CHAPTER III
MAJOR FINDINGS IN TRANSACTION AUDIT-EXPENDITURE

(A) Excess expenditure

3.1 Excess payment of rent on international internet bandwidth

Chief General Manager, Chennai Telephones paid rent to Videsh Sanchar Nigam Limited and Bharti Infotel, at higher rates for international internet bandwidth. This resulted in excess payment of rent of Rs 2.53 crore.

Chief General Manager (CGM), Chennai Telephones hired the international internet bandwidth STM*-1 during 2005-06 from Videsh Sanchar Nigam Limited (VSNL) and Bharti Infotel Limited (BIL).

Audit scrutiny (March 2006) of the records of the Deputy General Manager (Broadband), Chennai Telephones revealed that although TRAI° had fixed the ceiling on lease rent for the STM-1 bandwidth at Rs 2.99 crore per annum with effect from 29 November 2005, Chennai Telephones had continued to pay rent at higher rates ranging from Rs 3.46 crore to Rs 7.90 crore. This resulted in excess payment of Rs 2.53 crore for the period November 2005 to March 2006 for two STM-1 bandwidths hired from VSNL and one STM-1 bandwidth hired from BIL.

On this being pointed out in Audit, the Chief General Manager, Chennai Telephones replied (August 2006) that the TRAI notification was in respect of International bandwidths for International Private Leased Line Circuits (IPLC) and not for IP• port international bandwidth. He further stated that no instructions were available on TRAI's website in regard to IP port international bandwidth.

The reply did not reflect the correct position as the international bandwidth service is provided through IPLC for internet service providers, IT-enabled services, Information Technology and international long distance operators. Hence TRAI's tariff order on international bandwidth provided through IPLC was applicable to IP port international bandwidth as well. Moreover, BSNL subsequently hired similar STM-1 IP port international bandwidth, from VSNL and BIL in December 2005 and January 2006 respectively at a rent of Rs 2.99 crore per annum i.e. at the ceiling fixed by TRAI with effect from November 2005 for IPLC.

The matter was referred to the Ministry in November 2006; reply was awaited (December 2006).

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* Synchronised Time Module
° Telecom Regulatory Authority of India
• Internet protocol

3.2 Excess payment of electricity charges

Eleven Secondary Switching Areas under the Rajasthan Telecom Circle paid electricity charges at higher rates, resulting in excess payment of Rs 1.62 crore during 2005-06.

The Rajasthan Electricity Regulatory Commission directed (December 2004) the Vidyut Vitran Nigams (VVNs), viz., the Jaipur Vidyut Vitran Nigam Limited, the Ajmer Vidyut Vitran Nigam Limited and the Jodhpur Vidyut Vitran Nigam Limited, that telephone exchanges, including attached offices of the Rajasthan Telecom Circle, should be categorized under the mixed load category for application of electricity tariff from January 2005 onwards. As per these orders, BSNL had to pay Rs 3.75 per unit under the mixed load category instead of the non-domestic rate of Rs 4.90 per unit for its exchanges and attached offices with effect from January 2005. The Deputy General Manager (DGM), Operations, Rajasthan Telecom Circle accordingly informed (February 2005) all the heads of the Secondary Switching Areas (SSAs) under his jurisdiction regarding mixed load categorization of telephone exchanges and attached offices for taking necessary action.

Audit scrutiny (September 2005- January 2006) of the records of 11 SSAs in the Rajasthan Telecom Circle revealed that the SSAs continued to pay electricity charges at the old rate instead of the lower new rate under the mixed load category. This resulted in excess payment of Rs 1.62 crore during the period January 2005 to February 2006, as detailed in Appendix-XVI.

On this being pointed out in Audit, the DGM (Finance and Accounts), Rajasthan Telecom Circle accepted the facts and stated (May 2006) that the excess payments were due to late implementation of actual change in tariff by the VVNs. He further stated that the process of adjusting the excess payments had been taken up in a phased manner and would be completed by December 2006. The recovery particulars were, however, awaited as of May 2006.

The matter was referred to the Ministry in November 2006; reply was awaited (December 2006).

(B) Infructuous/unfruitful expenditure/Idle investment

3.3 Idling of stock due to injudicious procurement

The Karnataka, Kerala, Orissa, Punjab, West Bengal Telecom Circles and the Calcutta Telecom District did not consider the technological changes and the consumption pattern of the stores before procurement. This resulted in injudicious procurement and consequent idling of stores of Rs 74.82 crore.

Guidelines on procurement of items issued by the Company in June 2001 stipulate that Telecom circles should ensure proper and expeditious utilization of the material ordered by them and they should exercise utmost discipline in their procurement to ensure that there was no unnecessary piling up of inventory. These guidelines also stipulate that while assessing the requirement of telecom stores, the existing inventory, supply in the pipeline and past pattern of consumption should be taken into account.

Audit scrutiny of the records of the Kerala, Orissa, Punjab, West Bengal Telecom Circles and the Kolkata Telecom District between January 2005 and June 2006 revealed that the Circles did not consider the changing technologies such as introduction of Global System for Mobile Communication (GSM), Wireless in Local Loop (WLL), and the shift towards poleless cable networks before procurement of telecom stores. Besides, the circles failed to exercise proper discipline in their procurement and also did not consider the past consumption pattern before procurement resulting in idling of stores as brought out below.

Karnataka Telecom circle

The Circle placed (May 2002) a purchase order for procurement of Fibre Distribution Management System (FDMS) equipment at a cost of Rs 3.28 crore. FDMS consists of FDMS exchange racks and FDMS nodes for management of large number of optical fibre cables in access network at telephone exchange end and outdoor cable network.

