

CHAPTER V: MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY

Bharat Sanchar Nigam Limited

5.1 Basic Telephone services in BSNL

Introduction

In India the state owned Bharat Sanchar Nigam Limited (BSNL) is one of the major telecom service providers. Two thirds of the revenue of BSNL is generated from its landline telephony¹ as against which the majority revenue generation of the private players is from their mobile operations. Hence strategically the performance of BSNL is mainly dependent on its landline telephony.

Although BSNL has diversified into mobile services its basic telephone service still continues to be a major revenue earning service. As against the overall income of ₹ 31,074 crore (2009-10), income from basic service was ₹ 19,599 crore and constituted nearly two thirds of overall revenue from services. The monopolistic status of BSNL in telecom sector ended by March 2009 with the advent of private players providing basic and cellular mobile services.

Scope of Audit

The audit was carried out during September 2009 to March 2010 covering a period of five years from 2005-06 to 2009-10 and audit examined the relevant records relating to 15 telecom circles² out of 24 telecom circles.

Audit objective

The main audit objective was to assess if BSNL had taken adequate measures to sustain its landline telephony.

Audit criteria

The main criteria used for audit were as follows:

- Codal provisions and orders issued from time to time by the BSNL
- Performance indicators fixed by the Telecom Regulatory Authority of India (TRAI) in respect of quality of service

Audit Findings

Audit findings on lack of proper planning, dynamic tariff structure, ineffective marketing strategies, inadequate capacity utilization, injudicious procurement of equipment and ineffective monitoring mechanism of landline telephony are brought out in the succeeding paragraphs.

¹ Also known as basic services

² Andhra Pradesh, Bihar, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttarakhand, Uttar Pradesh (East) and Uttar Pradesh (West)

5.1.1 Revenue generation

The growth of subscriber base and revenue generation from basic telephone service vis-à-vis the overall revenue of BSNL during the last five years was as follows.

Year	Equipped capacity as of March (lakh lines)	Working Connections as of March (lakh lines)	Income from Basic service (₹ in crore)	Overall revenue (₹ in crore)	Percentage of revenue from Basic to overall revenue
2005-06	513	379	32355	39117	82
2006-07	526	372	27147	37768	71
2007-08	539	361	23715	35599	66
2008-09	541	347	21819	33701	64
2009-10	546	340	19599	31074	61

From the above table it could be seen that since 2005-06 there had been a steady decline in the landline customers of BSNL and the revenue generation had also registered a sharp decline. Audit noticed that although there had been a significant decline in the customer base and revenue from landline telephony over the last five years, still BSNL failed to arrest the decline by taking adequate measures on all fronts. To the contrary the private service providers improved their customer base by 64 *per cent* (Bharti Airtel) to 120 *per cent* (Tata Teleservices Limited) during 2006-07 to 2009-10 as shown below.

Customer base of landline telephony of private operators

Year	Bharti Airtel Limited	Tata Teleservices Limited	Reliance Communications Limited
2006-07	1871387	527256	568179
2007-08	2283326	722951	873969
2008-09	2726240	918680	1108564
2009-10	3066859	1162276	1177412

5.1.2 Impact of Tariff Changes

Tariff plans play an important role in strategic planning for retaining customer base. BSNL introduced different tariff plans relating to landline telephony and the major tariff changes effected during the period 2005-06 onwards were as following.

Year	Tariff change
2005-06	Revision of rental for Basic, WLL services and alternative packages 1. BSNL One India Scheme- Reduction of STD tariff. 2. Reduction of Pulse for Dial Up Internet Access under BSNL One India.
2006-07	1. Reduction in fixed monthly charges under Sulabh plan. 2. Revision in Tariff minimum guarantee security deposit and pulse rates for all types of PCOs
2007-08	1. Reduction in ILD Tariff for calls originated from BSNL during festival season. (60 Days) 2. Revision of tariff, new STD/ISD calling cards under 'Call Now'.

2008-09	<ol style="list-style-type: none"> 1. New optional plan-Gramin 75 for rural areas and reduction of fixed monthly charges of Sulabh 2. Revision of ISD tariffs for Oman and Qatar 3. Revision in pulse rates. 4. Revision in call charges from ITC.
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Tariff changes aimed towards sustaining the landline service was not given adequate thrust as very few tariff changes were made during 2005-09 and this was reflected by the decline in the subscriber base. Audit noticed that the tariff plans were not aggressive enough to meet the highly competitive market. Further, since 2004 very limited competitive tariff plans were introduced for basic service whereas the mobile service tariff plans changed frequently with the market dynamics. This was one of the reasons that led to migration of subscribers from basic telephony to mobile communications within BSNL and to other service providers. The downward trend in the number of connections and revenue showed that the tariff changes could not help in preventing the negative growth of subscriber base and decline in revenue generation.

5.1.3 Decline in the number of Public Call Offices

Public Call Office (PCO) business was an important source of revenue for BSNL. Comparison of the PCO base of BSNL with other operators revealed that the PCO base of BSNL for the test checked circles remained more or less static between 14 and 18 lakh PCOs during the last five years while that of the other operators registered a sharp growth from 4.10 lakh PCOs (March 2005) to 22.32 lakh PCOs (March 2010).

As of	No. of PCOs	
	BSNL	Other operators
March 2005	1608719	410237
March 2006	1767157	1172745
March 2007	1819047	2622957
March 2008	1763255	3158270
March 2009	1596843	3471546
March 2010	1412549	2232367

No effective action was taken by BSNL to boost its PCO business. On this being pointed out by audit, the Chief General Manager (CGM), Karnataka circle stated (March 2010) that the purpose of PCOs was to give access to public when the teledensity was poor and PCO as a revenue model would not work with the higher teledensity.

The reply was not acceptable as the PCO base of the competitors had registered significant growth during the last six years as stated above while BSNL's PCO base remained static and started a downward trend from 2007-08.

5.1.4 Capacity utilization

5.1.4.1 Telephone exchanges

Utilisation of equipped capacity of the telephone exchanges plays a vital role in generating more revenue. The Corporate Office of BSNL fixed annual targets for growth of landlines as 7.50 lakh and 13 lakh lines for the years 2004-05 and 2005-06 respectively, but the actual performance did not have any relationship with the targets as there was negative growth in all the circles. It was observed in the 15 test checked circles

that the working connections declined sharply from 307.47 lakh lines (March 2005) to 229.32 lakh lines (March 2010), i.e., by 25 per cent. The overall loading of the exchanges in the 15 test checked circles decreased from 77 per cent (March 2005) to 60 per cent (March 2010).

Comparison of the performance among the circles showed that the percentage of loading of exchanges in Kerala and Bihar circles remained consistent around 80 per cent and 70 per cent respectively throughout the period. However, loading in the other 13 circles dropped between 49 and 64 per cent in March 2010 as against 70 to 81 per cent in March 2005. Maharashtra circle recorded the highest drop in loading in percentage terms from 77 per cent to 53 per cent. The Company has to concentrate on circles having drastic decline in capacity utilisation of telephone exchanges.

5.1.4.2 Injudicious procurement of exchange equipment

The decline in the subscriber base and loading of the exchanges underlined the need for judicious utilization of equipped capacity and avoid procurement of switching equipment. BSNL Corporate office issued instructions (December 2006) that wherever the working lines fell short of 75 per cent of equipped capacity, the excess equipment could be diverted from no demand areas to demand areas.

