CHAPTER-V
PSUs UNDER THE MINISTRY

5.1 Land Management in Bharat Sanchar Nigam Limited

5.1.1 Introduction

Bharat Sanchar Nigam Limited (BSNL), a wholly owned Company of the Government of India, was incorporated on 15 September, 2000 under the Companies Act, 1956 and commenced commercial operations on 1 October, 2000. The business of providing telecommunication services in the country other than Delhi and Mumbai, hitherto managed by erstwhile Department of Telecom Services (DTS) and the Department of Telecom Operations (DTO) under Ministry of Communications, was transferred to the newly formed Company. All assets and liabilities of the DTO and DTS, valued provisionally at ₹63,000 crore, were transferred to BSNL (Company). The Company has at present huge tracts of land, both inherited and acquired, located at different places under different Circles of the Company.

5.1.2 Organizational setup

The administrative and operational control of BSNL is vested with the Board of Directors, headed by the Chairman and Managing Director (CMD) who is assisted by functional Directors in charge of Technical, Finance and Human Resources.

Land inherited/acquired by the Company is managed by the Civil Wing of the Company, headed by Principal General Manager/Building Works (PGM/BW) at the Corporate Office, New Delhi. The PGM reports to the Executive Director (New Business)/ Director (Enterprises) at the Corporate Office. At the circle level, Chief General Managers (CGMs), who are the heads of Circles manage lands under their jurisdiction and are supported by the heads of Secondary Switching Area (SSA). The former report to the Principal General Manager/BW for any issues relating to the land under their control.

5.1.3 Audit Scope and Methodology

The scope of the audit is confined to the examination of effectiveness of management of land inherited by BSNL from the Department of Telecommunications (DoT) on its formation as well as land acquired subsequently by the company. Audit was conducted from May to September 2012 through examination of records/files/reports of the company relating to Land Management in the Corporate Office/ Circles / SSAs and joint verification of land assets in different SSAs under the Circles with the Executives of audited entities.

At the Corporate Office level, soft copy of the data was collected from the Civil Wing of BSNL Corporate Office. Review of specific issues such as encroachment, vacant plots, fresh procurement of plots, cancellation of allotment of plots, non execution of sale/lease deed and commercial exploitation were test checked in 67 out of 265 SSAs across 15 Circles. The audit findings were issued to Ministry and Management in October 2012. Reply of Ministry and Management was received in February 2013. Further, in May 2013 Management submitted a clarification on its earlier reply on valuation of land.

A list containing States, Circles and number of plots covered in audit at SSA level is given in **Annexure-XI**.

5.1.4 Audit Objectives

The thematic audit of Land Management in BSNL was undertaken with a view to assess:-

- Whether the Company had an effective land management in place.
- Whether the land assets held by the Company, had been transferred in the name of the Company.
- Whether the Company took prudent and effective measures for utilization of vacant land and adequate safeguards were in place to prevent encroachment of land.
- Whether process of fresh acquisitions of lands were complete and were utilized for the purpose for which it was acquired.

5.1.5 Audit Criteria

The main criteria for conducting the audit were:

- orders issued by the DoT at the time of incorporation of the Company regarding transfer of assets and liabilities particularly land;
- orders issued by the Company/DoT from time to time regarding alienation/mutation/transfer of inherited land assets in the name of the Company;

- justification for acquisition of any new land since formation, proper utilisation of inherited/acquired land, measures taken for prevention, detection and removal of encroachment, commercial exploitation of vacant plots and general practices usually adopted for efficient land management.

5.1.6 Audit Findings

Significant audit findings observed during the course of audit are given below:

5.1.6.1 Valuation of land

BSNL inherited huge tracts of land from the DoT in the year 2000. The Company does not however have a laid down Land Management Policy (May 2013). Procurement of land is carried out by the authorized functionaries as per the delegation of Financial Powers of the Company. PGM (BW) which heads the Civil Wing of the Company at Corporate Office is mandated to maintain the database of the land bank of the company.

Audit analysis of the data disclosed that

i. As per details of land holdings contained in the MIS (Management Information System) maintained by the Civil Wing, the total number of plots, area of the plots, freehold/leasehold, cost of acquisition i.e. book value, present value, lease period etc., Circle-wise and SSA-wise, in respect of 44 out of 45[1] circles of the company was available as on 26 September 2012. The Company inherited[2] from the DoT 12194 plots[3] measuring 406.31 lakh square meters[4] with book value of ₹3103.03 crore[5] located at various places. After formation of BSNL, the company had acquired/ taken on lease 2788 plots measuring 34.5 lakh square meters[6] with book value of ₹380.41 crore[7] **(Annexure-XII)**. Thus the total book value of the land as per the MIS data of Civil Wing was ₹3483.44 crore[8].

ii. However, as per the audited accounts of the Company for the year ended 31 March 2012, the value of the land i.e. Cost of acquisition was shown as only ₹1130.81

[1] Information on IT Pune circle was not available at Corporate Office (civil wing).

[2] 01.10.2000/2000 is treated as the cutoff date for considering the plot as inherited.

[3] Free hold:11446; Lease hold:748

[4] Freehold land: 371.76 lakh square meters ; Leasehold land: 34.55 lakh square meters

[5] Freehold land: ₹3039.32 crore; Leasehold land : ₹63.71 crore

[6] Freehold: 31.23 lakh square meters; Leasehold:3.27 lakh square meters

[7] Freehold: ₹363.72 crore; Leasehold: ₹16.69 crore

[8] Freehold: ₹3403.04 crore; Leasehold: ₹80.40 crore

crore[9]. Compared to the MIS data, the book value of the land was grossly understated in the accounts which were reported in the Annual Report (2011-12) of the Company, to the extent of ₹2352.63 crore.

In reply to the audit observation, Ministry stated (February 2013) that the data on MIS site was not yet fully purified and that the process of purification was still in progress and would be finalized after mutation of all lands in the name of the Company. Further it was stated that as per the data downloaded from MIS site on 02 January 2013 , the total book value was ₹923 crore (approx.) only which tallied with audited accounts of BSNL. Further, all the Circles had already been requested to reconcile the difference in the book value of their Circle.

The reply of the Ministry confirmed that updation of the land data and the reconciliation of book value between MIS data and audited accounts was still in progress despite the formation of the Company in 2000 which affected the fair representation of its value in the audited accounts of the Company. The fact remained that there were three sets of figures for book value of land in the Company. Land value as per audited accounts as on 31 March 2012 was ₹1130.81 crore (Gross Block) while MIS site value was ₹3483.44 crore and ₹923 crore as on 26 September 2012 and 2 January 2013 respectively. This is a matter of serious concern which needs immediate reconciliation for correct valuation of the Company to protect the interest of the Company in the event of stake sale/disinvestment/capital restructuring.

5.1.6.2 Title deeds of inherited plots not transferred in the name of BSNL.

After the transfer of the land assets to BSNL, DoT vide office memorandum dated 30 September 2000 authorized that the transfer/mutation/alienation of these assets and liabilities should be completed by 31 December 2000. Audit observed that:

i. All inherited plots numbering 12194[10] measuring 406.31 lakh square meter[11] of the Company (Refer Annexure-XII), were not transferred/ mutated in the name of the Company as on 31 March 2012.

ii. BSNL Corporate Office initiated the process of validation of land data in September 2011, and accordingly addressed all heads of telecom units to complete the verification of inherited Land and Buildings of their own territories. The task was to be jointly conducted by concerned Controller of Communication Accounts (CCA) on behalf of Department of Telecommunications (DoT) and BSNL officials were to

[9] Freehold: ₹956.14 crore; Leasehold: ₹174.67 crore

[10] Freehold: 11446; Leasehold: 748

[11] Freehold: 371.76 lakh square meter; Leasehold: 34.55 lakh square meter

ensure early transfer of assets in the name of Company from DoT. The process was targeted to be completed by 30 September 2011.

iii. The Circle authorities were asked (22 December 2011) to complete the process latest by 31 December 2011, the date fixed by Minister of Communications & Information Technology, for transfer of the assets to the Company. However, 37 Circles failed (January 2012) to adhere to target dates fixed by Corporate Office. Verification of the land by associated CCAs had been completed only in seven Circles[12] (September 2012) and based on this validation of data, the Company had initiated action by issuing instructions, as per the directions of DoT, for transfer/mutation of lands in only those seven Circles.

Ministry while confirming (February 2013) that no assets were mutated in the name of BSNL as on 31 March 2012, stated that the verification of assets along with the concerned CCAs was a huge task which involved a chain of activities to be performed by different individuals and was taken up in all circles simultaneously and the same was in progress. Further, DoT allowed for the mutation of assets of Haryana Circle in the end of March 2012 and that the same was extended to 41 Circles in respect of lands having clear revenue records excluding vacant lands/disputed lands/shared lands and lands retained by DoT.

It is evident from the reply that the verification of land was yet to be completed despite setting of target dates for its completion which contributed to delay in mutation of assets.

5.1.6.3 Vacant plot not commercially exploited

As on 31 March 2012, the Company had 1953 plots with freehold rights[13] measuring 32.46 lakh square meters kept fully vacant across the country in 29 circles.

Audit observed that:

i. 1719 plots[14] measuring 27 lakh square meters in selected 15 Circles were kept fully vacant **(Annexure - XIII)** out of the total freehold plots of 11352[15] measuring 307.82 lakh square meters[16] as indicated in **Annexure-XIV**.

[12] Haryana, NE-I, NE-II, Chhattisgarh, Chennai TD, J & K and Punjab

[13] Inherited:1157 ; Acquired:796

[14] Inherited: 988; Acquired:731

[15] Inherited :9031; Acquired;2321

[16] Inherited: 280.58 lakh square meters; Acquired:27.24 lakh square meters

ii. In 25 out of selected 67 SSAs under 15 Circles, Audit observed that 119 plots covering an area of 1.70 lakh square meters with a book value of ₹7.60 crore were lying vacant (March 2012). **(Annexure-XV)**.

iii. To guard against the increasing menace of encroachments of Government plots, DoT had issued detailed instructions on protective measures to prevent encroachment. BSNL Circle Management also instructed SSAs to ensure complete protection of land by taking adequate steps to protect the vacant plots. Despite these instructions, plots were kept vacant for long periods without any protection which exposed plots to the risk of encroachment. Details of encroachment of land are given in subsequent paragraphs.

iv. To ensure effective utilization of its land, the Company during June, 2008 had started an exercise to explore possibilities to commercially exploit the vacant plots under its possession. Accordingly, the Circles were asked to identify vacant plots under their jurisdiction. A test check of records in selected 67 SSAs under 15 Circles revealed that only in three Circles, concerned CGMs had sent proposals identifying potential plots for commercial exploitation as given in Table-1 below. However a final decision was pending at Corporate Office for commercial exploitation of plots.

Table-1
Vacant plots identified for commercial exploitation

Sl No	Circle	Name of SSAs	No of plots	Area (in Sq.mt)
1	Andhra Pradesh	Hyderabad TD	6	78384.00
2	Kerala	Thiruvananthapuram TD	12	40554.00
3	Kolkata TD	Kolkata Metro District	2	4172.00
Total			**20**	

Thus due to continued inaction at Circle level in submitting the proposals for commercial exploitation of vacant plots and also at the Civil Wing of Corporate Office to take a decision on the proposals received, the company could not generate additional revenue through commercial exploitation of its vacant lands to augment its Working Capital.

Ministry stated (February 2013) that the Articles of Association (AoA) of BSNL prevented the Company from sale, lease & disposal of any land and/or building having an original book value of ₹1 crore (₹ one crore) and above without the approval of the President. The same has since been amended (11 January 2013) enabling the company to

Lease/rent agreement of spare-able capacity of buildings up to 10 years without the approval of the President. Consequently BSNL has taken steps to monetize its real assets and a Pilot Project has been taken up for commercial exploitation of 10 plots of lands. On successful execution of this project, commercial exploitation of other vacant plots shall be undertaken by BSNL to generate revenue.

The reply of the Ministry is not acceptable as the proposal for amendment of AoA was mooted only in March 2012 for which approval was accorded by the Administrative Ministry in September 2012 and AoA were amended. The amendment has given powers to exploit spare-able capacity of building for not more than ten years and not for unused and vacant land which requires the approval of the President. Moreover, the earlier restriction was imposed in respect of buildings with an original book value of ₹1 crore and above which has since been made more restrictive and severe by not allowing the Company to sell/lease/dispose of any land without the approval of the President.

