

Data Preparation Procedures

Description	Management should establish data preparation procedures to be followed by user departments. In this context, input form design should help to assure that errors and omissions are minimized. Error handling procedures during data origination should reasonably ensure that errors and irregularities are detected, reported and corrected.
Control Notes	<p>The source documents from which data was entered in the system were found inadequate, as they were not capturing certain crucial information. Majority of the users commented that the fields available in the Acknowledgement Sheet were not sufficient for entering data.</p> <p>Certain information such as details of challans, capital gains, exempt income, brought forward loss and set off of brought forward loss, amount of book profit (for 115JA/115JB), investment u/s 88, income from other sources, income clubbed under Section 64 was not captured in the input form design. The system also needs inclusion of parameters to populate the due dates in respect of Form Nos 1, 2 and 3. There is no provision for entering advance tax more than Rs 100 crores.</p> <p>The acceptance of returns and giving of acknowledgement numbers is not a part of AST.</p>
Management Response	Source documents are statutory, therefore there are inherent limitations outside the scope of computerization. Automatic population of due dates cannot be provided as they often change. Entry of Advance Tax more than Rs. 100 crore can be done through search and claim from OLTAS/AST has the functionality for computerized receipt of returns in its RRR sub-module. Due to practical problems it is difficult to enter returns in the RRR sub module. AST has provisions for trapping data entry errors with alert messages.
Assessment	<p>Input form design was not sufficient to ensure integrity and completeness of data.</p> <p>Computerization efforts have to be in synergy with the business requirements and statutory provisions of the Department; these issues would need to be dealt with within the purview of the overall computerization effort.</p>

Recommendation	<p>13. The department should review the source document formats and ensure that they provide for all the information that is necessary for processing of a return. Procedures should be set down to trap errors in the acknowledgement sheets and that to detect and correct these in a timely manner. The acceptance of returns and giving of acknowledgement numbers should be made a part of the AST module. Data from the Annual Information Returns should be linked and entered. Crucial information from the P&L Account and Balance Sheet could also be captured to increase the efficiency of picking up cases for scrutiny through CASS.</p>
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Source Document Authorization Procedures

Description	<p>Management should ensure that source documents are properly prepared by authorized personnel who are acting within their authority and that an adequate segregation of duties is in place regarding the origination and approval of source documents.</p>
Control Notes	<p>Returns received from the assessee in the receipt section of the range office are made into bundles according to the convenience of the concerned assessing officers. Bundles should be prepared by the Range JCIT and allocated to the different assessing officers which is not being done.</p> <p>Bundles do not contain all the returns sequentially based on the acknowledgement numbers. Further, the returns received are made into bundles consisting of “Nil Demand”, “Refund” and “Demand”. The assessing officer/assessing officer Staff generates the bundle number sequentially in the AST software.</p> <p>No check is exercised to ensure that all the returns received are included in the bundles.</p>
Management Response	<p>JCITs allocate bundles only in pilot ranges and not in normal ranges. Returns need to be segregated to process refund returns on priority. The seasonal rush of returns makes it impractical to issue sequential acknowledgement numbers but physical control is exercised by assessing officers and JCITs.</p>

Assessment	<p>The segregation of duties between origination of source document (tapal section) and authorization in the assessing officers section was adequate.</p> <p>The concept of pilot ranges and normal ranges has now been discontinued according to the new system of record keeping units (RKUs), all records are centralized with the range JC who is to allocate returns to all the assessing officers in the jurisdiction.</p> <p>However, the system allowed for the authorized returns to be entered in the system in any order which is in contravention of the business rule of following the order of acknowledgement number.</p> <p>There is no system in the AST software to ensure that all the returns received are being included in the bundles and processed.</p> <p>Audit found that the issue of sequential acknowledgement numbers was feasible and desirable in order to requisitely control and monitor the processing of returns.</p>
Recommendation	<p>14. The department should institute procedures to ensure that</p> <ul style="list-style-type: none">(a) All the returns are entered into the system sequentially.(b) All the returns entered are processed sequentially, by devising reports such as gap-analysis at various stages.