Audit observed that out of the 20 FDMS exchange racks and 200 FDMS nodes received during July 2002 to January 2003, only seven FDMS exchange racks and 57 FDMS nodes could be utilized up to March 2006 and the remaining could not be used as optical fibre cables were not laid. This resulted in idling of 13 FDMS and 143 nodes worth Rs 1.54 crore for more than three years.

On this being pointed out in Audit, the Deputy General Manager (Material Management), Karnataka Circle stated (May 2005) that the FDMS exchange racks and the FDMS nodes could not be utilized due to the refusal of the local civic authorities to give permission to dig roads for laying of optical fibre cables.

The reply was not acceptable as the Company’s rule provides that the cable work should be completed three months prior to the installation of the FDMS equipment. Further the Circle did not divert the FDMS to other needy Circles.

Thus due to improper planning by the Circle, the FDMS equipment procured during July 2002 to January 2003 could not be put to use till date (August 2006), resulting in blocking of funds of Rs 1.54 crore.

Kerala Telecom circle

In this Circle, six Secondary Switching Areas (SSAs) viz., Ernakulam, Kollam, Kottayam, Palakkad, Thiruvalla and Thiruvananthapuram and Circle Store Depot procured modular connectors, lead sleeves, self-supporting masts, socket B, A8, A4 tubes, patch panel antennae mostly meant for overhead telephone cable alignments and underground cable network for providing land line telephone connections. Audit noticed that the Circle had adequate stock of these items and in spite of it CGMT, Kerala Circle procured these stores during the period 2001-2003. Audit further noticed that no minimum or maximum holding limit for any of these stores was prescribed. As a result the stores could not be used even after three to four years of their procurement. Further, due to technological changes, i.e., shift from overhead alignments to poleless cable networks and from land line telephone connections to wireless technologies like Global System for Mobile communication the utilisation of the stores had become bleak.

On this being pointed out the SSAs stated (May 2006) that these were slow moving items and could not be used. The Assistant General Manager (MM), Thiruvananthapuram SSA accepted that no minimum or maximum stock holding limits were prescribed.

The failure of the Circle to consider the stock position and the technological changes before procurement resulted in idling of stores worth Rs 3.79 crore as detailed in Appendix-XVII.

Orissa Telecom Circle

The Orissa Circle procured 77,243 B type sockets at a total cost of Rs 3.17 crore between September 2000 and January 2001. The sockets are used in telecom posts meant for overhead alignments for providing telephone connections in rural areas.

Audit scrutiny of the records of six SSAs viz., Berhampur, Bhawanipatna, Bhubaneswar, Koraput, Rourkela and Sambalpur revealed that only 44,581 sockets could be utilized up to March 2006, leaving a balance of 32,662 sockets worth Rs 1.34 crore. Audit observed that in three SSAs, viz., Bhawanipatna, Koraput and Rourkela, the sockets were received from the Circle office without any requisition.

On this being pointed out in Audit (December 2005-June2006), the heads of Berhampur, Bhawanipatna, Koraput and Rourkela SSAs accepted (March-July 2006) the fact that these sockets could not be utilized as the supplies were received without indents from the Circle. The heads of Bhubaneswar, Rourkela and Sambalpur SSAs stated (February-June 2006) that the sockets purchased by the Circle office could not be utilized due to technological obsolescence.

Thus failure of the Circle to consider alternative technology such as wireless in local loop and consequent reduction in overhead alignments for provision of telephone connections and ascertain requirements of the concerned SSAs before allotment resulted in idling of B type sockets and wasteful expenditure of Rs 1.34 crore.

Punjab Telecom Circle

In this Circle eight SSAs viz., Amritsar, Ferozepore, Hoshiarpur, Jalandhar, Ludhiana, Patiala, Pathankot and Sangrur received 51,773 A-8 and 50,400 B-8 tubes for providing overhead alignments between January and August 2003 from Telecom Factories, Jabalpur and Richhai based on requisitions placed by it. The requisitions were based on the target of providing 2.45 lakh direct exchange lines (DELs) during 2002-03 in Punjab Telecom Circle. Audit noticed that only 1.20 lakh DELs were provided in the Punjab Telecom Circle during 2002-03, which was less than 50 *per cent* of the target, due to introduction of WLL, GSM and hence the tubes could not be used. Audit observed (March 2006) that in six out of eight SSAs, more than 40 *per cent* of the stock of A-8 and B-8 tubes were lying idle (December 2005) resulting in infructuous expenditure of Rs 3.08 crore on their procurement. The chances of their utilization were remote as there was a negative growth of DELs since 2003-04 and during 2005-06 alone 1.32 lakh DELs were surrendered in the Punjab Telecom Circle.

Similarly Circle Telecom Stores Depot, Mohali under the Punjab Telecom Circle had a stock of 3,883 C-8 tubes during 2000-01, out of which 2,553 tubes were issued during the year, leaving a balance of 1,330 as of March 2001. Audit noticed that purchase orders were placed in December 2001 for procurement of 5,731 C-8 tubes without considering the available stock, previous year's consumption pattern and the meager utilisation of 514 tubes till November 2001. This resulted in idling of all the 5,731 tubes as of March 2006 and wasteful expenditure of Rs 54.33 lakh on their procurement.

West Bengal Telecom Circle

The circle procured 1058 cable distribution (CD)cabinets and 617 IDC type of CD cabinets at a total cost of Rs 1.92 crore during 2001-06. Out of this only 627 cable distribution cabinets and 181 IDC type of CD cabinets were used till March 2006. The Circle failed to consider the changes in outdoor network management due to introduction of Remote Line Unit/Remote Switching Unit, which reduces the requirement of CD cabinets, before procurement of the same. This resulted in idling of Cabinets and wasteful expenditure of Rs 1.05 crore (Rs 51.24 lakh IDC + Rs 53.70 lakh CD) on its procurement.

