



PAKISTAN TELECOMMUNICATION AUTHORITY
HEADQUARTERS, F-5/1, ISLAMABAD

Enforcement Order under Section 23 Of The Pakistan Telecommunication (Re-Organization) Act, 1996 Against Worldcall Telecom Limited For Non-Provision Of License-Wise Auditors Certified Breakups Of Revenue & Inter-Operator Costs And Non-Payment Of Annual License Fee And Contributions For The Year Ended 31st December, 2020

No. PTA/Finance/LDI/Worldcall Telecom/134/2006/6/3

Show Cause Notice: 9th May, 2023
Venue of Hearing: PTA HQs, Islamabad
Date of Hearings: 21st August, 2023 & 7th March, 2024

Hearings Panel

Maj. Gen. Hafeez Ur Rehman (R)	Chairman
Dr. Khawar Siddique Khokhar	Member (Compliance & Enforcement)
Muhammad Naveed	Member (Finance)

Issue:

“Non-Submission of license-wise Auditors Certified breakups of revenue and inter-operator costs and Non-Payment of Annual Regulatory Dues and Contributions for the year ended 31st December, 2020

DECISION OF THE AUTHORITY

1. Brief Facts of the Case:

1.1 WorldCall Telecom Limited (the “licensee”) is engaged in the business of operating telecommunication system as Long Distance and International (LDI) operator pursuant to non-exclusive license No. LDI-02(01)-2004 dated 14th July 2004 and Fixed Local Loop (FLL) operator pursuant to non-exclusive Fixed Local Loop License No. LL 10-2004 dated 16th July 2004 and Fixed Local Loop License No. LL 09-2004 dated 16th July 2004 (the “license”) granted by Pakistan Telecommunication Authority (the “Authority”) to establish, maintain and operate a Telecommunication System, subject to the terms and conditions contained in the licenses

1.2 By virtue of license conditions No. 4.1.2 (a), 4.1.3, 4.2.1, 4.2.2 and 4.2.3 read with clause 3.3, 3.4 and 3.6 and sub-regulation (6) and (7) of regulation 23 of the Pakistan Telecommunication Authority (Functions and Powers) Regulations, 2006 (the “Regulations”), it is obligatory upon the licensee to deposit Annual Regulatory Dues (“ARDs”) comprised of Annual License Fee (“ALF”), Research and Development Fund Contribution (“R&D”) and Universal Service Fund Contribution (“USF”) within 120 days of

the end of financial year to which such fees and contributions relate. Moreover, license conditions 4.2.4 and 6.4.3 of the license, also require the licensee to submit Annual Audited Accounts (“AAAs”) within 120 days of the close of financial year in support of its calculation of ARDs payable pursuant to Article 3 and 4 of the licenses and the Authority shall have the right to audit such statements at any time.

1.3 The licensee vide letters dated 24th March, 2021 followed by reminder dated 22nd April, 2021 was requested to submit AAAs and make payment of ARDs for the year ended 31st December, 2020 (“Year 2020”). In response, licensee vide letter No. WTL-05/4-1/1383 dated 28th April, 2021 intimated that AAAs for the year 2020 are not finalized due to COVID and lockdown situation and Security Exchange Commission of Pakistan (SECP) has also granted extension till May, 2021. In response, the licensee through letter dated 29th April, 2021 was requested to deposit the ARDs based on the available information. More so, the licensee was also requested to provide an undertaking for payment of differential amount along with of Late Payment Additional Fee (LPAF) @ 2% per month or part thereof from due date till date of final payment. Moreover, it was intimated and clarified that the request for 30 days extension shall only be considered after payment of dues and submission of undertaking as mentioned above.

1.4 In response, the licensee vide letter No. WTL-05/4-1/1385 dated 20th May, 2021 again intimated that AAAs not finalized yet, therefore, provisional ARDs amounting to Rs. 2,784,705/- (i.e. ALF amounting to Rs. 556,94/-, R&D amounting to Rs. 556,941 and USF amounting to Rs. 1,670,823/-) was deposited in respective accounts without providing the underlying calculations. As a result thereof, the licensee through letter dated 1st July, 2021 was required to submit underlying calculations duly certified by its auditors and AAAs for the year 2020 on the basis of which the above-mentioned payments deposited by the licensee. However, the licensee did not response to same.

1.5 In continuation of letter dated 1st July, 2021 and in order to finalize the demand of ARDs, the licensee through letter dated 29th April, 2022 was again required to submit the requisite documents. However, the licensee once again failed to furnish the same.

1.6 Subsequently, the licensee vide letter No. WTL-05/4-1/1404 dated 2nd September 2022 provided calculation(s) of payable ARDs and requested for payment of ARDs in instalments without providing the basis of such calculation(s). In response, the licensee through letter dated 21st September, 2022 was informed that in absence of underlying complete basis and auditors’ certificate with regard to calculation of ARDs, the demand of payable amount cannot be finalized. Thus the request of the licensee for making payment of ARDs in installments was not acceded by the Authority. Further, the licensee was again directed to submit the Auditors Certificate along with payment of ARDs and related Late Payment Additional Fee (LPAF) latest by 26th September, 2022; however the same was not complied with.

