CHAPTER II

MAJOR FINDINGS IN TRANSACTION AUDIT - REVENUE

2.1 Non/short billing of Infrastructure Sharing Charges from private service providers

Deficiencies in billing and collection of charges for providing infrastructure facilities and port charges resulted in non recovery of revenue of Rs 107.15 crore from private service providers, including outstanding dues.

With the implementation of the National Telecom Policy 1994, licensed private service providers (PSPs) commenced launching of their services from 1995-96 and sought 'Points of Interconnections' (POIs)[♣] in their jurisdiction for interconnection with public switched telephone network (PSTN) of Bharat Sanchar Nigam Limited (BSNL). Initially BSNL provided POIs through active links[↑]. However, from April 2002, BSNL also started providing POIs to PSPs through passive links[↓]. As of March 2007, a total of 119 Interconnect Agreements had been signed by BSNL.

For providing POIs to PSPs, BSNL was entitled to recover fixed annual charges in the form of port charges and charges for providing infrastructure facilities such as buildings, space, power, towers, cable ducts, etc for installation and operation of their transmission equipments inside the BSNL's exchange premises. The rates for port charges were prescribed by the Telecom Regulatory Authority of India (TRAI) from time to time during May 1999 to February 2007. TRAI permitted BSNL to recover charges for providing infrastructure facilities to PSPs at mutually agreed rates incorporated in the Interconnect Agreements. These charges were apart from the Interconnection Usage Charges (IUCs) i.e. the charges payable by one service provider to one or more service providers for usage of the network elements for origination, transit or termination of the telephone calls.

Audit examined the relevant records maintained at the Corporate Office and in 14 circles[♣] to ascertain the efficiency of the BSNL in providing POIs and in billing and collection of charges for providing infrastructure facilities and port charges during the period 2002-03 to 2006-07. Out of 287 Secondary Switching Areas (SSAs) in the 14 selected circles, Audit carried out test

[♣] POI means giving a connection in multiples of ports for establishing interconnection between two networks.

[↑] Active links means the links in which the transmission equipments of PSPs are installed in BSNL exchange premises and their networks are connected through these equipments to BSNL's network.

[↓] Passive links means the links in which transmission equipments of PSPs are installed close to BSNL exchange premises and only transmission cable with/without modem are brought into the BSNL's exchange premises and the networks of PSPs are connected to BSNL's network through these transmission cables.

[♣] Andhra Pradesh, Assam, Bihar, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh (East) and West Bengal.

checks in 99 or 34 *per cent* of the SSAs. The audit criteria used were guidelines issued by TRAI, terms and conditions of the interconnect agreements entered with PSPs, and instructions issued by the BSNL for billing and collection of charges for providing infrastructure facilities and port charges.

The audit findings are discussed in the succeeding paragraphs.

2.1.1 Non-billing of charges for providing infrastructure facilities

Initially BSNL fixed charges for providing infrastructure facilities on an *ad-hoc* basis at the rate of Rupees two lakh per site for radio links and Rupees one lakh per site for cable based links in April 1997 and May 1998, respectively. In February 2001, BSNL fixed separate charges for providing infrastructure such as active and passive links, power, space, cable duct and tower and also issued instructions to prefer fresh demand after adjusting the *ad-hoc* charges already collected. The Corporate Office also issued the methodology and formulae for calculation of space, power, tower and duct sharing charges to all the circles. Further, the Corporate Office clarified (December 2002) that any facility obtained by PSPs from BSNL should not be resold or leased in any manner to third party.

The SSAs were to adjust the bills as per the formulae prescribed and prefer fresh demand notes after deducting the ad-hoc one-time charges already collected from PSPs. Subsequently, in May 2006 infrastructure sharing charges for space, power and tower were revised. These revised charges were applicable from 1 April 2006 with a provision of 10 *per cent* annual increase every year thereafter. All these charges were leviable in advance every year.

