CHAPTER-I
INTRODUCTION

1.1 About this Report

This Report of the Comptroller and Auditor General (C&AG) of India relates to matters arising from compliance audit of the financial transactions of the Ministry of Communications and Information Technology (MoC&IT), Government of India including Public Sector Undertakings (PSUs) under its administrative control, for the year ended 31 March 2012.

Compliance audit refers to examination of the transactions relating to expenditure, receipts, assets and liabilities of audited entities to ascertain that the provisions of the Constitution of India and the applicable laws, rules, regulations, orders and instructions issued by the competent authorities are being complied with. Compliance audit also includes an examination of the rules, regulations, orders and instructions to determine their legality, adequacy, transparency, propriety, prudence as also their effectiveness in terms of achievement of the intended objectives.

Audits are conducted on behalf of the Comptroller and Auditor General of India (C&AG) as per the approved Auditing Standards. These standards prescribe the norms which the auditors are expected to follow in conduct of audit and require reporting on individual cases of non-compliance as well as on weaknesses that exist in systems of financial management and internal control. The findings of audit are expected to enable the executive to take corrective action that will lead to improved financial management of the organizations, thus, contributing to better governance.

This Chapter provides details of the Organizational Structure, Profile of the Departments and concerned entities along with planning and extent of audit, synopsis of the significant audit observations followed by a brief analysis of the expenditure of Departments under the Ministry of Communications and Information Technology (MoC&IT). **Chapters II to V** relates to present findings/observations arising out of the compliance audit of Department of Telecommunications (DoT), Department of Posts (DoP), Department of Electronics and Information Technology (DeitY) and Public Sector Undertakings (PSUs) under the Ministry.

1.2 Authority for Audit

The authority for audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. C&AG of India conducts audit of expenditure of Ministries/Departments of the Government of India under Section 13[1] of the C&AG's (DPC) Act[2]. Principles and methodologies for compliance audit are prescribed in the Regulations on Audit and Accounts, 2007 issued by the C&AG.

1.3 Planning and conduct of Audit

Compliance audit is conducted in accordance with the principles and practices enunciated in the auditing standards promulgated by the C&AG. The audit process starts with the assessment of risk of the Ministry/Department as a whole and each unit based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholder. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided. An annual audit plan is formulated to conduct audit on the basis of such risk assessment.

After completion of audit of each unit, Inspection Reports (IRs) containing audit findings are issued to the head of the unit. The units are requested to furnish replies to the audit findings within one month of receipt of the Inspection Report. Whenever replies are received, audit findings are either settled on verification or further action for compliance is monitored. The important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports which are submitted to the President of India under Article 151 of the Constitution of India for being laid in Parliament.

1.4 Profile of Audited Entities

1.4.1 Department of Telecommunications (DoT)

The Department of Telecommunications (DoT) is responsible for policy formulation, licensing, wireless spectrum management, administrative monitoring of PSUs, research and development and standardization/validation of equipment etc. The Department of

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[1] Audit of (i) all expenditure from the Consolidated Fund of India, (ii) all transactions relating to Contingency Funds and Public Accounts and (iii) all trading, manufacturing, profit and loss accounts, balance-sheets and other subsidiary accounts

[2] Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971

Telecommunications is also responsible for grant of licenses for various telecom services like Unified Licenses, Unified Access Service (UAS), Internet and VSAT service and spectrum frequency management in the field of radio communication in close coordination with the International Bodies. It also enforces wireless regulatory measures by monitoring wireless transmission of all users in the country.

The Department of Telecommunications is headed by Secretary, (DoT) who is also the Chairman of the Telecom Commission. The Telecom Commission was set up by the Government of India in April, 1989 with administrative and financial powers of the Government of India to deal with various aspects of Telecommunications. The Commission consists of a Chairman, four full time members, who are ex-officio Secretaries to the Government of India in the Department of Telecommunications and four part time members who are the Secretaries to the Government of India Departments of Electronics and Information Technology, Industrial Policy and Promotion, Economic Affairs and Planning Commission.

