CHAPTER – VII
Revenue shared by Tata Teleservices Limited and Tata Teleservices (Maharashtra) Limited

7.1 Brief profile of the company

M/s Tata Teleservices Limited (TTSL) was incorporated in 1996 and in December 2002, TTSL acquired 50.83 *per cent* of the paid up equity capital of Hughes Telecom India Limited (HTIL) which had basic licence in Maharashtra. In February 2003, the name of HTIL was changed to M/s Tata Teleservices (Maharashtra) Limited (TTML), and is an associate company of TTSL. TTSL provides basic services as well as cellular services on dual technology i.e., CDMA and GSM.

7.1.1 Licences granted to TTSL and TTML

TTSL was awarded Basic Licence in Andhra Pradesh LSA in September 1997 and in August 2001 it was awarded Basic Licences for five more LSAs[1]. Subsequently, during January-February 2004, twelve[2] more UASL licences were granted to the Company. Three new UAS Licences for Assam, Jammu and Kashmir and North East were awarded in 2008. TTML holds UASL in Mumbai and Maharashtra. Thus, TTSL and TTML have presence in all the 22 LSAs.

TTSL holds NLD licence also and TTML holds ISP licence.

7.1.2 Spectrum allotted to TTSL and TTML

Spectrum allotted to TTSL and TTML as on 31 March 2010 were as follows:

Table 7.1

Sl No	Spectrum	Licenced Service Area
CDMA		
1	2 × 5 MHz	Andhra Pradesh, Delhi, Maharashtra, Mumbai
2	2 × 3.75 MHz	Chennai, Bihar, Gujarat, Haryana, Karnataka, Kerala, Kolkata, Punjab, Rajasthan, UP East, UP West
3	2 × 2.5 MHz	Tamil Nadu, Assam, Himachal Pradesh, Jammu and Kashmir, Madhya Pradesh, North East, Odisha, West Bengal
GSM		
1	2 × 4.4MHz	Andhra Pradesh, Bihar, Tamil Nadu (including Chennai), Gujarat, Haryana, Karnataka, Himachal Pradesh, Kerala, Kolkata, Maharashtra, Madhya Pradesh, Mumbai, Odisha, Punjab, Rajasthan, UP East, UP West, West Bengal

1 Delhi, Gujarat, Karnataka, Tamil Nadu and Chennai.
2 West Bengal, Bihar, Haryana, Himachal Pradesh, Kerala, Madhya Pradesh, Orissa, Punjab, Rajasthan, Uttar Pradesh – West, Uttar Pradesh – East and Kolkata.

7.1.3 Subscriber base of TTSL and TTML

The subscribers of TTSL/TTML grew from 1.66 crore as on 31 March 2007 to 6.71 crore as on 31 March 2010 registering a growth of 305 *per cent*. TTSL group remained in fourth position during the years 2006-07 to 2009-10 and its market share increased from 8 *per cent* as on March 2007 to 11 *per cent* as on March 2010.

7.1.4 Gross Revenue, Deduction, Adjusted Gross Revenue reported and revenue share paid by TTSL and TTML

Telecom Service Providers are required to pay LF and SUC at a percentage of AGR on quarterly basis on self-assessment basis. GR, Deduction, AGR reported and revenue share (LF and SUC) paid by TTSL and TTML during these years were as follows:

Table – 7.2

(₹ in crore)

Company	Year	Gross Revenue (GR)	Deductions	Adjusted Gross Revenue (AGR)	Percentage of AGR to GR	Revenue share
TTSL	2006-07	5,015.43	1,570.06	3,445.37	68.7	318.18
	2007-08	5,921.93	1,853.03	4,068.90	68.71	370.68
	2008-09	6,510.74	2,222.26	4,288.48	65.87	388.91
	2009-10	6,125.02	1,497.10	4,627.92	75.56	416.32
Total		**23,573.12**	**7,142.45**	**16,430.67**	**69.7**	**1494.09**
TTML	2006-07	1,389.45	358.60	1,030.85	74.19	103.08
	2007-08	1,702.95	395.34	1,307.62	76.79	130.76
	2008-09	1,912.34	427.39	1,484.94	77.65	148.49
	2009-10	2,038.65	387.89	1,650.75	80.97	165.07
Total		**7,043.38**	**1,569.22**	**5,474.16**	**77.72**	**547.42**

7.2 Under reporting of revenue by TTSL and TTML

As mentioned in para 1.4 (a), the GR shall be inclusive of all types of revenue stated therein without any set-off for related item of expense, etc.

