

5. Audit findings

5.1 Department of Revenue (Ministry of Finance)

5.1.1 Organisational structure

The Department of Revenue functions under the overall direction and control of the Secretary (Revenue). It exercises control in respect of matters relating to all the Direct and Indirect Union Taxes through two statutory Boards, viz. the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC). A chairman who is an ex-officio special secretary to the Government of India heads each Board. The Department is also entrusted with the administration and enforcement of regulatory measures provided in the enactments concerning Central Sales Tax, Stamp duties and investigates economic offences like smuggling, money-laundering, violation of Foreign Exchange Management Act (FEMA) etc. through Directorate of Enforcement and Central Bureau of Economic Intelligence.

5.1.2 Work standards and control environment

The department applies checks and controls in its day-to-day work as enunciated in the CSMOP¹. The department has not, however, prepared any manual or flow chart listing out steps in various activities and procedures which are specific to its working.

Appendix 61 of CSMOP envisages that Internal Work Study Unit (IWSU)/ O & M Units of the department shall perform - (i) Organisation and Method Studies and (ii) Work Measurement Study etc for prescribing appropriate work norms and standards of output in terms of quality and quantity. These studies had not been conducted by the department during the last three years reportedly due to paucity of staff.

The Department replied (March 2007) that IWSU was no longer required to undertake workstudy/norms study. Such studies are to be conducted by Staff Inspection Unit (SIU). The Department further stated that it got a study conducted by National Productivity Council on “Channels of Submissions”.

¹ Central Secretariat Manual of Office Procedure

5.1.3 Disposal of cases

5.1.3.1 Inadequate check on delays

Para 115 of the CSMOP requires time limits to be fixed for disposal of cases. As a general rule no official should keep a case pending with him/her for more than seven working days unless a higher limit is fixed for specific types of cases through departmental instruction. However, test check in audit revealed abnormal delays in the disposal of cases in the department as detailed below:

Table 1: Details of pending cases at the end of May 2006

Department	Total cases (B.f.*and new)	Cases pending for more than a month	Pending for 3 to 12 months	Pending for 1 year and above	Total urgent MP/VIP references (B.f.*and new)	Pending references	Pending for 3 to 12 months	Pending for 1 year & above
D/o Revenue	2862	1135	773	56	24	18	9	1
CBEC	1436	966	311	37	86	52	15	1
CBDT	2792	2381	874	404	116	107	44	17
Total	7090	4492	1958	497	226	178	68	19

63 per cent of cases received in the department² up to May 2006 were pending for disposal of which 28 per cent cases were outstanding for more than 3 to 12 months and 7 per cent cases were pending for more than one year. Even 79 per cent MP/VIP references were pending for disposal on 30th May 2006 of which 30 per cent references were three to twelve months old and 8.4 per cent had not been disposed of for more than a year.

The Finance Minister had taken a serious view of the pendency of cases in October 2004, particularly of the MP/VIP references. Consequently review meetings were held under the chairmanship of Secretary (Revenue) and Additional Secretary (Revenue) in March and November 2005 respectively. However, no marked progress was noticed in respect of timely disposal of cases, which indicated poor mechanism for monitoring of disposals in the department. Following table illustrates the status of pending cases before and after the department's initiatives: -

* Brought forward

² Department of Revenue, CBDT & CBEC

Table 2: Month wise status of pending cases (total of the department and Boards)

Month	Total cases (B.f. and new)	Pending cases		Total MP/VIP references (B.f. and new)	Pending references	
		Number	Percentage		Number	Percentage
June/July 2004	10818	7781	72	323	286	89
December 2004	10962	7625	70	297	256	86
June 2005	6548	3830	58	293	220	75
December 2005	8367	4968	59	260	212	82
May 2006	7090	4492	63	226	178	79

5.1.4 Annual inspection

As per paragraph 133 of CSMOP, each section/desk in the department is to be inspected by an officer of or above the rank of Under Secretary/Desk Officer, who does not handle any part of the work of the section/desk concerned, once in a year to ascertain the extent to which the provision of the manual and instructions issued thereunder are being followed. The Inspecting officer is required to report significant points, if any, emerging from the inspection to the Secretary. In addition, he is also required to bring to the notice of the Department of Administrative Reforms and Public Grievances (AR & PG) the important findings by 30th April each year.

