

# Annual Report 2000-01

Software Technology Parks of India



# Software Technology Parks of India





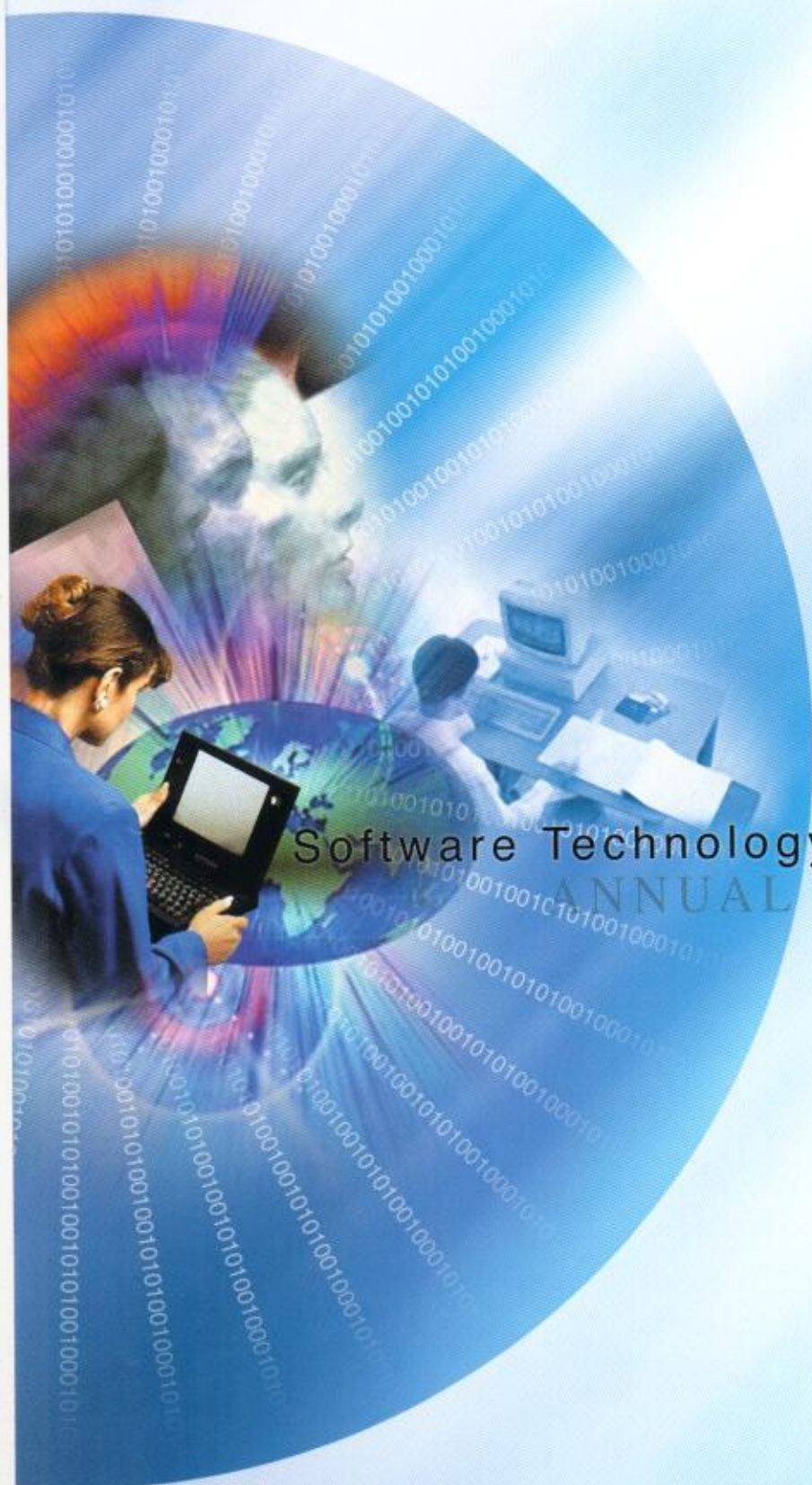


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## ANNUAL REPORT 2000-01





Software Technology Parks of India  
ANNUAL REPORT 2000-01

# Software Technology Parks of India

## A brief introduction

The advancement in Information Technology has a profound impact on country's economy, thus the quality of human life. The convergence of computer, communications and content creates tremendous opportunities as well as challenges. This revolution has opened up new possibilities of economic and social transformations from which both developed and developing countries can potentially benefit.

The IT software and services industry in India accounts for almost 2% of India's GDP. It is expected that the Indian Software Industry will account for 7.7% of India's GDP by 2008. Indian IT software and services exports of US\$6.2 billion during 2000-01, accounted for 14% of India's total exports of US\$ 44 billion. It is expected that by the year 2008, Indian IT software and services exports will account for 35% of India's total exports.

Government of India, has identified this as an area of focus and announced a policy in 1986 making "Software Exports, Software Development and Training" as a major thrust area. Government further identified some of the factors impeding the growth of the software industry and formulated "Software Technology Park (STP)" scheme with a view to boost software exports from the country. To meet this objective, a suitable framework was formulated covering aspects like simplifications/rationalization of procedures, providing single-point contact services to the industry, providing basic amenities needed for export operations with a very short gestation period and share captive infrastructure facilities like computing resources and data communication services in a cost effective manner. The framework was designed to help software export industry in general and Small and Medium Enterprises (SMEs) in particular, enabling them to remain competitive in the global market.

Software Technology Parks of India, was established and registered as an Autonomous Society under the Societies Registration Act 1860, under Department of Information Technology, Ministry of Communications and Information Technology, Government of India on 5<sup>th</sup> June 1991 with an objective to implement STP scheme, set-up and manage infrastructure facilities and provide other services like technology assessment and professional training.



## The Governing Council

### CHAIRMAN

**Shri Pramod Mahajan**, Union Minister for Parliamentary Affairs, Communications & Information Technology

### VICE-CHAIRMAN

**Shri Rajeeva Ratna Shah**, Secretary, Department of Information Technology, Ministry of Communications & Information Technology

### MEMBERS

- **Shri S Lakshminarayanan**, Additional Secretary, Department of Information Technology, Ministry of Communications & Information Technology
- **Shri YS Bhawe**, Joint Secretary & Financial Adviser, Department of Information Technology, Ministry of Communications & Information Technology
- **Shri Pankaj Agrawala**, Joint Secretary, Department of Information Technology, Ministry of Communications & Information Technology
- **Shri PK Mittal**, Dy. Director General (BS), Department of Telecommunications, Ministry of Communications & Information Technology
- **Shri PK Mohanty**, Director (Customs), Central Board of Excise & Customs, Department of Revenue, Ministry of Finance
- **Shri MVPC Sastry**, Joint Secretary, Ministry of Commerce
- **Shri Kamalesh Deka**, Director, Directorate of Coordination Police Wireless, Ministry of Home Affairs
- **Shri BV Wanchoo**, Joint Director, Intelligence Bureau
- **Shri Nalin Kohli**, Vice Chairman, Electronics and Computer Software Export Promotion Council
- **Shri Kiran Karnik**, President, National Association of Software and Service Companies
- **Shri Purushotam Bhageria**, Director, Filatex India Limited, New Delhi
- **Shri Arjun D Rao**, CEO, AppLabs (India), Hyderabad

### MEMBER SECRETARY

**Shri SN Zindal**, Director General, Software Technology Parks of India

# The General Body

## CHAIRMAN

**Shri Pramod Mahajan**, Union Minister for Parliamentary Affairs, Communications & Information Technology

## VICE-CHAIRMAN

**Shri Rajeeva Ratna Shah**, Secretary, Department of Information Technology, Ministry of Communications & Information Technology

## MEMBERS

- **Shri S Lakshminarayanan**, Additional Secretary, Department of Information Technology, Ministry of Communications & Information Technology
- **Shri Y S Bhawe**, Joint Secretary & Financial Adviser, Department of Information Technology, Ministry of Communications & Information Technology
- **Shri P K Mittal**, Dy. Director General (BS), Department of Telecommunications, Ministry of Communications & Information Technology
- **Shri P K Mohanty**, Director (Customs), Central Board of Excise & Customs, Department of Revenue, Ministry of Finance
- **Shri M V P C Sastry**, Joint Secretary, Ministry of Commerce
- **Shri Kamalesh Deka**, Director, Directorate of Coordination Police Wireless, Ministry of Home Affairs
- **Shri B V Wanchoo**, Joint Director, Intelligence Bureau, Ministry of Home Affairs

## MEMBER SECRETARY

**Shri S N Zindal**, Director General, Software Technology Parks of India



# The Management

## The Management Structure of STPI

**Governing Council:** The Governing Council (GC) is the apex management body which directs and oversees the functions of STPI and provides policy direction. Hon'ble Union Minister for Parliamentary Affairs, Communications & Information Technology, Government of India is the "Chairman" of the Governing Council. Secretary to the Government of India, Department of Information Technology, is the "Vice-Chairman" of the Governing Council. The members of the Council are representatives from Ministry of Commerce, Department of Telecommunications, Ministry of Finance, Ministry of External Affairs, Department of Information Technology, IT industry associations, etc.

