CHAPTER III : MINISTRY OF COMMUNICATION AND INFORMATION TECHNOLOGY

Department of Posts

3.1 Organisational set-up and financial management

3.1.1 Functions of the Department

The basic functions of the Department of Posts (DoP) include collection, processing, transmission and delivery of mail, sale of stamps and postal stationery, booking of registered, insured and value payable articles, money orders, parcels etc.

DoP also discharges certain agency functions on behalf of other ministries and departments, namely Postal Savings Bank, other small savings schemes, Postal Life Insurance, Public Provident Fund Scheme, National Savings Certificate, collection of customs duty on articles sent by post from abroad, booking, transmission and delivery of telegrams, disbursement of pension to military and railway pensioners, disbursement of family pension to families of coal mine employees and industries covered by the Employees Provident Fund Scheme.

3.1.2 Organisational set-up

The management of the department vests with the Postal Services Board. The Board, headed by a Chairperson, has three Members holding the portfolios of Operations and Marketing, Infrastructure and Financial Services and Personnel. The Chairperson is also the Secretary to the Government of India in DoP. The Board directs and supervises the management of postal services throughout the country with the assistance of Chief Postmasters General in circles and Senior/Deputy Directors General in the Directorate General of Posts. A Business Development Directorate (BDD) was set up in DoP in 1996 to ensure focused management of value added services *viz.*, Speed Post, Speed Post Passport Service, Business Post, Express Parcel Post, Media Post, Meghdoot Post card, Greeting Post, Data Post, E-Bill Post and E-Post. Postal Life Insurance (PLI) and Rural Postal Life Insurance (RPLI) Schemes are monitored by PLI Directorate headed by the Chief General Manager, PLI.

The department has 22 Postal Circles which are divided into 37 Regional offices, controlling 442 Postal Divisions and 46 Postal Stores Depots. There is also a Base circle to cater to the postal communication needs of the Armed

Forces. The staff strength of the department as on 31 March 2007 was 5.01 lakh with 2.20 lakh departmental employees and 2.81 lakh Gramin Dak Sewaks.

3.1.3 Postal traffic

The projected traffic for unregistered mail was calculated by the department on the basis of assessed traffic for the last two years. The assessed traffic was based on the revenue earned. According to information furnished by the Department, the volume of traffic projected and assessed during the years 2004-2007 in respect of classical services such as sale of post cards, letter cards (inland), money orders, insurance etc. was as shown in the table below:

(A) Unregistered mail

(Numbers in lakh)

Sl. No	Item	2004-2005		2005-2006		2006-2007	
		Projected	Assessed*	Projected	Assessed*	Projected	Assessed*
1.	Post cards	2989.32	2451.07	2574.96	1991.54	2109.87	1913.02
2.	Printed Post cards & Competition Post Cards	901.26	830.04	871.99	879.19	931.43	765.88
3.	Letter cards (Inland)	3103.20	2610.35	2742.31	2333.79	2472.46	2224.74
4.	Newspapers						
	Single	896.56	860.86	904.37	968.68	1026.24	917.63
	Bundle	91.49	150.82	158.44	162.81	172.48	163.53
5.	Parcels	452.70	408.75	429.41	397.08	420.67	410.94
6.	Letters	4109.33	7678.81	8066.95	7100.01	7521.87	7144.51
7.	Book packets	825.52	753.82	791.92	875.17	927.17	817.15
8.	Printed books	194.10	353.02	370.86	469.27	497.15	487.42
9.	Other periodicals	220.82	269.27	282.88	372.37	394.50	422.68
10.	Acknowledgement	703.98	741.07	778.53	716.83	780.99	663.00

* Based on revenue collection

(B) Registered mail and others

(Numbers in lakh)

Sl. No.	Item	2004-2005		2005-2006		2006-2007	
		Projected	Actual	Projected	Actual	Projected	Actual
11.	Money Orders (MOs)	1100.45	1222.91	1197.13	1229.31	1229.31	987.93
12.	Insurance	105.57	90.86	95.45	86.65	91.80	88.01
13.	Value payable letters and parcels	110.91	93.72	98.46	80.44	85.22	85.56
14.	Registered letters and parcels	2124.38	1900.84	1996.92	1844.32	1953.90	1947.47
15.	Speed Post	913.16	959.78	1008.29	1086.00	1150.53	1286.00

3.1.4 Revenue realisation and Revenue expenditure

(A) Revenue realisation

The major revenue earning groups of services *viz.*, sale of stamps, commission on MOs/IPOs, postage in cash and other receipts generated a revenue of Rs. 5322.44 crore during the year 2006-07 after adjusting the loss of Rs. 43.95 crore from other postal administration and registered an increase of six *per cent* over the previous year. Source-wise share of postal revenue for the years 2005-06 and 2006-07 is shown in the table below:

