

**O/o Comptroller and Auditor General of India**

**New Delhi; 21.7.17**

**Press release**

**CAG Report on Sharing of Revenue by Private Telecom Service Providers upto 2014-15 tabled in Parliament**

Report of the Comptroller and Auditor General of India on Sharing of Revenue by Private Telecom Service Providers upto 2014-15 has been tabled in Parliament today.

Section 16 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 make it obligatory on the part of CAG of India to satisfy himself that the Government of India has received its complete and correct share. Further 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 contains enabling provisions for verification of all the accounting records and documents as maintained by the service providers that has a bearing on their Gross Revenue (GR) by the CAG of India.

The New Telecom Policy-1999 (NTP-99), introduced the revenue sharing regime in the Indian Telecom sector which required the 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, 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 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 present Audit Report contains significant findings on the correctness and completeness of revenue share paid to the Government of India by M/s Bharti Airtel Limited, M/s Vodafone India Limited, M/s Idea Cellular Limited, M/s Reliance Communication Limited and M/s Aircel Limited for the period from 2010-11 to 2014-15 and M/s Sistema Shyam Teleservices Limited along with their subsidiaries / associates for the period from 2006-07 to 2014-15. Audit findings in respect of these telecom operators (except for M/s Sistema Shyam Teleservices Limited) for the

period from 2006-07 to 2009-10 have already been included in report no 4 of 2016 and presented in Parliament in March 2016.

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**

All the service providers reported their GR after setting off the commission/discount etc. paid to distributors/dealers/agents/franchisees, in contravention of terms of the license agreement. Total amount set-off from GR worked out to be ₹16862.22 crore resulting in short payment of LF and SUC by ₹ 1394.89 crore and ₹ 842.05 crore respectively.

*(Paragraphs 2.2.1(A), 3.2.1(A), 4.2.1 (A), 5.3.2, 6.2.1, 7.2.1)*

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

Cost of promotional offers like Free Talk Time/Free Air Time (FTT/FAT) to the prepaid subscribers on different occasions was not recognised in the GR by all the telecom service providers except Reliance. No such information could be obtained from the account of Reliance as the Company had eliminated the promotional FAT/FTT in the billing cycle without reflecting it in the financial systems and the books of accounts.

Audit worked out understatement of GR/AGR on this account at ₹7049.61 crore resulting in short payment of LF and SUC by ₹ 587.70 crore and ₹ 370.00 crore respectively.

*(Paragraphs 2.2.1(B), 3.2.1(B), 4.2.1(B), 6.2.2, 7.2.1)*

**Understatement of GR/AGR by netting-off of discounts/waivers given to post-paid subscriber**

Deduction of discounts/waivers given to post paid subscribers over and above tariff plans submitted to TRAI from GR in the accounts of Airtel and Idea was in deviation from the license agreement. However the same could not be segregated in Vodafone and Aircel. This resulted into understatement of ₹ 417.60 crore in GR/AGR reported by the Airtel and Idea and short payment of LF and SUC by ₹ 34.21 crore and ₹ 17.20 crore respectively.

*(Paragraphs 2.2.2 and 4.2.2)*

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

PSPs have arrangements with other International Operators for roaming services. Debit/deduction of Inter Operator Traffic (IOT) discounts paid to international operators by Airtel, Vodafone and Idea was against the license conditions. There was understatement of GR/AGR for computation of revenue share on this account by ₹ 889.85 crore resulting in short payment of LF and SUC by ₹76.20 crore and ₹48.19 crore respectively.

**(Paragraphs 2.2.3, 3.2.2, 4.2.3)**

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

PSPs have arrangements with other PSPs for sharing of their passive infrastructure. Reimbursement of expenses towards diesel, security, repairs & maintenance and electricity by other operators was considered as deduction in expenditure and not included in GR. These expenses had to be incurred irrespective of whether the towers were shared or not, and the company/s were benefitted by sharing of these expenses through additional income. As the amount received towards infrastructure sharing in the case of Airtel, Vodafone, Idea and Aircel was not taken to revenue, GR/AGR was understated by ₹1090.07 crore and short payment of LF and SUC by ₹ 87.17 crore and ₹55.25 crore respectively.

**(Paragraphs 2.2.4, 3.2.3, 4.2.4, 6.2.3)**

#### **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 all these PSPs. The exclusion of forex gain in GR worked out to ₹ 2174.19 crore leading to short payment of LF and SUC by ₹176.54 crore and ₹78.15 crore respectively.

**(Paragraphs 2.2.5, 3.2.4, 4.2.7, 5.4.3, 6.2.4, 7.2.2)**

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

We observed that all the PSPs either did not include interest income in GR/AGR or only partially included in violation of license agreement. This resulted in understatement of revenue reported by the PSPs during the period of audit coverage by ₹ 10207.46 crore and consequent short payment of LF and SUC by ₹ 880.19 crore and ₹467.99 crore respectively.