Similarly the West Bengal Telecom Circle had a stock of 153 ESL cards[1] and 255 SSS cards as of November 2002 compatible with MAX-L type of telephone exchanges. Purchase orders were placed (December 2002) by the Circle for procurement of same type of cards without considering the Corporate Office instructions of July 2002, which stipulated replacement of MAX-L exchanges by MAX-XL. The Circle received 460 ESL and 730 SSS cards between January and April 2003. It was observed (May 2006) Audit that due to up-gradation of MAX-L to MAX-XL type of exchanges 185 ESL and 536 SSS cards worth Rs 1.13 crore compatible with MAX-L exchanges were rendered surplus as of March 2006.

On this being pointed out in Audit (May 2006) the Assistant General Manager (Strategic Planning), West Bengal Telecom Circle while accepting the facts stated

[1] Interface cards required to convert stand alone SBMs into MAX-L RSUs.

that the conversion cards of MAX-L type exchanges had became obsolete and action was being taken to divert the same to other Circles.

Calcutta Telecom District

The Calcutta Telecom District (CTD) did not take into account the consumption pattern of the PIJF• cables and the available stock while projecting the demand for under ground cable for the years 2004-05 and 2005-06. There were 7.72 LCKM* and 9.87 LCKM of stock of PIJF cable at the beginning of 2004-05 and 2005-06 respectively. Audit noticed (March 2006) that the average annual utilisation of PIJF cables in CTD was only 2.41 LCKM during the period 2002-06. Inspite of low annual utilisation of 2.41 LCKM and besides having an opening stock of more than 7 LCKM of PIJF cables during 2004-05 and 2005-06 sufficient for more than two years, the CTD procured 3.06 and 6.31 LCKM of PIJF cables during 2004-05 and 2005-06 respectively resulting in injudicious procurement and idling of 9.37 LCKM PIJF cables of Rs 62.35 crore.

On this being pointed out (March 2006), the General Manager (Planning), Calcutta Telephones, while accepting (August 2006) that the quantity of cables lying idle was on the higher side, stated that the allotment of cable was made by the Corporate Office and the Advance Purchase Orders were also issued by the BSNL headquarters. He further added that the assessment of requirement was based on the requirements projected by the various units of the CTD.

The reply was not convincing in view of the fact that the CGM should have scrutinised the requirements projected by the units needed to be ascertained properly before communicating the demand to the Corporate Office.

On the afore mentioned matters being pointed out (June/July 2006), the circles stated that due to changed technology like introduction of WLL, GSM, and poleless cable network the stores could not be used. The reply was not tenable as WLL and GSM were introduced in 2000 and 2001 respectively and hence the circles should have been aware of the decreasing requirement of landline related stores and PIJF cables. Further the Department of Telecommunications had decided (April 2000) to promote poleless network more than five years back, as it was economical. Hence procurement of stores for overhead alignments to provide telephone connections was not a prudent decision.

Thus failure of the Circles to consider the technological changes and the consumption pattern of the items to be procured resulted in injudicious procurement and consequent idling of stores worth Rs 74.82 crore.

The matter was referred to the Ministry in November 2006; reply was awaited (December 2006).

• Polythene Insulated Jelly filled cable
* Lakh conductor kilometers

3.4 Idling of telephone exchange buildings

Failure of seven Secondary Switching Areas under the Bihar, Karnataka, Rajasthan and Tamil Nadu Telecom Circles to shift the telephone exchanges to newly constructed telephone exchange buildings, resulted in blocking of funds of Rs 6.07 crore.

Thirteen telephone exchange buildings were constructed in seven Secondary Switching Areas (SSAs) under the Bihar, Karnataka, Rajasthan and Tamil Nadu Telecom Circles between January 2001 and July 2004 at a total cost of Rs 6.07 crore, as detailed in Appendix-XVIII.

Audit scrutiny (October 2005/January 2006) of the records of the SSAs revealed that the telephone exchange buildings were completed by 2004 but the SSAs did not utilise them defeating the purpose of their construction.

Bihar Telecom Circle

The Chief General Manager Telecommunications (CGMT), Bihar Circle accorded (March 2000) administrative approval (AA) for construction of a telephone exchange building in Chapra. The building was to be constructed in the existing telephone exchange compound at Chapra to house a one k[•] line telephone exchange.

Audit scrutiny (January 2006) of the records of the General Manager Telecom District (GMTD), Chapra revealed that the Civil wing awarded the work of construction of the telephone exchange building in December 2000 with completion date as January 2002. Subsequently, a plot of land was purchased (April 2001) at a cost of Rs 90.64 lakh at Chapra. Audit noticed that after one year of according the AA, CGMT, Bihar Circle directed (July 2001) to change the site of construction from the telephone exchange compound to the newly purchased land at Chapra. The Civil wing completed the construction work in March 2004, after a delay of two years, but the building was handed over to GMTD, Chapra in August 2005, after a further delay of more than one year. Audit also found that the project estimate for installation of a 1k line exchange to be housed in the building was sanctioned as late as in June 2005 and the equipment had not been received till March 2006. This resulted in non-utilisation of the exchange building.

On this being pointed out in Audit, the Deputy General Manager, Chapra stated (March 2006) that the exchange could not be commissioned because the 1k exchange equipment had not been received from the circle office. The reply was not acceptable as the delay in sanction of the project estimate for the 1k OCB exchange led to delayed placement of requisition for the equipment and consequent non-receipt of the equipment from the Bihar Telecom Circle in time.

