OVERVIEW

This Audit Report for the year 2006-07 containing 37 paragraphs is presented in 11 chapters:

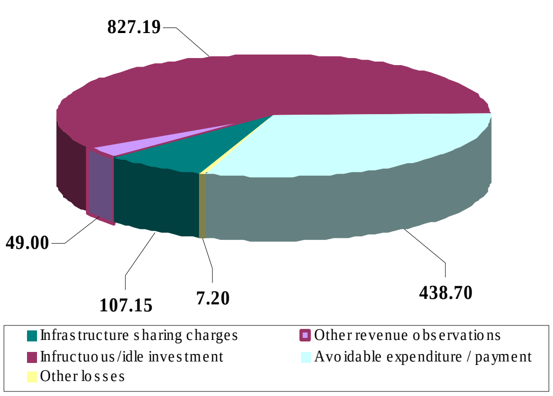
Chapters I to III	Bharat Sanchar Nigam Limited
Chapters IV to V	Mahanagar Telephone Nigam Limited
Chapters VI to VII	ITI Limited
Chapter VIII	Telecommunications Consultants India Limited
Chapter IX	Intelligent Communication Systems India Limited
Chapter X	Millennium Telecom Limited
Chapter XI	Follow up on Audit Report

Audit Methodology and Financial implications

The findings set out in this Report are among those which came to notice during the course of audit based on test check of the records of the Companies mainly during 2006-07 as well as the earlier part of 2007-08. The total quantifiable financial implication of the paragraphs included in this Report is Rs 1795.62 crore. The Company-wise details with reference to the nature of irregularities are given as under:

(i) Bharat Sanchar Nigam Limited

The financial implication in respect of the paragraphs relating to Bharat Sanchar Nigam Limited (BSNL), which could be quantified, is Rs 1429.24 crore as per details given below:

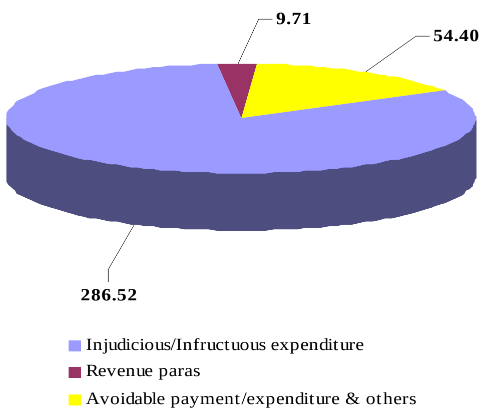


(Rs in crore)

Revenue and Expenditure paragraphs	
Infrastructure sharing charges	107.15
Other revenue observations	49.00
Infructuous/idle investment	827.19
Avoidable expenditure / payment	438.70
Other losses	7.20
Total	**1429.24**

(ii) Mahanagar Telephone Nigam Limited

The financial implication in respect of paragraphs relating to Mahanagar Telephone Nigam Limited (MTNL), which could be quantified, is Rs 350.63 crore as per details given below:



(Rs in crore)

Revenue and Expenditure paragraphs	
Injudicious/Infructuous expenditure	286.52
Revenue paras	9.71
Avoidable payment/expenditure & others	54.40
Total	**350.63**

(iii) ITI Limited

The financial implication in respect of paragraphs relating to ITI Limited, which could be quantified, is Rs 15.75 crore.

Highlights of individual chapters of each Company are presented below:

BHARAT SANCHAR NIGAM LIMITED

Chapter I

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

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

- The Company is organized into 24 telecom territorial circles and 19 non-territorial circles covering the whole country, besides two Metro Telecom Districts at Chennai and Kolkata. The territorial circles are further divided into Secondary Switching Areas (SSAs), which are the basic management units of the Company. The non-territorial circles such as Telecom Stores, Telecom Factories, Quality Assurance, Training, Projects and Maintenance are responsible for specialized activities.

- As on 31 March 2007, the paid-up equity share capital and preference share capital were Rs 5,000 crore and Rs 7,500 crore respectively. In addition, there was a loan of Rs 3,000 crore from Government of India.

- At the end of March 2007, BSNL had a network of 37,808 telephone exchanges with an equipped capacity of 526.75 lakh lines. Out of this equipped capacity, 372.95 lakh telephone connections (71 *per cent*) were given, though the number of persons on the waiting list was 8.97 lakh. The number of village public telephones increased from 5.35 lakh as on 31 March 2006 to 5.53 lakh as on 31 March 2007.