Test check of the relevant records by Audit in 99 SSAs of 14 selected circles revealed that charges for providing infrastructure facilities were not recovered to the extent of Rs 15.22 crore in 486 cases (see ***Appendix-I).*** The main reasons for non recovery of above charges were non-billing; non-application of revised rates; non-communication of correct number of bays by the planning wing; charging for less number of bays and permitting of infrastructure sharing between different PSPs in violation of the instructions of the Corporate Office. On this being pointed out in Audit, Gujarat and Tamil Nadu circles recovered Rs 49.91 lakh from the concerned PSPs.

2.1.2 Non-billing of port charges

As per TRAI's regulation, port charges were recoverable from PSPs at the rate of Rs 55,000 per annum per POI up to 16 ports and Rs 30,000 per port for next 16 ports with effect from December 2001. However, examination of the relevant records in 28 SSAs of 11 circles[®] revealed that port charges of Rs 9.42 crore were not recovered in 112 cases (see ***Appendix-II)***. On this being pointed out in Audit, Tamil Nadu circle recovered Rs 25.22 lakh from the concerned PSPs.

[®] Assam, Andhra Pradesh, Bihar, Calcutta Telephone District, Eastern Telecom Region, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Orissa and Tamil Nadu.

The above cases of non-billing of charges for providing infrastructure facilities and port charges point towards weak internal controls and ineffective monitoring in respect of billing and collection of these charges.

2.1.3 Incorrect fixation of charges

The corporate office of BSNL issued instructions for revision of rates of infrastructure sharing charges from time to time and also prescribed formulae for working out the revised rates. Out of 14 circles test checked in audit instances of incorrect calculation of revised rates were noticed in six circles[π]. These deficiencies resulted in non/short billing of revenue because of non-revision of rates amounting to Rs 1.48 crore in 10 SSAs of above six circles, involving 66 cases (see ***Appendix-III)***. On this being pointed out in Audit Gujarat circle recovered Rs 3.59 lakh from the concerned PSPs.

Audit also noticed instances where the revised rates were communicated to the SSAs with considerable delays, resulting in loss of revenue of Rs 1.16 crore in 752 cases in 26 SSAs of three circles (Andhra Pradesh, Bihar and Karnataka) (see ***Appendix-IV).***

2.1.4 Non recovery of interest on delayed payments

As per the instructions of the Corporate Office of BSNL (April 2004), read with interconnection agreement, in case of delays in payments by PSPs, interest was to be charged on the due amount at the rate of 15 *per cent* for delays upto 15 days; 18 *per cent* for delays between 15 and 30 days and 24 *per cent* or Rs 25,000 per month or part thereof whichever was higher for delays beyond 30 days. A test check of the relevant records by Audit in 10 SSAs in four circles (Gujarat, Karnataka, Madhya Pradesh and Rajasthan) revealed that despite delays in payments of infrastructure sharing charges by the PSPs, interest of Rs 2.10 crore on delayed payments was not recovered in 68 cases by these circles in violation of the above instructions (see ***Appendix-V).***

2.1.5 Non-recovery of prescribed dues in respect of surrendered ports

As per orders issued (September 2005) by the Corporate Office of BSNL, in cases where working ports were surrendered prematurely by the PSPs, rental for full one year from the date of disconnection of ports was to be collected, after adjusting the advance port charges already recovered against the unused period of the ports. A test check of the relevant records by Audit in 27 SSAs of seven circles (Andhra Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa and Tamil Nadu) revealed that despite surrender of ports prematurely by the PSPs during the year, the prescribed rental for full one year from the date of disconnection of ports, aggregating to Rs 1.32 crore in 128 cases was not recovered by these circles (see ***Appendix-VI).***

[π] Andhra Pradesh, Gujarat, Karnataka, Kerala, Maharashtra and Orissa.