[•] one thousand

Thus improper planning and failure to get the equipment in time resulted in idle investment of Rs 1.83 crore on purchase of land and construction of the building thereon.

Karnataka Telecom Circle

The telephone exchanges at Maski in the Raichur Telecom District and Poorigali in the Mandya Telecom District were housed in rented buildings. In order to have their own buildings for these exchanges, the Telecom District Manager (TDM), Raichur and the GMTD, Mandya accorded approval for construction of telephone exchange buildings and staff quarters at Maski and Poorigali in November 2000 and June 2002 respectively. These buildings were constructed at a total cost of Rs 89.57 lakh. While the possession of the buildings at Maski was taken in September 2003, that of the buildings at Poorigali was taken in March 2004.

Audit scrutiny (October and December 2005) of the records of TDM, Raichur and GMTD, Mandya revealed that the buildings could not be utilized till May 2006 due to non-availability of power supply from the local electricity authorities. TDM, Raichur had applied for electrical connections for the buildings at Maski only in November 2005 although the buildings were completed in September 2003. In Poorigali, while the buildings were completed in January 2004, GMT, Mandya applied for electrical connections only in February 2005.

On this being pointed out (December 2005), TDM, Raichur replied (July 2006) that the exchange at Maski was shifted in July 2006. As regards the telephone exchange at Poorigali GMTD, Mandya replied (May 2006) that electric supply to the exchange had been provided in March 2006 and the exchange had been shifted in May 2006.

Thus the delay in getting the electrical connections in time, resulted in idle investment of Rs 89.57 lakh for over two years.

Rajasthan Telecom Circle

Three telephone exchange buildings were constructed in the Govind Nagar, Jobner and Bijolia areas of the Jaipur and Bhilwara Secondary Switching Areas (SSAs) between January 2001 and February 2003 at a total cost of Rs 1.57 crore.

Audit scrutiny (January 2006) of the records of the Principal General Manager, Telecom District (PGMTD), Jaipur revealed that the Govind Nagar exchange building was constructed in January 2001 by the Telecom Civil Division, but the PGMTD Jaipur took its possession in June 2002, after a delay of more than one year. Audit noticed that the exchange equipment was also not requisitioned for installation and transferring the working connections from the exchange located in the rented building. This resulted in non-utilisation of the newly constructed exchange building till September 2006.

The Jobner exchange building was completed and handed over to PGMTD, Jaipur by the Civil wing in August 2001. Audit noticed (July 2006) that the telephone exchange functioning in a rented building at Jobner was not shifted to the newly constructed Jobner exchange building even after four years, as the junction cable connecting the existing rented exchange building and the newly constructed building had not been laid. Audit further noticed that due to delay in shifting and commissioning the exchange and with the introduction of mobile communication the location of rented building was technically more suitable and hence the Jobner exchange was not shifted from the rented building.

Audit scrutiny (October 2005) of the records of GMTD, Bhilwara revealed that the Bijoliya exchange building was completed and handed over to the GMTD by the Civil wing in February 2003. Audit noticed that the optical fibre cable was not laid connecting the old rented exchange building and the newly constructed exchange building at Bijoliya, even after three years (February 2006) and the exchange could therefore, not be shifted to the new building.

On this being pointed out in Audit, the Divisional Engineer (DE), East-II, Jaipur stated (February 2006) that on availability of the switching and other equipment, the shifting work would be carried out on a priority basis to Govind Nagar exchange building. In respect of the Jobner Exchange, DE, Rural, Jaipur stated (February 2006) that with the introduction of mobile communication the new exchange building was no more required and was proposed to be used for stores and office purposes. Divisional Engineer (Planning), Bhilwara stated (February 2006) that repeated efforts to lay optical fibre cable between the old exchange building and the new exchange building failed and the work had been transferred to the Project wing, Jaipur. The reply was not acceptable as GMTD Bhilwara took up (May 2005) the matter of laying of Optical fibre media with the Project wing only after two years of taking possession of the building and hence the work could not be completed in time.

Thus failure of the SSAs to shift the exchanges located in rented buildings, resulted in non-utilisation of the newly constructed exchange buildings and consequent blocking of capital of Rs 1.57 crore.

Tamil Nadu Telecom Circle

Audit scrutiny (December 2005 and March 2006) of the records of GMsTD, Kumbakonam and Tirunelveli revealed that seven telephone exchange buildings constructed between September 2002 and July 2004 by these SSAs could not be utilized (June 2006) even after two to four years of their completion. Audit noticed that two exchange buildings under Kumbakonam SSA were not utilized due to non-availability of switching equipment and five exchange buildings in Tirunelveli SSA were also vacant due to non-completion of electrical works, non-allotment of cables and non-availability of water facility. This resulted in idle investment of Rs 1.77 crore.

On this being pointed out in Audit, the Divisional Engineer, Kumbakonam SSA stated that the building could not be used due to non-availability of switching equipment. The Sub Divisional Engineer, Tirunelveli SSA stated that, the buildings could not be occupied due to delay in completion of electrical works and non-allotment of cables by the circle office.

Thus non-utilisation of newly constructed telephone exchange buildings even after two to four years of their construction revealed lack of synchronisation of various activities for commissioning of exchanges at the Circle and SSA levels. This resulted in idling of exchange buildings defeating the purpose of their construction besides blocking of funds of Rs 6.07 crore for varying periods.

The matter was referred to the Ministry in October 2006; reply was awaited (December 2006).

