

TWENTIETH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(2006 - 2007)

(FOURTEENTH LOK SABHA)

PERFORMANCE AUDIT OF WLL SERVICES PROVIDED BY BSNL

**MINISTRY OF COMMUNICATIONS INFORMATION TECHNOLOGY
DEPARTMENT OF TELECOMMUNICATIONS**

[Based on C&AG Report No. 9 (Commercial) of 2006]



Presented to Lok Sabha on 27.04.2007

Laid in Rajya Sabha on 27.04.2007

LOK SABHA SECRETARIAT

NEW DELHI

April 2007/ Vaisakha, 1929

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COMMITTEE ON PUBLIC UNDERTAKINGS
(2006 – 2007)

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to present the Report on their behalf, present this Twentieth Report on Performance Audit of WLL Services provided by BSNL. This report based on C&AG Report No. 9 (Commercial) of 2006.

2. The Committee on Public Undertakings (2006-07) took oral evidence of the representatives of Bharat Sanchar Nigam Limited (BSNL) on 6th February, 2007 and the representatives of the Department of Telecommunications on 10.04.2007. The Committee also heard the views of experts on the WLL Service launched by BSNL on 6 March, 2007.

3. The Committee on Public Undertakings (2006-07) considered and adopted the Report at their sitting held on 26 April, 2007.

4. The Committee wish to express their thanks to the Department of Telecommunications and BSNL for placing before them the material and information they wanted in connection with examination of the subject. The Committee also wish to extend their gratitude to the experts who enlightened the Committee on the subject. They also wish to thank in particular the representatives of the Department of Telecommunications and BSNL who gave evidence and placed their considered views before the Committee.

5. The Committee also place on record their appreciation for the assistance rendered by the officials of Comptroller & Auditor General of India. The Committee would also like to place on record their sense of deep appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

6. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the Report.

New Delhi
26 April, 2007
06 Vaisakha, 1929

RUPCHAND PAL
CHAIRMAN
COMMITTEE ON PUBLIC UNDERTAKINGS

**LIST OF ABBREVIATIONS USED IN THE C&AG'S REPORT NO. 9 (COMMERCIAL) OF
2006 ON PERFORMANCE AUDIT RELATED TO WLL SERVICES IN BSNL.**

1.	AMCs	Annual Maintenance Contracts
2.	AT	Acceptance Testing
3.	BS	Base Station (part of WLL)
4.	BSC	Base Station Controller (part of WLL)
5.	BTS	Base Transceiver Station
6.	CDMA	Code Division Multiple Access (an advanced technology)
7.	CGMs	Chief General Managers
8.	CMTS	Cellular Mobile Telephone Service
9.	Cor. Dect	Digital Enhanced Cordless Telecommunication System developed by IIT Madras which is similar to CDMA.
10.	CT-2	Cordless Telephony – Second Generation (a technology)
11.	DGS&D	Director General of Supply and Disposals.
12.	FWT	Fixed Wireless Terminal
13.	FRS	Fixed Remote Stations
14.	HHT	Hand Held Wireless Terminals
15.	IS-95A	A technology
16.	LD	Liquidated Damage
17.	MARR	Multi Access Relay Radio
18.	MSC	Mobile Switching Centre (part of WLL)
19.	NIB	National Internet Backbone
20.	NMS	Network Management System
21.	NSC	Network Switching and Commissioning
22.	NTP – 99	New Telecom Policy – 1999
23.	PBG	Performance Bank Guarantees
24.	PNC	Price Negotiation Committee
25.	PPA	Patch Panel Antennae – These are designed to optimize the transmission and reception of signals between the base transceiver station and FWT.
26.	PSTN	Public Switched Telecom Network (part of WLL)
27.	Rollout-obligations	Obligations of licensees to commence services within a prescribed time frame and cover the service area stipulated in the licences received from DOT.
28.	RS	Remote Stations

29.	SACFA	Standing Advisory Committee on Frequency Allocation (it is the apex body in the WPC wing of DOT, consisting of members drawn from DOT and user departments such as All India Radio, Doordarshan, Defence, Railways, Civil Aviation, BSNL, etc. for considering matters regarding coordination for frequency allocations and other related issues and for issue of clearance of sites for fixed stations and their Antennae Masts)
30.	SDCA	Short Distance Charging Areas (the Smallest territorial unit for charging purposes. Calls within the same SDCA are charged as local calls SDCAs normally coincide with Tehsils or Talukas.)
31.	SSA	Secondary Switching Areas (area in which the country is divided by the telecom authorities. These are generally co-terminus with revenue districts.)
32.	T&D	Technical and Development Circle
33.	TNF	Technically Non-feasible Areas (areas where it is not possible to lay cables)
34.	TRA Branch	Telephone Revenue Accounting Branch
35.	TRAI	Telecom Regulatory Authority of India
36.	USO	Universal Service Obligations (it envisaged providing telephone on demand, besides telephone coverages in all villages in the country.)
37.	VPT	Village Public Telephones
38.	WLL	Wireless in local loop (a telephone system)
39.	WPC	Wireless Planning and Coordination Wing for allocation of frequencies to Telecom Operators.
40.	WS	Wall Sets

OVERVIEW

The Wireless-in-Local Loop (WLL) telephone system is a digital wireless local loop system designed to substitute underground cables by linking exchanges to the customers through wireless. WLL connections can be provided through various technologies. One of the most advanced technologies is the Code Division Multiple Access (CDMA), which allows many users to occupy the same frequency at the same time in a given band. A typical WLL telephone system consists of Base Station (BS), Base Station Controller (BSC) or Mobile Switching Centre (MSC) connected to the Telephone Exchange or Public Switched Telecom Network (PSTN), Base Transceiver Stations (BTS), Network Management System (NMS) and Remote Stations (RS). The remote stations are the customers' terminals which communicate within the Base Station area. The WLL telephone system has fixed as well as mobile facilities. In the fixed system, the customers' terminals are fixed like landline telephone instruments known as fixed wireless terminals (FWTs) or fixed remote stations (FRS) or wall sets (WS). In the mobile system, the customers' terminals are akin to cellular mobile telephone handsets known as handheld wireless terminals (HHTs).

The Department of Telecommunications (DoT) proposed the launching of the WLL telephone service in the country in 1994, mainly to provide telephone connections in technically non-feasible (TNF) areas. In pursuance of New Telecom Policy 1999 (NTP-99), the Government of India decided to corporatise the service provision functions of Department of Telecommunications (DoT). Accordingly, the Department of Telecom Services and Department of Telecom Operations concerned with providing telecom services in the country and maintaining the telecom network/telecom factories were separated and carved out of the Department of Telecommunications as a precursor to corporatisation. Bharat Sanchar Nigam Limited was incorporated as a public limited Company under the Companies Act, 1956, on 15th September, 2000 and the Company became entitled to commence business w.e.f. 19th September, 2000.

The major objective before the Company on its formation was fulfillment of its Universal Service Obligations under NTP-99. The performance audit of the WLL Service in the BSNL was conducted by the C&AG during April to August, 2005, covering the period from 2000-01 to 2004-05. The Corporate office, 24 Telecom Circles and 2 metro districts of Chennai and Kolkata were reviewed in Audit. A survey was also conducted by Audit to evaluate the quality of WLL Service provided by the Company to the Customers in rural and Urban areas. The Audit has noticed many deficiencies in planning, creation of infrastructure, procurement, capacity utilisation, operational performance, billing and collection of revenue and quality of the WLL telephone service, which needed to be addressed urgently, especially in the light of competition from private operators. These deficiencies are discussed in the succeeding paragraphs.

CHAPTER – I

NON-INTRODUCTION OF LATEST TECHNOLOGY

1.1 The Planning and Network Switching Wing of the corporate office ascertains the availability of various technologies in the market and thereafter submits proposals for procurement of the most suitable ones. The Audit in para 1.9.2 of the Report has pointed out that during 2000-01 to 2004-05, the Company opted for IS-95A, V-5.2 and MSC based 2000-1X WLL CDMA technologies as well as CorDect WLL technology. The advanced third Generation (3G) CDMA 2000-1X technology based commercial system developed by SK Telecom (Korea) was launched in October 2000 and available in the global market since then. Even the Management Committee of the Board of Directors of the Company had observed (March 2002) that V 5.2 CDMA technology was an outdated one and that the MSC based solution using International Operating Standards (IOS) was the latest technology for CDMA WLL systems which could be upgraded to the CDMA 2000 1X 3G version. The Committee further observed that the MSC based CDMA 2000-1X technology was expected to be cheaper on per line cost basis due to its higher capacity and as such the Company should go in for this technology. It was however observed that the Company procured WLL systems worth Rs 1,479.87 crore during the period October 2000 to March 2005 based on tenders floated for obsolete technologies. Out of these procurements, WLL systems worth Rs 1,158.25 crore were procured even after the abovementioned observations of the Management Committee. The tender for procuring WLL equipment based on CDMA 2000-1X technology was floated (July 2002) but the purchase order was placed in only March 2004. WLL systems worth Rs 243.26 crore were procured (March 2005) based on this tender and a further tender of July 2004.

1.2 In response to the query as to whether any other more advance technologies were available at the time of placing the purchase, order the BSNL in their reply submitted that :.

“The various technologies available during the year 1994 were Analogue FDMA, TDM/TDMA, CDMA and TDD Cordless including CT-2, CT-2plus, Dect. The Telecom Commission decided that field trial may be conducted on CDMA and CT-2 before induction into the network. Subsequently it was proposed to conduct field trials for CDMA at Delhi and Madurai and for CT-2 technology at Calcutta and AP Circle. Then DoT procured one system of 1000 lines of CDMA for MTNL, Delhi for field trial of WLL. Two systems of 1000 lines each of CT-2 technology for Calcutta and Vijayawada were also procured for field trials. The system was offered for testing in April - May, 1996 and they failed to meet the departmental requirements. During field trials specifications were also framed to be

used for future procurements of WLL equipment. As a result GR for WLL was finalized in May, 1996.

First tender for procurement of WLL system was floated on 31.05.2000. (Tender No. MM/RN/052000/000202 dated 31.5.2000). At that time CDMA 2000 1X was not commercially deployed. As per CDMA International Magazine for October, 2005, it is only in March, 2000 that first CDMA 2000 1X voice calls was successfully completed and Commercially CDMA 2000 1X system was deployed for only one million lines worldwide by August, 2001. It was therefore neither practicable nor advisable to adopt the CDMA 2000 1X technology in a nascent stage at that time.

1.3 Further the above action is in accordance with the directives of PMO on the choice of technology for rural areas, which are as follows:

“Only proven technology should be deployed and field trials conducted before mass deployment of equipment in rural areas”

In addition as per the Department of Telecom policy conveyed vide their letter No.10-2/2000-BS-II dated 12-09-2001 “the wireless access system has to be planned on V5.2 interface. The system shall be engineered to be connected to the telephone exchanges through Short Distance Charging Area (SDCA) on access network protocol based on national standards for V5.2 based CDMA WLL system as per Telecom Engineering Centre (TEC) specifications “. It is also to be mentioned that TEC released the specifications for CDMA 2000 1X in February, 2004 only”.

1.4 On the above issue, the CMD of the Company during oral evidence before the Committee on 6 February, 2007 submitted as under:-

“BSNL came into being in 2000 and it was the decision of the Government because BSNL was carved out of the Department of Telecommunications. The MARR technology was not successful and we have not been able to maintain it for many reasons. The Government decided that CDMA technology, which was the latest, should be utilized for providing village public telephones. That is how, IS-95A, which was the latest technology at that time, was ordered to be installed at those places where the village connectivity was very poor. That is how many eastern States like Bihar, Jharkhand, and eastern UP, Rajasthan and Madhya Pradesh were covered. If you kindly see the graph, it will be seen that with the advent of WLL, at that time, the best available technology was only IS-95A.”

1.5 On being asked as to who is responsible in the company for selection of technology and to whom he is accountable in case of making wrong choice of

technology in the context of the above observation of the Audit the Company submitted that :-

“The Committee headed by Minister of State for Communications recommended wireless in local loop as the most appropriate technology for achieving targets during the year 1999. Accordingly type approval of equipment, pilot trial was conducted by the department before induction of the equipment through one of its branches, i.e. Telecom Engineering Centre (TEC) which is specialized in this work. Field trial was conducted in detail based on the specifications (GR) prepared by the TEC for the particular equipment. GRs are made by TEC after detailed discussions with experts/manufacturers and conducting tests on the equipments procured in small quantity for such purposes.

1.6. Supplementing further, the CMD, BSNL stated before the Committee that :-

“At that time the process of choosing technology was with telecommunication centre, a Government body and DoT people are posted for different jobs but they were taking the decision what was the best available. In DoT earlier and now in BSNL we have been in the forefront of our technology. If the world is doing 2G, we are also doing 2G. If they are doing 2.5G, we are also doing 2.5G. The difference could be of two to three months but we are matching with the technology of the world. As and when the technology was developed we have procured it and we have kept in line with that. At that time what was best available, that was provided and that is why we could cover almost 3 to 4 lakh villages.”

1.7 Regarding the mechanism adopted by the Company to keep itself abreast of the latest technological developments in the global market and availability of latest WLL technologies, the Company replied that:-

“From time to time the Planning Cell of Corporate office & TEC get updated information and knowledge about latest WLL technology by attending Seminars, Workshops, Exhibitions in India and as well as abroad. In addition to above the CDMA technology developer QUALCOMM is also consulted about the latest trends/developments in the field relating to WLL. International bodies' like ITU, 3GPP2, CDG websites are also scanned for latest developments in the field.”

1.8 In response to a query raised by the Committee during oral evidence of the representative of BSNL regarding observation of the Audit that despite the recommendation of the Management Committee for selection of latest

technology, the Company went for obsolete technologies, the Company in a written note stated as under:-

“As observed by the audit, the Management Committee of BSNL discussed in March, 2002 for procuring MSC based CDMA WLL equipment for future deployment. However, DoT while conveying the license condition to BSNL vide letter No. 10-2/2000-BS.II dated 12.9.2001 (as already referred above) clearly mentioned that “the wireless access system has to be planned on V5.2 interface.

Despite the fact that the Management Committee of BSNL had decided for procurement of MSC based CDMA 2000 1X equipment during its meeting on 01-03-2002, the committee in its meeting held 17.03.2002 decided to go ahead with the procurement of various WLL technologies like V5.2 based CDMA WLL, cor-DECT and MSC based CDMA WLL. The decision was taken by the committee after detailed discussions and considering the various pros and cons of technology selection, keeping in view to wipe out the waiting list in rural areas to the most possible extent. The decision was required to be taken as procurement of MSC based CDMA WLL equipment may involve lot of precious time for its validation etc. which in turn would adversely hamper the targets assigned to BSNL.”

1.9 On being asked as to what justification the government has to offer on the inability of the BSNL to opt for latest technology available at that time due to the restrictions imposed by the licensing conditions. The DoT in a written reply submitted:-

“BSNL could not procure the latest technology equipment because the Generic Recommendation (GR) of MSC based equipment were available only in 2004. License is technology neutral.”

1.10 The Committee desired to know whether it was true that at that time, some private players went ahead with the procurement of MSC technology in violation of the licensing conditions but subsequently the violations were regularized, the DoT responded as under:- .

“ The license is free to use any available technology subject to following conditions:-

(a) The technology should be based on standard issued by ITU/TEC or any other International Standards Organisation provider/industry.

Any digital technology having been used for a customer base of one lakh or more for a continuous period of once year anywhere in the world shall be permissible for use regardless its changed version.

A certificate from the manufacturers about satisfactory working for a customer base of one lakh or more for the period of one year, shall be treated as established technology.”

1.11 At their sitting held on 6 March, 2007, the Committee separately heard the views of two experts namely Shri D.P.S. Seth, former CMD, BSNL and Member Telecom Commission and Shri Anil Kumar, Secretary, Telecom Watchdog (an NGO) about the selection of technology by BSNL in providing WLL Services. The former expert during the evidence submitted that :-

“The basic idea of providing wireless connectivity is to be able to provide access to a customer without having to wait for a long time and spend a lot of money in putting copper cable. Now, when you provide connectivity in this manner with wireless, the signals are there in the atmosphere all over and, therefore, if you have got an instrument which you can carry with you, then wherever the signal is available you can take that along. So, in a way, the moment you use wireless, you are exposing yourself to the possibility of providing a mobile connection. Now, the dilemma which was faced was that at the time when Wireless Local Loop was considered especially for the village public telephones, the tariff of mobile phones was quite high, it used to be, if I remember right, of the order of five to six rupees a minute, may have been higher than that, whereas Wireless Local Loop was being provided at the rate of forty paise per minute. So, if we provided it in a manner that the telephone could be moved around, then there is an anomaly getting created. Here are some people who are paying five or six rupees per minute with a telephone instrument because somebody else is providing that mobile service.

Here there are people who, with a slightly bulkier equipment, are getting the same service at the rate of 40 paise per minute. Certainly, for the villages we want to give even cheaper than that. That is where the requirement came from the Department of Telecom, Government of India that all such connections will be provided with V-5.2 interface which has been mentioned in the Report.

The V-5.2 interface is really an interface which extends a local telephone exchange that we use for the push button telephone, the landline telephone, to a longer distance. Therefore these wireless local loop connections were really nothing other than six-line connections because still with wireless, they could move around but in a limited area which the tower could cover. You could consider it more like a cordless telephone but with an extended coverage. Instead of 100 or 200 meters that the ordinary home cordless telephone covers, these phones could cover five kilometers, or in rural areas even up to 20 kilometers but there was no provision that you move from one area to another area and your

call will not be disconnected. That was a basic thing. V-5.2 interface was, therefore, specified.

Now, under this condition, the general check had to be done. The technology which is used by the BSNL, which is the IS95 technology, was the best amongst the technologies available, which had this V-5.2 interface. The same wireless local loop service could have been provided by more advanced technologies, the mobile technology GSM or the 2000 IX technology about which the C&AG has talked about. But those were mobile technologies. It is because they were mobile technologies, these phone connections will have been mobile telephones. Even if you had decreed that you cannot move the telephone, people have their own methods and they would have moved around. That is why, the moment a condition was put that there had to be a V-5.2 interface, there was no alternative. As I see today, this is the best technology.”

1.12 On being asked whether it was justified on the part of the Company to continue to purchase WLL equipments based on obsolete technologies even upto the year 2004, it was opined by Dr. Seth “My own feeling is that around 2004 they could have stopped further purchases and they could have gone in for the mobile systems to give the connections. Before that, it may not have been possible.”

1.13 When asked about the earliest possible period for the BSNL to induct latest CDMA 2000-IX technology and by whom it was launched for the first time in the country, the expert submitted :-

“The first network was set up in Korea in October, 2000, but even in our country, the first CDMA 2000 IX network was introduced by Tata Tele services some time in the year 2002. Obviously when you bring in a new technology, you do carry out certain things. The first thing that was carried out was a trial in the field to see whether it suits the Indian conditions and get the people also familiar with it. Obviously, assuming that by 2000, the equipment was available, two factors remained to be seen. One was a practical trial within our country and second, whether the availability is there in the world from a large number of suppliers and enough number of quantities have been supplied so that the prices will be competitive. These two factors are normally the important factors. A trial would have been conducted by BSNL. I would imagine that even if they had decided in 2000 through Government permission to go ahead, they would have conducted a field trial and they would have purchased making sure that enough suppliers were available. Something like year and a half would be roughly needed to carry out such an exercise.”

1.14 Giving his comments on the issue of selection of technology, the other expert Shri Anil Kumar of Telecom watchdog submitted that: -

." I feel that V5.2 technology was adequate with that objective in mind because their requirement was not mobility at that time. All that we are talking now is of futuristic technology 2001x. We are saying that BSNL at that point in time could have gone for 2000 1X. Yes, the technology was available at that point in time in 2001 in some parts of the world. It was already commercially available even in India, and also some of the private operators have procured that particular technology at that time. For example, Tata and Reliance, right from the beginning, are on CDMA 2000 1X technology, but they launched their services some time in 2002 only. They have started procuring the equipment, that particular 2000 1X, right from 2000 onwards. Their network rolled out in late 2002 and beginning of 2003. MTNL, BSNL's counterpart in Delhi and Mumbai, which is a Government operator, procured initially V 5.2 technology in 2000 and 2002. They switched over to 2000 1X because their requirement was different. They wanted to provide a fully mobile service or Garuda and limited mobile service through that technology. They divided the project into two to three phases. In the first phase, MTNL procured the old version for 50,000 lines, that is, V 5.2. In the subsequent versions, they upgraded the technology to CDMA 2000 1X. Even the original 50,000 lines were upgraded at an 18 per cent additional cost. That was the kind of facility available and used by MTNL. Probably, BSNL's intention was not to go in for that Tata capability network. They just wanted to have only voice capability. Wherever there was no physical wire, they wanted to provide the network of V 5.2. That could be the intention for not going for 2000 1X. Now also, if BSNL wants to upgrade that old technology, they can very well do it at a very incremental cost. They can very well do it. As far as CorDect technology is concerned, it is not upgradable. I feel CorDect technology was forced on BSNL; it was not their own choice. Some people forced on BSNL to get that technology. That was a wrong choice, I feel"

1.15 Giving his opinion on upgradation of the existing technology, Shri Anil Kumar further stated that :-

"Even if you want to upgrade the CDMA, it can be upgraded. What is 2000 1x? It is just a data capability and only two per cent of people are using it. BSNL has already got network in the entire country. Their only motive is to put WLL system and Wireless Local Loop system was to provide interim relief to only those areas and those houses where there is shortage of wire, extending their wire to houses. Only for that limited purpose and for that particular houses which needed voice connection. I think, that was their objective and they fulfilled the same with that technology. In case, there is a requirement of upgrading the data capability, they still can very well do it, not necessarily they should do it in the entire country, they can even select this particular area. Only thing is, it has to be upgraded. Only up gradation is required and they can save the cost also that way."

RECOMMENDATIONS SL. NO. 1

The Committee note that in pursuance of the National Telecom Policy (NTP-99), the Government mandated BSNL for replacement of existing MARR based VPTs and providing telephone connectivity in the rural areas as well as technically non-feasible and far-flung areas. For this purpose Committee headed by the Minister of State for Communications recommended wireless in Local Loop (WLL) as the most appropriate technology for achieving the targets envisaged in NTP-99.

In this regard, the Committee note that audit in their Report has observed that BSNL procured WLL Systems based on obsolete technologies like IS 95A, V-5.2 as well as CorDect Valued at Rs.1479.87 crores during the period from October, 2000 to March 2005 though the latest CDMA 2000-1X technology was available since October, 2000. The audit has further pointed out that the Company went for such obsolete technologies despite the observations made by the Management Committee of the Board of Directors in March, 2002 that V.5.2 CDMA technology was an outdated one.

The Committee, however, note that BSNL has justified their procurement of technology on the grounds such as - (i) the directive from PMO that only proven technology should be deployed but CDMA 2000 1X was not a proven technology at that time as it was not commercially deployed world wide; (ii) the DoT policy conveyed to BSNL in September 2001 that the wireless access system has to be planned on V.5.2 interface;

(iii) the Telecom Engineering Centre (TEC) released the specifications for CDMA 2000 1X in February, 2004 only; (iv) it would have taken another 2 years for deployment if CDMA 1X was chosen.