(Rupees in crore)

Name of the service	2005-06	2006-07	*Percentage* increase/decrease over the previous year
Sale of stamps	758.56	671.45	(-) 11.5
Postage in cash	1469.99	1680.47	14.3
Commission on MOs/IPOs	2696.38	2883.41	6.9
Other receipts	142.53	131.06	(-) 8.0
Net receipts from other postal administrations	(-) 43.97	(-) 43.95	0.0
Gross Revenue	**5023.49**	**5322.44**	**6.0**

(B) Revenue expenditure

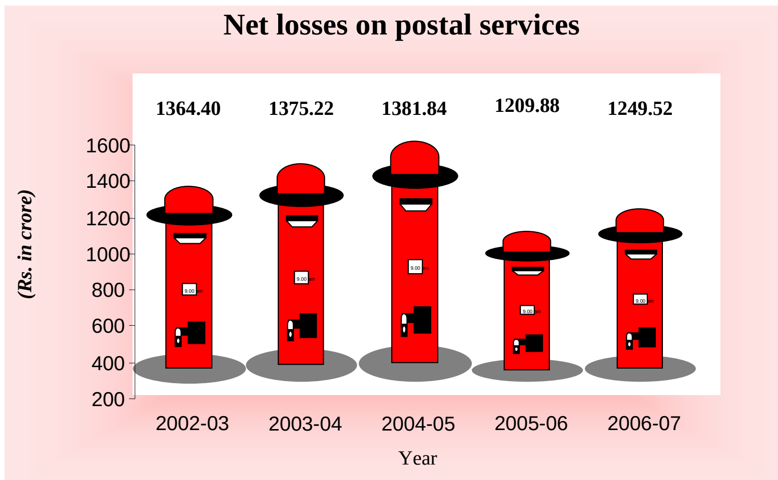
The gross revenue expenditure during 2006-07 was Rs. 6779.12 crore which showed an increase of 5.4 *per cent* over the preceding year**.** The revenue expenditure on pay and allowances**,** conveyance of mails, printing of stamps, post cards and stationery during 2005-06 and 2006-07 is shown in the table below:

Revenue expenditure

(Rupees in crore)

Category	2005-06	2006-07	*Percentage* increase/ decrease over previous year
(a) Pay and allowances, contingencies, Bonus, Dearness allowances, etc.	4712.71	4803.70	1.8
(b) Pensionary charges	1351.02	1424.66	5.5
(C) Stamps, Post Cards etc.	16.43	28.19	71.6
(d) Stationary and Forms printing etc.	33.96	54.81	76
(e) Conveyance of Mails (payments to Railways and Air mails carriers)	126.31	265.77	110.4
(f) Other expenditure	188.72	201.99	7.0
Total	**6429.15**	**6779.12**	**5.4**

The net revenue budgetary support of Rs. 1249.52 crore was worked out by deducting receipts of Rs. 5322.44 crore and recoveries of Rs. 207.16 crore from the gross revenue expenditure of Rs. 6779.12 crore in 2006-07. The deficit was mainly due to decrease in revenue receipts under sale of stamps and other receipts and increase in expenditure under the heads Stamps, Post cards etc., Stationery and Forms printing etc. and Conveyance of Mails (payments to Railways and Air Mails carriers). The comparative position of net losses incurred by the Department on various postal services including speed post during the period 2002-07 was as under:



The Department's net overall loss of Rs. 1249.52 crore on postal services during 2006-07 increased by Rs. 39.64 crore (3.28 *per cent*) as compared to the net loss suffered during 2005-06 and decreased by 114.88 crore (8.42 *per cent*) as compared to net loss suffered during 2002-03.

3.2 Short realisation of postage charges

Senior Superintendent of Post Offices, Ernakulam under Kerala Postal Circle authorised concessional tariff to a publication without ensuring the prescribed conditions as applicable to registered newspapers, resulting in short realisation of postage charges of Rs. 2.74 crore.

Departmental Rules provided that every publication, consisting wholly or in great part of political or other news or of articles relating to other current topics with or without advertisements should be deemed a newspaper subject to the conditions that it was published in numbers of intervals of not more than 31 days and having a list of bona fide subscribers. An extra supplement should also be deemed as part of the newspaper but such supplement should not be an advertisement sheet which was by advertiser to publisher for distribution.

