OVERVIEW

This Audit Report for the year 2004-05 contains 61 paragraphs and one IT Audit review and is presented in 12 chapters:

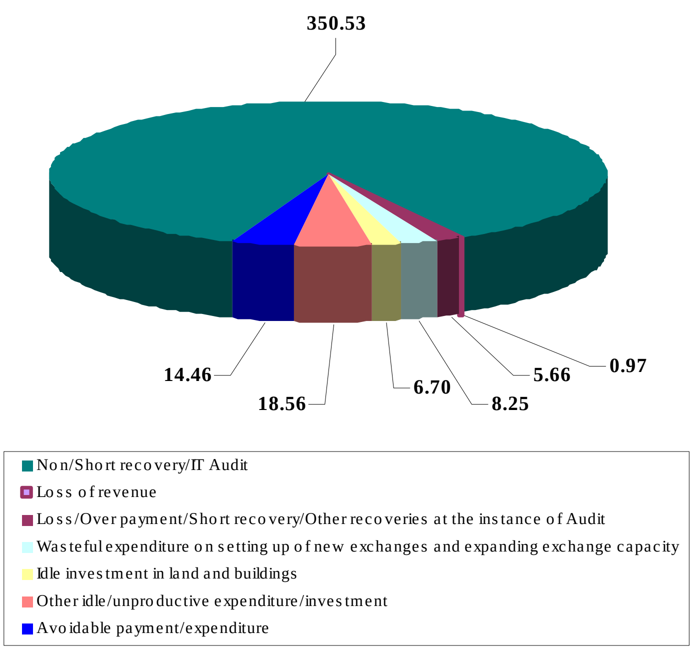
Chapters I to IV	Bharat Sanchar Nigam Limited
Chapters V to VI	Mahanagar Telephone Nigam Limited
Chapters VII to VIII	ITI Limited
Chapter IX	Telecommunications Consultants India Limited
Chapter X	Intelligent Communication Systems India Limited
Chapter XI	Millennium Telecom Limited
Chapter XII	Follow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

Financial implications

The total quantifiable financial implication of paragraphs and reviews included in this Report is Rs 527.52 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 paragraphs and the IT Audit relating to Bharat Sanchar Nigam Limited (BSNL), was Rs 405.13 crore as per details given below:

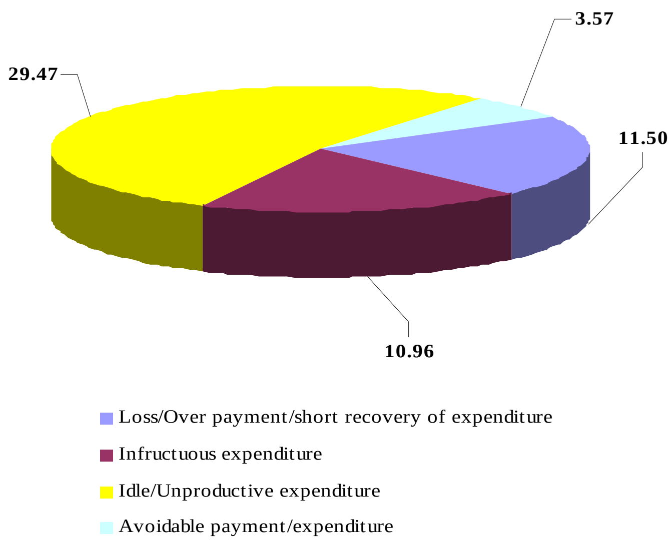


(Rs in crore)

Revenue paragraphs and IT Audit	
Non/Short recovery/IT Audit	350.53
Loss of revenue	0.97
Expenditure paragraphs	
Loss/Over payment/Short recovery/ Other recoveries at the instance of Audit	5.66
Wasteful expenditure on setting up of new exchanges and expanding exchange capacity	8.25
Idle investment in land and buildings	6.70
Other idle/unproductive expenditure/ investment	18.56
Avoidable payment/expenditure	14.46
Total	**405.13**

ii) Mahanagar Telephone Nigam Limited

The financial implication in respect of paragraphs relating to Mahanagar Telephone Nigam Limited (MTNL), was Rs 55.50 crore as per details given below:



(Rs in crore)