Injudicious procurement of switching equipment by BSNL without taking into consideration the downward trend in subscriber base was already commented upon in the Audit Report No. CA 12 of 2008. Avoidable expenditure on procurement of switching equipment for replacement of life expired E10B equipment was, however, observed in some circles in the subsequent period as detailed below.

Name of circle	Type of equipment procured	Quantity procured	Month of ordering equipment	Cost (₹ in lakh)
Andhra Pradesh	EWSD	4K [♦]	July 2008	117
	OCB	5K	November 2008	99
Bihar	OCB	3K	July 2008	68
	EWSD	3K	July 2008	52
Madhya Pradesh	EWSD	8.75K	August 2008	193
Orissa	OCB	5K	November 2008	109
Tamil Nadu	OCB	5K	December 2008	172
Uttar Pradesh (West)	EWSD	8K	September 2008	202
	OCB	13.5K	February 2009	306
	EWSD	4K	March 2009	84
Total:		59.25K		1,402

Had the circles reviewed availability of spare capacity and taken action to divert the surplus capacity to places of demand, fresh procurement at a cost of ₹ 14.02 crore could have been avoided.

On this being pointed out by Audit, the Tamil Nadu circle stated (March 2010) that although 6K lines were required to replace the outlived E10B main exchange which had nine Remote Line Unit exchanges parented to it, only 3K for main and 2K equipment for

[♦] 1K = 1000 lines

Remote Switching Unit were ordered taking into consideration redeployment of the spare capacity of OCB exchanges in Tamil Nadu circle. No replies were received from other circles.

As against the fresh procurement of 59.25K lines exchange equipment pointed out above, working lines in BSNL decreased by 11 lakh lines during the period 2007-08 and further by 14 lakh lines during the period 2008-09. Further, the overall capacity utilization was below 70 *per cent* in the telecom circles (2009-10). The spare capacity that was available in other places should have been utilized by suitable redeployment instead of resorting to fresh procurement to avoid additional investment.

5.1.5 Broadband connections

BSNL introduced Broadband service under the brand name of Data One from January 2005. The broadband service was provided through the existing copper wire connectivity from the telephone exchange to the subscriber premises by installing additional equipment like DSLAM at the telephone exchange. The introduction of broadband service should have, therefore, facilitated retention of the existing landline customers as well as addition of new landline customers.

The following table shows the year-wise target and achievement in the test checked circles for provision of broadband connections during the years 2005-06 to 2008-09.

Year	Target	Actual number of connections given	Percentage of shortfall
2005-06	534305	359159	32.78
2006-07	323387	301590	6.74
2007-08	1157889	741136	35.99
2008-09	2463889	1073924	56.41

A review of the number of broadband connections provided to existing landline subscribers in six circles showed that in five circles[▼], 71.70 *per cent* to 100 *per cent* of the broadband connections were provided to existing subscribers. These five circles mainly could not succeed in providing broadband connections to new customers. Against the overall installed capacity of 83.19 lakh broadband connections in BSNL network, the working connections were 53.76 lakh only (March 2010), i.e., capacity utilisation of 64.62 *per cent*. The circles failed to realize increase in subscriber base by providing broadband connections to new customers despite availability of spare broadband capacity.

5.1.6 Monitoring and control

5.1.6.1 Constant monitoring of quality of service is highly essential to ensure customer satisfaction and arrest decline in customer base especially in the competitive environment. In the regulatory regime, the TRAI prescribed benchmarks for various Quality of Service (QoS) parameters like provision of new connection within seven days, fault incidence/clearance, etc. TRAI conducted an objective assessment of QoS for basic service in various circles during the year 2008. Analysis of the TRAI reports for 15 test checked circles except Uttarkhand revealed the following position.

▼ Andhra Pradesh, Bihar, Gujarat, Kerala, Tamil Nadu

Sl. No.	Parameter	TRAI Benchmark	No. of circles that did not meet the target
1	Provision of telephone after registration of demand: Connections completed within 7 days	100 per cent	13
2	No. of faults/100 subscribers/month	<3	13
3	Faults repaired within 24 hours	>90 per cent	12
4	Faults repaired within three working days	100 per cent	10
5	Mean Time to Repair (MTTR)	< 8 hours	9
6	Call Completion Rate	> 55per cent	4
7	Billing complaints per 100 bills issued	<0.1per cent	3
8	Percentage of billing complaints resolved within 4 weeks	100per cent	7
9	Shift requests attended within 3 days	95per cent	12
10	Closure within 24 hours	95per cent	12
11	Additional facility provided within 24 hours	95per cent	9

The performance on provision of facilities, incidence of faults and fault clearance required improvement as they would result not only in customer dissatisfaction but also in loss of revenue due to non-provision of service. It could be seen from the above that most of the test checked Circles did not meet the TRAI bench marks relating to QoS parameters. Maintenance of QoS within norms needed utmost attention as it would negatively impact the customer satisfaction, revenue and customer base.

5.1.6.2 Decline in customer base

Though the basic service customer base of BSNL started declining from 2005-06 onwards, but only in 2008 BSNL appointed a consultant (IMRB) for determining the reasons for the surrender of landlines. The consultant's report cited the following main reasons for surrender of BSNL landline:

- shift to mobile phone on account of mobility, lower call rates
- dissatisfaction of subscribers with the quality of service offered and long time taken for complaint/query resolution
- lack of better tariff plans for landline
- limited point of contact for getting connections activated, problem resolution, etc.

While the shift to mobile phone on account of mobility was technology driven, the other factors should have been addressed adequately by BSNL. Being the basic service provider in the field for long, BSNL should have taken measures much earlier to ensure customer satisfaction instead of allowing the customer base to decline due to such reasons. This could have been achieved with continuous monitoring and control at Corporate, circle and SSA levels.

5.1.6.3 Unexploited investment of over ₹24,000 crore on basic telephony

Basic telephony has been strategically important for BSNL as around 70 per cent of its revenue was generated from it over the years. However subscriber base and revenue generation from basic telephony had declined from ₹ 32,355 crore in 2005-06 to ₹ 19,599 crore in 2009-10. Further, the basic telephony segment had been incurring losses from

2006-07 onwards which impacted the financial health of the Company and during the year 2009-10 it had run into the red.

Till March 2010, the Company had invested ₹ 89,118 crore to build up equipped capacity of 546.32 lakh lines against the working connections of 339.75 lakh lines for its basic telephony network. After considering a margin of 10 *per cent* on conservative basis, i.e., the connectable capacity of 90 *per cent*, the BSNL had spare capacity of 151.94 lakh lines which reflect the corresponding investment of ₹ 24,784 crore. Thus, failure of the BSNL to revive basic telephony resulted in unexploited investment of over ₹ 24,000 crore on spare capacity of over 1.51 crore lines (March 2010) for the entire basic telephone network.

5.1.7 Corporate/Circle initiatives

5.1.7.1 Dynamic and timely initiatives at the corporate and circle level were required to sustain the landline service and to arrest the decline in the landline customer base. In this direction various tariff plans were introduced at corporate and circle level to reverse the negative growth. Initiatives were taken at circle and SSA level also by organizing open sessions, melas, road shows, participation in exhibitions, signing Memorandum of Understanding with builders for bundling BSNL landline with residential unit, etc. These measures produced some positive results, yet these were not adequate to reverse the negative growth in subscriber base and decline in revenue from basic service.

