CHAPTER-I
INTRODUCTION

1.1 About this Report

This Report of the Comptroller and Auditor General (C&AG) of India relates to matters arising from Compliance Audit of the financial transactions of the Ministry of Communications and Information Technology (MoC&IT), Government of India including Public Sector Undertakings (PSUs) under its administrative control for the year ended 31 March 2014.

This Chapter provides profile of the Departments and concerned entities along with planning and extent of audit followed by a brief analysis of the expenditure of the departments under the Ministry of Communications and Information Technology (MoC&IT). **Chapters II to V** relate to present findings/observations arising out of the compliance audit of Department of Telecommunications (DoT), Department of Posts (DoP), Department of Electronics and Information Technology (DeitY) and Public Sector Undertakings (PSUs) under the Ministry.

1.2 Authority for Audit

The authority for audit by the C&AG and reporting to the Parliament is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. C&AG conducts audit of expenditure of Ministries/Departments of the Government of India under Section 13[1] and 17[2] of the C&AG's (DPC) Act[3] and audit of PSUs is covered under Section 19 of the Act.

1.3 Planning and conduct of Audit

Audit is conducted in accordance with the principles and practices enunciated in the auditing standards and performance audit guidelines promulgated by the C&AG. The audit process starts with the assessment of risk of the Ministry/Department. Based on this risk assessment, the frequency and extent of audit are decided.

1.4 Profile of Audited Entities

1.4.1 Department of Telecommunications (DoT)

The Department of Telecommunications (DoT) is responsible[4] for policy formulation, performance review, monitoring, international cooperation and research & development

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1 Audit of (i) all expenditure from the Consolidated Fund of India, (ii) all transactions relating to Contingency Funds and Public Accounts and (iii) all trading, manufacturing, profit and loss accounts, balance-sheets and other subsidiary accounts
2 Audit and report on the accounts of stores and stock kept in any office or department of the Union or of a State
3 Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971
4 Annual Report of DoT for the year 2014-15

in telecommunication sector. The Department also allocates frequency and manages radio communications in close coordination with the International bodies. It is also responsible for enforcing wireless regulatory measures and monitoring the wireless transmission of all users in the country. The department is also responsible for grant of licenses to operators for providing telecommunication services in various cities and telecom circles.

➢ Analysis of Expenditure

The comparative position of expenditure of the DoT during 2013-14 and in the preceding four years is given in Table-1 below:

Table-1
Revenue and Expenditure of DoT

(₹ in crore)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue	15879.49	120547.63	17400.92	18902.00	40113.76
Expenditure	11127.30	10370.26	8692.16	9273.38	10835.57

(Source: Appropriation and Finance Accounts of DoT)

Major sources of revenue of the department are license fee and spectrum usage charges received from telecom service providers. The details of license fee and spectrum usage charges received during last five years are given in Table-2 below:

Table-2
Details of License Fee and Spectrum Usage Charges received

(₹ in crore)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
License Fee	9778.52	10286.43	11790.93	11456.48	14628.47
Spectrum Usage Charges	3809.54	3432.47	5192.30	5679.19	6883.67
Auction Revenue	–	106264.73	–	1722.24	18267.18

(Source: Annual Report of DoT for the year 2014-15)

An analysis of the revenue earned by DoT revealed that income of the department shot up during 2010-11 and 2013-14 due to proceeds from the auction of spectrum held in these years. Further, expenditure of DoT has grown steadily during last three years.