5.1.6.4 Encroachment of Land

Inherited as well as newly acquired plots to the extent of 8.46 lakh square meters were encroached.

A test check was carried out in 15 Circles by Audit. It was noticed that out of 307.82 lakh square meters of freehold land in 11352 plots under possession, 9031 plots were inherited and remaining 2321 plots were acquired by BSNL between January, 2001 and March, 2012 (Refer Annexure-XIV). Audit of land records pertaining to the Company disclosed that

i. 8.46 lakh square meters of land[17] in 101 plots[18] in selected Circles was found encroached as detailed below in Table-2 :

[17] Inherited: 8.05 lakh square meter; Acquired: 0.41 lakh square meter

[18] Inherited: 79 plots; Acquired: 22 plots

Table – 2
Details of Encroachments of Land

(Area in Sq. mt)

Sl. No.	Circles	Total Plots				Encroached			
		Inherited		Acquired		Inherited		Acquired	
		Number of Plots	Area	Number of Plots	Area	Number of Plots	Area	Number of Plots	Area
1	**Gujarat (incl. Ahmedabad TD)**	1067	2429583.1	483	479412.7	3	17404	0	0
2	**Andhra Pradesh**	1086	2742275	314	217318.3	5	40537.3	0	0
3	**Karnataka (incl. Bengaluru TD)**	1001	2391255.96	309	245715.62	1	809.6	1	278.7
4	**Bihar**	322	838351.1	24	41652.75	9	105278	1	263.13
5	**Chennai TD**	102	875730.3	4	3726	0	0	0	0
6	**Tamil Nadu**	764	2177557.98	110	137383.33	1	1249.82	2	2250
7	**Kerala**	609	1603250	103	177395.4	3	4659	0	0
8	**Kolkata TD**	66	641599	1	2833	2	8901	0	0
9	**West Bengal**	154	842929.9	7	14070.03	1	227275	0	0
10	**Madhya Pradesh**	802	2578086.55	399	559589.04	27	92382.42	10	21897.48
11	**Maharastra**	1155	4122724	376	474873.54	14	225388.9	6	12934
12	**Orissa**	168	603867	21	74663	4	35946	2	3332
13	**Punjab**	326	1186944.99	31	81542.24	1	4104	0	0
14	**Rajasthan**	696	2521931.5	123	147890.9	4	14985	0	0
15	**UP (East)**	713	2502113	16	65749.03	4	26551.16	0	0
Total		**9031**	**28058199.38**	**2321**	**2723814.88**	**79**	**805471.17**	**22**	**40955.31**

(Note: Figures have been compiled from down loaded data from BSNL Civil MIS.)

ii. Further examination of land records in selected SSA's carried out (May to September 2012) by joint inspection team of Audit and BSNL disclosed that 29 plots[19] measuring 1.70 lakh Square meters[20] had been encroached as detailed in **Annexure-XVI** (eight of these plots were encroached after formation of the company i.e. after 01 October 2000). It was observed there were no barbed wire/ fencing/ compound wall to protect the plots and no legal proceedings were initiated to evict the encroachers in certain cases (Morena and Indore SSA).

iii. Further, even the Circle authorities were not aware of the encroachment in certain SSAs which was brought to their notice by the Audit consequent to joint inspection/data analysis of the data made available. The Management replied that action would be taken to lay the fencing and call for reports on encroachment from concerned SSAs. Further the Management stated that legal action has been

[19] Inherited: 25; Acquired 4

[20] Inherited: 1.66 lakh square meters ; Acquired:0.04 lakh square meters

taken to get the encroachers evicted in other cases where it was noticed by the Management.

iv. Delay in mutation of property in the name of the Company adversely affects the legal proceedings of getting the encroachers evicted. It was also observed that the concerned SSAs did not regularly monitor the status of vacant plots held by them to ensure absolute protection of the properties through fencing, putting up signboards etc. even though Circle Management instructed its SSAs to keep strict vigil over vacant plots to prevent encroachment.

Thus BSNL had neither been able to keep its inherited land free from encroachment nor could it protect fresh plots acquired from encroachment.

Ministry stated (February 2013) that less than 1 *per cent* of the plots were encroached. However, CGMs had been instructed to verify the details submitted by Audit and to get the encroachment cleaned up by taking legal action and also to keep strict vigil over the vacant plots to prevent any further encroachment.

5.1.6.5 Acquisition of Land

(i) Sale/Lease deed of 82 plots of land not executed despite payment of ₹3.38 crore

Execution of title deed/lease deed after finalization of land deal is a primary necessity to ensure absolute possession of such land whether taken on leasehold or through direct purchase. Non completion of the purchase process by the company may finally lead to complete erosion of claim on such land/cancellation of lease affecting the performance of the Company.

A test check of records in Audit revealed that in four SSAs[21], the Company has taken on lease 17 plots measuring 0.12 lakh square meters of land for periods ranging from 30 years to 99 years. The Company paid a premium of ₹0.64 crore for taking the plots on lease for the purpose of establishing exchanges/Remote Line Unit. However the Company did not enter into a lease agreement for the said plots. This had resulted in avoidable payment of premium amounting to ₹0.64 crore and consequential loss of interest thereon. Further it was observed that in five[22] SSAs under two Circles the Company acquired 65 plots of land measuring 0.85 lakh square meters with a book value of ₹2.74 crore but no sale deed was executed for the same. **(Annexure-XVII)**.

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[21] Ahmedabad, Surat, Jaipur and Udaipur.

[22] Surat, Himmatnagar, Junagarh, Chandigarh and Bharatpur.

Ministry stated (February 2013) necessary instructions had been issued to all the CGMs to complete the purchase process in the best interest of BSNL.

(ii) Non submission of alienation proposals in respect of land measuring 0.32 lakh square meters with book value of ₹7.38 crore.

Government of Andhra Pradesh had allotted vacant lands measuring 32307.1 square meters to Telecom Department for construction of Telephone Exchanges and support services during 1981-2001 for a total consideration of ₹7.38 crore. For completing the transfer process, DoT/ BSNL was required to procure and submit alienation proposals to the Government of Andhra Pradesh. Audit observed that this had not been done in any of these cases either by the DoT or by the Company even after 11 years of formation of the Company.

It was observed that one of the land/plots measuring 2543 square meters for which an amount of ₹1.58 crore was paid as consideration was resumed by the Government of Andhra Pradesh in 2005 as the same remained vacant/unutilized since it was allotted in 1998 and was not transferred legally to the DoT/Company.

The Circle Management replied (February 2012) that legal notices were issued on 21 December 2006 and that the case was being vigorously pursued with the concerned authorities to get back the land and evict the encroachers. Further, it was stated that alienation proposals in respect of other allotted lands were being taken up with the concerned authorities' i.e. District Collector.

The reply of the Circle Management is not acceptable as the fact remains that the revenue authorities had resumed the land and allotted the same to Sikh Community Welfare Association in November 2005. Thus due to non utilization of the land allotted and delay in getting the land alienated in the name of the Company, the Company had to suffer not only the loss of 2543 square meters of land but also an amount of ₹1.58 crore. There may be every likelihood of more such cases in other Circles since the above observation was based on a test check by Audit in Andhra Pradesh.

Ministry stated (February 2013) that all units have been directed to get the lands mutated in the name of BSNL at the earliest.

(iii) Land measuring 1690.40 square meters surrendered without receipt of adequate compensation/allocation of alternative site.

Audit examination of records in selected circles (Refer Annexure –XI) revealed that in Karnataka and Tamilnadu Circles, BSNL had to surrender 1690.40 square meters of land with book value of ₹0.79 crore without adequate compensation/consideration as detailed below.

In Bengaluru (Karnataka Circle), Bangalore Mass Rapid Transport Ltd.(BMRCL) - Metro Rail Project acquired (August 2005) 557.40 square meters of land which was procured by BSNL during January 2004 at a cost of ₹0.79 crore. The organization agreed to offer alternate site measuring 525.20 square meters and paid cash compensation of ₹7.97lakh for unused quantum of land measuring 32.21 square meters. But the alternative plot was not allotted to BSNL even after a lapse of seven years. The Circle Management of BSNL replied that the case was being pursued with concerned authorities in BMRCL for allotment of alternative equivalent site in lieu of land ceded.

In Tamilnadu circle (Trichy SSA) during 2003, 1133 square meters of land with a market value of ₹3.46 lakh was acquired by National Highways Authority of India (NHAI) for road widening work. No compensation for the land was given by the NHAI till date. Circle Management stated (May 2012) that the case for compensation could not be pursued due to non availability of records.

Ministry while stating (February 2013) that report from concerned circles have been called for and, had issued directions to all the CGMs to ensure that there were no such cases in their units and also to pursue the pending cases vigorously to obtain appropriate compensation or alternative piece of land, as the case may be.

Conclusion

Even though the Company has been in existence for more than a decade, it still does not have an effective Land Management Policy. In the absence of this, the company which possesses huge tracts of freehold land measuring 402.99 lakh square meters has been unable to protect its land from encroachment/cancellation of plots due to abnormal delay in getting the inherited plots transferred/mutated/alienated in the name of the Company. Further the loss making Company was not able to commercially exploit its vacant land and take leverage of the same to generate additional revenue. There was also an abnormal variation in the book value of the inherited land and leasehold land on account of difference between the records of Civil Wing of Corporate Office and the audited accounts of the Company resulting in undervaluation of the assets of the Company. The Company should expedite the completion of mutation process in the Circles to take leverage of vacant high value lands.

5.2 Injudicious procurement of 288F[23] High count Optical Fibre cable

Injudicious procurement of 288F high count Optical Fibre cable by BSNL without demand from field units resulted in non-utilisation of more than 50 *per cent* of the cable received for more than three years, leading to blocking of funds amounting to ₹41.30 crore.

The Procurement Manual of Bharat Sanchar Nigam Limited (BSNL) provides that the starting point of the procurement process for any item should be the estimation or forecast of its requirement. It further provides that the forecast is to be obtained from the concerned user branches who plan for the induction of equipment and requirement of such equipment by each Circle which is worked out after discussion with the concerned head of the Circle and finalized by the Planning Branch. In BSNL, the Optical Fibre cable (OFC) network works are executed by Telecom Project Circles and the assets are transferred to the Territorial Circles (who are end users) after completion of the works.

High count fibre cables (48F and 96F) are being deployed by BSNL in its Overlay Access Network (OAN) which is meant for preparing network for the roll out of 'Fibre to the Home' (FTTH) services. These High count fibre cable deployed in OAN meet the requirements of GSM[24], Broadband and for providing high speed Leased Line Services to enterprise segment, on immediate basis.

In order to firm up the plan for implementation of FTTH by having state of the art fibre based access network, BSNL Corporate Office placed orders for the procurement of 3,000 km of 288F cable on five vendors in August and September 2008 and the cable was allotted to five Project Circles[25]. Audit scrutiny of records (2010-11 and 2011-12) indicated that procurement of 288F cable was done without due diligence and without assessment of requirement from the concerned Telecom Project Circles which ultimately resulted in 52.16 *per cent* of cables costing ₹41.30 crore lying unused and idle in the stores as dead stock as detailed below:

- In August 2007, the BSNL Corporate Office proposed to procure 17,265 km of 96F OF cable at the estimated cost of ₹189.915 crore for the years 2007-08 and 2008-09. However, the BSNL management converted the proposal for procurement of 17,265 km of 96F cable into 12,000 km of 96F cable and 3,000 km of 288F cable on ad-hoc basis without undertaking any cost-benefit analysis and/or fixing any norms for

[23] F - fibre

[24] GSM – Global System for Mobile Communications

[25] North East Task Force-NETF, Eastern Telecom Project-ETP, Southern Telecom Project-STP, Northern Telecom Project-NTP and Western Telecom Project-WTP

utilization of 288F cable, and procured 3,150 km of 288F cable worth ₹79 crore. Though BSNL was procuring these cables for the first time, there was nothing on record to indicate that the proposal to procure 288F cable was either discussed in the meetings of the Management Committee or the Board of Directors of the Company. The quantum of the requirement of 288F cable was also not determined based on any specific demand of the Circle Offices.

