

Department of Telecommunication

Summary of important audit observations included in Audit Report No 55 of 2015 (for the year ended March 2014), 4 of 2016 (Sharing of Revenue by PSP during 2006-07 to 2009-10) and 29 of 2016 (for the year ended March 2015) laid in the Parliament in 2016

S.no	Important Audit Observation
1	Set-off of the non-refundable entry fee of ` 5,476.30 crore, paid by licensees in 2008 whose licenses were declared illegal and quashed by the Hon'ble Supreme Court, against the auction price payable for spectrum in 1800 MHz / 800 MHz held in November 2012 / March 2013 deprived the Government of the revenue to that extent.
2	The continued allocation / extension of spectrum in 3.3 GHz band, year after year, to the operators, administratively, free of cost resulted in significant loss to public exchequer by way of non-realisation of the one-time charges which the Government would have realized had they auctioned the spectrum. This was despite the recommendation of TRAI to auction the spectrum in 3.3-3.4 GHz and also violated the intent and spirit of the Hon'ble Supreme Court judgment
3	Telecom Regulatory Authority of India (TRAI), ignoring directions of the Central Government, opinion of its own Legal Division and Ministry of Law, Justice and Company Affairs opened Regional Offices across the country and incurred an expenditure of ` 14.12 crore till March 2014. The expenditure will be incurred in future also till the ROs are functioning
4	Controller of Communication Accounts (CCA), Rajasthan Telecom Circle allowed front loaded subsidy of ` 71.49 crore on the basis of claims submitted by M/s Tata Teleservices Limited (TTSL) during 2008-2010 without conducting any check regarding genuineness of Customer Application Forms (CAFs) before disbursement of subsidy. Further, CsCA at Odisha and Kerala circles paid subsidy on duplicate claims amounting to ` 0.82 crore to BSNL and Reliance Communication Limited.
5	STL, an Infrastructure Provider Category-I (IP-I) registered company, which was authorised only to provide infrastructure support to licensees of telecom service providers was functioning beyond the scope of the IP-I registration. Though the fact was brought to notice of DoT by TERM Cell, Pune, no action was taken against the company even after one year.

Public Sector Undertakings under DoT

S.no	Important Audit Observation
1	Continuation of leased lines and circuits provided by BSNL despite non-payment of dues for more than three years from Private/Government organizations resulted in accumulation of arrears of ` 223.99 crore in six Telecom Circle and one Telecom region
2	BSNL failed to provide uninterrupted mobile services due to improper maintenance of infrastructure sites in Madhya Pradesh Circle which resulted in payment of penalty to DoT to the extent of ` 22.27 crore.

3	BSNL failed to monitor India Telephone Cards which were meant for sale in Jammu and Kashmir only. This resulted in loss on account of service tax and penalty thereon amounting to ` 5.40 crore besides engaging in avoidable litigation
4	National Informatics Centre Services Inc (NICSI), a non-profit Section 25 company under National Informatics Centre paid Project incentive of ` 2.11 crore, Transport Allowance of ` 48.87 lakh, House Rent Allowance of ` 16.58 lakh and reimbursement of LTC of ` 1.90 crore to its officers who were on deputation from National Informatics Centre during 2010-11 to 2013-14 in contravention of the Ministry of Finance / Department of Personnel & Training / Department of Public Enterprises Guidelines.
5	Imprudent action on the part of BSNL in procurement of Digital Cross Connect System equipments resulted in idling of interface cards and blocking of funds amounting to `22.80 crore in two Project circles
6	BSNL Southern Telecom Region (STR) had not raised bill for 1 Gbps E link from MPLS to National Knowledge Network (NKN) Point of Presence (PoP) provided to Ministry of Human Resources Development (MHRD). This resulted into an accumulation of arrears to the extent of ` 6.07 crore

Revenue Share by Private Telecom Service Providers

Revenue share payment is linked to the Gross Revenue earned by service providers. The correctness and completeness of the revenue share paid to Government entails that the computation of GR/AGR by the operator was as per the licence conditions.

To ascertain the correctness of the revenue share paid to Government, the Comptroller and Auditor General of India took up the verification of basic accounting records and documents of six telecom service providers Viz. Bharti Airtel, Vodafone India Limited, Reliance Communications Limited, Idea Cellular Limited, Tata Tele Services Limited, Aircel Limited and their subsidiaries in 2014-15 covering the accounts for the years 2006-07 to 2009-10.

The verification of records of six PSPs by audit indicated total understatement of AGR of ` 46045.75 crore for the period from 2006-07 to 2009-10. Government of India was deprived of a total revenue of `12488.93 crore on account of short/non-payment of LF (` 3752.37 crore), SUC (`1460.23 crore) and interest (`7276.33 crore) due from the six PSPs for the years 2006-07 to 2009-10.

