CHAPTER III

MAJOR FINDINGS IN TRANSACTION AUDIT-EXPENDITURE

(A) Infructuous/idle investment

3.1 Injudicious procurement of stores for landline telephone service

Procurement of cable, exchange equipments and other stores for landline telephone service by BSNL without considering declining trend in the subscriber base and the past consumption pattern, resulted in excess procurement, idling and underutilization of these stores valued at Rs 794.32 crore.

The subscriber base of landline telephone service of Bharat Sanchar Nigam Limited (BSNL) decreased from 3.54 crore in March 2003 to 3.35 crore in January 2007 whereas net switching capacity (NSC) increased from 4.50 crore to 4.73 crore during the same period. In view of the relatively static subscriber base, Audit examined the rationale in the Corporate office and circles for procurement of stores for landline telephone service during the period April 2003 to January 2007. For the purpose of this study, Audit looked into only the planning and utilisation of stores procured for landline telephone services, which comprised mainly PIJF cable[♣] (cable), exchange equipments and other stores[§]. The audit findings are discussed in the succeeding paragraphs.

3.1.1 Excess procurement of cable

Cable constitutes a major element of inventory for landline telephone service. As per the guidelines issued (June 2001) by BSNL before making any procurement the existing inventory and inventory in the pipeline was to be considered. BSNL fixed (January 2003) the norms for procurement of cable at 6 conductor kilometer (CKM)/ NSC line for cities having equipped capacity of more than one lakh lines and 7 CKM/NSC line for other cities. In August 2005 it was envisaged that every circle should keep an imprest stock of 40 CKM of cable per thousand Direct Exchange Lines (DELs) for meeting the maintenance requirement.

[♣] Polythene Insulated Jelly filled cable
[§] modular connectors, lead sleeves, self-supporting masts, socket B, A8, A4 tubes, patch panel antennae, etc.

Scrutiny of records in the Corporate office and 15 circles[*] revealed that 217 lakh conductor kilometer (LCKM) cable were procured during the period April 2003 to January 2007. As per norms the cable requirements for 2004-05 and 2005-06 of 7 CKM/NSC, worked out to 71 LCKM and 12 LCKM respectively for meeting the maintenance requirement. Against the total requirement of 83 LCKM, 172 LCKM cable was procured during the same period resulting in excess procurement of cable worth Rs 608.06 crore[∇] {**Appendix XVI(a) to XVI(c)**}.

A procurement of 217 LCKM cable during 2003-07 (upto January 2007) was made without taking into account the stock in hand. It was noticed that during 2003-07 (January) a total of 283 LCKM cable (procurement of 217 LCKM *plus* stock of 66 LCKM on 1st April 2003) was available with 15 circles test checked. As such, there was a stock of 283 LCKM available with the 15 circles during 2003-07 (January). During this period only 223 LCKM cable was laid and 60 LCKM cable valuing Rs 408 crore was lying in stock as at the end of January 2007.

During the period April 2003 to January 2007, the closing stock of cable mounted in the circles. At the end of January 2007, 13[β] of the 15 circles had closing stocks of 15 to 58 months of consumption. The details are given in ***Appendix-XVII(a) to XVII(d).***

Audit noted that the excess procurement of cable was mainly because:

- BSNL did not take into account the consumption pattern of the cable and the available stock in these circles while projecting the demand for procurement.
- No inventory levels, viz. minimum level, maximum level, reordering level and the economic ordering quantity were fixed for exercising control over procurement and inventory carrying costs pertaining to cable.

On this being pointed out by Audit, the Ministry stated (September 2007) that cable allotment was done on the basis of net switching capacity. It further stated that 231.78 LCKM cable was laid in the circles noted in Appendix XVI (a) to XVI (b) against the justified demand of 138.66 LCKM for utilisation of exchange capacity added prior to this period as there was short supply of cable during earlier years. And that the cable in stock was being judiciously used to meet the subsequent requirements. The reply of the Ministry is not tenable

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[*] Andhra Pradesh, Assam, Bihar, Chennai Telephone District, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Maharashtra, Punjab, Rajasthan, Tami Nadu, Uttar Pradesh (East) and Uttar Pradesh (West) circles.

[∇] Cost of cable has been taken as Rs 6.80 crore per LCKM as arrived out in last tender no.283 of March, 2005

[β] Andhra Pradesh, Assam, Bihar, Chennai Telephone District, Haryana, Jharkhand, Karnataka, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh (East) and Uttar Pradesh (West).

considering the downward trend in landline connections as described in first para above.

3.1.2 Injudicious expansion of telephone exchanges

Department of Telecommunications (DoT) guidelines issued in September 1997, and as adopted by BSNL, stipulated that the expansion of a telephone exchange was to be considered based on the average utilization of exchange capacity up to 5,000 lines and beyond 5,000 lines as 75 *per cent* and between 82 and 85 *per cent*, respectively.

Tests check of records pertaining to 63 telephone exchanges whose capacities were expanded in the Gujarat, Kerala and U.P (East) circles and the Chennai Telephone District, as detailed in ***Appendix-XVIII(a)***, revealed that:

- though the total equipped capacity was expanded from 2.05 lakh lines to 2.59 lakh lines, the total number of subscribers decreased from 1.62 lakh from to 1.54 lakh during the same period;
- in all these exchanges, the working telephone connections as of December 2006 were such that the same could have been accommodated from their pre-expansion capacities.

Audit observed that though these exchanges were expanded as per guidelines of September 1997, they resulted in excess capacity because BSNL did not take into account the changing scenario in the telecom sector. With the advent of cellular mobile telephone services (CMTS), wireless-in-local loop (WLL) telephone services, etc, the landline telephone connections had not shown any significant increase.

A further test check revealed that 48 new exchanges were installed at a cost of Rs 29.43 crore during 2003-04 to 2006-07 (January) in eight circles[⇒] and Chennai Telephone District as detailed in ***Appendix-XVIII(b)***. It was noticed that even after providing sufficient spare capacity to these newly installed exchanges, the utilization of these exchanges remained significantly low as compared to their equipped capacity. Thus installation of new exchanges without taking into account the declining trend in landline telephone service resulted in unfruitful expenditure of Rs 29.43 crore**.**

On this being pointed out by Audit, these circles accepted (September/December 2006 and January 2007) the facts.

[⇒] Gujarat, Haryana, Karnataka, Maharashtra, Punjab, Tamilnadu, UP (East) and U.P (West)

Thus injudicious expansion of above-mentioned 63 telephone exchanges and installation of 48 new exchanges resulted in unproductive expenditure of Rs 62.42 crore as detailed in ***Appendix-XVIII (a) & (b)***.

