

**CHAPTER IV**  
**MAHANAGAR TELEPHONE NIGAM LIMITED**  
**MAJOR FINDINGS IN TRANSACTION AUDIT**

**4.1 Loss of revenue due to delay in disconnections for non-payment**

**Failure of Telecom Revenue Accounting wings to issue disconnection orders in time, as also delay by four exchanges of the Mumbai unit of MTNL in disconnecting Wireless-in-Local Loop telephone connections for non-payment of rentals, resulted in loss of revenue of Rs 1.16 crore.**

As per rules, telephone connections are to be disconnected in case of non-payment of bills. Rules provide that the Accounts Officer, Telephone Revenue (AOTR) is to issue disconnection orders and on receipt of the same, the exchange officer is to disconnect such telephones on the dates indicated therein. For streamlining the disconnection procedure, Mumbai unit of MTNL issued (July 2002) instructions that in order to restrict delays, the telephones are to be disconnected on the 45<sup>th</sup> day from the bill dates.

Test check (February and March 2006) of the records relating to the Wireless-in-Local Loop (WLL) telephone connections in respect of four exchanges, viz., Gamdevi, Goregaon, Marol and Mazgaon under the Mumbai unit of MTNL revealed that the above procedure for disconnection was not followed in respect of 717 WLL telephone connections, as detailed below:

- In respect of 282 WLL connections, there were delays up to 390 days out of which in 81 *per cent* cases, delay was up to 160 days in sending the disconnection lists to the exchanges by the Telecom Revenue Accounting (TRA) wing. Again, after receipt of the disconnection lists, the exchanges made further delays up to 409 days in disconnecting these WLL connections, out of which in 60 *per cent* cases, the delay was up to 60 days.
- In respect of 435 WLL connections, though the disconnection lists were sent in time by the TRA wing, the exchanges disconnected these WLL connections after delays up to 499 days, out of which in 77 *per cent* cases delays were more than 120 days.

The above delays resulted in loss of revenue of Rs 1.16 crore for the period October 2004 to October 2005, as detailed in Appendix-XXIV. Audit also found (August 2006) that on account of inadequate mail addresses of the subscribers, more than 50 *per cent* of the legal notices, issued by the Management, had been returned undelivered and no progress could also be made by the recovery agency appointed by the Management.

On this being pointed out in Audit, the General Manager (CDMA), MTNL Mumbai unit accepted the facts and stated (August 2006) that TRA functions of WLL services of entire MTNL Mumbai were managed by one AOTR at Goregaon exchange, which posed difficulty for him to coordinate with all exchanges and subscribers. Hence, updation of the disconnection etc. in the billing system could not be done in time.

A similar comment was incorporated in Paragraph 6.11.3 of the Report of the Comptroller and Auditor General of India, Union Government (Commercial) for the year ending 31 March 2004 and the Management had stated that corrective action was being taken. The deficiency, however, was found to persist.

The matter was referred to the Ministry in June 2006; reply was awaited (December 2006).

#### **4.2 Loss of potential revenue**

##### **Failure of the Delhi unit of Mahanagar Telephone Nigam Limited to follow the stipulated norm for providing leased circuits within the prescribed period resulted in loss of potential revenue of Rs 59.57 lakh.**

Leased circuits are dedicated links provided between two fixed locations for exclusive use of the subscribers. As per the norms adopted by Mahanagar Telephone Nigam Limited (MTNL), leased circuits were to be provided within seven days from the date of issue of the final advice notes for commissioning.

Test check (May 2006) of the records of the Delhi unit of MTNL revealed that in respect of 11 cases, not only did the unit fail to follow the stipulated norm of providing leased circuits within seven days from the date of issue of the final advice notes, but as of May 2006, these circuits were not commissioned at all. In another 56 cases, the commissioning of the circuits was delayed up to 319 days, out of which in 64 per cent cases the delay was more than 180 days from the date of issue of advice notes. This resulted in loss of potential revenue of Rs 59.57 lakh for the period November 2004 to May 2006.

On this being pointed out in Audit, the Divisional Engineer (Leased Circuits), MTNL, Delhi unit accepted (May 2006) the facts and stated that the non commissioning and delay in commissioning were mainly due to technical reasons, like higher distance of the local leads, high loop resistance, delay in receipt of subscribers' consent for putting the circuits through optical fibre cables, etc.

