CHAPTER V: MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY

Bharat Sanchar Nigam Limited

5.1 Excess procurement of Mobile Switching Centre based Wireless in Local Loop system equipment

Improper planning and consequent excess procurement of equipment to expand Mobile Switching Centre based Wireless in Local Loop System led to avoidable expenditure of ₹ 65.51 crore.

Bharat Sanchar Nigam Limited (Company) operates in a highly competitive telecom environment wherein different technologies are used to provide landline, Cellular mobile[1] and WLL[2] telephone connections to customers. The WLL telephone system has fixed as well as mobile facilities. In the fixed system, the customers' terminals are fixed like landline telephone instruments known as fixed wireless terminals (FWTs) and in the mobile system, the customers' terminals are akin to cellular mobile telephone handsets known as handheld wireless terminals.

Audit scrutiny revealed serious deficiencies in planning and procurement of Mobile Switching Centre (MSC) based WLL system equipment. The Audit findings in this regard are brought out below.

Avoidable procurement for expansion of MSC based WLL System

Audit examination of the records of six[3] telecom circles revealed that capacity of MSC based WLL systems were expanded from 6 lakh lines to 10.5 lakh lines between March 2008 and March 2010 despite availability of spare capacity of 3.34 lakh lines in these circles. Audit noticed that there were a total of 3.13 lakh post expansion working connections in these MSCs which could have easily been provided from the pre expansion capacities of these MSCs. This led to underutilised capacities and consequently avoidable expenditure of ₹ 29.39 crore on the expansion of MSC based WLL system in these circles (**Annexure–I).**

On being pointed out by Audit, the Ministry stated (February 2011) that CDMA network was rolled out to meet the coverage requirement in scattered, remote and rural areas where demand for connection was less. Further, due to customer preference for mobile connection and expansion of BSNL GSM mobile and other operator mobile services in rural and remote areas the demand for WLL connections did not improve.

The reply of the Ministry is indicative of the fact that market survey/customer preferences and alternate services were not considered prior to WLL expansion.

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[1] ***Using Global System for mobile communication system***
[2] ***WLL system using Code Division Multiple Access (CDMA) technology***
[3] ***Andhra Pradesh, Maharashtra, Orissa, Chennai, J&K and Gujarat***

Excess procurement of customer terminals

Integrated Fixed WLL Terminal (IFWT) and Fixed WLL Terminals (FWT) are the customer premises equipment in WLL system. Audit scrutiny of five circles[1] revealed that 7.01 lakh IFWTs/FWTs with internet features were allotted during 2005-06 to 2010-11 by Corporate office even though demand for internet connections on WLL system was insignificant and number of working internet connections was only 54,799 as detailed below. This resulted in 6.47 lakh underutilized/ unutilised IFTWs/FWTs as of March 2011.

Name of the circle	No. of IFWT/FWT purchased/allotted during 2005-06 to 2010-11 (a)	No. of Working connections with internet facility (b)	No. of IFWT/FWT underutilised/ unutilised (a-b)
Tamil Nadu	255229	29947	225282
Gujarat	199383	4403	194980
Andhra Pradesh	158694	12983	145711
Haryana	23130	762	22368
Jammu & Kashmir	65300	6704	58596
	701736[2]	**54799**	**646937**

Further, Audit scrutiny in Tamil Nadu circle alone revealed that despite availability of 82,312 IFWTs/FWTs in stock at the end of 2007-08, the BSNL Corporate office procured and allotted 1.44 lakh such terminals to the circle during the period from 2008-09 to 2010-11. This was despite the fact that there was insignificant variation in the number of working WLL connections during the period from 2007-08 to 2010-11 **(Annexure-II).** This resulted in avoidable expenditure on procurement of 1.44 lakh IFWTs/FWTs worth ₹ 25.33 crore during the years 2008 to 2011. The closing stock of IFWT/FWTs as on 31 March 2011 was 2.15 lakh.

On this being pointed out by Audit, the Ministry stated that difference between cost of IFWT with internet and without internet facility was minimal, hence procurement of IFWTs without internet facility was not done after 2007. Further, Ministry replied that in Tamil Nadu circle customers did not prefer old and recovered IFWT/FWTs and hence new IFWTs/FWTs were given to customers.