3.1.3 Underutilization of digital loop carrier equipment

Digital Loop Carrier (DLC) systems are used to access networks to provide services such as the integrated services digital network (ISDN) and high-speed data (HSD) services to customers on existing landline telephone connections. BSNL issued instructions (July 2005) stipulating that the DLC systems should be utilized to a minimum of 80 *per cent* of their existing capacities.

Audit scrutiny of the records for the period December 2005 to January 2007 in eight circles[£] and Chennai and Calcutta Telephone Districts showed that these circles and districts went ahead with procurement of DLC systems without considering capacity utilization of the DLC systems installed earlier and without assessing the actual requirement for such systems.

In these circles, 384 DLC systems were procured at a cost of Rs 197.08 crore during 2002-06. Out of these, 22 DLC systems valued at Rs 15.92 crore remained continuously idle in three circles, viz. Gujarat, Punjab, Uttar Pradesh (East) and Chennai Telephone District. From the remaining 362 DLC systems, the capacity utilisation of 132 DLC systems in six circles {Andhra Pradesh, Kerala, Maharashtra, Uttar Pradesh (East), Karnataka and Madhya Pradesh} and two districts (Chennai and Calcutta) remained less than 40 *per cent*. Thus idling/underutilization of 154 DLC systems (22 systems + 132 systems) resulted in injudicious expenditure of Rs 80.92 crore (Rs 15.92 crore + Rs 65.00 crore) as shown in ***Appendix - XIX.***

On this being pointed out by Audit, Kerala circle stated (January-February 2007) that the DLC systems did not come up to the expected levels due to poor battery backup system, poor maintenance support, etc. However, the fact remained that these DLC systems were still lying unutilized. The Punjab circle stated (September 2006) that DLC systems were installed particularly for providing ISDN and other special services, which were not available in E-10B exchanges. Further, that the demand for ISDN became negligible because of launching of Broadband services and diversion of these DLC systems was in progress. The Karnataka circle stated (March 2006) that underutilization of DLC systems was due to negative growth in landline telephone service and increase in CMTS. The Madhya Pradesh circle stated (February 2007) that efforts were being made to utilise these systems. The reply was not tenable, as these factors should have been

[£] Andhra Pradesh, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab and Uttar Pradesh (East) foreseen before procurement of these systems. The replies from other circles were awaited (November 2007).

BSNL should have procured the DLC systems only after assessing the requirement, availability of other technologies and existing capacity utilisation.

3.1.4 Idling of overhead equipments and stores

DoT instructions, issued in April/July 2000, as adopted by BSNL, directed the circles not to procure overhead equipments for the landline telephone service as use of 5 pair cable was considered more economical than erecting a new alignment for giving new telephone connections.

Scrutiny of the records in six circles, viz. Andhra Pradesh, Gujarat, Punjab, Rajasthan, Tamil Nadu, UP (East) and the Chennai Telephone District showed that these circles procured overhead equipments and stores for the landline telephone service in violation of the above instructions. This coupled with the decrease in the number of landline telephone connections and availability of WLL and CMTS resulted in idling of overhead equipments and stores worth Rs 42.92 crore in these seven circles {Andhra Pradesh: Rs 0.30 crore; Gujarat: Rs 4.86 crore; Punjab: Rs 9.17 crore, Rajasthan : Rs 3.42 crore; UP (East): Rs 21.16 crore; Tamil Nadu : Rs 3.49 crore and the Chennai Telephone District: Rs 0.52 crore}.

On this being pointed out, the Chennai Telephone District stated (January 2007) that since these items were non-moving, their disposal as scrap was being contemplated. The Rajasthan circle while accepting the facts and figures stated (March 2007) that action was being taken to assess the requirement of the stores from the neighbouring circles. The Tamil Nadu circle stated (May 2006) that these materials could not be used due to decline in demand for landline telephone connections. The Uttar Pradesh (East) circle stated (January 2007) that these items were obsolete and unserviceable. Replies from the Andhra Pradesh, Gujarat and Punjab circles were still awaited (November 2007).

Thus, the failure of BSNL to take into account the declining trend in the subscriber base of landline telephone service and past consumption pattern resulted in excess procurement, idling and underutilization of stores for landline telephone service valued at Rs 794.32 crore.

3.2 Injudicious procurement of Trunk Automatic Exchange

The Andhra Pradesh Telecom Circle procured Trunk Automatic Exchange equipment during 2004-05 without considering the actual requirement, resulting in its idling and consequent unfruitful expenditure of Rs 7.96 crore.

The Corporate office of the Bharat Sanchar Nigam Limited fixed (June 2004) the norms for calculation of Trunk Automatic Exchange **(**TAX) capacity requirement based on the equipped capacity of fixed lines, Wireless in Local Loop (WLL), Intelligent Network Services, Internet traffic and requirements of the Cellular Operators. The norms further provided that based on the above parameters, the TAX capacity requirement would work out to 9.9 per cent of the equipped capacity of fixed and WLL lines and 7.8 per cent of equipped capacity of Cellular Mobile Telephone Services (CMTS).

The TAX equipment is procured by BSNL Corporate office and allotted to circles, based on the requirements projected by the concerned circles. The Andhra Pradesh (AP) Telecom Circle projected an additional TAX capacity requirement of 2.58 lakh circuits for the year 2004-05. This projection was much higher than the requirement and consequently the expanded TAX capacity could not be used as brought out below.

Audit scrutiny (April to October 2006) of the records of Secondary Switching Areas (SSAs) under the Andhra Pradesh Telecom Circle revealed that most of the SSAs had spare TAX capacity and the capacity utilisation in 17 out of 22 SSAs was below 80 per cent during 2005-06. The spare TAX capacity for the entire Circle increased from 60,169 circuits in 2003-04 to 91,936 circuits as of December 2006 as shown below.

Year	Equipped capacity of TAX (Circuits)	Utilisation of TAX (Circuits)	Spare capacity of TAX (Circuits)
2003-04	3,63,900	3,03,731	60,169
2004-05	4,14,560	3,34,998	79,562
2005-06	4,78,540	3,89,562	88,978
As of December 2006	5,00,700	4,08,764	91,936

Audit noticed that although there was a spare capacity of 60,169 circuits as of March 2004 the AP Telecom Circle procured 70,000 circuits (first procurement) of TAX in January 2004 for commissioning in 2004-05; the Circle again procured 43,000 TAX circuits (second procurement) in January 2005 although the requirement for 2004-05 was only 36,210 circuits (**Appendix - XX**) based on norms. This resulted in spare TAX capacity of 88,978 as of March 2006 as shown in the above table and hence the second procurement of 43000 circuits was unnecessary. Thus failure of the AP Telecom circle to assess the actual requirement and consider the available spare TAX capacity before procurement resulted in unfruitful expenditure of Rs 7.96 crore on procurement of 43,000 circuits during 2004-05.