Expenditure paragraphs	
Loss/Over payments/Short recovery of expenditure	11.50
Infructuous expenditure	10.96
Idle/Unproductive expenditure	29.47
Avoidable payment/expenditure	3.57
Total	**55.50**

iii) ITI Limited

The financial implication in respect of paragraphs relating to ITI Limited was Rs 66.89 crore as per details given below:

(Rs in crore)

Expenditure paragraphs	
Idle/irregular expenditure	52.97
Loss/Overpayment	13.92
Total	**66.89**

Highlights of individual chapters of each Company are presented below:

BHARAT SANCHAR NIGAM LIMITED

Chapter I

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

Bharat Sanchar Nigam Limited (Company) 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, with effect from 1 October 2000. The aspects highlighted in Chapter 1 are as under:

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

- As on 31 March 2005, the entire paid-up equity share capital of Rs 5,000 crore and preference share capital of Rs 7,500 crore of the Company were treated as investment by the Government of India. In addition, Rs 7,500 crore had been treated as loan from the Government of India. No interest on the loan of Rs 7,500 crore was paid to the Government due to exemption/moratorium on the same, enjoyed by the Company.

- The Company was also exempted from payment of dividend on equity share capital up to 31 March 2004 and further enjoyed 50 *per cent* and 25 *per cent* waiver on dividend for the years 2002-03 and 2003-04 respectively. The Company proposed dividend of Rs 1,337.88 crore for the year ending 31 March 2005.

- At the end of March 2005, the Company had a network of 37,040 telephone exchanges with an equipped capacity of 498.20 lakh lines. Out of this equipped capacity, 374.88 lakh telephone connections, i.e., 75 *per cent* were given, though the number of persons on the waiting list was 17.16 lakh. The number of Village Public Telephones increased from 5.10 lakh as on 31 March 2004 to 5.19 lakh as on 31 March 2005.

- For the year ending 31 March 2005, the Company earned Rs 33,450.04 crore from its services. The profit before tax was Rs 7,920.08 crore and after providing for tax, the net profit stood at Rs 10,183.29 crore.

- The arrears of telephone revenue increased from Rs 3,074.63 crore at the end of June 2004 to Rs 3,184.79 crore at the end of June 2005 for the bills issued upto March 2005.

- For the bills issued up to March 2005, an amount of Rs 2,404.53 crore (as of 1 July 2005) was outstanding for one or more years, constituting 75.50 *per cent* of the total outstanding revenue of Rs 3,184.79 crore.

- In respect of category-wise outstanding revenue, out of the total outstanding amount of Rs 3,184.79 crore, 94.96 *per cent* was outstanding against private subscribers, 1.03 *per cent* against Central Government departments and 4.01 *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 188.31 crore in 2000-01 to Rs 399.45 crore in 2004-05, while those of telex/intelex charges reduced from Rs 13.79 crore to Rs 11.54 crore during the same period.

- The number of employees per thousand telephone connections including WLL, decreased from 13.02 in 2000-01 to 7.23 in 2004-05.

(Paragraph 1)

Chapter II

Revenue paragraphs relating to the Company based on transaction audit findings

This Chapter on revenue paragraphs based on the results of transaction audit, contains cases of loss/non-recovery/outstanding dues, etc. of Rs 323.66 crore. The Company has realised Rs 8.30 crore at the instance of Audit.

Non-realisation of interconnection charges from M/s Data Access (India) Ltd.

The Company failed to safeguard its financial interest, by not obtaining appropriate bank guarantees from the International Long Distance Operators as per the agreement and also delayed disconnection of Point of Interconnection between October 2003 and April 2005 resulting in non-realisation of interconnection charges of Rs 219.62 crore.

(Paragraph-2.1)

Non-collection of revenue from cellular mobile subscribers

Failure of the company to implement stipulated safeguards resulted in accumulation of outstanding dues of Rs 41.82 crore in seven telecom circles on post-paid mobile telephones.

(Paragraph-2.2)

Non-realisation of interest on delayed payments

Twenty eight Secondary Switching Areas (SSAs) under 10 telecom circles failed to realise interest on delayed payments from private operators for the period August 2002 to April 2005 resulting in non-realisation of Rs 18.34 crore.

(Paragraph-2.3)

Continuation of telephone facilities despite non-payment of dues

Eleven SSAs under three telecom circles continued to provide telephone services despite non-payment of dues by subscribers and STD/PCO operators resulting in accumulation of dues of Rs 10.39 crore for the period May 1991 to January 2005.

