

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 Performance Audit of selected programmes and activities and 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 2013.

This Chapter provides 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** relate to present findings/observations arising out of the performance and 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 and reporting to the Parliament 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 conducts audit of expenditure of Ministries/Departments of the Government of India under Section 13¹ and 17² of the C&AG's (DPC) Act³ and Section 19 for PSUs.

1.3 Planning and conduct of Audit

Audit is conducted in accordance with the principles and practices enunciated in the auditing standards and performance audit guidelines promulgated by the C&AG. The audit process starts with the assessment of risk of the Ministry/Department. Based on this risk assessment, the frequency and extent of audit are decided.

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 Audit and report on the accounts of stores and stock kept in any office or department of the Union or of a State

³ Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971

1.4 Profile of Audited Entities

1.4.1 Department of Telecommunications (DoT)

The Department of Telecommunications (DoT) is responsible⁴ for policy formulation, performance review, monitoring, international cooperation and Research and Development in telecommunication sector. The Department also allocates spectrum and manages radio communications in close coordination with the International bodies. It is also responsible for enforcing wireless regulatory measures and monitoring the wireless transmission of all users in the country. The department is also responsible for grant of licenses to operators for providing telecommunication services in various cities and telecom circles.

➤ Analysis of Expenditure

The comparative position of expenditure of the DoT during 2012-13 and in the preceding four years is given in Table-1 below:

Table-1
Revenue and Expenditure of DoT

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue	12997.80	15879.49	120547.63	17400.92	18902.00
Expenditure	6186.17	11127.30	10370.26	8692.16	9273.38

(Source: Appropriation and Finance Accounts of DoT)

Major sources of revenue of the department are license fee and spectrum usage charges received from telecom service providers. The details of license fee and spectrum usage charges received during last four years are given in Table-2 below:

Table-2
Details of License Fee and Spectrum Usage Charges received

(₹ in crore)

Particulars	2009-10	2010-11	2011-12	2012-13
License Fee	9778.52	10286.43	11790.93	11456.48
Spectrum Usage Charges	3809.54	3432.47	5192.30	5679.19
Auction Revenue	–	106264.73	–	1722.24

(Source: Annual Report of DoT for the year 2013-14)

An analysis of the revenue earned by DoT revealed an increase during 2010-11 due to proceeds from the auction of 3G and Broadband Wireless Access (BWA) spectrum (₹ 1,06,264.73 crore) held in April to June 2010. Further, expenditure of DoT has grown

⁴ Annual Report of DoT for the year 2013-14

steadily during this period with spurt in 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 Optical Fibre Cable (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. During the period 2008-09 to 2012-13, the number of telephone subscribers increased from 429.72 million to 951.34 million in March 2012 but declined to 898.02 million by the end of March 2013. The status of overall growth for the year 2008-09 to 2012-13 in Telecom Sector is given below in Table-3.

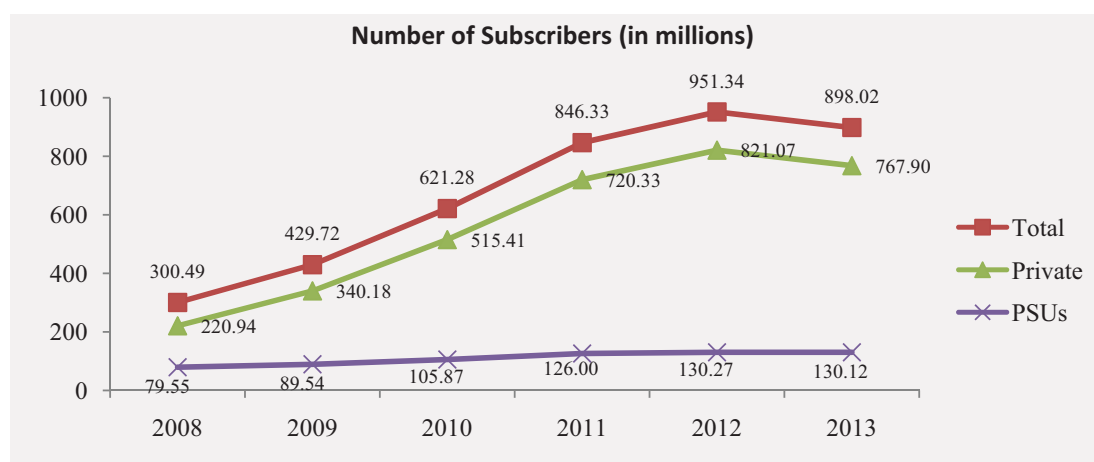
Table-3
Status of Growth in Telecom Sector

Year	Subscribers (In Millions)					Teledensity (In percentage)			Internet and Broadband subscribers (in millions)
	Total	Rural	Urban	Wireline	Wireless	Overall	Rural	Urban	
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
2012-13	898.02	349.22	548.80	30.21	867.81	73.32	41.02	146.96	21.61

(Source: TRAI Annual Reports 2008-09 to 2012-13)

Growth of the telecom sector during the last six years in terms of subscriber base is depicted in the graph given below:

Growth in subscriber base - Private versus PSUs



(Source: TRAI Annual Reports)

As is evident from the above graph, the subscriber base of Private Telecom Companies is significant in comparison to Public Sector Telecom Companies which has remained almost static during the last three years.

