OVERVIEW

This Audit Report for the year 2003-04 containing 62 paragraphs including one IT Audit review and one performance review is presented in 13 chapters:

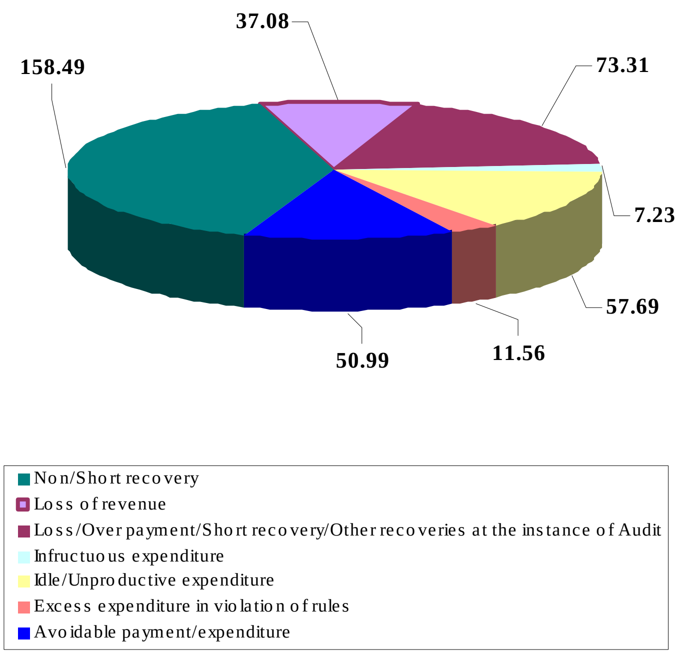
Chapters I to IV	Bharat Sanchar Nigam Limited
Chapters V to VII	Mahanagar Telephone Nigam Limited
Chapters VIII and IX	ITI Limited
Chapter X	Telecommunications Consultants India Limited
Chapter XI	Intelligent Communication Systems India Limited
Chapter XII	Millennium Telecom Limited
Chapter XIII	Follow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

Financial implications

The total quantifiable financial implication of paragraphs and reviews included in this Report is Rs 689.48 crore. The Company-wise details with reference to the nature of irregularities are given as under:

(i) Bharat Sanchar Nigam Limited

The financial implication in respect of the IT Audit review and paragraphs relating to Bharat Sanchar Nigam Limited (BSNL), which could be quantified, is Rs 396.35 crore as per details given below:

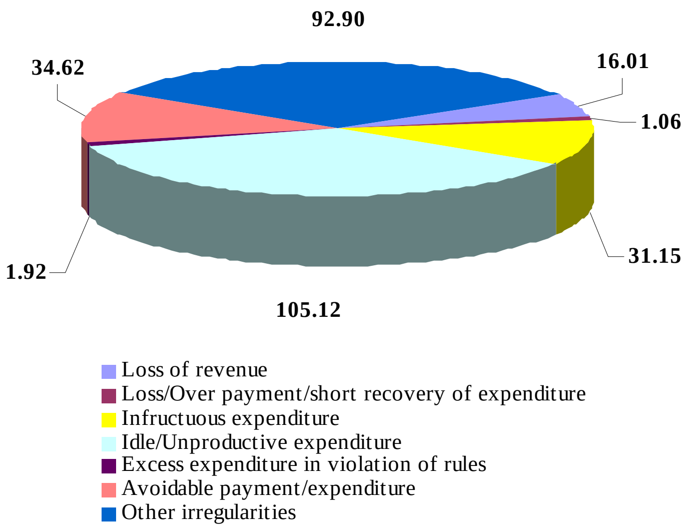


(Rs in crore)

Revenue paragraphs	
Non/Short recovery	158.49
Loss of revenue	37.08
Comprehensive performance review and expenditure paragraphs	
Loss/Over payment/Short recovery/ Other recoveries at the instance of Audit	73.31
Infructuous expenditure	7.23
Idle/Unproductive expenditure	57.69
Excess expenditure in violation of rules	11.56
Avoidable payment/expenditure	50.99
Total	**396.35**

ii) Mahanagar Telephone Nigam Limited

The financial implication in respect of performance review and paragraphs relating to Mahanagar Telephone Nigam Limited (MTNL), which could be quantified, is Rs 282.78 crore as per details given below:



(Rs in crore)

Revenue, expenditure paragraphs and performance review	
Loss of revenue	16.01
Loss/Over payments/Short recovery of expenditure	1.06
Infructuous expenditure	31.15
Idle/Unproductive expenditure	105.12
Excess expenditure in violation of rules	1.92
Avoidable payment/expenditure	34.62
Other irregularities	92.90
Total	**282.78**

iii) ITI Limited

The financial implication in respect of paragraphs relating to ITI Limited, which could be quantified, is Rs 10.35 crore as per details given below:

(Rs in crore)

Idle/unproductive expenditure	4.74
Loss/Overpayment	5.61
Total	**10.35**

BHARAT SANCHAR NIGAM LIMITED

Four chapters, each dealing with a specific subject, are as shown below:

Chapter No.	Deals with
I	Introductory chapter giving in brief the introduction, organisational setup, investment and returns, physical and financial performance, revenue arrears, manpower and productivity.
II	Revenue paragraphs based on the results of transaction audit.
III	Performance review on IT Audit of Dotsoft Package working in BSNL
IV	Expenditure paragraphs based on the results of transaction audit.

