

## EXECUTIVE SUMMARY

The defence pension is disbursed to over 25 lakh pensioners involving an expenditure of over ₹60,000 crore every year. The defence pension management system rests primarily on four pillars comprising the Record Offices that maintain the service records, the pension sanctioning authorities, the pension disbursing agencies and the RBI, which manages the cash balances of the government and reimburses the pension disbursed by the banks to the pensioners.

Pension is sanctioned by the Principal Controllers of Defence Accounts, at Allahabad, Mumbai (for Navy) and Controller of Defence Accounts, New Delhi (for Air Force), working under the Controller General of Defence Accounts, Ministry of Defence. Pension is disbursed by the Defence Pension Disbursing Offices (DPDO) of the Defence Accounts Department, banks, Indian Embassy, Nepal, State Treasuries, Pay & Accounts Offices and Post Office, Kathua (J&K).

### Why did we do this Review?

The review was undertaken to ascertain the efficiency and effectiveness of the Pension Disbursement System including the budgeting, accounting and internal controls existing in the four pillars of the defence pension system viz., the Record Offices, the Pension Sanctioning Authorities (PSAs), the Pension Disbursement Agencies (PDAs) and the Reserve Bank of India. The objective of the review was to report on the efficiency and effectiveness issues, including the Information Technology applications in place, with a view to make appropriate recommendations.

### Key Findings

#### 1. Incomplete accounting of pension expenditure

We observed that every year substantial amount of expenditure was not booked to the pension head of account and was lying under RBI Suspense head because of the inability of the banks to furnish the Pension Payment Scrolls on the basis of which the Principal Controller of Defence Accounts, Pension [PCDA (P)] would book the amounts to the final head of account. This resulted in incorrect depiction of pension accounts, with attendant implications for the revenue deficit figures of the government. The cumulative amount lying in the suspense head at the end of March 2016 was ₹6,831.95 crore.

(Paragraph 2.3)

## **2. Inefficiencies in the pension authorisation process**

We observed that the process for authorization of the pension involved several players and multiple stages, often resulting in avoidable delays in issue of the pension payment orders (PPOs). There was a need for review of the authorization process, so that it is less cumbersome and less time consuming.

We also observed that although the information is being captured electronically at the Record Offices, the PSAs and the PDAs, the lack of their integration results in an inefficient flow of information that is prone to transcription errors and the resultant errors in the pension payments.

*(Paragraph 3.2)*

## **3 Deficiencies in the pension disbursement system**

We observed that the transmission errors as well as other mistakes in the banks, which account for nearly 75 per cent of the pension disbursements, had resulted in numerous cases of underpayments and overpayments. The main points noticed were:

- (a) We identified, based on test check for one month, cases of 21,434 pensioners who were under-paid amounting to ₹106.17 crore. Major reasons for underpayments were non-revision/ incorrect revision of pensions, non-restoration of commuted portion of pension, wrong revision of disability element, and non-revision of fixed medical allowance. Analysis of bulk data for the period 2011-12 to 2015-16 indicated possible underpayment of ₹228.85 crore. These cases needed detailed investigation.

*(Paragraph 4.2)*

- (b) Similarly, we observed overpayment of ₹118.23 crore to 11,973 pensioners based on test audit of the records of one month. Major reasons for over-payment were incorrect revision of pension, non-deduction of commuted portion of pension, and irregular payment of fixed medical allowance. Analysis of bulk data for the period 2011-12 to 2015-16 indicated an overpayment of ₹518.70 crore. These cases needed detailed investigation.

*(Paragraph 4.3)*

- (c) Our test audit also indicated several cases of double payments and other irregularities in disbursement of pension such as pensions of multiple pensioners being credited to one account, pension being paid by the PDA without the Pension Payment orders (PPOs), and certain instances of pension being paid from the defence head to the pensioners of other departments.

*(Paragraph 4.4 and 4.5)*

- (d) We also observed instances of delays in recovery by the PDAs of the amounts overpaid by them.

(Paragraph 4.6)

- (e) Analysis of the pensioners' bulk data maintained by PDAs showed several deficiencies in the data maintained such as missing account number, name or the PPO number, errors in the date of birth recorded in the system, pension for the same PPO credited to different accounts, and pension for different PPOs being credited to one bank account *etc.* There were also mismatches between the information in the banks' payment scrolls and the information maintained by the sanctioning authority i.e., PCDA.

(Paragraph 4.7)

- (f) Lack of validation checks and missing information were also noticed in the Aashraya software used by the Defence Pension Disbursing Offices.

(Paragraph 4.8)

- (g) There were several cases of non-deduction of Income Tax at source.

(Paragraph 4.9)

#### **4. Control deficiencies**

We observed control deficiencies in all the four pillars of the pension disbursement system which adversely impacted the efficiency and effectiveness of the system. Some of the major control deficiencies were:

- (a) Delays in getting information from the units contributed significantly to the delays in processing of the pension cases.

(Paragraph 5.1)

- (b) The control deficiencies at the PCDA (P) included absence of controls on maintaining information about the exact number of pensioners, lack of control on correct accounting, inadequate audit, and inadequate monitoring of the cases of overpayments, fraudulent payments, and overseas claims *etc.*

(Paragraph 5.2)

- (c) Similarly, the RBI had weak or deficient controls for ensuring that the banks made correct disbursements of the pensions, and submitted accounts of the disbursements made by them in time. An example of this was the fact that there was a difference of ₹ 179.55 crore between the

amount reimbursed by RBI to Bank of Baroda (BOB) and the amount paid by BOB to the pensioners during 2011-12 to 2015-16.

(Paragraph 5.3)

## **5 Key Recommendations**

Some of the key recommendations made by us in light of the audit findings are as follows:

- RBI should make the reimbursement to the banks conditional upon the proof of submission of the payment scroll to the PCDA (P). Alternatively, RBI should introduce financial disincentives for not submitting the electronic-scrolls (e-scrolls) to PCDA (P) Allahabad.
- While the existing monitoring system for timely authorisation of the pension should be strengthened, the existing procedure should be reviewed to see if it could be simplified to make the process less cumbersome and less time consuming. Lessons learnt on the non-defence, civil pension side, including delegated powers to Heads of the Offices to sanction pension, could be explored for adoption.
- PPOs should be sent by the PSAs directly to the PDAs, in electronic form.
- The three pillars-Record Offices, PSAs, and PDAs- should be connected online, enabling automated flow of information, in a secure mode, with proper validation and security checks.
- PCDA (P) should implement comprehensive e-audit of the scrolls for timely detection of deviations, including under and overpayments, to enable prompt corrective action.
- PAN number should be captured in the original profile maintained by the Record Offices and travel through the chain of transmission to the PDAs to facilitate TDS.
- In order to provide the pensioners a hassle-free method of submitting life certificates to the PDAs, Aadhaar number should be captured to take advantage of the Jeevan Praman initiative of the Government.