3.5 Unfruitful expenditure on primary cables

The Bhopal Secondary Switching Area under the Madhya Pradesh Telecom Circle laid primary cables far in excess of the actual requirement, resulting in unfruitful expenditure of Rs 5.63 crore.

External plant telecom networks consist of primary and distribution cables. Primary cables can consist of 800, 1200, 1600 and 2000 pairs of wires while distribution cables can consist of 400, 200, 100, 50, 20, 10 and 5 pairs of wires. Pairs of wires at one end of a primary cable are terminated at the main distribution frame (MDF) in a telephone exchange while the other end is branched into distribution cables and terminated in distribution pillars (DP) near the subscribers' premises. For providing one telephone connection, a single pair of wire of primary cable has to be terminated at the MDF.

Audit scrutiny (December 2005) of the records of the Bhopal Secondary Switching Area (SSA) under the Madhya Pradesh Telecom Circle revealed that as of March 2000, 1.83 lakh pairs of primary cables were terminated at MDFs in 17 exchanges for providing 97,083 telephone connections, leaving 86,417 excess pairs. Audit further noticed that inspite of having sufficient numbers of primary cables in the year 2000 for providing additional 86,417 telephone connections, the SSA laid 50,400 additional pairs of primary cables during the years 2000 to 2005. As a result, the number of pairs of primary cables terminated at MDF was 2.33 lakh against 1.19 lakh telephone connections in 37 exchanges as of March 2005. Consequently, there was a surplus of 88,044 pairs of primary cables as of March 2005, even after deducting 26,630 cable pairs required during 2006-10. Thus the excess provision of primary cables resulted in their idling and consequent unfruitful expenditure of Rs 5.63 crore as detailed in Appendix-XIX**.**

On this being pointed out by Audit, the Deputy General Manager, (Switching Planning), Madhya Pradesh Telecom Circle while accepting that excess primary cables had been laid, stated (May 2006) that due to expansion of the mobile service network, the demand for landline services had not grown at the expected rate and the cable pairs had remained idle. The reply is not acceptable as the Wireless in Local Loop and Global System for Mobile Communications were introduced in 2000 and 2001 respectively and the Bhopal SSA could have planned accordingly.

Thus the failure of the Bhopal SSA to lay primary cables commensurate with the growth of telephone connections resulted in excess primary cables and consequent unfruitful expenditure of Rs 5.63 crore.

The matter was referred to the Ministry in June 2006; reply was awaited (December 2006).

3.6 Injudicious expansion/commissioning of exchanges

The General Manager, Telecom District, Ranchi under the Jharkhand Telecom Circle injudiciously expanded/commissioned seven telephone exchanges, resulting in unproductive expenditure of Rs 4.83 crore on these exchanges.

Departmental guidelines, as adopted by Bharat Sanchar Nigam Limited, stipulate that the expansion of an exchange is to be considered on an anticipated growth rate of demand of 15 to 20 *per cent*. The guidelines also provide that the average utilization of exchange capacity up to 5k[•] and beyond 5k lines should be 75 *per cent* and between 82 and 85 *per cent*, respectively.

Audit scrutiny (October 2005) of the records of the General Manager, Telecom District, Ranchi revealed that six projects, sanctioned between February 1999 and January 2003 for expansion of six exchanges, were implemented during December 2001 to December 2004. The expansions were approved without considering the anticipated growth rate of demand of 15 to 20 *per cent* as envisaged in the guidelines. Audit noticed that due to higher projection of growth of subscribers and failure to consider the exchange capacity utilisation before expansion, all the six exchanges remained underutilized and their utilization ranged between 27 and 70 *per cent*. Further, the working telephone connections in all these exchanges as of September 2005 were such that the same could have been accommodated from their pre-expansion capacities. This indicated in unproductive expenditure of Rs 3.61 crore on expansion of exchanges by 6k lines as detailed in Appendix-XX.

Audit also observed (October 2006) that a 2k exchange was commissioned (March 2004) at Devi Mandap road, Ranchi, without estimating the demand for telephone connections in the area. Even after one year of commissioning, no new connections had been provided there. Only 228 connections were provided through diversions from other exchange by area transfers. This showed unproductive expenditure of Rs 1.22 crore on commissioning of the new exchange.

[•] 1k – 1000 lines

On this being pointed out in Audit, the Sub-Divisional Engineer (Planning-1), Telecom District, Ranchi while accepting the facts, stated (November 2005) that action would be taken to divert the surplus equipment. He further stated that the possibility of winding up the new exchange at Devi Mandap was being examined.

Thus injudicious expansion of six exchanges and commissioning of one new exchange resulted in non-utilization of 8k lines and unproductive expenditure of Rs 4.83 crore.

The matter was referred to the Ministry in November 2006; reply was awaited (December 2006).

3.7 Failure to optimally utilize the Cable Record Purification system

The General Managers Telecom Districts, Gwalior and Bhopal under the Madhya Pradesh Telecom Circle failed to optimally utilise the Cable Record Purification systems procured at a cost of Rs 1.46 crore and the objective of 100 *per cent* verification of cable pairs was defeated.

The Company's corporate office instructed (September 2001) the General Managers Telecom District (GMsTD), Gwalior and Bhopal to do a 100 *per cent* verification of the cable pairs terminating in the main distribution frames/cabinets/pillars to facilitate recovery of good cable pairs and preparation of computerised cable records as the largest share of expenditure of external plant network of the Company is incurred on cables.

Accordingly GMsTD, Gwalior and Bhopal installed (October 2003) one single ended and one double ended Cable Record Purification (CRP) system respectively at a total cost of Rs 1.46 crore. The systems were capable of testing up to one and a half lakh cable pairs per annum.