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

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

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

- As on 31 March 2004, the entire paid-up equity share capital of Rs 5000 crore and preference share capital of Rs 7500 crore of BSNL were treated as investment by Government of India. In addition, Rs 7,500 crore has been treated as loan from Government of India. No interest on the loan of Rs 7,500 crore was paid to Government due to exemption/moratorium on the same, enjoyed by BSNL.

- BSNL was also exempted from payment of dividend on equity share capital up to 31 March 2004 and further enjoys 50 *per cent* and 25 *per cent* waiver on dividend for the years 2002-03 and 2003-04, respectively. Accordingly, BSNL proposed dividend of Rs 281.25 crore for the year ending 31 March 2004.

- At the end of March 2004, BSNL had a network of 36,618 telephone exchanges with an equipped capacity of 485.60 lakh lines. Out of this equipped capacity, 363.94 lakh telephone connections, i.e., 75 *per cent* were given, though the number of persons on the waiting list was 18.15 lakh. The number of village public telephones increased from 5.05 lakh as on 31 March 2003 to 5.10 lakh as on 31 March 2004.

- For the year ended 31 March 2004, BSNL earned Rs 31,399.34 crore from its services. The profit before tax was Rs 8,996.16 crore and after providing for tax, the net profit stood at Rs 5,976.52 crore.

- The arrears of telephone revenue increased from Rs 2,684.18 crore to Rs 3,074.63 crore at the end of June 2004 for the bills issued upto March 2004.

- For the bills issued up to March 2004, an amount of Rs 2,107.15 crore (as of 1 July 2004) was outstanding for one or more years, which constituted 68.53 *per cent* of the total outstanding revenue of Rs 3,074.63 crore.

- In respect of category-wise outstanding revenue, out of the total outstanding amount (Rs 3,074.63 crore), 92.90 *per cent* was outstanding against private subscribers, 1.32 *per cent* against Central Government departments and 5.78 *per cent* against various State Governments. The amount as well as the proportion of outstanding bills against private subscribers was persistently increasing every year.

- The revenue arrears overdue for collection in respect of telegraph circuits had gone up from Rs 180.22 crore in 2000-01 to Rs 355.86 crore in 2003-04, while those of telex/intelex charges reduced from Rs 18.30 crore to Rs 16.92 crore during the same period.

- The number of employees per thousand telephone connections including WLL decreased from 13.02 in 2000-01 to 9.50 in 2003-04.

(Paragraph 1)

II) Revenue paragraphs relating to BSNL based on transaction audit findings

Chapter II, on revenue paragraphs based on the results of transaction audit, contains cases of loss/non-recovery/outstanding dues, etc. of Rs 195.57 crore. BSNL has realised Rs 122.21 crore at the instance of Audit.

Delay in realisation of dues and loss of interest

Chief General Manager, Maharashtra Telecom Circle failed to realise outstanding dues of Rs 107.28 crore in time from Videsh Sanchar Nigam Limited which resulted in loss of interest of Rs 17.72 crore. Delays in issue and realisation of bills resulted in further loss of interest of Rs 17.77 crore.

(Paragraph 2.1)

Non-collection of revenue from cellular mobile subscribers

BSNL laid down certain safeguards while introducing post-paid mobile telephony under the brand name "Cell One", such as establishment of credentials of applicants, generation of interim bills where calls exceeded the threshold limit, disconnections due to non-payment of dues, etc. Failure to implement these safeguards resulted in accumulation of outstanding dues of Rs 13.98 crore in 10 telecom circles within one year of introduction of the scheme.

(Paragraph 2.2)

Continuation of telephone facilities despite non-payment of dues

Test check by Audit in 16 Secondary Switching Areas in six telecom circles revealed that BSNL continued to allow telephone facilities to various telephone subscribers despite non-payment of telephone bills by due dates. This resulted in accumulation of dues of Rs 11.51 crore during the period April 1990 to March 2004.

(Paragraph 2.3)

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

Scrutiny of six Secondary Switching Areas (SSAs) under three telecom circles revealed that Bharat Sanchar Nigam Limited failed to claim rentals at revised rates from the Railways, which resulted in short recovery of Rs 2.58 crore during the period April 1986 to November 2004. Out of this, an amount of Rs 1.13 crore had been recovered in five SSAs as of November 2004.