1.7 Later on, the licensee vide letter No. WTL-05/4-1/1405 dated 13th October, 2022 submitted AAAs and provided a copy of Auditors Certificate. While examining AAAs, it was observed that the auditor's certificate did not contain the required information to substantiate and corroborate with licensee's calculation. In order to finalize demand note, the licensee was again required to provide complete information in the manner as mentioned in earlier letters. Accordingly, the licensee through a final reminder dated 21st February, 2023 was again required to provide complete information in Auditors Certificate latest by 2nd March, 2023. In response, the licensee vide letter dated 2nd March, 2023 requested for further extension in time for 30 days and subsequently through letter No. WTL-05/1-1/1414 dated 7th April, 2023 provided Auditors' certificate having revised and reclassified the information therein as compared to earlier version of auditor's certificate. The same was reviewed and it was observed that the called up information was still not available therein.

1.8 As a consequence thereof, a Show Cause Notice (SCN) dated 9th May, 2023 was issued under section 23 of the Act wherein the licensee was required to remedy the contravention by submitting Auditors Certified breakups of revenue and inter-operator costs and make payment of outstanding dues for the year 2020 within seven (07) days of issuance of show cause notice and also to explain in writing within thirty (30) days, as to why any enforcement order should not be passed under section 23 of the Act.

1.9 The licensee vide letter and email dated 15th May, 2023 replied to the SCN stating that auditors certificate for the year 2020 has already been provided vide its letter No. WTL-05/1-1/1414 dated 7th April, 2023. Subsequently, the licensee vide letter dated 8th June, 2023 submitted its response stating therein that it has already provided auditors certificate vide its letters dated 13th October, 2022 and 7th April, 2023 along with payment of ARDs. Further, it was also mentioned that neither the basis of calculation of ARDs in SCN has been shared nor the basis for rejecting the auditor's certificate has been provided. In response, the working of ARDs mentioned in the SCN was shared with the licensee through letter dated 23rd June, 2023.

1.10 The matter was fixed for hearing before the Authority on 21st August, 2023. Mr. Abdul Bari Rashid (Advocate), Mr. Shahzad Saleem (CFO) and Mr. Muhammad Ashfaq (Head of Financial Planning) attended the hearing on 21st August, 2023 on the behalf of licensee. During the hearing, the licensee re-iterated the same stance as mentioned in the above referred letter that basis of calculation has not been shared with the licensee. During hearing, multiple discrepancies noted in the auditor's certificates including non-provision of complete information was highlighted. Accordingly, after hearing the matter in detail, the licensee was directed to furnish complete information as required through letter dated 21st February, 2023.

1.11 It would not be out of context to mention here that in order to facilitate the licensee, itemized list of requisite information with compliance status was shared with the licensee through letter dated 28th August, 2023 with direction to complete the pending information

latest by 7th September, 2023. The licensee vide letter dated WTL-05/4-1/1433 dated 7th September, 2023 submitted its response. Reply furnished by the licensee was again incomplete, therefore, a meeting was held with the licensee on 21st September, 2023 to discuss the licensee's response extended full cooperation for provision of the complete information. Pursuant to the discussion, an updated list of pending items was shared with the licensee through letter dated 20th October, 2023 with direction to provide remaining information latest by 26th October, 2023.

1.12 In response, the licensee, instead of providing the requisite information, through its email dated 26th October, 2023 requested for extension in time by 02 weeks. The request of the licensee was acceded and communicated vide letter dated 31st October, 2023. However, it was requested that readily available information with the licensee e.g. copy of general ledgers etc. be shared within 02 days. The licensee submitted its response vide email dated 14th November, 2023. The response of licensee has been reviewed, it has been observed that same stance has been reiterated, therefore, the compliance status as attached in "**Annex-A**" (*as part of this order*) was updated based on the information furnished by the licensee from time to time which was duly shared with the licensee. As a result of various correspondences, meeting and to conclude the matters, the licensee was afforded another opportunity of hearing. The matter was fixed for hearing on 7th March, 2024. Mr. Abdul Bari (Counsel), Mr. Saeb Zaidi (Director Regulatory), Mr. Gul Ahmed (Adviser), Mr. Muhammad Ashfaq (Head of Financial Planning) and Mr. Sami Alam (Manager Regulatory) attended the hearing on the said date on the behalf of licensee. During hearing, the licensee re-iterated its stance as already shared through email dated 14th November, 2023 and related correspondence as mentioned hereinabove.