**Director General:** Director General is responsible for the Management and running of STPI under overall guidance of the Council. He is delegated with necessary executive powers and authority for efficient running of the society.

**Executive Committee of Directors:** The Executive Committee of Directors (ECOD) is composed of selected STPI Directors of different Centres. ECOD is responsible for all operational issues, procedures, schemes, plans and performance reviews. The Council has delegated these specific powers to ECOD.

**Standing Executive Board:** STPI Centres have local management Committees known as "Standing Executive Board" (SEB), which have been set up to manage the functions at the local level. They operate under the delegated powers of the Council.

**Director:** Each STPI Centre is headed by a Director, who is the technical and administrative head of the Centre and manages day-to-day activities of the Centre. For smooth functioning of the Centres certain powers are delegated to the Director.



## Auditors

Based on the recommendations of the Comptroller & Auditor General of India (C & AGI), the Council, has appointed statutory and branch auditors for STPI, The list of the same is as follows:

Name of the Centre	Auditor	Capacity
<b>Consolidation of Accounts &amp; Audit of New Delhi (HQ), Noida, Mohali and Jaipur and Business Support Centre (USA office)</b>	M/s Kumar Sharma & Co. Chartered Accountants 302-303, Munish Plaza 20, Ansari Road, Darya Ganj New Delhi-110 002	Statutory
<b>Bangalore, Hyderabad &amp; Chennai</b>	M/s Philliops & Co Chartered Accountants 3, B.A. Cheluvarya Mudaliar Road, Fraser Town, Bangalore-560 005	Branch
<b>Bhubaneswar</b>	M/s Lenka & Pani Chartered Accountants 12, Satya Nagar Bhubaneswar-751 007	Branch
<b>Pune, Navi Mumbai &amp; Gandhinagar</b>	M/s Khandelwal Jain & Associates Chartered Accountants First Floor, Alankar Cinema Bldg. Pune-411 001	Branch
<b>Thiruvananthapuram</b>	M/s K. Verghese & Co. Flat IV, Parameswaran Pillai Bhawan, Hospital Road, Kollam-691 001	Branch

## Highlights of STPI

Highlights	Unit	1999-2000	2000-2001
<b>Financial</b>			
Assets at Cost	Rs (Crores)	100.56	133.14
Gross Total Turnover	Rs (Crores)	78.06	117.27
<b>Infrastructure</b>			
No. of STPI Centres		15	19
No. of STPI Earth Stations		15	18
<b>Growth of STPI</b>			
No of Members Units		5582	6652
National Software Exports	Rs (Crores)	17150	28350
STPI units Exports	Rs (Crores)	11607	20051
%age Share of Exports of STPI units		68%	71%



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## STP Scheme and its Highlights

Software Technology Park (STP) is a 100% export oriented scheme for the development and export of computer software using communication links or physical media and including export of professional services. This scheme is unique in its nature as it focuses on one product/sector i.e. computer software. The scheme integrates the concept of 100% Export Oriented Units (EOUs) and Export Processing Zones (EPZs) of the Government of India and the concept of Science Parks / Technology Parks as operating elsewhere in the World.

The unique feature of STPI scheme is provisioning of Single-Point Contact Services for the member units enabling them to conduct export operation at a pace commensurate with international practices. The STPI also acts as a resource centre for the member computer software-exporting units by offering general infrastructure facilities like ready to use built-up space, centralized computing facility and High Speed Data Communication (HSDC) facilities.

### Highlights of STP Scheme

-  Approval under single window clearance mechanism.
-  Up to 100% foreign equity permitted.
-  Imports in the STP units are completely duty free.
-  Second hand capital goods may also be imported.
-  Exemption of local taxes for domestic purchases.
-  The sales in the domestic market are permissible up to 50% of the export.
-  Income Tax benefits under sections 10A/10B of income Tax Act
-  The export obligation on net foreign exchange should be 0.25million US\$ or 3 times the CIF value of the goods imported, whichever is more, to be fulfilled over a period of 5 years.

## Data-Communication Services

One of the important contributions of STPI to the software-exporting sector is the provision of High-Speed Data Communication (HSDC) services. STPI has designed and developed state-of-the-art HSDC Network called SoftNET, which is available to software exporters at internationally competitive prices. STPI has set up its own International Gateways at 19 locations for providing HSDC links to the software industry.

Local access to International Gateways at STPI centres is provided through Point-to-Point and Point-to-Multipoint microwave radios for the local loop which has overcome the last mile problem and enabled STPI to maintain an up time of nearly 99.9%. Terrestrial cables (fibre/copper) are also used wherever feasible. These communication facilities are the backbone of success in the development of offshore software activities.

### STPI provides the following HSDC services

**SoftPOINT:** International Private Leased Circuit, leased line connectivity with a bandwidth range of (n x 64KBPS upto 8MB) can be available from customer's premises to client located abroad.

**SoftLINK:** Shared Internet Circuit, High Speed Internet access (n X 64 KBPS up to 2MB) can be available to the customer.

#### Other Value Added Services:

- Web/Home pages - hosting, authoring & maintenance
- Co-Location of Servers
- Database Access
- ATM Frame Relay services

STPI provides worldwide connectivity for its software export units and is radiating more than 150 MBPS and is operating with around 27 carriers from its earth station to various destinations.



## STPI - Centres

STPI has set-up following centres in last ten years at the following locations:



## New STPI Centres in 2000-2001

STPI centres	State	Year
Pune*	Maharashtra	2000
Chennai*	Tamilnadu	2000
Guwahati	Assam	2000
Vizag	Andhra Pradesh	2000
Indore	Madhya Pradesh	2001
Srinagar	Jammu & Kashmir	2001

\* International Gateways Installed and Commissioned at the existing Centres.

Celebrations of STPI's 10th Annual Day at Chennai on 11th June 2000





## Incubation Facilities

The incubator concept has emerged worldwide as an essential component of the infrastructure required for the growth of high technology businesses including Information Technology and Software Development. These Incubators provide the necessary help to nurture technology ideas into commercial success.

These incubators, which traditionally acted as institutes for the creation of cutting-edge technology through technology transfers from universities, have become the centers of attention once again, this time in the developing countries.

In India, Small and Medium Size Enterprises (SME's) constitute 60% of the Software Industry. However, the contribution of these SMEs to the overall exports is mere 14%. The SME's sector is very important to focus on the technology performance. In the developed countries SME sector is a major player and one of the reasons for its success is the reasonable equity benefits in terms of distribution of income. A strong SME's sector is critical in terms of the services that it can provide to the larger and Medium enterprises. In the developed countries the SME's have been performing well and the similar pattern is observed in advanced developing countries. It is also a known fact that in developed countries, large-scale enterprises are increasingly downsizing and depending on the network of SME's. Hence, the technologically strong SME's system in developing countries will be essential to develop, attract and work with larger enterprises.

In the Silicon Valley most of the technology intensive companies are the start-ups by the young professionals who are supported by the angels at the initial stage. It is noticed that now a similar effect has started in various metros and the 'Incubation Facility' would greatly help in bringing the Silicon Valley start up environment to India.

STPI has launched above said concept of incubation facility in many of its Centres. In the incubation Centre, STPI sets-up entire facility, ready for commencing operations by software units from day one. It offers advantage of no gestation period and does not require any capital investment. It helps in developing confidence in the client and ensures that the business opportunity is not lost.

The Incubation Centre has the following facilities

- Modular airconditioned built up space ready to use
- Back up power supply
- Telephone and Fax facilities
- Business Centre
- Conference Rooms & Training Facilities
- High Speed Communication Links, Internet & Video Conferencing Facilities.

Technology Incubation Centre, that is planned at Bangalore, will have an integrated infrastructure of size 5,00,000 Sq.ft, in the land available with STPI while 50,000 to 75,000 Sq.ft would be required as incubation for growth entrepreneurs as commercial base. The greatest advantage for this kind of central facility is the co-located International Gateway facilities which otherwise could involve many other agencies to extend such communication services to the Industry that are going to be located in the Premises. Besides this, based on the demands of the SMEs, this incubation facility has been raised to near about 3,00,000 sq.ft at various locations of STPI Centres.

Inauguration of STPI Facility at Vizag





## IMPACT of STPI

Government initiatives in general and STPIs in particular, has created major impact on the growth of software export industry. The positive impact seen in the public-private partnership in formulating Government policies has motivated various Forums / Committees to opt for the good representation of the Industry both at National level as well as at State level. The Troika of bringing the synergy between the Industry-Govt:- Academia has made significant effort and achieved progress in bringing the global recognition. STPI has provided right impetus for this industry in increasing the offshore software exports from the country. During 1991-92, the offshore overall exports were mere 20-35%, which has grown to more than 70%. While the overall Industry has exported US \$ 6.2 billion from the country, the exports from STPI member companies itself is more than US \$ 4.2 billion. This constitutes more than 70% of overall exports from the country. STPI has completely eliminated the traditional bureaucracy through its single window statutory services extending to 6,652 companies around the country.