➢ Analysis of Expenditure

The comparative position of expenditure of the DoT during 2011-12 and in the preceding four years is given in Table-1 below:

Table-1
Revenue and Expenditure of DoT

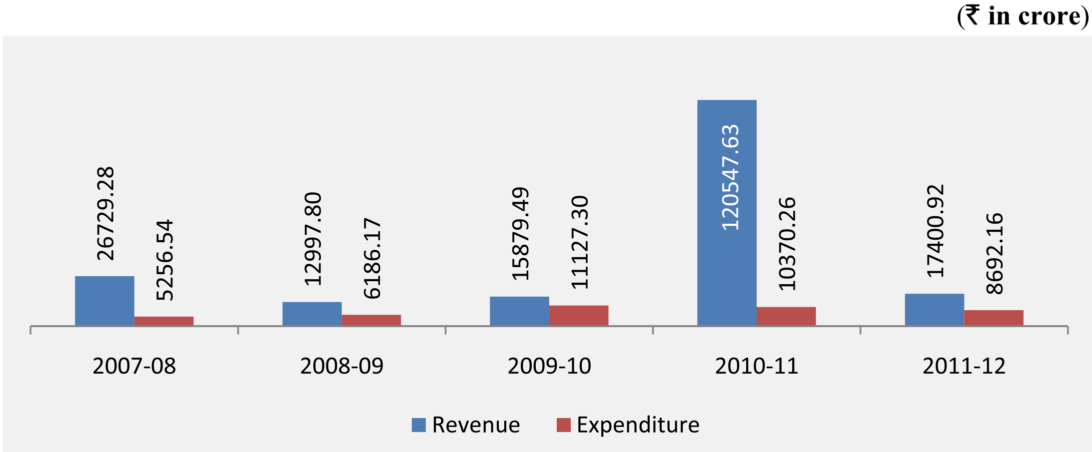
(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue	26729.28	12997.80	15879.49	120547.63	17400.92
Expenditure	5256.54	6186.17	11127.30	10370.26	8692.16

(Source: Appropriation and Finance Accounts of DoT)

Revenue and Expenditure of DoT

(₹ in crore)



An analysis of the above data revealed that there was huge increase in revenue of DoT during 2010-11 due to proceeds from the auction of 3G and BWA spectrum (₹106264.73 crore) held in April to June 2010. Further, expenditure of DoT has also steadily grown during this period except for the years 2009-10 and 2010-11, when the expenditure shot up due to payment of pensionary benefits consequent on implementation of recommendations of sixth central pay commission report as well as clearance of claims of BSNL for OFC based network for Defence services.

➢ Brief Profile of the Telecom Sector

Telecommunications has evolved as one of the critical components of economic growth required for the overall socio economic development of the country. The telecom sector witnessed a phenomenal growth during the past decade and had an impressive growth rate during 2011-12. Indian Telecom Market is one of the fastest growing markets in the world with the share of private sector in total telephones was estimated to be 86.31 *per cent* at the end of March 2012. The growth of wireless over wireline had been substantial with the share of wireless telephones being 96.62 *per cent* of the total phones.

During the period 2007-08 to 2011-12, the number of telephone subscribers increased from 300.48 million to 951.34 million, registering a growth of 216.61 *per cent*. While the wireless subscriber base increased by 658 million, the wireline base recorded a decline of 7.24 million. The wireless segment continued to dominate with a total base of 919.17 million connections as of March 2012. The overall teledensity in the country registered an increase from 25.64 *per cent* at the end of March 2008 to 78.66 *per cent* at the end of March 2012. The rural teledensity which was 9.34 *per cent* as on 31st March 2008 increased to 39.22 *per cent* at the end of March 2012, as compared to the urban teledensity of 63.67 *per cent* and 169.55 *per cent*, respectively. However, the growth rate of subscribers in rural areas during the last five years was higher at 347.53 *per cent* compared to 173.89 *per cent* in urban areas. The internet and broadband subscribers had also gone up from 11.09 million in 2007-08 to 22.86 million in 2011-12. The status of overall growth for the year 2007-08 to 2011-12 in Telecom Sector is as given below in Table-2.