Departmental Rules also envisaged that special rates of postage in respect of a book packet containing periodicals should be applicable only if the periodical was registered with the Registrar of Newspapers in India under the Press and Registration of Books Act, 1867 and the registration number should be printed at a convenient place in the periodical. These instructions were reiterated by the Department of Posts (DoP) in February 2006.

Audit scrutiny of the records of Senior Superintendent of Post Offices, Ernakulam Division under Kerala Postal Circle in March 2007 revealed that the licence of a periodical *viz*., "Book Review" had been renewed as registered newspaper in December 2002 for the period 2003-05. The Postmaster General, Central Region (Kochi) observed in March 2003 that the publication "Book Review" had a supplement named "Knowledge Adventure" related with the advertisement of the book and such advertisements had to be paginated or included in the overall numbering of pages of the magazine. The supplement should be treated as book packet and postage realised accordingly. The Senior Superintendent of Railway Mail Service (SSRM) Ernakulam Division and Assistant Superintendent of Post Offices had also pointed out that the said publication was published monthly but posting same copies every week in guise of weekly was not regular. Again, SSRM, Ernakulam Division reported in July 2005 that all four issues of the publication issued in May/June 2005 were identical and requested SSPO, Ernakulam Division to cancel the licence of the publication. Audit, however, observed that SSPO, Ernakulam Division did not take any action on the complaints received and renewed the licence of the publication for a further period of three years in January 2006. In January 2007, the Inspector of Posts on verification reported that the said publication had no bona fide subscribers and the addressees informed that they were not subscribers of the publication. SSPO, Ernakulam Division finally cancelled the registration of the publication in February 2007 but took no action to recover the postage short realised. This resulted in short realisation of postage charges of Rs. 2.74 crore during January 2004 to February 2007.

On this being pointed out in audit, SSPO, Ernakulam Division stated (May 2007) that the renewal of registration of the publication was done after satisfying the stipulated conditions. Hence the renewal of registration was in order. He further added that loss assessed by Audit was not acceptable and recovery of Rs. 2.74 crore as pointed out by audit would invite unnecessary litigation. He further admitted that if the concessional rates for registered newspaper were not applicable, the rates applicable for book packet containing periodicals should be applied. He also stated that the publication was registered with the Registrar of Newspaper in India.

The reply was not tenable as SSPO, Ernakulam Division had not verified the addresses of the bona fide subscribers at the time of renewal of registration which was a basic requirement for the registration of newspapers. It was only in January 2007, the Inspector of Posts verified the addresses and reported that there were no bona fide subscribers. Further, the rates applicable to book packets containing periodicals could not be applied as on verifying the status of registration of publication, registration number 9756 was allotted to some other publication named “Bijnor Times” and not to “Book Review”. Further, the registration number if any obtained from the Registrar of Newspapers in India under the Press and Registration of Books Act, 1867 was not printed on the publication as required under the Rules.

The matter was referred to the Ministry in June 2007; their reply was awaited as of October 2007.

3.3 Non-recovery of pension/family pension paid on behalf of other Departments and commission thereon

The General Manager, Postal Accounts and Finance, West Bengal Postal Circle failed to obtain complete vouchers from the Head Post Offices and raise debits of Rs. 3.43 crore on Railways, Department of Telecom, Coal Mines Provident Fund and Commissioner, Employees Provident Fund for payment of pension/family pension made on their behalf. He also failed to recover Rs. 2.22 crore against the debits raised on these Departments.

The Department of Posts (DoP) discharges agency function for disbursement of pension/family pension on behalf of other departments *viz*. Railways, Department of Telecom, Coal Mines Provident Fund (CMPF) and Commissioner, Employees Provident Fund (EPF) through various Head Post Offices (HPOs) on charging of commission fixed by DoP from time to time. After payment of pension/family pension, HPOs are required to send monthly cash account along with relevant payment vouchers/schedules by 2nd of the following month to the Circle Account office to effect recovery from the concerned Department/Undertakings.

Audit scrutiny of the records of General Manager Postal Accounts and Finance (GM, PAF), West Bengal Postal Circle in April 2007 showed that he failed to obtain paid vouchers from three HPOs and consequently failed to raise debits against Railways, Department of Telecom and Commissioner, EPF to the tune of Rs. 3.43 crore on account of pension payments made by these HPOs and Rs. 11.53 lakh on account of commission during the period April 2003 to February 2007.

Further, GM (PAF) also failed to realise an amount of Rs. 2.22 crore inclusive of Department's commission of Rs. 1.14 crore out of the debit raised during 2003-2007 against Commissioner, EPF and DoT on account of pension payment made by DoP on their behalf.

