OVERVIEW

This Audit Report for the year 2005-06 containing 49 paragraphs is presented in six chapters:

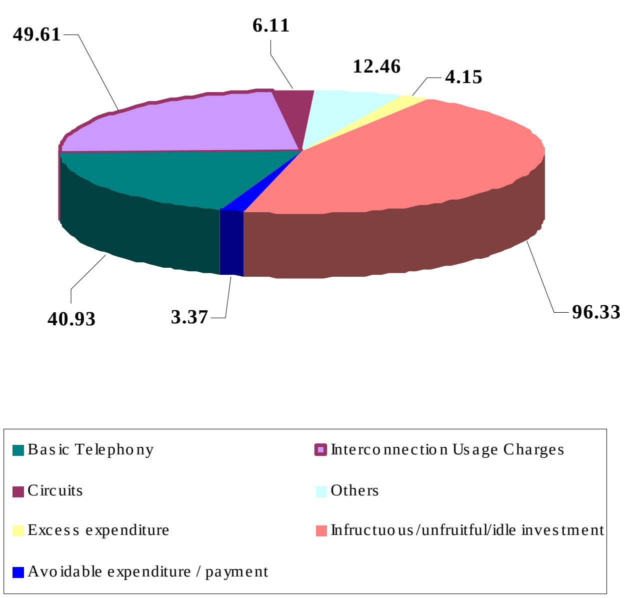
Chapters I to III	Bharat Sanchar Nigam Limited
Chapters IV	Mahanagar Telephone Nigam Limited
Chapters V	ITI Limited
Chapter VI	Follow up on Audit Report

Audit Methodology and Financial implications

The findings set out in this Report are among those which came to notice during the course of audit based on test check of the records of the Companies mainly during 2005-06 as well as the earlier part of 2006-07. The total quantifiable financial implication of the paragraphs included in this Report is Rs 247.26 crore. The Company-wise details with reference to the nature of irregularities are given as under:

(i) Bharat Sanchar Nigam Limited

The financial implication in respect of the paragraphs relating to Bharat Sanchar Nigam Limited (BSNL), which could be quantified, is Rs 212.96 crore as per details given below:

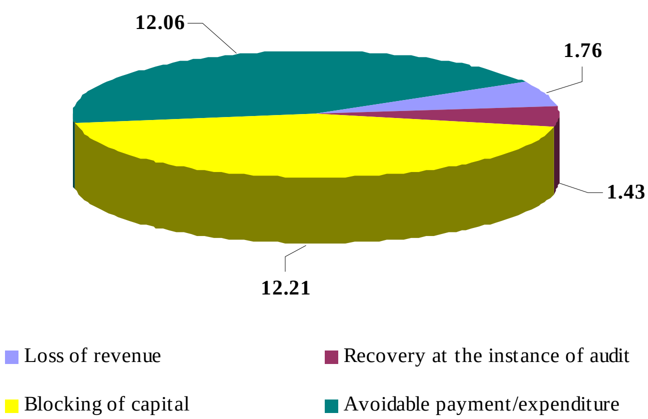


(Rs in crore)

Revenue paragraphs	
Basic Telephony	40.93
Interconnection Usage Charges	49.61
Circuits	6.11
Others	12.46
Expenditure paragraphs	
Excess expenditure	4.15
Infructuous/idle investment	96.33
Avoidable expenditure	3.37
Total	**212.96**

(ii) Mahanagar Telephone Nigam Limited

The financial implication in respect of paragraphs relating to Mahanagar Telephone Nigam Limited (MTNL), which could be quantified, is Rs 27.46 crore as per details given below:



(Rs in crore)

Revenue paragraphs	
Loss of revenue	1.76
Recovery at the instance of audit	1.43
Expenditure paragraphs	
Blocking of capital	12.21
Avoidable expenditure	12.06
Total	**27.46**

(iii) ITI Limited

The financial implication in respect of paragraphs relating to ITI Limited, which could be quantified, is Rs 6.84 crore as per details given below:

(Rs in crore)

Avoidable expenditure	3.48
Blocking of capital	1.27
Loss	2.09
Total	**6.84**

Highlights of individual chapters of each Company are presented below:

