CHAPTER V
MAHANAGAR TELEPHONE NIGAM LIMITED
MAJOR FINDINGS IN TRANSACTION AUDIT

5.1 Injudicious procurement of WLL equipment

Mahanagar Telephone Nigam Limited procured Wireless-in-Local Loop equipment for its Delhi and Mumbai units without proper assessment of its requirement. This resulted in non-utilisation of the equipment and consequent infructuous expenditure of Rs 219 crore.

A mention was made in the Audit Report Number 5 of 2005 (Commercial) of the Comptroller and Auditor General of India that Mahanagar Telephone Nigam Limited (MTNL) did not adequately and properly plan and monitor the setting up and operational performance of the Wireless in Local Loop (WLL) system. Further it was pointed out that the subscriber base of private operators, who started their operations five years after MTNL, had forged ahead of MTNL. The Ministry of Communication and Information Technology in its action taken note stated (April 2007) that there were limitations of MTNL in terms of procurement procedures which took their own time to complete vis-à-vis private parties due to which MTNL had a lower subscriber base. Audit examination (January 2007) of the records of MTNL revealed a persistent trend of inadequate planning as subsequent purchases of WLL equipment also remained idle as brought out in the succeeding paragraphs.

After the approval of its Executive Council, MTNL placed a purchase order (March 2004) for four lakh lines Code Division Multiple Access (CDMA) switching equipment each for Delhi and Mumbai at a cost of Rs 219 crore. No documents were available to demonstrate whether the MTNL Corporate office had undertaken a proper planning and assessment of requirement before commencing procurement of this item.

Audit scrutiny (January 2007) of the records of MTNL disclosed the following equipped capacity of WLL system and its utilisation in Delhi and Mumbai units:

(Figures in lakh)

Year ending	Equipped Capacity	Working connections	Spare capacity	Percentage utilisation
31.03.2002	0.94	0.47	0.47	50
31.03.2003	2.00	0.88	1.11	44
31.03.2004	2.92	1.42	1.50	49
31.03.2005	2.92	2.50	0.42	86
31.03.2006	6.92	1.46	5.45	21
31.01.2007	10.92	1.79	9.12	16

Audit observed that the spare capacity of WLL in Delhi and Mumbai increased from 0.47 lakh in 2002 to 9.12 lakh in 2007. It was further noticed that 2.92 lakh lines equipped capacity of WLL system as of March 2004 was sufficient to cater to the demand of 1.79 lakh lines till 2007. And as such there was no necessity for procurement of 8 lakh lines for expansion of WLL network in Delhi and Mumbai in March 2004.

Audit further noticed that while the spare capacity of WLL and landline telephones increased considerably since 2002, in Cellular Mobile Telephone Service (CMTS) in four out of six years during the same period 2002-07 the working connections were more than the equipped capacity (**Appendix-XXVII**). This provided ample evidence that MTNL had failed to plan for the right product mix of WLL, CMTS and landline capacities.

On this being pointed out by Audit, the Ministry routinely endorsed the reply of the Management which stated (June 2007) that as telecom was the most happening field with subscribers requirements and interest changing very quickly with advancement in technology, it was always difficult to plan and forecast the right product mix of various technologies. It was also stated that Telecom Regulatory Authority of India had reduced the monthly rental for WLL services in July 2002 almost at par with the fixed line services and hence to meet the envisaged demand the Executive Council had decided (July 2002) to expand the WLL services. Further it was accepted that market survey to assess demand for WLL services was never adopted by MTNL. The reply is merely a post facto rationalization as it is a known fact that telecom sector is dynamic and consequently requires proper monitoring of demand and customer preferences. Audit however did not come across any plan document which deliberated on the right product mix and forecasting of demand for WLL services. Moreover the demand for any service is based on a number of factors such as cost of handsets, customer preferences, quality of service and not on the tariff structure alone. Also the tariff for WLL services was lowered in July 2002 and the purchase orders were placed in March 2004 while the spare capacity of WLL had risen from 0.47 lakh in March 2002 to 1.50 lakh in March 2004. Hence decision to enhance the capacity of WLL by three fold just because the tariff was lowered was not based on sound commercial reasons.

Thus lack of proper assessment and inadequate planning resulted in injudicious procurement of 8 lakh lines WLL equipment and its non-utilisation. This resulted in infructuous expenditure of Rs 219 crore on procurement of WLL equipment.

