

CHAPTER I

MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY

DEPARTMENT OF TELCOMMUNICATIONS

Performance Audit of Administration of the Universal Service Obligation Fund in the Department of Telecommunication

Highlights

- During 2002-03 to 2006-07, only Rs 5,081.44 crore i.e., 33.87 per cent of Universal Service Obligation (USO) Fund had been utilised out of total funds of Rs 14,998.98 crore collected from service providers, indicating that Department of Telecommunications (DoT) and Administrator, USO Fund failed to adopt aggressive strategies for expanding rural telephony.

(Paragraph No. 1.7.1.1)

- Despite phenomenal growth and expansion in telecom sector in the country, the pace of expansion of telecom services in rural India, particularly in the states of Bihar, Chhatisgarh, Madhya Pradesh, Assam, Jammu & Kashmir, Uttar Pradesh and West Bengal has been rather very slow and the tele-density in these states ranged merely between 0.88 to 1.81 per hundred population. This indicated that the objectives of establishing Universal Service Obligation Fund exclusively for accelerating growth of rural telephony were not achieved despite substantial collection of funds through Universal Access Levy.

(Paragraph No. 1.7.1.2)

- The amounts collected through Universal Access Levy have not been credited fully to the Universal Service Obligation Fund. The balance under the Fund at the end of each financial year was nil indicating that the funds were diverted/used for purposes other than fulfilling Universal Service Obligation.

(Paragraph No. 1.7.1.1)

- Subsidy of Rs 1850.77 crore was paid retrospectively towards rural household direct exchange lines (RDELs) installed during April 2002 to March 2005 without ensuring that the amount was disbursed only towards eligible RDELs.

(Paragraph No.1.7.3.1)

- **Reliance Communication and Tata Teleservices were paid subsidy of Rs. 84.50 crore for provision of RDELs and Rural Community Phones (RCPs) without ensuring connectivity with network of other service providers as envisaged in the Unified Access Service Licence (UASL) agreements.**

(Paragraph No. 1.7.1.5)

- **Liquidated damages of Rs 20.60 crore were not recovered from universal service providers for non-fulfillment of roll out obligations even in the extended period.**

(Paragraph No. 1.7.1.4)

- **Excess payment of subsidy to the tune of Rs 9.25 crore towards Village Public Telephones (VPTs) made to Universal Service Providers was not recovered.**

(Paragraph No. 1.7.3.2)

- **Subsidy of Rs 2.18 crore was paid for VPTs showing zero meter reading or non-incremental meter reading.**

(Paragraph No. 1.7.3.3)

- **Disbursement of subsidy to the tune of Rs 2,073 crore for the years 2004-05 and 2005-06 was not reconciled with the Auditors' Report as they were not submitted by the universal service providers.**

(Paragraph No. 1.7.3.6)

- **There were delays in clearance of subsidy claims of Universal Service Providers (USPs). As of March 2007, claims of different USPs amounting to Rs 407.83 crore were pending settlement with the Controller of Communication Accounts in various service areas.**

(Paragraph No. 1.7.3.7)

- **Administrator, Universal Service Obligation Fund failed to monitor quality of service parameters in rural areas. Large number of operators in rural areas did not meet the minimum quality standard prescribed by Telecom Regulatory Authority of India (TRAI).**

(Paragraph No. 1.7.4.1)

Summary of recommendations

- *DoT and Administrator, USO Fund may adopt more aggressive strategies to ensure faster increase in rural tele-density so that disbursement of subsidy matches the collections from Universal Access Levy (UAL).*
- *All receipts from Universal Access Levy should be transferred and credited to the USO Fund in the Public Account of India in the same financial year.*

- *Administrator may ensure that Universal Service Providers have interconnectivity with other operators to make rural telephony more meaningful. Disbursement of subsidy should be made subject to having interconnectivity.*
- *DoT should ensure that Universal Service Levy is collected and accounted for correctly.*
- *An effective mechanism may be put in place for proper and timely verification of claims submitted by the USPs to ensure correctness of subsidy disbursements.*
- *Adequate performance tests for evaluation of the quality of service standards of the USPs may be ensured by the Administrator, USO Fund.*

1.1 Introduction

The New Telecom Policy (NTP) introduced in 1999 laid emphasis on universal service obligation (USO) and sought to achieve the following universal service objectives in respect of rural areas:

- (i) Increase rural tele-density from the level of 0.4 to 4.0 per hundred population by 2010.
- (ii) Provide voice and low speed data service to the balance 2.9 lakh uncovered villages in the country by the year 2002.
- (iii) Achieve “telephone on demand” in rural areas by 2002.

As per NTP 1999, the resources for meeting the USO would be raised through a ‘universal access levy’, which would be a percentage of the revenue earned by all the operators under various licences, as decided by the Government, in consultation with Telecom Regulatory Authority of India (TRAI). This was fixed at 5 per cent of adjusted gross revenue (AGR)¹. The implementation of the universal service obligation for rural/remote areas would be undertaken by all fixed service providers, who would be reimbursed towards net cost (i.e annualized capital recovery plus operating expenses minus annual revenues) from the USO Fund.

Accordingly, USO Fund was formed with effect from April 2002, with an amendment to Indian Telegraph Act (1885), in 2003. The Fund is administered by the Department of Telecommunications (DoT). The levy received towards USO is first credited to the Consolidated Fund of India and subsequently the Central Government credits such proceeds to the Fund in Public Account of India from time to time, for being utilised exclusively, for meeting USO. It is a non-lapsable fund.

The following eight activities were taken up for subsidy from the USO Fund for rural telephony:

¹Adjusted Gross Revenue (AGR) is the net revenue after adjusting/excluding the pass through/access charges and roaming revenues actually paid to other eligible /entitled service providers, from Gross Revenue. Service tax and Sale tax actually paid to the Government are also to be excluded if gross revenue includes Service tax and Sale tax as component.