Analysing the position explained above, the Committee observe that insofar providing telephone coverage to rural and far-flung areas is concerned, the prime objective was to provide telephone connectivity and not the mobility. From this point of view and also taking into consideration the opinion given by the experts, the Committee feel that V.5.2 technology was adequate with that limited objective in mind. However, at the same time, the Committee find that BSNL started launching WLL Service in urban areas of the country also primarily to counter threat from private basic operators who had already commenced their operations in urban areas. From this angle the Committee find that BSNL has definitely lagged behind in induction of latest technologies. While the private service operators like Reliance, Tata as well as the Government owned PSU MTNL rolled out their WLL networks based on CDMA 1X 2000 technology during late 2002 or beginning of 2003, the BSNL continued to purchase WLL equipment based on obsolete technologies even upto the year 2004. In view of these facts the Committee do not agree with the justification offered by BSNL that CDMA 2000 1X was not a proven technology at that time and Telecom Engineering Centre (TEC) released the specifications for it only in February, 2004. It is on record that even the management Committee of the Board of BSNL had observed in March 2002 itself that V.5.2 CDMA

Technology was an outdated one and the MSC based solution using International Operating Standards (IOS) was the latest technology for CDMA WLL Systems which could be easily upgraded to CDMA IX 2000 version. The Committee therefore deprecate the failure on the part of BSNL to get the Generic Recommendation (GR) of MSC based equipment only in 2004 i.e. after around 3 years since this latest technology was approved by International Telecom Union (ITU) before October 2000 and inducted by other operators during 2002-03. AS a result, besides losing the business to other service operators, the BSNL now has to spend hefty amounts on upgradation of obsolete technology. In the opinion of the Committee, BSNL should have provided the WLL Services particularly to their urban customers based on latest technologies irrespective of certain bottlenecks faced by them. The Committee, therefore, recommend that in future BSNL should ensure to their customers better technically equipped services setting a bench-mark for the other service providers to follow.

CHAPTER – II

NON-ANALYSIS OF FINANCIAL VIABILITY AND PROFITABILITY AND SEPARATE COSTING RECORDS

2.1 The Audit in para 1.9.3 has observed that while planning for launching and expansion of the WLL telephone service for the years 2000-01 and 2001-02, no analysis of the financial viability and profitability of the project was done by the Company on the ground that the project had been taken up on the basis of a Cabinet decision, which reflected the social commitment of the Government. The contention was unacceptable, as the analysis would have helped the Company to assess the quantum of losses likely to be suffered for carrying out this social commitment of the Government so that the same could be subsidized from the USO Fund . It was noticed that the Company did the analysis in 2002-03 and 2004-05, but not in 2003-04. It was also seen that the corporate office had not compiled separate year-wise details of the total revenue billed and collected and the profit and loss account pertaining to the WLL telephone service for any of the years from 2000-01 to 2004-05. In the absence of these details, it was not possible to accurately assess the remunerativeness of its WLL telephone service.

2.2 The corporate office issued (March 2003 and May, June and October 2004) instructions to all the circles to prepare separate costing records for the WLL telephone service but 13 circles and the two metro districts did not prepare these records. Eleven circles prepared these records only for the year 2003-04 and of these seven circles viz., Andhra Pradesh, Bihar, Haryana, J&K, Karnataka, Kerala and UP (East), had sustained a total loss of Rs 122.15 crore and one Circle (Madhya Pradesh) had earned a profit of Rs 54.68 lakh during the year 2003-04 on operation of the WLL telephone service, as detailed in Appendix-IV. Three circles viz., Himachal Pradesh, Maharashtra and UP (West) did not prepare complete records. The circles were also required to prepare yearly revenue projections based on the expected number of connections and average revenue per user and compare the same with the actual revenue realization. Test checks in 10 circles, viz., Assam, Chhattisgarh, Haryana, Jharkhand, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan and UP (East), revealed that there was a total shortfall of Rs 139.31 crore in revenue realisation vis-à-vis the projections during 2001-02 to 2004-05. The shortfall was mainly because of poor capacity utilisation and problems of network coverage, as discussed later. It was noticed that other circles did not prepare the revenue projections in respect of the WLL telephone service.

2.3 Regarding investments made, vis-à-vis the projected revenue, actual revenue generated under various heads like profit / loss, revenue billed and

collected etc., information furnished by the Company upto the ending 2005-2006 was as under: -

“The separate figures for WLL is not available up to year 2002-03 as it was included in the total revenue.

(Rs. In crore)			
Year	Investment amount	Estimated Revenue Amount	Actual
2003-04	1333.04	424.00	188.00
2004-05	951.44	436.00	347.00
2005-06	806.60	521.00	481.66

2.4 As regards the investments made specifically for rural areas, the Committee were informed that the available information in respect of investment made and revenue generated during the year 2003-04, 2004-05 and 2005-06 in providing WLL system in rural areas is as follows:

(Rupees in crores)		
Year	Expenditure	Revenue
2003-04	510.29	--
2004-05	366.53	172.05
2005-06	364.20	283.74

2.5 It was also stated that the profit/loss in respect of WLL service provided in the rural areas is not readily available. However, the operational losses incurred for our rural telephony assessed and certified by the Auditors are as under:

(Rupees in crores)					
Year	2001-02	2002-03	2003-04	2004-05	2005-06
	6913.16	7960.80	9528.88	9792.23	9944.30

2.6 On being asked as to why the financial and operational targets were not predetermined before venturing upon new telecom projects as well as on their expansion, the Company submitted that each field unit where equipment is to be delivered and deployed prepares a separate Project Estimate containing details of financial and operational aspects.

2.7 Regarding the monitoring mechanism being followed by the Company to ensure that separate costing records and revenue projections for the WLL telephone services are prepared by all Circles, the Company stated that all the Circles have prepared Costing records for the Financial Year 2003-04 and 2004-05 and the records are available in Corporate Office. The records for the Financial Year 2005-06 are under preparation. The preparation of costing records is monitored through correspondence with the Circles.

2.8 The revenue target/projections for WLL are not being communicated separately to circles. However this is included in consolidated revenue targets/projections. All the Circles are now preparing the costing records as per the notification issued by BSNL. of Company Affairs. Hence, no action is required to be taken against erring officials on this issue.

2.9 On the issue of revenue targets, the Company has stated that the WLL revenue projections are included in the Fixed – line projection / targets fixed by BSNL corporate office in respect of individual circles and communicated to them. The year wise WLL / revenue is furnished below:

(Rs. In Crore)

Year	No. of DELs	Yield of revenue
2003-04	9,58,792	188.00
2004-05	16,28,111	347.00
2005-06	25,72,525	481.66

However in view of observation of COPU, communication of targets separately to circles is under consideration, which will be followed from RE 2006-07/BE 2007-08 onwards.

2.10 Stating the latest position with regard to preparation of separate profit and loss accounts, the Company submitted that Profit and Loss Account is prepared for the Company as a whole as per the provisions of the Companies Act, 1956. However, Profit & Loss statement for WLL service is prepared through Accounting Separation Reports as per the Notification of Telecom Regulatory Authority of India. Now company has started compiling the details of revenue billed and collected from the WLL telephone services. Performa for preparation of required information has already been forwarded to circles for preparation of separate annexure with monthly revenue Sub-ledger.

2.11 On the query whether Company has been able to get back the returns on the original investment, the Company in their written reply submitted that BSNL is not maintaining the operating expenditure of WLL service separately since it uses various common network elements of wire-lines services and even the services are provided under the Basic service license only. Therefore, it is not possible to ascertain the return on original investment. However, the revenue earned from WLL service in last 5 years is as follows:

(Fig in Crores)

Year	Amount
2001-02	11.77
2002-03	66.80
2003-04	187.99
2004-05	347.00
2005-06	481.66

2.12 To the pointed question as to why the Company has not maintained any separate profit and loss account in respect of WLL, the Company has stated as under: -

“As per the section 210 of The Indian Companies Act, 1957, every company has to prepare the Profit & Loss account and the Balance Sheet at the end of each accounting period. These Financial statements have to be prepared for the company as a whole and not the product/service wise. Therefore, as per the Companies Act, the BSNL has to prepare the Profit & Loss Account and Balance Sheet company wise only and not the service wise.

However, as per the Accounting Standard -17, every company has to disclose the segmental results under “segment reporting” if any product or service is having revenue more than 10% of the total revenue of the company. In the present case, the WLL service has never contributed to the revenue more than 1.5 % of the company in any financial year. The details of total revenue from services and revenue from WLL service along with % is as given below:

Year	WLL Revenue in Cr	Total Revenue in Cr	% Share
2001-02	11.77	24,297.21	0.05
2002-03	66.80	25,293.15	0.26
2003-04	188.00	31,399.34	0.59
2004-05	347.00	33,450.04	1.03
2005-06	481.66	36,138.94	1.33

From the above, it can be seen that BSNL was not required even to disclose the segmental results regarding WLL in the annual financial statement since the revenue contributed by WLL service was significantly lower than prescribed 10%.

It will be prudent to mention that BSNL is providing CDMA based Wireless in Local Loop (WLL) services under the Basic service license only. Therefore, BSNL has not allocated separate accounting heads for operating expenditure for WLL service since it is using various common network elements and infrastructure of basic wired lines only.

However, from the financial year 2003-04, BSNL is preparing the costing records and accounting separation reports in compliance of the notification of the Department of Company Affairs and Telecom Regulatory Authority of India respectively which are made applicable only from 01.04.2003 onwards. These statements disclose the profitability of WLL service

separately for financial control and decision making purpose of the BSNL management.”

2.13 During evidence, a representative of BSNL submitted that: -

“Sir, WLL was actually a part of the fixed wire system in our overall business. Therefore, a separate ‘head’ of account was not created. We are now collecting some sample data and trying to analyze it.”

2.14 Keeping in view the fact that the WLL Service was initially deployed to meet out the Government’s objectives of providing connectivity to uncovered villages in a time bound manner irrespective of demographic/ commercial considerations, it was inquired from the Company whether any financial support by way of subsidy or any technical support was provided by the Government to meet this social commitment. The Committee were informed that with the formation of USOF in the year 2002 financial support for maintenance of existing VPTs was provided to the company so as to compensate to some extent only for the losses incurred by BSNL. For various activities of USOF undertaken by BSNL, subsidy for Rs.297 crore, Rs.197 crore, Rs.1311 crore & Rs.1744 crore have been received from USOF during the year(s) 2002-03, 2003-04, 2004-05 & 2005-06 respectively. Elaborating the USOF, the Company submitted that: -

“USOF means Universal Service Obligation Fund, established under Sub-section (1) of Section 9 A of Indian Telegraph Act, 1885. The universal service support policy came into effect from 1.4.2002. The fund is to be utilized exclusively for meeting the rural obligation. The universal service levy is presently 5% of the adjusted gross revenue of all the telecom service provider except telephone value added services like internet, e-mail, etc.”

2.15 On being asked whether the deployment of WLL Services in rural areas can be considered as a loss-making proposition for the Company, it was stated that in the present scenario, deployment of WLL services in rural areas is not a loss making proposition as the company is being compensated by subsidy for maintenance of VPTs and installation of new VPTs on WLL/landlines, etc. During evidence, it was submitted before the Committee “Our commitment is to provide connectivity to the rural people

2.16 When asked about the steps were taken by the Company to protect its own interests to be best possible extent of sound business principles and prudent commercial practices while meeting this social commitment, the Company submitted that while deploying WLL in the rural areas it was always kept in mind the possible utilization of the spare capacity of WLL in rural areas by meeting the scattered demand of DELs. There was huge waiting list in the circles at that time. The spare capacity was utilized to clear the waiting list for the best possible

extent. As on date around 23.85 lakh WLL connections have been provided in the rural areas and 5.96 lakh in urban areas by BSNL.

2.17 On the issue of private players towards meeting this social commitment of the Government, the Company informed that six private operators were earlier given the opportunity along with BSNL, erstwhile DoT, to meet the social obligation of government. However, they miserably failed to meet the obligation. Now, BSNL has been awarded the work by USOF to provide telephone facility in the remaining accessible, undisputed and undisturbed 66822 villages having population more than 100 by November, 2007.

In this regard, during evidence, the CMD, BSNL, submitted: -

“The USO Fund has come subsequently. From that USO Fund, we are now getting some support. Last year, it was around Rs. 1,500 crore. We cannot say that we incurred losses because they were recovered.”

2.18 On being asked whether WLL is forever likely to remain a loss making proposition or the Company has come out / proposed to come out with some turn around plans to convert this social commitment into a profit making proposition in the coming future, the Company stated that the social commitment is for coverage of the existing 66822 uncovered villages only. The losses are being compensated in the form of subsidy from USOF for providing new VPTs in these villages and for their day to day maintenance cost as decided by USOF in accordance with their terms & conditions. With the present poor tele-density in rural area, there is huge potential for demand of telecom services which BSNL will be able to capture with little incremental cost.

RECOMMENDATIONS SL. 2

The Committee note that BSNL while planning for launching and expansion of WLL Telephone Service did not carry out financial viability and profitability analysis of WLL Projects during the years 2000-01, 2001-02 and 2003-04 on the ground that the projects had -been undertaken on the basis of a cabinet decision which reflected a social commitment of the government. Also, no separate year-wise details of total revenue billed and collected and the profit and loss account were compiled by the Company from 2000-01 to 2004-05. The Committee further observe that inspite of the instructions issued by the Corporate Office to all its Circles in 2003 and 2004 to prepare separate costing records, 13 Circles and two metro districts did not prepare these records. Further, many Circles did not prepare the required revenue projections also. The BSNL has tried to justify the above-mentioned deficiencies pointed out by the audit on the grounds that – profit and loss account is prepared as a whole and not the product/service-wise in accordance with the provisions of the Companies Act, 1956.; the WLL Services are provided under the Basic Service Licence only which include wire-line services also; WLL Service has never contributed to revenue by more than 1.5% of the Company's total revenue in any financial year and as such even product wise segmental reporting which is required for products having more than 10% of the total revenue of the Company was not required in this case.

The Committee feel dismayed at such a lackadaisical response of the Company in justifying their imprudent act of not maintaining any separate costing records for WLL Service. The Committee find it unbelievable that profit/loss records in respect of WLL Services provided in rural areas are not readily available with the Company. Even the Corporate office on their part did not compile the year-wise details of total revenue billed and collected and the profit and loss account taking the excuse that this was not required in terms of the provisions of Companies Act, 1956. The Committee while observing that the Company is getting a financial support from the government in the form of Universal Service Obligations Fund (USOF) since the year 2002 onwards for providing connectivity in the rural areas, feel that it was absolutely necessary for the Company to accurately carry out the financial viability and profitability analysis of the WLL Projects and preparation of separate costing records. This would have indeed helped the Company to accurately assess the quantum of losses suffered/ likely to be suffered while carrying out this uneconomical but socially desirable commitment of the Government so that the same could be appropriately subsidized from the USOF besides helping the Company in accurately assessing the remunerativeness of its WLL Services. The Committee, therefore, strongly recommend that the Government issue appropriate directions to the BSNL for preparation of separate costing records pertaining to WLL Service by each Circle so as to ascertain the Circle-wise operational and financial viability besides ensuring that the subsidy released under

USOF has been properly accounted for. This would enable the Company to assess the returns on original investments which is presently not possible for the Company. The Company on its part needs to strengthen its monitoring mechanism over its Circles for ensuring adherence to such directions. Any failures by the Circles in compliance with such directions need to be dealt with sternly.

Coming to the issue of financial viability of providing WLL Services in rural areas, the Committee note that presently these services are uneconomical though socially desirable. In this context, the Committee feel that there is a huge scope for bringing a financial turn around in the situation. The Committee has been informed by representatives of the Ministry during their oral evidence that the Government has the plans to achieve a rural tele-density of 25 percent from the presently low tele-density of 2 percent by the year 2012. As such, in the coming years there is going to be a huge demand for telecom in the rural areas. With all the necessary infrastructure and expertise already in place, the Committee are of the considered opinion that the BSNL should be able to capture the majority share of this expansion with very little incremental costs when compared to private service providers who have just stepped in to commence their operations in rural areas. The Committee, therefore, desire that the Company should immediately start chalking out appropriate turnaround strategies and ensure their implementation in a time bound manner so as to convert this loss making proposition into a profitable venture.

CHAPTER – III

NON-FORMULATION OF MARKETING STRATEGIES

3.1 The audit in para 1.9.4 of the report has observed that strategies for launching and marketing of the WLL service had not been formulated either at the initial planning stage or during its subsequent expansions. A Media Plan prepared by the Company (2004-05), incorporating the advertising and marketing strategies for various services did not indicate specifically any plan for the WLL telephone service. Since launching (January 2001), the marketing wing of the corporate office of the Company had incurred (2002-03) Rs 61,000 on printing of 20,000 brochures and Rs 21.44 lakh on newspaper advertisements (2003-04). No budget was exclusively allotted for marketing the WLL service. In comparison, the Company spent Rs 14.25 crore on promotion and marketing of its CMTS up to March 2005 though an investment of Rs 4,967.91 crore (including terminals) was made in the WLL telephone service as against investment of Rs 5657.06 crore made in CMTS upto March 2005.

3.2 Further , in para 1.11.1.2 the audit has observed that a review of records of 17 circles and two metro districts revealed tha 3,40,380 HHTs, 40660 FWTs, 8,975 Fixed Remote Stations (FRS) and 8200Wall sets valued at Rs 229 crore, purchased during January 2003 to December 2004, were lying idle in various circles as of August 2005 as detailed in Appendix-VII. The local managements stated that customers disliked these HHTs due to their bulky size, problems with network coverage, batteries and limited mobility. It was also noticed that FWTs, FRS and Wall sets were lying idle, as there was no demand for them. Thus procurement of terminals without keeping the customers' preferences in view resulted in infructuous investment of Rs 229 crore

3.33 As per Audit, though a market survey through a reputed agency was approved by the CMD of the Company, the same was not conducted and the Circles were instructed to plan for one Basic Transceiver Station (BTS) per Short Distance Charging Area (SDCA), One Basic Station Controller (BSC) per Secondary Switching Area (SSA) and one Mobile Switching Centre (MSC) at the Circle headquarters.

3.4 On being asked as to why the Planning Wing did not conduct any market Survey to assess the likely demand for WLL connections, the Company in their written reply submitted that :-

“While processing the case for procurement of 5.00 lakh lines of CDMA WLL equipment for urban areas, the Finance Wing had advised to undertake a survey through reputed agency to access the likely demand and the expected customers response prior to procurement. The Planning Cell after examination arrived at a decision that the WLL

equipment already commissioned in the urban areas is giving good response from the customers. Loading of the systems varied from 5.5 to 96.5 per cent as on 30.9.2001. In view of the facts mentioned, BSNL decided not to go ahead with the proposed survey, instead case was processed further for procurement of 5.0 lakh CDMA WLL equipment after getting the approval of the competent authority.”

3.5 On being asked about the justification for concluding that conducting survey would be very costly in terms of its estimated cost of Rs.36 lakh which otherwise appeared to be a very meager amount as compared to the huge expenditure incurred on the WLL project, the Company submitted that :

“The proposed Survey by a private company was not conducted due to the following reasons:

- (a) There was good response from the subscribers of the existing commissioned WLL system.
- (b) Loading of WLL system varied from 5.5 to 96.5 in different circles as on 30.9.01.
- (c) About 96 million lines of CDMA WLL were already working worldwide at that point of time.”

3.6 According to the Company, for WLL procurement in respect of rural areas, the market survey was not required as this procurement was exclusively made for providing Village Public Telephones (VPTs) and to meet the scattered demands of telephones in the rural areas considering the existing MARR technology had been discarded and further procurement of MARR was stopped on instructions from PMO during 1997. The WLL equipment was also necessitated so as to meet the commitment of government to provide telecom facility in the remaining uncovered identified villages.

3.7 Regarding the strategies adopted by the Company for marketing and promoting the WLL Service in the country during the last 5 years, the Committee were informed that there is no separate strategy for marketing and promoting the WLL service in BSNL. However, the brand Tarang is displayed in all Corporate Advertisements/Hoardings/ Posters / calendars and greetings cards. The Committee were also informed that no studies were ever undertaken by the Company to assess the impact of such strategies.

3.8 Regarding the justification for spending a meager amount of Rs. 22 lakh only for marketing the WLL system as compared to Rs. 14 crore spent on promotion of Cellular Mobile Telephone Service keeping in view the fact that almost similar investments have been made on both these projects, it was submitted by the Company that:

“WLL service had been initially introduced in BSNL for providing VPTs, replacement of MARR VPTs & clearing waiting list in scattered pockets of rural areas and to clear waiting list in TNF pockets of urban areas. Introduction of WLL services therefore helped in providing VPTs, replacement of MARR VPTs and clearing the waiting list at much faster rate. Therefore there was not much marketing expenditure incurred in the promotion of WLL system as compared to mobile services that is the fastest growing service of BSNL.”

3.9 On the observation of Audit regarding procurement of handsets without ascertaining the customers' preference, the Committee desired to know whether before placing orders for FWTs, HHTs and Wall Sets, any study was made to ascertain customers' choice for such instruments as available in the market or supplied by the private operators. The response of the Company was as under:

“The WLL Terminals (FWTs, HHTs, and Wall Sets) being proprietary items are not available in the open market. These are to be purchased from the vendors only. The hand held terminals procured during 2002, 2003 and 2004 were of latest state of the art terminals at the time of procurement. Their procurement has since been stopped. Presently, FWTs/IFWTs are being procured with latest state of the art technology, which are at par with such terminals being provided by other private operators. As these terminals were to be provided by the BSNL to the subscriber so no study was required for its procurement.

3.10 In this context, it was further submitted by the Company:

“The WLL Terminals (FWTs, HHTs, and Wall Sets) being proprietary items are not available in the open market. These are to be purchased from the vendors only. The hand held terminals procured during the years 2002, 2003 and 2004 were latest state – of – the – art terminals. The procurement of these terminals has since been stopped. Presently, FWTs/IFWTs are being procured with latest – state – of – the – art technology, which are at par with terminals being provided by other private operators. As the provision of terminals to subscribers is mandatory by BSNL, so no further study was required for its procurement. The FWTs are quite popular in the villages and are being deployed progressively. The Wall Sets, which were procured along with the cor-DECT equipment an indigenous technology developed by IIT Chennai and M/s. Midas Communication, have attained a utilization percentage of around 70%. Balance sets are being utilized progressively for new connections as well as a small percentage for day-to-day maintenance. HHT was procured to provide limited mobility service within the SDCA mainly in urban areas as at that point of time full mobile service was very costly (More than Rs.16 per minute) and incoming calls were also charged. The HHT was popular due to its low tariff (almost equal to land line) for limited mobility (serving

within city or SDCA where a customer moves mostly) and free incoming call. However, after steep fall in call rates especially in mobile services, with free incoming facility and availability of attractive variety of handsets in the local market at much cheaper rates, the demand for HHT was drastically reduced.

All out efforts are being made to utilize the existing terminals (HHT, FRS and IFWTs) in the field units. For utilization of HHTs in the field units BSNL had introduced two special tariff plan (Plan 100 and Plan 799). There is also a proposal to give one HHT terminal (as rent free WLL connection) along with a new landline connection.”