Test check revealed that the department did not draw up monthly programmes of inspection of the sections/desk to be undertaken during the following year nor did it follow the provisions of the CSMOP as was evident from the fact that 61 to 72 *per cent* of the sections remained un-inspected during the years 2003-04 to 2005-06. While around 50 *per cent* sections of the department were not inspected even once in the previous three years, certain sections were inspected repeatedly during the years 2002-05. The performance report on O & M activities for the years 2004-05 and 2005-06 which was to be submitted to Department of AR & PG by 30th April of these years had also not been sent (August 2006). The position of inspections undertaken during 2003-06 is indicated in the following table:

Table 3: Status of annual inspections

Department/ Board	Total no. of sections	No. of sections inspected			Percentage of sections not inspected		
		03-04	04-05	05-06	03-04	04-05	05-06
Revenue (HQ)	33	14	10	9	58	70	73
CBEC	29	9	7	11	69	76	62
CBDT	20	9	6	4	55	70	80
Total	82	32	23	24	61	72	71

The department stated (August 2006) that timely inspection of each section could not be conducted on account of poor cooperation of officers

entrusted with the task of inspection and lack of response from the sections concerned.

5.1.5 Risk management

Risk management i.e. identification, assessment and mitigation of risks is now accepted to be an integral component of internal control systems and procedures. In view of the geographical spread, complexities and decentralised and diverse nature of the activities of the Department i.e. collection of taxes and control over economic offences, it is necessary for the Department to have strong risk identification and assessment strategies and risk management plan. However, procedures and strategies for risk assessment/identification and risk management plan have not been devised and consequently these have not been used in formulation of short/long term and strategic plans of the Department. Absence of risk management plan weakens the overall structure of internal controls in the department while coping with unavoidable uncertainties and may also lead to insufficient monitoring and reporting to check non-adherence to delegated powers.

Test check also revealed that the CBDT and the CBEC have computerised their accounting functions. New softwares have been developed for online accounting of tax collection and refunds, revenue reconciliation between ZAOs/PAOs and commissionerates and setting up of Tax Information Network. In the absence of a defined policy or guidelines on access control, the system integrity and continuity plan could not be assured.

The Department stated (March 2007) that a Risk Management Division (RMD) under Directorate of Systems of CBEC had already been established and Risk Management System had been implemented at 13 major locations in customs.

It is recommended that the CBDT should institute an adequate mechanism of risk assessment, grading of risk, analysis of their impact, as well as control activities for monitoring and mitigating these risks. The department may also consider associating risk management experts in the development of the risk programme.

5.1.6 Manpower management

5.1.6.1 Non-observance of transfer/placement policy in CBEC

A significant contributor to the effectiveness of the administrative machinery is a human resource development policy that offers opportunities

for excellence and career advancement through a proper placement strategy. In order to increase transparency and to provide better opportunities to officers and a more planned approach to cadre planning, a transfer/placement policy of Group 'A' officers was formulated as a part of reforms in tax administration which came into effect from the 1st April 2005. Test check of the disposition list as on May 2006 of officers of Indian Revenue Services (Customs and Central Excise) indicated that the policy was only in its initial stages of implementation as discussed below:

- a) Paragraph 5.3 of the policy stipulates that the continuous stay of a Group 'A' officer should not exceed 6 years in a class 'A'³ station and four years in a class 'B'⁴ station. It was, however, noticed that 75 officers were yet to move out from a class 'A' station after 7 to 15 years and 4 officers remained in class 'B' station for 8 to 10 years.
- b) Paragraph 6.1 and 6.2 of the policy classify all posts in the CBEC as sensitive and non-sensitive posts and the tenure of an officer in a sensitive post is ordinarily restricted to 2 to 3 years. Test check, however, revealed that 7 officers were holding sensitive posts for 7 to 9 years.
- c) Paragraph 7.2 restricts the tenure of officers in the Directorates of Revenue Intelligence, Central Excise Intelligence and Vigilance for 3 years alongwith the condition that no officer shall spend more than 6 years in these Directorates during their entire service career. 5 officers of the CBEC were posted in these Directorates for 7 to 10 years.

