CHAPTER-V
PUBLIC SECTOR UNDERTAKINGS UNDER THE MINISTRY

Brief profile of important PSUs under administrative control of the Ministry is given below:

Mahanagar Telephone Nigam Limited (MTNL)

Mahanagar Telephone Nigam Limited (MTNL) was set up in 1986, under the Companies Act, 1956 as a wholly owned Government Company and is responsible for the control, management and operation of telecommunications networks in Delhi and Mumbai. MTNL is the principal provider of fixed line telecommunication service and GSM mobile services in these two metropolitan cities. MTNL is also providing dial up internet services in Delhi and Mumbai under separate non-exclusive license agreement. It is also providing broadband and 3G services. MTNL's turnover was ₹ 3787 crore and earned a profit[1] of ₹ 7825 crore during the year 2013-14[2].

Bharat Sanchar Nigam Limited (BSNL)

Bharat Sanchar Nigam Limited (BSNL), fully owned by Government of India, formed in October 2000, provides telecom services across the length and breadth of the country excluding Delhi and Mumbai. BSNL is a technology oriented company and provides various types of telecom services namely telephone services on landline, WLL and GSM mobile, Broadband, Internet, leased circuits and long distance telecom service. BSNL had a turnover of ₹ 27996.35 crore and incurred a loss of ₹ 7019.76 crore during the year 2013-14[3].

Indian Telephone Industries Limited (ITI Ltd.)

ITI Limited is India's pioneering venture in the field of telecommunications. ITI started its operations in Bengaluru in 1948, which were further extended to other areas by setting up manufacturing plants at Srinagar in Jammu and Kashmir, Naini, Rae Bareli and Mankapur in Uttar Pradesh and Palakkad in Kerala. The company had a turnover of ₹ 745.79 crore and incurred a loss of ₹ 344.26 crore during the year 2013-14[4].

Telecommunications Consultants India Limited (TCIL)

Telecommunications Consultants India Limited (TCIL), fully owned by Government of India, was set-up in 1978 with the main objective of providing world class technology in all

1 The profit is mainly due to writing back provision of pension and gratuity of government employees absorbed in MTNL in view of DoP&PW notification no. GSR 138 (E) dated 3 March 2014 and also writing back amortised amount of BWA Spectrum consequent upon GoI decision to refund the one-time entry fee for BWA Spectrum

2 Annual Report of MTNL for the year 2013-14

3 Annual Report of BSNL for the year 2013-14

4 Annual Report of ITI for the year 2013-14

the fields of telecommunications and information technology, to excel in its operations in the overseas and domestic markets by developing proper marketing strategies and to acquire state-of-the-art technology. The company earned a profit of ₹ 14.75 crore on a turnover of ₹ 816.52 crore during the year 2013-14[5].

Bharat Broadband Network Limited (BBNL)

Bharat Broadband Network Limited (BBNL), a special purpose vehicle (SPV) has been incorporated in 2012 under the Companies Act, 1956 to execute National Optical Fibre Network Project (NOFN). BBNL has been given responsibility to connect approximately 2.50 lakh Gram Panchayats (GPs) of the country through Optical Fibre utilizing existing fibers of PSUs viz. BSNL, RailTel and Power Grid and laying incremental fibre wherever necessary to bridge the connectivity gap between Gram Panchayats and Blocks, which would ensure broadband connectivity with adequate bandwidth. The company earned a profit of ₹ 1.78 crore on a turnover of ₹ 8.40 crore during the year 2013-14[6].

Media Lab Asia

Media Lab Asia is a 'not for profit' company set up under Section 25 of the Companies Act, 1956 with an objective to bring the benefits of ICT to the common man. The application areas of Media Lab Asia include use of ICT for Healthcare, Education, Livelihood and Empowerment of Disabled. The company works with leading institutions for undertaking development work. The Company earned ₹ 54.74 crore during 2013-14 out of which ₹ 54.64 crore was received through Grant-in-aid. An amount of ₹ 0.91 crore was transferred from Reserve for Fixed Assets during the year.

National Informatics Centre Services Inc. (NICSI)

National Informatics Centre Services Inc. (NICSI) was set up in 1995 under Section 25 of the Companies Act, 1956 under National Informatics Centre to provide total IT solutions to the Government organizations. The main objectives of NICSI are to provide economic, scientific, technological, social and cultural development of India by promoting utilization of Information Technology. The Company earned income of ₹ 612.90 crore and surplus after tax during the year was ₹ 36.10 crore.

Audit findings noticed during the year are discussed below.

5 Annual Report of TCIL for the year 2013-14
6 Annual Report of BBNL for the year 2013-14

5.1 CDR Based Convergent Billing and Customer Care System in BSNL

Introduction

Bharat Sanchar Nigam Limited (BSNL) proposed (June 2002) implementation of Call Detail Records (CDR) based Customer Care and Convergent Billing system exclusively for Landline and Broadband services with an objective to consolidate all billing centers located at respective Secondary Switching Areas (SSAs) in four zonal Centers and to migrate from meter based billing system to CDR based billing system. BSNL floated (August 2006) a combined tender for CDR, Project-1 covering South and East zones and Project-2 covering North and West zones. Scope of the Tender was Designing, Planning, Supply, Installation, Customisation, Commissioning, Training, Operation and maintenance of End-to-End CDR based Customer Care and Convergent Billing System. BSNL awarded (June 2007) the work of billing solution under Project-1 (South and East Zones) to M/s. HCL and Project-2 (North and West zones) to M/s. TCS Ltd. The work of Storage Access Network was awarded (July 2007) to M/s. Wipro Ltd. The implementation of the Project was completed in all 334 SSAs in April 2012.