2.1.6 Loss of potential revenue due to delayed/non-provisioning of POIs to PSPs

In order to provide interconnection in timely manner, the Corporate Office of BSNL, based on the instructions received from TRAI, directed all circles in February 2001 that on receipt of payment against demand notes from PSPs, interconnection through POIs/ports should be provided and commissioned within a period of three months from the date of receipt of payment. It was noticed in audit that in violation of the above instructions of the Corporate Office, the interconnection to PSPs through POIs/ports were delayed/not provided for periods ranging from 3 to 1703 days in 63 SSAs of 10 circles[ϕ], which resulted in loss of potential revenue of Rs 4.54 crore (see ***Appendix-VII).***

2.1.7 Outstanding dues against PSPs

As per the instructions issued by the Corporate Office of BSNL in February 2001 and reiterated thereafter from time to time, charges for providing infrastructure facilities and port charges were to be recovered from the PSPs in advance i.e. in the beginning of the concerned year. In view of these instructions, no amount should be outstanding for recovery against the private service providers. Audit, however, noticed that an amount aggregating Rs 71.89 crore[♣] was outstanding against different PSPs in 57 SSAs of 9 circles[β] at the end of 2006-07 (see ***Appendix-VIII).*** This is indicative of control weakness.

The Management while accepting the above observations stated (July 2007) that outstanding dues could not be collected due to the fact that many PSPs were pressing hard for waiver of port charges.

Thus deficiencies in billing and collection of charges for providing infrastructure facilities and port charges resulted in non recovery of revenue of Rs 35.26 crore from private service providers as described in para 2.1.1 to 2.1.6. Also, there were outstanding dues of Rs 71.89 crore. BSNL needs to strengthen internal controls and monitoring in respect of billing and collection of these charges.

The matter was referred to the Ministry in June 2007; its reply was awaited (November 2007).

[ϕ] Assam, Andhra Pradesh, Bihar, Karnataka, Kerala, Madhya Pradesh, Orissa, Tamil Nadu, Uttar Pradesh (East) and West Bengal.

[♣] This includes Rs 56.98 crore outstanding for recovery at the end of 2006-07 from PSPs in Andhra Pradesh circle, of which Rs 45.39 crore was disputed by the concerned PSPs.

[β] Andhra Pradesh, Bihar, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan and Uttar Pradesh (East).

2.2 Loss of subsidy

Failure of Secondary Switching Areas under nine Telecom Circles to maintain fault free and/or functional Village Public Telephones led to loss of subsidy of Rs 31.26 crore for the period April 2002 to March 2007.

New Telecom Policy 1999 of the Government of India envisaged access to basic telecom services to all (including rural and remote areas) at affordable and reasonable prices under Universal Service Obligation (USO). The resources for meeting the USO were to be generated through Universal Service Levy, being a prescribed percentage of revenue earned by telecom service operators. Subsequently, the Department of Telecommunications (DoT) decided to extend support in the form of subsidy under the Universal Service Support Policy (from April 2002) to a Universal Service Provider. The Universal Service Obligation Fund (USF) is headed by Administrator, Universal Service Fund (USF) and the services supported by the fund are operation and maintenance of Village Public Telephones (VPTs), Multi Access Radio Relay Technology (MARR) VPTs, Rural Community Phones (RCPs) and other telecom services in rural areas.

The Telecom Circles under Bharat Sanchar Nigam Limited (BSNL) as a Universal Service Provider, entered into agreements (between March 2003 and March 2005) with the Administrator, USF for availing subsidy towards Operation and maintenance of VPTs, RCPs and replacement of MARR VPTs in their respective service areas. These agreements, inter-alia, stipulated that if the VPTs, RCPs and the new VPTs in replacement of MARR VPTs remained faulty and/or non-functional for more than seven days in a quarter, subsidy payable was to be reduced proportionately and for 45 days or more during a quarter, no subsidy for the entire quarter for those VPTs was to be disbursed. Further, those VPTs and RCPs that did not register incremental meter reading/calls or remained disconnected due to non-payment during an entire quarter would not qualify for subsidy support for that quarter. It was, therefore, important for each Secondary Switching Areas (SSA) to maintain fault free and functional VPTs and RCPs and avail the subsidy.