Further as mentioned in Annexure-III of UASL agreement, service revenue (amount billable) shall be shown gross and details of discount/rebate indicated separately.

Audit examination of records/Books of accounts (Vouchers, General Ledger, Trial Balance, Profit and Loss Accounts, Balance Sheet, etc.) of TTSL and TTML revealed that these companies had not adhered to the provisions of the licence agreement as discussed below.

7.2.1 Commission paid to distributors/franchisees/agents/dealers, etc. debited from the revenue in respect of TTSL

During audit scrutiny of the records of TTSL for the years from 2006-07 to 2009-10, it was observed that the commission paid to the distributors/franchisees/agents/dealers, etc., was netted off from the revenue. Since the commission/margin paid to the distributors/ franchisees/dealers was in the nature of business expenses (marketing expenses), therefore, set-off of such expenses with revenue was against the licence condition. However, in respect of TTML, it was observed that commission paid to the distributor/franchisees/ agents/dealers, etc., was treated as expenses.

The total commission netted off from revenue in respect of all the licenced areas of TTSL during the years 2006-07 to 2009-10 was ₹ 521.35 crore as confirmed by the management **(Annexure - 7.01).** In response to the audit observation, the Management stated that transactions with the wholesaler/retailer were in the nature of Principal to Principal and also there was no sub-licence/assignment/transfer of licence as per clause 6 of the licence agreement. Hence, trade discount or discount on bulk purchase of recharge vouchers (RCV) and start up kits (SUK) paid to the wholesalers/dealers /retailers should not be added back for the purpose of computing LF.

Audit view on the reply of the Management regarding Principal to Principal is as explained in para 3.2.1 (A).

Thus, commission paid to the distributor/franchisees/agents/dealers, etc. netted off from revenue resulted in understatement of GR/AGR by ₹ 521.35 crore and short payment of LF and SUC amounting to ₹ 47.33 crore and ₹ 14.25 crore respectively.

7.2.2 Revenue understated due to netting of discounts allowed to subscribers etc. by TTSL and TTML

Review of data/records furnished by TTSL/TTML for the period from 2006-07 to 2009-10 revealed that the Company offered various schemes/discounts to subscribers (volume discounts, intra circle discount, content service discount, recharge card discount, SMS discount, Tata to Tata discount, cash discount, etc.). It was also noticed that the Company debited these discounts from revenue heads instead of expense heads as a result of which the revenue considered for AGR was understated.

Since the commission/margin paid to the distributors/franchisees/dealers was in the nature of business expenses (marketing expenses), therefore, set-off of such expenses from revenue was against the licence condition.

The total amount netted off from the revenue on account of various discounts worked out to ₹ 4814.16 crore and ₹1476.18 crore in respect of TTSL and TTML respectively for the period from 2006-07 to 2009-10 **(Annexures - 7.02 and 7.03).**

The Management stated that the discounts given by the company were discounts offered as part of tariff plan filed with TRAI, discounts offered to employees and business associates and internal lines discount.

Audit view on the management reply is as follows-

Management contention that above discounts were covered under tariff plan submitted to TRAI is not acceptable since such tariff plans were neither shared with audit nor enclosed with reply. Further, service revenue should be shown in gross and not be netted off with any discounts/rebate while preparing the AGR statements as per Annexure-III of the licence agreement.

Thus, total amount of ₹ 4814.16 crore and ₹ 1476.18 crore netted off from the revenue on account of various discounts in respect of TTSL and TTML respectively resulted in understatement of GR/AGR by same amount and in short payment of LF and SUC amounting to ₹ 444.20 crore and ₹ 131.77 crore respectively by TTSL and ₹ 147.62 crore and ₹ 48.42 crore respectively by TTML.

