CHAPTER V
ITI LIMITED
MAJOR FINDINGS IN TRANSACTION AUDIT

5.1 Avoidable loss due to delay in supply

Failure of the Company to initiate timely action for procurement of antenna resulted in delayed supplies and cash loss of Rs 1.25 crore due to reduction in price besides levy of liquidated damages of Rs 1.24 crore.

The Company received an Advance Purchase Order (APO) in May 2003 from Bharat Sanchar Nigam Limited (BSNL) for supply of telecommunication equipment[•] along with other accessories. As per the APO, the Company was required to obtain Type Approval Certificate (TAC) from BSNL before the commencement of supplies against the Purchase Order (PO).

BSNL placed (February 2004 to April 2004) three Purchase Orders (POs) on the Company for the supply of the above equipment at a provisional price aggregating to Rs 15.16 crore[*]. As per the POs, (i) the Company was required to complete the supplies within six months from the placement of the order i.e. between August and October 2004; (ii) liquidated damages (LD) were leviable for the supplies made after expiry of the original delivery schedule. In addition, as per the general conditions of contract prescribed in the BSNL's procurement manual, each case of delivery extension was to be examined afresh vis-à-vis the prevailing market prices.

Audit observed (July 2005) that the order for procurement of Antenna on Electronics Corporation of India Limited (ECIL) was placed after ten months (March 2004) from the receipt of APO (May 2003) even though it was one of the major components of the system requiring TAC. Consequently, the Company could not supply the equipment within the stipulated delivery schedule and BSNL extended the delivery schedule in September 2004 with levy of liquidated damages (LD). At the same time, the provisional value of POs was reduced by BSNL to Rs 10.70 crore[°] on the basis of the lower approved price of tender opened in September 2004.

[•] 2 MB Intermediate Date Rate (IDR) system in C-Band (Package-I) equipment and Echo Canceller Shelf
[*] PO dated February 2004 for IDR equipment (Rs 8.26 crore), PO dated March 2004 for Echo chancellor and shelves (Rs 3.53 crore) and PO dated April 2004 for IDR equipment (Rs 3.37 crore).
[°] Reduced value of PO of February 2004, March 2004 and April 2004 was Rs 5.43 crore, Rs 2.04 crore and Rs 3.23 crore respectively.

The Company incurred a cash loss (material cost - sale price) of Rs 1.25 crore in the PO of February 2004 due to reduction of price on extension of delivery. Further, due to delayed supplies the Company made a provision of Rs 1.24 crore for LD in the books out of which LD of Rs 39.40 lakh had been recovered by BSNL from the bills released till December 2006. The Company completed the supplies by February 2006.

The Management stated (June 2006) that there was no delay as PO of BSNL was received in February 2004 and order on ECIL for Antenna was placed in March 2004. As ECIL had to supply the antenna only after field trial and TAC approval by BSNL, the supplies from ECIL got delayed.

The reply of the Management was not acceptable as the APO (May 2003) of BSNL stipulated that the bidder must obtain TAC before commencement of supplies. Therefore, the Company should have initiated action immediately for procurement of materials required for TAC on receipt of the APO.

Thus, failure of the Company to initiate timely action on receipt of APO for procurement of materials and obtaining the required TAC led to delayed supplies. This resulted into cash loss of Rs 1.25 crore due to reduction in prices besides liability for payment of LD of Rs 1.24 crore (of which Rs 39.40 lakh had been paid).

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

5.2 Loss due to delay in inspection and supply

Failure of the Company to provide required facilities for testing as agreed in the PO resulted in delay in inspection, supply and consequent levy of LD amounting to Rs 1.16 crore.

The Company received (February 2002) a purchase order (PO) from the Mahanagar Telephone Nigam Limited (MTNL) Mumbai for supply of 6250 sets of WLL Subscriber Terminal (Terminals) along with antennae, feeder cables and other accessories at an all inclusive price of Rs 9.49 crore. The PO provided the following:

(i) Terminals should be offered for inspection within four weeks from the date of issue of the PO i.e. by 18 March 2002 and supplies should commence within eight weeks from the date of issue of the PO, i.e. 16 April 2002.

(ii) The test schedule for inspection would be mutually decided keeping in mind the facilities of testing & system design and in case the purchaser decided to conduct such tests on the premises of the supplier, all reasonable facilities and assistance like testing instruments and test gadgets shall be provided by the Company at no charge; and

(iii) MTNL was entitled to recover Liquidated Damages (LD) in case of delay.

To execute the order, the Company placed an order on its collaborators LG Electronics INC Korea (LG) for supply of 6250 Terminals with delivery in February 2002. The imported Terminals were offered for inspection at Bangalore on 18 March 2002 which were inspected by MTNL between 19 April and 23 April 2002. MTNL in its report (29 April 2002) indicated that certain tests could not be offered for inspection and some tests were to be shown at MTNL Mumbai with actual air interface.

The Company while assuring (May 2002) that the requirements of the tests which could not be offered due to non-availability of infrastructure equipment would be met, requested MTNL to give dispatch clearance on the ground that the same models had already been supplied under the same tender by LG to MTNL and were accepted by MTNL on the basis of self-certification. The request of the Company was not accepted (July 2002) by MTNL. The Company finally arranged for tests during September/October 2002 and completed the supplies by 15 November 2002. MTNL levied liquidated damages (LD) and recovered Rs 1.16 crore while releasing the payments. The request of the Company for waiver of L.D. was not accepted by MTNL.