Some of the major centres of STPI have obtained ISO 9001 certification for statutory as well as for International Communication services. STPIs' unique management model coupled with the financial model and experience in promoting the export industry has created interest in many other countries to learn from the experiences of STPI. In fact, STPI has been helping the countries like Mauritius, Nepal, etc.



## Impact of US Slow Down on Indian Software Industry

STPI is an exclusive organization, which closely interacts with the Industry on a day-to-day basis, acting as a single point of contact for any exporting information for the Industry. It has been very interesting to watch this Industry's growth during the slow down of the US Economy. The slow down of the US Economy has multiple variation impacts on the various kinds of the Industry namely MNCs, Home Grown Large Indian companies, SMEs. While it has been observed that the Large Indian companies have already indicated their slow down in their growth, the multinational companies started recasting their plans after two quarters of the slow down and many of the companies are coming forward with expansion plans in India. The medium size companies also started getting more and more enquires directly from the small and medium size companies of the US. These companies were earlier largely dependent on the consultants at their own locations. There are cost cutting pressures on various companies because of competitive pricing and the customers' demands on the rates of out-sourcing. It is felt that while in short term growth rate of software has come down, medium to long-term impact would be accelerated by outsourcing, particularly in ITES sector. This has thrown up new challenges and opportunities for our Indian Industry.

Inauguration of STPI Facility at Cyber Towers, Hyderabad





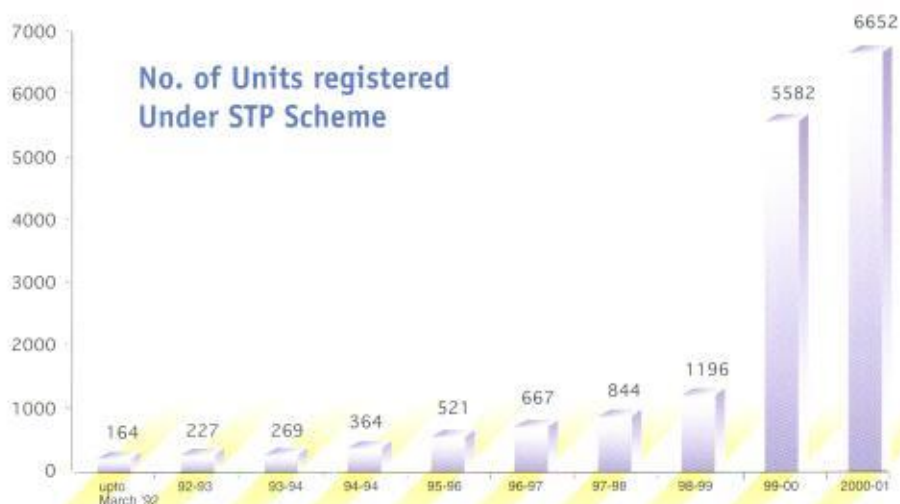
## Performance Report Of STPI

### STP Units

STP Scheme, which is a 100% export oriented scheme, has attracted many entrepreneurs who are in the area of software development & software export. Out of cumulative 6652 units approved under STPI scheme, 1070 units are approved during the year 2000-2001 (Up to March 2001)

As on 31st March 2001 around 3901 units have commenced operations and out of them 2895 units were exporting. The remaining units are in various stages of establishment. The growth in the number of approvals during the last 10 years is as under:

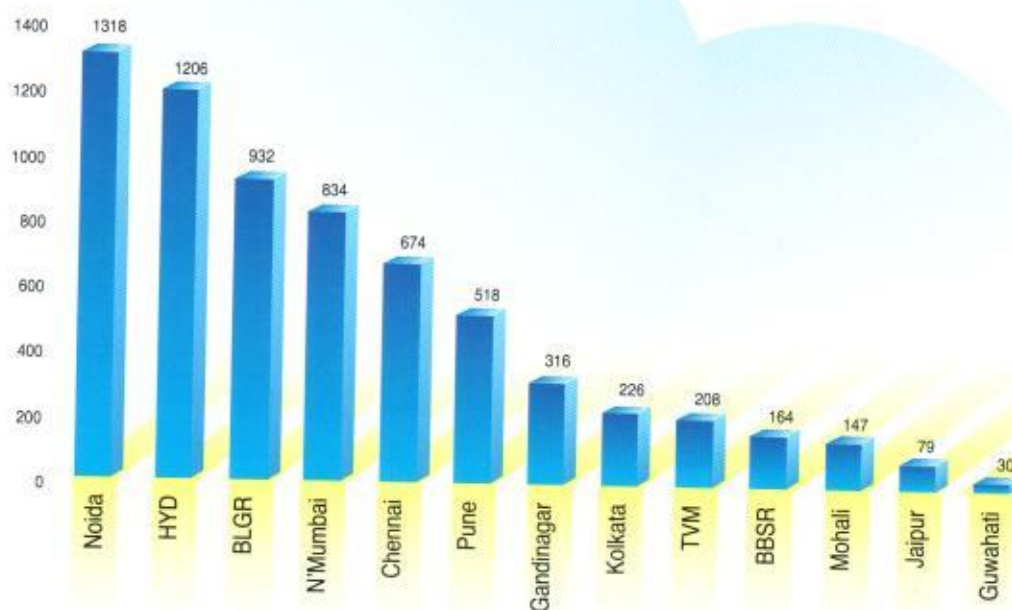
Year	New Units Registered during the Year	Total No. of Units registered
Upto 1991-92	164	164
1992-93	63	227
1993-94	42	269
1994-95	95	364
1995-96	157	521
1996-97	146	667
1997-98	177	844
1998-99	352	1196
1999-2000	4386	5582
2000-01	1070	6652



## Industry Concentration

(Centre-wise) Units Approved under STP Scheme

STPI Centres	No. of Units Approved
Bangalore	932
Bhubaneswar	164
Kolkatta	226
Chennai	674
Gandhinagar	316
Guwahati	30
Hyderabad	1206
Jaipur	79
Mohali	147
Navi Mumbai	834
Noida	1318
Pune	518
Thiruvananthapuram	208
<b>Total</b>	<b>6652</b>





## Exports

The software exports through STPI during the year 2000-2001 is Rs 20,051 Crores, which is 73% higher than the previous year. It constitutes 70% share of total National Software Exports of Rs 28,350 Crores during the year 2000-2001.

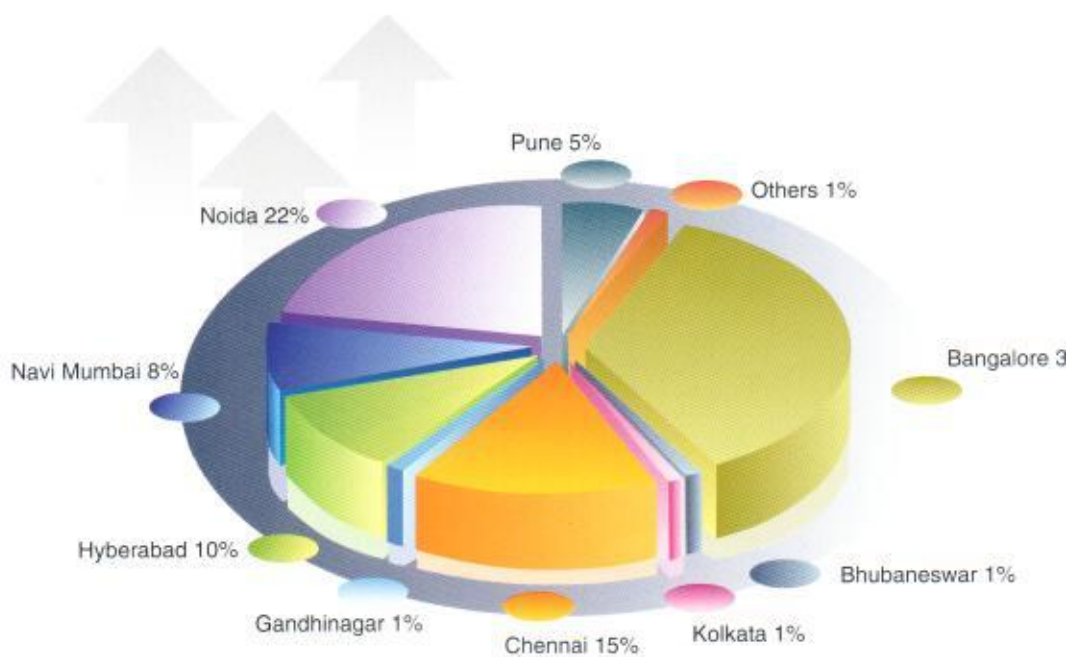
The Software Exports by STP units has risen by 1180 times from Rs 17 Crores in 1991-92 to Rs 20,051 in 2000-2001. The Cumulative Annual Growth Rate (CAGR) of software exports under STP scheme, over the past 5 years has been about 96%.