5.1.1 Planning, Procurement and Implementation of the Project

Audit scrutiny of the records revealed the following shortcomings in procurement and implementation of the project:

5.1.1.1 Delay in implementation of IOBAS resulted in avoidable ependiture of ₹ 18.77 crore

The CDR based Customer Care and Convergent Billing System included Inter Operator Billing and Accounting System (IOBAS). IOBAS was required to calculate the settlement amounts between various service providers/operators based on CDRs at a Point of Interconnect (POI). For carrying out the agency based model solution for IOBAS, BSNL entered into contract (March 2005) with three Application Service Providers (ASPs) viz. M/s. Satyam Computers for South and East zones, M/s. Tech Mahindra for North zone and M/s. HCL Info Systems Limited for West zone. As and when the IOBAS module of CDR project was ready, the entire operations being performed at the data centres of ASPs were to be shifted to the CDR Data Centres. The System Integrators (SIs) of CDR Project viz. M/s. TCS and M/s. HCL Info Systems Limited were to migrate the existing IOBAS systems from the ASPs model to the CDR based billing system. The target date for roll-out of CDR as per the Schedule furnished in the Advance Purchase Order was 05 December 2008. Audit observed that the IOBAS in CDR billing package was implemented in March 2011 after a delay of 27 months. The delay in implementation of IOBAS forced BSNL to extend the contract with all the three ASPs up to March 2011. This resulted in avoidable expenditure of ₹ 18.77 crore towards IOBAS charges paid to the ASPs for the period from January 2009 to March 2011 as detailed below:

Sl. No.	Particulars	Amount (₹ in crore)
1	Average monthly expenditure for 2008-09: (₹ 96.48 lakh for 3 months)	2.89
2	Average monthly expenditure for 2009-10: (₹ 78 lakh for 12 month)	9.36
3	Actual expenditure incurred during 2010-11	6.52
Total		**18.77**

BSNL replied (August 2015) that the CDR project was a very complex project in design and implementation and it was difficult to anticipate all the challenges faced by IT teams at the time of conceiving the project. The time lines were very stringent. However, applicable penalties have been recovered from the vendors by paying authorities. BSNL further stated that if it was considered that IOBAS system would have gone live from December 2008, BSNL would have incurred an approximate expenditure of ₹ 18.83 crore on AMC and O&M for IOBAS during the period.

The reply is not acceptable as the tender document was prepared by BSNL after taking into account all the challenges and complexities involved and timelines were fixed. The SIs were aware of the complexities involved and they have accepted the tender after a detailed study. The reply that BSNL would have incurred an expenditure of ₹ 18.83 crore on AMC and O&M for IOBAS during the period is not based on facts as it is only an approximate and hence, is not acceptable. The reply has to be viewed with reference to the fact that delay in completion of the project deprived BSNL of the benefits envisaged from the completion of CDR project besides having to depend on the ASPs for IOBAS.

5.1.1.2 Fixation of Warranty dates

Clause 10.2 of Special conditions of Tender stipulated that the Warranty of all the Stores, Equipment, Software, Services etc., supplied or delivered for the project starts from the date of completion of roll-out phase i.e. the day when all the SSAs in the zone pair have been successfully rolled out to the new billing system. The dates of last roll-out of SSA under Project-1 (South and East zones) was Bangalore SSA on 23 April 2012 and under Project-2 (North and West zones) Vadodara SSA on 28 March 2012. As per the tender condition, the warranty was to be effective from 23 April 2012 for Project-1 and 28 March 2012 for Project-2. In violation to the tender conditions, Audit observed that BSNL Board approved (January 2013) the warranty start date as 01 April 2011 for South, East and North

Zones and 15 January 2011 for West Zone. The preponing of warranty by one year resulted in additional cost of ₹ 17.56 crore towards AMC (₹ 15.29 crore for South-East Zone and ₹ 2.27 crore for North-West Zone).

BSNL replied (August 2015) that the proposal for start of warranty of CDR system SSA equipment was discussed by the Management committee in detail. The committee, keeping in view that they needed support from SIs to maintain the CDR network and in order to have common date for start of warranty of SSA equipment, decided that the start date could be on the date by which more than 50 *per cent* of the SSAs have gone live (either CDR or IOBAS) or have been Acceptance Tested. Decision for fixing warranty date was taken by the BSNL Management based on facts and detailed analysis, in the interest of project continuance and had benefitted BSNL in number of ways. The Management further stated that the SIs had demanded for starting of warranty from June 2008 for Proof of Concept Phase equipments and from June 2009 for roll-out Phase equipments.

The fact remains that commencing the warranty when the roll-out work was in progress was in violation of Tender Conditions and resulted in extending undue benefit to the SI besides extra expenditure of ₹ 17.56 crore.

5.1.1.3 Irregular tie-up among vendors in violation of Tender Conditions

As per Clause 6.4.2 of Section-IV-E of Tender document, there shall be two separate billing application software solutions for two projects. Clause 6.5 stipulated that in the event of any of the eligible bidders not agreeing to supply the equipment or not being considered by BSNL for placement of order, ranking of the bidders was to be recast so that the same bidder would not be awarded contract for both the projects. This condition was to ensure that bidders executing the projects remained different for both the projects i.e. CDR Project-1 and CDR Project-2. Audit scrutiny of the records revealed that in violation of the above provisions, the vendors M/s HCL and M/s TCS entered into an agreement with each other to the effect that the Hardware part of both the projects would be executed by M/s. HCL and the Software part of the work would be executed by M/s.TCS for all the four zones. This defeated the very purpose of the conditions in the tender that there shall be two different software solutions and two different vendors for both the project areas.

BSNL replied (August 2015) that

(i) it was done to ensure timely completion of the project and optimise the resources at hand;

(ii) the O&M activities are managed by respective SIs only.

The reply is not tenable as ordering the execution of work to a different vendor was in violation of the tender conditions and did not protect the interests of BSNL. BSNL's overdependence on a single vendor would expose the company to risk in case of withdrawal of support by the single vendor and hence, the tender stipulated that the vendors should be different for both the projects.