On this being pointed out by Audit in eight• SSAs, five♦ General Managers Telecom District (GMsTD) replied that the expansion of TAX circuits was done as per the Circle office allotment and the same was justified if the proposal/plans for 2005-2006 were taken into account. The remaining GMsTD stated that in anticipation of heavy demand for CMTS and WLL connections and to provide points of interconnection to private operators, TAX expansions were planned.

The replies are not tenable as the actual number of working circuits was only 3.90 lakh as of March 2006 which could have been provided from the equipped capacity of 4.15 lakh circuits available since 2004-05, before commissioning of the additional TAX capacity of 43,000 circuits. Also the spare TAX capacity was unnecessarily increased from 60,169 circuits during 2003-04 to 91,936 circuits as of December 2006 indicating improper planning.

Thus injudicious procurement of TAX equipment by AP Telecom Circle without considering the actual requirement and available spare capacity resulted in unfruitful expenditure of Rs 7.96 crore.

3.3 Injudicious expansion of mass calling intelligent network

The Hyderabad Telecom District augmented its existing mass calling intelligent network without any requirement. This resulted in unfruitful expenditure of Rs 14.20 crore on its augmentation and upgradation.

Mass calling intelligent network (MCIN) system handles high call volumes for a wide range of applications such as mass media calling events, public opinion polling, surveys, information and contests with or without caller interaction with interactive voice response. Service providers benefit from being able to view results of a given event in real-time and on-demand.

The Bharat Sanchar Nigam Limited (BSNL) Corporate office procured one MCIN system from Alcatel at a cost of Rs 7.74 crore and commissioned (September 2004) it in Hyderabad. The call handling capacity of the system was four lakh busy hour call attempts (BHCA).

Audit noticed that based on the discussions with Sony and Zee Television the Corporate office decided to augment the MCIN by 12 lakh BHCA. The MCIN

• Eluru, Khammam, Vizianagaram, Warangal,
Guntur, Tirupathi, Ongole, Sangareddy.

♦ Eluru, Khammam, Vizianagaram, Warangal, Guntur.

system was augmented under phase II and III from four lakh BHCA to 12 lakh BHCA and commissioned in March 2005 at a cost of Rs 5.32 crore. Audit analysis of the traffic flow in MCIN during the period November 2004 to September 2006 revealed that the maximum average traffic handled per hour was 68839 in August 2005 as against the traffic handling capacity of four lakh BHCA before expansion (details may be seen in the **Appendix - XXI**). Hence the augmentation of the MCIN system from four lakh BHCA to 12 lakh BHCA was not justified. Further, the traffic in MCIN reflected a continuous decline from a peak of 4.95 crore in August 2005 to 94 lakh in March 2007 while the total traffic came down from 30.86 crore during 2005-06 to 6.70 crore in 2006-07. Inspite of continuous decline in traffic the MCIN was further upgraded and the capacity raised to 72 lakh BHCA in August 2007 at a cost of Rs 8.88 crore.

On this being pointed out by audit, the Ministry of Communications and Information Technology stated (July 2007) that the MCIN capacity crossed 12 lakh BHCA in February 2005 during Indian Idol show on Sony channel and therefore, it became necessary to further augment MCIN even beyond 12 lakh BHCA. It was stated further that most people call immediately after the programme was over and the traffic could not be averaged out over an hour(s). Therefore, the MCIN platform was designed to cater to the peak demand and not as per the average traffic per day/hour/month. The reply is not convincing as the management failed to forecast the growth in MCIN traffic over a period of time and instead relied on projections of a few short and specific telecasts and thereby restricted itself to achieving 12 lakh BHCA of peak demand on a few days in a year rather than taking into account the overall growth in televoting traffic. The total televotes registered in MCIN during 2005-06 and 2006-07 was 30.86 crore and 6.70 crore, respectively and the capacity utilisation of MCIN went down by 78 per cent in one year.

Thus injudicious augmentation of MCIN system from four lakh BHCA to 12 lakh BHCA and subsequent upgradation to 72 lakh BHCA without justification and rationale resulted in unfruitful expenditure of Rs 14.20 crore.

3.4 Blocking of funds due to non-commissioning of optical fibre routes

Lack of proper planning and coordination led to non-commissioning of 20 OFC routes in Bihar and Uttranchal telecom circles resulting in blocking of funds of Rs 3.83 crore.

In order to provide optical fibre connectivity to various synchronous digital hierarchy (SDH) ring networks and to Wireless in Local Loop (WLL) Base stations, high-density polyethylene pipes and optical fibre cables (OFC) were laid (April 2002 to October 2005) along 20 routes in three Secondary Switching Areas (SSAs) under Bihar and Uttranchal telecom circles. These OFC routes could not be commissioned even after one to four years of their completion resulting in idle investment of Rs 3.83 crore as brought out below.

Bihar telecom circle

Audit scrutiny (November 2006) of the records of Muzaffarpur and Saharsa SSAs revealed that 16 OFC routes were completed during 2002-04 at a cost of Rs 2.19 crore but were not commissioned till November 2006. Audit noticed that in Muzaffarpur SSA, 10 OFC routes could not be commissioned due to non-receipt of SDH equipment from the circle office. This was due to delay by the SSA in placing the necessary requisition with the circle office for procurement and supply of equipment. In Saharsa SSA also six routes were completed but could not be commissioned as of January 2007 due to non receipt of SDH equipment as no requisition had been placed by the SSA on the circle office for supply of SDH equipment. On this being pointed out by Audit, the SSAs while accepting the facts stated that the routes would be commissioned on receipt of the equipment.

Uttranchal telecom circle

Audit scrutiny (August 2006) of the records of New Tehri SSA under the Uttranchal telecom circle revealed that four routes completed during 2002-05 at a cost of Rs 1.64 crore could not be commissioned as of January 2007. The local management stated that the delay in commissioning of OFC routes was due to non availability of WLL systems.

Thus, lack of proper planning and coordination among SSAs and the circle offices concerned resulted in non-commissioning of 20 OFC routes over a period of one to four years in Bihar and Uttranchal telecom circles**.** This resulted in blocking of funds of Rs 3.83 crore.

The matter was referred to the Ministry in February 2007; its reply was awaited (November 2007).