Rs. in (Crores)

Name of the Centre	Exports during 2000-01
Bangalore	7475
Bhubaneswar	200
Kolkatta	250
Chennai	2956
Gandhinagar	102
Hyderabad	1990
Jaipur	30
Mohali	40
Navi Mumbai	1610
Noida	4350
Pune	960
Thiruvananthapuram	88
<b>Total</b>	<b>20051</b>

Centre wise Software Exports through STPI (in %)





## STPI Financial Data

The Gross turnover of the Society increased from Rs 3.89 Crores for the year 1993-94 to Rs 117.27 Crores for the year 2000-2001.

Year wise details of Turnover & Gross Assets since the inception of society are as under:

Rs. in (Crores)



Year	Turnover	Gross Assets
Till 31.03.1993	0.77	14.23
1993-94	3.89	19.83
1994-95	7.73	24.49
1995-96	18.91	53.38
1996-97	29.74	60.68
1997-98	40.04	53.59
1998-99	54.86	78.82
1999-2000	78.06	100.56
2000-01	117.27	133.14

## STPI's Business Support Centre at USA

STPI-USA Centre is established with the objective to facilitate, support and assist Indian IT companies (with special emphasis to Small and Medium companies) in the area of export of software and IT enabled services from India by providing information and resources to access business opportunities in North America. It also serves as a main nodal point to provide contact with North American companies that are interested in doing business with India. The focus of the Centre is to:

-  Provide Entrepreneurial Assistance
-  Support infrastructure and facilities to Indian companies
-  Facilitate Trade promotion

### Trade promotion/Assistance

-  Companies visiting from India are provided with assistance/guidance regarding business opportunities, business trends and suitable potential markets, appropriate to these companies.
-  Indian companies on business visit to USA are supported with infrastructure and office facilities by this Centre so that these companies can focus their efforts on business development.
-  This Centre has helped Indian companies to set up their offices and business operations in US.
-  This Centre has facilitated networking between Indian and US companies in areas of joint partnerships, strategic alliances, access to financial institutions and venture capitalists.
-  Necessary guidance and information is provided to US companies desiring to set up their offices in India or to outsource their work to Indian companies. This includes guidance regarding policy measures in respect of various export promotion schemes such as EPZ, EOU, STP etc.



## Indian Companies: Assistance provided

Nature of assistance	Number of Companies/ Individuals
Presidents/CEOs/Representatives of Indian companies who visited this Centre/contacted personally. They have been provided infrastructure facilities/information about potential business leads/contacts for business alliances/networking opportunities etc.	250
Number of Indian companies facilitated by this Centre in setting up their US offices.	50
Trade and Policy related information and guidance provided to Indian/US companies, who have contacted us through e-mail/telephone/catalogues/brochures.	550
Total number of companies/individuals-to whom services/assistance provided for:	337

## BSC NEWSLETTER

Monthly News Letters are being published by Business Support Centre since January 2001. These newsletters contain hard-to-find informations in respect of Market trends, Technology trends, Events/conferences, Potential Trade leads, useful links to website for market research etc. These newsletters are distributed to STPI/BSC members through electronic media.

## International Projects of STPI

### Development and Design of Software Technology Park, Nepal

United Nations Education Scientific and Cultural Organization (UNESCO) has approached Software Technology Parks of India for providing services of STPI experts for Development and Design of STP at Banepa, Nepal and to prepare a feasibility study of the project.

The objective of setting up STP by the Nepalese Government is to create infrastructure for the entrepreneurs to start the software development activities and creation of jobs for the young IT professionals in Nepal to usher Nepal on IT map of the world. The Government of Nepal has already earmarked finances amounting to 40 million Nepalese Rupees, for the development of STP infrastructure.






In view of the above, Software Technology Parks of India has rendered valuable contribution to this UNESCO project of development and design of Software Technology Park at Nepal.





## Business Development Activities

**Bangalore-IT.Com 2000:** Bangalore IT.COM 2000 was an event of 5 days, where STPI had participated very proactively by bringing all its member companies under one pavilion, as part of industry promotion activity.

-  An exclusive pavilion STPI.NET was created where more than hundred STP units participated.
-  The exhibition ground had been provided with 8 Mbps Internet connectivity with an exclusive gateway in association with HCA.
-  "Student Internet World" where more than 30,000 students from different parts of the state got the feel of Internet. STPI provided 8 Mbps Internet to the venue in association with Thaicom.
-  STPI had organized 3 conferences during the year viz.
  -  IT for Common Man
  -  Technology for the future
  -  Entrepreneurship and Venture Capital Funding

Duration of all these conferences were 2 days and more than 800 members were benefited by participating in these conferences.

**CeBIT 2000, Hannover, Germany:** CeBIT Hannover - the biggest and best-known trade show for ICT sector - accurately mirrors and actively stimulates technological progress. CeBIT Hannover aims to make the ICT market, as transparent as possible, and to maximize the benefits for visitors and exhibitors. CeBIT focuses on three segments: Telecommunications & Networks, Software / Internet Solutions & Services and Information Technology. The CeBIT highlights leading-edge technologies.

Inauguration of STPI-Shimla





## Future Plans

### Directions of STPI

So far 19 cities in India have the benefit of better infrastructure and have to play a major role in software exports from the country. Smaller cities, which have advantage of lower costs can play a major role in this sector. Most Internet Service Providers (ISP's) are not setting up communication infrastructure at secondary locations because of commercial considerations. STPI has plans to set up additional STPI centres with Central/State Govt. support at these locations, which will contribute to export of Software and IT enabled Services and simultaneously cater to socio-economic obligations.

### Access to International Fiber

STPI has been able to maintain a very strong quality of service on the satellite-connectivity. The customer needs are changing and moving towards fiber for international connectivity. STPI is already providing data communication services through its International Satellite Gateways set up all over the country. Due to the growth of IT software export segment, the software companies also need bandwidth through fiber. Some of the companies, that are doing mission critical applications like call centre operations, security services etc. require fiber, to avoid transition delay inherent in satellite link. In order to meet the changing needs of customers, STPI plans to access International Fiber.

### Export Promotion

Presently, the major share of software exports is to USA. With the opening up of Europe and having a common Euro currency for all the 12 European countries, there are ample opportunities in the IT market in Europe. Hence, STPI plans to increase its focus on business promotion participation in Exhibitions, Trade Fairs and Delegations, etc., to make in roads to prospective markets of Europe, Japan and Australia, etc.

### Incubation

Business and Technology incubation facilities catalyze the process of starting companies. Basically, it is a dynamic process of business enterprise development to nurture young firms, help them to survive and grow during the startup period, when they are most vulnerable.

Incubation provides the entrepreneurial firm with shared office services, access to equipments, flexible lease and expandable space, all under one roof. Incubation facility helps to make strong foundation necessary to build a strong IT nation. Plug and play facilities for start ups - to provide ready to use infrastructure on nominal rent basis for a certain period.

Incubation for specialized applications for promoting the IT Enabled Services. Startups can be fostered through incubator organizations that can provide them with facilities, technical guidance and management support for a limited time.

**Proposed New Centres:** STPI has plans to set up a few more new STPI centres at different locations of the country. Most of these centres are at secondary locations. As a result of this infrastructure, smaller cities will also be able to contribute to software exports.

### New Services:

**IPVPN:** STPI is also contemplating to extend the services of virtual private networks through internet in order to be more cost effective and simultaneously catering to the security aspects of data of various customers.

**Frame Relay:** In order to extend committed bandwidth to the customers, STPI plans to have the global connectivity through frame relay services through one of the frame relay providers.



## Statement of Accounts

The Audited statement of accounts for the financial year 2000-2001 is placed at Annexure-I.

### ACKNOWLEDGEMENTS

The Council gratefully acknowledges the Co-operation received from the various Ministries and Departments of Government of India, Reserve Bank of India, State Governments, Indian Missions abroad, Videsh Sanchar Nigam Limited, International Carriers, our bankers, Member STPI units, Software Industry associations, and the Statutory Auditors. The Council also acknowledges the untiring efforts of the Staff of the STPI in its successful working.

