CHAPTER VI
MAJOR FINDINGS IN TRANSACTION AUDIT

6.1 Imprudent investment

The decision of the Company to invest surplus funds of Rs 100 crore in M/s ITI was neither based on sound commercial judgement nor was it in the best financial interests of the Company.

DPE guidelines provide for investment of surplus funds of PSEs only in instruments with maximum safety

The guidelines for investment of surplus funds by Public Sector Enterprises (PSEs) issued by the Department of Public Enterprises (DPE) in December 1994 envisaged that investments should be made only in instruments with maximum safety having no element of speculation and their maturity period should not exceed one year. Eligible investments were term deposits with scheduled commercial banks, inter-corporate loans to Central PSEs and debt instruments having highest credit ratings.

The Company invested Rs 100 crore in cumulative redeemable preference share of ITI

The Company invested surplus funds of Rs 100 crore in 8.75 percent cumulative redeemable preference shares of M/s Indian Telephone Industries Ltd. (ITI) in March 2002. This investment was redeemable at par in five equal instalments at the end of the third, fourth, fifth, sixth and seventh years.

Audit scrutiny of the records of the Company revealed that the decision to invest surplus funds in ITI was not based on sound commercial judgment and was not in conformity with the instructions laid down by DPE as explained below:

The Company's decision was in violation of DPE's directives and the investment did not yield any dividend

1. The cumulative redeemable preference shares offered by ITI formed part of their share capital and did not fall into any of the eligible categories of investments such as term deposits, debt instruments, etc. authorised by DPE.

2. The investment was for an unduly long period of seven years as against the prescribed period of one year.

It was observed that the investment in ITI did not yield any dividend for the years 2002-03 and 2003-04 as the company incurred losses.

On this being pointed out by Audit, the Management stated that:

The Management replied that at the time of investment ITI was a profit making PSU

- the decision was taken at a time when ITI was a profit making PSU and had earned profits continuously during the years 1997-98 to 2000-01, and

- as per Company Law provisions, preference shares were part of a company's share capital. Consequently, if owing to lack of profits, dividend was not distributed in a year, the unpaid dividend would not

lapse in the case of cumulative preference shares and would be payable out of the succeeding years' profits.

The reply of the Management is not tenable because of the following reasons:

Profits are not the only criteria for judging the viability of a Company. The debt equity ratio of ITI was poor

- Negligible profits earned in two or three years (Rs 27 crore, Rs 46 crore and Rs 29 crore in 1998-99, 1999-00 and 2000-01, respectively) should not have been the only criterion for judging the viability of ITI. The debt equity ratio of the company (10:1) was very poor at the time of investment.
- The profits were reviewed only for a selected period. The fact that ITI had a history of losses from 1994-95 to 1996-97 and showed a recent downward trend of profit were apparently ignored.
- Although unpaid dividends do not lapse, delayed receipt of the same results in loss of returns from alternate investment options. ITI did not pay dividends for the years 2002-03 and 2003-04 amounting to Rs 17.50 crore. Consequently, the Company lost interest of at least Rs 1.31 crore[♣] (assuming that the dividend on cumulative preference share would eventually be paid) on this amount for two years, calculated at the prevalent bank rates.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

6.2 Blocking of capital on purchase of land

Delhi unit purchased various plots over a period of 20 years for construction of staff quarters, but kept them vacant, resulting in blocking of capital of Rs 24.24 crore, besides loss of interest of Rs 8.57 crore.

Delhi unit leased land for construction of staff quarters

The Delhi Development Authority (DDA), allotted (December 1983) on a request from the Company (Delhi unit), four plots (9.884 acres) on lease in Sectors III and V of Rohini for construction of staff quarters. The terms and conditions of the lease provided that the land should only be used for construction of staff quarters and the construction should be completed within two years of handing over possession of the land, failing which a composition fee for extension of time was payable. The Company deposited (January 1985) Rs 59.30 lakh and took possession (April 1985) of the plots.

Audit scrutiny (March 2005) of the records of the Assistant General Manager (AGM), (Land), MTNL, Delhi revealed that the construction work on two plots in Sector V measuring 4.94 acres never commenced, resulting in unfruitful investment of Rs 29.65 lakh. Further, the Company paid composition fees of Rs 89.32 lakh till March 2005 for non-construction of staff quarters.

[♣] Interest calculated at the rate of five *per cent per annum*.

