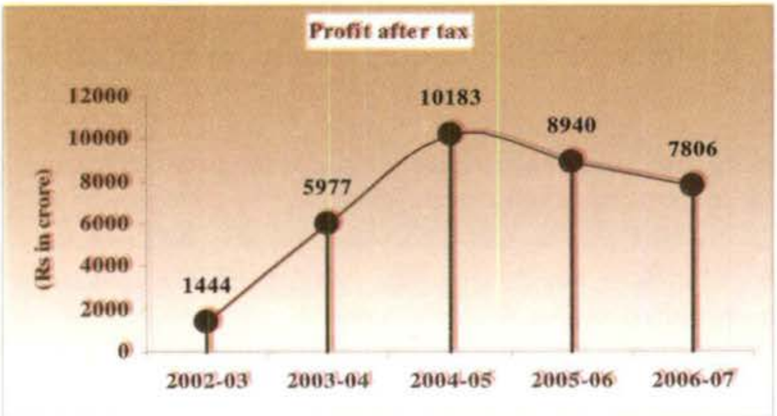
- The number of village public telephones increased from 5.05 lakh in 2002-03 to 5.53 lakh in 2006-07.

1.4.2 Financial performance

The financial results of the Company for the last five years ending 31 March 2007 were as follows:

(Rs in crore)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Income from services	25293.15	31399.34	33450.04	36138.94	34616.21
Other income	599.45	2519.25	2640.05	4037.64	5098.90
Expenditure (excluding interest and prior period adjustments)	24714.42	27075.29	29372.24	30817.26	30686.25
Interest	364.55	88.24	29.29	1089.80	779.41
Profit before tax and prior period adjustments	813.63	6755.07	6688.56	8269.52	8249.45
Prior period adjustments	(455.72)	(58.90)	(534.38)	(405.50)	(95.64)
Profit before tax & extraordinary items of income	357.91	6696.17	6154.18	7864.02	8153.81
Extraordinary items of income (reimbursement by Govt. of losses incurred on rural telephony operations)	2300.00	2300.00	1765.90	582.96	--
Profit before tax	2657.91	8996.17	7920.08	8446.99	8153.81
Tax provision	1213.46	3019.64	(2263.21)*	(492.71)*	347.94
Profit after tax	1444.45	5976.53	10183.29	8939.69	7805.87
Dividend (inclusive of tax)	250.00	318.01	1337.88	1339.79	1359.84



It would be seen that there was a decrease in profit after tax for the year ending 31 March 2007 compared to the previous year's profit, mainly on account of decrease in Income from services and Extraordinary income.

* Figures in brackets denote excess tax provisions written back

1.4.3 Findings of Audit under Section 619 of the Companies Act, 1956

Based on the supplementary audit conducted by CAG subsequent to the audit of the financial statements for the year 2006-07 by Statutory Auditors, comments were issued on accounts of the Company. The company had overstated its Profit for the year by Rs 905.36 crore. It was also observed that no appreciable action was taken by the Company on the following persistent irregularities despite repeatedly being commented by the Statutory Auditors since the first account of the Company for the year 2000-01:

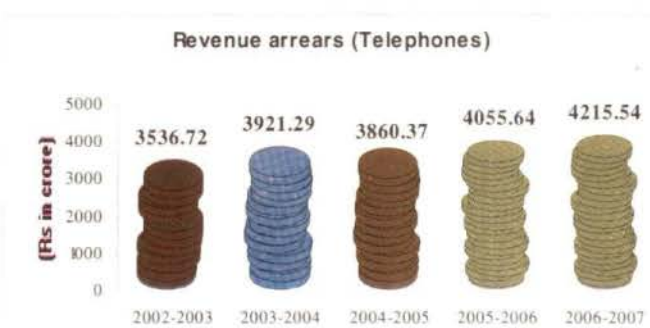
a) No confirmation on the ownership and value of net assets (including contingent liabilities) taken over from DoT as on 1st October 2000.
b) No confirmation on DoT balances on current account recoverable/payable shown in the accounts had been produced.
c) Non-preparation of bank reconciliation statements by some units.
d) Verification of fixed assets and other items of inventory was not being carried out or not being properly documented in a significant number of circles.

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 2007 is given in the following table:

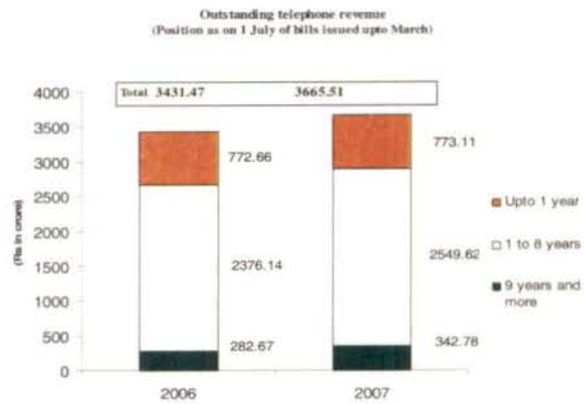
(Rs in crore)

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)	Arrears in percentage (6/4)
1	2	3	4	5	6	7
2002-03	3547.93	22102.30	25650.23	22113.51	3536.72	13.79
2003-04	3536.72	23995.97	27532.69	23611.40	3921.29	14.25
2004-05	3921.29	22794.08	26715.37	22855.00	3860.37	14.45
2005-06	3860.37	21526.72	25387.09	21331.45	4055.64	15.98
2006-07	4055.64	18189.59	22245.23	18029.69	4215.54	18.95



At the end of March 2007, the revenue arrears on account of telephone services increased to Rs 4215.54 crore (18.95 *per cent*) as compared to Rs 3536.72 crore (13.79 *per cent*) at the end of March 2003. In fact, the ears over the five years 2002-2007 increased by 19.19 *per cent*, but demand raised had decreased by 17.70 per cent. The amount collected also declined from Rs 22113.51 crore to Rs 18029.69 crore during the years 2002-2007.

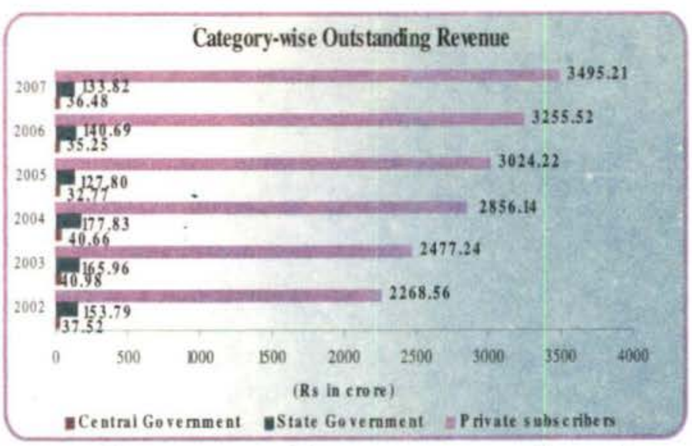
1.5.2 The arrears of telephone revenue of Rs 4215.54 crore came down to Rs 3665.51 crore at the end of June 2007 for the bills issued upto March 2007. Age-wise break up of the outstanding amount is given in the adjacent chart. An amount of Rs 2892.40 crore (as of 1 July 2007) was outstanding for one or more years which constituted 78.91 *per cent* of the total outstanding revenue.



1.5.3 Category-wise break up of total telephone dues between June 2002 and June 2007 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**
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
2005-2006	35.25	1.03	140.69	4.10	3255.52	94.87
2006-2007	36.48	1.00	133.82	3.65	3495.21	95.35



An amount of Rs 3665.51 crore was outstanding against various categories of telephone subscribers at the end of June 2007. Out of the total outstanding amount, 95.35 *per cent* was outstanding against private subscribers, 1.00 *per cent* against Central Government departments and 3.65 *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 239.69 crore. BSNL should make concerted efforts to recover the huge outstanding amount from the private subscribers.

1.5.4 Arrears of rent on telephone and telegraph circuits

The position of arrears of revenue on renting of telephone and telegraph circuits to the various categories of subscribers is indicated in the following table:

Circuits (telephones and telegraph)

(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)	Arrears in terms of percentage (6/4)
1	2	3	4	5	6	7
2002-03	203.07	514.48	717.55	428.41	289.14	40.30
2003-04	289.14	583.28	872.42	502.43	369.99	42.41
2004-05	369.99	567.76	937.75	538.30	399.45	42.60
2005-06	399.45	464.60	864.05	474.07	389.98	45.13
2006-07	389.98	636.08	1026.06	568.92	457.14	44.55

The revenue arrears for collection in respect of circuits had gone up from Rs 289.14 crore in 2002-03 to Rs 457.14 crore in 2006-07. However, there is marginal improvement in the recovery of revenue arrears during 2006-07 as compared to previous year. This is due to the fact that there has been substantial increase in the demand raised during the year 2006-07 as compared to 2005-06.

The arrears of telephone revenue of Rs 457.14 crore in respect of circuits came down to Rs 365.00 crore at the end of June 2007 for the bills issued upto March 2007.

1.5.5 Age-wise break up of the amount outstanding in respect of circuits on 1 July 2007 as compared to the previous year is given in the following table. An amount of Rs 257.12 crore (as of 1 July 2007) was outstanding for one or more years which constituted 70.44 *per cent* of the total outstanding revenue.

(Rs in crore)

Rent for communication circuits		
Period	**2005-06**	**2006-07**
Upto 1997-98	52.50	36.37
1998-99 to 2005-06	208.59	220.75
2006-07	101.16	107.88
Total	**356.60**	**365.00**

1.5.6 Total arrears of revenue of over Rs 4030.51 crore (telephone: Rs 3665.51 crore and circuits: Rs 365.00 crore) at the end of June 2007 in respect of telephone and telegraph services have an adverse impact on the financial health of a commercial undertaking like BSNL.

1.6 Manpower

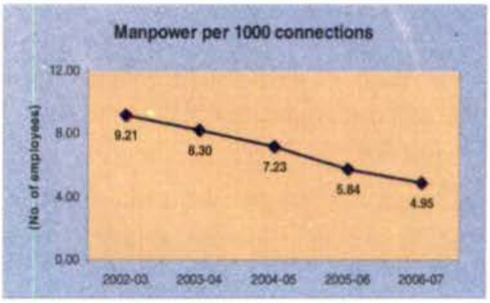
The total manpower of the Company at the end of each of the five years ending 31 March 2007 is given in the following table:

Year	Group A	Group B	Group C	Group D	Industrial workers	Total manpower	Daily Rated Mazdoors
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
2005-06♣	7600	54257	213054	48319	3718	**326948**	3648
2006-07	7533	52109	211822	45259	3783	**320506**	3423

There was a marginal decrease in the manpower during 2006-07 compared to the previous year except in case of industrial workers, under which manpower increased to the extent of 1.75 *per cent.*

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 2002-03 was 9.21, which improved to 4.95 during 2006-07.



♣ Figures have been recasted by the Management.

CHAPTER II

MAJOR FINDINGS IN TRANSACTION AUDIT - REVENUE

2.1 Non/short billing of Infrastructure Sharing Charges from private service providers

Deficiencies in billing and collection of charges for providing infrastructure facilities and port charges resulted in non recovery of revenue of Rs 107.15 crore from private service providers, including outstanding dues.

With the implementation of the National Telecom Policy 1994, licensed private service providers (PSPs) commenced launching of their services from 1995-96 and sought 'Points of Interconnections' (POIs)[♣] in their jurisdiction for interconnection with public switched telephone network (PSTN) of Bharat Sanchar Nigam Limited (BSNL). Initially BSNL provided POIs through active links[↑]. However, from April 2002, BSNL also started providing POIs to PSPs through passive links[↓]. As of March 2007, a total of 119 Interconnect Agreements had been signed by BSNL.

For providing POIs to PSPs, BSNL was entitled to recover fixed annual charges in the form of port charges and charges for providing infrastructure facilities such as buildings, space, power, towers, cable ducts, etc for installation and operation of their transmission equipments inside the BSNL's exchange premises. The rates for port charges were prescribed by the Telecom Regulatory Authority of India (TRAI) from time to time during May 1999 to February 2007. TRAI permitted BSNL to recover charges for providing infrastructure facilities to PSPs at mutually agreed rates incorporated in the Interconnect Agreements. These charges were apart from the Interconnection Usage Charges (IUCs) i.e. the charges payable by one service provider to one or more service providers for usage of the network elements for origination, transit or termination of the telephone calls.

Audit examined the relevant records maintained at the Corporate Office and in 14 circles[♣] to ascertain the efficiency of the BSNL in providing POIs and in billing and collection of charges for providing infrastructure facilities and port charges during the period 2002-03 to 2006-07. Out of 287 Secondary Switching Areas (SSAs) in the 14 selected circles, Audit carried out test

[♣] POI means giving a connection in multiples of ports for establishing interconnection between two networks.

[↑] Active links means the links in which the transmission equipments of PSPs are installed in BSNL exchange premises and their networks are connected through these equipments to BSNL's network.

[↓] Passive links means the links in which transmission equipments of PSPs are installed close to BSNL exchange premises and only transmission cable with/without modem are brought into the BSNL's exchange premises and the networks of PSPs are connected to BSNL's network through these transmission cables.

[♣] Andhra Pradesh, Assam, Bihar, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh (East) and West Bengal.

checks in 99 or 34 *per cent* of the SSAs. The audit criteria used were guidelines issued by TRAI, terms and conditions of the interconnect agreements entered with PSPs, and instructions issued by the BSNL for billing and collection of charges for providing infrastructure facilities and port charges.

The audit findings are discussed in the succeeding paragraphs.

2.1.1 Non-billing of charges for providing infrastructure facilities

Initially BSNL fixed charges for providing infrastructure facilities on an *ad-hoc* basis at the rate of Rupees two lakh per site for radio links and Rupees one lakh per site for cable based links in April 1997 and May 1998, respectively. In February 2001, BSNL fixed separate charges for providing infrastructure such as active and passive links, power, space, cable duct and tower and also issued instructions to prefer fresh demand after adjusting the *ad-hoc* charges already collected. The Corporate Office also issued the methodology and formulae for calculation of space, power, tower and duct sharing charges to all the circles. Further, the Corporate Office clarified (December 2002) that any facility obtained by PSPs from BSNL should not be resold or leased in any manner to third party.

The SSAs were to adjust the bills as per the formulae prescribed and prefer fresh demand notes after deducting the ad-hoc one-time charges already collected from PSPs. Subsequently, in May 2006 infrastructure sharing charges for space, power and tower were revised. These revised charges were applicable from 1 April 2006 with a provision of 10 *per cent* annual increase every year thereafter. All these charges were leviable in advance every year.

Test check of the relevant records by Audit in 99 SSAs of 14 selected circles revealed that charges for providing infrastructure facilities were not recovered to the extent of Rs 15.22 crore in 486 cases (see ***Appendix-I***). The main reasons for non recovery of above charges were non-billing; non-application of revised rates; non-communication of correct number of bays by the planning wing; charging for less number of bays and permitting of infrastructure sharing between different PSPs in violation of the instructions of the Corporate Office. On this being pointed out in Audit, Gujarat and Tamil Nadu circles recovered Rs 49.91 lakh from the concerned PSPs.

2.1.2 Non-billing of port charges

As per TRAI's regulation, port charges were recoverable from PSPs at the rate of Rs 55,000 per annum per POI up to 16 ports and Rs 30,000 per port for next 16 ports with effect from December 2001. However, examination of the relevant records in 28 SSAs of 11 circles[®] revealed that port charges of Rs 9.42 crore were not recovered in 112 cases (see ***Appendix-II***). On this being pointed out in Audit, Tamil Nadu circle recovered Rs 25.22 lakh from the concerned PSPs.

[®] Assam, Andhra Pradesh, Bihar, Calcutta Telephone District, Eastern Telecom Region, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Orissa and Tamil Nadu.

The above cases of non-billing of charges for providing infrastructure facilities and port charges point towards weak internal controls and ineffective monitoring in respect of billing and collection of these charges.

2.1.3 Incorrect fixation of charges

The corporate office of BSNL issued instructions for revision of rates of infrastructure sharing charges from time to time and also prescribed formulae for working out the revised rates. Out of 14 circles test checked in audit instances of incorrect calculation of revised rates were noticed in six circles[π]. These deficiencies resulted in non/short billing of revenue because of non-revision of rates amounting to Rs 1.48 crore in 10 SSAs of above six circles, involving 66 cases (see ***Appendix-III***). On this being pointed out in Audit Gujarat circle recovered Rs 3.59 lakh from the concerned PSPs.

Audit also noticed instances where the revised rates were communicated to the SSAs with considerable delays, resulting in loss of revenue of Rs 1.16 crore in 752 cases in 26 SSAs of three circles (Andhra Pradesh, Bihar and Karnataka) (see ***Appendix-IV).***

2.1.4 Non recovery of interest on delayed payments

As per the instructions of the Corporate Office of BSNL (April 2004), read with interconnection agreement, in case of delays in payments by PSPs, interest was to be charged on the due amount at the rate of 15 *per cent* for delays upto 15 days; 18 *per cent* for delays between 15 and 30 days and 24 *per cent* or Rs 25,000 per month or part thereof whichever was higher for delays beyond 30 days. A test check of the relevant records by Audit in 10 SSAs in four circles (Gujarat, Karnataka, Madhya Pradesh and Rajasthan) revealed that despite delays in payments of infrastructure sharing charges by the PSPs, interest of Rs 2.10 crore on delayed payments was not recovered in 68 cases by these circles in violation of the above instructions (see ***Appendix-V).***

2.1.5 Non-recovery of prescribed dues in respect of surrendered ports

As per orders issued (September 2005) by the Corporate Office of BSNL, in cases where working ports were surrendered prematurely by the PSPs, rental for full one year from the date of disconnection of ports was to be collected, after adjusting the advance port charges already recovered against the unused period of the ports. A test check of the relevant records by Audit in 27 SSAs of seven circles (Andhra Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa and Tamil Nadu) revealed that despite surrender of ports prematurely by the PSPs during the year, the prescribed rental for full one year from the date of disconnection of ports, aggregating to Rs 1.32 crore in 128 cases was not recovered by these circles (see ***Appendix-VI).***

[π] Andhra Pradesh, Gujarat, Karnataka, Kerala, Maharashtra and Orissa.

2.1.6 Loss of potential revenue due to delayed/non-provisioning of POIs to PSPs

In order to provide interconnection in timely manner, the Corporate Office of BSNL, based on the instructions received from TRAI, directed all circles in February 2001 that on receipt of payment against demand notes from PSPs, interconnection through POIs/ports should be provided and commissioned within a period of three months from the date of receipt of payment. It was noticed in audit that in violation of the above instructions of the Corporate Office, the interconnection to PSPs through POIs/ports were delayed/not provided for periods ranging from 3 to 1703 days in 63 SSAs of 10 circles[◊], which resulted in loss of potential revenue of Rs 4.54 crore (see ***Appendix-VII***).

2.1.7 Outstanding dues against PSPs

As per the instructions issued by the Corporate Office of BSNL in February 2001 and reiterated thereafter from time to time, charges for providing infrastructure facilities and port charges were to be recovered from the PSPs in advance i.e. in the beginning of the concerned year. In view of these instructions, no amount should be outstanding for recovery against the private service providers. Audit, however, noticed that an amount aggregating Rs 71.89 crore[♣] was outstanding against different PSPs in 57 SSAs of 9 circles[β] at the end of 2006-07 (see ***Appendix-VIII***). This is indicative of control weakness.

The Management while accepting the above observations stated (July 2007) that outstanding dues could not be collected due to the fact that many PSPs were pressing hard for waiver of port charges.

Thus deficiencies in billing and collection of charges for providing infrastructure facilities and port charges resulted in non recovery of revenue of Rs 35.26 crore from private service providers as described in para 2.1.1 to 2.1.6. Also, there were outstanding dues of Rs 71.89 crore. BSNL needs to strengthen internal controls and monitoring in respect of billing and collection of these charges.

The matter was referred to the Ministry in June 2007; its reply was awaited (November 2007).

[◊] Assam, Andhra Pradesh, Bihar, Karnataka, Kerala, Madhya Pradesh, Orissa, Tamil Nadu, Uttar Pradesh (East) and West Bengal.

[♣] This includes Rs 56.98 crore outstanding for recovery at the end of 2006-07 from PSPs in Andhra Pradesh circle, of which Rs 45.39 crore was disputed by the concerned PSPs.

[β] Andhra Pradesh, Bihar, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan and Uttar Pradesh (East).

2.2 Loss of subsidy

Failure of Secondary Switching Areas under nine Telecom Circles to maintain fault free and/or functional Village Public Telephones led to loss of subsidy of Rs 31.26 crore for the period April 2002 to March 2007.

New Telecom Policy 1999 of the Government of India envisaged access to basic telecom services to all (including rural and remote areas) at affordable and reasonable prices under Universal Service Obligation (USO). The resources for meeting the USO were to be generated through Universal Service Levy, being a prescribed percentage of revenue earned by telecom service operators. Subsequently, the Department of Telecommunications (DoT) decided to extend support in the form of subsidy under the Universal Service Support Policy (from April 2002) to a Universal Service Provider. The Universal Service Obligation Fund (USF) is headed by Administrator, Universal Service Fund (USF) and the services supported by the fund are operation and maintenance of Village Public Telephones (VPTs), Multi Access Radio Relay Technology (MARR) VPTs, Rural Community Phones (RCPs) and other telecom services in rural areas.

The Telecom Circles under Bharat Sanchar Nigam Limited (BSNL) as a Universal Service Provider, entered into agreements (between March 2003 and March 2005) with the Administrator, USF for availing subsidy towards Operation and maintenance of VPTs, RCPs and replacement of MARR VPTs in their respective service areas. These agreements, inter-alia, stipulated that if the VPTs, RCPs and the new VPTs in replacement of MARR VPTs remained faulty and/or non-functional for more than seven days in a quarter, subsidy payable was to be reduced proportionately and for 45 days or more during a quarter, no subsidy for the entire quarter for those VPTs was to be disbursed. Further, those VPTs and RCPs that did not register incremental meter reading/calls or remained disconnected due to non-payment during an entire quarter would not qualify for subsidy support for that quarter. It was, therefore, important for each Secondary Switching Areas (SSA) to maintain fault free and functional VPTs and RCPs and avail the subsidy.

Audit scrutiny (December 2006 to June 2007) of records relating to subsidy claims pertaining to the Chief General Managers (Telecom) of Andhra Pradesh, Madhya Pradesh and Orissa circles disclosed that these circles could not claim Rs 19.69 crore towards subsidy because the VPTs in their respective SSAs remained faulty/non-functional for more than seven/45 days during relevant quarters for the period April 2003 to March 2007.

Further, test check of claims relating to two SSAs each under Bihar and Jharkhand telecom circles; four SSAs each under Uttar Pradesh (East) and West Bengal telecom circles; three SSAs under Maharashtra telecom circles; and one SSA under Uttar Pradesh (West) telecom circle revealed that these SSAs failed to maintain fault-free/functional VPTs/RCPs/RDELs* owing to

* Rural direct exchange lines

faulty batteries and disconnection of VPTs due to non-payment. Audit also noticed that the SSAs failed to shift the VPTs with continuous zero or non incremental meter readings to other suitable locations in order to earn subsidy. This led to loss of subsidy claim of Rs 11.57 crore for the period April 2002 to March 2007.

On this being pointed out by Audit, the Circles/SSAs accepted (between December 2006 and June 2007) audit observations and stated that necessary steps would be taken to maintain fault-free/functional VPTs. The reply from Andhra Pradesh and West Bengal telecom circles were awaited (November 2007).

Thus, failure of the Circles/SSAs to maintain fault free/functional VPTs/RCRs services led to loss of subsidy of Rs 31.26 crore for the period April 2002 to March 2007, as detailed in **Appendix - X**.

The matter was referred to the Ministry in August 2007; its reply was awaited (November 2007).

2.3 Continuation of telephone facilities despite non-payment of dues

Failure to disconnect telephone connections of subscribers and STD/PCO operators by due dates for non-payment of rentals in 13 Secondary Switching Areas in three circles resulted in non-recovery of revenue of Rs 3.69 crore.

Rules in Bharat Sanchar Nigam Limited (BSNL) provide that telephone bills are payable by subscribers within 15 days from the dates of issue of their bills, failing which their telephones are liable to be disconnected before the 35th day from the dates of issue of the bills. 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. The Corporate office of the company reiterated these provisions in February and October 2003.

Scrutiny of records (October 2005 and November 2006) of 13 Secondary Switching Areas (SSAs) under Rajasthan, Uttar Pradesh (East) and Uttaranchal telecom circles disclosed that despite non-receipt of dues, these SSAs continued to provide telecommunication services to 11,875 telephone subscribers and 1,484 STD PCO operators for unduly long periods. This resulted in non-recovery of revenue of Rs 3.69 crore for the period August 1998 to September 2006, as detailed in the ***Appendix-XI.***

On this being pointed out by Audit, Chief Accounts Officer, Alwar stated (May 2006) that a sum of Rs 5.41 lakh was recovered from the defaulting subscribers and STD PCO operators. The Deputy General Manager (F&A-II), Rajasthan Telecom Circle while accepting the audit observations stated (April 2007) that Ajmer, Jaisalmer, Jhunjhunu, Pali and Sirohi SSAs had recovered/ adjusted a sum of Rs 66.81 lakh after audit pointed it out. Further, the Deputy General Manager (TR), Uttar Pradesh (East) Telecom Circle accepted the audit observations and stated (May 2007) that Azamgarh, Gonda, Raebereli and Shahjahanpur SSAs had recovered a sum of Rs 24.19 lakh at the instance of Audit.

The above replies indicate that after it was pointed out by Audit, a sum of Rs 0.96 crore was recovered by the SSAs, (see ***Appendix - XI***). Recovery particulars of the balance amount of Rs 2.73 crore were awaited as of November 2007.

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 eight years. The Ministry, in their latest Action Taken Note (ATN), on the subject, had stated (November 2006) that pursuance of recovery was being done regularly. There is a need for stronger internal control measures to avoid recurrence of this persistent irregularity and consequent loss of revenue.

The matter was referred to the Ministry in March 2007; its reply was awaited (November 2007).

2.4 Continuous generation of unaddressed bills led to loss of revenue

Failure of Dimapur Secondary Switching Area under North Eastern – II telecom circle to follow the codal provisions to reconcile the working telephone connections and connections billed in order to ensure correct revenue realization for the services rendered led to continuous generation of unaddressed telephone bills resulting in loss of revenue of Rs 3.62 crore.

As per codal provisions in Bharat Sanchar Nigam Limited (BSNL), the operating branch of a telephone district is required to send completed advice notes to the Telephone Revenue Accounting (TRA) branch within a week of providing telecommunication facilities to enable them to post the details in the Subscriber Record Card (SRC) and issue bills to the subscribers. TRA branch is required to obtain a list of non-directory items from the operating branch in April each year and check it with SRCs to ensure that the rent in respect of all the telecommunication facilities has been recovered. Some cases may arise where certain bills have remained unaddressed and these unaddressed bills, bundled together, have to be recorded in a Register, which is to be submitted to the Accounts Officer (AO), TRA every month for review and further verification.

Scrutiny of records (December 2005) relating to unaddressed bills relating to Dimapur Secondary Switching Areas (SSAs) under North Eastern – II Telecom Circle disclosed that in respect of 702 subscribers, unaddressed bills for Rs 3.62 crore were generated continuously during the period October 2000 to October 2005. This included telephone connections in respect of 259 subscribers whose connections were terminated after continuous generation of unaddressed bills for a long period but without realisation of revenue.

On this being pointed out by Audit, Chief Accounts Officer (HQ) NE-II telecom circle, while accepting the facts, stated (October 2007) that due to non availability of whereabouts of the subscribers, chances of recovery were remote.

The above reply is not tenable because the SSA failed to follow the codal provisions to reconcile the working connections and connections billed so as to ensure proper revenue realization for the services rendered.

The matter was referred to the Ministry in April 2007; its reply was awaited (November 2007).

2.5 Non-recovery of compensation for damage to underground cables

Failure of 13 Secondary Switching Areas under five Telecom Circles to raise compensation claims for damage to underground cables resulted in non-recovery of compensation of Rs 3.35 crore.

Rules provide that when the property of the Company is damaged by an outside agency, compensation is to be claimed. Bharat Sanchar Nigam Limited (BSNL) also issued (October 2003 and 2004) instructions which prescribed specific rates to be claimed towards damage of the cables by external agencies including the private telecom service providers.

Audit scrutiny (June 2003 to January 2006) of the records of 13[*] Secondary Switching Areas (SSAs) under five Telecom Circles[•] revealed that various private agencies and private telecom service providers, while undertaking digging works, had damaged underground copper cables as well as optical fibre cables of the Company on 106 occasions between June 2000 and November 2006 at various locations adjacent to the areas of BSNL exchanges. Audit observed that the SSAs failed to raise compensation claims on these private agencies and telecom service providers resulting in non-recovery of claims amounting to Rs 3.35 crore as shown in **Appendix - XII**.