On this being pointed out in audit, GM(PAF) replied in April 2007 that the debits of Rs. 3.43 crore for pension payment and of Rs. 11.53 lakh for commission were not raised due to non receipt of vouchers from HPOs despite several reminders and steps were being taken to settle the pending cases. The Postmasters of Baruipur and Katwa HPOs replied in April and June 2007 respectively that the schedules/vouchers were not sent to GM (PAF) due to shortage of staff while the Postmaster, Barasat HPO replied in May 2007 that wanting schedules/vouchers were not traceable. In respect of debit of Rs. 2.22 crore already raised against respective Departments, GM (PAF) stated (May 2007) that despite several periodical reminders, no communication had been received from the concerned Departments.

The above replies are suggestive of lackadaisical approach by the HPOs concerned in the submission of paid vouchers to GM (PAF) for the pension payments made on behalf of other Departments. It also indicates negligence of GM (PAF), West Bengal Circle in obtaining the wanting vouchers from the HPOs concerned for such a long period. Non-submission of debit vouchers for pension payments has serious risk of fraud and possibilities of fake pensioners. This needs to be investigated in detail by the Department.

The Ministry in their reply stated (November 2007) that out of Rs. 3.43 crore for which debits were not raised by DoP, Rs. 1.32 crore has been recovered.

3.4 Non-deduction of Income Tax at source

Non-observance of the statutory provisions of Finance Act by the Postmasters under Andhra Pradesh, Assam, Gujarat, Punjab, Haryana, West Bengal and North East Postal Circles led to non-deduction of Income Tax at source to the tune of Rs. 1.93 crore on payments of interest under the Senior Citizens Savings Scheme.

Senior Citizens Saving Scheme Rules, 2004 came into effect from August 2004 with the introduction of Senior Citizens Saving Scheme (SCSS). These rules stipulated that an individual who had attained the age of 60 years or more on the date of opening the account or who had attained the age of 55 years or more but less than 60 years and who had retired under a voluntary retirement scheme could open account under SCSS within three months from the date of his/her retirement. The deposits made under these rules carried interest at the rate of 9 *per cent* per annum from the date of deposit payable quarterly. The scheme provided that the applicant, while applying for the scheme, had to furnish his/her Permanent Account Number or a self declaration to the effect that his/her income from all sources including interest income from the account to be opened vide this application did not exceed the exemption limit. Section 194 A of the Income Tax Act, 1962 specified that Tax Deduction at Source (TDS) was recoverable from the income by way of interest, if the interest exceeds Rs. 5,000 in a financial year. Further Department of Posts (DoP) issued instruction to all field offices (January 2004) that the TDS and surcharge should be deducted as per the provisions of Finance Act without waiting for separate instructions from the Directorate.

Ministry of Finance reiterated these provisions in March 2006 and June 2006 and stated that the facility of furnishing Form 15-H under Income Tax Act, 1962 was available only to persons aged 65 years or above and resident in India, whereas declaration in Form 15-G could be furnished by a depositor of less than 65 years of age with the additional condition that the aggregate amount of interest credited/ paid or likely to be credited/ paid during the financial year was not more than the maximum amount[*] which was not chargeable to tax. Ministry of Finance again in June 2006 clarified that TDS would be applicable from the very first day the SCSS was made operational.

Audit scrutiny of the records of Post Offices under Assam, Andhra Pradesh, Gujarat, Punjab, Haryana, West Bengal and North East Postal Circles during November 2006 to April 2007 disclosed that TDS at the prescribed rates had not been deducted from the interest payments made under the SCSS during the years 2004-05, 2005-06 and 2006-07 from those depositors who had not furnished Form 15-H or 15-G and in whose cases the interest exceeded Rs. 5000 in a financial year. This resulted in non-deduction of Income Tax and educational cess at source amounting to Rs. 1.93 crore in these post offices.

On being pointed out in audit, the Chief Postmaster General, Gujarat Circle replied (May 2007) that concerned Heads of circles had been instructed to recover Income Tax at source. The Senior Postmaster, Ludhiana Head Post Office under Punjab Postal Circle replied (January 2007) that cases were being examined. The Postmasters under Haryana Postal Circle replied (March 2007) that Form 15-G and 15-H were being taken after June 2006 while those under Andhra Pradesh, West Bengal, Assam and North East circles stated that the action would be taken for recovery.

---

[*] Rs. 1.10 lakh in case of male and Rs. 1.35 lakh in case of female tax payers

Thus, failure of post offices to observe the statutory provisions of Finance Act resulted in non-deduction of Income Tax at source to the tune of Rs. 1.93 crore on payments of interest under SCSS.

The matter was referred to the Ministry in June 2007; their reply was awaited as of October 2007.