Audit scrutiny (August 2005/April 2006) of the records of GMTD, Gwalior revealed that only 25,800 pairs of primary cables out of a total of 1.38 lakh pairs as of April 2006 were tested. The CRP system remained faulty since June 2004 and was rectified in September 2005, after which it was despatched to GMTD, Jabalpur without completing the tests at Gwalior.

Similarly, audit scrutiny (August 2004/July 2006) of the records of GMTD, Bhopal revealed that only 25,100 pairs of primary cables were tested out of a total of 2.30 lakh pairs. Thereafter, the CRP system at Bhopal was shifted (September 2004) to Indore. Audit further noticed that after shifting of the CRP system to Indore, it could not be used due to a faulty hard disc and was lying idle as of July 2006.

On this being pointed out in Audit, the Deputy General Manager (Operations), Madhya Pradesh Telecom Circle stated (May 2006) that the single ended CRP system was initially deployed at Gwalior and on completion of testing and purification of the cable records of two exchanges, the system was deployed at Jabalpur town. He further stated that the double ended CRP system was initially deployed in Bhopal and after completion of testing of one telephone exchange, it was deployed at Indore. Thus, the primary cable pairs in the remaining 12 exchanges in Gwalior and three main exchanges in Bhopal were not tested before shifting the CRP system to Jabalpur and Indore respectively. As against 3.68 lakh pairs of primary cables to be tested, only 50,900 pairs (14%) were tested by both the CRP systems.

Hence, the objective of 100 *per cent* verification of the cable pairs to ensure their repair and utilisation and the objective of computerizing and updating the cable records through CRP system were not achieved even after incurring an expenditure of Rs 1.46 crore.

The matter was referred to the Ministry in September 2006; reply was awaited (December 2006).

3.8 Injudicious purchase of land

The General Manager (Development), Ahmedabad Telecom District under the Gujarat Telecom Circle leased a plot of land without considering its suitability resulting in blocking of Rs 1.24 crore and consequent loss of interest of Rs 53.70 lakh.

The General Manager (GM) (Development), Ahmedabad Telecom District (ATD) under the Gujarat Telecom Circle leased (March 2000) 4,125 square metres of land at Ghatlodia, Ahmedabad at a cost of Rs 1.96 crore from the Ahmedabad Urban Development Authority (AUDA) for construction of a telephone exchange and staff quarters.

Audit scrutiny (February 2005) of the records of GM (Development), ATD revealed that the above plot of land was leased without considering its suitability. Audit noticed that the Executive Engineer (Civil), Telecom Division, Ahmedabad in his site suitability certificate had pointed out (October 1999) that the land was not demarcated; was encroached; Municipal sewerage line was passing through it and it was lower by an average of 10 feet than the nearest road. He had further pointed out that the land was initially a pond. GM (Development), ATD without considering these aspects leased the land and paid the cost of land in two instalments of Rs 1.30 crore and Rs 66.33 lakh in March and August 2000 respectively. Audit noticed that GM (Development) after a gap of two years of making the payment had found (October 2002) that the land was a notified pond and was not suitable for construction purpose as the cost of filling of the land would have been exorbitant. The Principal General Manager (PGM), ATD decided (October 2002) to return the land to AUDA and claim refund. PGM, ATD, after retaining 970 square metres of land addressed (January 2003) AUDA for surrendering the balance of 3,155 square metres and claimed refund of the cost of the surrendered land. Audit further noticed that PGM, ATD after a lapse of two more years took up the matter in March 2005 with AUDA again for refund. An amount of Rs 1.24 crore was finally refunded in August 2005. Thus leasing of land without considering its suitability resulted in its surrendering and consequent blocking of capital of Rs 1.24 crore for more than five years besides loss of interest of Rs 53.70 lakh.

On this being pointed out in Audit, the Deputy General Manager (Building planning), ATD stated (August 2006) that the land was purchased with the approval of the competent authority and as per the existing rules. He further stated that AUDA had given clear possession of the land without any encroachments and as the proposal for construction of the staff quarters was dropped, the land was surrendered. The reply does not give a true picture as PGM, ATD had decided to surrender the plot only after considering (October 2002) that the land was a notified pond and unsuitable for construction purposes. Also the ATD failed to assess its requirement of staff quarters before leasing the land.

Thus failure to consider the suitability of the land and its requirement before leasing it resulted in its idling. This resulted in blocking of capital of Rs 1.24 crore for more than five years and consequent loss of interest of Rs 53.70 lakh.

The matter was referred to the Ministry in November 2006; reply was awaited (December 2006).

3.9 Infructuous expenditure on payment of electricity charges

Bihar, Jharkhand and Kerala Telecom Circles did not review and reduce the contracted electricity demand on the basis of actual consumption. This resulted in payment of minimum demand charges on the basis of higher contracted demand and consequent infructuous expenditure of Rs 1.23 crore.

The Public Accounts Committee (PAC) had taken a serious note in the past of cases of infructuous expenditure due to contracting excessive power loads. As a follow up, the Ministry issued (April 1987) necessary instructions to heads of circles to periodically review and modify the contracted power demands based on actual requirements and reiterated these instructions in October 1996 and October 1999 as did BSNL in November 2001.

Audit scrutiny (February/April 2006) of the records of four Secondary Switching Areas (SSAs) of Chapra, Munger, Patna and Samastipur under Bihar Circle, Ranchi SSA under Jharkhand Circle and Electrical Division under Kerala Circle revealed that contracted demands were more than the required demand. The minimum demand charges on higher contracted demands continued to be paid during 2001-06 without getting the contracted demand reduced resulting in infructuous expenditure of Rs 1.23 crore as shown in Appendix-XXI.