Northern Telecom Region, Patiala and Hoshiarpur SSAs while accepting the audit observations stated that demand notes had been issued to the concerned parties and an amount of Rs 86.37 lakh was recovered by Northern Telecom Region and Hoshiarpur SSA at the instance of Audit. The remaining SSAs stated that efforts were underway to recover the compensation.

Thus failure of the SSAs to raise compensation claims resulted in non-recovery of Rs 2.49 crore from private agencies and telecom service providers.

The matter was referred to the Ministry in June 2007; its reply was awaited (November 2007).

[*] Jalandhar, Hoshiarpur, Patiala, Bundi, Jhalawar, Kota, Notrthern Telecom Region, Moradabad, Panaji, Solapur, Etawah, Hamirpur and Raebareli

[•] Punjab, Rajasthan, Uttar Pradesh (West), Maharashtra and Uttar Pradesh (East)

2.6 Short charging of rentals

Failure of two Secondary Switching Areas under Andhra Pradesh Telecom Circle to issue rental bills at higher rates commensurate with the enhanced total capacity of exchanges resulted in short billing of Rs 2.35 crore.

In terms of codal provisions, the rates of rentals should be based on the total equipped capacity of exchanges/multi-exchanges/Short Distance Charging Areas (SDCA) for rural and urban areas. The Telecom Revenue Accounting (TRA) branch should revise the rentals in accordance with the statements of the equipped capacities of various exchanges received from the Engineering Wing. Bharat Sanchar Nigam Limited (BSNL) also issued (April 1999, December 2000 and April 2003) tariff orders which prescribed slab rates of rental in terms of the equipped capacities of exchanges/exchange systems. For charging of rentals in urban areas, total equipped capacity of all exchanges in an SDCA was to be taken into account. The higher the total exchange capacity, the higher would be the rates of rentals chargeable.

Test check (between June and October 2006) of the records of two out of 22 Secondary Switching Areas (SSAs) of Andhra Pradesh Telecom Circle revealed that although the total exchange capacities of Mahabubnagar and Vizianagram SDCAs under these SSAs had been enhanced (May 2003 and April 2006) to a higher capacity of 30000 lines and more, the SSAs continued to realise rentals at lower rates for the subscribers of urban areas of these SDCAs. This resulted in short billing of Rs 2.35 crore for the period October 2003 to April 2006, as detailed in the ***Appendix - XIII***.

On this being pointed out by Audit, the General Manager, Telecom District, Mahabubnagar stated (August 2006) that the exchange capacities of the SDCA had been reconciled and the same was below 30000 lines as of August 2006. He further stated that as the area was an economically backward region, the higher revision was not resorted to considering a probable decrease in customers' base. The Sub Divisional Engineer (Operation), Vizianagram SSA stated (October 2006) that as the actual equipped capacities were below 30000 lines, higher rates were not applied to avoid penalizing the customers.

The above replies are not correct because the statements of working connections of the exchanges under these SDCAs clearly show an enhancement of total equipped capacity to 30000 and more lines from May 2003 in Mahabubnagar SDCA and from October 2005 in Vizianagram SDCA. Moreover, tariff orders clearly prescribed slab rates of rental in terms of the equipped capacities of exchanges/exchange systems and there was clear instruction that total equipped capacity of all exchanges in an SDCA was to be taken into account for charging of rentals for subscribers in urban areas. Further, there was no mention of any exception for tariff for any region or area. Hence, the bills should have been issued to the urban subscribers in terms of the enhanced exchange capacities under these SDCAs between the period October 2003 and April 2006. Recovery particulars of the amount were awaited as of January 2007.

The matter was referred to the Ministry in February 2007; its reply was awaited (November 2007).

2.7 Non/short realisation of penal interest on delayed remittances of amount of telephone bills by banks

Failure of seven Secondary Switching Areas under the Kerala telecom circle and the Calcutta telephone district to realise the penal interest on delayed remittances by several banks resulted in non/short realisation of penal interest of Rs 2.09 crore.

Rules, framed by Department of Telecommunications (DoT) (October 1999) and as adopted by Bharat Sanchar Nigam Limited (BSNL), permitted heads of circles to collect telephone bills through some selected nationalised banks in the Telecom Districts to minimize inconvenience to the subscribers in paying their bills. BSNL's instructions required the banks to send the banker's cheque in favour of the concerned Secondary Switching Area (SSA) for the amount of the bills collected on a particular day latest by the seventh day following the date of collection. If the same were not sent within the prescribed period of seven days, a penal interest at two *per cent* above the savings bank interest rate was to be levied from the date of collection. It was further envisaged that delay even for a part of a month would be treated as a full month for the purpose of penalty. Subsequently, BSNL extended (May 2002) such facility to other scheduled banks except Co-operative banks with the same terms and conditions as contained in the above instructions of October 1999, except the rate of penal interest, which was fixed at 1.5 *per cent* per month (simple).

Scrutiny of records (July 2006 to May 2007) of seven SSAs under the Kerala telecom circle and Calcutta telephone district revealed that the heads of these circles executed (October 2002 and May 2006) several agreements with 11 banks. These agreements, inter-alia, contained the provisions relating to the prescribed time for remittances by these banks as well as application of penal interest for non-remittance within the prescribed time limit. Audit observed that though these banks failed to send the banker's cheque in favour of the concerned SSAs within the prescribed period, these SSAs did not raise any claim for penal interest against the banks in terms of the provisions under the agreements.

This lapse of the part of SSAs resulted in non/short realisation of interest of Rs 2.09 crore between April 2004 and March 2007, as shown in the ***Appendix - XIV***.

On this being pointed out by Audit in Kerala telecom circle, Eranakulam and Thiruvalla SSAs issued (January, October to December 2006 and January 2007) bills for Rs 34.91 lakh and Rs 9.66 lakh, respectively, while Kollam SSA issued (February 2007) demand letters to recover the penal interest for delay in sending remittances. Alappuzha and Trichur SSAs stated (August-September 2006) that the amount would be recovered from the commission payable to the banks. Further, Kannur SSA stated (June 2006) that they had recovered Rs 1.25 lakh from the defaulting banks. The Calcutta telephone district also accepted the audit observations and stated (October 2007) that the bills of penal interest in respect of the concerned banks had been raised.

The matter was referred to the Ministry in March and July 2007; its reply was awaited (November 2007).

2.8 Avoidable accumulation of unadjusted interest on security deposit

Failure of six Secondary Switching Areas under Kerala telecom circle to take necessary action to get credit of the interest on security deposits in the stipulated period along with additional interest for delayed crediting from the Kerala State Electricity Board, led to avoidable accumulation of unadjusted interest amount of Rs 1.60 crore for the period April 2005 to December 2006.

The Kerala Electricity Act, 2003 stipulates that the licensee shall pay interest on security deposit of a consumer, equivalent to the bank rate or more, as may be specified by the concerned State Electricity Regulatory Commission. Accordingly, the Kerala State Electricity Board (KSEB) issued (March 2005) Supply Code which, inter-alia, stipulated that payment/adjustment of interest on security deposit, due and accrued in each financial year, should be made at the prevailing bank rate on 1 April of that financial year and the same should be credited during the first quarter of the subsequent financial year. For the delay in making the payments/adjustments of interest, the licensee should pay interest at twice the normal rate specified above. Subsequently, KSEB informed (November 2005) the applicable rate of interest at six *per cent* of the security deposit available as on 1 April 2004.

Audit scrutiny (between November 2006 and March 2007) of the records of six Secondary Switching Areas (SSAs) under Kerala Telecom Circle disclosed that for the quarter ending in December 2006, against the due amount of credit of interest of Rs 92.98 lakh, KSEB credited/adjusted only Rs 20.79 lakh as interest on security deposit, after a delay of one to four quarters from the stipulated quarter for which the credit was due. Audit also noticed that for such delay in crediting interest, no extra interest at the double of the normal rate was given. Resultantly, the net interest due of Rs 72.19 lakh and the additional interest payable for the delay in crediting was Rs 88.13 lakh remained unadjusted up to the quarter ending 31 December 2006, as detailed in the **Appendix - XV**.

On this being pointed out by Audit, the Palakkad SSA stated (December 2006) that KSEB Palakkad unit could only adjust the interest in the next electricity bill in January 2006 for delay in receipt of KSEB circular of November 2005. He further stated that clause regarding charging of double rate of normal interest for delayed crediting was also not mentioned in that circular. Ernakulam and Kannur SSAs accepted audit observations and stated (December 2006 and January 2007) that cases were being pursued with KSEB.

The above reply of Palakkad SSA was not acceptable because KSEB Supply Code stipulated credit at double the rate of normal interest rate for delayed crediting and SSAs should have insisted upon crediting the extra interest for delays. However, Ministry, in its reply admitted the audit observations and stated that an amount of Rs 77.3 lakh was adjusted and all the SSAs were asked to take necessary action to realize the balance interest accrued on security deposit.

Thus failure of six SSAs under Kerala Telecom Circle to take necessary action to get credit of the interest on security deposits in the stipulated period along with additional interest for delayed crediting, led to avoidable accumulation of unadjusted interest amount of Rs 1.60 crore for the period April 2005 to December 2006.

2.9 Loss of revenue due to non-implementation of revised pulse rates of local public call offices

Failure of Krishnanagar Secondary Switching Area under West Bengal telecom circle to implement revised pulse rates of calls made from local public call offices resulted in possible loss of revenue of Rs 37.91 lakh.

Bharat Sanchar Nigam Limited (BSNL) revised (17 August 2004) the pulse rate of all calls made from local public call offices (PCOs) from 180 seconds to 90 seconds with effect from September 2004. The pulse rate was further revised (22 December 2004) to 120 seconds and the rate per unit call was raised from Re 1.00 to Rs 2.00 with effect from January 2005.

Test check of records (February 2006) of Krishnanagar Secondary Switching Area (SSA) under West Bengal telecom circle disclosed that the SSA failed to implement the revised pulse rate with effect from September 2004 and January 2005. This resulted in possible loss of revenue of Rs 37.91 lakh for the period September 2004 to March 2005.

On this being pointed out, the local management stated (October 2006) that the revised pulse rates could not be implemented within their due dates due to non-receipt of the above orders in time from the Corporate office. The above contention was not acceptable because BSNL Corporate office while issuing orders also placed a copy of the orders on the intranet portal of BSNL and the SSA should have accessed the orders revising the pulse rates payable by local PCOs. However, the Ministry in its reply accepted the audit observations.

Comments regarding loss of revenue due to non-implementation of pulse rates in respect of several SSAs under West Bengal telecom circle have been included in the Audit Reports of the Comptroller and Auditor General of India for the last three years. The Ministry, in their latest Action Taken Note, on the subject, had stated (November 2006) that pursuance of recovery was being done regularly and necessary instructions had also been issued. There is a need for stronger internal control measures to ensure that there is no potential for revenue leakage on account of delayed implementation of instructions of the Corporate office.

2.10 Recovery at the instance of Audit

Assam telecom circle recovered service tax and education cess of Rs 66.10 lakh, from three service providers at the instance of Audit.

As per the instructions of the Ministry of Finance, Bharat Sanchar Nigam Limited (BSNL) issued (September 2002) instructions to recover service tax at the rate of 10 *per cent* with effect from 10 September 2004 and 12 *per cent* with effect from 18 April 2006 on leased circuits, interconnect link charges and on set-up charges for interconnectivity of ports provided to private operators. In addition, education cess at the rate of 2 *per cent* of the service tax was also leviable.

Test check of 25 out of 43 cases in November 2006 in the office of the Chief General Manager, Assam telecom circle showed that the circle office failed to implement the orders regarding levy of service tax and education cess. Even when the rate of service tax was revised (April 2006), the circle office failed to take any action to issue revised demand notes against three service providers. This resulted in non-billing of service tax and education cess thereon for Rs 66.10 lakh for the period April 2005 to May 2006.

On this being pointed out by Audit, the Chief General Manager, Telecom Assam circle recovered the entire amount of Rs 66.10 lakh from the three service providers in March 2007.

The matter was referred to the Ministry in February 2007; its reply was awaited (November 2007).

CHAPTER III

MAJOR FINDINGS IN TRANSACTION AUDIT-EXPENDITURE

(A) Infructuous/idle investment

3.1 Injudicious procurement of stores for landline telephone service

Procurement of cable, exchange equipments and other stores for landline telephone service by BSNL without considering declining trend in the subscriber base and the past consumption pattern, resulted in excess procurement, idling and underutilization of these stores valued at Rs 794.32 crore.

The subscriber base of landline telephone service of Bharat Sanchar Nigam Limited (BSNL) decreased from 3.54 crore in March 2003 to 3.35 crore in January 2007 whereas net switching capacity (NSC) increased from 4.50 crore to 4.73 crore during the same period. In view of the relatively static subscriber base, Audit examined the rationale in the Corporate office and circles for procurement of stores for landline telephone service during the period April 2003 to January 2007. For the purpose of this study, Audit looked into only the planning and utilisation of stores procured for landline telephone services, which comprised mainly PIJF cable[♣] (cable), exchange equipments and other stores[§]. The audit findings are discussed in the succeeding paragraphs.

3.1.1 Excess procurement of cable

Cable constitutes a major element of inventory for landline telephone service. As per the guidelines issued (June 2001) by BSNL before making any procurement the existing inventory and inventory in the pipeline was to be considered. BSNL fixed (January 2003) the norms for procurement of cable at 6 conductor kilometer (CKM)/ NSC line for cities having equipped capacity of more than one lakh lines and 7 CKM/NSC line for other cities. In August 2005 it was envisaged that every circle should keep an imprest stock of 40 CKM of cable per thousand Direct Exchange Lines (DELs) for meeting the maintenance requirement.

[♣] Polythene Insulated Jelly filled cable

[§] modular connectors, lead sleeves, self-supporting masts, socket B, A8, A4 tubes, patch panel antennae, etc.

Scrutiny of records in the Corporate office and 15 circles[*] revealed that 217 lakh conductor kilometer (LCKM) cable were procured during the period April 2003 to January 2007. As per norms the cable requirements for 2004-05 and 2005-06 of 7 CKM/NSC, worked out to 71 LCKM and 12 LCKM respectively for meeting the maintenance requirement. Against the total requirement of 83 LCKM, 172 LCKM cable was procured during the same period resulting in excess procurement of cable worth Rs 608.06 crore[∇] {**Appendix XVI(a) to XVI(c)**}.

A procurement of 217 LCKM cable during 2003-07 (upto January 2007) was made without taking into account the stock in hand. It was noticed that during 2003-07 (January) a total of 283 LCKM cable (procurement of 217 LCKM *plus* stock of 66 LCKM on 1st April 2003) was available with 15 circles test checked. As such, there was a stock of 283 LCKM available with the 15 circles during 2003-07 (January). During this period only 223 LCKM cable was laid and 60 LCKM cable valuing Rs 408 crore was lying in stock as at the end of January 2007.

During the period April 2003 to January 2007, the closing stock of cable mounted in the circles. At the end of January 2007, 13[β] of the 15 circles had closing stocks of 15 to 58 months of consumption. The details are given in ***Appendix-XVII(a) to XVII(d).***

Audit noted that the excess procurement of cable was mainly because:

- BSNL did not take into account the consumption pattern of the cable and the available stock in these circles while projecting the demand for procurement.
- No inventory levels, viz. minimum level, maximum level, reordering level and the economic ordering quantity were fixed for exercising control over procurement and inventory carrying costs pertaining to cable.

On this being pointed out by Audit, the Ministry stated (September 2007) that cable allotment was done on the basis of net switching capacity. It further stated that 231.78 LCKM cable was laid in the circles noted in Appendix XVI (a) to XVI (b) against the justified demand of 138.66 LCKM for utilisation of exchange capacity added prior to this period as there was short supply of cable during earlier years. And that the cable in stock was being judiciously used to meet the subsequent requirements. The reply of the Ministry is not tenable

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[*] Andhra Pradesh, Assam, Bihar, Chennai Telephone District, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Maharashtra, Punjab, Rajasthan, Tami Nadu, Uttar Pradesh (East) and Uttar Pradesh (West) circles.

[∇] Cost of cable has been taken as Rs 6.80 crore per LCKM as arrived out in last tender no.283 of March, 2005

[β] Andhra Pradesh, Assam, Bihar, Chennai Telephone District, Haryana, Jharkhand, Karnataka, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh (East) and Uttar Pradesh (West).

considering the downward trend in landline connections as described in first para above.

3.1.2 Injudicious expansion of telephone exchanges

Department of Telecommunications (DoT) guidelines issued in September 1997, and as adopted by BSNL, stipulated that the expansion of a telephone exchange was to be considered based on the average utilization of exchange capacity up to 5,000 lines and beyond 5,000 lines as 75 *per cent* and between 82 and 85 *per cent*, respectively.

Tests check of records pertaining to 63 telephone exchanges whose capacities were expanded in the Gujarat, Kerala and U.P (East) circles and the Chennai Telephone District, as detailed in ***Appendix-XVIII(a)***, revealed that:

- though the total equipped capacity was expanded from 2.05 lakh lines to 2.59 lakh lines, the total number of subscribers decreased from 1.62 lakh from to 1.54 lakh during the same period;
- in all these exchanges, the working telephone connections as of December 2006 were such that the same could have been accommodated from their pre-expansion capacities.

Audit observed that though these exchanges were expanded as per guidelines of September 1997, they resulted in excess capacity because BSNL did not take into account the changing scenario in the telecom sector. With the advent of cellular mobile telephone services (CMTS), wireless-in-local loop (WLL) telephone services, etc, the landline telephone connections had not shown any significant increase.

A further test check revealed that 48 new exchanges were installed at a cost of Rs 29.43 crore during 2003-04 to 2006-07 (January) in eight circles[⇒] and Chennai Telephone District as detailed in ***Appendix-XVIII(b)***. It was noticed that even after providing sufficient spare capacity to these newly installed exchanges, the utilization of these exchanges remained significantly low as compared to their equipped capacity. Thus installation of new exchanges without taking into account the declining trend in landline telephone service resulted in unfruitful expenditure of Rs 29.43 crore.

On this being pointed out by Audit, these circles accepted (September/December 2006 and January 2007) the facts.

[⇒] Gujarat, Haryana, Karnataka, Maharashtra, Punjab, Tamilnadu, UP (East) and U.P (West)

Thus injudicious expansion of above-mentioned 63 telephone exchanges and installation of 48 new exchanges resulted in unproductive expenditure of Rs 62.42 crore as detailed in ***Appendix-XVIII (a) & (b)***.

3.1.3 Underutilization of digital loop carrier equipment

Digital Loop Carrier (DLC) systems are used to access networks to provide services such as the integrated services digital network (ISDN) and high-speed data (HSD) services to customers on existing landline telephone connections. BSNL issued instructions (July 2005) stipulating that the DLC systems should be utilized to a minimum of 80 *per cent* of their existing capacities.

Audit scrutiny of the records for the period December 2005 to January 2007 in eight circles[£] and Chennai and Calcutta Telephone Districts showed that these circles and districts went ahead with procurement of DLC systems without considering capacity utilization of the DLC systems installed earlier and without assessing the actual requirement for such systems.

In these circles, 384 DLC systems were procured at a cost of Rs 197.08 crore during 2002-06. Out of these, 22 DLC systems valued at Rs 15.92 crore remained continuously idle in three circles, viz. Gujarat, Punjab, Uttar Pradesh (East) and Chennai Telephone District. From the remaining 362 DLC systems, the capacity utilisation of 132 DLC systems in six circles {Andhra Pradesh, Kerala, Maharashtra, Uttar Pradesh (East), Karnataka and Madhya Pradesh} and two districts (Chennai and Calcutta) remained less than 40 *per cent*. Thus idling/underutilization of 154 DLC systems (22 systems + 132 systems) resulted in injudicious expenditure of Rs 80.92 crore (Rs 15.92 crore + Rs 65.00 crore) as shown in ***Appendix - XIX.***

On this being pointed out by Audit, Kerala circle stated (January-February 2007) that the DLC systems did not come up to the expected levels due to poor battery backup system, poor maintenance support, etc. However, the fact remained that these DLC systems were still lying unutilized. The Punjab circle stated (September 2006) that DLC systems were installed particularly for providing ISDN and other special services, which were not available in E-10B exchanges. Further, that the demand for ISDN became negligible because of launching of Broadband services and diversion of these DLC systems was in progress. The Karnataka circle stated (March 2006) that underutilization of DLC systems was due to negative growth in landline telephone service and increase in CMTS. The Madhya Pradesh circle stated (February 2007) that efforts were being made to utilise these systems. The reply was not tenable, as these factors should have been

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[£] Andhra Pradesh, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab and Uttar Pradesh (East) foreseen before procurement of these systems. The replies from other circles were awaited (November 2007).

BSNL should have procured the DLC systems only after assessing the requirement, availability of other technologies and existing capacity utilisation.

3.1.4 Idling of overhead equipments and stores

DoT instructions, issued in April/July 2000, as adopted by BSNL, directed the circles not to procure overhead equipments for the landline telephone service as use of 5 pair cable was considered more economical than erecting a new alignment for giving new telephone connections.

Scrutiny of the records in six circles, viz. Andhra Pradesh, Gujarat, Punjab, Rajasthan, Tamil Nadu, UP (East) and the Chennai Telephone District showed that these circles procured overhead equipments and stores for the landline telephone service in violation of the above instructions. This coupled with the decrease in the number of landline telephone connections and availability of WLL and CMTS resulted in idling of overhead equipments and stores worth Rs 42.92 crore in these seven circles {Andhra Pradesh: Rs 0.30 crore; Gujarat: Rs 4.86 crore; Punjab: Rs 9.17 crore, Rajasthan : Rs 3.42 crore; UP (East): Rs 21.16 crore; Tamil Nadu : Rs 3.49 crore and the Chennai Telephone District: Rs 0.52 crore}.

On this being pointed out, the Chennai Telephone District stated (January 2007) that since these items were non-moving, their disposal as scrap was being contemplated. The Rajasthan circle while accepting the facts and figures stated (March 2007) that action was being taken to assess the requirement of the stores from the neighbouring circles. The Tamil Nadu circle stated (May 2006) that these materials could not be used due to decline in demand for landline telephone connections. The Uttar Pradesh (East) circle stated (January 2007) that these items were obsolete and unserviceable. Replies from the Andhra Pradesh, Gujarat and Punjab circles were still awaited (November 2007).

Thus, the failure of BSNL to take into account the declining trend in the subscriber base of landline telephone service and past consumption pattern resulted in excess procurement, idling and underutilization of stores for landline telephone service valued at Rs 794.32 crore.

3.2 Injudicious procurement of Trunk Automatic Exchange

The Andhra Pradesh Telecom Circle procured Trunk Automatic Exchange equipment during 2004-05 without considering the actual requirement, resulting in its idling and consequent unfruitful expenditure of Rs 7.96 crore.

The Corporate office of the Bharat Sanchar Nigam Limited fixed (June 2004) the norms for calculation of Trunk Automatic Exchange (TAX) capacity requirement based on the equipped capacity of fixed lines, Wireless in Local Loop (WLL), Intelligent Network Services, Internet traffic and requirements of the Cellular Operators. The norms further provided that based on the above parameters, the TAX capacity requirement would work out to 9.9 per cent of the equipped capacity of fixed and WLL lines and 7.8 per cent of equipped capacity of Cellular Mobile Telephone Services (CMTS).

The TAX equipment is procured by BSNL Corporate office and allotted to circles, based on the requirements projected by the concerned circles. The Andhra Pradesh (AP) Telecom Circle projected an additional TAX capacity requirement of 2.58 lakh circuits for the year 2004-05. This projection was much higher than the requirement and consequently the expanded TAX capacity could not be used as brought out below.

Audit scrutiny (April to October 2006) of the records of Secondary Switching Areas (SSAs) under the Andhra Pradesh Telecom Circle revealed that most of the SSAs had spare TAX capacity and the capacity utilisation in 17 out of 22 SSAs was below 80 per cent during 2005-06. The spare TAX capacity for the entire Circle increased from 60,169 circuits in 2003-04 to 91,936 circuits as of December 2006 as shown below.

Year	Equipped capacity of TAX (Circuits)	Utilisation of TAX (Circuits)	Spare capacity of TAX (Circuits)
2003-04	3,63,900	3,03,731	60,169
2004-05	4,14,560	3,34,998	79,562
2005-06	4,78,540	3,89,562	88,978
As of December 2006	5,00,700	4,08,764	91,936

Audit noticed that although there was a spare capacity of 60,169 circuits as of March 2004 the AP Telecom Circle procured 70,000 circuits (first procurement) of TAX in January 2004 for commissioning in 2004-05; the Circle again procured 43,000 TAX circuits (second procurement) in January 2005 although the requirement for 2004-05 was only 36,210 circuits (**Appendix - XX**) based on norms. This resulted in spare TAX capacity of 88,978 as of March 2006 as shown in the above table and hence the second procurement of 43000 circuits was unnecessary. Thus failure of the AP Telecom circle to assess the actual requirement and consider the available spare TAX capacity before procurement resulted in unfruitful expenditure of Rs 7.96 crore on procurement of 43,000 circuits during 2004-05.

On this being pointed out by Audit in eight* SSAs, five* General Managers Telecom District (GMsTD) replied that the expansion of TAX circuits was done as per the Circle office allotment and the same was justified if the proposal/plans for 2005-2006 were taken into account. The remaining GMsTD stated that in anticipation of heavy demand for CMTS and WLL connections and to provide points of interconnection to private operators, TAX expansions were planned.

The replies are not tenable as the actual number of working circuits was only 3.90 lakh as of March 2006 which could have been provided from the equipped capacity of 4.15 lakh circuits available since 2004-05, before commissioning of the additional TAX capacity of 43,000 circuits. Also the spare TAX capacity was unnecessarily increased from 60,169 circuits during 2003-04 to 91,936 circuits as of December 2006 indicating improper planning.

Thus injudicious procurement of TAX equipment by AP Telecom Circle without considering the actual requirement and available spare capacity resulted in unfruitful expenditure of Rs 7.96 crore.

3.3 Injudicious expansion of mass calling intelligent network

The Hyderabad Telecom District augmented its existing mass calling intelligent network without any requirement. This resulted in unfruitful expenditure of Rs 14.20 crore on its augmentation and upgradation.

Mass calling intelligent network (MCIN) system handles high call volumes for a wide range of applications such as mass media calling events, public opinion polling, surveys, information and contests with or without caller interaction with interactive voice response. Service providers benefit from being able to view results of a given event in real-time and on-demand.

The Bharat Sanchar Nigam Limited (BSNL) Corporate office procured one MCIN system from Alcatel at a cost of Rs 7.74 crore and commissioned (September 2004) it in Hyderabad. The call handling capacity of the system was four lakh busy hour call attempts (BHCA).

Audit noticed that based on the discussions with Sony and Zee Television the Corporate office decided to augment the MCIN by 12 lakh BHCA. The MCIN

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* Eluru, Khammam, Vizianagaram, Warangal, Guntur, Tirupathi, Ongole, Sangareddy.

* Eluru, Khammam, Vizianagaram, Warangal, Guntur.

system was augmented under phase II and III from four lakh BHCA to 12 lakh BHCA and commissioned in March 2005 at a cost of Rs 5.32 crore. Audit analysis of the traffic flow in MCIN during the period November 2004 to September 2006 revealed that the maximum average traffic handled per hour was 68839 in August 2005 as against the traffic handling capacity of four lakh BHCA before expansion (details may be seen in the **Appendix - XXI**). Hence the augmentation of the MCIN system from four lakh BHCA to 12 lakh BHCA was not justified. Further, the traffic in MCIN reflected a continuous decline from a peak of 4.95 crore in August 2005 to 94 lakh in March 2007 while the total traffic came down from 30.86 crore during 2005-06 to 6.70 crore in 2006-07. Inspite of continuous decline in traffic the MCIN was further upgraded and the capacity raised to 72 lakh BHCA in August 2007 at a cost of Rs 8.88 crore.

On this being pointed out by audit, the Ministry of Communications and Information Technology stated (July 2007) that the MCIN capacity crossed 12 lakh BHCA in February 2005 during Indian Idol show on Sony channel and therefore, it became necessary to further augment MCIN even beyond 12 lakh BHCA. It was stated further that most people call immediately after the programme was over and the traffic could not be averaged out over an hour(s). Therefore, the MCIN platform was designed to cater to the peak demand and not as per the average traffic per day/hour/month. The reply is not convincing as the management failed to forecast the growth in MCIN traffic over a period of time and instead relied on projections of a few short and specific telecasts and thereby restricted itself to achieving 12 lakh BHCA of peak demand on a few days in a year rather than taking into account the overall growth in televoting traffic. The total televotes registered in MCIN during 2005-06 and 2006-07 was 30.86 crore and 6.70 crore, respectively and the capacity utilisation of MCIN went down by 78 per cent in one year.

Thus injudicious augmentation of MCIN system from four lakh BHCA to 12 lakh BHCA and subsequent upgradation to 72 lakh BHCA without justification and rationale resulted in unfruitful expenditure of Rs 14.20 crore.