The reply of the Ministry should be viewed in the light of the fact that the demand for customer terminals with internet features was minimal and at the same time relatively expensive. In fact during 2007 the cost difference of a single WLL terminal with internet features and without it was ₹ 1,126 which is substantial. Further, in the case of Chennai the Company should have provided the new terminals to customers on cost price instead of on recoverable basis under all kinds of WLL service tariffs.

[1] ***Tamil Nadu, Gujarat, Haryana, Jammu & Kashmir and Andhra Pradesh.***

[2] ***4,44,203 sets were procured during 2005-06 and 2006-07. The remaining 2,57,533 sets were procured from 2007-08 to 2010-11***

Wasteful expenditure on procurement of Evolution Data Optimize Routers

Evolution Data Optimize (EVDO) is equipment that facilitates wireless communication between customer terminals and WLL network. BSNL Corporate office placed purchase orders (June 2008) for the procurement of 6,000 EVDO routers without Wi-Fi and 6,000 EVDO routers with Wi-Fi costing ₹ 15,244 per unit and ₹ 16,433 per unit respectively for high end customers and business enterprises.

Audit noticed that out of the above, only 3,425 EVDO routers without Wi-Fi and 832 EVDO routers with Wi-Fi were utilized. The balance 2,575 EVDO routers without Wi-Fi and 5,168 EVDO routers with Wi-Fi were lying idle (May 2011) with the telecom circles.

On this being pointed out the Ministry replied that procurement was on trial basis for high end customers and business/ enterprise data connectivity and the routers were used in ATMs of various Banks, educational institutions and universities. Further, the Ministry replied that the balance quantity would be utilized in near future.

The reply indicates failure of the Company to assess demand before the purchase of EVDO routers of substantial value. This resulted in its idling and blocking of capital worth ₹ 10.79 crore. Even after three years of its procurement BSNL could not utilize these routers and substantial stock was lying idle with telecom circles. Further, the Company should have procured limited quantity of EVDO routers especially when it was on trial basis.

Thus, expansion of MSC based WLL system without conducting any market survey and improper planning for procurement of different kinds of equipment also led to wasteful/avoidable expenditure of ₹ 65.51 crore only in the test checked circles.

5.2 Inefficient management of procurement of costly Microwave equipment

Unjustified deviation from prescribed procedures in procurement of Microwave equipment for North East and Jammu & Kashmir regions resulted in abnormal delay and unsatisfactory compliance by the vendors.

The instructions issued by the Department of Telecommunications, which continue to remain in force in Bharat Sanchar Nigam Limited (Company) after its incorporation as a Company, stipulate that "there shall be no changes in specification once tender has been opened and that purchase orders and supplies shall be strictly as per the specifications laid down in the tender". Furthermore, the Procurement Manual of the Company requires that all procurement procedures from the issue of Notice inviting tender (NIT) to placement of supply orders should be completed within a period of 120 days. We observed (February 2010) that the Company had not adhered to the above principles in procurement of equipments for data/voice transmission {Synchronous Digital Hierarchy (SDH)♣, Synchronous Transport Modules (STM-1), Microwave (MW) equipment (144 terminals, 168 antennas, 19385 meters Waveguide and 49 automatic dehydrators)} in 6 GHz frequency band, which were procured at an aggregate cost of ₹ 39.97 crore during the period 2007-2008 for use in North East (NE) and Jammu & Kashmir (J&K) telecom

♣ ***SDH (Synchronous Digital Hierarchy) is a standard technology for synchronous data transmission on optical media.In digital transmission, synchronous means the bits from one call are carried within one transmission frame. SDH uses Synchronous Transport Modules STM-1 (155 megabits per second).***

circles. The Company changed the generic requirements mid stream in the tendering process resulting in extraordinary delay in actualizing the procurement as explained here below.

The Company issued an NIT for the afore-mentioned procurements in February 2007 adopting the strategy of inviting bids in three covers. While the first cover contained bid security and other eligible key conditions, the second cover contained the commercial and technical offer of the bidder and the third cover was to contain the financial offer. As per the tender conditions the third cover was to be opened only in respect of those bidders who were found to be qualified after evaluation of their commercial and technical offers.