- None of the five Project Circles to whom the cables were issued had placed an indent for 288F. The Eastern Telecom Project Circle in fact sought for reduction of allotment from 500 Km to 250 Km. The NETF Circle too did not project any requirement and sought for diversion and the STP Circle also did not project any requirement for 288F OF cable. The WTP Circle citing non-requirement approached the BSNL Headquarters in February 2009 and again in November/December 2009 for diversion of the allotment.

- In April 2010 BSNL Corporate Office observed that none of the Territorial Circles had projected routes for 288F OF cable. Instructions were issued immediately (April 2010) to all Chief General Managers of Project Circles/Territorial Circles to lay 288F OF cable in highly demanding cities/segments.

- Despite the above instructions and after more than three years of its receipt, only 47.84 *per cent* 288 OF cable procured was laid and 52.16 *per cent* of the cable costing ₹41.30 crore (as on October 2012) remained unutilized in the Project/NETF Circles as detailed in Table-1 below:

Table-1
Statement showing OFC remaining unutilized

Name of the Circle	Receipts of OFC (in Km)	Utilization of OFC (in Km)	Balance stock of OFC (in Km)	Value of balance OFC (₹ in crore)	Utilization (in percentage)
ETP	525	177	348	8.53	33.71
NETF	63	27	36	0.87	42.86
STP	888	289	599	15.36	32.54
WTP	783	508	275	6.67	64.88
NTP	891	506	385	9.87	56.79
Total	**3150**	**1507**	**1643**	**41.30**	**47.84**

On being pointed out by Audit, ETP and NETF Circles replied (March 2011 and January 2011 respectively) that they had approached Corporate Office for diversion of unutilized stock to other circles. The STP stated in June 2010 that due to the failure of tenders twice for procurement of poly-ethylene pipes (through which OF cable would be laid) 288F

OFC cable could not be utilized. They further stated that purchase orders were placed for the pipes in May 2010 and the cable would be laid immediately after supply. Further scrutiny in Audit (July 2011) revealed that even though the PLB pipes were received in June/July 2010, only 95 Km out of 888 Km of 288F cable could be utilized thereafter. The WTP replied in September 2010 that the then stock of 288F cable would be utilized in OAN works. The reply was irrelevant as 314 Km of cable was lying in WTP (April 2012) with no significant progress in utilization. The request of ETP for reduction in quantity from 500 Km to 250 Km made in September 2008 was not considered by the Corporate Office and as a result of which 348 Km of cable was found lying unutilized (October 2012) with ETP.

BSNL Corporate Office replied (October 2012) that it had got a firm demand for 48F/96F/144F OF cable from various field units for the years 2006-09. Based on these requirements, the procurement of 17,265 Km of 96F was initiated. The 96F cable was planned to be used in the optical access network which was being deployed across the BSNL network. BSNL Corporate Office had further taken a strategic decision to procure 3,000 Km of 288F OF cable based on the following:

a) Per fibre cost for 288F OF cable comes out to be much less than per fibre cost for 96F cable (₹2,536 for 288F and ₹4,620 for 96F).

b) Laying of cable particularly in the densely populated cities of India is very difficult and costly and same efforts were required to lay both 96F & 288F cable but long term strategic advantage incurs when fibres are available for future use.

c) BSNL was in the process of planning Next Generation Play Network which required fibre across up to the customer premises and OF cable net work is basically a long term investment and the fibres may be utilized in future.

The Ministry has endorsed the same reply as sent by BSNL Management (October 2012).

Ministry's response is not acceptable as the issue of procurement of 288F cable was neither considered by the Management Committee nor by the Board of Directors of the BSNL. There was no policy decision taken by the Company to procure the 288F cable, even though they were being procured for the first time and no norms were fixed. There was nothing on record to show that any cost benefit analysis was done before placement of the orders. Even the level of utilization of fibres of the existing 96F was neither analysed nor considered at the time of consideration of the proposal to procure 288F cable. Moreover the Company has been incurring huge losses[26] since 2009-10 and even prior to 2009-10; its profitability was getting rapidly eroded. It was therefore incumbent upon the Company Management to follow financial prudence. Investment of financial

[26] 2009-10—₹1,823 crore; 2010-11—₹6,384 crore; 2011-12 – ₹8,851 crore

resources on procurement of cable, which were not required immediately or for short-medium term, by a loss making Company, did not reflect any prudent financial decision.

Thus the ad-hoc decision to purchase 288F high count OF cable resulted in more than 50 *per cent* of the cable lying idle in stores. BSNL could utilise only 47.84 *per cent* of the cable even after completion of more than three years from the date of procurement, which has resulted in idling of stores besides blocking of funds of ₹41.30 crore.

5.3 Blocking of funds of ₹ 21.71 crore on injudicious procurement

Injudicious procurement of SMPS Power Plants and Air conditioning units by Circles/Electrical Wing of BSNL resulted in their non utilisation for more than one to four years. This led to idling of 1,612 SMPS power plants and 617 AC units and consequent blocking of funds of ₹21.71 crore.

The procurement of high value critical equipment is done centrally by BSNL Corporate Office (CO) while the items not covered in the materials to be procured by the CO are decentralized for procurement by Telecom Circles. The Corporate Office of BSNL issued (June 2001) guidelines for procurement of decentralized items by Circles, which stipulate that:

- Telecom Circles should take into account their consumption pattern while assessing their requirements. Utmost care should be taken to ensure that piling up of the inventory is avoided.
- Telecom Circles shall procure these items to meet their annual requirements keeping available inventory in view.
- Telecom Circles will ensure proper and expeditious utilization of the material procured by them.

Instances of excess procurement of Switch Mode Power Supply (SMPS)[27] Power Plants (PPs) and Air conditioning units by Circles/Electrical wing of BSNL were noticed during compliance audits and the details are brought out in the succeeding paragraphs.

[27] The Telephone exchange works on Direct Current (DC).The Alternate Current (AC) supplied by Electricity Corporations will be converted into DC by the Power Plants and is used for energizing the telecom equipment.

(i) Injudicious procurement of SMPS Power Plants

Procurement of SMPS Power Plants was decentralized (May 2003) by the CO authorizing the Territorial Circles to procure the same. BSNL Telecom Circles procured various categories (Configurations) of SMPS PPs considering the projections/ requirements for maintenance and developmental works of both mobile and fixed line wings.

Audit analysis of procurement and utilization of SMPS PPs during the period 2008-09 to 2011-12 in five out of 22 Telecom Circles[28] of BSNL disclosed that the procurement was made in excess of the requirements in respect of various categories (configurations) of Power Plants. Out of 4,879 numbers of various types of SMPS Power Plants procured during the said period for GSM based mobile projects and maintenance works at SSAs level, 1,612 SMPS Power Plants were lying idle as of March 2012. The period of idling ranged between more than one to four years resulting in blocking of capital of ₹20.17 crore as detailed in **Annexure-XVIII**. Further, the warranty period of one year (from the date of supply to the consignee) offered by the suppliers on these Power Plants had also expired.

On this being pointed out by Audit (September 2012), the Ministry replied (February 2013) that:

- In Uttar Pradesh (East) Circle Power Plants were procured for huge CMTS (Cellular Mobile Telephone Service) Phase V Project. However, due to change in BSNL (Corporate office) directions on delay in roll-out of GSM projects and diversion of equipment the actual requirement was less than the projected demand.

- In Andhra Pradesh Circle Power Plants were mainly required for the GSM and WiMax projects where utilisation takes place only after acquiring the site for BTS/Tower. Delay in utilisation was due to delayed acquisition of sites.

- In Gujarat Circle Power Plants were procured as part of turnkey GSM projects. Hence consumption pattern could not be predicted as purchase orders were given in advance to vendor on turnkey basis for the whole project. Since the vendor delayed the project implementation beyond scheduled delivery date, it resulted in balance stock of Power Plants.

[28] Andhra Pradesh, Gujarat, Jammu & Kashmir, Maharashtra and Uttar Pradesh (East)

- In Jammu and Kashmir Circle Power Plants were initially planned and procured against Mobile Project-V phase roll out but during implementation of the project the infrastructure in the identified sites did not fully materialize.

- In Maharashtra Circle the Power Plants would be diverted to other needy Circles and there was no proposal for procurement of Power Plants during 2012-13.

The reply furnished by the Ministry only strengthens the Audit observation which indicates that there was lack of effective project planning, procurement and synchronization of its execution at the Circle and SSA level. Further, as procurement of SMPS Power Plants was decentralized, the Circles were required to make the purchases as and when the need arose based on existing stocks and consumption trends. Failure to do so resulted in 1612 SMPS Power Plants lying idle (March 2012) for more than one to four years and consequent blocking of capital of ₹20.17 crore.

(ii) Injudicious procurement of Air Conditioner Units

Planning, procurement and installation of electrical equipment requirements of BSNL is done by the Electrical Wing of BSNL in coordination with the Territorial Circles.

Scrutiny of records (December 2011) of three Electrical Divisions under Chief Engineer (Electrical) Bhopal Zone revealed that the unit had placed purchase orders on various private firms on DGS&D rate contract for supply of 2,180 units of Air Conditioners (AC) during 2008-09 to 2010-11 for utilization in Global System for Mobile communication (GSM) Phase-V.1. Out of this only 1,563 units were utilized up to March 2012 and balance 617 units worth ₹1.54 crore were lying in stock as of March 2012. The period of idling ranged between more than one to three years and the warranty period of one year on these units had also expired.

The Ministry replied (February 2013) that AC units were procured against phase V GSM project and 617 units could not be utilised due to non-readiness of sites. Ministry further stated that out of 617 units, 93 units were utilised and balance 524 units would be utilised against GSM phase V.1 project and for replacing life expired split AC units by 31 March 2013 in Madhya Pradesh Circle. It further stated that no AC units would be procured till available stock lasts.

Thus non-adherence of the guidelines prescribed by the BSNL Corporate Office while procuring the AC units by BSNL Electrical Division, Bhopal Zone, resulted in idling of 617 AC units for one to three years and blocking of capital of ₹1.54 crore.

5.4 Over payment of ₹2.09 crore and excess award of works worth ₹ 8.12 crore

Failure of internal control in Mizoram SSA of BSNL led to excess award of works worth ₹8.12 crore and over payment of ₹2.09 crore to a private contractor in execution of cable works.

Instructions issued by Bharat Sanchar Nigam Limited (BSNL) on execution of works by Secondary Switching Areas (SSAs), (June 2002) stipulate that preparation of estimates as well as execution of Works should be based on the actual quantum of projections; and in no circumstances, the quantum of work awarded shall be beyond 25 *per cent* of the estimated works as indicated in the Notice Inviting Tender (NIT)/ bid documents. Further, there should be a system to monitor the quantum of work already awarded to the contractor(s) at the time of issue of work orders. Thereafter at the time of approval of the contractor's bills/release of payment, a close monitoring is required on the amount already paid to the contractor(s) against the same tender.

General Manager (Telecom), Mizoram SSA invited a tender (No. TD-41) on 1 November 2006 for trenching and laying of different sizes of underground cable[29] for Aizawl city limits and other than Aizawl city area in Mizoram at an estimated cost of ₹60 lakh. Two bids were received in response and after negotiation, the work was awarded to lowest bidder, i.e. M/s Pathak Pvt. Limited at 176 *per cent* and 149 *per cent* excess over estimated cost for Aizawl city and other than Aizawl city areas, respectively. Another NIT (No. TD-31) was also issued by GM Aizawl in a local newspaper on the same day for laying 5/10 pair underground cable for pole-less[30] network and associated allied works in Aizawl city at an estimated cost of ₹64.66 lakh with exactly the same schedule of work and rates as the earlier one. Only one bid was received from the same agency and the work was awarded to them at 59 *per cent* excess over estimated cost, after negotiation.

Audit scrutiny of records during March 2012 revealed the following irregularities in tendering, awarding and execution of works under these two tenders:

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[29] The underground copper cables are extensively used in outdoor network of an exchange system. The cables are laid from Telephone Exchange up to Distribution points (DPs) for the purpose of flexibility; pillars are introduced in the network. The primary cables, which are of higher size, are laid from Telephone Exchange to pillars. The Distribution cables are laid from pillar to DP. The UG cable works involve digging, pulling and laying of various sizes of cable, jointing, construction of cabinet/pillars etc.