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

Lack of proper planning and coordination led to non-commissioning of 20 OFC routes in Bihar and Uttranchal telecom circles resulting in blocking of funds of Rs 3.83 crore.

In order to provide optical fibre connectivity to various synchronous digital hierarchy (SDH) ring networks and to Wireless in Local Loop (WLL) Base stations, high-density polyethylene pipes and optical fibre cables (OFC) were laid (April 2002 to October 2005) along 20 routes in three Secondary Switching Areas (SSAs) under Bihar and Uttranchal telecom circles. These OFC routes could not be commissioned even after one to four years of their completion resulting in idle investment of Rs 3.83 crore as brought out below.

Bihar telecom circle

Audit scrutiny (November 2006) of the records of Muzaffarpur and Saharsa SSAs revealed that 16 OFC routes were completed during 2002-04 at a cost of Rs 2.19 crore but were not commissioned till November 2006. Audit noticed that in Muzaffarpur SSA, 10 OFC routes could not be commissioned due to non-receipt of SDH equipment from the circle office. This was due to delay by the SSA in placing the necessary requisition with the circle office for procurement and supply of equipment. In Saharsa SSA also six routes were completed but could not be commissioned as of January 2007 due to non receipt of SDH equipment as no requisition had been placed by the SSA on the circle office for supply of SDH equipment. On this being pointed out by Audit, the SSAs while accepting the facts stated that the routes would be commissioned on receipt of the equipment.

Uttranchal telecom circle

Audit scrutiny (August 2006) of the records of New Tehri SSA under the Uttranchal telecom circle revealed that four routes completed during 2002-05 at a cost of Rs 1.64 crore could not be commissioned as of January 2007. The local management stated that the delay in commissioning of OFC routes was due to non availability of WLL systems.

Thus, lack of proper planning and coordination among SSAs and the circle offices concerned resulted in non-commissioning of 20 OFC routes over a period of one to four years in Bihar and Uttranchal telecom circles. This resulted in blocking of funds of Rs 3.83 crore.

The matter was referred to the Ministry in February 2007; its reply was awaited (November 2007).

3.5 Wasteful expenditure on printing of telephone directories

Failure of the Chief General Manager, Calcutta Telephones District to issue telephone directories to the intended users resulted in wasteful expenditure of Rs 1.88 crore and financial liability of Rs 3.41 crore.

The Chief General Manager (CGM), Calcutta Telephones District (CTD), proposed (August 2003) to the Corporate office of Bharat Sanchar Nigam Limited (BSNL) for annual printing of reduced number of telephone directories of 25,000 to 30,000 copies meant for customer service centres, hospitals and for sale at cost basis as directories were rarely used by customers. Though no decision was received from the Corporate office, CGM, CTD, floated (September 2003) tenders for printing of 50,000 telephone directories and distribution thereof to specified locations for five consecutive years – 2003 to 2007. CGM, CTD finalized (August 2004) the tender for a period of five years at an estimated cost of Rs 6 crore.

Audit scrutiny (November 2006) of the records of the Directory Officer CTD revealed that out of 50,000 directories each printed for 2003 and 2004, only 4,941 and 17,373 directories, respectively were issued. The balance directories printed at a cost of Rs 1.60 crore were lying in stock in area stores.

The firm supplied (between August to September 2006) 13,000 directories of 2005 issue. Due to paucity of storage space, most of the area stores refused to accept the directories and in September 2006, it was decided to scrap and sell the unsold old issues of telephone directories lying in the area stores to accommodate the 2005 issue. In December 2006 the Divisional Engineer instructed the firm to deliver the balance 37,000 directories of 2005, which were eventually supplied in January 2007. Test check of distribution of directories of 2005 in four exchanges revealed that less than three *per cent* of the directories were issued, as of November 2007 and the possibility of distribution of balance directories was remote as they were outdated. Out of a total claim of Rs 1.13 crore, Rs 28 lakh was paid to the printing firm for the 2005 directories leaving a committed liability of Rs 86 lakh, with CGM,CTD.

Thus the failure of CGM, CTD to reduce the number as proposed and distribute telephone directories (2003, 2004 and 2005) to intended subscribers resulted in wasteful expenditure of Rs 1.88 crore (Rs 1.60 crore for 2003 and 2004 and Rs 0.28 crore for 2005) and additional liability of Rs 86 lakh for the 2005 issue. In addition, CGM, CTD had the contractual liability of Rs 2.55 crore for the supply of 50,000 directories, each for 2006 and 2007.

On this being pointed out by Audit, the Divisional Engineer, CTD replied (December 2006) that the directories were allotted and distributed to the customer care centres who were actually distributing them to the intended subscribers with wide publicity.

The reply is not tenable as only 10, 35 and 3 *per cent* (test check in four exchanges) of the directories of 2003, 2004 and 2005 respectively were actually distributed and had since become outdated. Thus the failure of CGM, CTD to distribute telephone directories to the subscribers resulted in wasteful expenditure of Rs 1.88 crore and financial liability of Rs 3.41 crore.

The matter was referred to the Ministry in February 2007; its reply was awaited (November 2007).

3.6 Injudicious procurement of higher capacity optical fibre cables

BSNL Corporate office allotted excess higher capacity 96F OFC instead of 48F OFC for overlay access network in three places under the Tamil Nadu Telecom Circle. This resulted in infructuous expenditure of Rs 89.87 lakh towards the cost difference of higher capacity cables besides blocking of capital of Rs 2.57 crore due to non utilisation of the excess cables.

The Bharat Sanchar Nigam Limited (BSNL) Board in January 2001 decided to introduce optical fibre cable (OFC) in access network commonly known as the overlay access network (OAN). The OAN aims at creating optical fibre infrastructure for supporting all the network elements (RSU[•], RLU[°], DLC[♦], GSM[*], WLL[♣], Leased lines) and the customers.

The Chief General Manager, Southern Telecom Projects, Chennai sanctioned (July/August 2002) three project estimates for implementation of 238.5 km of OF access network in Coimbatore, Kurichi and Tiruppur areas under the Tamil Nadu Telecom Circle. The objective of the project was to create assets for supporting and meeting demands of the network for the next 10 years. Based on these parameters the project estimates provided for 48Fibre (F) OF cables. In April 2003, detailed estimates for the above works were prepared by the Divisional Engineer (DE), Access Network, Coimbatore projecting a requirement of 215 km of 48F OF cable.

Audit scrutiny (December 2006) of the records of DE, Access Network, Coimbatore revealed that against the requirement of 215 kms of 48F OFC, the DE had received 450 km of 96F OFC from Sterlite Telecables Limited between August and October 2003 through centralised allotment by BSNL Corporate office. Further, as the OF cables were against central allotments these could not be returned. The work relating to access network in Coimbatore and Kurichi commenced in April 2003 and at Tiruppur in January 2005 and by December 2006, 216 Kms of higher capacity 96F OFC were laid against the requirement of 48F OFC. This resulted in infructuous expenditure of Rs 89.87 lakh being the price differential between 48F and 96F OFC for 216 km.

Audit further noticed that out of the 450 km of 96F OFC received in October 2003, only 243 km could be used and the balance of 207 km remained idle. Ultimately as the balance cables could not be used by the Southern Telecom Projects the same were diverted to Ernakulam, Delhi and other units by October

[•] Remote switching unit

[°] Remote line unit

[♦] Digital loop carrier

[*] Global system for mobile communication

[♣] Wireless-in-local loop

2006. Thus allotment of excess quantity of higher capacity 96F OFC over the actual requirement resulted in idling of 207 km of 96F OF cables and consequent blocking of capital of Rs 2.57 crore.

On this being pointed out by Audit, the Deputy General Manager, Transmission Projects, Salem stated (August 2006) that the allotments were made by the Corporate office and hence his unit was not in a position to refuse or reject the extra cable allotted. Audit examination of the records of BSNL Corporate office revealed that although the procurement of OF cable was finalised, based on the requirement received from the field units, in the case of Southern Telecom Project, allotment was made without any demand from them.

Thus lack of coordination between the Corporate office and its units resulted in injudicious procurement of excess quantity of higher capacity OFC and consequent infructuous expenditure of Rs 89.87 lakh towards cost differential besides blocking of capital of Rs 2.57 crore due to surplus inventory.

The matter was referred to the Ministry in April 2007; its reply was awaited (November 2007).

(B) Avoidable expenditure/payment

3.7 Non-availing of Cenvat credit

Failure of BSNL to review and file service tax return at circle level or through centralized nodal offices, resulted in non-availing of Cenvat credit to the full extent and consequent excess cash outflow of Rs 401 crore on account of service tax.

The Cenvat Credit Rules introduced in September 2004, allowed a manufacturer or provider of a taxable service, to take credit of duty/service tax paid on specified input capital goods and input services used in or in relation to the manufacture of specified final products or output services. The Cenvat credit so available could be utilized for payment of any duty of excise on any product or service tax on output services. The Cenvat Credit Rules also stipulate that a provider of output services not maintaining separate accounts could utilise Cenvat credit only to the extent of 20 per cent of the service tax payable on taxable output service. The Commissioner of Central Excise and Customs, Calicut in an order (August 2006) clarified that the Cenvat credit availed in respect of capital goods had to be excluded while determining the limit of 20 per cent of service tax payable.

The BSNL Corporate office (Company) paid service tax of Rs 3,173 crore and Rs 3,991 crore for the years 2005-06 and 2006-07 respectively on output services. However the company failed to avail Cenvat credit to the extent of Rs 401 crore for the years 2005-07 resulting in excess payment of service tax on output services. As the 20 per cent amount of service tax payable on output services itself was adequate to avail the Cenvat credit due on account of service tax and excise duty paid on input services and capital goods, cash payment of service tax of Rs 192 crore and Rs 209 crore for the years 2005-06 and 2006-07 as shown in the table below could have been avoided.

Rs in crore

Year	**Service tax paid on output services**	**20 per cent of Col 2**	**Cenvat credit due**	**Cenvat credit availed**	**Excess cash payment of Service tax (Col 4-5)**
1	**2**	**3**	**4**	**5**	**6**
2005-06	3,173	635	479	287	192
2006-07	3,991	798	294	85	209
Total					**401**

In order to ascertain the reasons for excess cash payment of service tax, Audit test checked (May 2007) the records of Gujarat, Rajasthan and Punjab circles of the Company for the year 2006-07 and found that the limit of 20 per cent of service tax payable was being imposed on Cenvat credits relating to capital goods, contrary to the rules and hence some of the SSAs (Secondary Switching Areas) wherein revenue generation was low, could not avail the Cenvat credit to the full extent. This could have been avoided if a single return had been filed at the circle level or through centralised nodal offices.

On this being pointed out by Audit, the Ministry stated (August 2007) that registration at circle level was not possible as the Service Tax Rules did not permit the same; and that the correct picture of non-availing of Cenvat credit could be had only if the figures were compiled SSA wise. Also, that the Cenvat credit rules provide for availing only fifty per cent of the duty paid on capital goods in the same financial year unless the capital goods are cleared as such in the same financial year. The capital goods utilised in BSNL were such that the company could avail only fifty per cent of excise duty paid on capital goods in the financial year as Cenvat credit.

The reply is not tenable for the reasons that: BSNL itself is filing a single return at circle level in respect of cellular services; BSNL has formed revenue earning units as nodal offices for claiming Cenvat credit and many non-revenue earning units have been attached to the nodal offices for claiming Cenvat credit. Hence it is possible to claim Cenvat credit through centralised nodal offices which are not debarred under the Cenvat credit rules 2004; the figures relating to non-availing of Cenvat credit have been compiled circle-wise for the company as a whole and reflect the position of all the SSAs; and the non-availing of Cenvat credit or excess out flow of cash of Rs 401 crore represents the Cenvat credit actually due which could have been availed by the company during the respective financial years.

Thus failure of the Corporate office to review the position and file service tax return at circle level or through centralised nodal offices and to get the 20 per cent restriction on Cenvat credit relating to capital goods removed, resulted in non-availing of Cenvat credit to the full extent and consequent excess cash payment of service tax of Rs 401 crore.

3.8 Extra expenditure due to non-availing of Bill Mail Service

Fifty eight Secondary Switching Areas under 11 circles failed to avail the cheaper Bill Mail Service provided by the Department of Post for dispatch of telephone bills to its customers. This resulted in extra expenditure of Rs 15.06 crore.

The 'user pay principle' was implemented between the Department of Post (DoP) and Bharat Sanchar Nigam Limited (BSNL) from October 2001. Accordingly, the posting of the telephone bills would be treated as Book Post and BSNL had to pay the tariff applicable to general public. The tariff for each book packet was Rs 4 upto 50 grams and Rs 3 for every additional 50 grams or part thereof in excess of 50 grams with effect from June 2002.

In September 2003 DoP introduced a new product called Bill Mail Service (BMS) which provided for communication of bills, monthly account bills or other such items of similar nature posted by a service provider to a customer at least once in 90 days. The tariff was Rs 3 per article upto 20 grams and Rs 1.60 for every additional 20 grams or part thereof in excess of 20 grams. BSNL was eligible to post telephone bills under BMS as it satisfied the conditions stipulated by DoP.

Audit reviewed (May 2005- July 2007) the records of 58 SSAs under 11 circles and found that 47 Secondary Switching Areas (SSAs) used the Book Packet Services, 10 SSAs used Business Post, two SSAs used the Book Now and Pay Later Services and one SSA used Speed Post services of DoP for dispatch of telephone bills to their customers. In Moradabad SSA under the Uttar Pradesh (UP), West circle, Audit noticed that a private contractor was engaged for the delivery of mobile telephone bills at Rs 6.45 per bill. In Raipur SSA under the Chattisgarh circle the mobile telephone bills were dispatched through Speed Post at a cost of Rs 20 per bill. Audit noticed that while there was no uniformity in dispatch of telephone bills by the SSAs, all these services were also costlier than the Bill Mail Service introduced by DoP. Between May 2005 and December 2006, it was pointed out by Audit that cheaper BMS was available to these SSAs but they failed to switch over. Further, the BSNL Corporate office also failed to instruct the SSAs to use the cheaper BMS service offered by the DoP. It was only in January 2007 that the Company after entering into an agreement with DoP, issued instructions to all its field units to switch over to BMS. Thus failure of the BSNL corporate office and its field units to take advantage of the cheaper BMS for the dispatch of telephone bills resulted in extra expenditure of Rs 15.06 crore during the period October 2003 to July 2007 (**Appendix-XXII**).

On this being pointed out by Audit, the management stated (September 2007) that after the introduction of BMS in September 2003, the matter was persistently pursued with DoP to accept phone bills for delivery under the BMS, but the same could be implemented only after signing of a fresh agreement in December 2006. It was further stated that the DoP did not extend BMS to BSNL since 'user pay principle' agreement was in vogue till a new MoU was signed in December 2006. The reply is not convincing as BSNL fulfilled all the conditions for availing BMS and hence could not be debarred from availing the same since its inception in September 2003. Also the 'user pay principle' agreement did not restrain BSNL from availing any new services provided by the DoP. Further some SSAs were already availing business post, book now and pay later, Speed Post, etc. services of DoP for dispatch of telephone bills and hence BSNL could have availed the BMS also.

Thus failure of BSNL to insist on the uniform implementation of BMS from September 2003 resulted in extra expenditure of Rs 15.06 crore on dispatch of telephone bills at higher rates during the period from October 2003 to July 2007.

3.9 Excess payment of universal service levy and income tax

Space segment charges of Rs 83.76 crore collected on behalf of Department of Space was wrongly credited to income head by Bharat Sanchar Nigam Limited. This resulted in extra payment of universal service levy and income tax to the extent of Rs 9.39 crore.

The Chief General Manager (CGM), Northern Telecom Region (NTR) functioned as billing and collection authority for transponder space segment charges, on behalf of the Department of Space (DoS) upto March 2004. During this period, Rs 83.76 crore was collected for the years 2001-02 to 2003-04 as space segment charges from V-Sat service providers by CGM, NTR on behalf of DoS.

Audit scrutiny (August 2006) of the records of CGM, NTR revealed that the space segment charges collected on behalf of DoS were credited to 'income' head instead of 'liabilities' head in the books of accounts of BSNL. This resulted in excess booking of income to the extent of Rs 83.76 crore. Consequently, BSNL had to pay extra universal service levy to the Department of Telecommunication (DoT) and income tax to the extent of Rs 3.08 crore and Rs 6.31 crore respectively, on the excess booked income as shown below.

(Rs in crore)

Year	Income wrongly booked	Universal service levy paid	Net income	Amount of income tax paid	Excess payment (Col 3+5)
1	2	3	4	5	6
2001-02	22.17	Nil	22.17	1.75	1.75
2002-03	35.95	1.80	34.15	2.69	4.49
2003-04	25.64	1.28	24.36	1.87	3.15
Total	83.76	3.08	80.68	6.31	9.39

Audit further noticed that out of Rs. 83.76 crore collected by NTR, a sum of Rs 79.67 crore was finally refunded to DoS in April 2005 after adjusting recoveries of Rs 4.09 crore.

On this being pointed out by Audit, the Management stated (May 2007) that whatever extra Corporate tax was paid during 2001-02 to 2003-04 on account of inclusion of space segment charges of Rs 83.76 crore collected from various users of transponders as income of BSNL was neutralized in 2005-06, as the payment made to DoS against the income booked earlier had been taken care of while calculating the book profit for the financial year 2005-06 as well as calculation of MAT• for the said financial year. It was further stated that the DoT had been requested to refund the excess universal service levy of Rs 3.08 crore.

The management reply indicates the need for better financial accounting and control as the wrong booking of space segment charges of Rs 83.76 crore since 2001-02 continued for three years till 2003-04 and corrective measures were taken only in the assessment year 2006-07 after lapse of more than three years.

Thus excess booking of income resulted in excess payment of universal service levy and income tax of Rs 9.39 crore. The excess payment of universal service levy amounting to Rs 3.08 crore to DoT was yet to be recovered.

The matter was referred to the Ministry in April 2007; its reply was awaited (November 2007).

• Minimum Alternate Tax

3.10 Irregular extra expenditure on hiring of personnel

Principal General Manager, Bangalore Telecom District under the Karnataka Telecom Circle hired personnel for upkeep services in excess of sanctioned strength resulting in irregular extra expenditure of Rs 8.18 crore.

Bharat Sanchar Nigam Limited followed the staffing norms in respect of Group 'D' employees framed by DoT. Based on these norms, the Karnataka Telecom Circle accorded sanction for 1,058 Group 'D' posts for the years 2003-04 and 2004-05 in Bangalore Telecom District (BGTD), which was reduced to 748 for the years 2005-06 and 2006-07.

Audit scrutiny (September 2006) of the records of the Principal General Manager, BGTD revealed that private personnel were hired for upkeep services during 2003-04 to 2006-07, in excess of the sanctioned strength. The sanctioned strength of Group 'D', men in position and personnel hired by BGTD was as below.

Year	Sanctioned strength	Men in position	Personnel hired	Total men in position (Col 3+4)	Excess personnel hired (Col 5-2)
1	2	3	4	5	6
2003-04	1058	974	889	1863	805
2004-05	1058	955	826	1781	723
2005-06	748	688	826	1514	766
2006-07	748	659	826	1485	737

It can be seen from the above table that personnel hired together with the men in position were far in excess of the sanctioned strength of the BGTD. Infact the number of hired personnel remained almost constant irrespective of the sanctioned strength and men-in-position during the four years up to 2006-07. This resulted in irregular extra expenditure of Rs 8.18 crore on hiring excess personnel for upkeep services (**Appendix - XXIII**).

On this being pointed out by Audit, the local management stated (March 2007) that the justification of posts for the years 2003-06 exceeded the sanctioned strength of Group 'D' and they were thus forced to engage personnel for upkeep services. The reply is not acceptable as the personnel hired were in excess of sanctioned strength even after the sanctioned strength was reduced by the Circle office from 1058 to 748 and also, reduction in the number of upkeep units of BGTD.

Thus hiring of personnel for upkeep purposes by BGTD far in excess of the sanctioned strength resulted in irregular extra expenditure of Rs 8.18 crore during the years 2003-2007.

The matter was referred to the Ministry in March 2007; its reply was awaited (October 2007).

3.11 Avoidable payment of higher electricity charges

Six Secondary Switching Areas under the Kerala Telecom circle continued with Low Tension electricity connections without converting to cheaper High Tension electricity connections resulting in payment of higher electricity charges of Rs 3.78 crore during 2003-07.

The Kerala State Electricity Board (KSEB) notification of October 2002 provided for supply of High Tension (HT) and Low Tension (LT) commercial connections to offices and telephone exchanges of the Bharat Sanchar Nigam Limited. Rules of the KSEB allowed for HT connection if the contract demand for electricity was 50 KVA or more but less than 100 KVA required the specific orders of the Board. The electricity tariff of HT connections was lower than that of LT connections[♦]. Further, the Chief General Manager, Kerala Telecom circle while reviewing the energy conservation measures in 2002 had directed the SSAs to convert LT connections to HT wherever the load was more than 50 KVA.

Audit scrutiny (September/October 2006) of six Secondary Switching Areas[•] (SSAs) under the Kerala Telecom Circle revealed that in 14 telephone exchanges though the contract demand was more than 50 KVA, LT connections were continued. Audit noticed that due to delay in applying for conversion to HT and payment of requisite deposit, the SSAs could not get the LT connections converted to HT connections in these exchanges even after three to four years of the directions issued by the CGM, Kerala Telecom circle. Further in a few cases where the contract demand was below 100 KVA the Chief Engineer (Electrical), BSNL, Trivandrum belatedly directed (May 2007) the SSAs to take up the cases where the contract load was below 100 KVA with Electricity Board for conversion of LT to HT connection This resulted in non conversion of LT to HT connection and consequent payment of higher electricity charges of Rs 3.78 crore during the period from April 2003 to September 2006 (**Appendix - XXIV**).

On this being pointed out by Audit, the Ministry while accepting stated (September 2007) that out of 14, in nine exchanges HT conversion was in progress and in five exchanges the power allocation had been received.

[♦] Energy charges for HT and LT are Rs 3.20 and Rs 8.25 per unit respectively.

[•] Ernakulam, Kottayam, Malappuram, Calicut, Palakkad, Trichur.

Thus failure of the SSAs concerned to convert the LT connections to more economical HT connections resulted in payment of higher electricity charges of Rs 3.78 crore during 2003-07.

3.12 Avoidable extra expenditure on procurement of jointing kits

The Chief General Manager, Telecommunications, Kerala circle procured TSF 1 jointing kits without ensuring the reasonableness of rates. This resulted in excess expenditure of Rs 1.29 crore.

Bharat Sanchar Nigam Limited (BSNL) while issuing (June 2001) guidelines on decentralized procurement of stores emphasized that procurement should be done at reasonable rates. The heads of circles were expected to assess the reasonableness of the rates obtained in the tenders by comparing them with the rates of previous procurements in various circles and the current market rates.

Chief General Manager, Telecommunications (CGMT), Kerala circle invited (September 2005) tenders for procurement of 1.29 lakh Thermo Shrink Filled (TSF) 1 jointing kits to meet the requirement of the circle for 2005-06. The tender was opened in October 2005 and the 10 bidders participating in the tender quoted exactly the same rate of Rs 323 per TSF 1 jointing kit, thereby indicating formation of cartel. On the recommendation of the Price Negotiation Committee, CGMT Kerala circle made (December 2005) a counter offer of Rs 238 for TSF 1 jointing kit based on the rates finalised by Chief General Manager Telecom Store (CGMTS), Kolkata. The rate of Rs 238 per TSF 1 jointing kit was accepted by the tenderers and CGMT Kerala circle procured during February to October 2006 a total of 1.66 lakh TSF 1 jointing kits at a cost of Rs 3.95 crore.

Audit scrutiny (February 2007) revealed that the Price Negotiation Committee while recommended a counter offer of Rs 238 per unit based on rates finalized by CGMTS Kolkata, had ignored the lower rate of Rs 160 per unit finalised by CGMT, Tamil Nadu circle in October 2005. This resulted in avoidable extra expenditure of Rs 1.29 crore on procurement of jointing kits. Audit also noticed that no action was initiated against the firms suspected of having formed a cartel.

On this being pointed out, Deputy General Manager (Planning) Kerala circle stated that there were no clear guidelines to be adopted in case of cartel formation and added that re-tendering would have delayed developmental activities.

The reply is not acceptable since CGMT, Kerala circle should have counter offered the rates finalised by CGMT, Tamil Nadu circle. The rates obtained by other circles were a good indicator of prevailing market trends. Audit also noticed that the rate finalised for the subsequent tender in Kerala circle itself was Rs 167 per unit (March 2007).

Thus the failure of CGMT Kerala circle to examine the reasonableness of the rates obtained in the tenders led to avoidable extra expenditure of Rs 1.29 crore to the Company.

The matter was referred to the Ministry in May 2007; its reply was awaited (October 2007).

(C) Avoidable expenditure/payment

3.13 Loss due to undue favour to a franchisee

Bharat Sanchar Nigam Limited paid higher rate of commission to a franchisee for sale of ITC cards resulting in undue favour to the franchisee and consequent loss of Rs 5.33 crore during November 2005 to September 2006.

Bharat Sanchar Nigam Limited (BSNL) introduced New Franchisee policy with effect from July 2004 to augment the distribution channels and to sell services as provided by the company. Under this scheme agents/franchisee could purchase India Telephone Cards (ITC) (used for making telephone calls) of Rs 100, Rs 200 and Rs 500 denominations from BSNL Telecom circles/Metro districts and were offered a maximum commission of 12 per cent of the value of ITC.

In September 2005, BSNL Corporate office entered into an agreement with Cirilium India Limited (Cirilium) a franchisee, for sale and marketing of ITC in Chennai only on trial basis for a period of six months. During this period Cirilium was provided with electronically generated PIN* by BSNL which could be printed, marketed and sold as ITC.

Audit scrutiny (April 2006/February 2007) of the records of the General Manager (Marketing), Chennai Telephones disclosed that

- Cirilium was paid commission at the rate of 20 per cent of the value of the ITC whereas other franchisees engaged by BSNL Telecom circles/Metro districts including Chennai Telephones under the New Franchisee policy were being paid at a maximum rate of 12 per cent.
- Appointment of Cirilium was in violation of BSNL's own policy adopted under the New Franchisee policy 2004 which inter alia stipulated that new franchisees could be appointed only through competitive bidding.
- The other franchisees and Cirilium rendered similar services except that Cirilium had to print the ITC itself from the PIN's provided by BSNL. However the cost of printing ITC was only Rs 1.44 per unit and hence there was no justification for paying 20 per cent commission. Thus payment of

* Personal identification numbers

higher commission and without competitive bidding resulted in undue favour to Cirilium India Limited and consequent loss of Rs 5.33 crore* during the period from November 2005 to September 2006 as shown in **Appendix - XXV.**

- Kerala Circle in December 2005 alerted Chennai Telephones and the BSNL Corporate office that Cirilium was selling ITC to franchisees in Kerala Circle at a commission of 14 per cent as against 12 per cent being offered by Kerala Circle and hence their sales had gone down. Andhra Pradesh, Tamil Nadu and Kolkata circles also made similar complaints against Cirilium India Limited. In spite of this, the BSNL Corporate office and the Chennai Telephones did not take any action against Cirilium India Limited although the terms and conditions of the agreement provided for sale of ITC in the geographical territory of Chennai only.

On this being pointed out by Audit, the General Manager (Business Development), Chennai Telephones stated (June 2006) that the higher commission was paid to Cirilium India Limited in order to fetch more revenue to the company by increased marketing and sales; and that the cards once sold could have moved out of Chennai. The reply is not convincing as Andhra Pradesh, Kerala, Kolkata and Tamil Nadu circles had also complained that Cirilium was selling ITC in their areas. Hence, the increase in sales by Cirilium was due to reasons other than increased marketing efforts in Chennai. The Corporate office reduced the commission from 20 to 16.5 per cent from October 2006 and the agreement with Cirilium was terminated from January 2007 as it was not perceived to be in the best interests of the Company.

Thus appointment of Cirilium without competitive bidding in violation of BSNL's own franchisee policy; failure on part of the BSNL Corporate office and the Chennai Telephones to take timely action against Cirilium India Limited for violating the conditions of the agreement; and Corporate office's decision in allowing two different commission rates in the same geographical area resulted in undue favour to Cirilium India Limited besides loss of Rs 5.33 crore to BSNL.

The matter was referred to the Ministry in April 2007; its reply was awaited (November 2007).

* After deducting the cost of printing of ITC by Cirilium

3.14 Loss due to non-availing of CENVAT credit

The Western Telecom Projects, Mumbai failed to reckon CENVAT credit while finalizing the tender for procurement of PLB pipes resulting in non-availing of CENVAT credit and consequent loss of Rs 1.36 crore.

The CENVAT Credit Rules, 2004 were introduced with effect from 10 September 2004. The CENVAT scheme was principally based on a system of granting credit of duty paid on input goods and services by a manufacturer or service provider. The Bharat Sanchar Nigam Limited (BSNL) as a service provider could avail CENVAT credit of the excise duty and education cess paid on inputs as per the CENVAT Credit Rules.