- *Operation and maintenance of existing Village Public Telephones (VPTs)- Agreements were entered into with Bharat Sanchar Nigan Limited (BSNL), Tata Teleservices Limited, Tata Teleservices Limited (Maharashtra), Reliance Communication Limited, Bharti, Shyam Telelink, Himachal Futuristic Communication Limited, for operation and maintenance of 5.03 lakh existing VPTs.*
- *Replacement of Multi Access Radio Relay (MARR) VPTs- Agreements were entered into with BSNL, for replacement of 1.41 lakh MARR VPTs with new technology, i.e. Landline or fixed WLL (wireless in local loop), as the MARR technology deployed by DoT/BSNL in the rural areas had failed.*
- *Subsidy support for MARR VPTs replaced by BSNL between 01 April 2002 and 30 June 2003.*
- *Provision for rural community phones (RCPs) - Agreements were entered into with BSNL and Reliance Communication Limited for provision of 46,253 RCPs in villages where population exceeded 2000.*
- *Provision of VPTs in revenue villages as per census 1991 without any public telephone facility- Agreements were entered into with BSNL for provision of new VPTs in remaining 66,882 uncovered villages.*
- *Subsidy support towards Rural Household Direct Exchange Lines (RDELs) installed prior to 1 April 2002 by BSNL.*
- *Subsidy support towards RDELs installed between 01 April 2002 and 31 March 2005 in specified Short Distance Charging Areas (SDCAs)- Agreements were entered into with BSNL and Reliance Communication Limited, to extend subsidy support to RDELs installed between 1April 2002 and 31March 05, in specified SDCAs.*
- *Provision of RDELs in specified SDCAs after 01 April 2005- Agreements were entered into with BSNL, Reliance Communication Limited and Tata Teleservices Limited to provide RDELs in specified SDCAs.*

While the first five agreements dealt with public access, the last three agreements dealt with individual access. Barring the agreements related to replacement of MARR VPTs where only BSNL was involved, in all other cases operators were selected through a bidding process. However, BSNL provided 87.76 per cent of the total telephones under the above activities, Tata Teleservices Limited provided 6.67 per cent and Reliance Communication Limited provided 5.56 per cent telephones. Service providers other than the above three, entered into agreement for only maintenance of VPTs, but the number of VPTs maintained by them was negligible.

The details of various agreements and roll out obligations are given in Annexure-I.

1.2 Organizational Setup

An Officer of the rank and status of Secretary to the Government of India has been appointed with effect from June 2002 as Administrator, USO Fund.

The work relating to disbursement of subsidy towards USO was initially carried out at USO Fund headquarters. It was later transferred to the Controller of Communication Accounts (CCAs) to cover all the 24 service areas with effect from October 2003.

1.3 Scope of Audit

The performance audit of 'Administration of USO Fund in DoT' was conducted between March 2007 to June 2007, covering the period from 2002-03 to 2006-07. USO headquarters and 14 out of 24 service areas i.e., Andhra Pradesh, Bihar, Madhya Pradesh, Chattisgarh, Rajasthan, Karnataka, Maharashtra, Himachal Pradesh, Uttar Pradesh (West), Uttaranchal, West Bengal, North-East-², Tamil Nadu, Andaman & Nicobar Islands were selected for the performance audit.

1.4 Audit Objectives

Audit was conducted with a view to verify that:

- the department and the Administrator, USO Fund had followed appropriate strategies to optimally utilise the fund for accelerating the growth of rural telephony;
- the extent to which the roll out obligations were met by the service providers as per milestones prescribed in the service agreements;
- the extent to which the objectives of USO Fund were met in terms of achieving higher tele-density in the rural India;
- the department had ensured accurate and timely collection and accounting of universal access levy;
- the subsidy from USO fund was disbursed as per the financial conditions of the agreement;
- the department had ensured that universal service providers had observed the laid down standards of quality of service.

1.5 Audit Criteria

The following criteria were used for the purpose of this performance audit:

- Targets for rural tele-density under NTP 1999.
- Roll Out Obligations of service providers.
- Norms for collection, disbursement and accounting of subsidy from USO fund.

² North East-I includes states of Meghalaya, Mizoram and Tripura.

- Guidelines for implementation of USO.
- Inter connectivity requirements prescribed in licence agreements with various basic service operators, cellular operators, and unified access service licensees.
- Criteria for verification of subsidy claims.
- Parameters of quality of service as given in licence for basic services.

1.6 Audit Methodology

The audit methodology included holding of entry and exist conferences with the management, examination of records in DoT, office of Administrator, USO Fund and in selected CCAs, issue of audit questionnaire and discussions with the auditee, to evaluate the performance of the administration of the USO Fund on the basis of the audit criteria broadly outlined earlier. The Audit findings were issued to the Administrator USO Fund and Secretary, DoT. Responses received have been incorporated, wherever necessary, while finalising this report.

1.7 Audit Findings

Audit observed various deficiencies in the strategies adopted by DoT and Administrator, USO Fund in increasing rural telephony as also in collection and accounting of universal access levy; disbursement of subsidy; and in monitoring of quality of service. The deficiencies are discussed in the succeeding paragraphs.

1.7.1 Strategies for optimal utilisation of USO Fund

The deficiencies noticed by audit in the effective implementation of strategies by DoT and Administrator, USO Fund for utilisation of USO funds to increase rural telephony are discussed in the succeeding paragraphs.