[30] The external plant network comprises of underground cables, cabinet/pillars, distribution points, drop wire laid on telephone poles, line jack unit, telephone instruments etc. The pole less external plant means that the outdoor network is free from the pole alignments and its allied components. BSNL issued instructions in September 2002 that the external plant should be made pole less as far as possible to reduce the fault rate.

i. Since the estimated cost of works to be executed under TD-31 and TD-41 were more than ₹5 lakh, NITs were required to be published in National dailies in addition to Indian Trade Journals as per General Financial Rules (GFR) whereas in both these cases NITs were published in local newspaper only, defeating the very purpose of publication for availing competitive rates.

ii. Detailed estimates for both kind of works were sanctioned between April 2007 to May 2010 after issue of work orders (March 2007 to August 2008) i.e., to suit the work orders issued.

iii. The Tender Evaluation Committee did not prepare any market rate justification while recommending acceptance of the quoted rates and also failed to justify the reasonableness of the rates of both the tenders.

iv. Though tender contained details of the quantity, both the agreements had been signed with the same contractor i.e. M/s Pathak Pvt. Ltd. by the same authority viz., Divisional Engineer (Planning & Admn.) without specifying the total value and duration of contract.

v. For the first contract, Divisional Engineers (External/Operations-I and Operations-II) of Mizoram SSA continued to issue work orders to the contractor up to August 2010 and a payment of ₹ 8.72 crore beyond the contract value was made out of total payments of ₹10.30 crore. Against the other tender (TD-31) finalized at much lower rate than the TD-41, no further work order had been issued after incurring an expenditure of ₹42.75 lakh against contract value of ₹102.81 lakh (₹64.66 lakh X 159 *per cent*). Further the bill passing authority and Internal Financial Advisor (IFA) also failed to exercise the required checks to control the excess expenditure beyond the tendered quantities.

vi. On being pointed out by Audit (March 2012) the SSA authority set up a committee in March 2012 to look into the irregularities. Based on the recommendations of the committee, a show-cause notice was issued to the contractor in June 2012 for refund of excess paid amount of ₹2.09 crore, recovery of which is still awaited (February 2013). The Committee further suggested that instructions were to be issued to the field units to take various measures to avoid recurrence of such incidences in future. The committee also noted that work orders were issued by field units without adhering to contract value and there was no centralized monitoring mechanism in the Unit.

vii. Thus, all guidelines or rules framed (for preparation of estimates, issue of tenders, reasonability of rates finalized in the tender, watching the tendered quantities against the quantity of work executed, monitoring of payments) were flouted and GM(T) Mizoram failed in all respects to safe guard the interests of the Company. This resulted in undue favour by awarding excess quantity of work to the private contractor to the tune of ₹8.12 crore under both the tenders.

viii. Lack of internal controls and monitoring mechanism by GM heading the SSA resulted in release of payment to the extent of ₹10.30 crore against these non-project works under TD-41 which was even beyond the sanctioning power of the head of the Circle.

CGMT BSNL, North East-I Circle, Meghalaya, Shillong in its reply (October 2012) admitted the overpayment of ₹2.09 crore to the private contractor and stated that a notice has been issued for refund of the overpaid amount. He further stated that instructions have also been issued to withhold all deposits and payments due to the contractor. He further stated that:

a) The NIT for TD-31 and TD-41 were published in local newspapers and put on the North East Circle website and therefore publication for availing competitive rates for the work was not defeated.

b) The purpose of the two tender were not similar as Pole-less network includes the work relating to the conversion of existing DP to wall DP whereas Under Ground (UG) cable tender under TD-41 was for laying UG cable for the expansion of the Network. Although the schedule of rate used for both the works were almost similar in nature, they were not identical.

c) The validity of TD-31 agreement was up to March 2008 and that of TD-41 was up to February 2008 and all work orders were issued during the period of agreement currency.

d) Mizoram SSA is one of the most difficult areas in terms of delivering telecom services due to its geographical locations and steep hilly terrains and the SSA did not have past experience in executing such tenders prior to the tender under question.

The reply given by the CGMT is not acceptable on the following grounds:

1. As per General Financial Rules, for purchase value of ₹5 lakh and above, open tenders are required to be advertised in National Dailies in addition to Indian Trade Journal and inadequate publicity resulted in poor response to NITs.

2. Approving higher rates for TD-41 over TD-31 was not found justified and hence not in order.

3. The schedule of rates appended to both tenders was identical and BSNL is bound by the terms and conditions of the tender.

4. Even after bifurcation of expenditure between the two tenders as worked out by the Management, the excess expenditure over tendered quantity under TD-31 comes to ₹4.31 crore and under TD-41 comes to ₹3.81 crore and the overall excess expenditure on both the tenders comes to ₹8.12 crore as detailed in the Table-1 given below.

Table-1
Statement showing excess expenditure

(₹ in lakh)

Sl. No	Details	TD-41	TD-31	Combined (TD-41 + TD-31)
1	Estimated cost	60.00	64.66	124.66
2	Accepted cost	157.50	102.81	260.31
3	Actual expenditure incurred	1029.86	42.75	1072.61
4	Excess Actual expenditure over accepted cost	872.36	(-)60.06	812.30
5	Excess over accepted cost (in *per cent*)	553.88	-	312.05
6	Expenditure after bifurcation	539.06	533.55	1072.61
7	**Excess expenditure over accepted cost after bifurcation**	**381.56**	**430.74**	**812.30**
8	Amount to be recovered after bifurcation	73.16	135.72	208.88

(Source: Information collected by field office/ furnished by the Management)

Further, CGMT has failed to discharge his responsibility in instituting effective control/checks to prevent such occurrences. No action has also been taken to fix responsibility on any officials as yet.

The matter was referred to the Ministry in November 2012. The Ministry in May 2013 while accepting the audit observations confirmed that there was an excess payment to contractor M/s Pathak Telecom Company by the Mizoram SSA. It was further stated that CGMT, NE-I Circle was asked to initiate action to recover the excess payment from the contractor and also initiate action against the officials/ officers involved in the lapses and irregularities for excess payment of bills.

Thus, failure of internal control in Mizoram SSA of BSNL led to excess award of works worth ₹8.12 crore and over payment of ₹2.09 crore to a private contractor.

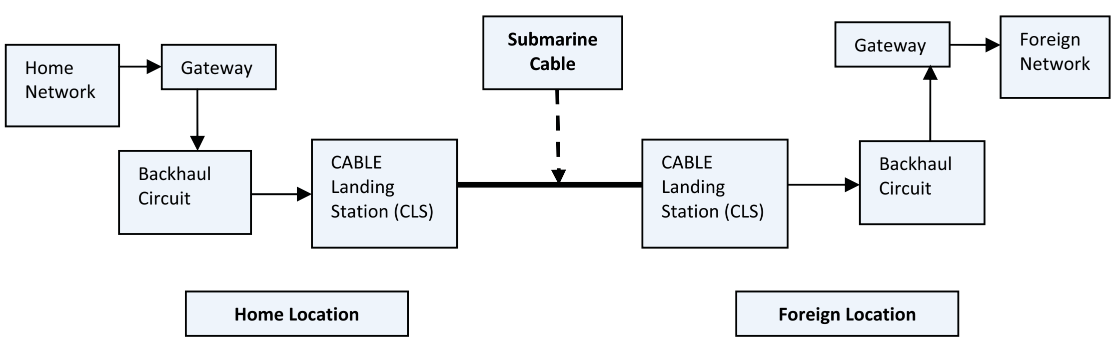
5.5 Operation of International Long Distance Service in BSNL

Failure and delay in joining International Submarine Cable Consortiums led to deficiencies in operation of International Long Distance (ILD) service by BSNL. This further resulted in under-utilization of bandwidth capacity and avoidable expenditure in acquisition of bandwidth for operation of ILD service.

5.5.1 Introduction

International Long Distance (ILD) service is basically a network carrier service providing international connectivity to a network created by foreign carriers. The service is provided by ILD service providers so that end-to-end teleservices can be provided to the customers across various countries. A diagram indicating the flow of international telecom traffic for ILD operation is given below.

Flow diagram for International Telecom Traffic



Prior to disinvestment (February 2002) of Videsh Sanchar Nigam Limited (VSNL), Bharat Sanchar Nigam Limited (BSNL) since its formation (October 2000) had been routing international calls through VSNL. BSNL acquired ILD licence in January 2003 with a direction from DoT to continue routing its ILD calls through erstwhile VSNL for a period of two years i.e. up to February 2004. After disinvestment of Government equity in VSNL, BSNL continued to avail the ILD services from erstwhile VSNL (Tata Communication Ltd.) till 2006.

5.5.2 Infrastructure acquired for ILD operation

BSNL has been providing international connectivity to its customers through six[31] gateways in different zones. For its ILD operation and to enhance global connectivity BSNL has acquired the following transmission media[32]:

i) **Bharat–Sri Lanka Submarine Cable System (BLCS)** – BSNL has fifty *per cent* ownership (August 2004) in BLCS at a Capital cost of ₹45 crore for connectivity between India and Sri Lanka from July 2006 at BSNL Cable Landing Station[33] (CLS) Tuticorin and Sri Lanka Telecom (SLT) Cable Landing Station Mount Lavinia respectively.

ii) **Europe India Gateway (EIG)** [34]- BSNL entered (July 2008) EIG Cable System (Mumbai to London) as a consortium partner for a 7.0911 *per cent* share to own bandwidth capacity of 27.34 lakh Minimum Investment Units[35] (MIUs) at a Capital cost of US$ 51.59 million.

iii) **Media hired from France Telecom (FT)** - Bandwidth capacity of 1.50 lakh MIUs taken on lease (May 2009) for 15 years at a one time cost of US$ 14,85,000 and US$ 44,500 as annual operation and maintenance charges from France Telecom (FT) on South East Asia-Middle East-Western Europe-4 (SEA-ME-WE 4)[36] submarine cable landing at Tata Communications Limited (TCL) CLS, Mumbai.

iv) **Media hired from various Indian and foreign ILD operators**- Besides the above infrastructure, BSNL also hired transmission media for connectivity across the globe from various Indian and foreign ILD operators on requirement basis from time to time.

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[31] Jalandhar, New Delhi, Kolkata, Mumbai, Chennai and Ernakulam.

[32] Transmission media is a media and connected infrastructure for transmitting voice and data traffic.

[33] A cable termination/landing station is the point at which the submarine cable connects into the land-based infrastructure or network, owned by the landing party and retains the right to use and share the telecom infrastructure with the other Telecom Service Providers.

[34] The EIG cable system is an international optic fibre submarine cable system that links the United Kingdom, Portugal, Gibraltar, Monaco, France, Libya, Egypt, Saudi Arabia, Djibouti, Oman, United Arab Emirates and India.

[35] The Minimum Investment Unit (MIU) is a unit of capacity used with submarines cables. It is a product of bandwidth in terms of STM-1 link (Synchronous Transport Module-1 is a transmission standard) and distance in Km. Example: 1 STM-1 working between one Km distance of two CLS is termed as 1 MIU Km.

[36] South East Asia–Middle East–Western Europe 4 (SEA-ME-WE 4) is a submarine communications cable system that carries telecommunications between South East Asia to Europe via the Indian sub-continent and Middle East. In India cable landing station on cable system at Mumbai and Chennai are owned by Tata Communication Limited and Bharti Airtel Limited respectively.

5.5.3 Scope of Audit

Audit was conducted during January to March 2012 at BSNL Corporate office, Circle offices[37] including Gateways and Maintenance Regions for the period 2008-09 to 2011-12. Audit findings were issued to Ministry and Management in November 2012 and reply of the Ministry was received in April 2013.

5.5.4 Source of Audit Criteria

Source of audit criteria were the agenda and minutes of Board of Directors meetings, purchase orders for procurement of media, agreements between BSNL and other ILD operators and relevant records relating to ILD operation for the above period.

5.5.5 Audit Objectives

Audit was conducted to examine whether

- BSNL had adequately safeguarded its commercial interest for efficient ILD operation.
- the procurement and utilization of transmission media required for operation of ILD service was done effectively and efficiently.

5.5.6 Audit Findings

The audit findings on ILD operation by BSNL are discussed in the succeeding paragraphs.