(Paragraph-2.4)

Blocking of funds and loss of interest

Delay by the Company in execution of an agreement with Videsh Sanchar Nigam Limited for space segment usage charges resulted in blocking of funds of Rs 9.73 crore and loss of interest amounting to Rs 44.08 lakh thereon.

(Paragraph-2.5)

Non-realisation of charges from M/s Reliance Infocomm Limited for ISD calls with tampered Calling Line Identification

Failure of three SSAs under the Kerala Telecom Circle to compute the correct arrear charges due from M/s Reliance Infocomm for international calls with tampered Calling Line Identification terminated on other than earmarked ports, resulted in short realisation of revenue to the tune of Rs 6.42 crore.

(Paragraph-2.6)

Non-billing due to non-receipt of Advice Notes

The Company failed to raise bills for the rentals in respect of telecommunication facilities provided to various subscribers due to non-receipt of completed Advice Notes in Telecom Revenue Accounting branch resulting in non-billing of Rs.6.06 crore for the period September 1997 to November 2005

(Paragraph-2.7)

Short billing of rentals for leased circuits

Rules provided for charging of rentals of leased circuits within Short Distance Charging Areas as per the resources utilised. However, nine SSAs under seven telecom circles failed to charge the rentals as per rules, resulting in short billing of Rs 3.54 crore.

(Paragraph-2.8)

Non-billing of interconnect licence fees

Nine SSAs under the Andhra Pradesh Telecom Circle failed to collect interconnect licence fees in respect of 32 data circuits provided to the Director, e-Seva resulting in non-billing of Rs 2.15 crore for the period August 2003 to March 2006.

(Paragraph-2.9)

Non-realisation of charges

Two SSAs under the Kerala Telecom Circle failed to bill M/s Reliance Infocom Limited at higher rates for terminating calls in wrong trunk groups, resulting in non realisation of revenue of Rs 1.29 crore.

(Paragraph-2.10)

Loss of revenue due to delayed /non implementation of revised pulse rates

Delayed implementation/non-implementation of revised pulse rates of calls made from local public call offices by three SSAs under the West Bengal Telecom Circle resulted in loss of revenue of Rs 96.57 lakh for the period September 2004 to March 2005.

(Paragraph-2.11)

Non-realisation of infrastructure sharing charges

Four SSAs under the Tamil Nadu Telecom Circle did not raise bills for infrastructure sharing charges as per the instructions of the corporate office resulting in non-realisation of Rs 96.19 lakh for the periods ranging from December 2003 to May 2005.

(Paragraph-2.12)

Loss of potential revenue due to inordinate delay in providing leased circuits

Failure of the Principal General Manager, Patna Telecom District under the Patna Telecom Circle and the General Manager, Dibrugarh Telecom District under the Assam Telecom Circle to provide leased circuits within the stipulated time resulted in loss of potential revenue of Rs 95.94 lakh.

(Paragraph-2.13)

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

Failure of the General Manager, Telecom District, Jhansi under the Uttar Pradesh (East) Telecom Circle to issue bills at revised rates in respect of five speech circuits leased to the Railways resulted in short billing of Rs 93.21 lakh for the period June 1990 to March 2005.

(Paragraph-2.14)

Short billing of installation charges and rentals

General Manager, Telecom District (GMTD), Itanagar under the North East-II Telecom Circle and GMTD, Nagaon under the Assam Telecom Circle failed to recover installation charges and rentals at enhanced rates consequent to increase in exchange capacity resulting in short billing of Rs 83.27 lakh.

(Paragraph-2.15)

Non-billing of rentals

General Manager, Telecom District, Bhuj under the Gujarat Telecom Circle failed to fix final rentals in respect of optical fibre cable provided on rent and guarantee basis resulting in non-billing of Rs 67.46 lakh.

(Paragraph-2.16)

Chapter III

Information Technology Audit

This Chapter contains one Information Technology Audit with quantifiable financial implication of Rs 27.84 crore.