1.7.1.1 Collections and utilisation of universal access levy under USO Fund

Amounts of universal service levy collected during the period from 2002-03 to 2006-07 and utilised for USO activities were as given in the table below:

Table No. 1

Universal Service Levy Collection and Allocation

(Rs in crore)

Year	Opening Balance	Funds collected as Universal Service Levy	Funds allocated and disbursed	Balance at the end of the Year
2002-03	0	1,653.61	300.00	1,353.61
2003-04	1353.61	2,143.22	200.00	3,296.83
2004-05	3296.83	3,457.73	1,314.59	5,439.97
2005-06	5439.97	3,533.29	1,766.85	7,206.41
2006-07	7206.41	4,211.13	1,500.00	9,917.54
Grand Total		14,998.98	5,081.44	

With the fast expanding telecom network in the country, receipts under Universal Service Levy increased at an exponential rate during last five years;

however the utilisation of USO funds was meager. As of March 2007, only Rs 5,081.44 crore i.e., 33.87 *per cent* of USO funds had been utilized out of total funds of Rs 14,998.98 crore collected, indicating that DoT and Administrator, USO Fund failed to adopt aggressive strategies for expanding rural telephony both in terms of tele-density and geographical coverage. The selected eight activities, which were eligible for USO subsidy could not ensure full utilisation of USO Fund, besides increasing rural telephony significantly.

Audit also observed that the balance shown under the head 8235 General and Other Reserve Funds, 118-Universal Service Obligation Fund under Public Account of India as on 31st March each year was Nil. This indicated that the amounts collected as Universal Service Levy from the service providers were not credited fully to the USO Fund by the Government and therefore the objective of creation of a separate fund for the purpose was defeated. Such practice adopted by the Government not only leads to lack of transparency in maintenance of Fund Accounts but also amounts to temporary diversion of funds for purposes other than those for which they were collected.

1.7.1.2 Achievement of targets for rural tele-density

As stated earlier, NTP 1999 envisaged to increase rural tele-density from the current level of 0.4 to 4.0 *per cent* by 2010. Audit noticed that the rural tele-density increased from 0.4 *per cent* in 1998 to 2.91 *percent* by March 2007. Though the increase was in line with the overall target of achieving 4 *per cent* tele-density by 2010, the increase was however marginal in comparison to the increase in urban tele-density, which grew from 5.8 *per cent* in 1998 to 55.74 *per cent* by March 2007.

Further, rural tele-density in some of the service areas such as Bihar, Chhatisgarh, Madhya Pradesh, Assam, Jammu and Kashmir, Uttar Pradesh and West Bengal was very low as compared to other areas. It ranged from 0.88 to 1.81 *per cent*. This indicated that DoT has failed to fully achieve the objective of USO Fund in these areas despite availability of sufficient funds as indicated in the para 1.7.1.1 above.

This clearly indicated that despite the boom in the telecom sector in the country, the pace of expansion of telecom services in rural areas was slow and DoT and Administrator, USO Fund failed to develop appropriate strategies to ensure full utilisation of USO funds for increasing rural telephony.

In reply, Administrator, USO Fund stated that explosive growth of mobile telephony in urban areas was mainly the reason for urban-rural imbalance in tele-density. It was further stated that the Indian Telegraph (Amendment) Act 2003 was amended in December 2006 to enable DoT and Administrator, USO Fund to support mobile services and broadband connectivity in rural and remote areas. Administrator, USO Fund has entered into agreement in May 2007, for shared infrastructure to be set up by three service providers³ and three infrastructure

³ BSNL, RCL, Hutch

providers⁴ and Mobile services providers⁵. Under this scheme, about 8,000 towers would be installed by May 2008 and 24 million lines capacity would be created. Also, about 2 lakh uncovered villages spread over 500 districts would be covered.

The reply is not tenable as on one hand there are serious imbalances in tele-density in different regions in the country and on the other hand USO Administrator did not devise timely strategies for accelerating the rate of growth despite availability of sufficient funds. In fact, no annual targets were fixed for achieving higher tele-density in rural areas indicating lack of adequate monitoring by the Administrator for fulfillment of programme objectives.

1.7.1.3 Achievements under activities identified for providing support from USO Fund

Eight activities as listed in introduction of this report were identified for providing subsidies from USO Fund to increase the pace of growth and coverage under rural telephony in the country. Of these, four activities had specific roll out obligations as described in Annexure-I. The extent of achievement of targets/roll out obligations by universal service providers for activities under Public Access and Individual Access as on March 2007 were as shown in the table below:

Table No 2

USO Activities-Targets and Achievements

Name of activity	Name of universal service providers	Targets to be achieved at the end of roll out period	Achievements at the end of roll out obligation ⁶	Percentage shortfall	Actual achievement as on 31/3/ 2007
Public Access⁷					
Replacement of MARR VPTs from 1.7.2003 to 30.6.2006	BSNL	1,41,233	1,08,918	22.87	1,29,386
Provision of VPTs in uncovered ⁸ villages (VPT)	BSNL	40,093	37,494	6.48	46,969
Provision of RCPs	BSNL	14,893	19,666	No shortfall	21,483
	RCL	12,859	15,049	No shortfall	15,049
Individual Access					
Provision of RDELs after 1 April 2005	BSNL, RCL,TTL	Provision of 100 RDELs in each SSA	Target achieved	No shortfall	25,64,577

⁴ GTL, Quipo, NITEL

⁵ BSNL, RCL, Hutch, Idea, Bharti and Dish net

⁶ Achievement in respect of (i) Replacement of MARR by June 2006 (ii) Uncovered village by November 2006 and (iii) Provision of RCPs by BSNL by September 2006 and by Reliance Communication Limited by December 2006. Achievement of RCL shown as on March 2007.

⁷ First VPT of a village, Rural Community Phones

⁸ Out of the 6.07 lakh identified villages as per census 1991, 66822 villages were yet to be provided with VPTs. These villages are uncovered villages.

While service providers met the roll out obligations in respect of three activities by March 2007, they could not achieve roll out obligations/targets for replacement of MARR VPTs. Under individual access stream, roll out obligation for providing 100 RDELs in each SSA of service areas was fulfilled only in the extended period i.e., by December 2006.