The CMD, BSNL in the Annual Report 2008-09 reported that to arrest the continued decline in the physical and financial performance, BSNL had appointed a consultant (2008) to advise the BSNL on the business strategy and growth plans. Key priorities for the BSNL were identified and measures initiated like reconfiguration of organizational structure addressing gaps and sales and distribution improvement in service delivery and provisioning times etc.

In the fierce competitive environment in the telecom sector, BSNL should have proactively taken the above steps and arrested the downslide in customer base of landline telephony in the initial stages beginning from 2006-07.

5.1.7.2 Marketing

Marketing and business promotion activities such as advertisements in print/electronic media, hoardings, road shows, door to door campaigns, displays in public exhibitions, appointment of franchisees/direct selling agents were undertaken by the BSNL. However, the expenditure on marketing was not commensurate with the huge investment on infrastructure by BSNL. Business promotion and marketing expenditure of ₹ 286 crore and ₹ 378 crore were 2.56 *per cent* and 3.30 *per cent* of overall administrative expenditure in the years 2007-08 and 2008-09 respectively. In comparison, the business promotion expenditure of other major private operators ranged from 5.88 *per cent* to 12.08 *per cent* of their overall administrative expenditure during the same period. This underlined the need for thrust in marketing BSNL products.

Conclusion

Subscriber base and revenue from basic telephone service of BSNL declined drastically over the last five years as also its overall revenue. Lack of dynamic tariff structuring, slack marketing efforts especially in the face of competition from private operators, lack of quality in service were major contributing factors for erosion of customer base and

revenue of BSNL. Opportunity to increase subscriber base by capturing more broadband connections was also not realized. Erosion of subscriber base resulted in accumulation of spare exchange capacity and consequent unexploited capital investment.

These issues are to be addressed urgently by BSNL for sustaining their landline telephony segment and improving overall financial health.

The matter was referred to Ministry in October 2010; reply was awaited (February 2011).

Recommendations

- ***BSNL should have a time bound programme and fix milestones for increasing its landline subscribers through aggressive marketing strategy, competitive tariff plans and improving its quality of service.***
- ***BSNL should revamp its tariff plans to revive the demand for landline telephony and improve the capacity utilisation of telephone exchanges.***
- ***Broadband should be marketed effectively to attract new customers and increase customer base of land line telephony.***
- ***Tariff structure for PCO market must be redesigned to ensure retention and enhancement of PCO base.***

5.2 Planning and implementation of rural broadband in BSNL

Introduction

Telecom services have been recognized the world-over as an important tool for socio-economic development of a nation. Promotion of rural telephony and accessibility of telephones in remote areas is an important thrust area of the telecom department. Broadband Policy 2004 was framed to accelerate the growth of broadband services. It was also envisaged that internet and broad-band subscribers would increase to 40 million and 20 million respectively by 2010.

Scope of Audit

Audit covers aspects of planning, procurement, utilisation of Rural Broadband equipments in the Bharat Sanchar Nigam Limited (BSNL) along with claiming and collection of Universal Service Obligation (USO) subsidy. Audit was conducted during the period 2009-10 covering the period 2007-08 to 2009-10 and records of five telecom circles viz. Karnataka, Madhya Pradesh, Maharashtra, Rajasthan and Tamil Nadu were examined.

Audit findings

Audit observed deficiencies in planning of projects, utilisation of installed capacity and claim of USO subsidy in respect of Rural Broadband. The BSNL needs to address these deficiencies to achieve the objectives envisaged for Rural Broadband in the Broadband Policy 2004 and Universal Service Obligations. These deficiencies are discussed in the succeeding paragraphs.

5.2.1 Planning

Recognising the potential of Broadband service in growth of GDP and enhancement in quality of life through societal applications including tele-education, tele-medicine, e-

governance, entertainment as well as employment generation by way of high speed access to information and web-based communication, Government finalised Broadband Policy 2004 to accelerate growth of Broadband services.

The Rural Broadband Scheme was framed to provide wire-line broadband connectivity to rural and remote areas by leveraging the existing rural exchanges infrastructure and copper wire-line network. The rural broadband connectivity would cover institutional users, such as Common Service Centers (CSCs), being set up by Department of Information Technology (DIT) under Ministry of Communications, Gram Panchayats, Higher Secondary Schools and Public Health Centers as well as Individual Users located in the villages. 27,789 rural exchanges were planned to be covered throughout the country out of which 11,071 rural exchanges falling in five telecom circles were covered by Audit.

The Rural Broadband scheme was funded jointly by DIT and Universal Services Obligation Fund (USOF). BSNL received an amount of ₹ 170 crore from DIT (November 2006) against the total capital outlay of ₹ 340 crore. Further an agreement was signed between USOF and BSNL in January 2009 which provided the BSNL the right to claim subsidy for rural telephone services. The subsidy included:

- a front loaded component which was to be paid in the quarter when the service was installed and made functional, and
- an equated annual subsidy component, to be paid quarterly against claims raised by the Universal Service Provider (USP) within 30 days of the end of the quarter, upto a maximum period of validity of the relevant agreement. The subsidy was payable for connections provided to individual/institutional users and also for setting up of Kiosks in the rural areas.

5.2.1.1 Avoidable expenditure due to planning of higher capacity Broadband ports than requirement

BSNL Board decided (August 2006) to implement the scheme of Broadband connectivity in 20,000 villages where the BSNL's telephone exchanges with fibre connectivity existed i.e. to cover all Short Distance Charging Areas /Talukas. As per planning guidelines of BSNL (September 2006), 64P DSLAM¹ (Digital Subscriber Line Access Multiplexer) was planned for exchanges with less than 500 lines capacity and 120P DSLAM for higher capacity exchanges.

Circle records showed that no survey was conducted to identify those villages/locations which had potential market for Rural Broadband and to plan the actual capacity requirement of DSLAMs. Out of 5,760 64P DSLAMS installed in the five telecom circles² test checked, the working connections in respect of 3,795 DSLAMs were either zero or in single digits even after one to two years of their commissioning.

¹ *Broadband equipment located at the rural telephone exchange of the USP that connects multiple Customer Premises Equipments to a high speed internet core network; from 64 P, 64 connections can be provided*

² *Karnataka, Maharashtra, Madhya Pradesh, Rajasthan and Tamil Nadu*

Name of the Circle	Number of villages identified for installation	DSLAMs allotted for the Circle	DSLAMs installed in the SSA's test checked	DSLAMs with Zero connections	DSLAMs with single digit connections	Number of SSAs covered by Audit
Karnataka	2206	2133	1890	281	835	18
Madhya Pradesh	1982	812 372 ²	1184	363	577	34
Maharashtra	3991	4112	1834	537	801	13
Rajasthan	1959	1034	328	69	119	5
Tamil Nadu	933	933	524	0	213	6
		TOTAL	5760	1250	2545	
				3795		

This showed that BSNL did not explore the technical option of procuring 64P DSLAMs and installing them at two locations/villages by splitting them into two 32P DSLAMs in the places where expected loading would be very low. However in the past BSNL had procured 32P DSLAMs which were split into two DSLAMs of 16P each, to meet the demand of two exchanges.

