

Supplier Interfaces & Owner Relationships

Description Management should ensure that all third-party providers' services are properly identified and that the technical and organisational interfaces with suppliers are documented.

The customer organisation management should appoint a relationship owner who is responsible for ensuring the quality of the relationships with third parties.

Control Notes Third party services were used for the data entry of returns all over the country in 2003 with instructions given to the Chief Commissioners of all regions to outsource data entry so that processing of all returns was completed by the end of the financial year. Funds were placed at the disposal of the concerned CCITs and they were authorised to use the funds at their discretion. The letter through which the directions were conveyed to the Chief Commissioners did not outline the interface with supplier adequately. The relationship owner was not clearly identified with responsibilities divided between the administrative and systems setup.

Management Response The time limit for processing of returns was reduced to one year by the Finance Act of 2001, and the Kelkar Committee recommended that backlog of processing of returns be cleared within four months. An in-house committee was set up, and the Board decided to outsource data entry of returns for processing to act on the recommendation of the Kelkar Committee and take into account the shortening of the legal time limit for processing. Detailed guidelines were laid down for the Chief Commissioners which included the requirements for security, confidentiality and non disclosure.

Assessment There were no coherent policy regarding identification of the areas where third party service providers should interface with the organization. No details as to the deliberations of an internal committee were provided to audit. The instructions issued to Chief Commissioners' regarding outsourcing of data entry was inadequate and did not lay down guidelines for critical issues of confidentiality, non disclosure, accountability etc. Funds were placed at the disposal of the Chief Commissioners' without detailed and specific guidelines as to their use.

The work of the income tax department is highly sensitive in nature and outsourcing of core departmental functions is risk factor which needs to be recognized and controlled.

Recommendation	<p>It is recommended that the Income Tax Department</p> <ol style="list-style-type: none"> 39. Prepare a policy document on the nature and kind of services that can be outsourced to third parties; 40. Lay down detailed guidelines regarding hiring of third party services; and 41. For any major outsourcing as significant as data entry of returns, have a well-defined responsibility and accountability statement.
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Third Party Contracts	
Description	Management should define specific procedures to ensure that for each relationship with a third-party service provider a formal contract is defined and agreed upon.
Control Notes	There was no stated specific policy regarding the contract with the third party service provider. General conditions of contracts were not specified in requisite detail. The letter addressed to all CCITs on the subject of outsourcing of data entry for processing of returns, very briefly addressed the issues of security, confidentiality and non disclosure etc. No model contract was sent as a guidance while entering into the actual contracts.
Management Response	The policy for outsourcing was laid down in a letter to all CCITs dated 20th November 2002 which required agreements to be entered into with the proper clauses.
Assessment	There was no uniformity or clarity on the matter of third party contracts and there was a lack of guidelines on the specific issues to be covered in the contracts. Sensitive matters of security, accountability as well as ensuring correctness of data entry were not appropriately addressed. The Chief Commissioners entered into different contracts as per their own discretion with no standardised contract specifications set down.
Recommendation	42. A model contract should be worked out incorporating all the concerns of the Department that need to be considered while outsourcing activities. The relationship owner entering into the contract should be specified.

Security Relationships

Description	With regard to relationships with third-party service providers, management should ensure that security agreements (e.g., non-disclosure agreements) are identified and explicitly stated and agreed to, and conform to universal business standards in accordance with legal and regulatory requirements, including liabilities.
Control Notes	<p>The income tax return of an assessee is a sensitive document therefore it is necessary for the department to ensure that the relationship with the third party service provider is adequately safeguarded by appropriate provisions to maintain the confidentiality of the data in the return. In the absence of agreements entered into with the vendor, audit could not ascertain whether all issues regarding confidentiality/security of data were clearly addressed.</p> <p>In one case it was observed that the data were entered using the user-id of the departmental staff.³³ The Department did not maintain details of data entry outsourced.</p>
Management Response	Clear and common guidelines were set down for outsourcing. The “Scheme for Outsourcing of Data Entry of returns” addresses these issues.
Assessment	<p>The income tax return of an entity is confidential information in the hands of the Income Tax department. However the department did not ensure that the relationship with the third party service provider was adequately safeguarded by appropriate provisions in the contract and supporting processes in a standardized manner. The guidelines provided were sketchy and inadequate.</p> <p>Further, the use of departmental staff login as access to the system by third party agents with the Roles and Privileges of the staff results not only in security lapse but also in the possibility of the data already entered by the staff being changed.</p>
Recommendation	44. Security issues should be identified, explicitly stated and agreed to. Necessary guidelines for this should be issued.

³³Tamil Nadu: Data entry of returns was outsourced and the data were entered using the user-id of the departmental staff. Details of data entry outsourced were not maintained.