Administrator, USO Fund attributed factors like non-allocation of transponders, naxalism and insurgency in some⁹ of the service areas for failure to achieve the target. Reply is not acceptable as the targets could not be achieved even after one year of the extended period. Further, there were significant shortfalls in service areas like U.P. (East) where MARR VPTs in nearly 4000 villages were yet to be replaced as of March 2007.

1.7.1.4 Non-recovery of liquidated damages

There was provision for levy of liquidated damages (LD) in the Agreements for various activities, for non fulfillment of roll out obligation, within the stipulated time period. The universal service providers could not meet the roll out plan as per the prescribed time schedule. Administrator, USO Fund had extended the time schedule in respect of BSNL for replacement of MARR VPTs and provision of RDELs, in respect of Reliance Communication Limited for provision of RCPs and RDELs and in respect of Tata Teleservices Limited for provision of RDELs without imposition of LD. Administrator, USO Fund failed to recover LD of Rs 20.60 crore from the defaulting universal service providers as detailed in Annexure-II.

In reply, Administrator, USO Fund stated that BSNL had been granted further extension of time up to November 2007 without imposition of LD, as some of the MARR VPTs were located in remote areas. Reliance communication Ltd and Tata Teleservices were granted extension of 15 months for installation of RDELs due to non availability of point of interconnections (PoIs). Reply is not acceptable as liquidated damages were recoverable in all cases of delays in meeting roll out obligations.

1.7.1.5 Interconnectivity with other networks not ensured

As per the technical condition of the basic service licence, the universal service provider was responsible for providing the required transmission links from / to his network to / from network of other operators during currency of the agreement. As per clause 26.5 of UASL agreement, it was mandatory for the universal service providers to provide interconnection to all eligible telecom service providers where by, the subscribers could have a free choice to make inter-circle / international long distance calls through national long distance / international long distance operators.

Scrutiny of records at Rajasthan, Uttar Pradesh (West) and Uttar Pradesh (East) service areas revealed that RCPs and RDELs were provided by Reliance Communication Ltd. and Tata Teleservices Ltd. without ensuring interconnectivity with network of BSNL. Provision of connections without

⁹ Jammu & Kashmir, Chattisgarh, North-East

interconnectivity does not serve the purpose of rural telephony, even though subsidy to the tune of Rs.84.50 crore was paid to the service providers for these connections as per directions of Administrator, USO Fund issued in January 2007.

In reply, Administrator, USO Fund stated that the provision of points of interconnection (PoI) to Reliance Communication Ltd. and Tata Teleservices Ltd. by BSNL was an on going process and with intervention of Administrator, USO Fund, the PoIs have improved significantly.

Recommendations

- *DoT and Administrator USO Fund may adopt more aggressive strategies to ensure faster increase in rural tele density so that disbursement of subsidy matches the collections from Universal Access Levy (UAL).*
- *All receipts from Universal Access Levy should be transferred and credited to the USO Fund in the Public Account in the same financial years.*
- *Administrator should ensure that Universal Service Providers have interconnectivity with other operators to make rural telephony more meaningful. Disbursement of subsidy should be made subject to having interconnectivity.*

1.7.2 Collection of Universal Service Levy

The deficiencies noticed by Audit in collection and accounting of universal service levy are discussed in the succeeding paragraphs:

1.7.2.1 Non-furnishing of operator-wise details of pass through charges

As per the licence agreement, the operators have to mention the operator-wise pass through charges received and paid by them in the AGR statement. Pass through charges received from other operators on account of inter connection are to be added to the gross revenue. Similarly, pass through charges paid to other operators for usage of their network are deducted from AGR to arrive at the net adjusted gross revenue. Audit scrutiny in Andhra Pradesh Service Area revealed that none of the licensees, except Tata Teleservices Limited, had furnished operator-wise details of charges in the AGR for the years 2005-2007. In the absence of the above-mentioned details in the AGR, the correctness of the amount of universal service levy collected could not be vouched for in audit.

In reply, Administrator, USO Fund stated that instructions have been issued to all the operators to furnish AGR statement in the format prescribed in the licence agreement.

1.7.2.2 Non-accounting of universal access levy from other service providers

In compliance with Telecom Dispute Settlement Appellant Tribunal (TDSAT) judgment of May 2005, amount available with the Department as entry fees paid earlier by internet service provider (ISPs) licensees with virtual private network (VPN) permission was to be adjusted towards licence fee dues from them. Audit noticed that the ISP licensees having VPN permission, Infrastructure

Provider-II licensees and ISP-with internet telephony licences had requested DoT to adjust the entry fees already paid by them to the Department towards licence fee payable by them. However, the Department had not undertaken necessary adjustment and accounting under the relevant head of account, leading to non-accounting of Rs 13.01 crore as universal service levy for the period December 2004 to March 2007. Also, finalization of accounts for the 2005-06 had not been undertaken in the above cases.

In reply, it was stated that matter regarding adjustment of entry fee paid by the ISP licensees was under consideration of the Department and accounting of universal service levy would be carried out on assessment of licence fee due for the year 2005-06.

1.7.2.3 Non-accounting of universal access levy from PMRTS licensees

Guidelines for migration of existing operators and issuance of fresh licences for Public Mobile Radio Trunk Services (PMRTS) envisaged that 5 per cent of AGR from the service was to be utilized towards contribution for USO. However, it was noticed that in contravention of the above orders, the collection of dues from 14 PMRTS licensees¹⁰ for 17 service areas had been booked as licence fees, resulting in non accounting of Rs 2.71 crore as USL. In reply, it was stated that reconciliation of figures from September 2005 was being taken up.

Recommendation

- *DoT should ensure that Universal Service Levy is collected and accounted for correctly.*

1.7.3 Disbursement of subsidy

The subsidy claims are disbursed in arrears every quarter. Demand for funds are placed with the Administrator USO Fund, by the concerned CCA units, indicating the activity-wise and operator-wise breakup of the subsidy payable. The disbursement is made by CCAs, on allotment of funds by the Administrator. The claims have to be checked by CCAs with reference to information furnished by the universal service providers. Correctness of the information furnished is to be verified from the billing records and exchange records of the universal service providers, after disbursement of subsidy. Disbursement of subsidy under each activity is given in Annexure-III.