Table-2
Status of Growth in Telecom Sector

Year	Subscribers (In Millions)					Teledensity (In percentage)			Internet & Broadband subscribers (in millions)
	Total	Rural	Urban	Wireline	Wireless	Overall	Rural	Urban	
2007-08	300.48	73.92	226.56	39.41	261.07	25.64	9.34	63.67	11.09
2008-09	429.72	120.29	309.43	37.96	391.76	36.98	15.02	88.11	13.54
2009-10	621.28	200.81	420.47	36.96	584.32	52.74	24.29	119.73	16.18
2010-11	846.32	282.24	564.08	34.73	811.59	70.89	33.79	157.32	19.67
2011-12	951.34	330.82	620.52	32.17	919.17	78.66	39.22	169.55	22.86

(Source: TRAI Annual Reports 2007-08 to 2011-12)

The capital employed by the Telecom Service Providers in the sector also increased from ₹2,19,709 crore in 2007-08 to ₹3,21,375 crore in 2011-12. Correspondingly the capital investment also grew from ₹2,78,599 crore in 2007-08 to ₹5,17,818 crore in 2011-12. The financial profile of the Telecom Service Providers in the Telecom Sector for the years 2007-08 to 2011-12 is given in Table-3 below:

Table-3
Financial Profile of Telecom Service Providers in Telecom Sector

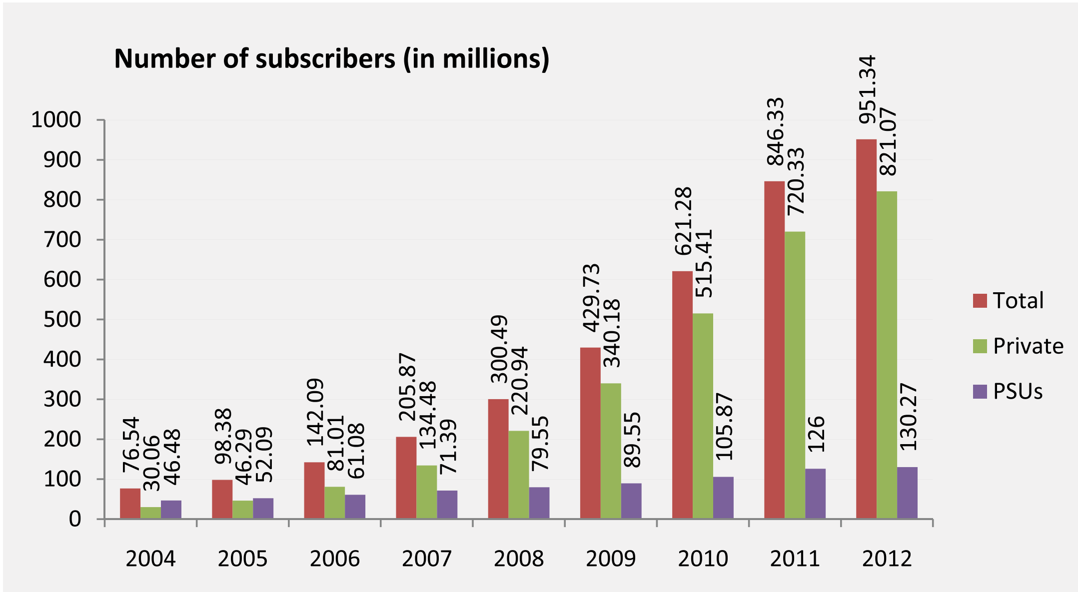
(₹ in crore)

Year	Capital employed			Investment			Gross Revenue
	Public	Private	Total	Public	Private	Total	
2007-08	1,04,247	1,15,462	2,19,709	1,41,149	1,37,450	2,78,599	1,32,785
2008-09	1,03,856	1,70,651	2,74,507	1,49,201	1,88,587	3,37,788	1,51,693
2009-10	96,103	1,90,734	2,86,837	1,89,615	2,26,814	4,16,429	1,57,985
2010-11	89,040	2,48,643	3,37,683	1,97,332	2,81,946	4,79,278	1,71,719
2011-12	81,548	2,39,827	3,21,375	2,01,582	3,16,236	5,17,818	1,95,442

(Source: TRAI Annual Reports 2007-08 to 2011-12)