5.2 Inadequate planning resulted in infructuous expenditure

Inadequate planning in procurement of FWT/HHT by MTNL resulted in excess procurement and consequent infructuous expenditure of Rs 48.60 crore. Besides failure to take effective measures resulted in non-recovery of Rs 10.76 crore towards cost of WLL handsets from defaulting WLL subscribers.

A mention was made in the Audit Report Number 5 of 2005 (Commercial) of the Comptroller and Auditor General of India that Wireless in Local Loop (WLL) FWTs[°] and mobile handsets valuing Rs 45.47 crore, procured in 2002 were lying idle in Mahanagar Telephone Nigam Limited (MTNL), Delhi unit even after two years of its procurement. The Ministry of Communication and Information Technology in its action taken note stated (April 2007) that the FWTs and mobile handsets received due to surrendering of connections were utilised for handling situations like cable breakdowns, for providing service connections and replacement of faulty handsets of subscribers. However audit examination (March 2007) of the records of MTNL Delhi unit revealed that the subsequent purchases of WLL FWTs and mobile handsets also remained idle as brought out in the succeeding paragraphs.

MTNL constituted (March 2004) a two member Committee for procurement of 8 lakh CDMA[•] 2001X terminal. The Committee recommended procurement of four lakh terminals (three lakh HHTs[♦] and one lakh FWTs) for Delhi and Mumbai units of MTNL instead of the earlier proposal of eight lakh terminals to avoid possible dead stock due to obsolescence and limited battery shelf life of the terminals. Based on the recommendation of the Committee, MTNL floated (November 2004) a tender for procurement of four lakh terminals and purchase orders were placed between May to November 2005 for procurement of 2.5 lakh HHT's and 1.5 lakh FWTs for Delhi and Mumbai units valuing Rs 167.37 crore.

Audit scrutiny of the records of MTNL Delhi Unit revealed that the unit had a closing stock of 29,361 FWTs in July 2004. During the period from April 2004 to January 2007, 23,302 FWT new connections were provided and during the same period 12,982 connections had been surrendered. The net increase in provision of new connections was only 10,320. Thus existing balance of 29,361 FWT was sufficient to cater to the demand for new connections upto March 2007. Similarly, closing balance of 67,374 HHTs were lying in stock prior to floating of tender in November 2004. During the years 2004-05 to 2006-07, 1,48,630 new connections were given and 1,48,795 connections were surrendered resulting in a net reduction of 165 connections. However Delhi unit procured 1,18,989 FWT/HHTs without any realistic assessment of demand, leading to infructuous expenditure of Rs 48.60 crore (Rs 28.60 crore actually paid and Rs 20 crore liabilities yet to be paid). Audit noticed that the company did not undertake the exercise of forecasting and assessing quantity requirement based on the projected growth of WLL, before

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[°] Fixed wireless terminals
[•] Code division Multiple Access
[♦] Hand held terminals

finalising the quantity of two lakh WLL terminals for Delhi unit. Audit also noticed that MTNL did not have any norms for stocking of WLL terminals for maintenance purpose, providing service connections and maintaining buffer stock.

It was also noticed in audit that an amount of Rs 67.66 crore was outstanding for recovery against 53,170 subscribers as of March 2007; of this, Rs 10.76 crore was outstanding on account of Equated Monthly Installments (EMI) towards the cost of handsets from defaulting subscribers, whose connections were disconnected due to non payment of pending bills or due to voluntary closure of connections. MTNL Delhi unit failed to take timely action to recover the outstanding amount in individual cases including outstanding amount on account of EMI. MTNL also did not take any security deposit towards the cost of handsets provided to the customers due to which the EMI could not be adjusted.

On this being pointed out by Audit, the management stated (April 2007) that M/s City Masters had been appointed as recovery agent for recovery of outstanding amount of HHTs, including EMI. However, no progress of recovery had been communicated by them. As regards procurement of FWTs, the Management did not furnish any reply.

Thus failure of the Management in making realistic assessment before procurement of the terminals besides lack of a proper system for inventory forecasting and replenishment led to infructuous expenditure of Rs 48.60 crore. Further, inability of MTNL to take effective measures for recovery of dues, led to accumulation of outstanding dues of Rs 10.76 crore as EMI towards the cost of handsets from defaulting subscribers.

