Office of Comptroller and Auditor General of India

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Press Release

CAG's Compliance Audit Report on Sharing of Revenue by Private Telecom Service Providers upto 2014-15 tabled in Parliament.

Non-compliance to the license conditions leading to short payment of revenue share to the Government observed

Audit Report of the Comptroller and Auditor General of India No. 35 of 2017 on Sharing of Revenue by Private Telecom Service Providers upto 2014-15 was tabled in Parliament today.

Comptroller and Auditor General of India has taken up verification of the basic accounting records and documents of private telecom service providers 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 17April 2014.

The New Telecom Policy (NTP-99), which came into effect in April 1999, introduced the revenue sharing model in the Indian telecom sector. Under this system telecom licensees were required to share a percentage of their Adjusted Gross Revenue (AGR) with the Government as annual License Fee (LF). In addition, mobile telephone operators were also required to pay Spectrum Usage Charges (SUC) for the use of radio frequency spectrum allotted to them. The license agreements between the Department of Telecommunications and the service providers defined the components of the GR of the licensee company and the AGR was computed after allowing for certain deductions spelt out in the license agreements.

The present Report includes Audit Findings on Revenue Share of five operators viz. M/s Tata Teleservices Limited and Tata Teleservices (Maharashtra) Limited (for the period from 2010-11 to 2014-15), M/s Quadrant Televentures Limited (for the period from 2006-07 to 2014-15), M/s Videocon Telecommunication Limited (for the period from 2009-10 to 2014-15), Telenor group (for the period from 2009-10 to 2014-15) and M/s Reliance Jio Infocom Limited (for the period from 2012-13 to 2014-15).

Audit observed non-compliance to the license conditions leading to short payment of revenue share to the Government. Some of the important findings in the Audit Report are:

Gross Revenue (GR)/AGR understated by all the PSPs by the amount of commission/discount paid to their distributors/dealers/agents/franchisees

PSPs employ distributors/dealers/agents/franchisees to sell their prepaid products as well as for customer acquisition. In return of these services, PSPs pay commission/discounts, etc. to them. The PSPs whose accounts were verified had their GR/AGR reduced by the amount of commission/discounts, etc. paid to distributors/dealers/agents/franchisees.

Since commission/discounts etc. paid to distributors/dealers/agents/franchisees were in the nature of business expenses (marketing expenses), netting off or reducing it from revenue for the purpose of reporting GR/AGR was not in line with the conditions of license agreements. Amount of discount/commission etc. netted off from revenue worked out by audit was ₹ 3183.03 crore resulting in short payment of LF and SUC by ₹ 270.36 crore and ₹ 117.99 crore respectively.

(Paragraphs 2.2.1, 3.2.1, 4.2.1, 5.2.1)

GR/AGR understated by the PSPs by the amount of promotional schemes like Free Talk Time/Free Air Time

Audit noticed that PSPs provide various offers like Free Talk Time/Free Air Time (FTT/FAT) to their prepaid subscribers on different occasions which were basically promotional schemes under various names. Unified Access Service Licence (UASL) agreements provide that operators should show service revenue (amount billable) gross and details of discount/rebate indicated separately. It was noticed that promotional offers were not recognised as revenue by the PSPs. Since such promotional offers were 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 at ₹ 3310.00 crore resulting in short payment of LF and SUC by ₹ 277.83 crore and ₹125.20 crore respectively.

(Paragraphs 2.2.2, 3.2.2, 4.2.2, 5.2.2)

Understatement of GR/AGR by netting of discounts from revenue pertaining to roaming services

PSPs have arrangements with other International Operators for roaming services. It was observed that the Inter Operator traffic (IOT) discounts paid/credited to the accounts of these Operators were debited/deducted from the roaming revenue by Telenor group. Having roaming arrangement with other national/international operators is a matter of mutual agreement between two operators and giving discounts over and above the agreed charges for roaming is part of overall commercial strategy to enhance business between the two operators. As such, these discounts were in the nature of expenses and hence, in terms of license agreements, they are not permitted to be deducted from revenue. Audit worked out understatement of GR/AGR for computation of revenue share on this account as ` 3.27 crore resulting in short payment of LF and SUC by ` 0.32 crore and ` 0.11 crore respectively.

(Paragraphs 3.3)

Understatement of GR/AGR by netting of revenue from infrastructure sharing

UASL agreements provide that GR shall be inclusive of revenue from infrastructure sharing, without setting off of any related item of expenses. PSPs have arrangements with other PSPs for sharing of their passive infrastructure. Audit noticed that amount received towards infrastructure sharing in the case of M/s Tata was not taken to revenue in full, instead, part of it was credited to expenses. This resulted in understatement of revenue from infrastructure sharing for computation of GR/AGR for the purpose of revenue share by ₹ 107.09 crore resulting in short payment of LF and SUC by ₹ 9.15 crore and ₹ 3.85 crore respectively.