3.5 Non-levy of Service Tax

Non-observance of the statutory provisions of Finance Act by the Postmasters under Kerala, Rajasthan, Madhya Pradesh and Chattisgarh Postal Circles led to non-levy of Service Tax and educational cess amounting to Rs. 81.69 lakh on commission received from Bharat Sanchar Nigam Limited for collection of telephone revenue.

Finance Act, 2004 stipulates that Business Auxiliary Service means *inter alia*, any service in relation to provision of service on behalf of a client or incidental or auxiliary services such as billing, issue or collection of recovery of cheques, payments etc. Finance Act, 2006 stipulates that "taxable service" means any service provided or to be provided to a client, by any person in relation to business auxiliary service. Thus, the Department of Posts (DoP) was liable to pay Service Tax for the commission received by it from Bharat Sanchar Nigam Limited (BSNL) for collection of telephone revenue effective from May 2006. DoP also confirmed the above position by issuing instructions to all Heads of Circles in June 2006.

Audit scrutiny of the records of Director of Postal Accounts of Kerala, Rajasthan, Madhya Pradesh and Chattisgarh postal circles during November 2006, January 2007 and February 2007 respectively revealed that Service Tax and educational cess at the prescribed rates had not been levied on the commission received from BSNL for collection of telephone revenue by the post offices under these circles. This resulted in non-levy of Service Tax and educational cess amounting to Rs. 81.69 lakh for the period May 2006 to January 2007 as detailed below:

(Rupees in lakh)

Sl. No.	Name of the Circle	Service Tax Due
1.	Kerala	25.47
2.	Rajasthan	28.83
3.	Madhya Pradesh	21.24
4.	Chattisgarh	6.15
Total		**81.69**

On this being pointed out in Audit, the Chief Postmaster General, Rajasthan Circle (May 2007) stated that Service Tax and educational cess would be recovered from subsequent bills. Postmasters under Kerala Postal Circle replied that service tax and educational cess were not deducted due to delay in receipt of instructions from DoP. The Director of Accounts, Bhopal replied (February 2007) that necessary instructions had been issued to field units for collection of Service Tax with effect from April 2006.

The mere fact that instructions were not received in regard to levy of Service Tax and educational cess did not itself absolve the field officers concerned of their responsibility in this regard. On the contrary, it was mandatory, on their part, to have commenced levy of Service Tax once the relevant Finance Bills had been passed to give effect to various taxation proposals. Further, DoP should put in place an effective system of delivery of important instructions having tax or revenue implications to ensure their timely implementation by the Postal Circles.

Thus, failure of HPOs to take necessary steps in compliance with the Finance Act, 2006 resulted in non-realisation of Service Tax and educational cess to the tune of Rs. 81.69 lakh.

The matter was referred to the Ministry in June 2007; their reply was awaited as of October 2007.

3.6 Irregular payment of commission

Six post offices under North East and one post office under Delhi Postal circle allowed commission to Standardised Agency System Agents on holding of cash in excess of prescribed limits. This resulted in irregular payment of commission amounting to Rs. 76.06 lakh.

Departmental Rules provided that maximum limit of the cash receipt books that could be issued to the Standardised Agency System (SAS) agents and also the maximum limit of cash handled by them was Rs. 50,000 at a time and no commission was payable to the agents on holdings invested in excess of the prescribed limit. If any commission found to be paid on the excess holdings invested, it should be recovered from the agents. It further stipulated that investments/deposits in various saving schemes in excess of Rs. 50,000 should be received by means of a cheque only, if made through agents. It was the responsibility of the Postmasters to ensure that the prescribed limit was not exceeded. Ministry of Finance clarified in July 1998 that strong action should be taken against the erring agent as well as postal officials in charge issuing receipt books to the agent in excess of the prescribed limits.

National Saving Institute (NSI), Ministry of Finance also reiterated in November 2004 that all such cases, where the authorised agents were transacting business without using proper receipt and also above the prescribed cash limit, were to be reviewed as such transactions by the agents were irregular on which no commission was payable to them.

Audit scrutiny of the records of six post offices under North East Postal Circle and one Post Office under Delhi Postal Circle during March – April 2007 revealed that Postmasters of these Post Offices failed to follow prescribed rules/checks at the time of issuing receipt books and issued receipt books in excess of the prescribed limits, i.e. in excess of Rs. 50,000 at a time to authorised agents. They also accepted the deposits of the investors in cash through the agents in excess of the prescribed limits and allowed commission to the SAS agents thereupon. This resulted in irregular payment of commission of Rs. 76.06 lakh during the period February 1999 to April 2007.