5.5.6.1 Failure to join in time International Submarine Cable System Consortium with landing rights[38] leading to dependence on other ILD operators besides low utilisation and loss of bandwidth.

For accessibility on International Submarine Cable Systems ownership of bandwidth with landing rights is an essential infrastructure requirement for any ILD service provider. An operator having landing rights can own, manage and use a cable landing station as also share the same with other telecom operators.

[37] Maharashtra, Kerala, Punjab, West Bengal, Tamilnadu circles, Calcutta Telecom Districts and Information Technology Project Circle (ITPC), Pune. Northern, Western, Eastern and Southern Telecom Region.

[38] A consortium partner with landing rights has right to access the submarine cable at its own cable landing station and share the same with the other Telecom Service Providers.

(i) Failure to join International Cable Consortium with cable landing station.

As BSNL had a pan-India presence and was also an ILD operator it was necessary that BSNL should create and maintain adequate ILD infrastructure for efficient and smooth ILD operation. As mentioned earlier in Para 5.5.1, BSNL routed its ILD calls through VSNL and its successor (TCL) till 2006.

We observed (March 2012) that an International Consortium of 16 ILD service providers including Tata Communication Limited and Bharti Airtel Limited (BAL) agreed to construct SEA-ME-WE 4 cable system on 27 March 2004 and completed the same in December 2005. We further observed (March 2012) that Bharti Airtel Limited, Tata Communication Limited and Reliance Communications Limited (RCL) which had acquired ILD licenses in 2002 had became members or owners of important submarine cable systems[39] since 2002 onwards. However BSNL did not become a partner in any International Submarine Cable Consortium with landing rights.

(ii) Low utilisation of bandwidth capacity of Bharat Lanka Cable system.

As mentioned earlier in Para 5.5.2, BSNL entered (2004) into a partnership with Sri Lanka Telecom (SLT) for laying a sub-marine Optical Fibre Cable System namely Bharat Lanka Cable system (BLCS) from India to Sri Lanka. BSNL and SLT became equal (50 *per cent*) partners of the submarine cable system. The objective of the project was to provide international telecom services between India and Sri Lanka and also other foreign destinations. The BLCS project was completed in July 2006 and with the completion of this project BSNL was able to access international bandwidth of foreign carriers at Mount Lavinia CLS of SLT for its ILD operation.

However BLCS provided only limited bandwidth capacity to BSNL up to Sri Lanka. For connectivity to rest of the world it was dependent on SLT. BSNL continued its ILD operation on BLCS from December 2006 as SLT provided infrastructure facility for

[39] South East Asia–Middle East–Western Europe 4 (SEA-ME-WE 4)-a submarine communications cable system that carries telecommunications between South East Asia to Europe via the Indian sub-continent and Middle East. In India cable landing station on cable system at Mumbai and Chennai are owned by TCL and BAL respectively.

i2i cable system, connects India to Singapore, owned by BAL of India and Singtel of Singapore. In India its landing point is at Chennai.

I-ME-WE (India-Middle East-Western Europe) is a submarine communications cable system connecting India and Europe via Middle East. In India cable system lands at Mumbai at two cable landing stations owned by TCL and BAL.

Flag Alcatel-Lucent Optical Network (FALCON) is a segment of Europe Asia cable system (Fibre Optic Link Around the Globe-FLAG) connecting UK, Middle East and Mumbai. FALCON-I connects India to Gulf and FALCON-II going to East of India. In India Cable Landing Stations at Mumbai and Trivandrum owned by Reliance Communications Limited.

global connectivity till BSNL shifted to SEA-ME-WE 4 cable bandwidth hired from France Telecom in May 2009 due to higher cost of operation on BLCS.

It was further observed (March 2012) that the utilization of BLCS since its commissioning ranged between a meagre 1.81 *per cent* (2006-07) to 17.51 *per cent* (2010-11) from 2006-07 to 2011-12, which showed sub optimal utilisation of BLCS. Details of capacity utilisation compared to the total equipped capacity of BLCS by BSNL for the year 2006-07 to 2011-12 is given in **Annexure-XIX**.

Regarding investment in BLCS, Ministry replied (April 2013) that to use VSNL's infrastructure, BSNL had to pay about ₹0.90/min as infrastructure charges to VSNL. On commissioning of BLCS in 2006, the voice interconnects of foreign carriers which were operational through VSNL infrastructures were shifted to BLCS. Till 2010, approximately 1500 million outgoing minutes passed through these voices interconnects on BLCS. Thus there was a saving of about ₹0.90/min for approximately 1500 million outgoing minutes (about ₹130 crore). Ministry further stated (April 2013) that as design life of submarine cable is about 25 years, BLCS can be used during remaining life time also for generation of revenue.

The reply of the Ministry is not convincing as charges payable to VSNL (₹0.90 per minute) could have also been saved if BSNL had been able to participate in the International Cable Consortium such as SEA-ME-WE 4 with landing rights. Further, we observed (March 2012) that in 2009, due to higher cost charged by SLT for interconnection/termination, BSNL shifted the voice–interconnects to India at Mumbai Cable Landing Station of TATA Communication Limited on media hired from France Telecom on SEA-ME-WE 4 cable.

Thus, failure to acquire bandwidth on a submarine cable of an International Consortium with cable landing rights resulted in BSNL having to depend on other Indian and foreign ILD operators for its ILD operation besides low utilisation of its existing infrastructure.

(iii) Loss of landing rights and bandwidth capacity on EIG cable system.

An International Consortium of 17 telecom companies including Bharti Airtel Limited from India was formed in October 2007 for the purpose of laying an undersea high bandwidth optical fibre submarine communication system from United Kingdom (UK) to India called Europe India Gateway Cable (EIG). BSNL was not part of this consortium of 17 companies. In this connection, a Construction and Maintenance Agreement (C&MA) was signed by the consortium members on 6 May 2008.

The Management Committee of BSNL decided (March 2008) to explore the possibility of entering into an international undersea cable system for its ILD services. Subsequently the ILD committee of BSNL decided (May 2008) to enter in the EIG Consortium as a landing partner. However we observed (March 2012) that EIG Consortium informed (May 2008) BSNL to enter the consortium as an additional party with non-landing rights since BAL was already a landing party from India on first come first serve basis.

Even though the Board of Directors of BSNL (July 2008) had also observed that BSNL should have its own undersea cable with all rights including landing rights to counter the competition from other ILD operators, the Board of Directors finally approved (July 2008) the proposal of entering into the EIG Consortium as non landing additional party under EIG C&MA.

As per the EIG C&MA, different Price Ratios by level of investment from US$ 15 to 50 million were prescribed for allocation of equipped capacity of EIG cable system. However Price Ratio to an additional party was to be as appropriate to its investment plus 0.05. For initial investment of US$ 50 million and above by a consortium partner Price Ratio was 1.0. As BSNL decided to invest US$ 50 million (initial investment) as an additional party, Price Ratio for BSNL was 1.05.

BSNL entered (March 2009) in an agreement as an additional party in the EIG Consortium with a Price Ratio of 1.05 and made an investment of US$ 51.59 million[40] (7.0911 *per cent* share) for allocated capacity of 27.34 lakh MIUs. We observed (March 2012) that BSNL got 1,36,710 less MIUs due to Price Ratio of 1.05 vis-a-vis Price Ratio of 1.0 for an original party.

Had BSNL entered the consortium as an original party it could have saved loss of landing rights as also 1,36,710 MIUs bandwidth capacity.

Ministry replied (April 2013) that as BSNL did not have its presence outside India it came to know about consortium cables only through discussion with foreign carriers since the cable consortiums are generally initiated by dominant foreign carriers. As and when BSNL became aware of the ongoing cable consortiums it tried to explore and avail the opportunity.

The reply of Ministry that the consortium formations at international level were not known to BSNL, cannot be accepted in view of the fact that due diligence should have been conducted by BSNL before joining an International Cable Consortium as a landing partner.

[40] Initial investment US$ 50 million and additional investment of US$ 1.59 million due to increase in the EIG Project cost.

Thus failure of BSNL to explore in time the possibility of entering into the EIG Consortium with landing rights led to loss of the same and bandwidth on EIG cable besides dependence on BAL for accessing bandwidth on EIG cable. Further it also led to avoidable payment for hiring of bandwidth as given in subsequent para.

5.5.6.2 Payment of Operation and Maintenance Cost of ₹14.49 crore for non-utilized international bandwidth on EIG cable and avoidable expenditure of ₹3.96 crore on hiring of international bandwidth.

As BSNL could not enter in the EIG Consortium as an original party, it became an additional member of the consortium without landing rights. Bharti Airtel Limited was the Indian ILD operator with cable landing rights on the EIG cable landing at Mumbai. Thus, to access EIG cable, BSNL had to connect its network with CLS of BAL.

(i) Non-utilization of EIG bandwidth capacity.

As per Telecom Regulatory Authority of India's (TRAI) Regulation of 2007, Reference Interconnect Offer[41] (RIO) agreement charges for CLS in India are approved by TRAI. Audit observed (March/September 2012) that pending TRAI's approval, BAL offered special rates of CLS-RIO charges to BSNL, which were considered exorbitant by BSNL and it was decided (September 2012) by BSNL to wait for the approval of CLS-RIO charges by TRAI. Subsequently reduced CLS-RIO charges were approved (December 2012) by TRAI.

Audit observed (March 2012) that despite the availability of bandwidth capacity on partial commissioning (February 2011) and end-to-end connectivity (January 2012) of the EIG cable from London to Mumbai, BSNL could not utilise the same due to non-connectivity of BSNL network with CLS of BAL.

Ministry replied (April 2013) that EIG cable system was accepted for partial commissioning in February 2011. It was not possible to use EIG cable system for end-to-end connectivity whereas main requirement of BSNL was up to USA which could not be met without end-to-end connectivity. BSNL had also taken up with BAL that BSNL would utilize its own EIG capacity at the rate proposed by BAL. However if TRAI approved lower CLS RIO charge, the difference in CLS RIO charges paid by BSNL and rates approved by TRAI shall be reimbursed by BAL for which BAL had not agreed to. Ministry further stated (April 2013) that the special CLS RIO charges offered by BAL were exorbitant had been proved from TRAI notification issued on 21 December 2012

[41] Cable Landing Station-Reference Interconnect Offer (CLS RIO) is an offer made by the owner of cable landing station containing the terms and conditions of Access Facilitation and Co-location of equipment (including landing facilities for submarine cables at cable landing stations for connectable system of international submarine cable) published after the approval of TRAI.

regarding CLS-RIO charges effective from 1 January 2013 wherein CLS-RIO charges were heavily reduced.

Reply of the Ministry is not acceptable as EIG cable bandwidth could not be utilized even after end-to-end connectivity in January 2012 even though expenditure was incurred for hiring bandwidth capacity for United Kingdom from Indian ILD operators including BAL as discussed in subsequent para.

(ii) Expenditure on hiring of bandwidth for United Kingdom and payment of Operation and Maintenance cost of EIG cable system.

Even though end-to-end connectivity of the EIG cable (from London to Mumbai) was established in January 2012. BSNL had to incur an avoidable expenditure of ₹3.96 crore (January to September 2012) on hiring of bandwidth for United Kingdom from Indian ILD operators including BAL as detailed in **Annexure-XX**.

Payment of Operation and Maintenance cost of EIG cable system

Members of this consortium of the EIG cable system were required to share Operation and Maintenance costs (O&M costs) of EIG cable system as per their respective share of O&M costs given in C&MA.

We observed(September 2012) that BSNL had paid Operation and Maintenance charges to EIG Central Billing Bureau[42] amounting to US$ 2.820 million i.e. ₹14.49 crore (up to September 2012) for EIG cable system without utilizing bandwidth of the cable. Thus, expenditure of ₹14.49 crore on payment of operation and maintenance charges was incurred without utilisation of its capacity.

Ministry replied (April 2013) regarding incurring avoidable expenditure on hiring bandwidth that mere acquiring EIG bandwidth capacity up to London did not fulfil the requirement of international bandwidth for internet as this also requires Tier-I IP Port at distant end as well as Lawful Interception and Monitoring (LIM) equipment. The bandwidth was purchased from BAL through open EOI/tendering as was done for other empanelled bidders and it could have been any other empanelled bidder in place of BAL depending on price. Ministry further added (April 2013) that as per C&MA of EIG, all parties need to pay O&M charges. Further in case of failure of payment by a party, consortium can deactivate the capacity of defaulting party and reclaim the same.