On this being pointed out in Audit, the Chief Engineer, Telecom Electrical Division, Thiruvananthapuram stated (May 2006) that the contracted demand for a new exchange was calculated by the electrical wing based on the information given by the SSA authorities regarding the equipment proposed to be installed in the exchange and the connection was obtained by the officer in charge of the exchange. It was further stated that as the equipment were being installed in a phased manner, the registered demand in the initial stages would be comparatively low and monitoring was required for at least six months for arriving at a decision on whether the contracted demand was in excess or otherwise. He further added that the contracted demand had already been reduced in many of the exchanges and efforts were on to optimize the utilization in future. Audit, however, noticed that the contracted demand was reduced during the period 2002-06 in three exchanges under Thiruvananthapuram SSA and even after reduction the contracted demand was on the higher side. Further the SSA failed to periodically review and modify the contracted power demands based on actual requirements. Heads of SSAs in the Bihar Circle stated (March 2006) that the case for reduction of contracted demand was being taken up with the Bihar State Electricity Board. The Divisional Engineer (General), Ranchi SSA stated (April 2006) that a reference had been made to the Jharkhand State Electricity Board (JSEB) for reduction of contracted demand in November 2002. They added that no action had been taken by JSEB in this regard.

Although the Company had issued (November 2001) instructions for monitoring of energy consumption in telephone exchange buildings, persistence of these deficiencies indicated a clear weakness in the internal control mechanism at the level of SSAs.

The matter was referred to the Ministry in November 2006; reply was awaited (December 2006).

3.10 Infructuous expenditure on cable laying

The General Manager Telecom District, Dehradun under the Uttaranchal Telecom Circle laid additional polythene insulated jelly filled underground cables without expansion of telephone exchange concerned, resulting in their idling and wasteful expenditure of Rs 1.05 crore.

The General Manager Telecom District (GMTD), Dehradun under the Uttaranchal Telecom Circle sanctioned (January 2001) a project for expansion of the Remote Switching Unit (RSU) exchange at Rajpur from 3k[•] to 4k lines at a total estimated cost of Rs 1.70 crore. Accordingly 10,657 ckm[*] of polythene insulated jelly filled (PIJF) underground cables were laid between March 2002 and August 2003 for providing access network at a total cost of Rs 1.05 crore. The access network provides connectivity between a telephone exchange and a telephone subscriber.

Audit scrutiny (July 2004/May 2006) of the records of GMTD, Dehradun revealed that though the PIJF underground cables were laid, the RSU exchange at Rajpur was not expanded resulting in underutilisation of cables. Audit observed

[•] 1K-one thousand

[*] Cable conductor kilometers

that while the PIJF underground cables were being laid, GMTD Dehradun sanctioned (June 2003) deployment of two 480 lines Digital Loop Carrier (DLC) systems in the access network for Rajpur exchange area. As the DLC systems work on optical fibre cables the PIJF underground cables already laid would be redundant. Further the equipped capacity of the Rajpur RSU exchange remained 3k lines and the telephone connections provided from it declined from 2,730 in April 2003 to 2343 in May 2006, thereby rendering the additional PIJF cables laid for expansion of RSU exchange at Rajpur superfluous. This resulted in infructuous expenditure of Rs 1.05 crore.

On this being pointed out in Audit, the Deputy General Manager (Planning) stated (February 2005) that the cable network would be utilized as the Rajpur exchange area had been expanded by 1k lines by installing two 500 lines DLC systems. The reply was not convincing since, as stated earlier, the DLC system works on optical fibre cables and hence the PIJF cables laid were redundant. Further, the telephone connections in Rajpur area declined to 2343 in May 2006 and hence the additional PIJF underground cables laid for expansion of Rajpur exchange from 3 to 4 k lines could not be used.

The failure of GMTD, Dehradun to properly plan the access network resulted in idling of 10,657 ckm of PIJF underground cables and consequent wasteful expenditure of Rs 1.05 crore.

The matter was referred to the Ministry in November 2006; reply was awaited (December 2006).

(C) Avoidable expenditure/payment

3.11 Avoidable expenditure on obsolete stores

The Chief General Manager, Calcutta Telephone District incurred avoidable expenditure of Rs 1.94 crore on payment of rent, ad valorem surcharge and insurance charges in respect of obsolete stores.

Rules provide that stores purchased must not be held in excess of requirement beyond a reasonable period and stores remaining in stock for over a year should be considered surplus. In order to ensure the observance of this rule, annual inspections must be carried out by responsible officers, who must submit reports of surplus and obsolete stores to the authorities competent to issue orders for their disposal. Rules further provide that the value of the stores must not be materially in excess of the market value and periodical review and revision of rates must be done.

Consequent upon formation of Bharat Sanchar Nigam Limited (BSNL) in October 2000, the Chief General Manager (CGM), Calcutta Telephone District (CTD) inherited stores pertaining to E10B exchanges. These stores had a book value of Rs 19.83 crore as of September 2000. The stores were procured during 1990-1991 to1996-1997 and had not been utilized. They were stocked in the Dakshindari Warehouse belonging to the West Bengal State Warehousing Corporation (WBSHC) and the Taratola Warehouse belonging to the Central Warehousing Corporation (CWC).

The WBSHC and the CWC charged a monthly rent based on the area occupied by the stores. In addition they levied ad valorem surcharge and insurance charges based on the highest value of stores reached on a particular day of each month with effect from 1 January 1999 and 1 April 2001 respectively.