While two plots meant for construction of staff quarters remained vacant, the Company leased (December 1993) another plot (7 acres) from DDA at a cost of Rs 12.05 crore plus ground rent of Rs 30 lakh *per annum* in Rohini, Sector-XI extension itself for the same purpose. Audit observed that the Company once again failed to utilize the plot and after a lapse of 10 years requested (November 2003) DDA to grant permission to utilize the plot as a store depot. The decision of DDA was still awaited. The Company had paid ground rent of Rs 3.61 crore to DDA upto December 2005 for this plot.

Four plots leased over a period of 20 years was not used, resulting in blocking of capital of Rs 24.24 crore

Despite vacancy of above three plots, Delhi unit leased (July 2000) from the Municipal Corporation of Delhi (MCD) another plot (1.41 acres) for construction of staff quarters in Sunlight Colony at a cost of Rs 6.61 crore plus ground rent of Rs 17 lakh *per annum.* The Company had paid ground rent of Rs 82.63 lakh to MCD also till March 2005. The construction was yet to be started (October 2005).

On this being pointed out by Audit, the AGM (Building Planning), Delhi stated that there were enough staff quarters in the Company and that there was no demand for more staff quarters. AGM (Admn, Building Planning) further stated (October 2005) that a board note has been processed to surrender the plots at Rohini Sector-XI extension, Sunlight colony and Rohini sectors 5/10 and 5/4.

Thus the Company without reviewing the utilisation of the existing plots, kept acquiring land over a period of 20 years for construction of staff quarters, resulting in blocking capital of Rs 24.24 crore, besides loss of interest of Rs 8.57 crore*.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

6.3 Infructuous expenditure on leasing of land

Delhi unit leased a plot of land in Noida for construction of a training centre and staff quarters. The land remained unutilized for over 13 years, resulting in infructuous expenditure of Rs 10.96 crore.

Delhi unit leased a plot (March 1992) for setting up a telecom training centre for which no plans had been prepared till April 2005

The Board approved (November 1989) purchase of land measuring 80,000 square metre from New Okhla Industrial Development Authority (NOIDA), for setting up a training centre and staff quarters. The total premium of Rs. 6.53 crore was paid to NOIDA by March 1992. As per the lease agreement with NOIDA (March 1992) construction of the building was to be completed within five years of the date of allotment or four years from the date of possession whichever was earlier, failing which an extension charge of four *per cent per annum* of the premium was payable. In addition, lease rent at the rate of 2.5 *per cent per annum* of the total premium was payable in advance.

* Worked out at a conservative interest rate of five per cent *per annum* on simple interest basis.

Audit scrutiny revealed that though the possession of the plot was taken (December 1992), architectural consultant was appointed (July 1999) after a delay of six and a half years for developing the plot and it took another four years for approving (September 2003) the drawings for the construction of the building. In the meantime the Company also approved (March 1999) construction of Regional Telecom Training Centre (RTTC) at Powai, Mumbai and the construction of the same was completed in November 2002.

In January 2004, considering the training facilities developed at Mumbai and the services available at Advance Level Telecom Training Centre (ALTTC) of Bharat Sanchar Nigam Limited at Ghaziabad, the Company was uncertain about the use, the land could be put to. Therefore, alternatives of (i) not to construct the training centre at all (ii) to construct the minimum area to avoid penalty (iii) possibility of diversion of plot to some other institution, or (iv) to put to any other alternative use were considered. It was decided (March 2004) that the utilization of land and buildings should be considered as a part of an overall long-term plan rather than taking decision on the basis of cases in isolation and a future plan be prepared in a time bound manner towards this exercise. No such plan had been prepared/put up (April 2005).

Idling of land for 13 years resulted in infructuous expenditure of Rs 10.96 crore

On this being pointed out by Audit, the Management accepted (March 2005) the facts and stated that the plot was being used as a cable dump yard to avoid encroachment.

Thus due to indecisiveness of the Management for over 13 years, the land remained idle resulting in avoidable infructuous expenditure of Rs. 10.96 crore.[1]

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

6.4 Avoidable expenditure

General Manager, East-I, Mumbai of the Company hired accommodation in excess of requirement to accommodate its Offices, resulting in avoidable expenditure of Rs 3.57 crore.