(Pararaph 2.5)

Non-billing of penal interest

Chief General Manager, (Maintenance) Northern Telecom Region (CGM NTR) provided three services viz., Satellite Speech circuits, Data circuits and annual maintenance of Earth Stations at various locations to Nuclear Power Corporation of India Limited (NPCIL). The CGM NTR did not charge penal interest amounting to Rs 1.74 crore towards the delayed payments received from NPCIL for these services.

(Paragraph 2.6)

Loss of revenue

General Manager, Telecommunications, Calicut failed to fix the final rental in a rent and guarantee case within the prescribed time limit. A belated attempt to realise the final rental was turned down by the Telecom Disputes Settlement and Appellate Tribunal, resulting in loss of revenue of Rs 1.59 crore.

(Paragraph 2.7)

Short billing of installation charges and rentals

Eight Secondary Switching Areas under two telecom circles failed to recover installation charges and rentals at enhanced rates, consequent on increase in exchange capacity. This resulted in short billing of Rs 1.59 crore between January 1999 and December 2003.

(Paragraph 2.8)

Non/Short billing of rentals in respect of interconnection facilities to Defence

Chief General Manager Telephones, Calcutta Telephones did not revise interconnection charges corresponding to periodical revisions of rentals of Defence owned speech circuits. In respect of some of these circuits, the billing authority did not even raise bills for interconnection charges. The failure to revise the charges and raise bills for the interconnection facilities resulted in non/short billing of Rs 1.03 crore for the period 1983 to 2005.

(Paragraph 2.9)

Short billing of revenue

Rules provide for charging of rentals of leased circuits within Short Distance Charging Areas as per the resources utilised. However, three General Managers under the Kerala Telecom Circle failed to charge rentals as per these rules, resulting in short billing of Rs 92.89 lakh.

(Paragraph 2.10)

Non billing of rentals in respect of lines and wires leased to the Railways

Failure of the Circle Telecom Accounts branch under the Jharkhand Telecom Circle and three Secondary Switching Areas under the Tamil Nadu Telecom Circle to recover rentals for lines and wires leased to the Railways after changes in billing authorities, resulted in non-billing of Rs 60.07 lakh for the period between April 2001 and March 2004.

(Paragraph 2.11)

Short billing of rentals for leased circuits

Failure of three Secondary Switching Areas under the Andhra Pradesh Telecom Circle to calculate chargeable distances as per revised instructions resulted in short billing of rentals for leased circuits to the tune of Rs 55.37 lakh between April 1999 and June 2005. Out of this, Rs 4.09 lakh was recovered as of November 2004.

(Paragraph 2.12)

Loss of revenue due to incorrect fixation of rental

Incorrect fixation of rental by the Principal General Manager Telephone, Patna Telephone District for eight circuits provided to Videsh Sanchar Nigam Limited at a flat rate instead of on Rent and Guarantee terms, resulted in loss of revenue of Rs 38.66 lakh upto April 2004.

(Paragraph 2.16)

III) Performance Review relating to BSNL

Chapter III containing one Information Technology Audit review has a quantifiable financial implication of Rs 51.61 crore.

IT Audit of DotSoft Package of BSNL

The DotSoft Package developed in-house by the Department of Telecommunications is an integrated telecom database system comprising modules for commercial services, billing services, accounting services, fault repair services and directory enquiry services. It was introduced in September 1998 for implementation all over India.

Some of the major deficiencies observed by Audit in respect of implementation of the package were as follows:

- There were unaddressed bills worth Rs 39 crore lying in the database in 33 SSAs of eight telecom circles from the year 2000 onwards, as the integrated package could not eliminate these bills.
- Deficiencies like non-revision of rental and installation charges due to change in exchange capacity and excess payment due to non-revision of interest rates led to short billing of revenue of Rs 81 lakh.
- The package did not have any provision for reconciliation of calls metered in the telephone exchanges and actually billed through the package for each billing cycle, to prevent leakage of revenue. It also had no provision for calculation of rent on pro-rata basis.
- System resources were not utilised for immediate disconnection of telephone connections in five SSAs under three telecom circles which led to accumulation of dues of Rs 1.17 crore.
- There were no monitoring measures in place to prevent data manipulation and tampering.

BSNL needs to improve its computerised billing process; address the issue of non-reconciliation of calls metered and billed; frame an Information Technology security policy and prepare a disaster recovery and business continuity plan to achieve the objectives of computerisation.