Data Input Authorization Procedures

Description	The organisation should establish appropriate procedures to ensure that only authorized staff performs data input.
Control Notes	<p>The entries made by the staff into the system are to be validated by the assessing officer but this process is not satisfactory in all the states selected for audit.</p> <p>It was found that outsourcing was being done in Tamil Nadu, Karnataka, Mumbai, Uttar Pradesh and Himachal Pradesh for data entry of returns. The process was not being controlled and monitored to ensure that data entry was mandatorily authorized by the assessing officer.</p> <p>Data already entered by the staff in one State was accessible to the outsourcing agents who had the user Id and password of the departmental officers.</p>
Management Response	The roles available in the AST module allow the assessing officer and the staff to make entries but only the assessing officer can process the entries .Outsourcing is done according to a scheme which has the necessary guidelines and operates in a limited manner. Data already entered was not available to the outsourcing agents as the work was done under the supervision of the officers of the department. Assessing officers are involved in verification of data entry.
Assessment	<p>Field audit reports indicate that input controls are inadequate and issues relating to authorization are not adequately addressed.</p> <p>As far as data entry by third party service providers is concerned, in the absence of an adequate contract taking into account various aspects of security and authorization there are possibilities of security lapses, which would compromise and vitiate the data in the system.</p> <p>The assessing officer has the final responsibility for the returns filed and processed including the accuracy of the inputs and outputs of the system. Therefore final authorization of the input data should be done by the assessing officers. However, audit found that this was not strictly followed in several cases in all selected states.</p>

Recommendation	<p>15. The assessing officers should be issued stricter guidelines for verifying the entries made and that supervisory authorities check this validation.</p> <p>16 The department should lay down guidelines for authorization of data before it is entered in the system, for cases when it is done by outside parties etc. Such data should not be entered directly into the system and instead the policy should provide for an authorization procedure, including due checks before its entry into the AST system.</p> <p>17 The user identities and passwords of departmental officers should not be available to third parties.</p>
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Accuracy, Completeness and Authorization Checks

Description	Transaction data entered for processing (people-generated, system-generated or interfaced inputs) should be subject to a variety of controls to check for accuracy, completeness and validity. Procedures should also be established to assure that input data is validated and edited as close to the point of origination as possible.
Control Notes	<p>The computation sheet enclosed along with the return was not verified to ensure correctness of the data furnished in the Acknowledgement sheet</p> <p>Section 139 of the IT Act sets down certain mandatory enclosures to be appended to the return without which the return is to be treated as defective. As there is no field in the system regarding the completeness of the mandatory enclosures, the completeness of returns furnished could not be ensured through the system. There was no check to confirm that acknowledgement sheet was correctly filled in.</p>

Management Response	Computation sheets are non statutory and non standard and cannot be used for data entry. Particulars of mandatory enclosures are verified at the time of filing of returns. Data is entered by staff and can be processed only by the assessment officer. AST has inbuilt checks to verify control totals and issue alerts.
Assessment	The controls over data entry process at the input level were not sufficient to detect errors and could lead to incorrect refund/demand. Audit found that all the necessary verifications of input data some of which were dependent on the computation sheets were not being done. There is no check box for validation of the mandatory enclosures with a return of income does not exist. Alerts exist in the system but are
Recommendation	18 Department should institute a process to check correctness of data entry. Checks like control totals of source data and data as input should be devised and the two should be compared to identify the errors.

Data Input Error Handling

Description	The organisation should establish procedures for the correction and resubmission of data, which was erroneously input.
Control Notes	<p>We found that</p> <ul style="list-style-type: none"> • Data once saved in the system could not be corrected and resubmitted even if it had not been processed by the assessment officer. • Assessment years, date of filing of returns etc. are wrongly entered in the system. • Non-verification of records before entry into the system led to subsequent manual rectification. • Several data entry errors were noticed at all the stations. • Input controls were not adequate since entry was not being adequately verified by the assessment officers.
Management Response	Data entry can be corrected up to the stage of processing. Due dates are centrally entered by NCC. Initial data entry by staff and checking by assessment officer provide two levels of check with the final responsibility being the assessment officers. For errors detected after processing, order u/s 154 is the only legal recourse.
Assessment	The final verification of the data entered in the system by the assessing officer is not being done properly, leading to input errors being perpetuated in the system. The only way of correction is through a separate order under section 154.
Recommendation	19. Department may consider devising a procedure for detection of data entry error and resubmission under proper authorization.

DP Integrity

Description

The organisation should establish procedures for the processing of data that ensure separation of duties is maintained and that work performed is routinely verified. The procedures should ensure adequate update controls such as run-to-run control totals and master file update controls are in place.

Control Notes

Certain control totals were run as an SQL query on the system.²²

- Section wise Chapter VIA deductions should be equal to total deductions;
- Returned Income should be equal to Gross Total Income less deductions;
- Returned Income should be equal to Income taxed at normal rates plus Income taxed at special rates.; and
- Total of all heads of income should be equal to the total income.

The results of these runs threw up cases which would need verification and rectification if necessary.