3.11 On being asked as to how the Company plans to utilize the instruments worth Rs. 229 crore presently lying idle, the Committee were informed that :

“FWTs are quite popular in the villages and are being deployed progressively. The Wall Sets, which were procured along with the cordect equipment an indigenous technology developed by IIT Chennai and M/s. Midas Communication, have attained a utilization percentage of around 70%. Balance sets are being utilized progressively for new connections as well as a small percentage for day-to-day maintenance.

HHT was procured to provide limited mobility service within the SDCA mainly in urban areas as at that point of time full mobile service was very costly (More than Rs.16 per minute) and incoming calls were also charged. The HHT was popular due to its low tariff (almost equal to land line) for limited mobility (serving within city or SDCA where a customer moves mostly) and free incoming call. However, after steep fall in call rates especially in mobile services, with free incoming facility and availability of attractive variety of handsets in the local market at much cheaper rates, the demand for HHT was drastically reduced. “

3.12 In this regard, the CMD of BSNL during evidence, submitted:

“What happened is that our purchase of hand-sets was there. At the same time mobiles came and the tariff was so low that it was less in demand and we had surplus equipment. Now what we are doing is for some time when there is shortage of fixed wireless terminals, we have sold it also. Now we are trying to give to each fixed line one free WLL line.”

3.13 When asked about competition from private players the CMD stated as under-

“Sir, I got a comment that there is no competition. But I think that we are facing the severest competition almost in all fields. In all fields, six operators are there. In mobiles, we have got six operations - four in the

GSM, and two in the CDMA. If they do not want to go to the villages, that is a different thing. But there also there is a competition. It is due to the competition only that last year we could provide almost 82 lakh net addition of connections. This year, our target is to provide 85,000 to 95,000 telephones. We have already provided 60 lakh. We hope that we would come closer to that. So, we are taking a lot of steps to see that our landline surrender is arrested. We popularize it by Plan, by giving it more feature-ful instruments. We hope that we would be able to maintain our profitability although it is a very severely strain. It is because with the falling tariff, we would also seek support of the hon. Members. We have been getting some compensation. From time memorial, we have been investing more where the returns that are coming are very less. For that we are getting some ADC, actual difference charge. Somehow, the decision has been taken that from this year, it would stop. That also is a point. We are trying to reach TRAI that it should not be stopped. It is because, the village and rural connection is supported by us only. Nobody else is going there. “

RECOMMENDATION SL. 3

The Committee note that the BSNL did not formulate any strategies for launching and marketing of the WLL Services either at its initial launching or subsequent expansion. No budget was exclusively made for this purpose. While the Company had spent an amount of Rs.14.25 crore for promotion of its cellular Mobile Telephone Service, a meager amount only of Rs.22.05 lakh was spent during 2002-03 to 2004-05 on promotion and marketing of WLL Service though similar investments have been made in these projects. The Committee are dismayed to note that the Company even did not care to conduct any market survey through some reputed agency to assess the likely demand and customers response to the WLL Service though the approval for such survey was given by the CMD of the Company. Further, as admitted by the Company, no study has ever been undertaken by the Company regarding marketing/promotion strategies in respect of WLL Services. In addition to this, the Company procured terminals worth Rs.229 crore without keeping customer's preferences in view resulting in their lying idle as there was no demand for them. The Company has tried to justify their failure by stating that market survey was not required as the WLL Service was initially launched for providing Village Public Telephones and to meet the scattered demands of telephones in the rural areas. As such, not much marketing expenditure incurred in the promotion of WLL system as compared to mobile services which is the fastest growing service of BSNL. As regards ascertaining of customers'

preferences during procurement of WLL terminals worth Rs.229 crore, the Company has come out with the reply that their further procurement has since been stopped and presently, latest State of art technology terminals at par with terminals provided by other private operators are being procured. The Company is making all out efforts to utilize the terminals procured earlier by progressively deploying them in rural areas.

The Committee strongly deplore the non-professional approach of the Company in handling the marketing and promotional aspects of WLL services. Though, there was no competition involved in respect of rural areas, the private players were very much there in the urban areas providing WLL Services. As such, the Committee feel that there was a strong need for the Company to chalk out appropriate marketing strategies for atleast urban areas. Now, as the private players have started making their presence in the rural areas also, it is high time for the Company to evolve suitable marketing strategies so as to ensure that the present status of being a major service provider of WLL services in the rural areas is retained by it and the Company do not lose it to the private players. For this purpose, the Company must put in place a system of conducting market surveys through reputed agencies to ascertain the customers response in respect of quality of service as well as choice of instruments etc. vis-à-vis those being offered by private operators.

CHAPTER – IV

EXCESS PAYMENT DUE TO DELAY IN FINALISATION OF RATES

4.1 The audit in para 1.11.2 has observed that corporate office places the purchase orders for WLL equipment and terminals and the respective circles that receive the delivery, release the payment to suppliers. Audit noticed that the Company placed purchase orders on M/s ARM Limited, Hyderabad in September 2002 and on M/s United Telecom Limited (UTL), Bangalore in November 2002 for supply of 28,500 and 34,000 numbers of WLL CDMA FWTs, respectively, at provisional rates. The provisional unit rate for FWT without Patch Panel Antennae (PPA) was Rs 7,453 and for FWT with PPA was Rs 8,092. These rates were firmed up (December 2002) by the corporate office as Rs 8,281 for FWT without PPA and Rs 8,971 for FWT with PPA and communicated to the concerned Circle in the same month. The scheduled delivery periods for the purchase orders were up to 8 January 2003 in respect of M/s ARM Limited and up to 28 February 2003 in respect of M/s UTL. The corporate office (November 2004) made a downward revision of these firm rates to Rs 5,959 for FWT without PPA and Rs 6,648 for FWT with PPA for the supplies made after the scheduled delivery periods and intimated (November 2004) the same to the concerned circles. It was noticed that there was a delay of about two years in finalising the rates from the date of placement of the purchase orders. The suppliers made delivery during the period 18 January 2003 to 30 July 2003. However, against the supplies, all the concerned SSAs and the Chennai Telephones District released payments at the rates communicated by the corporate office in December 2002. Thus due to delayed finalisation of the rates by the corporate office in November 2004, the circles released the excess payments of Rs 5.59 crore to the suppliers. The local managements accepted (June/July 2005) the facts.

4.2 The reasons attributed by the Company for such delays in finalizing the rates are as under:

“In the instant case, the PO of FWT was issued on M/s ARM on 9-9-02 on provisional prices, which were firmed up for scheduled delivery period on 25-10-02. POs to M/s UTL & Shyam Telecom were placed on these firm prices on 1-11-02 as they did not accept the POs on provisional prices. These firm rates were also conveyed to M/s ARM on 5-12-02. New tender was opened on 8-11-02 but the applicability of prices of this new tender for the supplies received in extended period were contested by the suppliers on the grounds that the specifications of the two tenders were different. While the FWTs in the old tender were based 95-A technology, those in the new tender were 2000 1x technology based. In the same tender, the Management of BSNL had decided not to link the prices of HHTs with that of new tenders. The case was examined and it was finally decided that the prices in case of FWTs shall be linked with the new tender for supplies

received in extended period. The delivery period extension was granted to the vendors on 75% provisional price. The reduced rates were applicable only during the extended delivery period.”

4.3 On being asked whether the Company has made any efforts to recover the excess payment from these suppliers, the Company stated that :-

Notices of recovery were issued to the suppliers but M/s ICOMM (previously ARM) approached High Court of AP and the recoveries were stayed by the Court and an arbitrator was appointed. Presently recoveries are held up as the case is under arbitration. As there is no lapse and action has been taken to get maximum advantage by reducing the prices, so there is no need to fix responsibility of any officer.

However, in future to strengthen the position of BSNL in case of litigation, a Fall Clause has been introduced in the Procurement Manual which is applicable for supplies in extended delivery periods. The clause is as under:

Fall clause:

The prices once fixed will remain valid during the scheduled delivery period except for the provisions in Clause 12.1 of Section III. Further, if at any time during the contract.

(a) It comes to the notice of purchaser regarding reduction of price for the same or similar equipment/service

And/or

(b) the prices recited in new tender for the same or similar/ service or less than the prices chargeable under the contract.

The purchaser, for the purpose of delivery period extension, if any, will determine and intimate the new price, taking into account various related aspects such as quantity, geographical location etc. and the date of its effect for the balance quantity of the service to the vendor. In case the vendor does not accept the new price to be made applicable during the extended delivery period and the date of its effect, the purchaser shall have the right to terminate the contract without accepting any further supplies. This termination of the contract shall be at the risk and responsibility for the supplier and the purchaser reserves the right to purchase the balance unsupplied quantity/ service at the risk and cost of the defaulting vendor besides considering law forfeiture of his performance security.

The vendor while applying for extension of time for delivery of equipment/services. If any shall have to provide the undertaking as ‘We

have not reduced the sale price, and/or offered to sell the same or similar equipment/service to any person/organization including Department of Central/State Government or any central/state PSU at a price lower than the price chargeable under the contract for scheduled delivery period'.

Regarding the procedure followed by the Company for fixation of prices, the Committee were informed that most of the purchase orders are issued at firm prices but in many cases, provisional price is given in the POs if they are being issued at the time of forthcoming budget so that reduction in Taxes/levies may be incorporated while finalizing the prices.

RECOMMENDATIONS SL NO. 4

The Committee note that as per the existing procurement procedure, the Company places the purchase orders for WLL equipment and terminals and the respective Circles that receive the delivery, release the payment to suppliers. In this regard, the Committee observe that Company placed purchase orders for supply of Fixed Wall Terminals (FWTs) on two suppliers namely, M/s ARM Limited and M/s United Telecom Limited, in September and November 2002 respectively on provisional rates. These rates were firmed up by the Corporate Office in December, 2002. However, in November 2004 i.e. after two years from the date of placement of purchase orders, the Corporate office made a downward revision of the firm rates in respect of the supplies made after the scheduled delivery period. The audit has pointed out that due to this delayed finalisation of rates by the Corporate Office, excess payments to the tune of Rs.5.59 crore were made to these two suppliers by the respective circles. Presently, the issue of recovery of the excess payments is under arbitration as per the direction of the High Court. The Committee are not convinced with the explanation of the Company that most of the Purchase orders are issued at firm prices but in many cases, the provisional price is given if these are issued at the time of forthcoming budget so that reduction in taxes/levies may be incorporated while finalizing the prices.

Taking a holistic view, the Committee are of the opinion that the prevalent procurement practice is ambiguous in respect of the price

settlement mechanism. Also, there appears to be a lack of coordination between the Corporate Office and the Circles in releasing payments to the suppliers. No definite time-limits exist within which, the provisional prices are required to be firmed up in the cases of purchase orders placed on provisional rates. As a result, the Company has to waste their time and energy for recovery of excess payments by way of avoidable litigations in courts and arbitration proceedings. Towards this end, the Committee note that now the Company has introduced a “Fall Clause” applicable to the supplies made during the extended delivery period in the Procurement Manual to strengthen the position of BSNL in the cases of litigations. The Committee feel that this step should have been taken by the Company much earlier. The Committee, therefore, recommend that BSNL should undertake a comprehensive review of its procurement manual to streamline their procurement procedure with a view to remove deficiencies in the purchase system.

CHAPTER – V

FAILURE TO OBTAIN PERFORMANCE BANK GUARANTEES

5.1 The Audit in para 1.11.3.1 has observed that the Company's manual of procurement of telecom equipment and stores *Addendum-I* (July 2003) provides for an additional Performance bank Guarantees (PBG) at the rate of five *per cent* of the value of the remaining quantity to be supplied during the extended delivery period from the supplier. According to purchase orders (December 2004), M/s Tera Com and M/s HECL were to make bulk supplies of FWTs up to 10 July 2005 valued at Rs 142.60 crore and Rs 71.30 crore respectively. M/s Tera Com and M/s HECL did not supply FWTs valued at Rs 75.57 crore and Rs 64.56 crore within the scheduled delivery period which required submission of additional PBGs of Rs 3.78 crore and Rs 3.23 crore respectively before granting extensions. It was however noticed that the Company directed M/s Tera Com and M/s HECL to furnish additional PBGs for only Rs 1.99 crore and Rs 2.53 crore respectively. Thus additional PBGs amounting to Rs 2.49 crore were short realized from these suppliers. Similarly, M/s ITI was to make bulk supplies of 4.50 lakh FWTs valued at Rs 183.02 crore and 33,137 FWTs valued at Rs 14.97 crore against purchase orders of November and December 2004 with scheduled delivery periods up to 4 April 2005 and 1 May 2005 respectively. M/s ITI did not supply any FWTs within the scheduled delivery periods. According to the provisions of the Manual and the terms and conditions of the purchase orders, M/s ITI was to furnish initial PBGs in the form of corporate guarantee amounting to Rs 9.90 crore and additional PBGs of Rs 9.90 crore. The Company neither recovered the initial corporate guarantee nor the additional PBGs before granting extensions to the original delivery schedule up to 30 June 2005 and 31 July 2005. The Company short closed (August 2005) both the purchase orders as M/s ITI could supply only 1.18 lakh FWTs during the extended delivery period against the purchase order of November 2004 and could not supply any FWTs against the purchase order of December 2004. The Company directed (August 2005) M/s ITI to pay the amount of PBGs, which had not been received till date (October 2005) *Report No. 9 of 2006*.

5.2 Further, in para 1.11.3.2., the Audit has stated that according to the general conditions of the contract, 100 *per cent* payment could be made against supplies after delivery, provided an additional bank guarantee for an amount equivalent to five *per cent* of the value of supplies, valid for a minimum period of seven months, was furnished by the supplier along with an undertaking that the equipment supplied would be free from damages and shortages. The additional bank guarantee was to be released only after cases of damages or shortages, if any, in the supplies were settled. The Company issued (January 2001) a purchase order on M/s HFCL for supply of WLL systems for 49,000 lines along with FRS to three circles, viz., Assam, Himachal Pradesh and Orissa. It was observed in the Orissa Circle that M/s HFCL had furnished an additional bank

guarantee of Rs 4.11 crore covering a period of six months (24 January 2002 to 23 July 2002) instead of 7 months as required. Besides, M/s HFCL also did not furnish any undertaking that the WLL systems supplied would be free from damages and shortages. During the validity of this additional bank guarantee, complaints were received by the Orissa Circle from its field units regarding defective FRS, BTSs and BSCs and malfunctioning of the system leading to disconnection of calls, failures in call processing, network coverage problem and poor signals etc. Despite the fact that M/s HFCL did not rectify the complaints the Orissa Circle released the additional bank guarantee of Rs 4.11 crore after six months.

5.3 On being asked about the objective of obtaining Performance Bank Guarantees from the suppliers and whether the said purpose was achieved in the present case, the Company stated as under:-

“As per para No.4.2 of section III of procurement Manual, the PBG against the supply is taken as a compensation for any loss resulting from the supplier's failure to complete its obligations under the contract. M/s ITI is exempted from submitting the PBG against RQ. Details of PBG submitted against these order are as follows:

Vendor	BG Amount	Status/validity
M/s Teracom	7 Crore	25-12-2007
M/s HFCL	5,94,24,700/-	19-12-2007
M/s HECL	2,94,18,300/-	30-12-2007
M/s ITI	Exempted	

The said purpose has been achieved as the vendors against the tendered quantity have completed the supplies. Further, as ITI failed to execute the supply and submit additional BG, so its order(RQ) has been short closed and amount equal to PBG + additional BG has been recovered.

PBGs are released after ensuring that the equipment has been taken over satisfactorily, no claim is pending against the supplier and the equipment are working satisfactorily during warranty period.

Further, additional 5% BG has to be taken at the time of extension of delivery period for the balance of quantity. However no duration of validity was mentioned for additional BG in this tender/ Procurement Manual/PO.”

5.4 On being asked as to why the additional bank Guarantee of Rs. 22.2 crore was not obtained from the suppliers, it was submitted by the Company that the additional BGs have already been obtained and Rs.19.79 Crores has been recovered from M/s ITI. M/s Teracom submitted additional BG of one crore. M/s HFCL submitted additional BG of Rs.2,37,69,852/- and M/s HECL submitted 3 additional BGs totaling Rs.6,48,33,903/-. M/s ITI failed to supply the equipment, hence the POs were short closed and the amount of Rs.19.79 Crores has been recovered from M/s ITI.

5.5 Regarding the remedial action available with the Company in case of non-supply of the requisite equipment or deficient service by the suppliers, the Committee were informed that in case of non supply of equipment, BSNL has right to short close the purchase order and forfeit the PBG as well as additional Guarantee. In case of deficient service, 20% payment is still pending which is to be released only after entering into AMC after one year of warranty period. Further, set off clause is included in the PO and cost can be recovered from any other bill/order of the supplier.

5.6 To a pointed question as to whether any responsibility has been fixed on the defaulting officials of the Company for not obtaining the requisite additional PBGs from these suppliers, it was submitted that as there has been no default and additional PBGs have been taken & successful bidders have completed supplies, so there is no reason for fixing responsibility. In case of ITI, the amount equivalent to PBG & additional BG has already been recovered.

5.7 On being asked as to what mechanism is available in the Company to ensure that suppliers are granted extensions in delivery schedule, only if additional PBGs have been obtained from them, the reply of the Company was as under :-

“As per para 15.3 of Section III of procurement manual, if required, the BSNL may extend the delivery period subject to furnishing of additional 5% BG, but the competent authority may relax the date of submission of additional BG to meet the urgent requirements.”

5.8 Regarding the reasons for non-compliance of the conditions of the contract for accepting and release of additional bank guarantee with respect to HFCL, the Committee were informed that during the validity of the PBG some complaints, which were received by Orissa Circle, were intimated to M/s HFCL for rectification, which they attended to. Further, as M/s HFCL attended the faults, no action was taken by Orissa circle.

5.9 With regard to the provision contained in the procurement manual of BSNL that the Company may extend the delivery period subject to furnishing of additional 5% Bank Guarantee, but the competent authority may relax the date of submission to meet urgent requirements, it was clarified by the Company that

normally no relaxation is given for submission of PBGs. However, if the equipment is urgently required to meet the development targets, then at the time of granting delivery period extension and on vendor's request, a reasonable time may be allowed for submitting additional PBG. In the instant case, as already mentioned in the initial reply, additional PBGs were obtained and in no case any loss has been incurred by the company on this account. Normally, delivery period extension is granted up to 20 weeks.

RECOMMENDATION

The Committee note that as per the Procurement manual of the Company, there is a provision for obtaining from the suppliers an Additional Performance Bank Guarantee (PBGs) @ 5% of the value of the remaining quantity to be supplied during the extended delivery period. In this regard the Audit has pointed out that such additional PBGs amounting to Rs.2.49 crores were short realized from two suppliers namely M/s Tera Com and M/s HFCL. Similarly, in respect of one purchase order placed on M/s ITI, the audit has observed that the Company neither recovered the initial corporate guarantee nor the additional PBGs before granting extensions to the original schedule. In addition to this, the Company in the case of Orissa Circle, released prematurely the additional Bank Guarantee of Rs.4.11 Crore after six months instead of the prescribed requirement of seven months. The audit has, therefore, concluded that this failure on the part of the Company to obtain PBGs and premature release of PBGs has resulted in undue financial benefits of Rs.26.40 crore to the suppliers.

In the above context, the Committee observe that the main purpose of obtaining the PBG is to safeguard the interests of the buyer by way of a compensation for any loss resulting from the supplier's failure to complete its obligations under the contract. This purpose gets defeated if PBGs are relased without ensuring that the equipment supplied is fault-free and no claim is pending against the supplier. The extant case not only casts a reflection on the monitoring role of the Corporate Office over its various

Circles in their adherence to various prescribed procedures in the procurement manual but also does not absolve the Circle authorities from their responsibilities of safeguarding the financial interests of the Company. The Committee, therefore, strongly recommend that in order to safeguard its financial interests, the Company must strengthen its monitoring mechanism to ensure that procedures relating to performance Bank Guarantees as prescribed in the procurement manual are strictly adhered to by all the Circles and accountability must be fixed wherever the lapses are detected. The Corporate Office must keep itself apprised of the status of obtaining/releasing of PBGs as well as the extensions, if any, granted to the suppliers by the Circles and make necessary interventions wherever necessary.

CHAPTER – VI

ABSENCE OF PENALTY PROVISION IN THE PROCUREMENT MANUAL

6.1 The Audit in para 1.11.4 has observed that the Company's manual for procurement of telecom equipment and stores did not specify any specific terms and conditions for levy of penalty on suppliers for delays in installation, acceptance testing and commissioning of the projects to be executed on turnkey basis. According to the terms and conditions of the purchase orders, acceptance testing (A/T) of WLL equipment was to be got done by the suppliers from the Technical and Development (T&D) Circle of the Company before their commissioning. Further, according to instructions (February 2003) payments for installation and commissioning of equipment were to be made after satisfactory completion of the A/T by the T&D Circle. Audit observed that due to non-inclusion of any clause for levy of penalty on the suppliers for delays in installation, A/T and commissioning of the WLL equipment, the Management could not levy any penalty on the defaulting suppliers for delays in these activities as discussed below. M/s LG Electronics delayed the commissioning of WLL equipment installed in the Punjab Circle by seven to 15 months, as it could not get the A/T certificate from the T&D Circle of the Company due to poor coverage and other defects. This resulted in blocking of capital amounting to Rs 26.65 crore. No penalty was levied on the supplier for these delays. At Panjim SSA under the Maharashtra Circle, the WLL equipment supplied (December 2002) by M/s LG Electronics could not be commissioned up to May 2005 due to a number of deficiencies being pointed out by the T&D Circle such as poor quality of calls, discrepancies in meter reading and switching delays. This resulted in blocking of capital of Rs 2.62 crore. No penalty was levied on the supplier for these delays. Under eight circles and the Calcutta Telephones District, 40 BSCs and 489 BTS were allowed by the Company to be put to commercial use by the suppliers without satisfactory completion of A/T. In UP (East) Circle, it was noticed that full payment of Rs 2.52 crore was released by the Circle to M/s LG Electronics towards installation, commissioning and A/T charges on the basis of a provisional A/T certificate, which was irregular. No penalty was levied on the supplier for not getting A/T cleared. In 16 SSAs of seven circles, Audit observed that out of 30 WLL systems received during August 2001 to August 2004, 29 systems were commissioned after a delay of two to 19 months. One system had been commissioned provisionally without formal A/T till August 2005 despite the lapse of 28 months. This resulted in blocking of funds aggregating Rs 103.18 crore for periods ranging between two to 28 months. No penalty was however levied on M/s HFCL, M/s LG Electronics, M/s ARM, M/s UTL and M/s ITI for delays in commissioning of the WLL systems.

6.2 On being asked as to why the Company's procurement manual have no specific terms and conditions for levy of penalty on suppliers for delays in

installation, acceptance testing and commissioning of projects to be executed on turnkey basis, the reply was as under :-

“The terms & conditions in the Company’s Procurement Manual are framed/ incorporated from time to time depending upon the need and requirement. The terms & conditions for levy of penalty for delayed supply in equipment installation; acceptance testing, etc. have already been included in the tender documents for 10.5 lakh lines on WLL equipment”

6.3 To the query whether the Company proposes to incorporate a provision for levy of penalty in the Company’s manual, the Committee were informed that, BSNL has already initiated action to incorporate a provision for levy of penalty in the Company’s manual.