The deficiencies observed by Audit in respect of disbursement of subsidy are discussed in the succeeding paragraphs.

¹⁰ 1. Arvind Mills Ltd. 2. Qickcalls (P) Ltd. 3. India sitcom Ltd 4. Bhilwara Telenet Services 5. Arya Offshore Services (P) Ltd 6. Smartalk (P) Ltd. 7. ITI Ltd. 8. Procall (P) Ltd. 9. Hofintel 10. Jet AIU Skyline Transport 11. United Liner Agency of India 12. Container Movement Transport 13. Aryadoot Transport 14. German Express Shipping Agencies

1.7.3.1 Disbursement of subsidy towards RDELs

Out of Rs 5081.44 crore disbursed up to March 2007, Rs 1850.77 crore i.e. 36.42 *per cent* was disbursed retrospectively, towards RDELs already installed during April 2002 to March 2005.

Agreements were entered into with BSNL and Reliance Communication Ltd in May 2005 and August 2005 respectively, for payment of subsidy to RDELs already installed during April 2002 to March 2005. The universal service providers were allowed to submit the entire claim of three years in September 2005, as the RDELs were already installed. The details of settlement of above claims are as follows:

Table No.3

Sl. No.	Name of USPs	No. of RDELs claimed	Subsidy paid up to 31 March 2007 (Rs in crore)
1	BSNL	1841016	1831.92
2	RCL	28164	18.85
	Total	1869180	1850.77

As per the agreements, RDELs installed in villages¹¹ only were eligible for subsidy. Audit noticed that the above disbursements were made without properly ensuring that the subsidy was disbursed towards eligible RDELs only.

Audit noticed that there was no mention in these agreements about the total number of RDELs, which qualified for subsidy. As a result, it became difficult to ensure that subsidy was being disbursed only towards RDELs installed in rural areas and actually eligible for such subsidy. Audit noticed that some operators claimed subsidy for RDELs, which on verification were found to be working in urban areas. In April 2006, Administrator, USO Fund had to direct the universal service providers to conduct a review to ensure that the claims were only for eligible RDELs. As a result of review, some service providers submitted revised claims. For instance, Reliance Communications Limited revised claims from Rs 71.85 lakh for 1,044 RDELs to Rs 27.73 lakh for 422 RDELs in Karnataka service area. Similarly, in Uttar Pradesh (West) and Uttar Pradesh (East), Reliance Communication Ltd. requested for cancellation of the agreements, as they were not sure whether the RDELs were installed in rural areas.

In a similar agreement with BSNL for replacement of MARR VPTs, the number of MARR VPTs replaced between 01 April 2002 and 30 June 2003 was clearly mentioned in the agreement and subsidy was paid only for VPTs mentioned in the agreements. Identical provisions in agreements for RDELs could have addressed the problem.

Further, the Administrator issued instructions to CCAs in November 2005 to settle 90 *per cent* of front loaded subsidy claims provisionally in respect of RDELs and to settle the balance 10 *per cent* after receipt of billing information. However, the exchange-wise billing information includes bill details of other

¹¹ Villages as defined in census 2001

phones also. Hence the basis on which the claims had to be checked was far from accurate. Test check of seven¹² service areas showed that although billing information were received in six service areas, scrutiny could be completed in only two service areas i.e, Andhra Pradesh and Tamil Nadu as of September 2007.

Thus subsidy was disbursed towards RDELS without proper scrutiny and without ensuring that the RDELS were actually eligible for subsidy.

In reply, the Administrator, USO Fund stated that as statutory status was given retrospectively to the USO Fund, it was decided to apply the rules retrospectively with effect from 1 April 2002. The reply is not tenable as ambiguity in the agreement and lack of proper scrutiny of claims resulted in release of subsidy without proper assurance that it was disbursed only towards eligible RDELS.

1.7.3.2 Payment of subsidy without complete verification of records

USO Fund Administration decided in December 2004 that 100 *per cent* VPTs for which support from USO Fund was being claimed under different activities should be verified by the CCAs from the billing records maintained by the universal service providers. The work was to be completed before February 2005. Audit noticed that the verification conducted for five service areas, namely North East-I, West Bengal, Uttar Pradesh (East), Chattisgarh, and Madhya Pradesh by the CCAs, showed that there was difference of 38,072 VPTs between the VPTs eligible for subsidy and the VPTs for which subsidy was paid. This resulted in excess disbursement of subsidy of Rs 9.25 crore as detailed in Annexure-IV. No recovery was, however, made by the CCAs.

In reply, Administrator, USO Fund stated that the excess payment, if any, would be recovered after completion of reconciliation.

1.7.3.3 Subsidy paid for VPTs showing zero/non-incremental meter reading

USO Fund Administration issued instructions in November 2003 that VPTs, which register no incremental meter reading during the entire quarter, would not qualify for subsidy support in that quarter. Scrutiny of records by Audit in five service areas viz. Bihar, Tamil Nadu, Rajasthan, Uttar Pradesh (East) and Madhya Pradesh revealed that the subsidy had been paid despite the fact that the VPTs recorded zero/non-incremental meter reading for the entire quarter. This resulted in excess payment of subsidy to the tune of Rs 2.18 crore as detailed in Annexure-V.

Administrator, USO Fund replied that CCAs were supposed to conduct 5 *per cent* of the claims of every SDCA at least once a year, which was being done and that the excess paid subsidy in Madhya Pradesh would be recovered from the payment to be made for the current quarter. Figures of other Service areas were being verified.

¹² Chennai, Andhra Pradesh, Chattisgarh, Madhya Pradesh, Uttar Pradesh (East), Karnataka, Rajasthan.