The cost of DSLAMs equipment also showed a decreasing trend during 2005-09 with the cost of 64P DSLAMs being ₹ 64,371 in May 2009 against ₹ 92,182 in September 2005. BSNL could have planned to procure as per the actual requirements and resorted to additional purchase on demand thereby getting the benefit of price reduction. This would not only have resulted in provision of capacity commensurate with the existing demand in those villages but would have also helped in covering more villages. In addition, provision of rural broadband could have been accomplished at a substantially lower capital investment.

BSNL assessed the fact of poor loading of rural exchanges to the tune of around 10 per cent on an average during the subsidy proposal for the operational expenditure of Broadband in Rural areas (August 2008). Based on this calculation BSNL would be incurring huge loss in view of the operational expenditure calculated at ₹ 10,494 per line per year even though 50 per cent of the cost of the equipment was to be subsidized to BSNL through DIT. BSNL field units also assessed the demand in rural exchanges (May 2008) as 10 to 20 connections and requested for lower capacity equipment, either 24P or 48P instead of allotted 64P (Tamil Nadu circle) which was approved by BSNL Headquarters (May 2008).

Hence by splitting the 64P into two 32P DSLAMs, BSNL could have easily managed the above 3,795 locations with 1,900 64P DSLAMs thereby saving the capital expenditure to the tune of ₹ 12.17 crore calculated at ₹ 64,076 being the cost of one DSLAMs in test checked circles. This defective planning resulted in blocking up of capital of equivalent amount.

The issue was brought to the notice of Corporate office, BSNL (September 2010) along with a specific query whether any survey was conducted to plan the requirement of capacity of DSLAMs, on which it was replied that as per the USOF agreement BSNL had

¹ Secondary Switching Area

² Diversion from Gujarat, Uttar Pradesh – PO dated 5.12.07

to deploy DSLAMs of 64 ports in rural areas. The reply was not convincing as clause 15.4.1 of the USO Agreement provided for a minimum of 32 ports at each location and not 64 ports as claimed by BSNL. Further, clause 15.6 stipulated that USOF shall not provide any subsidy beyond 32 connections and hence it would have been prudent to go in for 32 ports instead of 64 ports as there was no initial demand for Broadband connections in rural areas.

5.2.2 Installation, commissioning and utilization of DSLAMS

The DSLAMs received were installed by the respective circles during the period 2008 to 2010. Any delay in creating demand for broadband connections and loading the exchanges optimally in rural areas results in loss of revenue to BSNL by way of monthly rental and subsidy.

5.2.2.1 Loss of revenue due to under utilization of Rural Broadband equipped capacity

Though all rural exchanges in the test checked circles were loaded adequately for provision of Broadband connectivity, connections to the extent of even 50 per cent of equipped capacity was not achieved as shown below in three of the five circles test checked. This led to potential loss of revenue of ₹ 11.17 crore per year in circles test checked based on the tariff of ₹ 99 per broadband connection.

Circle	DSLAMs installed	Equipped capacity	Working connections	50 per cent loading	Shortfall in connections (col 5-col 4)	Short fall in annual revenue at the rate of ₹ 99 per month (Col 6x₹ 99x12)
1	2	3	4	5	6	7
Karnataka	1890	121394	14630	60697	46067	5,47,27,596
Madhya Pradesh	1184	76552	6245	38276	32031	3,80,52,828
Tamil Nadu	933	61632	14887	30816	15929	1,89,23,652
		259578	35762		94027	11,17,04,076

5.2.3 Inadequate and ineffective marketing strategy

USOF conditions (Clause 14.12 of Agreement) stipulated that adequate marketing activities should be carried out by BSNL for popularising USOF products to public. There was need to educate, advertise and create awareness amongst rural masses about the advantages of having Broadband facility under USOF subsidy scheme which provided concession in rentals and supply of PCs at subsidized rates in equated monthly installments. BSNL directed all circles (February 2009) to give wide publicity through media, advertisements, road shows, banners, display boards etc. to promote broadband connections in rural areas.

To an audit query on the marketing strategy adopted by BSNL and its implementation, the field units responded that installation of DSLAMs and marketing of rural Broadband was as per the directives of BSNL. However, Telephone Melas of general nature were being held without much effect.

DoT strategy for rapid connectivity of Rural Broadband in conformity with the Broadband Policy 2004 included the following:

- HRD Ministry-About 1.5 lakh Higher secondary and intermediate schools and 12,000 Colleges/Universities to be covered (70 per cent of these institutions were in rural areas).
- Rural Development–More than two lakh Panchayats were to be provided broadband under Bharat Nirman and “Sakshar Bharat” programme.
- Broadband connectivity in village Post Offices.

Audit scrutiny of the records of Tamil Nadu circle revealed that no centralised data and monitoring system was in place at circle level regarding rural broadband connections required by Union Government, State Government and Educational Institutions. In Madhya Pradesh circle, against the demand of 7,062 connections from three institutions, only 1,066 broadband connections were provided categorizing the remaining connections as “Not feasible”.

In spite of huge potential for Rural Broadband connections in government and private sector as detailed above, no effective action was taken by the circles to utilize the unique opportunity of attaining optimum utilization of installed capacity of rural exchanges.

5.2.4 Potential loss of revenue

Audit noticed that BSNL failed to achieve the minimum Broadband connections and kiosks to avail the front load subsidy and subsidy for Broadband Kiosks. It was also observed that USO subsidy procedures were not followed resulting in loss of revenue. These issues are brought out in detail as below:

5.2.4.1 Potential loss of subsidy revenue due to failure to exploit the maximum number of broadband connections eligible for USO subsidy

- The USOF Agreement with DoT provided that BSNL was eligible to claim a front loaded subsidy of around ₹ 5000 per Broadband connection provided by it in rural areas. The subsidy was limited to a maximum of 31 broadband connections per DSLAM.

Audit noticed that in Maharashtra and Rajasthan telecom circles, 31 broadband connections were not provided per DSLAM. Consequently subsidy to the full extent could not be claimed resulting in potential loss of subsidy revenue of ₹ 60.45 crore as shown below:

Circle	Quarter ending	Amount of subsidy claimed (in ₹)	No of DSLAM working	Amount of eligible subsidy (in ₹)	Difference (in ₹)
1	2	3	4	5 (Col 4x31x₹5000)	6 (Col 5-3)
Maharashtra	March 2009 to March 2010	15,03,80,802	4112	63,73,60,000	48,69,79,198
Rajasthan	March 2009 to December 2009	4,27,44,057	1034	16,02,70,000	11,75,25,943
				Grand Total	60,45,05,141

- The USOF Agreement also provided that BSNL was entitled for a subsidy of ₹ 20,000 per broadband Kiosk and that BSNL would set up at least one internet Kiosk for every 10 DSLAMs.

Subsidy of ₹ 1.23 crore could have been earned in five test checked circles, if the earmarked villages were provided with minimum of 615 Kiosks as shown below against which only an amount of ₹ 6.76 lakh was earned.