Our scrutiny of the case indicated that the bid document stipulated that the eligible bidder should either be an Indian company registered to manufacture the tendered item in India or an Indian company registered to supply telecom equipment. In case of the latter, the bidder should have signed a Memorandum of Understanding (MoU) with the technology providers/ collaborator for bidding and providing maintenance support for equipment/ technology for a period of minimum 10 years from the date of opening of bid. Further, the bidder/ his collaborator/ technology provider should have supplied the offered equipment to any Telecom Service Provider anywhere in the world at least to the extent♥ specified vide clause 2.2 of Section II of bid document and as per Section IV of 20 (a), the equipment supplied should be of same technology model/ make for which offer was made and in operation at least for one year on the submission of bid. During pre-bid interaction with the bidders it was clarified by the Management that an MoU was to be submitted for Antenna and Waveguide. Also, as per clause 13 of bid document it was stipulated that no change in either technology or product of radio equipment would be allowed after opening of tender. As per clause 39 of Section IV, it was laid down that the Purchase Order (PO) would be placed subject to availability of spectrum by Wireless Planning and Co-ordination wing.

In response to the tender six bids were received. The first and second cover of all the bids were opened on 13 April 2007 and made available to the Committee for Evaluation of Tender (CET) for evaluation. The CET after obtaining clarifications from the bidders on the initial evaluation of shortcomings/deviations in the bids (June 2007) observed (September 2007) that none of the six bidders met all the technical and commercial conditions stipulated in the bid documents. However, the CET citing the urgent requirement in NE region and J&K as the reason recommended opening of financial bids subject to relaxation from competent authority in respect of certain parameters such as the submission of MoU for antenna and waveguide by all bidders, gain requirement 3.0 meter antenna which was less by 0.4 dB with reference to specification, etc.

After the approval of the competent authority to the relaxation sought, the financial offers of four bidders who were assessed to be technically and commercially responsive were opened in November 2007. The CET, in December 2007, recommended Siemens Public Communication Networks (Pvt.) Ltd. (which later changed its name to Nokia Siemens Networks India Private Ltd.), the L1 bidder, for placement of PO. The Company issued the first order valuing ₹1.88 crore for 'validation purpose' on Nokia Siemens Networks

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Sl No.	*Type of equipment*	*Qty*
1.	*SDH, STM-1 (3+1) Microwave equipment in 6 Ghz frequency band 15 terminals*	
2.	*High Performance antenna*	*10 numbers*
3.	*Wave guide*	*1000 meters*

India Private Ltd. (L1) after a gap of 15 months from the date of opening of bids and followed with the second order for supply of the microwave equipment on 18 August 2008 on the same firm, for ₹ 17.25 crore.

The Management's action in seeking relaxation of the competent authority was unjustified because neither before nor after obtaining the technical and commercial offers of various bidders had the timelines prescribed under the Procurement Manual of the Company been adhered to. While the technical and commercial evaluation of the bid should have been completed within 35 days, the Company had reached that stage after a lapse of 70 days. Even after the competent authority permitted deviation from the tender specifications on grounds of 'urgency' it took the Management 15 months to issue the supply orders whereas the task should have been completed within four months.

Though the Company should not have placed any further orders on the suppliers till the validation of the main equipment and waveguide was confirmed, the Management placed a repeat order for ₹20.84 crore for supply to Bihar and NE regions in May 2009, a year ahead of the actual validation in June 2010.

The Management had thus not only failed to adhere to general principles of procurement and the prescribed time schedule for effecting procurements but also caused undue delay in supplying necessary equipment to Telecom circles in sensitive areas like NE and J&K despite relaxing tender specifications.

The Ministry in their reply (March 2012) stated that the tender conditions were relaxed with the approval of the competent authority i.e. Chairman and Managing Director due to urgent need for the equipment. The reply, however, does not factor in the fact that non-adherence with timelines before and after seeking relaxation of tender conditions on grounds of urgency and the fact that actual procurement performance did not address the urgency cited in the case.

5.3 Loss due to non execution of agreement while providing PRI trunks

BSNL Jamnagar failed to exercise due diligence while executing special package to Reliance Industries Limited which resulted in loss of revenue amounting to ₹ 7.66 crore.