The reply of the Ministry does not address Audit's concern that if BSNL decided to participate in the EIG Consortium without landing rights it should have settled the issue

[42] As per EIG C&MA it refers to a Central Billing Party for construction phase and for operation phase.

of interconnection with BAL and also set up the necessary equipment before commissioning of EIG cable for utilising the bandwidth capacity. Expenditure on hiring of bandwidth could have thus been saved by BSNL.

Thus, despite commissioning of EIG cable between India and UK, failure of BSNL to connect its network with CLS of BAL to access EIG cable resulted in non-utilization of EIG cable bandwidth and avoidable expenditure of ₹3.96 crore on hiring of ILD bandwidth from Indian ILD operators.

Conclusion

Despite a substantial market share of telecom subscribers including 55.32 *per cent* market share (March 2012) of internet subscribers, BSNL owned only 0.9 *per cent* of total activated international bandwidth capacity in India. BSNL failed to take timely decisions for joining International Undersea Cable Consortiums with landing rights and to conduct necessary due diligence for operation of ILD business. As a result BSNL had to depend on private Indian and foreign ILD operators for transmission media.

5.6 Operational Performance of Wireline and Wireless Services in Mahanagar Telephone Nigam Limited

5.6.1 Introduction

Mahanagar Telephone Nigam Limited (MTNL) is a state owned public sector undertaking, incorporated in February, 1986 under the Companies Act 1956. It commenced its operations with effect from 28 February 1986 to provide telecom services, in two metro circles viz. Delhi and Mumbai (comprising Mumbai Municipal Corporation, Navi Mumbai Municipal Corporation and Thane Municipal Corporation). The Company's share capital as on 31 March 2012 was ₹630 crore and its reserves were ₹1,907 crore. The Company was awarded Navratna status in November, 1997 resulting in enhanced financial and operational autonomy**.** The performance of the Company deteriorated from 2007-08 onwards. Thus while the entity had earned a profit of ₹587 crore in 2007-08 it incurred a loss of ₹4,110 crore in 2011-12.

5.6.2 Organizational setup

The administrative and operational control of MTNL is vested with the Board of Directors and is headed by the Chairman and Managing Director (CMD) who is assisted by three functional Directors in charge of Technical, Finance and Human Resources. Delhi and Mumbai units of the Company are headed by Executive Directors.

5.6.3 Scope of Audit

As one of the core functions of MTNL is to provide wireline and wireless services, a thematic audit was undertaken from April 2011 to July 2011 and from April 2012 to May 2012 with a view to examine the performance of Wireline and Wireless services during the period 2007-08 to 2011-12 in both the Delhi and Mumbai units as also in the Corporate Office of the Company at New Delhi. The Mobile Switching Centres[43] (MSC) for wireless services in the both units and four sub-accounting units under each unit for wireline services, were selected for the study based on the percentage of utilization of the exchanges in these units. The audit findings were issued to Ministry and Management in September 2012 and reply of Ministry was received in July 2013.

5.6.4 Audit Objectives

The main audit objectives were to assess and evaluate

(i) the financial and physical performance keeping in view the deteriorating performance of the Company in terms of falling revenue and subscriber base;

(ii) the Quality of Service(QoS) provided by the Company with reference to the benchmarks fixed by the Telecom Regulatory Authority of India(TRAI);

(iii) the performance with reference to MoU targets as Administrative Ministry evaluates the performance of the Company under various parameters;

(iv) Average Revenue Per User(ARPU)[44] of the Company and compare the same with that of private operators and All India ARPU;

(v) Planning and Procurement of infrastructure equipment for wireline/wireless services provided by the Company to evaluate its adaptability to the growth witnessed in telecom sector.

[43] The MSC is the primary service delivery node responsible for routing voice calls and SMS as well as other services. The MSC sets up and releases and takes the end to end connection, handles mobility and hand-over requirements during call and takes care of charging and real time pre-paid account monitoring.

[44] ARPU gives the revenue earned by the service provider from each of its subscribers. It is computed by dividing the Total revenue earned in each segment i.e. wireless or wireline services by the corresponding subscriber base.

5.6.5 Audit Methodology and Sources of Audit Criteria

The audit methodology adopted for the scrutiny included the evaluation of the performance of the Company vis-a-vis private service providers, benchmarks fixed by the Telecom Regulatory Authority of India for various parameters under Quality of Service (QoS) and evaluation of the Company's performance with the MoU stipulations laid down by Department of Telecommunications (DoT). Examination of records, data and Agenda notes and Minutes of meetings of Board of Directors of the Company was done. Source of data has been indicated wherever used.

Financial and Physical Performance

Performance of the Company had deteriorated from 2007-08 onwards with income from services decreasing from ₹4,722 crore (2007-08) to ₹3,373 crore (2011-12) by 29 percentage while the expenditure during the corresponding period increased from ₹4,698 crore (2007-08) to ₹7,669 crore (2011-12) thereby resulting in a substantial loss of ₹4,110 crore as on 31 March 2012. The primary reasons for the loss during this period included stiff competition in the sector, high manpower cost which ranged from 35 *per cent* to 58 *per cent* during the period and high 3G and BWA spectrum[45] cost paid by the Company. Table 1 below gives a description of the Income and Expenditure of the Company for the period 2007-08 to 2011-12.

Table-1

(₹ in crore)

Description	2007-08	2008-09	2009-10	2010-11	2011-12
Income from Services	4722	4456	3656	3674	3373
Other Income (including interest)	607	794	1402	318	251
Total Income	5329	5250	5058	3992	3624
Total Expenditure	4698	4986	8477	6767	7669
Profit/(Loss) Before Tax	631	264	(3419)	(2775)	(4045)
Profit/(loss) Available for appropriation	587	212	(2353)	(2563)	(4110)

(Source: Audited accounts of the MTNL)

Further, income from Wireline and Wireless services to the total income from services of the Company was in the range of 41 *per cent* (2007-08) to 49 *per cent* (2010-11) in the Delhi unit and in the range of 53 *per cent* (2010-11) to 62 *per cent* (2007-08) in the Mumbai unit **(Annexure-XXI)** during the period 2007-08 to 2011-12.

[45] 3G and BWA spectrum allotted to the company. MTNL has paid an amount of ₹11097 crore to acquire 3G and BWA spectrum. Short term loan amounting to ₹7534 crore were taken from various banks while the remaining amount was paid by MTNL from its own resources.

Analysis of the physical performance of the Company in audit revealed that the capacity utilization of basic services (wireline) ranged from 63.00 *per cent* (2008-09) to 64.70 *per cent* (2011-12) and in mobile (wireless) services, from 81.86 *per cent* (2010-11) to 104.58 *per cent* (2007-08) during the period from 2007-08 to 2011-12. Further while the utilization of wireline capacity in Mumbai ranged from 71.55 *per cent* (2008-09) to 73.66 *per cent* (2011-12), in Delhi it ranged from 54.31 *per cent* (2008-09) to 56.39 *per cent* (2011-12).

The utilization of wireless capacity in Mumbai ranged from 81 *per cent* (2010-11) to 133.06 *per cent* (2007-08) and in Delhi from 82.81 *per cent* (2010-11) to 108.06 *per cent* (2008-09) during the period 2007-08 to 2011-12 **(Annexure-XXII)**.

5.6.6 Audit Findings

The significant audit findings on the operational performance of wireline and wireless services during the period 2007-08 to 2011-12 are given in the succeeding paragraphs.

5.6.6.1 Wireline Subscriber base

Wireline subscriber base of all telecom operators as a whole in both the Circles i.e. Delhi and Mumbai increased by 19.89 *per cent* and 11.89 *per cent* during the period 2007-08 to 2011-12 respectively. However, it was observed that the Company had an adverse growth percentage of (0.88) and (9.84) in the Delhi and Mumbai Circles respectively during the same period while private service providers viz. Bharti, Tata and Reliance registered substantial growth percentage by 50.55, 242.09 and 72.72 *per cent* respectively in Delhi and 119.59, 77.31 and 86.28 *per cent* in Mumbai during the corresponding period as detailed in the following Table 2(a) and (b).

Table-2(a)
Wireline Subscriber base-Delhi

Service Provider	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage increase over 5 years
MTNL	1576918	1525981	1537460	1546432	1563034	-0.88
Bharti	716755	821061	955591	1059694	1079056	50.55
Tata	23313	27190	45324	56381	79752	242.09
Reliance	106156	147077	172460	176311	183355	72.72
	2423142	2521309	2710835	2838818	2905197	19.89

(Source: Telecom Regulatory Authority of India)

Table-2(b)
Wireline Subscriber base-Mumbai

Service Provider	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage increase over 5 years
MTNL	2101452	2047225	1959294	1917537	1894695	-9.84
Bharti	150692	264901	305901	330500	330903	119.59
Tata	308870	407705	489963	523503	547664	77.31
Reliance	124095	161570	190367	220316	231160	86.28
	2685109	2881401	2945525	2991856	3004422	11.89

(Source: Telecom Regulatory Authority of India)

The Ministry attributed (July 2013) the poor performance amongst other reasons to decline in demand for basic services, entry of new operators, constraint of low tariff due to limited area of its operation, non-support of fixed line network to the value added services, fast changing technology and inability of the Company to induct new developments.

The reply is however not acceptable, since the reasons attributed by the Ministry for the Company's low performance is not borne out by the exponential growth and performance by Private Service Providers (PSPs) in the two Circles during the corresponding period. As regards procedures to be followed for inducting new developments, the Company should have taken advance action to comply with the laid down procedures to retain its market share.

5.6.6.2 Wireless Subscriber base

Wireless subscriber base of all telecom operators in both the Circles i.e. Delhi and Mumbai increased by 169 *per cent* and 152 *per cent* respectively i.e. from 1.05 crore (2007-08) to 2.82 crore (2011-12) in Delhi and from 89.37 lakh (2007-08) to 2.26 crore (2011-12) in Mumbai. However it was observed that the growth in the subscriber base in MTNL, was only 87 *per cent* compared to that of 125–168 *per cent* achieved by their major competitors[46] in Delhi Circle while in Mumbai, the growth in subscriber base of the Company was 61 *per cent* compared to 54 to 152 *per cent* achieved by the competitors[47] **(Annexure-XXIII)**. Further, the market share of the Company in Delhi and Mumbai decreased by 4.31 *per cent* and 7.17 *per cent* respectively.

[46] Bharti, Vodafone and Idea
[47] Bharti, Vodafone and Loop

The Ministry attributed (July 2013) limited area of its operation and consequent difficulty in offering competitive tariff, compliance with the Government guidelines on the procurement/expansion/upgradation of new/existing equipment as the reasons for its inability to match the growth of private players.

The reply is not acceptable as limited area of operation should have enabled it to concentrate its services in terms of better quality of service to retain/attract subscribers considering the growth in both the circles recorded by the private competitors. Further attributing following Government Guidelines as a constraint on procurement/expansion is not acceptable.

(i) Mobile Number Portability

Government of India decided (November, 2007) to introduce Mobile Number Portability (MNP), which allowed a subscriber to retain their mobile number while changing from one service provider to another in four metros by the fourth quarter of 2008.

The purpose of MNP was to provide an option to the customers to shift to a new service provider retaining the existing mobile telephone number in case of unsatisfactory service of the existing service provider.

Audit noticed that the introduction of MNP by Government (January 2011) resulted in net loss of 88648 subscribers at the end of 31 March 2012. It was further noticed that the issue of MNP was first considered by MTNL Board only in May 2011 i.e. after three and half years of decision of the Government.This belated action of the Company resulted in considerable loss of subscriber base under the MNP as given in Table 3.

Table -3

Name of Unit	Port IN		Port Out		(+) Net Gain / (-) Loss	
	January to March 11	2011-12	January to March 11	2011-12	January to March 11	2011-12
	1		2		3(1-2)	
Delhi	5593	14347	17022	41280	(-) 11429	(-)26933
Mumbai	2125	5376	17676	40111	(-) 15551	(-)34735
Total	**7718**	**19723**	**34698**	**81391**	**(-) 26980**	**(-)61668**

The Ministry while confirming dissatisfaction with services by the subscribers as the reason for porting out, attributed other reasons also like want of subscriber authentication and non-payment of bills for the shifting of customers. The reply of the Ministry is not convincing as reasons like want of subscriber authentication and non-payment of bills cited by the Ministry would result in surrender/cancellation of connections but not shifting to other service provider (porting out).

