# CHAPTER VIII
# MAJOR FINDINGS IN TRANSACTION AUDIT

## 8.1 Delay in claiming differential amount

**Avoidable delay in submission of differential claim resulted in locking up of funds of Rs 29.12 crore and loss of interest thereon of Rs 4.36 crore.**

The Company obtained an advance purchase order from Bharat Sanchar Nigam Limited (BSNL) (December 2000) for supply of 900 KL Digital Local Exchange Equipment against the reservation quota of 2001-02. A provisional weighted average price per line was fixed at Rs 1978.84 based on the terms and conditions stipulated in Department of Telecommunication's tender opened in August 2000. The final price was to be fixed after taking into consideration the terms and conditions of 2001-02 tender. The order for 900 KL, was to be executed by Palakkad plant (308 KL), Bangalore plant (406 KL) and Mankapur plant (186 KL). The delivery of the equipment was to commence immediately on placement of purchase orders by circles and completed within eight months.

Based on the authorisation of BSNL (December 2000), the circles placed purchase orders on the Company during December 2000 to January 2001 and supplies were completed by September 2001. The Company realised the provisional price of Rs 1978.84 per line by September 2001. However, based on the repeated representations of the Company for enhancement of the offered prices, BSNL fixed (August 2002) the final price of the equipment supplied at Rs 2695 per line and intimated itemised priced bill of material intimated to the Company.

**Delayed submission of differential claim resulted in locking up of funds of Rs.29.12 crore and loss of interest thereon of Rs.4.36 crore.**

A review of the differential claims by the Company, with reference to the revised itemised priced bill of material furnished by BSNL, revealed that (i) the differential claim of Rs 13 crore in respect of supplies relating to Palakkad Plant was claimed in June 2003 only i.e. after a delay of 8 months, and (ii) Rs 16.12 crore relating to the supplies of Mankapur Plant was claimed during February to October 2004 after delay of 16 to 24 months. The delay in submission of differential claim was avoidable and injudicious especially when the Company had been facing severe financial crunch and heavily dependent on borrowings to finance its working capital needs. This resulted in delay in realisation of Rs 29.12 crore[♣] and consequent loss of interest on the locked up funds amounting to Rs 4.36 crore on cash credit from October 2002 to October 2004.

The Management stated (May 2004) that as per the BSNL payment procedure, the revised 'Bill of material' had to be vetted by the consignee based on which bills could be submitted. The reply is not tenable as there was no record to support the assertion of the Management. Moreover, the Management

[♣] excluding differential claims of Rs 26.15 crore relating to Bangalore plant subsequently (September 2004) contradicted its own reply stating that vetting of 'Bill of material' was not a precondition for payment. Hence there was no justification for the delay in claiming the differential amount.

Thus, avoidable delay in submission of differential claim resulted in locking up of funds of Rs 29.12 crore and consequent loss of interest of Rs 4.36 crore from October 2002 to October 2004.

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

## 8.2 Levy of liquidated damages and penal interest

**Failure of the Company to initiate timely action and effective pursuance to obtain TEC approval delayed the deliveries resulting in avoidable payment of liquidated damages of Rs 6.83 crore and penal interest of Rs 1.06 crore on advance drawn.**

The Company entered into (December 1999) an MOU with Electronics Corporation of India Limited (ECIL) which was a licensed manufacturer of CorDect technology. As per MOU, ECIL assigned its rights to the Company for manufacturing and marketing of equipment under CorDect technology to enable the Company to participate in the tenders floated by DOT (now Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL)). In April 2000, the Company also entered into a sub license agreement with ECIL according to which, out of the orders received from BSNL/MTNL for supply of equipment under CorDect technology, it would place orders on ECIL for 50 *per cent* of the orders on back to back commercial terms stipulated in BSNL/MTNL orders.

The Company received (August 2002) a reserved quota purchase order (PO) from BSNL for supply of 60,000 lines of Digital Wireless Access system with internet access based on CorDect Technology at an all inclusive price of Rs 68.29 crore. The order was divided among Bangalore complex (15,000 lines) and Rae Bareli unit (15,000 lines) of the Company and ECIL (30,000 lines) in terms of the agreement of April 2000.

The PO *inter alia*, provided for (i) payment of advance of 75 *per cent* of its value, (ii) completion of supplies within six months i.e. by 15 February 2003, and (iii) levy of liquidated damages (LD) and penal interest on the advance drawn in respect of supplies made after the expiry of delivery schedule.

BSNL advised (June 2000) the Company to obtain validation certificate[♦] within seven months (i.e. January 2001) in order to be eligible to participate in tender process for supply of equipment under CorDect technology. The Company applied (March 2001) for Type Approval Certificate[♠] (TAC) to the regional Telecommunication Engineering Centre (TEC). TEC did not grant

♦ It is required for effecting supplies and is needed when the 'Type Approval Certificate' is not there or expired.

♠ It is essential for any new product developed and certifies the product. 'Type approval Certificate' is required to be submitted for obtaining Validation Certificate clearance.

TAC on the ground that the original TAC was issued to ECIL and not to the Company. As the Company did not go back to TEC with clarifications that ECIL was their sub contractor and a licensed manufacturer of CorDect technology, TEC closed the case. The Company initiated (July 2001) action to obtain TAC and received it in October 2002. The supplies were completed within the extended delivery date i.e. by 28 June 2003.

**Delayed deliveries resulted in avoidable payment of liquidated damages of Rs 6.83 crore and penal interest of Rs 1.06 crore on advance drawn**

Thus, the delay in obtaining TEC approval resulted in delay in supplies beyond the scheduled date of delivery of 15 February 2003. BSNL extended (May 2003) the delivery schedule and recovered Rs 6.83 crore towards LD on delayed supplies and penal interest of Rs 1.06 crore on advance given to the Company.