5.1.1.4 Avoidable expenditure of ₹ 8.80 crore on excess procurement of MTEs

Clause 7.1 of Section VI–I of Tender Document furnished the technology wise number of switches in each billing centre and as per the details furnished therein, there were 203 E10B exchanges in BSNL. E10B exchanges were to be connected to CDR project through Magnetic Tape Emulators (MTEs). The Advance Purchase Order placed (June 2007) on M/s HCL and M/s TCS included supply of 210 MTEs. As per reply of BSNL ITPC, Pune (February 2015), the quantity was amended to 162 based on the firm requirement given by the SSAs/Circles. Audit scrutiny of the records revealed that only 43 MTEs were utilised and the remaining 119 MTEs were rendered idle as detailed below:

Zone	APO Qty	MTEs procured	MTEs utilised	MTEs lying idle	Rate per unit	Total cost of spare MTEs (In ₹)
South	57	46	23	23	1103621	2,53,83,283
East	40	27	14	13	1114842	1,44,92,946
North	51	43	6	37	576169	2,13,18,253
West	62	46	0	46	583424	2,68,37,504
Total	**210**	**162**	**43**	**119**		**8,80,31,986**

The MTEs were rendered idle as most of the E10B exchanges were closed / decommissioned. Thus, due to lack of coordination between ITPC, Pune and the Territorial Circles / Corporate Office regarding plan of closure / replacement of E10B switches and estimation of the required MTEs, 119 MTEs valued ₹ 8.80 crore were rendered idle.

BSNL replied (August 2015) that requirement of MTEs was only a transitory arrangement to ensure the continuity and timely roll-out of the CDR project as per the switching technology deployed in field. Eventually all MTEs have become redundant with decommissioning of E10B exchanges and transfer of customers to NT switches. Actual requirement was 210 whereas only 162 were procured. Thus, there was a saving of ₹ 4 crore.

The reply is not acceptable as the actual requirement of MTEs should have been ascertained taking into account the decommissioning programme of E10B switches from the SSA / Circle / Corporate Office before amending the purchase orders.

5.1.1.5 Partial Implementation of Revenue Assurance and Fraud Management Solution in CDR billing package.

BSNL implemented Revenue Assurance (RA) system to plug revenue leakages. RA system provided for subscriber billing verification method by collecting, collating and reconciling subscriber usage data across billing, mediation, rating and other related applications. RA system had an interface with the Fraud Management System (FMS) and aimed at identifying the revenue leakage points involved in the telecom set up and take corrective action so as to close the same.

The Revenue Assurance and Fraud Management System (RAFMS) were part of the CDR billing system and the System Integrators were to implement/provide all the required RAFMS solutions as per the requirement of BSNL. The total cost involved for both RA and FMS solutions ordered for Project-1 and Project-2 was ₹ 20.92 crore.

It was observed that some solutions have been partially implemented while 31 RAFMS reports were not implemented as detailed below:

RA Reports		FMS Reports	
Customer Reconciliation	4	Usage Fraud Management	5
Usage Reconciliation	9	Subscription Fraud Management	4
Configuration Reconciliation	3		
Call Testing	2		
Alarms and KPI	4		
Total	**22**		**9**

BSNL accepted (August 2015) the fact of partial implementation of RA & FMS applications and issued instructions to SIs to complete the work besides withholding 10 *per cent* of the due amount for RAFMS.

Thus, even after five years from the commissioning of Data Centres during 2010, the RAFMS solution was partly implemented leaving revenue leakage points undetected and defeated the very purpose of implementation of RAFMS at a cost of ₹ 20.92 crore.

5.1.2 System Deficiencies

5.1.2.1 Undue delays in disconnection of defaulting cases due to deficiency in the CDR Billing Package

Clause 3.19.1 of Section VI (J) of tender conditions stipulated that the disconnections (dunning) should be instantaneous. Till the introduction of CDR billing package the disconnections for non-payment of dues were being effected by concerned SSA authorities. In CDR system, the dunning (disconnections) were effected centrally from the respective Data Centres for the SSAs under their jurisdiction. Dunning section of Data Centres was responsible for effecting timely disconnections of defaulting subscribers. The outgoing (OG) bar was to be effected on 35th day of date of issue of bill, in-coming (I/C) bar was to be effected after 50 days of bill date and permanent disconnection was to be done after 90 days from the date of issue of bill. However, it was observed at South and West Data Centres that disconnections were not affected on the same day and delays in disconnections were ranging from one day to sixty three days.

It was replied at Data Centre, Hyderabad that

- Normally in each billing cycle there were around five lakh disconnections including O / G bar, I / C bar, PCO, multiple bills, and VIP disconnections.
- Sometimes, due to system issues, the process could not be scheduled or completed within time as there was constraint of not to run disconnection process simultaneously with other process like Billing, Sub ledger etc.
- The maximum capacity of Clarity application for carrying out suspend orders (Disconnection) was restricted to 45000 only per night (instance).

BSNL replied (August 2015) that no major challenge in dunning was observed / reported by the SSAs.

The reply is not acceptable as the delays in disconnections tantamount to extending the service to defaulting subscribers and resultant increase in accumulation of outstanding revenue. Though the constraint of 45000 suspensions per instance was continuing since inception of CDR billing package, BSNL did not take any steps through the SI to overcome the constraints and follow the rules scrupulously to avoid accumulation of outstanding revenue.

5.1.2.2 Non-billing / delay in billing of IPDR

Internet protocol data / detail records (IPDRs) provide information about broadband service usage and other internet activities. As and when a broadband service was used, IPDRs were generated by National Internet Backbone (NIB) / Network Operation Circle (NOC), Bangalore and transmitted to the respective Data Centres for rating and billing. IPDRs which were 'masterless'[7] were not rated and billed due to

(i) IPDRs generated prior to creation of User ID in billing;

7 Where basic details about the subscriber not available in billing module

(ii) SSAs shifting the customers from P2 server to P3[8] server;

(iii) user ID used in a different zone due to port un-binding;

(iv) Due to technical reasons at NIB/NOC Bangalore on closed connections and

(v) Due to customers not having port-binding.