5.6.6.3 Quality of Service

Telecom Regulatory Authority of India has prescribed benchmarks for 11 to 13 Quality of Service (QoS) parameters for wireline service and 10 to 19 QoS parameters for wireless services under Quality of Service (QoS) through regulations issued in 2000, 2005 and 2009 for Basic and Cellular telephone services.

Based on analysis of TRAI quarterly reports it was observed that the performance of the Company in Wireline service was much below the benchmarks prescribed in six parameters[48] in Delhi and five parameters in Mumbai out of nine parameters[49]during the years 2007-08 to 2011-12 as detailed in **Annexure XXIV**. Further, it was observed that MTNL had to refund an amount of ₹8.78 crore (Mumbai: ₹3.66 crore; Delhi: ₹5.12 crore) as rent rebate during the years 2007-08 to 2011-12 for faults pending for more than three days.

The Company also failed to match the performance of their competitors (private operators) with regard to four to six parameters[50] in Delhi and Mumbai Circle **(Annexure XXV and XXVI)** in wireline services though they were in business in this sector for several decades.

In wireless services also, the Company failed to match the performance of private operators in two to six parameters[51] and two to eight parameters[52] in Delhi and Mumbai circles respectively (**Annexure XXVII and XXVIII)**.

[48] Fault Incidence per 100 subscribers per month, percent of faults repaired by the next working day, percent of faults repaired within 3 days, Rent Rebate (total no. of cases), Mean time to Repair (MTTR), Call completion Rate.

[49] Fault Incidence per 100 subscribers per month, percent of faults repaired by the next working day, percent of faults repaired within 3 days, Rent Rebate (total no. of cases), Mean time to Repair (MTTR), Call completion Rate, Answer to seizure ratio, Metering and billing credibility, Resolution of billing/ charging/ validity complaints.

[50] Fault Incidence per 100 subscribers per month, percent of faults repaired by the next working day, percent of faults repaired within 3 days, Rent Rebate (total no. of cases), Mean time to Repair (MTTR), Call completion Rate, Answer to seizure ratio, Additional facility(95% of requests).

[51] BTS accumulated down time, worst affected BTS, call set up success rate, call drop rate, worst affected calls having more than 3% TCH drop, percentage of connections with good voice quality.

[52] BTS accumulated down time, worst affected BTS, call set up success rate, call drop rate, worst affected calls having more than 3% TCH drop, percentage of connections with good voice quality, accessibility to call centre, time taken for refund of deposit after closure, Metering and billing credibility-Post Paid/ Pre-paid

The Ministry while admitting the shortfall in achievement of the target, attributed (July 2013) the poor performance in wireline services amongst other factors to long span of drop wires, repeated digging work being done by MCD, DMRC, Delhi Jal Board and other external agencies without coordination with MTNL, 20 years old network compared to private operators whose networks were recently deployed, cable theft, Government guidelines under which the Company has to operate. For wireless services while stating that efforts were being made to improve the performance, it was stated that it would not be fair to compare MTNL's performance with that of private players because the operating conditions were different as MTNL had to follow Government guidelines while the latter could upgrade/expand/modify their networks through negotiations across the table with a vendor of their choice.

The reasons cited by the Ministry for poor performance are not convincing as these factors are controllable and could be addressed through effective preventive and coordinated maintenance work, by taking advance action in line with Government guidelines, considering the increase in tele-density and anticipated expansion of capacity to ensure that the prescribed quality of service is maintained. MTNL needs to expedite the ongoing projects related to expansion and up gradation of wireless and wireline services.

5.6.6.4 Performance of Company as per DoT's parameters

The Administrative Ministry (DoT) evaluates the performance of the Company every year on half yearly basis against seven, eleven and nine criteria prescribed under three broad parameters viz. Financial, Dynamic and Physical respectively. In the process of review, the Task Force of the Ministry reviews the market conditions as well as the specific problems of the Company and suggests various measures to improve customer satisfaction through convergence of technology, rolling out its services at the earliest in 3G and WiMAX by utilizing the early bird advantage of earmarked spectrum.

- We observed that the Company failed to achieve the targets prescribed by DoT for the five criteria(s) under Financial parameters viz. Gross Margin/Gross Block; Net profit/Net Worth; Gross Profit/Capital Employed; Gross Margin and Gross Sales and was ranked poor since 2008-09 as detailed in **Annexure-XXIX**.

  The Net Worth[53] of the Company fell from ₹11,921 crore in 2007-08 to ₹2,536 crore in 2011-12 indicating that if the present poor performance continues the net worth of the Company could be eroded. Despite poor performance by the Company, the Ministry continued to set high/unrealistic targets which could not be achieved by the Company.

[53] Paid up capital plus Reserves and Surplus minus accumulated losses.

- Under Dynamic parameters of performance relating to QoS the Company's performance was mostly ranked between poor and fair in the five criteria viz. fault rate, rectification of fault, market share of subscriber, ARPU as detailed in **Annexure-XXX**.

- The Company did not achieve the targets prescribed under Physical parameters for capacity expansion and addition of subscriber base in three years and four years respectively during the five years ended March 2012 as detailed in **Annexure-XXXI**. Further, the Management/Board of Directors did not set any yearly targets for Delhi and Mumbai units in terms of subscriber base and capacity expansion for wireline and wireless services distinctly for periodical monitoring and review of the performance of the Company.

In view of its continued poor performance the Apex Committee[54]sought (July 2008) the approval of Administrative Ministry through Department of Public Enterprises (DPE) to put the Company on notice of divestment of Navratna status if the performance of the Company did not improve in 2008-09. Department of Public Enterprises conveyed (December 2011) the decision to Administrative Ministry. The Ministry requested (February 2012) the DPE to reconsider the decision citing various reasons for which the reply of the latter was awaited (July 2013). The Company continues to hold Navratna status despite its deteriorating performance since 2008-09.

The Ministry while confirming the facts (July 2013) stated that the main reasons which have adversely impacted the financial parameters were, inter alia, wage revision/arrears, pension payment, overstaffing, reduction in tariff, limited area of operation, operating conditions of the Company, very old network, high one time spectrum fee for 3G and BWA spectrum based on auction prices etc. Regarding other parameters Ministry stated that Delhi and Mumbai are most competitive and saturated markets and MTNL faces intense competition which lead to pressure on tariff and customer retention and acquisition. Ministry further stated that yearly targets for subscriber base and capacity expansion were revised in Annual Plan of the Company based on half yearly achievements, the revised targets could not be adopted in MoU in the absence of provision for midterm revision in MoU targets.

The reply of the Ministry is not acceptable. While outflow of cash due to wage revision, arrears payment and pension payment, one time spectrum fee for 3G and BWA spectrum affected the financial parameters, poor performance on dynamic parameters related to quality of service would further erode the revenue base of the Company. The reasons

[54] Apex Committee headed by the Cabinet Secretary and consisting of Finance Secretary/Expenditure Secretary, Secretary Planning Commission, Secretary DPE and Secretary of the Administrative Ministry as members.

cited for poor performance in dynamic parameters and physical parameters, confirms poor maintenance of infrastructure and lack of proper monitoring and follow up.

5.6.6.5 Average Revenue Per User

Average Revenue per User (ARPU) is a measure used to reflect the average revenue generated by the service provider from each of its subscribers. This provides the Company a view at a per user or unit basis and allows it to track revenue sources and growth.

It was observed that Average Revenue Per User (ARPU) of the Company declined by 31.37 *per cent* from ₹816 per month (2007-08) to ₹560 per month (2011-12) in Delhi Circle in wireline services. The corresponding figures for the Mumbai Circle were ₹1060 per month and ₹840 per month i.e. 21 *per cent* decline in ARPU. Audit observed a decrease in revenue by 32 *per cent* and 34 *per cent* in Delhi and Mumbai units respectively and decrease in subscriber base by 1 *per cent* and 17 *per cent* in Delhi and Mumbai circles respectively **(Annexure-XXXII)**.

In Wireless services, the ARPU of the Company declined by 39 *per cent* from ₹222 per month to ₹135 per month in Delhi unit from 2007-08 to 2011-12 while the corresponding figures for Mumbai circle were ₹231 per month and ₹75 per month i.e. 67 *per cent* decline in ARPU. Audit observed an increase in revenue by 19 *per cent* in Delhi unit and decrease in revenue by 46 *per cent* in Mumbai unit. However, this was despite an increase in the subscriber base of 95 *per cent* in Delhi unit and 67 *per cent* in Mumbai unit during the corresponding period **(Annexure-XXXII)**. Further it was also observed that the ARPU of the Company in wireless service was below the average ARPU of the private operators in the respective circles in all the years as detailed in Table 4 below:

Table-4

(figure In ₹)

	Average Revenue Per User/month (Wireless Service)				
Year	**MTNL-Delhi**	**Private Operators - Delhi**	**MTNL-Mumbai**	**Private Operators - Mumbai**	**Private Operators- All India**
2007-08	221.52	393.35	231.18	432.46	277.49
2008-09	185.63	323.29	154.90	335.93	225.78
2009-10	147.53	252.73	104.19	240.29	167.69
2010-11	130.08	181.80	78.59	192.81	129.30
2011-12	134.94	NA	74.59	NA	NA

(Source:Web-site of Cellular Operators Association of India in case of private operators.)

The Ministry stated that the decrease in ARPU was in line with other operators and MTNL's entry in mobile service was delayed in comparison to private operators and this resulted in subscribing of premium customers by the private players. Further, limitation of the area of operation also affected the revenue share.

The contention of the Ministry is however not convincing as even private operators who entered into mobile services much later than MTNL, had surpassed MTNL in terms of subscriber base and revenues. Further, even though the premium customers have been subscribed by the private players, they may be brought into MTNL fold through MNP, if the QoS is better than the private players.

5.6.6.6 Procurement

(i) Blocking of investment in procurement of Next Generation Network (NGN) equipment.

Next Generation Network (NGN) equipment is an advanced type switch that provides interconnectivity between exchanges for routing traffic for long distance communication in Public Switched Telephone Network. NGN equipments are used to provide interconnectivity through exchanges (E1 links) and also to replace conventional exchanges. It is also used to give Point of Interconnection (POI) to other operators. Since most of the existing exchanges which were in operation by the Company were more than 10 years old and the Company had not initiated any action to replace the same with improved technology for better service as also to compete with other operators to increase its market share. MTNL decided to opt for switching equipments like NGN network to reduce its load on age old equipments and thereby increase their efficiency.

Accordingly, the Company placed an order (December 2007) for procurement of 64,000 (32,000 for four sites in Delhi circle and 32,000 for four sites in Mumbai circle) NGN equipment on M/s ZTE Telecom at a cost of ₹6.02 crore (Delhi: ₹3.01crore; Mumbai: ₹3.01crore). It was observed that the hardware was supplied (June/August 2008) at all the eight locations and the equipments were commissioned in March, 2009 in Delhi circle, and in a staggered manner from August 2009 to November 2009 in Mumbai circle. Thus there was a delay of over eight months in execution of the order in Delhi and more than one year in Mumbai. Further, the Company also issued PAC (Project Acceptance Certificate) on 17 March 2009 to the vendor. However, as the service was unsatisfactory the Company released an amount of ₹1.36crore (Delhi: ₹0.62 crore; Mumbai: ₹0.74 crore) towards first instalment after deducting liquidated damages amounting to ₹0.37crore (Delhi: ₹0.27 crore; Mumbai: ₹0.10 crore) due to delay in handing over of the equipment by the Vendor. The balance amount was not released due to non validation of the supplied equipment. In April 2011 Mumbai unit stated that the equipment was utilized as transit exchange only for 25 *per cent* landline traffic in Mumbai circle while in Delhi circle the utilization of the equipment was to the extent of only 52 *per cent* as on 31 March 2012.

Thus, despite the introduction of advanced technology like NGN, which was purchased with a view to capitalize and increase its market share/subscriber base, the Company was unable to achieve any tangible improvements in its services. The existing problems associated with old exchanges such as traffic congestion and poor connectivity still remained which resulted in an adverse impact on the subscriber base of MTNL and consequent decrease in Income from wireline services besides blocking of investment amounting to ₹1.36 crore on account of incomplete execution of the project.

