

## CHAPTER I

### Introduction

#### 1.1 Revenue sharing regime

The New Telecom Policy-1999 (NTP-99), which came into effect from April 1999, introduced the revenue sharing regime in the Indian Telecom sector. Under this system, telecom service providers who hold licenses issued by the Department of Telecommunications (DoT) to provide telecom services viz., Unified Access Services (UAS), National Long Distance (NLD) services, International Long Distance (ILD) services, Very Small Aperture Terminal (VSAT) service and Internet Services are required to pay a percentage of their Adjusted Gross Revenue (AGR) as annual licence fee to the Government. The license agreement between the Department of Telecommunications (DoT) and the service providers defined the Gross Revenue (GR) and the AGR for payment of the revenue share. While the rates of license fee (LF) payable were linked to the type of service and the category of service area<sup>1</sup> where the service was offered till 2012-13, a uniform rate of LF for all services irrespective of the category of service area was introduced with effect from 1 April 2013.

The category of services and percentages of LF applicable are furnished in the Union Government (Communications and IT Sector) Report No. 11 of 2017 of the Comptroller and Auditor General of India (**Appendix I**).

#### 1.2 Definition of Gross Revenue (GR)/Adjusted Gross Revenue (AGR) in the various licenses

The Licence Agreement signed between the Department of Telecommunication (DoT) and telecom service providers regulates the terms and conditions for provision of telecommunications service. As per the conditions of licence agreement, licensee companies were required to pay an annual licence fee to the DoT at an agreed percentage of the Adjusted Gross Revenue (AGR) reported for a licenced service. Definitions of Gross Revenue (GR), Deductions allowed and Adjusted Gross Revenue (AGR) under the various licenses<sup>2</sup> issued by DoT (**Appendix II**) are also included in the Union Government (Communications and IT Sector) Report No. 11 of 2017 of the Comptroller and Auditor General of India. Important requirements in the preparation

<sup>1</sup> The country was divided into 23 service areas consisting of 19 telecom circles and 4 metro circles. Subsequently, Chennai service area was merged (September 2005) with Tamil Nadu service area making the number of service areas as 22 .

<sup>2</sup> Unified Access Service License (UASL) and Unified License (UL), National Long Distance (NLD), International Long Distance, Internet Services and Very Small Aperture Terminal

of accounts and payment of license fee have also been furnished in the referred Report (Appendix III).

### 1.3 Arrangements in DoT for collection, accounting and assessment of LF and SUC

DoT has put in place the following arrangements for collection of revenue share paid by telecom service providers.

**Table- 1.1**

Process	Office involved
➤ Collection of license fee and spectrum charges	Office of the Controller of Communication Accounts (CCA) at LSAs
➤ Verification of proof documents submitted by PSPs for claiming deductions from GR to arrive at AGR	CCA offices
➤ Assessment of revenue share based on the annual audited accounts of the operator and the verification reports submitted by CCAs and issue of demand notes	License Finance Wing of DoT
➤ Assessment of SUC	Wireless Planning and Finance (WPF) division of DoT/CCA offices

### 1.4 About this Report

Comptroller and Auditor General of India had taken up verification of the basic accounting records and documents of six<sup>3</sup> telecom service providers in 2014-15 covering the accounts of four years from 2006-07 to 2009-10 as mandated under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and Rule 5 (ii) of Telecom Regulatory Authority of India, Service Providers (Maintenance of Books of Accounts and other Documents) Rules, 2002 as upheld by Hon'ble Supreme Court of India's Judgement dated 17 April 2014. Audit findings featured in the Union Government (Communications and IT Sector) Report No. 4 of 2016 of the Comptroller and Auditor General of India.

Audit in respect of five telecom service providers audited earlier (excluding M/s Tata Tele Services Limited and its associated company M/s Tata Teleservices (Maharashtra) Limited) covering the accounts of four years from 2010-11 to 2014-15 and M/s Sistema Shyam Teleservices Limited for the period from 2006-07 to 2014-15 was taken up in 2016 and Audit findings included in the Union Government

<sup>3</sup> M/s Bharti Airtel Limited and its subsidiary Bharti Hexacom Limited, M/s Vodafone India Limited and its subsidiaries, M/s Reliance Communications Limited and its subsidiary M/s Reliance Telecom Limited, M/s Idea Cellular Limited and its subsidiary Aditya Birla Telecom Limited, M/s Tata Tele Services Limited and its associated company M/s Tata Teleservices (Maharashtra) Limited and M/s Aircel Limited and its subsidiaries Aircel Cellular Limited and Dishnet Wireless Limited