Primary Rate Interface (PRI) is a telecommunications standard used in Integrated Services Digital Network (ISDN) that enables traditional phone lines to carry multiple voice data and video transmissions between two locations i.e., a private branch exchange operated by the customer and a long distance telephone company. Bharat Sanchar Nigam Limited (BSNL) provides this service to its customers on request and billing for the same is as per plans based on minimum commitment. As per the prevailing tariff, charges payable for each PRI trunk included monthly rental, plan charges and call charges beyond free calls. With a view to prevent the churn of BSNL subscribers to other operator BSNL delegated (March 2004) powers to heads of telecom circles for appropriate modification in existing tariff rates for basic services so as to counter the packages offered by competitors.

Reliance Industries Limited (RIL) requested BSNL (18 July 2006) to providing 15 PRI trunks between their refinery/petro chemical complex at Motikhavadi, Jamnagar and the OCB Exchange of BSNL at Jamnagar. While projecting the monthly call traffic of 25 to 30 lakh metered call units (MCUs) in the PRI trunks, RIL requested BSNL to waive off rent/ other charges and apply only flat rate tariff per MCU. The Chief General Manager Telecom (CGMT), BSNL, Ahmadabad, considered the above proposal and decided to grant (7 September 2006) the customer concessions like zero rental, zero security deposit, zero plan charges (minimum commitments), zero carrier charges and zero installation charges with a flat rate tariff of ₹ 0.72 per MCU without consideration for free calls. The General Manager Telecom District (GMTD) Jamnagar conveyed (September 2006) approval for provision of ISDN-PRIs to RIL at the special flat rate tariff subject to fulfilment of assured MCU of over 25 lakh per month. Subsequently, 10 ISDN PRIs between OCB Jamnagar and Motikhavadi were commissioned in November 2006.

Our scrutiny in the office of GMTD Jamnagar and BD cell of office of CGMT Ahmedabad (December 2009/February 2010) revealed that RIL was billed for actual calls registered in the PRIs at the concessional rate, rather than for assured number of calls as was originally intended by BSNL. During the period from November 2006 to November 2009, a total of 1.60 crore MCUs were registered and billed against the minimum assured calls of 9.25 crore (25 lakh MCUs per month x 37 months). Since the actual traffic was less than the minimum assured calls of 25 lakh per month projected by RIL, there was a loss of revenue to BSNL amounting to ₹ 6.16 crore (inclusive of service tax) for 37 months. The loss does not include the waiver of rental charges given to the customer, which were approximately ₹ 6.47 lakh.

On the loss being pointed out, GMTD Jamnagar issued (December 2009) supplementary bills to RIL for the above amount as well as monthly bills aggregating ₹ 1.50 crore on the basis of minimum assured calls for the subsequent period (December 2009 to May 2010). RIL declined payment of above bills denying any knowledge of a 'special package' allowed to them. Subsequently, the PRIs were disconnected in June 2010 for non-payment of dues.

The GMTD, Jamnagar stated (December 2010) that no agreement was executed at their end with RIL and that the condition of assured calls was not incorporated in the billing system as instructions received from office of CGMT, Ahmadabad were ambiguous in the matter of minimum commitment for payment for 25-30 lakh MCUs per month. The BD cell of CGMT, Ahmadabad stated there was no agreement and clarified that the responsibility of billing as per a special package tariff rests with the concerned Secondary Switching Area, i.e. GMTD, Jamnagar.

The BSNL have thus accepted that the Company despite approving special rates for calls in the ISDN PRI trunks based on a minimum commitment of assured calls did not validate the arrangements with RIL by executing a legally enforceable agreement. Further, in this case under the delegated powers Heads of telecom circles could only offer rates cheaper than the rates of other private service providers up to 5 *per cent* after verification. The delegated powers for giving discounts did not therefore, cover granting "special packages" such as waiver of rental charges (which are in nature of fixed income to the Company). Hence, the exercise of powers without approvals of competent authority and a legally binding agreement was irregular and not in the operational/ financial interests of the Company.

Thus the business move made beyond the extent of delegated powers and without exercise of due diligence in its execution resulted in loss of revenue of ₹ 7.66 crore. Responsibility for the lapses had not been fixed on any official of the Gujarat circle so far (May 2012).