6.4 When asked whether M/s LG Electronics, M/s HFCL, M/s ARM, M/s UTL and M/s ITI commissioned the projects in question as of now, it was submitted that M/s ARM, M/s UTL and M/s ITI have already commissioned their equipment. However, M/s LG and M/s HFCL could not commission their equipment at many places in urban areas due to poor coverage. The matter was taken up with the concerned companies and to sort out the coverage issue, a High Power Committee (HPC) was formed by BSNL Board who in their recommendations have suggested different penalties be imposed for different activities. The circles that have been recently provided with the recommendations of the HPC are taking suitable action. However, these equipments are in commercial use.

The issue is expected to be settled before 31-3-2007.

6.5 On the observation of the Audit that company’s manual for procurement of equipment did not specify any specific terms and conditions for levy of Penalty on suppliers for delays in commissioning of projects to be executed on Turnkey basis resulting it not only the blocking of capital of Rs.134.97 crore but also penalty could not be levied on some suppliers, the Committee were informed that the Company has already initiated action to incorporate to provision for levy of penalty in the Company’s manual.

6.6 On being asked as to why such an obvious clause has been absent in the Company’s procurement manual, the Company has submitted:-

“Most of the tenders/ procurement is done for supply of material and only a few projects are executed on turnkey basis. As these projects have special requirements, so a generalized clause is not mentioned in the procurement manual and is usually added in the special conditions of the tender on case to case basis. Instruction issued to Planning Cells. Vide UO No.3-2/2004-MMT/Pt.III dated 18.8.2006 is as follows:

‘The planning cells of BSNL Corporate office while processing the case of procurement should make provision of a Penalty clause in the special condition of the contract for delay in installation & Commissioning of the turnkey projects’.

It is to mention that from the first tender of MSC based CDMA 2000 1X in year 2002-03, the provision for penalty clause for delay in installation and commissioning has been inserted in special condition of the tender.”

6.7 Regarding the procedure being followed to device/ review the Company’s procurement manual, it was submitted by the Company that the procurement manual is updated regularly as and when the requirement is felt through experience or feedback from field units with the approval of BSNL Board. Further, for updating, suggestions are also invited from TEMA, Field Units and various Cells of BSNL HQ. Major amendments in the procurement manual have been carried out 12 times since June 2003.

6.8 It was noticed that the company as well as the HPC have identified many deficiencies in the equipment supplied by M/s. HFCL and M/s. LG Electronics. Further the HPC recommended many pointy measures against the defaulting vendors. In view of this clear identification of deficiencies on the part of the suppliers, the Committee desired to know as to what precise action has so far been taken against them by way of imposing penalties / debarment for future and how the Head Office is monitoring this case to ensure that appropriate penalties / debarment are levied on the defaulting suppliers and implementation of recommendations of the HPC in a time bound manner. The reply of the Company was as under:-

“As per the payment terms, 80% payment has been released by circles against supply of the equipment. The balance 20% payment is held up with circles.

The HPC has recommended a total penalty of 10% of the order of the PO. In addition the HPC has recommended many measures like shifting of equipment to rural areas.

However before shifting of equipment, new equipment is required for continuation of working WLL connection. BSNL has already ordered equipment for the replacement. It is expected the 100% implementation of the recommendation of the HPC shall be completed by year 2007-08.

BSNL HQ is reviewing the status of implementation of HPC during routine development meeting held with circles time to time in chairmanship of Director (Plg. & NS). “

6.9 On being asked whether any time frame has been fixed within which the recommendations of the HPC are to be implemented by the circles, it was submitted by the Company that as such no time frame has been fixed for implementation of the recommendations of the HPC. However, it is expected that the by year 2007-08, all the recommendations will be implemented.

RECOMMENDATION

The Committee note with concern that, the Company's manual for procurement of telecom equipment and stores did not specify any specific terms and conditions for levy of penalty on suppliers for delays in installation, acceptance/testing and commissioning of the WLL projects to be executed on turnkey basis. The audit scrutiny has revealed that absence of any such penalty provisions has resulted in blocking of capital of Rs 134.97 crore. As per the Audit the Company has failed to levy appropriate penalties on the concerned Companies namely, M/s LG Electronics, M/s ARM, M/s UTL and M/s ITI in respect of deficiencies in the equipment supplied by them on various counts like delays in installation, acceptance and testing and commissioning of WLL equipment, coverage and other defects. The Committee have been apprised that the BSNL Board has constituted a High Power Committee (HPC) which has recommended different penalties to be imposed on the defaulting companies for different activities and the Circles have been recently provided with the recommendations of the HPC with instructions to take suitable action against the defaulting suppliers.

The Committee note with concern that absence of any penalty provision either in the tender document or in the procurement manual has led to the failure of the Company in imposing the required penalties on the suppliers. The Committee, therefore, strongly recommend that the Company should invariably ensure that suitable penalty clause is included

in the tender document/ other legal documents so that no party can take undue advantage of the provision.

CHAPTER - VII

DELAY IN FINALISATION OF ANNUAL MAINTENANCE CONTRACT

7.1 The Audit in para 1.13.3 has observed that according to the provision of bid documents, Annual Maintenance Contracts (AMCs) for the maintenance of the WLL terminals were to be signed by the circles with the concerned suppliers at the end of the warranty period. Audit scrutiny revealed that against tender enquiries of October 2001 and August 2002, 13 purchase orders were issued (between September 2002 and March 2004) for supply of WLL terminals to different suppliers viz., M/s HFCL, ARM Limited, LG Electronics, and XL Limited. The consignments were received between January 2003 and June 2004 and the one-year warranty period was to expire between January 2004 and June 2005 for these purchase orders. The bid documents and the purchase orders contained the terms and conditions and the rates to be paid to the suppliers for AMC periods. However, the corporate office prepared fresh terms and conditions for AMCs with a view to make them clearer and to further negotiate the rates. The same were circulated (March 2005) to these suppliers for acceptance with the condition that the rates for AMCs would be negotiated with reference to the rates obtained for AMCs against the tender issued on 15 July 2004. None of the suppliers except M/s XL Limited accepted this condition. A Committee constituted (May 2005) by the corporate office recommended that an AMC should be signed only with M/s XL Limited. Further, the corporate office also instructed (June 2005) all the circles not to sign AMCs with the other suppliers till the AMC guidelines were finalized. Thus due to abnormal delay in finalization of the AMC guidelines, AMCs could not be signed with any of the other suppliers till date (November 2005). Scrutiny of the records of various circles revealed that 55,475 defective WLL terminals valued at Rs 47.95 crore were lying in various SSAs under 16 circles. The suppliers due to non-execution of AMCs had not repaired these terminals. As a result the entire investment of Rs 47.95 crore in these WLL terminals was rendered un-remunerative till date. It was also noticed that in the UP (east), Rajasthan and Bihar circles that 7,161 FWTs valued at Rs 6.78 crore which had been sent for repairs to the suppliers had not been returned although a period of more than six months had elapsed from the date of sending. No penalty could be levied on the suppliers due to non-execution of AMCs.

7.2 On being asked about the reasons for the undue delay in finalisation of guidelines for execution of AMCs with the suppliers, the Company submitted that:

“The delay in finalization of AMC agreement for FWT/HHTs/IFWTs is due to the reason that the P.Os/Bid Documents (T.E. 233 and 246), mentioned the broad terms and conditions to be followed by the successful bidder/supplier. The AMC document did not contain the details on the proper and uniform implementation procedures across the Circles. NM Branch prepared the draft AMC document containing detailed instructions

for its proper implementation, which was circulated to the suppliers concerned. The suppliers raised queries/issues including those, which were part of the original terms and conditions. It took time to negotiate the final terms and conditions.

Further the AMC price and FWT/HHTs (subscriber's terminal) cost was coming down progressively in subsequent tenders. The competent authority constituted a committee to negotiate and settle the AMC related issues along with the rates with the suppliers. The Committee discussed with the vendors and the document finalized based on discussions, was forwarded to Circles for signing with the Suppliers. “

7.3 It was further informed that for T.E. No.233 and 246, the guidelines have been finalized. Regarding the present status of execution of AMCs with the suppliers in these Circles, it was informed that for T.E. No.246, the AMC with all the suppliers viz M/s. XL Telecom, M/s. ITI, M/s. Bhagyanagar, M/s. Surana Telecom, M/s. I.COMM, M/s. Teracom and M/s. UTL have been signed. Regarding T.E. No.233, the guidelines have been finalized recently with one of the supplier and are under the process of signing with Circles concerned. The same guidelines are being offered to other Suppliers for sending their consent and signing the AMC agreement.

7.4 On being asked whether the 55,475 defective WLL terminals have been repaired and put to use, it was submitted that as per provisions in the AMC agreement, the faulty terminals have been got repaired and became part of the available FWTs which are issued for use as per requirement.

7.5 To the query whether the 7,161 FWTs have been returned by the suppliers which were sent to them for repairs, the answer was in the affirmative.

7.6 On the observation of the Audit that due to abnormal delay in finalization of the AMC guidelines by the Company, AMCs could not be signed with a number of suppliers resulting in unremunerative investment of Rs. 47.95 crore and further no penalty could be levied on the suppliers, the Company submitted that AMC guidelines were prepared in time. However, as the company decided to re-negotiate the prices of the AMC, which were finalized in the PO earlier. It took some time to finalize the new rates. Secondly the vendors have also raised certain issues about the implementation of the AMC which were discussed and sorted out after holding meetings with individual vendors. Therefore, the matter of fixing responsibility on any person does not arise.

7.7 On being asked about the procedure followed in drafting and execution of AMCs in time and whether it is at variance with the procedures followed in respect of other telecommunication services like Cellular Mobile, fixed land line etc. , it was submitted that :

“AMCs are part of tender document. However, they indicate only the broad terms and it is necessary to prepare detailed guidelines incorporating the tender conditions so that AMCs are uniformly implemented in all field units. AMC was first made part of WLL tender. The Cellular tenders were floated only later. In the cellular tender also there is a provision for AMC. As far as fixed land line is concerned, there is no provision of AMC in the tender. A separate tender for AMC was floated for NT switches, which is currently operative. It is to mention that for WLL equipment T. E. no. 277 dated 15-07-2004 onwards, detailed AMC has been made part of the tender obviating the need to issue further guidelines at a later date, which was required in the earlier cases.”

RECOMMENDATION

The Committee note that as per the provisions of the Bid documents, Annual Maintenance Contracts (AMCs) for the maintenance of WLL Terminals were to be signed by the Circles with the concerned suppliers at the end of the warranty period. The audit scrutiny has revealed that 55475 defective WLL terminals were lying in 16 Circles due to non execution of AMCs with the suppliers, resulting in unremunerative investment of Rs 47.95 crore. According to the Company, the AMC guidelines were prepared in time. However, as the Company decided to renegotiate the prices of the AMC which were finalized in the earlier Purchase Orders, it took some time to finalise the new rates. Also there were some delay due to negotiations with the suppliers for implementation of the new AMC guidelines so finalized. The Company has further been informed that now onwards, detailed AMCs has been made as part of the tender thus obviating the need to issue further guidelines at a later date. The Committee has also been informed that all the defective WLL terminals have since been got repaired by the concerned suppliers as per the provisions of the finalized AMC agreement.

Taking into view the aforesaid position, the Committee feel that there has been a definite avoidable delay on the part of the Company in finalizing the AMC guidelines resulting in not only the delayed rectification of the faulty WLL terminals but also the consequential revenue loss due to non-

deployment of the defective equipment. The Committee feel that the bid-document itself should have contained the details of the AMCs. The Committee has not been provided with any information justifying as to why the AMC guidelines were not finalized at the purchase order stage itself. This type of imprudent practice followed by the Company for AMCs is bound to create bitterness between the Company and the suppliers. The Committee recommend that the AMC guidelines should be made a part and parcel of the procurement manual so as to serve as a reference point for future procurements and the provisions of the procurement manual should strictly be followed in all the bid documents.

CHAPTER – VIII

LIQUIDATED DAMAGES

8.1 The audit in para 1.11.5.3 has observed that purchase orders for WLL projects issued by the corporate office specifically provided for levy of liquidated damage (LD) charges on the suppliers in cases of delays in delivery of WLL equipment. Audit observed that in 34 cases in nine circles and the Chennai Telephones District, LD charges were either not levied or short levied on the defaulting suppliers despite non delivery and delayed delivery of WLL equipment and terminals by them. Consequently, the Company had to incur a loss of Rs 11.97 crore due to non-levy and short levy of LD charges on the defaulting suppliers

8.2 In the light of the above audit observation, the Company was asked to explain --Why the Company had not levied/deducted the L.D. for delayed supply; Has the Company made any efforts to recover the L.D. charges due from the defaulting suppliers; Has responsibility been fixed on the defaulting officials of the Company for non-levy/short levy of L.D. charges on suppliers. The reply of the Company was as under:-

“BSNL has levied LD for delayed supplies as per procedure. As per audit report, the short fall of LD recovered by Circles is Rs. 11,97,43,779/- (18,26,73,830-6,29,30,051). As per reports received from field units, the LD already recovered against the concerned POs is Rs. 34,02,14,352/-. Besides Rs. 11,80,313/- to be recovered is held up due to stay on recoveries as the case is subjudice with the arbitrator and balance amount is under recovery. As there is no lapse in recovery of LD, so question of fixing responsibility of any official does not arise.”

8.3 As the Company has stated that BSNL has levied LD for delayed suppliers as per procedure and there is no lapse in recovery of LD and at the same time, the Company has admitted a shortfall of LD recovery of Rs.11.97 crore, the company was asked to clarify the position since the two statements appeared contradictory. The clarification furnished by the company was :-

“From the initial reply it is clear that there is no contradiction. It was stated that as per audit report the shortfall of LD recovered by Circles is Rs.11.7 crores whereas, as per reports received from field units, the LD already recovered against the concerned POs is Rs. 34.02 crores. There is no deficiency in levying of LD and no shortfall in LD thereof. Some LD is yet to be recovered which is held up due to stay from Court.”

RECOMMENDATION

The Committee note that Purchase orders for WLL projects issued by the corporate office specifically provided for levy of liquidated damage (LD) charges on the suppliers in cases of delays in delivery of WLL equipment. The Audit has pointed out that in 34 cases in nine circles and the Chennai Telephones District, LD charges were either not levied or short levied on the defaulting suppliers despite non delivery and delayed delivery of WLL equipment and terminals by them. Consequently, the Company had to incur a loss of Rs 11.97 crore due to non-levy and short levy of LD charges on the defaulting suppliers. In response to this audit observation the Company has submitted that LD was levied as per the procedure and only a meager amount of Rs.11,80,313 is to be recovered which is held up due to stay on recoveries as the case is sub-judice with an arbitrator. The Committee would, however, like to recommend that the Corporate Office should constantly monitor the levy of prescribed liquidated damage charges by the Circles on the defaulting suppliers to protect its financial interests and avoidance of entering into unnecessary litigations against the suppliers for recoveries.

CHAPTER – IX

UTILISATION OF EQUIPPED CAPACITY

9.1 The expansion of the WLL project commenced mainly from 2002-03. Audit observed that while projecting the demands for expansion of their existing capacity for the year 2002-03 and the subsequent years, only four circles and the Chennai Telephone District took the unutilized capacity of their existing WLL exchanges into account. Similarly, while drawing up the overall expansion plan for the WLL system for the year 2002-03, the unutilized capacities of the existing WLL exchanges were not considered by the corporate office. It was also noticed that in 22 SSAs under seven circles, , the total number of working connections at the time of expansion (April 2002 to February 2004) was only 16283 against the installed capacity of 110850 lines mainly due to poor demand and shortages of WLL terminals. In spite of this, the existing capacity was expanded by 113650 lines. As of March 2005, the total number of working connections was only 94866 which was less than the initial capacity of 110850 lines. The expansion of capacity was thus unwarranted and resulted in injudicious expenditure of Rs 108.64 crore. The audit has made the following observations on this subject matter:-

1.9.1.3 Non consideration of the impact of WLL telephone services provided by private operators

While planning for capacity expansion of the WLL systems, especially in urban areas, the impact of the presence of private operators should have been considered for a more realistic assessment of demand. Year-wise status of the coverage by private operators could have been ascertained from their rollout obligations# available in DoT or from their websites. Audit observed that only three circles, viz., Andhra Pradesh, Kerala and Maharashtra and the two metro districts at Chennai and Calcutta considered the impact of the WLL telephone services provided by private operators in their areas in projecting their demands for the period 2001-02 to 2004-05. Even the corporate office did not consider this impact.

1.9.1.4 Non consideration of the envisaged growth of Company's own landline service and Cellular Mobile Telephone Services

It was noticed that only Tamil Nadu Circle and the Calcutta Telephones District considered the anticipated growth of their own landline service and Cellular Mobile Telephone Service (CMTS) while projecting demands for capacity expansion of their WLL systems for the years 2001-02 to 2004-05. The corporate office, however, considered the envisaged overall growth of its own CMTS while planning for the overall expansion of the capacity of the WLL system for the above years.

1.12 Utilisation Of Equipped Capacity

In order to ensure proper returns on the investment made in a project, it is imperative that the equipped capacity of the project is optimally utilised and all prescribed targets for capacity utilisation are met. The overall utilization of the equipped capacity of 26.89 lakh lines of WLL systems of the Company as of March 2005 was only 16.28 lakh lines i.e. 60.53 *per cent*. Against the equipped capacity of 16.90 lakh lines in the rural areas and 9.99 lakh lines in the urban areas, the capacity utilisation was only 11.32 lakh lines (67 *per cent*) and 4.96 lakh lines (49.6 *per cent*) respectively. The capacity utilisation in different circles and Metro districts ranged between 35.20 *per cent* (Andaman and Nicobar Circle) and 90.07 *per cent* (Madhya Pradesh). The capacity utilization was below 50 *per cent* in the rural areas of three circles, viz., Andaman and Nicobar, Karnataka and Uttar Pradesh (East) and in the urban areas of 10 circles, viz., Andhra Pradesh, Gujarat, Himachal Pradesh, Jharkhand, Kerala, Orissa, Punjab, Tamil Nadu, Uttaranchal and Uttar Pradesh (East) circles. The capacity utilisation was more than 100 *per cent* in the urban areas of five circles, viz., Assam, Jammu and Kashmir, Karnataka, North-East-I and West Bengal. Audit observed that utilisation of the equipped capacity of the WLL systems remained largely unsatisfactory mainly due to deficiencies in planning and procurement, as discussed in paragraphs 1.9 and 1.11 earlier. Besides, poor network coverage and quality of service also contributed to low capacity utilization

9.2 On being asked as to why & when the initial need was felt for expansion of the WLL project over its existing capacity, the company submitted: -

“Initially BSCs and BTSs for rural applications were procured with capacity of 5000 and 500 lines with provision for expansion up to 10000 and 1000 lines respectively. There was huge waiting list of 21.66 lakh lines as on 1.7.2001 in the rural areas of the country. Initially only 1200 SDCA out of 2642 were planned to be provided with WLL BTSs. Some of the SDCAs are having large geographical areas and different terrains where a single WLL BTS is insufficient to provide full coverage. In addition to these aspects for optimum and economical utilization of existing WLL systems and to meet the target of telephone on demands it was decided to expand the existing BTSs to 1000 lines and BSCs to 10000 lines, besides additional procurement of BSCs and BTSs.”

9.3 On being asked about the policy formulated by the Corporate Office while issuing instructions to the Circles for expansion of the existing capacity, the company submitted that:-

“Prior to issue of order for expansion of WLL equipment all the circles were instructed to give their requirement of WLL systems for expansion of existing WLL capacity. Based on the actual requirements from the circles

and keeping in view the geographical area of SDCAs, difficult terrains in the SDCAs and waiting list, etc. order for expansion of WLL were placed with the vendors. It was further stressed that priority should be given to VPTs, replacement of MARR, waiting list, etc. in specific SDCA before finalizing the expansion/additional requirement on WLL system.”

9.4 The Company was asked to furnish their justification on the observation of the Audit that for the year 2002-03, the unutilized capacities of the existing WLL exchanges were not considered by the Corporate Office while drawing up the overall expansion plan. In reply, the Company submitted that the Corporate Office has always kept in mind while considering expansion of WLL equipment that the existing unutilized capacity is utilized for future programmes. In certain cases the expansion of WLL systems with unutilized capacity is necessitated considering the technical utilizations on account of geographic and difficult terrain situations in the specified SDCAs.

9.5 When asked under what circumstances few circles like Bihar, Haryana, Jharkhand etc. were allowed to expand their existing capacity when already large amount of unutilized capacity was available with them, the reply of the company was:-

“Circles like Bihar, Jharkhand were allowed for expansion of existing WLL technology as large number of uncovered villages were still available in these circles requiring telecom facilities as per commitment of the government besides keeping the anticipated demand of telephones in the coming years. There was huge waiting list in some of the states like Bihar with 58164 and Haryana with 60379. The expansion on the capacity were also kept in mind in order to meet the time bound programmes set by USOF for provision of VPTs besides the replacement of 141233 MARR based VPTs in accordance with the terms & conditions of the agreement. The expansion also depends on geographical terrains, etc. in particular SDCA which may need more number of WLL BTSs for full coverage. It can be seen from the table that most of the capacity has been utilized/over utilized. As on 31.7.2006 WLL capacity available and utilized in these states is as under:-

Circle	WLL Capacity	Working Connection	Percentage
Bihar	1,31,000	1,19,560	91.26
Jharkhand	63,500	43,363	68.28
Haryana	37,800	49,674	131.41

9.6 When asked about the efforts made by the Corporate Office in assessing the existing capacity/utilized capacity and additional requirement of expansion of the capacity in respect of each of the circles, it was submitted that:

“There was huge waiting list in rural areas of the circles at that time. To wipe out the waiting list and make telephone on demand, steps for expansion of the WLL system were taken. However expansion equipment was procured on submission of receipt of requirements from the circles, which had undergone a signal survey keeping in view the waiting list, commitment of USOF, etc. The expansion on the capacity were also kept in mind in order to meet the time bound programmes set by USOF for provision of VPTs besides the replacement of 1,41,233 MARR based VPTs in accordance with the terms & conditions of the agreement. The expansion also depends on geographical terrains, etc. in particular SDCA, which may need more number of WLL BTSs for full coverage. “

9.7 The Company was asked to state whether the Company/individual circles took into consideration the envisaged growth of the company's own landline service and Cellular Mobile Telephone Service while projecting demand for capacity expansion of their WLL systems for the years 2001-02 to 2004-05 and also the instructions/guidelines if any issued in this regard to different circles, the Company submitted:-

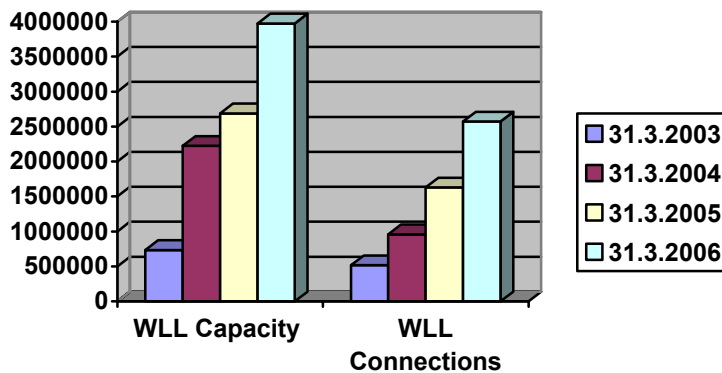
“The planning of WLL in urban areas was primarily with the objective to provide telephone connections in technically non-feasible (TNF) areas, to give limited mobility, for faster roll-out with negligible maintenance and to counter threat from existing private operators. On the other hand planning in rural areas for WLL, the stress was mainly to provide VPTs, Replacement of MARR VPTs, clear the waiting list and to meet scattered demand in remote areas. While planning WLL equipments it was envisaged that growth of WLL should progressively reduce the demand for landline connections and subsequently its related equipment. However, while WLL was being planned as alternative to landline service, mobile services were planned simultaneously with full mobility. These being two different categories of services with different types of facilities will serve different segments of the customers as such these two different services can not be considered together.”

