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# Report of the Comptroller and Auditor General of India


# IT Applications in Income Tax Department

**Union Government**
**Department of Revenue - Direct Taxes**
**No. 23 of 2012-13**

# Report of the Comptroller and Auditor General of India

## for the year ended March 2012

# IT Applications in Income Tax Department

**UNION GOVERNMENT**
**DEPARTMENT OF REVENUE - DIRECT TAXES**
**No. 23 OF 2012-13**

**Laid on the table of Lok Sabha/Rajya Sabha on** 30 APR 2013

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## Preface

The Report for the year ended March 2012 containing the results of the performance audit of IT Applications in the Income Tax Department has been prepared for submission to the President under Article 151(1) of the Constitution of India.

The audit of Revenue Receipts – Direct Taxes of the Union Government is conducted under Section 16 of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971.

Our findings are based mainly on test audit conducted from April 2011 to March 2012.

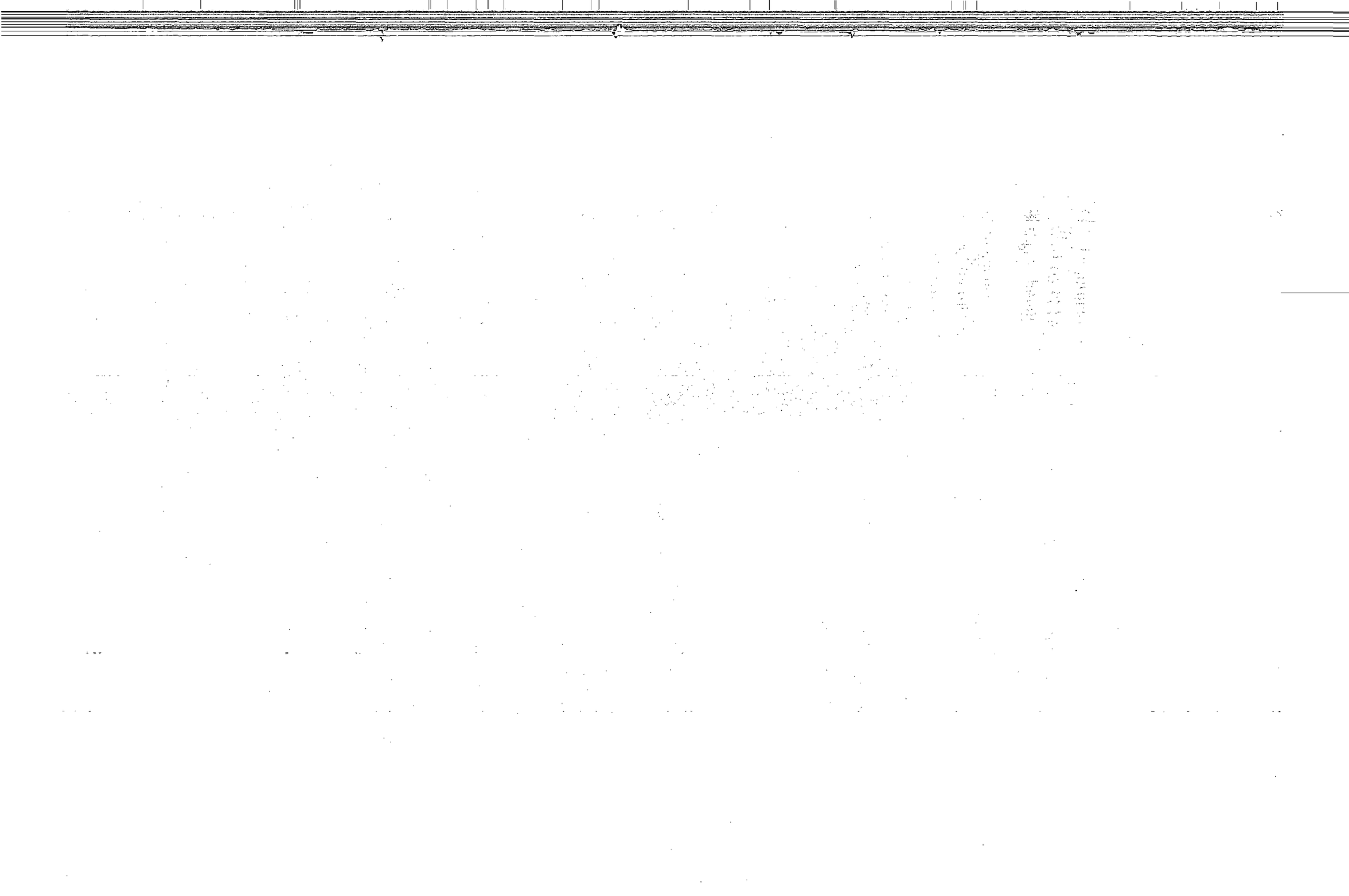
## Executive Summary

The main objectives of the IT Applications in Income Tax Department (ITD) were to improve the efficiency and effectiveness of the tax administration and provide management with reliable and timely information towards effective planning as also broaden the tax base. We reviewed four modules of ITD Applications namely, AST for processing returns, OLTAS for providing tax accounting and payment information, e-TDS for providing AST with information on details of payment of taxes under TDS scheme and IRLA for maintaining a ledger account of each individual assessees in respect of demand and refunds of tax for each assessment year (AY).

ITD has spent ₹ 790 crore on computerisation during FY 06 to FY 11. Yet ITD has not utilized important functionalities of modules. AST/CPC applications do not link up assessee's legacy details *(paragraph 2.16 to 2.20)*. It does not record scrutiny assessment details nor does it record penalty proceedings and appeals. All non filers identified by AST are not being issued notices. *(paragraph 2.11)*. ITD did not reconcile the revenue collections as reported by Banks and as accounted by Zonal Accounts Office, with implications on correctness of Government Accounts. *(paragraph 2.26)*. Deauthorised bank branches are collecting taxes *(paragraph 2.31 to 2.32)*. Large amounts of unposted credits are lying in OLTAS *(paragraph 2.42)*. The Individual Running Ledger Accounts are not being populated completely *(paragraph 2.52 to 2.53)*. Multiple uses of same Challans have been found which accorded inadmissible tax credit to assessees. ITD has already confirmed 3089 cases amounting to ₹ 153 crores of extra credit through the system at our instance (paragraph 2.58). IT applications do not generate important MIS reports like CAP-I and CAP-II online *(paragraphs 2.66 to 2.69);* and, do not co-relate Certificate for deduction of tax at lower/nil rate while processing returns.

Outsourcing contracts are not comprehensive towards ensuring third party security audit / audit by ITD *(paragraphs 3.16 to 3.22)*. We could not obtain adequate assurance towards the system for handling records for digitization by outsourced vendors (paragraph 3.25 to 3.27).There were deficiencies in physical and logical access controls *(paragraph 3.29)*. Contractors defaulted on their deliverables without attracting penalties.

Situation of pending assessments shows little improvement over a five year period from FY 07 to FY 11, despite substantial outsourcing of business activities and investment in Information Technology.



## Summary of Recommendations

### With reference to efficient and effective management of audited ITD system

(Paragraphs 2.2 to 2.82)

**1.** Database be adequately utilized towards broadening the tax base.

**2.** Tax payment details in different modules be linked more reliably.

**3.** Adequate system checks be provided against multiple erroneous credits for the same Challan.

**4.** Comprehensive recording of all transactions be ensured to achieve optimum benefits of computerization initiatives.

**5.** Legacy issues of assessments be factored in the system for summary processing; and basic linkages regarding unabsorbed depreciation, carry forward of losses etc. ensured.

**6.** Results of scrutiny assessments as post transaction events be recorded.

**7.** NSDL claim of 90 percent data accuracy with regards to the data uploaded by banks be reconciled with ITD's averment that challans cannot be posted into IRLA due to poor quality of challan data.

**8.** Chain of tax collection and reporting be strengthened.

**9.** Linkages amongst IT modules, viz. OLTAS, AST, e-TDS and IRLA be strengthened.

**10.** Information be adequately populated in IRLA.

**11.** Correctness of lower deduction/no deduction claimed in TDS returns be verified through eTDS application.

### With reference to outsourcing and vendor management

(Paragraphs 3.1 to 3.30)

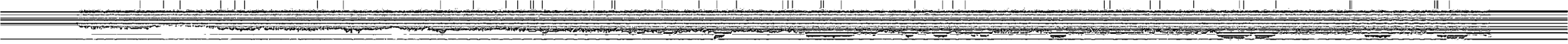
**12.** Vendor performance be monitored and their contractual obligations enforced.

**13.** Outsourced activities be monitored periodically to ensure achievement of business objectives.

**14.** Conditions relating to security audit be enforced.

**15.** Comprehensive provisions be made in contracts for digitisation for ensuring security and confidentiality of information.

**16.** Comprehensive password, physical and logical access controls be ensured.



## Chapter 1: Introduction

**1.1** Income Tax Department (ITD) initiated computerization in early 80s which targeted specific functionalities. By 1993, ITD had a much wide-ranging computerization road map under the umbrella of a comprehensive computerization programme (CCP). ITD has introduced many more ICT applications from time to time. 'ITD Applications' refers to the collectivity of ICT initiatives presently prevalent in ITD.