The CBEC needs to implement the laid down policy regarding transfer of its officers

5.1.6.2 Inadequate database at CBDT

The CBDT is the Cadre Controlling Authority of Indian Revenue Service (IT) officers. The Board had formulated transfer/placement policy in 2005 categorising all stations into three classes and prescribing tenure of officers in different classes of station. The posts have also been categorized as sensitive and non-sensitive. The tenure of an officer in a sensitive post is to be restricted to two years at one stretch. Paragraph 2.6 of the transfer/placement policy stipulates that a correct and complete database is a *sine qua non* for

³ Mumbai, Delhi, Chennai, Kolkata, Bangalore, Hyderabad, All posts in Custom Overseas Intelligence Network (COIN)

⁴ Ahmedabad, Allahabad, Goa, Surat, Kandla, Nagpur etc

operationalisation of the policy. The Board has to ensure that a database containing the profiles of all Group 'A' officers is created and regularly updated.

The disposition list of officers of the rank of Commissioner of Income Tax prepared by CBDT indicated the stations of their posting. The list, however, did not contain the date from which they were posted at a particular station. The database of other Group 'A' officers was not maintained by the Board. It was stated that this was being maintained by the field offices located all over the country. In the absence of correct, complete and upto-date central database in CBDT, the implementation of transfer/placement policy in respect of restricted stay of officers at class 'A' station, their tenure in sensitive posts, etc. could not have been monitored by the department nor could this aspect be examined by audit. Thus, the main objective of the policy to bring about transparency in postings and restricting tenure on sensitive posts/stations was not achieved.

The Department stated (March 2007) that instructions had been issued to all CCITs (CCAs) to ensure that officers do not get posted to sensitive posts or stations in excess of the prescribed tenure. In the absence of central control by CBDT, it is not clear how the policy will be enforced even in future.

The Ministry should urgently complete and update the central database so that the transfer/placement policy can be implemented properly and overstay in sensitive posts avoided.

5.1.6.3 Rotation of duties

Rotation of duties is an important internal control that prevents development of vested interests and enlarges the range of the skills of employees by exposing them to different kinds of work. Test check revealed that the department was not rotating the duties of its non-gazetted staff, which resulted in some officials working in a particular section for periods ranging from 7 to 24 years. Details of a few cases are given below: -

Table 4: List of employees posted in a particular section for long periods

Sl. no.	Name of the post	No. of employees	No. of years till Feb. 2006
1	Assistants	41	7-11 yrs
2	UDC	49	7-13 yrs
3	LDC	11	7-9 yrs
4	Record Keeper	5	9-24 yrs
5	Sr. Gest Officer	1	14 yrs.

The Department stated (March 2007) that necessary instructions had been issued in March 2007 for undertaking an urgent exercise to ensure that no official in sensitive sections works continuously in the same post for more than three years.

The department needs to formulate and strictly adhere to a policy of rotation of duties of non-gazetted employees to ensure that no official remains in a section for more than five years and in a key section for more than three years.

5.1.7 Financial Management

5.1.7.1 Expenditure management: Violation of instructions on economy and austerity measures

The Ministry of Finance, Department of Expenditure has been issuing instructions from time to time for observing fiscal prudence and austerity in expenditure management. The last two comprehensive orders on this subject were issued on 24th September 2004 and 23rd November 2005. All the departments of the government are expected to observe these instructions for curbing unproductive expenditure. Austerity measures are intended at promoting fiscal discipline, without restricting operational efficiency, by avoiding ostentatious and superfluous expenditure. Test check of records in the department of revenue indicated poor expenditure management as discussed below: -

a) Staff costs

In terms of Department of Expenditure, Ministry of Finance o.m.nos. 7(3) E.Coord/99 dated 05-08-99 and DOPT o.m no.2/8/2001-PIC dated 16.5.01, 10 *per cent* cut in number of posts was to be made and abolition of posts lying vacant for more than one year was to be ensured. These instructions were reiterated by the Ministry of Finance o.m. nos. 7(5) E.Coord/2004, dated 24.09.04 and 7(2)E. Coord/2005, dated 23.11.05.

Audit examination revealed (July 2006) that 9533 non-gazetted⁵ posts lying vacant in the Income Tax Department for more than one year as on the 31st March 2006 were not abolished. Out of these, 5838 posts were abolished in January 2007. Details of posts lying vacant for a period of one year or more were not furnished to audit by CBEC and Department of Revenue.