5.3 Non/underutilization of Digital Loop Carrier systems

Procurement of Digital Loop Carrier systems by the Mumbai and Delhi units of MTNL without proper assessment of its requirement resulted in non/underutilization of DLCs valuing Rs 33.02 crore.

Digital Loop Carrier (DLC) systems are used in access networks to increase the capacity of the installed cable plant in order to provide service to a number of households and offices. DLC systems are also used to provide high speed data services to customers on existing telephone connections.

Corporate office of Mahanagar Telephone Nigam Limited (MTNL) placed (July 2002) a purchase order with M/s Bharat Electronic Limited (BEL) for supply and installation of 530 DLC systems for Mumbai and Delhi units of MTNL, with configuration ranging from 120 ports to 480 ports, for Rs 48.09 crore. Mumbai and Delhi units received 330 and 200 DLC systems, respectively; out of which, 329 and 193 DLC systems were installed and commissioned between October 2003 and December 2006 at various locations in Mumbai and Delhi. MTNL paid Rs 45.25 crore (May 2007) to the supplier, leaving Rs 2.84 crore as balance to be paid.

Audit scrutiny of the records revealed that in planning for transmission equipment for the year 2002-03, the justification for providing DLC systems was for better telecom services to the customers in multistoried buildings. It was also noticed that the MTNL Corporate office did not properly assess the requirement of DLC systems based on market survey or any other scientific method of demand projection.

Test check (January and March 2007) of records including the capacity loading statements of 207 DLC systems (out of the above 329 DLC systems commissioned) relating to the General Manager (Planning) as well as offices of the Area General Managers of Mumbai unit of MTNL disclosed that as of December 2006, actual utilization in respect of 198 DLC systems ranged between 0.42 and 48.13 per cent. And against the total installed capacity of 66,660 lines in respect of 198 DLC systems, the actual working connections were only 13,666 lines, with very low utilization of 21 per cent, as detailed in **Appendix-XXVIII**.

In the case of Delhi unit it was also noticed that out of 150 DLC systems test checked seven were lying idle without being commissioned and in the balance 143 the actual utilisation ranged between zero to 47.50 per cent. Audit further noticed that in 39 DLC systems the capacity utilisation was nil. Out of a total installed capacity of 54,751 lines in respect of 143 DLC systems, the actual connections were only 5,982 lines and the utilisation was 11 per cent as detailed in the **Appendix-XXVIII**. Thus injudicious procurement of DLC systems without assessing their actual requirement for Mumbai and Delhi led to non/underutilization of 341 DLC systems valuing Rs 33.02 crore.

On this being pointed out by Audit, the Ministry stated (June 2007) that procurement and installation of DLC systems were done with a realistic assessment of subscribers. It was further stated that DLCs were installed in 246 private places in Mumbai and loaded with working lines which itself indicated that the planning was judicious and would be utilised upto optimum level of loading in future. However, the fact remains that the DLC systems are yet to be optimally utilised and even after a lapse of more than two years of their commissioning the utilisation was only 21 and 11 per cent in Mumbai and Delhi units respectively. Further, the Ministry has not addressed the basic issues of demand projections and enhancing the utilisation of DLC systems.

Thus procurement of DLC systems by MTNL without proper assessment of its requirement resulted in non/underutilization of DLC systems valuing Rs 33.02 crore.

5.4 Avoidable payment of penal interest

Failure of the Management of MTNL to follow the time schedule for payment of quarterly installments of licence fees as well as to pay the actual amount of quarterly licence fees during the years 2002-03 to 2004-05 resulted in avoidable payment of penal interest of Rs 14.14 crore.

Department of Telecommunication (DoT), in partial modification of its earlier instruction, issued (November 2002) a revised time schedule for payment of licence fee for Basic and Cellular Telephone Services, which inter-alia stipulated that licence fee was payable by the licensees to DoT in four quarterly installments in each financial year. The licence fees for the first three quarters were to be paid within 15 days of the completion of the relevant quarters on the basis of actual revenue and for the last quarter, licence fee was to be paid by 25 March of that quarter on the basis of expected revenue subject to minimum payment equal to the actual amount of licence fees paid for the previous quarter. Any delay in the payment of licence fee was to attract interest at the rate of five *per cent* per annum above the prime lending rate of the State Bank of India prevalent on the day the payment became due and delay of a part of the month was to be treated as a whole month for computing amount of interest.