7.2.3 Netting of adjustments offered to customers from the GR in respect of TTSL and TTML

Review of data/records furnished by TTSL/TTML for the period from 2006-07 to 2009-10 revealed that the Company was maintaining separate account heads for various types of adjustments (billing adjustments, adjustments for collection waivers, bill back out adjustments, round off adjustments, misc. Adjustments, etc.,) under revenue head of accounts and all the adjustments made were debited to revenue.

It was also noticed that Companies in order to accommodate adjustments on account of waivers given to the subscribers debited the value of these adjustments to revenue heads as a result of which the revenue considered for AGR was understated to that extent.

Since “waivers” were a part of overall commercial strategy to enhance business, they were in the nature of expenses and set-off such related items of expenses is not allowed as per the licence agreement.

The total amount of adjustments for collection waivers netted off from the revenue worked out to ₹ 128.00 crore and ₹ 147.73 crore in respect of TTSL and TTML respectively for the period from 2006-07 to 2009-10 **(Annexures - 7.04 and 7.05)** leading to AGRs getting understated by the same extent.

Company, in reply, stated that-

- The account heads include adjustments/waivers etc. given to the customers/employees/outsourced employee etc., in the normal course of the business and revenue was recognized net of such waivers.

- Rectification/adjustments were made on account of dispute, wrong billing due to configuration errors. These errors could relate to excess amount billed, erroneously billed, payments done in time but still late payments charges levied which was subsequently waived off. Adjustments to billings/errors in the billings were a normal part of any business activity and does not result in gross inflow of cash, receivables or other consideration as a result of wrong/error in billing and hence reversal needs to be adjusted/setoff against the wrong billing.

Audit view on the Management reply is as follows -

- As pointed out by Management, billing adjustment and operator deposit adjustments have been considered and accordingly figures have been revised.
- Regarding other adjustment pertaining to collection waivers and miscellaneous adjustments, etc., the contention of the Management is not tenable since they are part of overall commercial strategy to enhance business; therefore, they were in the nature of business expenses and set off of related items of expenses is not permitted in terms of clause 19.1 of the licence agreement.

Thus, the total amount of adjustments for collection waivers/ miscellaneous adjustments, etc. netted off from the revenue amounting to ₹ 128.00 crore and ₹ 147.73 crore in respect of TTSL and TTML respectively resulted in understatement of GR/AGR and in short payment of LF and SUC amounting to ₹ 11.20 crore and ₹ 3.48 crore respectively by TTSL and ₹ 14.77 crore and ₹ 4.85 crore respectively by TTML.

7.2.4 Netting of the revenue from Start up Kit, recharge vouchers etc. by TTSL and TTML

Review of data/records furnished by TTSL/TTML for the period from 2006-07 to 2009-10 revealed that the Company offers various discount on bulk purchase on recharge vouchers and start up kits to the wholesalers/dealers /retailer. It was also noticed that the Company debited these discounts from revenue heads as a result of which the revenue considered for AGR was understated. Since the discount on bulk purchase given to the distributors/ franchisees/dealers was in the nature of business expenses (marketing expenses) setoff of such expenses with revenue was against the licence condition.

The total amount netted off from the Revenue by TTSL and TTML amounted to ₹ 104.82 crore and ₹ 8.50 crore respectively for the years 2008-09 to 2009-10 **(Annexures 7.06 and 7.07)** leading to AGR getting understated by the same extent. Management stated that "transactions with the wholesaler/retailer were in the nature of Principal to Principal and also there was no sub-licence/assignment/transfer of licence as per clause 6 of the licence agreement. Hence trade discount or discount on bulk purchase on recharge vouchers and start up kits paid to the wholesalers/dealers /retailer should not be added back for the purpose of computing licence fee".

Audit view on the reply of the management regarding Principal to Principal is as explained in para 3.2.1 (A).

Thus, the total amount of ₹ 104.82 crore and ₹ 8.50 crore netted off from the revenue by TTSL and TTML respectively resulted in understatement of GR/AGR and in short payment of LF and SUC of ₹ 8.90 crore and ₹ 2.82 crore by TTSL and ₹ 0.85 crore and ₹ 0.28 crore by TTML.