Circle	DSLAM installed in the circles test checked	Minimum Kiosks (one Kiosk per 10 DSLAM)	eligible subsidy per Kiosk (in ₹)	Total loss of subsidy (in ₹)
Karnataka	1890	189	20,000	37,80,000
MP	1184	118	20,000	23,60,000
Maharashtra	1834	183	20,000	36,60,000
Rajasthan	328	32	20,000	6,40,000
Tamil Nadu	933	93	20,000	18,60,000
	6169	615	20,000	1,23,00,000

5.2.4.2 Non observance of USO subsidy procedures led to loss of ₹1.36 crore

As per clause 18.5 of the USOF Agreement, the USP shall submit the claims for subsidy within 30 days of the end of the quarter along with the supporting documents duly complying with the conditions of agreement. Test check of USO claim related records revealed that USO subsidy (i) was disallowed in Rajasthan circle as the broadband speed was below the stipulated minimum of 512 Kbps (ii) was withheld in Karnataka, Madhya Pradesh and Maharashtra circles due to non furnishing of required supporting documents to USOF Administrator.

Circle	Quarter ending	Subsidy disallowed (₹ in crore)	Subsidy withheld (₹ in crore)	Reasons
Rajasthan	March 2009 to December 2009	1.36	Nil	Broadband speed below 512 kbps
Karnataka	December 2009	Nil	1.36	Non submission of supporting documents
Madhya Pradesh	December 2009	Nil	0.24	
	March 2010	Nil	0.31	
Maharashtra	December 2009 to March 2010	Nil	5.93	
	Total	1.36	7.84	

Thus, in spite of providing rural Broadband connections the Company lost ₹ 1.36 crore due to non compliance with subsidy procedures which reflected weak controls and follow-up procedures.

Conclusion

Under Broadband Policy 2004, Government recognized the potential of broadband service in growth of GDP and enhancement in quality of life through societal applications including tele-education etc. In order to achieve the objective of providing broadband connectivity for rural population, the BSNL had to plan and execute various schemes to popularize broadband in rural areas. Audit observed systemic deficiencies in planning, utilization of installed capacity and marketing of Rural Broadband which resulted in blocking of capital of ₹ 12.17 crore, revenue loss of ₹ 11.17 crore and loss of USO subsidy of ₹ 63.04 crore in the test checked circles. These deficiencies are to be

addressed urgently by the BSNL to improve Rural Broadband connectivity besides achieving the objectives of the Broadband Policy 2004.

The matter was referred to Ministry in October 2010; reply was awaited (February 2011).

Recommendations

The BSNL may:

- *plan the broadband port capacity requirements in tune with the potential of the village*
- *devise effective marketing strategy to utilize the rural exchanges optimally to earn revenue and take advantage of Universal Service Obligation subsidy*
- *provide connections strictly as per Universal Services Obligation Fund standards and adopt mechanism to get the due subsidy in time*

5.3 Leased circuits in Bharat Sanchar Nigam Limited

Introduction

Bharat Sanchar Nigam Limited (BSNL) provides leased line/circuit services to subscribers for a specific period as dedicated telecommunication links for internal communication between offices at various sites within a city and different cities on point-to-point basis. The leased lines are active through connective courses or channels, called 'circuits' during the period of lease. These circuits are available on fibre optic, radio, copper wire and satellite medium or a combination of these media.

There are different types of circuits according to the use, viz., speech circuits (carry only speech signals), data circuits (carry data signals at various speeds), Closed User Group (circuits used by more than one legal entity), telegraph and tele-printer circuits, international circuits etc. Except international circuits, all other types of circuits mentioned above, are leased by BSNL to subscribers for local or long distance connections. The subscribers can be individuals or bulk users e.g. Railways, Defence, Banking Organisations, Public Sector Undertakings etc. The tariff of leased circuits is fixed by BSNL from time to time.

Scope of Audit

The audit was carried out covering a period of three years from 2007-08 to 2009-10 and audit examined the relevant records relating to 17 telecom circles*, spanning over 73 Secondary Switching Areas (SSA) and two telecom districts (Kolkata and Chennai) out of 26 telecom circles and three telecom district of the Company.

Audit Objectives

The main objectives of audit were to assess:

- Whether there was efficiency in provisioning and billing of leased lines/circuits in various circles of BSNL.

* *Andhra Pradesh, North-East (I), Kerala, Gujarat, Bihar, West Bengal, Jammu & Kashmir, Himachal Pradesh, Jharkhand, Haryana, Maharashtra, Orissa, Punjab, Rajasthan, Uttar Pradesh (East), Uttar Pradesh (West) and Uttarakhand*

- Whether the instructions issued by BSNL Corporate office regarding provisioning and billing of the leased circuits were followed by the SSAs uniformly throughout the circles of BSNL.

Audit Criteria

The main criterion for conducting audit was the orders issued by BSNL regarding the billing of leased circuits and co-ordination between the Operation Centre and the TRA wing which were in force since September 2004.

Audit Findings

On receipt of request from a subscriber, Commercial branch issues a provisional demand note for payment of provisional fee for connection. On payment of the same by the subscriber, Engineering branch issues a provisional advice note with a copy to the maintenance region/field unit(s) for checking feasibility of providing such connection. After carefully considering the feasibility report, the Commercial branch issues a final demand note to the subscriber specifying the actual rentals for leasing the connection. The connection is to be provided within seven days of the issue of final advice note. Thereafter TRA wing of BSNL initiates issuance of advance annual bills as per the existing tariff rates.

During scrutiny of records in SSAs, Audit observed deficiencies in provisioning and billing of leased circuits by BSNL as discussed in succeeding paragraphs.

5.3.1 Delay in commissioning of leased circuits

BSNL Corporate office issued (March 2001) instructions, regarding timely provision of leased circuits, according to which provisional demand note should be issued immediately on receipt of application from subscriber. Thereafter, final advice note should be issued on receipt of payment of demand note. The circuits should be commissioned within seven days of issue of final advice notes.

Further, according to instructions issued (October 2004) by the BSNL Corporate office, whenever installation work of leased circuits is completed by BSNL as per the request of the customer, the subscriber should be intimated in writing about the completion of installation of the circuits. If the circuits cannot be commissioned due to reasons on customers part, then a written request should be sent to the party to accord its permission to commission the circuit within a period of maximum of 15 days from the date of completion of work, failing which the rental should be made effective on completion of 15 days as per the billing cycle option selected by the subscribers.

Audit scrutiny of records in 73 units covering 4,401 circuits in 17 telecom circles* and Kolkata telecom district of BSNL for the period 2007-08 to 2009-10 revealed that BSNL incurred potential loss of revenue to the tune of ₹ 20.76 crore (*Annexure-I*) due to delayed commissioning of leased circuits up to over five years.

On this being pointed out by Audit, most of the units stated that reply would follow after receipt of the same from the field offices. Others accepted the facts stating that delay was

* *Andhra Pradesh, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Kerala, Maharashtra, North-East (I), Orissa, Punjab, Rajasthan, Uttar Pradesh (East), Uttar Pradesh (West) Uttarakhand and West Bengal*

mainly due to technical reasons like non-availability of equipments at customers' end, non – feasibility due to lack of Optical Fibre Cables (OFC), MUX, Modems etc. The contention of the SSAs was not acceptable because BSNL is supposed to have examined feasibility of providing leased circuits before issuance of final advice notes for commissioning of circuits.