3.5 Wasteful expenditure on printing of telephone directories

Failure of the Chief General Manager, Calcutta Telephones District to issue telephone directories to the intended users resulted in wasteful expenditure of Rs 1.88 crore and financial liability of Rs 3.41 crore.

The Chief General Manager (CGM), Calcutta Telephones District (CTD), proposed (August 2003) to the Corporate office of Bharat Sanchar Nigam Limited (BSNL) for annual printing of reduced number of telephone directories of 25,000 to 30,000 copies meant for customer service centres, hospitals and for sale at cost basis as directories were rarely used by customers. Though no decision was received from the Corporate office, CGM, CTD, floated (September 2003) tenders for printing of 50,000 telephone directories and distribution thereof to specified locations for five consecutive years – 2003 to 2007. CGM, CTD finalized (August 2004) the tender for a period of five years at an estimated cost of Rs 6 crore.

Audit scrutiny (November 2006) of the records of the Directory Officer CTD revealed that out of 50,000 directories each printed for 2003 and 2004, only 4,941 and 17,373 directories, respectively were issued. The balance directories printed at a cost of Rs 1.60 crore were lying in stock in area stores.

The firm supplied (between August to September 2006) 13,000 directories of 2005 issue. Due to paucity of storage space, most of the area stores refused to accept the directories and in September 2006, it was decided to scrap and sell the unsold old issues of telephone directories lying in the area stores to accommodate the 2005 issue. In December 2006 the Divisional Engineer instructed the firm to deliver the balance 37,000 directories of 2005, which were eventually supplied in January 2007. Test check of distribution of directories of 2005 in four exchanges revealed that less than three *per cent* of the directories were issued, as of November 2007 and the possibility of distribution of balance directories was remote as they were outdated. Out of a total claim of Rs 1.13 crore, Rs 28 lakh was paid to the printing firm for the 2005 directories leaving a committed liability of Rs 86 lakh, with CGM,CTD.

Thus the failure of CGM, CTD to reduce the number as proposed and distribute telephone directories (2003, 2004 and 2005) to intended subscribers resulted in wasteful expenditure of Rs 1.88 crore (Rs 1.60 crore for 2003 and 2004 and Rs 0.28 crore for 2005) and additional liability of Rs 86 lakh for the 2005 issue. In addition, CGM, CTD had the contractual liability of Rs 2.55 crore for the supply of 50,000 directories, each for 2006 and 2007.

On this being pointed out by Audit, the Divisional Engineer, CTD replied (December 2006) that the directories were allotted and distributed to the customer care centres who were actually distributing them to the intended subscribers with wide publicity.

The reply is not tenable as only 10, 35 and 3 *per cent* (test check in four exchanges) of the directories of 2003, 2004 and 2005 respectively were actually distributed and had since become outdated. Thus the failure of CGM, CTD to distribute telephone directories to the subscribers resulted in wasteful expenditure of Rs 1.88 crore and financial liability of Rs 3.41 crore.

The matter was referred to the Ministry in February 2007; its reply was awaited (November 2007).

3.6 Injudicious procurement of higher capacity optical fibre cables

BSNL Corporate office allotted excess higher capacity 96F OFC instead of 48F OFC for overlay access network in three places under the Tamil Nadu Telecom Circle. This resulted in infructuous expenditure of Rs 89.87 lakh towards the cost difference of higher capacity cables besides blocking of capital of Rs 2.57 crore due to non utilisation of the excess cables.

The Bharat Sanchar Nigam Limited (BSNL) Board in January 2001 decided to introduce optical fibre cable (OFC) in access network commonly known as the overlay access network (OAN). The OAN aims at creating optical fibre infrastructure for supporting all the network elements (RSU[•], RLU[°], DLC[♦], GSM[*], WLL[♣], Leased lines) and the customers.

The Chief General Manager, Southern Telecom Projects, Chennai sanctioned (July/August 2002) three project estimates for implementation of 238.5 km of OF access network in Coimbatore, Kurichi and Tiruppur areas under the Tamil Nadu Telecom Circle. The objective of the project was to create assets for supporting and meeting demands of the network for the next 10 years. Based on these parameters the project estimates provided for 48Fibre (F) OF cables. In April 2003, detailed estimates for the above works were prepared by the Divisional Engineer (DE), Access Network, Coimbatore projecting a requirement of 215 km of 48F OF cable.

Audit scrutiny (December 2006) of the records of DE, Access Network, Coimbatore revealed that against the requirement of 215 kms of 48F OFC, the DE had received 450 km of 96F OFC from Sterlite Telecables Limited between August and October 2003 through centralised allotment by BSNL Corporate office. Further, as the OF cables were against central allotments these could not be returned. The work relating to access network in Coimbatore and Kurichi commenced in April 2003 and at Tiruppur in January 2005 and by December 2006, 216 Kms of higher capacity 96F OFC were laid against the requirement of 48F OFC. This resulted in infructuous expenditure of Rs 89.87 lakh being the price differential between 48F and 96F OFC for 216 km.

Audit further noticed that out of the 450 km of 96F OFC received in October 2003, only 243 km could be used and the balance of 207 km remained idle. Ultimately as the balance cables could not be used by the Southern Telecom Projects the same were diverted to Ernakulam, Delhi and other units by October

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[•] Remote switching unit
[°] Remote line unit
[♦] Digital loop carrier
[*] Global system for mobile communication
[♣] Wireless-in-local loop

2006. Thus allotment of excess quantity of higher capacity 96F OFC over the actual requirement resulted in idling of 207 km of 96F OF cables and consequent blocking of capital of Rs 2.57 crore.

On this being pointed out by Audit, the Deputy General Manager, Transmission Projects, Salem stated (August 2006) that the allotments were made by the Corporate office and hence his unit was not in a position to refuse or reject the extra cable allotted. Audit examination of the records of BSNL Corporate office revealed that although the procurement of OF cable was finalised, based on the requirement received from the field units, in the case of Southern Telecom Project, allotment was made without any demand from them.

Thus lack of coordination between the Corporate office and its units resulted in injudicious procurement of excess quantity of higher capacity OFC and consequent infructuous expenditure of Rs 89.87 lakh towards cost differential besides blocking of capital of Rs 2.57 crore due to surplus inventory.

The matter was referred to the Ministry in April 2007; its reply was awaited (November 2007).

(B) Avoidable expenditure/payment

3.7 Non-availing of Cenvat credit

Failure of BSNL to review and file service tax return at circle level or through centralized nodal offices, resulted in non-availing of Cenvat credit to the full extent and consequent excess cash outflow of Rs 401 crore on account of service tax.