Audit scrutiny (December 2006 to June 2007) of records relating to subsidy claims pertaining to the Chief General Managers (Telecom) of Andhra Pradesh, Madhya Pradesh and Orissa circles disclosed that these circles could not claim Rs 19.69 crore towards subsidy because the VPTs in their respective SSAs remained faulty/non-functional for more than seven/45 days during relevant quarters for the period April 2003 to March 2007.

Further, test check of claims relating to two SSAs each under Bihar and Jharkhand telecom circles; four SSAs each under Uttar Pradesh (East) and West Bengal telecom circles; three SSAs under Maharashtra telecom circles; and one SSA under Uttar Pradesh (West) telecom circle revealed that these SSAs failed to maintain fault-free/functional VPTs/RCPs/RDELs* owing to

* Rural direct exchange lines

faulty batteries and disconnection of VPTs due to non-payment. Audit also noticed that the SSAs failed to shift the VPTs with continuous zero or non incremental meter readings to other suitable locations in order to earn subsidy. This led to loss of subsidy claim of Rs 11.57 crore for the period April 2002 to March 2007.

On this being pointed out by Audit, the Circles/SSAs accepted (between December 2006 and June 2007) audit observations and stated that necessary steps would be taken to maintain fault-free/functional VPTs. The reply from Andhra Pradesh and West Bengal telecom circles were awaited (November 2007).

Thus, failure of the Circles/SSAs to maintain fault free/functional VPTs/RCRs services led to loss of subsidy of Rs 31.26 crore for the period April 2002 to March 2007, as detailed in **Appendix - X**.

The matter was referred to the Ministry in August 2007; its reply was awaited (November 2007).

2.3 Continuation of telephone facilities despite non-payment of dues

Failure to disconnect telephone connections of subscribers and STD/PCO operators by due dates for non-payment of rentals in 13 Secondary Switching Areas in three circles resulted in non-recovery of revenue of Rs 3.69 crore.

Rules in Bharat Sanchar Nigam Limited (BSNL) provide that telephone bills are payable by subscribers within 15 days from the dates of issue of their bills, failing which their telephones are liable to be disconnected before the 35th day from the dates of issue of the bills. In the case of STD/PCOs, bills are payable within four working days from the date of receipt of bills, failing which the connections are liable to be disconnected. The Corporate office of the company reiterated these provisions in February and October 2003.

Scrutiny of records (October 2005 and November 2006) of 13 Secondary Switching Areas (SSAs) under Rajasthan, Uttar Pradesh (East) and Uttaranchal telecom circles disclosed that despite non-receipt of dues, these SSAs continued to provide telecommunication services to 11,875 telephone subscribers and 1,484 STD PCO operators for unduly long periods. This resulted in non-recovery of revenue of Rs 3.69 crore for the period August 1998 to September 2006, as detailed in the ***Appendix-XI.***

On this being pointed out by Audit, Chief Accounts Officer, Alwar stated (May 2006) that a sum of Rs 5.41 lakh was recovered from the defaulting subscribers and STD PCO operators. The Deputy General Manager (F&A-II), Rajasthan Telecom Circle while accepting the audit observations stated (April 2007) that Ajmer, Jaisalmer, Jhunjhunu, Pali and Sirohi SSAs had recovered/ adjusted a sum of Rs 66.81 lakh after audit pointed it out. Further, the Deputy General Manager (TR), Uttar Pradesh (East) Telecom Circle accepted the audit observations and stated (May 2007) that Azamgarh, Gonda, Raebereli and Shahjahanpur SSAs had recovered a sum of Rs 24.19 lakh at the instance of Audit.

The above replies indicate that after it was pointed out by Audit, a sum of Rs 0.96 crore was recovered by the SSAs, (see ***Appendix - XI)***. Recovery particulars of the balance amount of Rs 2.73 crore were awaited as of November 2007.