5.3.2 Non – commissioning of leased circuits

Audit Scrutiny of records in 14 units in seven telecom circles¹ and Kolkata and Bangalore telephone districts revealed that on the date of Audit 1,356 circuits had not at all been commissioned, despite delay of up to three years, causing a loss of potential revenue to BSNL to the tune of ₹ 17.13 crore (*Annexure-II*).

On this being pointed out by Audit the units attributed delay to several factors like non-availability of equipments, OFC, delay at customer ends, delay due to external agencies like public infrastructure projects etc. Others stated that final reply would follow.

The contentions of the SSAs were not acceptable because BSNL should have examined feasibility of providing leased circuits before issuance of final advice notes.

5.3.3 Delay in issuance of bills

As per instructions issued by BSNL Corporate office, rentals for the first year should be recovered in advance while the rentals for the subsequent years should be charged from the period of conventional billing cycle for a particular subscriber.

Audit Scrutiny of records in six telecom circles² and Kolkata and Chennai telephone districts, revealed that bills worth ₹ 6.77 crore in respect of 271 circuits were not issued in time between November 2006 and March 2010. Out of this an amount of ₹ 4.93 crore was recovered after being pointed out by Audit leaving ₹ 1.84 crore still outstanding.

The main reason for non billing was non receipt of completed Advice Notes in TRA wing of BSNL.

5.3.4 Loss of interest due to delay in issuance of bills

Scrutiny of records in Gujarat, Rajasthan and Kerala telecom circles and Bangalore telephone district revealed that bills of ₹ 43.29 crore were outstanding in nine units on the date of Audit involving delay ranging from 30 to 1,606 days causing loss of interest (*Annexure-III*) to the BSNL.

5.3.5 Failure to apply correct rental in respect of guaranteed leased line services

Whenever telecom services like dedicated circuits requested by a subscriber are provided by new construction of asset, rent at capital cost is to be charged. The rent and guarantee (R&G) calculation arises only in case of involvement of new construction. In June 2002 BSNL Corporate office, clarified that the R&G charge was fixed at 35 per cent of the capital cost. To make tariff structure attractive and simple, BSNL Corporate office announced (September 2002) a new scheme for provision of bandwidth (High Speed Leased Line Services) with Optical Fibre (OF) connectivity requiring special construction. Detailed guidelines were issued regarding terms and conditions and rental

¹ Gujarat, Rajasthan, West Bengal, North East (I), Maharashtra, U.P. (East) and Orissa

² Jharkhand, Assam, Rajasthan, Maharashtra, Kerala and Uttarakhand

charges for local leads and local circuits, replacing the existing R&G tariff by commitment scheme for new leased line services. Accordingly, the Corporate office prescribed annual rental for provision of Synchronous Transport Module 1 (STM 1) system of 140 Mbps at ₹ 12 lakh per annum effective from October 2002 with commitment period of three years. After expiry of the commitment period, normal prevailing rental was to be charged at the rate of ₹ 17.88 lakh per annum.

Audit noticed (November 2009) that Pune SSA under Maharashtra telecom circle charged the rental at 28.6 per cent instead of 35 per cent of the capital cost in 11 R&G cases which were provided before October 2002. Further audit examination (February 2010) also revealed that Gurgaon SSA under Haryana telecom circle failed to apply the revised tariff in two cases under the new scheme of September 2002. This resulted in short billing of ₹ 2.36 crore in the two circles. On being pointed out by Audit the SSAs replied that the supplementary bills in respect of the objected amount of short billing had been raised and recovery of the dues was being pursued.

Conclusion

Failure of units to follow extant orders of BSNL Corporate office coupled with lack of co-ordination between the executing and the billing wings of leased line services resulted in loss of potential revenue of ₹ 37.89 crore.

The matter was referred to Ministry in October 2010; reply was awaited (February 2011).

Recommendations

- ***Proper survey on feasibility of provisioning of leased circuits by BSNL should be done.***
- ***The orders/instructions of BSNL Corporate office need to be complied with and leakage of revenue due to non/short/late billing to be avoided.***
- ***The BSNL needs to strengthen co-ordination between operational and TRA wing.***

5.4 Injudicious procurement of Global System for Mobile communication based Fixed Wireless Phone

Introduction

In July 2006, Bharat Sanchar Nigam Limited (BSNL) headquarters decided to introduce Global System for Mobile communication based Fixed Wireless Phone (GSM FWP) as a product in the market as Airtel had started providing fixed phones using GSM technology in its licenced areas and was targeting the fixed lines with very aggressive tariffs. The proposal was based on the justification that there was a provision in GSM Mobile Switching Centre (MSC) switches to connect FWPs with them and the coverage of GSM technology FWPs would be better than the existing CDMA technology FWTs. GSM based Fixed Communication Terminal was meant for meeting Village Public Telephone (VPT) requirements and as a substitute for landline in rural areas serviced by small telephone exchanges.

Based on a tender of December 2006, BSNL Corporate office placed (September 2007) Purchase Order (PO) on Himachal Futuristic Communications Limited (HFCL) for

supply of 3.06 lakh GSM based FWP's at a cost of ₹ 43.18 crore. The supply of GSM FWP's was to be made by January 2008 and as the firm failed to supply the equipment till the extension period of March 2008, the purchase order was short closed after forfeiting the Performance Bank Guarantee of ₹ 2.16 crore. In June 2008 another PO was placed on Teracom Ltd., Goa (L2) for the same quantity at the same price for supply to 11 telecom circles.

Scope of Audit

Audit scrutiny was conducted between March 2009 and September 2010 in seven telecom circles* and Chennai and Kolkata telephone districts out of a total of 26 telecom circles and two telephone districts covering a period of four years from 2006-07 to 2009-10 with a view to examine planning, procurement and utilization of GSM FWP's.

Audit Criteria

The audit criteria adopted were to evaluate planning, procurement and utilization of GSM FWP's in BSNL based on the "Manual of Procurement of Telecom Equipment and Stores" and the instructions issued in this regard by BSNL Corporate office from time to time.

Audit Findings

Audit scrutiny of the records revealed inadequacies in planning, procurement and utilization of GSM FWP's which are discussed in the succeeding paragraphs.

5.4.1 Planning

Planning forms an integral part of the procurement process. It is important to procure the right quantity at the right time failing which there could be a pile up of inventory. Considering the importance of planning, the BSNL Procurement manual provides that the starting point of the procurement process for any item is estimation or forecast of its requirements.

Scrutiny of records indicated that procurement of GSM FWP's was made without any attempt to ascertain the customer preference and estimate of requirement. On this being pointed out by Audit (April 2010) it was stated (June 2010) that the Management Committee of BSNL Board decided to procure GSM FWP's because of its compatibility with the existing system. Thus, it was evident that no survey was conducted for estimation of the quantity to be procured prior to induction of this new product in the market.

The BSNL Procurement Manual also stipulated that the Material Management cell of the Corporate office should finalise the requirement after discussion with the concerned circles. Audit noticed the following:

- In seven telecom circles test checked by Audit, only two telecom circles viz. Tamil Nadu and Andhra Pradesh had placed their requirement for 5,000 and 43,600 GSM FWP's respectively in 2006. However, a total quantity of 3.06 lakh GSM FWP's was ordered by the BSNL Corporate office without ascertaining the requirement of the remaining user circles.