BHARAT SANCHAR NIGAM LIMITED

Chapter I

Introduction, organizational setup, investment and returns, physical and financial performance, revenue arrears, manpower and productivity

Bharat Sanchar Nigam Limited (BSNL) was incorporated on 15 September 2000 as a wholly owned Central Government Company under the Companies Act, 1956. The business of providing telecommunication services in the country, entrusted to the Department of Telecom Services (DTS) and the Department of Telecom Operations (DTO), was transferred to the newly formed company, BSNL, with effect from 1 October 2000. Other aspects highlighted in Chapter 1 are as under:

- The operations of BSNL are managed with the help of 24 telecom circles and two telecom districts excluding the project and maintenance circles. In addition, seven telecom factories are also managed by BSNL.
- As on 31 March 2006, the paid-up equity share capital and preference share capital were Rs 5,000 crore and Rs 7,500 crore respectively. In addition, there was a loan of Rs 5,500 crore from Government of India. During the year 2005-06, the Company provided Rs 1,063.33 crore towards interest on the outstanding loan.
- At the end of March 2006, BSNL had a network of 37,382 telephone exchanges with an equipped capacity of 513.93 lakh lines. Out of this equipped capacity, 379.95 lakh telephone connections (74 *per cent*) were given, though the number of persons on the waiting list was 13.32 lakh. The number of village public telephones increased from 5.19 lakh as on 31 March 2005 to 5.35 lakh as on 31 March 2006.
- For the year ended 31 March 2006, BSNL earned Rs 36,138.94 crore from its services. The net profit stood at Rs 8,939.69 crore.
- For the bills issued up to March 2006, an amount of Rs 2,658.81 crore (as of 1 July 2006) was outstanding for one year or more, which constituted 77.48 *per cent* of the total outstanding revenue of Rs 3,431.47 crore.
- The number of employees per thousand telephone connections including WLL decreased from 10.59 in 2001-02 to 5.84 in 2005-06.

(Paragraph 1)

Chapter II

Revenue paragraphs relating to BSNL based on transaction audit findings

This chapter on revenue paragraphs is based on the results of transaction audit, contains cases of loss/non-recovery/short billing of Rs 111.57 crore relating to basic telephony, interconnection usage charges and circuits. BSNL has realised Rs 6.98 crore at the instance of Audit.

Some of the important cases highlighting the above aspects were as under:

(A) Basic Telephony

Short charging of rentals

Six Secondary Switching Areas under the Andhra Pradesh, Uttar Pradesh (East) and Punjab telecom circles did not issue rental bills at higher rates commensurate with the enhanced capacities of exchanges resulted in short billing of Rs 30.03 crore.

(Paragraph 2.1)

Continuation of telephone facilities despite non-payment of dues

Twenty three Secondary Switching Areas under Bihar, Jharkhand, Karnataka, Rajasthan, Uttar Pradesh (East) and Uttar Pradesh (West) telecom circles did not disconnect telephone connections by the due dates in respect of subscribers and STD/PCO operators owing to non-payment of rentals for the period September 1996 to February 2006 resulted in non-recovery of revenue of Rs 9.28 crore.

(Paragraph 2.2)

Non-billing due to non-receipt of advice notes

Six Secondary Switching Areas under the Bihar, Gujarat and Rajasthan telecom circles could not raise rental bills of Rs 1.11 crore for the period July 2001 to December 2006 due to non-receipt of completed advice notes in their Telephone Revenue Accounting branches.

(Paragraph 2.3)

(B) Interconnection Usage Charges

Non-realization of charges from Reliance Infocom Limited for unauthorized routing of calls

In Eastern Telecom Region, Patna the Company failed to realize charges amounting to Rs 38.61 crore for the period May 2003 to September 2004 from

Reliance Infocom Limited for unauthorized routing of calls in violation of the interconnect agreement.

(Paragraph 2.6)

Non-realization of interconnection usage charges and interest thereon

Sixteen Secondary Switching Areas under five telecom circles as well as the Eastern Telecom Region, Bhubaneshwar did not realize interest of Rs 2.46 crore for delayed payment of the access charges/interconnection usage charges relating to the period March 2002 to January 2006 from 11 private telecom service operators. Further, four Secondary Switching Areas under two telecom circles also failed to realize the interconnect usage charges of Rs 63.01 lakh for the period October 2003 to August 2005 from five private telecom service operators.