It can be seen that the capital employed and the investments made by Private Telecom Companies is significantly more than the share of Public Sector Telecom Companies. Further, the subscriber base of Private Telecom Companies increased significantly as compared to Public Sector Telecom Companies as given in the graph below:

Growth in subscriber base - Private versus PSUs



(Source: TRAI Annual Reports)

➢ Regulatory Framework of the sector

Telecom Regulatory Authority of India (TRAI)

TRAI was established with effect from 20 February 1997 by an Act of Parliament, to regulate telecom services, including fixing/revision of tariffs for telecom services which were earlier vested in the Central Government. TRAI's mission is to create and nurture conditions for growth of telecommunications in the country in a manner and at a pace which will enable India to play a leading role in emerging global information society. One of the main objectives of TRAI is to provide a fair and transparent policy environment which promotes a level playing field and facilitates fair competition. The directions, orders and regulations issued by TRAI cover a wide range of subjects including tariff, interconnection and quality of service as well as governance of the Authority.

Telecommunications Dispute Settlement and Appellate Tribunal (TDSAT)

The TRAI Act was amended by an ordinance, effective from 24 January 2000, establishing a Telecommunications Dispute Settlement and Appellate Tribunal (TDSAT) to take over the adjudicatory and disputes functions from TRAI. TDSAT was set up to adjudicate any dispute between a licensor and a licensee, between two or more service providers, between a service provider and a group of consumers, and to hear and dispose of appeals against any direction, decision or order of TRAI.

➢ Important DoT Units

Various DoT Units include Telecom Enforcement and Resource Monitoring (TERM) Cell, Controller of Communications Accounts (CCAs), Wireless Planning and Coordination Wings (WPC), Telecom Engineering Centre (TEC), National Telecommunications Institute for Policy Research (NTI), National Institute of Communication Finance (NICF) and Centre for Development of Telematics (C-DoT) which is a Research and Development (R & D) Unit.

➢ Universal Service Obligation Fund (USOF)

To give impetus to rural telephony, Government formed a Universal Service Obligation Fund (USOF) by an Act of Parliament w.e.f. 1 April 2002. The USOF is headed by the Administrator USO Fund, appointed by the Central Government, for the administration of the Fund. He is empowered to formulate procedures for implementation of USO Fund schemes and disbursement of funds from USOF. The office of the Administrator works as an attached office of the Department of Telecommunications. Various schemes have been launched by USOF including a project for creating a "National Optical Fibre Network (NOFN)" which is being executed by a newly incorporated Company viz., "Bharat Broadband Network Limited" with a view to improve the penetration of telecom facilities in rural and remote areas of the country. A total amount of ₹43,947.49 crore has been collected under USOF, out of which ₹22,108.04 crore has been utilized, till 31 March 2012[3].

➢ Public Sector Undertakings (PSUs) under the administrative control of DoT

DoT has four important PSUs under its administrative control as follows:

Mahanagar Telephone Nigam Limited (MTNL)

MTNL, set up in 1986, is a Navratna PSU and provides telecommunication facilities in India's key metros - Delhi and Mumbai. MTNL is the principal provider of Fixed-line telecommunication service and GSM Mobile services in these two Metropolitan Cities of Delhi and Mumbai and providing triple play services i.e. voice, high speed internet and IPTV on its Broadband network. At present, Government of India shareholding is 56.25 *per cent* equity shares and the remaining 43.75 *per cent* shares are held by Foreign Institutional Investors (FIIs), Financial Institutions, Banks, Mutual Funds and others including individual investors. MTNL's financial turnover was ₹3,374 crore during the year 2011-12, as compared to the previous year's turnover of ₹3,674 crore. MTNL posted a loss of ₹ 4,110 crore during the year 2011-12[4].

[3] Source: Information furnished by DoT

[4] Source: Annual Accounts (2011-12) of MTNL

Bharat Sanchar Nigam Limited (BSNL)

BSNL, fully owned by Government of India, formed in October 2000, provides telecom services across the length and breadth of the country excluding Delhi and Mumbai. BSNL provides various types of telecom services namely telephone services on landline, WLL and GSM mobile, Broadband, Internet, leased circuits and long distance telecom service. Rural telephony is one of the focus areas of BSNL and it lays special emphasis on development of telecommunication facilities in the North-Eastern region and in tribal areas. BSNL had a turnover of ₹27,933 crore[5] and incurred a loss of ₹8,851 crore during the year 2011-12.