9.8 When asked whether the company formulated any strategy for ensuring optimum utilization of the equipped capacity of its WLL systems and whether the same was followed scrupulously in the present case, the Company stated that most of the WLL equipment is deployed in rural areas where demand is scattered and loading of the system is expected to be much less. However, the present loading in the rural area has already crossed 76% on country basis as on 31st July, 2006. Present status of capacity utilization in rural and urban areas is 76% and 42% respectively.

9.9 Regarding the installation capacity vis-à-vis the demand, the Company furnished the following information:-

“The growth of capacity of WLL equipment and WLL connections indicating a continuous increase in the demand of the WLL can be seen in the table and chart below:

As on	WLL Capacity	WLL Connections
31.3.2003	7,34,000	5,15,919
31.3.2004	22,23,450	9,58,792
31.3.2005	26,89,400	16,28,111
31.3.2006	39,75,410	25,72,525



The above graph clearly indicates that there is a steep growth in demand of WLL connections. It is expected that built in capacity up to a certain period is mostly being utilised within the next 6 to 12 months.”

9.10 On the observation of the Audit that for the year 2002-03, the unutilized capacities of the existing WLL exchanges were not considered by the Company while drawing up the overall expansion plans, the BSNL has stated that in certain cases the expansion with unutilized capacity is necessitated considering the technical utilization on account of geographic and difficult terrain situations. The Company was asked to explain it with illustrations. The company submitted as under:-

“The expansion of WLL has been taken mainly for providing the coverage which also result into capacity addition. Since very large geographical area need to be covered to meet the scattered demand in rural areas, large no. of BTSs were planned and commissioned. However these capacities are being utilised progressively. The present capacity utilization in rural areas is more than 70% which is optimum. Out of total 47 lakh lines capacity of WLL, 32lakh lines capacity is in rural areas.”

9.11 When asked on what basis was it decided to expand the capacity in the urban areas during April 2005 to December 2006 when the already existing capacity was grossly under utilized (42% only) it was stated that BSNL has

planned to provide WLL equipment for all SDCAs including urban areas by deploying at least 3 BTS per SDCA on an average for full coverage in all the SDCAs of the country. Priority for Capacity expansion in urban areas during 2005 to Dec. 2006 was given to those areas which were without WLL coverage, whereas no expansion of existing WLL equipment in urban areas has been made. However BSNL has planned to provide full coverage by WLL in urban areas with latest MSC based CDMA equipment with all value added service like SMS, high speed internet, pre-paid services etc. It is expected with availability of value added services, the loading in urban areas will improve.

9.12 Regarding the benchmark for capacity utilization, the Company informed the committee that 70% loading of CDMA WLL system is considered optimum loading of the system. The expansion of the equipment is considered after achieving 70% overall loading of the system. However individual BTS can be loaded even more than 100% depending upon actual traffic of the BTS. The loading of WLL in rural areas has continuously been around 70% and hence cannot be termed as under utilization of capacity. However in urban areas, the WLL system was deployed basically to clear the TNF cases, to provide connections at a faster rate, low maintenance cost and to counter strategic threat from the growing private operators. All these factors contribute, towards low capacity utilization of WLL in urban areas.

9.13 On being asked as to what initiatives have been taken to increase the low capacity utilization particularly in urban areas, the Company submitted:-

“To improve the loading in urban areas, now IS 95 CDMA equipment has been planned to be replaced with MSC based CDMA 2000 1X WLL system. The order for this purpose has already been placed and likely to be commissioned in year 2007-08. The equipment has all kind of value added services like prepaid services high speed internet, SMS etc. It is expected that with availability of all value added services , the loading in urban areas will improve.”

9.14 When asked by what time these bench marks are expected to be achieved, it was stated that by providing MSC based CDMA 2000 1X equipment in urban areas with value added services and improving the coverage by putting additional BTSs etc. the loading will increase to 70% progressively during 2007-08.

9.15 Regarding the quantum of losses being incurred by the company on account of low utilization of equipped capacity, the Committee were informed that with USOF subsidy and revenue generated, there is no loss in rural areas. However there may be some loss in urban areas due to low utilization of capacity. However overall WLL can be considered as profit mainly taking into account the USOF support already received.

RECOMMENDATION

The Committee note that In order to ensure proper returns on the investment made in a project, it is imperative that the equipped capacity of the project is optimally utilised and all prescribed targets for capacity utilisation are met. The Audit has pointed out that the capacity utilisation was 60.53 *per cent* against the total equipped capacity of 26.89 lakh lines of WLL systems as of March 2005 mainly on account of deficiencies in planning, procurements, network coverage and poor quality of service. The Company formulated the plans for launching of the WLL telephone service and its subsequent expansion with inadequate assessment of demand and requirement and did not consider identification of areas based on population and trade statistics, unutilised capacity, presence of private operators and the envisaged growth of its other telephone services. Expansion of the capacity during 2002-03 to 2004-05 in seven circles despite underutilisation of the existing capacity, led to injudicious expenditure of Rs 108.64 crore on expansion.

The Company on the above-mentioned audit observations has submitted that the planning of WLL in urban areas was primarily to counter the threat from existing private operators and in rural areas the stress was mainly to provide VPTs, replacement of MARR VPTs, clear the waiting list and to meet scattered demands in remote areas. Regarding the further expansion of the WLL service inspite of the existence of utilised capacity,

the Company has stated that this has been done mainly for providing coverage in very large geographical area needed to be covered to meet the scattered demands in rural areas. The expansion of the capacity was also done to meet the time-bound programmes set by USOF. Regarding the latest position of the capacity utilization, the Committee has been informed that for rural areas the present loading has already crossed 76% and for Urban areas it is 42%. The Company has also justified the expansion on the ground that the existing unutilized capacity is being progressively utilized for future programmes.

The Committee observe that although the capacity utilization for WLL service in the rural areas is almost 76%, it is very low for urban areas which is only about 42%. The Committee therefore recommend that the Company must adopt appropriate measures like upgrading the existing technology and providing value-added services like SMS, High-speed internet, pre-paid services etc. to make WLL services more attractive so as to increase its capacity utilization in the urban areas also. This whole exercise must be conducted in a time-bound manner. The Committee further recommend that the Company should consider unutilized capacities, presence of other private operators and envisaged growth of its own landline and cellular mobile telephone services while forecasting demand and requirements in the future. The Company should also prepare appropriate strategies for ensuring optimum utilisation of the equipped capacity of its WLL systems

CHAPTER – X

ACHIEVEMENT OF PLANNED TARGETS

10.1 The annual plan targets of replacement of faulty MARR VPTs by WLL systems were 40,000, 80,000 and 64,424 for the years 2002-03, 2003-04 and 2004-05 against which the Company replaced 43,430 (109 *per cent*), 36,049 (45 *per cent*) and 28973 (45 *per cent*) MARR VPTs respectively. The Management stated (August 2005) that the targets had been fixed in anticipation of the availability of WLL equipment but equipment could not be made available and that the initial procurement of equipment was not sufficient for covering even 50 *per cent* of the 2,642 SDCAs of the country. They also stated that MARR VPTs were scattered throughout the length and breadth of the country including remote and far-flung areas. The reply was not acceptable, as these aspects should have been addressed adequately at the time of finalising the targets.

10.2 In the annual plans, the targets fixed for installation of new VPTs were 144771, 39439, 7135 and 8061 for 2001-02, 2002-03, 2003-04 and 2004-05 against which the achievement was 70755, 36929, 4737 and 9310 respectively. There were shortfalls in achievement of targets by 51 *per cent*, 6 *per cent* and 34 *per cent* during 2001-02, 2002-03 and 2003-04, respectively. The Management stated that the targets could not be achieved due to delay in supply of equipment by the suppliers and shortage of FWTs besides local problems in certain areas such as insurgency.

10.3 The Company signed (November, 2004) an agreement with the USO Fund for providing VPTs to 66,822 villages in 14 circles*. According to the terms and conditions of the agreement, at least 20 *per cent* of the VPTs were to be provided by these circles within one year from the date of agreement, a minimum 60 *per cent* by the end of the second year and the remaining by the end of the third year. It was noticed that a total of 14,233 VPTs (21 *per cent*) were provided during the first year ended during October 2005. There was overall achievement of the first year target. However, it was observed that only six circles viz., Assam, Gujarat, Himachal Pradesh, Madhya Pradesh, Maharashtra and Rajasthan could achieve their individual targets but eight circles, viz., Andhra Pradesh, Chhattisgarh, Jammu and Kashmir, Jharkhand, Orissa, NE-I, NE-II and Uttaranchal failed to achieve the same. The shortfall in achievements of the first year target by these eight circles was 3.2 *per cent*, 31.15 *per cent*, 39.65 *per cent*, 91.15 *per cent*, 100 *per cent*, 81.90 *per cent*, 90.35 *per cent* and 74.50 *per cent*, respectively.

10.4 On being asked about the time frames fixed for providing telephone connectivity in the entire country, it was submitted to the Committee that: -

“As per NTP 99, time frame was fixed to provide telephone facility in all the 607491 revenue villages of the country by the end of 9th Five Year Plan i.e. 2002, including 97806 VPTs to be provided by the 6 private basic service operators. This condition was stipulated by DoT at the time of issue of the licence agreement to private basic service operators during 1997-98. All these VPTs were to be provided by 2002. However, very meager percentage of 0.86 was achieved by these private operators i.e. only 846 VPTs were provided by March, 2002 and by May, 2003, 10698 VPTs. In the mean time BSNL, the then DoT, continued to provide VPTs in some of these areas also. With the formation of USOF during 2002, BSNL was assigned the work of provisioning of VPTs in 66822 villages by the end of November, 2007. Out of this, BSNL has already provided 38795 VPTs and 28027 are yet to be provided on WLL technology. Around 11038 VPTs are to be provided on DSPTs.

10.5 On being asked about the the present status of achievement of targets, the company stated that:-

“BSNL has been entrusted with the work of replacement of 1,41,223 MARR VPTs. Out of these, 1,11,221 MARR VPTs have already been replaced by 31.07.2006. Balanced 30,002 MARR VPTs are planned to be replaced in the current financial year itself. A total of 1,56,870 MARR VPTs have already been replaced by BSNL in accordance with the terms and conditions of agreement with USOF. “

10.6 On being asked about the reasons for non-procurement of adequate number of WLL equipments for meeting the planned targets for replacement of MARR VPTs by WLL systems, the Committee were informed that some of the MARR VPTs are located in extreme remote and isolated villages. These villages are not covered by any of the existing WLL equipment. Additional WLL BTSs are required for full coverage of the SDCA, which will help in replacement of these MARR VPTs. As per present policy of BSNL on an average three BTSs are required to cover one SDCA for which the procurement of equipment is in process. It is expected that once the additional equipment is procured, the remaining MARR VPTs shall be replaced progressively during the current financial year 2006-07.

10.7 As per the observation of the Audit in para 1.13.1.2 , as against the targets of installation of 144771, 39439, 7135 and 8061 new VPTs during 2001-02, 2002-03, 2003-04 and 2004-05, the actual achievement was 70755, 36929, 4737 and 9310 respectively. There were shortfalls in achievement of targets by 51 per cent, 6 per cent and 34 per cent during 2001-02, 2002-03 and 2003-04 respectively. The management stated that the targets could not be achieved due to delay in supply of equipment by the suppliers and shortage of FWTs besides local problems in certain areas such as insurgency. In this context , the

Committee were informed that the present status of achievement of these targets as follows :-

“As on 31.07.2006 BSNL has already provided VPTs in 5,39,278 villages. 29,173 villages out of 52,639 villages awarded by USOF to BSNL have already been provided with VPTs. The remaining 23,466 villages are planned to be provided with telephone facilities progressively by November 2007 in accordance with the terms & conditions of the agreement. Around 14,000 remote and isolated villages, which cannot be covered by any terrestrial technology, are planned to be provided with Digital Satellite Phone Terminals (DSPTs) progressively by November, 2007 in accordance with the terms & conditions of the agreement.”

10.8 On being asked as to how many new WLL VPTs were planned during each of the years 2001-02, 2002-03, 2003-04 and 2004-05 in the insurgency affected areas and what is the actual achievement there against the Company informed that VPTs are planned for the whole circle irrespective of insurgency affected areas in the concerned circle. Most of the VPTs now are being planned/provided on WLL technology. Thus VPTs are also being provided in insurgency-affected areas as well where there is no resistance from the public and custodian are available to take the VPTs for the benefit of villagers.

10.9 On being asked why adequate numbers of FWTs were not procured for meeting the targets for installation of new VPTs it was submitted that –

“At the time of procurement of 6 lakh lines of WLL equipment, equal number of FWTs were also procured and distributed to the circles, in the proportion of number of lines allocated to the circles. So adequate number of FWTs were procured for VPTs, however, as stated above the shortfall was mainly due to villages falling in extremists affected areas, etc.”

10.10 The Committee were also informed that prior to the launch of WLL Service, as on April, 2000, 2,32,886 villages were without any telephone facility in the country. As regards VPTs based on MARR Technology, the Committee were informed that at the time of discontinuance of MARR technology during the year 2000, 2,11,313 MARR based VPTs were working through out the country. Around 14755 MARR based VPTs are still available in the country which are being replaced. Around 1,21,610 MARR VPTs have been replaced almost all by WLL technology as on 31.12.2006 in the rural areas. Efforts are being made to complete the replacement of MARR VPTs during the current year itself. Additional equipment to meet the commitment for USO Fund activities has already been ordered on M/s. ITI.

10.11 Regarding the extent of coverage of villages under WLL Service since its launch, the Company submitted that 290697 villages, including MARR VPT replacement, have already been provided with WLL services up to 31.12.2006.

16989 villages are still to be provided with WLL services in accordance with the agreement signed with USOF. In addition to these villages, 11038 villages which cannot be covered by any existing terrestrial technology have also been planned to be provided with DSPTs. In accordance with these terms and conditions of the agreement signed with USOF, all these remaining villages are planned to be covered by November, 2007.

10.12 Regarding the present status of waiting lists for WLL telephone Services in various rural areas on the country and the time by which the waiting lists are expected to be cleared, it was informed that the waiting list for telephone connections including WLL telephone services in the various rural areas of the country is 7.37 lakh as on 31.12.2006. The clearance of waiting list is continuous process. The present waiting list is expected to be cleared during 2007-08.

10.13 As regards the extent of coverage in urban areas, the Company informed that the coverage and capacity in urban areas has been continuously increasing from 56000 lines to 15 lakh lines as on today. BSNL has also ordered additional 5 lakh lines of MSC based CDMA 2000 1X system for replacement of the older IS 95 CDMA WLL system.

10.14 Regarding the role played by the private service providers by way of mandatory requirement for providing telecom connectivity and replacement of VPTs based on MARR technology in the rural and far flung areas of the country, the ministry informed the Committee that:-

“The private basic service operators who were granted licences in July, 2001 and onward stipulate coverage of Short Distance Charging Areas (SDCA) in equal proportion in each phase in each category of urban, semi-urban and rural SDCAs in a service area. All the old Basic Service Operators and almost all the private basic service operators who were granted licences in July, 2001 and onwards, have migrated to Unified Access (basic and cellular) Service License in November 2003, as per Guidelines NO. 808-26/2—3 – VAS dated the 11/11/03, whereby the Rollout Obligations were changed to as follows:

In the metros 90% of the service area shall be covered within one year of the effective date of the license. In Telecom Circles, atleast 10% of District Headquarters (DHQs) will be covered in the first year of the effective date of the license and 50% of the DHQs will be covered in the first three years of the effective date of the license. The Licensee shall also be permitted to cover any other town in the district in lieu of the DHQ. Coverage of a DHQ/town means that atleast 90% of the area bounded by the Municipal limits should get the required street as well as in building coverage. The further expansion over and above 50% of the DHQs depends on the licensee's business decision. There is no

requirement of mandatory coverage of rural areas. District Headquarter shall be taken as on the effective date of the license. The requirements of Universal Access in rural areas would now be met from the Universal Service Obligation Fund and Access Deficit Charge.

The status of provisioning of VPTs by old BSOs and coverage of SDCAs by new BSOs in October 2003 are enclosed as Annexure – I and II respectively.”

10.15 The committee enquired from the Ministry about the present status of achievement of telecom coverage in terms of the number of villages covered and yet to be covered and the time by which all the villages in the country are likely to be covered, the Ministry informed the Committee that:-

“Provision of telephones in rural areas are not mandatory for private operators. However, all the operators have to pay 5% of Adjusted gross Revenues (AGR) as USO levy. In turn, the USO fund is used for expansion of rural network in which private operators also play part. Agreements were signed with M/s BSNL in November, 2004 to provide subsidy support for provision of VPTs in 66,822 no. of uncovered villages in the country excluding those villages having population less than 100, those lying in deep forests and those affected with insurgency. Out of these, 14183 remotely located villages are to be provided with VPTs on Satellite based technology (Digital Satellite Phone Terminals). A total of 39,741 VPTs have been provided till January 2007 and the remaining 27,081 villages are likely to be provided with VPTs by November 2007.”

RECOMMENDATION

The Committee note that the Universal Service Obligations (USO) under New Telecom Policy (NTP- 99) envisaged providing telephones on demand, besides telephone coverage of all the villages in the country by the end of the Ninth Five Year Plan i.e. 2002. Based on these obligations, Department of Telecommunications decided in August 2000 to replace all faulty VPTs working on the Multi Access Radio Relay (MARR) System by the WLL System by the end of 2002 and to provide new VPTs only through WLL. In pursuance of this objective, the BSNL had set out a target of providing one Wireless-in-Local Loop (WLL) system in each of the 2,642 Short Distance Charging Areas (SDCAs) in the country till 2001-02. However, the audit scrutiny has revealed that the targets so set out had not been achieved and the Company has failed to achieve the annual plan targets fixed for replacement of faulty MARR based VPTs for the years 2003-04 and 2004-05 and for installation of new VPTs for the years 2001-02, 2002-03 and 2003-04. In this regard, the Committee note from the latest information furnished by the Company that out of the the total replacement of 1,41,223 MARR VPTs, 1,11,221 MARR VPTs have been replaced by 31.07.2006 and the balance 30,002 MARR VPTs are planned to be replaced in the current financial year itself. As regards providing new VPTs based on WLL Technology, the Committee note that as on 31 July, 2006, the Company has provided VPTs in 5,39,278 villages and the remaining villages are planned to be provided with telephone facilities by November, 2007.

Even in the year 2007, there is a huge waiting list of 7.37 lakh for telephone connections including WLL telephone services in various rural areas of the country and the Company is planning to clear it by the year 2007-08. The Company has tried to justify their under-performance by stating that - there was delayed supply of the WLL equipment; the MARR VPTs were scattered throughout the length and breadth of the country including remote and far-flung areas; problem of insurgencies in certain areas etc.

Analyzing the reasons for non-achievement of the planned targets, the Committee feel that primarily, the Company failed to fix realistic targets for year-wise achievement due to deficiencies in planning, creation of infrastructure, procurement, capacity utilization, operational performance. It was imperative on the part of the Company to plan the launch of WLL telephone service and its future expansions very carefully and these issues should have been addressed prior to the setting up of the targets. However this did not happen to be the case and targets for the years 2001- 02 to 2003-04 could not be fully achieved in one respect or the other. No information has been brought to the notice of the Committee which may indicate that any serious efforts were made either by the Government or by the Company for achievement of the planned targets. The Committee observe that while some circles managed to over perform, a majority of Circles have under performed. This indicates that there was lack of coordination and monitoring on the part of the Corporate Office. Another factor which has contributed to the non-achievement of targets envisaged

in NTP-99 is the under-performance of private service providers in fulfilling their part of the social commitment of government of providing 97806 VPTs in the rural areas by the year 2002. This condition was stipulated by the DoT at the time of issue of license agreement to private basic service operators who could actually provide only 846 VPTs by March, 2002 and 10698 VPTs by May, 2003. This happened because these Basic Service Operators were subsequently allowed to migrate to a new license namely, Unified Access (basic and cellular) Service License in November 2003 which did not carry the requirement of mandatory coverage of rural areas. The Committee attribute the failure of achievement of targets on both the Government as well as the BSNL and recommend that all out efforts must be made by the BSNL to achieve the targets of complete replacement of faulty MARR VPTs, installation of new VPTs and clearance of the existing waiting list in the rural areas within the specified schedule fixed by them i.e. by November 2007. The Committee further recommend that the Government on their part instead of remaining a mute spectator, also see to it that this issue of national importance is fully achieved in a time bound manner by playing an active monitoring role over the implementing agencies.

CHAPTER – XI

ACCUMULATION OF REVENUE ARREARS ON ACCOUNT OF SHORT/DELAYED BILLING

11.1 The Audit in para 1.14 has made the following observations:-

1.14 SYSTEM OF BILLING, COLLECTION AND ACCOUNTING OF REVENUE

Billing, collection and accounting of revenue in respect of all the telephone services of the Company were done by the Telephone Revenue Accounting (TRA) Branch in each SSA. The functions of the TRA Branch were computerized and mainly two types of software viz., 'DOTSOFT' and 'TRICHUR' were used for the purpose. An efficient and effective system of billing, collection and accounting of telephone revenue would be based on the following: timely receipt of advice notes from the commercial wing after completion of activities relating to opening, shifting and closure of connections, so that bills are issued immediately; prompt receipt of meter readings from exchanges and billing of the same without delay; immediate stopping of billing after disconnection and closure of connections; proper monitoring of outstanding revenue. Billing, collection and accounting of the WLL service and the landline service of the Company were being done together. Due to non-maintenance of separate year-wise details of revenue billed, collected and outstanding in respect of the WLL service the overall return on the investment made in this service could not be ascertained. However, Audit scrutiny revealed various inadequacies in billing, collection and accounting of revenue with respect to WLL connections as discussed in the succeeding paragraphs.

1.14.1 Accumulation of revenue arrears due to delays in submission of completed advice notes to TRA branch

Rules stipulate that completed advice notes should be forwarded by the Commercial branch to the TRA branch within a week after providing the connections to enable the TRA branch to issue bills to the customers. Scrutiny of relevant records revealed that in 69 SSAs under 19 circles, completed advice notes pertaining to 1,858 WLL telephone connections during the period September 2002 to July 2005 were not received within the stipulated period in TRA branch. As a result, 19200 bills could not be issued to the concerned customers, which led to accumulation of revenue arrears amounting to Rs 1.00 crore.