**Organization set up for IT management in ITD**

**1.2** Member (Legislation & Computerization) of the Central Board of Direct Taxes (CBDT) has the overall responsibility of IT management in ITD. Office of the Director of Income Tax–Systems (DIT-S) was set up in 1981 at New Delhi. Since November 2000, Director General of Income Tax-Systems (DGIS-S) heads the Directorate of IT system. DGIT-S is assisted by Directors and Officer on Special Duty (OSD). The following chart represents organization set up of DGIT-S and functional distribution of the officers:

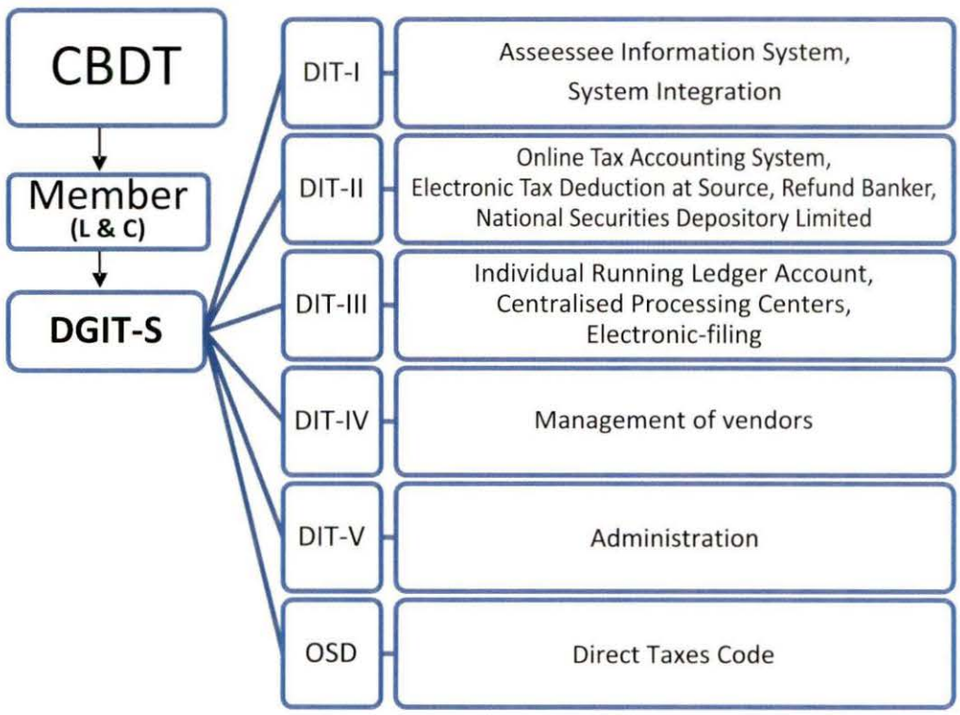



**Chart 1: Organization set-up of DGIT (Systems)**

**1.3** The functions of DGIT-S are: (i) Software development, (ii) Hardware installations, (iii) Training and coordination, (iv) Planning and

coordination of National Computer Center and Regional Computer Centers and (v) Undertaking Research & Development. As of June 2011, there were 42 Group A, 8 Group B and 18 Group C officers posted as against sanctioned strength of 39, 18 and 21 respectively.

**1.4** At the field level, there are 36 Regional Computer Centers (RCCs) which provide linkages between Assessing Officers (AOs) and DGIT-S in all matters relating to use and implementation of IT-Systems of ITD. RCCs are managed by Commissioner of Income Tax-Computer operations (CIT-CO) who works under administrative control of Chief Commissioners of Income Tax (CCsIT). CIT-CO is assisted by Deputy Directors and Assistant Directors. RCC databases were integrated into Single National Database at Primary Data Center, New Delhi in December 2008.

**1.5** The budget allotment and expenditure incurred during the period FY 09 and FY 12 for DGIT-S are given below:

Crore ₹

| Expenditure | FY 09 | FY 10 | FY 11 | FY 12 |
|---|---|---|---|---|
| *a.* **Establishment** | 7.19 | 8.42 | 7.74 | 10.39 |
| *b.* **Non-establishment (IT)** | 211.73 | 155.35 | 169.99 | 281.48 |
| **Total** | 218.92 | 163.77 | 177.73 | 291.87 |

**Why we chose the topic**

**1.6** Performance Audit on 'IT Applications in ITD' is an update of our earlier studies conducted in 2000, 2006 and 2009, which had shown that that ITD's IT initiatives needed to keep pace with its business requirements as well as with the technological advancement of IT sector.

**Audit Objectives**

**1.7** The objectives of our study are to seek assurances that:

**a.** the core business applications are functioning as envisaged in CCP and subsequent change requirements , the extent of fulfillment of business requirements, recommendations of Task force on Direct Taxes and recommendations contained in BPR report;
**b.** the core applications are duly integrated and the level of integration and interfaces is commensurate with the requirements of business, timeliness, accuracy level of data, data exchange, and data integrity;
**c.** there are adequate arrangements for data security, data confidentiality and disaster management.

### Audit scope and coverage

1.8 Our earlier studies [1] conducted performance evaluation of individual applications like AST and e-TDS. In the present study, we have examined the following four core ITD applications (details in Appendix), with primary focus on their *inter-se* interactions:

a. Assessment Information System (AST),
b. Online Tax Accounting System (OLTAS),
c. Electronic Tax Deduction at Source System (eTDS),
d. Individual Running Ledger Account System (IRLA).

1.9 Audit study mainly covered working of Regional Computer Center (RCC) Delhi during period between FY 08 to FY 10. Findings of RCC Delhi were verified at all India level as well.

### Audit methodology

1.10 Audit examined the system documentation and User Manuals; ran queries on transaction data for selected sample obtained from RCC Delhi to check for inconsistencies, errors, omissions, and exception reports; examined the data awaiting reconciliation; and, interviewed concerned officials. We held an Entry & Exit conference with CBDT in February 2011 and August 2012 respectively.

### Audit Sample

1.11 The base sample comprised of data relating to assessees whose returned income exceeded ₹ 9 lakh in AY 10. For those assessees (PANs), audit examined the transactions in the previous and succeeding AYs linked to RCC Delhi. The returns, totaling to 109,564 in number, formed about 5 % of the taxpayers filing in AY 10 accounting for over 80 % of the total returned income.

### Acknowledgement

1.12 We acknowledge with thanks the participatory cooperation of ITD and the CBDT in providing the records, information and responses necessary for the study.

[1] Performance Audit of Assessment Information Systems (AST) included in C& AG's Report No 10 of 2006 and IT audit of e-TDS system included in C& AG's Report No. PA 25 of 2009 (Performance Audit).

## Chapter 2: Performance of IT Applications

- Assessing Officers (AOs) do not record details of scrutiny assessment in AST module. This makes scrutiny process incomplete and affects systemic monitoring of tax collection and refunds.
- Monitoring feature of AST module remains inoperative as AOs do not record details of penalty and appeal proceedings in it.
  ITD did not issue notices to non-filers despite availability of details in ITD system.
- ITD did not maintain legacy data linkages with current assessment, leaving the possibility open that assessees could avail themselves of undue benefits.
- ITD did not reconcile the revenue collections as reported by Banks and as accounted by Zonal Accounts Office, with implications on correctness of Government Accounts.
- Un-posted Credits in OLTAS increased the risk of undue availment by the Assessees. Multiple credits to the same Challans led to inadmissible credits indicating inadequacies in ITD system.
- ITD system is unable to generate important MIS reports hampering effective tax planning and evaluating the performance of ITD.
- Huge amounts of TDS are lying unclaimed in ITD system which indicates all corresponding income of assessees has not been offered to tax.

The following are major ICT initiatives in ITD:

a. **e-filing of income tax returns :** ITD notified[2] the scheme of electronic furnishing of IT Return from AY 05, through an e-return intermediary. From AY 08, ITD made e-filing mandatory for the companies and firms; and from 1st April 2010, extended that to individuals and HUF whose income exceeded ₹ 40 lakh.

b. **Refund banker scheme:** It is a system for determination, generation, issue, dispatch and credit of refunds, presently operating in Mumbai, Kolkata, Bengaluru, Chennai, Ahmedabad, Bhubaneswar, Cochin, Hyderabad, Kanpur, Patiala, Pune, Chandigarh and Bengaluru.

c. **e-payment of tax:** e-payment of tax (including TDS) is mandatory[3] for all corporate assesses and certain other classes of assesses from 01 April 2008.

d. **System integration for database consolidation:** ITD integrated all ITD applications prevalent in 36 Regional Computer Centres (RCCs)

[2] Vide Notification No. 253 of 2004, dated 30th Sep., 2004 S.O.1073(E),
[3] Vide Notification S.O.No.493 (E) dated 13.3.2008

into a single national database called Primary Database Centre (PDC)[4] in December 2008.

e. **Establishment of Tax Information Network:** ITD established the Tax Information Network (TIN) in 2003-04, as a repository of important tax related information; and appointed M/s National Security Depository Ltd (NSDL) as e-intermediary for managing TIN.

f. **Centralized Processing Centre:** CPC became operational in October 2009 at Bengaluru to process all e-filed returns and paper returns of Karnataka and Goa. ITD has yet to commission two more CPCs for processing physical ITRs at Pune (Maharashtra), Manesar (Haryana), and one CPC for processing of TDS returns at Ghaziabad (Uttar Pradesh).

**Application Interactions**

**2.1** Inputs for IT modules come from various sources including OLTAS (tax payment and accounting) and eTDS (returns by tax collectors). Processing of returns in AST and CPC are based on matching of data between tax credit claims of assessees with credits already available in the system (OLTAS and e TDS). IRLA would capture the outcome of matching tax credits with tax demands.

## Assessment Information System (AST)

**Assessing Officers (AOs) do not record details of scrutiny assessment in AST module. This makes scrutiny process incomplete and affects systemic monitoring of tax collection and refunds.**

**Non recording of scrutiny assessment details**

**2.2** The Income Tax Act, 1961 (the Act) provides for scrutiny assessment under various sections. AST module has limited functionality for scrutiny assessments under regular assessment (section 143(3)), best judgment assessment (section 144), reassessment (section 147), etc. As the processes prescribed for making an assessment under these sections involve application of mind and inquiry into the financial transactions of the assessee, AST system is designed to keep track of proceedings and to integrate the results of the same into the system once final orders are prepared and uploaded. AST system thereafter calculates tax, interest, posting to Demand and Collection Register and IRLA, preparation of demand notice etc.