Indian Telephone Industries Limited (ITI Ltd.)

ITI Limited was established in 1948, to supply telecom equipment to the then telecom service provider, Department of Telecommunications. ITI started its operations in Bengaluru in 1948, which were further extended to other areas by setting up manufacturing plants at Srinagar in Jammu and Kashmir, Naini, Rae Bareli and Mankapur in Uttar Pradesh and Palakkad in Kerala. The establishment of these plants at various locations was not only aimed at augmentation of manufacturing capacity but also development of social infrastructure. The Company achieved a gross turnover of ₹ 922 crore[6] and incurred a loss of ₹370 crore during the year 2011-12.

Telecommmunications Consultants India Limited (TCIL)

TCIL, fully owned by Government of India, was set up in 1978 with the main objective of providing world class technology in all the fields of telecommunication and information technology, to excel in its operations in the overseas and domestic markets by developing proper marketing strategies and to acquire state-of-the-art technology on a continuous basis. The Company earned a profit of ₹8.03 crore[7] on a turnover of ₹680.79 crore during the year 2011-12.

1.4.2 Department of Posts (DoP)

The Postal System in India has been handling communications infrastructure for the country for almost 150 years and currently has the largest network in the world. The primary services rendered by the Department of Posts (DoP) are as follows:

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[5] Source: Annual Accounts (2011-12) of BSNL

[6] Source: Annual Accounts (2011-12) of ITI Ltd

[7] Source: Annual Accounts (2011-12) of TCIL

Communication services –	Letters, Post Cards,
Transport services –	Parcel, Logistics,
Financial services –	Savings Bank, Money Order, Insurance,
Value added services –	Speed Post Service , Business Post and Direct Post.

As part of its Universal Service Obligation, the Postal System is expected to ensure provision of efficient postal services at affordable prices to users all across the country. Transmission and delivery of mail is the core traditional business of the Postal Department. Over the years several value added services like bulk mail, business post and speed post have been introduced by DoP.

The Post Office Savings Bank Scheme is an agency function performed by the DoP on behalf of the Ministry of Finance, Government of India for which the Ministry of Finance remunerates the DoP at rates fixed from time-to-time. In discharge of its agency functions, DoP represents the oldest and largest banking network in the country and plays a critical role in mobilizing small savings, primarily in rural areas.

The Department of Posts also provides life insurance. Postal Life Insurance (PLI) has been providing life insurance coverage since 1884 to Government employees. Since 1995, PLI has been extended to the rural population of the country under a new scheme Rural Postal Life Insurance.

DoP is also engaged in disbursement of pension and family pension to military and railway pensioners, family pension to families of coal mine employees and industries covered by the Employees Provident Fund Scheme.

Organisational set-up

The Department of Posts (DoP) is part of the Ministry of Communications and Information Technology, Government of India. The Secretary, Department of Posts is the Chief Executive of the Department. The Postal Service Board, the apex management body of the Department, comprises the Chairman and six Members, holding portfolios of Personnel, Operations, Technology, Postal Life Insurance, Human Resources Development and Planning.

The Board directs and supervises the management of postal services throughout the country with the assistance of Chief Postmasters General in 22 Circles and Senior/Deputy Directors General in the Directorate General of Posts. A Business Development Directorate (BDD) was set up in DoP in 1996 to ensure focused management of value added services viz., Speed Post, Speed Post Passport Service, Business Post, Express Parcel Post, Media Post, Meghdoot Post Card, Greetings Post, Data Post, E-Bill Post and

E-Post. Postal Life Insurance (PLI) and Rural Postal Life Insurance (RPLI) Schemes are monitored by PLI Directorate headed by the Chief General Manager, PLI.