The Western Telecom Projects (WTP), Mumbai invited (May 2005) tender for procurement of 14,000 kms of permanently lubricated (PLB) pipes along with accessories. The financial bids were opened in August 2005 and Kulja Industries who quoted Rs 40.97 crore (with Nil excise duty and education cess) was ranked as L-1 bidder and accordingly awarded the purchase order.

Audit scrutiny (September 2006) of the tender evaluation committee's (TEC) report revealed that the TEC did not consider the CENVAT credit (reimbursable excise duty and education cess thereon) while evaluating the tender and ranked the bidders based on the composite package price. Audit worked out the impact of CENVAT credit (i.e., reimbursement of excise duty and education cess available thereon) and consequently found out that CENVAT credit of Rs 5.49 crore was available for Jain Irrigation systems whose package price was Rs 42.12 crore. The cost to the BSNL after considering CENVAT credit comes out to be Rs 36.53 crore. However, the TEC ranked Kulja industries as L-1 based on composite package price.

Later, the price negotiation committee based on the L-1 ranking of Kulja industries invited the vendor for negotiations and after slight reduction in the prices of different items finalized the prices. Purchase orders were placed on Kulja industries between October 2005 and January 2006 for procurement of 4,837 Kms of PLB pipes and accessories at a total cost of Rs 13.48 crore. Audit found that the price of 4,837 Kms of PLB pipes and accessories based on the prices quoted by Jain irrigation system after considering the CENVAT credit would have come to Rs 12.12 crore (**Appendix XXVI (a) and (b)**). Thus failure of the WTP, Mumbai to consider the CENVAT credit while finalizing the tender resulted in loss of Rs 1.36 crore on procurement of 4,837 Kms of PLB pipe and accessories.

On this being pointed out the Assistant General Manager (Material Management), WTP, Mumbai stated (October 2006) that the terms and conditions of the procurement manual were being followed and that the evaluation of prices was being done on the composite price of the materials as per the directions of the

Corporate office. It was further stated that the Corporate office had instructed them to follow the existing policy till the same was amended. The reply was not acceptable as failure to avail the benefit under the CENVAT credit rules was not in the best interest of the company.

Thus failure of the WTP, Mumbai to consider the CENVAT credit while finalizing the tender and delay by BSNL Corporate office to come out with comprehensive instructions for availing CENVAT credit resulted in loss of Rs 1.36 crore.

The matter was referred to the Ministry in March 2007; its reply was awaited (November 2007).

3.15 Loss of interest on payment of additional corporate tax

Five Secondary Switching Areas under the Andhra Pradesh telecom circle failed to capitalize the completed projects/works in the year of their completion. This resulted in non-availing of depreciation benefits and consequently paid additional corporate tax of Rs 2.61 crore and loss of interest of Rs 51.37 lakh thereon.

Income Tax (IT) Act, 1961 provides for depreciation at prescribed rates on the opening written down value of the block of assets plus the additions to the block less the sale proceeds and scrap value from the block. The depreciation so calculated is allowed as deduction from the business profits at prescribed rates while determining the tax liability.

Accounting policy followed by Bharat Sanchar Nigam Limited (BSNL) provide for capitalization of assets to the extent of completion certificates issued by the concerned project execution authority. Depreciation on such capitalized assets is provided in accordance with the rates prescribed in the Companies Act.

Audit scrutiny (December 2006/April 2007) of records of seven• General Managers Telecom Districts (GMsTDs) revealed that in five• GMsTDs the projects/works executed and completed during 2000 to 2005 at a cost of Rs 123.48 crore were capitalized only in 2004-05 and 2005-06 due to delay in issue of completion certificates. Consequently, the company could not avail tax advantage on depreciation and had to pay additional corporate tax of Rs 2.61 crore during the years 2000-2005 besides loss of interest of Rs 51.37 lakh on additional corporate tax paid.

On this being pointed out by Audit, the GMsTDs Visakhapatnam, Cuddapah and Mahabubnagar SSAs while accepting the delay stated that it was due to delayed receipt in completion certificates from the project execution authorities. The Principal General Manager, Hyderabad Telecom District stated that the estimates

• Hyderabad, Visakhapatnam, Cuddapah, Mahabubnagar,Karim Nagar, Vijayawada and Cellone.

• Hyderabad, Visakhapatnam, Cuddapah, Mahabubnagar and Cellone were pending without capitalization for want of completion certificates. The GMTD, Cellone, Hyderabad stated that due to delays in receipt of information from other units such as civil wing, electrical wing and project wing, capitalization of assets was delayed. Further all the GMsTDs stated that capitalization of assets would be done in the year of completion itself in future to avail the benefit of depreciation.

Thus failure of the SSAs to capitalize the completed projects/works in the year of their completion resulted in non-availing of deduction of depreciation on such completed works from the profits of the company. This resulted in payment of additional corporate tax of Rs 2.61 crore and loss of interest of Rs 51.37 lakh thereon.

The matter was referred to the Ministry in April 2007; its reply was awaited (November 2007).

MAHANAGAR TELEPHONE NIGAM LIMITED

CHAPTER IV
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

4.1 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, through its network, provides basic telephone services including various value added services such as Integrated Service Digital Network (ISDN), Voice Mail, Internet Telephony, Wireless in Local Loop (WLL) and Cellular Mobile Services, etc. in Delhi and Mumbai.

4.2 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 are headed by Executive Directors.

4.3 Investment and Returns

Against the authorised equity share capital of Rs 800 crore, the paid-up capital as on 31 March 2007, 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 from 2002-03 to 2004-05, which came down to 40 *per cent* for the years 2005-06 and 2006-07 as can be seen from the table at sub-paragraph 1.4.2.

4.4 Physical and Financial Performance

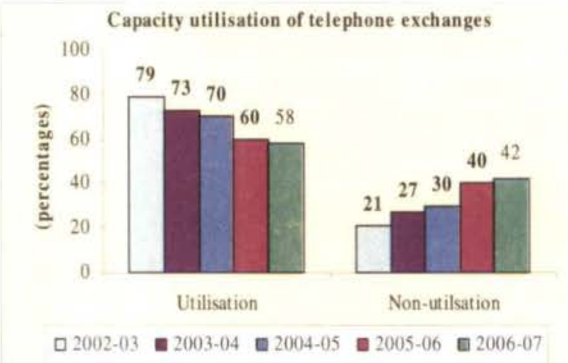
4.4.1 Physical performance

The physical performance of the Company as at the end of each of the five years ending 31 March 2007 was as under:

Telephone Network	As on 31 March 2003	As on 31 March 2004	As on 31 March 2005	As on 31 March 2006	As on 31 March 2007
No. of telephone exchanges	493	514	526	529	538
Total equipped capacity of direct exchange lines (DELs) including WLL (in lakh)	59.03	61.03	61.46	66.87	67.52
No. of telephone connections (DELs) including WLL (in lakh)	46.87 *(79%)	44.74 (73%)	42.72 (70%)	39.83 (60%)	39.20 (58%)
No. of persons on the waiting list (in lakh)	NIL	NIL	NIL	NIL	NIL
No. of cellular mobile telephone connections (in lakh)	2.92	3.60	8.82	19.41	27.47
No. of public telephones, both local and STD (in lakh)	2.04	2.40	2.79	2.79	2.60

* figures in brackets indicate percentage of capacity utilization

A review of the same revealed the following:



- The overall capacity utilisation of telephone exchanges went down from 79 *per cent* in 2002-03 to 58 *per cent* in 2006-07 mainly due to lack of demand.
- The number of cellular mobile telephones had increased from 2.92 lakh in 2002-03 to 27.47 lakh in 2006-07.
- The number of public telephones had increased from 2.04 lakh in 2002-03 to 2.79 lakh in 2005-06, however it decreased by seven *per cent* in 2006-07.

4.4.2 Financial performance

The financial result of the Company for the five years ending 31 March 2007 were reported as under:

(Rs in crore)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Income from services	5806.53	6369.60	5582.07	5562.99	4909.32
Other income	223.69	314.33	491.72	528.01	673.53
Expenditure (excluding interest and prior period adjustments)	4737.64	4963.36	4822.30	5395.20	4788.15
Interest	32.82	34.62	35.81	24.44	2.01
Profit before tax and prior period adjustments	1259.76	1685.95	1215.67	671.36	792.68
Prior period adjustments	(-) 22.57	(-) 84.12	(-) 9.45	2.63	215.70
Profit before tax	1237.19	1601.83	1206.22	673.99	1008.38
Tax provision	360.03	451.35	267.24	93.70	326.65
Profit after tax	877.16	1150.48	938.98	580.29	681.73
Paid up capital	630.00	630.00	630.00	630.00	630.00

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Proposed dividend including tax	319.82	319.82	322.78	287.34	289.21
➢ Final dividend	283.50	283.50	283.50	252.00	252.00
➢ Tax on dividend	36.32	36.32	39.28	35.34	37.21
Percentage of dividend to paid up capital	45	45	45	40	40

Profit after tax which had decreased over the period from 2003-04 to 2005-06, increased by 17 *per cent* during 2006-07 as compared to previous year. However, income from services had decreased by 12 *per cent* compared to the previous year. The decrease in income was mainly on account of downward revision in tariff for different services.

4.4.3 Findings of Audit under Section 619 of the Companies Act, 1956

Based on the supplementary audit conducted by CAG subsequent to the audit of the financial statements for the year 2006-07 by Statutory Auditors, comments were issued on the accounts of the Company. Certain issues were also marked to DoT/Company for improvement. One major issue related to non-provision of liability of Rs 988.75 crore on account of post retirement medical benefits of the employees on adhoc basis. The comment was not issued because the benefit was withdrawn by the company before the issue of comments. The matter was marked to the Ministry in August 2007 for a decision on whether or not to continue with the ad-hoc scheme; its reply was awaited (November 2007).

4.5 Revenue Arrears

The position of revenue arrears during the five years up to 31 March 2007 was as under:

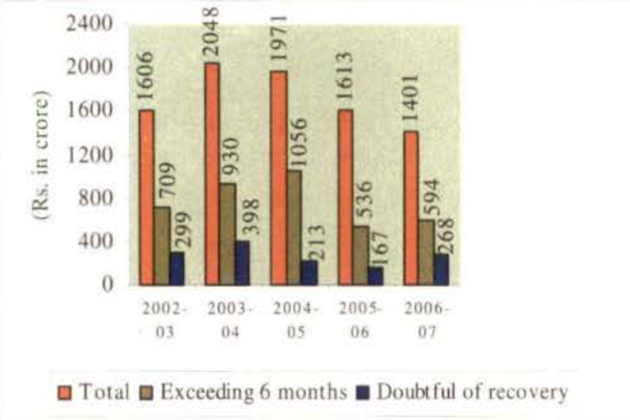
(Rs in crore)

Sl. no.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
1.	Revenue income	5806.53	6369.60	5582.07@	5562.99	4909.32
2.	Sundry Debtors					
	(a) Exceeding 6 months	709.03 (44%)*	930.30 (45%)*	1056.23@ (54%)*	536.22 (33%)*	594.41 (42%)*
	(b) Up to 6 months	339.69	1117.75	915.23@	1077.12	806.79
	(c) Total (a + b)	**1048.72**	**2048.05**	**1971.45@**	**1613.34**	**1401.20**
3.	Income accrued from services incorrectly shown under other current assets up to 2002-03 $	557.29	-----	-----	------	-------
4.	Revenue arrears [2(c)+3]	1606.01	2048.05	1971.45@	1613.34	1401.20
5.	Percentage of revenue arrears to revenue income [sl. no. (4 / 1) X 100]	28	32	35	29	28
6.	Revenue arrears considered doubtful of recovery	299.02	397.85	213.42@	179.91	293.96
7.	Percentage of doubtful revenue arrears to total revenue arrears [sl. no. (6 / 4) X 100]	19	19	11	11	21

* *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 year 2005-06.*

$ *The figure indicates income due from regular customers on account of telecommunication services, for which bills could not be raised up to 31 March 2003, incorrectly shown as 'Other current assets' by the Management.*



It may be seen that the percentage of revenue arrears to revenue income which was 29 *per cent* for the year 2005-06 came down to 28 *per cent* in 2006-07 thereby showing a marginal improvement over the previous year. Revenue arrears decreased by Rs 212.14 crore in 2006-07. The percentage of doubtful revenue arrears to total revenue arrears which was 11 *per cent* for the year 2005-06 had increased to 21 *per cent* for the year 2006-07.

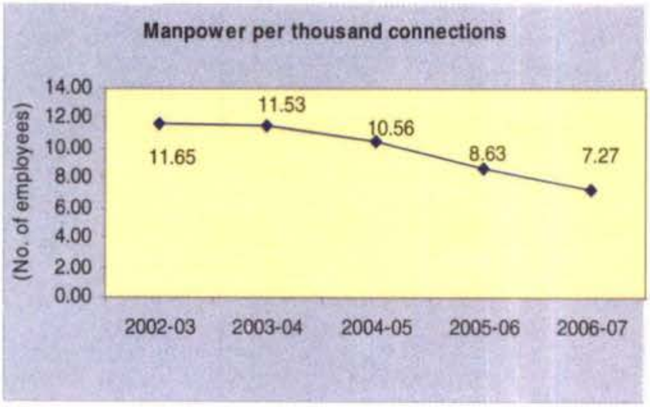
4.6 Manpower

The total manpower strength of MTNL as at the end of each of the five years ended 31 March 2007 is given in the table below:

Year	Group A	Group B	Group C	Group D	Total manpower	Daily Rated Mazdoors
2002-03	1128	6429	33901	16526	**57984**	88
2003-04	1083	6042	33083	15552	**55760**	82
2004-05	1390	5916	32004	15089	**54399**	82
2005-06	1130	6658	29834	13511	**51133**	79
2006-07	1232	5523	28878	12821	**48454**	75

As may be seen from the above table, the overall manpower had decreased over the last five years.

4.7 Productivity



The productivity of MTNL employees (i.e. ratio of the number of employees per thousand telephone connections or DELs including cellular mobile connections) for each of the five years up to 31 March 2007 showed a gradual improvement.

CHAPTER V
MAHANAGAR TELEPHONE NIGAM LIMITED
MAJOR FINDINGS IN TRANSACTION AUDIT

5.1 Injudicious procurement of WLL equipment

Mahanagar Telephone Nigam Limited procured Wireless-in-Local Loop equipment for its Delhi and Mumbai units without proper assessment of its requirement. This resulted in non-utilisation of the equipment and consequent infructuous expenditure of Rs 219 crore.

A mention was made in the Audit Report Number 5 of 2005 (Commercial) of the Comptroller and Auditor General of India that Mahanagar Telephone Nigam Limited (MTNL) did not adequately and properly plan and monitor the setting up and operational performance of the Wireless in Local Loop (WLL) system. Further it was pointed out that the subscriber base of private operators, who started their operations five years after MTNL, had forged ahead of MTNL. The Ministry of Communication and Information Technology in its action taken note stated (April 2007) that there were limitations of MTNL in terms of procurement procedures which took their own time to complete vis-à-vis private parties due to which MTNL had a lower subscriber base. Audit examination (January 2007) of the records of MTNL revealed a persistent trend of inadequate planning as subsequent purchases of WLL equipment also remained idle as brought out in the succeeding paragraphs.

After the approval of its Executive Council, MTNL placed a purchase order (March 2004) for four lakh lines Code Division Multiple Access (CDMA) switching equipment each for Delhi and Mumbai at a cost of Rs 219 crore. No documents were available to demonstrate whether the MTNL Corporate office had undertaken a proper planning and assessment of requirement before commencing procurement of this item.

Audit scrutiny (January 2007) of the records of MTNL disclosed the following equipped capacity of WLL system and its utilisation in Delhi and Mumbai units:

(Figures in lakh)

Year ending	Equipped Capacity	Working connections	Spare capacity	Percentage utilisation
31.03.2002	0.94	0.47	0.47	50
31.03.2003	2.00	0.88	1.11	44
31.03.2004	2.92	1.42	1.50	49
31.03.2005	2.92	2.50	0.42	86
31.03.2006	6.92	1.46	5.45	21
31.01.2007	10.92	1.79	9.12	16

Audit observed that the spare capacity of WLL in Delhi and Mumbai increased from 0.47 lakh in 2002 to 9.12 lakh in 2007. It was further noticed that 2.92 lakh lines equipped capacity of WLL system as of March 2004 was sufficient to cater to the demand of 1.79 lakh lines till 2007. And as such there was no necessity for procurement of 8 lakh lines for expansion of WLL network in Delhi and Mumbai in March 2004.

Audit further noticed that while the spare capacity of WLL and landline telephones increased considerably since 2002, in Cellular Mobile Telephone Service (CMTS) in four out of six years during the same period 2002-07 the working connections were more than the equipped capacity (**Appendix-XXVII**). This provided ample evidence that MTNL had failed to plan for the right product mix of WLL, CMTS and landline capacities.

On this being pointed out by Audit, the Ministry routinely endorsed the reply of the Management which stated (June 2007) that as telecom was the most happening field with subscribers requirements and interest changing very quickly with advancement in technology, it was always difficult to plan and forecast the right product mix of various technologies. It was also stated that Telecom Regulatory Authority of India had reduced the monthly rental for WLL services in July 2002 almost at par with the fixed line services and hence to meet the envisaged demand the Executive Council had decided (July 2002) to expand the WLL services. Further it was accepted that market survey to assess demand for WLL services was never adopted by MTNL. The reply is merely a post facto rationalization as it is a known fact that telecom sector is dynamic and consequently requires proper monitoring of demand and customer preferences. Audit however did not come across any plan document which deliberated on the right product mix and forecasting of demand for WLL services. Moreover the demand for any service is based on a number of factors such as cost of handsets, customer preferences, quality of service and not on the tariff structure alone. Also the tariff for WLL services was lowered in July 2002 and the purchase orders were placed in March 2004 while the spare capacity of WLL had risen from 0.47 lakh in March 2002 to 1.50 lakh in March 2004. Hence decision to enhance the capacity of WLL by three fold just because the tariff was lowered was not based on sound commercial reasons.

Thus lack of proper assessment and inadequate planning resulted in injudicious procurement of 8 lakh lines WLL equipment and its non-utilisation. This resulted in infructuous expenditure of Rs 219 crore on procurement of WLL equipment.

5.2 Inadequate planning resulted in infructuous expenditure

Inadequate planning in procurement of FWT/HHT by MTNL resulted in excess procurement and consequent infructuous expenditure of Rs 48.60 crore. Besides failure to take effective measures resulted in non-recovery of Rs 10.76 crore towards cost of WLL handsets from defaulting WLL subscribers.

A mention was made in the Audit Report Number 5 of 2005 (Commercial) of the Comptroller and Auditor General of India that Wireless in Local Loop (WLL) FWTs° and mobile handsets valuing Rs 45.47 crore, procured in 2002 were lying idle in Mahanagar Telephone Nigam Limited (MTNL), Delhi unit even after two years of its procurement. The Ministry of Communication and Information Technology in its action taken note stated (April 2007) that the FWTs and mobile handsets received due to surrendering of connections were utilised for handling situations like cable breakdowns, for providing service connections and replacement of faulty handsets of subscribers. However audit examination (March 2007) of the records of MTNL Delhi unit revealed that the subsequent purchases of WLL FWTs and mobile handsets also remained idle as brought out in the succeeding paragraphs.

MTNL constituted (March 2004) a two member Committee for procurement of 8 lakh CDMA• 2001X terminal. The Committee recommended procurement of four lakh terminals (three lakh HHTs• and one lakh FWTs) for Delhi and Mumbai units of MTNL instead of the earlier proposal of eight lakh terminals to avoid possible dead stock due to obsolescence and limited battery shelf life of the terminals. Based on the recommendation of the Committee, MTNL floated (November 2004) a tender for procurement of four lakh terminals and purchase orders were placed between May to November 2005 for procurement of 2.5 lakh HHT's and 1.5 lakh FWTs for Delhi and Mumbai units valuing Rs 167.37 crore.

Audit scrutiny of the records of MTNL Delhi Unit revealed that the unit had a closing stock of 29,361 FWTs in July 2004. During the period from April 2004 to January 2007, 23,302 FWT new connections were provided and during the same period 12,982 connections had been surrendered. The net increase in provision of new connections was only 10,320. Thus existing balance of 29,361 FWT was sufficient to cater to the demand for new connections upto March 2007. Similarly, closing balance of 67,374 HHTs were lying in stock prior to floating of tender in November 2004. During the years 2004-05 to 2006-07, 1,48,630 new connections were given and 1,48,795 connections were surrendered resulting in a net reduction of 165 connections. However Delhi unit procured 1,18,989 FWT/HHTs without any realistic assessment of demand, leading to infructuous expenditure of Rs 48.60 crore (Rs 28.60 crore actually paid and Rs 20 crore liabilities yet to be paid). Audit noticed that the company did not undertake the exercise of forecasting and assessing quantity requirement based on the projected growth of WLL, before

° Fixed wireless terminals

• Code division Multiple Access

• Hand held terminals

finalising the quantity of two lakh WLL terminals for Delhi unit. Audit also noticed that MTNL did not have any norms for stocking of WLL terminals for maintenance purpose, providing service connections and maintaining buffer stock.

It was also noticed in audit that an amount of Rs 67.66 crore was outstanding for recovery against 53,170 subscribers as of March 2007; of this, Rs 10.76 crore was outstanding on account of Equated Monthly Installments (EMI) towards the cost of handsets from defaulting subscribers, whose connections were disconnected due to non payment of pending bills or due to voluntary closure of connections. MTNL Delhi unit failed to take timely action to recover the outstanding amount in individual cases including outstanding amount on account of EMI. MTNL also did not take any security deposit towards the cost of handsets provided to the customers due to which the EMI could not be adjusted.

On this being pointed out by Audit, the management stated (April 2007) that M/s City Masters had been appointed as recovery agent for recovery of outstanding amount of HHTs, including EMI. However, no progress of recovery had been communicated by them. As regards procurement of FWTs, the Management did not furnish any reply.

Thus failure of the Management in making realistic assessment before procurement of the terminals besides lack of a proper system for inventory forecasting and replenishment led to infructuous expenditure of Rs 48.60 crore. Further, inability of MTNL to take effective measures for recovery of dues, led to accumulation of outstanding dues of Rs 10.76 crore as EMI towards the cost of handsets from defaulting subscribers.

5.3 Non/underutilization of Digital Loop Carrier systems

Procurement of Digital Loop Carrier systems by the Mumbai and Delhi units of MTNL without proper assessment of its requirement resulted in non/underutilization of DLCs valuing Rs 33.02 crore.

Digital Loop Carrier (DLC) systems are used in access networks to increase the capacity of the installed cable plant in order to provide service to a number of households and offices. DLC systems are also used to provide high speed data services to customers on existing telephone connections.

Corporate office of Mahanagar Telephone Nigam Limited (MTNL) placed (July 2002) a purchase order with M/s Bharat Electronic Limited (BEL) for supply and installation of 530 DLC systems for Mumbai and Delhi units of MTNL, with configuration ranging from 120 ports to 480 ports, for Rs 48.09 crore. Mumbai and Delhi units received 330 and 200 DLC systems, respectively; out of which, 329 and 193 DLC systems were installed and commissioned between October 2003 and December 2006 at various locations in Mumbai and Delhi. MTNL paid Rs 45.25 crore (May 2007) to the supplier, leaving Rs 2.84 crore as balance to be paid.

Audit scrutiny of the records revealed that in planning for transmission equipment for the year 2002-03, the justification for providing DLC systems was for better telecom services to the customers in multistoried buildings. It was also noticed that the MTNL Corporate office did not properly assess the requirement of DLC systems based on market survey or any other scientific method of demand projection.

Test check (January and March 2007) of records including the capacity loading statements of 207 DLC systems (out of the above 329 DLC systems commissioned) relating to the General Manager (Planning) as well as offices of the Area General Managers of Mumbai unit of MTNL disclosed that as of December 2006, actual utilization in respect of 198 DLC systems ranged between 0.42 and 48.13 per cent. And against the total installed capacity of 66,660 lines in respect of 198 DLC systems, the actual working connections were only 13,666 lines, with very low utilization of 21 per cent, as detailed in **Appendix-XXVIII**.

In the case of Delhi unit it was also noticed that out of 150 DLC systems test checked seven were lying idle without being commissioned and in the balance 143 the actual utilisation ranged between zero to 47.50 per cent. Audit further noticed that in 39 DLC systems the capacity utilisation was nil. Out of a total installed capacity of 54,751 lines in respect of 143 DLC systems, the actual connections were only 5,982 lines and the utilisation was 11 per cent as detailed in the **Appendix-XXVIII**. Thus injudicious procurement of DLC systems without assessing their actual requirement for Mumbai and Delhi led to non/underutilization of 341 DLC systems valuing Rs 33.02 crore.

On this being pointed out by Audit, the Ministry stated (June 2007) that procurement and installation of DLC systems were done with a realistic assessment of subscribers. It was further stated that DLCs were installed in 246 private places in Mumbai and loaded with working lines which itself indicated that the planning was judicious and would be utilised upto optimum level of loading in future. However, the fact remains that the DLC systems are yet to be optimally utilised and even after a lapse of more than two years of their commissioning the utilisation was only 21 and 11 per cent in Mumbai and Delhi units respectively. Further, the Ministry has not addressed the basic issues of demand projections and enhancing the utilisation of DLC systems.

Thus procurement of DLC systems by MTNL without proper assessment of its requirement resulted in non/underutilization of DLC systems valuing Rs 33.02 crore.

5.4 Avoidable payment of penal interest

Failure of the Management of MTNL to follow the time schedule for payment of quarterly installments of licence fees as well as to pay the actual amount of quarterly licence fees during the years 2002-03 to 2004-05 resulted in avoidable payment of penal interest of Rs 14.14 crore.

Department of Telecommunication (DoT), in partial modification of its earlier instruction, issued (November 2002) a revised time schedule for payment of licence fee for Basic and Cellular Telephone Services, which inter-alia stipulated that licence fee was payable by the licensees to DoT in four quarterly installments in each financial year. The licence fees for the first three quarters were to be paid within 15 days of the completion of the relevant quarters on the basis of actual revenue and for the last quarter, licence fee was to be paid by 25 March of that quarter on the basis of expected revenue subject to minimum payment equal to the actual amount of licence fees paid for the previous quarter. Any delay in the payment of licence fee was to attract interest at the rate of five *per cent* per annum above the prime lending rate of the State Bank of India prevalent on the day the payment became due and delay of a part of the month was to be treated as a whole month for computing amount of interest.

Audit (February 2007) of a sample of records in the Corporate Office of Mahanagar Telecom Nigam Limited (MTNL) disclosed that the Management failed to adhere to the prescribed time schedule of payment of licence fees during the three financial years, up to 2004-05. Audit observed that in each quarter of these three years the delays in payment of licence fees ranged from one day to eight months. Audit also noticed that during each quarter of these years, the Management paid estimated amount of the licence fees, that were lower than the actual, owing to delayed finalization of the sub-ledgers by their accounting units. The delays in payment as well as payment of lower amount of licence fees resulted in payment of penal interest amounting to Rs 14.14 crore during the three financial years. This could have been avoided.

On this being pointed out by Audit, the Management stated (March 2007) that in 2002-03, a delay of two days for second quarter for the year 2002-03 occurred due to delay in finalizing format for Adjusted Gross Revenue and thereafter, in subsequent quarters, MTNL did not delay payments of assessed licence fees to DoT. The Management further stated that MTNL paid excess amount of licence fees to DoT during 2003-04 and 2004-05 and the same was adjusted by DoT subsequently.

The reply of the Management is not acceptable because letters/statements of DoT clearly showed delays in payment of licence fees in each quarter of the years 2002-03 to 2004-05. Moreover, delay of a part of a month (say, one day or two days) was treated as delay of a full month as per stipulated condition of the licence agreement. The Management may overhaul the existing system of assessment and payment of licence fees in order to avoid delays in payment.

Thus failure of the Management to follow the time schedule for payment of quarterly installments of licence fees as well as to pay the actual amount of quarterly fees during the years 2002-03 to 2004-05 resulted in avoidable payment of penal interest of Rs 14.14 crore.

The matter was referred to the Ministry in July 2007; its reply was awaited (November 2007).

5.5 Injudicious expansion of exchanges

Delhi and Mumbai units of MTNL injudiciously expanded the equipped capacity of six telephone exchanges resulting in their underutilization and consequent infructuous expenditure of Rs 8.16 crore.

The Department of Telecommunication (DoT) issued guidelines (September 1997) for optimum utilisation of telephone exchange capacity during the Ninth Five year plan period (1997-2002). According to these guidelines the expansion of telephone exchange capacity was to be considered on an annual basis with a yearly growth rate ranging from 15 to 20 per cent. The DoT introduced the Broadband policy 2004 for giving impetus to land line telephony.

Audit analysed the growth of landline telephones in Mahanagar Telephone Nigam Limited (MTNL) Delhi and Mumbai and found a growth rate of two per cent during 2002-03 and thereafter a negative growth till 2006-07 (**Appendix-XXIX**). Inspite of a decline in the growth rate of landline telephony over the years, MTNL failed to review the position and regulate expansion of its telephone exchanges on actual need basis.

