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सत्यमेव जयते

**Performance audit of**

**Control Systems**  
**in**  
**India Security Press, Nashik**  
(Ministry of Finance, Department of Economic Affairs)

Report of the  
Comptroller and Auditor General  
of India  
for the year ended March 2004

Union Government (Civil)

No.14 of 2005

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AUDITOR GENERAL OF INDIA  
2005

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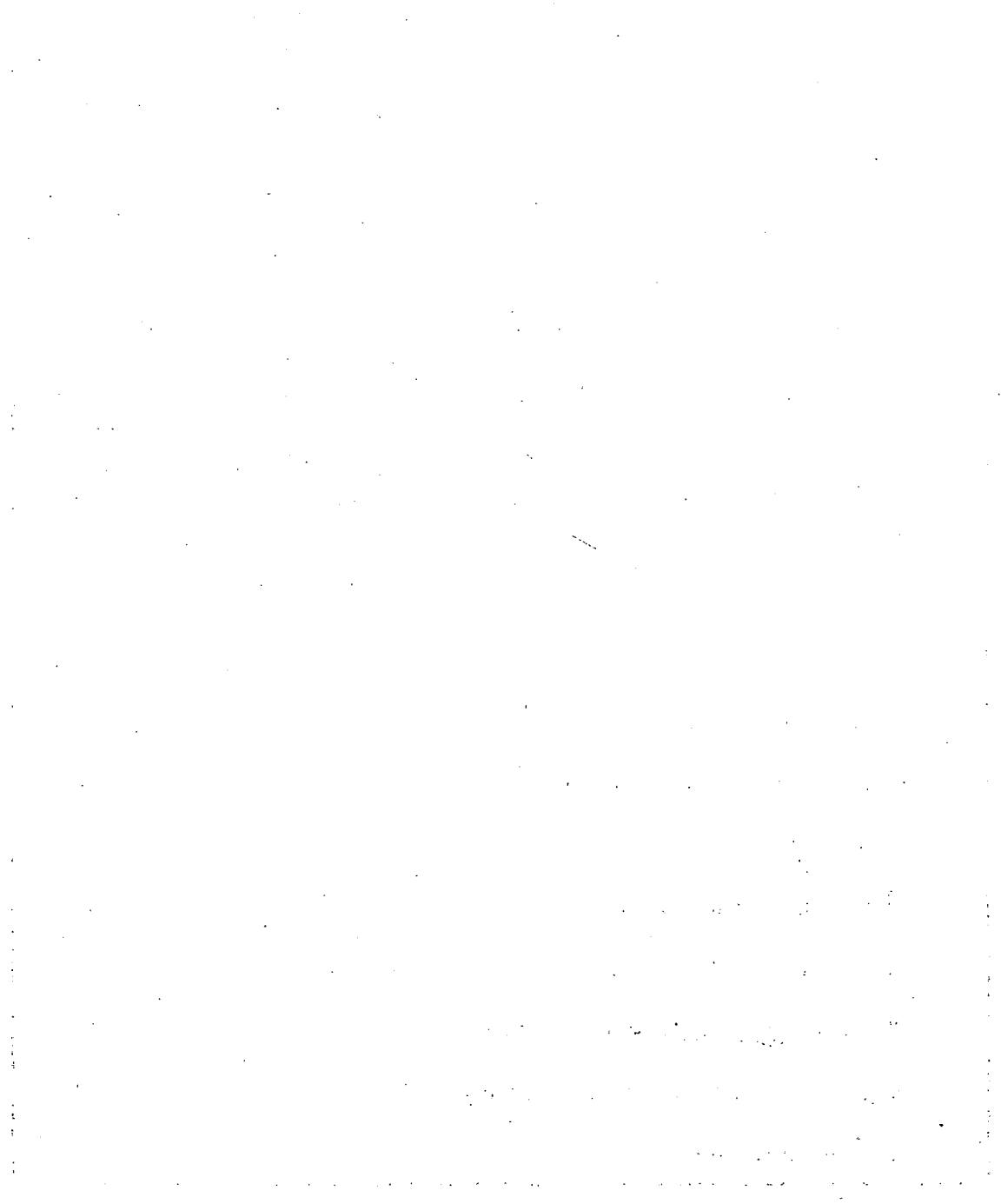
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## PREFACE

This Report of the Comptroller and Auditor General of India containing performance appraisal on '**Control Systems in India Security Press, Nashik**' has been prepared for submission to the President of India under Article 151 of the Constitution.

The findings contained in the appraisal are those, which came to the notice during the course of audit of India Security Press during 2004-05.





## OVERVIEW

Audit of control systems in India Security Press (ISP) Nashik, which is entrusted with the task of printing and supply of security papers and stamps for the Union and state governments and other entities, disclosed deficient controls in the procedures for indents, printing and supply as also non-existent risk perception in this high risk function.