The operator wise Short/non-payment of LF, SUC and interest due thereon as on 31 March 2015 is given in the following table:-

	Bharti Airtel	Vodafone	Reliance	Idea	Tata	Aircel	Total
LF	719.46	522.56	1125.40	289.99	1019.16	75.80	3752.37
SUC	347.49	227.29	381.85	133.27	338.52	31.81	1460.23
Interest	1584.94	915.54	2221.29	541.63	1857.71	155.22	7276.33
Gross Total (LF + SUC+ Interest)	2651.89	1665.39	3728.54	964.89	3215.39	262.83	12488.93

Interest)							
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Brief of some of the important points are given below:

S.no	Important Audit Observation
1	PSPs employ distributors/dealers/agents/franchisees to sell their prepaid products and pay commission/discounts etc. to them. All the six PSPs Viz. Airtel, Vodafone, Idea Cellular, Reliance, Tata Teleservices Limited and Aircel have reduced the GR/AGR reported to DoT by netting of the commission/discounts etc. paid to distributors/dealers/agents/franchisees. This resulted in under reporting of GR/AGR to the extent of ` 5672.66 crore resulting in short payment of LF and SUC by ` 487.09 crore and ` 203.38 crore respectively.
2	PSPs provide various offers like Free Talk Time/Free Air Time (FTT/FAT) to their prepaid subscribers on different occasions. It was noticed that promotional offers have not been recognised as revenue by all the six PSPs. Since promotional offers are in the nature of business expenses, in accordance with UASL agreements, they should be recognised as revenue for the purpose of GR/AGR for computation of revenue share. Audit worked out understatement of GR/AGR on this account by ` 8960.81 crore resulting in short payment of LF and SUC by ` 784.28 crore and ` 271.29 crore respectively.
3	Audit noticed that discounts/waivers given to post-paid subscribers by Airtel, Vodafone, Idea, Tata and Aircel was deducted from their revenue. Such discounts/waivers granted to post paid subscribers are in nature of business expense and their deduction from revenue for reporting GR/AGR for computation of revenue share is not in accordance with the license agreements. Audit worked out understatement of GR/AGR on this account as ` 1622.18 crore resulting in short payment of LF and SUC by ` 148.94 crore and ` 66.66 crore respectively.
4	PSPs have arrangements with other International Operators for roaming services. It has been noticed that the Inter Operator traffic (IOT) discounts paid/credited to the accounts of these Operators were debited/deducted from the roaming revenue by Airtel, Vodafone and Idea. These discounts are in the nature of expenses and hence, in terms of license agreements, should not be deducted from revenue. Audit worked out understatement of GR/AGR for computation of revenue share on this account as ` 437.02 crore resulting in short payment of LF and SUC by ` 41.41 crore and ` 18.66 crore respectively.
5	UASL agreements provide that GR shall be inclusive of revenue from infrastructure sharing without setting off of any related item of expenses. Audit has noticed that amount received towards infrastructure sharing in the case of Airtel, Vodafone, Idea, Tata and Aircel has not been taken to revenue in full, instead, part of it has been credited to expenses. This resulted in understatement of revenue from infrastructure sharing for computation of GR/AGR for the purpose of revenue share. Understatement of GR/AGR on this account was worked out by audit as ` 1175.45 crore resulting in short payment of LF and SUC by ` 101.60 crore and ` 46.36 crore respectively.
6	In terms of definition of GR, forex gain should be included in GR/AGR for computation of revenue share. Audit noticed that all the six PSPs have included forex gain in GR/AGR for computation of revenue share in initial years. However, subsequently all the six PSPs either stopped including forex gain in GR/AGR for

	computation of revenue share or partially included forex gain in GR/AGR for computation of revenue share. Audit worked out amount of non-inclusion of forex gain (realized) in GR/AGR as ` 2095.86 crore resulting in short payment of LF and SUC by ` 174.48 crore and ` 51.19 crore respectively.
7	License agreements expressly provide that interest income should be included in GR/AGR for computation of revenue share. Audit noticed that the six PSPs have included interest income in GR/AGR for computation of revenue share in initial years. However, subsequently all PSPs either stopped including interest income in GR/AGR for computation of revenue share or partially included interest income in GR/AGR for computation of revenue share. Audit worked out amount of non-inclusion of interest income in GR/AGR as ` 6299.90 crore resulting in short payment of LF and SUC by ` 535.23 crore and ` 204.32 crore respectively.
8	License agreements provide that income from investments should be included in GR/AGR for computation of revenue share. Audit noticed that Airtel, Reliance, Idea, Tata and Aircel have not included income earned from investments in GR/AGR for computation of revenue share. Audit worked out amount of non-inclusion of income from investments in GR/AGR as ` 3111.45 crore resulting in short payment of LF and SUC by ` 271.70 crore and ` 93.20 crore respectively.
9	RCL is a Unified Access Service (UAS) Licensee. Reliance Communications Infrastructure Limited (RCIL) which had got Category "A" ISP license, was a wholly owned subsidiary of RCL during 2006-07 to 2009-10. It was noticed that revenue that should be the revenue of RCL was accounted in the books of RCIL. Consequently, RCL did not pay the correct amount of the revenue share to the Government. Total understatement of GR/AGR by RCL owing to its arrangement with its subsidiary (RCIL) comes out to be ` 4424.12 crore. Its impact on short payment of LF and SUC comes out to be ` 405.08 crore and ` 114.86 crore respectively.