The reply was not tenable because technical feasibilities for commissioning of the various leased circuits should have been assessed before issue of the final advice notes for commissioning.

The matter was referred to the Ministry in November 2006; reply was awaited (December 2006).

### 4.3 Recovery at the instance of Audit

**Delhi and Mumbai units of MTNL recovered outstanding dues of Rs 1.43 crore from subscribers at the instance of Audit.**

Test check (July 2004 and January 2005) of the records pertaining to Delhi and Mumbai units of MTNL revealed that an amount of Rs 1.43 crore was short billed (during the period July 2002 to March 2006) mainly due to non-implementation of orders, as detailed in Appendix-XXV.

On this being pointed out by Audit, both the units of MTNL issued bills for Rs 1.43 crore and recovered the same between August 2004 and September 2005.

The matter was referred to the Ministry in November 2006. Reply was awaited as of December 2006.

### 4.4 Blocking of capital

**MTNL, Delhi could not get possession of land for a telephone exchange as it delayed the payment for the same. This led to blocking of capital of Rs 10.62 crore, besides loss of interest of Rs 1.59 crore.**

Mahanagar Telephone Nigam Limited (MTNL), Delhi requested (October 2001) the Delhi Development Authority (DDA) for allotment of a plot of land measuring 1,394 square metres in the Tughlakabad Industrial Area for construction of a telephone exchange building. The plot was allotted (December 2001) and as per the terms and conditions of the allotment letter, the premium for the land and the ground rent, totalling Rs 10.89 crore, were payable within 60 days, failing which the Company was liable to pay interest at the rate of 18 *per cent* for delay up to six months from the date of issue of the allotment letter. On expiry of six months, the allotment would automatically stand cancelled. Further, the Company was to give an acceptance letter within 60 days from the date of issue of the allotment letter.

Audit scrutiny (December 2005) of the records of the Assistant General Manager (Land), MTNL, Delhi revealed that the Company paid (November 2002) Rs 10.62 crore towards land premium and did not pay the ground rent of Rs 26.56 lakh although the payments were to be made by February 2002. Consequently, DDA did not hand over the possession of the land and demanded Rs 1.74 crore towards interest on the belated payment as per the terms and conditions of the allotment letter. The Company corresponded with the DDA for handing over the possession of land without paying the interest, but DDA did not agree. Ultimately, after three years, the Company decided (October 2005) to get Rs 10.62 crore refunded. However, DDA had not refunded the money till August 2006.

Audit observed that the delay in payment of the land premium was due to lapses on the part of MTNL officials. The sanctioning authority was the Chief General Manager, MTNL, Delhi. Before sanction, the clearances of the Land, Planning, Civil and Finance wings were to be obtained by the Assistant General Manager (Land). Instead of simultaneously coordinating and processing the case with the different wings, the clearances were obtained one after another, resulting in delays. After receiving the allotment letter in December 2001 the site suitability report of the said plot was given by the Senior Architect, MTNL in January 2002. However the GM (Finance) gave the financial concurrence only after six months in July 2002. The payments were further delayed as the project estimate was sanctioned in August 2002 and the payment released in November 2002.

On this being pointed out in Audit, the Management stated (January 2006) that the payment towards the cost of land was made in November 2002 but instead of handing over possession of the land, DDA demanded interest of Rs 1.74 crore. They further stated that DDA had been asked to waive the interest and hand over possession of the plot, but due to non receipt of any reply from them, the competent authority had decided (October 2005) to seek refund of the premium paid, along with interest from DDA. Clearly, there was a lapse on the part of the Company to pay land premium and rent within the stipulated period, due to which possession of land was denied by DDA and interest claimed. Further, the allotment letter of DDA contained no clause for payment of interest on the refund or even for refund of the premium to MTNL.

Thus MTNL, Delhi, in spite of paying the cost of land, could not get possession, as the payments were not made within the stipulated period. This led to blocking of capital of Rs 10.62 crore, besides loss of interest of 1.59 crore on the blocked capital, worked out on a conservative rate of interest of five *per cent* per annum for three years. The objective of construction of a telephone exchange building was also not achieved.