Management Response

AST has the necessary checks for control totals which are also available to the assessing officer as alerts. The observations of audit are based on the results of the SQL query run which had certain limitations thus the mistake is in the query and not the program. The results of the queries have been examined in detail and discrepancies reconciled.

Assessment

The process of running control totals is a necessary check on data processing integrity as it reveals the possibility of the existence of errors in the system. The basic control total runs done by audit threw up several cases for verification with the possibilities of error.

As the control totals were run by audit merely as indicators, cases thrown up through running such control totals or any control totals devised by the Department need to be rechecked for accuracy as a part of checking the data processing integrity. This process is not in place as the checks for control totals which are issued as alerts to the assessing officer are for guidance during processing of inputs. The control totals being considered here are for verification of outputs at the system level to be run by the database administrator.

²²See Appendix 'B'

Recommendation 20. The department should devise methods for ensuring DP integrity through an adequate use of control totals run as checks.

DP Validation and Editing

Description The organisation should establish procedures to ensure that data processing validation, authentication and editing are performed as close to the point of origination as possible.

Control Notes Mistakes in the processed returns are rectified subsequently on being pointed out either by the assessee or noticed by the department at the time of scrutiny assessment of the selected cases. The department has not evaluated the integrity of the output data by any other checks.

The existence of the tool of the mismatch report to ensure that the data generated by the system corresponds to the data entered was not generally known. Differences were seen in data entered and data shown in the output, for example, in the fields of returned income, assessed income tax, book profit etc.

Management Response Mismatch reports are automatically generated for enabling assessment officers to correct data entry errors.

Assessment Not using the mismatch report was a weakness in the data processing. It could lead to incorrect data being processed and going undetected. Before processing of a return mismatch reports generated by this system and the data entered should be verified against the output generated.

The mechanism of detecting/correcting the errors only after being pointed out by agencies external to the system was a weakness in the process .

Recommendation	<p>21. The department may consider reconciliation of mismatch reports being made a prerequisite for processing.</p> <p>22. There should be a mechanism for running a check on the data processing.</p>
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DP Error Handling

Description The organisation should establish data processing error handling procedures that enable erroneous transactions to be identified without being processed and without undue disruption of the processing of other valid transactions.

Control Notes A test check revealed the following shortcomings²³

- AST does not automatically adjust the refunds of current assessment year against the demand of the previous assessment year. Such adjustments were made manually on the output sheet.
- Due date of filing of return was found incorrectly entered in the output sheet.
- There were mistakes in gross taxable income generated on the output sheet.
- The system is not correctly adding minus items.
- Non allowance of credit of advance tax.
- Incomplete processing of returns due to cancellation of vouchers of refund.
- Incorrect calculation of deduction u/s 80D, 80G.
- Incorrect calculation of rebates under section 88, 88B, 88C.
- Mistakes in calculation of taxable income and tax u/s 115JB. Manual overrides are used to fill in the tax amount.

²³The errors listed have been found and collated from all the 12 States selected for the audit. See Appendix C for details of certain results of an SQL query on the AST data relating to some of these errors.

- Mistakes in calculation of interest under sections 234A, 234B, 234C and 244A due to differences in both rate and period for which interest has to be charged.
- Mistakes in calculation of tax due to excess credit of TDS by AST.
- Mistakes in calculation of royalty income in the case of NRIs.
- Mistakes in calculation of house property income.
- Mistakes in calculation of tax on LTCG. In fact LTCG and STCG details are not available and are not taken into account by the system while computing tax. The tax on LTCG is separately calculated by the assessing officer and entered into the system.
- Mistakes in giving credit for dividend tax under section 115 O and 115P as there is no field for their entry.
- Mistakes in carry forward of short term capital loss.
- Mistakes in calculation of refunds.
- Mistakes in calculation of set off of long term capital loss against business income.
- Education cess not incorporated in the system.
- Differential tax rate for winning from lotteries not accepted by the system.
- MAT cases cannot be distinguished by the system.
- No check for correct calculation of income under section 24 i.e. house property income.
- PAN problems in processing; non-migration, non-allotment, duplicate allotment, invalid PAN etc. There are unprocessed returns also because the returns have been barred by limitation.
- Revised returns have been processed after the processing of the original return.
- Incorrect inputs were noticed from OLTAS and e-TDS regarding credit of taxes paid.

Management Response

The data processing errors listed have been examined in detail .They have arisen for one of the following reasons:

- Certain legal provisions of the Income Tax Act impose restraints on system functionalities. Other than these legal provisions are strictly reflected in the AST system.
- The query results have thrown up errors because of errors in framing the SQL query, either due to incomplete logic or because of amounts being compared between wrong tables/fields of the database.
- Cases where incorrect interest was found computed by the system had actually been modified by the assessing officer using overriding functions.