(Paragraph 3)

IV) Expenditure paragraphs relating to BSNL based on transaction audit findings

Chapter IV, on expenditure paragraphs based on the results of transaction audit, brings out losses/over payments/short recovery of expenditure, infructuous expenditure, idle/unproductive expenditure, excess expenditure in violation of rules, avoidable payments/expenditure, etc. aggregating Rs 149.17 crore. Replies of the Ministry/Management in many cases are still awaited.

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

Excess payment of customs duty

BSNL placed purchase orders for 500.35 k lines WLL equipment between November 2002 and January 2003. The rate of customs duty on Base Station Controller and Base Transreceiver Station was shown as 39 *per cent* in the lowest quote of M/s UTL. From 1 April 2002, the rate was reduced from 39 *per cent* to 21.8 *per cent* for the year 2002-03. BSNL failed to take cognizance of the reduction in customs duty, resulting in excess payment of Rs 16.29 crore in procurement of WLL equipment.

(Paragraph 4.1)

(B) Infructuous expenditure

Irregularities in the execution of cable duct works

The Chief General Manager Telecommunications, Uttar Pradesh (West) Circle prescribed (August 1999) a target of 3.20 km for the Aligarh SSA for the year 1999-2000 for cable duct construction which was subsequently revised to 4.60 km. The General Manager Telecom, Aligarh, however, sanctioned 16.15 km of cable duct work at Aligarh and Hathras, ignoring the above target. This not only resulted in unauthorized expenditure of Rs 3.60 crore, but also blocked funds to the tune of Rs 1.27 crore due to idling of four duct routes handed over to project authorities.

(Paragraph 4.6)

Unfruitful expenditure

The Chief General Manager, Telecom Stores, (CGM, TS) Kolkata placed a purchase order in November 2002 on M/s Infinity EV Motors Private Limited, Hyderabad for supply of Switch Mode Power Supply power plants of different types at a unit price of Rs 1.77 lakh. The CGM allotted 86 power plants to the Rajasthan Circle. All the power plants, received between December 2002 and April 2003 which were mostly used for commissioning in rural areas, failed to work since they were not in conformity with the specifications of rural areas.

Audit observed that the CGMT Rajasthan had failed to indicate the nature of application of the power plants. This resulted in unfruitful expenditure of Rs 1.52 crore on procurement of the power plants.

(Paragraph 4.7)

(C) Idle/unproductive expenditure

Idling of Digital Loop Carrier equipment

Bharat Sanchar Nigam Limited placed purchase orders on four firms between June 2001 and August 2002 for procurement of 500 DLC systems. Out of these, 46 systems were allotted to the Tamil Nadu and Himachal Pradesh Telecom Circles. Test check of records of five SSAs in these two circles disclosed that these systems were procured either without assessment or were not technically suitable. The procurement and allotment of DLC systems without assessing the actual requirement and technical suitability at the places of installation resulted in idling of 31 DLC systems worth Rs 19.26 crore with remote prospects of future utilisation because of fast changing technology.

(Paragraph 4.9)

Injudicious procurement

Department of Telecommunications decided in April/July 2000 to lay 5 pair cables since it was more economical than erecting new alignments for giving new phone connections and instructed circles not to procure overhead material to the full extent as per norms. Despite this, the Chief General Manager, Telecommunications, Maharashtra Circle invited (March 2000) tenders for procurement of galvanised tapered steel tubes required for erecting poles for providing new telephone connections for the year 2000-01 and finalized the prices at 30 to 36 *per cent* higher rates than the 1999-2000 prices. At the time of finalisation of the tender, the CGMT had a stock balance of A8/B8 types of tubes equal to three months' consumption and of C8 type tubes equal to 11 months' consumption. The CGMT could utilise only 55 to 58 *per cent* of the stock of A8/B8 tubes available during the year 2000-01. The C8 tubes procured were not utilised at all as the previous stock was more than sufficient to meet the requirement. Failure of the CGMT to assess the actual requirement and to follow the guidelines on procurement resulted in blocking of funds of Rs 15.22 crore. Further, had he gone for procurement during 2001-02, he could have saved avoidable expenditure of Rs 2.94 crore, incurred on the procurement of tubes during 2000-01.

(Paragraph 4.10)

Idling of equipment

The Principal General Manager (Development), Mumbai procured Synchronous Transfer Mode-4 (STM-4) equipment in excess of requirement during 2001-02, resulting in idling of 83 STM-4 equipment worth Rs 6.03 crore since their receipt. The conversion of STM-4 terminals to ADM-4 would cost the Company an additional expenditure of Rs 83 lakh.