⁵ Income Tax Inspector, Data Processing Assistant Group A, Office Superintendents, Sr. Tax Assistant, Tax Assistant, Stenographer, Hindi Translator, Staff Car Driver, Notice Server, Gest. Operator, Jamadar, Daftry, Peon, Watchman, Farash, Other Group 'D'.

b) Non-surrender of the post of Data Processing Assistant

The Department of Revenue vide its letter No. 21/19/2004-Ad.IC dated 11.04.2005, had approved the up-gradation of the pay-scale of the Administrative Officer in the NIPFP from Rs. 8000-13500 to Rs. 10,000-15,200 and that of the Assistant (Computer Operators) from RS. 5500-9000 to Rs. 6500-10,500. The up-gradations were subject to matching savings by abolition/surrender of two posts of Research Associates under pay-scale of Rs. 5,000-8000 and one post of Data Processing Assistant ‘Gr.B’ under pay scale of Rs. 6500-10,000.

The NIPFP upgraded the pay scale of Administrative officer and Assistant (Computer Operators) with effect from the 2nd August 2005. Two posts of Research Assistant were surrendered on 21st July 2005, but the condition of abolition of one post of Data Processing Assistant, ‘Gr. B’, was not fulfilled.

c) Office expenses

Ministry of Finance, Department of Expenditure had vide F.No. 7(2)/E.Coord/2005 dated 23.11.2005, directed all the Ministries and their subordinate office to restrict expenditure on office expenses (OE) and overtime allowances (OTA) in 2005-06 to the average of actual expenditure incurred during previous three years. Similarly, guidelines on expenditure management issued vide F.No. 7(5)/ E.Coord/ 2004, dated 24.9.04, required 10 *per cent* cut in OE, OTA, petrol, telephone, hospitality etc over the previous year in 2004-05. Test check of records revealed as under:

i) In the following cases actual expenditure under the head OE and OTA for the year 2005-06 was in excess of the prescribed limit by Rs. 16.53 crore as detailed below:-

Table 5: Excess expenditure on OE and OTA

(Rupees in crore)

Particulars	Actual expenditure			Average expenditure of 3 years	Actual expenditure 2005-06	Excess expenditure during 2005-06
	2002-03	2003-04	2004-05			
OE - Revenue Secretariat	7.42	5.70	5.84	6.32	6.60	0.28
OE - Direct Taxes (Total Grant) ⁶	190.17	218.93	195.03	201.38	217.49	16.11

⁶ This represents expenditure on office establishments in respect of 1266 Drawing and Disbursing Officers (DDOs) including 51 DDOs in Delhi functioning under CBDT.

OTA - Direct Taxes (Total Grant)	0.87	0.94	0.97	0.93	1.07	0.14
Total						16.53

ii) Test check also revealed increase in expenditure on petrol, telephone and hospitality in the test checked offices⁷ by 13 to 50 *per cent* as against the envisaged cut of 10 *per cent* over the previous years' expenditure. The details are as under:

Table 6: Excess expenditure on petrol, telephone and hospitality

(Rupees in lakh)

Sl. No	Heads of expenditure	Actual expenditure in		Percentage increase in expenditure of 2004-05 over 2003-04
		2003-04	2004-05	
1	Petrol	38.06	43.02	13
2	Telephone	71.21	81.59	15
3	Hospitality	33.61	50.50	50

d) Release of grant-in-aid

Ministry of Finance through its expenditure management guidelines dated 23.11.05, had directed that in order to reduce the dependence of autonomous bodies on budgetary support and set them on a course of greater self-reliance, the general purpose deficit grant-in-aid in 2005-06 would be reduced to 95 *per cent* of actual amount of such grants given in previous three years. Test check in audit revealed that the department did not follow the above stated guidelines and released an excess grant of Rs. 28.24 lakh to the National Institute of Public Finance and Policy (NIPFP) as detailed under:

Table 7: Grant-in-aid released to the NIPFP

(Rupees. in lakh)

Grant-in-aid released			Average of last three years	95 <i>per cent</i> of the average	Grant-in-aid released 2005-06	Excess grants-in-aid released
2002-03	2003-04	2004-05				
164.52	174.50	195.50	178.17	169.26	197.50	28.24

Non-compliance with the instructions and orders issued by Ministry of Finance on observance of economy and austerity measures indicated poor internal controls and monitoring mechanism.