The matter was reported to the Ministry in August 2011; reply was awaited (May 2012).

5.4 Avoidable payment of interest on delayed payment for BWA spectrum

Delay in payment of ₹ 8,313.80 crore by BSNL to Department of Telecommunications for Broadband Wireless Access spectrum allotted resulted in avoidable payment of interest of ₹ 6.26 crore.

Department of Telecommunications (DoT) in August 2008 issued detailed guidelines on auction and allotment of spectrum for Broadband Wireless Access (BWA). Accordingly, in the same month, DoT sent the details of frequencies earmarked for BWA service to Bharat Sanchar Nigam Limited (BSNL), in various license service areas (LSAs). For the BWA spectrum earmarked/allotted, BSNL was to pay one time spectrum fee at a price equal to the highest bid for the respective service areas. Notice Inviting Applications (NIA) for auction of BWA spectrum was issued by DoT in February 2010. According to Section 4.5 therein successful bidders were to pay the bid amounts within 10 calendar days of the close of the auction.

BWA spectrum auction was completed on 11 June 2010 and the Government approved the results of the auction. The results containing details on winning price and successful bidder in different service areas were issued by DoT on 12 June 2010. On the same day, DoT conveyed to BSNL the total price for spectrum payable, considering the highest bid price approved for the BWA spectrum allotted. The amount of ₹ 8,313.80 crore for 20 LSAs, was to be paid to DoT by 22 June 2010.

Audit observed that BSNL issued sanction for the payment of ₹ 8,313.80 crore on 23 June 2010 and payment made only on 24 June 2010, i.e. two days after the date stipulated for payment. This delay attracted penal provisions and payment of interest on the amount at the rate of 2 *per cent* above SBI Prime Lending Rate (PLR)[♥]. On 30 June 2010 DoT intimated the interest liability of ₹ 6.26 crore for delayed payment and BSNL paid the amount of interest on 1 July 2010.

In reply to the Audit observation on delay leading to payment of interest, the Management stated that from the date of receipt of demand dated 12 June 2010, BSNL Management had been approaching DoT for exemption from payment of the charges. The efforts continued and decision to finally pay the amount was taken at a Management Committee meeting held on 22 June 2010 i.e. on the stipulated date of payment.

The conditions/time limit for payment of charges towards BWA spectrum was known to BSNL through intimations issued by DoT as early as in August 2008 and also subsequently in February 2010 through the NIA. The chances of getting exemption from DoT was remote particularly when Mahanagar Telephone Nigam Limited, the other public sector telecom operator, had made the payment towards spectrum allotment in time.

Attempts to seek exemption at a stage when the bidding process had been completed and notified resulted only in delayed remittance and avoidable payment of interest of ₹ 6.26 crore by BSNL.

The matter was reported to the Ministry in July 2011; reply was awaited (May 2012).

[♥] ***As on 1 April 2010***

Mahanagar Telephone Nigam Limited

5.5 *Interconnect Usage Charges relating to MTNL*

Non execution of Interconnect agreements, inefficiencies in billing and revenue realisation contributed to huge outstanding of Interconnect Usage Charges (IUC) receivables and payables for MTNL.

Interconnectivity is extremely important not only to service providers but also to the users of telecommunication services. In absence of such connectivity the latter cannot obtain end-to-end, seamless service within the country and beyond. Therefore it is a core attribute of a telecommunication network.

Telecom Regulatory Authority of India (TRAI) issued the first Telecommunication Interconnection (Charges and Revenue Sharing) Regulation in 1999, following these with several other regulations, uptill 2009. These regulations stipulate the terms and conditions of interconnectivity between service providers, ensure effective interconnection between different service providers, and regulate arrangements amongst service providers for sharing revenue earned by providing telecommunication services. Regulations also lay out the basic arrangements for payment by service providers of 'Interconnection Usage Charges' for telecommunication services obtained from other service providers, that include basic services, cellular mobile services, long distance and international long distance services throughout the territory of India.

Interconnection Usage Charges (IUC) are the charges payable by one telecom operator to another for the use of the latter's network either for originating, terminating or transmitting a call. In addition an interconnection seeker is also liable to pay "Port Charges" which are payable by them annually to the interconnection provider for terminating the interconnection links on the network interface of the latter.