The Cenvat Credit Rules introduced in September 2004, allowed a manufacturer or provider of a taxable service, to take credit of duty/service tax paid on specified input capital goods and input services used in or in relation to the manufacture of specified final products or output services. The Cenvat credit so available could be utilized for payment of any duty of excise on any product or service tax on output services. The Cenvat Credit Rules also stipulate that a provider of output services not maintaining separate accounts could utilise Cenvat credit only to the extent of 20 per cent of the service tax payable on taxable output service. The Commissioner of Central Excise and Customs, Calicut in an order (August 2006) clarified that the Cenvat credit availed in respect of capital goods had to be excluded while determining the limit of 20 per cent of service tax payable.

The BSNL Corporate office (Company) paid service tax of Rs 3,173 crore and Rs 3,991 crore for the years 2005-06 and 2006-07 respectively on output services. However the company failed to avail Cenvat credit to the extent of Rs 401 crore for the years 2005-07 resulting in excess payment of service tax on output services. As the 20 per cent amount of service tax payable on output services itself was adequate to avail the Cenvat credit due on account of service tax and excise duty paid on input services and capital goods, cash payment of service tax of Rs 192 crore and Rs 209 crore for the years 2005-06 and 2006-07 as shown in the table below could have been avoided.

Rs in crore

Year	**Service tax paid on output services**	**20 per cent of Col 2**	**Cenvat credit due**	**Cenvat credit availed**	**Excess cash payment of Service tax (Col 4-5)**
1	**2**	**3**	**4**	**5**	**6**
2005-06	3,173	635	479	287	192
2006-07	3,991	798	294	85	209
Total					**401**

In order to ascertain the reasons for excess cash payment of service tax, Audit test checked (May 2007) the records of Gujarat, Rajasthan and Punjab circles of the Company for the year 2006-07 and found that the limit of 20 per cent of service tax payable was being imposed on Cenvat credits relating to capital goods, contrary to the rules and hence some of the SSAs (Secondary Switching Areas) wherein revenue generation was low, could not avail the Cenvat credit to the full extent. This could have been avoided if a single return had been filed at the circle level or through centralised nodal offices.

On this being pointed out by Audit, the Ministry stated (August 2007) that registration at circle level was not possible as the Service Tax Rules did not permit the same; and that the correct picture of non-availing of Cenvat credit could be had only if the figures were compiled SSA wise. Also, that the Cenvat credit rules provide for availing only fifty per cent of the duty paid on capital goods in the same financial year unless the capital goods are cleared as such in the same financial year. The capital goods utilised in BSNL were such that the company could avail only fifty per cent of excise duty paid on capital goods in the financial year as Cenvat credit.

The reply is not tenable for the reasons that: BSNL itself is filing a single return at circle level in respect of cellular services; BSNL has formed revenue earning units as nodal offices for claiming Cenvat credit and many non-revenue earning units have been attached to the nodal offices for claiming Cenvat credit. Hence it is possible to claim Cenvat credit through centralised nodal offices which are not debarred under the Cenvat credit rules 2004; the figures relating to non-availing of Cenvat credit have been compiled circle-wise for the company as a whole and reflect the position of all the SSAs; and the non-availing of Cenvat credit or excess out flow of cash of Rs 401 crore represents the Cenvat credit actually due which could have been availed by the company during the respective financial years.

Thus failure of the Corporate office to review the position and file service tax return at circle level or through centralised nodal offices and to get the 20 per cent restriction on Cenvat credit relating to capital goods removed, resulted in non-availing of Cenvat credit to the full extent and consequent excess cash payment of service tax of Rs 401 crore.

3.8 Extra expenditure due to non-availing of Bill Mail Service

Fifty eight Secondary Switching Areas under 11 circles failed to avail the cheaper Bill Mail Service provided by the Department of Post for dispatch of telephone bills to its customers. This resulted in extra expenditure of Rs 15.06 crore.

The 'user pay principle' was implemented between the Department of Post (DoP) and Bharat Sanchar Nigam Limited (BSNL) from October 2001. Accordingly, the posting of the telephone bills would be treated as Book Post and BSNL had to pay the tariff applicable to general public. The tariff for each book packet was Rs 4 upto 50 grams and Rs 3 for every additional 50 grams or part thereof in excess of 50 grams with effect from June 2002.

In September 2003 DoP introduced a new product called Bill Mail Service (BMS) which provided for communication of bills, monthly account bills or other such items of similar nature posted by a service provider to a customer at least once in 90 days. The tariff was Rs 3 per article upto 20 grams and Rs 1.60 for every additional 20 grams or part thereof in excess of 20 grams. BSNL was eligible to post telephone bills under BMS as it satisfied the conditions stipulated by DoP.

Audit reviewed (May 2005- July 2007) the records of 58 SSAs under 11 circles and found that 47 Secondary Switching Areas (SSAs) used the Book Packet Services, 10 SSAs used Business Post, two SSAs used the Book Now and Pay Later Services and one SSA used Speed Post services of DoP for dispatch of telephone bills to their customers. In Moradabad SSA under the Uttar Pradesh (UP), West circle, Audit noticed that a private contractor was engaged for the delivery of mobile telephone bills at Rs 6.45 per bill. In Raipur SSA under the Chattisgarh circle the mobile telephone bills were dispatched through Speed Post at a cost of Rs 20 per bill. Audit noticed that while there was no uniformity in dispatch of telephone bills by the SSAs, all these services were also costlier than the Bill Mail Service introduced by DoP. Between May 2005 and December 2006, it was pointed out by Audit that cheaper BMS was available to these SSAs but they failed to switch over. Further, the BSNL Corporate office also failed to instruct the SSAs to use the cheaper BMS service offered by the DoP. It was only in January 2007 that the Company after entering into an agreement with DoP, issued instructions to all its field units to switch over to BMS. Thus failure of the BSNL corporate office and its field units to take advantage of the cheaper BMS for the dispatch of telephone bills resulted in extra expenditure of Rs 15.06 crore during the period October 2003 to July 2007 (**Appendix-XXII**).

On this being pointed out by Audit, the management stated (September 2007) that after the introduction of BMS in September 2003, the matter was persistently pursued with DoP to accept phone bills for delivery under the BMS, but the same could be implemented only after signing of a fresh agreement in December 2006. It was further stated that the DoP did not extend BMS to BSNL since 'user pay principle' agreement was in vogue till a new MoU was signed in December 2006. The reply is not convincing as BSNL fulfilled all the conditions for availing BMS and hence could not be debarred from availing the same since its inception in September 2003. Also the 'user pay principle' agreement did not restrain BSNL from availing any new services provided by the DoP. Further some SSAs were already availing business post, book now and pay later, Speed Post, etc. services of DoP for dispatch of telephone bills and hence BSNL could have availed the BMS also.