Information Technology Audit of Chennai Telephones Billing System

The Chennai Telephone Billing System (CTBS) is a non-integrated billing system used by the Chennai Telephone District (CTD) of the Company with 10.02 lakh working lines as on March 2005. The CTBS was commissioned in February 2002 and generates 6.85 lakh bills every month. CTBS functions in a client/server environment on Oracle Relational Database Management System (RDBMS) with a Sun Solaris Operating System.

(Paragraph 3.1)

Some of the major deficiencies observed by Audit in the system were as follows:

- The system could not make full use of Information Technology in ensuring timely and accurate billing by minimizing unaddressed bills and expediting the processing of Advice Notes and disconnections. 26,198 unaddressed bills amounting to Rs 3.83 crore were generated out of which

9,190 unaddressed bills valuing Rs 1.57 crore were pending for more than three billing cycles.

(Paragraph 3.6.3)

- Due to delays in processing Advice Notes potential revenue worth Rs 5.49 crore could not be generated.

(Paragraph 3.6.4)

- Delays in disconnection resulted in accumulation of dues amounting to Rs 8.03 crore.

(Paragraph 3.6.5)

- Data migration from the old COBOL package to CTBS was not completed inasmuch as deposit data to the pre-CTBS period were kept in suspense status entailing manual intervention for refunds.

(Paragraph 3.7.1)

- CTBS failed to bill telephone connections for 14.65 lakh metered calls from January 2003 to March 2005. In addition 2.37 lakh local calls and trunk calls amounting to Rs 2.92 lakh registered in ISDN child numbers were not billed.

(Paragraph 3.8.1)

- Despite availability of required inputs, CTBS did not bill phonograms worth Rs 14.37 lakh.

(Paragraph 3.8.2)

Based on its findings Audit recommended, CTD should attempt on-line integration of CTBS with the existing commercial application software like CANMAPS, FRS, etc after proper cost benefit analysis. CTD should also conduct necessary modifications in the CTBS software so that the billing of leased circuits and I-NET can be done through it. Logical access controls of CTBS should be strengthened by adequate logging of changes to critical data like master data, meter readings, etc. The audit trail function should be activated. CTD should formulate policies for anti virus, data backup and prepare a ‘Business Continuity Plan’ and ‘Disaster Recovery Plan’, for early implementation.

Chapter IV

Expenditure paragraphs relating to the Company based on transaction audit findings

This Chapter 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 53.63 crore.

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

Excess payment of electricity charges

The Punjab State Electricity Board (PSEB) issued notice in January 1997 and allowed a rebate of 7.5 *per cent* for power consumers falling under the non-residential supply category subject to the condition that the supply of power was given at 11 KV, provided the consumer installed their own transformer. The Chief General Manager Telecommunications, Punjab circle failed to claim the admissible rebate on electricity charges even though the supply of power was given at 11 KV and the Company installed its own transformers. This resulted in excess payment of Rs 2.31 crore to PSEB.

(Paragraph 4.1)

Non-disposal of hazardous waste

Zinc dross, a by-product of the galvanising process is a hazardous metal waste which if allowed to accumulate has an adverse impact on ecosystems, including the human environment. Departmental instructions as adopted by the Company, envisage that zinc dross produced in telecom factories should be disposed of by offering the same to any Central/State Government Department/PSU/autonomous body and in case none is willing to purchase it, it should be disposed of by way of auction after wide publicity, as per the existing procedure of telecom factories. Audit scrutiny of the records of the Telecom Factory, Bhilai (October 2004) revealed that the Management failed to dispose of zinc dross of 360.23 MT generated during the period 1994-1995 to 2000-01, the net realisable value of which was Rs 1.26 crore.

(Paragraph 4.2)

Non-recovery of compensation for damage to underground cables

M/s Reliance Infocomm Limited (RIL), while undertaking digging work, damaged underground cables of the Company on 237 occasions during August 2001 to May 2003. Audit observed that the Area Managers under Chief General

Manager (CGM), Calcutta Telephones, belatedly intimated (December 2003/January 2004) the Deputy General Manager (Switching Planning) about damages to the cables. In most of the cases a formal compensation claim was not lodged with RIL and a consolidated claim for recovery of compensation of Rs 1.26 crore in respect of 237 cases from RIL was lodged only in January 2004. The firm while accepting claims (April 2004) for Rs 4.82 lakh for damages on 19 occasions rejected 192 claims on the ground that intimation had not been received from Calcutta Telephones regarding damages during the project period of RIL. Thus delay on the part of the CGM to prefer claims resulted in non-recovery of compensation of Rs 1.21 crore from RIL for the cables damaged by the latter.