(Paragraph 4.11)

Idle investment

The Chief General Manager, Chennai Telephones, constructed staff quarters at Poonamallee, Perungudi and Korattur and a telephone exchange building at Korattur between December 2001 and April 2003 at a total cost of Rs 3.62 crore without obtaining the approval of the building plans from the Chennai Metropolitan Development Authority (CMDA). Electricity connections could not be obtained as the Tamil Nadu Electricity Board insisted on planning clearance and completion certificates from the CMDA which were pre-requisites for applying for electricity connections. As a result, the completed buildings could not be taken over by Chennai Telephones. Thus the expenditure of Rs 3.62 crore incurred on the construction of the buildings remained blocked and they could not be put to their intended use.

(Paragaph 4.12)

Blocking of capital

Telecom District Manager (TDM), Khagaria installed Base Transreceiver Stations (BTSs) at Saharbani and Beldaur in Bihar Circle in July 2001/February 2002 prior to sanction of the estimates. These BTSs were not commissioned since installation, as the area was not suitable due to lack of power supply and road communication. As a result, not only were BTSs worth Rs 3.11 crore lying idle for over two to three years but also the purpose of connecting the villages through Village public telephones stood defeated.

(Paragaph 4.13)

Injudicious expansion of exchanges

The Principal General Manager Telecom, Vadodara under the Gujarat Circle and General Managers Telecom, Darbhanga and Noida under the Bihar and Uttar Pradesh (West) Circles, respectively expanded the capacity of four exchanges during the period May 2002 to April 2003 without proper justification and in contravention of instructions issued in September 1997 by the Department of Telecommunications. This resulted in unproductive expenditure of Rs 2.69 crore.

(Paragraph 4.14)

Idle investment on construction of staff quarters

Department of Telecommunications approved the construction of 73 staff quarters and a Regional Telecom Training Centre (RTTC) at Jaipur. This was reduced to 39 after a decision taken in a coordination meeting of the Telecom Directorate in

March 1998. Audit scrutiny revealed that the re-assessed projected demand for 39 quarters was not realistic as RTTC functioned on diverted posts which varied from 7 to 12 since its formation in January 1997 till March 1998. As per the revised target of 18 *per cent* of staff quarters for the Ninth Plan, the target for construction of staff quarters worked out to six considering the staff strength at the maximum level of 31 officials. Out of the 39 quarters, four quarters were utilised for inspection, store and office purposes while the remaining 35 quarters were lying vacant as of March 2004. This resulted in idle investment of Rs 1.68 crore.

(Paragraph 4.15)

Blocking of capital of Rs 1.55 crore

Haryana Urban Development Authority (HUDA) offered a plot measuring 8000 sq.m. valuing Rs 1.55 crore to General Manager Telecommunications (GMT), Ambala for construction of a telephone exchange. The site suitability certificate furnished by the team deputed for the purpose, erroneously pointed out that there was green land on the back along the Amritsar-Delhi Railway line. A joint inspection conducted in October 2001 by the Company and HUDA officials disclosed shortage in area by 250 sq.m. The Company requested HUDA to allot the balance land from an adjoining vacant plot, but the request was turned down by HUDA which intimated that the green land was included in the site earmarked for the telecommunications department and this area could not be deleted from the total area of the plot. Thus the issue of a defective site suitability certificate and failure to highlight the facts regarding the green land and short measurement of the plot resulted in blocking of capital of Rs 1.55 crore for over two years, besides defeating the purpose for which the site was being purchased.

(Paragraph 4.16)

Idle investment on construction of staff quarters

General Managers, Telecom, Mathura and Noida under the Uttar Pradesh (West) Circle constructed 85 quarters during 1996 to 2000 without proper assessment of demand of staff quarters and availability of basic amenities. Out of these, 36 quarters were lying vacant for periods ranging from 42 to 75 months as of March 2004. This resulted in idle investment of Rs 1.01 crore, besides avoidable expenditure of Rs 16.96 lakh on payment of house rent allowance to eligible staff and potential loss of Rs 3.82 lakh towards licence fees recoverable from the occupants.

(Paragraph 4.17)

Blocking of funds

General Manager, Telecom, Belgaum, under the Karnataka Circle, received stores (cables and Centre for Development of Telematics accessories) worth Rs 69.80 lakh during 2000-03 against dummy estimates, merely sanctioned for the purpose of the stores transaction. These stores, received on indents from the Circle Telecom Store Depot, remained idle for over one to three years, which indicated that they were indented without ascertaining the actual requirement. This resulted in blocking of funds of Rs 69.80 lakh.

(Paragraph 4.20)

(D) Excess expenditure in violation of rules

Irregular expenditure on engaging contract labour

Chief General Managers, Telecommunications of six telecom circles engaged security agencies on contract through open tenders instead of getting sponsored ex-servicemen empanelled from the Directorate General of Resettlement, in violation of the directives of their Corporate Office. This resulted in irregular expenditure of Rs 6.30 crore on contract labour during the period from August 2001 to March 2004, besides denying ex-servicemen the benefit of resettlement.

