

CHAPTER I : INTRODUCTION

1.1 Defence Pension

As of April 2016 defence pension was being disbursed to over 25 lakh defence pensioners¹ with an annual expenditure of over ₹60,000 crore. The Defence Accounts Department (DAD) is the focal agency for Pension in respect of the Defence Forces and other establishments under the Ministry of Defence. The Principal Controller of Defence Accounts (Pension), Allahabad [PCDA (P)] is responsible for sanctioning, accounting, auditing, *etc.*, of pensions of Defence Services personnel as well as of the civilians of the three Services². In respect of Air Force and Navy, the pension cases are processed by the Controller of Defence Accounts (Air Force), New Delhi and the Principal Controller of Defence Accounts (Navy), Mumbai respectively.

This report contains a performance review of the defence pension system over the period from 2011-12 to 2015-16. **Annexure-1** contains a list of abbreviations used in this review and a glossary of the terms related to defence pension including the various types of pensions for the defence personnel.

1.2 Stakeholders in Management of Defence Pension

The management of defence pension rests primarily on *four* pillars comprising (i) the **Record Offices** (ROs) that maintain the service records, issue the Discharge Orders to the Units and send the pension proposals to the sanctioning authorities³ after completing procedural formalities including verification from the units, (ii) the **Pension Sanctioning Authorities** (PSA) that authorize the pension and issue the Pension Payment Orders (PPOs), (iii) the **Pension Disbursement Agencies** (PDA) like Banks, Defence Pension Disbursing Offices (DPDOs), Treasuries and the Post Office, Kathua that disburse the pension and send detailed payment scrolls to the PCDA (P) Allahabad for accounting, and (iv) the **Reserve Bank of India** (RBI) that manages the government cash balances, reimburses to the banks pensions disbursed by them and sends the payment details to the PCDA (P) for accounting of the expenditure. **Chart 1** is a schematic representation of the pension management system, which is briefly described in **Annexure-2**. Apart from being the pension sanctioning authority for the army, the PCDA (P)

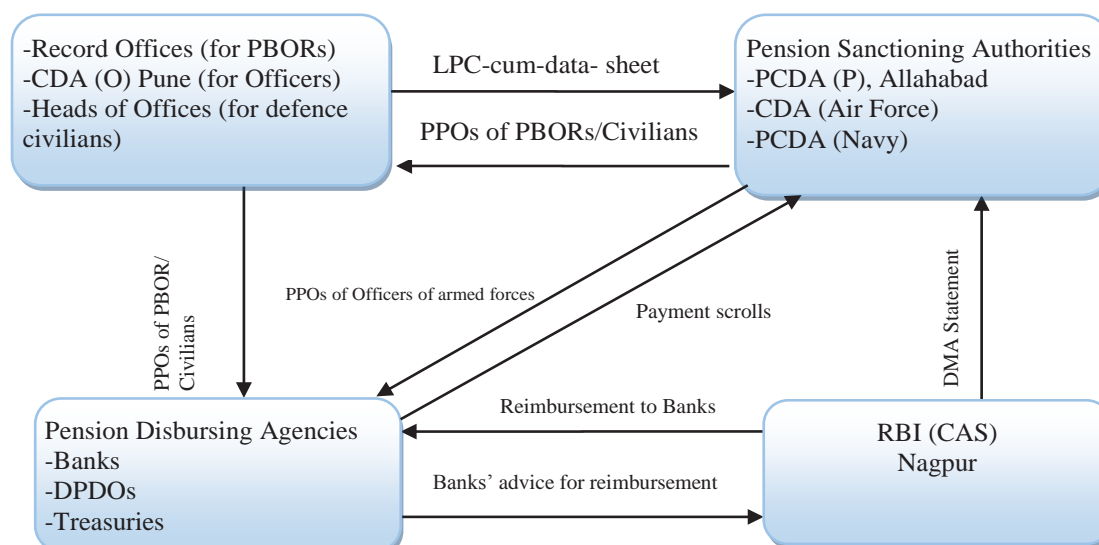
¹As informed by the Principal Controller of Defence Accounts, Pension, Allahabad.

²including those of the Defence Accounts Department, General Reserve Engineers Force, Coast Guard, Military Nursing Services (Local), NCC Officers, Departmental Canteens and Statutory Canteens.

³Of personnel below officers rank (PBOR). The pension papers of Army Officers are sent to the PCDA (P) Allahabad by CDA (O) Pune, while those of Air Force and Navy officers are sent to the JCDA (AF) and PCDA (Navy) respectively through their Record Offices.

Allahabad also maintains record of the pension cases sanctioned by the PSAs of Air Force and Navy, which send a copy of all PPOs issued by them to the PCDA (P) Allahabad.

Chart 1 : Schematic diagram of defence pension management



PCDA (P) Allahabad is responsible for accounting of all pension disbursements except those made by the defence pension disbursing authorities (DPDOs) which send the expenditure details to the CDA (Pension Disbursement), Meerut and CDA, Chennai for accounting.

1.3 Scope of Audit

The performance audit of the management of defence pension was conducted with a view to examine the efficiency and effectiveness of the defence pension management. The performance audit covered the period 2011-12 to 2015-16 but did not cover the One Rank and One Pension (OROP) scheme announced by the Government in February 2016.