The matter was referred to the Ministry in November 2006; reply was awaited (December 2006).

#### **4.5 Excess payment of electricity charges**

**Mahanagar Telephone Nigam Limited, Delhi made payments of electricity charges at higher non-domestic rates instead of industrial rates resulting in excess payment of Rs 3.62 crore.**

The classification of the Department of Telecommunications as an industry under the Industrial Disputes Act 1947 was upheld by the Supreme Court of India in November 1997. The Finance Act 2002-03 also accorded industrial status to telecommunication services. Accordingly, the business of telecommunication services, whether basic or cellular, came under the ambit of industrial undertakings. Hence, industrial tariff was applicable to the electricity supplied by

the Electricity Board and the distribution Companies to Mahanagar Telephone Nigam Limited (MTNL), Delhi.

Audit scrutiny (May/September 2006) of the records of Area General Managers (GMs), West-I, Central and Trans Yamuna, MTNL, Delhi revealed that the electricity bills were being charged and paid by MTNL at higher rates applicable for non-domestic, mixed load category instead of lower rates of industrial category.\* The GMs did not take up the matter with the Electricity Board/Distribution Companies to convert the customer status of MTNL from the existing non-domestic to industrial category even after a lapse of three years. This resulted in excess payment of electricity charges of Rs 3.62 crore during the period from April 2003 to March 2006.

On this being pointed out in Audit, the units replied (September 2006) that it was a policy matter to be taken up by the Company's Corporate office for all its units. However, the MTNL Corporate office had also not taken any action in this regard.

Thus failure of the Company to take prompt action for conversion of its customer status from non-domestic to industrial category resulted in payment of electricity charges at higher non-domestic rates and consequent excess payment of Rs 3.62 crore.

The matter was referred to the Ministry in November 2006; reply was awaited (December 2006).

#### **4.6 Failure to recover compensation for damage to underground cables**

**Failure of the General Managers (South-II and West-II), Mahanagar Telephone Nigam Limited, Delhi to prefer compensation claims for damage to underground cables resulted in non-recovery of compensation of Rs 3.43 crore.**

Rules provide that compensation should be claimed when the Company's property is damaged by an outside agency.

Audit scrutiny (May 2006) of the records of the General Managers (GMs), (South-II and West-II), Mahanagar Telephone Nigam Limited (MTNL), Delhi revealed that outside agencies had damaged underground cables costing Rs 3.43 crore during 2001-02 to 2005-06. In respect of damages of Rs 1.14 crore, the Company failed to locate the agencies that had damaged the underground cables. In the remaining cases involving Rs 2.29 crore, although the agencies were known, the Company failed to lodge any claims. Thus failure of GMs, South-II and West-II to prefer compensation claims on the parties concerned even after lapse of one to four years, resulted in non-realisation of compensation claims of Rs 3.43 crore as detailed in Appendix-XXVI.

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\* Tariff ranged between Rs 4.14 to Rs 5.64 per kwh for non-domestic category and Rs 3.75 to Rs 5.00 per kwh for industrial category.

On this being pointed out in Audit, the Assistant General Manager (operations), MTNL, Delhi stated (August 2006) that compensation claims were not preferred as the damages were caused by the Government and unknown agencies. The reply was not acceptable as compensation claims for damage to Company's property was to be claimed from anyone damaging its property, except the Defence Services. Further, the Company failed to take adequate measures to identify the agencies that had damaged its cables.

The matter was referred to the Ministry in November 2006; reply was awaited (December 2006).

#### **4.7 Loss due to retention of land without utilization**

##### **Failure of the Company to utilize land for construction of staff quarters, resulted in its idling and consequent loss of Rs 2.91 crore paid for extension of time for the plot.**

The Delhi Development Authority (DDA) allotted (1969) a plot measuring 4.20 acres at Pankha road, Delhi at a cost of Rs 9.97 lakh to the erstwhile General Manager (GM) (Telephones), Delhi (now Mahanagar Telephone Nigam Limited (MTNL), Delhi) for construction of staff quarters. The Company failed to construct the staff quarters and DDA cancelled (November 2000) the allotment of the plot. The General Manager, MTNL, Delhi approached (September 2001) DDA seeking extension of time for construction of staff quarters on the said plot. DDA granted extension of time up to December 2002 for completing the construction and restored the allotment, directing the Company to deposit Rs 3.48 crore as penalty towards restoration charges and composition fees. As this amount was found to be incorrect, the Company paid (November 2001) the recalculated amount of Rs 2.91 crore to DDA. However, the Company again failed to construct the quarters within the extended period of time and sought further extension of time up to June 2004.

