CHAPTER VII
MAJOR FINDINGS IN TRANSACTION AUDIT

7.1 Infructuous expenditure on setting up of Customer Service Centres

Injudicious decision of the Delhi unit of Mahanagar Telephone Nigam Limited to set up Customer Service Centres for its Mobile services despite having Sanchar Haats in the nearby areas, resulted in infructuous expenditure of Rs 1.93 crore on their rent, civil and electrical works.

Between January and October 2001, MTNL opened four CSCs for its Mobile services.

The Delhi unit of Mahanagar Telephone Nigam Limited (MTNL) decided (January 2001) to open Customer Service Centres (CSCs) for sale and service functions relating to its Mobile services. Accordingly, possession of sites on hire for four CSCs to be located in South Extension Part-II, Shalimar Bagh, Karol Bagh and Nirman Vihar areas were taken in January 2001, June 2001, July 2001 and October 2001, respectively, for which rent was paid on monthly basis from the date of possession of these sites. After inordinate delays in completion of the civil and electrical works, these CSCs started functioning between February 2003 and November 2003. Subsequently, in order to optimise the resources, MTNL decided to shift the operations of these CSCs to its nearby Sanchar Haats in the respective areas and accordingly these CSCs were closed in March 2004 (South Extension Part-II), May 2004 (Shalimar Bagh and Nirman Vihar) and June 2004 (Karol Bagh). During the period from taking possession of the sites for setting up these CSCs to the date of their closure, MTNL incurred Rs 1.93 crore on rent (Rs 1.19 crore), civil and electrical works (Rs 74 lakh).

These CSCs were closed after incurring Rs 1.93 crore on rent, civil and electrical works

Sanchar Haats already located in the respective areas could have been utilised for providing CSCs

Audit scrutiny of relevant records of Delhi unit of MTNL (January 2004) revealed that Sanchar Haats in these areas were already available in 2001 and could have been used for providing customer services for its Mobile operations. The imprudent decision on the part of the Management to set up separate CSCs by ignoring the existence of its own Sanchar Haats in the respective areas and further delays in carrying out civil and electrical works to make these CSCs operational due to lack of initial planning, resulted in infructuous expenditure of Rs 1.93 crore on rent, civil and electrical works during the period January 2001 to June 2004. Besides the delay of more than two years in setting up the CSCs resulted in inconvenience to the customers.

In reply, the Management stated (January/June 2004) that these CSCs were acquired to facilitate direct interface with customers and to provide single window solutions for all problems. The sites of these CSCs were also used as nodal offices for network maintenance teams operating in the respective areas.

The reply is not acceptable. Had the Management prudently planned the entire activities and initially considered the existing Sanchar Haats for providing

Imprudent planning by the Management led to avoidable expenditure of Rs 1.93 crore

customer services for its Mobile operations, the entire expenditure on setting up of separate CSCs could have been avoided.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

7.2 Avoidable excess expenditure on productivity linked incentive to employees

Payment of productivity linked incentive to its employees for the years 2001-02 and 2002-03 in violation of the instructions issued by the Department of Public Enterprises, resulted in avoidable excess expenditure of Rs 22.90 crore by Mahanagar Telephone Nigam Limited.

The Department of Public Enterprises (DPE) issued (June 1999/March 2000) instructions to all Public Sector Enterprises (PSEs) that payment of perquisites and allowances to their employees could be up to a maximum of 50 *per cent* of the basic pay and payments over and above this ceiling should be entirely in the nature of performance-related payments, which should not exceed 5 *per cent* of the distributable profit of the Enterprise. It was also clarified (March 2000) that the Board of the concerned PSE should exercise the autonomy extended under this order with utmost caution and the decision taken in the Board meeting in that regard should also be transparent. Further, in September 2000, DPE also clarified the definition of distributable profit of an Enterprise for the purpose of calculation of performance-related payments, according to which distributable profit was the profit after tax and providing for transfer to statutory reserves, investment allowance reserve and general reserve [as per Section 205 (2A) of the Companies Act 1956].

The Mahanagar Telephone Nigam Limited (MTNL) paid Rs 64.70 crore and Rs 56.20 crore as productivity linked incentive (performance-related payments) to its employees for the years 2001-02 and 2002-03, respectively.

MTNL paid productivity linked incentive totalling Rs 22.90 crore to its employees in violation of DPE's instructions

During audit scrutiny of the relevant records of MTNL corporate office, (March 2004) it was noticed that the distributable profit of MTNL for the purpose of calculation of performance-related payments to its employees worked out to Rs 1170.61 crore and Rs 789.44 crore for the years 2001-02 and 2002-03, respectively. Based on these distributable profits, the maximum amount of performance related payments (at 5 *per cent* thereof) worked out to Rs 58.53 crore and Rs 39.47 crore for the years 2001-02 and 2002-03, respectively, against Rs 64.70 crore and Rs 56.20 crore actually paid by MTNL to its employees. The above payments of productivity linked incentive were made in violation of the DPE instructions. MTNL had also not formulated any transparent policy in regard to the payment of productivity linked incentive to its employees (June 2004).