➢ Brief Profile of the Telecom Sector

Telecommunications has evolved as one of the critical components of economic growth required for the overall socio economic development of the country. The telecom sector witnessed a phenomenal growth during the past decade. During the period 2009-10 to 2013-14, the number of telephone subscribers increased from 621.28 million to 933 million. The status of overall growth for the year 2009-10 to 2013-14 in Telecom Sector is given below in Table-3.
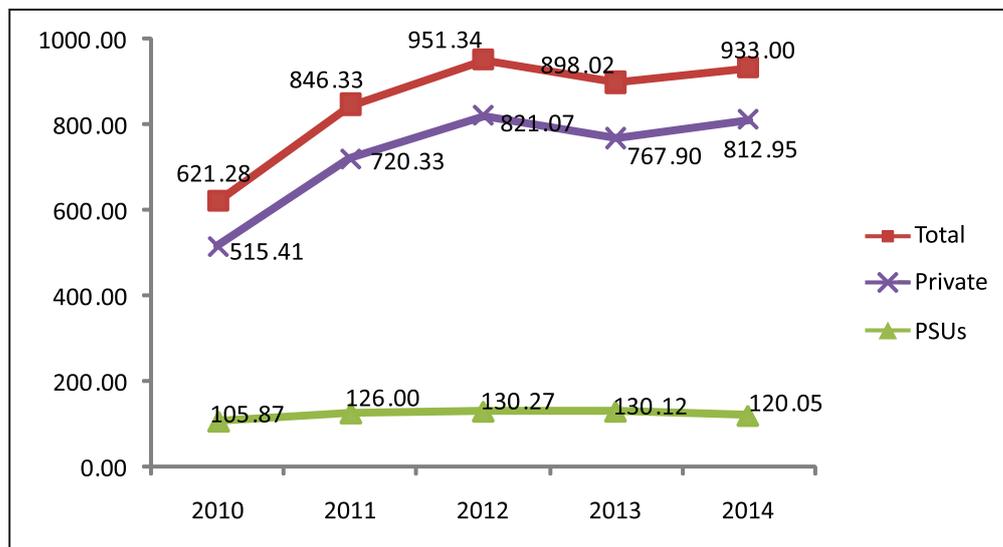
Table-3
Status of Growth in Telecom Sector

Year	Subscribers (In Millions)					Teledensity (In percentage)		
	Total	**Rural**	**Urban**	**Wireline**	**Wireless**	**Overall**	**Rural**	**Urban**
2009-10	621.28	200.81	420.47	36.96	584.32	52.74	24.29	119.73
2010-11	846.32	282.24	564.08	34.73	811.59	70.89	33.79	157.32
2011-12	951.34	330.82	620.52	32.17	919.17	78.66	39.22	169.55
2012-13	898.02	349.22	548.80	30.21	867.81	73.32	41.02	146.96
2013-14	933.00	377.74	555.26	28.49	904.51	75.23	43.96	145.78

(Source: TRAI Annual Reports 2009-10 to 2013-14)

Growth of the telecom sector during the last five years in terms of subscriber base is depicted in the graph given below:

Growth in subscriber base - Private versus PSUs
Number of Subscribers (in millions)

(Source: TRAI Annual Reports)

As is evident from the above graph, the subscriber base of Private Telecom Companies is significant in comparison to Public Sector Telecom Companies which is showing a declining trend during the last three years.

➢ Regulatory Framework of the sector

Telecom Regulatory Authority of India (TRAI)

TRAI was established with effect from 20 February 1997 by an Act of Parliament to regulate telecom services including fixing/revision of tariffs for telecom services which were earlier vested in the Central Government. The main objective of TRAI was to provide an environment, which was fair and transparent, encourages competition, promotes a

level-playing field for all service providers, protects the interest of consumers and enables technological benefits to one and all. Under the TRAI Act, TRAI is mandated to

  ➢ ensure compliance of the terms and conditions of license;

  ➢ lay down the standards of quality of service to be provided by the service providers and ensure the quality of service;

  ➢ specify tariff policy and recommend conditions for entry of new service providers as well as terms and conditions of license to a service provider;

  ➢ considerations and decisions on issues relating to monitoring of tariff policy, commercial and technical aspects of interconnection;

  ➢ principles of call routing and call handover;

  ➢ free choice and equal ease of access for the public to different service providers;

  ➢ resolution of conflicts that may arise due to market developments and diverse network structures for various telecom services;

  ➢ need for up-gradation of the existing network and systems; and

  ➢ development of forums for interaction amongst service providers and interaction of the Authority with consumer organisations.