* *Andhra Pradesh, Himachal Pradesh, Jammu and Kashmir, Karnataka, Maharashtra, Tamil Nadu, Uttaranchal*

- Even while the purchase order on HFCL was short closed, the BSNL Corporate office once again placed orders (June 2008) for the entire quantity on Teracom Ltd. Goa (L2) without assessing the field requirement. Teracom Ltd. also supplied only 2.04 lakh FWP against the ordered quantity of 3.06 lakh GSM FWP within the scheduled delivery date of October 2008. However, BSNL once again failed to short close the order although Uttaranchal circle rejected the entire allotment and Orissa and Himachal Pradesh demanded only 511 and 1,000 FWP against their allotted quantity of 30,600 FWP each. The other test checked circles had no requirement of the allotted quantity. Audit noticed that the Corporate office granted extension to Teracom Ltd. to supply balance of 1.02 lakh FWP up to December 2008.

It can be seen that at each stage the BSNL Corporate office repeatedly failed to get the requirements of the user circles before procuring the GSM FWP.

Thus, failure to assess requirement initially in 2006 and omission to assess the requirement subsequently in 2008 resulted in mismatch of demand and supply. Consequently most of the FWP could not be utilised. On this being pointed out by Audit the circles replied that GSM FWP were allotted in excess of requirement.

5.4.2 *Non utilization of instruments*

BSNL Corporate office guidelines on procurement dated 21 June 2001 provided that utmost care should be taken to ensure that piling up of inventory was avoided. Audit however noticed that majority of the stock of GSM FWP was lying unutilised as brought out below.

The GSM FWP instruments allotted by Corporate office were received in October to December 2008 in the test checked circles. In Jammu & Kashmir telecom circle Audit scrutiny (September 2009) revealed that the entire lot of allotment was lying in stock. In Chennai telephone district and Andhra Pradesh and Uttaranchal telecom circle the utilization was 0.01 *per cent* to 0.92 *per cent* of the allotments made to them. In Kolkata telephone district and Tamil Nadu and Himachal Pradesh telecom circles, the utilization ranged from one *per cent* to four *per cent* of the allotted quantity. Only in Karnataka and Maharashtra telecom circle the utilization ranged between 11 *per cent* and 12 *per cent* of the allotted quantity. In all, against test check of 2,39,800 GSM FWP in the seven circles and the two districts only 10,690 FWP were utilised apart from diversion of 8,622 FWP to other circles. As such, out of ₹ 33.84 crore worth FWP equipments procured in the nine test checked circles/districts, GSM FWP costing ₹ 30.47 crore were lying unutilised.

On this being pointed out by Audit the circles/SSAs stated that, there was no demand for the instruments from the customers since customers in GSM coverage area preferred mobile phones to fixed telephone.

Audit scrutiny of the records of the circles and its SSAs further revealed that:

- Diversion orders issued by the BSNL Corporate office from Uttaranchal telecom circle for 5000 FWP to Andaman & Nicobar Islands, 500 FWP to Assam circle, 1,200 FWP to North East(I) circle and 7,000 FWP to Kerala circle did not materialize as most of the units did not lift the allotted quantity.

- Efforts of BSNL Corporate office to divert (May 2009) GSM FWP from Himachal Pradesh telecom circle to other circles did not fructify.

Thus, failure to assess requirement of GSM FWP before procurement resulted in excess purchase and GSM FWPs worth ₹ 30.47 crore remained idle for nearly two years. Its utilization in future also remained bleak as there was no demand for this product.

5.4.3 Failure to enter into Annual Maintenance Contract

The GSM FWPs include internal back up battery as standby during power failure. Non utilization of GSM FWPs for prolonged periods and lack of regular maintenance would result in non functioning of these internal back up batteries. As per purchase order, annual maintenance contract (AMC) of GSM FWP at three *per cent* of the total cost of the order, should come into effect after completion of one year warranty and should remain valid for four years. Audit noticed that the purchase order did not provide for piecemeal AMC of GSM FWPs that was issued to the customers. As a result the Company was forced to either enter into AMC for all the GSM FWPs or refrain from AMC as most of the FWPs were not utilized. Consequently, the GSM FWPs issued to the customers were not covered under the AMC and their maintenance could not be ensured.

5.4.4 Failure of marketing strategies

The GSM FWP was a new product and the circles were not aware of commercial and tariff related issues relating to this product. In December 2008, Chennai telephone district took up the matter with the Corporate office conveying inability of the circles to deploy the instruments in the absence of tariff and commercial circulars. It was further mentioned that modification in the billing system was needed for utilizing the fixed GSM phones.

When Audit sought for instructions (April 2010) issued by the Corporate office to the telecom circles it was replied (June 2010) that BSNL Board had issued detailed guidelines (October 2009) including the prevailing tariff for proper utilization of FWP. This indicated that the Corporate office took nearly a year after the supply of GSM FWP instruments to convey the tariff and commercial conditions. Also it was only in October 2009 that the BSNL Corporate office issued guidelines conveying important areas where the GSM FWPs were to be deployed, its attractive features and other benefits which were to be widely publicized by the circles. Such belated action by the Corporate office in issuing commercial conditions, tariffs and marketing efforts was one of the reasons that the sale of the new product never took off.

Thus, injudicious procurement of FWPs without proper planning, market survey and allotment of instruments in excess of requirement resulted in unnecessary piling up of inventory and idling of stock of GSM FWPs worth ₹ 30.47 crore in the test checked telecom circles of the BSNL.

On this being pointed out the BSNL Management/Ministry did not contest the Audit findings and replied that recommendations would be taken care of in future.

Recommendations

- *Market survey should be carried out to ascertain demand and customer choice of the facility to be offered.*
- *Assessment of field requirement should be a pre-requisite for procurement of stores.*
- *Unrealistic procurement based only on technical feasibility should be avoided.*

5.5 Non realisation of Access Deficit Charge with interest thereon

Orissa, Punjab, Haryana and West Bengal telecom circles of Bharat Sanchar Nigam Limited failed to realise Access Deficit Charge and interest from two private service providers amounting to ₹ 63.49 crore.

Access Deficit Charge (ADC) was levied on private telecom service providers (PSPs) by Bharat Sanchar Nigam Limited (BSNL) to fill in the deficit of its large scale operation in rural areas. ADC was levied on PSPs on all incoming international calls and all outgoing calls from Wireless in local loop, Mobile {WLL (M)}.

ADC was charged by the BSNL on PSPs, viz., Reliance Communications Limited (RCOM), Tata Teleservices Limited (TTL) and Tata Teleservices (Maharashtra) Limited (TTML) for their “Unlimited Cordless” and “WALKY” services being WLL (M) service for the period November 2004 to February 2006. But these PSPs challenged the the BSNL’s claim of ADC in the Telecom Dispute Settlement and Appellate Authority (TDSAT) and in the Honourable Supreme Court (SC) on the plea that their services were Wireless in Local Loop (Fixed) and not WLL (M). However, the TDSAT and then the Honourable SC dismissed their plea in April 2008 and held them liable to pay ADC as their “Unlimited Cordless” and “WALKY” services were considered as WLL (M) services. Accordingly the PSPs paid 75 per cent of the claim already raised by the BSNL during the period October 2005 to June 2008.