1.7.3.4 Excess payment of front loaded subsidy on provision of RDELs

Agreements were entered into with BSNL, Reliance communications Ltd and Tata Teleservices in March 2005 for provision of RDELs in 1685 net cost positive SDCAs with effect from 1 April 2005. The agreement for RDELs had two components of subsidy i.e a one-time front-loaded subsidy (FLS) payable at the time of installation of RDELs and an equated annual subsidy payable every quarter, over the period of agreement. Agreement laid down that FLS was payable only for net addition of RDELs in a local exchange area. Net addition meant RDELs added during the quarter minus RDELs closed, in a local exchange area, as per clause 17.3 of the agreement. In case, the net addition was a minus figure i.e., if closures were more than the additions, net addition would be 'zero', and therefore no subsidy was payable in such cases.

Audit scrutiny in Rajasthan service area revealed that BSNL was paid FLS for more number of RDELs without taking into account total number of RDELs closed in the SSA, which resulted in excess payment of subsidy of Rs 57.07 lakh. Administrator, USO Fund, replied that in view of the high degree of inaccuracy observed during the sample verification, instructions were issued for 25 *per cent* verification of the claim pertaining to the quarter ending 31 March 2007.

Audit further noticed that minimum period during which an RDEL should be working to be eligible for subsidy was not mentioned in the agreement. For example, an RDEL installed on 30 June 2005 and closed on 1 July 2005 would also be eligible for FLS, though it was closed on the second day itself. A review of such cases has to be conducted by the Administrator, USO Fund.

Audit observed that documents requisitioned by CCAs for verification of claims was not furnished by some operators. For instance, Reliance communications Ltd was asked by CCA Delhi to make the billing data available for Rs 36.07 lakh paid to it as FLS in May 2007 for the RDELs installed in Uttar Pradesh (West) Service Area but the service provider did not comply with the same. In reply, Administrator, USO Fund stated that Reliance Communication Limited was asked to submit the requisite bill summary failing which; figures as pointed out by Audit would be recovered.

1.7.3.5 Non-recovery of interest for payments in excess of admissible subsidy

As per the provisions of the agreement, if the total amount disbursed for a financial year based on the quarterly self-assessment claims of the universal service providers results in excess payments by more than 10 *per cent* of the actual subsidy due, the entire amount of excess payment shall be recovered, along with an interest at the prime lending rate of the State Bank of India, prevalent on the day the disbursement was made. Audit noticed that seven CCAs¹³ had not recovered interest of Rs 3.82 crore as detailed in Annexure-VI from the USPs, for the excess payment beyond 10 *per cent* of the subsidy payable.

¹³ Andhra Pradesh, Madhya Pradesh, , North East- I, West Bengal ,Uttar Pradesh ,Orissa, Punjab

Administrator, USO Fund replied that Rs 36.48 lakh relating to UP (West) service area would be recovered and imposition of penal interest in Orissa service area was waived by the DoT. HFCL Punjab refunded entire amount of subsidy of Rs 13.33 lakh; hence no interest was recoverable. Recovery of interest, if any, in respect of Andhra Pradesh, West Bengal and North-East service areas would be affected after verification.

1.7.3.6 Non-submission of Auditors Report

A clause was inserted in the agreement wherein, the quarterly subsidy statement of each year was required to be audited by the Auditor of the USP appointed under Section 224 of the Companies Act 1956. The USP was required to submit report of the Auditor within seven days of signing of the Audit Report but not later than 30 September of the following financial year. Final adjustment in respect of excess/shortage in the subsidy disbursement was to be made in the following year based on the quarterly statement.

Audit noticed that Rs 90 lakh pertaining to 2002-04 had remained unadjusted from the universal service providers concerned. The Auditors' Reports for the year 2004-05 of all the service areas were not available at the USO headquarters and the disbursement of subsidy of Rs 1314 crore to six service providers¹⁴ was yet to be reconciled vis-à-vis Auditors' Report. BSNL, Reliance Communication Limited and Tata Teleservices Ltd. had not submitted Auditor's report for the year 2005-06 in 10 CCA offices and subsidy of Rs 759 crore disbursed, remained to be certified by the Auditors even after a lapse of two years. The details are given in Annexure-VII.

In reply, Administrator, USO Fund stated that instructions were issued to CCAs office in August 2007 to review the position.

1.7.3.7 Accumulation of pending claims

As per the provisions of the various agreements, the disbursement of subsidy is generally to be done within one month of the receipt of claims. Audit, however, noticed that as of March 2007, claims of different USPs amounting to Rs 407.83 crore were pending for settlement.

Although the provisions of the agreement stipulated outer limit for submission of claims, there was no specified time period for the USPs to provide clarifications or additional information as required by the CCA for the settlement of claims. It was also noticed that there were delays on the part of the USO Headquarters in providing clarifications sought for by CCAs, which resulted in pending claims.

In reply, Administrator, USO Fund stated that Rs 174.42 crore was withheld due to non-availability of revised representative rates¹⁵, which would be cleared soon as the rates for fourth year have been approved by the Administrator,

¹⁴ BSNL, M/s Bharti Infotel, M/s Reliance Communication limited, M/s Shyam Telelink, M/s Tata Teleservices Limited (TTL), M/s TTL (Maharashtra)

¹⁵ The rate which emerges for particular technology as the lowest rate of the successful bidder and at which subsidy is disbursable for such technology.

USO Fund. Other claims were held up due to non-submission of required documents/clarifications by the USPs. Instructions have been issued to all service providers and CCAs in August 2007 to settle the pending claims in a time bound manner.