(Paragraphs 2.2.4)

Understatement of GR/AGR due to short/non-inclusion of forex gain in GR

As per the definition of GR, Miscellaneous Revenue was to be considered for computation of revenue share and forex gain was a component of miscellaneous income. We observed that forex gains were either excluded completely or only partially included in GR by the PSPs. The exclusion of forex gain in GR of all the PSPs worked out to ₹ 1484.17 crore leading to short payment of LF and SUC by ₹ 125.07 crore and ₹15.91 crore respectively.

(Paragraphs 2.2.5, 3.4, 4.3.2, 5.3.1, 6.6.1)

Understatement of GR/AGR by PSPs by non- inclusion of interest income

License agreements expressly provide that interest income of the licensee company should be included in its GR for computation of revenue share payable. Audit observed that the PSPs did not include interest income in GR/AGR leading to short payment of revenue share paid. Understatement of revenue reported by the PSPs during the period of audit coverage was ₹ 687.59 crore and consequent short payment of LF and SUC was at ₹ 59.23 crore and ₹ 23.78 crore respectively.

(Paragraphs 2.3.2, 3.5, 4.3.1, 5.3.4)

Understatement of GR/AGR by TATA due to non-inclusion of profit from sale of investment

License agreements provide that income from investments should be included in GR/AGR for computation of revenue share. Audit noticed that M/s Tata did not include income earned from investments in GR/AGR for computation of revenue share. Amount of non-inclusion of income from investments in GR/AGR was

₹ 257.07 crore resulting in short payment of LF and SUC by ₹ 21.52 crore and ₹ 9.50 crore respectively.

(Paragraphs 2.3.1)

Understatement of GR/AGR due to non-inclusion of miscellaneous revenue and profit on sale of fixed assets

Definition of revenue in the license agreements stipulates that GR of the licensee company should include miscellaneous revenue without any set-off for related item of expense, etc. Audit noticed that M/s Tata, M/s Telenor and M/s Quadrant did not include miscellaneous income and profit on sale of fixed assets in their GR leading to its understatement. The GR understated amounted to ₹ 165.39 crore resulting in short payment of LF and SUC by ₹13.64 crore and ₹ 5.60 crore respectively.

(Paragraphs 2.3.3, 2.3.4, 3.6, 5.3.2, 5.3.5)

Understatement of AGR due to amount of bad debts written off claimed as deduction

The license agreements permit only three items of revenue to be deducted from GR to arrive at the AGR of service providers. Bad debts written off were not eligible to be claimed from GR to arrive at AGR. However, M/s Tata claimed deduction of bad debts written off from their GR to arrive at AGR. An amount of ₹ 1026.01 crore was deducted which led to short payment of LF and SUC of ₹ 88.59 crore and ₹ 39.49 crore respectively.

(Paragraphs 2.4.1)

Understatement of AGR for computation of SUC

In terms of UASL agreements, revenue from sale/lease of bandwidth/sharing of infrastructure should be considered in AGR for computation of SUC. Audit noticed that M/s Tata and M/s Quadrant did not include revenue from sale/lease of bandwidth/sharing of infrastructure for computation of SUC though the same was included for computation of LF. No such exclusion, however was made by PSPs providing only wireless services. Revenue not included in AGR for computation of SUC worked out to ₹ 2988.59 crore which had the impact of short payment of SUC of ₹ 105.95 crore.

(Paragraphs 2.4.3, 5.3.3)

Financial Implication:

Verification of records of five PSPs by audit indicated total understatement of AGR of ₹ 14813.97 crore for the period upto 2014-15 and consequent short payment of revenue share to Government of India to the tune of ₹ 1526.70 crore. The interest due on the short paid revenue share, for the period up to March 2016 was ₹ 1052.13 crore.

	Short/non-payment of LF, SUC and interest (₹ in crore)					
	Tata	Telenor	Videocon	Quadrant	Reliance Jio	Total
LF	724.23	257.32	20.30	8.22	5.10	1015.17
SUC	387.00	110.81	8.90	4.82	0.00	511.53
Total (LF+SUC)	1111.23	368.13	29.20	13.04	5.10	1526.70
Interest	782.37	235.62	18.88	13.58	1.68	1052.13
Total (LF+SUC+ Interest)	1893.60	603.75	48.08	26.62	6.78	2578.83

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