Audit scrutiny (March 2005) of the records of CGM, CTD, disclosed that the E10B stores had become obsolete but CGM, CTD did not either dispose of the obsolete stores or revalue the same. In July 2003 the Deputy General Manager (DGM) (Switching and Planning) had revalued the obsolete stores at Rs 39.66 lakh based on their residual value. Audit noticed that this was not communicated to the Warehousing Corporations and CTD continued to pay higher ad valorem surcharge and insurance charge on the original book value. The failure to dispose of the obsolete stores resulted in avoidable rent of Rs 91 lakh. Besides that, non revision of the book value of the obsolete stores resulted in avoidable expenditure of Rs 1.03 crore on ad valorem surcharge and insurance charge for the period October 2000 to February 2006.

On this being pointed out in Audit (March 2005), DGM (Switching and Planning), CTD recommended (June 2005) scrapping of these stores to avoid the payment of rent, ad valorem surcharge and insurance charges. Audit, however, observed that the scrapped materials were still lying in stock at both the warehouses and had not been disposed as of February 2006.

The matter was referred to the Ministry in October 2006; reply was awaited (December 2006).

3.12 Avoidable payment of interest

Twelve Secondary Switching Areas under the Andhra Pradesh and Rajasthan telecom circles made avoidable payment of interest of Rs 91 lakh due to delayed payments of service tax.

The Service Tax (Amendment) Rules, 1998 issued by the Ministry of Finance, provides that the service tax on the value of taxable services received during a calendar month were to be credited to the Central Government by the 25th of the following month. Delayed payment of service tax attracts interest as stipulated in the Finance Act, 1994. The Department of Telecom also issued (July 2001) instructions to all heads of circles to deposit service tax on time to avoid imposition of penalty and directed the circles to fix responsibility in case of delayed payment.

Audit scrutiny (June 2004 to March 2006) of the records of five Secondary Switching Areas (SSAs) viz., Ananthapur, Cuddappah, Hyderabad, Kurnool and

Tirupati under the Andhra Pradesh Circle and seven SSAs viz., Ajmer, Bhilwara, Jhalawar, Jodhpur, Kota, Pali and Sriganganagar under the Rajasthan Circle revealed that these units failed to ensure timely compilation of sub-ledgers (SLR)[2] to determine the amounts of service tax to be paid. This resulted in delayed payment of service tax and consequential avoidable payment of Rs 91 lakh towards interest on delayed payments of service tax for different periods between October 2000 and March 2004 in different SSAs as detailed in Appendix-XXII.

On this being pointed out in Audit, the General Manager (Finance), Andhra Pradesh Circle stated (May 2006) that in order to ascertain the amount of service tax, compilation of the SLRs was mandatory. He further stated that the due date for compilation of the SLRs coincided with that for payment of service tax, which resulted in delayed remittance of service tax. The heads of SSAs in the Rajasthan Circle also stated (August 2005) that delayed payment of service tax was due to delay in compilation of SLR.

Clearly, the circles should have advanced the prescribed last date for compilation of SLR and introduced adequate and effective internal controls to ensure prompt payment of service tax.

The matter was referred to the Ministry in October 2006; reply was awaited (December 2006).

3.13 Excess payment of money order commission

Failure of 10 Secondary Switching Areas in Gujarat, Karnataka and Rajasthan Telecom circles to avail of concessional money order rates resulted in excess payment of money order commission of Rs 51.55 lakh.

Department of Posts (DoP) in pursuance of the User Pay Principle introduced (August 2001) the facility of sending money orders (MO) for remittance of salaries and other allowances of Bharat Sanchar Nigam Limited through single MO without any upper monetary limit on payment of commission at concessional rates with effect from 1st October 2001. Based on this, the Corporate Office of the company issued (September 2001) detailed instructions to Telecom Circles to switch over to this regime.

Audit scrutiny (November 2004 to May 2006) of the records of 10 SSAs in Gujarat, Karnataka and Rajasthan Telecom circles revealed that the concerned SSAs were remitting salary through separate MOs to officials working at the same place in field units instead of sending a single MO to the concerned designated officer for disbursement. Audit also observed that in cases where the value of the MO was between Rs 5001 and Rs 1 lakh the commission was paid at Rs 450 per MO against the concessional rate of Rs 200 per MO. This resulted in excess

[2] SLR – Record showing the revenue earned against each service for a particular month on the basis of which service tax is determined.

payment of commission of Rs 51.55 lakh during the period from October 2001 to December 2005 as shown in Appendix-XXIII.

On this being pointed out in Audit (November 2004), GMT Gulbarga, accepted the facts and stated that steps would be taken to follow the instructions under the User Pay Principle. Heads of SSAs in Gujarat circle stated (February 2006) that they were not aware of the above orders. In Rajasthan circle, while GMTD Jodhpur stated that individual MOs were stopped from 2003-04, other three SSAs viz., Barmer, Bharatpur and Tonk stated that the matter would be taken up with the Postal Authorities and the excess paid MO commission would be got adjusted. Further the Banswara and Jhalawar SSAs stated that MO commission paid by them at the rate of Rs 450 for the value of MOs between Rs 5001 and Rs 1 lakh was correct. The reply of the SSAs was not tenable as DoP had clarified (August 2001) that MO commission was to be charged only at the rate of Rs 200 for the value of MOs between Rs 5001 and Rs 1 lakh.

Thus failure on the part of Gujarat, Karnataka and Rajasthan circles to take advantage of the facility of sending MOs under the User Pay Principle resulted in excess payment of MO commission of Rs 51.55 lakh.

The matter was referred to the Ministry in October 2006; reply was awaited (December 2006).