Thus failure of BSNL to insist on the uniform implementation of BMS from September 2003 resulted in extra expenditure of Rs 15.06 crore on dispatch of telephone bills at higher rates during the period from October 2003 to July 2007.

3.9 Excess payment of universal service levy and income tax

Space segment charges of Rs 83.76 crore collected on behalf of Department of Space was wrongly credited to income head by Bharat Sanchar Nigam Limited. This resulted in extra payment of universal service levy and income tax to the extent of Rs 9.39 crore.

The Chief General Manager (CGM), Northern Telecom Region (NTR) functioned as billing and collection authority for transponder space segment charges, on behalf of the Department of Space (DoS) upto March 2004. During this period, Rs 83.76 crore was collected for the years 2001-02 to 2003-04 as space segment charges from V-Sat service providers by CGM, NTR on behalf of DoS.

Audit scrutiny (August 2006) of the records of CGM, NTR revealed that the space segment charges collected on behalf of DoS were credited to 'income' head instead of 'liabilities' head in the books of accounts of BSNL. This resulted in excess booking of income to the extent of Rs 83.76 crore. Consequently, BSNL had to pay extra universal service levy to the Department of Telecommunication (DoT) and income tax to the extent of Rs 3.08 crore and Rs 6.31 crore respectively, on the excess booked income as shown below.

(Rs in crore)

Year	Income wrongly booked	Universal service levy paid	Net income	Amount of income tax paid	Excess payment (Col 3+5)
1	**2**	**3**	**4**	**5**	**6**
2001-02	22.17	Nil	22.17	1.75	1.75
2002-03	35.95	1.80	34.15	2.69	4.49
2003-04	25.64	1.28	24.36	1.87	3.15
Total	83.76	3.08	80.68	6.31	9.39

Audit further noticed that out of Rs. 83.76 crore collected by NTR, a sum of Rs 79.67 crore was finally refunded to DoS in April 2005 after adjusting recoveries of Rs 4.09 crore.

On this being pointed out by Audit, the Management stated (May 2007) that whatever extra Corporate tax was paid during 2001-02 to 2003-04 on account of inclusion of space segment charges of Rs 83.76 crore collected from various users of transponders as income of BSNL was neutralized in 2005-06, as the payment made to DoS against the income booked earlier had been taken care of while calculating the book profit for the financial year 2005-06 as well as calculation of MAT[•] for the said financial year. It was further stated that the DoT had been requested to refund the excess universal service levy of Rs 3.08 crore.

The management reply indicates the need for better financial accounting and control as the wrong booking of space segment charges of Rs 83.76 crore since 2001-02 continued for three years till 2003-04 and corrective measures were taken only in the assessment year 2006-07 after lapse of more than three years.

Thus excess booking of income resulted in excess payment of universal service levy and income tax of Rs 9.39 crore. The excess payment of universal service levy amounting to Rs 3.08 crore to DoT was yet to be recovered.

The matter was referred to the Ministry in April 2007; its reply was awaited (November 2007).

[•] Minimum Alternate Tax

3.10 Irregular extra expenditure on hiring of personnel

Principal General Manager, Bangalore Telecom District under the Karnataka Telecom Circle hired personnel for upkeep services in excess of sanctioned strength resulting in irregular extra expenditure of Rs 8.18 crore.

Bharat Sanchar Nigam Limited followed the staffing norms in respect of Group 'D' employees framed by DoT. Based on these norms, the Karnataka Telecom Circle accorded sanction for 1,058 Group 'D' posts for the years 2003-04 and 2004-05 in Bangalore Telecom District (BGTD), which was reduced to 748 for the years 2005-06 and 2006-07.

Audit scrutiny (September 2006) of the records of the Principal General Manager, BGTD revealed that private personnel were hired for upkeep services during 2003-04 to 2006-07, in excess of the sanctioned strength. The sanctioned strength of Group 'D', men in position and personnel hired by BGTD was as below.

Year	Sanctioned strength	Men in position	Personnel hired	Total men in position (Col 3+4)	Excess personnel hired (Col 5-2)
1	2	3	4	5	6
2003-04	1058	974	889	1863	805
2004-05	1058	955	826	1781	723
2005-06	748	688	826	1514	766
2006-07	748	659	826	1485	737

It can be seen from the above table that personnel hired together with the men in position were far in excess of the sanctioned strength of the BGTD. Infact the number of hired personnel remained almost constant irrespective of the sanctioned strength and men-in-position during the four years up to 2006-07. This resulted in irregular extra expenditure of Rs 8.18 crore on hiring excess personnel for upkeep services (**Appendix - XXIII**).

On this being pointed out by Audit, the local management stated (March 2007) that the justification of posts for the years 2003-06 exceeded the sanctioned strength of Group 'D' and they were thus forced to engage personnel for upkeep services. The reply is not acceptable as the personnel hired were in excess of sanctioned strength even after the sanctioned strength was reduced by the Circle office from 1058 to 748 and also, reduction in the number of upkeep units of BGTD.

Thus hiring of personnel for upkeep purposes by BGTD far in excess of the sanctioned strength resulted in irregular extra expenditure of Rs 8.18 crore during the years 2003-2007.

The matter was referred to the Ministry in March 2007; its reply was awaited (October 2007).

3.11 Avoidable payment of higher electricity charges

Six Secondary Switching Areas under the Kerala Telecom circle continued with Low Tension electricity connections without converting to cheaper High Tension electricity connections resulting in payment of higher electricity charges of Rs 3.78 crore during 2003-07.

The Kerala State Electricity Board (KSEB) notification of October 2002 provided for supply of High Tension (HT) and Low Tension (LT) commercial connections to offices and telephone exchanges of the Bharat Sanchar Nigam Limited. Rules of the KSEB allowed for HT connection if the contract demand for electricity was 50 KVA or more but less than 100 KVA required the specific orders of the Board. The electricity tariff of HT connections was lower than that of LT connections♦. Further, the Chief General Manager, Kerala Telecom circle while reviewing the energy conservation measures in 2002 had directed the SSAs to convert LT connections to HT wherever the load was more than 50 KVA.