[4] Annual Report, Ministry of Finance, 2010-11

**2.3** We found that these features were not utilised by the Assessing Officers, inspite of specific instructions[5] for carrying out all post-processing action only on AST. In RCC Delhi a meager percentage of scrutiny cases were being recorded in AST. The percentage of such recordings during FY 07 to FY 10 ranged between 0.50 and 0.03 only. Further, across India, out of 11.31 lakh cases selected for regular assessment under section 143(3) during FY 07 to FY 10, only 1.98 lakh cases were entered into AST.

**2.4** Thus the demand raised in assessment proceedings was not available in real time basis for enforcing recovery. This resulted into non issuance of refunds issued on time, increasing the burden of interest in refund. IRLA also became truncated to the extent and could not provide updated picture of taxpayers.

***2.5*** *The Central Board of Direct Taxes (the Board) in its reply (September 2012) has accepted the observation and stated that with latest changes in the software, ITD has decided now to strictly enforce the decision of passing / uploading the orders on the system. This issue has also been included in the Central Action Plan for FY 13 for closer monitoring.*

**Monitoring feature of AST module remains inoperative as AOs do not record details of penalty and appeal proceedings in it.**

**Limited utilization of functionalities on penalty proceedings and appeal**

**2.6** AST provides for initiation and management of penalty proceedings from processing to appeals. Although penalty notices and penalty orders are to be made manually, the details of penalty orders such as section, date of passing of order, penalty amount are to be stored in the system. The application has been designed to track and record variations in demands arising out of penalty, appeal, rectifications and revisions.

**2.7** We observed that this functionality was not being used in RCC Delhi. Test check of 15 assessing units in Delhi revealed that out of 195 penalty cases initiated and finalized, not a single case was entered in AST.

[5] CBDT instruction dated 01.08.2005

At an all India level we found that out of total 36 RCCs, in 16 RCCs[6] this functionality was never utilized.

**2.8** Similarly, AST module has the option for recording the details of the appeal proceedings, which has been put to limited use. Our examination revealed that, although as on 01.06.2011, there were 77,385 cases pending in appeal, only 3205 (4 %) cases in respect of 14 RCCs, were found to be entered in the system. Further, not a single case, finalised by ITAT, was found recorded while of the cases finalised by High Courts and Supreme Court, only 15 cases were entered in the system.

**2.9** *The Board stated (September 2012) that passing of penalty orders without the availability of connected scrutiny assessment orders was not possible in the existing application. Hence, CBDT, in its latest instruction has made passing of scrutiny orders mandatory in the system. The Board added that a new application called Income Tax Business Application (ITBA) in place of existing ITD application is under conceptualization and development.*

## ITD did not issue notices to non-filers despite availability of details in ITD system.

### Failure to issue notice to non-filers

**2.10** As per paragraph 7.5 of Manual of Procedure (Volume-II Technical) of ITD 'once non-filers are identified, the responsibility to take further action would be that of the Assessing Officer. He should send a letter to 'non-filers' with a request to file their returns. In cases where a reply or a return is not received within a reasonable time, formal action under section 142(1) should be initiated'.

**2.11** We examined the compliance against this critical tax compliance measure for a sample of assesses who had filed their income tax returns during AY 09. We found that 2,122 assessees who had filed their returns of income either during AY 09 or AY 10 had not filed their return of income for AY 11. Tax paid by these assesses during AY 09 and AY 10 amounted to ₹ 997 crore. Loss of revenue for AY 11 is not quantifiable as no return of

[6] Pune, Meerut, Surat, Kanpur, Bhopal, Jodhpur, Kohlapur, Madurai, Nasik, Allahbad, Amritsar, Jalandhar, Patna, Bhubneshwar, Vishakapatanam and Trivandrum

income is available with ITD for them. A crucial deterrence mechanism was not being put to adequate use though AST system provided for the same.

2.12 ITD stated (October 2011) that 15 PAN's were checked out of the list provided, and it was found that no returns against 12 PAN's exist in ITD application and in 3 cases return for 2010 exist in ITD application. There may be possibility that these cases may have been processed out of the system due to some problem in online processing. The reply of ITD while confirming the missing return does not address the issue of taking necessary action in the form of notice to non-filers. Further during verification on test check basis, we noted that ITD issued notices to the 48 non-filers after being pointed out by the audit.

2.13 *The Board stated (September 2012) that though AST can pin point non filers accurately, no action was possible as the data in AST was incomplete due to offline and standalone processing on TMS software. New solutions in the form of online TMS processing, standalone TMS processing in AST and software to upload earlier offline TMS processed cases into AST has been released to complete the data in AST.*

**Follow up on previous audit**

2.14 In a previous Performance Audit of the Assessment Information System[7] conducted by us, the above issues of limited utilization of the application were highlighted. We have indicated that the heavy un-reconciled balances in OLTAS system indicated that the bank validated input regarding the payment of tax is not available at the time of processing of returns. AO can not verify through AST system whether the amount claimed to be paid by the assessee has actually been paid in all cases. Prior period data in respect of arrear demands is also unreliable. This entails the risk of loss of critical information relating to revenue due to the government. However, the situation continues to be the same.

2.15 *The Board stated (September 2012) that OLTAS data is available in the system at the time of processing of returns. However, lesser use of AST for post processing functions by field officers has led to non consumption of OLTAS data of regular tax payments. The use in coming years will be enhanced, as all scrutiny assessments are being passed in AST. Although,*

[7] CAG's Report No. 10 of 2006-Union Government –Direct Taxes

*the data of arrears in IRLA for earlier years is incomplete due to various issues, the AO's are maintaining this data in manual D &CR. This data has been uploaded in CPC portal in recently and is available for adjustment.*

**AST did not maintain legacy data linkages with current assessment, leaving the possibility open that assessees could avail themselves of undue benefits.**

**Legacy issues**

**2.16** AST Module fulfils the requirement of summary processing under section 143(1) and provides for computation of taxable income after allowing deduction/exemption and calculation of income tax and interest thereon. In this process assesses' claim of set off of losses and unabsorbed depreciation pertaining to earlier assessment years and carry forward of current losses/ unabsorbed depreciation for set off during subsequent years is admitted.

**2.17** We found that the module was deficient with regard to transactions involving legacy issues like carry forward and set off of losses and unabsorbed depreciation. The module does not provide for automatically picking up data from earlier years so that the set off claimed during current year are indeed correct. The system totally relies upon the data furnished by the assessee in its return for giving them such benefit. Such cross linkages were also found wanting even in CPC environment.

**2.18** ITD replied that each year's return is an independent process and AO could ascertain the set off after necessary investigation and verification. Reply of ITD needs to be viewed in the light of the following:

**Table 2.1: Status of assessees**

| Financial Year | FY 08 | FY 09 | FY 10 | FY 11 |
|---|---|---|---|---|
| **Corporate#** | | | | |
| 1. **Returns filed (number)** | 410451 | 366233 | 427811 | **459270** |
| 2. **Loss making entities (number)** | 144170 | 132356 | 149283 | **161596** |
| 3. **Loss (Crore ₹)** | NA | NA | 185585 | **203564** |
| **Non-Corporate#** | | | | |
| 4. **No. filing returns** | 462053 | 380983 | 395458 | **502141** |
| 5. **No. of Loss making entities** | 41585 | 34288 | 34405 | **43335** |
| 6. **Loss (Crore ₹)** | NA | NA | NA | **NA** |
| **Scrutiny assessments*** | | | | |
| **Numbers** | 407239 | 538505 | 429585 | **455212** |

**#Receipts Budget for the respective years**
***Compliance Audit Reports of C&AG for the respective years**

2.19 As all large profit making entities are being subjected to scrutiny, a large number of entities still exist which are claiming and being allowed losses in a routine manner without any plausible system checks.

2.20 Further, major Chapter VIA deductions are available for a specific period only[8]. The availability of legacy data would facilitate assessment and may reduce the probability of irregular claims being allowed by the assessing officers. Revenue foregone on account of deduction u/s 80IA alone amounts to ₹ 13824 crore[9]. To effectively monitor the allowance of deduction, it is necessary that previous availments are appropriately recorded and taken cognizance of.

2.21 *The Board stated (September 2012) that there is no linkage of returns w.r.t different AY's for same PAN due to the structure of the existing software. The carry forward losses also change during scrutiny assessments & appeal orders. Thus the linkages, even if introduced in processing, may not be accurate unless the assessment & appeal functions are enforced online. These issues would be taken into consideration in the new Income Tax Business Application (ITBA) being developed by ITD to replace the existing ITD applications.*

## Online Tax Accounting System (OLTAS)

2.22 OLTAS evolved from the earlier Tax Accounting System (TAS) application wherein Challans were manually complied. There were elaborate controls to ensure accuracy of data capture. OLTAS is designed to accept the Tax Credit and Refund information originating from the Banking system, and routed through the Tax Information Network and make it available for the Assessment System for processing of returns. In effect, the Challan information has become an electronic token/equivalent of cash and the accuracy and integrity of this data is of utmost importance. The following issues were examined:

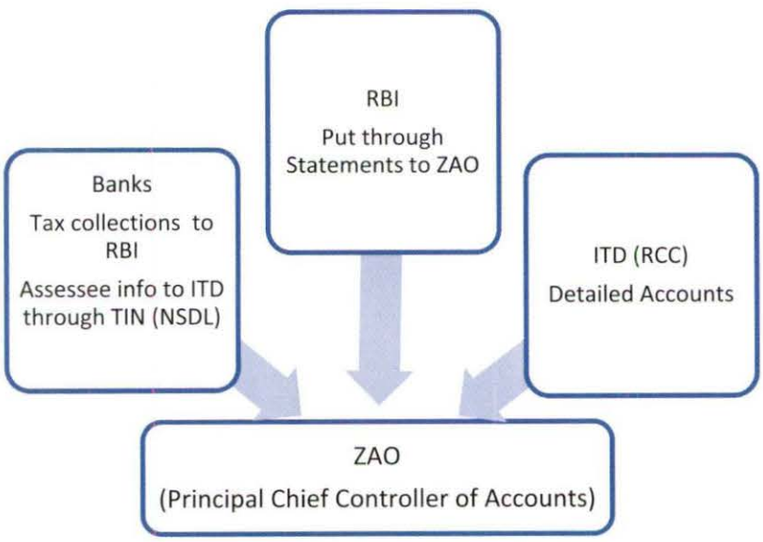
[8] For example deduction u/s 80IA is available for ten consecutive assessment years out of fifteen years beginning from the year in which the undertaking begins its activity.
[9] Revenue Foregone under the Central Tax System, Receipts Budget 2012-13

## ITD did not reconcile the revenue collections as reported by Banks and as accounted by Zonal Accounts Office, with implications on correctness of Government Accounts.