7.2.5 Non consideration of income received from infrastructure sharing in GR by TTSL

During review of audited AGR statements along with notes on statements of TTSL, it was noticed that during 2008-09 and 2009-10, income towards OPEX receipt for infrastructure sharing received by the Company was not considered for GR as disclosed by the Statutory Auditors.

As per terms of licence agreement, GR includes revenue from permissible sharing of infrastructure without any set-off for related item of expense. Further, licence agreement does not distinguish infrastructure sharing revenue between CAPEX and OPEX. Hence, set-off of revenue from infrastructure sharing against the expenses was not allowed.

The total income received from other operators which was not considered for computation of AGR during the years 2008-09 and 2009-10 amounted to ₹ 23.49 crore **(Annexure - 7.08).**

Management replied that :

- Reimbursement of OPEX should not be part of AGR since credit in the expenses were primarily on account of the re-classification of expenses, actualization of accrual of expenses, reimbursement of expenses and insurance claim received which do not form revenue to the Company in any respect/accounting practices.
- TDSAT in its judgment dated 23 April 2015 had clearly laid down that a payment in the nature of reimbursement of an expense may not be taken as revenue.

While noting that DoT had filed an appeal before Hon'ble Supreme Court against the TDSAT judgment dated 23 April 2015 as referred in the reply, Audit view on the issue is as explained in para 3.2.4.

Thus total income received from other operators which was not considered for computation of AGR amounting to ₹ 23.49 crore resulted in short payment of LF of ₹ 2.26 crore and SUC of ₹ 0.65 crore.

7.2.6 Non- inclusion of realized forex gain for computation of GR by TTSL and TTML

Review of data/records furnished by TTSL/TTML for the period from 2006-07 to 2009-10 revealed that though there was a quarterly realised gain under forex account codes on account of foreign exchange fluctuations accounted in the books of the accounts, the same was not considered for GR /AGR.

Considering only the quarterly realised net gains of account heads operated for forex for the years from 2006-07 to 2009-10, it was seen that realised forex gain amounting to ₹ 261.75 crore and ₹ 59.26 crore for TTSL and TTML respectively **(Annexures - 7.09 and 7.10)** was not considered for AGR.

It is pertinent to mention here that the above realised gain calculated from the data extracted from the reports generated from SAP System did not represent the actual gain of that particular item since the company recasts the value of all the items included under the foreign exchange gains/losses head every year, the matured items are accounted under realised gains and the un-matured items remain under unrealised gain. Thus, the realised gain of a particular item in that year would not be the actual gain due to accounting of the gains/losses of that item during the intermediate period under unrealised. Audit could not arrive at the actual value of items accounted under realised gain every year for want of original value of each item. Further, audit has considered the quarterly net gain, head of account-wise and LSA-wise, as it was not possible for audit to segregate/collect the figures of gains only from the data made available. The operator should calculate the gain of each item with reference to its initial value of accounting and include the total forex gain in GR/AGR.

While confirming the figures pointed out by audit, it was replied by the Management that

- Foreign exchange fluctuation was a contingency which had impact on every business and such gain had not accrued from primary or supplementary services of the Company i.e. providing telecom services to its customers/subscribers. Forex gains result when liabilities for payment in foreign exchange decrease on account of appreciation of domestic currency vis-à-vis foreign currency and such exchange differences arise when rates differ from those at which they were initially recorded in the books.
- Audit has considered only gain ignoring the notional loss recorded in the head of accounts. The forex gain loss, unlike telecom expenditure was not something where the notional gain was to be viewed in isolation of the loss, as these were recorded on the same principles adopted to account for the exchange rate differences at the end of each book closing period. This gets actualized only at the time of payment to the vendor.
- TDSAT Judgment dated 23 April 2015 passed in AUSPI vs Union of India and others held that "any gain or loss due to foreign exchange fluctuation should have no bearing on the licence fee".