(Paragraph 2.7)

Non-billing of infrastructure charges for passive links

Fourteen Secondary Switching Areas under Andhra Pradesh, Gujarat, Maharashtra, Punjab and Tamil Nadu telecom circles did not levy charges for infrastructural facilities in respect of passive links provided to private telecom service providers for the period March 2001 to December 2006. This resulted in non-billing of Rs 2.60 crore.

(Paragraph 2.8)

Non-billing of interconnect licence fees

Six Secondary Switching Areas under Andhra Pradesh Telecom Circle did not collect interconnect licence fees from e-Seva, Andhra Pradesh for the period June 2004 to November 2006. This resulted in non-billing of Rs 1.35 crore.

(Paragraph 2.9)

Short billing of port charges

Failure of 10 Secondary Switching Areas under three telecom circles to bill port charges correctly and in time resulted in non/short billing of port charges of Rs 1.05 crore.

(Paragraph 2.10)

(C) Circuits

Non-billing of rentals of leased circuits

Failure of 10 Secondary Switching Areas under Chhattisgarh, Kerala, Madhya Pradesh, Maharashtra, Rajasthan, Uttaranchal and Uttar Pradesh (West) telecom circles to raise bills for leased circuits for the period February 1980 to February 2007 resulted in non-billing of Rs 2.43 crore.

(Paragraph 2.15)

Short billing of rentals as per resources utilized

Failure of Hyderabad and Gurgaon Secondary Switching Areas under Andhra Pradesh and Haryana telecom circles to charge rentals for the period December 2002 to March 2006 in respect of local leased circuits within Short Distance Charging Areas as per the resources utilized, resulted in short billing of Rs 1.28 crore.

(Paragraph 2.16)

Loss of potential revenue due to delays in providing leased circuits

Failure of three Secondary Switching Areas under Bihar and Karnataka telecom circles and Calcutta Telephones District to provide leased circuits within the stipulated time resulted in loss of potential revenue of Rs 1.04 crore.

(Paragraph 2.17)

Chapter III

Expenditure paragraphs relating to BSNL based on transaction audit findings

This chapter on expenditure paragraphs is based on the results of transaction audit brings out excess expenditure, Infructuous/idle investment and avoidable expenditure aggregating Rs 103.85 crore. Replies of the Ministry are still awaited.

Some of the important cases highlighting the above aspects were as under:

(A) Excess expenditure

Excess payment of rent on international internet bandwidth

Chennai Telephones continued to pay rent at higher rates ranging from Rs 3.46 crore to Rs 7.90 crore although Telecom Regulatory Authority of India had fixed the ceiling on lease rent for the STM-1 bandwidth at Rs 2.99 crore per annum with effect from 29 November 2005. This resulted in excess payment of rent of Rs 2.53 crore for the period November 2005 to March 2006 for two STM-1 bandwidths hired from Videsh Sanchar Nigam Limited and one STM-1 bandwidth hired from Bharti Infotech Limited.

(Paragraph 3.1)

Excess payment of electricity charges

Eleven SSAs in the Rajasthan Telecom Circle continued to pay electricity charges at the old rates instead of the lower new rates under the mixed load category. This resulted in excess payment of Rs 1.62 crore during the period January 2005 to February 2006.

(Paragraph 3.2)

(B) Infructuous /idle investment

Idling of stock due to injudicious procurement

Karnataka, Kerala, Orissa Punjab, West Bengal Telecom Circles and the Calcutta Telecom District failed to consider the changing technologies such as introduction of Global System for Mobile Communication (GSM), Wireless in Local Loop (WLL) and shift towards poleless cable networks before procurement of telecom stores. Besides, the circles also did not exercise proper discipline in their procurement and did not consider the past consumption pattern before procurement. This resulted in injudicious procurement and consequent idling of stores of Rs 74.82 crore.

(Paragraph 3.3)

Idling of telephone exchange buildings

Thirteen telephone exchange buildings were constructed in seven Secondary Switching Areas under the Bihar, Karnataka, Rajasthan and Tamil Nadu Telecom Circles between January 2001 and July 2004 at a total cost of Rs 6.07 crore. Inadequacy of project monitoring mechanism and failure in synchronisation of various activities for commissioning of exchanges at the Circle and SSA levels in these circles led to non-utilisation of newly constructed telephone exchange buildings even after two to four years of their construction. This resulted in idling of exchange buildings and blocking of funds of Rs 6.07 crore.