Audit scrutiny (January/February 2007) of the records of Delhi and Mumbai units of MTNL revealed that in six telephone exchanges, expansions were carried out during 2003-05 and the magnitude of expansions in these exchanges was far greater than the actual requirement as given below.

Name of exchange	Equipped capacity	Working lines	20 per cent growth rate	Total requirement	Expansion required	Expanded capacity
1	2	3	4	5	6 (Col 5-2)	7
Mumbai						
Saki vihar I	12000	11069	2214	13283	1283	8000
Dahisar I	25500	23475	4695	28170	2670	9000
Delhi						
Tuglakabad	16000	16313	3263	19576	3576	6000
Sangam Vihar	7000	4282	856	5138	-1862	3500
Devli Extension	5000	2168	434	2601	-2398	2000
Dwarka 20D	10000	7486	1497	8983	-1016	8000
Total					7530	36500

From the above table it would be seen that even after allowing a growth rate of 20 per cent, expansion of only 7,530 lines was justified as against the actual expansion of 36,500 lines, especially in the first three exchanges where the magnitude of expansion was more than the requirement and in the remaining exchanges, the existing capacities were adequate to meet the future growth. Further, the number of connections in Delhi and Mumbai fell from 44.94 lakh in 2001-02 to 36.94 lakh as of January 2007. Thus failure of the Management to assess the requirement of exchange capacities based on the growth pattern of two per cent before expansion of exchanges resulted in injudicious expansion and consequent idling of the telephone exchanges. This resulted in infructuous expenditure of Rs 8.16 crore on excess expansion of exchanges by 27,500 lines as their utilisation was in decline due to decline in landline telephony.

On this being pointed out by Audit, the Delhi unit stated (February 2007) that the expansion of Tuglakabad main exchange was carried out for transferring the working lines of Tuglakabad RSU[•] and the Sangam Vihar exchange was expanded for area transfer of some of the working lines from Tuglakabad main exchange. It was further stated that Devli Extension RSU was expanded for transferring some of the working lines from Tuglakabad main exchange. In Dwarka Main exchange the expansion was done for decommissioning of Dwarka RSU. The Mumbai unit stated (March 2007) that the spare capacity would be used for development in respective areas. The replies are not tenable as the exchanges had sufficient spare capacity to accommodate the shifting of working lines of RSUs and any significant increase in its demand is not likely in the near future.

Thus failure of MTNL to respond to the market trends in telecom sector and expansion of its exchange capacity without requirement resulted in idling and consequent infructuous expenditure of Rs 8.16 crore.

The matter was referred to the Ministry in July 2007; its reply was awaited (November 2007).

5.6 Avoidable excess holding of cables

Failure of Mumbai unit of MTNL to properly project the requirements of Polyethylene Insulated Jelly Filled cables after considering stock balance, past consumption pattern, etc. led to avoidable excess holding of certain specifications of such cables worth Rs 7.24 crore.

Mahanagar Telephone Nigam Limited (MTNL) procures underground Polyethylene Insulated Jelly Filled (PIJF) cables of sizes ranging from 5 to 2400 pairs to provide landline telephone connections, maintain existing connections, etc. The Corporate office of MTNL issues authorization/purchase orders for procurement of such cables after reviewing its requirement based on the annual forecasts of Delhi and Mumbai units.

Audit scrutiny (February 2007) of records of Mumbai unit of MTNL disclosed that while furnishing demands for the year 2005-06 the unit projected (March/July 2005) their total requirements of cable of all specifications on the basis of cable replacement, development and maintenance works, but did not take into account the existing stock balance in various stores, supplies pending and past consumption patterns.

[•] Remote switching unit

Test check of the consumption pattern of 10, 20, 100 pairs of armoured and 800 pairs of unarmoured PIJF cables for the period April 2004 to October 2006 revealed that though the average monthly utilization was between one to 14 km, the unit procured 1616 Km of these specifications of PIJF cables. As a result, as of October 2006 there was an accumulation of stock of 1060 km of these types of PIJF cables at the main and area store depots and this was sufficient to meet the requirement of the unit for 19 to 108 months on the basis of past pattern of consumption. Further, the landline telephones declined from 245 lakh lines in April 2003 to 213 lakh lines as in January 2007, indicating lower demand of landline connections over the period. Even after allowing six months of stock for replenishing in terms of consumption rate, the accumulated stock of PIJF cables was excess by 865 km valuing Rs 7.24 crore, as detailed in the **Appendix - XXX**.

On this being pointed out by Audit, the Mumbai unit stated (March 2007) that the accumulation of stock and low consumption of cables was due to reduction in requirements for rehabilitation works, development works and emergence of GSM• and CDMA* technologies. Further, they stated that necessary steps would be taken while procuring the cables in future so as to avoid the accumulation of inventory.

The reply is not convincing as the GSM and CDMA technologies were introduced in Mumbai from January and February 2002 respectively, although during the subsequent period April 2003 to October 2006, the unit procured a total quantity of 1935 Km of these specifications of PIJF cables. This procurement was not realistic as lower average consumption over the said period led to excess holding of stock of these specifications of cables.

Thus failure of Mumbai unit of MTNL to properly project their requirement of PIJF cables after considering stock balance, past consumption pattern, etc. led to excess holding of certain specifications of PIJF cables worth Rs 7.24 crore, which could have been avoided.

The matter was referred to the Ministry in April 2007; its reply was awaited (November 2007).

5.7 Continuation of telephone facility despite non-payment of dues

Failure to disconnect telephone connections by the due dates despite non-payment of dues by different Area General Managers of Mahanagar Telephone Nigam Limited, Delhi resulted in non-recovery of revenue of Rs 5.88 crore.

Rules, as adopted by Mahanagar Telephone Nigam Limited (MTNL), provide that in case of non-payment of bills for telephone connections, the service must be disconnected positively on the 40^{th} day from the date of issue of bills. Rules also provide that the Accounts Officer, Telephone Revenue (AOTR) should issue disconnection orders and on receipt of the same, the exchange

• Global System for Mobile Communication

* Code Division Multiple Access System

officer should disconnect such telephones on the dates indicated therein. Further, for non-payment of bills in cases of STD/ISD Public Call Office (PCO) operators, the lines should be disconnected immediately on the 22nd day from the date of issue of the first pending bill.

Test checks (January to April 2007) of the records relating to nine Area General Managers of MTNL Delhi revealed that telephone facilities of 411 private subscribers (other than STD/ISD PCO operators) having outstanding bills of more than Rs 50,000 were not disconnected and services were allowed to continue for 3 to 51 billing cycles. Non-payment of dues aggregated to Rs 4.42 crore for the period February 2001 to March 2006 for these 411 subscribers (***Appendix-XXXI (a)***). Similarly, the Area General Managers failed to disconnect telephone facilities of 131 STD/ISD PCO operators on due dates and the services were allowed to continue for 3 to 41 billing cycles despite non-payment of dues of Rs 1.46 crore against these cases as of 31 March 2006 (***Appendix-XXXI (b)***). Audit observed that there were abnormal delays in preparation of disconnection lists, issue of notices for disconnection and the issue of legal notices to the defaulters.

On this being pointed out by Audit, the Area General Managers accepted the facts. The General Manager, South II stated (March 2007) that due to improper functioning of the existing billing software, disconnections were delayed. The General Manager West II stated (April 2007) that disconnections were not done due to problems in the billing system. The General Manager West I stated (April 2007) that after introduction of online restoration/ disconnection in 2003-04, the same were being followed; but delay in installation of the system and errors therein caused delays in disconnections. Most of the Area General Managers have stated that recovery agencies were put on the task of recovery from the defaulting subscribers. However, expenditure on these recovery agencies could have been avoided had the Management taken timely action.

A similar comment was included in Paragraph 6.11.3 of the Report of the Comptroller and Auditor General of India, Union Government (Commercial) for the year ending 31 March 2004 and the Management had stated that corrective action was being taken. Despite this assurance, the default continued to persist.

Thus delays in disconnection of telephone services resulted in non recovery of revenue amounting to Rs 5.88 crore for the period February 2001 to March 2006.

The matter was referred to the Ministry in July 2007; its reply was awaited (November 2007).

5.8 Accumulation of outstanding towards cellular mobile revenue

Failure of the Management of Delhi unit of Mahanagar Telephone Nigam Limited to properly monitor the bookings of cellular connections by the franchisees led to accumulation of cellular mobile revenue of Rs 3.83 crore for the period April 2004 to March 2006.

In order to promote the 'Dolphin' services, the brand name of the cellular mobile services of Mahanagar Telephone Nigam Limited (MTNL), the Management hired franchisees for marketing and distributing this service to all potential customers. MTNL Delhi unit entered into agreements (between July 2001 and May 2003) with 18 franchisees for marketing and distributing 'Dolphin' products initially for a period of three years under certain terms and conditions. Agreements of 14 franchises were extended up to June 2006. The terms and conditions of the agreement stipulated that the franchisee would be held responsible for costs and consequences due to frauds committed by any subscriber appointed through these franchisee. The Management also appointed (August 2002) a verification agency and constituted a committee for scrutinizing the fraudulent/fake bookings by franchisees related to the period prior to 2004-05.

Scrutiny of records (between February and May 2007) of the Dolphin service unit of MTNL Delhi disclosed the following:

- 8344 fraudulent connections were booked by the franchisees during 2004-05 and 2005-06.
- All these connections were permanently disconnected without effecting recovery from them due to wrong/false addresses.
- Timely disconnections in case of non-payment could not be ensured since the billing system had several limitations.
- MTNL renewed the agreements of these 14 franchisees upto June 2006 without evaluating their past performance.

Audit observed that the Management neither initiated action nor did they fix any responsibility on these franchisees. Thus, lapse on the part of management in keeping a check on fraudulent bookings by the 14 franchisees resulted in accumulation of Rs 3.83 crore towards cellular mobile revenue for the period April 2004 to March 2006 as detailed in **Appendix - XXXII**.

On this being pointed out by Audit, the Management while accepting audit observations stated (April-May 2007) that they had issued legal/ registered notices to the subscribers, but most of the notices were returned due to incomplete addresses. The Management also stated (May 2007) that no separate verification of franchisee bookings was done and added that the 7028 cases were handed over (January 2007) to the recovery agency for further action.

The failure of the Management to establish effective deterrents against false booking resulted in unchecked fraudulent connections. Moreover the Committee had also reported that the non-verification of authenticity of the subscribers before activating connections was prevalent amongst the franchisees, which led to fraudulent bookings and loss of revenue.

The matter was referred to the Ministry in July 2007; its reply was awaited (November 2007).

ITI LIMITED

CHAPTER VI
ORGANISATIONAL SET UP AND FINANCIAL MANAGEMENT

6.1 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 include Mahanagar Telephone Nigam Limited (MTNL), Defence Services, Railways and Power, Steel and Oil sectors.

6.2 Organisational Set up

The administrative and over all functional control of the Company is vested with the Board of Directors headed by the Chairman cum Managing Director (CMD) who is assisted in day-to-day management of the Company by four functional Directors (Finance, Marketing, Production and Human Resources Development) and Company Secretary. The units are headed by General Managers.

6.3 Investment and Returns

Against the authorised share capital of Rs 700 crore, the paid-up capital, as on 31 March 2007, was Rs 588 crore, consisting of Rs 288 crore as equity and Rs 300 crore as cumulative redeemable preference shares. The investment by Government of India was Rs 267.47 crore towards the equity capital. Since the Company was incurring loss since 2002-03, no dividend was paid for the years 2002-03 to 2006-07.

6.4 Physical Performance

The physical performance of the Company as at the end of each of the last five years ending 31 March 2007 is given in **Appendix - XXIII**. It was seen that:

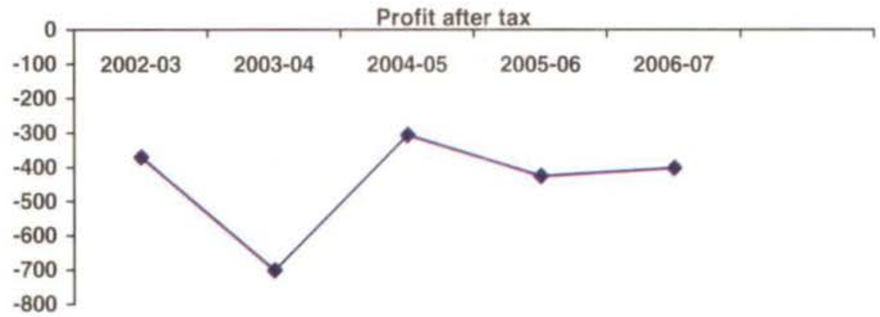
(i) In respect of switching products (except C-DOT exchanges), there was a decline in utilization of installed capacity from 34 *per cent* in 2002-03 to 26 *per cent* in 2003-04. However it increased to 47 *per cent* during 2004-05 and again declined to 46 *per cent* and 31 *per cent* during 2005-06 and 2006-07, respectively.

(ii) In respect of transmission products, the utilization of installed capacity ranged between 40 *per cent* (2002-03) and 96 *per cent* (2006-07).

(iii) In respect of terminal equipment the utilization of installed capacity ranged from 26 *per cent* to 91 *per cent* during the years 2002-03 to 2004-05. However during 2006-07, the utilization of installed capacity was about 26 *per cent*.

6.4.1 Financial Performance

The financial results of the Company for the last five years ended 31 March 2007 were as follows:



(Rs in crore)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Sales including Services (excl. Excise Duty)	1701.11	1197.86	1317.87	1660.74	1762.63
Other Income	38.21	52.94	56.30	102.90	109.27
Interest earned	0.22	6.09	0.27	7.82	2.08
Transfers from Grant-in-aid	28.42	(52.74)	447.78	27.87	61.32
Expenditure (excluding interest and prior period adjustments)	1985.83	1729.98	1931.14	2022.58	2098.28
Interest	156.02	157.97	187.15	202.11	201.71
Profit before tax and prior period adjustments	(373.89)	(683.80)	(296.07)	(425.36)	(364.69)
Prior period adjustments	(2.78)	(22.03)	(13.75)	(2.19)	(40.01)

Profit before tax	(376.67)	(705.83)	(309.82)	(427.55)	(404.70)
Tax provision (Fringe Benefit Tax)	--	--	-	1.21	0.56
Deferred Tax	(1.80)	--	-	--	--
Profit after tax	(374.87)	(705.83)	(309.82)	(428.76)	(405.26)
Proposed dividend	**NIL**	**NIL**	**NIL**	**NIL**	**NIL**

The Company incurred huge losses of Rs 376.67 crore, Rs 705.83 crore during the years 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 on account of receipt of grant in aid of Rs 447.78 crore from Government of India. The losses of Rs 427.55 crore and Rs 404.70 crore respectively during 2005-06 and 2006-07 were due to increase in cost of sales.

6.5 Outstanding Dues

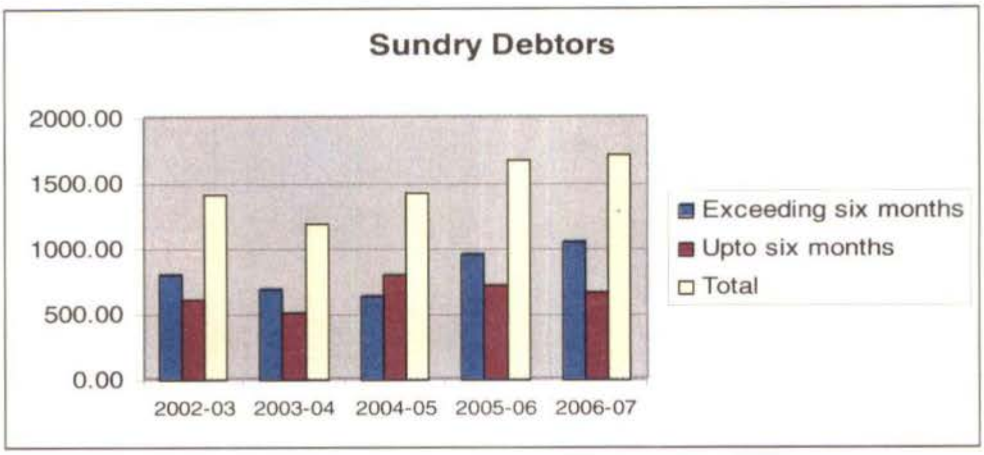
The major customers of the Company are Government Companies, viz., BSNL and MTNL. The Company has not laid down any credit policy so far (September 2007).

The position of sundry debtors as at the end of each of five years ended 31 March 2007 was as under:

(Rs in crore)

Sl. No	**Particulars**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**
1.	Total sales including services (incl. excise duty)	1794.65	1256.57	1389.01	1749.38	1818.33
2.	Total sundry debtors					
	(a) Exceeding six months	807.36 (57)*	691.73 (58)*	632.05 (44)*	954.75 (57)*	1053.22 (61)*
	(b) Upto six months	605.77	508.44	803.69	724.24	670.88
	(c) Total (a+b)	1413.13	1200.17	1435.74	1678.99	1724.10
3.	Percentage of total Sundry debtors to sales	79	96	103	96	95
4.	Doubtful debts	8.61	11.02	15.52	16.53	16.47

*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 that the debtors showed an increasing trend during 2003-04 to 2006-07. The figure of debtors remained almost at par with the sales figure in these years (debtors to sales ratio ranged between 95 *per cent* and 103 *per cent*).

Position of unbilled debtors included in debtors for the year during the period from 2002-03 to 2006-07 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
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
2005-06	1662.46	824.57	716.79	107.78	13.07
2006-07	1707.63	998.00	777.00	221.00	22.14

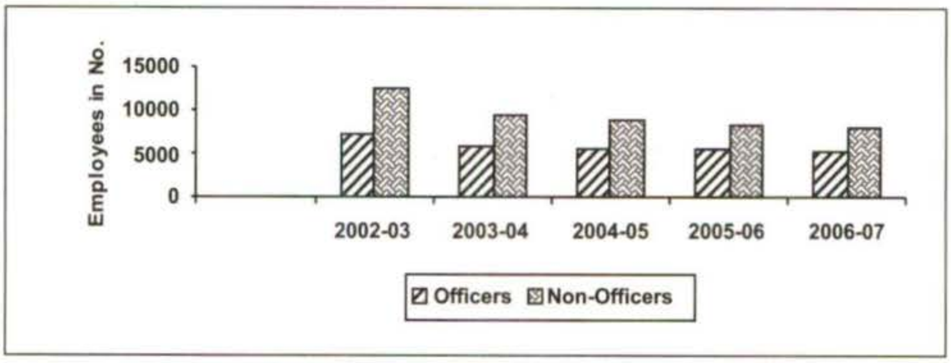
Though there were debts outstanding for more than five years, the Company had not obtained confirmation from the debtors during any of the years. The Statutory Auditors also repeatedly commented about the Company not obtaining confirmation from the Sundry Debtors.

6.6 Manpower

The total manpower strength of the Company as at the end of each of the five years ending 31 March 2007 was as given below:

Year	Group A	Group B	Group C	Group D	Total Manpower
2002-03	2034	5485	11875	298	19692
2003-04	1639	4129	9396	57	15221
2004-05	1480	4194	8920	41	14635
2005-06	1464	4254	8516	23	14257
2006-07	1645	3821	7943	6	13415

It would be seen that there has been 32% percent reduction in overall manpower during the five years upto 2006-07. The breakup of officers and non-officers for the last five years was as follows:

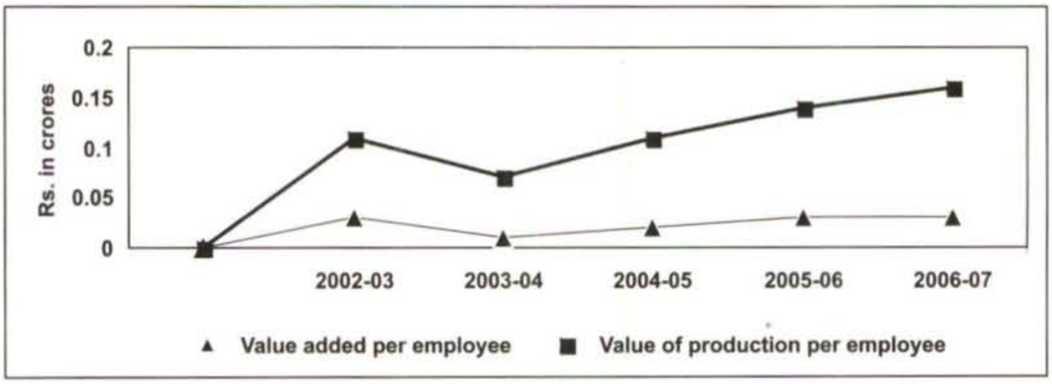


Year	Officers	Non-officers
2002-03	7519	12173
2003-04	5768	9453
2004-05	5674	8961
2005-06	5718	8539
2006-07	5466	7949

The reduction in overall manpower was mainly due to retirement of employees under the voluntary retirement scheme.

6.7 Productivity

The productivity of employees of the Company in terms of value added and value of production during five years ended 31 March 2007 was as follows:



(Rs in crore)

Year	Valued added per employee	Value of production per employee
2002-03	0.03	0.08
2003-04	0.01	0.06
2004-05	0.01	0.09
2005-06	0.03	0.11
2006-07	0.03	0.13

CHAPTER VII
ITI LIMITED
MAJOR FINDINGS IN TRANSACTION AUDIT

7.1 Absence of due professional care in safeguarding the Company's interest

The Company did not obtain equivalent Performance Guarantee from HFCL which resulted in loss of Rs 10.40 crore to the Company.

The Company received two advance purchase orders (November/December 2004) under Reservation Quota[♣] from Bharat Sanchar Nigam Limited (BSNL) for supply of 4,83,137 Integrated Fixed Wireless terminals (IFW terminals) of ZTE model[•] at a total value of Rs 198 crore (provisional) with a delivery schedule of three months i.e. by February/March 2005. The Company furnished a Corporate Performance Guarantee (CPG) of five *per cent* of the order value amounting to Rs 9.90 crore during May/July 2005.

The Company placed (November 2004) a Letter of Intent (LOI) on ZTE Corporation, China for the supply of IFW terminals. ZTE did not respond to the LOI. Meanwhile, Hindustan Futuristic Communications Limited, Solan (HFCL) which was L2 in the tender of BSNL agreed (January 2005) to supply at L1 price. Accordingly, a purchase order was placed (February 2005) on HFCL for supply of 483137 IFW terminals valued at Rs 206.26 crore with a delivery period up to June 2005. As against the CPG of Rs 9.90 crore (five *per cent* of order value) given by the Company to BSNL, the Company obtained a performance bank guarantee (PBG) of Rs 1.09 crore only (0.5 *per cent* of order value) from HFCL. On Company's request (12 April 2005) BSNL extended the delivery schedule up to July 2005 with additional PBG of Rs 9.90 crore. The Company did not obtain any additional PBG from HFCL to cover its risk exposure in the contract with BSNL.

HFCL could supply only 1,17,630 terminals even in the extended delivery schedule of July 2005 and BSNL short closed (August 2005) the order with Company and recovered Rs 19.80 crore of the CPG against the supply bills. The Company, however, could recover Rs 9.40 crore by invoking the PBG of Rs 1.09 crore and adjusting Rs 8.31 crore from pending bills of HFCL. The Company suffered a loss of Rs 10.40 crore.

[♣] *Reservation Quota orders refers to entitlement of the Company to receive 25 to 30 percent of the requirement of BSNL against total tender quantity.*

[•] *As part of the Co-operation Agreement and MoU (September/October 2004) with ZTE Corporation, China (ZTE) for manufacture and marketing of ZTE products.*

The Management stated (April 2007) that the entire amount had been adjusted against the amount payable to ZTE and HFCL; there was no loss to the Company in this transaction.

The reply of the Management is not tenable since the Company itself decided (October 2007) that ZTE had nothing to do in this contract and full penalty of Rs 19.80 crore should be levied on HFCL. Since order was placed on back-to-back basis, the Company should have obtained equivalent PBG from HFCL to cover its risk in the contract with BSNL particularly when the Company had furnished 10 *per cent* guarantee to BSNL for the very same order.

Absence of due professional care by the Company in safeguarding its interests by obtaining equivalent PBG of Rs 19.80 crore at par with the CPG furnished to BSNL resulted in loss of Rs 10.40 crore.

The matter was referred to the Ministry in June 2007; its reply was awaited (November 2007).

7.2 Loss in execution of AMC work

The Company suffered a loss of Rs 3.78 crore during April 2004 to August 2007 due to incorrect estimation of cost of the AMC work.

The Mankapur unit of ITI Limited (Company) executed Phases I and II of the West zone GSM[1] project of Bharat Sanchar Nigam Limited (BSNL) during 2002 to 2004. As a part of the project the Company was also required to provide Annual Maintenance Contract (AMC) for the project for three years. The AMC for Phases I and II of the project for three years from 1 April 2004 and 10 November 2004, respectively was awarded (June 2004 to January 2005) to the Company by BSNL at Rs 17.78 crore based on the bid submitted. The Company in turn sub-contracted (August 2004) the AMC work to four companies[2] at a total contract value of Rs 18.11 crore. In addition, the Company also estimated an infrastructure cost at Rs 9.31 crore to execute the AMC. Thus, the total cost of the annual maintenance services to be provided by the Company was more than the total contract value receivable by it for the service.

Up to August 2007 the Company in actual execution of AMC had incurred an expenditure of Rs 21.57 crore[3] against the total revenue of Rs 17.79 crore[4] resulting in a loss of Rs 3.78 crore, on implementing the AMC.

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[1] Global System for Mobile communications

[2] Wipro Infotech, Lucent Technologies Hindustan(P) Limited, Logica Global Solutions Pt Limited and Jatayu Software (P) Limited

[3] Rs 12.60 crore paid to sub-contractors, Rs 5.52 further payable to sub-contractors and Rs 3.45 crore incurred by the Company on project management and infrastructure costs

[4] Rs 11.32 crore received and Rs 6.47 crore balance receivable from the BSNL

The Management stated (December 2006) that GSM being a new technology, the Company did not have sufficient expertise at the inception of the project due to which full impact of the cost involved could not be envisaged.

The reply was not tenable as the Company's core business is related to manufacturing and installation of telecommunication network. The Company was not new to the GSM business as it had already entered into GSM networking in 1999 by signing MOU for execution of work for MTNL at Mumbai and Delhi.

Thus, the Company suffered a loss of Rs 3.78 crore due to incorrect estimation of the cost of AMC work.

The matter was referred to Ministry in April 2007; its reply was awaited (November 2007).

7.3 Loss due to non-repair of defective meters

ITI Limited suffered loss of Rs 1.57 crore during April 2001 to March 2007 due to non-repair of defective meters in the residential units of its township at Mankapur.

ITI Limited (Company) had contracted (August 1999) an electrical load of 2500 KVA from Uttar Pradesh State Electricity Board (now Uttar Pradesh Power Corporation Limited (UPPCL) for its township at Mankapur, Uttar Pradesh. To recover charges for consumption of electricity from the residents, the Company had installed meters at the residential units in the township.

It was observed in Audit (February 2005) that the Company was recovering electricity charges based on the actual consumption from the residential units that had separate electricity meters installed and working and in case of other residential units, recovery was being made at *ad-hoc* rates fixed on the basis of connected load. During March 2007 only 178 residential units were paying charges on the basis of actual consumption while 1879 residential units were paying charges on *ad-hoc* basis.

During the period April 2001 to March 2007 the Company as per its own estimate has suffered a loss of Rs 1.57 crore[5] due to under recovery of electricity charges by charging *ad-hoc* rates instead of actual metered consumption

The Management stated (September 2007) that they had installed electro-mechanical meters from the beginning for individual quarters. The defective and un-repairable meters were replaced with 700 number electronic meters.

[5] Rs 48.72 lakh, Rs 27.75 lakh, Rs 24.87 lakh, Rs 19.24 lakh, Rs 14.37 lakh and Rs 21.58 lakh during the six years from 2001-02 to 2006-07, respectively.

Remaining meters were being monitored and repair action was being taken accordingly.

The reply is not tenable as more than 91 per cent meters were defective as of March 2007 and the Company had been incurring losses due to defective meters year after year since 2001-02 as indicated above.

Thus, the Company suffered a loss of Rs 1.57 crore due to non-repair and non-replacement of the defective meters.

The matter was referred to Ministry in July 2007; its reply was awaited (November 2007).

TELECOMMUNICATION CONSULTANTS INDIA LIMITED

CHAPTER VIII
ORGANISATIONAL SET UP AND FINANCIAL MANAGEMENT

8.1 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 15 foreign project offices in countries in Africa, South East Asia and the Middle East.

8.2 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 functional Directors and a Company Secretary. The Regional Offices are headed by Sr. General Managers/ General Managers.

8.3 Investments and Returns

The authorised equity share capital of the Company was Rs 30 crore and the paid up capital was Rs 28.80 crore as on 31 March 2007. Present paid-up share capital include value of Bonus shares of Rs 28.50 crore consisting of one 2:1 and five 1:1 bonus issues. The Government of India owned the entire paid up capital. TCIL commenced business with initial seed capital of Rs 30 lakh during 1978-83 invested by Government.