(Paragraph 4.23)

Irregular expenditure

Telecom District Manager (TDM), now General Manager Telecom District, Deoria, under the Uttar Pradesh (East) Circle, sanctioned two estimates on the same day, one for installation and another for expansion of a C-DOT exchange at Ravindra Nagar (Padrauna) costing Rs 2.63 crore each, by splitting the project estimate to avoid seeking sanction of the Chief General Manager. The exchange was commissioned in March 2003 and expansion work was completed by March 2004. Only 98 connections could be provided since there was no waitlist and 87 connections were technically non-feasible. Besides, the TDM laid 7472 ckm cable in excess of norms resulting in infructuous expenditure of Rs 60 lakh.

(Paragraph 4.24)

(E) Avoidable Expenditure/Payment

Avoidable excess payment

Bharat Sanchar Nigam Limited (BSNL) floated tenders for procurement of patch panel antennae for rural stations and WLL equipment for expansion in rural areas, which included DC-DC converters for expansion of Base Transreceiver Stations. Audit observed that M/s LG Electronics Systems, on whom the purchase order was placed by BSNL, procured both the items from sub-contractors, who made direct supplies to BSNL’s consignees. However, the prices paid by BSNL to M/s LG Electronics Systems for these items were higher by 77.76 per cent and 247.33 per cent than those paid by the former to its sub-contractors. This resulted in excess payment of Rs 21.53 crore in procurement of these items.

(Paragraph 4.25)

Avoidable extra expenditure on repair of faulty E-10B cards

Chief General Managers Telecommunications (CGMT) of Andhra Pradesh, Gujarat, Karnataka, Kerala, Maharashtra, Rajasthan, Uttar Pradesh (East) and Uttar Pradesh (West) circles entered into annual maintenance contracts with M/s ITI for repair of faulty E-10 B cards on the basis of total capacity of exchanges instead of fixing the rate on per card basis. A comparison with the rates charged by Intelligent Communication System India Limited indicated that the circles had incurred avoidable expenditure of Rs 9.22 crore during the period 1999-2004 on repairs of the faulty cards.

(Paragraph 4.26)

Avoidable expenditure in procurement of 12F Optical Fibre Cable

Bharat Sanchar Nigam Limited placed purchase orders in September 2001 for supply of 55,399 km of 12F and 10,865 km of 24F Optical Fibre Cable (OFC) at a total cost of Rs 413 crore. The price of 12F OFC was Rs 57402 per km. In October 2001, the BSNL Headquarters decided to procure additional quantity of 15,800 km of 12 F OFC against the above tender and called for details of tenders floated by different circles for the item. Although the prices communicated by the circles showed a downward trend, BSNL Headquarters procured the additional quantity at Rs 57,402 per km against the current market rate of Rs 51,500 per km resulting in excess expenditure of Rs 8.89 crore.

(Paragraph 4.27)

Undue benefit to contractor and short levy of penalty

The Chief General Manager, Chennai Telephones and the Principal General Manager Telecom, Kalyan under the Maharashtra Telecom Circle entered into contracts for printing and supply of telephone directories in June 1999 and July 2001 respectively. They levied inadequate penalties on the contractors for short supply of telephone directories, non-printing of Marathi information pages and not adhering to the specifications of directory size as envisaged in the contracts, thereby extending undue benefit of Rs 5.72 crore.

(Paragraph 4.28)

Undue benefit to suppliers in procurement of WLL Cordect equipment

Bharat Sanchar Nigam Limited placed purchase orders between August 2002 and February 2003 for procurement of WLL Cordect supporting voice and Internet and WLL Cordect supporting voice only equipment. The option of procuring WLL Cordect supporting voice only and then converting the same to voice with internet worked out to be cheaper by Rs 2.56 lakh per DIU than the procurement of WLL Cordect supporting voice with internet. This resulted in excess payment of Rs 5.06 crore in procurement of 198 DIU with voice and Internet during 2002-03 and 2003-04.

(Paragraph 4.29)

MAHANAGAR TELEPHONE NIGAM LIMITED

Three chapters, each dealing with a specific subject, are as shown below:

Chapter No.	Deals with
V	Introductory chapter giving in brief the introduction, organisational setup, investment and returns, physical and financial performance, revenue arrears, manpower and productivity.
VI	Performance review on 'Planning, procurement and utilisation of Wireless-in-local loop (WLL) system in MTNL'.
VII	Expenditure paragraphs based on the results of transaction audit.