Mahanagar Telephone Nigam Limited (Company) is a major telecom operator in the country providing various telecom services in Delhi and Mumbai, including interconnectivity to other telecom operators. It was also the recipient of interconnecting service from other operators for its own subscribers.

Scope and objectives of Audit:

The Annual Accounts of MTNL revealed substantial outstanding dues receivable as well as payable to MTNL on account of IUC. The Statutory Auditors had also commented on these dues, absence of billing/reconciliation systems in the organisation, in their annual certification of Accounts. We, therefore, carried out an audit of MTNL, Inter-connectivity transactions during January to March 2011 covering four year period from 2007-08 to 2010-11, wherein we examined the relevant records of MTNL Corporate office, Delhi and Mumbai units with the following objectives.

- to get an assurance that desired systems and procedures were in place in the form of Agreements with other public/private telecom operators for all aspects governing interconnectivity services;
- to ascertain the level of efficiency of the process of billing and revenue realisation of IUC; and

- to assess adequacy of the monitoring systems for billing and collection of the outstanding charges.

Audit findings:

5.5.1 Huge outstanding of Interconnection Usage Charges

IUC is an important source of revenue as well as expenditure for the Company. MTNL earned approximately ₹ 200 crore on account of IUC charges and paid an equal amount to other service providers during the year 2010-11 as per details below:

(₹ in crore)

	Total IUC received	Total IUC paid	Outstanding IUC Receivable	Outstanding IUC Payable
2007-08	354	467	435	324
2008-09	209	253	651	557
2009-10	148	117	787	788
2010-11	203	217	876	920

(Sources: IUC received and paid from DGM (Accounts) and Outstanding from GM (BB&CA); figures at the end of March 2011 is a cumulative figure)

It can be seen from the table above that though the receipt[1] and payment[2] of IUC of MTNL have declined over the years, the receivables[3] as well as payables[4] on that account have steadily increased.

Despite our repeated requests to MTNL to furnish the details of total IUC billed to various operators, the segregated details have not been furnished to us. We are therefore unable to gain an assurance that an effective billing systems for IUC and the accounting of such dues was in place. Based on examination of related records and Management's response to our queries, our analysis of the outstanding dues reveals that bulk of IUC (₹ 831.51 crore) were due from BSNL; additionally, a sum of ₹ 40.90 crore was disputed by the private telecom operators.

Our scrutiny revealed that non execution of IUC agreement with operators, billing and revenue realisation issues and incomplete data base relating to IUC were the important factors that contributed towards huge outstanding IUC receivable and payable over the years. These deficiencies are brought out in the succeeding paragraphs.

5.5.2 Non execution of agreement with operators

The Register of Interconnect Agreements Regulations 1999 of TRAI provides for Interconnect Agreements between all service providers of telecommunication services throughout the territory of India. The Regulation further provides that all the service providers shall furnish to TRAI two copies each of the Interconnect Agreements along with modification(s), if any, duly authenticated.

MTNL had entered into interconnect agreements with different service providers from year to year, as indicated below.

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[1] ***₹354 crore in 2007-08 to ₹203 crore in 2010-11***
[2] ***₹467 crore in 2007-08 to ₹217 crore in 2010-11***
[3] ***₹435 crore at the end of 2007-08 to ₹876 crore at the end of 2010-11***
[4] ***₹324 crore at the end of 2007-08 to ₹920 crore at the end of 2010-11***

Year	Basic Service Operators	Universal Access Service Provider	Cellular Mobile Telephone Services	National Long Distance Operators	International Long Distance Operators	Total Operators
2007-2008	2	7	2	8	4	23
2008-2009	2	13	2	13	6	36
2009-2010	2	17	2	14	7	42

We however noticed that MTNL had not entered into interconnect agreements with Universal Access Service Provider (UASP) like BPL Communication Limited (now Loop Mobile Limited), Bharat Sanchar Nigam Limited and Reliance Communication Limited (Reliance). It was also noticed that in the absence of IUC agreements with these service providers pre-BSNL period's arrangement in respect of E1[♣] links between MTNL and erstwhile DoT still continue to be relied upon for the purpose of billing and other revenue related matters. Consequently the Company, by continuing business arrangements with these operators without legally binding Agreements being in place, has been carrying significant risk in realising the IUC from the above service providers.