8.4 Financial Performance

The financial results of the Company for the five years ending 31 March 2007 were as follows.

(Rs in Crore)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
i) Income from projects (Sales)					
a) Foreign project	327.16	387.92	327.08	206.52	194.31
b) Indian Projects	115.95	121.02	91.41	246.98	188.28
Total Income from Projects	**443.11**	**508.94**	**418.49**	**453.50**	**382.59**
ii) Other or Misc . Income	40.13	35.50	30.65	30.00	28.01
iii) Profit /Loss before tax and prior period adjustment	48.47	50.56	13.17	26.08	4.86
iv)Prior period adjustment	3.03	0.21	0.51	8.68	(1.08)
v) Profit /Loss before tax	51.50	50.77	13.68	17.40	5.94
vi) Tax Provision	11.61	3.75	3.31	16.60	4.72
vii) Profit after tax	39.89	47.02	10.37	0.80	1.22
viii) Proposed Dividend	21.60	21.60	21.60	0	0
ix) Tax on proposed Dividend	0.46	2.82	3.03	0	0

8.5 Manpower

The total manpower strength of the Company as at the end of each of the five years ending 31 March 2007 is given below:

Year	Executive	Non-executive	Total manpower
2002-03	534	837	1371
2003-04	505	764	1269
2004-05	519	709	1228
2005-06	547	377	924
2006-07	428	503	931

It may be seen from above that the total manpower was reduced by 32 *per cent* over the last five years.

INTELLIGENT COMMUNICATION SYSTEMS INDIA LIMITED

CHAPTER IX
ORGANISATIONAL SET UP AND FINANCIAL MANAGEMENT

9.1 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 new demands in communication and Information Technology sectors. 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 computers and other telecommunication systems.

9.2 Organisational setup

The administrative and overall functional control is vested with the Board of Directors headed by the Managing Director on deputation from TCIL. He is assisted in day-to-day affairs of the Company by Joint General Manager, General Manager (Finance) and Company Secretary who were also on deputation from TCIL. The Board of Directors consists of seven Members (three from TCIL, three from DSIDC and one from Falcom Cables, USA).

9.3 Investment and Returns

The authorised and paid up capital of the Company, as on 31 March 2007, was Rs 100.00 lakh contributed by the following companies:

TCIL	36 *per cent*
DSIDC	40 *per cent*
Orison Infocom Pvt. Ltd.	09 *per cent*
Falcom Cable TV Ltd.	15 *per cent*
TOTAL	100 *per cent*

The company has earned profit (after tax) of Rs 1.85 lakh during the year 2006-07. As the Company had accumulated losses, it did not declare any dividend during the (past five) years. As of 31st March 2007 the accumulated loss of the Company was Rs 26.06 lakh.

9.4 Physical and Financial Performance

The Company discontinued manufacturing business and is concentrating mainly on trading of computers and telecommunication systems, turnkey sales of cables, annual maintenance contracts, repairs of E-10B, C-DOT, New Tech cards and Franchise business Project.

9.5 Financial Performance

The financial results of the Company for the five year ending 31 March 2007 were as follows:

(Rs in lakh)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
i) Income from Projects (Sales & Services)	1671.09	2286.40	2394.18	3261.66	493.87
ii) Net Sales	1671.09	2286.40	2394.18	3261.66	493.67
iii) Other or Misc. Income	20.89	111.45	39.95	14.99	66.27
iv) Profit / Loss before tax and prior period adjustments and extraordinary items	12.03	5.37	15.58	9.91	5.98
v) Prior period adjustments (Net) Credit.(+) / Debit (-)	(-)0.01	(-)0.19	(-) 0.07	(-)0.15	(-) 0.12
vi) Extraordinary items (Net)	(+)44.61	(+)27.71	(-)4.98	(+)0.14	-
vii) Tax provision	(-)1.47	(+)0.57	(-)2.29	(-)4.97	(-)4.01
viii) Profit after tax	55.16	33.46	8.24	4.93	1.85
ix) Dividend	-	-	-	-	-

It would be seen from the above table that the profit of the company have substantially decreased to Rs 1.85 lakh as on 31 March 2007 over the years from the highest Rs 55.16 lakh earned by the Company in 2002-03.

9.6 Manpower

The total manpower of the Company as on 31 March 2007 was 13 in 'C' and 'D' cadres other than staff on deputation.

MILLENNIUM TELECOM LIMITED

CHAPTER X
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

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 preceding two years. Now it is handling a project for laying submarine cable from India to South East Asia and the Middle East.

2. Organisational setup

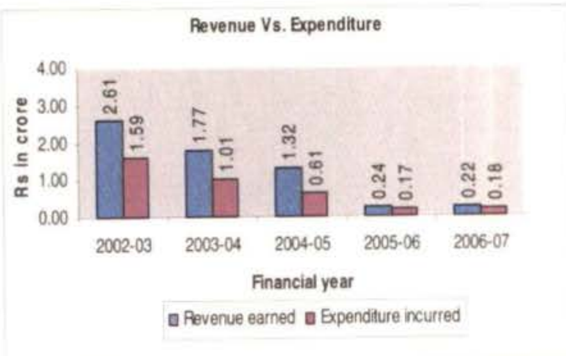
The administrative and overall control of business activities of the Company are vested with the Board of Directors headed by the Chairman (CMD of MTNL), who is assisted in day to day management by a Chief Operating Officer and an Internal Financial Advisor. There are three other Directors (all from MTNL) on the Board of the Company.

3. Investment

Against the authorised equity share capital of Rs 100 crore the paid-up capital as on 31 March 2007, was Rs 2.88 crore, which was totally subscribed by MTNL, its holding Company.

4. Financial Performance

In the year 2006-07 no revenue was generated from its operations of e-tendering services, sale of ISP packs services, etc. The company has earned interest of Rs 21.69 lakh on Fixed Deposits. However, during the preceding years 2002-03, 2003-04, 2004-05 and 2005-06 the Company's income was Rs 2.61 crore, Rs 1.77 crore, Rs 1.32 crore and Rs 0.24 crore against expenditure of Rs 1.59 crore, Rs 1.01 crore, Rs 0.61 crore and Rs 0.17 crore crore respectively.



The Company earned net profit before tax of Rs 1.02 crore, Rs 0.76 crore, Rs 0.71 crore, Rs 0.07 crore and Rs 0.04 crore during 2002-03, 2003-04, 2004-05, 2005-06 and 2006-07, respectively.

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 five years ending on 31 March 2007 is given below:

Year	Group A	Group B	Group C	Group D	Total manpower
2002-03	1	2	2	1	6
2003-04	3	8	1	3	15
2004-05	2	3	0	1	6
2005-06*	8	--	--	--	8
2006-07*	8	4	2	1	15

*Figures are of MTNL/BSNL employees who are working for MTL on deputation basis. At present, MTL has no employee of it's own.

CHAPTER XI
FOLLOW UP ON AUDIT REPORTS

11. 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 the issues dealt with in various Audit Reports, the concerned Departments/Ministries should furnish final remedial/corrective action taken notes (ATNs) on all paragraphs contained in the Audit Reports.

PAC reiterated these views in the Ninth Report (Eleventh Lok Sabha) presented to the Parliament on 22 April 1997 and 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.

COPU in its Second Report (1998-99 Twelfth Lok Sabha) also 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) re-stated an earlier recommendation that a separate Monitoring Cell should be set up by the Department of Public Enterprises (DPE) 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 133 paragraphs, as detailed in the **Appendix - XXXIV**, were awaited as of November 2007.

(BHARTI PRASAD)
Deputy Comptroller and Auditor General cum Chairperson, Audit Board

New Delhi
Dated : 20 February 2008

Countersigned

(VINOD RAI)
Comptroller and Auditor General of India

New Delhi
Dated : 20 February 2008

Report No. CA 12 of 2008

Appendix – I
(Referred to in paragraph 2.1.1 at page 10)
Non/short billing of charges for providing infrastructure facilities to PSPs in different circles of BSNL

S.No.	Circle	Name of SSAs	Number of cases	Name of PSPs (Refer Appendix-IX for abbreviations)	Amount involved (Rs in lakh)	Amount recovered at the instance of audit (Rs in lakh)
1	**Assam**	NA	4	Dishnet and BTL	71.83	NA
2	**Andhra Pradesh**	Adilabad, Chitoor, Hyderabad, Kadaba, Krimnagar, Khammam, Kurnool, Nalgonda, Ongole, Vijayawada, Visakhapatanam & Prakasam	112	BTL, BTSL, BTVL, Hutch, ICL, RIL, TTSL, VSNL and HESL	80.57	NA
		Hyderabad	17	RIL, TTSL and BML	107.11	NA
		Vijayawada	5	TTL, BML and ICL	96.99	NA
3	**Bihar**	Patna, Gaya, Munger, Darbhanga	13	Reliance Infocom (RIL), Reliance Telecom (RTL), Bharati Televenture (BTVL), Tata Teleservices (TTL) and VSNL	37.80	NA
		Chapra	6	RTL, TTL	34.70	NA
4	**Gujarat**	Valsad	2	IDEA and Fascel,	6.40	NA
		Bhavanagar, Amreli, Junagadh and Valsad	8	IDEA and Fascel	89.88	33.29
5	**Karnataka**	Mysore and Mangalore	2	VSNL and TTL	9.73	NA
		Bangalore and Mangalore	7	Spice, BML, RIL, TTSL, Hutch and VSNL	67.71	NA
		Hubli, Bellary, Mandya and Bangalore	19	Spice, BML, RIL, TTSL, Hutch, Data Access and VSNL	46.54	NA

6	**Kerala**	Trivandrum, Kannur and Malappuram	13	RIL, Hutch, Airtel, TATA and VSNL	38.01	NA
7	**Madhya Pradesh**	Bhopal, Gwalior, Ujjain, Ratlam, Hoshangabad and Jabalpur	9	BTL, RIL, VSNL, BTA Cellular, Reliance Infocom & RPG	137.76	NA
		Hoshangabad, Ujjain and Mandsaur	9	RTL, BTNL, BTA, BTVL and TTL	10.74	NA
		Jabalpur, Khandwa and Mandasaur	4	BTA and RTL	12.51	NA
		Jabalpur	2	BTNL	7.59	NA
8	**Maharashtra**	Ahmednagar and Ratnagiri	10	BPL, IDEA, TTML, Airtel, RIL, BCL, TTL	9.26	NA
		Kalyan	3	TTML, IDEA and BPL	52.67	NA
		Ahmednagar, Pune, Kalyan, Goa , Kolhapur and Nagpur	18	RIL, BPL, TTM, IDEA, Bharti, BTVL and VSNL	53.71	NA
		Ahmednagar	3	BCL and IDEA	93.83	NA
9	**Orissa**	Rourkela, Behrampur, Bhubaneswar, Sambalpur and Cuttack	20	RTL, VSNL, RIL, DWL, TTL and BTL	39.59	NA
10	**Punjab**	Ludhiana, Patiala and Sangrur	9	Spice, BTL, HFCL and VSNL	54.50	NA
11	**Rajasthan**	Kota, Alwar, Jaipur, Ajmer, Udaipur, Jodhpur, Sriganganagar	50	RTL, TTL, BTL, ADIL, Bharti Haxacom, Shayam Telelink, VSNL, Aircel, RIL, Hexacom, VSNL, Airtel, Hutch, STL, TATA, BIL, IDEA, BHL	155.27	NA

12	**Tamil Nadu**	Trichy, Karaikudi, Madurai and Tirunelveli	4	BPL	54.84	NA
		Coimbatore	1	Aircell	6.13	NA
		Tuticorin	6	RCL, TTL, Aircell and Bharati Cellular Services	19.09	16.62
		Vellore and Trichy	2	Bharati Cellular Limited	5.86	NA
		Trichy	5	Aircell, Bharti Infotel, Reliance, TTL and VSNL	18.67	NA
		Trichy, Thanjavur and Vellore	42	RIL	13.76	NA
13	**U.P (East)**	Unnao, Lucknow, Kanpur and Allahabad	9	Hutch, RIL, Airtel, VSNL Bharti and TATA	24.53	NA
		Gorakhpur	4	TATA , RIL, Hutch and Airtel	7.02	NA
14	**West Bengal**	Siliguri	2	Hutch and Bharti Cellular	16.43	NA
		Asansol, Jalpairguri and Durgapur	3	RIL, RCL, TTL and VSNL	8.18	NA
		Asansol, Siliguri and Jalpairguri	63	RIL, RTL, RCL, TATA, Airtel, Hutch, HESL and BCL	33.14	NA
	Total		**486**		**1522.35**	**49.91**

Appendix - II
(Referred to in paragraph 2.1.2 at page 10)
Non billing of port charges from PSPs in different circles of BSNL

S.No.	Circle	Name of SSAs	Number of cases	Name of PSPs (Refer Appendix-IX for abbreviations)	Amount involved (Rs in lakh)
1	Assam	Jorhat and Nagaon	5	Dishnet, BTL and RTL	13.20
2	Andhra Pradesh	Nalgonda and Warangal	6	RIL and TTSL	4.93
3	Bihar	Gaya, Muzaffarpur and Munger	22	RIL, VSNL, BTL and RTL	19.38
4	Calcutta Telephone District	Calcutta telephone district	4	TTL	83.24
5	Eastern Telecom Region	Eastern Telecom Region	18	Hutch, BTL, VSNL, RIL, TTL and BTVL	173.00
6	Karnataka	Bellary, Hubli and Mandya	11	Spice, BML, RIL, TTSL, Hutch and VSNL	70.78
7	Kerala	Trivandrum, Kannur and Malappuram	9	Hutch, Airtel, VSNL and RIL	25.19
8	Madhya Pradesh	Ujjain, Gwalior, Indore, Khandwa, Jabalpur, Ratlam and Circle Office	10	RTL, BTNL, BTA, BTVL and TTL	461.18
9	Maharashtra	Kalyan	2	TTML and BPL	16.46
10	Orissa	Cuttack	1	TTL	5.03
11	Tamil Nadu	Madurai, Tuticorin, Salem and Vellore.	24	RIL, TTL, Aircell, BPL	69.76
	Total		**112**		**942.15**

Note: Audit findings pertaining to collection of infrastructure sharing charges from PSPs noticed during the transanction audit of Calcutta Telephone District and Eastern Telecom Region (which were not selected for this study) have also been included here.

Appendix-III
(Referred to in paragraph 2.1.3 at page 11)
Deficiencies in revision/calculation of infrastructure sharing charges

S.No.	Circle	Name of SSAs	Number of cases	Name of PSPs (Refer Appendix-IX for abbreviations)	Loss of revenue (Rs in lakh)
1	Andhra Pradesh	Vijayawada	10	TTL, RIL, BTVL, VSNL and IDEA	3.34
2	Gujarat	Himmatnagar	3	Fascel, RIL and IDEA	21.66
3	Karnataka	Bangalore	10	Spice, BTNL, BML, RIL, TTL, Hutch and BTSL	20.65
4	Kerala	Calicut and Ernakulam	30	VSNL, BPL, RIL, Tata, Airtel and IDEA	64.11
5	Maharashtra	Ahmednagar, Nagpur and Goa	3	BCL	23.95
		Nagpur	7	BPL, BTVL, RIL, IDEA, TTML, VSNL and Bharti	8.89
6	Orissa	Dhenkanal	3	Airtel, Disnet and RTL	5.80
	Total		**66**		**148.40**

Appendix-IV
(Referred to in paragraph 2.1.3 at page 11)
Loss of revenue due to delays in communication of revised infrastructure sharing charges

S.No.	Circle	Name of SSAs	Number of cases	Name of PSPs (Refer Appendix-IX for abbreviations)	Loss of revenue (Rs in lakh)
1	Andhra Pradesh	Hyderabad, Khammam and Prakasam	11	BML, BTVL, Hutch, ICL, RIL, TTSL, VSNL and IDEA	17.77
2	Bihar	Gaya, Munger, Darbhanga, Sasaram, Patna and Muzaffarpur	352	RIL, Tata, Airtel, VSNL, RTL and TTSL	38.64
3	Karnataka	Bangalore, Belgaum, Bellary and Mysore	363	RIL, TTSL, BML, Spice and Hutch	45.88
		Bellary, Raichur, Madikere, Chikmagalur, Mudigere, Nararimharajpura, Gulbarga, Uttarkannada, Hassan, Mandya, Dharwar, Dakshin Kannada and Bijapur.	26	RIL, TTSL	13.88
	Total		**752**		**116.17**

Appendix – V
(Referred to in paragraph 2.1.4 at page 11)
Non recovery of interest by different circles of BSNL from PSPs for delayed payments of bills

S.No.	Name of circle	Name of SSAs	Number of cases	Name of PSPs (Refer Appendix-IX for abbreviations)	Amount involved (Rs in lakh)
1	Gujarat	Mehsana, Nadiad, Surendranagar, Vadodra, Surat, Valsad and Ahmedabad	34	Idea, Fascel, Bharti, Tata, RIL, VSNL and Airtel	83.02
2	Karnataka	Bangalore	6	RIL, TTSL, BML, BT-SOL, BTNL and Spice	8.20
3	Madhya Pradesh	Jabalpur	19	Bharti Telenet and BTA Cellcom	98.50
4	Rajasthan	Jaipur	9	ADIL, RIL, VSNL, BTSL and BHL	20.05
			68		**209.77**

Appendix – VI
(Referred to in paragraph 2.1.5 at page 11)
Non recovery of advance rental for full year in case of surrender of ports by PSPs during the year in different circles of BSNL

S.No.	Circle	Name of SSAs	Number of cases	Name of PSPs (Refer Appendix-IX for abbreviations)	Amount involved (Rs in lakh)
1	Andhra Pradesh	Hyderabad, Nalgonda, Visakhapatnam and Ananthpur	8	RIL	27.73
2	Karanataka	Hubli, Bellary, Mandya and Belgaum	3	Satyam, RIL and TTSL	17.59
3	Kerala	Malappuram	1	RIL	5.11
4	Madhya Pradesh	Bhopal, Gwalior, Ratlam, Hoshangabad and Jabalpur	104	BTL, VSNL, RIL, TTL	36.68
5	Maharasthra	Kalyan	1	RIL	7.85
6	Orissa	Bhubaneswar and Dhenkanal	2	RIL	6.60
7	Tamilnadu	Tirunelveli, Vellore, Dharmapuri, Trichy, Pondycherry, Karaikudi, Madurai, Erode and Thanjavur	9	RIL	30.36
	Total		**128**		**131.92**

Appendix – VII
(Referred to in paragraph 2.1.6 at page 12)
Loss of potential revenue due to delay/non-provision of POIs/ports for PSPs

Sl.No.	Circle	Names of SSAs	Range of delays (No. of days)	Loss of potential revenue (Rs in lakh)
1	Assam	NA	38 to 391	85.70
2	Andhra Pradesh	Khammam, Krishna and Prakasam	24 to 268	3.12
3	Bihar	Gaya, Darbhanga and Muzafarpur	382 to 1703	46.60
4	Karnataka	Hubli, Bellary, Mangalore and Belgaum	5 to 661	16.03
5	Kerala	Pathanamthitta	79 to 169	6.40
6	Madhya Pradesh	34 SSA of the Circle	61 to 1063	43.80
7	Orissa	Bhubaneswar and Cuttak	3 to 1647	29.96
8	Tamil Nadu	Trichy and Thanjavur	62 to 419	84.44
9	U.P (East)	Barabanki, Unnao, Faizabab, Allahabad, Kanpur and Gorakhpur	10 to 870	122.88
10	West Bangal	Kharagpur	396 to 920	15.20
	Total			**454.13**

Appendix- VIII
(Referred to in paragraph 2.1.7 at page 12)
Infrastructure sharing charges outstanding for recovery from PSPs in different circles of BSNL at the end of 2006-07

S.No.	Circle	Name of SSAs	Amount outstanding for recovery (Rs in lakh)
1	Andhra Pradesh	All SSAs of the Circle	5698.02
2	Bihar	Muzaffarpur and Darbhanga	19.56
3	Gujarat	Rajkot, Mehsana, Surat, Valsad and Ahmedabad	259.76
4	Karnataka	Bellary, Bangalore, Belgaum, Davangare, Hassan, Tumkur and Mysore	436.00
5	Madhya Pradesh	Bhopal, Ujjain, Gwalior, Ratlam, Indore, Hoshangabad, Khandwa and Jabalpur	282.42
6	Maharashtra	Pune, Kalyan, Ahmednagar, Goa, Kolhapur and Nashik	247.34
7	Orissa	Bhubaneswar, Rourkela, Behrampur, Cuttack	40.80
8	Rajasthan	Jodhpur	17.09
9	U.P (East)	Lucknow and Gorakhpur	188.94
	Total		**7189.93**

Appendix IX
(Referred to in paragraph 2.1)
Full names of the private service providers (PSPs) as mentioned in different appendices

Sl. No	Abbreviated names of PSPs mentioned in the Appendix	Full names of the PSPs
1	Aircell	AIRCELL LIMITED
2	ADIL	AIRCELL DIGILINK INDIA LIMITED
3	Airtel	AIRTEL (BHARTI CELLULAR LIMITED)
4	BCL	BHARTI CELLULAR LIMITED
5	BCL	BHARTI CELLULAR LIMITED
6	BHL	BHARTI HEXACOM LIMITED
7	BPL	BPL MOBILE COMMUNICATION
8	BML	BHARTI MOBILE LIMITED
9	BIL	BHARTI INFOTEL LIMITED
10	BTL	BHARTI TELEVENTURE LIMITED
11	BTA cellular	BTA CELLCOM LIMITED
12	BT-SOL	BHARTI TELEVENTURE SOLUTIONS LIMITED
13	BTNL	BHARTI TELE NET LIMITED
14	BTVL	BHARTI TELEVENTURE LIMITED
15	BTSL	BHILWARA TELENET SERVICES LIMITED
16	DWL	DISHNET WIRELESS LIMITED
17	Data Access	DATA ACCESS (INDIA) LIMITED
18	Dishnet	DISHNET DSL LIMITED
19	Fascel	FASCEL LIMITED
20	Hexacom	HEXACOM INDIA LIMITED
21	HFCL	HIMACHAL FUTURISTIC COMPANY LIMITED
22	HESL	HUTCHINSON ESSAR SOUTH LIMITED
23	Hutch	HUTCHINSON MAX TELECOM LIMITED
24	Idea	IDEA CELLULAR LIMITED
25	ICL	IDEA CELLULAR LIMITED
26	RCL	RELIANCE COMMUNICATION INFRASTRUCTURE LIMITED
27	RPG	RPG CELLULAR SERVICES LIMITED
28	RTL	RELIANCE TELECOM (P) LIMITED
29	RISL	RELIABLE INTERNET SERVICES LIMITED
30	RIL	RELIANCE INFOCOMM LIMITED
31	STL	SHYAM TELELINK LIMITED
32	Spice	SPICE COMMUNICATIONS
33	TTSL	TATA TELESERVICES LIMITED
34	TTML	TATA TELESERVICES (M) LIMITED
35	TTL	TATA TELESONIC LIMITED
36	TISL	TATA INTERNET SERVICES LIMITED
37	VSNL	VIDESH SANCHAR NIGAM LIMITED

Appendix- X
(Referred to in paragraph 2.2 at page 14)

Loss of subsidy due to non-maintenance of fault-free and functional VPTs

Sl. No	Name of the Circle/SSA	Periodicity	Amount of loss (Rs in lakh)	Remarks
Andhra Pradesh Telecom Circle				
1	CGMT AP Circle [22 SSAs]	April 2006 to January 2007	140.12	Failure to maintain fault-free and/or functional VPTs
Madhya Pradesh Telecom Circle				
2	CGMT, Madhya Pradesh [32 SSAs]	April 2005 to March 2007	963.13	Failure to maintain fault-free and/or functional VPTs
Orissa Telecom Circle				
3	CGMT, Orissa Circle [13 SSAs]	April 2003 to March 2006	865.47	Failure to maintain fault-free and/or functional VPTs
		Sub-total – Circles (A)	**1968.72**	
Bihar Telecom Circle				
4	GMTD, Chapra	September 2006 to March 2007	18.92	Failure to maintain fault-free and/or functional VPTs
5	PGMTD, Patna	July 2006 to March 2007	20.88	
Jharkhand Telecom Circle				
6	GMTD, Hazaribagh	April 2006 to March 2007	103.54	Failure to maintain fault-free and/or functional VPTs
7	GMTD, Ranchi	April 2006 to March 2007	25.41	
Maharashtra Telecom Circle				
3	GMT Akola	April 2002 to September 2006	39.40	Failure to maintain fault-free and/or functional VPTs/RCPs/RDELs
4	TDM, Jalna	April 2005 to September 2006	39.16	Failure to maintain fault-free and/or functional VPTs
5	GMT Khemgaon	November 2003 to September 2006	23.94	
Uttar Pradesh (East) Telecom Circle				
8	GMTD, Deoria	October 2003 to December 2006	153.93	Failure to maintain fault-free and/or functional VPTs
9	GMTD, Mirzapur	October 2005 to December 2006	120.63	
10	TDM, Sitapur	October 2003 to December 2006	144.46	
11	GMTD, Sultanpur	July 2003 to September 2006	131.53	
Uttar Pradesh (West) Telecom Circle				
12	GMTD, Mathura	April 2005 to September 2006	24.68	Failure to maintain fault-free and/or functional VPTs

Sl. No	Name of the Circle/SSA	Periodicity	Amount of loss (Rs in lakh)	Remarks
West Bengal Telecom Circle				
13	TDM, Bankura	October 2003 to September 2004	40.88	Failure to maintain fault-free and/or functional VPTs
14	GMTD, Kharagpur	October 2003 to September 2004	217.90	
15	GMTD, Krishnanagar	October 2003 to September 2004	20.41	
16	GMTD, Suri	October 2003 to September 2004	31.48	
Sub-total – SSAs (B)			**1157.15**	
		GRAND TOTAL (A) + (B)	**3125.87**	

Appendix- XI
(Referred to in paragraph 2.3 at page 14)

Non/short recovery from telephone subscribers and STD/PCO operators

Sl. No.	Number of telephone subscribers and STD PCO operators under the particular SSA	Period of non/short recovery	Total amount of non/short recovery	Particulars of recovery made after pointing out by Audit	
				Amount recovered/adjusted/ cancelled	Balance amount to be recovered
Rajasthan Telecom Circle					
1	381 telephone subscribers under GMTD Ajmer	December 2001 to January 2006	16.28	5.11	11.17
2	412 telephone subscribers under Telecom Divisional Engineer (TDE) Jaisalmer	April 2005 to February 2006	6.81	5.40	1.41
3	203 telephone subscribers under GMTD Jhunjhunu	November 2001 to December 2005	21.96	8.58	13.38
4	1166 telephone subscribers under GMTD Jodhpur	September 2005 to September 2006	26.35	0	26.35
5	574 telephone subscribers under GMTD Pali	February 1999 to March 2006	16.74	4.56	12.18
6	9139 telephone subscribers under GMTD Sirohi	September 1998 to September 2005	73.84	43.16	30.68
7	352 STD PCO operators under GMTD Alwar	January 2005 to December 2005	5.52	5.41	0.11
		Sub total	***167.50***	***72.22***	***95.28***
Uttar Pradesh (East) Telecom Circle					
8	281 STD PCO operators under GMTD Azamgarh	October 2000 to September 2006	42.79	2.87	39.92
9	488 STD PCO operators under Telecom Divisional Manager (TDM) Gonda	October 2000 to August 2006	100.07	18.95	81.12
10	89 STD PCO operators under TDM Raebareli		22.16	0.55	21.61
11	47 STD PCO operators under TDM Shahjahanpur	August 1998 to September 2006	12.18	1.82	10.36
		Sub total	***177.20***	***24.19***	***153.01***
Uttaranchal Telecom Circle					
12	78 STD PCO operators under GMTD Dehradun	October 2000 to September 2006	17.02	0	17.02
13	149 STD PCO operators under GMTD Haldwani		7.39	0	7.39
		Sub total	***24.41***	***0***	***24.41***
		GRAND TOTAL	**369.11**	**96.41**	**272.70**

Appendix- XII
(Referred to in paragraph 2.5 at page 16)
Non/short recovery of compensation claims for damage to underground cables by private agencies

(Rs. in lakh)