During audit of Data Centres at West Zone, North Zone and South Zone, 39424 IPDRs were not billed as of January 2015 as detailed below:

Data Centre	Number of IPDRs pending as of January 2015	IPDRs pertaining to Period	Oldest IPDRs
West Zone	5790	April 2013 to May 2014	April 2013
North Zone	22339	April 2012 to November 2014	April 2012
South Zone	11295	January 2012 to November 2014	January 2012

The financial impact could not be quantified as the tariff / rate was based on plans opted by the customers. Data Centre authorities, SSAs and NOC authorities were expected to verify and clear the IPDRs lying unbilled.

BSNL Corporate Office replied (August 2015) that the issue of masterless cases were similar to the issue of unaddressed bills in DOTSOFT system wherein the services were created in the network element but the customer account information was not available in the billing system. Three month old error IPDRs were almost zero. Every month billions of IPDRs were generated and billed successfully. The error count as observed was negligible and insignificant when compared to billions of IPDRs.

The reply is not acceptable as in software solutions the quantity does not matter but the deficiency counts. CDR billing package is a comprehensive package and hence, care should have been taken to provide proper linkage to the accounts of the user in CDRs/IPDRs. Even after five years of implementation of CDR based billing, the system requires manual intervention to identify the proper customer and bill the master less IPDRs.

Conclusion

BSNL has implemented the CDR based billing and customer care solution with a view to face new challenges due to competition, reduce the cost of operations, increase revenue realisation, locate and stop the revenue leakage points besides providing effective and efficient services to customers. Audit noticed deficiencies in planning leading to avoidable expenditure of ₹ 8.80 crore on procurement of MTEs, partial implementation of Revenue

8 P2 is old version and P3 is new version.

Assurance and Fraud Management systems besides non billing/delays in billing of IPDRs. The management should take urgent steps to address these issues and stabilise the CDR billing systems to improve its competitiveness, plug revenue leakages and increase its revenue realisation besides providing a fillip to its Basic and Broadband services.

5.2 Non disconnection of leased services despite non payment

Continuation of leased lines/circuits despite non-payment of dues for more than three years from private/Non Government organizations resulted in accumulation of arrears of ₹ 223.99 crore in six Telecom Circles and one Telecom region.

A leased circuit is a dedicated link provided between two fixed locations for exclusive use by a customer. As per Indian Telegraph Rule (ITR)–501 for leased lines / circuits, initially one year advance rental and installation charges is to be recovered through Demands Notes and for subsequent year annual advance rental is claimed in the bill in the conventional month.

Further, Bharat Sanchar Nigam Limited (BSNL) issued instructions in 2001, which stipulates that demand notice for advance rental was to be issued as per normal procedure payable at least seven days prior to the expiry of the quarter for which payment has already been received. If the users fail to pay the advance rental of the circuits being used, the facility is liable to be disconnected. BSNL Corporate office reiterated the instructions from time to time for timely collection of outstanding dues and disconnection etc. directing the payment to be made by 21st of bill date followed by issue of notice of disconnection giving seven days' time and disconnection of circuits within 35-40 days.

Audit scrutiny of records of six Telecom Circles[9] and one Telecom Region,[10] (December 2014-March 2015) revealed that in respect of 1854 cases, leased circuits were kept open from 90 days to 2697 days (2001-02 till 2014-15) despite non-payment of advance leased rental charges of ₹ 399.38 crore (**Annexure-XXIII**).

On this being pointed out by audit (December 2014- March 2015), the Management at the Circles and the Telecom District while confirming the facts submitted the following reply:

- **Maharashtra Telecom Circle** - The outstanding was due to disputes raised by customers. After issuing seven days notice, disconnection orders will be issued.
- **Chennai Telecom Circle-** Corporate customers were constantly reminded to settle their dues without resorting to disconnection in view of highly competitive environment.

9 Maharashtra, Chennai, Karnataka, Odisha, UP(E) and Gujarat Telecom Circles
10 Northern Telecom Region

- **Karnataka Telecom Circle** -Outstanding bills were disputed by customers and coordination meetings were being held with clients to solve the issues.
- **Gujarat and UP (E) Telecom Circle / District:** Verification is in process, action/ cancellation will be done as per requirement.
- **Odisha Telecom Circle-** Correspondence has been made with customers to realize the amount and action will be taken against the erring customers.
- **Northern Telecom Region** – Action is being taken to recover the outstanding dues by reconciliation and by issuing defaulter notices to subscriber.

It was also replied by the BSNL Management (Sept 2015) that there is no provision in the system to auto-disconnect the leased circuits for non-payment of rental dues.

Ministry (October 2015) accepted the facts and enclosed the reply of the Management. It further submitted that ₹ 175.39 crore has been realized in five circles[11] after being pointed out by Audit. Recovery position is awaited for Northern Telecom Region and Odisha Telecom Circle.

The replies of the Ministry confirm that despite instructions of Corporate Office, the Circles failed to issue notices and ensure disconnection resulting in non-payment of dues of ₹ 223.99 crore for more than three years.

It is worth mentioning that similar observation in respect of postpaid CMTS connections on crossing threshold limits was also made in CAG Audit Report No. 20 of 2015 but it is evident from facts stated above that BSNL had not been able to evolve a system for auto disconnection for leased circuits as on date.

5.3 Avoidable payment of penalty

Avoidable payment of penalty of ₹ 22.27 crore due to non provision of uninterrupted mobile service on account of improper maintenance of infrastructure sites by BSNL in MP Circle.

Bharat Sanchar Nigam Limited (BSNL) entered into an agreement (May 2007) with Administrator, Universal Service Obligation Fund (USOF) Department of Telecommunications (DoT) as Universal Service Provider (USP) for rendering mobile services in specified Rural and Remote Areas.

Clause 2.3 of financial condition of Part B of the agreement stipulated that a penalty shall be payable by the USP on pro-rata basis on account of prolonged interruption of services due to any reason. As per Clause 2.4, no penalty was payable in case of interruption of mobile

11 Gujarat, UP(E), Maharashtra, Karnataka and Chennai Telephones

services for a period up to seven days in a quarter, penalty @ ₹ 500 per day was payable for interruption in services of more than seven days in a quarter and if the interruption was for 45 days or more in a quarter, penalty was payable for the whole quarter.