Thus, the excess payment of productivity linked incentive (performance-related) to its employees by MTNL for the years 2001-02 and 2002-03 in violation of DPE's instructions, resulted in avoidable excess expenditure aggregating to Rs 22.90 crore during 2001-02 (Rs 6.17 crore) and 2002-03 (Rs 16.73 crore).

In reply, Management stated (June 2004) that the Board of Directors had taken a conscious decision about the quantum of payment of productivity linked incentive to employees for these years after considering the norms laid down by DPE, in the larger interest of the Company and harmonious industrial relations. They further stated that DoT was being requested to condone/approve the excess payment of productivity linked incentive for these years. The Management added that they were already in the process of formulating the parameters for payment of productivity linked incentive.

The reply is not acceptable as DPE had issued the instructions in the larger interests of the Government of India as well as PSEs and their compliance was the responsibility of all PSEs including MTNL. Besides, the Management, instead of obtaining prior approval of DoT for bypassing the DPE guidelines, sought the approval of DoT after the payment was made in violation of DPE instructions. Further, despite having corporate status for the last 18 years, the Management failed to formulate any transparent parameters so far, for payment of productivity linked incentive to its employees and maintain harmonious industrial relations.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

7.3 Irregularities in hiring of accommodation and its utilisation

Failure to adhere to provisions of the lease agreement and lack of planning in optimum utilisation of hired accommodation resulted in infructuous expenditure of Rs 1.78 crore by Mahanagar Telephone Nigam Limited during May 2002 to May 2004.

Only carpet area, exclusive of passages and entrance hall, was to be considered for calculation of rent for hired accommodation

Mahanagar Telephone Nigam Limited (MTNL), Mumbai, renewed a lease agreement of hired premises in Lower Parel area of Mumbai in July 2002 for a period of 33 months effective from May 2002 with Phoenix Mills Ltd. The lease agreement provided for calculation of rent based on carpet area exclusive of the area of passages and entrance hall. The Government of India (Directorate of Estates) has also prescribed the same standards. Scrutiny of the records by Audit (December 2003) revealed the following irregularities in renewing lease agreement and utilisation of the hired premises.

(1) From the report of the Sub-Divisional Engineer (Building) MTNL, Mumbai, it was noticed that in contravention of clause (b) of the lease

Inclusion of non-stipulated areas for calculation of rent led to avoidable excess expenditure of Rs 94.71 lakh

agreement and Government standards, the rentable carpet area of 25,034 square feet included 6,314 square feet area pertaining to passage, toilets, lobby and visitors area. The Management also did not correctly consider the carpet area for the purpose of calculation of rent. As a result MTNL had to incur avoidable excess expenditure of Rs 94.71 lakh (Rs 60 per square foot per month) on payment of rent for carpet area of 6,314 square feet during the period from May 2002 to May 2004.

Management failed to initiate corrective action

On this being pointed out by Audit (December 2003) the Management stated (May 2004) that the toilet, passage and lobby were not common to the premises but were exclusively made for the benefit of MTNL staff and customers; hence rent for these areas was payable. They also stated that on account of its emergency requirements, the unit had no option but to renew the agreement by retaining extra space over and above its requirement. The reply is not acceptable as the Management had failed to adhere to the provisions of the lease agreement and the standard procedure prescribed by the Government of India for hiring of rented accommodation. They also failed to initiate any corrective measures (May 2004).

Nine units did not take possession of allotted space

MTNL spent Rs 55.86 lakh on rent for unutilised space

(2) In the hired premises, the Management allotted (November 2002) space for 26 units of the office of General Manager (North) and Civil Wing, but till May 2004, nine of these units had not taken possession of the allotted space totalling 4,900 square feet, resulting in this area remaining unutilised for a period of 19 months (November 2002 to May 2004). Thus, MTNL incurred infructuous expenditure of Rs 55.86 lakh on rent of space unutilised.

In reply, the Management stated (May 2004) that such shifting required several actions like identification of offices, issue of orders, physical shifting, etc. and compliance to these actions was always associated with delays. The reply is not acceptable because identification of offices and orders for their shifting were issued by the Management in November 2002 itself, but physical shifting of allottees was not done despite a lapse of more than 19 months which is indicative of lack of planning on the part of the Management.

Allotment of space to units in excess of norms led to irregular expenditure of Rs 27.52 lakh on rent

(3) Further, space allotted to the remaining 17 units was 79 per cent in excess of the norms prescribed by MTNL itself and such excess space was 2,414 square feet. This resulted not only in violation of its own existing norms for allotment of space but also in irregular expenditure of Rs 27.52 lakh on rent for the period from November 2002 to May 2004 on this excess allotted space.

In reply, the Management stated (May 2004) that extra space was allotted to various units in order to make provision for accommodating computer, Fax machine etc. The reply is not acceptable as these existing norms, on the directions of the Corporate office of MTNL, had been reviewed by Mumbai unit of MTNL in February 2002 and were found to be in order.

The Management assured (May 2004) that as a step towards fiscal prudence and austerity, a high-powered committee was actively considering the option to vacate the entire premises leased from Phoenix Mills.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.