➤ **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. 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.

Telecommunications Dispute Settlement and Appellate Tribunal (TDSAT)

TDSAT was set up by way of an amendment to the TRAI Act effective from 24 January 2000 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 off appeals against any direction, decision or order of TRAI.

➤ **Important DoT Units**

Department of Telecommunications includes 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 Unit.

➤ **Universal Service Obligation Fund (USOF)**

To give impetus to rural telephony, Government of India formed a Universal Service Obligation Fund (USOF) by an Act of Parliament w.e.f. 01 April 2002. The resources for meeting the USO were to be raised through a Universal Access levy (UAL) which is a percentage of revenue earned by all operators under various licences presently *5 per cent* of Adjusted Gross Revenue. As per Para 9B of the Indian Telegraph Act, 2003, the sums of money received towards USOF shall be first credited to Consolidated Fund of India, and the Central Government may, if the Parliament appropriation by law in this behalf so provides, credit such proceeds to the fund from time to time for being utilized exclusively for meeting Universal Service Obligation. Accordingly, an amount for ₹ 50,682.96 crore has been collected by Department of Telecommunication (DoT) as USO levy and credited

the same to Consolidated Fund of India. Out of this amount, only ₹ 22,733.04 crore has been received by DoT through appropriation by Parliament and credited to USO Fund as of 31 March 2013. This includes ₹ 6,948.64 crore adjusted in 2008-09 on account of reimbursement to BSNL during the years 2002-06 towards License Fee and Spectrum Charges for fulfilling rural obligation under USOF.

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

Brief profile of important PSUs under administrative control of DoT is as follows:

Mahanagar Telephone Nigam Limited (MTNL)

Mahanagar Telephone Nigam Limited (MTNL) set up on 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 in Delhi and Mumbai and providing triple play services i.e. voice, high speed internet and IPTV on its broadband network. MTNL's turnover was ₹ 3,714 crore and incurred a loss of ₹ 5,321 crore during the year 2012-13⁵.

Bharat Sanchar Nigam Limited (BSNL)

Bharat Sanchar Nigam Limited (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 is a technology oriented company and provides various types of telecom services namely telephone services on landline, WLL and GSM mobile, Broadband, Internet, leased circuits and long distance telecom service. BSNL had a turnover of ₹ 27,127 crore and incurred a loss of ₹ 7,884 crore during the year 2012-13⁶.

Indian Telephone Industries Limited (ITI Ltd.)

ITI Limited is India's pioneering venture in the field 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 Bareilly and Mankapur in Uttar Pradesh and Palakkad in Kerala. The company achieved a gross turnover of ₹ 876 crore and incurred a loss of ₹ 182 crore during the year 2012-13⁷.

Telecommunications Consultants India Limited (TCIL)

Telecommunications Consultants India Limited (TCIL), fully owned by Government of India, was set-up in 1978 with the main objective of providing world class technology in

⁵ Annual Report of MTNL for the year 2012-13

⁶ Annual Report of BSNL for the year 2012-13

⁷ Annual Report of ITI for the year 2012-13

all the fields of telecommunications 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. The company earned a profit of ₹ 15.76 crore on a turnover of ₹ 708 crore during the year 2012-13⁸.

Bharat Broadband Network Limited (BBNL)

Bharat Broadband Network Limited (BBNL), a special purpose vehicle (SPV) has been incorporated in 2012 under Indian Companies Act, 1956 to execute National Optical Fibre Network Project (NOFN). BBNL has been given responsibility to connect approximately 2.50 lakh Gram Panchayats (GPs) of the country through Optical Fibre utilizing existing fibers of PSUs viz. BSNL, RailTel and Power Grid and laying incremental fiber wherever necessary to bridge the connectivity gap between Gram Panchayats and Blocks, which would ensure broadband connectivity with adequate bandwidth. The company earned a profit of ₹ 1.69 crore on a turnover of ₹ 4.01 crore during the year 2012-13⁹.