Comments regarding continuance of telephone facilities despite non-payment of dues have been included in the Audit Reports of the Comptroller and Auditor General of India for the last eight years. The Ministry, in their latest Action Taken Note (ATN), on the subject, had stated (November 2006) that pursuance of recovery was being done regularly. There is a need for stronger internal control measures to avoid recurrence of this persistent irregularity and consequent loss of revenue.

The matter was referred to the Ministry in March 2007; its reply was awaited (November 2007).

2.4 Continuous generation of unaddressed bills led to loss of revenue

Failure of Dimapur Secondary Switching Area under North Eastern – II telecom circle to follow the codal provisions to reconcile the working telephone connections and connections billed in order to ensure correct revenue realization for the services rendered led to continuous generation of unaddressed telephone bills resulting in loss of revenue of Rs 3.62 crore.

As per codal provisions in Bharat Sanchar Nigam Limited (BSNL), the operating branch of a telephone district is required to send completed advice notes to the Telephone Revenue Accounting (TRA) branch within a week of providing telecommunication facilities to enable them to post the details in the Subscriber Record Card (SRC) and issue bills to the subscribers. TRA branch is required to obtain a list of non-directory items from the operating branch in April each year and check it with SRCs to ensure that the rent in respect of all the telecommunication facilities has been recovered. Some cases may arise where certain bills have remained unaddressed and these unaddressed bills, bundled together, have to be recorded in a Register, which is to be submitted to the Accounts Officer (AO), TRA every month for review and further verification.

Scrutiny of records (December 2005) relating to unaddressed bills relating to Dimapur Secondary Switching Areas (SSAs) under North Eastern – II Telecom Circle disclosed that in respect of 702 subscribers, unaddressed bills for Rs 3.62 crore were generated continuously during the period October 2000 to October 2005. This included telephone connections in respect of 259 subscribers whose connections were terminated after continuous generation of unaddressed bills for a long period but without realisation of revenue.

On this being pointed out by Audit, Chief Accounts Officer (HQ) NE-II telecom circle, while accepting the facts, stated (October 2007) that due to non availability of whereabouts of the subscribers, chances of recovery were remote.

The above reply is not tenable because the SSA failed to follow the codal provisions to reconcile the working connections and connections billed so as to ensure proper revenue realization for the services rendered.

The matter was referred to the Ministry in April 2007; its reply was awaited (November 2007).

2.5 Non-recovery of compensation for damage to underground cables

Failure of 13 Secondary Switching Areas under five Telecom Circles to raise compensation claims for damage to underground cables resulted in non-recovery of compensation of Rs 3.35 crore.

Rules provide that when the property of the Company is damaged by an outside agency, compensation is to be claimed. Bharat Sanchar Nigam Limited (BSNL) also issued (October 2003 and 2004) instructions which prescribed specific rates to be claimed towards damage of the cables by external agencies including the private telecom service providers.

Audit scrutiny (June 2003 to January 2006) of the records of 13[*] Secondary Switching Areas (SSAs) under five Telecom Circles[•] revealed that various private agencies and private telecom service providers, while undertaking digging works, had damaged underground copper cables as well as optical fibre cables of the Company on 106 occasions between June 2000 and November 2006 at various locations adjacent to the areas of BSNL exchanges. Audit observed that the SSAs failed to raise compensation claims on these private agencies and telecom service providers resulting in non-recovery of claims amounting to Rs 3.35 crore as shown in **Appendix - XII**.

Northern Telecom Region, Patiala and Hoshiarpur SSAs while accepting the audit observations stated that demand notes had been issued to the concerned parties and an amount of Rs 86.37 lakh was recovered by Northern Telecom Region and Hoshiarpur SSA at the instance of Audit. The remaining SSAs stated that efforts were underway to recover the compensation.

Thus failure of the SSAs to raise compensation claims resulted in non-recovery of Rs 2.49 crore from private agencies and telecom service providers.

The matter was referred to the Ministry in June 2007; its reply was awaited (November 2007).