**(Paragraphs 2.2.6, 3.2.5, 4.3.1, 5.4.1, 6.3.1, 7.3.1)**

#### **Understatement of GR/AGR by all PSPs by non-inclusion of profit from sale of investment**

Airtel, Idea and Aircel did not include income earned from investments in GR/AGR for computation of revenue share. As profit from investments constituted Miscellaneous Income, this had to be included for computation of Revenue share to Government as per the license agreement. Audit worked out amount of non-inclusion of income from investments in GR/AGR as ₹ 5276.24 crore resulting in short payment of LF and SUC by ₹424.27 crore and ₹235.71 crore respectively.

***(Paragraphs 2.2.9, 4.3.2, 6.3.2)***

#### **Avoidance of revenue share payment by Reliance Communications Limited (RCL) through an arrangement with its subsidiary**

A significant share of revenue which should have been offered for revenue share by RCL was accounted in the books of Reliance Communications Infrastructure Limited (RCIL) its wholly owned subsidiary and the amount was not included in GR for computation of revenue share to the Government. Total understatement of GR/AGR by RCL owing to its arrangement with its subsidiary (RCIL) came to ₹ 3050.10 crore. Its impact on short payment of LF and SUC was worked out to ₹ 247.51 crore and ₹ 109.31 crore respectively.

***(Paragraphs 5.2.1 (A) to 5.2.1 (E))***

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

Audit noticed that the PSPs did not include miscellaneous income and profit on sale of fixed assets in their GR in violation of definition of revenue in the license agreements which stipulates that GR of the licensee company should include miscellaneous revenue without any set-off for related item of expense, etc. leading to its understatement. The GR understated totalled to ₹ 2131.60 crore resulting in short payment of LF and SUC by ₹172.94 crore and ₹ 81.55 crore respectively.

***(Paragraphs 2.2.10, 2.2.11, 3.2.7, 3.2.8, 4.3.3, 4.3.4, 5.4.2, 6.3.3, 6.3.4, 7.3.1)***

#### **Non-inclusion of dividend income in GR**

GR reported by Airtel, Vodafone and Aircel during the years 2010-11 to 2014-15 did not include income accrued as dividends deviating from the license agreement which led to understatement of ₹ 4531.12 crore in the GR of the above PSPs. The short payment of LF and SUC on account of the omission was ₹ 367.98 crore and ₹ 219.63 respectively.

***(Paragraphs 2.2.8, 3.2.6, 7.3.1)***

#### **Understatement of AGR by amount of bad debts written off, claimed as deduction**

Bad debts written off were not eligible deduction to be claimed from GR to arrive at AGR. However, Airtel, Vodafone, Idea and Aircel claimed ₹ 1984.65 crore as deduction on account of bad debts written off from their GR to arrive at AGR which led to short payment of LF and SUC of ₹ 175.34 crore and ₹ 105.12 crore respectively.

**(Paragraphs 2.2.12, 3.2.9, 4.4.1, 6.4.1)**

#### **Understatement of AGR for computation of SUC**

Airtel and Reliance who were providing wireline services in addition to wireless services, did not include revenue from sale/lease of bandwidth for computation of SUC though the same was included for computation of LF. Revenue not included in AGR for computation of SUC worked out to ₹ 2671.02 crore which had the impact of short payment of SUC of ₹ 131.44 crore.

**(Paragraphs 2.2.13, 5.4.4, 7.3.2)**

#### **Financial Implication:**

Verification of records of six PSPs by audit indicated total understatement of AGR of ₹ 61064.56 crore for the period from 2010-11 to 2014-15 (for five operators except SSTL for which the period is from 2006-07 to 2014-15) and consequent short payment of revenue share to Government of India to the tune of ₹ 7697.62 crore. The interest due on the short paid revenue share, for the period up to March 2016 was ₹ 4531.62 crore. Calculation of interest was based on the rate prescribed in the license agreement i.e., two percent above the prime lending rate of State Bank of India existing as on the beginning of the financial year. compounded monthly. The details are as shown below:

	<b>Short/non-payment of LF, SUC and interest (₹ in crore)</b>						
	<b>Airtel</b>	<b>Vodafone</b>	<b>Idea</b>	<b>Reliance</b>	<b>Aircel</b>	<b>SSTL</b>	<b>Total</b>
LF	1577.12	1345.41	708.92	709.52	469.98	48.32	4859.27
SUC	1025.12	807.54	427.37	363.16	200.87	14.29	2838.35
Total (LF+SUC)	2602.24	2152.95	1136.29	1072.68	670.85	62.61	7697.62
Interest	1245.91	1178.84	657.88	839.09	555.80	54.10	4531.62
Total (LF+SUC + Interest)	3848.15	3331.79	1794.17	1911.77	1226.65	116.71	12229.24

Interest)							
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