BSNL, as infrastructure provider (IP), also signed Service Level Agreement (SLA) with other USP's (October 2008) to ensure round the clock availability of mobile services as per clause 13 of Section VIII (Special Instructions) of the Agreement (Part-A).

Madhya Pradesh (MP) Telecom Circle had 933 sites and BSNL MP Circle had radiated 930 sites out of which there were three USPs (BSNL, Idea and Reliance), 376 sites with two USPs (BSNL and either Idea or Reliance) and 141 sites with BSNL alone as USP. As evident from above, BSNL was both USP as well as IP in 930 sites and as such the responsibility to ensure uninterrupted mobile services rested solely upon BSNL.

Audit observed (October 2012–April 2015) that MP Telecom Circle did not maintain uninterrupted mobile services during the period from June 2008 to December 2013 and Department of Telecommunications (DoT) imposed a penalty of ₹ 19.57 crore and interest of ₹ 2.70 crore for the same as given below:

(Amount in ₹)

Period	Amount of Principal Penalty	Amount of Interest on Principal	Total Penalty
2008-09	395000	210930	605930
2009-10	1731500	629829	2361329
2010-11	24544000	5412491	29956491
2011-12	47842500	5675620	53518120
2012-13	78904500	12057491	90961991
2013-14	42324500	2964884	45289384
Total	**195742000**	**26951245**	**222693245**

MP circle, while confirming the facts, stated that main reasons for interruption of service were non availability of assured power supply, non availability of diesel, fault in Diesel Generator sets, rural and remote landscape with less than three operators being not economically viable due to higher OPEX.

The fact remains that failure of the BSNL management in providing uninterrupted mobile services resulted in payment of penalty of ₹ 22.27 crore to DoT. This could have long term adverse impact on retaining the existing customer as well as increasing the subscriber base to earn more revenue. Further, non-ensuring of uninterrupted mobile service defeated the very purpose of meeting the challenges posed by Private Service Providers of providing quality and prompt service to the mobile subscribers.

5.4 Undue Service Tax liability on Sale of ITC

Failure of Bharat Sanchar Nigam Limited in ensuring the use of ITC meant for Jammu and Kashmir in that state only resulted in BSNL having to absorb the service tax and penalty thereon amounting to ₹ 5.40 crore besides engaging in avoidable litigation.

Bharat Sanchar Nigam Limited's (BSNL) India Telephone Cards[12] (ITC) is a prepaid virtual calling card for making local/STD/ISD calls from any BSNL phone and the calls were charged to the secret number (PIN) specified in the card. The ITC card sold in states other than Jammu and Kashmir included an element of Service Tax while BSNL was exempted[13] from payment of Service tax for services rendered in the State of Jammu and Kashmir. Hence, BSNL was required to ensure that the cards meant for Jammu and Kashmir (J&K) were sold and utilized only within the state of J&K.

BSNL appointed (2007) two E.PIN distributors[14] for printing of ITC cards to be used in the states of J&K as well as other states of the country. The Print Sequential Number (PSN), Serial Number and Personal Identification Numbers (PINs) to be printed on the ITCs were conveyed to the E.PIN distributors in an encrypted form and printed ITCs were delivered to National Internet Back bone for making onward supply to Secondary Switching Areas (SSAs). The Deputy General Manager (Operations), BSNL gets the PINs generated from Service Control Point (SCP), Lucknow, BSNL and the activation of the cards were done by Sub Divisional Engineer {Intelligent Network (IN) Services} Lucknow of BSNL. The cards were sold by Secondary Switching Areas (SSAs) through BSNL franchisees, STD/PCO holders and through Customer Service Centres in their jurisdiction. The card once sold could be used by customer anywhere in India from any BSNL phone.

Andhra Pradesh Telecom Circle and Kerala Telecom Circle signed (2007) agreements on behalf of Corporate Office with two E.PIN distributors for printing, marketing and selling of ITCs. Both the E.PIN distributors executed a non-disclosure undertaking/agreement with Jammu and Kashmir Circle and also rendered an affidavit to the effect that the ITC meant for Jammu and Kashmir would be sold by them in Jammu and Kashmir only through existing BSNL franchisees.

Audit observed (January 2014) that Central Excise Intelligence intimated (May 2009) BSNL that ITC meant for Jammu and Kashmir were being sold in Punjab and Himachal Pradesh Circles by the franchisees without payment of service tax. The fact of sale of ITC meant

12 ITC cards were available in denominations of ₹ 100, ₹ 200 and ₹ 500, had an expiry period of 18 months, were to be used within three, four and five months respectively.

13 As per Section 64 of Finance Act, 1994.

14 M/s Balaji Watch & Mobile Private Limited, Nellore, Andhra Pradesh and M/s Faizal Traders Private Limited, Palakkad, Kerala

for J&K in Punjab and Himachal Pradesh Circles was also confirmed (June 2009) by SSA, Ludhiana. However, BSNL did not initiate any action. Director General, Central Excise Intelligence (DG (CEI)), based on the details of ITC printed for Jammu and Kashmir furnished by SDE, Lucknow, assessed that out of 2398663 ITCs of ₹ 24.00 crore printed and sold by Jammu and Kashmir Circle during the period from 2006-07 to 2009-10, 22,50,143 ITCs valued ₹ 22.50 crore were used outside the state of Jammu and Kashmir. Audit further noticed from the DG (CEI) report that

- M/s Faizal Traders Private Limited, the EPIN distributor, had appointed M/s ELTRONICS as their super stockist in Jammu and Kashmir for sale and promotion of ITCs. The EPIN distributor printed and sold 675000 and 100000 ITCs of ₹ 100 denomination during 2008-09 and 2009-10. Though M/s Faizal Traders Private Limited stated to DG (CEI) that the EPIN distributor had sold 675000 ITCs of ₹ 100 denomination to M/s ELTRONICS, DG (CEI) observed that only 95000 ITCs were purchased by M/s ELTRONICS from M/s Faizal Traders Private Limited. It was also stated by DG (CEI) that ITCs meant for Jammu and Kashmir printed by M/s Faizal Traders Private Limited were being used mainly in and around Kerala and Tamil Nadu.