The Government, by notification dated 9 January 2004, defined broadcasting services and cable services as telecommunication services thus bringing these sectors under the ambit of TRAI. TRAI is also required to make recommendations either suo moto or on a reference from the licensor i.e. Department of Telecommunications, Ministry of Communications and Information Technology or Ministry of Information and Broadcasting in the case of Broadcasting and Cable Services.

Telecommunications Dispute Settlement and Appellate Tribunal (TDSAT)

TDSAT was set up by way of an amendment to the TRAI Act effective from 24 January 2000 to adjudicate any dispute between a licensor and a licensee, between two or more service providers, between a service provider and a group of consumers and to hear and dispose off appeals against any direction, decision or order of TRAI.

➢ Important DoT Units

Department of Telecommunications includes Telecom Enforcement and Resource Monitoring (TERM) Cell, Controller of Communications Accounts (CCAs), Wireless Planning and Coordination Wings (WPC), Telecom Engineering Centre (TEC), National Telecommunications Institute for Policy Research (NTI), National Institute of Communication Finance (NICF) and Centre for Development of Telematics (C-DoT) which is a Research and Development Unit.

➢ Universal Service Obligation Fund (USOF)

To give impetus to rural telephony, Government of India formed a Universal Service Obligation Fund (USOF) by an Act of Parliament w.e.f. 01 April 2002. The resources for meeting the USO were to be raised through a Universal Access levy (UAL) which is a percentage of revenue earned by all operators under various licences. As per Para 9B of the Indian Telegraph Act, 2003, the sums of money received towards USOF shall be first credited to Consolidated Fund of India, and the Central Government may, if the Parliament appropriation by law on this behalf so provides, credit such proceeds to the fund from time to time for being utilized exclusively for meeting Universal Service Obligation. Accordingly, by 31 March 2014, an amount for ₹ 58,579.35 crore has been collected by Department of Telecommunication (DoT) as USO levy and credited to Consolidated Fund of India. Out of this amount, only ₹ 24,896.49 crore has been received by DoT through appropriation by Parliament and credited to USO Fund as of 31 March 2014. This includes ₹ 6,948.64 crore adjusted in 2008-09 on account of reimbursement to BSNL during the years 2002-06 towards License Fee and Spectrum Charges for fulfilling rural obligation under USOF.

1.4.2 Department of Posts (DoP)

The postal network of India is the largest in the world having more than 1.54 lakh post offices and extends to the remotest corners of the country. While the core activity of the Department is processing, transmission and delivery of mail, there are also a diverse range of retail services undertaken by the Department which include money remittance, banking as well as insurance. It is also engaged in disbursement of Pension and Family Pension to Military and Railway pensioners, Family Pension to families of coal mine employees and industries covered by the Employees Provident Fund Scheme. More recently, the Postal Department has undertaken responsibility for social benefit payments such as MGNREGS and social security pension schemes.

Financial Performance

The revenue receipts and revenue expenditure of DoP for the years 2009-10 to 2013-14 is shown in the Table-4 below:

Table-4
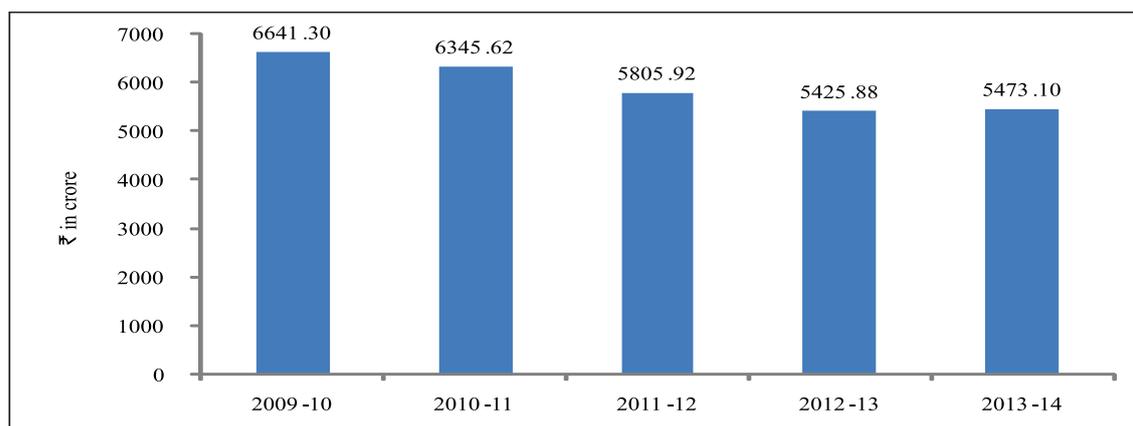**Revenue receipts and Revenue expenditure of DoP**

(₹ in crore)

Year	Revenue Receipts	Recoveries	Revenue Expenditure	Deficit (2)+(3)-(4)
(1)	(2)	(3)	(4)	(5)
2009-10	6266.70	438.94	13346.94	6641.30
2010-11	6962.33	485.72	13793.67	6345.62
2011-12	7899.35	458.64	14163.91	5805.92
2012-13	9366.50	688.77	15481.15	5425.88
2013-14	10730.42	593.19	16796.71	5473.10

(Source: Appropriation Accounts of DoP for the years 2009-10 to 2013-14)

The earnings of the Department are in the form of 'Recoveries' and 'Revenue Receipts'.

There was a deficit of ₹ 5,473.10 crore on postal services[5] in 2013-14. The main reasons for the deficit as attributed by the Department was increase in Working Expenses due to leave encashment on LTC, MACP, normal increase in Pay, DA increase, outsourcing and pensionary charges etc. The comparative position of deficit in postal services during the period 2009-10 to 2013-14 is as under:
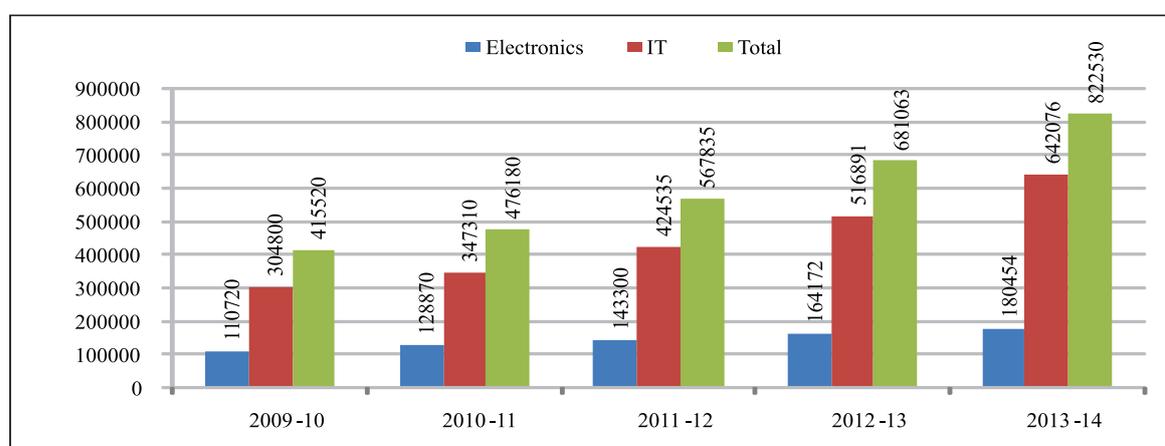
Deficit in Postal Services

1.4.3 Department of Electronics and Information Technology (DeitY)

DeitY is a department under the MoC&IT that plays an important role in the development of Electronics and IT sector. The vision of DeitY is e-Development of India as the engine for transition into a developed nation and an empowered society.