The Management in their response stated that:

- draft agreement was sent many times to BPL but every time new objections were raised by BPL and hence the agreement with BPL could not be concluded. However, MTNL was billing for IUC charges and getting payment from Loop Mobile Ltd. the successor company to BPL.
- neither MTNL nor BSNL wanted to sign the agreement and MTNL was billing for IUC charges and adjusting /netting there off against charges payable to BSNL.
- the Reliance after migrating to Unified Access Service License (UASL) had failed to execute a fresh agreement as a UASL service provider and the matter was sub-judice. MTNL was therefore billing and receiving the payment for IUC charges from Reliance.

As the reply shows a certain degree of comfort on the part of the Management with old DoT arrangement we feel the Company was not serious in its efforts to have valid agreements in place with other operators. MTNL had obviously not taken up the matter seriously with either DoT or TRAI or the licensee for Agreements on IUC. Since as per IUC agreement, there was no provision for settlement of IUC by netting off receivables against payables and as in a regulatory regime governing the telecom sector having such valid agreement in place is absolutely essential to sustain transactional relationship between different service providers it is inconceivable how MTNL allowed itself to be locked in disputes with certain operators over basic issues. In our opinion MTNL needs to show more vigour and seriousness in addressing this situation which is fraught with risk to its revenue stream.

[♣] ***E1 link common in most telephone exchanges and are used to connect to medium and large companies. It operates over two separate sets of wires, usually a <u>twisted pair</u> of cables and is ideal for voice telephone calls.***

5.5.3 Billing and realisation issues

5.5.3.1 Delay in issue of Bills

The interconnect agreement between MTNL and certain other telecom service providers provides for issue of IUC bills by the 10th of every month.

Delhi Unit of MTNL

Our scrutiny of the records at MTNL Delhi relating to issue of IUC bills revealed that there were delays in the issue of IUC bills on a number of occasions[1] during the period April 2007 to March 2010. We noticed that the bills were issued to the operators from 11th to 28th of the month at General Manager (Telephone Revenue) instead of 10th of the month. In GM (TR) (Wireless Service) delays in issue of bills relating to mobile services ranged up to 18 months during the period from April 2008 to July 2009.

The GM (TR) accepted (December 2010) that since the bills were not received in time from the IT Unit of the Company, issue of bills to the operators was delayed and that the new convergent Billing System, Company expected that delay in issue of Bills would be reduced. Incidentally as seen from records for the period April 2011 to March 2012 the delays in issuing of bills continued as in the past.

Mumbai Unit of MTNL

Our scrutiny of the Mediation System of Convergent Billing and Customer Relation Management at Mumbai unit revealed that the IUC data files of GSM[2] and CDMA[3] were collected from the switch online. Though the share of IUC revenue in MTNL Mumbai relating to PSTN was substantially high being 72 *per cent* during 2010-11 the PSTN[4] data files were not collected online. The IUC data for PSTN exchange was instead downloaded through cartridges and processed further. This lead to creation of huge number of duplicate records and the data files did not contain full Call Detail Records[5] (CDRs). Reprocessing of this data file inevitably lead to delay in IUC billing.

On this being pointed out, the Mumbai Unit of MTNL agreed with our observation and stated that the issue regarding convergent billing had been sorted out and that necessary corrective action had been taken at the exchange level for non generation of duplicate CDR's. It was confirmed that the bills were being issued on target dates without much delay.

5.5.3.2 Short payment of IUC Bills by private operators

Further, scrutiny of the records of Delhi unit relating to payment of IUC bills by private operators for the year 2005-06 to 2010-11 revealed 124 occasion on which five operators[6] had not paid the amount billed by MTNL and as of November 2011 there was short receipt of ₹ two crore.

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[1] ***In 69 IUC bills test checked.***

[2] ***Global System for Mobile Communications***

[3] ***Code Division Multiple Access***

[4] ***Public Switched Telephone network***

[5] ***CDR is the computer record produced by a telephone exchange containing details of all phone calls that passed through it***

[6] ***Reliance, Bharti Airtel, Vodafone, IDEA and Tata TeleServices Limited***

While admitting the short recovery, MTNL in their reply stated that it had recovered ₹ 71.43 lakh (₹ 37.76 lakh from M/s Bharti Airtel and ₹ 33.67 lakh from M/s TTSL) whereas the balance amount pertains to disputed call data record, and the relevant data files were being examined.