**(RAJEEVA RATNA SHAH)**

Chairman, GC, STPI

And

The Secretary, Department of Information Technology  
Ministry of Communications and Information Technology

## Auditor's Report

KUMAR SHARMA & CO.  
CHARTERED ACCOUNTANTS

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20, Ansari Road,  
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Tel: 3271611, 3275810, 3254304, 3287334  
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E-mail: ksc\_ca@rediffmail.com

The Governing Council  
Software Technology Parks of India  
6-C.G.O. Complex, Lodhi Road, New Delhi - 110003

We have audited the attached Balance Sheet of Software Technology Parks of India, as on March 31, 2001 and the Income & Expenditure Account for the year ended on that date, annexed thereto in which are incorporated the accounts of 11 Accounting Centres audited by Branch Auditors. We report that :-

Subject to our comments on specific matters on the accounts of the Society Annexed hereto and further subject to following: -

- a) The impact on the accounts, if any, from the non production of original approved documents relating to US centre as referred to in para 5.a) of the Annexure and our consequent reliance on the photostat documents, cannot be ascertained.
- b) The expenses relating to US centre as referred to in para 5.b) of the Annexure could not be verified whether they were incurred for the purposes intended. The impact on the accounts, if any, can not be ascertained.

We state that :

- a) We have obtained all other information and explanations which to the best of our knowledge and belief were necessary for the purposes of audit.
- b) The report on the accounts of centres audited by Branch Auditors have been received and properly dealt with.
- c) The Balance sheet and the Income & Expenditure account dealt with by the report are in agreement with the books of account.
- d) In our opinion and to the best of our information and according to explanations given to us, the said Balance sheet and Income & Expenditure account read together with schedules, accounting policies and notes on accounts annexed thereto gives a true & fair view in case of Balance sheet of the state of affairs as on March 31, 2001 and in case of Income and Expenditure account of the Surplus for the year ended on that date.

Dated: 11.01.2002  
Place: New Delhi

FOR KUMAR SHARMA & CO.  
CHARTERED ACCOUNTANTS

(ANIL KUMAR JAIN)  
PARTNER



## Annexure To Auditor's Report

KUMAR SHARMA & CO.  
CHARTERED ACCOUNTANTS

302-303, Munish Plaza,  
20, Ansari Road,  
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AUDITORS' COMMENTS ON THE ACCOUNTS OF SOFTWARE TECHNOLOGY PARKS OF INDIA,  
6-C.G.O. COMPLEX, LODHI ROAD, NEW DELHI FOR THE YEAR ENDED 31.03.2001 AS  
REFERRED TO IN THE AUDITOR'S REPORT DATED 11.01.2002

1. a) It is the policy of STPI not to charge depreciation on its fixed assets. On this basis, assets are stated at full value in the Balance sheet and no depletion in the value of assets on account of use, effluxion or obsolescence through technology and market changes is recognised in Income statement. The non-charging of depreciation has no relation with the non-profit making motive of the society as declared in the Accounting Policy number 1 d) of Schedule - D.

b) It is also the policy of the STPI to charge certain payments to revenue account in the year they are incurred as referred to in Accounting Policy No. 1 c) of Schedule - D. On this basis expenses of deferred / capital nature are written off in the very first year they are incurred rather than spreading to their useful period of life.

The above two policies are not consistent with the basic Fundamental accounting assumption of accrual to match the revenue with the expenses incurred. The surplus as reported in the Income statement and fixed assets as stated in the Balance Sheet are overstated due to Accounting Policy No. 1. d) and surplus and assets are understated due to Accounting Policy No. 1. c). The amount can not be ascertained in absence of necessary details.

2. The Society's accounting policy of setting off of loss on sale / disposal of assets against the Assets Replacement Fund (ARF), as referred to in Para No. 1 d) of Schedule - D is not in accordance with the accepted accounting practice of charging the same to the revenue statement. The setting off of loss against the ARF is also against the intended disclosed purpose for the creation of the fund.

3. Poor Internal Controls were noticed with regard to :-

a) Implementation of tariff proposals approved by the Governing Council. Monitoring lacked which resulted in overcharging from customers at Noida Centre.

b) Non-presentation of Management Report on the Financial affairs and other connected matters addressed to the Governing Council as submitted by Central

Statutory Auditors containing vital information for implementation and improvement.

c) Management of investment of surplus funds in Fixed deposits at NOIDA & Head Office amounting to Rs. 416.47 Millions. No interest rate quotations from different Nationalised Banks were invited to avail the maximum interest rate benefit.

d) Procedures at NOIDA Centre, for purchase of equipment & material and availing of various other services on contract basis. The system is deficient with regard to invitation of bids, selection of vendor / party, placement of repeat orders, emergency purchases, fixation of re-tendering period, parameters for declaration of proprietary items etc.

e) Billing for services rendered, purchases, fixed assets and usage of space segments at Bangalore Centre.

f) Maintenance of record relating to quotations obtained, verbal or written, before the purchase of capital assets or incurring of revenue expenditure at US Centre.

g) Incurring of expenditure relating to courier charges, vehicles hire, printing & stationery and advertisement charges at Head Office.

4. The Surplus for the year is overstated due to non-provision of :-

a) Excess billing made due to late / non implementation of Head Office Tariff circulars at NOIDA. Amount not ascertained by the centre.

b) Income Tax Liability of Rs. 17,700,416 being the demand raised by Income Tax Department at Bangalore towards non-deduction of tax at source on payments to foreign carriers as referred to in note no. 12 of Schedule - D.

c) Identified obsolete assets amounting to Rs. 8,799,435 at the Trivendrum Centre.

d) Data Link Charges amounting to Rs. 1,033,342 demanded by M/s AT&T at Bhubneshwar.

e) Non-existing General Standby Stores at Bangalore Centre amounting to Rs. 2,497,146 included under Current Assets.

f) Excess incentive paid to Ex-employees from whom recoveries became due consequent upon the implementation of the MIT's sanction Dated 4.5.2001. The amount has not been ascertained.

5. Following pertaining to US Center which to the best of our knowledge and belief were necessary for the purposes of audit were not furnished:-

a) Original approved supporting documents such as purchase / expense vouchers, agreements etc. (Total expenditure incurred at the US Centre Rs. 14.65 Millions).

b) Explanations, clarifications, justifications, information and supporting details with regard to revenue expenditure and other payments amounting to Rs. 2,242,237.



6. Deficiencies were noticed in Fixed Assets Registers and / or their physical verification reports relating to Rs. 655.13 Millions at Head Office, Bangalore, Guwahati, Pune, Bhubneshwar, Gandhi Nagar, Jaipur, Mohali and US centres with regard to either their record maintenance, verification procedure, reconciliation with the financial records or with physical verification reports. In the absence of detailed working the effect of reconciliation or verification on the assets missing, damaged and / or obsolete requiring write off have not been identified. Consequently the effect on the surplus as stated in the income and expenditure account and on the gross value of fixed assets as stated in the Balance Sheet can not be ascertained.
7. The society has not created the Incentive Fund in terms of directions issued by MIT vide their letter dated 4.5.2001. The impact of the same over surplus of income over expenditure can not be ascertained.
8. Most of the balances of Sundry debtors, Loans and Advance Recoverables, Sundry creditors and Advances / Deposits payable are subject to confirmation. The impact on the Surplus of Income over Expenditure and Assets & Liabilities consequently arising from confirmation and reconciliation cannot be ascertained. These balances inter-alia : -
  - a) Includes Rs. 45,645,228 recoverable from VSNL by Noida Centre on account of merged SATCOM operations which has been disputed by VSNL. The amount is outstanding since 1997 against which no provision has been made.
  - b) Includes an amount of Rs. 177,131,390 payable to VSNL at Bangalore center against their un-reconciled demand of Rs. 190,102,032.
  - c) Includes Rs. 8,006,590 due from M/s SIDCO, in the books of Noida Center adjustable against capital / revenue expenditure incurred by them on behalf of STPI for setting up earth station in Srinagar. M/s SIDCO has submitted an account of Rs. 10,897,865 which remained unadjusted in the absence of approved details and reconciliation.
  - d) Includes Rs. 1,719,000 & Rs. 489,000 paid at Hyderabad and Bangalore Centres respectively on account of fixed assets constructed by the Suppliers on behalf of STPI. Due to non-capitalisation, the fixed assets are understated and Advances are overstated to the extent.
  - e) Includes Rs. 1,069,926 recoverable from ERTL (N) which is outstanding for long & pending with MIT for disposal.
9. The society has debited Rs. 14,069,549 pertaining to Prior Period Adjustments (Income & Expenditure of earlier years) to the Income & Expenditure Statement. Consequently the operating Surplus of the year is lower to that extent.
10. In absence of actuarial valuation no comments can be offered on the adequacy of provision for payment of gratuity to the staff of the Society as referred to in Note No. 17 of Schedule - D.

11. Business - Promotion expenses includes Rs. 557,254 which represents un-audited figures of the Centers. The impact of the same on the assets, liabilities & surplus for the year cannot be ascertained.
12. The Hyderabad Center has capitalised Civil work/ wooden partitioning worth Rs. 1,142,681 which is not in agreement with Accounting Policy No. 1C of Schedule - D.

Dated: 11.01.2002

Place: New Delhi

FOR KUMAR SHARMA & CO.