Contention of the management was not acceptable as

- Forex gain realised by the Company was incidental to telecom activity. Audit considered only quarterly net realized gains and unrealized account heads (notional) were ignored. Further, as per the licence agreement "GR shall be inclusive of …… any other miscellaneous revenue, without any set-off for related item of expense, etc," and forex gain was part of Miscellaneous Revenue.
- Audit noted that DoT had gone on appeal against the TDSAT judgement of April 2015 referred by the Company. While the matter was *sub-judice* at the Hon'ble Supreme Court, Audit is of the view that non-consideration of forex gains in the GR by the Company was a deviation from licence conditions.

Thus, realised forex gain of ₹ 261.75 crore and ₹ 59.26 crore not considered for AGR by TTSL and TTML respectively resulted in short payment of LF of ₹ 23.59 crore and SUC of ₹ 7.15 crore by TTSL and LF of ₹ 5.93 crore and SUC of ₹ 1.94 crore by TTML.

7.3 Under reporting of revenue in the statements of revenue and LF (AGR statements) though reported in the books of accounts.

7.3.1 Non consideration of interest income in GR/AGR by TTSL

From AGR statements and Profit and Loss account, it was noticed that interest income of ₹ 568.69 crore **(Annexure - 7.11)** accounted in the books of accounts of TTSL for the period from 2006-07 to 2009-10 was not considered in the GR.

Management informed that entire amount of ₹ 568.69 crore had been considered for GR/AGR in May 2011 and the consideration of the interest income was under protest. It was further stated that these amounts were not to be included for calculation of revenue share as the definition of AGR was under litigation and would be decided in due course through judicial process.

The response of the Management was not tenable since definition of GR in licence agreement expressly provides for inclusion of income from interest in GR/AGR for computation of revenue share. Though the company replied (November 2015) that the same had been considered for GR/AGR during May 2011, they failed to submit the document in support of details of amounts considered for the earlier years and payment made thereto were not provided to substantiate their claim of payments and in the absence of the same audit could not verify. Further, in the audited AGR statements for the years 2006-07 to 2009-10 submitted to DoT, interest income as mentioned above were not considered for computation of LF/SUC in the relevant years.

Thus, non consideration of interest income of ₹ 568.69 crore resulted in understatement of GR/AGR for the years 2006-07 to 2009-10 and in short payment of LF and SUC by ₹ 51.22 crore and ₹ 15.53 crore respectively by TTSL.

7.3.2 Profit on sale of investment not considered in GR/AGR

Format of statement of revenue and LF (AGR statement) prescribed as per Appendix-II to Annexure-II of the UASL agreement is an integral part of the licence agreement. In the statement, item 4 has been prescribed to reflect the "income from investments". Clause 19.1 of UASL agreement defines GR which, inter alia states that, the revenue includes any other miscellaneous income and further, the revenue shall be without any set off for the related items of expenses.

Audit observed from audited AGR statements and Profit and Loss account of TTSL and TTML that profit on sale of investment (long term /current investment) was not considered for computation of GR for payment of LF/SUC during the years from 2006-07 to 2009-10. The total amount in respect TTSL worked out to ₹ 2082.87 crore and ₹ 0.63 crore in case of TTML **(Annexures - 7.12 and 7.13).** The Company replied that it paid licence fee in the respective financial year in the case of profit on sale of investment in Wireless TT Info Services Limited (WTTIL) (Amount pertaining to period 2008-09 and 2009-10) and licence fee on profit on sale of investment for period 2006-07 and 2007-08 was paid in May 2011.

The reply of the management is not tenable since licence agreement provides for inclusion of income from profit on sale of investment in GR/AGR for computation of revenue share. Though the company replied (November 2015) that the same had been considered for GR/AGR during May 2011, they failed to submit the document in support of details of amounts considered for the earlier years and payment made thereto to substantiate their claim of payments and in the absence of the same audit could not verify. Further, in the audited AGR statements for the years 2006-07 to 2009-10 submitted to DoT, income from profit on sale of investment as mentioned above were not considered for computation of LF/SUC in the relevant years.