1.4 Audit Objectives

The Performance Audit focused on:

1. Whether the provision of funds for pension was adequate and proper accounting of expenditure on pension was done (**Effectiveness**);
2. Whether the sanction of pension and dispatch of pension payment orders (PPOs) were being done timely (**Effectiveness**);
3. Whether the pension disbursing agencies were disbursing the pension correctly (**Efficiency**);

4. Whether the systems of internal control and the system of redress of pensioners' grievances/ complaints were functioning effectively (**Effectiveness**);
5. Whether the IT Applications used by the Pension Sanctioning Authorities and Pension Disbursing Agencies were functioning efficiently and effectively.

1.5 Audit Criteria

The performance was assessed against the criteria drawn from the following:

1. Budget guidelines issued by the Ministry of Finance.
2. Master Circulars and instructions issued by the RBI.
3. Defence Accounts Department Office Manual Part-II, Volume-I.
4. Defence Accounts Department Office Manual Part-IV, Volume-I to V.
5. Financial Regulations Part-I.
6. RDR Pamphlet for classification of Heads of pension expenditure.
7. Pension Regulation Part-I for Army/ Navy/ Air Force.
8. CCS (Pension) Rules 1972.
9. Government of India, Ministry of Defence, Department of ESW letter No 17(4)/2008(2)/D(pen)/policy dated 12/11/2008 and subsequent orders on revision of pension issued from time to time
10. Defence Pension Payment Instruction 2013.
11. Annual Action Plan of Ministry of Defence for Pension Adalats.

1.6 Audit Methodology

1.6.1 The performance audit started with an entry conference held in April 2016 in the Ministry of Defence (MoD). The field audit was conducted from April to September 2016 through examination of a sample of records of the Record Offices, PSAs, PDAs and the RBI; information collected through audit memos and questionnaires; and analysis of data in the computerized systems of the PDAs and PSAs. A sample of 300 pensioners, selected using the Systematic Random Sampling Method, was test checked during manual check of the records in each selected PDA. The details of the audited entities and the sample selected for review are given in **Table 1.1** below:

Table 1.1 : Details of the audited entities and the sample selected

Sl. No.	Audited Entity	Total Nos.	Selected for audit	Remarks
1	Record Offices	54	10	Examination of the time taken in dispatch of PPOs to PBORs and PDAs.
2	<u>Pension Sanctioning Authority (PSA)</u> -PCDA(P) Allahabad -PCDA(Navy) Mumbai -CDA(Air Force) Delhi	03	03	Responsible for granting (sanctioning) defence pension. PCDA (P) is also responsible for accounting and audit of all defence pensions.
3	<u>Pension Disbursing Agencies (PDAs)</u>			
	-Public Sector Banks	51	16	Account for 74.8% of pensioners*
	-DPDO/CDA(PD)/ZO(PD)	63	12	Account for 18.5% of total pensioners
	-Indian Embassy, Nepal	03	03	Account for 3.9 % of total pensioners
	-Treasuries	640	08	Account for 2.44 % of pensioners
	-Post Office, Kathua, J&K	01	01	Account for 0.2 % of total pensioners
4	Other entities -RBI, CAS, Nagpur -CGDA -MoD		03	Apex units responsible for policy formulation, budgeting, cash management and accounting of defence pension
	Total		54	

*As per records of the PCDA (P) Allahabad, there were 24, 61,651 defence pensioners as on 01/04/2015, which increased to 25,00,631 on 01/04/2016.

1.6.2 IT tools were used to analyse the computerised data of the ROs, the PSAs and the PDAs. Similarly, the pensioners' profile and e-scroll data in the 16 (out of 51) selected Public Sector Banks and 63 DPDOs⁴ was also analysed. The e-scroll data for the period 2011-12 to 2015-16 received from the PDAs in the PCDA (P) and containing 7,15,31,468 records was consolidated. In addition, data of pensioners enrolled under ECHS⁵ was also used for analysis. The size of the data analyzed is indicated in the **Table 1.2** given below:

Table 1.2. : Size of the data analysed

Sl. No.	Organisation	No. of Pensioners
1.	PCDA (P) Allahabad	21,70,939
2.	ECHS beneficiary data	15,15,716
3.	CPPCs (16)	14,57,041
4.	DPDOs (63)	4,57,037

1.6.3 Data analytics tools were used to analyse the pension payment scroll data obtained from the CPPCs of Banks and the DPDOs and the data maintained by the pension sanctioning authorities.

⁴ Defence Pension Disbursing Offices of Defence Accounts Department(DAD)

⁵ Ex Servicemen's Contributory Health Scheme

1.6.4 As the authenticity of the data rests with the authorities maintaining the data, the result of the analysis would need to be independently verified by them before initiating appropriate action.

1.6.5 The draft report was sent to the MoD on 30 December 2016. An exit conference was held on 23/02/2017 with the Secretary, Department of Ex Servicemen's Welfare, MoD, when major audit findings and audit recommendations were discussed. The comments of MoD, received in March 2017, were incorporated in the report, wherever applicable, and the revised copy of the review was sent to the MoD on 08 June 2017. This report has been further updated to incorporate the reply of the MoD dated 28 June 2017.

1.7 Acknowledgements

We acknowledge the co-operation of officers and staff of the Ministry of Defence, the Defence Accounts Department, the Ministry of Finance, the RBI, the Public Sector Banks, the Treasury Offices and the Post Office selected in audit.