The Department stated (March 2007) that since there has been increase in liability on account of release of DA every six months, there is hardly any scope for reduction in the amount of grants-in-aid to be released to NIPFP. The reply is not tenable because the guidelines of Ministry of Finance require

⁷ Department of Revenue, CBDT & CBEC

the progressive reduction of budgetary support to autonomous institutions. The enhancement of grants-in-aid to cater for increases in DA would only result in continued dependence on grants-in-aid and reduce the importance of reducing expenditure and increasing revenue earning capacity in such institutions.

It is recommended that the department should take concrete steps in advance to adhere to the economy and austerity norms for ensuring reduction in unproductive expenditures.

5.1.7.2 Non-adherence to rules and regulations

To ensure order and regularity in the day-to-day functioning of the government departments, Government of India has prescribed various rules including the General Financial Rules. These rules and regulations have to be adhered to by all departments in letter and spirit. Test check of records revealed non-adherence and violation of the provisions of various rules/regulations as discussed below: -

a) Irregular purchases/non-obtaining of competitive rate

Rules 137 and 161 of the General Financial Rules 2005 provide that purchases should be made by the Government Departments in the most economical manner. Rule 148 *ibid* prohibits splitting up of purchase orders. The Ministry had also issued instructions vide O.M. no. 50/60/2004-Ad.1, dated 02.08.2004 for consolidated procurement of computers and other hardware. The department, however, purchased computers including peripherals worth Rs. 30.73 lakh during 2004-05 and computers, accessories, air conditioners, digital copier, stationeries etc. at a cost of Rs. 128.67 lakh in piece-meal during 2005-2006 from National Consumers Cooperative Federation (NCCF) of India Ltd without calling for open tenders. The splitting up of purchases was done in order to avoid obtaining the sanction of higher authority. Thus, provisions of the GFR were violated. Purchase of these items from NCCF of India was irregular as the department neither tried to get competitive rates through tender, nor compared the rates of the NCCF with the rates of Director General of Supply and Disposal (DGS&D).

The Department stated (March 2007) that instructions had been issued to all Heads of Departments (HODs) to comply with the instructions issued by CVC and provisions of GFRs.

b) Grant of House Building Advance (HBA)

As per Rule 7(b) of the House Building Advance an official has to insure the house/flat immediately at his own cost on completion of construction or purchase of house/flat for not less than the amount of advance and shall keep it so insured till the advance together with interest thereon is fully repaid to the government.

Test check of records revealed that in 8 cases the department did not keep a close watch on the status of completion/possession of house/flat and in some cases mortgage and insurance was not obtained which were required to be done under the HBA rules. The department had sent reminder to some officials concerned, but was in no position to explain the circumstances under which the formalities could not be completed. The laxity in this respect can place Rs. 23.11 lakh of government money, given as advance, at risk of default.

c) Non-adjustment of advances

As per Rule 292 (2) of the GFR 2005, the officer drawing money on abstract contingent bills for making advance payment to supplier etc. is responsible for its adjustment within fifteen days of the drawal of advance.

It was, however, observed that advances aggregating Rs. 50.36 lakh pertaining to the years 1995-96 to 2005-06 were outstanding as of June 2006.

The Department stated (March 2007) that reminders had been issued to all concerned officers to settle outstanding advances.

The department needs to strengthen its internal controls for ensuring compliance with the rules, regulations and orders of Government of India.

5.1.8 Accounting controls

5.1.8.1 Improper/non-maintenance of control registers/records

Every organisation is required to properly maintain control registers for exercising check over expenditure and other administrative controls. The GFR, Receipt and Payment (R&P) Rules etc. prescribe the format of and give other guidelines for maintenance of such records. It was, observed in audit

that some of these control registers were not maintained at all or were maintained improperly. Details of these cases are listed in **Annex-I**.

The Department stated (March 2007) that necessary instructions had been issued for compliance and Pr.CCA (CBEC)/(CBDT), CCA (Finance) and DOR had been requested to direct the PAOs under their control to report deviations to the Heads of departments and reflect the same in the quarterly reports to be submitted to the Revenue Secretary.