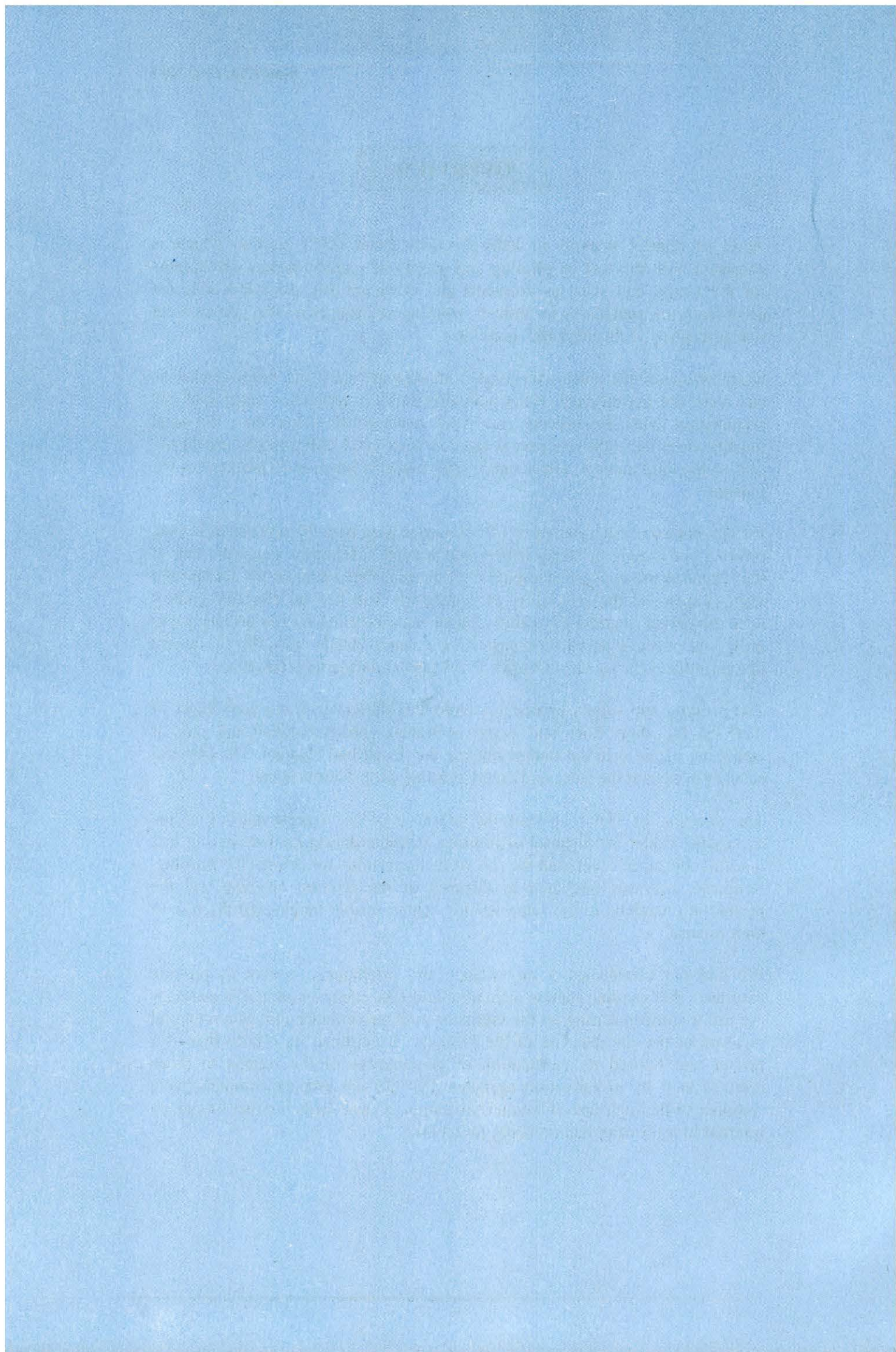
Sharp swings in the indents received from state governments, union territories etc. were not investigated. ISP's annual printing programmes never had any relationship with the indents and were consistently lower than the total indents. Over the eight year period since 1996 to 2004, ISP printed only 46 *per cent* of the total indents. The actual supply was still lower at 43 *per cent* of the indents.

ISP did not carry out assessment of risks associated with the process of indent, printing and supply of stamp papers and stamps. It failed to gauge the risk of the severe short supply of stamp on the functions dependent on the stamps and stamp paper and the possibility of counterfeit. ISP had no effective control over the actual quantity of security paper manufactured by the private paper mills, nor on the manufacture, custody and use of dandy rolls, the equipment that introduces the security features in the papers during its production.

The printing and supply procedures were also deficient. There were cases of theft on the shop floor and many in transit, which entailed the risk of siphoning of the genuine stamps outside the prescribed channel. The physical security system at the gates and on the printing shop floor was lax.