Recommendation

- *An effective mechanism may be put in place for proper and timely verification of claims submitted by the USPs to ensure correctness of subsidy disbursements.*

1.7.4 Quality of Service

The deficiencies noticed by Audit in respect of maintenance of quality of service by various universal service providers (USPs) are discussed in the following paragraphs:

1.7.4.1 No separate evaluation of Quality of Service (QoS) parameters in rural areas

As per clause 15 and 16 of the agreement for subsidy disbursement for operation and maintenance of VPTs, provision of MARR replacements, RCPs and VPTs in uncovered villages, the universal service providers were required to work within the framework of the technical condition of the basic service license and to ensure the quality of service as prescribed by TRAI. The terms and conditions of the agreement also provided that the Administrator might carry out performance test and also evaluate the QoS parameters.

As per the report for the quarter ending December 2006 and March 2007 issued by TRAI on the quality of service being provided by basic service operators for both urban and rural areas, it would be seen that the USPs failed in meeting the QoS parameters as detailed below.

Table No. 4

Sl. No.	Parameters	Benchmark	Out of 79 operators, percentage of operators not meeting the benchmark	
			December 2006	March 2007
1.	Provision of telephones after registration of demand	100% within 7 days	86.08	88.61
2.	Faulty incidences per 100 subscribers /month	< 5	37.97	31.65
3.	Mean time taken to repair	< 8 hrs	34.18	37.97
4.	Call completion rate	33%	49.37	27.85

There is likelihood that the position would be even worse if only rural areas were taken into consideration. For instance, in respect of BSNL, Audit noticed that out of 1,08,070 VPTs in three¹⁶ service areas, 14,694 VPTs were non-functional /disconnected for non-payment between March 2003 and March 2007 as detailed in Annexure-VIII. Though BSNL had not claimed subsidy to the tune

¹⁶ Madhya Pradesh, Orissa, West Bengal.

of Rs 21.39 crore, the fact remained that 13 *per cent* of the VPTs were non-functional.

Audit noticed that although there was a provision in the agreements for the Administrator to carry out performance tests either directly or through authorised agency and also evaluate the QoS parameters for the VPTs at any time during the tenure of the agreement, the Administrator, USO Fund had not undertaken such evaluation in respect of each of the agreements entered into with the service providers.

Administrator, USO Fund replied that QoS tests conducted by TRAI were applicable to both urban and rural areas. Administrator also stated that they had limited staff and resources to conduct such inspections. The reply is not tenable as Administrator, USO Fund should have ensured separate performance tests, for evaluation of QoS in rural areas for better services in the rural areas.

1.7.4.2 Maintenance and performance monitoring of the VPTs.

The provision of fault free and efficient VPT service was one of the main concerns of the Administrator, USO Fund. The USPs were required to follow certain broad guidelines laid down in the agreements to ensure proper functioning of the VPTs.

It was observed in Audit that contrary to guidelines, the concerned USPs had not ensured the following:

- provision of VPT- service for the stipulated time,
- display of tariff and other relevant information for the general public,
- maintenance of complaint book to lodge complaints for inefficient service, and
- shifting of VPTs to new locations/custodians in spite of being disconnected for non payment for considerable period.

The proforma of inspection reports, as required to be submitted to USO Headquarters, contained statistics as per billing records of telephones remaining faulty, disconnected for non-payment (DNP) and non-incremental meter reading (NIMR). The proforma for physical verification contained only a column on whether fault rectification was satisfactory. Therefore, the rest of the QoS parameters stated to have been checked by CCAs had not been observed to have been undertaken by the CCAs.

In reply, it was stated that based on feed-back from CCAs offices on the inspections conducted, USO headquarters was taking up measures to improve QoS.

Recommendation

- *Adequate performance tests for evaluation of the quality of service standards of the USPs may be ensured by the Administrator, USO Fund.*

1.8 Conclusion

DoT and the Administrator, USO Fund did not work out appropriate strategies to utilize the USO funds, for increasing rural telephony significantly. As of March 2007, only Rs 5,081.44 crore i.e., 33.87 *per cent* of USO funds had been utilised out of total funds of Rs 14,998.98 crore collected. The target to increase rural tele-density from 0.4 to 4 was very low as compared to the growth of urban tele-density. Low utilisation of USO funds was coupled with disbursement of subsidy without ensuring that these were paid only towards eligible RDELs. There were inefficiencies in collection of universal service levy and disbursement of subsidy, besides no monitoring of parameters of quality of service by the Department. The Department and Administrator, USO Fund, need to address these issues urgently to facilitate faster growth of telecom facilities in the rural areas.

Annexure I
(Referred to in paragraph 1.1 and 1.7.1.3)
Details of various activities and agreements

Sl. No.	Activity, agreement date and validity period	Roll out obligation	Service providers
Public Access			
1	Subsidy support towards operation and maintenance of existing VPTs/Agmt. dated 28.3.03 Validity: 7 years	No roll out obligation	BSNL, TTL, TTLMH, RCL, Bharti, Shyam Telelink, HFCL
2	Subsidy support towards replacement of multi access radio relay (MARR) VPTs Agmt.dated 25/9/2003 Validity: 9 years	At least 50 per cent of MARR VPTs for which the agreement was signed to be replaced within one year and 100 per cent within two year from the effective date of agreement (1.07.2003). Further, scheduled time for hundred per cent replacement was extended by one year (up to 30.06.2006).	BSNL
3	Subsidy disbursement towards replacement of MARR VPTs (replaced between 1.4.2002 and 30.6.2003)/Agmt. dated 19/3/2004 Validity: 8 years	No roll out obligation	BSNL
4	Subsidy support towards provision for rural community phones (RCPs)/Agmt.dated 30/09/2004 Validity: 8 years	At least 20 per cent of RCPs were to be provided within one year and a minimum of 60 per cent by the end of 2 nd year and balance by the end of third year from the effective date of agreement.	BSNL and RCL
5	Subsidy support towards provision of village public telephones (VPTs) in revenue villages as per census 1991 without any public telephone facility i.e uncovered villages/Agmt. dated 10/11/2004 Validity: 8 years	At least 20 per cent of VPTs were to be provided within one year and a minimum of 60 per cent by the end of 2 nd year and balance by the end of third year from the effective date of agreement.	BSNL
Individual Access			
6	Subsidy support towards RDELs installed prior to 1.4.2002 towards differential in TRAI prescribed rental and rental charged for the period 1.4.2002 to 31.1.2004	No roll out obligation	BSNL
7	Subsidy support towards RDELs in specified SDCAs installed between 1.4.2002 and 31.3.05 Agmt. dated 3.5.2005 Validity : 8 years	No roll out obligation	BSNL and RCL
8	Subsidy support towards provision of RDELs in specified SDCAs after 1/4/2005/Agmt. dated 15/03/2005 (BSNL), 17/3/2005(RCL), 24/3/2005 (TTL&TTLMH) Validity: 5 years	At least 100 RDELs to be provided within six months (extended by 21 months i.e up to Dec 2006) from the effective date of agreement in each of the SSA within the service area for which the agreement is signed. After six months from the effective date of agreement, all wait-listed subscribers were to be provided with RDELs within a period of three months of registration.	BSNL, RCL, TTL, TTLMH