1.4.2 Department of Posts (DoP)

The postal network of India is the largest in the world having more than 1.54 lakh post offices and touches the remotest corners of the country. While the core activity of the Department is processing, transmission and delivery of mail, there are also a diverse range of retail services undertaken by the Department which include money remittance, banking as well as insurance. It 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. More recently, the Postal Department has undertaken responsibility for social benefit payments such as MGNREGS and social security pension schemes.

Financial Performance

The revenue receipts and revenue expenditure of DoP for the years 2008-09 to 2012-13 is shown in the Table-4 below:

⁸ Annual Report of TCIL for the year 2012-13

⁹ Annual Report of BBNL for the year 2012-13

Table-4
Revenue receipts and Revenue expenditure of DoP

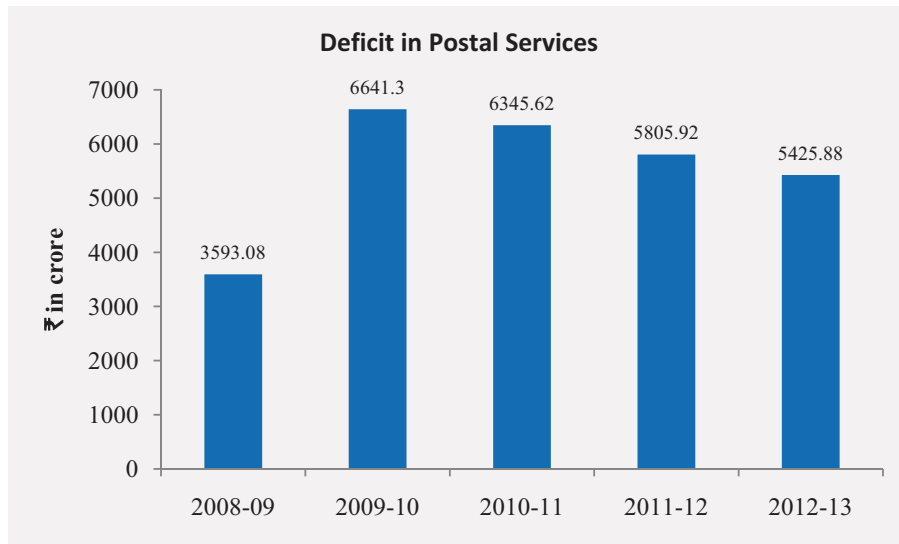
(₹ in crore)

Year	Revenue Receipts	Recoveries	Revenue Expenditure	Deficit (2)+(3)-(4)
(1)	(2)	(3)	(4)	(5)
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
2012-13	9366.50	688.77	15481.15	5425.88

(Source: Appropriation Accounts of DoP for the years 2008-09 to 2012-13)

The earnings of the Department are in the form of 'Recoveries' and 'Revenue Receipts'.

There was a deficit of ₹ 5,425.88 crore on postal services¹⁰ in 2012-13. 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. The comparative position for the period 2008-09 to 2012-13 is as under:



1.4.3 Department of Electronics and Information Technology (DeitY)

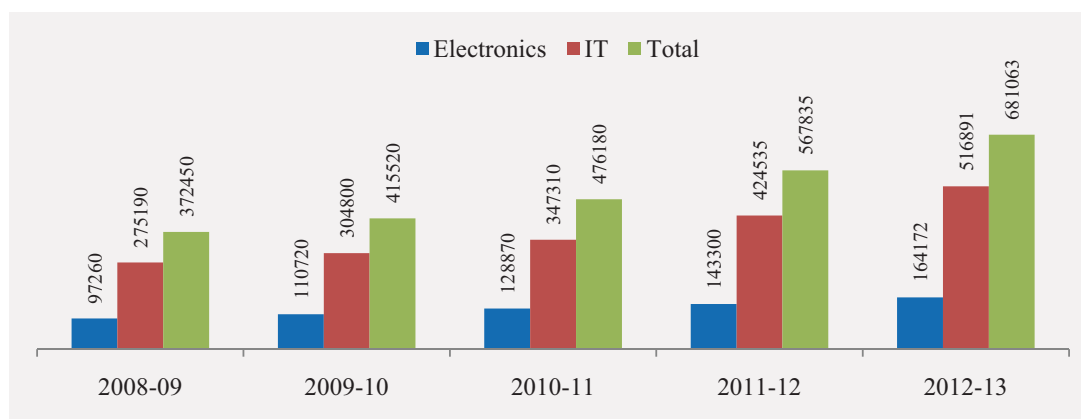
DeitY is a department under the MoC&IT that plays an important role in the development of Electronics and IT sector. The vision of DeitY is e-Development of India as the engine for transition into a developed nation and an empowered society.