The Department, while admitting the audit contention stated (November 2007) that the matter has been referred to the Ministry of Finance as there was no mention in the O.M. of July 1998 about the recovery of commission from the agents, if noticed later.

The reply was not tenable as the NSI, Ministry of Finance had already clarified in November 2004 and directed the DoP to review such cases as such transactions by the agents were irregular on which no commission was payable to them. Moreover, Department of Posts also clarified in February 2007 that as the deposit of cash above the prescribed limit at a time and non-issue of proper receipt were against the agency rules, the commission in such cases was not payable as already decided by NSI.

Thus, despite repeated clarifications, the Postmasters under North East and Delhi Postal Circles failed to adhere to the departmental rules and did not take any action to recover the commission of Rs. 76.06 lakh paid irregularly to the agents.

3.7 Irregular payment of interest

Failure of one Head Post Office under Rajasthan, and One Head Post Office under Chattisgarh Postal circles to ensure the prescribed monetary limit of subscription in respect of the Public Provident Fund (PPF) Scheme resulted in irregular payment of interest of Rs. 31.92 lakh.

Departmental rules provide that an individual may subscribe to the PPF Scheme on his/her own behalf or on behalf of a minor/minors of whom he/she is a guardian subject to the condition that the deposits in all accounts taken together should not exceed Rs. 60,000 (Rs. 70,000 with effect from 15 November 2002) during a year. Contributions in excess of the limit should be treated as irregular subscription and should be refunded to the subscriber without any interest. Declarations to the effect that he/she is not maintaining any other PPF Account and that he/she agrees to abide by the provisions of the PPF Scheme, 1968 and amendments issued thereto from time to time are required to be obtained from the subscriber along with his/her application form at the time of opening the account.

Audit scrutiny of the records of Head Post Office (HPO), Barmer under Rajasthan Postal Circle and HPO, Durg under Chattisgarh Postal Circle during November 2006 and July 2005 respectively revealed that they allowed subscribers to open two to three PPF accounts, one on their own behalf and others on behalf of minors, without obtaining the necessary declarations at the time of opening of the accounts. They also accepted Rs. 44.85 lakh as deposits in excess of the prescribed limit at the end of April 2005, which resulted in excess payment of interest of Rs. 31.92 lakh as of March 2006.

The Department of Posts (DoP) had issued orders in May 2004 for early detection of such cases and also instructed that stringent action should be taken against erring postal officials who failed to detect such irregularities. In spite of this, these post offices failed to detect excess deposits and allowed interest thereon to the tune of Rs. 31.92 lakh.

On this being pointed out in audit, the Postmaster, Barmer HPO while accepting the facts and figures, replied in November 2006 that notices were being issued to the account holders to recover the interest paid irregularly while the Postmaster, Durg HPO accepted the audit contention and replied (November 2007) that notices have been issued to the account holders to bring their pass books for correcting the amount of interest therein.

The matter was referred to the Ministry in July 2007; their reply was awaited as of October 2007.

3.8 Irregular payment of interest and commission

Senior Postmaster, Sansad Marg Head Post Office under Delhi Postal Circle failed to ensure the prescribed monetary ceiling in the accounts opened under the Monthly Income Scheme. This resulted in irregular payment of interest and commission amounting to Rs. 28.83 lakh.

Post Office (Monthly Income Account) Rules, 1987 permitted an individual depositor to open more than one account under the Monthly Income Scheme (MIS) subject to the condition that deposits in all accounts taken together should not exceed Rs. 3 lakh in a single account and Rs. 6 lakh in a joint account (effective from 1 February 2000).

Rules further provided that at the time of investment in an MIS Account, the depositor should give a declaration to the effect that his/her deposits in all the accounts taken together did not exceed the prescribed limit. In the case of excess deposits made beyond the prescribed limit, the Head Postmaster should refund the excess irregular deposits without interest to the depositor. The interest paid, if any, on the excess deposits should be deducted and commission paid to the agents on the excess investments should be recovered. However, in January 2002, the Ministry of Finance decided to refund to the depositors the excess deposits along with interest at the Post Office Savings Bank rate, from the date of deposit till the end of the month preceding the month in which the subscriber was to withdraw the excess deposit from the MIS account. The Department of Posts communicated this decision to all circles in April 2002.