The decision of ISP to permit the presence of the representatives of the successful bidder for disposal of printing machine during its dismantling was questionable since it entailed the risk of its reassembly for counterfeit printing. Similarly, ISP was negligent in disposal of the printing machine and the perforating machine to the same vendor, which further heightened the risk of their misuse.

ISP had not established a surveillance and intelligence system to provide assurance that genuine stamps were used and fake stamps were not in currency nor did it confirm setting up the vigilance-cum-surveillance unit as a remedial measure as per the decision of the Ministry. It confined its role to that of a printer and limited its verification of genuineness of the stamps to those referred to it by investigation agencies. ISP did not prepare comprehensive response to the high risk of counterfeit stamps despite large number of stamps referred to it for examination being found fake.



**MINISTRY OF FINANCE  
DEPARTMENT OF ECONOMIC AFFAIRS**

**Control Systems in India Security Press, Nashik**

**Highlights**

ISP Nashik approached the management of the printing and supply of the security papers and stamps to the Union/state governments, public sector undertakings and local bodies with an attitude of a vendor rather than as an entity entrusted with a high-risk sovereign function of the Government. It did not carry out appropriate risk assessment of the entire process of indent, printing and supply of stamp and stamp papers to the state and Union Governments and bodies and authorities in the public sector.

There was a serious disconnect between the objectives of the indenters and ISP in relation to stamp papers, a contributory factor to ISP's insensitivity to the risks.

ISP consistently printed and supplied the stamps and stamp papers far below the quantities indented by the state governments and other indenting agencies without a concern as to how the indenters coped with supplies of stamps and stamp papers less than half their indents. The documents in the ISP did not display a sound system of production planning, which was far removed from the indents placed by the users.

The perception of risk within ISP associated with different stages of production and supply of stamps was non-existent in as much as it had little control over production of security papers by the paper mills, most of which were in the private sector, over dandy rolls, which is a device to introduce watermark security features in the papers during the course of its production and on supply procedures including discrepancy and theft of stamps.

Far from eliminating all chances of misuse of machinery and equipment due for disposal by complete dismantling with a view to rendering them beyond reassembly, ISP management, in effect, facilitated possible misuse of the machinery by permitting for about two months up to 10 representatives of the successful bidder to watch the dismantling operations of the printing machine to be disposed of. It also sold the printing machinery and perforating machine to the same firm, M/S Unique Enterprises without assessing the risks associated with their sale to the same agency.

The sensitivity of ISP management to error signals was very low and effective lessons-learnt system did not exist. ISP failed to take appropriate measures, despite error signals manifesting in various forms viz thefts within ISP and in transit, missing dandy rolls and large number of counterfeit stamps detected upon examination of suspected documents received from investigating agencies for verification.

Adequacy and effectiveness of remedial measures in relation to indent, printing and supply of stamps and stamp papers in the wake of large scale counterfeit could not be verified in the absence of comprehensive information from ISP

### Gist of recommendations

- *ISP may institute a system to rationalise the indents received from various entities and introduce a system of coordination with them to address erratic indents. It should establish printing plan consistent with the indents along with embedded comprehensive performance information system.*
- *ISP should carry out a detailed risk assessment associated with each stage of the production of paper, manufacture and use of dandy rolls and other equipment used in the process of printing and set up a system of effective control over their custody and utilisation to eliminate the risks of misuse/abuse.*
- *ISP should sensitise the supply procedures to be alive to the risks of short supply, discrepancies, theft etc. an institute a system of time-bound reconciliation, investigation remedial actions along with suitable performance information and lessons-learnt system.*
- *ISP should institute a surveillance and vigilance system to gather intelligence and may consider random drawal of sample of stamps and stamp papers suo-moto in a systematic manner for examination to assure their genuineness.*
- *ISP should strengthen the physical security within its premises by consolidating the measures already taken.*
- *There is a need to establish a formal procedure for disposal of machinery and equipment used for printing of stamps and stamp papers to eliminate all chances of their misuse.*

### 1. Introduction

India Security Press (ISP), Nashik under the administrative control of Department of Economic Affairs, Ministry of Finance is responsible for printing and supply of security papers viz. postal stamps, judicial and non-judicial stamps, cheque books for Reserve Bank of India and State Bank of

India, saving certificates, postal orders, passports, promissory notes and other security documents required by the Central/State and UT Governments, Public Sector Undertakings and Local Bodies. In addition to postal stamps of various denominations, ISP produces 25 categories of stamps and stamp papers in 212 denominations. In so far as ISP is concerned, the value of these security papers is limited to their cost of production, which is realised from the indenters. For the indenting entities, more particularly for the state governments and the Union Government, these security papers are the financial instruments of revenue used for registration of documents, issue of securities and realisation of the cost of postal and other services. Thus, for the indenting entities, the security papers are the money worth their face value.