¹⁰ Deficit was calculated as the difference between revenue receipts & recoveries and revenue expenditure, i.e., {(₹ 9366.50+₹ 688.77)-₹ 15481.15}

The production and growth profile of the Indian Electronics and IT- ITeS (Information Technology Enabled Services) industry since 2008-09 to 2012-13 is as given in the chart below:

Electronics and IT production

(₹ in crore)



(Source: Annual Report of DeitY)

It can be seen from the chart that the overall growth in the sector during 2008-09 to 2012-13 was 182.86 per cent and the IT production accounted for 75.89 per cent of the total output of the Electronics and IT sector during 2012-13.

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 ₹ 8,39,425 crore and the Indian software and services exports are estimated at ₹ 5,19,319 crore during 2013-14 as envisaged by the Department.

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 2008-09 to 2012-13 is given in the Table-5.

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

(₹ in crore)

Year	Amount of Grant	Total Expenditure
2008-09	1816	1558
2009-10	2582	1697
2010-11	3719	3129
2011-12	3048	2074
2012-13	3051	1903
Total	14216	10361

(Source: Appropriation Accounts of DeitY for the year 2008-09 to 2012-13)

There are five organizations¹¹ and seven Autonomous Societies¹² under DeitY in addition to two attached offices viz. Standardisation, Testing and Quality Certification Directorate (STQC) and National Informatics Centre (NIC) and three Section 25 Companies viz. Media Lab Asia, National Informatics Centre Services Inc. (NICSII) and National Internet Exchange of India (NIXI).

Standardisation, Testing and Quality Certification Directorate (STQC)

STQC, established in year 1980, is an internationally recognized Assurance Service Provider to both Hardware and Software sectors to provide state of art technology based quality assurance services to its valuable clients and to align with DeitY mandate to focus on IT sector.

National Informatics Centre (NIC)

National Informatics Centre (NIC) is providing network backbone and e-Governance support to Central Government, State Governments, UT Administrations, Districts and other Government bodies. It offers a wide range of Information and Communication Technology (ICT) services in close collaboration with Central and State Governments, in the areas of (a) Centrally sponsored schemes and Central Sector schemes, (b) State sector and State sponsored projects, and (c) District Administration sponsored projects.

Media Lab Asia

Media Lab Asia is a 'not for profit' company with an objective to bring the benefits of ICT to the common man. The application areas of Media Lab Asia include use of ICT for Healthcare, Education, Livelihood and Empowerment of Disabled. The company works with leading institutions for undertaking development work.

National Informatics Centre Services Inc. (NICSII)

National Informatics Centre Services Inc. (NICSII) was set up in 1995 as a Section 25 Company under National Informatics Centre to provide total IT solutions to the Government organizations. The main objectives of NICSII are to provide economic, scientific, technological, social and cultural development of India by promoting utilization of Information Technology.

¹¹ Controller of Certifying Authorities (CCA), Cyber Appellate Tribunal (CAT), Semiconductor Integrated Circuits Layout-Design Registry, Indian Computer Emergency Response Team (ICERT) and .In Registry

¹² Education & Research in Computer Networking (ERNET), Centre for Development of Advanced Computing (C-DAC), Centre for Materials for Electronics Technology (C-MET), National Institute of Electronics and Information Technology (NIELIT), Society for Applied Microwave Electronics Engineering and Research (SAMEER), Software Technology Parks of India (STPI) and Electronics and Computer Software Export Promotion Council (ESC)

National Internet Exchange of India (NIXI)

NIXI is a not for profit Organization under Section 25 of the Companies Act, 1956 and was registered on 19 July, 2003. Its main purpose is to facilitate exchange of domestic Internet traffic between the peering ISP members. The initial funding towards infrastructure was from Department of Information Technology. NIXI is entrusted with three responsibilities viz, Internet Exchange operation, .IN Registry operation and National Internet Registry (NIR) operation.

1.5 Budget and Expenditure Controls

A summary of Appropriation Accounts for 2012-13 in respect of DoT, DoP and DeitY is given in subsequent Table-6:

Table-6
Details of grants (voted and charged) 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
1.	Department of Electronics and Information Technology	3051.01	1902.55	(-) 1148.46
2.	Department of Posts	15937.70	15627.42	(-) 310.28
3.	Department of Telecommunications	13262.34	9273.38	(-) 3988.96

(Source: Appropriation Accounts of the Departments for 2012-13)

Persistent excess in Grant No. 13 during the past three years by Department of Posts under Revenue (Voted) Section was commented in Appropriation Accounts for the year 2012-13 under Para 3.5 of CAG Report No. 1 of 2014 (Financial Audit). However, while combining both Revenue and Capital (Charged and Voted) Sections as indicated in Table-6, there was a saving of ₹ 310.28 crore.