

CHAPTER V: MINISTRY OF EXTERNAL AFFAIRS

5.1 Undue financial benefit to the service provider

The permission of the Ministry to enhance the service charge per visa applicant by 12 per cent of the existing rates on the basis of increase in property tax resulted in undue financial benefit of ₹ 3.45 crore to the service provider from October 2011 to December 2012.

High Commission of India, London (Mission) and its consulates in Birmingham and Edinburgh executed an agreement with M/s VF Services (UK) Ltd (service provider) on 24 January 2008 for providing various visa support services. As per condition 4.2 to Schedule I of the agreement, the amount of service provider's service charge could be changed only if there is a change in the rate of local taxes or VAT.

The service provider requested (July 2010) the Mission for an increase in service charge from £ 6.90 per applicant to £8.80 on account of inflation, depreciation of Great Britain Pounds against Indian Rupee, drop in number of applicants and increase in Rates and Taxes. The Ministry agreed to revise the service charge due to increase in local taxes by 12 per cent and stated that the service charge could be enhanced by that percentage. However, the Ministry wrongly applied the rate of increase of 12 per cent in property taxes to the entire service charge instead of restricting it to the percentage/weight of property tax in the service charge. Thus the enhancement of service charge to £ 7.70 per applicant from 12 September 2011 resulted in undue benefit of ₹ 3.45 crore as explained in the succeeding paragraphs.

Audit scrutiny (January and August 2012) revealed that the service provider processed 498333 visa applications during the year 2010. Therefore, the total service charge collected by them during the year was £3438498 at the rate of £6.90 per application. During the years 2010 and 2011, the property tax paid by the service provider was £127230.4 and £ 139969.20 respectively. Thus the increased outgo on account of property tax in absolute terms was £12739 (Annex A). In percentage terms, the property tax increased from 3.70¹ per cent

¹ 498333 (number of visa applications during 2010) multiplied by £6.90 (the existing service charge per applicant)- £3438497.70 , £127230.40 (property tax for the year 2010) divided by £3438497.70 (total service charge levied for 2010) multiplied by 100 = 3.70 per cent.

in 2010 to 4.07² per cent in 2011, of the total amount of service charge collected in 2010. Therefore, the increase in property tax was only 0.37³ per cent of the existing charge levied by the service provider.

Instead of restricting the increase in service charge to 0.37 per cent of the existing rate, the Ministry wrongly enhanced it to the percentage of increase in property tax when compared with the property tax for the year 2010 which worked out to 12⁴ per cent. The revised service charge should have been £6.93⁵ instead of £7.70 approved by the Ministry, as an increase of £0.03 per application resulting in additional revenue of £15658⁶ was sufficient to cover the extra outgo of £12739⁷ on account of increase in property tax. Thus, the erroneous method adopted for calculating the enhancement of service charge due to increase in property tax resulted in wrongful enhancement of service charge by £0.80 per application and undue financial benefit of £455688.31⁸ (₹ 3.45 crore)⁹ to the service provider from October 2011 to December 2012.

The Mission replied (November 2012) that the inputs have been forwarded to the Ministry for a reply and the Audit would be provided with the facts once these are made available to the Mission.

The matter was referred to the Ministry in November 2012; their reply was awaited as of June 2013.

² 498333 (number of visa applications during 2010) multiplied by £6.90 (the existing service charge per applicant) = £3438497.70, £139969.20 (property tax for the year 2011) divided by £3438497.70 (total service charge levied for the year 2010) multiplied by 100 = 4.07 per cent.

³ 4.07 per cent deduct 3.70 per cent.

⁴ £5550.63 (property tax for 2011 i.e. £51140.63 deduct property tax for 2010 i.e. £45590) divided by property tax for 2010 (£45590) multiplied by 100

⁵ By adding 0.37 per cent to £6.90 (existing service charge per application)

⁶ 521945 (number of applications processed by service provider during 2011) multiplied by £0.03 deduct £127230 (property tax paid by service provider during 2010)

⁷ £139969 (property tax paid by service provider during 2011) deduct £127230 (property tax paid by service provider during 2010)

⁸ £0.77 per application multiplied by 591803 (number of application processed during October 2011 to December 2012)

⁹ At exchange rate of 1£ = ₹ 75.71 (the exchange rate of October 2011 which was the lowest rate of exchange during the period from October 2011 to July 2012) = ₹ 34500162