### **1.1 Audit objectives**

Audit of the control environment obtaining in ISP in regard to indents, production planning and printing, supply, surveillance on the entire operations, sensitivity to error signals and lessons-learnt system in respect of non postal stamps and security papers was carried out consequent to the discovery of large scale counterfeit stamps with a view to assessing whether:

- the system of indent and supply was robust to ensure fulfilment of the requirement of various types of judicial and non-judicial stamps by the state governments and other entities;
- the production plan and actual production of stamps in ISP was consistent with the indents;
- ISP put in place adequate system of control to address the risks associated with the production, supply procedures and security besides short supply against the indents;
- appropriate coordination between ISP on one hand and the indenting entities on the other, existed for review of the forecasts of requirement, indents, and actual supply;
- the disposal procedures of the machinery and equipment used for production of security papers consisted of safeguards to prevent their misuse;
- ISP was sensitive to error signals and undertook measures to address the possible risks associated with the reported aberrations and learnt appropriate lessons from the results of the investigations; and
- ISP undertook effective remedial measures consequent upon large-scale counterfeit operations.

## **1.2 Scope of audit**

The audit was carried out through examination of documents in ISP, Nashik and Security Printing Press, Hyderabad relating to printing and supply of non-postal stamps and security papers over 1996-2004 and through examination of secondary data in private paper manufacturing mills and dandy roll<sup>1</sup> manufacturing units.

## **1.3 Audit methodology**

The thrust areas of audit were high value non-judicial stamps/stamp papers, India Insurance Stamps, India Impressed Court Fee Stamps, Revenue Stamps, Share Transfer Stamps and Notarial Stamps. Detailed testing of documents was made in ISP through examination, analysis and questionnaires. Limited secondary tests were carried out of the documents relating to the production and suppliers of security paper, dandy rolls etc. besides examination of documents at Security Printing Press, Hyderabad.

## **1.4 Acknowledgement**

The audit plan including the audit objectives was discussed in the entry and exit conference and in several meetings with the General Manager, ISP as also with the respective heads of various wings in ISP during the course of audit. Memoranda containing audit observations were issued to ISP management. While the cooperation of the ISP Management during the meetings and in course of audit is acknowledged with thanks, inadequate response by way of written communication was received. Out of 54 audit observation memos relating to this performance audit, General Manager ISP provided reply to only 37. The draft audit report was issued to the Ministry and the General Manager, ISP in July 2004 with a request to furnish response within the prescribed period of six weeks. The Ministry as well as the General Manager, ISP did not furnish reply to the draft audit report. The audit findings and conclusions in this report are, therefore, constrained with the limitation of not having the response from the Ministry and ISP.

## **2. Unmet indents**

ISP received quarterly indents from the state governments, union territories etc. for supply of stamp papers of various categories and denominations. Within ISP, the consolidation of the indents and supply of stamp papers is managed by its central stamp depot. Based on the print requisition by the central stamp depot of ISP, the warrant section issues print warrants to the production section. The central stamp depot is also entrusted with the responsibility of the despatch of the stamp papers to the indenters.

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<sup>1</sup> Dandy roll is a device for solidifying and impressing water mark in the paper during manufacture.

## 2.1 Indents, printing and supply

The production, indent and supply of stamps and stamp papers for ISP from 1996-97 to 2003-04 is given below:

(Sheets in lakh)

Year	Indent	Production	Supply	Shortfall in supply with reference to indent	Percentage of shortfall in production to Indent	Percentage of shortfall in supply to indent
1996-97	5281.89	1711.96	1424.32	3857.57	67.59	73.03
1997-98	5128.18	2012.23	1895.81	3232.37	60.76	63.03
1998-99	3085.69	1311.74	1305.30	1780.39	57.49	57.70
1999-00	1810.14	876.93	946.58	863.56	51.55	47.71
2000-01	2281.13	1406.18	1306.36	974.77	38.36	42.73
2001-02	2738.08	1497.17	1389.22	1348.86	45.32	49.26
2002-03	4117.57	2066.04	1616.51	2501.06	49.82	60.74
2003-04	3279.84	1900.73	1948.77	1331.07	42.04	40.58
<b>Total</b>	<b>27722.52</b>	<b>12782.98</b>	<b>11832.87</b>	<b>15889.65</b>	<b>53.89</b>	<b>57.32</b>

### 2.1.1 Fluctuations in the indents

The total of indents in terms of number of sheets varied over a wide range of 1810 and 5282 lakh sheets during the eight years for which data was collected. ISP did not maintain account of indents and supply in terms of value. The unexplained wide fluctuations in the indents should have raised a doubt about their accuracy and completeness. However, there was no evidence to suggest that ISP analysed the wide fluctuations in the annual indents in consultation with the indenters to find out the reasons for such wide variations.

### 2.1.2 Indents and production

The actual production of stamp papers in terms of sheets disclosed that it had no relationship with the indent. The annual production varied in the wide range of 877 and 2066 lakh sheets. Cumulatively, over the eight years 1996 to 2004, ISP produced only 12783 lakh sheets against the total indent of 27723 lakh sheets, which is only 46 *per cent* of the indent. ISP did not review the reasons for very low production with reference to the indents and its attendant risks. Category and denomination-wise analysis of production of stamps over 1995-2003 confirmed that there was no co-relation between indent, production and supply.