(Paragraph 4.3)

Non-recovery of compensation charges for delays in repairing E-10-B cards

General Managers, Telecom District (GMsTD), Rourkela and Bhubaneswar under the Orissa Telecom Circle, entered into agreements with M/s Indian Telephone Industries (ITI) in June 2001 and September 2003 respectively for repair of all types of cards used in E-10-B exchanges. ITI delayed repairing of 1496 cards pertaining to GMTD Rourkela and 1169 cards pertaining to GMTD, Bhubaneswar. However compensation charges of Rs 87.57 lakh were not recovered from ITI.

(Paragraph 4.4)

(B) Wasteful expenditure on setting up of new exchanges and expanding existing exchange capacity

Injudicious expansion of exchanges

The General Managers, Telecom District, Ghaziabad under the Uttar Pradesh(West) Circle and Surendranagar under the Gujarat Circle injudiciously expanded the equipped capacity of five telephone exchanges considering a growth rate of 30 to 40 *per cent* resulting in under utilisation and consequent idle investment of Rs 3.46 crore on expansion of these exchanges.

(Paragraph 4.5)

Unproductive expenditure on installation of an exchange

The Principal General Manager, Telecom (PGMT) Coimbatore, sanctioned the project for installation of a 1K EWSD Remote Switching Unit (RSU). The exchange was commissioned (October 2003) at a cost of Rs 2.83 crore. But no connections were released till July 2004. Only 20 centrex connections were working from the EWSD RSU as on September 2005. Thus the decision of PGMT, Coimbatore to install a 1K EWSD RSU at Peelamedu was injudicious, resulting in unproductive expenditure of Rs 2.83 crore.

(Paragraph 4.6)

Wasteful expenditure on installation of C-DOT exchanges

Telecom District Manager, Banda under the Uttar Pradesh (East) Telecom Circle sanctioned nine project estimates for installation of nine C-DOT-256 exchanges for providing telephone connections to rural areas during August 1999 to March 2000. The exchanges were installed between December 1999 and March 2001 at a cost of Rs 1.96 crore. These could not be fruitfully utilised due to non-availability of optical fibre cable equipment, control cards and underground cables and it was subsequently proposed to cover the area with WLL technology. Thus the basic objective of providing telephone connections could not be achieved resulting in wasteful expenditure of Rs 1.96 crore.

(Paragraph 4.7)

(C) Idle investment in land and buildings

Idle investment on purchase of land and construction of building

The General Manager Telecom District, Uttar Pradesh (West) circle procured a plot at a cost of Rs 76.72 lakh from Ghaziabad Development Authority in July 1997 for opening of a telephone exchange in Govindpuram, Ghaziabad. The exchange building was constructed at a cost of Rs 67.95 lakh after delays at each stage, resulting in idle investment of Rs 1.45 crore.

(Paragraph 4.8)

Idle investment on construction of telephone exchange buildings

The Chief General Manager, Telecom, under the Bihar Circle during 2000 sanctioned the construction of three telephone exchanges which were yet to be commissioned due to a) secondary switching area (SSA) did not take over the building from the civil wing, b) project estimates were either not sanctioned or sanctioned belatedly. Thus improper planning and lack of synchronization between SSAs and the civil wing resulted in idle investment of Rs 1.44 crore.

(Paragraph 4.9)

Idle investment on purchase of land

The Principal General Manager Patna under the Bihar Telecom Circle could not take possession of the plot till April 2003 though the payment was made in March 2000 for construction of telephone exchange at Transport Nagar, Patna due to non-identification of the location of the plot. This resulted in idle investment of Rs 1.26 crore.

(Paragraph 4.10)

(D) Other idle/unproductive expenditure/investment

Idling of Digital Loop Carrier system

The corporate office of the Company placed three purchase orders (PO) (July 2001 to May 2004) and allotted 25 DLC systems to the Assam Telecom Circle as against the requirement of 11 DLC systems.Out of the 25 DLC systems received, only six systems were commissioned in four SSAs under the Circle. This resulted in idling of 19 DLC systems worth Rs 8.36 crore. Even in the case of the six DLC systems commissioned it was noticed that the average utilisation was only to the extent of 18 *per cent* as of September 2005.