Financial Performance

The total revenue receipts during 2011-12 showed an increase of 13.46 *per cent* over the previous year whereas the revenue expenditure increased by 2.68 *per cent* over the same period. The revenue receipts and revenue expenditure of DoP for the years 2007-08 to 2011-12 is shown in the Table-4 and as well as in the graph below:

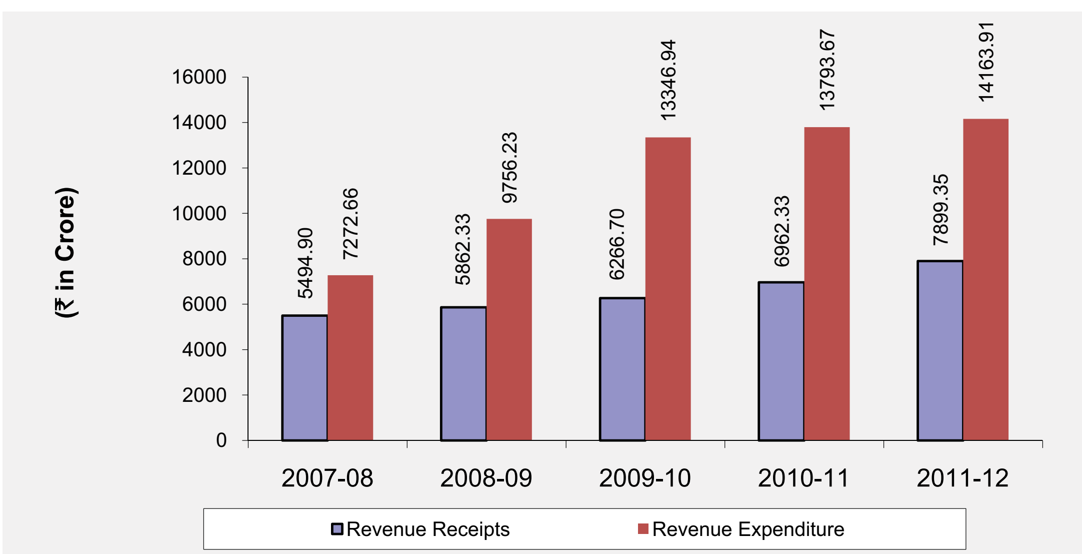
Table-4
Revenue receipts and Revenue expenditure of DoP

(₹ in crore)

Year	Revenue Receipts	Recoveries	Revenue Expenditure	Deficit (2)+(3)-(4)
(1)	(2)	(3)	(4)	(5)
2007-08	5494.90	266.32	7272.66	1511.44
2008-09	5862.33	300.82	9756.23	3593.08
2009-10	6266.70	438.94	13346.94	6641.30
2010-11	6962.33	485.72	13793.67	6345.62
2011-12	7899.35	458.64	14163.91	5805.92

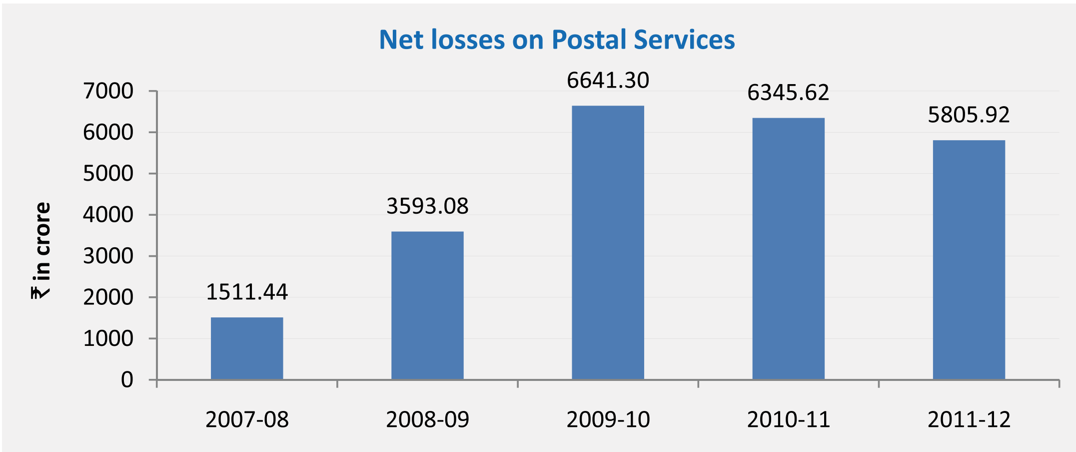
(Source: Appropriation and Finance Accounts of DoP for the years 2007-08 to 2011-12)