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

Mahanagar Telephone Nigam Limited (MTNL) was incorporated in February 1986 under the Companies Act 1956 and commenced its operations by taking over the management, operations and control of the telephone network (except public telegraph services) of the erstwhile Union Territory of Delhi and three Municipal Corporations of Mumbai. Other aspects highlighted in Chapter V are as under:

- Against the authorised equity share capital of Rs 800 crore, the paid-up capital, as on 31 March 2004, was Rs 630 crore, of which Rs 354.37 crore had been invested by the Government of India. At the end of 31 March 2004, the return on the said investment in the form of dividend paid by MTNL was 45 *per cent.*
- The overall capacity utilisation of telephone exchanges went down from 87 *per cent* in 1999-2000 to 73 *per cent* in 2003-04 due to lack of demand.
- There was 80 *per cent* increase in the number of cellular mobile telephone connections in 2003-04 compared to 2001-02. The number of public telephones increased from 1.09 lakh in 1999-2000 to 2.40 lakh in 2003-04.
- During 2003-04, MTNL earned Rs 6369.60 crore from its services. The profit before tax was Rs 1601.83 crore and after providing for tax, the net profit stood at Rs 1150.48 crore. The profit after tax increased by 31 *per cent* in 2003-04 compared to the previous year mainly on account of increase in income (including other income) by 11 *per cent* over the last year's income,

although the expenditure increased by 5 *per cent* in 2003-04 over the previous year's expenditure.

- The revenue arrears during the last five years upto 2003-04 ranged between 27 *per cent* to 32 *per cent* of the total revenue. The unrealised revenue which was considered doubtful of recovery increased from 15 *per cent* at the end of March 2000 to 24 *per cent* at the end of March 2002, but at the end of March 2003, it decreased to 19 *per cent* and remained at 19 *per cent* at the end of 31 March 2004.
- The number of employees per thousand telephone connections (including cellular mobile connections) decreased from 15.11 in 1999-2000 to 11.53 in 2003-04.

(Paragraph 5)

II) Performance Review relating to MTNL

Chapter VI contains one performance review on the planning, procurement and utilisation of the Wireless-in-Local Loop (WLL) system, which has a quantifiable financial implication of Rs 256.17 crore.

Planning, procurement and utilisation of Wireless-in-Local Loop (WLL) system

Mahanagar Telephone Nigam Limited (MTNL) commenced its Wireless-in-Local Loop (WLL) service in Delhi and Mumbai in May 1997 and January 2002, respectively, by using Code Division Multiple Access (CDMA) technology. MTNL failed to formulate any detailed plan and monitoring mechanism before launching the WLL system, which led to financial losses due to repeated procurement of obsolete/deficient technologies, capacity constraints and operational deficiencies. A review of MTNL's WLL systems revealed that these were commissioned after considerable time overruns and even after that, capacity constraints were not addressed. Owing to persistent deficiencies in the purchase orders, no penal action could be taken against the suppliers for delays in installation and commissioning and deficiencies in the systems. When the bottlenecks of capacity constraints were removed, fresh connections could not be given due to inadequate number of handsets. The quality of service offered was poor in terms of area coverage and billing. Consequently, while private operators commenced their WLL services five years after MTNL commenced its first WLL service in 1997, their subscriber bases in Delhi and Mumbai stood at 20.31 lakh as on March 2004, which was 14 times more than the 1.42 lakh subscriber base of MTNL.

Some of the major deficiencies observed by Audit in procurement and utilisation of WLL system in MTNL were as follows:

- Procurement of old technology and suppliers' failure to rectify frequency interface problems led to unjustified expenditure of Rs 88.96 crore.

- Delay in finalisation of a tender and placement of purchase orders led to avoidable expenditure of Rs 11.47 crore.

- Faulty and damaged handsets valuing Rs 16.49 crore were lying in the stores of MTNL. Chances of their utilisation were remote due to obsolescence.

- Fixed wireless and mobile handsets procured for Rs 52.80 crore in Delhi and Mumbai were lying idle in spite of a large number of pending cases.

- Defective payment terms in a purchase order led to infructuous expenditure of Rs 10.95 crore, as the 10,000 lines system had to be prematurely decommissioned mainly due to inherent defects, which the supplier did not rectify.

- The Management failed to recover Rs 13.94 crore from defaulting subscribers and also failed to take remedial measures.

- A short-equipped system and non-availability of handsets led to loss of potential revenue of Rs 15.75 crore.

- A WLL Cordect system procured at a total cost of Rs 52.32 crore remained grossly underutilised.

MTNL needs to review and strengthen its planning mechanism to avoid future delays and bottlenecks in general and particularly in execution of turnkey projects. The procurement procedures need to be thoroughly reviewed to ensure laying down of the contractual commitments for safeguarding the commercial interests of MTNL and adherence of the same by the suppliers. Capacity constraints of the systems due to technical deficiencies need to be promptly attended to for ensuring their optimal use. Their billing system should be strengthened for timely issue and realisation of bills.