(Paragraph 4.14)

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

To provide optical fibre connectivity to various telephone exchanges, high-density polyethylene (HDPE) pipes and optic fibre cables (OFC) were laid along 31 routes of seven SSAs under the Uttar Pradesh (East) and Gujarat Telecom circles, out of which 25 routes were completed during 2002-04 at an expenditure of Rs 3.31 crore but could not be commissioned till September 2005 due to a) coverage of the area by mobile or WLL services b) non receipt of Synchronous Digital Hierarchy (SDH) equipment c) non completion of cable jointing. Thus lack of proper planning and coordination led to blocking of funds of Rs 3.31 crore.

(Paragraph 4.15)

Wasteful expenditure on idle stores

The General Manager Telecommunications (GMT), Mangalore, received line and wire stores meant for overhead alignments valuing Rs 3.11 crore based on the purchase orders placed by the Karnataka Circle. These stores were received by the Circle Telecom Stores Depot, Bangalore during 1998-99 to 2002-03 but were lying unutilized even after two years of their last receipt.

(Paragraph 4.16)

Infructuous expenditure on payment of electricity charges

Ten SSAs under the Madhya Pradesh and Chhattisgarh circles, Electrical Division II under the Tamil Nadu Circle and seven SSAs under the Karnataka Circle had contracted electricity demands more than required and minimum demand charges on higher contracted demands continued to be paid (October 2005). This resulted in infructuous expenditure of Rs 1.29 crore.

(Paragraph 4.17)

Unfruitful expenditure on procurement of power plants

Power plants supplied by M/s Infinity were lying idle since January 2002 either from the dates of installation due to defects or became faulty after working for a few months in different exchanges of Andhra Pradesh, Orissa and Jharkhand circles. Thus the procurement of power plants without taking into account the voltage fluctuations and other technical parameters of the areas in which these were to be installed resulted in their faulty performance and consequent unfruitful expenditure of Rs 1.17 crore

(Paragraph 4.18)

(E) Avoidable Expenditure/Payment

Avoidable expenditure on procurement of PIJF cable

The Company invited open tenders during June 2003 for procurement of PIJF cables and issued authorisations to telecom circles for placement of purchase orders. The Company had not considered two *per cent* additional discount offered by the bidders for centralised payments although in the previous tender centralised payment was agreed to. This resulted in avoidable expenditure of Rs 11.88 crore.

(Paragraph 4.21)

Avoidable extra expenditure on procurement of PLB HDPE pipes

The Chief General Manager, Telecom Stores (CGMTS), Kolkata invited tenders for procurement of PLB HDPE pipes during 2001 to 2004. Based on the rates approved by the Stores Purchase Committees (SPCs), purchase orders were placed during October 2001 to February 2004. The basic rates fixed by CGMTS, Kolkata, for procurement of the PLB HDPE pipes were higher than those fixed by CGMT, Rajasthan Telecom Circle, during the same period. Thus, failure to compare the basic rates of PLB HDPE pipes with other circles resulted in avoidable extra expenditure of Rs 1.76 crore.

(Paragraph 4.22)

MAHANAGAR TELEPHONE NIGAM LIMITED

Chapter V

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

Mahanagar Telephone Nigam Limited (Company) was incorporated in February 1986 under the Companies Act, 1956 and commenced its operations by taking over the management, operations and control of the telephone network (except public telegraph services) of the erstwhile Union Territory of Delhi and three

Municipal Corporations of Mumbai. The aspects highlighted in the Chapter are as under:

- Against the authorised equity share capital of Rs 800 crore, the paid-up capital, as on 31 March 2005, was Rs 630 crore, of which Rs 354.37 crore had been invested by the Government of India. At the end of 31 March 2005, the return on the said investment in the form of dividend paid by the Company was 45 *per cent.*
- The overall capacity utilisation of telephone exchanges went down from 85 *per cent* in 2000-01 to 58 *per cent* in 2004-05 due to mismatch between capacity created and demand.
- There was 341 *per cent* increase in the number of cellular mobile telephone connections in 2004-05 compared to 2001-02. The number of public telephones increased from 1.34 lakh in 2000-01 to 2.79 lakh in 2004-05.
- During 2004-05, the Company earned Rs 5,592.38 crore from its services. The profit before tax was Rs 1,206.22 crore and after providing for tax, the net profit stood at Rs 938.98 crore. The profit after tax decreased by 18 *per cent* in 2004-05 compared to the previous year mainly on account of decrease in income from services 12 *per cent* over the last year's income, although the expenditure also decreased by 3 *per cent* over the previous year's expenditure.
- The revenue arrears during the last five years upto 2004-05 ranged between 28 *per cent* to 37 *per cent* of the total revenue. The unrealised revenue which was considered doubtful of recovery increased from 20 *per cent* at the end of March 2001 to 24 *per cent* at the end of March 2002, but at the end of March 2005, it decreased to 15 *per cent*.
- The number of employees per thousand telephone connections (including cellular mobile connections) decreased from 13.97 in 2000-01 to 10.56 in 2004-05.

(Paragraph 5)

Chapter VI

Expenditure paragraphs relating to the Company based on transaction audit findings

This Chapter on expenditure paragraphs based on the results of transaction audit, brings out infructuous expenditure of Rs 49 crore and avoidable expenditure/payment of Rs 6.50 crore.

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

Imprudent Investment

The company invested surplus funds of Rs.100 crore in M/s. Indian Telephone Industries (ITI) which was incurring losses since 2001-02 in contravention of DPE guidelines. Dividend of Rs.17.50 crore for the years 2002-03 and 2003-2004 was also not paid by M/s ITI. Due to the imprudent investment, the Company lost interest of atleast Rs.1.31 crore.

(Paragraph 6.1)

Blocking of capital on purchase of land

The Delhi unit of the Company failed to utilise various plots purchased from Delhi Development Authority and Municipal Corporation of Delhi over 20 years for construction of staff quarters. This resulted in blocking of funds to tune of Rs 24.24 crore besides loss of interest of Rs 8.57 crore.

(Paragraph 6.2)

Infructuous expenditure on leasing of land

The Delhi unit of the Company during March 1992 purchased a land on lease from New Okhla Industrial Development Authority (NOIDA) for setting up a training centre and staff quarters at a total premium of Rs 6.53 crore. No plan had been prepared to utilize the land till April 2005. This had resulted in avoidable infructuous expenditure of Rs 10.96 crore.

(Paragraph 6.3)

Avoidable expenditure

The General Manager, (East I) of the Mumbai unit failed to review the utilisation and surrender of excess accommodation of the rented buildings inspite of Corporate office instructions and incurred avoidable expenditure to the tune of Rs 3.57 crore towards rent .

(Paragraph 6.4)

Idle Investment on establishment of a Fraud Management Control Centre

The Company's Board approved a project of a Fraud Management Control Centre (FMCC) in January 2000 to plug the leakage in revenue in Mumbai unit. The purchase orders were placed in March 2002 at a cost of Rs 11.82 lakh on M/s Ectel Limited, Israel to design, supply, install, test, commission and make over the FMCC on turnkey basis to Mumbai unit. Due to delays at each stage the project had not been commissioned even after a lapse of five years resulting in idle investment of Rs 5.23 crore.

(Paragraph 6.5)

Loss due to procurement of cables at higher rates without invoking risk and cost clause

The Company placed two purchase orders (POs)for supply of PIJF cables on M/s. Gujarat Telephone Cables Ltd.(GTCL) for supply of 65.2 km on the condition that in case of delays in supply, the Company reserved right to cancel/short close the POs and purchase the balance unsupplied quantities at the risk and cost of the defaulting supplier. M/s. GTCL supplied only 2.519 km of cables and the Company purchased similar cables at higher rates without invoking risk and cost clause on the defaulting vendor resulting in loss of Rs.1.12 crore.

(Paragraph 6.6)

ITI LIMITED

Chapter VII

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

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

- Against the authorised equity share capital of Rs 700 crore, the paid-up capital was Rs 588 crore (equity capital: Rs 288 crore and cumulative redeemable preference shares: Rs 300 crore) as on 31 March 2005. Out of this, Rs 267.47 crore had been invested by the Government of India.
- The returns on the above investment in the form of dividend paid by the Company 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, 2003-04 and 2004-05.
- 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 but improved to 47 *per cent* in 2004-05..
- At the end of 31 March 2005, the earning from sales and services was Rs 1,317.87 crore. The net loss stood at Rs 309.82 crore. The loss during the year 2004-05 came down to Rs 309.82 crore from Rs 705.83 crore (2003-04)

mainly due to a grant in aid of Rs 447.78 crore received from the Government of India.