1.14.2 Short billing of WLL connections

Audit observed that in the Agra SSA under the UP (West) Circle, bills were issued only for 48843 WLL connections as against 52120 working connections during the year 2004-05. This led to short billing of Rs 3.28 lakh in respect of

3277 WLL connections. On this being pointed out the Management stated that the billing was not done due to non-receipt of advice notes. Similarly in J & K Circle, bills in respect of 4,399 and 5,025 WLL connections were issued against 7,119 and 14,508 working connections during 2003-04 and 004-05, respectively. This resulted in non-billing of Rs 2.23 crore and Rs 7.14 crore during the years 2003-04 and 2004-05 respectively.

1.14.3 Delayed billing of WLL connections

The Company while notifying (February 2001) the tariff for the WLL fixed and mobile services, fixed the billing cycle for this service as a monthly one. Audit, however, observed that in the Hazaribagh SSA under the Jharkhand Circle, bills were issued after delays of two to six months during the year 2004-05. In the Haridwar SSA under the Uttaranchal Circle, bimonthly bills were issued for the initial period of one year (August 2003 to August 2004) and subsequently, the bills were issued monthly. Similarly, in Baripada and Cuttack SSAs under the Orissa Circle, bills were issued bimonthly instead of on monthly basis. The Management of the Hazaribagh SSA stated (July 2005) that the delay was mainly due to non-receipt of meter readings in time and failure of the computer system and the Management of the SSAs of the Orissa Circle accepted the failure.

1.14.4 Non monitoring of bills of heavy callers

According to instructions (March 2001), customers making over 3,000 calls in a month were to be treated as heavy callers. Such subscribers were to be identified in each SSA and a cell created for ensuring timely billing and collection, besides offering better customer care to them. Test checks in seven SSAs under the Assam, Bihar and Orissa circles revealed that Rs 20.58 lakh was outstanding against heavy callers and no separate monitoring was being done by these SSAs.

1.14.5 Heavy outstanding against WLL customers

The corporate office issued (November 2000) instructions to all the SSAs to sensitize themselves early to the significance and criticality of timely revenue billing and collection. It also emphasized the need to take concrete steps to increase the revenue of the SSAs and to reduce their failures through close monitoring. Audit noticed that in 35 SSAs in five circles and all SSAs in eight circles, the percentage of collection of revenue over the amount billed during 2002-03, 2003-04 and 2004-05 was 65.60 *per cent*, 64.88 *per cent* and 50.17 *per cent* respectively. The percentage of outstanding calculated at the minimum rate of rent of Rs 100 per connection revenue showed an increasing trend. At the end of March 2005, the total outstanding against WLL customers in the above SSAs was Rs 113.88 crore.

1.14.6 Non-closing of WLL connections even after 90 days of their disconnections

Rules provide that a disconnected telephone should be closed permanently after a period of 90 days from the date of disconnection. Thus no bills for rent should be generated thereafter. Audit scrutiny in 20 SSAs under the Chhattisgarh, Jharkhand, Karnataka, Madhya Pradesh, Orissa, Rajasthan and UP (East) circles revealed that WLL connections were not permanently closed after 90 days of the disconnections and bills for rentals continued to be issued to the customers. It was further observed in 12 SSAs of the Jharkhand, Rajasthan and Orissa circles that closing advice notes were not issued by the respective Commercial branches even after the lapse of 90 days and the TRA branches continued to issue bills. This resulted in issue of wrong bills for Rs 22.36 lakh in respect of 1,663 cases of closed connections in these SSAs.

1.14.7 Non availability of automatic disconnection facilities in billing software

Rules provide that a telephone bill should be paid within 15 days from the date of issue. In cases of non-payment, the telephones in respect of individual customers were liable to be disconnected on the fortieth day after the date of issue of bills. A test checks of records of 19 SSAs under the Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa and Uttaranchal circles revealed that the automatic disconnection facility was not available in their billing software. Audit further observed that in 30 SSAs under eight circles, viz., Assam, Chhattisgarh, Orissa, Rajasthan, Bihar, UP (east), Uttaranchal and all the SSAs in the Madhya Pradesh Circle and Chennai Telephone District, disconnections of telephone connection were not done on time even when two to 19 bills (between 2001-02 and 2004-05) were pending. This led to accumulation of outstanding revenue to the tune of Rs 42 crore against WLL customers

11.2 Explaining briefly the functions of the Telephone Revenue Accounting (TRA) Branch in each SSA, its accountability to Corporate office & monitoring of its functions, it was submitted by the Company that TRA unit of a SSA is responsible mainly for billing and Collection. Issue of bills, collection-monitoring, billing complaint handling, issue of reminder for payment, preparation of disconnection list and dispatch to each exchange for implementing disconnections, preparation of defaulter list and pursuit thereafter, preparation of revenue sub-ledger and reporting to circle office, are the main functions of TRA unit in SSA. Circle office is monitoring performance of TRA branch of each SSA, which appears in the Sub ledger in the form of performance parameters like-collection efficiency, total amount billed for, revenue per user, outstanding etc. Corporate office of BSNL is monitoring revenue performance of each circle, and circles are monitoring revenue performance of their SSAs. Performances of SSAs are reflected in the revenue sub ledger of each Circle. Performance of

Circles is reviewed at corporate office level, and in case of any shortcoming noticed at circle's part, necessary instructions are issued.

11.3 On being asked as to how it is ensured that bills are timely issued by the TRA Branch and what monitoring mechanism is prevalent in the Company to ensure that all customers are billed in time and the billed amounts are also recovered in time, the Company submitted that all SSAs have already been instructed to issue bills before 14th of the next month and disconnection has also to be carried out after 35 days of issue of bills, in case of non-payment. Circle office is monitoring timely the issue of bills and disconnection of telephones.

11.4 On the issue of revenue loss on account of short billing and delayed billing of WLL connections since 2002, the Company has opined that there is no revenue loss due to short billing /delayed billing. As soon as the opening advice note is received from commercial/operation branch, bills are issued and recovery is made.

11.5 Regarding the present status of recovery of revenue arrears incurred on account of short billing / delayed billing, the Committee were informed that total outstanding against WLL connections(as on 31.03.05) is approx. Rs. 111 Cr. It is difficult to ascertain exact outstanding amount due to factors like short billing/delayed billing and amount recovered against such outstanding as no segregation of this kind is being made in the total outstanding amount.

11.6 On being asked about the reasons for short billing / delayed billing and the action taken by the Company against its own defaulting officials, the Committee were informed that:

“Main reason for short billing/ delayed billing was non-receipt of intimation of activation of service i.e completed advice note in TRA branch. Non-receipt of meter reading, failure of billing hardware and software at times is other reason. Regarding action taken against officials, we have time and again issued instructions to the circles to educate the concerned staff to ensure prompt billing, so that such instances of non/delayed billing do not re-occur.”

11.7 It was further submitted that as most of the areas, say about 80% served by WLL technology in BSNL circles falls in Rural areas and are located very far from TRA office, the delivery of message/Dak takes time resulting delay in receipt of activation of service, which may cause short billing.

11.8 Regarding the monitoring of Bills of heavy callers, the Company stated that as per instruction issued by BSNL customers making more than 3000 calls in a month were to be treated as heavy callers. It is again re-iterated that for any amount outstanding against such subscribers, efforts are being made to recover

money from such defaulting subscribers. Generally company's instructions for separate monitoring of billing and collection are adhered to by the circles. Separate CIC cells were formed in each SSA to provide better customer service to heavy callers and to monitor billing and collection. Cases pointed out by the audit are only isolated ones. All out efforts are being made by department to recover money from defaulters. Monitoring of heavy callers is being done in each SSA and Circle level also. Corporate office is also sensitizing their field units regarding need of monitoring of billing and collection of heavy callers to minimize instances of default.

11.9 Regarding the quantum of present revenue arrears as accumulated during last 5 years, the Company stated that as per report given by circles, the total Outstanding revenue as on 31.03.2005 was Rs. 111 Cr. The revenue arrears of Rs. 111 crore (including o/s for bills issued during February-05 and March-05) is not for a particular year/Circle, but accumulated over last 5-6 years and more than 330 SSAs. The main reasons for accumulation of arrears is due to competition in the telecom sector and as such subscribers have the options to shift towards other operators/ service after keeping outstanding amount. Now, the disconnection of telecom services including WLL has not much effect to the subscribers due to easy availability of services from other operators within a very short period. However, time and again, instructions have been issued to take all necessary steps to realize/reduce the outstanding dues of BSNL including WLL service. However, it is pertinent to mention that Rs. 111 crore is about 15% of amount billed for during the period (i.e. about 85% of amount billed has been realized). There is marked improvement in collection efficiency from 79% for 2001-2002 to 85% for 2004-2005. As per industrial norms this is more than satisfactory performance.

11.10 On being asked about the existing instructions for recovery of outstanding arrears, the Company submitted that:

- “1. As per Rule 178 Telecom Manual Vol. XIV on 5th of the month following the month of closure of a connection, the name of the subscriber who has defaulted payment is included in Defaulter List prepared separately for Government and Private Subscribers.
2. Notices in prescribed form are sent to such defaulters and acknowledgement thereto is watched and placed on record, if received.
3. After 15 days of issue of the notices mentioned above, the defaulter list is submitted to the DE concerned, to order further course of action to be taken i.e., Departmental action by getting the cases pursued through PI or TRI or by Legal action.

4. As per Rule 187 of the Telecom Manual Vol. XIV after the accounting clerk has prepared the defaulter list, the same is sent to pursuit cell for further pursuance till the amount is realized or written off.”

11.11 On being asked about the extent of recovery of the outstanding arrears year-wise for the last 5 years , it was submitted that no separate record for the recovery of outstanding arrears is available. However the outstanding arrears at the end of each financial year are indicated as Opening Balance for next year. This gets merged with the ‘Amount Billed For during the next year and the Amount Realised in the next year when subtracted from ABF and Opening Balance gives details of outstanding arrears for the next year and so on.

11.12 Regarding the procedure followed for closure of connections on customers’ requests and non-issuance of bills thereafter, the Committee were informed that after receipt of request for closure of connection, the Commercial branch issues closure advice note. On the basis of such closure advice note, balance deposit money is refunded to the customer and further billing is not done.

11.13 Regarding the monitoring mechanism available with the Corporate Office it was stated that Circles are addressed regularly, reports are also being asked and on the basis of report given by circles, their performance being monitored and further course of action is also suggested by corporate office. Information of disconnection, closure and refund is being sent in monthly MIS prescribed by TRA and quarterly Performance Monitoring Report.

11.14 Regarding the criteria being followed by the Company for automatic disconnection of telephone connections on account of non-payment of telephone bills and why this criteria was not followed by few circles, it was answered that except exempted category and outstanding up to a certain limit, all other connections having outstanding can be disconnected automatically. Our existing billing packages – Dotsoft and Trichur are not having auto disconnection facility. Some of the circles have arranged software for auto disconnection facility locally. As CDR based billing is already in pipeline and existing software have to be replaced by CDR based new state of art billing software, with such change in existing billing software Auto disconnection facility would be available in the new billing software all over India. Auto disconnection facility is already in use in CMTS billing system on all India basis.

11.15 On being asked whether automatic disconnection facilities have been provided in the billing software to each Circle it was replied that except exempted category and outstanding up to a certain limit, all other connections having outstanding can be disconnected automatically. Our existing billing packages – Dotsoft and Trichur are not having auto disconnection facility. Some of the circles have arranged software for auto disconnection facility locally . As CDR based billing is already in pipeline and existing software have to be replaced by CDR

based new state of art billing software, with such change in existing billing software Auto disconnection facility would be available in the new billing software all over India. Auto disconnection facility is already in use in CMTS billing system on all India basis .

11.16 On the issue of recovery of outstanding revenue of Rs. 42 crore on account of non-availability of the automatic disconnection facilities, the Committee were informed that such type of segmentation of outstanding and monitoring is not possible at corporate office level. Necessary monitoring and pursuit for realization of outstanding dues is being made for the total outstanding, instead of pursuing the same segment-wise.

11.17 The Committee while observing that on one hand the BSNL is claiming that there is no revenue loss due to short billing/ delayed billing, on the other the Company has admitted that total outstanding against WLL connection (as on 31.3.2005) is approximately Rs. 111 crore and it is difficult to ascertain exact outstanding amount due to short billing/ delayed billing. In view of this, the Committee desired to know as to how the Company can claim with certainty that there is no revenue loss on these accounts in view of the above contradictory statements. The reply was as under: -

“Outstanding does not imply revenue loss. Outstanding is created when bills are raised and payment is not received. This does not imply that the amount stated as outstanding is irrecoverable or lost revenue. Therefore, the contention of giving contradictory statement does not arise. Revenue loss may occur in cases of short billing/non-billing, failure of billing system etc. For this, standing instructions and systematic checks within the billing system are available. Standing instructions to the circles are available to educate the concerned staff to ensure prompt billing, so that such instances of non/delayed billing do not occur. In specific cases where officers are found lacking in their performance action is taken as per rules.”

RECOMMENDATION

The Committee note that according to Audit, there were many inadequacies in the billing, collection and accounting of revenue practices followed by the BSNL with respect to WLL connections. These deficiencies include accumulation of revenue arrears due to delays in submission of completed advice notes; short billing of WLL connections; delayed billing of WLL connections; non-monitoring of bills of heavy callers; heavy outstanding against WLL customers; non-closing of WLL connections after their disconnection and non-availability of automatic disconnection facilities etc. According to the Audit, due to these short-comings, the percentage of outstanding revenue has showed an increasing trend and at the end of March, 2005, the total outstanding against WLL customers was Rs.113.88 crore. In this regard, the Committee note that as per the procedure followed in the Company, Telephone Revenue Accounting (TRA) unit of a Secondary Switching Area (SSA) is mainly responsible for billing and Collection. The main functions of TRA unit is issue of bills, collection-monitoring, billing complaint handling, issue of reminder for payment, preparation of disconnection list and dispatch to each exchange for implementing disconnections, preparation of defaulter list and pursuit thereafter, preparation of revenue sub-ledger and reporting to circle office. The performance of TRA branch of each SSA is monitored by the Circle concerned in the form of performance parameters like - collection efficiency, total amount billed for, revenue per user, outstanding etc. The

Corporate office of BSNL is monitoring revenue performance of each Circle and in case of any shortcomings necessary instructions are issued by it. As per the information furnished by the Company, the total outstanding against WLL connections is approximately Rs.111 crore on account of short billing/delayed billing, non-receipt of completed advice note in TRA Branch, non-receipt of meter-reading, failing of billing hardware and software etc. Regarding non-receipt of timely intimation to the TRA Branch, the Company has stated that in about 80% of areas served by WLL Technology, Circles fall in rural areas and are located very far from TRA office. As such the delivery of message/dak takes time.

The Committee note that the Company has taken a number of remedial measures to do away with the short-comings/deficiencies pointed out by the Audit so as to ensure minimum revenue arrears due to short/delayed billing in the future. All the SSAs have been instructed by the Company to issue bills before 14th of next month and in case of non-payment, disconnection within 35 days is to be carried out. Instructions have been issued to the Circles to educate the concerned staff to ensure prompt billing and the need of monitoring of billing and collection of heavy callers .The Committee has also been informed that an automatic billing software is already in pipeline and auto disconnection facility would be made available all over India.

The Committee take a serious note of huge outstanding arrears to the tune of Rs.111 crore in the BSNL on account of deficiencies in the billing process. The Committee feel that various justifications furnished by the Company for accumulation of these arrears are of routine nature and reflects a non-professional approach in the matter. This fact is further strengthened by the admission of the Company that no separate accounts are available to segregate the various outstandings. Even no separate records relating to recovery of outstanding arrears are available in the Company. The Company has failed to devise any method to ensure that advice notes are timely received in the TRA Branch from the far-flung rural areas and have continued to depend upon the manual message/dak delivery system. The Committee, therefore, strongly recommend that the Company should further strengthen its coordination mechanism amongst its various wings for ensuring complete billing and revenue realization. The Company should ensure a fool-proof mechanism in respect of timely receipt of advice notes from the commercial wing after completion of activities relating to opening, shifting and closure of connections, so that bills are issued immediately; prompt receipt of meter readings from exchanges and billing of the same without delay; immediate stopping of billing after disconnection and closure of connections; proper monitoring of outstanding revenue etc. The Company should ensure effective monitoring of outstanding revenue to avoid the risk of accumulation of revenue arrears. The TRA branch should prepare separate details of the revenue billed, collected and outstanding in respect of

their WLL telephone service to monitor the return on investment on this service. The Company may also ensure that automatic billing software should be deployed at the earliest. The Committee further emphasize that all out efforts must be made for recovery of outstanding arrears from the defaulting parties. In order to avoid recurrence of such lapses in the future, the Committee recommend that a system be put in place for fixing responsibility on the persons found guilty of dereliction of duties assigned to them.

CHAPTER - XII

QUALITY OF WLL SERVICE

12.1 The audit in para 1.15 of their Report has made the following observations on the quality of wll services being provided by BSNL:-

1.15. QUALITY OF WLL TELEPHONE SERVICE

The quality of the WLL service provided by the Company was not completely satisfactory in most of the circles as there were complaints regarding poor coverage, non-provision of umbrella network coverage, system failures, very low signals or no signals in peak hours, call dropping, faulty WLL terminals, frequency overlapping, etc. A field survey on the quality of the WLL telephone service of the Company in rural and urban areas was conducted by Audit during August 2005. A total of 3,260 customers in 81 SDCAs of rural and urban areas of 17 circles and two metro districts of the Company were surveyed of which 2,359 customers were from 64 SDCAs of rural areas and 901 customers were from 17 SDCAs of urban areas. The important findings of the survey are described below:

1.15.1.1 Non-releasing of new WLL connections in time

Out of the total number of customers surveyed, 2,313 customers (98.05 *per cent*) of rural areas and 897 customers (99.56 *per cent*) of urban areas responded on this issue. According to the norms prescribed by TRAI for basic service providers, after booking of the new connection by the customer, the connection should be released in 'less than seven days'. However, the response received from the above customers revealed that in the case of 61.52 *per cent* of rural and 48.72 *per cent* of urban customers the time taken by the Company in release of new connections exceeded seven days after the booking of connections.

1.15.1.2 WLL telephones remained out of order

According to the norms prescribed by TRAI for basic service providers, the number of telephones lying out of order in a month should be 'less than three per 100 customers'. Out of the total number of customers surveyed, 2311 customers (97.97 *per cent*) of rural areas and 893 customers (99.11 *per cent*) of urban areas responded on this issue. The response received revealed that in a month, the WLL telephones of 41.11 *per cent* and 48.49 *per cent* of rural and urban customers, respectively, remained out of order.

1.15.1.3 Non-rectification of faults within the prescribed time period

According to the norms prescribed by TRAI for basic service providers, the faults of more than 90 *per cent* of faulty telephones should be cleared by the next working day of their reporting. Out of the total number of customers surveyed, 937 customers (39.72 *per cent*) of rural areas and 462 customers (51.28 *per cent*) of urban areas responded on this issue. The response received revealed that the Company did not repair the faults of the WLL telephones of 29.67 *per*

cent and 27.71 *per cent* of rural and urban customers respectively by the next working day showing lack of coordination between the customer care and operational wings of the Company.

1.15.1.4 Poor voice quality of WLL telephone calls

According to the norms prescribed by TRAI for CMTS operators, the number of calls with good voice quality should be 'more than 95 *per cent* of calls'. Out of the total number of customers surveyed, 2,323 customers (98.47 *per cent*) of rural areas and 901 customers (100 *per cent*) of urban areas responded on this issue. The response received revealed that less than 95 *per cent* of calls with good voice quality were received by 35.13 *per cent* and 63.71 *per cent* of rural and urban costumers, respectively indicating of poor network coverage of the WLL system.

1.15.1.5 Repeat dialing to get the desired connections

Out of the total number of customers surveyed, 2345 customers (99.41 *per cent*) of rural areas and 878 customers (97.45 *per cent*) of urban areas responded on this issue. Responses received from the above customers revealed that 17.99 *per cent* and 23.81 *per cent* of rural and urban costumers, respectively, had to dial the desired telephone numbers two or more times from their WLL telephones to get the connections, which was indicative of poor network coverage of the WLL system.

1.15.1.6 Non-provision of additional facilities like STD and ISD in time

According to the norms prescribed by TRAI for basic service providers, additional facilities should be provided to a customer within less than 24 hours of the request received for the same. Out of the total number of customers surveyed, opted for STD/ISD facilities, 260 customers in rural areas and 87 customers in urban areas responded on this issue. The response received revealed that 25 *per cent* and 16.09 *per cent* of rural and urban customers, respectively, got additional facilities such as STD and ISD after more than 24 hours of making requests for the same.

1.15.2 Inadequate arrangement for power supply

Audit observed that power supply had become one of the major bottlenecks in the operation of the WLL telephone service, especially in rural areas and in states like Bihar, Jharkhand, Orissa, Uttar Pradesh and West Bengal. Besides the requirement of power for WLL exchanges, there was the requirement for charging the batteries of the WLL terminals by the customers, which should have been assessed properly. In response to the survey conducted by Audit, 1099 customers in rural and 544 customers in urban areas reported problems in charging of their WLL terminals due to non-availability of power supply. Of these customers, 57.97 *per cent* customers in rural and 24.35 *per cent* customers in urban areas reported that their WLL telephone sets remained non-functional for more than two days due to non-availability of power.

12.2 On being asked about the norms prescribed for release of new connections and whether these norms are uniform for rural and urban areas, the company replied that as per TRAI norms, new telephone connections are to be provided within 7 days after registration of demand subject to technical feasibility in 100% cases. The parameter is applicable only in those areas where telephone is available 'On Demand'. In all other cases, the connections are to be released in a non-discriminatory manner as per the waiting list, objectively pre-determined for various categories. The norms are uniform for both urban and rural areas.

12.3 Regarding the reasons for not complying with the prescribed norms, the submission of the Company was as under:-

“While every effort is made to adhere to the prescribed norms, in some cases delays do occur due to the reasons beyond the control of BSNL some of which are as under:

1. Subsequent to release of OB, subscriber desires telephone connection to be provided at a different address.
2. Subscriber himself desires the telephone connection be provided on day, which may be later than 7 days.
3. Landlord may object for installation of telephone connection for the tenant.
4. Subscriber has a telephone connection, disconnected due to non-payment or is a close relative of a subscriber for whom a telephone connection has been disconnected due to non-payment at the same address.
5. On verification the subscriber is found to be non-genuine and thus the applicant is a pseudonymous.
6. In hilly terrain and in remote areas the demand is very scattered and the provision of telephone sometimes requires erection of posts which required time.
7. Sometimes in areas which are infested with terrorist activities, bandhs called by such outfits as also due to non-availability of police protection to the staff due to their pre-occupation, it is not possible to carry out the installation work.
8. Natural calamities such as earthquake, floods, heavy snowfall, land slides resulting in delay in execution of the work.
9. Refusal of the subscriber to accept WLL based fixed connection, where cable pair is not available”.