- For the year ended 31 March 2007, BSNL earned Rs 34,616.21 crore from its services. The net profit stood at Rs 7,805.87 crore. Findings of Audit under section 619 of the Companies Act, 1956 include overstatement of Profit by Rs 905.36 crore in addition to some persistent irregularities in the accounts of the Company since its incorporation.

- For the bills issued up to March 2007, an amount of Rs 2,892.40 crore (as of 1 July 2007) was outstanding for one year or more, which constituted 78.91 *per cent* of the total outstanding revenue of Rs 3,665.51 crore.

- The number of employees per thousand telephone connections including WLL decreased from 9.21 in 2002-03 to 4.95 in 2006-07.

(Paragraph 1)

Chapter II

Revenue paragraphs relating to BSNL based on test audit findings

This chapter on revenue paragraphs is based on the results of test audit, contains cases of loss/non-recovery/non-short billing of Rs 156.15 crore. BSNL has realised Rs 0.66 crore at the instance of Audit.

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

Non/short billing of Infrastructure Sharing Charges from private service providers

Deficiencies in billing and collection of charges for providing infrastructure facilities resulted in non-billing of infrastructure charges; port charges; incorrect fixation of charges; non-recovery of interest on delayed payments; non-recovery of prescribed dues in respect of surrendered ports and consequent non-realisation of revenue of Rs 35.26 crore from private service providers, besides accumulation of dues of Rs 71.89 crore due to control weakness.

(Paragraph 2.1)

Loss of subsidy

Failure of Andhra Pradesh, Madhya Pradesh and Orissa telecom circles as well as 12 Secondary Switching Areas under Bihar, Jharkhand, Uttar Pradesh (East), Uttar Pradesh (West) and West Bengal telecom circles to maintain fault free and/or functional Village Public Telephones led to loss of subsidy of Rs 31.26 crore for the period April 2003 to March 2007.

(Paragraph 2.2)

Continuation of telephone facilities despite non-payment of dues

Failure to disconnect telephone connections of subscribers and STD PCO operators by due dates, for non-payment of rentals in 13 Secondary Switching Areas under Rajasthan, Uttar Pradesh (East) and Uttaranchal telecom circles resulted in non-recovery of revenue of Rs 3.69 crore.

(Paragraph 2.3)

Continuous generation of unaddressed bills led to loss of revenue

Failure of Dimapur Secondary Switching Area under North Eastern – II Telecom Circle to follow the codal provision to reconcile the working telephone connections with the connections billed led to continuous generation of unaddressed telephone bills resulting in loss of revenue of Rs 3.62 crore.

(Paragraph 2.4)

Non-recovery of compensation for damage to underground cables

Failure of 13 Secondary Switching Areas under Punjab, Maharashtra, Rajasthan, Uttar Pradesh (East) and Uttar Pradesh (West) telecom circles to raise compensation claims for damages to underground copper cables resulted in non-recovery of compensation of Rs 2.49 crore from private agencies and telecom service providers.

(Paragraph 2.5)

Short charging of rentals

Failure of two Secondary Switching Areas under Andhra Pradesh Telecom Circle to issue rental bills at higher rates commensurate with the enhanced total capacity of exchanges resulted in short billing of Rs 2.35 crore.

(Paragraph 2.6)

Non/short billing of penal interest on delayed remittances by banks

Seven Secondary Switching Areas under the Kerala Telecom Circle and Calcutta Telephone district failed to realise the penal interest on delayed remittances of telephone bills by banks resulted in non/short billing of Rs 2.09 crore**.**

(Paragraph 2.7)

Chapter III

Expenditure paragraphs relating to BSNL based on test audit findings

This chapter on expenditure paragraphs based on the results of test audit brings out infructuous/idle investment, avoidable expenditure/payment and other losses aggregating Rs 1273.09 crore.

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

(A) Infructuous/idle investment

Injudicious procurement of stores for landline telephone service

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

(Paragraph 3.1)

Injudicious procurement of Trunk Automatic Exchange

The Andhra Pradesh Telecom Circle procured Trunk Automatic Exchange equipment during 2004-05 without considering the available spare TAX capacity and without assessing the actual requirement. This resulted in its idling and consequent unfruitful expenditure of Rs 7.96 crore

(Paragraph 3.2)

Injudicious expansion of mass calling intelligent network

The Hyderabad Telecom District augmented its existing mass calling intelligent network without any requirement. The management failed to forecast the growth in MCIN traffic over a period of time and hence the MCIN could not be optimally used. This resulted in unfruitful expenditure of Rs 14.20 crore on its augmentation

(Paragraph 3.3)

(B) Avoidable expenditure/payment

Non- availing of Cenvat credit

BSNL failed to review and file service tax return at the circle level or through centralized revenue earning nodal offices during the years 2005-07 for availing Cenvat credit against the service tax payments. Consequently some of the SSAs wherein revenue generation was low, could not avail Cenvat credit to the full extent resulting in excess cash outflow of Rs 401 crore

(Paragraph 3.7)

Extra expenditure due to non-availing of Bill Mail Service

Fifty eight secondary switching areas under 11 circles did not 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.