5.1.8.2 Reconciliation of figures of expenditure and revenue

Reconciliation of figures of expenditure and receipts by the Drawing and Disbursing officers at periodical intervals with the figures booked by Pay and Accounts Offices in the accounts constitutes an important control/check against frauds, misappropriations and misclassifications of expenditure/receipts. Test check, however, revealed that the department had not carried out regular reconciliation of figures of expenditure booked by DDOs and PAOs during the years 2003-06. The lists of miscellaneous receipts received in cash and valuables remitted into bank were also not sent to the PAO by the DDOs.

The Department stated (March 2007) that necessary instructions had been issued for compliance.

5.1.8.3 Delayed deposit of receipts

As per Receipt and Payment rules, 1983, all Government money received should be deposited into Government accounts on the same day or next working day. Test check, however, revealed delays of 8 to 21 days in nine cases in depositing the money received through GAR-6/TR-5 receipt and delay of 7 to 41 days in sixteen cases received through cheques. The amounts involved ranged between Rs. 357 and Rs. 11,25,800.

The Department stated (March 2007) that necessary instructions had been issued for compliance.

5.1.8.4 Surprise check of cash

Surprise check of cash is required to be conducted by an authority not responsible for maintenance of cash book. Also, a certificate to the effect that the cash balance found during physical verification agreed with the book balance is required to be recorded in the cash book. It was, however, observed that surprise check of cash was not done in the department and its subordinate

offices during 2003-06. Non-observance of this control renders the department vulnerable to misappropriation of public funds. The department stated (January 2007) that surprise checks were being carried out. The reply is not tenable as the requisite certificates were not found recorded in the cash books.

The Department stated (March 2007) that necessary instructions had been issued for compliance.

5.1.8.5 Heavy cash balance

As per rule 100 (2) of Receipt & Payment Rules, 1983 money shall not be drawn from Government accounts unless it is required for immediate disbursement. Test check revealed that actual cash balance kept in chest on any day ranged between Rs. 4.71 lakh to Rs. 18.72 lakh during the period 2005-06. Thus, money was drawn from Government accounts in excess of actual requirement of the Department.

The department stated (January 2007) that heavy cash balance was retained due to multiplicity of work like drawal of salary in cash by some staff, budget work etc. The reply is not tenable. The Statement of Cash Balance indicated that most of the balance was under miscellaneous group and not under salaries/advances or contingencies group. Payment of amount exceeding Rs. 10,000 in cash and not by cheques, in contravention to the Receipt and Payment Rules, 1983, was also one of the reasons for retention of heavy cash balance.

The Ministry should put in place a strong monitoring mechanism for ensuring compliance with various accounting controls.

5.1.9 Administrative controls

One of the most important dimensions of internal controls is control over the state of affairs in the attached, field and subordinate offices functioning under the administrative control of the department and autonomous bodies receiving grant-in-aid from the department. The Directorate of Enforcement (ED), a subordinate office of the department and the National Institute of Public Finance and Policy (NIPFP), an autonomous body receiving grant-in-aid from the department, were selected for assessing the efficacy of the state of internal controls. Following deficiencies were noticed in audit: -

5.1.9.1 Physical verification of stores

With a view to ensure control over physical custody of assets, Rule 116 of the General Financial Rules, 1963⁸ provides for physical verification of all stores/library books at least once in every year under rules prescribed by the head of the Department.

Test check of stock registers/accession registers of the department and its subordinate offices revealed that the system of periodic physical verification of assets had not been instituted and implemented in the department as well as in its subordinate offices, in the absence of which the actual status of the existence and custody of stores, position of condemned and unserviceable items and losses, if any, due to theft, embezzlement etc. was not available. The position of physical verification was as under:-

Table 8: Position of physical verification of store items

Sl. No.	Name of the department/subordinate offices	Store items	Period since when physical verification has not been conducted
1.	Library, Department of Revenue	Books and Journals.	December 1999
2.	O/O the Pr. CCA, CBDT	Stock of assets	No record of previous physical verification
3.	O/o the Pr. CCA, CBEC	-do-	-do-
4.	Library, Enforcement Directorate	Books and Journal	-do-

Library books of the department, costing Rs. 12,465, had not been returned by the officers who had either retired or had been transferred. Failure to recover the books or cost thereof was attributable to poor internal controls.

5.1.9.2 Verification of service records

In terms of G.O.I., M.F., O.M. No. 3 (3)-E IV (A)/ 76 dated 25th November 1976 below Rule 199 of Supplementary Rules (SR), the head of the office has to inspect annually at least ten *per cent* of the service books and leave accounts. The head of the office in the department did not inspect any service book during the previous years.