- M/s Balaji Watch & Mobile Private Limited, the EPIN distributor, had appointed M/s Mahavir Radios, as their super stockist in Jammu and Kashmir for sale and promotion of ITCs. The EPIN distributor printed and sold 195000 and 755000 ITCs of ₹ 100 denomination during 2007-08 and 2008-09. Though a total of 1172000 ITCs were printed by M/s Balaji Watch & Mobile Private Limited, only 135000 ITCs of ₹ 100 denomination and 10000 ITCs of ₹ 200 denomination were purchased by the Stockist. It was also stated by DG (CEI) that ITCs meant for Jammu and Kashmir printed by M/s Balaji Watch & Mobile Private Limited were mainly used outside the state of Jammu and Kashmir.

Due to sale of ITC meant for Jammu and Kashmir in other states, service tax on ITC was not collected. DG (CEI) assessed the amount of service tax not collected as ₹ 2.88 crore. Commissioner, Central Excise and Customs confirmed (March 2012) the demand of Service Tax of ₹ 2.69 crore and also imposed penalty of ₹ 2.69 crore. The Commissioner further stated that if the Service tax of ₹ 2.69 crore along with interest was paid within 30 days of the communication of the order, penalty would be ₹ 0.67 crore. BSNL deposited (March 2013) ₹ 1 crore before the Customs, Excise and Service Tax Appellate Tribunal (CESTAT) and filed an appeal. The appeal was pending (October 2015). In this regard, the following observations are made:

- The ITC cards were identified by the Print Sequential Number (PSN). As the activation of ITCs was done by BSNL, adequate internal controls should have been ensured while activating the cards so that ITCs meant for Jammu and Kashmir were activated only in Jammu and Kashmir. Non-ensuring of adequate internal controls resulted in activation of ITC meant for Jammu and Kashmir in other states which resulted in non-payment of Service Tax, imposition of penalty and avoidable litigation.

- As per the agreements entered into with the E.PIN distributors, the Bank Guarantee (BG) was to be valid till the dues of BSNL by virtue of the agreement had been fully paid and its claim satisfied or fully discharged or till BSNL was satisfied that the terms and conditions of the agreement have been fully and properly carried out by the Franchisee. The issue of sale of ITC meant for Jammu and Kashmir in other states was reported in May 2009 itself when the BGs of both the franchisees were valid. However, BSNL did not initiate prompt action to get the BGs extended. The BG of M/s Balaji Watch & Mobile Private Limited for rupees five lakh expired on 31 January 2010 while the BG of M/s Faizal Traders Private Limited for rupees one crore expired on 10 November 2012. Due to non-extension of the BG of the E.PIN distributors, BSNL had to bear the entire loss otherwise some losses could have been recovered from the E.PIN distributors.

- As evident from DG (CEI)'s assessment, 2250143 ITC out of 2398663 ITC meant for sale in Jammu and Kashmir were sold in other states. Thus, commission of ₹ 2.49 crore paid to franchisees for promoting sale of ITC was not in order as the vendors had not sold the ITC in the state of J&K only as per the agreement.

BSNL replied (November 2014) stating that only after receiving the notice from Additional Director, Central Excise Intelligence in December 2010, action was initiated by BSNL, Jammu and Kashmir Circle against the E.PIN distributors. Management further stated that BSNL, Jammu and Kashmir Circle was not the custodian of BG and also there was no mechanism available to check the destination of use of ITC cards.

Ministry in reply (October 2015) stated that no violation came to the notice of BSNL during the currency of the agreement with the E.PIN distributors and once a product / service was sold to consumer, using / consuming that service/product as per the law of land was the duty of the consumers. BSNL could not be held responsible for violation by consumers.

The reply is not acceptable since BSNL was very well aware of the fact that ITC card meant for use in Jammu and Kashmir only was prone to misuse due to lower cost of the cards compared to other states. Further, though SSA, Ludhiana confirmed the misuse of the cards meant for Jammu and Kashmir in June 2009 itself, no corrective action was initiated and internal control mechanism put in place to ensure that the cards meant for Jammu and Kashmir were not activated in other parts of the country. The fact remains that failure to ensure the use of ITC meant for Jammu and Kashmir in that state only resulted in loss to BSNL on account of service tax, interest and penalty thereon besides engagement in avoidable litigation.

5.5 Loss of Revenue due to Delay in Sharing of Towers

Failure on the part of BSNL to take proactive action in sharing the towers with other operators as per the instruction of Corporate Office by upgrading the infrastructure wherever required, resulted in losing an opportunity to generate additional revenue of ₹ 2.83 crore for the period from 2009-10 to 2014-15.

Bharat Sanchar Nigam Limited (BSNL) had sites for erecting towers at various locations to facilitate smooth functioning of its mobile operations. In order to generate additional revenue and to reduce operational cost, BSNL decided (January 2009) to share the spare capacity of passive infrastructure[15] of its towers with other telecom service providers (sharing operators). BSNL Corporate Office issued instructions (May 2009) to the circles to facilitate pro-active action and as per the instructions, the heads of Circles were authorized

- To form separate group exclusively for the purpose of expeditious up-gradation and hiring of BSNL passive infrastructure sites to other service providers;
- To take further steps as may be needed to maximize the sharing of the BSNL's towers and thus maximizing the revenue of BSNL;
- To up-grade the passive infrastructure elements of shareable towers such as battery, power plant, DG set, shelter/space etc.,

BSNL Corporate Office entered (September / November 2009) into Master Service Agreements (MSA) with sharing operators which stipulated that the site agreement would be valid for 10 years from the commencement date with lock-in-period of seven years. The agreement further stipulated that if the sharing operator exited during the lock-in-period, the sharing operator shall be liable to pay BSNL all the unpaid future rentals till seven years.

The MSA had further stipulated the following procedure to be followed before installation of sharing operator's equipment:

- On receipt of site request from other sharing operators, BSNL would convey its acceptance to the sharing operator within two weeks of receipt of such site request as a site proposal.