### Accounting and cash reconciliation

**2.23** Since the digital details of Challan made available by TIN to OLTAS forms the basis of providing tax credits to the assesses, a strong system of reconciliation with the actual cash collected is imperative. A graphical overview of tax collection and refunds in ITD is given below:

**Figure 2.2 Process of accounting**




**2.24** The Zonal Accounts Officer (ZAO) thus receives input from three separate sources: (i) the Nodal branches of Banks (Details of transactions); (ii) RBI (details of cash settlements based on information from nodal branches of Banks); and (iii) Details of monthly account received from RCC; Nodal branches consolidated by NSDL in Tax Information Network (TIN)

**2.25** We found the system of reconciliation to be critically deficient as follows:

### RCC accounting figures in excess of RBI figures

**2.26** We found that the collection reported by RCC Delhi (through detailed statement minor head wise) to ZAO was more than actual tax collection reported by RBI (by put through statements) to ZAO. The difference for the two financial years is summarised below:

Table 2.2 Difference in collection

Crore ₹

| Year | Collection (RBI) | Collection (RCC) | Difference | Refund (RBI) | Refund (RCC) | Difference |
|---|---|---|---|---|---|---|
| FY 10 | 42750.64 | 43081.80 | 331.16 | 12838.44 | 12942.84 | 104.40 |
| FY 11 | 44824.39 | 45265.89 | 441.50 | 12460.43 | 13034.33 | 573.90 |

2.27 Thus the accounts generated by ITD (RCCs) do not reflect the actual collections as reported by banks (RBI).

2.28 *The Board stated (September 2012) that the difference between figures reported by RCC and put through statement given by RBI is mainly an account of treatment of March residual transaction that is the Challans received on 31st March, but uploaded in the next Financial Year. The other reason could be the rejection of Challan records on account of validation failure in OLTAS where as RBI does not reject Challan as it receives information on gross nodal scroll basis rather than Challan level.*

Online tax collections

2.29 As we could not derive an assurance on the reconciliation process at RCC level, we examined whether at least the e-payment which come online could be reconciled at the all India level with those available in OLTAS. We found substantial differences as given in Table 2.4.

Table 2.3 Difference in online tax collections

Crore ₹

| | FY 09 | FY 10 | FY 11 |
|---|---|---|---|
| RBI (e-payments as per Pr. PAO CBDT) | 185635.51 | 307872.99 | 401909.57 |
| Collections as per OLTAS | 240566.09 | 317741.57 | 413317.14 |
| Difference | 54930.58 | 9868.58 | 11407.57 |

2.30 *The Board stated (September 2012) that as per OLTAS accounting procedure, the reconciliation between TIN(OLTAS) and RBI takes place on total figures reported by tax collecting banks in a financial year and not on e-collection figure separately. Banks are being followed up with a request to populate proper date and flag to reduce the differences.*

**Banking system & Controller General of Accounts (CGA)**

**2.31** CGA authorized 12,926 branches of nationalized and private sector banks to collect taxes of which 11,638 branches collected [10] taxes.

CGA de-authorizes branches from collecting taxes where the quality of PAN/TAN data in uploads to the TIN is beyond acceptable limits. NSDL constantly monitors this aspect and prepares periodic reports of quality of PAN/TAN data. During test check[11] we found that several bank branches which had been de-authorized to collect taxes were collecting taxes as follows:

**Table 2.4 Collection of taxes by De-authorized branches**

| Deauthorized branches collecting taxes | No of branches | No of Challan | Amount (lakh ₹) |
|---|---|---|---|
| 1. Punjab National Bank | 1 | 280 | 42.35 |
| 2. Oriental Bank of Commerce | 2 | 39 | 3.02 |
| 3. Vijaya Bank | 8 | 107 | 55.80 |
| 4. State Bank of India | 1 | 1 | 70.98 |
| 5. Indian Bank<br>6. Corporation Bank<br>7. State Bank of Patiala<br>8. Allahabad Bank | Request for authorization of new branches declined[12] due to non acceptable levels of PAN/TAN data errors | | |

**2.32** Further, branches of Punjab National Bank (15 branches), Oriental Bank of Commerce (2), Vijaya Bank (8) and State Bank of India (1) which were not in the authorized as well as in the de-authorized list were collecting taxes.

**2.33** We attempted to examine whether the flow of information from banks to ITD through TIN (OLTAS) was complete with reference to large scale non reconciled amount lying in suspense.

**2.34** We found that the percentage of number of branches not submitting OLTAS data is high for Oriental Bank of Commerce (6.6%), Bank of Maharashtra (9.12%), Indian Bank (10.27 %) and Punjab & Sind Bank (38.86 %).[13]

[10] As per NSDL fortnightly report ended 31.03.2011
[11] For the month of September 2011
[12] In September 2011 for Indian Bank; March 2009 for Corporation Bank; November 2008 for State Bank of Patiala and March 2012 for Allahabad Bank
[13] Department of Govt. & Bank Accounts (Government Accounts Division), Reserve Bank of India. The issue was discussed in high level meeting on banking transactions of Government in May,2012.

**2.35** In view of the above situation, we could not derive an assurance as to whether all taxes collected through the banking system were reflected in Government Accounts. Hence, we approached RCC, NCC and ZAO authorities for clarity on the possible reasons for non reconciliation.

**2.36** RCC stated that they were unable to generate reconciliation statements[14] due to technical problems and the matter had been raised with the vendor, TCS for rectification.

**2.37** ZAO stated (April 2012) that reasons for non reconciliation between RBI and RCC, New Delhi may be obtained from the concerned RCC. The concerned RCC informed that the matter may be taken up with NCC. The reply from NCC is awaited (June 2012).

**2.38** *The Board stated (September 2012) that the issue of de-authorized branches collecting taxes shall be taken up with the Pr CCA to see as to how the same could be resolved in future. The reconciliation process has been augmented by providing various reports in OLTAS module for RCC. RCC Delhi has since been able to generate Annexure E report.*

**OLTAS interaction with AST**

**2.39** OLTAS makes the Challan credits available to AST. This is at variance with the System Requirement Specification (SRS) of AST, wherein it was provided that IRLA would provide payment details of each assessee to AST. AST would then raise tax, interest, and penalty demands and post to IRLA. However, we found that IRLA does not directly get credit details from OLTAS, and it is AST which interacts with OLTAS for checking tax credits, and then posts the same to IRLA.

**2.40** *The Board stated (September 2012) that IRLA gets direct credit from OLTAS only in case of regular assessment Challans where the Challan amount matches with the demand amount available for PAN, AY in IRLA.*

**Key risks examined**

**2.41** We considered the following key risks in this regard:

**a.** whether tax credits are provided only after confirming the presence of the backing Challan in OLTAS.

[14] Annexure E report gives bank wise, date wise, major head wise differences in amount in respect of challan and refunds between RCC and ZAO.

**b.** that the credit offered is not in excess of the amount deposited.

**c.** that the Challan is not utilised more than once for giving tax credit.

**d.** that adequate checks are exercised while altering Challan details, especially when making changes in the payee PAN details as recorded in OLTAS.

**Un-posted Credits in OLTAS increased the risk of undue availment by the assessees. Multiple credits to the same Challans led to inadmissible credits indicating inadequacies in ITD system.**

**Large amount of Un-posted Credits lying in OLTAS**

**2.42** As per system documentation, all Challans are to be posted directly to IRLA in case of credits of assesses, and to TDS_IRLA in case of Challans deposited by TDS Deductors. We found that non TDS payments were lying unposted in OLTAS as given below:

**Table: 2.5 Posting status of challans (Non-TDS)**

**Crore ₹**

| Assessment Year | Posted (P) | UnPosted (I/R/Null[15]) | Total |
|---|---|---|---|
| **AY 08** | 1,41,283 | 1,15,918 (45%) | 2,57,201 |
| **AY 09** | 1,55,298 | 63,693 (29%) | 2,18,991 |
| **AY 10** | 1,44,170 | 1,06,408 (42%) | 2,50,577 |
| **Total** | **4,40,750** | **2,86,019 (39%)** | **7,26,769** |

**2.43** Un-posted credits, besides going against system documentation, raise the risk of misuse of credits for the same amount to other assessees. ITD needs to closely monitor un-posted credits to prevent their misuse.

**2.44** *The Board stated (September 2012) that functionality has been provided in "ITD application to upload such returns through ITD-ONLINE TMS" and "Manual Upload of offline Scrutiny Orders". Once such returns get uploaded through this functionality, respective Challans will be marked as POSTED in OLTAS.*

[15] I: In Error, R: Ready to post and Null: Blank

**Status of Challans not changed even after posting**

2.45 We found that the status of the challan on which credits have been afforded to assessees was not being changed to 'Posted' in all cases.