(Paragraph 3.4)

Unfruitful expenditure on primary cables

The Bhopal Secondary Switching Area under the Madhya Pradesh Telecom Circle laid primary cables far in excess of the actual requirement, resulting in unfruitful expenditure of Rs 5.63 crore.

(Paragraph 3.5)

Injudicious expansion/commissioning of exchanges

General Manager, Telecom District, Ranchi, under the Jharkhand Circle sanctioned six project estimates between February 1999 and January 2003 for expansion of six exchanges. All the six exchanges remained underutilized even after one to three years due to higher projection of growth of subscribers and failure to consider the exchange capacity utilisation before expansion. This resulted in unproductive expenditure of Rs 3.61 crore on expansion of exchanges. Further a 2k exchange was newly commissioned (March 2004) at Devi Mandap road, Ranchi which provided only 228 connections. This resulted in unproductive expenditure of Rs 1.22 crore on commissioning of the new exchange.

(Paragraph 3.6)

MAHANAGAR TELEPHONE NIGAM LIMITED

Chapter IV

Revenue and expenditure paragraphs relating to MTNL based on transaction audit findings

This chapter contains revenue and expenditure paragraphs based on the results of transaction audit, bringing out loss of revenue of Rs 1.76 crore and blocking/avoidable expenditure of Rs 27.94 crore.

Some of the important cases highlighting the above aspects were as under:

(A) Revenue

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

Telecom Revenue Accounting wings of four exchanges of Mumbai unit of MTNL failed to issue disconnection orders in time and also delayed in disconnecting Wireless-in-Local Loop telephone connections for non-payment of rentals in respect of 717 subscribers for the period from October 2004 to October 2005. This resulted in loss of revenue of Rs 1.16 crore.

(Paragraph 4.1)

(B) Expenditure

Blocking of capital

MTNL, Delhi could not get possession of land for a telephone exchange because of delayed payment of Rs 10.62 crore (November 2002) towards cost of land and non-payment of ground rent of Rs 26.56 lakh. Besides, DDA demanded interest of Rs 1.59 crore owing to the delayed payment.

(Paragraph 4.4)

Excess payment of electricity charges

MTNL Delhi made payments of electricity charges at higher rates applicable to non-domestic, mixed load category instead of lower rates of industrial category in

West I, Central and Trans Yamuna areas of MTNL, Delhi. This resulted in excess payment of electricity charges to the tune of Rs 3.62 crore.

(Paragraph 4.5)

Failure to recover compensation for damage to underground cables

MTNL Delhi failed to prefer compensation claims costing Rs 3.43 crore during 2001-06 for damage to underground cables from outside agencies. In respect of damages of Rs 1.14 crore, the Company could not 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 did not lodge any claims. Thus failure of the Company to prefer compensation claims on the parties concerned even after lapse of one to four years resulted in non-realization of compensation claims of Rs 3.43 crore.

(Paragraph 4.6)

Chapter V

Expenditure paragraphs relating to ITI based on transaction audit findings

This chapter, containing expenditure paragraphs is based on the results of transaction audit and brings out loss/avoidable expenditure/blocking of capital of Rs 6.84 crore.

Some of the important cases were as under:

Avoidable loss due to delay in supply

The Company incurred a cash loss (material price minus cost of sale) of Rs 1.25 crore in the purchase order of February 2004 due to non-supply of equipment within the prescribed period (August 2004) and subsequent revision of price by the purchaser. Further, due to delayed supplies the Company made a provision of Rs 1.24 crore for liquidated damages in the books, out of which Rs 39.40 lakh had been recovered by BSNL from the bills released till December 2006.

(Paragraph 5.1)

Loss due to delay in inspection and supply

The Company failed to provide required facilities to the purchaser for testing of Wireless-in-Local Loop Subscriber Terminals along with antennae, feeder cables and other accessories, as agreed in the purchase order. This resulted in delay in inspection, supply and consequent levy of liquidated damages amounting to Rs 1.16 crore.

(Paragraph 5.2)