[*] Jalandhar, Hoshiarpur, Patiala, Bundi, Jhalawar, Kota, Notrthern Telecom Region, Moradabad, Panaji, Solapur, Etawah, Hamirpur and Raebareli

[•] Punjab, Rajasthan, Uttar Pradesh (West), Maharashtra and Uttar Pradesh (East)

2.6 Short charging of rentals

Failure of two Secondary Switching Areas under Andhra Pradesh Telecom Circle to issue rental bills at higher rates commensurate with the enhanced total capacity of exchanges resulted in short billing of Rs 2.35 crore.

In terms of codal provisions, the rates of rentals should be based on the total equipped capacity of exchanges/multi-exchanges/Short Distance Charging Areas (SDCA) for rural and urban areas. The Telecom Revenue Accounting (TRA) branch should revise the rentals in accordance with the statements of the equipped capacities of various exchanges received from the Engineering Wing. Bharat Sanchar Nigam Limited (BSNL) also issued (April 1999, December 2000 and April 2003) tariff orders which prescribed slab rates of rental in terms of the equipped capacities of exchanges/exchange systems. For charging of rentals in urban areas, total equipped capacity of all exchanges in an SDCA was to be taken into account. The higher the total exchange capacity, the higher would be the rates of rentals chargeable.

Test check (between June and October 2006) of the records of two out of 22 Secondary Switching Areas (SSAs) of Andhra Pradesh Telecom Circle revealed that although the total exchange capacities of Mahabubnagar and Vizianagram SDCAs under these SSAs had been enhanced (May 2003 and April 2006) to a higher capacity of 30000 lines and more, the SSAs continued to realise rentals at lower rates for the subscribers of urban areas of these SDCAs. This resulted in short billing of Rs 2.35 crore for the period October 2003 to April 2006, as detailed in the ***Appendix - XIII***.

On this being pointed out by Audit, the General Manager, Telecom District, Mahabubnagar stated (August 2006) that the exchange capacities of the SDCA had been reconciled and the same was below 30000 lines as of August 2006. He further stated that as the area was an economically backward region, the higher revision was not resorted to considering a probable decrease in customers' base. The Sub Divisional Engineer (Operation), Vizianagram SSA stated (October 2006) that as the actual equipped capacities were below 30000 lines, higher rates were not applied to avoid penalizing the customers.

The above replies are not correct because the statements of working connections of the exchanges under these SDCAs clearly show an enhancement of total equipped capacity to 30000 and more lines from May 2003 in Mahabubnagar SDCA and from October 2005 in Vizianagram SDCA. Moreover, tariff orders clearly prescribed slab rates of rental in terms of the equipped capacities of exchanges/exchange systems and there was clear instruction that total equipped capacity of all exchanges in an SDCA was to be taken into account for charging of rentals for subscribers in urban areas. Further, there was no mention of any exception for tariff for any region or area. Hence, the bills should have been issued to the urban subscribers in terms of the enhanced exchange capacities under these SDCAs between the period October 2003 and April 2006. Recovery particulars of the amount were awaited as of January 2007.

The matter was referred to the Ministry in February 2007; its reply was awaited (November 2007).

2.7 Non/short realisation of penal interest on delayed remittances of amount of telephone bills by banks

Failure of seven Secondary Switching Areas under the Kerala telecom circle and the Calcutta telephone district to realise the penal interest on delayed remittances by several banks resulted in non/short realisation of penal interest of Rs 2.09 crore.

Rules, framed by Department of Telecommunications (DoT) (October 1999) and as adopted by Bharat Sanchar Nigam Limited (BSNL), permitted heads of circles to collect telephone bills through some selected nationalised banks in the Telecom Districts to minimize inconvenience to the subscribers in paying their bills. BSNL's instructions required the banks to send the banker's cheque in favour of the concerned Secondary Switching Area (SSA) for the amount of the bills collected on a particular day latest by the seventh day following the date of collection. If the same were not sent within the prescribed period of seven days, a penal interest at two *per cent* above the savings bank interest rate was to be levied from the date of collection. It was further envisaged that delay even for a part of a month would be treated as a full month for the purpose of penalty. Subsequently, BSNL extended (May 2002) such facility to other scheduled banks except Co-operative banks with the same terms and conditions as contained in the above instructions of October 1999, except the rate of penal interest, which was fixed at 1.5 *per cent* per month (simple).