15 Passive infrastructure element include tower space for mounting antennas for a BTS and also associated passive equipment such as shelter, DG sets, power plant, Air conditioners, earthing and battery bank.

- The sharing operator would issue a service order within one week from the date of site proposal which would be accepted by BSNL within one week thereafter.
- Upon acceptance of Service Order by BSNL, the same would be treated as valid and form part of the agreement. BSNL would make available the Ready for Installation of Equipment (RFIE) sites to the sharing operator within 30 days.
- The sharing operator would be given time period of 15 days from the RFIE date to mount/install its equipments.
- The commencement date would be considered 15 days from the RFIE date and rent would be payable by the operator from the commencement date.

Audit scrutiny of records during January 2015 to June 2015 in eight circles[16] revealed that 297 site requests were received and Service Orders issued during the period from February 2010 to January 2015. It was observed that in these cases, contrary to the stipulated time frame of 45 days from the date of issue of Service order (clause 6.4 & 6.5 of MSA), there were delays ranging upto 643 days in up-gradation of equipments/infrastructure and in commissioning. The details of delays upto 90 days, upto 365 days and more than 365 days in eight[17] circles resulting in loss of revenue to the tune of ₹ 2.83 crore is furnished below:

<table>
<tr><th rowspan="2">Sl. No.</th><th rowspan="2">Circle</th><th colspan="3">Delay in sharing of towers(beyond 45 days from the date of issue of service order) in days</th><th rowspan="2">Amount (₹ in crore)</th></tr>
<tr><th>10 to 90</th><th>91 to 365</th><th>More than 365</th></tr>
<tr><td>1</td><td>Andhra Pradesh</td><td>9</td><td>0</td><td>0</td><td>0.03</td></tr>
<tr><td>2</td><td>Bihar</td><td>33</td><td>17</td><td>1</td><td>0.52</td></tr>
<tr><td>3</td><td>Karnataka</td><td>21</td><td>8</td><td>0</td><td>0.22</td></tr>
<tr><td>4</td><td>Madhya Pradesh</td><td>16</td><td>1</td><td>0</td><td>0.05</td></tr>
<tr><td>5</td><td>Maharashtra</td><td>105</td><td>28</td><td>6</td><td>1.40</td></tr>
<tr><td>6</td><td>Orissa</td><td>23</td><td>23</td><td>1</td><td>0.58</td></tr>
<tr><td>7</td><td>Tamil Nadu</td><td rowspan="2">4</td><td rowspan="2">1</td><td rowspan="2">0</td><td rowspan="2">0.03</td></tr>
<tr><td>8</td><td>Chennai</td></tr>
<tr><td></td><td>Total</td><td>211</td><td>78</td><td>8</td><td>2.83</td></tr>
</table>

On this being pointed out by Audit, the circles stated that the reasons for delay in sharing of towers were attributable to problems faced in up-gradation of infrastructure viz., battery, power plants, DG sets etc., and delay in completion of Civil Works.

The fact remains that the Circles did not adhere to the Corporate Office (May 2009) instructions to upgrade the required infrastructure. As the delay in sharing of sites was attributed by the Circles to problems faced in upgradation of infrastructure, due to non-

16 Andhra Pradesh, Bihar, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Chennai, Tamil Nadu.
17 The issue was examined in all the Circles but commented only in eight circles since the amount was not material in other circles.

ensuring that the infrastructure was updated immediately after receipt of site request, BSNL had lost an opportunity to generate additional revenue of ₹ 2.83 crore for the period from 2009-10 to 2014-15. This is all the more imperative at a time when the financial position of BSNL is not very good.

5.6 Irregular Payment of Project Incentive, Transport Allowance, House Rent Allowance and LTC by National Informatics Centre Services Inc to its staff

National Informatics Centre Services Inc (NICSI), a non-profit Section 25 company under National Informatics Centre paid Project incentive of ₹ 2.11 crore, Transport Allowance of ₹ 48.87 lakh, House Rent Allowance of ₹ 16.58 lakh and reimbursement of LTC of ₹ 1.90 crore to its officers who were on deputation from National Informatics Centre during 2010-11 to 2013-14 in contravention of the Ministry of Finance / Department of Personnel & Training / Department of Public Enterprises guidelines.

National Informatics Centre Services Inc (NICSI) was established in August 1995 under National Informatics Centre (NIC), Department of Electronics and Information Technology (DeitY), Ministry of Communications & Information Technology as a public sector company under Section 25 of Companies Act, 1956. NIC is an attached office under DeitY and hence, the employees of NIC were entitled to pay, perks and benefits as applicable to the employees of Central Government. As per the Department of Public Enterprises (DPE) Office Memorandum (O.M.) dated 26 November 2008, the Government Officers on deputation to Central Public Sector Enterprises (CPSEs) will continue to draw salary as per their entitlement in the parent Department. As the employees of NICSI were on deputation from NIC, the aforesaid guidelines was applicable. Therefore, the employees on deputation to NICSI were entitled to pay, perks and benefits as applicable to the employees of Central Government. However, Audit observed that in contravention to the above guidelines, NICSI made the following payments to the deputationists from NIC which were not in order:

i. **Project Incentive -** NICSI paid Project Incentive to the officers / staff on deputation from NIC in addition to Deputation Allowance. The Project Incentive was linked to Profit After Tax earned by the Company and was fixed as 15 *per cent* of Basic Pay plus Grade Pay in case the Profit after Tax was more than ₹ 3 crore but less than ₹ 50 crore and 20 *per cent* of Basic Pay plus Grade Pay in case the Profit after Tax was more than ₹ 50 crore. An amount of ₹ 2.11 crore was paid as Project Incentive for the period from 2007-08 to 2013-14. This incentive was not covered in the guidelines of DPE and hence, was not admissible to employees of NICSI on deputation from NIC.