The management stated (June 2006) that (i) bulk supplies were tested with the test instruments available with the Company; (ii) MTNL insisted on testing these in live network, which were available only with service providers; and (iii) the Company had to depend on MTNL network for further tests for which permission was given by MTNL only in September 2002.

The reply of the management is not tenable since, as per the terms of the PO, the Company was required to provide all reasonable facilities and assistance before the scheduled inspection but the Company could not offer some tests due to non-availability of infrastructure equipment. The Company, ultimately arranged for the testes did in September/October 2002. The failure of the Company to provide required facilities for testing as agreed in the PO, resulted in delay in inspection and supply and the consequent levy of LD amounting to Rs 1.16 crore.

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

5.3 Payment of electricity charges at higher rates

Delay in segregating the commercial load from domestic load and inadequate follow up with UPPCL resulted in payment of electricity charges at higher rates and consequent avoidable expenditure of Rs 1.08 crore.

Raebareli Unit of the Company contracted (October 1990) a load of 6,000 KVA (including 588 KVA for Company's township) from Uttar Pradesh State

Electricity Board (now Uttar Pradesh Power Corporation Limited (UPPCL)). The connection was a single point one without segregation of the load between industrial/commercial and domestic purposes. It did not have any separate metering arrangement for the residential load in the township, though separate meters were installed in the residences. Because of the mixed load, the Company had to pay for the entire power consumed (including power consumed for residential purposes in Company's township) at higher rate (HV-2) applicable to large and heavy consumers for industrial or processing purposes.

It was observed in Audit (June 2004) that the Company continued to pay higher rates for power consumed in the township to UPPCL but it recovered lower rates (LMV-1 rates) applicable to domestic consumption from its employees. On a request made by the Company (April 1998) to UPPCL to raise separate bills for the power used in its township, UPPCL advised (May 1998) the Company to enter into a separate contract for the township. The Company segregated the residential load from commercial load only by October 2004. In the meantime, the Company repeatedly requested UPPCL at the level of Executive Engineer and Deputy General Manager to provide a separate feeder for township but did not take it up at higher levels. It experienced inadequate response and delay on the part of UPPCL officers. Separate connection for township was yet to be established (July 2006) and the Company continued paying electricity charges at higher HV-2 rates[@] for electricity consumed by the township during the period October 2001 to March 2006 resulting in avoidable expenditure of Rs. 1.08 crore[#].

The Management stated (August 2005) that for billing purpose a separate feeder for township had to be provided by UPPCL and that the mixed load township had now been segregated and survey had been conducted by UPPCL for the purpose.

The delay in segregating the commercial load from domestic load and inadequate follow up with UPPCL resulted in payment of electricity charges at higher rates and consequent avoidable expenditure of Rs. 1.08 crore.

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

5.4 Delay in installation and consequential loss of interest

Delay in supply/installation of the network management system valued at Rs 8 lakh resulted in non-realisation of Rs 1.27 crore for the last four years and consequential loss of interest of Rs 84.40 lakh.

The Company received (January 1999) a purchase order from Radar & Communication Project Office (RCPO), Ministry of Defence, New Delhi, for

[@] LMV-1 rate ranged from Rs. 2.95 per unit to Rs.3.00 per unit and HV-2 rate ranged from Rs. 3.50 per unit to Rs. 3.75 per unit between October 2001 and March 2006.

[#] Based on the domestic consumption of township for 2005-06 after segregation of commercial load of school, shopping centres and post offices from residential quarters.

supply and installation of hardware and allied items in seven earth stations (with network connectivity at 13 sites) at an all inclusive price of Rs 4.98 crore. The supply and installation were to be completed within six months from the date of placement of order.

The Company completed the supplies during August 2000 to June 2002 with the exception of Network Management System (NMS) valued at Rs 8 lakh which was rejected (December 2000) by the customer as it was not as per the prescribed specifications. RCPO changed (July 2001) the requirement for the NMS and in view of the changed requirement; the Company decided (July 2002) to outsource the work of NMS and awarded (December 2002) the same to an outside supplier. Meanwhile, the Customer had withheld Rs 1.27 crore due to not installing/commissioning the network as provided in terms of the purchase order i.e. release of 25 *per cent* of payment only after installation, testing and commissioning.

Audit observed (March 2006) that the Company selected the outsourced supplier without properly verifying his credentials. Ultimately, the outsourced supplier failed to supply the NMS and wound up his business (October 2004). Meanwhile RCPO again changed (March 2004) its requirement for NMS. However, the matter of release of the remaining 25 *per cent* payment excluding NMS was not taken up with RCPO. The Company again started development of NMS in-house. The supply has not been completed so far (April 2006).

The Management stated (July 2006) that the Company's design for NMS was not accepted (December 2000) by the customer in respect of nine sites. The customer changed the specifications of NMS from customized hardware solution to PC based and the required hardware for these nine sites was arranged in November 2002 but the customer had made periodical modifications in the software, delaying the supply/project.

The reply of the management was not tenable as initially the Company had failed to supply and install the NMS as per specifications and the supplies were further delayed due to improper selection of outside supplier, resulting in non-realisation of Rs 1.27 crore for the last four years[*] from RCPO along with the consequential loss of interest of Rs 84.40 lakh as of March 2006.

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

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[*] Reckoned from June 2002 when substantial supply was completed