Audit (February 2007) of a sample of records in the Corporate Office of Mahanagar Telecom Nigam Limited (MTNL) disclosed that the Management failed to adhere to the prescribed time schedule of payment of licence fees during the three financial years, up to 2004-05. Audit observed that in each quarter of these three years the delays in payment of licence fees ranged from one day to eight months. Audit also noticed that during each quarter of these years, the Management paid estimated amount of the licence fees, that were lower than the actual, owing to delayed finalization of the sub-ledgers by their accounting units. The delays in payment as well as payment of lower amount of licence fees resulted in payment of penal interest amounting to Rs 14.14 crore during the three financial years. This could have been avoided.

On this being pointed out by Audit, the Management stated (March 2007) that in 2002-03, a delay of two days for second quarter for the year 2002-03 occurred due to delay in finalizing format for Adjusted Gross Revenue and thereafter, in subsequent quarters, MTNL did not delay payments of assessed licence fees to DoT. The Management further stated that MTNL paid excess amount of licence fees to DoT during 2003-04 and 2004-05 and the same was adjusted by DoT subsequently.

The reply of the Management is not acceptable because letters/statements of DoT clearly showed delays in payment of licence fees in each quarter of the years 2002-03 to 2004-05. Moreover, delay of a part of a month (say, one day or two days) was treated as delay of a full month as per stipulated condition of the licence agreement. The Management may overhaul the existing system of assessment and payment of licence fees in order to avoid delays in payment.

Thus failure of the Management to follow the time schedule for payment of quarterly installments of licence fees as well as to pay the actual amount of quarterly fees during the years 2002-03 to 2004-05 resulted in avoidable payment of penal interest of Rs 14.14 crore.

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

5.5 Injudicious expansion of exchanges

Delhi and Mumbai units of MTNL injudiciously expanded the equipped capacity of six telephone exchanges resulting in their underutilization and consequent infructuous expenditure of Rs 8.16 crore.

The Department of Telecommunication (DoT) issued guidelines (September 1997) for optimum utilisation of telephone exchange capacity during the Ninth Five year plan period (1997-2002). According to these guidelines the expansion of telephone exchange capacity was to be considered on an annual basis with a yearly growth rate ranging from 15 to 20 per cent. The DoT introduced the Broadband policy 2004 for giving impetus to land line telephony.

Audit analysed the growth of landline telephones in Mahanagar Telephone Nigam Limited (MTNL) Delhi and Mumbai and found a growth rate of two per cent during 2002-03 and thereafter a negative growth till 2006-07 (**Appendix-XXIX**). Inspite of a decline in the growth rate of landline telephony over the years, MTNL failed to review the position and regulate expansion of its telephone exchanges on actual need basis.

Audit scrutiny (January/February 2007) of the records of Delhi and Mumbai units of MTNL revealed that in six telephone exchanges, expansions were carried out during 2003-05 and the magnitude of expansions in these exchanges was far greater than the actual requirement as given below.

Name of exchange	**Equipped capacity**	**Working lines**	**20 per cent growth rate**	**Total requirement**	**Expansion required**	**Expanded capacity**
1	**2**	**3**	**4**	**5**	**6 (Col 5-2)**	**7**
Mumbai						
Saki vihar I	12000	11069	2214	13283	1283	8000
Dahisar I	25500	23475	4695	28170	2670	9000
Delhi						
Tuglakabad	16000	16313	3263	19576	3576	6000
Sangam Vihar	7000	4282	856	5138	-1862	3500
Devli Extension	5000	2168	434	2601	-2398	2000
Dwarka 20D	10000	7486	1497	8983	-1016	8000
Total					7530	36500

From the above table it would be seen that even after allowing a growth rate of 20 per cent, expansion of only 7,530 lines was justified as against the actual expansion of 36,500 lines, especially in the first three exchanges where the magnitude of expansion was more than the requirement and in the remaining exchanges, the existing capacities were adequate to meet the future growth. Further, the number of connections in Delhi and Mumbai fell from 44.94 lakh in 2001-02 to 36.94 lakh as of January 2007. Thus failure of the Management to assess the requirement of exchange capacities based on the growth pattern of two per cent before expansion of exchanges resulted in injudicious expansion and consequent idling of the telephone exchanges. This resulted in infructuous expenditure of Rs 8.16 crore on excess expansion of exchanges by 27,500 lines as their utilisation was in decline due to decline in landline telephony.