Thus, non consideration of profit on sale of Investment of ₹ 2082.87 crore and ₹ 0.63 crore by TTSL and TTML respectively resulted in understatement of GR/AGR and short payment of LF of ₹ 187.63 crore and SUC of ₹ 56.93 crore by TTSL and LF of ₹ 0.06 crore and SUC of ₹ 0.02 crore by TTML.

7.3.3 Non consideration of profit on sale of assets for GR/AGR

From the data/documents (viz. trial balances, audited AGR statements, auditor's report, notes on accounts/statements and revenue reconciliation statements etc.) provided by TTSL and TTML it was found that revenue received towards "Profit on sale of fixed assets" by both TTSL and TTML during the years 2007-08 to 2009-10 was not considered for computation of GR/AGR in the respective years.

The profit on sale of asset recorded in the books of account of TTSL and TTML for the period from 2007-08 to 2009-10 worked out to ₹ 121.25 crore and ₹ 35.49 crore respectively **(Annexures - 7.14 and 7.15).**

It was replied by the Management that the Company had paid licence fee on profit on sale of assets though the Company firmly believes that this should not be part of AGR.

Reply of the Management is not tenable as Company did not provided any documentary evidence to substantiate their claim of payments and in the absence of the same, the reply could not be verified by Audit. Further, in the audited AGR statement submitted to DoT, the profit on sale of assets was not considered for computation of LF/SUC.

Thus non consideration of profit on sale of asset of ₹ 121.25 crore and ₹ 35.49 crore by TTSL and TTML respectively resulted in short payment of LF of ₹ 10.97 crore and SUC of ₹ 3.32 crore by TTSL and LF of ₹ 3.55 crore and SUC of ₹ 1.16 crore by TTML.

7.4 Short/ non-payment of revenue share due to other issues

7.4.1 Bad debts written off adjusted from the revenue by TTSL resulting in understatement of AGR

From review of data/documents furnished to audit, it was found that TTSL adjusted "Bad Debts written off" for the year ended 31 March 2010 from the respective components of revenue from services while considering the preparation of the statements for the computation of AGR of the respective circles.

The licence agreement does not provide deduction of bad debt from GR to arrive at AGR.

The total amount of "write off of subscriber bad debts" adjusted from the respective components of revenue from services was ₹ 272.29 crore **(Annexure - 7.16).**

Management accepted that an amount of ₹ 272.29 crore had been adjusted from the revenue as bad debts written off.

Thus, adjustment of Bad Debts written off from the respective components of revenue from services of ₹ 272.29 crore resulted in short payment of LF and SUC by ₹ 26.64 crore and ₹ 7.61 crore respectively.

7.4.2 Lease line and Port Charges included in deductions claimed by TTSL and TTML resulting in understatement of AGR

As per the disclosures by Statutory Auditors in the notes to the statements submitted along with the audited AGRs of TTSL for the years 2006-07 to 2009-10, "Access charges considered for computation of Adjusted Gross Revenue (AGR) include leased line charges and port charges actually paid to other carriers during the year concerned".

Further, in respect of TTML, it was disclosed by the Statutory Auditors that during the years 2006-07 and 2007-08, the leased line and port charges were claimed along with PSTN charges and during 2008-09 and 2009-10, the expenditure towards lease line and port charges were claimed as separate deductions along with other eligible deductions.

In terms of Clause 19.2 of the UASL agreement, the following shall be excluded from the GR to arrive at AGR.

i) PSTN related call charges (Access Charges) actually paid to other eligible/entitled telecommunication service providers within India.

ii) Roaming revenues actually passed on to other eligible/entitled telecommunication service providers and

iii) Service Tax on provision of services and Sales Tax actually paid to the Government if Gross Revenue had included as component of Service Tax and Sales Tax.

In respect of TTSL for the years 2006-07 to 2009-10, the total expenditure towards lease line and port charges included in the access charges and claimed as deduction worked out to ₹ 255.41 crore **(Annexure - 7.17)** whereas in respect of TTML, the same worked out to ₹ 87.26 crore **(Annexure - 7.18).**

Management stated that the payments on account of port charges and leased lines were for providing connectivity to the customers were a part of and similar to interconnection costs; which since included in the AGR in the hands of the receiver, would result in double taxation if the same was not allowed as deduction in the hands of the payer.