The production was consistently lower than the indent. ISP did not increase production; despite under-utilisation of the production capacity and large unmet indents. The machinery was used on an average for only five hours and 15 minutes against the effective working hours per shift of nine hours. In the absence of log books of machines, which ISP was expected to maintain, unutilised machine-hour remained unexplained.

### 2.1.3 Indents and supply

Just as production of stamp/stamp papers did not have any relationship with indent, the supply also did not follow any pattern. The supply varied between as low as 27 per cent and a maximum of 59 per cent of the indents. Over the eight-year period 1996-2004, the supply was only 11833 lakh sheets against the indent of 27723 lakh sheets; a shortfall of about 57 per cent.

State-wise and denomination-wise analysis of supply against the indents disclosed an arbitrary pattern. While the supplies were largely much lower than the indent, it did not follow any pattern. In a few cases, the supplies were more than the indents while in many these were very low. There were also cases, where supplies were made without any indents. A few illustrative examples are given in **Annex-A**.

While the production was consistently low compared to the indent, ISP retained significant balance in stock at the close of the financial year. Though the rules on the subject provide for retention of the stamps/stamp papers by ISP equivalent to a minimum of three months' stock, the application of this rule has rationale only when ISP has fulfilled the indents completely.

The management of ISP stated that comparison of supply with indents might not be appropriate in view of unrealistic indents placed by various state governments. But, ISP could produce only one evidence wherein a state government had requested ISP not to despatch indented stamps in view of sufficient stock with them. The contention of ISP in support of lower production and supply with reference to the indent is not backed by any review of the indents in consultation with the users.

ISP ought to have reviewed the risk associated with consistent low supply and as to how the indenters were meeting their requirement of stamp papers.

### Recommendations

- ISP may institute a system to rationalise the indents from various entities and introduce a system of dialogue with them to address erratic indents and
- ISP should set up a printing and supply plan consistent with the indents and introduce a transparent system of comprehensive performance information system to the state governments and other indenting entities on one hand and Finance Ministry on the other.

### 2.2 Risks associated with production

Many intermediate steps related to production of the stamp/stamp papers viz., manufacture of security papers, dandy roll for security watermark on the



paper, gumming<sup>2</sup> and super-calendaring<sup>3</sup> etc. are outsourced. These activities carry very high risk of replication for counterfeit and, therefore, warrant appropriate security and surveillance procedure to minimize the risks. Examination of the procedure followed by ISP in relation to these vital activities disclosed that it was not alive to the possible risks and managed the outsourcing of such security related papers in an indifferent manner, as discussed in the succeeding paragraphs.

### **2.2.1 Production of paper**

The agreement with the paper mills which produced paper for printing provided that the paper mills should not produce and supply security paper to other agencies. However, ISP did not exercise any control regarding actual quantities produced by the paper mills against its supply orders, including the wastages. Absence of control by ISP on the production of paper entailed risk of diversion for counterfeit operations. Similarly, ISP did not exercise control over pulping of the rejected stock of security paper manufactured by paper mills, which entailed a risk of its misuse.

### **2.2.2 Dandy roll**

Dandy roll, a device used for introduction of security watermark on to the paper during the course of its manufacture is designed by ISP but manufactured by private producers. The paper mills rather than ISP is responsible for manufacture of dandy rolls through private sources. The manufacturers of dandy rolls are small scale industrial units and do not have a separate licence for their manufacture from ISP. Duplicate production or theft/diversion of the dandy rolls is fraught with serious risk of these being misused to produce paper for counterfeit production.

Examination of the system of control over dandy rolls disclosed disregard for security procedures of this high risk device in as much as ISP did not maintain control of the dandy rolls and their use through the means of their custody, verification and legal backing of agreement/oath by the private users. The inspections by ISP officials were infrequent and follow up actions were non-existent. At no time, ISP assured itself that dandy rolls were not misused.

### **2.2.3 Physical custody and verification of dandy rolls**

As per the documents maintained by ISP, 53 dandy rolls were in the custody of nine paper mills, many of which are not manufacturing paper for ISP for years. ISP had not carried out physical verification of 21 dandy rolls after 1988-89 lying with seven paper mills. ISP had carried out last physical inspection in Titagarh Paper Mills, Kolkata in 1996, in which only 12 dandy rolls out of 26 were available. Neither the 14 missing dandy rolls were traced.

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<sup>2</sup> Process of application of gum/adhesives in adhesive stamps.

<sup>3</sup> Process of smoothening.

nor the 12 that were available, had been taken over by ISP despite no business with this mill for about 20 years.