On this being pointed out by Audit, the Delhi unit stated (February 2007) that the expansion of Tuglakabad main exchange was carried out for transferring the working lines of Tuglakabad RSU• and the Sangam Vihar exchange was expanded for area transfer of some of the working lines from Tuglakabad main exchange. It was further stated that Devli Extension RSU was expanded for transferring some of the working lines from Tuglakabad main exchange. In Dwarka Main exchange the expansion was done for decommissioning of Dwarka RSU. The Mumbai unit stated (March 2007) that the spare capacity would be used for development in respective areas. The replies are not tenable as the exchanges had sufficient spare capacity to accommodate the shifting of working lines of RSUs and any significant increase in its demand is not likely in the near future.

Thus failure of MTNL to respond to the market trends in telecom sector and expansion of its exchange capacity without requirement resulted in idling and consequent infructuous expenditure of Rs 8.16 crore.

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

5.6 Avoidable excess holding of cables

Failure of Mumbai unit of MTNL to properly project the requirements of Polyethylene Insulated Jelly Filled cables after considering stock balance, past consumption pattern, etc. led to avoidable excess holding of certain specifications of such cables worth Rs 7.24 crore.

Mahanagar Telephone Nigam Limited (MTNL) procures underground Polyethylene Insulated Jelly Filled (PIJF) cables of sizes ranging from 5 to 2400 pairs to provide landline telephone connections, maintain existing connections, etc. The Corporate office of MTNL issues authorization/purchase orders for procurement of such cables after reviewing its requirement based on the annual forecasts of Delhi and Mumbai units.

Audit scrutiny (February 2007) of records of Mumbai unit of MTNL disclosed that while furnishing demands for the year 2005-06 the unit projected (March/July 2005) their total requirements of cable of all specifications on the basis of cable replacement, development and maintenance works, but did not take into account the existing stock balance in various stores, supplies pending and past consumption patterns.

• Remote switching unit

Test check of the consumption pattern of 10, 20, 100 pairs of armoured and 800 pairs of unarmoured PIJF cables for the period April 2004 to October 2006 revealed that though the average monthly utilization was between one to 14 km, the unit procured 1616 Km of these specifications of PIJF cables. As a result, as of October 2006 there was an accumulation of stock of 1060 km of these types of PIJF cables at the main and area store depots and this was sufficient to meet the requirement of the unit for 19 to 108 months on the basis of past pattern of consumption. Further, the landline telephones declined from 245 lakh lines in April 2003 to 213 lakh lines as in January 2007, indicating lower demand of landline connections over the period. Even after allowing six months of stock for replenishing in terms of consumption rate, the accumulated stock of PIJF cables was excess by 865 km valuing Rs 7.24 crore, as detailed in the **Appendix - XXX**.

On this being pointed out by Audit, the Mumbai unit stated (March 2007) that the accumulation of stock and low consumption of cables was due to reduction in requirements for rehabilitation works, development works and emergence of GSM[•] and CDMA[*] technologies. Further, they stated that necessary steps would be taken while procuring the cables in future so as to avoid the accumulation of inventory.

The reply is not convincing as the GSM and CDMA technologies were introduced in Mumbai from January and February 2002 respectively, although during the subsequent period April 2003 to October 2006, the unit procured a total quantity of 1935 Km of these specifications of PIJF cables. This procurement was not realistic as lower average consumption over the said period led to excess holding of stock of these specifications of cables.

Thus failure of Mumbai unit of MTNL to properly project their requirement of PIJF cables after considering stock balance, past consumption pattern, etc. led to excess holding of certain specifications of PIJF cables worth Rs 7.24 crore, which could have been avoided.

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

5.7 Continuation of telephone facility despite non-payment of dues

Failure to disconnect telephone connections by the due dates despite non-payment of dues by different Area General Managers of Mahanagar Telephone Nigam Limited, Delhi resulted in non-recovery of revenue of Rs 5.88 crore.

Rules, as adopted by Mahanagar Telephone Nigam Limited (MTNL), provide that in case of non-payment of bills for telephone connections, the service must be disconnected positively on the 40th day from the date of issue of bills. Rules also provide that the Accounts Officer, Telephone Revenue (AOTR) should issue disconnection orders and on receipt of the same, the exchange

[•] Global System for Mobile Communication
[*] Code Division Multiple Access System

officer should disconnect such telephones on the dates indicated therein. Further, for non-payment of bills in cases of STD/ISD Public Call Office (PCO) operators, the lines should be disconnected immediately on the 22nd day from the date of issue of the first pending bill.