- The debtors ranging from 48 *per cent* to 103 *per cent* remained in arrears at the end of the last five years upto 2004-05

(Paragraph 7)

Chapter VI

Major findings in transaction audit

Delay in claiming differential amount

The Company obtained an advance purchase order from BSNL (December 2000) for supply of 900 KL digital local exchange equipment at a provisional price of Rs 1978.84 per line. The final price was to be fixed after taking into consideration the terms and condition of 2001-02 tender. Audit observed that the Company delayed in filing differential claims which resulted in blockade of funds of Rs 29.12 crore and loss of interest thereon of Rs 4.36 crore.

(Paragraph 8.1)

Levy of liquidated damages and penal interest

The Company received (August 2002) purchase order from BSNL for supply of 60,000 lines of digital wireless access system at a price of Rs 68.29 crore. BSNL advised (June 2000) the Company to obtain validation certificate[♦] within seven months (i.e. January 2001) in order to be eligible to participate in tender process for supply of equipment under CorDect technology. The Company applied (March 2001) for Type Approval Certificate[♠] (TAC) to the regional Telecommunication Engineering Centre (TEC). Failure of the Company to initiate timely action and effectively pursue with TEC delayed the delivery resulting in recovery of LD of Rs 6.83 crore and penal interest of Rs 1.06 crore on advance drawn.

(Paragraph 8.2)

Loss due to injudicious purchase

Injudicious purchase of components for Digital Pair Gain Systems resulted in loss of Rs.1.45 crore on inventory written off and blocking of Rs. 93.44 lakh on unsold systems.

(Paragraph 8.3)

[♦] It is required for effecting supplies and is needed when the 'Type Approval Certificate' is not there or expired.

[♠] It is essential for any new product developed and certifies the product. 'Type approval Certificate' is required to be submitted for obtaining Validation Certificate clearance.

Irregular payment of Annual Performance Reward

As per instructions (June 1976 and January 1997) of Department of Public Enterprises (DPE), any scheme introduced under the Bonus Act for payment of annual bonus linked with production or productivity in lieu of bonus based on profits payable under the Act, should be with the prior approval of the Government. Though the employees of the Company became ineligible to draw bonus as their salaries exceeded the limits prescribed under the Act, the Board of Directors of the Company approved in April 1999 and July 2000 Annual Performance Reward (APR) for these employees. This resulted in irregular payment of Rs 23.14 crore for the year 1998-99 to 2001-02

(Paragraph 8.4)

TELECOMMUNICATIONS CONSULTANTS INDIA LIMITED

Chapter IX

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 2005, which had been fully invested by the Government of India. The returns on the above investment in the form of dividend paid by the Company was 300 *per cent*, 150 *per cent*, 150 *per cent*, 75 *per cent* and 75 *per cent* for each of the last five years ending 31 March 2005 respectively.
- At the end of 31 March 2005, the total income from projects was Rs 418.49 crore. The profit before tax was Rs 13.17 crore and after providing for tax, the net profit after tax stood at Rs 10.73 crore. The profit after tax declined by 78 *per cent* in 2004-05 as compared to 2003-04 due to fall in total income.

(Paragraph 9)

INTELLIGENT COMMUNICATION SYSTEMS INDIA LIMITED

Chapter X

Introduction, organisational setup, investment and returns, financial performance and manpower.

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

- The authorised as well as paid-up equity capital of the Company, as on 31 March 2005, was Rs 1.00 crore.
- At the end of 31 March 2005, the total income earned was Rs 23.94 crore. The profit before tax and after providing for tax, for the year 2004-05 was Rs 10.53 lakh and Rs 8.24 lakh respectively.

(Paragraph 10)

MILLENNIUM TELECOM LIMITED

Chapter XI

Introduction, organisational setup, investment, financial performance and manpower

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

- Against the authorised equity capital of Rs 100 crore, the paid up capital as on 31 March 2005 was Rs 2.88 crore which was fully subscribed by MTNL.
- The Company 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 and Rs 71 lakh during 2002-03, 2003-04 and 2004-05 respectively.

(Paragraph 11)