The Ministry while confirming the introduction of untested technology stated (July 2013) that from the experience gained the Company is exploring the possibility of replacing its legacy fixed line switches through C-DOT developed IMS based NGN platform. The reply confirms that the Company is still in the process of firming up the technology to be deployed for improving its wireline services.

(ii) Wireless Services

(a) Delay in expansion of wireless capacity

Considering the growing demand for Global System Mobile communication (GSM) the Board of Directors of the Company approved (16 September 2005) placement of order of 2 million (2000K) lines which was 50 *per cent* of the total tendered quantity 4 million (4000K line) of procurement to cater to the requirement of Delhi circle while the remaining 50 *per cent* was to be procured through reservation quota[55] on M/s ITI for Mumbai circle. The expansion was necessitated as the existing capacity was overloaded[56] i.e. loading of more than 100 *per cent* in both the units as on 30 September 2006.

A Global tender was floated for procurement of 2 million lines (03 February 2006) and the order for expansion was placed in two phases on turnkey basis as detailed in Table-5 below:

[55] As per direction of Administrative Ministry MTNL is required to place 30% of its order for procurements on M/s ITI. In the instant case order was split for Delhi and Mumbai.

[56] The expansion of GSM network capacity was from 1.025 million (30 September 2006), with a subscriber base of 1.091 million in Delhi unit.

Table-5

1	2	3	4	5	6	7	8
Phase No.	**P.O.Date**	**Name of the supplier**	**Capacity (in K lines)**	**Value (₹ in crore)**	**Date of Commissioning**		
					Original	**Rescheduled**	**Actual**
I	20.10.2006	Motorola	750K – 2G	217.69	19.10.07	i)10.01.2008 ii)31.12.2008	31.12.2008
II	02.12.2008	Motorola	250K – 3G (against Phase I) 1000K - (2G:500K; 3G:500K against Phase II)	250.42	01.12.09	02.09.2010	250K (Phase-I): 02.08.09 Phase-II 500K: 02.02.10 500k: October 2010

(Source: Purchase Orders dt. 20.10.2006 and 2.12.2008)

The Company (October 2007) rescheduled the delivery of Phase I, from 20 October 2007 to 10 January 2008 on the reason that there was delay on its part in providing infrastructure for installation of the ordered equipment. The delivery period was further rescheduled to 31 December 2008 with liquidated damages.

In respect of Phase II order, the Company decided (January 2010) that due to sharing of BTS with other operators and IP provider sites, the infrastructure material (power plant and BTS items) ordered against the Phase I order had become surplus and in order to avoid build-up of inventory stock, the material ordered against Phase II needed to be amended. As such the delivery date was rescheduled from 02 December 2009 to 02 September 2010 without liquidated damages.

However, we observed (April to July 2011) that the process for extension of delivery period was initiated by the Company only in January, 2010 i.e. after the expiry of original delivery period. Further, the Company's failure to take stock of the surplus material received against Phase I order in time considering the fact that the Phase I order was executed (10 January 2008) even before the placement of Phase II order (02 December 2008) resulted in unnecessary extension to the vendor for execution of the order.

We observed (April to July 2011) that delay in commissioning of expansion equipment resulted in loss of potential subscribers to other service providers as is evident from the rapid growth in subscriber base of private operators during 2007-08 to 2011-12.(Refer Annexure-XXIII). The subscriber base in Delhi Circle had increased by around 53 *per cent* during the period 2007-08 to 2009-10. As MTNL was already operating beyond 100 *per cent* capacity (lines) in 2006, delay in commissioning of new equipment will result in MTNL's inability to increase its customer base even though the subscriber base in Delhi has witnessed an exponential growth from private sector service providers.

The Ministry replied (July 2013) that the traffic handling capacity of the network is much more than that of the actual subscriber traffic and thus there is no loss to the Company on account of capacity crunch.

The reply is however not convincing as even though the traffic handling capacity was more, the performance of the Company in terms of quality of service would be affected due to overloading of the capacity.

(b) Delay in expansion of wireless capacity in purchase through Central Public Sector Undertaking (ITI Limited) – expansion plan of Mumbai Circle

The Company placed the remaining order for 2 million (2000K) lines on M/s ITI Limited on turnkey basis under reservation quota in two phases for Mumbai circle at a total cost of ₹348 crore as detailed below:

(1) Purchase Order dated 07 October 2006 (Phase I) at a total value of ₹231.37 crore (the value amended to ₹167.46 crore vide memorandum dated 15 October 2009) and

(2) Purchase Order dated 29 October 2008 (Phase II) at a total value of ₹180.54 crore.

The orders were for expanding the existing capacity of 1.325 million lines prevailing as on March, 2007 in Mumbai circle of the Company by 2 million lines.

As per the orders, Phase I (for 0.750 million lines) was to be completed within 12 months i.e. by 06 October 2007 and Phase II (for 1.250 million lines) was to be completed within 8 months i.e. by 28 June 2009 thereafter. Against the same, 1 million lines (Phase I) were commissioned in 2008-09 (March 2009), 0.5 million lines (Phase II) were commissioned in 2009-10 (March 2010) and 0.5 million Lines (Phase II) were commissioned in 2010-11. Thus there was a delay of 16 months for Phase I and 20 months for Phase II. As the firm failed to complete the project in time, MTNL recovered ₹14.54 crore as Liquidated Damages (LD) and interest on advance as per the terms of the purchase order.

The firm represented with the Company and DoT for waiver of LD and interest on advance. The Board while according approval for the waiver of interest on advances and LD against Phase I and Phase II project directed that ITI should complete the pending project (in respect of external works like BTS) in time. Further the delivery period in respect of order dated 29 October 2008 was extended upto 31 March 2011 without liquidated damages. The firm stated (September 2010) that it would complete Phase I and Phase II by March 2011 and June 2011 respectively based on which MTNL refunded/adjusted (November 2010) the LD amount of ₹14.54 crore.

However, the firm failed to complete both the phases as per the commitment and the orders (in respect of external works like BTS) were to be completed as on March 2012. As the delay in completion of projects had already exceeded more than 36 weeks (June 2011 to March 2012) even after expiry of commitment period, MTNL should have recovered maximum of 12 *per cent* of the unexecuted cost of project as LD which worked out to ₹8.71 crore. The Ministry replied (May 2012) that LD would be deducted as and when bills are submitted by M/s ITI Limited.

The Ministry while admitting (July 2013) that the performance of cellular services in Mumbai were badly affected due to non-performance of M/s ITI, stated (July 2013) that the order was placed as per the policy and considering the past experience, the Company is going for expansion through tendering process without earmarking any part to M/s ITI under reservation quota.

5.6.6.7 Asset created but not put to use: Convergent Billing and Customer Relation Management (CB & CRM)

Convergent Billing(CB) and Customer Relation Management system (CRM) project was to serve as a single platform for all billing, provisioning and CRM application across all the lines of business (LOB) of MTNL i.e. GSM, CDMA, landline, Broadband, Leased Circuit as well as upcoming services. The system can reconcile the billing data through revenue accounting system thereby minimizing revenue leakage and enhance profitability. Convergent Billing and Customer Relation Management system is used for billing of various services based on call data records obtained from various exchanges using online system.

The order for supply, engineering, installation, customization, training, commissioning and maintenance of the complete Convergent Billing (CB) and Customer Relation Management system (CRM) was placed (14 February 2006) on Bharat Electronics Limited (BEL) at a total cost of ₹503.51 crore[57] and was scheduled for commissioning by 13 February 2007. Against the lines of Business (LOB), only two LOBs as on May 2011 in Delhi circle and one LOB in Mumbai on 27 September 2010 were commissioned. An amount of ₹138 crore (Delhi: ₹67.19 crore; Mumbai: ₹71.51 crore) was paid in accordance with the terms of the order. The system was still not fully functional as on July 2013. Thus, delay in execution of the project resulted in blocking an amount of ₹138 crore besides defeating the purpose for which the procurement of the system was made.

[57] Delhi ₹ 250.62 crore; Mumbai: ₹252.89 crore

The Ministry stated (July 2013) that the equipment worth ₹282 crore were in its possession against which only ₹138 crore was paid and that the hardware/software thus supplied are being used commercially for last three years. They further stated that the Company was pursuing with the vendor at the highest level for implementation of the project and support of live systems.

The reply confirmed the audit point that the project was not completed as per schedule and held up. Further the GSM line of business commissioned in Mumbai on 27 September 2010 was not working satisfactorily from November 2010 which in turn impacted the operational performance of the Company. Thus, delay in execution and partial implementation of the project defeated the purpose for which the system was procured.

Conclusion

Operational performance of MTNL of wireline and wireless services indicated poor quality of service, increased cost of operations, lack of maintenance of existing equipment, ineffective planning and monitoring by Administrative Ministry which resulted in significant decline in subscriber base of wireline customers. Ineffective planning, delayed expansion of wireless infrastructure equipment, poor quality of service are the contributory factors for poor growth of wireless subscribers. This further impacted market share and consequent reduction of income from services. Further, the Navratna status of the Company needs to be reviewed. The Administrative Ministry as well as the Board of Directors of the Company need to take immediate action to improve the performance of the Company so that it could compete with the ever increasing competition from the Private Service Operators. In view of the continued support from the Ministry to MTNL and its inherent advantages of operating only in the two metropolises of Delhi and Mumbai, the Company needs to relook at ways in improving core competence and also improve its operational performance.

5.7 Follow up on Audit Reports- (Commercial)

Audit Reports of the Comptroller and Auditor General (CAG) represent the culmination of the process of scrutiny of accounts and records maintained in various offices and departments of PSUs. It is, therefore, necessary that appropriate and timely response is elicited from the Executive on the audit findings included in the Audit Reports.

The Lok Sabha Secretariat requested (July 1985) all the Ministries to furnish notes (duly vetted by Audit) indicating remedial/corrective action taken by them on various paragraphs/appraisals contained in the Audit Reports (Commercial) of the CAG as laid on the table of both the Houses of Parliament. Such notes were required to be submitted even in respect of paragraphs/appraisals which were not selected by the Committee on Public Sector Undertakings (COPU) for detailed examination. The COPU in its Second Report (1998-99 Twelfth Lok Sabha), while reiterating the above instructions, recommended:

- Setting up of a monitoring cell in each Ministry for monitoring the submission of Action Taken Notes (ATNs) in respect of Audit Reports (Commercial) on individual Public Sector Undertakings (PSUs);
- Setting up of a monitoring cell in Department of Public Enterprises (DPE) for monitoring the submission of ATNs in respect of Reports containing paras relating to a number of PSUs under different Ministries; and
- Submission to the Committee, within six months from the date of presentation of the relevant Audit Reports, the follow up of ATNs duly vetted by Audit in respect of all Reports of the CAG presented to Parliament.

While reviewing the follow up action taken by the Government on the above recommendations, the COPU in its First Report (1999-2000-Thirteenth Lok Sabha) reiterated its earlier recommendations that the DPE should set up a separate monitoring cell in the DPE itself to monitor the follow-up action taken by various Ministries/Departments on the observations contained in the Audit Reports (Commercial) on individual undertakings. Accordingly, a monitoring cell is functioning in the DPE since August 2000 to monitor the follow up on submission of ATNs by the concerned administrative Ministries/Departments. Monitoring cells have also been set up within the concerned Ministries for submission of ATNs on various Reports (Commercial) of the CAG.

Further, in the meeting of the Committee of Secretaries (June 2010) it was decided to make special efforts to clear the pending ATNs/ATRs on CAG Audit Paras and PAC recommendations within the next three months. While conveying this decision (July, 2010), the Ministry of Finance recommended institutional mechanism to expedite action in the future.

A review of the position of receipt of ATNs relating to Bharat Sanchar Nigam Limited and Mahanagar Telephone Nigam Limited under the administrative control of Department of Telecommunications, Ministry of Communications and Information Technology (MoC&IT) included in the Audit Reports (Commercial) up to the years 2011-12 revealed that ATNs in respect of 92 paragraphs were pending as of September, 2013 of which ATNs on 11 paragraphs were not received at all, as detailed in the ***Appendix- I***.