Sl. No	Name of the SSA	No. of occasions	Period of damages done	Compensation to be claimed	Compensation recovered at the instance of Audit	Compensation yet to be recovered
Punjab Telecom Circle						
1	Jalandhar SSA	13	June 2000 to June 2002	22.50	0.00	22.50
2	Hoshiarpur SSA	3	September 2005 to January 2006	25.55	21.75	3.80
3	Patiala SSA	4	November 2004 to September 2005	7.12	0.00	7.12
Rajasthan Telecom Circle						
4	Bundi SSA	3	September 2001 to February 2004	10.55	0.00	10.55
5	Jhalawar SSA	1	Jul-05	1.50	0.00	1.50
6	Kota SSA	3	October 2004 to January 2005	3.00	0.00	3.00
Uttar Pradesh (West) Telecom Circle						
7	Northern Telecom Region	53	January 2001 to January 2004	78.12	64.62	13.50
8	Moradabad SSA	2	October 2004 to June 2005	37.82	0.00	37.82
Maharashtra Telecom Circle						
9	Panaji SSA	2	April to September 2004	36.74	0.00	36.74
10	Solapur SSA	1	October 2004	3.07	0.00	3.07
Uttar Pradesh (West) Telecom Circle						
11	Etawah SSA	13	January to March 2006	99.98	0.00	99.98
12	Hamirpur SSA	7	September to November 2006	9.21	0.00	9.21
13	Raebareli SSA	1	June 2006	0.16	0.00	0.16
	Total			**335.32**	**86.37**	**248.95**

Appendix- XIII

(Referred to in paragraph 2.6 at page 17)

Short charging of rentals in respect of urban subscribers commensurate with the enhanced equipped capacities of the exchanges under an SDCA

(Rs in lakh)

Sl. No.	Name of SSA and SDCA	Period of short billing	Amount of short billing	Amount realized	Amount to be recovered
1	2	3	4	5	6
Andhra Pradesh Telecom Circle					
1.	Mahabubnagar	October 2003 to April 2006	213.88	0.00	213.88
2.	Vizianagram	October 2005 to December 2005	20.71	0.00	20.71
		Grand total	**234.59**	**0.00**	**234.59**

Appendix – XIV

(Referred to in paragraph 2.7 at page 18)

Non/short realisation of penal interest on delayed remittances by banks

Name of the SSA	Name of the Banks	Period of non/short claim	Amount (Rs in lakh)
Calcutta telephone district			
Calcutta Telephone District	Bank of India, United Commercial Bank, UTI Bank, IndusInd Bank and ING Vyas Bank Ltd	April 2004 to March 2007	118.77
Kerala telecom circle			
Ernakulam	Vijaya Bank, State Bank of Travancore, Syndicate Bank, Indian Bank, Indian Overseas Bank, Bank of India and Federal Bank	April 2004 to March 2006	32.68
Alappuzha	Vijaya Bank, Syndicate Bank, Indian Bank, Indian Overseas Bank and Federal Bank	November 2004 to May 2006	4.53
Trichur	Vijaya Bank, Syndicate Bank, Indian Bank, Indian Overseas Bank	April 2004 to November 2006	0.81
Kannur	Vijay Bank, Syndicate Bank, Indian Bank, Indian Overseas Bank and Federal Bank	April 2004 to November 2006	8.88
Thiruvalla	State Bank of Travancore, Indian Bank, Indian Overseas Bank and Federal Bank	April 2004 to November 2006	9.65
Kollam	State Bank of Travancore, Syndicate Bank, Indian Bank, Indian Overseas Bank and Federal Bank	April 2004 to December 2006	11.43
Trivandrum	Vijaya Bank, State Bank of Travancore, Syndicate Bank, Indian Overseas Bank, Bank of India and Federal Bank	April 2004 to November 2006	21.90
Total			**208.65**

Appendix – XV

(Referred to in paragraph 2.8 at page 19)

Statement showing Non-adjustment of interest on security deposit with KSEB

Name of SSA	Net interest due for 2005-06	Net interest due for 2006-07	Total Interest Liability
Palakkad	880409	821487	1701896
Kannur	1077488	1873002	2950490
Ernakulam	1861526	2219142	4080668
Tiruvalla	686710	696778	1383488
Kollam	1368302	1479557	2847859
Trivandrum	885515	2182015	3067530
Total			16031931

Appendix-XVI (a)
(Referred to in paragraph 3.1.1 at page 23)
Cables procured vis-à-vis cable required during 2004-05

Name of the Circle	Cables procured during 2004-05	Switching capacity as of March 2004	Switching capacity as of March 2005 (in lakh lines)	Increase in Switching capacity	Cable required as per norm of 7 CKM/NSC
A.P	0.00	40.87	41.28	0.41	2.87
Assam	0.93	6.56	6.77	0.21	1.47
Bihar	7.99	12.05	12.99	0.94	6.58
Haryana	5.40	15.08	15.39	0.31	2.17
Jharkhand	2.69	6.01	6.27	0.26	1.82
Karnataka	5.41	34.24	34.60	0.36	2.52
Gujarat	2.89	37.70	37.18	-0.52	0.00
Kerala	24.27	38.35	40.87	2.52	17.64
Maharashtra	5.67	50.70	51.16	0.46	3.22
Punjab	4.26	27.61	27.63	0.02	0.14
Rajasthan	4.69	22.91	22.94	0.03	0.21
Tamilnadu	3.59	35.56	35.98	0.42	2.94
U.P (East)	4.72	22.97	23.10	0.13	0.91
U.P (west)	4.68	17.30	17.51	0.21	1.47
Chennai TD	2.40	13.45	13.47	0.02	0.14
Total	**79.59**	**381.36**	**387.14**		**44.10**

Appendix-XVI (b)
(Referred to in paragraph 3.1.1 at page 23)
Cables procured vis-à-vis cable required during 2005-06

Name of the Circle	Cables procured during 2005-06	Switching capacity as of March 2005 (in lakh lines)	Switching capacity as of March 2006 (in lakh lines)	Increase in Switching capacity	Cable required as per norm of 7 CKM/NSC
A.P	1.96	41.28	39.86	-1.42	0
Assam	4.20	6.77	7.02	0.25	1.75
Bihar	5.14	12.99	13.31	0.32	2.24
Haryana	5.55	15.39	15.60	0.21	1.47
Jharkhand	3.10	6.27	6.52	0.25	1.75
Karnataka	6.21	34.60	34.57	-0.03	0
Gujarat	3.66	37.18	37.02	-0.16	0
Kerala	19.71	40.87	41.68	0.81	5.67
Maharashtra	11.80	51.16	51.99	0.83	5.81
Punjab	6.29	27.63	27.69	0.06	0.42
Rajasthan	4.95	22.94	22.80	-0.14	0
Tamilnadu	4.04	35.98	34.79	-1.19	0
U.P (East)	7.60	23.10	23.25	0.15	1.05
U.P (west)	5.39	17.51	17.47	-0.04	0
Chennai TD	2.50	13.47	14.38	0.91	6.37
Total	**92.10**	**387.14**	**387.95**		**26.53**

Appendix-XVI (c)
(Referred to in paragraph 3.1.1 at page 23)

Excess procurement of cables

Year	Cable required	Cables procured	Cables procured in excess	Value of excess procurement (Rs in crore)
2004-05	44.10	79.59	35.49	241.33
2005-06	26.53	92.10	65.57	445.88
Total	70.63	171.69	101.06	**687.21**

<u>Cable required as per norm of 40 CKM per 1000 DELs for maintenance</u>

Average number of DELs during the year 2004-2006	291.12 lakh DEL
Norm for Imprest stock to be kept for emergencies/maintenance	40 CKM per 1000 DELs
Cable actually reqired for maintenance (in CKM)	1164480
say	11.64 LCKM

(Rs in crore)

Value of cable required for imprest stock	**79.15**
Value of net excess procurement of Cable (687.21 - 79.15)	**608.06**

Appendix-XVII (a)

(Referred to in paragraph 3.1.1 at page 23)

Statement showing consumption pattern of cables

Name of the Circle	Position of cables during 2003-04 (in LCKM)				No. of DELs in the Circle as of March 2004 (in lakh lines)	Closing balance of cables in months of consumption (in months) i.e. col.5/4 X 12
	Opening Balance	Cables procured	Cables laid	Closing balance		
1	2	3	4	5	6	7
A.P	17.53	0.19	8.72	9.00	31.52	12
Assam	0.83	0.35	0.95	0.23	4.97	3
Bihar	1.83	1.82	2.56	1.09	8.66	5
Haryana	1.22	2.61	2.88	0.95	11.19	4
Jharkhand	1.40	0.56	0.71	1.25	4.35	21
Karnataka	3.44	1.49	2.89	2.04	26.99	8
Gujarat	8.47	6.61	10.89	4.19	27.55	5
Kerala	2.90	9.35	11.01	1.24	31.94	1
Maharashtra	17.83	0.00	12.26	5.57	38.82	5
Punjab	1.49	4.47	3.22	2.74	20.13	10
Rajasthan	1.81	2.85	2.94	1.72	17.53	7
Tamilnadu	2.33	3.75	4.41	1.67	28.42	5
U.P (East)	2.57	2.41	3.50	1.48	16.52	5
U.P (west)	1.12	0.98	1.70	0.40	12.36	3
Chennai TD	1.36	0.37	1.40	0.33	10.11	3
Total	**66.13**	**37.81**	**70.04**	**33.90**	**291.06**	

Appendix-XVII (b)
(Referred to in paragraph 3.1.1 at page 23)

Statement showing consumption pattern of cables

Name of the Circle	Position of cables during 2004-05 (in LCKM)				No. of DELs in the Circle as of March 2005 (in lakh lines)	Closing balance of cables in months of consumption (in months) i.e. col.5/4 X 12
	Opening Balance	Cables procured	Cables laid	Closing balance		
1	2	3	4	5	6	7
A.P	9.00		3.65	5.35	31.78	18
Assam	0.23	0.93	0.48	0.68	5.11	17
Bihar	1.09	7.99	5.55	3.53	9.51	8
Haryana	0.95	5.40	4.12	2.23	10.91	6
Jharkhand	1.25	2.69	1.36	2.58	4.55	23
Karnataka	2.04	5.41	2.16	5.29	27.01	29
Gujarat	4.19	2.89	3.73	3.35	26.54	11
Kerala	1.24	24.27	20.34	5.17	34.25	3
Maharashtra	5.57	5.67	5.79	5.45	39.21	11
Punjab	2.74	4.26	2.29	4.71	19.44	25
Rajasthan	1.72	4.69	2.04	4.37	17.74	26
Tamilnadu	1.67	3.59	2.85	2.41	28.80	10
U.P (East)	1.48	4.72	3.27	2.93	16.47	11
U.P (west)	0.40	4.68	1.77	3.31	12.34	22
Chennai TD	0.33	2.40	0.53	2.20	9.85	50
Total	**33.90**	**79.59**	**59.93**	**53.56**	**293.51**	

Appendix-XVII (c)
(Referred to in paragraph 3.1.1 at page 23)

Statement showing consumption pattern of cables

Name of the Circle	Position of cables during 2005-06 (in LCKM)				No. of DELs in the Circle as of March 2006 (in lakh lines)	Closing balance of cables in months of consumption (in months) i.e. col.5/4 X 12
	Opening Balance	Cables procured	Cables laid	Closing balance		
1	2	3	4	5	6	7
A.P	5.35	1.96	3.28	4.03	30.32	15
Assam	0.68	4.20	0.81	4.07	5.20	60
Bihar	3.53	5.14	4.39	4.28	10.36	12
Haryana	2.23	5.55	3.56	4.22	10.98	14
Jharkhand	2.57	3.10	1.72	3.95	4.70	28
Karnataka	5.29	6.21	3.07	8.43	26.34	33
Gujarat	3.35	3.66	2.66	4.35	25.44	20
Kerala	5.17	19.71	14.47	10.41	35.69	9
Maharashtra	5.45	11.80	5.02	12.23	39.34	29
Punjab	4.71	6.29	3.56	7.44	18.13	25
Rajasthan	4.38	4.95	2.83	6.50	17.45	28
Tamilnadu	2.41	4.04	1.48	4.97	27.57	40
U.P (East)	2.93	7.60	3.65	6.88	15.86	23
U.P (west)	3.31	5.39	3.21	5.49	11.33	21
Chennai TD	2.20	2.50	0.84	3.86	10.09	55
Total	**53.56**	**92.10**	**54.55**	**91.11**	**288.80**	

Appendix-XVII (d)
(Referred to in paragraph 3.1.1 at page 23)
Statement showing consumption pattern of cables

Name of the Circle	Position of cables during 2006-07 (upto January 2007) (in LCKM)				No. of DELs in the Circle as of January 2007 (in lakh lines)	Closing balance of cables in months of consumption (in months) i.e. col.5/4 X 12
	Opening Balance	Cables procured	Cables laid	Closing balance		
1	2	3	4	5	6	7
A.P	4.03		1.79	2.24	27.98	**15**
Assam	4.07	0.48	0.78	3.77	5.00	**58**
Bihar	4.28	2.64	3.06	3.86	9.59	**15**
Haryana	4.22	0.71	1.62	3.31	10.06	**25**
Jharkhand	3.95		0.72	3.23	4.45	**54**
Karnataka	8.43		3.22	5.21	24.38	**19**
Gujarat	4.35	0.28	2.87	1.76	23.07	**7**
Kerala	10.41	1.52	8.58	3.35	36.02	**5**
Maharashtra	12.23	0.05	4.49	7.79	37.34	**21**
Punjab	7.44	0.41	2.29	5.56	16.08	**29**
Rajasthan	6.50	0.33	1.74	5.09	16.77	**35**
Tamilnadu	4.97	0.15	1.58	3.54	25.65	**27**
U.P (East)	6.88		2.51	4.37	14.94	**21**
U.P (west)	5.49	0.23	1.2	4.52	10.21	**45**
Chennai TD	3.86	0.88	1.71	3.03	9.80	**21**
Total	**91.11**	**7.68**	**38.16**	**60.63**	**271.34**	

Note : The value of cables lying in stock in excess of norms as at the end of January 2007 has been worked out at the rate of Rs 6.80 crore per LCKM cables.

Appendix-XVIII (a)
(Referred to in paragraph 3.1.2 at page 24)

Statement showing expenditure incurred on injudicious expansion of exchanges

Sl. No.	Name of Circle/ Telecom district	Number of exchanges expanded	Equipped capacity		DELs		Expenditure on expansion (Rs in crore)
			Before expansion	After expansion	Before expansion	After expansion	
1	Gujarat	17	85176	104900	61423	51342	19.76
2	Kerala	37	78768	97734	69164	71970	3.86
3	U.P (East)	7	38000	50000	30059	29416	8.60
	Sub-total (1 to 3)	**61**	**201944**	**252634**	**160646**	**152728**	**32.22**
4	Chennai Telephone District	2	3500	6500	1107	1491	0.77
	Total	**63**	**205444**	**259134**	**161753**	**154219**	**32.99**

Appendix-XVIII (b)
(Referred to in paragraph 3.1.2 at page 24)
Expenditure on new exchanges installed

Name of the circle	Name of the SSAs where new exchanges were installed	Number of new exchanges installed	Cost of excess capacity lying idle (Rs in crore)
Haryana	Ambala, Faridabad, Gurgaon and Hissar	8	6.90
Punjab	Chandigarh and Ludhiana	5	3.94
Gujarat	Vadodara	3	2.85
U.P (East)	Barabanki, Allahabad, Varanasi, Balia and Gonda	11	6.50
U.P (West)	Saharnpur and Meerut	4	4.90
Maharashtra	Pune and Nagpur	4	2.61
Tamil Nadu	Pondicherry	1	0.47
Chennai TD	Chennai	8	1.12
Karnataka	Bangalore	4	0.14
Total		**48**	**29.43**

Appendix-XIX

(Referred to in paragraph 3.1.3 at page 25)

Value of DLC systems idling/underutilised

Sl. No.	Circle	DLC systems procured		Number of DLC systems		Value of DLC systems lying (Rs in crore)	
		Number	Value (Rs in crore)	Idle	Under-utilised (less than 40 *per cent*)	Idle	Under-utilised
1	**Andhra Pradesh**	1	0.82		1		0.82
2	**Gujarat**	21	8.21	5		1.18	
3	**Chennai TD**	66	55.33	6	1	4.51	0.52
4	**UP (East)**	104	56.35	10	28	9.06	14.49
5	**Kerala**	88	7.98		46		4.17
6	**Maharashtra**	42	33.35		18		25.67
7	**Punjab**	1	1.17	1		1.17	
8	**Calcutta TD**	20	10.81		20		10.81
9	**Karnataka**	3	1.15		3		1.15
10	**Madhya Pradesh**	38	21.91		15		7.37
	Total	**384**	**197.08**	**22**	**132**	**15.92**	**65.00**

Appendix-XX

(Referred to in paragraph 3.2 at page 27)

Additional TAX capacity required during 2004-05

Type of service	**Allotted capacity for 2004-05**	**TAX circuits required as per allotted capacity at col 2.**
1	2	3
Land line	20742	2053 (9.9%)
WLL	144750	14330 (9.9 %)
CMTS	212000	16536 (7.8 %)
Total		32919
Add 10% of 32919 for level I TAX		3291
Total TAX capacity		**36210 circuits**

Appendix-XXI
(Referred to in paragraph 3.3 at page 29)

Details of votes registered during November 2004 to September 2006

Month/Year	Total votes registered	Votes registered per day	Average Votes registered per hour
Nov-04	722325	24078	1003
Dec-04	3320205	110674	4611
Jan-05	3973888	132463	5519
Feb-05	17717690	590590	24608
Mar-05	23346424	778214	32426
Apr-05	9789647	326322	13597
May-05	12193381	406446	16935
Jun-05	36379209	1212640	50527
Jul-05	37209638	1240321	51680
Aug-05	**49564357**	1652145	**68839**
Sep-05	38119918	1270664	52944
Oct-05	39944214	1331474	55478
Nov-05	21637402	721247	30052
Dec-05	12607690	420256	17511
Jan-06	13997988	466600	19442
Feb-06	32122084	1070736	44614
Mar-06	5051460	168382	7016
Apr-06	6809328	226978	9457
May-06	5026384	167546	6981
Jun-06	4859017	161967	6749
Jul-06	2260000	75333	3139
Aug-06	1021586	34053	1419
Sep-06	4040241	134675	5611

Appendix –XXII
(Referred to in paragraph 3.8 at page 36)
Loss due to non-availing of Bill mail service

(Rs in crore)

Sl.No	Circle/SSA	Type of postal service availed	Bills posted (in crore)	Period	Amount actually paid	Amount due under BMS	Extra expenditure
I	**Chennai Telephones**	Book Packet	1.93	11/03 to 7/06	7.74	6.01	1.73
II	**Kerala Circle**						
1	Thiruvananthapuram	Business post	0.53	10/03 to 11/06	2.12	1.59	0.53
2	Kollam	Business post	0.42	10/03 to 11/06	1.69	1.27	0.42
3	Tiruvalla	Business post	0.29	10/03 to 11/06	1.16	0.87	0.29
4	Kottayam	Business post	0.28	10/03 to 11/06	1.13	0.84	0.28
5	Calicut	Business post	0.50	10/03 to 3/06	1.99	1.49	0.50
6	Trichur	Business post	0.42	6/04 to 6/06	1.68	1.26	0.42
7	Alappuzha	Business post	0.34	10/03 to 12/05	1.36	1.02	0.34
8	Malappuram	Business post	0.40	6/04 to 6/06	1.60	1.20	0.40
9	Palakkad	Business post	0.27	6/04 to 6/06	1.06	0.80	0.27
10	Ernakulam	Business post	0.37	4/05 to 10/06	1.48	1.11	0.37
	Ernakulam-Thodupuzha	Business post	0.20	4/05 to 10/06	0.81	0.61	0.20
III	**Uttar Pradesh (East)**						
11	Jaunpur	Book Packet	0.04	10/03 to 3/06	0.17	0.12	0.04
12	Fatehpur	Book Packet	0.02	10/03 to 2/06	0.10	0.07	0.02
13	Varanasi	Book Packet	0.11	4/04 to 1/06	0.42	0.32	0.11
IV	**Uttar Pradesh (west)**						
14	Rampur	Book Packet	0.03	10/03 to 4/05	0.14	0.10	0.03
15	Moradabad	Book Packet	0.05	1/04 to 4/06	0.22	0.16	0.05
		Private contractor	0.01	5/04 to 1/06	0.09	0.04	0.05
V	**Uttaranchal**						
16	Dehradun	Book Packet	0.15	1/04 to 4/06	0.60	0.45	0.15
VI	**Chattisgarh**						
17	Bilaspur	Book now pay later	0.08	10/03 to 8/05	0.41	0.25	0.17
18	Raipur	Book now pay later	0.12	10/03 to 11/05	0.64	0.36	0.27
		Speed post	0.01	10/03 to 6/05	0.23	0.03	0.19
19	Ambikapur	Bookpacket	0.10	4/04 to 3/07	0.41	0.31	0.10

20	Durg	Bookpacket	0.23	10/03 to 7/07	0.90	0.68		0.23
VII	**Orissa**							
21	Behrampur	Book Packet	0.12	11/03 to 8/05	0.50	0.37		0.12
22	Sambalpur	Book Packet	0.12	10/03 to 10/06	0.49	0.36		0.12
23	Rourkela	Book Packet	0.09	10/03 to 2/03	0.36	0.27		0.09
24	Bhubneswar	Book Packet	0.38	10/03 to 12/06	1.53	1.15		0.38
VIII	**Tamil Nadu**							
25	Coimbatore	Book Packet	0.51	4/04 to 12/06	2.05	1.54		0.51
26	Dharmapuri	Book Packet	0.24	10/03 to 12/06	0.97	0.73		0.24
27	Erode	Book Packet	0.31	4/06 to 9/06	1.26	0.94		0.31
28	Karaikudi	Book Packet	0.24	11/04 to 10/06	0.95	0.72		0.24
29	Kumbakonam	Book Packet	0.22	10/03 to 11/06	0.87	0.65		0.22
30	Madurai	Book Packet	0.49	11/03 to 10/06	1.98	1.48		0.49
31	Nagercoil	Book Packet	0.21	4/04 to 12/06	0.85	0.64		0.21
32	Thanjavur	Book Packet	0.23	10/03 to 3/06	0.91	0.68		0.23
33	Trichy	Book Packet	0.61	4/04 to 3/07	2.44	1.83		0.61
34	Vellore	Book Packet	0.23	4/05 to 10/06	0.92	0.69		0.23
35	Virudhunagar	Book Packet	0.14	11/04 to 9/06	0.56	0.42		0.14
36	Tuticorin	Book Packet	0.14	1/04 to 7/06	0.55	0.41		0.14
IX	**Rajasthan**							
37	Bharatpur	Book Packet	0.08	10/04 to 1/07	0.34	0.25		0.08
38	Bhilwara	Book Packet	0.11	10/03 to 12/06	0.45	0.34		0.11
39	Jaipur	Book Packet	0.55	12/03 to 12/06	2.21	1.66		0.55
40	Kota	Book Packet	0.05	12/05 to 11/06	0.22	0.16		0.05
41	Pali	Book Packet	0.18	9/03 to 12/06	0.73	0.55		0.18
42	Tonk	Book Packet	0.04	10/03 to 1/07	0.17	0.13		0.04
43	Udaipur	Book Packet	0.23	10/03 to 1/07	0.90	0.68		0.23
X	**Bihar**							
44	Chapra	Book Packet	0.09	1/04 to 11/06	0.37	0.27		0.09
45	Katihar	Book Packet	0.08	9/03 to 1/07	0.33	0.25		0.08

46	Gaya	Book Packet	0.11	10/03 to 3/07	0.46	0.34	0.11
47	Darbhanga	Book Packet	0.09	11/03 to 3/07	0.36	0.27	0.09
48	Patna	Book Packet	0.62	10/03 to 12/06	2.50	1.87	0.62
49	Muzaffarpur	Book Packet	0.12	10/03 to 3/07	0.47	0.35	0.12
50	Bhagalpur	Book Packet	0.08	10/03 to 11/06	0.31	0.23	0.08
51	Hazarbagh	Book Packet	0.08	10/04 to 2/07	0.32	0.24	0.08
52	Dumka	Book Packet	0.05	11/03 to 12/06	0.19	0.14	0.05
53	Jamshedpur	Book Packet	0.25	10/03 to 3/07	1.02	0.76	0.25
54	Ranchi	Book Packet	0.18	10/03 to 12/06	0.73	0.55	0.18
XI	**Madhya Pradesh**						
55	Bhopal	Bookpacket	0.29	10/03 to 9/06	1.16	0.87	0.29
56	Khandwa	Bookpacket	0.06	10/03 to 3/06	0.30	0.18	0.12
			0.02	4/06 to 12/06	0.08	0.06	0.02
57	Ratlam	Bookpacket	0.11	11/03 to 6/07	0.45	0.34	0.11
58	Ujjain	Bookpacket	0.05	1/07 to 7/07	0.18	0.14	0.05
							15.06

Appendix – XXIII
(Referred to in paragraph 3.10 at page 38)
Irregular expenditure on upkeep services

Year	Sanctioned strength	Men* in position	Personnel¥ hired	Total men in position	Excess personnel hired	Salary$ per month per person (Rs)	Total irregular expenditure (Rs)
				Col 3+4	Col 5-2		Col 7 x 6 x period
1	2	3	4	5	6	7	8
2003-04	1058	974	889	1863	805	2403	23212980
2004-05	1058	955	826	1781	723	2403	20848428
2005-06	748	688	826	1514	766	2632	24193344
2006-07 (upto Oct 06)	748	659	826	1485	737	2632	13578488
Total							**81833240**

* Men in position as of April of each year. The figures could marginally change during the year.

¥ Personnel hired as of April of each year. The figures could marginally change during the year.

$ Lowest salary paid during the period for upkeep services in rural areas.

Appendix – XXIV
(Referred to in paragraph 3.11 at page 39)
Payment of higher electricity charges

Rs in lakh

Sl.no	SSA/Exchange	Period	Payment under LT	Payment due if under HT	Avoidable payment
1	2	3	4	5	6 (Col 4-5)
	Malappuram				
1	Perinthalmanna	4/05 - 3/06	33.56	16.24	17.32
2	Nilambur	4/05 - 3/06	29.98	14.25	15.73
3	Malappuram OCB	4/05 - 3/06	28.63	13.73	14.90
4	Ponnani	4/05 - 3/06	22.37	11.00	11.37
5	Kottakkal	4/05 - 3/07	14.46	7.95	6.51
	Palakkad				
6	Mannarkkad	4/03 - 9/06	114.56	53.87	60.69
7	Shornur	4/03 - 9/06	77.73	46.07	31.66
8	Thrithala	4/03 - 9/06	73.57	36.51	37.06
9	Cherpulassery	4/03 - 9/06	70.64	33.37	37.27
	Ernakulam				
10	S.R.M Road	4/03 - 9/06	65.48	34.56	30.92
11	Trikkakara	4/03 - 9/06	79.22	39.85	39.37
	Calicut				
12	Feroke	1/04 - 6/06	59.95	29.78	30.17
	Kottayam				
13	Ponkunnam	4/03 - 4/06	60.81	30.71	30.10
	Trichur				
14	Punkunnam	9/04 - 8/06	31.59	16.31	15.28
	Total				**378.35**

Appendix – XXV
(Referred to in paragraph 3.13 at page 42)
Loss due to excess payment of commission

Year	Denomination of ITC	Number of ITC sold	Talk value per ITC	Total Talk value of ITC sold	Difference in commission. (8%)	Cost of ITC cards and its printing (Rs 1.44 per card)	Excess payment of commission
	Rs		Rs	Rs	Rs	Rs	Rs
1	2	3	4	5	6	7	8
				(Col 3*4)	(Col 5*8%)	(Col 3* Rs1.44)	(Col 6-7)
2005-06	100	1494350	90.74	135597319	10847786	2151864	8695922
	200	37500	181.49	6805875	544470	54000	490470
2006-07	100	5300000	90.74	480922000	38473760	7632000	30841760
	200	350000	181.49	63521500	5081720	504000	4577720
	500	250000	453.72	113430000	9074400	360000	8714400
Total							**53320272**

Appendix-XXVI (a)
(Referred to in paragraph 3.14 at page 43)
Cost of PLB Pipes and accessories calculated after considering Cenvat credit

Sl. No	Item	Unit	Total quantity procured	Rate (Rs)	Amount (Rs)
1	PLB HDPE Ducts 40/33 mm	Kms	4837	24613.62	119056079.94
2	Plastic slip fit coupler	Nos	12995	55.97	727330.15
3	Cable sealing plugs	Nos	10978	18.08	198482.24
4	End plug	Nos	19108	14.64	279741.12
5	Rotary duct cutter	Nos	96	1200	115200.00
6	Replacement blade	Nos	96	250	24000.00
7	Blowing/deblowing of 12/24/48 OF cable	Kms	125	6500	812500.00
8	Blowing/deblowing of 48 F OF cable (Ribbon type)	Kms	0	7000	0.00
9	Blowing/deblowing of 96/144 F OF cable (Ribbon type)	Kms	0	7250	0.00
Total					**121213333.45**

Appendix-XXVI (b)
(Referred to in paragraph 3.14 at page 43)
Total quantity procured by WTP

Sl. No	Item	Unit	PO-1dt 31/8/2005	PO-2 dt 3/10/2005	PO-3 dt 26/12/2005	PO-4dt 27/1/2006	
			Quantity procured Kms/nos				Total quantity
1	PLB HDPE Ducts 40/33 mm	Kms	495	1062	778	2502	**4837**
2	Plastic slip fit coupler	Nos	1485	2064	2054	7392	**12995**
3	Cable sealing plugs	Nos	1485	2345	2124	5024	**10978**
4	End plug	Nos	990	4368	2118	11632	**19108**
5	Rotary duct cutter	Nos	10	21	14	51	**96**
6	Replacement blade	Nos	10	21	14	51	**96**
7	Blowing/deblowing of 12/24/48 OF cable	Kms	125	nil	nil	nil	**125**
8	Blowing/deblowing of 48 F OF cable (Ribbon type)	Kms	nil	nil	nil	nil	**nil**
9	Blowing/deblowing of 96/144 F OF cable (Ribbon type)	Kms	nil	nil	nil	nil	**nil**
Amount			14509018	29377805	21536744	69348283	**134771850**

Appendix-XXVII
(Referred to in paragraph 5.1 at page 51)

Utilisation of Landline, CMTS and WLL exchange capacity in MTNL Delhi and Mumbai

Period	WLL			Landline			CMTS		
	Equipped capacity	Working connections	Spare capacity	Equipped capacity	Working connections	Spare capacity	Equipped capacity	Working connections	Spare capacity
March-02	94800	47332	**47468**	5495097	4493986	**1001111**	200000	200547	**-547**
March-03	200000	88226	**111774**	5772639	4600025	**1172614**	200000	291917	**-91917**
March-04	292230	142783	**149447**	5825159	4331153	**1494006**	450000	360550	**89450**
March-05	292230	250013	**42217**	5848079	4015173	**1832906**	1250000	881696	**368304**
March-06	692230	146990	**545240**	5689332	3821252	**1868080**	1750000	1941155	**-191155**
January-07	1092230	179872	**912358**	5655321	3694006	**1961315**	2350000	2498234	**-148234**

Appendix-XXVIII
(Referred to in paragraph 5.3 at page 54)

Non/underutilization of Digital Loop Carriers procured and installed by Mumbai unit of MTNL

Sl. No.	DLC (Configuration)	Capacity of DLC (Lines)	No. of DLC commissioned	Total capacity of DLC	Actual utilisation	Percentage of utilization
				(in lines)		
1	120	67	38	2546	517	20.31
2	360	160	13	2080	670	32.21
3	480	422	147	62034	12479	20.12
	TOTAL		**198**	**66660**	**13666**	**20.50**
Delhi unit of MTNL						
1	120	67	1	67	0	0.00
2	240	160	20	3200	567	17.72
3	480	422	122	51484	5415	10.52
	TOTAL		**143**	**54751**	**5982**	**10.93**

Appendix-XXIX
(Referred to in paragraph 5.5 at page 56)

Growth in Landline connections in MTNL Delhi and Mumbai.