(Paragraph 6)

III) Expenditure paragraphs relating to MTNL based on transaction audit findings

Chapter VII, on expenditure paragraphs based on the results of transaction audit, brings out infructuous expenditure of Rs 3.71 crore and avoidable expenditure/payment of Rs 22.90 crore.

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

Infructuous expenditure on setting up of Customer Service Centres

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

(Paragraph 7.1)

Avoidable excess expenditure on productivity linked incentive to employees

MTNL made payment of productivity linked incentive to its employees for the years 2001-02 and 2002-03 in violation of instructions issued by the Department of Public Enterprises, resulting in avoidable excess expenditure of Rs 22.90 crore.

(Paragraph 7.2)

Irregularities in hiring of accommodation and its utilisation

Failure to adhere to the provisions of a lease agreement and improper utilisation of hired accommodation resulted in infructuous expenditure of Rs 1.78 crore by MTNL.

(Paragraph 7.3)

ITI LIMITED

Two chapters, each dealing with a specific subject, are as shown below:

Chapter No.	Deals with
VIII	Introductory chapter giving in brief the introduction, organisational setup, investment and returns, physical and financial performance, revenue arrears, manpower and productivity.
IX	Expenditure paragraphs based on the results of transaction audit

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

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

- Against the authorised equity share capital of Rs 500 crore, the paid-up capital was Rs 388 crore (equity capital: Rs 88 crore and cumulative redeemable preference shares: Rs 300 crore) as on 31 March 2004. Out of this, Rs 67.47 crore had been invested by Government of India.

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

- During the last five years upto 2003-04, in respect of switching products, though the installed capacity was almost fully utilised upto 2000-01, it declined sharply to 70 *per cent in* 2001-02, 34 *per cent* in 2002-03 and 19 *per cent* in 2003-04. However, in respect of transmission and terminal equipment products, the utilisation of installed capacity ranged from 13 *per cent* to 96 *per cent* and 26 *per cent* to 100 *per cent*, respectively during the above period.
- At the end of 31 March 2004, the earning from sales and services was Rs 1197.86 crore. The net loss stood at Rs 705.83 crore. However, analysis of the trend over the last five years ending March 2004, showed that profit after tax for the year 2000-01 decreased by 39.83 *per cent* compared to the previous year 1999-2000, underwent further decline and during the current year 2003-04, turned into a huge loss of Rs 705.83 crore.
- During the last five years ending 31 March 2004, the yearly income from sales of services (excluding excise duty) showed an increasing trend except during 2002-03 and 2003-04. While the doubtful debts showed a decreasing trend up to 2000-01, there was an increasing trend thereafter upto 2003-04. However, out of this income, the yearly unrealised income that remained in arrears for more than six months showed an increase from 32 *per cent* in 2000-01 to 58 *per cent* in 2003-04.

(Paragraph 8)

TELECOMMUNICATIONS CONSULTANTS INDIA LIMITED

This chapter includes the introduction, organisational setup, investment and returns, financial performance and manpower.

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

- Against the authorised equity share capital of Rs 30 crore, the paid-up capital was Rs 28.80 crore as on 31 March 2004, which had been fully invested by Government of India. The returns on the above investment in the form of dividend paid by the Company were 220 per cent, 300 per cent, 150 per cent, 150 per cent and 75 per cent for each of the last five years ending 31 March 2004, respectively.

- At the end of 31 March 2004, the total income from projects was 508.94 crore. The profit before tax was Rs 50.77 crore and after providing for tax, the net profit after tax stood at Rs 47.02 crore. However, during the current year 2003-04, the profit after tax increased by 17.87 per cent compared to that of the previous year 2002-03.

(Paragraph 10)

INTELLIGENT COMMUNICATION SYSTEMS INDIA LIMITED

This chapter comprises the introduction, organisational setup, investment and returns, financial performance and manpower.

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

- The authorised as well as paid-up equity capital of the Company, as on 31 March 2004, was Rs 1.00 crore.
- At the end of 31 March 2004, the total income earned was Rs 22.86 crore. The profit before tax and after providing for tax, for the year 2003-04 was Rs 34.03 lakh and Rs 33.46 lakh, respectively.

(Paragraph 11)

MILLENNIUM TELECOM LIMITED

This chapter includes the introduction, organisational setup, investment, financial performance and manpower.

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

- After signing a Memorandum of Understanding (MOU) with HPSEC Limited (a Government of Himachal Pradesh Enterprise) for providing Internet Software Package (ISP) Services at Shimla, Himachal Pradesh, MTL commenced its services with effect from 25 February 2002. In order to associate State Electronic Development Corporations to provide Internet services in various States, MTL signed MOU with Karnataka Electronic State Development Corporation, West Bengal Electronics State Development

Corporation Limited and Beltron Communications Limited, Patna for providing Internet services in Karnataka, West Bengal and Bihar, respectively.

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

(Paragraph 12)