We observed that the short payment by private operators ab-initio was due to inadequate review of actual receipts against the billed amount and the same needs to be strengthened.

5.5.3.3 Non-billing of ports surrendered by the private operators.

(i) IUC agreement between MTNL and other operators provide for a minimum commitment period of three years in hiring of ports and if the ports are surrendered pre-maturely, pro-rata rental for the un-expired portion of the committed period shall be payable by the operators.

Our Scrutiny of records of the General Manager (TR), Delhi unit for the period 2005-06 to 2009-10 revealed that out of 3,756 ports relating to seven[1] private operators, 285 number of ports were surrendered by them before expiry of three years. Instead of billing the service providers for the complete three years the relevant bills for the port charges were issued by MTNL only up to the date of surrender resulting in short recovery of Port charges of ₹ 1.19 crore[2].

The Management while accepting the facts and figures stated that realization of these dues were being pursued and shall be netted against amount due to these operators.

The Management's reply is not convincing considering that the dues of ₹ 1.17 crore were old and they could have been "netted off" long time back. The Company had thus far not taken any action on its own to recover the dues.

(ii) Our scrutiny of Delhi unit also revealed that the unit did not have a consolidated database of ports working for private operators as on 31 March 2010. Different Units of the company viz. GM (Electronics), GM (Transmission Planning) and GM (Telephone Revenue) had varying 3,718, 3,688 and 3,756, ports respectively. In the absence of a single confirmed number of ports provided to the Private Operators, the billing and realisation of port charges from all the operators could not be effectively ensured. Hence, an integrated and common data base relating to ports should have been maintained by all the above mentioned engineering and telephone revenue units. Further, periodic reconciliation of ports actually being billed was not being carried out done with the integrated data base to ensure that all the ports were billed correctly. Similarly, Mumbai unit also did not have a system of reconciling the actual number of ports provided to the Service providers resulting in non/short billing of port charges from the service providers.

On this being pointed out, the Management replied (November 2011) that the case in Delhi unit was under examination and the Telephone Revenue branch had billed for 3,655 ports as of March 2011. The Mumbai unit stated that data base was being maintained in excel format and updated as and when a provisioning was made and intimated to billing unit for billing purpose and a quarterly reconciliation was being done to avoid non billing of ports.

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[1] ***Reliance, TCL, Bharti Airtel, Vodafone, IDEA, Aircel and Sistema Shyam TeleServices Limited***

[2] ***M/s Idea Cellular Limited (CMTS) - ₹ 0.21 crore, M/s Bharti Airtel Ltd (BSO) - ₹ 0.02 crore and M/s Reliance Communications Ltd - ₹ 0.96 crore***

The above replies are not acceptable in view of continuing differences in the number of ports as per records of different units of MTNL, absence of integrated database and non reconciliation of data amongst various units.

Conclusion

The examination of IUC reveals that MTNL Management had not achieved the expected level of efficiency in its interconnecting services as evident from absence of valid agreements with public/ private telecom operators in place, non bill/short billing of IUC charges and maintenance of incomplete data base relating to IUC, leading to accumulation of huge IUC receivables of ₹ 876 crore and payables amounting to ₹ 920 crore, at the end of March 2011.

The plea of the Management that (i) the IUC payments were higher than IUC receivables, (ii) the settlement was done by netting off payments due against receivables and (iii) no opportunity loss had occurred was merely an attempt to make light of what was a significant lack of internal control in its business operations.

The Management by netting-off receivables/payables and defaulting in issuing bills in time was jeopardising the timely recovery of its revenue and risking its cash flows and manoeuvrability to meet committed liabilities and improved their cash flows.

The Company needs to address these issues on priority so that there is no leakage of IUC revenue. Any further outstanding IUC coupled with netting off of payable, with receivable will render these accounts complex and difficult to reconcile with passage of time.

The matter was referred to the Ministry in October 2011; reply was awaited (May 2012).