Scrutiny of records (July 2006 to May 2007) of seven SSAs under the Kerala telecom circle and Calcutta telephone district revealed that the heads of these circles executed (October 2002 and May 2006) several agreements with 11 banks. These agreements, inter-alia, contained the provisions relating to the prescribed time for remittances by these banks as well as application of penal interest for non-remittance within the prescribed time limit. Audit observed that though these banks failed to send the banker's cheque in favour of the concerned SSAs within the prescribed period, these SSAs did not raise any claim for penal interest against the banks in terms of the provisions under the agreements.

This lapse of the part of SSAs resulted in non/short realisation of interest of Rs 2.09 crore between April 2004 and March 2007, as shown in the ***Appendix - XIV***.

On this being pointed out by Audit in Kerala telecom circle, Eranakulam and Thiruvalla SSAs issued (January, October to December 2006 and January 2007) bills for Rs 34.91 lakh and Rs 9.66 lakh, respectively, while Kollam SSA issued (February 2007) demand letters to recover the penal interest for delay in sending remittances. Alappuzha and Trichur SSAs stated (August-September 2006) that the amount would be recovered from the commission payable to the banks. Further, Kannur SSA stated (June 2006) that they had recovered Rs 1.25 lakh from the defaulting banks. The Calcutta telephone district also accepted the audit observations and stated (October 2007) that the bills of penal interest in respect of the concerned banks had been raised.

The matter was referred to the Ministry in March and July 2007; its reply was awaited (November 2007).

2.8 Avoidable accumulation of unadjusted interest on security deposit

Failure of six Secondary Switching Areas under Kerala telecom circle to take necessary action to get credit of the interest on security deposits in the stipulated period along with additional interest for delayed crediting from the Kerala State Electricity Board, led to avoidable accumulation of unadjusted interest amount of Rs 1.60 crore for the period April 2005 to December 2006.

The Kerala Electricity Act, 2003 stipulates that the licensee shall pay interest on security deposit of a consumer, equivalent to the bank rate or more, as may be specified by the concerned State Electricity Regulatory Commission. Accordingly, the Kerala State Electricity Board (KSEB) issued (March 2005) Supply Code which, inter-alia, stipulated that payment/adjustment of interest on security deposit, due and accrued in each financial year, should be made at the prevailing bank rate on 1 April of that financial year and the same should be credited during the first quarter of the subsequent financial year. For the delay in making the payments/adjustments of interest, the licensee should pay interest at twice the normal rate specified above. Subsequently, KSEB informed (November 2005) the applicable rate of interest at six *per cent* of the security deposit available as on 1 April 2004.

Audit scrutiny (between November 2006 and March 2007) of the records of six Secondary Switching Areas (SSAs) under Kerala Telecom Circle disclosed that for the quarter ending in December 2006, against the due amount of credit of interest of Rs 92.98 lakh, KSEB credited/adjusted only Rs 20.79 lakh as interest on security deposit, after a delay of one to four quarters from the stipulated quarter for which the credit was due. Audit also noticed that for such delay in crediting interest, no extra interest at the double of the normal rate was given. Resultantly, the net interest due of Rs 72.19 lakh and the additional interest payable for the delay in crediting was Rs 88.13 lakh remained unadjusted up to the quarter ending 31 December 2006, as detailed in the **Appendix - XV**.