The reply of the Management is not tenable since lease line and port charges paid were actually an expense for hiring of infrastructure and not PSTN related call charges (Access charges). Therefore, it is not eligible for deduction under clause 19.2 of UASL agreement.

Thus, the total expenditure towards lease line and port charges included in the access charges and claimed as deduction for ₹ 255.41 crore and ₹ 87.26 crore respectively by TTSL and TTML resulted in short payment of LF of ₹ 22.10 crore and SUC of ₹ 6.94 crore by TTSL and LF of ₹ 8.73 crore and SUC of ₹ 2.86 crore by TTML.

7.4.3 Non consideration of revenue from sharing/leasing of infrastructure/bandwidth links for payment of SUC by TTSL

Format of statement of revenue and licence fee (AGR statement) prescribed as Appendix II to Annexure II as referred in Clause 20.4 of the UASL agreement is an integral part of the licence agreement. In the statement, item 1 A has been prescribed to reflect the "revenue from wire line subscribers". Further, Clause 18.3.1 of UASL agreement provides that "While calculating AGR for limited purpose of levying spectrum charges based on revenue share, revenue from wire line subscribers shall not be taken into account".

In respect of TTSL, the revenue from sharing/leasing of infrastructure/bandwidth links/ R&G cases etc., which were considered in the AGR statements for computation of LF during the year 2006-07, 2007-08, 2008-09 and 2009-10 amounting to ₹ 1030.61 crore **(Annexure - 7.19)** was not considered for computation of SUC, which was in contravention of the provisions of the licence agreement. Management confirmed the facts and figures and stated that revenue from wireless services alone have been offered for CDMA SUC and the rest being income from wire line services, the same was not offered for SUC.

Audit view on the non-inclusion of revenue from sharing/leasing of infrastructure/bandwidth links/R&G cases, etc. for payment of SUC has been explained under Para 3.4.3 of this report.

Thus, the revenue from sharing/leasing of infrastructure/bandwidth links/R&G cases, etc., which were considered in the AGR statements for computation of LF but not considered for computation of SUC amounting to ₹ 1030.61 crore resulted in short payment of SUC amounting to ₹ 28.05 crore by TTSL.

7.4.4 Non-consideration of Rental Income

Audit observed that an amount of ₹ 17.62 crore was credited to the expenditure head Rent. As the credits under expenditure head were in the nature of income, non-consideration of the same for computation of GR resulted in understatement of GR by ₹ 17.62 crore (**Annexure - 7.20**).

Management stated that TTSL was paying rent for office spaces. In certain places, space was taken by vendors who had to pay rent to the landlord. In such cases, TTSL was initially making the payment of rent and subsequently recovering the rent at actual from the vendors, thereby crediting the rent account. Hence, this did not constitute revenue but only reimbursement of expenditure.

The reply is not tenable because Management has not given any cogent reason as to why it should pay rent on behalf of the vendors and then subsequently get it reimbursed from them. Audit is of the view that any payment towards rent to TTSL by the vendors amounted to rental income which should be considered as part of shareable revenue in terms of the Licence Agreement.

Thus, non-consideration of rental income amounting to ₹ 17.62 crore for computation of GR resulted in short payment of LF and SUC ₹ 1.61 crore and ₹ 0.49 crore respectively

7.5 Interest on short/non-payment of LF and SUC

On issues raised above (from para 7.2 to 7.4) short/non-payment of LF and SUC worked out to be ₹ 1019.16 crore and ₹ 338.52 crore respectively. The interest on this short/non-payment of LF and SUC by TTSL and TTML is ₹ 1857.71 crore **(Annexure - 7.21).** The calculation of interest was based on the rate prescribed in the licence agreement i.e. two *per cent* above the prime lending rate of State Bank of India existing as on the beginning of the financial year and the period considered for the calculation was from the end of the concerned financial year up to March 2015.

7.6 DoT's response to the audit observations

Audit observations on the revenue shared by TTSL and TTML were communicated to DoT in November 2015. Reply of DoT is awaited (January 2016).