ii. **Transport Allowance –** As per Service Rules of NICSI, Transport Allowance admissible to its employees on deputation from NIC was fixed as lower of amount equivalent to fixed quantity of fuel or actual consumption as against fixed rates plus Dearness Allowance eligible to Central Government employees. These relaxations / modifications in Service Rules were made without obtaining approval of the Ministry of Finance / Department of Personnel & Training (DoPT) / DPE and resulted in an excess / irregular payment of ₹ 48.87 lakh during the period from January 2011 to March 2014.

iii. **House Rent Allowance** - NICSI relaxed (May 2006) the rules relating to House Rent Allowance (HRA) effective from July 2007 and allowed HRA to be drawn in respect of employees on deputation to NICSI as a percentage of Basic Pay plus Dearness Pay plus Deputation Allowance instead of Basic Pay plus Dearness Pay contrary to the provisions of Government of India orders issued from time to time. NICSI Service Rules prescribed 30 *per cent* of Basic Pay plus Dearness Pay plus Deputation Allowance for Delhi, Mumbai, Chennai, Kolkata, Hyderabad and Bangalore while HRA was prescribed as 22.5 *per cent* of Basic Pay plus Dearness Pay plus Deputation Allowance for other cities. These relaxations / modifications in Service Rules were made without obtaining approval of the Ministry of Finance / Department of Personnel & Training (DoPT) / DPE. Inclusion of Deputation Allowance for the purpose of HRA and payment at rates different from that applicable to Central Government employees resulted in excess payment amounting to ₹ 16.58 lakh towards HRA during the period from March 2010 to March 2014.

iv. **Leave Travel Concession** - Service Rules approved (May 2006) by the Board of Directors of NICSI provided that employees of NICSI would be entitled to Leave Travel Concession (LTC) as per the LTC rules applicable to the employees of NIC. As NIC was an attached office under DeitY, the employees of NIC were entitled to LTC as applicable to the employees of Central Government. NICSI amended (September 2010) the Service Rules as per which

- The employees of NICSI were allowed to travel abroad on All India LTC with the ceiling of entitlement of fare equal to the farthest point in India from employee's Headquarters. The farthest point in India was to be declared at the time of applying for LTC. The amendment resulted in notional claims by the employees of NICSI to the farthest point in India without actually visiting the place declared in 41 cases during the period from 2009-10 to 2013-14.

- The Service Rules did not mandate travel by Air India flights only as was required mandatorily under the CCS (LTC) rules. Audit observed that employees did not travel by Air India flights even for journeys performed within India in 26 cases during the period from 2009-10 to 2013-14.

- Audit also observed that claims for performing journeys in own cars / taxis were also allowed in eight cases during the period from 2009-10 to 2013-14 which was also in contravention to CCS (LTC) rules.

NICSI allowed ₹ 1.90 crore on the LTC claims for travelling abroad as well as not performing the journeys (even within India) by Air India which was irregular.

Ministry replied (July / November 2015) that:

a. NICSI had a unique setup with all its officers being deputationists from NIC except for its Company Secretary and they continued to draw the same salaries that they would have drawn in NIC without any step up. The minimal number of officers who opt for deputation also bear the heavy workloads which were generated in NICSI as it grows. To attract adequate talent from NIC, payment of incentive was a must and in addition to the Deputation Allowance payable as per rules, a performance incentive named "Project Incentive" and through slight variation in the Service Rules, higher HRA and Transport Allowance was paid to all officers at the same rate considering their team work. NIC, which is the single source of personnel for NICSI, was itself short of staff.

b. The Service Rules of NICSI was approved by its Board of Directors which was headed by the Additional Secretary, DeitY and consists of senior officers both from NIC & DeitY and the entitlement under Service Rules are being mentioned in the 'offer letters' issued to the deputationists and endorsed to NIC which is being accepted by NIC. These incentives were necessary to retain talent in NICSI, which is severely understaffed.

c. Over the years NICSI had been writing to DPE for an exemption from its guidelines on the subject of allowances payable to deputationists, considering the peculiar nature of NICSI where 100 *per cent* officers were on deputation from NIC.

d. DPE had stated that the matter may be resolved in consultation with DeitY, the parent department and meanwhile NICSI had initiated the process of getting its Service Rules ratified by its parent organisations NIC and DeitY.

e. DeitY issued (February 2015) orders for recovery of the irregular payment on account of LTC from the concerned officer / staff. NICSI issued (April 2015) recovery notices to the employees/staff. Hon'ble Delhi High Court vide order dated 06 June 2015 directed NICSI not to take any coercive steps against the employees for recovery of the amount released to them towards LTC. The matter was sub-judice.

The replies are not acceptable for the following reasons:

- The payments towards Project Incentive, Transport Allowance, HRA and LTC claims for journeys abroad were made in contravention of the DPE guidelines which clearly stipulated that Government Officers on deputation to Central Public Sector Enterprises (CPSEs) will continue to draw salary and allowances as per their entitlement in the parent department;
- Prior approval of the parent cadre of the employees was not obtained before making the payments;
- The offer letter to the employees did not mention these benefits;
- The relaxations / modifications in Service Rules were made without obtaining approval of the MoF / DoPT / DPE. Service Rules were forwarded for approval of the Government of India (DeitY) only after being pointed out by Audit.

5.7 Recovery at the instance of Audit

Four circles of BSNL recovered outstanding dues of ₹ 16.04 crore from vendors/ other service providers at the instance of Audit.

Test check of records pertaining to four telecom circles during the period from May 2002 to March 2015, revealed that an amount of ₹ 20.34 crore of non-adjusted / excess paid amount due to non-billing of revised duct charges, excess payment on IMPCS projects, non-adjustment of electricity bills and non-recovery of compensation on defective batteries as detailed in **Annexure-XXIV**, was still to be recovered. On this being point out by Audit, ₹ 16.04 crore had been recovered / adjusted by the respective circles.

5.8 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 M/s Bharat Sanchar Nigam Limited and M/s 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 up to the year 2015 revealed that ATNs in respect of 96 paragraphs were pending as of September, 2015 of which ATNs on 13 paragraphs were not received at all, as detailed in the ***Appendix- I.***