On this being pointed out by Audit, the Palakkad SSA stated (December 2006) that KSEB Palakkad unit could only adjust the interest in the next electricity bill in January 2006 for delay in receipt of KSEB circular of November 2005. He further stated that clause regarding charging of double rate of normal interest for delayed crediting was also not mentioned in that circular. Ernakulam and Kannur SSAs accepted audit observations and stated (December 2006 and January 2007) that cases were being pursued with KSEB.

The above reply of Palakkad SSA was not acceptable because KSEB Supply Code stipulated credit at double the rate of normal interest rate for delayed crediting and SSAs should have insisted upon crediting the extra interest for delays. However, Ministry, in its reply admitted the audit observations and stated that an amount of Rs 77.3 lakh was adjusted and all the SSAs were asked to take necessary action to realize the balance interest accrued on security deposit.

Thus failure of six SSAs under Kerala Telecom Circle to take necessary action to get credit of the interest on security deposits in the stipulated period along with additional interest for delayed crediting, led to avoidable accumulation of unadjusted interest amount of Rs 1.60 crore for the period April 2005 to December 2006.

2.9 Loss of revenue due to non-implementation of revised pulse rates of local public call offices

Failure of Krishnanagar Secondary Switching Area under West Bengal telecom circle to implement revised pulse rates of calls made from local public call offices resulted in possible loss of revenue of Rs 37.91 lakh.

Bharat Sanchar Nigam Limited (BSNL) revised (17 August 2004) the pulse rate of all calls made from local public call offices (PCOs) from 180 seconds to 90 seconds with effect from September 2004. The pulse rate was further revised (22 December 2004) to 120 seconds and the rate per unit call was raised from Re 1.00 to Rs 2.00 with effect from January 2005.

Test check of records (February 2006) of Krishnanagar Secondary Switching Area (SSA) under West Bengal telecom circle disclosed that the SSA failed to implement the revised pulse rate with effect from September 2004 and January 2005. This resulted in possible loss of revenue of Rs 37.91 lakh for the period September 2004 to March 2005.

On this being pointed out, the local management stated (October 2006) that the revised pulse rates could not be implemented within their due dates due to non-receipt of the above orders in time from the Corporate office. The above contention was not acceptable because BSNL Corporate office while issuing orders also placed a copy of the orders on the intranet portal of BSNL and the SSA should have accessed the orders revising the pulse rates payable by local PCOs. However, the Ministry in its reply accepted the audit observations.

Comments regarding loss of revenue due to non-implementation of pulse rates in respect of several SSAs under West Bengal telecom circle have been included in the Audit Reports of the Comptroller and Auditor General of India for the last three years. The Ministry, in their latest Action Taken Note, on the subject, had stated (November 2006) that pursuance of recovery was being done regularly and necessary instructions had also been issued. There is a need for stronger internal control measures to ensure that there is no potential for revenue leakage on account of delayed implementation of instructions of the Corporate office.

2.10 Recovery at the instance of Audit

Assam telecom circle recovered service tax and education cess of Rs 66.10 lakh, from three service providers at the instance of Audit.

As per the instructions of the Ministry of Finance, Bharat Sanchar Nigam Limited (BSNL) issued (September 2002) instructions to recover service tax at the rate of 10 *per cent* with effect from 10 September 2004 and 12 *per cent* with effect from 18 April 2006 on leased circuits, interconnect link charges and on set-up charges for interconnectivity of ports provided to private operators. In addition, education cess at the rate of 2 *per cent* of the service tax was also leviable.

Test check of 25 out of 43 cases in November 2006 in the office of the Chief General Manager, Assam telecom circle showed that the circle office failed to implement the orders regarding levy of service tax and education cess. Even when the rate of service tax was revised (April 2006), the circle office failed to take any action to issue revised demand notes against three service providers. This resulted in non-billing of service tax and education cess thereon for Rs 66.10 lakh for the period April 2005 to May 2006.

On this being pointed out by Audit, the Chief General Manager, Telecom Assam circle recovered the entire amount of Rs 66.10 lakh from the three service providers in March 2007.

The matter was referred to the Ministry in February 2007; its reply was awaited (November 2007).