Audit scrutiny (December 2005) of the records of the office of the General Manager (Planning), MTNL, Delhi revealed that the proposed construction of the quarters had not commenced and the plot was still lying vacant. Audit noticed that the process of appointment of a consultant architect and submission of drawings for approval of the Municipal Corporation of Delhi (MCD) began in 1996 after 26 years from the allotment of the plot. Tenders for appointment of a consultant architect were invited in May 1996 and the consultancy was awarded in August 1998 after two years. The drawings were submitted to MCD in June 2002 after a further delay of more than three years. As the drawings were not as per the norms of MCD, revised drawings were submitted in May 2004. However, the GM (Planning) submitted a note in July 2005, seeking approval of the Board of Directors for surrendering the plot. The Board's decision was awaited as of April 2006. Thus failure of the Management to get the approval of MCD in time and to assess the requirement of the plot for construction of staff quarters before seeking

extension of time and paying a penalty in November 2001, after keeping the plot vacant for 30 years, resulted in a loss of Rs 2.91 crore.

On this being pointed out in Audit, the Deputy General Manager (Building Planning), MTNL, Delhi stated (January 2006) that the demand for staff quarters had reduced considerably due to several reasons and hence, it was proposed to surrender the plot. He further stated that the Company had been using the plot as a central stores depot and hence the expenditure on it could not be treated as wasteful. The reply was not tenable as in spite of keeping the plot vacant for 30 years, the Management failed to assess the actual requirement of the plot before seeking extension of time and paying the penalty in November 2001. Also the plot was yet to be surrendered (August 2006). Further, use of the plot as a central stores depot was only incidental as is evident from the fact that MTNL is ready to surrender the plot and can obviously accommodate the stores elsewhere.

Keeping the plot vacant for 30 years by the Company and seeking extension of time for retention of the same without any purpose, resulted in loss of Rs 2.91 crore towards retention charges and composition fees.

The matter was referred to the Ministry in November 2006; reply was awaited (December 2006).

#### **4.8 Excess payment of sewerage tax**

##### **General Manager (East-I), Mahanagar Telephone Nigam Limited, Mumbai made excess payment of Rs 1.06 crore towards sewerage tax.**

The Sewerage and Waste Removal Rules of the Bombay Municipal Corporation (BMC) provided that wherever water was supplied to any premises by meter measurement, the Municipal Commissioner could levy sewerage charges equivalent to 50 *per cent* of the prescribed water charges instead of levying sewerage tax. Further, the BMC Act provided that a person who was charged for sewerage services in his/her water bills would not be liable to sewerage tax.

Audit scrutiny (June 2005) of the records of the General Manager (GM), (East-I), Mahanagar Telephone Nigam Limited (MTNL), Mumbai, revealed that permanent metered water connections provided by BMC existed since April 1998 in the telecom staff quarters at Powai, Mumbai and payment of sewerage charges was being made along with the water bills. Audit, however, observed that in addition to the above sewerage charges, BMC had also included sewerage tax in the property tax bills of MTNL, which was paid by MTNL. This resulted in excess payment of sewerage tax of Rs 89 lakh during the period April 1998 to September 2005.

On this being pointed out in Audit, the Management accepted (August 2005) the excess payment and claimed refund of the same. BMC intimated (October 2005) MTNL that the refund would be admissible for the last five years from the date of receipt of the application, subject to production of property tax and water charges

payment vouchers. Audit observed that although the refund of excess paid sewerage tax was taken up with BMC by MTNL, Mumbai, they did not instruct BMC to exclude the sewerage tax from the property tax bills for subsequent bills. Consequently, MTNL, Mumbai continued to pay both the sewerage tax and the sewerage charges, resulting in total excess payment of sewerage tax of Rs 1.06 crore as of March 2006. Out of excess paid sewerage tax of Rs 1.06 crore, the Management adjusted Rs 28.23 lakh (June 2006) and chances of refund of Rs 11.34 lakh were remote as the BMC rejected claims which were more than five years old.