2.46 At All India level 12.6 % of the Challans relating to the period 2008-10 had their status as other than posted, though credit had been provided to the tax payer.

**Table 2.6 Status of Challans not changed even after posting**

Crore ₹

| Assessment Year | Total Credits in OLTAS | Posted in IRLA(P) | UnPosted (I/R/Null[16]) | Gap Amount* |
|---|---|---|---|---|
| AY 08 | 1,81,889 | 1,41,496 (78%) | 26,876 (15%) | 13,517 (7%) |
| AY 09 | 1,89,296 | 1,55,501 (82%) | 32,143 (17%) | 1,652 (1%) |
| AY 10 | 1,50,877 | 1,44,796 (96%) | 6,758 (5%) | -678 (-1%) |
| **Total** | **5,22,062** | **4,41,794 (85%)** | **65,777 (12%)** | **14,491 (3%)** |

*** Difference between amount credited in IRLA and those in OLTAS. This represents missing challans.**

2.47 ITD in its reply (September and December 2011) to cases pertaining to RCC, Delhi accepted the finding and stated that the main factors responsible for a high percentage of un-posted Challans were (a) cases being processed on the standalone Tax Management System software apart from the centralized AST system; (b) unsatisfactory quality of tax payment data from banks and (c) AOs being permitted to give direct credit[17].

2.48 Though OLTAS was introduced in FY 05, the system is not able to address the movement of credits to its logical destination (viz. IRLA). ITD has not taken any measures to correct the same.

[16] I: In error, R Read for Posting, Null: Blank

[17] As per AST Instruction No. 10 issued by DGIT (System) in August 2002, direct entry of challans for prepaid taxes was allowed.

2.49 The problem with data quality from banks is to be seen in the light of quarterly reports by NSDL with regard to errors at collection branch level.

Table: 2.7 OLTAS Data Quality Statistics

| OLTAS Data Quality Statistics | | | | | |
|---|---|---|---|---|---|
| | | | % of branches having valid PANs | | |
| | No. of Branches which have collected Challans | Total Challans by all branch | 100% valid PANs | >95-<100% valid PANs | >90-<95% valid PANs |
| PAN | 11,683 | 1,807,771 | 53.36 | 36.10 | 7.01 |
| TAN | 11,090 | 602,383 | 87.47 | 8.40 | 2.10 |

*Source: NSDL fortnightly MIS Report 16-31 March 2011*

2.50 Thus, on one hand NSDL is reporting data quality in excess of 90 per cent of the Challans whereas ITD on the other hand is stating that Challans can not be posted into IRLA due to poor quality of Challan data.

*2.51 The Board stated (September 2012) that the number of suspense Challans (without valid PAN/TAN) out of annual Challans of more than 3 crore has improved from 7.33 lakh (during FY 08) to 0.12 lakh (during FY 13). Even with the improvement in data quality, the direct posting of Challans in IRLA is not feasible because of the legacy data issues and issues relating to major overhaul in system design and architecture of ITD application. Existing IT applications are being phased out, as ITD is in the process of development of new ITBA Software where the concerned issues will be considered thoroughly.*

**Posting of Regular Demand and Collection to IRLA**

2.52 IRLA captures data of tax payable and taxes paid in respect of each assessee. We found that a large amount of monies paid as regular assessment tax was not being transferred into the respective IRLA.

Table: 2.8 Regular Demand Challans in OLTAS deposited during FY 08-11

Crore ₹

| Assessment Year | Posted (P) | UnPosted (I/R/A/Null) | Grand Total | Unposted % |
|---|---|---|---|---|
| AY 09 | 453 | 35,134 | 35,587 | 98.73% |
| AY 10 | 42 | 6,272 | 6,314 | 99.33% |
| AY 11 | 11 | 450 | 461 | 97.72% |
| Total | 506 | 41,855 | 42,361 | 98.81% |

2.53 It can be seen from above table that 98.8 percent of challans pertaining to regular demand are in unposted state. We view the low posting of regular demands to ledger a serious cause of concern. ITD is not recording the demands raised during regular/scrutiny assessment. It is also not recording payments in IRLA. As a result, ITD is not in a position to know the status of taxes paid/payable or refunds through IRLA.

*2.54 The Board stated (September 2012) that for tackling issues related to management of demand, an AO Portal has been created at CPC. All AOs were directed to upload all arrear demand to CPC-F.A.S. Uploading of demand was one of the action points of Annual Action Plan of 2011. The Board also stated that CPC-FAS will eventually replace IRLA. Problems are on account of changes in technology since 1996 when the present modules were first written. Thereafter the final working infrastructure was made operational only in 2009-10.*

**Inadmissible credit due to multiple use of same challan**

2.55 OLTAS needs to have system controls to ensure that a challan is utilised only once. In our sample of RCC Delhi of 109564 assessees[18], we noticed 174 tax credits wherein the underlying challans had been used twice. These transactions involved a total credit of ₹ 158.99 Crore. Details of some transactions are given below:

Table: 2.9 Multiple use of same challan

| Assessee | Assessment Year | Amount (lakh ₹) | No of Challans |
|---|---|---|---|
| Bausch & Lomb Eye Care (I)(P) Ltd. | 2010-11 | 210.13 | 2 |
| AWB India Pvt.Ltd. | 2009-10 | 122.99 | 1 |
| Sharda Motor Industries Ltd. | 2008-09 | 50.53 | 1 |

[18] where returned income was more than ₹ 9 lakh, for returns processed in the Assessment Years 2008 to 2010

**2.56** While the number of such transactions (174) is not material when compared to the total number of credit transactions processed by the system (24,34,811), the failure of this critical control is a cause for concern, and the reasons for the same needs to be investigated.

**2.57** At an all India level, we found multiple uses of Challans with same CIN (Challan Identification Number) in other RCCs also. Data on multiple use of CIN amounting to ₹ 719.16 crore is given below:

**Table 2.10 Multiple use of single challan**

| Assessment Year | Amount (Crore ₹) | Number of Challans |
|---|---|---|
| **AY 09** | 425.19 | 18,158 |
| **AY 10** | 267.89 | 3,620 |
| **AY 11** | 26.08 | 1,202 |
| **Grand Total** | **719.16** | **22,980** |

**2.58** *The Board stated (September 2012) that the 20,593 CINs amounting to ₹ 571.74 crore are identified, where the credit has been given multiple times by AO manually. This is outside the control of system matching and governed by instruction No. 10 of 2002. They have identified 3089 instances amounting to ₹ 153.3 crore, where the credit has been given multiple times either in AST or CPC. Complete verification in respect of these cases is still pending and revenue loss is not quantifiable as yet.*

**2.59** *System checks have been introduced and bug in CPC-AST interface has been fixed to prevent dual consumption of same challan.*

**Availability of accurate and up-to-date PAN/TAN database at the banks**

**2.60** An important control for ensuring accuracy of data is correct quoting of PAN/TAN by the banking system. RBI has instructed collecting banks to use bulk verification facility from TIN-NSDL site to ensure correctness of PAN. It has advised banks to incorporate software features to highlight incorrect or structurally invalid PAN/TAN.

**2.61** We sought to verify whether all collecting branches had access to this crucial information as the entire system of tax collection and assessments veered around this unique identifier. We could not derive an assurance that the banking system indeed had real time data on PAN/TAN.

**2.62** ITD replied that fourteen major banks handling more than 90 per cent of challans have registered with Tax Information Network (NSDL) for using PAN/TAN verification services.

**2.63** *The Board (September 2012) stated that PAN validation facility has been provided to banks on real time basis through TIN-NSDL site; Common Business Number (CBN) application software; and e-filing server.*

### Individual Running Ledger Account System (IRLA)

**IRLA is unable to generate important MIS reports hampering effective tax planning and evaluating the performance of ITD.**

**2.64** IRLA is a central ledger accounting system for assessee related transactions viz. demand, collection and refund. Prior to introduction of IRLA, this requirement was being met through separate registers like Current Demand and Collection Register, Arrear Demand and Collection Register, Stay Register, Installment Register, Write off Register etc. Multiple registers add to the management effort and cost. IRLA is to interact with OLTAS for information on credits, and with AST for recording demand and refund.

#### Generation of MIS Reports

**2.65** One of the objectives of computerization is generating MIS Reports to assist tax administration. ITD has prescribed[19] various MIS reports which would provide information to CBDT and for performance evaluation by the Government. Two important reports are CAP-I and CAP-II.

#### Inaccurate preparation of CAP-I Reports

**2.66** CAP-I report deals with demands, collections, disputed demands and demands which are difficult to collect. The monthly report prepared by AO is to be generated from IRLA module. We found that as information capturing in IRLA module was incomplete, CAP-I reports prepared through them were inaccurate.

**2.67** ITD replied that CAP-I reports generated from ITD Applications is complete with regard to summary orders. Since most of the scrutiny

[19] Chapter 10, Manual of Office Procedure, Volume-III Miscellaneous

orders are passed outside the system, CAP-I cannot give a complete picture of Demand and Collection.

**Manual Generation of CAP-II Report**

**2.68** CAP-II report deals with status of workload and achievement inter alia covering assessments, action on audit observations, appeals, new cases added, surveys and deployment of officers. We found that as much of the information depicted in CAP-II is not recorded in AST, it is not being generated from AST module.

**2.69** The report of MIS advisory group on reducing reporting burden in the Income Tax Department[20] has recommended the reorganisation of crucial statistical reports so as to make them informative and accurate using the IT systems of ITD. Further, Results Framework Document (RFD) enforced by the Cabinet Secretariat is the framework under which the performance of ITD shall be evaluated. Under RFD, performance agreements need to be entered into for quantification of deliverables. This would require an accurate robust MIS, which is yet to be met by ITD Applications.