12.4 On being asked about the monitoring mechanism devised by the Company to ensure compliance of TRAI's norms for release of the connections to customers after their booking, the Company replied as under:-

“Constant monitoring is being done at the highest level in the field units and at BSNL Corporate Office on monthly basis and the Circles are persuaded constantly to achieve the targets. Monthly reports are called

for to monitor the achievement of each circle regarding provision of new connections in areas 'on demand' including the WLL connection.

BSNL has simplified its commercial procedure drastically w.e.f. 20.4.2006. Integration of the commercial, billing and FRS software is being carried out progressively. With gradual computerization of these activities the position is expected to improve substantially. The constant monitoring of the parameters has shown substantial improvement during the past."

12.5 On being asked about the steps taken by the Company during the last 5 years for improving the voice quality / network coverage and other faults of the WLL Systems and how is it ensured that the technology is continuously upgraded to keep pace with the development of new technologies and their deployment by other private players besides the mechanism evolved by the Company for timely rectification of the complaints of the customers on this account, the Company informed:-

"The following steps have been taken by the company to improve the quality/network coverage and other faults in the WLL system during the last five years:-

- (a) On an average 3 BTSs per SDCA have been planned for network coverage and to improve the quality of WLL equipment. As on date 4956 BTSs are working in the SDCAs;
- (b) V 5.2 based CDMA WLL are being upgraded to MSC based CDMA 2000 1X wherever technically and commercially feasible. Order for procurement of 5 lakh lines ZTE make equipment have already been issued. For remaining WLL systems, techno-commercial evaluation is in process.
- (c) The value added services like pre-paid, SMS, high-speed packet data, MMS etc. are being introduced progressively.
- (d) In rural area the WLL subscribers are being provided with 12 V SMPS power pack to make the FWT usable/workable for at least one to two days in case of non-availability of electricity in a village.
- (e) Circles have been instructed to provide charging facility in telephone exchanges for WLL terminals to the customers who bring their terminals for charging due to lack of electricity in their villages in the rural areas."

12.6 When enquired about the steps taken / instructions issued by the Company for ensuring adherence to the quality of service norms fixed by TRAI to avoid the risk of migration of the customers to other private operators, it was submitted that there is no differentiation made in WLL telephone and wired line telephone for those parameters, which are applicable for basic services for which instructions are issued from time to time. BSNL has issued Do's and Don't for

the WLL subscribers so that they can use the service in a better manner. BSNL has also issued instructions to the circles regarding refreshing charge to be given to the in-built batteries supplied along with FWTs / SMPSs at a regular interval so as to keep the terminal / SMPS units in charged condition till these are deployed in the field. Circles have been instructed to deploy the IFWTs supplied with SMPS for replacement in the rural and other areas having poor and deficient commercial supply. Instructions regarding use of HHTs instead of FWTs, if not available, for giving new connections and replacing faulty FWTs of VPTs were also given to the circles.

12.7 When asked whether the Company conducts surveys at regular intervals to obtain feedbacks from its customers about the quality of its WLL Service and if so, the outcome thereof and the corrective actions taken thereon during the last 5 years, the Company in their reply stated:-

“No Sir. BSNL on its own has not conducted any survey exclusively for WLL services during the last 5 years. Further it is mentioned that corrective action for improving WLL services are being taken in the field units on the basis of feed back received during “OPEN HOUSE SESSIONS” held at Division, SSA and Circle level, interaction with and feed back on services received from District Authority, locally registered complaints at FRS etc. “

12.8 In the above backdrop when it was asked as to what monitoring mechanism is available to monitor the customer's satisfaction and whether any study has been made to ascertain the customers' satisfaction, the Company stated:-

“BSNL has not conducted any separate survey to monitor customer's satisfaction for WLL services. However, based on interaction with the public on day to day maintenance basis, corrective and preventive actions are initiated for improving WLL services to the best possible customer's satisfaction in the field units. The feedbacks received during interaction with the customers, during various stages of open house sessions held at Division, SSA and Circle level, and also from district authorities, locally registered complaints at FRS etc., is the basis for knowing customer's satisfaction and initiating the corrective measures for WLL system.

12.9 On being asked about the steps taken by the company during the last five years to improve upon the areas of poor voice quality, repeat dialings and lack of additional facilities like STD / ISD and inadequate arrangement of power supply etc, the company stated that:-

“The BSNL has continuously expanded and upgraded the WLL system to improve the quality of service. The main aim has been to provide full

coverage of the SDCAs. Initially it was decided to provide one WLL BTS per SDCA. Further it has been decided to increase the number of BTS per SDCA to three to have better coverage. Approximately 5000 BTS are working and 1900 BTSs are under supply / installation. In addition around 3800 more BTSs have been ordered recently.

With deployment all the BTSs, it is expected that both urban / rural areas will have proper coverage and quality of service shall improve to great extent. However 'Electricity' is one of the major problem in rural areas for poor quality of services in respect of Fixed Wireless Terminals(FWT)."

12.10 When asked about the monitoring mechanism devised by the Company to ensure compliance of TRAI's Quality of Service norms by all its units across the country it was stated that:-

"It is expected that there is no differentiation made in WLL telephone and wired line telephone for those parameters, which are applicable for basic services for which instructions are issued from time to time. BSNL has issued Do's and Don't for the WLL subscribers so that they can use the service in a better manner. BSNL has also issued instructions to the circles regarding refreshing charge to be given to the in-built batteries supplied along with FWTs / SMPSs at a regular interval so as to keep the terminal / SMPS units in charged condition till these are deployed in the field. Circles have been instructed to deploy the IFWTs supplied with SMPS for replacement in the rural and other areas having poor and deficient commercial supply. Instructions regarding use of HHTs instead of FWTs, if not available, for giving new connections and replacing faulty FWTs of VPTs were also given to the circles."

RECOMMENDATION SI NO. 12

The Committee note that quality of service is the main indicator of the performance of a telephone service as well as of the degree to which the service conforms to the stipulated norms. The Committee observe that the norms prescribed by TRAI for the quality of service performed by basic service operators were applicable for the WLL service of the Company also. In this regard a survey conducted by Audit has revealed that the Company had failed to achieve the quality of service norms prescribed by TRAI pertaining to release of connections, incidence of faults and their rectification, voice quality, getting connections to desired telephone numbers and provision of additional facilities like STD and ISD etc. The Committee note that in order to do away with these short-comings, the Company has taken a number of remedial measures to improve the quality of service. The Company has planned to increase the number of Base Transceiver Station(BTS) per Short Distance Charging Area (SDCA) to improve the network coverage besides upgrading the existing V.5.2 based CDMA technology to MSC based CDMA 2000 1X. Further value added services like pre-paid, SMS, high-speed packet data, MMS etc. are being introduced progressively. The Circles have also been instructed to provide charging facilities in telephone exchanges for WLL terminals to the customers in rural areas where there is lack of electricity.

The Committee while appreciating the various measures so undertaken by the Company to improve the quality of service by the

Company are of the view that these steps were required to be taken much earlier. The Committee are constrained to note that the Company has never conducted any market surveys exclusively for WLL Service to obtain feedbacks from its customers to ascertain the ground realities regarding the quality of WLL service and take immediate corrective action on the same. The Committee feel that this exercise should be undertaken by the Company from time to time to enable it to provide a better operational performance besides also competing with the private players in the field. The Committee, therefore, recommend that the Company should strengthen its monitoring mechanism by obtaining monthly reports from all the circles on customer care. The Company must ensure implementation of the various remedial measures suggested by them to improve the quality of service at the earliest possible. The Committee further recommend that the Company should ensure adherence to the quality of service norms fixed by TRAI to avoid the risk of migration of the customers to other operators. The Company should ensure proper coordination among its customer care, commercial and operational wings for minimizing the delays in attending to customers' complaints and requests for additional facilities to avoid the risks of losing them to their competitors.

CHAPTER - XIII

MONITORING BY CORPORATE OFFICE

13.1 The audit in their report has pointed out a number of shortcomings on the part of Corporate Office in respect of the monitoring role expected to be played by it in implementation of WLL project by various Circles of the BSNL. The Company failed to formulate proper strategies and detailed plans at the time of launching the WLL telephone service in 2000-01 and its subsequent expansions. The capacity remained grossly under-utilized both in rural and urban areas mainly on account of deficient planning; mismatches in the procurement of WLL systems and terminals; poor network coverage and poor quality of service. The Company suffered financial losses due to inaccurate assessments of demand and requirement and selection of obsolete technologies. The following are some of the important audit observations made in this regard:-

(i) Despite instructions, 13 circles and the two Metro districts did not prepare separate costing records for the WLL telephone service. The records showed a total loss of Rs 122.15 crore in seven circles. (*Paragraph 1.9.3*)

(ii) Most of the circles failed to make timely arrangements for sites, towers, power supply, etc, which led to delays in installation and commissioning of the WLL telephone systems. (*Paragraph 1.10.1*)

(iii) The corporate office's failure to monitor receipt of frequency allocations from the WPC Wing of the DoT resulted in operation of CorDect WLL telephone service in five circles and two Metro districts without mandatory 'Agreements in Principle'. It was also noticed that detailed records in respect of Circle-wise and site-wise frequency allocations from WPC for the years 2000-01 to 2004-05 were not maintained at the corporate office.

(iv) Commencement of operations without requisite 'Agreement in Principle' from the Wireless Planning and Coordination Wing

. It was noticed that the 'Agreements in Principle' for the requisite frequencies were received from the WPC Wing only in respect of eight circles up to December 2004/July 2005. In respect of the remaining five circles and two metro districts, though the 'Agreements in Principle' had not been received (August 2005) from the WPC Wing, the systems were being operated, which violated the conditions of obtaining the licence for use of frequencies.

(v) Non-obtaining of SACFA clearances for sites

Telecom operators also have to seek clearances for the sites where they intend to install wireless equipment from SACFA. SACFA has to give these site clearances within a period of two to six months from the dates of receipt of the applications. A test check of records of 19 circles and one metro district revealed

that out of 2,729 sites for which SACFA clearance had been sought, clearances for only 1,399 sites had been received till June 2005 while clearances for the balance 1,330 sites were still pending (March-September 2005). The Management stated (June 2005) that letters regarding site clearance were directly issued to the concerned circles by WPC due to which the status of clearance of sites was not available in corporate office. On this being pointed out, the local managements stated (May-September 2005) that there were considerable delays in receiving clearances from the WPC wing and SACFA in spite of clear instructions from DoT

(vi) Non-compliance to terms and conditions on releasing payments

The Management should have ensured that the terms and conditions of the purchase orders and the conditions for granting extensions in delivery schedules were scrupulously adhered to by the circles while releasing payments to safeguard the Company's interest. Some circles failed to adhere to the terms and conditions of the purchase orders while releasing the payments to the suppliers.

13.2 The Company was asked to state what monitoring mechanism is available with the Corporate Office for its WLL services and whether there is any exclusive division in Corporate Office to monitor the WLL Services in the various States. In reply the company submitted as under:-

“WLL was being deployed as a new technology for the first time in the rural areas and hence the monitoring of the whole process was of prime importance and has been given the due consideration in the whole implementation. The commissioning of the systems day-to-day basis monitoring and co-ordination was being done by one of the senior officers of the rank of Sr. DDG at corporate office. Adequate monitoring mechanism and well led Management Information System for collection of the status reports of the progress related to the project was followed which included the carrying out the meeting of senior management even at Chairman (TC) level, executing agencies and suppliers.

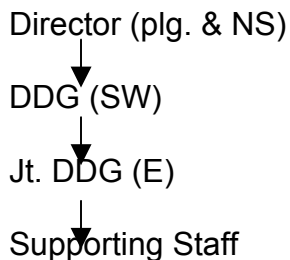
There is not any exclusive division for the purpose of monitoring. SW Cell is a nodal agency for the works relating to WLL planning and its procurement. However, planning works relating to the initial introduction of WLL for covering the villages were handled by RN Cell up to 2002-2003. NM Cell is a nodal agency for day-to-day operation and maintenance of the WLL equipment. The performance of WLL equipment was quite satisfactory in rural as well as urban areas, which can be seen from the fact that BSNL has provided 27,52,887 connections as on 31.7.2006. For further improvement of WLL services, company has already decided and deployed MSC based WLL equipment. “

13.3 On being asked whether there are exclusive divisions in the Company for other kinds of telecommunication Services being offered by the Company

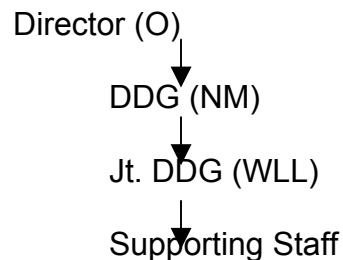
and also in view of the huge investments made in the WLL Services and also the large number of connections provided under it, will it not be more appropriate to have an exchange division for proper planning and effective monitoring of WLL operations by various circles in the country, the following comments were offered:-

“The Director (Plg & NS) BSNL Board is overall responsible for planning, procurement, installation / commissioning of WLL system in BSNL. Director (Operation) BSNL Board is overall responsible for operation & maintenance of the WLL system. Director (Fin.) is overall responsible for all finance activities including billing, accounting, profit and loss etc. The detail of organisational structure at Corporate.

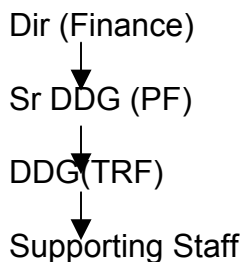
For Planning & Procurement



For Operation & Maintenance



For Finance



It is to mention that BSNL follows function based and not product based organisational structure. This organisational structure is being followed from the time of Deptt. Of Telecom Service.

The function based organisational structure are most suited for a big Organisation like BSNL. However BSNL reviews the man power requirement for each product category like WLL / GSM from time to time.”

13.4 Regarding the various deficiencies pointed above by the Audit, the BSNL was asked to state the mechanism available with the Corporate Office to ensure

that instructions were strictly followed by the Circles, the Company submitted as under:-

“Circles were instructed to strictly follow the instructions and guidelines issued from the corporate office. In order to ensure that the circles are following the instructions regular monitoring of the progress of infrastructure to be deployed for deployment of WLL system was being done on weekly, fortnightly or monthly basis apart from holding coordination meetings involving all stakeholders including vendors. Circles also made all out efforts to comply with the instructions wherever technically feasible. “

13.5 Regarding monitoring mechanism being followed by the Company to ensure that separate costing records and revenue projections for the WLL telephone services are prepared by all, the Company submitted that the preparation of costing records is monitored through correspondence with the Circles.

13.6 On the observation of the audit that despite instructions from the Corporate Office, most of the circles failed to make timely arrangements for sites, towers, power supply, etc. which led to delays in installation and commissioning of the WLL telephone systems, the comments of the Company were as under:-.

“Circles are instructed well in advance to keep infrastructure like towers, power supply, etc. ready before delivery of the WLL equipment. The monitoring was done regularly on weekly basis for progress of the infrastructure. However, Corporate Office monitors all such projects at macro level through monthly development report as well as Management Information System statistics. Micro level monitoring is done by all the circles, each headed by a Chief General Manager level officer. In addition Director (Plg.& NS) holds meetings along with the concerned Planning Cell officers at zonal level from time to time to review & monitor the progress of ongoing projects like creation of infrastructure, site towers, etc. and installation of BTSS, installation of equipment and its commissioning.”

13.7 On being asked about the reasons for non-compliance of the instructions issued by the Company to the Circles and what role was played by the Corporate office in resolving problems being faced by different circles, the Company submitted that:-.

“Most of the infrastructure was ready by the Circles in time. However, at few sites the Circles could not give compliance due to non-commissioning of the infrastructure with reasons beyond control of the Circle. In such places BSNL does not have its own land for installation of BTS sites, the sites are hired from the private parties after making extensive search for a

site suitable to BSNL requirements. Negotiation with the party for finalization of terms and conditions and hiring rates is time consuming. However, to cut--short the delays and resolve such problems the Corporate Office liberalized the policy of hiring accommodation for non-BSNL sites. “

13.8 Regarding the control mechanism available with the Company to ensure that the mandatory ‘Agreements in Principle’ are obtained in time by the Circles, the Company submitted that the mandatory ‘Agreement in Principle’ is issued by WPC, which is under the control of Government. BSNL has no control - direct or indirect over WPC. BSNL can only monitor the status and pursue the cases with WPC only. The same is being done on regular basis.

13.9 On being asked whether the Company has now started maintaining records in respect of Circle-wise and site-wise frequency allocations for WLL telephone services from WPC, it was stated that the telecom circles maintain the site wise frequencies. However as per recommendation of the audit, BSNL Corporate office is now maintaining the, circle-wise and site-wise frequency allocation as received from WPC, for WLL telephone services.

13.10 On being asked about the control mechanism available with the Company to ensure that the mandatory site clearances are obtained in time from SACFA by all Circles, the Company stated that the process of SACFA clearance has been made web based by WPC. The application is made online on the WPC web site by the respective circles. SACFA clearance is issued subsequently by WPC which is under the control of Government. BSNL has no control - direct or indirect over WPC. BSNL can only monitor the status and pursue the cases with WPC only. The same is being done on regular basis through regular meetings.

13.11 The Committee desired to know whether the Company has laid down any monitoring mechanism and MIS for monitoring timely execution of different stages of the turnkey projects by the vendors. In reply the Company submitted:-

“The following mechanism is already available in the BSNL for monitoring the progress of CDMA WLL projects:

- a) Calling for monthly development reports from all circles/metro districts.
- b) Periodic reports from the respective vendors.
- c) Monthly MIS report of the Company having all statistical details of targets and achievements of the circles/metro districts.
- d) To arrange periodic development review meetings at the level of Director (Plg. & NS), BSNL Board with CGMs/GMs of the circles.”

RECOMMENDATION SL. NO 13

The Committee note that as per the organizational set-up of BSNL, the administrative and overall functional control is vested in the Board of Directors headed by the Chairman and Managing Director. The telecommunication operations of the Company are managed by its 24 telecom Circles located in various States of the country and two telecom districts (Chennai and Kolkata) under the overall monitoring of the Corporate office. Each Circle contains many secondary switching areas (SSAs) whose monitoring is done by the respective circles. The audit in their report has pointed out many shortcomings and deficiencies concerning the monitoring role of the Corporate Office. The Audit has observed that despite instructions, 13 circles and the two Metro districts did not prepare separate costing records for the WLL telephone service. Most of the circles failed to make timely arrangements for sites, towers, power supply, etc, which led to delays in installation and commissioning of the WLL telephone systems. The corporate office's failure to monitor receipt of frequency allocations from the WPC Wing of the DoT resulted in operation of CorDect WLL telephone service in five circles and two Metro districts without mandatory 'Agreements in Principle'. Even the detailed records in respect of Circle-wise and site-wise frequency allocations from WPC for the years 2000-01 to 2004-05 were not maintained at the Corporate Office. The Management failed to ensure the terms and conditions of the purchase orders by some Circles while releasing payments to the

suppliers. Excess payments were released by some Circles in respect of Sales tax and subsequent revision of tender rates etc. The Audit has concluded that the Company failed to formulate proper strategies and detailed plans at the time of launching the WLL telephone service in 2000-01 and its subsequent expansions. The capacity remained grossly under-utilized both in rural and urban areas mainly on account of deficient planning; mismatches in the procurement of WLL systems and terminals; poor network coverage and poor quality of service. The Company suffered financial losses due to inaccurate assessments of demand and requirement and selection of obsolete technologies.

The Committee observe that according to BSNL Circles were instructed from time to time to strictly follow the instructions and guidelines issued by the Corporate Office. The Company has also submitted that since the WLL was being deployed as a new technology for the first time in the rural areas, the Company realized the importance of monitoring of the whole process and due consideration was given to its whole implementation. It has been claimed by the Company that constant monitoring is being done at the highest level in the field units and at BSNL Corporate Office on monthly basis and the Circles are persuaded constantly to achieve the targets. Monthly reports are called for to monitor the achievement of each circle regarding provision of new connections in areas 'on demand' including the WLL connection.

The Committee are not inclined to agree with this submission of the Company. The Committee note that the WLL Project was of huge magnitude involving large investments. However, the Committee are dismayed to note that as admitted by the Company there is no exclusive division in the Company to monitor its implementation. Despite the tall claims made by the Corporate Office regarding their strict monitoring of implementation of WLL Project, the Committee fail to understand as to why so many shortcomings and deficiencies were committed by the Circles as pointed out by the Audit in their findings. The Committee feel that there has been laxity on the part of the Corporate Office in enforcement of instructions issued by it from time to time by the Circles. It reflects that there is a lack of coordination between forward planning and demand assessment. The justification that BSNL follows function based and not product based organizational structure thus cannot be accepted. Keeping in view the fact that the WLL Project in the rural areas is being implemented by the Company by way of a social commitment of the Government and also since the Company is getting financial support from the Government in the form of USOF, the Committee strongly recommend that the Company should form an exclusive division at the level of Corporate Office to monitor it. In addition to this, the Committee recommend that the following actions are required to be taken by the Company: -

- (i) The Company should monitor the performance of the suppliers in carrying out their responsibility towards providing adequate and uninterrupted network coverage to avoid the risk of poor quality of service and losing its customer base.**
- (ii) The Company should prescribe in advance the time schedules for the various activities to be undertaken by Circles for creation of necessary infrastructure.**
- (iii) The Company should devise a monitoring mechanism for ensuring timely receipt of 'Agreements in Principle' from the WPC wing for use of allotted frequencies and clearances of SACFA for sites for installation of wireless equipment.**
- (iv) The Company should monitor the compliance of the terms and conditions of the purchase orders by its circles to avoid the risk of irregular payments.**
- (v) The Company should monitor the levy of prescribed liquidated damage charges by the circles on the suppliers to protect its financial interests.**
- (vi) The Company should ensure effective monitoring of outstanding revenue to avoid the risk of accumulation of revenue arrears.**
- (vii) There is an urgent need for the Company to improve planning and monitoring mechanism in respect of the WLL telephone service, besides improving procurement practices.**

- (viii) The system for billing, collection and accounting of revenue from the WLL telephone requires stricter monitoring.**
- (ix) The quality of service being provided needs further improvement through better network coverage and customer care.**

CHAPTER – XIV

ROLE OF GOVERNMENT IN IMPLEMENTATION OF WLL PROJECT

14.1 The Department of Telecommunications (DoT) proposed the launching of the WLL telephone service in the country in 1994, mainly to provide telephone connections in technically non-feasible (TNF) areas. In pursuance of NTP-99, Government of India had decided to corporatise the service provision function of Department of Telecommunications (DOT). Accordingly, BSNL was set up on 1st October 2000 by corporatisation of the Department of Telecom Services (DTS) & Department of Telecom Operations (DTO). Consequently, the service provision obligations of the DoT were transferred to BSNL. In its Meeting dated 27th September 2000, the Cabinet decided that a package of measures shall be provided to ensure that the viability of BSNL is not impaired on account of the services provided by BSNL, which are uneconomic but socially desirable, at the behest of the Government. This has been the underlying basis for providing relief measures to BSNL. Subsequently, Cabinet in its various decisions taken from time to time approved the package of measures for BSNL.