### **Recommendations**

- ISP should carry out a detailed risk assessment associated with each stage of the production of paper, manufacture and use of dandy rolls and other equipment used in the process of printing and address them effectively to eliminate the risks of misuse/abuse.
- It should also attempt to obtain a legally binding oath/undertaking from the private players involved in the process of production of paper and equipment and printing of stamps/stamp papers.
- The custody and use of dandy rolls should be controlled by retaining them with ISP and released only for the duration of production of security paper. Possibility of automatic embedding the number of sheets of use with each dandy roll may be explored.

### **3. Supply and dispatch procedures**

The procedure for dispatch of the stamp papers suffered from shortcomings, which are pointers towards lower level of sensitisation within ISP to the risks associated with the discrepant dispatch. While deficient control over paper production, dandy rolls and disposal of machines entail risk of counterfeit, loopholes in the printing, supply, dispatch and receipt procedures entail a risk of the genuine security papers printed in ISP finding their way outside the government channel, which could be used for defrauding the government treasuries.

#### **3.1 Excess/short supply**

Short supply and supply of stamps and stamp papers of denominations other than indented or declared in the packing list is high-risk deficiency that could point towards pilferage of the printed stamps and stamp papers. ISP did not take remedial measures despite a number of instances and complaints about the packets dispatched by it containing stamps of incorrect denominations, excess and short supply.

Sample check of documents relating to different consignments in various states disclosed short supplies<sup>4</sup> with aggregate value of Rs. 1453.75 crore and excess<sup>5</sup> supplies of stamps of value of Rs. 687.89 crore in six states during 1996-2003.

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<sup>4</sup> Short supply - Delhi (Rs.239.75 crore), Gujarat (Rs 332.71 crore), Haryana (Rs 1.00 crore), Kerala (Rs.72.26 crore), Punjab (Rs 0.13 crore) and Uttar Pradesh (Rs.807.90 crore).

<sup>5</sup> Excess supply - Delhi (Rs.15.73 crore), Gujarat (Rs.132.41 crore), Kerala (Rs.142.75 crore), Orissa (Rs.6.75 crore), Punjab (Rs.0.25 crore) and Uttar Pradesh (Rs.390.00 crore)

### 3.2 Discrepancy and theft of stamps within ISP

ISP did not investigate large number of cases of discrepancies in figures of the quantity of stamps between the Control section, which was responsible for quality check on the shop floor and packing and the Central Stamp Depot, which was responsible for custody and despatch. The result of sample check is indicated in the table below:

Year	Name of stamp	Issue figure as per control section	Receipt as per CSD	Excess receipt in CSD	Face value
1997-98	India Adhesive court fee stamp of Rs. 5/- of set 80	3,84,425	3,85,215	790	Rs. 3.16 lakh
	India Adhesive court fee stamp of Rs 20/- of set 80	2,88,500	2,89,290	790	Rs. 12.64lakh
2001-02	India Imprest Court fee stamp of Rs 5,000/-	1,17,000	2,17,000	1,00,000	Rs. 50 crore
2003-04	India Adhesive court fee stamp of Rs 2/- of set 80	18,68,200	18,72,200	4,000	Rs. 6.40 lakh

There were three cases of theft of stamps from ISP shop floor with aggregate value of Rs. 1.17 crore. While two cases are pending in the courts of law, in the third case involving theft of stamps valued at Rs. 84.60 lakh, which took place in April 2002, the culprit was yet to be traced but the case was closed.

Such instances of discrepancy and thefts entail risk of printed stamps being diverted through unauthorised channels and warrant a fool-proof system of reconciliation and security.

### 3.3 Loss/theft in transit

Large number of cases of loss/theft of the stamp papers in transit through railways came to the notice of ISP during 1995-2000. The aggregate of the reported cases of loss/theft in terms of the value of stamps were over Rs. 25 crore, with steady increase as under:

Year in which theft was reported	No. of reported cases	Face value of stamps (Rs.)
1995-96	10	7,16,769
1996-97	16	1,97,81,934
1997-98	18	3,83,50,107
1998-99	25	6,10,27,250
1999-00	10	13,04,92,700
<b>Total</b>	<b>79</b>	<b>25,03,68,760</b>

However, sample check of documents in the treasuries of the respective states showed loss of stamps in transit of Rs. 181.52 crore during 1992-93 to 2002-2003 in five states as under:

Sl. No.	Name of the State	Period	Amount (Rs. in crore)
1	Andhra Pradesh	1992-93 to 1998-99	6.81
2	Assam	1993-94 to 2002-03	146.66
3	Rajasthan	1994-95	2.03
4	Uttar Pradesh	1993-94 to 2002-03	20.74
5	Tamilnadu	1992-93 to 1998-99	5.28

This suggests that either all cases of theft/loss in transit were not reported to ISP or the system of reconciliation of dispatch and actual receipt of stamps was unreliable.

Rather than being alive to the risk of fraud and counterfeit, ISP generally assumed a legalistic posture in cases of short/incorrect supply and loss/theft in transit reported to it by the states, taking a stand that under the rules, ISP was not responsible for the discrepancies reported after the prescribed period or that the consignments became property of the consignee, once these were dispatched, etc.