**Follow up on previous Audit Reports**

**2.70** We had pointed out[21] that deficiencies in IRLA were hampering the generation and utilization of MIS Reports. Even after consolidation of regional database into a national database, national level MIS are not forthcoming with acceptable level of accuracy. Hence the burden of AOs for preparing MIS reports manually continues.

**2.71** *The Board stated (September 2012) that generation of desired comprehensive MIS will be possible only when every functionality is on the system. Most of the data required in CAP-I gets generated with the help of systems. With the introduction of ITBA, ITD expects further improvement in this regard.*

[20] Approved by the CBDT in April 2011

[21] C & AG's Audit Report No. 10 of 2006 on Performance Audit of Assessment Information Systems of the Income Tax Department

## Electronic Tax Deduction at Source System (eTDS)

**Huge amounts of TDS are lying unclaimed in ITD system which indicates that all corresponding income of assessees has not been offered to tax.**

**2.72** Tax deduction at source (TDS) is one of the important means of pre-assessment collection of tax. All TDS returns are received in ITD in electronic format through TIN (NSDL) and are processed through eTDS module. eTDS makes available the deductees TDS particulars to AST when the income tax returns of deductees are being summarily processed. eTDS returns are validated based on challan particulars available in OLTAS.

### Non verification of certificates issued under section 197

**2.73** Section 197 of the Income Tax Act, provides that in case of payments covered under certain sections[22], AO may issue certificate for deduction of tax at a lower or nil rate.

**2.74** The issue of non-provision of online verification of such certificates was pointed out in the C & AG Audit Report[23].Ministry, while accepting the audit observation stated (December 2008) that appropriate changes are being planned in TDS module.

**2.75** Till FY 10 the certificates under section 197 were being issued manually. Since May 2010 [24] it is mandatory to issue certificates under section 197 through the system. Certificates could also be generated manually in exigent circumstances but data regarding the same had to be captured in the system within 7 days of issue. During the years 2009-10 and 2010-11, ITD has issued 34972 and 308795 certificates respectively through system.

**2.76** We found that, while processing eTDS/TCS returns[25], information regarding certificates issued under section 197 was not being used for matching data provided by the deductor in TDS return.

**2.77** ITD confirmed (June 2011) that bulk processing does not cross link certificates issued under section 197 with the eTDS returns filed by

[22] sections 192, 193, 194, 194A, 194C, 194D, 194G, 194H, 194I, 194J, 194K, 194LA and 195
[23] No. PA 25 of 2009 (Performance Audit)
[24] Instruction No. 4/2010 dated 25-5-2010
[25] In bulk through running a scheduler at Primary Data Centre,

deductors. Necessary changes and linkages would be put in place while implementing the direct taxes code.

2.78 *The Board stated (September 2012) that it has been decided to add separate column for capturing the certificate reference number issued by AO under section 197 of the Act. The process flow for the same has been included in the new CPC (TDS) application for processing of TDS statements which will be live during 2012-13.*

**Tax deducted at source and tax credits claimed**

2.79 We found that between 2006-07 and 2010-11, the difference between TDS available (as per TDS module) vis a vis TDS claimed in ITRs amounted to ₹ 43268 crore as follows:

**Table 2.11 TDS Claims**

Crore ₹

| Year | Number of Cases | Amount claimed in ITRs | Amount as per TDS module | Difference |
|---|---|---|---|---|
| FY 07 | 278382 | 218.62 | 758.27 | 539.65 |
| FY 08 | 3539045 | 1102.05 | 14026.36 | 12924.31 |
| FY 09 | 2603229 | 15027.25 | 24518.70 | 9491.45 |
| FY 10 | 3146039 | 24034.17 | 35114.70 | 11080.53 |
| FY 11 | 3097733 | 27295.57 | 36527.64 | 9232.07 |
| Total | 12664428 | 67677.66 | 110945.67 | 43268.01 |

2.80 We sought to analyse the possible reasons for unclaimed taxes in TDS module and their possible implications for revenue administration. Non claim by assessees may indicate corresponding incomes have been offered to tax while assessee has forgotten to claim tax credit or incomes have not been offered to tax.

2.81 The first situation depicts failure of ITD in tax payers' services i.e. affording due credits for TDS whereas the second situation if left unaddressed would lead to a serious shortfall in safeguarding government revenues. This also represents an opportunity lost for widening and deepening of tax base by data analytics. Given the substantial gap, Ministry may like to strengthen its data analysis for harnessing the potential of all the IT modules as well as data compiled from various sources.

***2.82*** *The Board (September 2012) stated that the difference may be on account of TDS claims of income tax returns processed on standalone TMS software or TDS claims at variance with TDS credits available in ITD systems. ITD has initiated action in the case of non filers (Corporate and Non corporate) based on the data analysis.*

**2.83 Recommendations**

Ministry may

**a)** link up tax payment details available in different modules.

**b)** enforce the system of reconciliation of financial transactions as large amounts are lying in suspense or un-posted in the system.

**c)** ensure comprehensive recording of all transactions.

**d)** take steps to factor in the impact of legacy issues like unabsorbed depreciation and carry forward of losses during summary processing.

**e)** ensure that results of scrutiny assessments are entered in the system so that business requirements of ITD are adequately met.

**f)** like to reconcile the contradiction between the data accuracy levels reported by NSDL and the claims of ITD so that assessees are given due tax credits.

**g)** like to explore a checker system matching the fourth and fifth characters representing status and first letter of the name/surname at the time of entry into OLTAS or at the time of entry (initial validation) into TIN/NSDL so as to improve the quality of data.

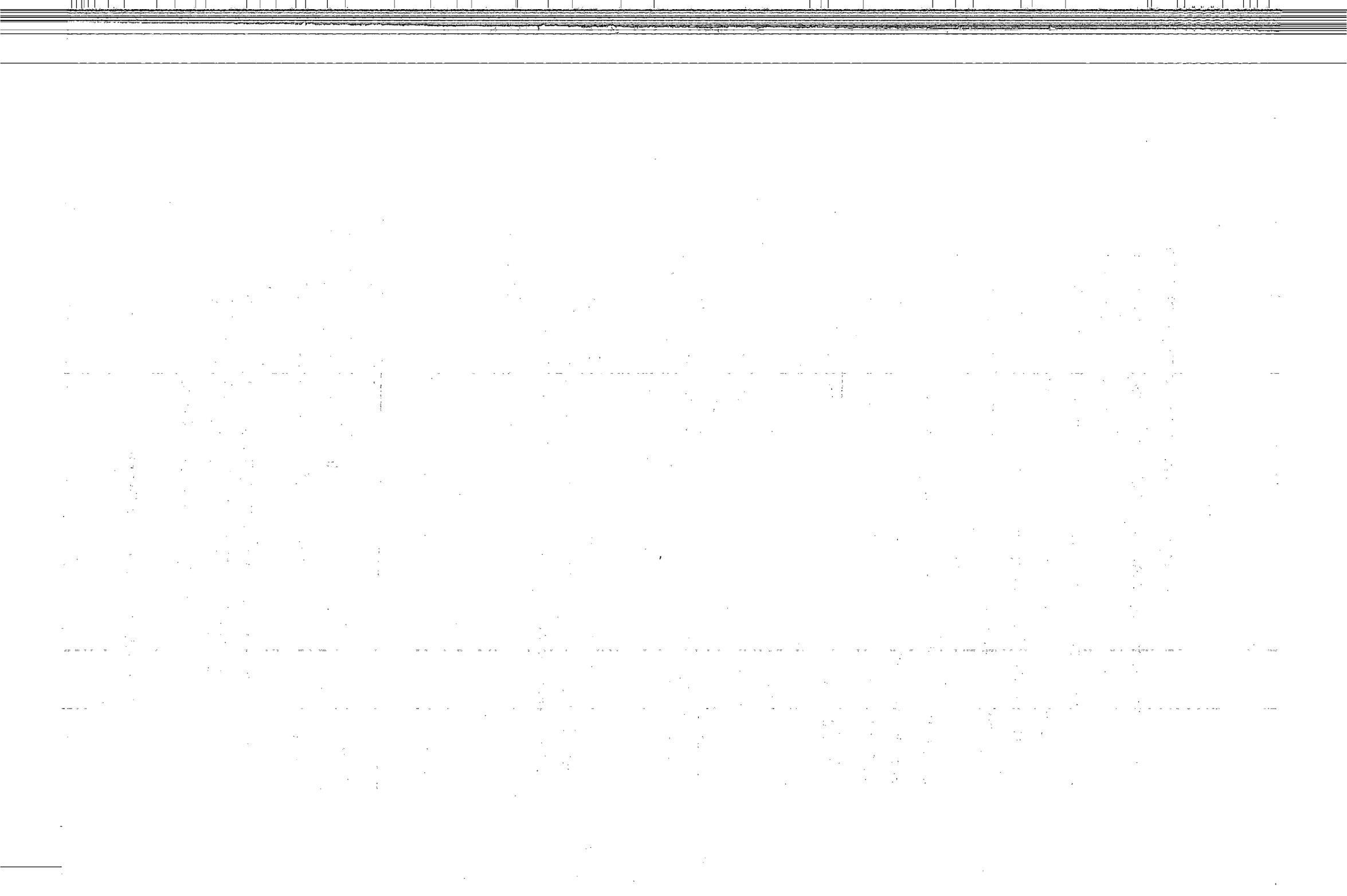
**h)** strengthen the entire chain of tax collection and reporting especially in respect of banking system so that the interest of tax payers are also adequately addressed. Tax collection data need to be reliable and reconciled between the different reference points.

**i)** strengthen IT systems and iron out the incongruence between critical IT modules viz. OLTAS, AST, e-TDS and IRLA so that the intended results are delivered.