Mumbai unit hired accommodation in excess of requirement

The Company's corporate office instructed to review utilisation of its rented buildings

General Manager (GM), (East-I), Mumbai unit of the Company hired four buildings in 1999 and one building in 2003 for accommodating its Offices. The area in the four hired buildings (1999) was far in excess of the requirement as per the departmental norms and out of the two floors of the building hired in 2003, one had not been used since the date of taking over. In order to reduce the operating costs, the Company's Corporate Office issued instructions (August 2001) to review and certify whether the accommodation hired was required and that alternate Company accommodation was not available/likely to be available for use.

[1] Lease premium Rs 6.53 crore, lease rental Rs 2.12 crore and extension charges Rs 2.31 crore.

The Company's Fair Rent Committee reviewed (August/December 2002) rent/area of two buildings and was able to reduce rent but no excess hired area was surrendered. On this being pointed out (November 2004) by Audit, GM (East-I) Mumbai unit, reviewed the rented accommodation in its jurisdiction and surrendered (February 2005) 874 sq. ft in one building and proposed (March 2005) to surrender 16,210 sq. ft in the remaining four buildings.

Thus the failure of the Management (Mumbai unit) to review the utilisation of the rented buildings resulted in payment of avoidable rent to the tune of Rs 3.57 crore towards excess hiring of accommodation since January 2003.

The matter was referred to the Ministry in October 2005; its reply was awaited as of November 2005.

6.5 Idle investment on establishment of a Fraud Management Control Centre

Mumbai unit of the Company incurred idle expenditure of Rs 5.23 crore on establishment of a Fraud Management Control Centre, which could not be commissioned even after five years.

Board approved establishment of a FMCC in January 2000

The Board approved (January 2000) a project for provision of a Fraud Management Control Centre (FMCC)* at Mumbai unit of the Company at an estimated cost of Rs 35 crore. According to the justification for the project, it was estimated that there was a revenue leakage of 6.2 *per cent* every year at Mumbai unit by way of non-billing and other billing related issues. The revenue leakage was estimated at Rs 180 crore annually. It was expected that with the introduction of the FMCC, the unit would be able to plug this recurring leakage of revenue.

Placement of PO on M/s Ectel Ltd Israel on turnkey basis in March 2002

The Company's Corporate office placed (March 2002) a purchase order (PO) on M/s Ectel Limited, Israel to design, supply, install, test, commission and make over the FMCC on turnkey basis to the Mumbai unit at a cost of Rs 11.82 crore within three months from the date of issue of the PO. However, the project had not been completed till July 2005.

Audit scrutiny revealed delays at every stage of execution of the project

Audit scrutiny (June 2004) of the records revealed that the project was a part of the development plan for the year 1999-2000 and was to be completed during the same year but the PO was placed after a gap of two years (March 2002). M/s Ectel supplied the equipment between November 2002 and February 2003 after delays of five to eight months though the project was to be completed by June 2002. Further, the Company's corporate office issued departmental instructions (March 2002) to keep the infrastructure ready for installation of the equipment but the same was ready only by January 2003.

* FMCC – A computerised system, which attempts to effectively contain various types of frauds through a combination of real time and near real time analysis. It comprises a control centre and remote sites.

The unit got the hardware and software installed at all the designated sites by November 2004. However, the main application software i.e. Fraud View software, installed in November 2004 and IC Guard software installed in May 2004 could not be put through acceptance testing (AT) till July 2005 as the Acceptance Testing unit insisted upon an approved acceptance-testing plan from the Company's corporate office for these two softwares, which had not been received till July 2005. The unit paid (September 2002 and March 2003) Rs 5.23 crore to M/s Ectel.

The Management stated (July 2005) that installation of fraud view software, which was to be done by Ectel was delayed due to software issues and was completed only in November 2004. There was also some further delay since AT unit was insisting for approved AT plan.

Idle investment of Rs 5.23 crore besides non-achievement of objective

Thus due to delays at every stage of implementation, the project planned for completion during 1999-2000, could not be completed even after the passage of five years and after incurring of expenditure of Rs 5.23 crore. This resulted not only in idling of investment but also in non-achievement of the stated objective of detecting frauds and plugging the leakage of revenue through the FMCC.

The matter was referred to the Ministry in August 2005; its reply was awaited as of November 2005.

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

The Company failed to invoke the risk and cost clause of a contract on a defaulting cable supplier, resulting in a loss of Rs. 1.12 crore.