The BSNL Corporate office instructed all field units (May 2008) to raise supplementary/arrear bills of ADC as well as applicable interest on delayed payment of ADC as per Interconnect Agreements. The BSNL Corporate Office reiterated (June and December 2008) that claim bills for interest would continue to be raised. Subsequently, the TDSAT rendered the final judgement (April 2010) that balance ADC claim was to be paid by the PSPs pursuant to which detailed instructions were issued by the Corporate office in May 2010 to all circles advising them to collect the dues along with interest.

Realisation of ADC dues and interest thereon from the concerned PSPs was test checked in four telecom circles (Orissa, Punjab, Haryana and West Bengal) and it was found that though these circles raised arrear bills for ₹ 50.51 crore against the balance ADC relating to the period November 2004 to February 2006 with interest thereon calculated up to May–June 2008, the dues remained unpaid. It was also noticed that these circles did not raise interest claims for subsequent periods for delayed payment of ADC in contravention to the Corporate Office’s instructions (May 2008).

On being pointed out by Audit, the circles raised (December 2009 to July 2010) interest claims for ₹ 12.98 crore on the outstanding amount of ADC for the period between May 2008 and May 2010 after a delay of over one year of issue of the Corporate office’s

instructions (May 2008). The total dues on account of ADC and interest thereon to be realised from PSPs worked out to ₹ 63.49 crore based on the finding of test checked circles.

The circles replied that they did not raise interest claims as the PSPs had not paid ADC and interest claims already raised on them. This was not acceptable as the corporate office had several times in the past instructed (May 2008 to December 2008) that bills for interest would continue to be raised.

Despite Honourable Supreme Court (April 2008) and TDSAT's judgement (April 2010) upholding the BSNL's right to claim ADC along with interest thereon, no breakthrough was achieved in realising the dues. This was indicative of deficient control system of the BSNL due to which the PSPs remained unresponsive to the BSNL's demand for ADC and interest thereon resulting in non-realisation of ₹ 63.49 crore (August 2010).

The matter was referred to Ministry in October 2010; its reply was awaited (February 2011).

5.6 Blocking of funds due to non-commissioning of Optical Fibre Routes

Lack of proper planning and coordination led to non commissioning of 46 optical fibre routes in two telecom circles and two telecom project circles of Bharat Sanchar Nigam Limited resulting in blocking of funds of ₹ 14.51 crore.

Fibre connectivity is provided by laying Optical Fibre Cable (OFC) in pre-lubricated polyethylene pipes (PLB). Procedure adopted by Bharat Sanchar Nigam Limited (BSNL) for timely execution of work and to provide optical fibre connectivity, catering to the demand of various users, included:

- Assessment of media requirement of telecom circle
- Identifying routes
- Obtaining prior permission from State and Central government Authorities for laying of cables
- Tendering for procurement and laying of PLB pipes and OFC
- Laying of OFC routes and completion of Acceptance Testing (AT) of cable and system
- Handing over of commissioned OFC routes to end user.

To provide fibre connectivity against projected in house requirement/ request from Army authorities, PLB and OFC were laid along identified routes under Project divisions of Northern Telecom Project (NTP), Eastern Telecom Project (ETP) and telecom circles of Uttar Pradesh (East) and Uttarakhand.

Audit scrutiny of records of two Secondary Switching Areas (SSAs) of Uttarakhand and three SSAs of UP (East) telecom circles and one project division each under NTP and ETP revealed that of the 93 routes test checked which were laid or on which work had commenced during 2005-06 to 2008-09, 41 remained non-commissioned and four routes were commissioned with delay. The delay/non commissioning ranging between 13 and 43 months was due to non availability of requisite stores like OFC systems, not obtaining

prior permission from local administration for the work, delay in conducting AT or handing over routes to the party concerned and partial completion/non commencement of work. This resulted in idle investment of ₹ 14.51 crore in respect of 45 routes.

On this being pointed out by Audit, NTP stated (September 2010) that OFC connectivity would be completed on receipt of the cable and ETP replied (September 2010) that there was delay in tendering and non availability of permission from local administration. Uttarakhand and UP (East) telecom circles also acknowledged (September 2010) that the delay was due to non availability of permission, stores and non completion of AT.

Thus, lack of proper planning and coordination among SSAs, circle offices concerned and synchronization with various agencies resulted in non/delayed commissioning of 45 OFC routes in Uttarakhand, UP (East), NTP and ETP circles. This led to blocking of funds of ₹ 14.51 crore.

The matter was referred to Ministry in October 2010; its reply was awaited (February 2011).

5.7 Non-realisation of compensation charges for damages to Optical Fibre Cable and Under Ground Cable by outside agencies

Failure of ten Secondary Switching Areas (four under Bihar telecom circle and six under Orissa telecom circle) to realise compensation charges for damages to cables by outside agencies resulted in non-realisation of ₹ 5.93 crore.

In January 2003, Bharat Sanchar Nigam Limited (BSNL) Corporate office decided to charge compensation, uniformly for each damage/cut for the Optical Fibre Cable, irrespective of the location of the cable on all external agencies as well as other private operators at a rate of ₹ 1.50 lakh per damage per occasion. Further, BSNL issued instructions (October 2003) to claim copper cable damage charges at different rates on different pairs of cable, irrespective of the location of the copper cable.

Again, for the cable damage caused by Private Service Providers, BSNL in April 2004 instructed that cable damage charges be clubbed with Interconnect Usage Charges (IUC), which was to be recovered from the concerned operators. This cable damage charge was to be linked with IUC bills after 60 days in case of non-payment of charges by the private operator.

Test check of records of General Manager Telecom Districts (GMTD) Chapra and Telecom District Managers (TDMs) of Bettiah, Khagaria and Krishanganj under Bihar telecom circle and Secondary Switching Areas (SSAs) Berhampur, Rourkela, Cuttack, Dhenkanal, Keonjhar and Koraput in Orissa telecom circle revealed that four private telecom service providers damaged copper and optical fibre cables at various locations on different occasions during the period 2004-05 to 2009-10. These SSAs failed to raise the claim and/or adjust the same through IUC bills against these private service providers in accordance with the extant instructions which resulted in non-realisation of compensation charges of ₹ 5.93 crore for the period 2004-05 to 2009-10.

On being pointed out by Audit,

- Chief General Manager Telecom, Bihar circle while confirming (March 2010) the audit objection stated that bills amounting to ₹ 1.24 crore had been preferred for

realization in three SSAs while claim of ₹ 0.65 crore (April/June 2008) raised by Krishanganj SSA was being pursued for recovery.

- Heads of two SSAs (Keonjhar and Dhenkanal) of Orissa circle attributed the non-claim from private service providers to non-completion of joint verification, while Cuttack SSA referred their case to circle office. Rourkela SSA stated that action would be taken for recovery. Koraput SSA replied that the demand notes for compensation issued to private operators were under dispute. The replies were not convincing since none of these SSAs complied with the extant instructions of BSNL Corporate office in effecting recovery of damage charges. They also failed to link the claims with IUC bills of these private service providers.

Hence, there was non-realisation of ₹ 5.93 crore from the four private service providers in Orissa and Bihar telecom circles. The failure was attributable solely to non-observance of instructions to bill/recover the billed amount through IUC bills.

The matter was referred to Ministry in September 2010; reply was awaited (February 2011).