Assessment

The audit comments have been made based on inputs from field audit and test check of manual records based on which the queries were designed in consultation with the department and through a patch released by the DIT (Systems). A detailed analysis of the issues thrown up through the queries has been provided by the department supported by data which has, however, not been validated by audit. However, the explanations offered by the department have been examined and it is felt that certain errors may be contained in the system, specially in sensitive interest calculating sections. Manual interventions by assessing offices have a serious risk of compromising the controls since neither the system processing nor the assessing office is completely accountable in this mixed environment.

There may be data processing errors in the system due to algorithm mistakes in setting down the business rules of certain sections in the Act. As has been seen from a study of the patches issued by the DIT Systems the same problems tend to recur.

Data processing errors are also occurring due to the failure of linkages between modules and incorrect outputs of other modules being sent as inputs into AST.

The functioning of other modules of software in ITD viz. AIS, TAS, TDS and IRLA, have to be reviewed for smooth functioning of AST.

Recommendation	<p>23. A method of minimising DP errors and setting benchmarks for acceptable levels of errors must be done. The software may be reviewed as the errors pointed out above are only indicative in nature and taken from a sample of the cases processed through AST.</p> <p>24. The query run by audit and results thereof are an important part of the process of validation of data processing which requires to be done at regular intervals by the department itself.</p> <p>25. The PAN database in the AIS module has to be made error free urgently since it affects the functioning of other modules including AST.</p>
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Output Review and Error Handling

Description	The organization's management should establish procedures for assuring that the provider and the relevant users review the accuracy of output reports. Procedures should also be in place for controlling errors contained in the output.
Control Notes	<p>Test checks revealed that the assessing officers were not generating the list of non-filers and also not issuing notice u/s 142(1) to them.</p> <p>Test checks revealed that the assessing officers were taking prints of orders/notices relating to assessments u/s 143(1) only. The prints of orders/notices required under other provisions under the Income Tax Act for which the functionalities exist in the system were not taken out.</p> <p>Intimation sheet and refund orders are only generated through the system. Demand notice, challans and Registers for matters relating to penalty, prosecution, appeal, rectification, demand and collection are not generated/maintained by the systems.</p>

Control Notes

All necessary outputs such as reports routinely sent to the CBDT by all field formations such as those relating to the Central Action Plan as well as other statistical reports are not there as required in the AST module.

Mistakes in the processed returns are rectified subsequently; either on being pointed out by assesses or noticed by the department during scrutiny. Integrity of output is not evaluated by any set down routine procedures.

There are mistakes in outputs of other modules used as inputs in AST such as name and address of the assessee²⁴ and credits for taxes paid due to errors in linked systems²⁵.

There are systems errors in processing of returns which are taken care of by manual overrides²⁶ or by unnecessary orders under Section 154. Compensating entries are also made to negate mistakes in data entry or processing²⁷ specially instances relating to TDS credits.

Refunds have also been given manually, previous years demand of the assessee is adjusted against the current years refund manually.

Status reports on returns due and received, assessed in summary and scrutiny and cases to be transferred are not generated.

Management Response

Functionalities for generating notices, lists and registers etc. relating to non filers, processing outputs (intimation sheets, refund cheques, demand notices etc.) and appeal/prosecution etc. are available either in the AST or the IRLA module. However, since computerization of post processing functions is being done only now as per the recommendations of the Working Group on computerization, certain registers etc. may not be in use. There are no mistakes due to errors in linked modules and system errors for processing are not taken care of by manual overrides.

²⁴This was noted during the audit in Delhi ,Rajasthan and Gujarat

²⁵See section on IT Integrity Provisions in Application Program Software

²⁶See Appendix A Table 4

²⁷Rajasthan

Assessment

The list of non-filers was not being generated by the assessing officers as a result of which the possibility of assessee's with income escaping the tax net cannot be ruled out. All functionalities and their outputs were not being used, and several statistical reports were being prepared manually. Further several cases of manual overrides have been noticed.

Lack of correct data in linked modules affects the outputs of AST.

Audit found that the working group report which has been taken as the basis of computerisation efforts did not talk of phasing the rollout of the plan functionality wise. There was no recommendation to operationalise only two functionalities of AST and ignore the rest. The recommendation was to implement the critical modules of AIS, AST, TAS and TDS before the other less crucial modules. The phased plan is also as per geographical location and not functionality.

Recommendation

26. Procedures for controlling errors and establishing accuracy of outputs have to be put in place and enforced.