Audit scrutiny (September/October 2006) of six Secondary Switching Areas• (SSAs) under the Kerala Telecom Circle revealed that in 14 telephone exchanges though the contract demand was more than 50 KVA, LT connections were continued. Audit noticed that due to delay in applying for conversion to HT and payment of requisite deposit, the SSAs could not get the LT connections converted to HT connections in these exchanges even after three to four years of the directions issued by the CGM, Kerala Telecom circle. Further in a few cases where the contract demand was below 100 KVA the Chief Engineer (Electrical), BSNL, Trivandrum belatedly directed (May 2007) the SSAs to take up the cases where the contract load was below 100 KVA with Electricity Board for conversion of LT to HT connection This resulted in non conversion of LT to HT connection and consequent payment of higher electricity charges of Rs 3.78 crore during the period from April 2003 to September 2006 (**Appendix - XXIV**).

On this being pointed out by Audit, the Ministry while accepting stated (September 2007) that out of 14, in nine exchanges HT conversion was in progress and in five exchanges the power allocation had been received.

♦ Energy charges for HT and LT are Rs 3.20 and Rs 8.25 per unit respectively.

• Ernakulam, Kottayam, Malappuram, Calicut, Palakkad, Trichur.

Thus failure of the SSAs concerned to convert the LT connections to more economical HT connections resulted in payment of higher electricity charges of Rs 3.78 crore during 2003-07.

3.12 Avoidable extra expenditure on procurement of jointing kits

The Chief General Manager, Telecommunications, Kerala circle procured TSF 1 jointing kits without ensuring the reasonableness of rates. This resulted in excess expenditure of Rs 1.29 crore.

Bharat Sanchar Nigam Limited (BSNL) while issuing (June 2001) guidelines on decentralized procurement of stores emphasized that procurement should be done at reasonable rates. The heads of circles were expected to assess the reasonableness of the rates obtained in the tenders by comparing them with the rates of previous procurements in various circles and the current market rates.

Chief General Manager, Telecommunications (CGMT), Kerala circle invited (September 2005) tenders for procurement of 1.29 lakh Thermo Shrink Filled (TSF) 1 jointing kits to meet the requirement of the circle for 2005-06. The tender was opened in October 2005 and the 10 bidders participating in the tender quoted exactly the same rate of Rs 323 per TSF 1 jointing kit, thereby indicating formation of cartel. On the recommendation of the Price Negotiation Committee, CGMT Kerala circle made (December 2005) a counter offer of Rs 238 for TSF 1 jointing kit based on the rates finalised by Chief General Manager Telecom Store (CGMTS), Kolkata. The rate of Rs 238 per TSF 1 jointing kit was accepted by the tenderers and CGMT Kerala circle procured during February to October 2006 a total of 1.66 lakh TSF 1 jointing kits at a cost of Rs 3.95 crore.

Audit scrutiny (February 2007) revealed that the Price Negotiation Committee while recommended a counter offer of Rs 238 per unit based on rates finalized by CGMTS Kolkata, had ignored the lower rate of Rs 160 per unit finalised by CGMT, Tamil Nadu circle in October 2005. This resulted in avoidable extra expenditure of Rs 1.29 crore on procurement of jointing kits. Audit also noticed that no action was initiated against the firms suspected of having formed a cartel.

On this being pointed out, Deputy General Manager (Planning) Kerala circle stated that there were no clear guidelines to be adopted in case of cartel formation and added that re-tendering would have delayed developmental activities.

The reply is not acceptable since CGMT, Kerala circle should have counter offered the rates finalised by CGMT, Tamil Nadu circle. The rates obtained by other circles were a good indicator of prevailing market trends. Audit also noticed that the rate finalised for the subsequent tender in Kerala circle itself was Rs 167 per unit (March 2007).

Thus the failure of CGMT Kerala circle to examine the reasonableness of the rates obtained in the tenders led to avoidable extra expenditure of Rs 1.29 crore to the Company.

The matter was referred to the Ministry in May 2007; its reply was awaited (October 2007).

(C) Avoidable expenditure/payment

3.13 Loss due to undue favour to a franchisee

Bharat Sanchar Nigam Limited paid higher rate of commission to a franchisee for sale of ITC cards resulting in undue favour to the franchisee and consequent loss of Rs 5.33 crore during November 2005 to September 2006.

Bharat Sanchar Nigam Limited (BSNL) introduced New Franchisee policy with effect from July 2004 to augment the distribution channels and to sell services as provided by the company. Under this scheme agents/franchisee could purchase India Telephone Cards (ITC) (used for making telephone calls) of Rs 100, Rs 200 and Rs 500 denominations from BSNL Telecom circles/Metro districts and were offered a maximum commission of 12 per cent of the value of ITC.

In September 2005, BSNL Corporate office entered into an agreement with Cirilium India Limited (Cirilium) a franchisee, for sale and marketing of ITC in Chennai only on trial basis for a period of six months. During this period Cirilium was provided with electronically generated PIN[*] by BSNL which could be printed, marketed and sold as ITC.

Audit scrutiny (April 2006/February 2007) of the records of the General Manager (Marketing), Chennai Telephones disclosed that

- Cirilium was paid commission at the rate of 20 per cent of the value of the ITC whereas other franchisees engaged by BSNL Telecom circles/Metro districts including Chennai Telephones under the New Franchisee policy were being paid at a maximum rate of 12 per cent.
- Appointment of Cirilium was in violation of BSNL's own policy adopted under the New Franchisee policy 2004 which inter alia stipulated that new franchisees could be appointed only through competitive bidding.
- The other franchisees and Cirilium rendered similar services except that Cirilium had to print the ITC itself from the PIN's provided by BSNL. However the cost of printing ITC was only Rs 1.44 per unit and hence there was no justification for paying 20 per cent commission. Thus payment of

[*] Personal identification numbers

higher commission and without competitive bidding resulted in undue favour to Cirilium India Limited and consequent loss of Rs 5.33 crore• during the period from November 2005 to September 2006 as shown in **Appendix - XXV.**

- Kerala Circle in December 2005 alerted Chennai Telephones and the BSNL Corporate office that Cirilium was selling ITC to franchisees in Kerala Circle at a commission of 14 per cent as against 12 per cent being offered by Kerala Circle and hence their sales had gone down. Andhra Pradesh, Tamil Nadu and Kolkata circles also made similar complaints against Cirilium India Limited**.** In spite of this, the BSNL Corporate office and the Chennai Telephones did not take any action against Cirilium India Limited although the terms and conditions of the agreement provided for sale of ITC in the geographical territory of Chennai only.