Mention was made in paragraphs 1.12, 3.5 and 2.6 of the reports of the Comptroller and Auditor General of India for the year ended 31 March 2003, 31 March 2005 and 31 March 2006, Union Government, Transaction Audit Observations, of instances of irregular payment of interest on accounts opened in various post offices under MIS in contravention of these rules. The Ministry, in their Action Taken Notes submitted in December 2004, admitted that the postal staff failed to follow the rules of the scheme and stated that all Heads of Circles had been directed in September 2004 to ensure that the officers entrusted with inspection duties of post offices were also assigned the work of initiating checks on accounts opened in the post offices, besides ensuring that the rules regarding all post office accounts were available in the office to avoid recurrence of such irregularities in future. Ministry vide their ATN of March 2007 has accepted the excess payment to the extent of Rs. 18.10 lakh and instructions were reiterated.

Audit scrutiny of the records in the Senior Postmaster, Sansad Marg Head Post Office under the Delhi Postal Circle during December 2006 to February 2007 revealed that he had accepted Rs. 2.49 crore in 95 cases during the period May 2000 to January 2007 as deposits in excess of the prescribed limit and paid interest on these deposits, at MIS rates instead of at Savings Bank rates, besides paying commission amounting to Rs. 28.83 lakh.

On this being pointed out by Audit, the Senior Postmaster, Sansad Marg HPO under the Delhi Circle, while accepting the audit contention, replied that the notices had been issued to the depositors and the excess deposits were being refunded to the depositors with Post Office Savings Bank rate of interest and the recovery of excess interest/commission was being made. These clearly indicated that DoP had not been able to stop the irregular practices and the mechanism for monitoring compliance of their orders remained weak.

The matter was referred to the Ministry in May 2007; their reply was awaited as of October 2007.

Department of Telecommunications

3.9 Background

In 1948, India had only 0.1 million telephone connections with a telephone density of about 0.02 per hundred population. Since then the number of telephone connections has risen to 206.82 million with a telephone density of 18.31 telephones per hundred population by 31 March 2007.

3.9.1 Administration and Control

The Telecom Commission set up in April 1989 has the administrative and financial powers of the Government of India to deal with the various aspects of telecommunications. The Telecom Commission and the Department of Telecommunications (DoT) are responsible for policy formulation, review of performance, licensing, wireless spectrum management, administration of Public Sector Undertakings (PSUs) engaged in telecommunication services and international relations.

3.9.2 Development in the telecom sector

The process of entry of private operators in providing telecommunication services in India commenced in 1992. Apart from privatising basic telephone services Government also decided to introduce a number of value added services through private operators such as cellular mobile telephones, radio paging, e-mail, internet, closed user groups (CUG) and broad-band service which added to the value of the existing basic telephone services. The share of the private sector in the total number of telephones increased from 57 *per cent* as of March 2006 to 65 *per cent* as of March 2007.

Entry of private service providers brought with it the inevitable need for independent regulation. The Telecom Regulatory Authority of India (TRAI) was, therefore, established with effect from 20 February 1997 by an Act of Parliament called the TRAI Act, 1997, to regulate the telecom services. The TRAI Act was amended by an ordinance effective from 24 January 2000, separating the dispute adjudicatory functions from TRAI by establishing a Telecommunications Dispute Settlement and Appellate Tribunal (TDSAT). TDSAT adjudicates any dispute between a licensor and a licencee, between two or more service providers and between a service provider and a group of consumers. It also hears and disposes of appeals against any direction, decision or order of TRAI.

3.10 Non-recovery of liquidated damages from Unified Access Service Licencees

Department of Telecommunications failed to recover liquidated damages of Rs. 400.20 crore from Unified Access Service Licencees for delayed/non-fulfillment of first phase and second phase roll out obligations as per terms and conditions of the licence agreement.

The Department of Telecommunications (DoT) introduced Unified Access Services Licensing (UASL) Regime in November 2003, which envisaged provision of wireline, fixed and limited mobile wireless, full mobile wireless and cellular mobile telephone services under one licence. Apart from new licencees, basic and cellular services licencees were also permitted to migrate to UASL regime. DoT issued 28 new UAS licences while 30 Basic Telephone Service providers migrated to the UASL regime during 2003-2005.

As per clause 34 of the licence agreement, the new as well as migrated licencees were to ensure commissioning of the system within one year and coverage of at least 10 *per cent* district headquarters (DHQs) in the first year (first phase) and 50 *per cent* of the district headquarters within three years (second phase) from the effective date of agreement/migration. The coverage of a DHQ/town would mean at least 90 *per cent* of the area bounded by the municipal limits.