CHARTERED ACCOUNTANTS

(ANIL KUMAR JAIN)

PARTNER



## BALANCE SHEET AS ON 31st MARCH, 2001

Particulars	As at 31.3.2001	As at 31.3.2000
<b>A - SOURCES OF FUND</b>		
Grants in Aid	796,515,082.00	645,016,430.00
Reserves & Surplus		
-Capital Reserve	25,016,000.00	25,016,000.00
-Assets Replacement Fund		
Opening Balance	552,606,422.10	410,724,254.90
Less: Loss on sale of assets adjusted	(9,466,257.29)	(41,916.00)
Add: Transferred as per Income & Expenditure Account	151,548,413.78	141,924,083.20
-Balance at credit as per Income & Expenditure A/c	444,253,743.30	306,942,865.04
Unsecured Loans as per Schedule A	131,492,000.00	84,890,599.43
<b>TOTAL</b>	<b>2,091,965,403.89</b>	<b>1,614,472,316.57</b>
<b>B. APPLICATION OF FUNDS</b>		
Fixed Assets as per Schedule B	1,331,442,458.75	1,005,629,996.79
Current Assets, Loans & Advances		
a. Current Assets		
-Cash in Hand	149,496.31	399,372.31
-Balance with Scheduled Banks		
In Saving Accounts	122,849,915.72	184,336,989.47
In Current Account	428,942.28	154,405.49
In Fixed Deposits & Margin Money Accounts	1,060,400,520.00	608,608,150.00
-Interest Accrued but not due on above	37,544,713.84	23,536,016.29
-Cheques in hand	13,290,914.00	41,512,557.10
-Stamps in hand	80,628.12	19,239.95
-Sundry Debtors	117,317,458.15	100,988,878.67
Less : Provision for Bad Debts	(28,398,925.84)	(15,020,301.34)
-General Standby Store/STPI books	2,684,821.30	2,615,184.30
b. Loans & Advances		
-Advance Recoverable in Cash or Kind for value to be received	128,982,909.48	134,696,310.90
-Tax Deducted at Source	23,924.00	7,041.00
Total Current Assets (I)	1,455,355,317.36	1,081,853,844.14
Less : Current Liabilities		
-Sundry Creditors	297,841,343.31	101,171,142.00
-Advance/Deposits	309,073,782.85	303,213,274.14
-Outstanding Liabilities	74,470,557.72	58,417,195.22
-Project Advance	13,687,339.78	10,858,163.00
-Bank Overdraft	277,948.56	-
Total Current Liabilities (II)	695,350,972.22	473,659,774.36
Net Current Assets (I-II)	760,004,345.14	608,194,069.78
Miscellaneous Expenditure (To the extent not written off or adjusted)		
Deferred Revenue Expenditure	518,600.00	648,250.00
<b>TOTAL</b>	<b>2,091,965,403.89</b>	<b>1,614,472,316.57</b>

Notes On Accounts & Significant Accounting Policies As Per Schedule D - Schedules A to D Attached Form Part Of Accounts

For Software Technology Parks of India,

(S.N. Zindal)  
Director General

(M.R. Pattnaik)  
Director H.Q.

(A.K. Kapoor)  
Chief Finance Officer

(Anil Kumar Jain)  
Partner

Place : New Delhi  
Dated: 11/01/2002

As per our separate report of even date annexed,  
For Kumar Sharma & Co.  
Chartered Accountants

## Income and Expenditure Accounts for the year ended 31.3.2001

Particulars	Year Ended 31.3.01	Year Ended 31.3.00 (Amount in Rs.)
<b>INCOME</b>		
Charges Received	1,060,925,911.58	712,225,305
Income from Training & Seminar	4,719,228.00	2,896,248
Grants Received	13,295,688.45	8,250,000
Interest Earned	77,025,879.47	42,900,137
Miscellaneous Income	7,416,092.25	7,919,628
Foreign Exchange Fluctuation	4,838,403.24	
Sundry Credit Balances written Back	4,486,002.75	1,104,330
<b>TOTAL (I)</b>	<b>1,172,707,205.74</b>	<b>775,295,651</b>
<b>EXPENDITURE</b>		
Advertisement & Publicity	1,891,081.00	1,127,840
Audit Fees	204,750.00	147,000
Bank charges	480,653.88	162,470
Business Promotion Expenses	12,434,332.07	2,330,180
Communication Cost	18,904,653.11	14,013,500
Computer Operating Expenses	2,438,677.25	1,559,500
Consumable Store	9,046,221.02	5,491,900
Data Link Charges	609,924,919.28	286,324,000
Electricity & Water Charges	18,397,367.33	12,851,500
Foreign Exchanges Fluctuation	-	432,800
Gardening & Maintenance	1,501,427.00	205,900
Insurance	2,658,027.30	2,431,500
Interest on Loan	2,035,890.00	1,880,500
Newspapers, Books & Periodicals	352,419.15	602,000
Other Expenses	19,796,249.97	12,028,000
Printing & Stationery	4,067,976.03	3,756,000
Prior Period Adjustment as per schedule C	14,069,548.73	(1,417,100)
Professional Charges	3,668,018.34	2,257,000
Provision for Doubtful Debts/Bad Debts	17,915,229.50	4,255,000
Recruitment Expenses	533,398.55	357,000
Rent, Rates & Taxes	21,890,918.00	13,784,000
Repair & Maintenance	13,530,356.31	11,667,000
Salaries, Wages & Amenities	75,632,740.84	44,693,000
Security Hire Charges	7,331,777.49	5,912,000
Service Charges	3,950,404.00	2,751,000
Training & Seminar	3,017,943.00	3,588,000
Travelling & Conveyance	8,642,472.75	7,436,000
Vehicle Running & Hire Charges	9,530,461.80	6,600,000
<b>TOTAL (II)</b>	<b>883,847,913.70</b>	<b>447,235,000</b>
Net surplus for the year (I-II)	288,859,292.04	328,060,000
Less: Transfer to Asset replacement Fund	(151,548,413.78)	(141,924,000)
Add: Surplus brought forward from earlier years	306,942,865.04	120,800,000
<b>Balance Carried Over To Balance Sheet</b>	<b>444,253,743.30</b>	<b>306,940,000</b>

Notes On Accounts & Significant Accounting Policies As Per Schedule D  
Schedules A to D Attached Form Part Of Accounts

For Software Technology Parks of India,

As per our separate report  
of even date annexed,  
For Kumar Sharma & Co.,  
Chartered Accountants

(S.N. Zindal)  
Director General

(M.R. Pattnaik)  
Director H.O.

(A.K. Kapoor)  
Chief Finance Officer

(Anil Kumar Jain)  
Partner

Place : New Delhi  
Dated: 11/01/2002



## Schedules A to D forming part of Balance Sheet as at 31st March, 2001

### and Income & Expenditure

Account for the year ended on that date

#### Schedule : "A" Unsecured Loans

(Amount in Rs.)

Particulars	As at 31.3.2001	As at 31.3.2000
Kerala Government	30,000,000.00	29,390,599.43
Noida Authority	18,000,000.00	21,000,000.00
Electronics Corporation of Punjab	7,000,000.00	7,000,000.00
Chadigarh Administration	2,742,000.00	2,500,000.00
Maharashtra Industrial Development Corporation	40,000,000.00	-
ELCOT	20,000,000.00	-
CIDCO Nawi Mumbai	3,750,000.00	15,000,000.00
TIDCO Chennai	10,000,000.00	10,000,000.00
<b>TOTAL</b>	<b>131,492,000.00</b>	<b>84,890,599.43</b>

#### Schedule : "B" Fixed Assets

Particulars	As at 31.3.2001	As at 31.3.2000
Land	7,246,373.00	4,220,771.00
Building	84,213,069.65	62,921,887.22
Building work in Progress	-	3,569,028.00
Computers & Peripherals	93,023,319.00	88,450,369.53
Electrical Equipments/installation	81,126,179.11	67,073,242.38
Furniture & Fixture	32,714,010.23	28,529,999.61
Fire Fighting Equipment	848,026.08	1,060,367.91
Other Fixed Assets	2,255,719.34	2,167,277.14
Office Equipment	35,140,210.11	22,286,152.29
High Speed Data Communication Equipment	976,393,849.85	681,425,639.71
Vehicles	7,101.58	164,566.15
Capital work in progress	18,474,600.80	43,760,695.85
<b>TOTAL</b>	<b>1,331,442,458.75</b>	<b>1,005,629,996.79</b>