**j)** address the issue of collection of taxes through de-authorised bank branches.

**k)** take immediate steps to capture complete information in IRLA.

**l)** address the system inadequacies in eTDS module preventing cross linking of TDS certificates (for short/non deduction of tax) with TDS returns.



## Chapter 3: Vendor Management

- There were no penal clauses for delay in execution of projects. ITD did not enforce all the contractual conditions on outsourced vendors.
- ITD has not linked up e-Banking with e-filing of Income Tax Return.
- ITD has not adequately monitored outsourcing agencies with reference to Service Level Quality governing data and network security issues.

**There were no penal clauses for delay in execution of projects. ITD did not enforce all the contractual conditions on outsourced vendors.**

### Delay in project execution

**3.1** In September 1994, an agreement with Tata Consultancy Services (TCS) was entered into to develop seven modules of ITD system viz. iPAN, AIS, AST, TDS, TAS, IRLA and EFS with the following timelines:

**Table 3.1: Project timelines**

| Task | Nature of Activity | Completion Time |
|---|---|---|
| **Task-I** | Detailed Systems Analysis & Design | 2 Months |
| **Task-II** | System Development & System Testing | 13 Months |
| **Task-III** | Acceptance & Implementation | 13 Months |
| **Task-IV** | Training | 13 Months |
| **Task-V** | Maintenance | One year after acceptance |

**3.2** We found that there were substantial delays ranging from 2 to 54 months in execution of various projects. Extraordinary delay in TDS module affected the entire business plan of ITD as all other tax collection and processing modules were dependent on this.

**3.3** We found that there were no penal clauses for delay in execution of work against TCS which could have been deterrence for delayed performance. We also found that there was no service level agreement (SLA) for maintenance/technical support with TCS to enforce quality standards.

**3.4** ITD while admitting the fact (September 2011) stated that SLA has been entered into to enforce quality and efficiency.

***3.5*** *The Board (September 2012) stated that delays observed in execution of project was primarily on account of unsteady steps associated with the initial phases of computerization, the re-prioritization of modules and the learning of the computerization process, limitation of resources etc. A Project Monitoring Unit is under active consideration of ITD to strengthen monitoring the performance of vendors.*

**Non enforcement of contractual conditions**

**3.6** M/s IBM India Private Ltd was responsible for roll out of computer systems at all designated ITD stations such that all users would be able to use the centralized application with predefined response time parameters within 150 days of the release of purchase order. Failure to complete the work would attract liquidated damages at the rate 2 per cent on total fee payable for commissioning and acceptance for each week beyond schedule completion date.

**3.7** We found that as against the scheduled completion date of September 2007 the project was completed in June 2009 after delay of 92 weeks. Accordingly the vendor was liable to pay liquidated damages of ₹ 24.47 crore. ITD stated (September 2011) that liquidated damages were being worked out based on delays attributable to the vendor.

**3.8** M/s Bharti Televenture Limited (BTL) was handed over the contract of LAN and WAN connectivity in ITD across India. Given the large scale of the contract, M/s Engineers India Limited (EIL) was designated as the monitoring agency for ensuring the roll out obligations by BTL. EIL computed the site wise total delay at 1589 weeks for phase-I and 17160 weeks for phase-II for which liquidated damages of ₹ 2.56 crore and ₹ 27.64 crore were leviable.

**3.9** We found that even after the monitoring agency EIL had computed the liquidated damages leviable, ITD had not enforced the recovery of the same. ITD stated that they were in the process of ascertaining actual damages.

***3.10*** *The Board (September 2012) stated that main reasons for delay in execution was inter-dependency of various projects and vendors; delay in approvals from government departments including State Governments and*

*Local bodies for laying of optic fibers etc; redefinition of the road map for consolidation of regional data bases into single national data base and resolution of contentious issues between with vendors. Liquidated damages of ₹ 20.82 crore has been recovered from M/s Bharti Airtel in August 2011. Crystallization of damages in other cases is in progress.*

**ITD has not linked up e-Banking with e-filing of Income Tax Return.**

**e Banking and Income Tax Returns**

**3.11** ITD has provided a facility for viewing of tax credits (26AS) to assessees through NSDL site or through internet banking. Internet banking also provides an opportunity for ITD to generate income tax return and file them online in a secure manner without considerable resource deployment.

**3.12** A perusal of ITR-I Sahaj to resident individual reveals that only four additional columns viz. income from salary/pension; income from one house property; income from other sources and deductions under chapter VI A would be required for completing the details.

**3.13** All other details in Part A[26] and Part D[27] are readily available in the online bank accounts. An assessee would be able to generate a pre populated form with the existing details and if additional details as given in previous paragraphs are entered then a complete ITR-I could be generated with verification and signature of the assessee. Given that ITD is facing problems relating to suspense on account of incomplete data, this method could easily establish the identity of assessees with accuracy.

**3.14** Internet banking user base is estimated to be 2 crore and would reach 18.5 crore by 2020[28]. If implemented, it could be of tremendous utility to individual taxpayers who otherwise have to pass through third parties or obtain their own digital signature.

**3.15** *The Board stated (September 2012) that linking the banks collecting income tax on the intranet of ITD application is a policy matter, which requires deeper analysis and also consent of various stake holders. In the current e-filing project, features to provide data to pre-fill PAN, form 26AS and OLTAS data at the time of preparing the ITR have been introduced.*

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[26] Covering name, address, PAN, sex, date of birth, e-mail address, telephone, employment, residency status are readily available in the bank account

[27] Covering prepaid taxes is already available through 26AS. Tax computation could be built into the system.

[28] Estimates quoted in compendium of papers submitted in Annual Bankers' Conference (BANCON) 2011

## ITD has not adequately monitored outsourcing agencies with reference to Service Level Quality governing data and network security issues.

### Security audit of third party services

**3.16** A number of outsourcing contracts are operational with various vendors for delivery of IT services, such as data handling at Primary Data Centre (Delhi), Business Continuity Centre (Mumbai) and Disaster Recovery Centre, data receipt, its digitisation and transmission, data processing, connectivity between the various tax offices of the country in an inter-connected national network terminating at PDC and provision of space for establishing data centres. Thus, the critical IT assets of ITD are under management of the outsourcing agency.

**3.17** All agreements entered into with the outsourcing agencies viz M/s IBM India Pvt. Ltd., M/s Sify Ltd., M/s VSNL Ltd., M/s Infosys Ltd., M/s Bharti Televentures Ltd. and M/s NSDL Ltd. includes clauses relating to 'security architecture and requirements' which envisages various types of controls required to be exercised by the outsourcing agency for information, networking and physical security in respect of assets handled by them. These agreements also involve furnishing of periodic security audit reports to ITD, incident reporting and MIS reports on security violations.

**3.18** We note that the security requirements given in the SLA are comprehensive; however, the requirement for periodicity of audit by ITD/third party is not uniformly specified in all the agreements. As a result, as on date M/s VSNL and M/s Sify have never been audited by ITD or any third party. On pointing this, ITD has now appointed (September, 2011) M/s STQC for conducting third party audit of these agencies.

**3.19** Similarly, M/s IBM India Ltd. was engaged as SLA for ITD in the year 2007 and the agreement also provided for half yearly audit. However, ITD has never conducted any Security audit by itself or by any third party. ITD stated that third party security audit of M/s IBM India Ltd. is in progress.

**3.20** As regards M/s Infosys Ltd, only one third party audit report was furnished to audit. No further audits have been undertaken by ITD.

**3.21** Thus, ITD while relying on the outsourcing agencies to secure the information assets is not adequately monitoring these agencies with reference to the SLQ governing data and network security issues.

**3.22** *The Board stated (September 2012) that reports of audit carried out by M/s STQC (third party auditor) in respect of M/s IBM, M/s VSNL and M/s Sify have been received and is under consideration for carrying improvements to data centre functioning.*

**3.23** *With reference to NSDL, there is no separate provision for security audit by ITD. No major security issue has been reported in the security audit report submitted by NSDL during last 5 years.*

**3.24** The Board's reply needs to be viewed in the light of the massive functions outsourced to NSDL. The Ministry needs to explore avenues for securing its data by appropriately prescribing conditions for security audit with regard to its domain.

**Security aspects relating to digitisation of physical returns**

**3.25** We found that the work of digitisation of paper returns has been outsourced by ITD. There is no centralized system for identifying qualified vendors for digitization. Vendors are engaged by the jurisdictional officers at the field level. As the digitisation of returns involves direct interaction with the live system of ITD, it is not clear as to how the roles of private vendors has been defined in the software or whether they are using the user ID and password of the departmental officers. DGIT (Systems) could not provide us an assurance that there were any norms for this activity.

**3.26** As the Income Tax returns contain confidential data of assesses like bank account number, PAN, TAN, employment etc., it is not clear as to what verification and validation procedures are being adopted for hiring of vendors as well as security of the confidential data. The Ministry in its submissions during examination of an earlier audit report[29] had stated to the Public Accounts Committee[30] that

> *"CBDT decided in November, 2002 that wherever it is not possible to complete processing of returns within 4 months with the*

[29] Performance Audit on Status of Improvement of Efficiency through Restructuring of the Income Tax Department (Report no. 13 of 2005)

[30] Report No. 29 of 14th Lok Sabha-Status of improvement of efficiency through the restructuring of the Income Tax Department presented on 11 Aug 2006

*departmental manpower the local Chief Commissioners/Commissioners may outsource data entry of salary returns, and other small income non-company returns subject to necessary security safeguards so as to ensure processing of returns within 4 months."*

3.27 Thus even after a decade of computerization and BPR, ITD has failed to come up with reliable scheme for capturing data from income tax returns.