Annexure II
(Referred to in paragraph 1.7.1.4)
Statement showing details of liquidated damages recoverable from USPs

Sl. No.	Name of Activities	Name of Universal Service Providers	Liquidated damages recoverable (Rs in crore)
1	Replacement of MARR VPTS	BSNL	13.46
2	Provision of rural community phones	BSNL	0.26
		RCL	0.14
3	Uncovered villages	BSNL	6.74
Total		BSNL	20.46
		RCL	0.14
Grand Total			20.60

Annexure III
(Referred to in paragraph 1.7.3)
Activity-wise disbursement from USO Fund

(Rs in crore)

			Public Access				Individual Access			
	Financial Year	Funds allotted	Operation and maintenance of VPTs	Replacement of MARR VPTs	Rural Community Phones	VPTs in Uncovered villages	Rural household direct exchange lines (Prior to 01.04.02)	Rural household direct exchange lines installed from 01.04.02 to 31.03.05)	Rural household direct exchange lines installed after 01.04.05	TOTAL
1	2002-03	300.00	236.63	63.37	NA	NA	NA	NA	NA	300.00
2	2003-04	200.00	66.4	4.6	NA	NA	129.00	NA	NA	200.00
3	2004-05	1314.59	65.13	72.09	NA	NA	1062.78	114.59	NA	1314.59
4	2005-06	1766.85	83.39	108.17	31.89	29.86	0.00	1393.44	120.1	1766.85
5	2006-07	1500.00	81.54	106.19	41.72	55.40	0.00	342.74	872.41	1500.00
GRAND TOTAL		5081.44	533.09	354.42	73.61	85.26	1191.78	1850.77	992.51	5081.44

Annexure IV
(Referred to in paragraph 1.7.3.2)

Excess payment of subsidy without complete verification of VPTs-records of BSNL with Billing Records

(Rs in crore)

Sl. No	Name of circle	No. of VPTs not matching with billing record		Period	Excess subsidy paid		Total excess payment
		OPEX	MARR replacement		OPEX	MARR replacement	
1	NE I	2550	-	01.12. 2003-31.3.2006	0.99	-	0.99
2	WB	14406	1988	01.10.2003 - 31.12.2004	3.28	1.81	5.09
3	UP -E	3188	-	01.12.2003 - 31.3.2005	1.14	-	1.14
4	Chattisgarh	3778	-	30.9.2004	0.69	-	0.69
5	M.P Circle	11935	-	30.9.2004	1.34	-	1.34
Total		35857	1988		7.44	1.81	9.25

Annexure V
(Referred to in paragraph 1.7.3.3)
Excess payment of subsidy due to
non-incremental meter reading (NIMR) and zero meter reading

(Rs in crore)

Sl. No.	Name of Service Area	Excess payment
1	Tamil Nadu	0.14
2	Rajasthan	0.46
3	UP East	1.32
4	Madhya Pradesh	0.26
Total		2.18

Annexure VI
(Referred to in paragraph 1.7.3.5)
Interest recoverable on excess paid Subsidy

Sl. No	Name of service area	Name of Service Provider	Interest recoverable on excess payment (Rs in crore)
1	Andhra Pradesh	BSNL	0.69
2	Madhya Pradesh	BSNL	0.55
3	Chhattisgarh	BSNL	0.19
4	North East I	BSNL	0.34
5	West Bengal	BSNL	1.44
6	Uttar Pradesh (West)	BSNL	0.36
7	Orissa	BSNL	0.24
	Total of BSNL		3.81
8	Punjab	HFCL	0.01
	Grand Total		3.82

Annexure VII
(Referred to in paragraph 1.7.3.6)
Non-submission of Auditor's report

Sl. No.	Name of USPs	Service Areas
1	BSNL	Madhya Pradesh, Maharashtra, North East-II, West Bengal, Chhattisgarh, Bihar, Rajasthan
2	RCL	Madhya Pradesh, Chhattisgarh, Andhra Pradesh, Tamil Nadu, Rajasthan, West Bengal, Himachal Pradesh
3	TTL	Madhya Pradesh, Rajasthan, Bihar

Annexure VIII
(Referred to in paragraph 1.7.4.1)
Non-functional/disconnected for non payment VPTs

Sl. No	Name of circle	Quarterly claim		No. of non-functional VPTs per quarter	Amount of subsidy involved (Rs in crore)	Technology of VPTs	Total no. of VPTs in the circle
		From	To				
1	Madhya Pradesh	30.6.2005	31.3.2007	1076	9.63	MARR, LL	50897
2	Orissa	31.3.2003	31.3.2006	6731	8.65	LL	40264
3	West Bengal	31.12.2003	30.9.2004	6887	3.11	WLL, LL	16909
Total				14694	21.93		108070