2. Findings of the Authority

2.1 Matter heard. Record perused. After careful examination of the available record, followings are the finding:

2.2.1 It has been observed that despite providing multiple opportunities and extending all facilitation with regard to provision of the information by the licensees, the licensee neither provided complete information in the manner as required nor justified the basis of categorization of revenue amounting to Rs.262 million under Wireless Local Loop (WLL) license. In the latest auditors' certificate dated 7th April, 2023, the said revenue has been reported with caption "Fixed Local Loop (FLL)" yet it is categorized under WLL license. Further, the categorization in the manner as reflected in the auditors certificate has also been found inconsistent with licensee's own representation on record that it has discontinued the WLL operations long time back. Moreover, it has also been observed that licensee keep changing the categorization of said revenue under WLL or FLL in various years. Thus, it is considered that said amount should be categorized under Fixed Local Loop license to which such services relate to and corresponding sales tax amounting to Rs.35 million being allowable deductions as per license conditions shall be allowed under the same license in calculation of ARDs.

2.2.2 Licensee has reported revenue amounting to Rs. 250 million related to Indefeasible Right of Use (IRU) of metro fiber for 20 years in AAAs. Same revenue has been reported as sale of dark fiber in auditor's certificate under WLL license and claimed as non-licensed revenue. The IRU arrangement and sale of asset are transactions of different nature, hence, cannot be used interchangeably. Further, the claim of licensee that the said revenue is non-licensed is not maintainable on the grounds that one can't establish, maintain or operate any such system or provide any services without having license. Further, the licensee has categorized such revenue under WLL license, whereas the same falls under the ambit of FLL license. Therefore, the said revenue shall be included in revenue under FLL licenses for calculation of ARDs.

2.2.3 The revenue amounting to Rs. 887 Million on account of CATV and advertisement as per auditor's certified breakup being non-licensed revenue in nature shall be excluded for calculation of ARDs, hence, no ARDs are payable on said amount

2.2.4 Inter-operator costs as mentioned in the auditor's certificate and PTA/FAB mandated payments made during the year 2020 are allowable deductions from licensee's gross revenue from licensed services for the year. Therefore, it is an admitted fact that interconnect cost and bandwidth charges paid to local operators (PTA licensees) amounting to Rs.1.2 billion and Rs.52 million respectively, as certified by the auditors are eligible inter-operator costs against revenue in line with applicable license terms and conditions. Therefore, the said costs are deducted from revenue while calculating ARDs.

2.2.5 As regard, the licensee's claim for deduction on account of Web Monitoring Services (WMS), it is reiterated that installation of WMS was individual responsibility of operators. The fact that PTA has allowed to deploy centralized WMS and share its cost among LDI operator does not render it PTA/FAB mandated payment. Accordingly, deduction claimed on account of WMS cost is not maintainable.

2.2.6 As regard written back liabilities amounting to Rs. 326 Million recorded in prior years, the same amount has been recorded as income for the year 2020 in note 43 of the financial statements. The auditor's certificate submitted by the licensee only contains a statement that "**Unclaimed liabilities written back don't include any inter-operator cost**". The licensee was requested to provide party-wise breakup of such amount to review whether it includes any inter-operator cost which was previously allowed as deduction in previous years while calculating ARDs. However, despite multiple reminders, licensee has failed to provide the same. Therefore, write back of said liabilities amounting to Rs. 326 million being no longer payable against which deduction may have previously been claimed would be added back for calculation of ARDs for the year it has been written back.

2.2.7 As regard to the licensee's claim of deductions amounting to Rs. 228 Million qua provision for doubtful debt, it has been explained that the head of accounts for

Dated 19th August, 2024

which such expense would have been incurred don't correspond to head of accounts allowed as deductions as provided in the license. Therefore, licensee's claim being against the terms and conditions of the licensee is disallowed.

2.2.8 As regard to the licensee's claim for deduction of discount amounting to Rs. 05 Million, stated by the licensee, as reported in note 40 to the financial statements includes commission on sales in nature and substance. As per regulation 23 of the Regulations read with license terms and conditions, commission on sales is not an allowable deduction while calculating ARDs. The licensee was required to provide breakup of discount and commission cost, however, the licensee failed to provide the same. Further, it has also been observed in other supporting documents submitted by licensee for other years e.g. General Ledgers, that the amount reported as discount in AAAs and Auditors Certificate include significant amount of commission as well. Therefore, the licensee's claim being inconsistency with the applicable laws and license terms and conditions is disallowed.

2.2.9 In light of available record and findings as mentioned herein above, calculation of ARDs under FLL and LDI licenses is attached as "**Annex-B**" (as part of this order).

3. ORDER:

Keeping in view the above-mentioned facts coupled with the available record, the Authority hereby decides as under:

3.1 Since the licensee has failed to provide any cogent reason and justification to substantiate its claim, therefore, the licensee is hereby directed to make payment of outstanding ARDs amounting to Rs. 48,164,353/- (Rupees Forty-Eight Million, One Hundred Sixty-Four Thousand, Three Hundred and Fifty-Three only) (LPAF calculated till 13th July, 2024) within three (03) days from the date of receipt of this order.

3.2 In case of con-compliance of direction as mentioned at para 3.1 above, further legal action will be initiated against the licensee as per applicable law without any further notice.

Maj. Gen. Hafeez Ur Rehman (R)
Chairman

Muhammad Naveed
Member (Finance)

Dr. Khawar Siddique Khokhar
Member (Compliance & Enforcement)

Signed on 19th August, 2024 and comprised of (6) pages only.