ISP introduced a system of collection of stamps by the representatives of the indenters at Nashik with effect from October 1998.

#### **Recommendations**

- ISP should sensitise the supply procedures to be alive to the risks of short supply, discrepancies and thefts etc. and institute a system of reconciliation, investigation and remedial actions in a time-bound manner.
- ISP should institute an information system to document all discrepancies/theft etc. with periodic reports to the Ministry and indenting agencies along with the stage of reconciliation/investigations.
- ISP may institute a system of accountability for discrepancies in the accounts of stamps and stamp papers within its complex.

#### **4. Surveillance/vigilance system**

ISP did not have an institutionalised system of surveillance/vigilance for this high risk and vulnerable operation, except for a Forgery Detection Cell, whose task was limited to verification of the genuineness of the stamps, whenever a complaint was received from the indenters or investigating agencies. Even this operation was approached in a routine manner, limiting its role to mere reporting of the findings. ISP delayed the verification of the genuineness of the stamps on the referred cases and did not extend the scope of investigation to the possibility of counterfeit on a large scale. Many cases remained un-

investigated for years, sometimes on the ground of non-receipt of the examination fee of a mere Rs. 100 per document.

Year	No. of cases received for examination	No. of reports issued	No. of outstanding cases
1995	75	69	6
1996	73	68	5
1997	92	85	7
1998	90	88	2
1999	133	124	9
2000	138	134	4
2001	139	125	14
2002	200	185	15
2003	249	170	79
<b>Total</b>	<b>1189</b>	<b>1048</b>	<b>141</b>

Large number of the cases referred for examination of genuineness of the stamps pertained to Uttar Pradesh (241), Maharashtra (294), Andhra Pradesh (156), New Delhi (140) and Tamil Nadu (57).

Out of the total 69,648 documents of suspected counterfeit stamps consisting of non-postal stamps and stamp papers, the examination by the fraud detection unit disclosed fake stamps in 50313 documents.

ISP ought to have approached the subject of suspected authenticity of the stamps with the attendant risk perception rather than approaching it from the mechanical point of view of reporting the findings and examination fee alone. In almost all cases the references were received from Government agencies and, therefore, refusal to undertake examination of suspected security documents for non-receipt of the examination fees betrayed total lack of awareness of the risk.

Besides, ISP did not set up its own surveillance and vigilance system in coordination with the state governments and other users by way of drawing of random samples from the users or the used stamps and appropriate intelligence system in the light of the vulnerability of the system to abuse by counterfeiting.

The status of setting up of vigilance-cum-surveillance unit in ISP consequent upon Ministry's decision after the discovery of the counterfeit stamps could not be verified in the absence of a response from ISP.

### Recommendations

- ISP should give effect to the decision of the Ministry to set up surveillance and vigilance system to gather intelligence and samples of stamps and stamp papers *suo-moto* in a systematic manner for examination to assure

their genuineness and exclusion of counterfeit. It should also complete examination of genuineness of stamps received for check from the investigating agencies delinking it from the actual receipt of examination fee in view of high risks involved.

## **5. Physical security and disposal of machinery**

The physical security within ISP, which ought to have multi-level reinforced security system, had been lax. While Maharashtra police managed the security at the gates, the departmental security personnel were responsible for security at the shop floor. Central Industrial Security Force replaced the Maharashtra police at the gate from October 2002 and the department security personnel at the shop floor from September 2004. However, even after introduction of Central Industrial Security Force, many security related recommendations by the Intelligence Bureau were yet to be implemented as of March 2004. Some of these included upgradation of the access control and installation of electronic access control system, creation of apex level security committee, frisking of all employees and visitors, etc.

### **5.1 Negligence in disposal of the machinery**

ISP was negligent in disposal of the equipment and machinery used for printing and other operations in printing of stamp paper. It did not dismantle them for 'as is where is basis' with a view to eliminating any risk of their re-assembly for counterfeit operation, precluding the same person/firm from buying the condemned machinery of different types used in printing and other associated operations etc. Far from this, ISP actually facilitated knowledge of assembly of the machines by permitting up to 10 representatives of the successful bidder, M/s Unique Enterprises to witness the dismantling of the machines before their disposal for two months in two spells during June-September 1998. ISP was also negligent in the sale of the condemned printing machine and perforating machine to the same firm, M/S Unique Enterprises at different points of time between June 1998 and September 1998.

## **6. Insensitivity to error signals and absence of lessons-learnt system**

ISP did not sanitise its systems and procedures in the light of error signals it received by way of discrepancy in the quantity of stamps in the packing within the Press, between the quantities dispatched and actual receipt by the indenters, theft in transit and within ISP etc. It also failed to take remedial measures after dandy rolls were not found in physical inspections. Even the large scale discovery of counterfeit stamps upon examination of the suspected stamps received from various investigating agencies did not prompt ISP to set up a surveillance and intelligence system in order to minimise or eliminate the risk of production and circulation of counterfeit stamps.