## Schedule "C" Prior Period Adjustment

Particulars	Year Ended 31.3.01	Year Ended 31.3.00
Bank Charges	12,190.00	29,930.00
Business Promotion	63,284.00	180,000.00
Charges Received	(1,454,775.00)	(3,070,307.00)
Clearing & Forwarding Charges	75,799.00	-
Computer Operating Expenses	600,000.00	-
Communication cost	291,380.00	109,869.00
Credit Balances/Excess Provision written Back	(70,855.00)	(1,788,327.70)
Electricity & Water	11,091.00	32,363.00
Expenses.spend Cochin Corporation	437,015.50	-
Grant Received	2,626,758.23	-
Insurance	-	(26,280.00)
Intelsat charges	1,206,008.00	1,742,536.00
Interest Earned	(2,155.00)	(111,443.00)
Interest paid	448,767.00	-
Lease Rent	-	(10,000.00)
Membership & Subscription	50,000.00	-
Miscellaneous. Income	(33,305.00)	(5,567.00)
Newspaper books & periodicals	8,844.00	392.00
Other Expenses	70,600.00	62,172.53
Professional Charges	182,611.00	5,000.00
Rent, Rate & Taxes	1,667,511.00	37,188.00
Repair & Maintenance	185,881.00	53,040.00
Salary & wages	1,946,989.00	564,468.00
Seminar Expenses	5,084.00	-
Service Charges	2,524,490.00	652,190.50
Soft point charges	3,167,181.00	-
Travelling & Conveyance	-	135,346.00
Travel-Inland	-	(14,725.00)
Vehicle Running & Hire Charges	49,155.00	5,024.00
<b>Total</b>	<b>14,069,548.73</b>	<b>(1,417,130.67)</b>

For Software Technology Parks of India,

As per our separate report  
of even date annexed,  
For Kumar Sharma & Co.  
Chartered Accountants(S.N. Zindal)  
Director General(M.R. Pattnaik)  
Director H.Q.(A.K. Kapoor)  
Chief Finance Officer(Anil Kumar Jain)  
PartnerPlace : New Delhi  
Dated: 11/01/2002



## Schedule - D

### 1. Accounting Policies : Major accounting policies are as under:

- a) The accounts are prepared on the basis of Historical Cost Convention Method Expenses and income are accounted on accrual basis except for interest on loan to staff, insurance claim and penalty from STPI member units.
- b) The "Charges Received Account" include charges for ready to use space, other infrastructure services like data communications, photocopying, fax, telephone, canteen facilities etc. and other certification work provided to member units of STPs.
- c) The under mentioned expenditure is charged to revenue in the year of incurrance:
  - i) Software Expenses
  - ii) Civil Work/Wooden Partitioning on rented premises
  - iii) Erection of temporary structures
  - iv) Cost of Radio Mast installed at Customer's site
  - v) Purchase of consumable stores.
- d) The Society being a non-profit making institution, the depreciation has not been provided in the accounts on Fixed Assets including leasehold. Assets Replacement Fund (ARF) is created on straight line method, up to the cost of the asset, in order to replace the assets on future date as under :

Assets	Rate p.a.
Building	10%
Computer Peripherals	15%
Electrical installations	15%
Fire Fighting Eqpt.	15%
Furniture & Fixture	10%
Office Equipment	15%
Other Fixed Assets	15%
Vehicles	20%
Earth Station	20%

Full ARF is provided in the year of purchase. No ARF is provided in the year of disposal. Loss on sale / disposal of assets is set off against the ARF. The loss on sale / disposal of assets is arrived at by deducting realized value from the cost of such assets. The profit on sale is credited to Capital Reserve Account.

- e) Grants - in - Aid of capital nature are disclosed as liabilities in the Balance Sheet and Grants-in - Aid of revenue nature routed through revenue statement.

- f) The prior period expenses and prior period income less than Rs. 5,000/- are directly debited/credited to the respective head of account.

**2. Contingent Liabilities :** These are as under-

- a) Rupees 3.5 Millions towards excess bills raised by M/s AT & T towards intelsat charges not accepted as claim by Noida Centre.
  - b) Liability on account of un-expired bank guarantees of Rs. 20,000,000.
  - c) Claims against Society not acknowledged as debts Rs. 6,561,588.
  - d) The additional rent payable to Gujarat Industrial Development Corporation at Gandhinagar for unoccupied space which is under dispute. The amount is not ascertainable.
  - e) The lease rent payable on account of land allotted at Taramani by the Government of Tamil Nadu. Amount not ascertainable in the absence of necessary decision by the allotting authority.
3. a) Fixed Deposit Receipts of Rs. 92,092,437 are under lien with banks/ Customs Department against LC's and bank Guarantees issued in favour of the Society.
  - b) The estimated amount of contracts remaining to be executed on capital account and not provided for Rs. 61,566,936.
  - c) The fixed assets valuing Rs. 443,163,436 are bonded with the Custom Department to avail the benefit of duty free imports.
4. During the year value of assets, damaged due to super cyclone at Bhubaneswar in the year 1999-2000, has been crystallized at Rs. 8,438,441 and written off. The approval of the Governing Council is pending.
  5. The immovable properties being land at Hyderabad and Bangalore are yet to be registered in the name of the Society.
  6. M/S. VSNL has paid Rs. 30.1 Millions during the year against a claim of Rs. 75.8 Millions. The balance recovery of the amount is pending reconciliation/ confirmation with VSNL.
  7. Advances includes Rs. 1,719,000 paid to Andhra Pradesh Industrial Infrastructure Corporation for construction of building at Jubilee Hills which has since been completed. Advance is pending for adjustment due to non-receipt of final construction bills.
  8. Current Assets includes General Standby stores amounting to Rs. 2,497,146 which has been transferred to the STPI units. The branches are in the process of obtaining the required information for regularisation of the same.
  9. Loans and Advances includes an amount of Rs. 8,006,590 in favour of SIDCO for setting up of earth Station at Srinagar. Against this an expenditure of Rs. 10,897,865



has been reported by SIDCO. The expenditure could not be accounted for due to non-settlement of their claim.

10. Loans and Advances includes Rs. 1,069,926 in favour of ERTL (N), a Society under the Ministry of Information Technology (MIT), for the assets transferred to them. The matter is pending with MIT for final disposal.
11. A total grant of Rs. 22,500,000 and Rs. 2,000,000 has been received from MIT towards recurring and non-recurring expenditure respectively up to 31.03.2001 for setting up of Business Support Centre at United States of America. A total amount of Rs. 18,108,930 (net of membership fee and miscellaneous income) and Rs. 2,102,137 respectively has been spent up to 31.03.2001.
12. The Society has received a demand of Rs. 17,700,416 from the Income Tax Officer (TDS) - I. Bangalore as per order issued under Section 201 (1) and 201 (1A) of Income Tax Act, 1961 for non deduction of tax at Source on payments made to Foreign Carriers for utilisation of space segment. The society has preferred an appeal before the Commissioner of Income Tax. The society is of the opinion that it need not deduct tax at source on such payments, hence no provision for this tax liability has been created.
13. The Bangalore Branch has been paying enhanced rentals to Karnataka State Small Scale Industrial Corporation Ltd. (KSSIDC) for usage of their space as per the arrangement since 1995. However a claim of Rs. 4,488,553 has been received from KSSIDC vide their letter dated 3rd July 2001 towards rental arrears including interest and provision for the same is not made in the books of account.
14. Salaries, Wages and Amenities includes an amount of Rs. 3,948,150 (net of recoveries) towards Incentive payable to the staff of the Society for earlier years arising from approval accorded by MIT vide their order dated 04.05.2001.
15. Like earlier years provision has been made for license fees payable to the Department of Telecommunication and license fee & royalty payable to wireless communication and co-ordinating wing amounting to Rs. 2,992,040 as per arrangement (cumulative provision made till date Rs. 22,250,160 including an amount of Rs. 12,160,048 of erstwhile SATCOM Division).
16. No provision for Income Tax has been made since the society has been exempted by the Income Tax Department u/s 11 of the Income Tax Act, 1961 and as such its income is non taxable.
17. An ad-hoc gratuity provision of Rs. 200,000 (Cumulative till date Rs. 560,000) has been made for the Society's liability towards policy obtained from LIC. The actuarial valuation of the gratuity liability is pending.
18. There is a corporatisation proposal of STPI, which is being taken up with MIT.
19. Previous year figures have been re-grouped / reclassified wherever necessary.

## STPI'S COMMENTS TO THE OBSERVATIONS MADE BY THE STATUTORY AUDITORS

Point wise comments to the observation made by Auditors on STPI accounts for the year 2000-2001:

### Auditor's Observation

### STPI's Comments

#### Point No. 1

a) It is the policy of STPI not to charge depreciation on its fixed assets. On this basis, assets are stated at full value in the Balance Sheet and no depletion in the value of assets on account of use, effluxion or obsolescence through technology and market changes is recognized in Income statement. The non-charging of depreciation has no relation with the non-profit making motive of the society as declared in the Accounting Policy number 1 d) of Schedule-D

b) It is also the policy of the STPI to charge certain payments to revenue account in the year they are incurred as referred to in Accounting Policy No. 1 c) of Schedule-D. On this basis expenses of deferred/capital nature are written off in the very first year they are incurred rather than spreading to their useful period of life.