In terms of clause 8 of the licence agreement, the date of test certificate issued by the Telecom Engineering Centre (TEC) was to be reckoned as the date of commissioning of the service for this purpose. However, the licencee might start providing service to customers at any time without the need of specific approval of the licensor. Further, as per clause 35 of the licence agreement, no extension in the prescribed due date for commissioning of the service was to be granted. If the licencee failed to deliver the service or to meet the required coverage area/network roll out obligation within the period prescribed for commissioning, such default would entail recovery of liquidated damages at the rates prescribed in the agreement. In terms of the licence agreement, in case of delay in fulfillment of roll out obligations beyond the prescribed period (one year in case of phase I and three years in case of phase II), the LD charges were recoverable at the rate of Rs. 5 lakh per week for first 13 weeks; at the rate of Rs. 10 lakh for the next 13 weeks and thereafter at the rate of Rs. 20 lakh for 26 weeks subject to a maximum of Rs. 7 crore.

Audit scrutiny of the records of the Deputy Director General (DDG), DoT, New Delhi (August 2006/April- May 2007) disclosed that 30 UAS licencees who had migrated from basic services and 28 new UAS licencees did not fulfill the first phase roll out obligation and failed to provide 90 *per cent* coverage to 10 *per cent* district headquarters within the prescribed time limit of one year. Further, 28 out of 30 UAS licencees who migrated from basic services and 19 out of 28 new UAS licencees did not fulfill the second phase roll out obligations and failed to provide 90 *per cent* coverage to 50 *per cent* DHQs within the prescribed time limit of three years.

Audit also observed that 17 UAS licencees had fulfilled the first roll out obligation with delays ranging between 18 to 121 weeks while 41 of them had not fulfilled the first roll out obligation up to 31 March 2007. Further, out of 41 licencees, who were responsible to fulfill the second phase roll out obligation, only 2 UAS licencees had fulfilled the second roll out obligation and remaining 39 UAS licencees had not fulfilled the second roll out obligation up to 31 March 2007. Barring one licence of Hutchison Essar South Limited, all other 57 licencees delayed the phase I roll out obligations by more than 52 weeks, thereby attracting the maximum leviable LD of Rs. 400.20 crore as shown in the table below, which DoT failed to realise.

(*Rupees* in crore)

Name of the UAS Licencee	**No. of Licences (New plus migrated)**			**LD to be recovered @ 7 crore/Licence**
	New	**Migrated**	**Total**	
M/s Reliance Infocomm Ltd	1	20	21	147
Tata Tele services Ltd	12	8	20	140
Bharti Air Tel Ltd	6	0	6	42
Dishnet Wireless Ltd	7	0	7	49
Hutchison Essar South Ltd	2	0	2	8.2 (7 crore + 1.2 crore for 18 weeks)
HFCL Info Tel Ltd	0	1	1	7
Shyam Tele Link	0	1	1	7
	28	**30**	**58**	**400.20**

On this being pointed out in audit, DoT has accepted the liquidated damages payable for non-fulfillment of the first phase of roll out obligation as Rs. 400.15 crore by the various operators and stated (July 2007) that show cause notices for imposition of liquidated damages have been issued to the operators in June 2006. However, the demands were yet to be raised against these private service providers. As regards the second phase of roll out obligation, the Department was yet to take administrative decision on the matter and the cases for calculation and imposition of the second phase of roll out obligations were under process.

3.11 Non-realisation of financial bank guarantee

Department of Telecommunications failed to obtain financial bank guarantee of Rs. 16.63 crore from M/s Mahanagar Telephone Nigam Limited for securitisation of spectrum charges.

Department of Telecommunications (DoT) granted a licence to Mahanagar Telephone Nigam Limited (MTNL) for providing Cellular Mobile Service after signing licence agreement in December 2002. As per terms and conditions of the licence agreement, the fee charges and royalties for the use of spectrum should be separately securitised by furnishing financial bank guarantee (FBG) of an amount equivalent to the estimated sum payable to WPC wing valid for one year, renewable from time to time till final clearance of all such cases. WPC in March 2002 decided that spectrum charges were payable on quarterly basis in advance i.e. within 15 days of the commencement of each quarter. If the payments were not received within the specified period, DoT had the right to terminate the licence after giving 60 days notice besides encashing the bank guarantee.

Audit scrutiny of the records of Department of Telecommunications (DoT) in January 2007 revealed that the DoT had failed to obtain financial bank guarantee amounting to Rs. 16.63 crore for securitisation of spectrum charges payable for the period 2005-06 in respect of Delhi and Mumbai service areas. This had also resulted in huge outstanding of spectrum charges amounting to Rs. 21.24 crore as of December 2006.

On this being pointed out in audit, DoT replied (January 2007) that financial bank guarantee for securitisation of spectrum charges had not been obtained and the same were being called for.

The matter was referred to the Ministry in July 2007; their reply was awaited as of December 2007.