(Paragraph 3.8)

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 BSNL. This resulted in excess booking of income and consequent extra payment of universal service levy and income tax to the extent of Rs. 9.39 crore

(Paragraph 3.9)

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

(Paragraph 3.10)

(C) Other losses

Loss due to undue favour to a franchisee

BSNL paid higher rate of commission to a franchisee for sale of India Telephone cards resulting in undue favour to the franchisee and consequent loss of Rs 5.33 crore during November 2005 to September 2006.

(Paragraph 3.13)

MAHANAGAR TELEPHONE NIGAM LIMITED

Chapter IV

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

Mahanagar Telepone Nigam Limited (Company) was incorporated in February 1986 under the Companies Act, 1956 and commenced its operations by taking over the management, operations and control of the telephone network (except public telegraph services) of the erstwhile Union Territory of Delhi and three Municipal Corporations of Mumbai. The aspects highlighted in the Chapter are as under:

- Against the authorised equity share capital of Rs 800 crore, the paid-up capital, as on 31 March 2007, was Rs 630 crore, of which Rs 354.37 crore had been invested by the Government of India. At the end of 31 March 2007, the return on the said investment in the form of dividend paid by the Company was 40 *per cent.*
- The overall capacity utilisation of telephone exchanges went down from 79 *per cent* in 2002-03 to 58 *per cent* in 2006-07 due to lack of demand.
- The number of cellular mobile telephones had increased from 2.92 lakh in 2002-03 to 27.47 lakh in 2006-07. The number of public telephones also increased from 2.04 lakh in 2002-03 to 2.79 lakh in 2005-06.
- During 2006-07, the Company earned Rs 4909.32 crore from its services. The profit before tax was Rs 1008.38 crore and after providing for tax, the net profit stood at Rs 681.73 crore. The profit after tax which had decreased over the period from 2003-04 to 2005-06, increased by 17 *per cent* during 2006-07 as compared to previous year. However, income from services had decreased by 12 *per cent* compared to the previous year. Further, one major financial reporting issue relating to non-provision of liability of Rs 988.75 crore on account of post retirement medical benefits of the employees on adhoc basis was referred to DoT for its considered attention.

- The revenue arrears during the five years up to 2006-07 ranged between 28 *per cent* and 35 *per cent* of the total revenue. The percentage of doubtful revenue arrears to total revenue arrears which was 11 *per cent* for the year 2005-06 had increased to 21 *per cent* for the year 2006-07.
- The number of employees per thousand telephone connections (including cellular mobile connections) decreased from 11.65 in 2002-03 to 7.27 in 2006-07.

(Paragraph 4)

Chapter V

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

This chapter contains revenue and expenditure paragraphs based on the results of test audit, bringing out non-payment and accumulation of revenue of Rs 9.71 crore and blocking/avoidable expenditure of Rs 340.92 crore.

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

Injudicious procurement of WLL equipment

MTNL 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

(Paragraph 5.1)

Inadequate planning resulted in infructuous expenditure

MTNL procured WLL Fixed Wireless Terminals/Hand Held Terminals for its Delhi unit without forecasting and assessing quantity requirement based on the projected growth of WLL. Inadequate planning resulted in excess procurement of FWT/HHT and consequent infructuous expenditure of Rs 48.60 crore.

(Paragraph 5.2)

Non/underutilization of Digital Loop Carrier system

Procurement of Digital Loop Carrier systems by the Mumbai and Delhi units of MTNL without properly assessing its requirement based on market survey or any other scientific method resulted in non/underutilization of DLCs valuing of Rs 33.02 crore

(Paragraph 5.3)

Injudicious expansion of exchanges

Delhi and Mumbai units of MTNL expanded the equipped capacity of six telephone exchanges without considering the decline in the growth rate in landline telephony. This resulted in underutilization of the exchanges and consequent infructuous expenditure of Rs. 8.16 crore on expansion of exchanges

(Paragraph 5.5)