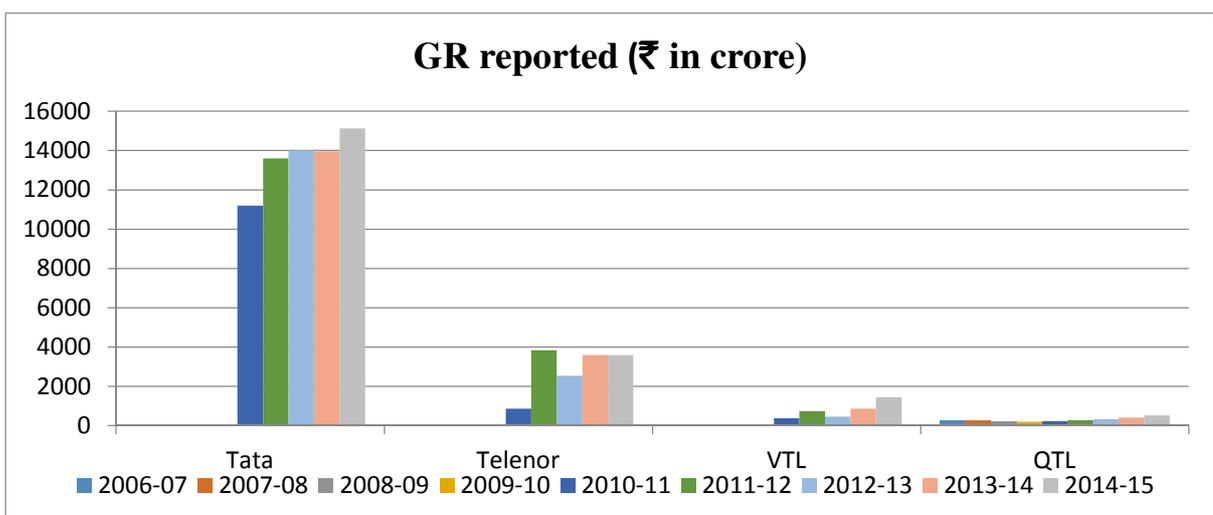
(Communications and IT Sector) Report No. 11 of 2017 of the Comptroller and Auditor General of India.

The details of five operators covered in this Report alongwith the period of coverage as well as market share are as shown in Table 1.2 below:

**Table 1.2**

S.No	Name of Operator	Accounting period covered in Audit	Market Share as on 31 March 2015 (No. of subscribers in crore)
1.	M/s Tata Tele Services Limited and its associated company M/s Tata Teleservices (Maharashtra) Limited (Tata)	2010-11 to 2014-15	6.80
2.	M/s Telenor (India) Communication Limited (Telenor)	2009-10 to 2014-15	4.56
3.	M/s Videocon Telecommunication Limited (VTL)	2009-10 to 2014-15	0.71
4.	M/s Quadrant Televentures Limited (QTL)	2006-07 to 2014-15	0.30
5.	M/s Reliance Jio Infocom Limited (RJIL)	2012-13 to 2014-15	The company had not started its commercial services relating to access services during 2012-2015
<b>Total</b>			<b>12.37</b>

The gross revenue reported by the five operators covered in audit are presented below:



Note: 1. GR of QTL is for all the nine years covered in audit  
2. As GR of RJIL was NIL, not shown in the chart.

### **1.5 Audit methodology**

All the operators provided access to General Ledger (GL) Enquiry Module of their financial system (Oracle Financial or SAP) to audit. Audit scrutinized the account codes which had a bearing on the GR on test check basis and the compliance by the operators to the norms prescribed by DoT for preparation of their accounts for reporting GR. The licensee also provided reconciliations between AGR statements and Service Revenue, Other income and Finance income of Profit & Loss Accounts duly mapped with Trial Balances (TBs). Additional data, information and clarifications, when required, were obtained through issue of Audit queries and discussion with the respective operators.

Exit meetings were held with all the operators where the preliminary audit findings/ observations were discussed in detail. Operator wise draft audit reports were issued to DoT with an advance copy to the operators concerned to elicit their views/responses to the audit observations. This Report has been prepared taking into account the responses/replies received from the operators and the Ministry.

### **1.6 Audit criteria**

Important criteria used in audit are:

- Provisions of Licence agreements as amended from time to time
- Various instructions issued by DoT on collection of licence fee and spectrum usage charges

### **1.7 Acknowledgement**

We place our sincere appreciation for the cooperation extended by the Management of all the five telecom service providers and the Department of Telecommunications in facilitating the audit.