It was noticed in audit that in six out of fifty test checked service books, services had not been verified for the last two to twenty two years and in eight cases services had not been verified by the Pay and Accounts office after completion of twenty five years of service/before five years of retirement. In six cases, information regarding nomination in respect of

⁸ The corresponding rules in the GFR, 2005 are 192 and 194.

CGEIS was not available in service books and in three cases leave records were not updated.

The Department stated (March 2007) that necessary instructions had been issued.

5.1.9.3 Secret Services: Inadequate monitoring

An expenditure of Rs. 15 crore (Revenue Department; Rs. 1.62 crore; Direct Taxes; Rs. 4.52 crore; Indirect taxes; Rs. 8.87 crore) was incurred during the years 2003-06 on 'secret services'. The expenditure on secret services is to be monitored by the respective Head of the Office through reports submitted by the officer designated for incurring expenditure on secret services. Test check revealed that expenditure had not been monitored and utilisation certificate of secret service expenditure was not sent either to the office of the Accountant General or to the respective Pay and Account Offices as required under the Ministry of Finance, Department of Expenditure, standing orders. The department and the two Boards did not thus exercise any control over the expenditure on secret services.

The Department stated (March 2007) that necessary instructions had been issued to all budgetary authorities under the Department of Revenue, CBEC and CBDT.

Strong monitoring mechanism is needed for ensuring control over the functioning of attached/field/subordinate offices.

5.1.10 Internal audit

Internal audit is defined as control of all controls and is an essential tool for good governance. It is conducted to ascertain how far the rules and regulations, systems and procedures and instructions issued by the top management in accounting, financial and administrative matters are being followed. It is the primary responsibility of the management of an organisation to install an effective internal audit system and take prompt corrective action in respect of the deficiencies in its working as pointed out by such audit.

The internal audit of the Department of Revenue, the CBDT and the CBEC were conducted by different internal audit wings (IAWs) working under the administrative control of the Chief Controller of Accounts (CCA), Ministry of Finance; Principal CCA (CBDT) and Principal CCA (CBEC) respectively. There were 26 drawing and Disbursement officers (DDOs) within the purview of IAW of the Department of Revenue (proper), 1266

DDOs and branches of Public Sector Banks responsible for collection and refund of tax under the CBDT; and 731 DDOs under the CBEC. The DDOs and the banks are located throughout the country. The audit reports on the different units are issued by the Internal Audit directly to the units for follow up action. Test check of functioning of the IAW of the Ministry revealed following deficiencies: -

5.1.10.1 Preparation and execution of audit plan

The IAWs of the department and the two Boards were preparing annual audit plans. However, the planning was inadequate as the allocation of audit time, periodicity of audit etc. were not based on risk assessment. The planning process did not receive any input from the management regarding prioritisation, risk areas etc. The IAWs did not have any long term audit plan and the manual containing auditing standards, guidelines for specialised audit procedures etc. were not updated.

While the IAW of the Ministry of Finance had inspected 80 to 95 *per cent* of the targeted units during the previous three years, the IAWs of the CBDT and the CBEC on the other hand failed to cover the units that they had identified for audit and the shortfall ranged between 22 and 56 *per cent*. The details are as under: -

Table 9: Shortfall in the units targeted for audit

Year	Name of the IAW	Units identified for audit	Units actually covered	Shortfall	Percentage of shortfall
2003-04	CBDT	522	407	115	22
	CBEC	268	141	127	47
2004-05	CBDT	910	538	372	41
	CBEC	254	159	95	37
2005-06	CBDT	1199	522	677	56
	CBEC	263	160	103	39

The Department stated (March 2007) that from July 2006 efforts are being made to clear the arrears by deploying some of the accounts staff for internal audit.

5.1.10.2 Internal audit of receipts

The department performs its main functions, i.e. levy and collection of taxes, through the commissionerates of direct and indirect taxes located throughout the country working under the control of the respective Boards. The direct taxes are collected on the basis of self-assessment and these cases are scrutinised by the Assessing Officers.