Revenue receipts and Revenue expenditure of DoP



The earnings of the Department are in the form of 'Recoveries' and 'Revenue Receipts'. The main reasons for the deficit of the Department as attributed by the Department was increase in Working Expenses due to leave encashment on LTC, MACP, normal increase in Pay, DA increase and pensionary charges etc.

There was a net loss of ₹5,805.92 crore on postal services[8] in 2011-12. The comparative position for the period 2007-08 to 2011-12 is as under:



1.4.3 Department of Electronics and Information Technology (DeitY)

DeitY is a department under the MoC&IT that plays an important role in the development of Electronics and IT sector. The vision of DeitY is e-Development of India as the engine for transition into a developed nation and an empowered society. The department is headed by Secretary and has a Cyber Appellate Tribunal headed by Chairperson.

The major objectives of DeitY are e-Government for providing e-infrastructure for delivery of e-services, e-Industry for promotion of electronics hardware manufacturing and IT- ITeS industry; e-Innovation/R&D; e-Learning; e-Security and e-Inclusion for promoting the use of Information and Communication Technology (ICT) for more inclusive growth.

The Major Functions of DeitY is to formulate policy relating to Information Technology, Electronics and Internet, initiatives for development of Hardware / Software industry, Promotion of IT and IT enabled services and Internet, assistance to other departments in the promotion of E-Governance, E-Infrastructure, E-Medicine, E-Commerce etc, promotion of Information Technology education and Information Technology based education, matters relating to Cyber Laws, administration of the Information Technology

[8] Net loss was calculated as the difference between revenue receipts & recoveries and revenue expenditure, i.e., {(₹7899.35+₹ 458.64)-₹14163.91}

Act, 2000 and other IT related laws, Promotion of Standardization, Testing and Quality in IT and standardization of procedure for IT application and Tasks.

➢ Electronics and Information Technology scenario in India

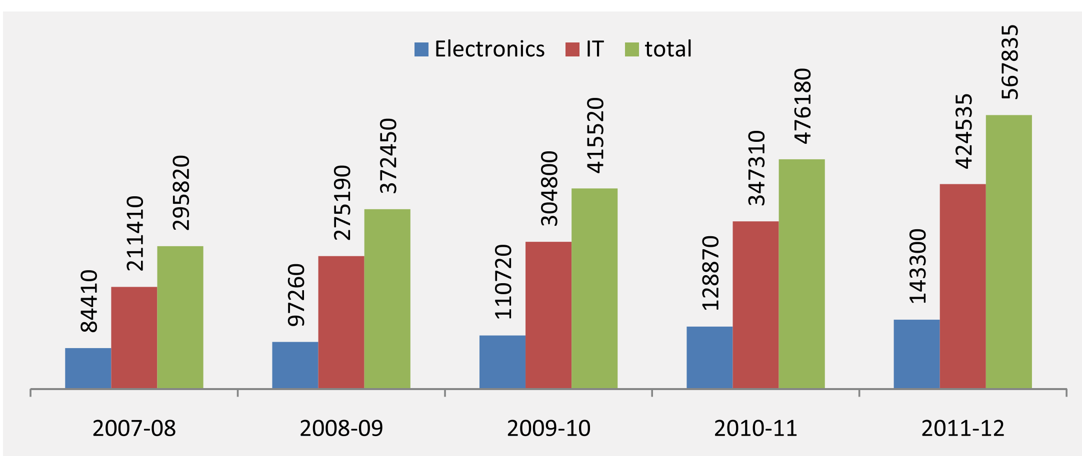
The global Information Technology sector has made remarkable progress in the last decade. It has transformed the world, enabling innovation and productivity increases, connecting people and communities, and improving standards of living and opportunities across the globe. While changing the way individuals live, interact, and work, Information Technology has also enhanced competitiveness and economic and societal modernization.