14.2 On being asked about the steps taken by the government to strengthen the BSNL while mandating it with the huge task of covering the whole of the rural India as well as technically non-feasible areas and replacement of MARR technology based VPTs by providing WLL connectivity, the Ministry submitted as under:-

“The Govt. had taken a decision that 1,86,872 no. of VPTs which were earlier working on Multi Access Radio Relay (MARR) technology and installed before 01.04.2002 would be replaced as most of these were non functional. In this regard, agreements were signed with M/s BSNL in September, 2003 and March, 2004 to replace such VPTs. The duration of Agreement is 7 years to 9 years. Determination of subsidy support is based on Net Cost (NC) for the replacement of MARR VPTs taking into account Annualized capital recovery and Annual operating cost minus Annual Revenue, where Annualized Capital Recovery takes into account the Aggregate of Depreciation, Return on Equity and Interest on Debt. The Representative Rate for the annual equated subsidy varies from Rs. 9,400 to Rs. 16,900. A sum of Rs. 325.93 Crore has already been disbursed to M/s BSNL for this purpose as on 31.01.2007. As on January 2007, 168559 MARR VPTs have been replaced by M/s BSNL.”

14.3 Regarding the instructions/guidelines, if any, issued by the government to the BSNL while mandating it to implement the WLL system in the rural areas and replacement of MARR based VPTs, in respect of Planning and implementation of targets, Creation of infrastructure, Additional manpower requirement, Quality of work executed, monitoring and information system etc. ,

the Ministry submitted that . BSNL being a Board managed company, it frames its own guidelines and execution strategy in such matters. In this regard, the Secretary, DoT, during his evidence before the Committee submitted:-

“.....as far as commercial decisions are concerned, as far as on-going vendors are concerned, these are decisions that are taken by the BSNL on their own because they are a public undertaking. But what is the progress made by them has been reviewed at my level almost every month.”

14.4 Similarly, when asked about what guidance/assistance has been provided by the government to BSNL towards various ongoing litigations/arbitration cases involving recovery of funds from various vendors/suppliers, the Ministry submitted that BSNL follows its own procedures for such activities as per their procurement policies and as per standing guidelines /instruction of DOT/DTS.

14.5 On the issue of mechanism is available with the Ministry to monitor the implementation of its social commitment of telephone connectivity in rural areas by the BSNL. And whether any guidelines/directions have been issued by the government to the Company in pursuance of such monitoring, the Ministry in the reply submitted as under:-

“(a) One of the prime concerns is that the funds disbursed towards provision of services covered under USO are effectively utilized and the services are available to the users as intended. To ensure proper quality of service and maintenance of various records, conditions do exist in the Agreements with the USPs. The Agreements also provide for deductions in subsidies if the facility is non-functional on account of faults, or disconnected for non- payment or do not record any calls over the specified period. The Agreements for new installations further provide for imposition of liquidated damages in case of not meeting the roll-out obligation within the specified period. In terms of the stipulations in the Agreements, the service providers have to submit a self-certification of fault incidence while submitting the claims in the Proforma prescribed. Monthly review meetings is being taken by Secretary, DoT with Administrator USOF, CMD BSNL, CMD ITI and to review the progress of the installation of BTS equipment for provision of VPTs. RCPs, MARR replacement etc. including the issues related to Department of Space for DSPTs.

While the Quality of Service (QoS) provided is the domain of TRAI, USO Fund is concerned with the availability of facilities supported by it and that the claims reflect the correct position in respect of incidences of fault etc which qualify for deductions in subsidy. The job of verification has been entrusted to the Controller of Communications Accounts (CCAs) of DOT with the purpose of establishing the veracity of claims from the records maintained by the service providers. “

14.6 In the above context it was further submitted by the Ministry that:

“The Department of telecom reviews the performance of BSNL on regular basis. Apart from quarterly performance reviews, monitoring & review of specific projects of BSNL such as WLL, GSM cellular mobile and Broadband are undertaken by the Govt.. Memorandum of Understanding (MoUs) are being signed between DoT & BSNL every year since 2004-05 in which targets are fixed for physical parameters aimed at achieving higher teledensity in both urban & rural areas. As a result, the rural teledensity has increased from 0.93 as on 31-3-01 to 1.87 as on 28-02-07.”

14.7 To a pointed query as to whether during the implementation of WLL System by BSNL, the government has identified shortcomings in some areas that could have been handled more appropriately and if so, the steps undertaken by the government to remove such shortcomings and ensuring non-recurrence of the same subsequently, the government furnished the following reply:-.

“After formation of BSNL, the company is taking its own decisions about implementation of various services including WLL and following the standing guidelines / instruction of DOT / DTS within the framework of its license conditions.”

RECOMMENDATION SL NO. 14

The Committee understand that the New Telecom Policy (NTP-99) envisaged telephones on demand and covering all uncovered villages in the country with telephone by the end of the year 2002. In pursuance of NTP-99, the Government corporatised the Service Provision Function of DoT to set up BSNL on 1st October, 2000. To ensure that viability of BSNL is not impaired on account of carrying out this social commitment of the Government in providing services which are uneconomical but socially desirable, the BSNL is getting a package of relief measures including financial support from the government in the form of Universal Service Obligation Fund(USOF). In view of this, the Committee are of the opinion that though the BSNL is a Corporate body, it is answerable to the Government in respect of carrying its social commitment. Similarly, it was expected of the Government to ensure that the social commitment as envisaged in NTP-99 is being adequately carried out by the Company.

The Committee are, however, constrained to observe that the government has miserably failed in its monitoring role in ensuring that the goals set out in NTP-99 are achieved by the BSNL in a time bound manner. The targets required to be achieved by the end of the year 2002 have not been fully met even as on date and also the service provided is not upto the mark. Providing telephone connectivity in the rural areas and far-flung areas of the country is an issue of national importance. As such, a duty was cast upon the government to seriously monitor its implementation by the implementing agency namely the BSNL. Unfortunately, no information has been brought by the government to the notice of the Committee which may indicate that any serious efforts were made by them to ensure that the targets were achieved by the

BSNL within the stipulated time. Instead, the government has chosen to absolve itself of its responsibility by taking the stand that BSNL being a Board managed Company, it frames its own guidelines and execution strategy in such matters. Though this stand might be true for the other commercial activities of the BSNL, it is not at all acceptable to the Committee as far as this social commitment is concerned. The Committee therefore strongly recommend that the government must evolve a suitable monitoring mechanism to ensure implementation of the objectives set out in NTP-99 by the BSNL in a time bound manner and also fixing their accountability in the case of lapses by suitably penalizing the agencies concerned. The government must review the progress of BSNL at the highest level with respect to the rural telephony on monthly basis and issue the appropriate directives wherever needed. Besides verifying that the quality of service in rural areas is upto the mark, the Government must also ensure that the funds being given to BSNL under USOF are properly utilized and case of losses on Infructuous accounts, responsibility must be fixed on the officials concerned. The committee also find that inadequacy of electricity supply in a number of rural areas is also adversely affecting the operation of WLL based telephony. The Committee desire that this issue be adequately addressed by the Government in a realistic manner by coming out with plans like using solar energy or some other non-conventional sources of energy in consultation with the agencies concerned. The Committee stress that the important issue of providing telephone coverage to the entire country particularly in rural and far-flung areas should take precedence over the other commercial interests of service providers by implementing this project of national importance on top priority. In a liberalized environment of fierce competition in the Telecom Sector the prime goal of private operators is to earn profit and not to fulfil the social obligation of rural connectivity. In such a scenario, the Committee feel that government intervention is

absolutely necessary. The Committee, therefore, desire that Government should adequately support the public sector telecom Companies to fulfil this social obligation of telephone connectivity in rural areas.

New Delhi
26 April, 2007
06 Vaisakha, 1929

RUPCHAND PAL
CHAIRMAN
COMMITTEE ON PUBLIC UNDERTAKINGS

HIGHLIGHTS OF THE AUDIT REPORT

- Bharat Sanchar Nigam Limited (Company) had a target of providing one Wireless-in-Local Loop (WLL) system in each of the 2,642 Short Distance Charging Areas (SDCAs) in the country till 2001-02, but even up to October 2005, it had not reached the target and had provided WLL systems only in 2,185 SDCAs. *(Paragraph 1.8)*
- The capacity utilisation was 60.53 *per cent* against the total equipped capacity of 26.89 lakh lines of WLL systems as of March 2005 mainly on account of deficiencies in planning, procurements, network coverage and poor quality of service. *(Paragraph 1.12)*
- The Company formulated the plans for launching of the WLL telephone service and its subsequent expansion with inadequate assessment of demand and requirement and did not consider identification of areas based on population and trade statistics, unutilised capacity, presence of private operators and the envisaged growth of its other telephone services. *(Paragraphs 1.9.1.1 to 1.9.1.4)*
- Expansion of the capacity during 2002-03 to 2004-05 in seven circles despite underutilisation of the existing capacity, led to injudicious expenditure of Rs 108.64 crore on expansion. *(Paragraph 1.9.1.2)*
- The Company procured WLL systems based on obsolete technologies valued at Rs 1,479.87 crore during October 2000 to March 2005 though the latest WLL CDMA 2000-1X technology was available since October 2000. *(Paragraph 1.9.2)*
- The Company did not carry out financial viability and profitability analysis of the WLL projects during the years 2000-01, 2001-02 and 2003-04. *(Paragraph 1.9.3)*
- Despite instructions, 13 circles and the two Metro districts did not prepare separate costing records for the WLL telephone service. The records showed a total loss of Rs 122.15 crore in seven circles. *(Paragraph 1.9.3)*
- Ten circles, which prepared revenue projections for the WLL telephone service, failed to realize the projected revenue by Rs 139.31 crore during the last five years up to 2004-05. *(Paragraph 1.9.3)*
- An amount of only Rs 22.05 lakh was spent during 2002-03 to 2004-05 on promotion and marketing of the WLL telephone service compared to Rs 14.25

crore spent on its Cellular Mobile Telephone Service during the above period. *(Paragraph 1.9.4)*

□ Most of the circles failed to make timely arrangements for sites, towers, power supply, etc, which led to delays in installation and commissioning of the WLL telephone systems. *(Paragraph 1.10.1)*

□ The corporate office's failure to monitor receipt of frequency allocations from the WPC Wing of the DoT resulted in operation of CorDect WLL telephone service in five circles and two Metro districts without mandatory 'Agreements in Principle'. *(Paragraph 1.10.2)*

□ The mandatory clearance of sites for installation of wireless equipment from the SACFA was not obtained for 1,330 sites by 19 circles. *(Paragraphs 1.10.3)*

□ Procurement of 40660 FWTs, 3,40,380 HHTs, 8,975 FRS and 8200 Wall Sets for 17 circles and two Metro districts without keeping in view the customers' preferences and demand led to idle investment of Rs 229 crore. *(Paragraph 1.11.1.2)*

□ Procurement of power plants and batteries without requirement by 12 SSAs under five circles and one Metro District resulted in blocking of funds to the extent of Rs 3.26 crore. *(Paragraph 1.11.1.3)*

□ The corporate office delayed the finalisation of rates of FWTs which resulted in excess payment of Rs 5.59 crore to M/s ARM Limited and M/s United Telecom Limited (UTL). *(Paragraph 1.11.2)*

□ Failure to obtain the PBGs and premature release of PBGs resulted in undue financial benefits of Rs 26.40 crore to suppliers. *(Paragraphs 1.11.3.1 and 1.11.3.2)*

□ Absence of any provision in the purchase orders for levy of penalty on suppliers for delays in installation, acceptance testing and commissioning resulted in blocking of capital of Rs 134.97 crore. *(Paragraphs 1.11.4)*

□ The Company incurred a loss of Rs 11.97 crore due to non-levy or short levy of L.D. charges on suppliers who delayed the delivery of WLL equipment and terminals. *(Paragraph 1.11.5.3)*

□ The Company failed to achieve the annual plan targets fixed for replacement of faulty MARR, VPTs for the years 2003-04 and 2004-05 and for installation of new VPTs for the years 2001-02, 2002-03 and 2003-04. *(Paragraphs 1.13.1.1 and 1.13.1.2)*

□ In 16 SSAs of eight circles, due to poor radio frequency coverage of the WLL systems, the underutilisation of capacity ranged between 26 and 100 *per cent*, which led to blocking of funds to the tune of Rs 78.74 crore. The suppliers' response to attend to complaints regarding network coverage was poor, which led to non-provision of umbrella network coverage, system failures, very low signal or no signal in peak hours, call dropping, frequency overlapping, etc. (*Paragraphs 1.13.2.1 to 1.13.2.2*)

□ 55475 defective WLL terminals were lying in 16 circles due to nonexecution of AMCs with the suppliers, resulting in unremunerative investment of Rs 47.95 crore. (*Paragraph 1.13.3*)

□ Despite the closure of WLL connections, 16,712 FWTs and 20,590 HHTs were not recovered from the concerned customers in 16 circle and one Metro District, which led to a loss of Rs 25.94 crore. (*Paragraph 1.13.4*)

□ No bills were issued for any of the working connections in the J&K Circle and in the Agra SSA in the UP (East) Circle leading to short billing of revenue of Rs 9.40 crore. (*Paragraph 1.14.2*)

□ Improper monitoring of revenue collection in 35 SSAs under five circle and all SSAs under eight circle resulted in accumulation of revenue arrears of Rs 113.88 crore. (*Paragraph 1.14.5*)

□ Lack of an automatic disconnection facility in the billing packages resulted in delayed disconnections and accumulation of revenue arrears to the tune of Rs 42 crore in nine circle. (*Paragraph 1.14.7*)

□ A survey conducted by Audit, revealed that the Company had failed to achieve the quality of service norms prescribed by TRAI pertaining to release of connections, incidence of faults and their rectification, voice quality, getting connections to desired telephone numbers and provision of additional facilities like STD and ISD. (*Paragraphs 1.15.1.1 to 1.15.1.6*)

ANNEXURE-II

MINUTES OF THE 15TH SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 6TH FEBRUARY, 2007

The Committee sat from 1130 hrs to 1330 hrs.

CHAIRMAN

Shri Rupchand Pal

MEMBERS - LOK SABHA

2. Shri Ramesh Bais
3. Shri Gurudas Dasgupta
4. Dr. Vallabhbhai Kathiria
5. Shri Shriniwas Patil
6. Shri Mohan Rawale
7. Shri Ramjilal Suman
8. Shri Bagun Sumbrui
9. Shri Ram Kripal Yadav

MEMBERS - RAJYA SABHA

10. Shri Ajay Maroo
11. Prof. Ram Deo Bhandary
12. Shri Dinesh Trivedi

SECRETARIAT

- | | | |
|----|-------------------|-----------------|
| 1. | Shri J.P. Sharma, | Joint Secretary |
| 2. | Shri N. C. Gupta, | Under Secretary |
| 3. | Shri Ajay Kumar, | Under Secretary |

OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

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|----|---------------------|---------------------------------------|
| 1. | Shri C.V. Avadhani | Deputy C&AG-cum-Chairman, Audit Board |
| 2. | Shri A.K. Awasthi | Director General (Commercial) |
| 3. | Shri Vikram Chandra | Director General of Audit (P&T) |

REPRESENTATIVES OF BHARAT SANCHAR NIGAM LIMITED

- | | | |
|-----|----------------------|----------------------|
| 1. | Shri A.K. Sinha | CMD, BSNL |
| 2. | Shri R.L. Dube | Director (Plg. & NS) |
| 3. | Shri S.D. Saxena | Director (Finance) |
| 4. | Shri A.N. Rai | DDG (RN) |
| 5. | Shri Y.P. Kataria | DDG (SW) |
| 6. | Shri A.K. Garg | DDG (MM) |
| 7. | Shri A.K. Mittal | DDG (NM) |
| 8. | Shri Mukesh Mathur | DDG (TRF) |
| 9. | Shri K.C.G.K. Pillai | DDG (BBF) |
| 10. | Shri P.K. Purwar | DDG (CA) |
| 11. | Shri Ashok Kumar | Jt. DDG (E) |

2. At first, the Committee had a briefing by the officials of the C&AG about the audit findings contained in the C&AG's Report No. 9 (Commercial) of 2006 regarding Performance Audit on Wireless-in-Local Loop (WLL) services provided by Bharat Sanchar Nigam Limited (BSNL) which has been selected as a subject for examination during the year 2006-2007.

3. The Committee then took oral evidence of the representatives of BSNL on the above-mentioned subject. The Chairman welcomed the representatives of BSNL and drew their attention to Direction 58 of the Directions by the Speaker relating to evidence before Parliamentary Committee. Thereafter, the representatives of BSNL made an audio-visual presentation on the Wireless-in-Local Loop (WLL) services provided by BSNL. After audio-visual presentation, Members raised queries on various aspects pertaining to the subject and the explanations/ clarifications on the same were made by the representatives of BSNL. Information on some of the points raised by the Committee was not readily available with the representatives of BSNL. It was, however, promised by them that the same would be furnished to the Committee Secretariat in due course.

4. The Chairman then thanked the representatives of BSNL for providing the material/information on the subject matter as desired by the Committee.

5. A copy of the verbatim proceedings has been kept on record separately.

6. The witnesses then withdrew.

7. The Committee then adjourned.

**MINUTES OF THE 16th SITTING OF THE COMMITTEE ON PUBLIC
UNDERTAKINGS HELD ON 6 MARCH, 2007**

The Committee sat from 1530 hrs to 1600 hrs.

CHAIRMAN

Shri Rupchand Pal

MEMBERS - LOK SABHA

2. Dr. M. Jagannath
3. Dr. Vallabhbai Kathiria
4. Shri Ram Kripal Yadav

MEMBERS - RAJYA SABHA

5. Shri Rishang Keishing
6. Shri Ajay Maroo
7. Shri Pyarimohan Mohapatra
8. Shri Dinesh Trivedi

SECRETARIAT

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|----|------------------|------------------|
| 1. | Shri J.P. Sharma | Joint Secretary |
| 2. | Smt. Anita Jain | Director |
| 3. | Shri N. C. Gupta | Deputy Secretary |
| 4. | Shri Ajay Kumar | Deputy Secretary |

EXPERTS

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|-----|------------------|-----------------------------------|
| 12. | Shri D.S.P. Seth | Former Member, Telecom Commission |
| 13. | Shri Anil Kumar | Secretary, Telecom Watchdog |

2. At the outset, the Committee condoled the demise of Shri Sunil Mahato, a sitting member of 14th Lok Sabha and observed a two minutes silence.

3. The Committee then took up the hearing of views of the two experts, separately, in connection with the examination of C&AG's Report No. 9 (Commercial) of 2006 relating to WLL Services in BSNL. During his welcome address, the Chairman drew the attention of both the experts to Direction 58 of the Directions by the Speaker regarding evidence before Parliamentary Committee. After the hearings were over, the Chairman thanked both the experts for providing all the information on the subject matter as desired by the Committee.

4. The witnesses then withdrew.

5. A copy of the verbatim proceedings has been kept on record separately.

**MINUTES OF THE 19th SITTING OF THE COMMITTEE ON PUBLIC
UNDERTAKINGS HELD ON 10th April, 2007**

The Committee sat from 1130 hrs to 1300 hrs.

CHAIRMAN

Shri Rupchand Pal

MEMBERS LOK SABHA

2. Shri Ramesh Bais
3. Shri Manoranjan Bhakta
4. Shri Gurudas Dasgupta
5. Smt. Sangeeta Kumari Singh Deo
6. Dr. M. Jagannath
7. Dr. Vallabhbhai Kathiria
8. Smt. Praneet Kaur
9. Shri Kashiram Rana
10. Shri Bagun Sumbrui

MEMBERS RAJYA SABHA

11. Shri Ajay Maroo
12. Shri. K. Chandran Pillai
13. Shri Pyarimohan Mohapatra
14. Shri Dinesh Trivedi

SECRETARIAT

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|----|------------------|------------------|
| 1. | Shri J.P. Sharma | Joint Secretary |
| 2. | Smt. Anita Jain | Director |
| 3. | Shri N. C. Gupta | Deputy Secretary |
| 4. | Shri Ajay Kumar | Deputy Secretary |

OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

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|----|--------------------|--|
| 1. | Shri C.V.Avadhani, | Deputy C&AG – cum- Chairman, Audit Board. |
| 2. | Shri A K. Awasthi, | Director General (commercial) C&AG office. |

**REPRESENTATIVES OF MINISTRY OF COMMUNICATIONS & INFORMATION
TECHNOLOGY (DEPARTMENT OF TELECOMMUNICATIONS)**

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|----|----------------------|---|
| 1. | Shri D.S. Mathur | Secretary, Department of Telecommunications |
| 2. | Shri G.S. Grover | Member (Services) |
| 3. | Shri Shantanu Consul | Administrator USO(F) |
| 4. | Shri K. Sridhara | Member (T) |
| 5. | Shri M. Sahu | JS(T) |

2. The Committee took oral evidence of the representatives of Ministry of Communications and Information Technology, Department of Telecommunications in connection with the examination of the C&AG's Report No. 9 (Commercial) of 2006 relating to Wireless in Local loop Services in BSNL which has been selected as a subject for examination during 2006-2007.

3. At the outset, the Chairman welcomed the representatives of Ministry of Communications and Information Technology, Deptt. of Telecommunications and also drew their attention to Direction 58 of the Directions by the Speaker relating to evidence before the Parliamentary Committees. Thereafter, Members raised queries on various aspects pertaining to the subject and the explanations/clarifications on the same were made by the representatives of Ministry. Information on some of the points raised by Chairman and Members of the Committee was not readily available with the representatives of Ministry which they promised to furnish to the Committee Secretariat.

4. The Chairman then thanked the witnesses for expressing their free and frank views and providing all the material/information on the subject matter as desired by the Committee.

5. The witnesses then withdrew.

6. The Committee then adjourned.

7. A copy of the verbatim proceedings has been kept on record separately.

**MINUTES OF THE 21st SITTING OF THE COMMITTEE ON PUBLIC
UNDERTAKINGS HELD ON 26th APRIL 2007**

The Committee sat from 1630 hrs to 1700 hrs.

CHAIRMAN

Shri Rupchand Pal

MEMBERS LOK SABHA

1. Shri Manoranjan Bhakta
2. Shri Gurudas Dasgupta
3. Smt. Sangeeta Kumar Singh Deo
4. Dr. M. Jagannath
5. Shri Suresh Kalmadi
6. Dr. Vallabhbhai Kathiria
7. Smt. Preneet Kaur
8. Shri Kashiram Rana
9. Shri Ramjilal Suman
10. Shri Bagun Sumbrui
11. Shri Ram Kripal Yadav

MEMBERS RAJYA SABHA

12. Shri Rishang Keishing
13. Shri Ajay Maroo
14. Shri. K. Chandran Pillai

SECRETARIAT

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|----|------------------|------------------|
| 1. | Shri J.P. Sharma | Joint Secretary |
| 2. | Smt. Anita Jain | Director |
| 3. | Shri N. C. Gupta | Deputy Secretary |
| 4. | Shri Ajay Kumar | Deputy Secretary |

OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

1. Ms. Bharti Prasad Deputy C&AG (Commercial) C&AG office
2. Shri A K. Awasthi Director General (commercial) C&AG office
2. The Committee considered the draft Report on Performance Audit of Wireless in Local Loop Services provided by BSNL based on C&AG's Report No. 9 (Commercial) of 2006 and adopted the same without any modification.
3. The Committee authorized the Chairman to finalise the Report for presentation.
4. The Committee then adjourned.