Test checks (January to April 2007) of the records relating to nine Area General Managers of MTNL Delhi revealed that telephone facilities of 411 private subscribers (other than STD/ISD PCO operators) having outstanding bills of more than Rs 50,000 were not disconnected and services were allowed to continue for 3 to 51 billing cycles. Non-payment of dues aggregated to Rs 4.42 crore for the period February 2001 to March 2006 for these 411 subscribers (***Appendix-XXXI (a)).*** Similarly, the Area General Managers failed to disconnect telephone facilities of 131 STD/ISD PCO operators on due dates and the services were allowed to continue for 3 to 41 billing cycles despite non-payment of dues of Rs 1.46 crore against these cases as of 31 March 2006 (***Appendix-XXXI (b))***. Audit observed that there were abnormal delays in preparation of disconnection lists, issue of notices for disconnection and the issue of legal notices to the defaulters.

On this being pointed out by Audit, the Area General Managers accepted the facts. The General Manager, South II stated (March 2007) that due to improper functioning of the existing billing software, disconnections were delayed. The General Manager West II stated (April 2007) that disconnections were not done due to problems in the billing system. The General Manager West I stated (April 2007) that after introduction of online restoration/ disconnection in 2003-04, the same were being followed; but delay in installation of the system and errors therein caused delays in disconnections. Most of the Area General Managers have stated that recovery agencies were put on the task of recovery from the defaulting subscribers. However, expenditure on these recovery agencies could have been avoided had the Management taken timely action.

A similar comment was included in Paragraph 6.11.3 of the Report of the Comptroller and Auditor General of India, Union Government (Commercial) for the year ending 31 March 2004 and the Management had stated that corrective action was being taken. Despite this assurance, the default continued to persist.

Thus delays in disconnection of telephone services resulted in non recovery of revenue amounting to Rs 5.88 crore for the period February 2001 to March 2006.

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

5.8 Accumulation of outstanding towards cellular mobile revenue

Failure of the Management of Delhi unit of Mahanagar Telephone Nigam Limited to properly monitor the bookings of cellular connections by the franchisees led to accumulation of cellular mobile revenue of Rs 3.83 crore for the period April 2004 to March 2006.

In order to promote the 'Dolphin' services, the brand name of the cellular mobile services of Mahanagar Telephone Nigam Limited (MTNL), the Management hired franchisees for marketing and distributing this service to all potential customers. MTNL Delhi unit entered into agreements (between July 2001 and May 2003) with 18 franchisees for marketing and distributing 'Dolphin' products initially for a period of three years under certain terms and conditions. Agreements of 14 franchises were extended up to June 2006. The terms and conditions of the agreement stipulated that the franchisee would be held responsible for costs and consequences due to frauds committed by any subscriber appointed through these franchisee. The Management also appointed (August 2002) a verification agency and constituted a committee for scrutinizing the fraudulent/fake bookings by franchisees related to the period prior to 2004-05.

Scrutiny of records (between February and May 2007) of the Dolphin service unit of MTNL Delhi disclosed the following:

- 8344 fraudulent connections were booked by the franchisees during 2004-05 and 2005-06.
- All these connections were permanently disconnected without effecting recovery from them due to wrong/false addresses.
- Timely disconnections in case of non-payment could not be ensured since the billing system had several limitations.
- MTNL renewed the agreements of these 14 franchisees upto June 2006 without evaluating their past performance.

Audit observed that the Management neither initiated action nor did they fix any responsibility on these franchisees. Thus, lapse on the part of management in keeping a check on fraudulent bookings by the 14 franchisees resulted in accumulation of Rs 3.83 crore towards cellular mobile revenue for the period April 2004 to March 2006 as detailed in **Appendix - XXXII**.

On this being pointed out by Audit, the Management while accepting audit observations stated (April-May 2007) that they had issued legal/ registered notices to the subscribers, but most of the notices were returned due to incomplete addresses. The Management also stated (May 2007) that no separate verification of franchisee bookings was done and added that the 7028 cases were handed over (January 2007) to the recovery agency for further action.

The failure of the Management to establish effective deterrents against false booking resulted in unchecked fraudulent connections. Moreover the Committee had also reported that the non-verification of authenticity of the subscribers before activating connections was prevalent amongst the franchisees, which led to fraudulent bookings and loss of revenue.

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