The IAW of the CBDT was not conducting the audit of tax assessment. The internal audit system in the Income Tax Department, as introduced in December 2001, is based on chain audit i.e. one Assessing Officer auditing the work of another Assessing Officer in a chain with a view to strengthening the internal check of assessments and refunds involving personnel from all assessment circles and thereby ensuring cent percent audit of scrutiny and refund cases. Under the chain system of internal audit the shortfall in cases actually audited vis-à-vis the total auditable cases was 76.83 per cent in 2002-03 and 62.46 per cent in 2003-04.

Test check further revealed that while records of PSU banks, which were responsible for receipt and accounting of Excise and Customs receipts were being partially audited, records pertaining to Service Tax collection were not being audited at all.

The Department stated (March 2007) that the Internal Audit was working out a plan for conducting assessment audit in the next financial year.

It is recommended that working of chain system of internal audit be reviewed to ensure compliance with targets.

5.1.10.3 Inadequate action on the observations of Internal Audit

The department and the offices under its administrative control and the two Boards did not take effective measures to rectify deficiencies or to comply with the observations of the Internal Audit. The position of the outstanding internal audit objections was as under: -

Table 10: Outstanding internal audit objections (as on 31.03.06)

Sl. no.	Name of the office	No. of outstanding objections	Period of objections	
			From	To
Department of Revenue				
1.	DDO, Department of Revenue	31	-N.A.-	2005-06
2.	Other DDOs (6units)	80	-N.A.-	2005-06
3.	Enforcement Directorate (15 units)	189	-N.A.-	2005-06
CBDT				
4.	Zonal Accounts Offices	558	1990-91	2005-06
5.	Other DDOs	5453	1989-90	2005-06
6.	Banks	242	1995-96	2005-06
7.	Chief Commissioners/ Directors General Income Tax	953	1989-90	2005-06
8.	Commissioners/ Directors Income Tax	3589	1989-90	2005-06
9.	CTU/ PCU	59	1993-94	2005-06

Sl. no.	Name of the office	No. of outstanding objections	Period of objections	
			From	To
CBEC				
10.	Commissionerates/ Directorates/ PAOs	2676	1996-97	2005-06
11.	Divisions	4075	1997-98	2005-06

The Annual Report of the Internal Audit of the Ministry of Finance and the CBDT revealed that the audited units had not taken action on the audit observations made by inspection parties. This resulted in persistence of deficiencies, which were being repeatedly commented upon in subsequent reports (detailed in **Annex II**). Although the IAW of the CBDT had pointed out that the state of maintenance of records in the offices was mostly unsatisfactory, effective remedial steps had not been taken by the administrative heads concerned.

The lack of action by the Ministry in attending to the Internal Audit objections resulted in continuance of deficiencies in its functioning.

The Department stated (March 2007) that 40 *per cent* of the outstanding paras had been settled in 2006-07 and action was being taken to further settle the outstanding paras. All the HODs had been asked to adhere to the observations of Internal Audit.

5.1.10.4 Training of staff conducting internal audit

To be able to conduct its functions of checking various aspects of functioning of the department including its budget and accounts, with reference to the relevant rules and orders, it is essential that the Internal Audit Department is manned by staff who are appropriately qualified and trained. It is also necessary that such staff undergo periodical in-service training programmes for upgrading their knowledge and skills. It was noticed that specific training programmes were not conducted for upgrading the skills of the staff of the Internal Audit Department.

The Department stated (March 2007) that Pr.CCA, CBDT/CBEC had been requested to send training proposals.

Recommendations

- ❖ **The department should institute an adequate mechanism of risk assessment, grading of risk, analysis of their impact, as well as control activities for monitoring and mitigating the risks in relation to its diverse activities.**

- ❖ **The CBEC needs to implement the laid down policy regarding transfer of its officers**
- ❖ **The Ministry should urgently complete and update the central database so that the transfer/placement policy can be implemented properly and overstays in sensitive posts avoided.**
- ❖ **The department should take concrete steps in advance to adhere to the economy and austerity norms for ensuring reduction in unproductive expenditures.**
- ❖ **The department needs to strengthen its internal controls for ensuring compliance with the rules, regulations and orders of Government of India.**
- ❖ **The Ministry should put in place a strong monitoring mechanism for ensuring compliance with various accounting controls.**
- ❖ **Strong monitoring mechanism is needed for ensuring control over the functioning of attached/field/subordinate offices.**
- ❖ **Working of chain system of internal audit may be reviewed to ensure compliance with targets.**