The Annual Report of DeitY states that the current scenario of Electronics and Information Technology in India is very robust and the country has witnessed exponential growth in this sector. Information Technology sector has been one of the key drivers for faster and inclusive growth during the Eleventh Five Year Plan. It has contributed immensely to the development of Indian economy. India has become a global power house in software and software services sector.

The production and growth profile of the Indian Electronics and IT- ITeS (Information Technology Enabled Services) industry since 2007-08 to 2011-12 is as given in the chart below:

Electronics and IT production

(₹ in crore)



(Source: Annual Report of DeitY -2012-13)

It can be seen from the Chart that the overall growth in the sector during 2007-08 to 2011-12 was 91.95 *per cent* and the IT production accounted for 74.75 *per cent* of the total output of the Electronics and IT sector during 2011-12.

The Indian IT industry has been contributing substantially to India's GDP, exports and employment. The revenue aggregate of IT-ITeS industry is expected to be ₹6,93,036 crore and the Indian software and services exports are estimated at ₹5,15,536 crore during 2012-13 as envisaged by the Department. The IT sector has been the biggest employment generator and has spawned the mushrooming of several ancillary industries.

In order to carry out its functions DeitY is provided with budgetary support in the form of Grants from the Government of India. The Grants received vis-à-vis Expenditure incurred by DeitY during the period 2007-08 to 2011-12 is given in Table-5 below.

Table-5
Grants vis-à-vis expenditure relating to DeitY

(₹ in crore)

Year	Amount of Grant	Total Expenditure
2007-08	1536	1295
2008-09	1816	1558
2009-10	2582	1697
2010-11	3719	3129
2011-12	3048	2074
Total	**12701**	**9753**

(Source: Appropriation Accounts of DeitY for the years 2007-08 to 2011-12)

1.5 Budget and expenditure controls

A summary of Appropriation Accounts for 2011-12 in respect of DoT, DoP and DeitY is given in subsequent Table-6:

Table-6
Details of grants received and expenditure incurred for the three Departments under Ministry of Communications & Information Technology

(₹ in crore)

Sl. No.	Ministry/ Department	Grant/ Appropriation (including supplementary grant)	Total Expenditure	(-) Savings / (+) Excess	Percentage of Unspent provision
1.	Department of Electronics and Information Technology	3048.63	2074.58	(-) 974.05	31.95
2.	Department of Posts	14291.66	14374.14	(+) 82.48	-
3.	Department of Telecommunications	9773.79	8692.16	(-) 1081.63	11.07

(Source: Appropriation Accounts of the Ministries/ Departments for 2011-12)

➢ Significant findings of Appropriation Audit of DoP, DoT and DeitY accounts for the year 2011-12

Some of the significant findings of Appropriation Audit of the three Departments are given below:

- Under statement of the closing balance of the USO Fund by ₹23,752.48 crore
- DoP re-appropriated ₹ 31.68 crore to the scheme 'Social Security and Welfare Programmes – Service Discharge Benefit Scheme for Gramin Dak Sewaks' despite refusal of the re-appropriation proposal of the Department by MoF
- An amount of ₹ 7.75 crore was incurred by DoP without any budget provision
- Grants to Postal Services Staff Welfare Board booked under object head 32 'Contributions' instead of object head 31- Grants-in-aid General (DoP)
- Expenditure on annual membership fee for International Bodies booked under object head 50 – other charges instead of 32 - Contributions (DoP)
- An amount of ₹ 0.07 crore was augmented without obtaining prior approval of Parliament by DoT
- DOT re-appropriated an amount of ₹ 51.58 crore earmarked for NE region and Sikkim on penultimate day of financial year to Pension (Non Plan)
- Object heads 51 and 52 were used for booking expenditure of revenue nature instead of Capital nature (DeitY)
- DeitY provided Grant-in-Aid to organisations such as SAMEER, C-MET, C-DAC, MLA, NICLIT amounting to ₹ 1948.63 crore under the Object Head 31 Grants-in-Aid General. Consequently the salary component of ₹ 59.07 crore was incorrectly booked under Object Head 31 instead of Object Head 36-Grants-in-aid-salaries.