

CHAPTER - II Audit Approach

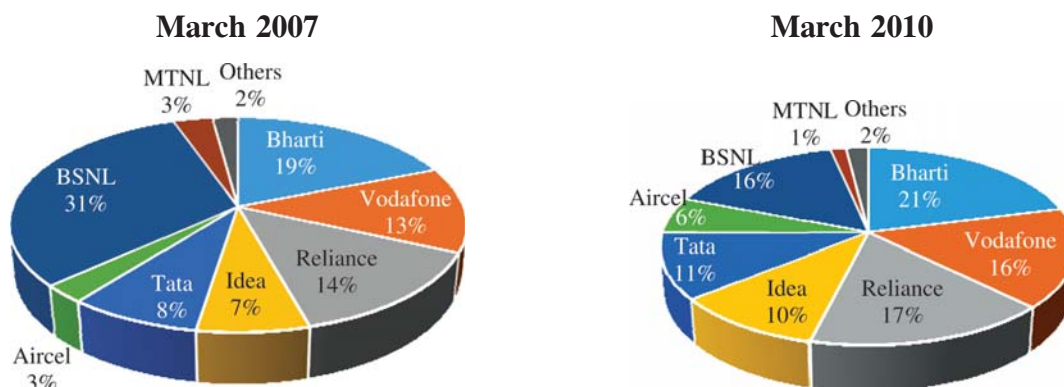
2.1 Scope of Audit

Revenue share payment is linked to the GR 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 and the systems put in place by DoT was conducive for verifying/assessing the correctness of the same.

Comptroller and Auditor General of India took up verification of the basic accounting records and documents of six 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. The service providers selected were:

- 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
- M/s Aircel Limited and its subsidiaries Aircel Cellular Limited and Dishnet Wireless Limited

The primary consideration in selecting the above mentioned six operators for this phase of audit was the fact that they were the early entrants into the telecom business after the sector was opened up for private participation. Again, these operators are the dominant players in the market and account for a significant share of the total licence fee receipts of the Government. Market shares of these Companies as of March 2007 and March 2010 were as shown below:



(Source: TRAI/COAI)

Further, audit of M/s Bharti Airtel Limited and M/s Bharti Hexacom Limited (BAL/BHL) was taken up first while commencing the audit of telecom revenue paid by private service providers considering their highest market share/revenue share. While preparing the report, audit view on the common issues identified has been deliberated in detail in the Chapter –III on BAL/BHL. To avoid repetition of the audit’s view in the other chapters, reference has been made to the detailed view of the audit given in Chapter-III.

The scope of audit also included examination of the process of verification of deduction to arrive at AGR, collection of Revenue Share (LF and SUC) and assessment of GR done by DoT.

2.2 Audit methodology

A) Prior to the commencement of audit, meetings were held with all the service providers separately wherein the scope and coverage of audit were explained. Company representatives explained to Audit their revenue recognition policies, system of recording revenue and preparation of AGR statements.

Audit at premises of these Private Telecom service providers was basically an IT system based audit. Access to General Ledger (GL) Enquiry Module of their financial system (Oracle Financial or SAP) was provided to audit. Audit scrutinized the account codes which had a bearing on the Gross Revenue on test check basis and the deductions for revenue share purpose in terms of the licence agreement to identify the issue for detailed examination. The licensee also provided reconciliations between AGR statements and Service Revenue, Other income and Finance income of Profit and Loss Accounts duly mapped with Trial Balances (TBs). Additional data, information and clarifications, if required, were obtained through issue of Audit queries and discussion with the respective operators.

B) The corporate income has been apportioned among the licences on the basis of percentage of GR as corporate income pertains to all service areas at the rates applicable to UAS Licence. LF and SUC has been calculated on the basis of rates applicable for respective services.

Audit considers this to be the most suitable and conservative method of determining the under reporting of revenue share.

In terms of clause 20.2 and 20.5 of Licence conditions, calculation of interest on unpaid amount of LF and SUC is due from next quarter. However, audit has calculated unpaid dues from beginning of next financial year and therefore; interest figures indicated in this report are lower than actual interest due as per licence conditions.

2.3 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

2.4 Acknowledgement

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