Thus absence of due professional care by MTNL, Mumbai led to the unnecessary payment of sewerage tax of Rs 1.06 crore.

The matter was referred to the Ministry in November 2006; reply was awaited (December 2006).

#### **4.9 Excess payment of electricity duty**

**General Manager (West-II), Mahanagar Telephone Nigam Limited, Mumbai paid electricity duty at rates higher than that prescribed for the telecommunications sector, resulting in excess payment of Rs 59.37 lakh.**

The classification of the Department of Telecommunications as an industry under the Industrial Disputes Act, 1947 was upheld by the Supreme Court of India in November 1997. The Finance Act 2002-03 also accorded industrial status to telecommunication services.

The Government of Maharashtra had issued orders for levy of electricity duty at six *per cent* and 13 *per cent* for industrial and commercial purposes respectively with effect from April 2003.

Audit scrutiny (February 2006) of the records of the General Manager (West-II), MTNL, Mumbai, revealed that Reliance Energy Limited (REL) had charged the Company electricity duty at the rate of 13 *per cent*, applicable to commercial users, instead of six *per cent* prescribed for industrial users and the same was paid by the Company. This resulted in excess payment of Rs 59.37 lakh in respect of three telephone exchanges under the West-II area of MTNL, Mumbai during the period April 2003 to December 2005.

On this being pointed out in Audit, the concerned Divisional Engineers of MTNL, Mumbai stated (February 2006) that the issue would be taken up with REL. Audit observed (July 2006) that MTNL, Mumbai lodged a claim with REL for refund of excess paid electricity duty of Rs 59.37 lakh in July 2006 and had mentioned that the excess payment for the period from January to June 2006 were separately being worked out.

The matter was referred to the Ministry in November 2006; reply was awaited (December 2006).



#### **4.10 Irregular expenditure on foreign travel**

**Failure of Mahanagar Telephone Nigam Limited in regulating foreign travel claims of its employees in accordance with the instructions of the Department of Public Enterprises resulted in irregular expenditure of Rs 44.85 lakh during the period May 2001 to March 2005.**

With a view to bringing about economy in expenditure on foreign travel by the officers of the Public Sector Undertakings (PSUs), the Department of Public enterprises (DPE) issued (September 1995) instructions according to which the consolidated amount paid in respect of foreign travel as per the guidelines of the Reserve Bank of India was to cover room rent, taxi charges, entertainment (if any), official telephone calls and other contingent expenditure apart from daily allowance. On return from tour, the officials were required to render accounts for all items of expenditure other than the daily allowance prescribed by the Ministry of External Affairs.

The Mahanagar Telephone Nigam Limited (MTNL) Board, while approving (January 2000) the rules of foreign travel for implementation in MTNL, incorporated sub-clause 2 (e), which stipulated that telephone, conveyance, incidentals and miscellaneous expenses as per actuals would be allowed on the basis of certification of the expenditure incurred, without mentioning the specific purposes. Further, the MTNL Board prescribed submission of bills only in respect of hotel accommodation and entertainment expenditure.

Audit scrutiny (June 2005) of foreign travel claims of the officials of the Company in respect of telephone, conveyance, incidentals and miscellaneous expenses from May 2001 to March 2005, revealed that claims amounting to Rs 44.85 lakh were admitted based on self-certification without any accounts supported by vouchers, in contravention of the DPE guidelines.

On this being pointed out in Audit, the Management replied (October 2005) that the travelling allowance/daily allowance rules for foreign travel entitlements had been approved by the MTNL Board and MTNL being a Navaratna PSU, could decide on policy matters as per the Board's decisions. They further stated that every effort was being made to strictly follow austerity measures and the observation from Audit was well taken. They also mentioned that claims for the foreign travels had been admitted as per the Company's Travelling Allowance Rules applicable to such cases. The reply of the Management was not acceptable, as the MTNL Board allowed foreign travel claims of its employees based on self certification in contravention of the DPE guidelines which stipulate rendering of accounts. Further the DPE guidelines were applicable to all the PSUs without any exception in case of navaratna PSUs.

The matter was referred to the Ministry in June 2006; reply was awaited (December 2006).