The Company placed purchase orders for supply of PIJF cables on GTCL

The Company's Mumbai unit, based on a tender finalised by their corporate office, placed (February and April 2003) two purchase orders (POs) on Gujarat Telephone Cables Ltd (GTCL) for supply of 65.2 km of 2000 pair 0.4 mm unarmoured (UA) PIJF[2] underground cables at a total cost of Rs 5.66 crore. The unit rate was Rs 8.68 lakh per km and the scheduled delivery period was up to July 2003 in the case of the first PO and October 2003 in the case of the second PO. The general conditions of the contract stipulated that in case of delays in supply, the Company reserved the right to cancel/short close the POs and purchase the balance unsupplied quantities at the risk and cost of the defaulting supplier.

GTCL supplied only 2.519 km of cables against the order of 65.2 km

Audit scrutiny of the records of the General Manager (GM), Material Management (MM), Mumbai unit revealed that GTCL supplied only 2.519 km of PIJF cables by October 2003 in respect of both the POs. The Company short closed (December 2003) both the POs and encashed the performance bank guarantee (PBG) of Rs 1.09 crore, submitted by the supplier. The Mumbai unit of the Company, based on subsequent tenders finalised by its

[2] Polythene insulated jelly filled

The Company purchased similar cables at higher rates without invoking risk and cost clause on the defaulting vendor resulting in loss of Rs 1.12 crore

corporate office, placed POs for supply of 157.6 km of 2000 pairs 0.4 mm UA PIJF cables at higher rates, ranging from Rs 11.47 lakh to Rs 13.86 lakh per km. Audit noticed that the Company failed to invoke the risk and cost clause of the contract against GTCL for procuring the balance quantity of 62.681 km of PIJF cable. This resulted in additional expenditure of Rs 2.21 crore on procurement of balance quantity at higher rates. As the total amount recovered by encashing the PBG was only Rs 1.09 crore, the Company lost Rs 1.12 crore due to its failure to invoke the risk and cost clause.

On this being pointed out by Audit, the Mumbai unit replied (May 2005) that POs were placed as per authorization from the corporate office. The Company's Corporate Office stated (September 2005) that no further orders were placed on GTCL.

Thus failure of the Company to invoke risk and cost clause resulted in a loss of Rs 1.12 crore to the company.

The matter was referred to the Ministry in September 2005; its reply was awaited as of November 2005.

6.7 Loss due to delay in submission of insurance claim

Delhi unit of the Company failed to lodge insurance claims for lost and damaged WLL handsets in time, resulting in rejection of the same by the insurance company and consequent loss of Rs 50.28 lakh.

Insurance policy of WLL handsets required intimation of loss/damage within 24 hours

The Company's Corporate office purchased a basic telecom operators' insurance policy from Oriental Insurance Company at premia of Rs 8.47 crore and Rs 4.94 crore for the periods from June 2002 to June 2003 and June 2003 to June 2004, respectively. The policy among other things covered compensation for lost or damaged Wireless-in-Local Loop (WLL) handsets. The terms and conditions of the policy provided that the insured was bound to notify the insurer within 24 hours after the loss or damage had become known either verbally or by registered letter. If the reporting was verbal, the same was to be repeated in writing within one week. In cases of theft, the insured was to notify the police and obtain a police report

Insurance claims rejected due to delay in lodging the claim, resulting in loss of Rs 50.28 lakh

Audit scrutiny (April 2005) of the records of the General Manager (Operations), CDMA, Delhi unit revealed that in 1721 cases of lost and damaged WLL handsets relating to the period October 2002 to May 2004, claims were lodged with the insurance company between May 2004 and July 2004 after delays ranging from two months to one and a half years. The insurance company rejected these claims in September 2004 due to inordinate delays in intimation of the damages or losses resulting in a loss of Rs 50.28 lakh to the Company.

It was also noticed that cases of theft of WLL handsets reported to the Commercial Section were compiled on a monthly/bimonthly/quarterly basis and sent to the Divisional Engineer (DE), CDMA, after gaps of two to three

months. Further, the field units sent details of the handsets such as dates of their issue and identification numbers, very late to the DE and consequently the insurance claims got delayed.

On this being pointed out by Audit, the DE stated that it was not possible to intimate the losses of individual subscribers to the respective units of the Company within 24 hours and as such the 24 hour period could not be taken as a basis for settlement of such claims.

The reply is not tenable as the Company agreed to the terms and conditions of the policy and yet claims were lodged after inordinate delays of two months to one and half years resulting in their rejection and consequent loss of Rs 50.28 lakh. The above also indicates that the Company lacked a proper internal control mechanism which would ensure timely lodging of insurance claims.

The matter was referred to the Ministry in September 2005; its reply was awaited as of November 2005.