ITI LIMITED

Chapter VI

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

Indian Telephone Industries Limited, Bangalore was incorporated in January 1950 as a Company and was renamed as ITI Limited in January 1994. The Company has production units located at Bangalore, Palakkad, Naini, Raibareli, Mankapur and Srinagar, where various categories of telecommunications products like switching equipment, transmission equipment, satellite communication equipment, optical equipment and telephone instruments are manufactured. The aspects highlighted in the Chapter are as under:

- Against the authorised equity share capital of Rs 700 crore, the paid-up capital was Rs 588 crore (equity capital: Rs 288 crore and cumulative redeemable preference shares: Rs 300 crore) as on 31 March 2007. Out of this, Rs 267.47 crore had been invested by the Government of India.
- Since the Company was incurring losses since 2002-03, no dividend was paid for the years 2002-03 to 2006-07.
- In respect of switching products (except C-DOT exchanges), there was a decline in utilization of installed capacity from 47 *per cent* during 2004-05 to 31 *per cent* during 2005-06 and 2006-07.
- The Company incurred huge losses since 2002-03. The losses of Rs 427.55 crore and Rs 404.70 crore respectively during 2005-06 and 2006-07 were due to increase in cost of sales.
- The percentage of debtors remained almost at par with the sales figures during 2003-04 to 2006-07.

(Paragraph 6)

Absence of due professional care in safeguarding the Company's interest

The Company received advance purchase orders from BSNL for supply of Integrated Fixed Wireless terminals of ZTE model and furnished a Corporate Performance Guarantee (CPG) of Rs 9.90 crore. The Company placed orders for the supply of these terminals to Hindustan Futuristic Communications Limited (HFCL) without proper bank guarantee. HFCL failed to supply the desired number of terminals to the Company and BSNL short closed the order with Company and recovered Rs 19.80 crore of the CPG against the supply bills. The Company, however, could recover only Rs 9.40 crore by invoking the PBG and adjusting from pending bills of HFCL. The Company suffered a loss of Rs 10.40 crore.

(Paragraph 7.1)

Loss in execution of AMC work

The Company suffered a loss of Rs 3.78 crore due to incorrect estimation of the cost of AMC work by Manakpur unit in one of the GSM projects of BSNL.

(Paragraph 7.2)

TELECOMMUNICATIONS CONSULTANTS INDIA LIMITED

Chapter VIII

Introduction, organisational setup, investment and returns, financial performance and manpower

Telecommunications Consultants India Limited (TCIL) was incorporated in 1978 as a Company to provide know-how in the area of expansion and modernisation of telecommunications network. The Company has taken up consultancy services and turnkey projects not only in India, but also globally.

- Against the authorised equity share capital of Rs 30 crore, the paid-up capital was Rs 28.80 crore as on 31 March 2007, which had been fully invested by the Government of India. Present paid-up share capital include value of Bonus shares of Rs 28.50 crore consisting of one 2:1 and five 1:1 bonus issues. TCIL commenced business with initial seed capital of Rs 30 lakh during 1978-83 invested by Government.
- At the end of 31 March 2007, the total income from projects was Rs 382.59 crore. The profit before tax was Rs 4.86 crore and after providing for tax, the net profit after tax stood at Rs 1.22 crore.

(Paragraph 8)

INTELLIGENT COMMUNICATION SYSTEMS INDIA LIMITED

Chapter IX

Introduction, organisational setup, investment and returns, financial performance and manpower.

Intelligent Communication Systems India Limited (Company), a joint venture of TCIL and Delhi State Industrial Development Corporation (DSIDC) was established in April 1987 for manufacturing computer based communication systems and equipment. It also provides engineering, technical and management consultancy services for computers and communications systems in India and abroad.

- The authorised as well as paid-up equity capital of the Company, as on 31 March 2007, was Rs 1.00 crore.
- At the end of 31 March 2007, the total income earned was Rs 4.94 crore. The profit before tax and after providing for tax, for the year 2006-07 was Rs 5.98 lakh and Rs 1.85 lakh respectively.

(Paragraph 9)

MILLENNIUM TELECOM LIMITED

Chapter X

Introduction, organisational setup, investment, financial performance and manpower

Millennium Telecom Limited (Company) was incorporated in February 2000 under the Companies Act 1956 as a wholly owned subsidiary of Mahanagar Telephone Nigam Limited (MTNL) for providing of Internet services throughout India.

- Against the authorised equity capital of Rs 100 crore, the paid up capital as on 31 March 2007 was Rs 2.88 crore which was totally subscribed by MTNL.
- The Company recorded a meager net profit before tax of Rs 4 lakh during 2006-07.

(Paragraph 10)