The above two policies are not consistent with the basic fundamental accounting assumption of accrual to match the revenue with the expenses incurred. The surplus as reported in

The Income statement and fixed assets as stated in the Balance Sheet are overstated due to Accounting Policy No. 1 d) and surplus and assets are understated due to Accounting Policy No.1 c). The amount cannot be ascertained in absence of necessary details.

a) The depreciation on fixed assets was not charged as per the directions issued by Dept. of Information Technology (DIT) but in place of it, Assets Replacement Fund (ARF) had been created. As per the recent directives received vide DIT letter no.10 (1)/2000 -Fin-II dated 25.1.2002, depreciation on Fixed Assets has been made and duly incorporated in the Annual Accounts for the financial year 2001-02.

All these expenses are revenue expenses duly approved.

This is in respect of the points already explained above including action taken.



**Point No. 2**

The Society's accounting policy of setting off of loss on sale/disposal of assets against the Assets Replacement Fund (ARF), as referred to the in Para No. 1 d) of Schedule-D is not in accordance with the accepted accounting practice of charging the same to the revenue statement. The setting off of loss against the ARF is also against the intended disclosed purpose for the creation of the fund.

In the light of recent directions to charge depreciation as explained in point 1(a) above, the adjustments as required will be made in the accounts made for Financial Year 2001-2002.

**Point No. 3**

Poor internal controls were noticed with regard to :-

- |   |  |
|---|--|
| <p>a) Implementation of tariff proposals approved by the Governing Council. Monitoring lacked which resulted in overcharging from customers at Noida Centre.</p>  | <p>a) All customers who were over charged have been given credit subsequently.</p>   |
| <p>b) Non-presentation of Management Report on the Financial affairs and other connected matters addressed to the Governing Council as submitted by Central Statutory Auditors containing vital information for implementation and improvement.</p>   | <p>b) Auditors report on annual accounts has been put up to GC and the Management Report has also been put up to GC.</p>                             |
| <p>c) Management of investment of surplus funds in Fixed deposits at Noida &amp; Head Office amounting to Rs. 416.47 Millions. No interest rate quotations from different Nationalized Banks were invited to avail the maximum interest rate benefit.</p>   | <p>c) Management of investment of surplus funds has been streamlined. Treasury Management Committee has been setup for monitoring.</p>               |
| <p>d) Procedures at Noida Centre, for purchase of equipment &amp; material and availing of various other services on contract basis. The system is deficient with regard to invitation of bids, selection of vendor / party, placement of repeat orders, emergency purchases, fixation of re-tendering period, parameters for declaration of proprietary items etc.</p> | <p>d) The cases have been further examined and measures such as preparation of purchase manual have been taken for improvement in the procedure.</p> |

e) Billing for services rendered, purchases, fixed assets and usage of space segments at Bangalore centre.

f) Maintenance of record relating to quotations obtained, verbal or written, before the purchase of capital assets or incurring of revenue expenditure at US centre.

g) Incurring of expenditure relating to courier charges, vehicles hire, printing & stationery and advertisement charges at Head Office.

e) The cases have been further examined and measures such as preparation of purchase manual have been taken for improvement in the procedure.

f) The centre has since been closed and the matter is under inquiry with the DIT.

g) The cases have been further examined and measures such as preparation of purchase manual have been taken for improvement in the procedure.

#### Point No. 4

The surplus for the year is overstated due to non-provision of :

a) Excess billing made due to late/non implementation of Head Office Tariff circulars at Noida. Amount not ascertained by the center.

b) Income Tax Liability of Rs. 17,700,416 being the demand raised by the Department of Income Tax at Bangalore towards non-deduction of tax at source on payments to foreign carriers as referred to in note no. 12 of Schedule-D.

c) Identified obsolete assets amounting to Rs. 8,799,435 at the Trivendrum centre.

d) Data Link charges amounting to Rs. 1,033,342 demanded by M/s. AT&T at Bhubaneswar.

e) Non-existing General Stand by Stores at Bangalore Centre amounting to Rs. 2,497,146 included under Current Assets.

a) The amount has since been ascertained and the credit of Rs. 86,50,029/- has been given to the units.

b) No provision has been made for this demand since the appeal on the matter is pending before the authorities concerned.

c) The process of obtaining approval for written off has been initiated.

d) The matter has now been settled and adjusted in the financial year 2001-02.

e) These items wrongly booked in Bangalore centre were laying with other centres. Stores has now been debited to following centres:

i) Gandhinagar	- 3.20 lakhs
ii) Hyderabad	- 8.16 lakhs
iii) Bangalore	- 11.21 lakhs
(iv) Chennai	- 2.01 lakhs
(v) Pune	- 0.39 lakhs



f) Excess incentive paid to Ex-employees from whom recoveries became due consequent upon the implementation of the DIT's sanction dated 4.5.2001. The amount has not been ascertained.

**Point No. 5**

Following pertaining to US Centre which to the best of our knowledge and belief were necessary for the purposes of audit were not furnished:-

a) Original approved supporting documents such as purchase/expense vouchers, agreements etc. (Total expenditure incurred at the US Centre Rs. 14.65 Millions).

b) Explanations, clarifications, justifications, information and supporting details with regard to revenue expenditure and other payments amounting to Rs. 2,242,237.

**Point No. 6**

Deficiencies were noticed in Fixed Assets Registers and/or their physical verification reports relating to Rs. 65.513 Crores at Head Office, Bangalore, Guwahati, Pune, Bhubaneswar, Gandhi Nagar, Jaipur, Mohali and US

f) The recovery process has been initiated

a) The centre has since been closed and the matter is under inquiry with the DIT.

b) The center has since been closed and the matter is under inquiry with the DIT.

The fixed assets register at all other centres has been maintained in the requisite format. The physical verification will be completed soon.

**Point No. 7**

The Society has not created the Incentive Fund in terms of directions issued by DIT vide their letter dated 4.5.2001. The impact of the same over surplus of income over expenditure cannot be ascertained.

The necessary fund is being created in the accounts for the financial year 2001-02.

**Point No. 8**

Most of the balances of Sundry debtors, Loans and Advances Recoverable, Sundry creditors and Advances/Deposits payable are subject to confirmation. The impact on the Surplus of Income over Expenditure and Assets & Liabilities consequently arising from confirmation and reconciliation cannot be ascertained. These balances inter-alia:-

Most of the balances of Sundry debtors, loans, advances recoverable, sundry creditors, advances/ deposits payable have since been adjusted / realized during Financial Year 2001-02.

a) Includes Rs. 45,645,228 recoverable from VSNL by Noida Centre on account of merged SATCOM operations which has been disputed by VSNL. The amount is outstanding since 1997 against which no provision has been made.

a) The matter is under active consideration and adequate provisions made subsequently.

b) Includes an amount of Rs.77, 131,390 payable to VSNL at Bangalore centre against their un-reconciled demand of Rs. 190,102,032.

b) Our figure has been accepted by VSNL and the matter has since been settled.

c) Includes Rs. 8,006,590 due from M/s. SIDCO, in the books of Noida Centre adjustable against capital/revenue expenditure incurred by them on behalf of STPI for setting up earth station in Srinagar. M/s. SIDCO has submitted an account of Rs. 10,897,865 which remained unadjusted in the absence of approved details and reconciliation.

c) The matter has since been settled.

d) Includes Rs. 1,719,000 & Rs. 489,000 paid at Hyderabad and Bangalore Centres respectively on account of fixed assets constructed by the suppliers on behalf of STPI. Due to non-capitalization, the fixed assets are understated and Advances are overstated to that extent.

d) The necessary adjustment shall be made in the accounting year 2001-02



e) Includes Rs. 1,069,926 recoverable from ERTL(N) which is outstanding for long & pending with DIT for disposal.

e) The matter has been put up to the DIT for the adjudication.

**Point No. 9**

The society has debited Rs.14, 069,549 pertaining to Prior Period Adjustments (Income & Expenditure of earlier years) to the Income & Expenditure Statement. Consequently the operating Surplus of the year is lower to that extent.

The matter has already been stated and disclosed under Schedule C attached to the Balance Sheet.

**Point No. 10**

In absence of actuarial valuation no comments can be offered on the adequacy of provision for payment of gratuity to the staff of the Society as referred to in Note No. 17 of Schedule-D.

Actuarial valuation has been completed by LIC and accordingly the premium has been paid for gratuity in current financial year 2001-02.

**Point No. 11**

Business Promotion expenses included Rs. 557,254 which represents un-audited figures of the Centres. The impact of the same on the assets, liabilities & surplus for the year cannot be ascertained.

This has been audited during year 2001-02.

**Point No. 12**

The Hyderabad Center has capitalized Civil work/wooden partitioning worth Rs. 1,142,681 which is not in agreement with Accounting Policy No. 1 c) of Schedule-D.

The investment has since been capitalized.

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