3.28 *The Board stated (September 2012) that as ITD did not have the technical workforce initially for digitization of physical returns, they permitted the cadre controlling CCIT to outsource the work on a rate approved by DGIT. Access to system is through the user ID and password given to the Assessing Officers and authorized staff. Since audit trails are available for the online activity being done on the system, inherent in such uses, this itself serves as an essential security cover. In any case with the dwindling volumes of physical returns, due to surge in e filing the problem has got minimized and the data entry work is now closely monitored.*

**Password controls**

3.29 In ITD, a two factor authentication mechanism exists for accessing the system, in which dual check is exercised in the form of RSA tokens[31] and individual user passwords. We observed that RSA tokens passwords keep changing periodically. However, there is no provision in ITD system for asking individual user password change at the time of initial login by the user and the system also does not enforce any periodic change of individual user password. Although, after three unsuccessful attempts made by the user, ITD application session gets closed automatically but there is no facility to display the date and time of last access and number of unsuccessful attempts after last successful login attempts. Hence, un-authorised attempts to access the system may go undetected. Though the account can be compromised only if both the password and RSA token is in possession of the unauthorized personnel, we feel that there is need for further strengthening control over user password administration. In its reply, ITD stated that change in the current password policy for ITD applications is under discussion and consideration.

[31] RSA token is a secured user authentication system.

**3.30** *The Board stated (September 2012) that new password management policy has been implemented in ITD application with effect from April, 2012.*

**Recommendations**

**a.** Outsourced activities need to be monitored on realtime basis. ITD may include and enforce adequate conditions relating to third party security audit as well as security audit by itself.

**b.** Contracts for digitization of returns should have comprehensive provisions for ensuring security and confidentiality of information.

**c.** Password controls need to be comprehensive with strong physical and logical access controls.

**d.** Performance of the vendors/ system developers needs to be monitored scrupulously and contractual obligations of the vendors should be invoked in case of default.

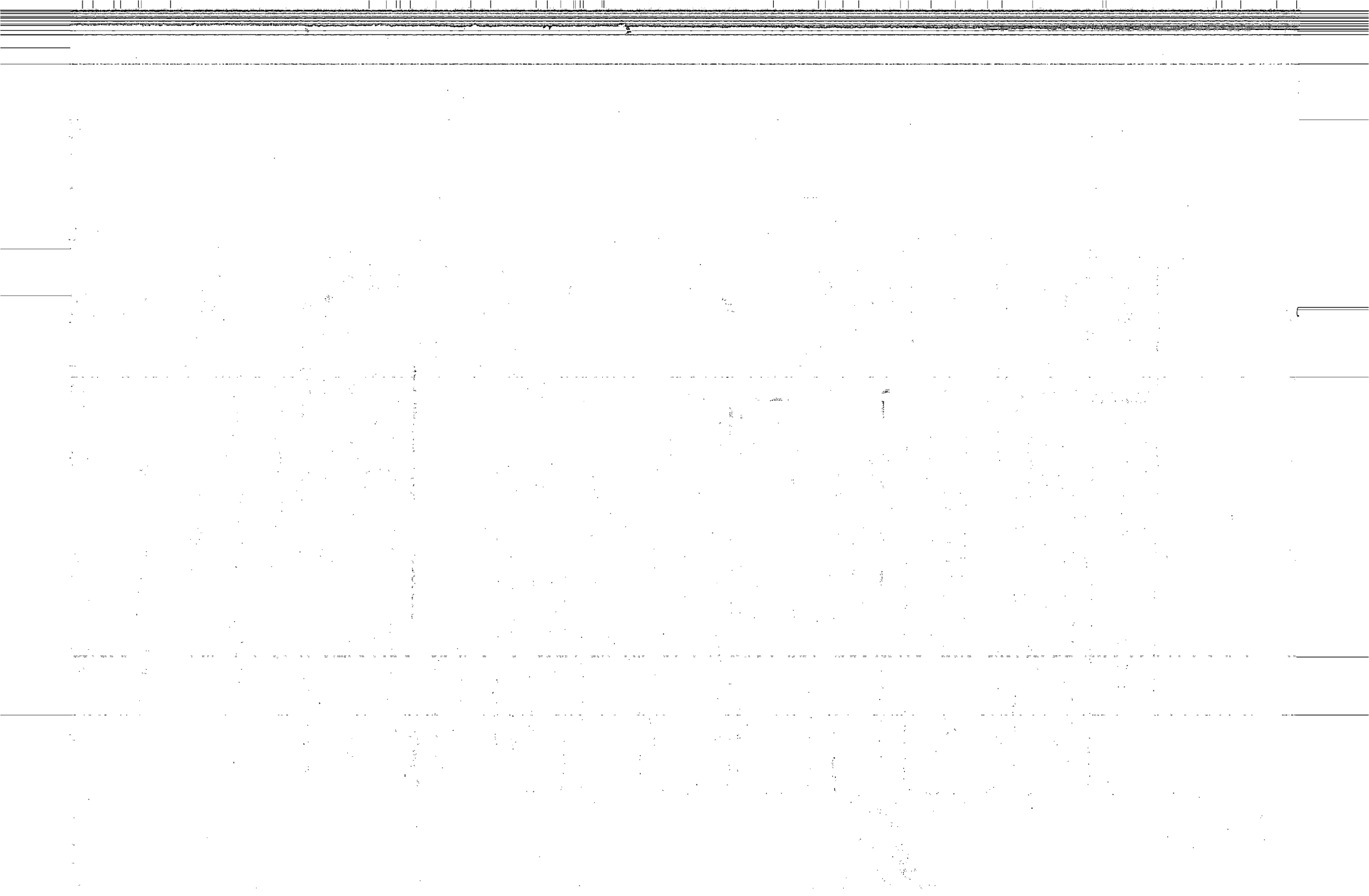
**New Delhi**
**Dated: 25 February, 2013**

**(MANISH KUMAR)**
**Principal Director (Direct Taxes)**

**Countersigned**

**New Delhi**
**Dated: 25 February, 2013**

**(VINOD RAI)**
**Comptroller and Auditor General of India**



## Appendix

### Core IT applications and their functionalities

### A. Assessment Information System (AST)

AST is the most critical and oldest application conceptualized in 1994. The software module which became operational in 1997 was redesigned /updated and accepted in July 1999. It is designed to address the assessment functions, starting from the receipt of tax returns, initial checking under section 143(1), scrutiny assessment, rectification, re-assessment, revision, implementation of effect of appeals, proceedings for penalty and prosecution, creation of demand and refunds, recording of history of assessments for subsequent use, etc. Main features of AST are given below:

| | |
|---|---|
| Return Receipt Register | ◦ Creation of RRR with unique number<br>◦ Jurisdiction wise generation of acknowledgement<br>◦ Creation of bundle for batch processing |
| Processing of Return | ◦ Checking Calculation<br>◦ Mistake in computation of Tax and Interest<br>◦ Payment mismatch in respect of prepaid taxes |
| Regular Assessment | ◦ Generate list of selected cases and notices<br>◦ Compute tax and interest and generate demand notice, refund voucher<br>◦ Track history of all adjustments/ additions made |
| Appeal | ◦ Monitor and track progress of appeal<br>◦ Scheduling of appeals<br>◦ Maintained data on outcomes |
| Rectification and Revision | ◦ Supports all rectifications u/s 154/155 rectification<br>◦ Supports revision u/s 263/264 |
| Penalty Proceedings and Waiver | ◦ Initiate and track penalty proceedings<br>◦ Track variations in levy of penalty due to appeal, rectification ,revision and waiver |
| Queries | ◦ Supports queries on assessment proceedings, appeals, revisions and rectifications<br>◦ Provides for comprehensive query for a given PAN |
| Outputs | ◦ Mismatch list<br>◦ Central Action Plan (CAP) I and II reports<br>◦ List of non-filers |

### B. Electronic Tax Deduction at Source System (e-TDS)

The "Electronic Filing of Returns of Tax Deducted at Source Scheme, 2003" was notified in August 2003 while "Electronic Filing of Returns of Tax Collected at Source Scheme, 2005" in March, 2005. Finance Act 2003 has made e-filing of TDS returns by corporates, deductors of Central Government and State Governments compulsory. Later on it was made compulsory to all deductors under section 44AB and all deductors having deductee records of 20 or more.

The e-TDS module supports verification of returns in batch mode; check for computation error and missing information, defaults and mismatch of TDS payments; generate mismatch reports; defaults covering short payment, non payment etc. It was envisaged that eTDS application will enable processing of eTDS returns, leading to detection of frauds relating to non-deposit of TDS and bogus credit for TDS. The grant of credit for TDS on authentication of information was expected to plug leakage on account of bogus TDS certificate.

### C. Online Tax Accounting System (OLTAS)

OLTAS is an online menu driven and Windows based software. Users will be able to perform screen-based functions and navigate across screens using GUI features such as toolbars, buttons, checkboxes, list items, and radio groups. OLTAS functions interalia include online entry of summaries, main scrolls and Challan; identification, entry and matching of missing/surplus Challan; handling of incoming and outgoing Challans from/to outstation CTUs; posting of Challan and online corrections of Challan; generates reports such as Daily Collection Register, ZAO's collection report, major head wise account report, Challan print report, collection reports, and error report.

### D. Individual Running Ledger System (IRLA)

IRLA system has been developed to keep a record of all the demands raised and collections made by an Assessing Officer (AO) in a consolidated manner, and in a single location. In the manual system, AO maintains the Demand and Collection Register (D&CR). This register contains details of summary assessments, scrutiny assessments, current assessments, assessments under section 147, and details of tax payments and refunds. This register is prepared annually. All uncollected demands of D&CR are brought forward to the Arrear D&CR. IRLA system was intended to replace the large number of registers in use, such as, D&CR, AD&CR, Stay Register, Installment Register, Write off Register, etc. IRLA also provided for computation of interest under section 220(2).