## **Recommendations**

- ISP should consolidate the physical security within its premises by consolidating the measures already taken;
- ISP should establish a formal procedure for disposal of machinery and equipment used for printing of stamps and stamp papers to eliminate all chances of their misuse, in the light of remedial measures decided by the Ministry; and
- Institute proper system to be alive to signals of errors/aberrations and establish a lessons-learnt system.

## **7. Conclusion**

It would, thus, be seen from the above that ISP approached the responsibility of printing of the stamps and stamp papers in a mechanical way, more or less like a vendor rather than as an important partner and stakeholder. It was because of this approach that the level of sensitivity to the correctness of indents, supply against indents, risks with production, despatch, security and disposal etc. was rather low. As brought out in the introduction, the detached approach was borne out of the perceived value ISP attached to the stamp papers.

There is inherent disconnect between the value of the security papers for the producers and the indenters and the objectives of the two are detached. In view of this, it is imperative that the procedures for indent, printing, supply and utilisation are interlinked and controlled in an integrated manner. For the same reason, it is also necessary that appropriate risk assessment is carried out and structured procedures are put in place to address the risks to the entities.

However, as disclosed from the audit findings the procedures were not integrated and transparent. Risk assessments of the various operations were not made.

## **8. Remedial measures**

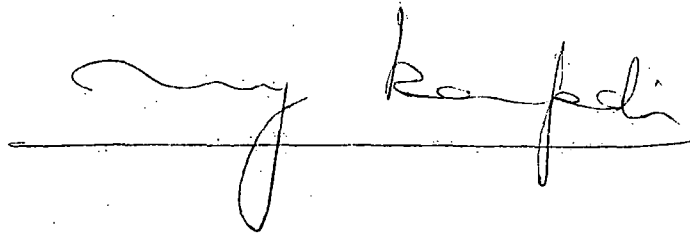
In response to an audit memo about remedial measures taken in the light of discovery of large scale counterfeit stamp papers, the Ministry of Finance stated in March 2004 that the following remedial measures had been taken:

- Introduction of new security features in non-judicial adhesive stamps;
- Disposal of machinery after dismantling and crushing them for sale as scrap;
- Change in the system of indenting procedure from quarterly to half-yearly, with three-year rolling indent.
- Regular surveillance by Intelligence Bureau and setting up of vigilance-cum-surveillance cell at ISP; and

- Replacement of the existing security with CISF.

Verification of actual implementation of remedial measure in ISP could not be made. General Manager, ISP did not furnish information on the status of the above remedial measures except confirming that CISF security and the system of forecasting the indent for three years had been introduced.

However, the remedial measures approved by the Ministry do not address some of the other critical issues relating to risks associated with inaccurate indents, insufficient printing and supply, absence of coordination between indenters and ISP, production of paper, manufacture, custody and use of dandy rolls etc., discrepancy in the packaging and absence of lessons-learnt system.



**Mumbai**

**Dated 29 March 2005**

**(NANDINI Y. KAPDI)**

**Principal Director of Audit (Central)**

**Countersigned**



**New Delhi**

**Dated 5 April 2005**

**(VIJAYENDRA N. KAUL)**

**Comptroller and Auditor General of India**



**Annex-A**  
**(Refers to paragraph 2.1.3)**

**India Non-judicial Stamps**

*(Figure in lakh sheets)*

Denomination	2001-02			2002-03		
	Indent	Production	Supply	Indent	Production	Supply
Rs. 100	232.580	155.240	129.620	445.950	290.480	225.810
Rs. 500	85.950	60.240	55.990	134.90	52.80	67.420
Rs. 1000	330.425	156.600	186.540	443.317	243.960	177.770
Rs. 5000	76.258	65.000	47.870	133.618	47.200	62.680

**State-wise analysis (Illustrative examples)**

Name of the State	2001-02								2002-03							
	Rs. 100		Rs. 500		Rs. 1000		Rs. 5000		Rs. 100		Rs. 500		Rs. 1000		Rs.5000	
	Indent	Supply	Indent	Supply	Indent	Supply	Indent	Supply	Indent	Supply	Indent	Supply	Indent	Supply	Indent	Supply
Assam	5.760	0.000	2.460	0.000	1.930	0.000	1.120	0.000	9.550	2.310	3.225	0.900	2.367	1.070	0.944	0.530
Haryana	3.550	1.600	2.100	2.000	3.620	2.980	3.130	1.900	8.640	2.970	2.570	0.000	6.780	4.000	2.880	1.000
Punjab	20.000	8.000	6.000	3.000	12.000	6.500	2.000	1.400	48.50	4.410	21.820	6.320	33.350	6.500	11.350	2.900
Uttar Pradesh	99.150	37.400	57.150	27.500	132.800	51.620	14.000	4.900	148.80	90.830	70.300	43.800	133.400	53.850	52.400	28.800