The Ministry admitted (November 2005) that the PO was accepted without the infrastructure and correct technology partner. It further added that the Company must streamline its operations/activities to ensure timely completion of PO particularly in competitive environment and warned the Company to be careful in future and not to repeat such incidents.

Thus, failure of the Company to initiate timely action and effectively pursue with TEC delayed the delivery resulting in recovery of LD of Rs 6.83 crore and penal interest of Rs 1.06 crore on advance drawn.

## 8.3 Loss due to injudicious purchase

**Injudicious purchase of components for Digital Pair Gain Systems resulted in loss of Rs.1.45 crore on inventory written off and blocking of Rs. 93.44 lakh on unsold systems.**

The Raebareli unit of the Company envisaged (February 1997) an annual turnover of Rs 20 crore by manufacturing Digital Pair Gain (DPG) Systems. A production target of 15000 DPG systems each for the years 1997-98 and 1998-99 and 7500 DPG systems for 1999-2000 was also fixed (December 1998). The unit accordingly, initiated action (July 1997) for procurement of components for manufacturing 10000 systems with delivery schedule upto December 1997. The components were received and systems manufactured during 1997-98 and 1998-99. Besides manufacturing 10000 systems, the unit also procured 1800 bought out systems at a landed cost of Rs 3.22 crore during 1997-98 and 1998-99.

Though the sale during the years 1997-98 and 1998-99 was 40 and 2480 systems respectively the Unit decided (December 1998) to procure components for further 5000 systems with delivery schedule upto April 1999.

Soon after placing the repeat orders, the unit found (April 1999) that it had enough finished goods available with it and decided to short close the purchase orders. The unit, however, had to accept supplies of components for 1000 systems that had been received or dispatched by the suppliers by the time the orders were short-closed. This resulted in unutilised inventory of Rs 1.45 crore that had to be written off (January 2005). Out of 11800 finished DPG systems (10000 manufactured and 1800 bought out), the Company could sell only 10915 systems by 2001-02 and the remaining 885 systems valuing Rs 93.44 lakh were lying unsold (March 2005).

The Management stated (March 2004) that the

- raw material to be procured was available in lots of five thousand. The materials were procured in two lots only which was the bare minimum quantity to meet the targets.
- After supply of first batch of production to various circles, it was decided to procure additional 5000 Nos. and thus repeat order was placed. Subsequently, orders beyond 11,000 systems were not received and a decision was taken to stop further procurement. However, the components that had either arrived or been dispatched by the supplier had to be accepted.
- The remaining 885 systems were to be used for warranty coverage besides customer support on chargeable basis.

The reply of the Management is not tenable as:

- the manufacture of DPG systems was a new venture and their purchase and manufacture should have been guided by the demand/ sale pattern rather than only production targets. Sale of 2520 systems during the years 1997-98 and 1998-99 out of 11800 systems purchased/manufactured did not justify a repeat order for further 5000 systems at that time.
- There were no chances of further sale of these systems as the buyer (BSNL) had withdrawn (December 2000) the generic requirement for these systems and better technologies like CDMA and GSM were now available in the market.
- No norms for retaining the products for warranty were fixed.

**Injudicious procurement of components without proper assessment resulted in loss of Rs 1.45 crore**

Thus, procurement of components and their manufacture without proper assessment of demand/ sale position resulted in loss of Rs 1.45 crore on inventory written off and blockage of funds of Rs 93.44 lakh on finished systems.

The matter was referred to the Ministry in September 2004; its reply was awaited as of November 2005.

### 8.4 Irregular payment of Annual Performance Reward

**The payment of Rs.23.14 crore as Annual Performance Reward to its employees by the Company was irregular and in violation of DPE instructions.**

The payment of bonus or *ex-gratia* is regulated by the Payment of Bonus Act, 1965 (Act). As per the instructions (June 1976 and January 1997) of Department of Public Enterprises (DPE), any scheme introduced under the Act for payment of annual bonus linked with production or productivity in lieu of bonus based on profits payable under the Act, should be with the prior approval of the Government.

**Payment of Rs.23.14 crore as Annual Performance Reward to its employees by the Company was irregular and in violation of DPE instructions**

With periodical revision in wages, employees of the Company became ineligible to draw bonus as their salaries exceeded the limits prescribed under the Act. To cover the employees, the Board of Directors of the Company approved in April 1999 and July 2000 Annual Performance Reward (APR) Scheme in lieu of bonus for the years 1998-99 and 1999-00, respectively. The APR was extended to 2000-02 without taking the approval of the Board of the Company. The approval of the Government was also not taken for any of the years (1998-99 to 2001-02). Thus, payment of Rs 23.14 crore under the APR Scheme by the Company for the years 1998-99 to 2001-02 was irregular and inconsistent with the instructions issued by DPE. The Company, as a cost reduction measure, decided not to implement the APR Scheme during the years 2002-03, 2003-04 and 2004-05.

The Management stated (November 2004) that payment of APR by the Company was not in lieu of the bonus payable under the Act. As the Scheme was not under the Act, the approval of the Government was not needed.

The reply of the Management is not tenable as:

(i) The payment of APR was in lieu of bonus to the employees who were ineligible to bonus as their salaries exceeded the limit prescribed under the Act;

(ii) As per DPE instructions of January 1997 no reward would be paid to the employees by the PSE over and above the provisions of the Act unless the same was authorised under a duly approved incentive scheme approved in accordance with the prescribed procedure.

Thus, payment of Rs 23.14 crore under APR Scheme to the employees was irregular and in violation of DPE instructions.

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