Landline				
Period	**Equipped capacity**	**Working connections**	**Growth in working connections**	**Percentage growth (Col 4*100/Col 3)**
1	2	3	4	5
March-02	5495097	4493986	N/A	N/A
March-03	5772639	4600025	106039	2
March-04	5825159	4331153	-268872	-6
March-05	5848079	4015173	-315980	-7
March-06	5689332	3821252	-193921	-5
January-07	5655321	3694006	-127246	-3

Appendix-XXX
(Referred to in paragraph 5.6 at page 58)

Idling of PIJF cables in MTNL Mumbai

Sl. No.	Particulars	Unit	How calculated	Size of the cables				Total
				10/0.5 (A)	20/0.5 (A)	100/0.5 (A)	800/0.5 (UA)	
1	Total Stock at hand at Main and Area stores depot as of Oct. '06	in km	----	519	265	248	28	**1060**
2	Value of the stock [as per the last Purchase Order]	(Rs in crore)	----	2	1	4	3	**9**
3	Total consumption of cable from Apr '04 to Oct '06	in km	----	149	443	387	33	**1012**
4	Average consumption per month of 31 months (m)	in km	Sl.3 / 31m	5	14	12	1	----
5	Considering avg consumption, the available total stock would meet the requirement for	in months	Sl.(1 / 4)	108	19	20	27	----
6	Replenishment of stock - six months stock @ avg consumption	in km	Sl.4 * 6m	29	86	75	6	**196**
7	Excess holding of stock	in km	Sl.(1 - 6)	490	180	173	22	**865**
8	Value of the stock [as per the last Purchase Order]	(Rs in crore)	----	1.72	0.87	2.68	1.97	**7.24**

Appendix-XXXI (a)
(Referred to in paragraph 5.7 at page 59)

Details of outstanding amounts in respect of private telephone subscribers

Sl. No.	Name of the Area	Number of subscribers involved	Range of number of bills pending against each subscriber	Period involved	Range of delay in disconnection (in days)	Amount of outstanding (Rs in lakh)
1	South I	116	3 to 51	17-2-2001 to 11-11-2006	2 to 1269	135.15
2	South II	165	3 to 23	1-4-2001 to 16-3-2006	4 to 1726	169.18
3	East	55	3 to 40	1-4-2001 to 16-2-2006	1 to 1325	50.09
4	West I	23	3 to 15	12-4-2001 to 13-3-2006	1 to 698	27.17
5	West II	7	4 to 10	12-3-2001 to 6-8-2005	24 to 208	7.06
6	North I	3	3 to 6	12-9-2001 to 12-4-2004	65 to 248	3.11
7	Trans Yamuna	10	3 to 15	9-4-2001 to 27-6-2005	45 to 1013	12.15
8	Central	32	3 to 24	9-4-2001 to 30-1-2006	2 to 860	37.77
	GRAND TOTAL	**411**				**441.69**

Appendix-XXXI (b)
(Referred to in paragraph 5.7 at page 59)
Details of outstanding amounts in respect of STD/ISD PCO operators

Sl. No.	Name of the Area	Number of subscribers involved	Range of number of bills pending against each subscriber	Period involved	Range of delay in disconnection (in days)	Amount of outstanding (Rs in lakh)
1	South I	22	3 to 15	10-4-2001 to 1-7-2005	3 to 401	34.25
2	South II	73	3 to 22	9-4-2001 to 10-8-2005	1 to 1075	83.12
3	East	20	4 to 15	10-4-2001 to 1-7-2005	29 to 362	15.00
4	West I	12	3 to 22	10-4 2002 to 29-9-2005	upto 241	9.58
5	West II	2	22 to 41	25-7-2003 to 10-2-2004	119 to 298	2.67
6	North II	1	4	25-11-2003 to 10-2-2004	30	0.65
7	Central	1	3	10-6-2001 to 10-7-2001	24	0.59
	GRAND TOTAL	**131**				**145.85**

Appendix-XXXII
(Referred to in paragraph 5.8 at page 60)

Outstanding in respect of dolphin connections booked through franchisees in MTNL Delhi

Sl. No.	Name of the franchisee	Total number of connections booked by the franchisee	Number of fraudulent connections	Percentage of fraudulent connections to total connections	Amount of outstanding (in Rs)
2004-2005					
1	Ajay	495	261	52.73	1476907.67
2	ARC	533	321	60.23	1102522.71
3	BALAJI	193	135	69.95	977541.21
4	CSHOPPER	343	268	78.13	1150383.74
5	GLOBAL	642	390	60.75	1258543.06
6	KBN	747	478	63.99	1840877.93
7	NOBLE	536	300	55.97	1026047.96
8	RADIO	510	257	50.39	524571.05
9	SHIVA	207	101	48.79	232006.37
10	STEPCARE	147	68	46.26	216134.74
11	TRIDENT	1014	687	67.75	4733236.60
12	TNOTCH	339	191	56.34	532523.13
13	VIBHOR	520	292	56.15	1230256.77
14	VISION	560	294	52.50	844726.32
	TOTAL	**6786**	**4043**	**59.58**	**17146279.26**

Sl. No.	Name of the franchisee	Total number of connections booked by the franchisee	Number of fraudulent connections	Percentage of fraudulent connections to total connections	Amount of outstanding (in Rs)
			2005-2006		
1	Ajay	155	92	59.35	400687.12
2	ARC	477	342	71.70	1989527.92
3	BALAJI	160	102	63.75	562119.97
4	CSHOPPER	730	559	76.58	2270346.31
5	GLOBAL	1093	811	74.20	3967402.27
6	KBN	567	437	77.07	2840517.93
7	NOBLE	325	166	51.08	615789.92
8	RADIO	397	130	32.75	274562.90
9	SHIVA	162	75	46.30	237306.81
10	STEPCARE	136	78	57.35	280830.91
11	TRIDENT	893	645	72.23	3998745.19
12	TNOTCH	220	138	62.73	415138.84
13	VIBHOR	457	255	55.80	1273595.85
14	VISION	851	471	55.35	1769998.14
	TOTAL	**6623**	**4301**	**64.94**	**20896570.08**

Appendix-XXXIII
(Referred to in paragraph 6.4 at page 63)

Statement indicating installed capacity, targeted capacity and actual performance of major products of the ITI for 5 years (2002-03 to 2006-07)

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 in crore	--	300	608.0	--	--
MLLN/MLDN	Rs in crore	--	25.00	39.29	--	157

*** As the products are new the installed capacity is not known.**

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 in crore	--	330	105.38	--	32
DLC-SDH	NOS	--	425	100	--	24
MLLN	Rs in crore	--	140	127.77	--	91
SMART/SIM CARDS	Rs in crore	--	22	12.40	--	56
DWDM	NOS	--	25	-	--	-
VRLA BATTERY	Rs in crore	--	15	5.82	--	39
IT & TURN KEY PROJECTS	Rs in crore	--	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}		
OCB-TAX/TANDEM		}	}	}	47	100
	KC	600.0}	550}	524.18}		
Transmission						
SATCOM	Nos.	2500Nos.	10@	10.49@	-	105@
OPTIC FIBRE	Nos.	7000 Nos.	126@	25.25@	-	20@
EQUIPMENTS	Rs in crore					
DLC.SDH	Nos.	Project Stage	63	30.70	-	49
DWDM		Project Stage	32	8	-	25
Terminal Equipments						
TELEPHONES						
SOLAR PANEL	K.Nos	1200	1260	354.09	30	28
	Rs in crore	30000 Nos.	5.00	-	-	-
NEW PRODUCTS						
CDMA WLL TML/FWT						
CDMA HAND SET	K Nos.	Project Stage	136	93.05	-	68
(MOBILE)	K Nos.	Project Stage	210	25.37	-	12
DSPT						
PAYPHONE	Rs in crore	Project Stage	81	-	-	-
SMPS	Rs in crore	Project Stage	10	-	-	-
SIMCARDS	Rs in crore	125.00	-	12.30	10	-
VRLA BATTERY	Rs in crore	4 Million	31	21.01	-	68
	Rs in crore	25 Million AH	-	8.12	-	-
PROJECTS						
WLL-CDMA INFRA						
CORDECT	KL	Project Stage	1310	654.50	-	50
GSM	Rs in crore	360 KL	36	73.35	-	204
NGN/SOFT SWITCH/IP	KL	Project Stage	2625	1000.0	-	38
TAX						
MLLN	Rs in crore	Project Stage	131	-	-	-
IT PRODUCTS	Rs in crore	Project Stage	126	0.42	-	0.33
TURNKEY PROJECTS	Rs in crore	-	144	31.80	-	22
	Rs in crore	-	458	409.75	-	89

*During the year 2004-05, the installed capacity of switching products was 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.

		2005-06			Percent of production to	
Major Products	**Unit**	**Installed Capacity**	**Targeted Capacity**	**Actual Performance**	**Installed Capacity**	**Targeted Capacity**
Switching *						
OCB-283 CSN/Local	KL	1000 KL	110KL	119.35	12	108
OCB-TAX/TANDEM	KC	500 KC	200 KC	569.5	114	285
C-DoT Products	Rs in crore	2600 KL	10	34.68	NA	347
Transmission						
SATCOM	Rs in crore		10	5.07	NA	51
STMs	Rs in crore	3500 Sys.	62	62.35	NA	101
PCM MuX	Rs in crore			26.85	NA	NA
DWDM	Rs in crore	Project Stage	66	32.32	NA	49
Terminal Equipments						
EPBT						
SPV	Rs in crore	1.2 m nOS	17	7.16	NA	42
	Rs in crore	30000 Nos.	6	0.73	NA	12
NEW PRODUCTS						
WLL-CDMA INFRA	KL	Project Stage	1000KL	1344 KL	NA	134
GSM – INFRA	Rs in crore	6 M Lines	1500	471.08	NA	31
CDMA WLL FWT	K Nos	Project Stage	580 K	277.51 K	NA	33
DLC-	Rs in crore	Project Stage	Nos.	Nos	NA	38
SDH/WiFi/WiMAX	Rs in crore	10 M Nos	60	22.70	NA	23
SIMCARDS	Rs in crore	Project Stage	125	28.66	NA	38
SSTP	Rs in crore	Project Stage	133	51.13	NA	10
CORDECT	Rs in crore	350 KL	203	20.44	NA	
Solution Business	Rs in crore	NA	295	70.01	NA	24
Turn Key Projects	Rs in crore	NA	480	373.80	NA	78

Major Products	Unit	2006-07				Percent of Production to	
		Installed Capacity	Targeted Capacity (Rs in crore)	Actual Performance		Installed Capacity	Targeted Capacity
				Qty	Value (Rs in crore)		
Switching							
OCB 283- LOCAL	KL	1000	34.50	107.15	25.34	11	73
OCB-TAX/TANDEM	KC	500	83.20	355.50	47.70	71	57
C-DOT EXCHANGES	KL	2600	11.50	15.35	30.71	1	267
Transmission							
STMs 1,4,16	Nos.	3500	187.20	3366	57.53	96	31
DWDM	Nos.	Project stage	46.00	-	12.42	-	27
Terminal Equipments							
TELEPHONES	M. Nos	1.20	17.50	0.307	4.80	26	27
SOLAR PANEL	Nos.	30000	2.30	-	3.16	-	137
New Products							
SMPS	Rs in crore	125	18.00	-	7.60	-	42
CDMA-LL IFWT	Nos	Project stage	252.00	326.51	72.70	-	29
SMART/ SIM CARDS	Rs in crore	10	31.50	3.060	7.23	31	23
ADSL-DSLAM	Nos.	Project stage	126.00	-	0.22	-	0.17
SSTP	Nos.	Project stage	42.00	-	53.96	-	128
Projects							
WLL	KL	Project stage	231.00	-	339.07	-	147
GSM	KL	6000	2683.85	-	636.41	-	24
MLLN	Rs in crore	Project stage	168.00	-	134.06	-	80
IP TAX	Nos.	Project stage	187.20	-	-	-	-

Appendix-XXXIV
(Referred to in paragraph 11 at page 79)
Position of outstanding ATNs in respect of paras pertaining to BSNL and MTNL

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
1.	Report No. 3 of 1997 (Commercial) for the year ended 31 March 1996	6.3.2	Printing of Telephone Directories (MTNL)
2.	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)
3.	Report No. 3 of 1999 (Commercial) for the year ended 31 March 1998	5.3	Non-recovery of unadjusted amount of purchase advance (MTNL)
4.	Report No. 6 of 1999 for the year ended 31 March 1998	15 (15.1to15.8)	Procurement of C-DoT MAX-L exchanges (DoT/BSNL)
5.	Report No. 6 of 2000 for the year ended 31 March 1999	16 (16.5.2.2, 16.5.2.5, 16.6.1, 16.7.2 & 16.7.3)	Material Management in Telecom Stores and Circles (DoT/BSNL)
6.		17 (17.5.4,17.5.5,17.6,17.7,17.7.1.1,17.7.1.2,17.8.1,17.10.1,17.10.2,17.10.3 & 17.10.4)	Rural Telecommunication Network (DoT/BSNL)
7.	Report No. 6 of 2001 for the year ended 31 March 2000	14 (14.6.1.1)	Computerised Telephone Revenue Billing and Accounting System (DoT/ BSNL)
8.		15	Non-recovery of dues from MTNL Mumbai/Delhi (DoT/BSNL)
9.		41	Irregular procurement of stores (DoT/ BSNL)
10.	Report No. 3 of 2002 for the year ended 31 March 2001	6.1.7	Failure to realise Rs 81.31 lakh due to non-receipt of advice notes (BSNL).
11.		6.3.4	Loss due to delay in disconnection of Data Service (MTNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
12.	Report No. 6 of 2002 for the year ended 31 March 2001	7 (7.1.10,7.1.13,7.2.7, 7.2.11, 7.4.15)	Non/Short recovery of revenue (DoT/ BSNL)
13.		11 (11.10.3)	Management of Telecom Stores (DoT/ BSNL)
14.		12 (12.6,12.7,12.8.3.3,12.8.6.2)	Working of the Telecom Civil Divisions (DoT/ BSNL)
15.		16	Excess payment of service charges (DoT/ BSNL)
16.		40	Excess payment due to inconsistent application of procurement policy (DoT/ BSNL)
17.	Report No. 5 of 2003 (Commercial) for the year ended 31 March 2002	1.7	Productivity (BSNL)
18.		2	Non-recovery of dues from pay phone operators due to deficient internal control system (BSNL)
19.		4	Blockage of Government revenue (BSNL)
20.		14 (14.1.5)	Non/short recovery of revenue (BSNL)
21.		16 (16.7.1, 16.7.2, 16.7.5, 16.7.10, 16.8.1 & 16.8.2)	Village Public Telephones (BSNL)
22.		20	Excess payment to supplier (BSNL)
23.		27	Wasteful expenditure on procurement of defective power plants (BSNL)
24.		30	Lack of proper planning and resultant idling of 6 Giga Hertz equipment (BSNL)
25.		31 [31(VII)4]	Infructuous expenditure of Rs 2.17 crore on payment of minimum demand charges and low power factor surcharge (BSNL)
26.		42	Excess payment of Rs 14.97 crore on procurement of new technology digital local exchange equipment (BSNL)
27.		50	Function, organisation, traffic, revenue receipts and financial results (MTNL).
28.		56 (56.1 to 56.9.5)	Review on Telephone Revenue Billing in MTNL.
29.		61 (61.1,61.2.1.1,61.2.1.2,61.2.2,61.2.3,61.2.5 & 61.3.2.4)	Material Management in MTNL

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
30.	Report No. 5 of 2004 for the year ended 31 March 2003	2.1	Non collection of revenue from cellular mobile subscribers-Rs 1.87 crore (BSNL)
31.		2.4 [2.4(1)5]	Short recovery of infrastructure charges of Rs 91.44 lakh (BSNL)
32.		2.9 (2.9.1 to 2.9.5.3)	Non/short recovery of revenue (BSNL)
33.		2.10	Recovery at the instance of Audit (BSNL)
34.		3 (3.4.3,3.6, 3.8.2	Working of Telecom Maintenance wing of BSNL
35.		4.13	Blocking of capital (BSNL)
36.		4.14	Blocking of capital of Rs 93.67 lakh (BSNL)
37.		4.20	Irregularities in procurement of stores and award of work- Rs 1.27 crore (BSNL)
38.		4.23	Avoidable excess payment of Rs 96.53 crore on procurement of PIJF cable (BSNL)
39.		7.1 (7.4 to 7.11.2 & 7.13)	Cellular Mobile Telephone Service in Mahanagar Telephone Nigam Limited
40.		7.14 (7.17.3, 7.19 & 7.20)	Cable duct works in MTNL
41.		8.1	Imprudent investment decision to invest surplus funds of Rs 250 crore (MTNL)
42.		8.2	Avoidable loss of interest of Rs 55.44 crore (MTNL)
43.		8.3	Avoidable loss of Rs 1.31 crore due to non-pursuance of refund of insurance premium on pro—rata basis.(MTNL)
44.	Report No. 5 of 2005 for the year ended 31 March 2004	1 (1.3)	Introduction, Organisational set-up, Investment and Return (BSNL)
45.		2.1	Delay in realisation of dues & loss of interest (BSNL)
46.		2.2 {A2.2(1)1 to 2.2(1)25 and B2.2(1)1 to 2.2(1)12 }	Non collection of revenue from cellular mobile subscribers (BSNL)
47.		2.3 [2.3(II)14]	Continuation of telephone facilities despite non-payment of dues (BSNL)
48.		2.4 [2.4(III)26]	Non-billing due to non-receipt of advice notes (BSNL)
49.		2.6	Non-billing of penal interest (BSNL)
50.		2.9	Non/Short billing of rentals in r/o interconnection facilities to defence (BSNL)
51.		2.10	Short billing of revenue (BSNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
52.		2.13 (2.13.1 to 2.13.8)	Non-recovery of compensation for the unexpired period of guarantee (BSNL)
53.		2.16	Loss of revenue due to incorrect fixation of rental (BSNL)
54.		3 (3.1 to 3.10)	IT audit of DotSoft package of BSNL
55.		4.1	Excess payment of customs duty (BSNL)
56.		4.2	Negligence leading to loss in fire (BSNL)
57.		4.4	Non-recovery of compensation for damage to underground cable (BSNL)
58.		4.6	Irregularities in execution of cable ducts (BSNL)
59.		4.8	Irregular expenditure and payment of penalty due to delay (BSNL)
60.		4.10	Injudicious procurement (BSNL)
61.		6 (6.1 to 6.14)	Planning, Procurement and Utilisation of WLL system in MTNL
62.		7.2	Avoidable excess expenditure on setting up of Customer Service Centres (MTNL)
63.	Report No. 9 of 2006 (PA, Telecom) for the year ended 31 March 2005	2 (2.9.1.1, 2.9.2, 2.10.2, 2.10.3, 2.104, 2.10.5, 2.10.6, 2.12.3.1, 2.12.3.2, 2.12.3.3, 2.12.4, 2.13.1.1, 2.13.2, 2.15.2, 2.14.4, 2.16.2, 2.18.1, 2.18.2 & 2.18.3)	Performance audit of Human Resources Management in BSNL
64.	Report No. 13 of 2006 (TA, Telecom) for the year ended 31 March 2005	1 (1.4.2 & 1.7)	Organizational set up and financial management. (BSNL)
65.		2.1	Non-realization of interconnection charges from M/S Data Access (India) Limited. (BSNL)
66.		2.2 {A.2.2(1)1 to2.2(1)45 and B.2.2(1)1 to2.2(1)6}	Non-collection of revenue from cellular mobile subscribers. (BSNL)
67.		2.3 {2.3(II)1-6, 2.3(II)8 & 10, 2.3 (II)14-2.3(II)26}	Non-realisation of interest on delayed payments. (BSNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
68.		2.4 {2.4(III)1 to 7}	Continuation of telephone facilities despite non-payments of dues (BSNL).
69.		2.6 {2.6(IV)1to 3}	Non-realisation of charges from M/S Reliance Infocom Limited for ISD calls with tampered Calling Line Identification (BSNL)
70.		2.8 {2.8(VI)2 to 3 & 2.8(VI)6 to 7}	Short billing of rentals for leased circuits (BSNL)
71.		2.9 {2.9(VII)1 to 2.9(VII)9}	Non billing of interconnect licence fees (BSNL)
72.		2.10	Non realization of charges. (BSNL)
73.		2.11 {2.11(VIII)1 to 2.11(VIII)3}	Loss of revenue due to delayed /non implementation of revised pulse rates (BSNL)
74.		2.12 {2.12(IX)1 to 2.12(IX)5}	Non realization of infrastructure sharing charges. (BSNL)
75.		2.13 {2.13 case –I to 2.13 case III}	Loss of potential revenue due to inordinate delay in providing leased circuits. (BSNL)
76.		2.15 [2.15 (XI)2,3]	Short billing of installation charges and rentals (BSNL).
77.		3 (3.1 to 3.9.7)	IT audit of Chennai Telephone billing system of BSNL
78.		4.7	Wasteful expenditure on installation of C-DOT exchanges. (BSNL)
79.		4.8	Idle investment on purchase of land and construction of buildings. (BSNL)
80.		4.9	Idle investment on construction of telephone exchange buildings (BSNL)
81.		4.11	Idle investment on construction of staff quarters. (BSNL)
82.		4.13	Unfruitful investment on construction of exchange buildings. (BSNL)
83.		4.14	Idling of Digital Loop Carrier system. (BSNL)
84.		4.16	Wasteful expenditure on Idle stores. (BSNL)
85.		4.18	Unfruitful expenditure on procurement of power plants. (BSNL)
86.		4.19	Imprudent investment (BSNL).
87.		4.21	Avoidable expenditure on procurement of PIJF cable. (BSNL)
88.		5 (5.5 to 5.7)	Introduction (MTNL)
89.		6.2	Blocking of capital on purchase of land.(MTNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
90.		6.3	Infructuous expenditure on leasing of land.(MTNL)
91.		6.5	Idle investment on establishment of a fraud Management control centre.(MTNL)
92.		6.7	Loss due to delay in submission of insurance claim. (MTNL)
93.	Report No. 10 of 2007 (PA, Telecom) for the year ended 31 March 2006	1 (1.1 to1.14)	Performance Audit of Cellular Mobile Telephone Services in BSNL
94.		2 (2.1 to 2.14)	Performance Audit of functioning of Telecom Factories in BSNL
95.		3 (3.1 to 3.16)	Performance Audit of Billing and customer care system in MTNL
96.	Report No. 12 of 2007 (TA, Telecom) for the year ended 31 March 2006	1 (1.4.1, 1.6)	Organizational set up and financial management. (BSNL)
97.		2.1 [Case I, 2.1(I)1 to 2.1(I)5 & Case II)]	Short charging of rentals (BSNL)
98.		2.2 [2.2(II)1 to 2.2(II)23]	Continuation of telephone facilities despite non payment of dues (BSNL)
99.		2.3 [2.3(III)1 to 2.3(III)16]	Non-billing due to non receipt of advice notes (BSNL)
100.		2.4	Loss of minimum guaranteed revenue (BSNL)
101.		2.5 [2.5(IV)1 to 2.5(IV)2]	Loss of revenue due to non implementation/delayed implementation of revised pulse rates (BSNL)
102.		2.6	Non-realisation of charges from Reliance Infocom Ltd for unauthorised routing of calls (BSNL)
103.		2.7 [2.7(V)14 to 2.7(V)58 & 2.7(VI)1 to 2.7(VI)9]	Non-realization of interconnection usage charges and interest thereon (BSNL)
104.		2.8 [2.8(VII)8 to 2.8(VII)11]	Non-billing of infrastructure charges for passive links (BSNL)
105.		2.9 [2.9(VIII)1 to 2.9(VIII)6]	Non-billing of interconnect license fees (BSNL)
106.		2.11	Loss of revenue due to non-collection of interconnection usage charges (BSNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
107.		2.13	Short billing of port charges in respect of private operators (BSNL)
108.		2.14	Short billing of interconnect usage charges (BSNL)
109.		2.15 [2.15(XI)10]	Non-billing of rentals of leased circuits (BSNL)
110.		2.16	Short billing of rentals as per resources utilized (BSNL)
111.		2.17 [2.17(XII)1 to 2.17(XII)4]	Loss of potential revenue due to delays in providing leased circuits (BSNL)
112.		2.18 [Case I, 2.18(XIII)1 to 11 & Case II 2.18(XIII)12 to 17]	Loss of revenue due to delayed disconnection of leased circuits (BSNL)
113.		2.20 [2.20(XVI)1 to 2.20(XVI)8]	Failure to recover compensation for damage to underground cables (BSNL)
114.		2.21 [2.21(XV)1 to 2.21(XV)22]	Recovery at the instance of Audit (BSNL)
115.		3.1	Excess payment of rent on international internet bandwidth (BSNL)
116.		3.2 [3.2(XVI)1 to 3.2(XVI)11]	Excess payment of electricity charges (BSNL)
117.		3.3 [3.3(1) to 3.3(6)]	Idling of stock due to injudicious procurement (BSNL)
118.		3.4 [3.4(XVIII)1 to 3.4(XVIII)4]	Idling of telephone exchange buildings (BSNL)
119.		3.5	Unfruitful expenditure on primary cables (BSNL)
120.		3.7	Failure to optimally utilize the Cable Record Purification system (BSNL)
121.		3.8	Injudicious purchase of land (BSNL)
122.		3.9 [3.9(XXI)1 to 3.9(XXI)3]	Infructuous expenditure on payment of electricity charges (BSNL)
123.		3.10	Infructuous expenditure on cable laying (BSNL)
124.		3.11	Avoidable expenditure on obsolete stores (BSNL)

Sl. no.	Audit Report (Number and year)	Paragraph No.	Subject
125.		3.12 [3.12(XXII)1 to 3.12(XXII) 12]	Avoidable payment of interest (BSNL)
126.		3.13 [3.13(XXIII)1 to 3.13(XXIII)3]	Excess payment of money order commission (BSNL)
127.		4.1	Loss of revenue due to delay in disconnections for non-payment (MTNL)
128.		4.6 [4.6(XXVI)1 & 4.6(XXVI)2]	Failure to recover compensation for damage to underground cables (MTNL)
129.		4.7	Loss due to retention of land without utilization (MTNL)
130.		4.8	Excess payment of sewerage tax (MTNL)
131.		4.9	Excess payment of electricity duty (MTNL)
132.		4.10	Irregular expenditure on foreign travel (MTNL)
133.		6	Follow up on Audit Reports (BSNL/MTNL)

71