On this being pointed out by Audit, the General Manager (Business Development), Chennai Telephones stated (June 2006) that the higher commission was paid to Cirilium India Limited in order to fetch more revenue to the company by increased marketing and sales; and that the cards once sold could have moved out of Chennai. The reply is not convincing as Andhra Pradesh, Kerala, Kolkata and Tamil Nadu circles had also complained that Cirilium was selling ITC in their areas. Hence, the increase in sales by Cirilium was due to reasons other than increased marketing efforts in Chennai. The Corporate office reduced the commission from 20 to 16.5 per cent from October 2006 and the agreement with Cirilium was terminated from January 2007 as it was not perceived to be in the best interests of the Company.

Thus appointment of Cirilium without competitive bidding in violation of BSNL's own franchisee policy; failure on part of the BSNL Corporate office and the Chennai Telephones to take timely action against Cirilium India Limited for violating the conditions of the agreement; and Corporate office's decision in allowing two different commission rates in the same geographical area resulted in undue favour to Cirilium India Limited besides loss of Rs 5.33 crore to BSNL.

The matter was referred to the Ministry in April 2007; its reply was awaited (November 2007).

• After deducting the cost of printing of ITC by Cirilium

3.14 Loss due to non-availing of CENVAT credit

The Western Telecom Projects, Mumbai failed to reckon CENVAT credit while finalizing the tender for procurement of PLB pipes resulting in non-availing of CENVAT credit and consequent loss of Rs 1.36 crore.

The CENVAT Credit Rules, 2004 were introduced with effect from 10 September 2004. The CENVAT scheme was principally based on a system of granting credit of duty paid on input goods and services by a manufacturer or service provider. The Bharat Sanchar Nigam Limited (BSNL) as a service provider could avail CENVAT credit of the excise duty and education cess paid on inputs as per the CENVAT Credit Rules.

The Western Telecom Projects (WTP), Mumbai invited (May 2005) tender for procurement of 14,000 kms of permanently lubricated (PLB) pipes along with accessories. The financial bids were opened in August 2005 and Kulja Industries who quoted Rs 40.97 crore (with Nil excise duty and education cess) was ranked as L-1 bidder and accordingly awarded the purchase order.

Audit scrutiny (September 2006) of the tender evaluation committee's (TEC) report revealed that the TEC did not consider the CENVAT credit (reimbursable excise duty and education cess thereon) while evaluating the tender and ranked the bidders based on the composite package price. Audit worked out the impact of CENVAT credit (i.e., reimbursement of excise duty and education cess available thereon) and consequently found out that CENVAT credit of Rs 5.49 crore was available for Jain Irrigation systems whose package price was Rs 42.12 crore. The cost to the BSNL after considering CENVAT credit comes out to be Rs 36.53 crore. However, the TEC ranked Kulja industries as L-1 based on composite package price.

Later, the price negotiation committee based on the L-1 ranking of Kulja industries invited the vendor for negotiations and after slight reduction in the prices of different items finalized the prices. Purchase orders were placed on Kulja industries between October 2005 and January 2006 for procurement of 4,837 Kms of PLB pipes and accessories at a total cost of Rs 13.48 crore. Audit found that the price of 4,837 Kms of PLB pipes and accessories based on the prices quoted by Jain irrigation system after considering the CENVAT credit would have come to Rs 12.12 crore (**Appendix XXVI (a) and (b)**). Thus failure of the WTP, Mumbai to consider the CENVAT credit while finalizing the tender resulted in loss of Rs 1.36 crore on procurement of 4,837 Kms of PLB pipe and accessories.

On this being pointed out the Assistant General Manager (Material Management), WTP, Mumbai stated (October 2006) that the terms and conditions of the procurement manual were being followed and that the evaluation of prices was being done on the composite price of the materials as per the directions of the

Corporate office. It was further stated that the Corporate office had instructed them to follow the existing policy till the same was amended. The reply was not acceptable as failure to avail the benefit under the CENVAT credit rules was not in the best interest of the company.

Thus failure of the WTP, Mumbai to consider the CENVAT credit while finalizing the tender and delay by BSNL Corporate office to come out with comprehensive instructions for availing CENVAT credit resulted in loss of Rs 1.36 crore.

The matter was referred to the Ministry in March 2007; its reply was awaited (November 2007).

3.15 Loss of interest on payment of additional corporate tax

Five Secondary Switching Areas under the Andhra Pradesh telecom circle failed to capitalize the completed projects/works in the year of their completion. This resulted in non-availing of depreciation benefits and consequently paid additional corporate tax of Rs 2.61 crore and loss of interest of Rs 51.37 lakh thereon.

Income Tax (IT) Act, 1961 provides for depreciation at prescribed rates on the opening written down value of the block of assets plus the additions to the block less the sale proceeds and scrap value from the block. The depreciation so calculated is allowed as deduction from the business profits at prescribed rates while determining the tax liability.

Accounting policy followed by Bharat Sanchar Nigam Limited (BSNL) provide for capitalization of assets to the extent of completion certificates issued by the concerned project execution authority. Depreciation on such capitalized assets is provided in accordance with the rates prescribed in the Companies Act.

Audit scrutiny (December 2006/April 2007) of records of seven[•] General Managers Telecom Districts (GMsTDs) revealed that in five[♦] GMsTDs the projects/works executed and completed during 2000 to 2005 at a cost of Rs 123.48 crore were capitalized only in 2004-05 and 2005-06 due to delay in issue of completion certificates. Consequently, the company could not avail tax advantage on depreciation and had to pay additional corporate tax of Rs 2.61 crore during the years 2000-2005 besides loss of interest of Rs 51.37 lakh on additional corporate tax paid.

On this being pointed out by Audit, the GMsTDs Visakhapatnam, Cuddapah and Mahabubnagar SSAs while accepting the delay stated that it was due to delayed receipt in completion certificates from the project execution authorities. The Principal General Manager, Hyderabad Telecom District stated that the estimates

[•] Hyderabad, Visakhapatnam, Cuddapah, Mahabubnagar,Karim Nagar, Vijayawada and Cellone.
[♦] Hyderabad, Visakhapatnam, Cuddapah, Mahabubnagar and Cellone

were pending without capitalization for want of completion certificates. The GMTD, Cellone, Hyderabad stated that due to delays in receipt of information from other units such as civil wing, electrical wing and project wing, capitalization of assets was delayed. Further all the GMsTDs stated that capitalization of assets would be done in the year of completion itself in future to avail the benefit of depreciation.

Thus failure of the SSAs to capitalize the completed projects/works in the year of their completion resulted in non-availing of deduction of depreciation on such completed works from the profits of the company. This resulted in payment of additional corporate tax of Rs 2.61 crore and loss of interest of Rs 51.37 lakh thereon.

The matter was referred to the Ministry in April 2007; its reply was awaited (November 2007).