The Indian IT industry has been contributing substantially to India's GDP, exports and employment. Production and growth profile of the Indian Electronics and IT- ITeS (Information Technology Enabled Services) industry since 2009-10 to 2013-14 is given in the chart below:

Electronics and IT production

(₹ in crore)

(Source: Annual Reports of DeitY)

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5 Deficit was calculated as the difference between revenue receipts & recoveries and revenue expenditure, i.e., {(₹ 10730.42+ ₹ 593.19) - ₹ 16796.71}

Main reason for sustained overall growth of the Electronics and IT-ITeS industry as considered by the department is relatively higher growth in software and services which are largely export driven and also dominate the electronics and IT sector. The total production of this industry is envisaged to be ₹ 9,33,550 crore during 2014-15 by the department of which production of Electronics hardware and IT-ITeS are estimated at ₹ 1,90,366 crore and ₹ 7,43,184 crore respectively.

In order to carry out its functions, DeitY is provided with budgetary support in the form of Grants from the Government of India. The Grants received vis-à-vis Expenditure incurred by DeitY during the period 2009-10 to 2013-14 is given in the Table-5.

Table-5
Grants vis-à-vis expenditure relating to DeitY

(₹ in crore)

Year	Amount of Grant	Total Expenditure
2009-10	2582	1697
2010-11	3719	3129
2011-12	3048	2074
2012-13	3051	1903
2013-14	3052	2166
Total	15452	10969

(Source: Appropriation Accounts of DeitY for the year 2009-10 to 2013-14)

There are five organizations[6] and seven Autonomous Societies[7] under DeitY in addition to two attached offices viz. Standardisation, Testing and Quality Certification Directorate (STQC) and National Informatics Centre (NIC).

Standardisation, Testing and Quality Certification Directorate (STQC)

STQC, established in year 1980, is an internationally recognized Assurance Service Provider to both Hardware and Software sectors to provide state of art technology based quality assurance services to its valuable clients and to align with DeitY mandate to focus on IT sector.

National Informatics Centre (NIC)

National Informatics Centre (NIC) is providing network backbone and e-Governance support to Central Government, State Governments, UT Administrations, Districts and other Government bodies. It offers a wide range of Information and Communication Technology (ICT) services in close collaboration with Central and State Governments, in the areas of

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6 Controller of Certifying Authorities (CCA), Cyber Appellate Tribunal (CAT), Semiconductor Integrated Circuits Layout-Design Registry, Indian Computer Emergency Response Team (ICERT) and .In Registry

7 Education & Research in Computer Networking (ERNET), Centre for Development of Advanced Computing (C-DAC), Centre for Materials for Electronics Technology (C-MET), National Institute of Electronics and Information Technology (NIELIT), Society for Applied Microwave Electronics Engineering and Research (SAMEER), Software Technology Parks of India (STPI) and Electronics and Computer Software Export Promotion Council (ESC)

(a) Centrally sponsored schemes and Central Sector schemes, (b) State sector and State sponsored projects, and (c) District Administration sponsored projects.

1.5 Budget and Expenditure Controls

A summary of Appropriation Accounts for 2013-14 in respect of DoT, DoP and DeitY is given in subsequent Table-6:

Table-6
Details of grants (voted and charged) received and expenditure incurred for the three Departments under Ministry of Communications & Information Technology

(₹ in crore)

Sl. No.	Ministry/Department	Grant/Appropriation (including supplementary grant)	Total Expendi- ture	(-) Savings/ (+) Excess
1.	Department of Electronics and Information Technology	3052.00	2166.27	(-) 885.73
2.	Department of Posts	17310.37	17065.68	(-) 244.69
3.	Department of Telecommunications	15139.44	10835.57	(-) 4303.87

(Source: Appropriation Accounts of the Departments for 2013-14)