



सत्यमेव जयते

# Report of the Comptroller and Auditor General of India

on

## Disbursement of Defence Pension



**Union Government  
(Defence Services)  
No. 26 of 2017  
(Performance Audit)**

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Comptroller and Auditor General  
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**Disbursement of Defence Pension**

**for the year ended March 2016**

**Union Government  
(Defence Services)  
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## PREFACE

This Report of the Comptroller and Auditor General of India contains the results of the review of the Defence Pension Disbursement System over the period 2011-12 to 2015-16.

The report is based on the results of the test audit of the major stakeholders in the defence pension disbursement like the Defence Accounts Department of the Ministry of Defence, Reserve Bank of India, Pension Sanctioning Authorities and the Pension Disbursing Agencies *viz.*, Banks, Defence Pension Disbursing Offices, State Treasuries and Post Offices. In addition, the report also incorporates the results of the analysis using IT tools on the bulk data obtained from the audited entities.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India. The report has been prepared for submission to the President under Article 151 of the Constitution of India.



## EXECUTIVE SUMMARY

The defence pension is disbursed to over 25 lakh pensioners involving an expenditure of over ₹60,000 crore every year. The defence pension management system rests primarily on four pillars comprising the Record Offices that maintain the service records, the pension sanctioning authorities, the pension disbursing agencies and the RBI, which manages the cash balances of the government and reimburses the pension disbursed by the banks to the pensioners.

Pension is sanctioned by the Principal Controllers of Defence Accounts, at Allahabad, Mumbai (for Navy) and Controller of Defence Accounts, New Delhi (for Air Force), working under the Controller General of Defence Accounts, Ministry of Defence. Pension is disbursed by the Defence Pension Disbursing Offices (DPDO) of the Defence Accounts Department, banks, Indian Embassy, Nepal, State Treasuries, Pay & Accounts Offices and Post Office, Kathua (J&K).

### Why did we do this Review?

The review was undertaken to ascertain the efficiency and effectiveness of the Pension Disbursement System including the budgeting, accounting and internal controls existing in the four pillars of the defence pension system viz., the Record Offices, the Pension Sanctioning Authorities (PSAs), the Pension Disbursement Agencies (PDAs) and the Reserve Bank of India. The objective of the review was to report on the efficiency and effectiveness issues, including the Information Technology applications in place, with a view to make appropriate recommendations.

### Key Findings

#### 1. Incomplete accounting of pension expenditure

We observed that every year substantial amount of expenditure was not booked to the pension head of account and was lying under RBI Suspense head because of the inability of the banks to furnish the Pension Payment Scrolls on the basis of which the Principal Controller of Defence Accounts, Pension [PCDA (P)] would book the amounts to the final head of account. This resulted in incorrect depiction of pension accounts, with attendant implications for the revenue deficit figures of the government. The cumulative amount lying in the suspense head at the end of March 2016 was ₹6,831.95 crore.

(Paragraph 2.3)



## **2. Inefficiencies in the pension authorisation process**

We observed that the process for authorization of the pension involved several players and multiple stages, often resulting in avoidable delays in issue of the pension payment orders (PPOs). There was a need for review of the authorization process, so that it is less cumbersome and less time consuming.

We also observed that although the information is being captured electronically at the Record Offices, the PSAs and the PDAs, the lack of their integration results in an inefficient flow of information that is prone to transcription errors and the resultant errors in the pension payments.

*(Paragraph 3.2)*

## **3 Deficiencies in the pension disbursement system**

We observed that the transmission errors as well as other mistakes in the banks, which account for nearly 75 per cent of the pension disbursements, had resulted in numerous cases of underpayments and overpayments. The main points noticed were:

- (a) We identified, based on test check for one month, cases of 21,434 pensioners who were under-paid amounting to ₹106.17 crore. Major reasons for underpayments were non-revision/ incorrect revision of pensions, non-restoration of commuted portion of pension, wrong revision of disability element, and non-revision of fixed medical allowance. Analysis of bulk data for the period 2011-12 to 2015-16 indicated possible underpayment of ₹228.85 crore. These cases needed detailed investigation.

*(Paragraph 4.2)*

- (b) Similarly, we observed overpayment of ₹118.23 crore to 11,973 pensioners based on test audit of the records of one month. Major reasons for over-payment were incorrect revision of pension, non-deduction of commuted portion of pension, and irregular payment of fixed medical allowance. Analysis of bulk data for the period 2011-12 to 2015-16 indicated an overpayment of ₹518.70 crore. These cases needed detailed investigation.

*(Paragraph 4.3)*

- (c) Our test audit also indicated several cases of double payments and other irregularities in disbursement of pension such as pensions of multiple pensioners being credited to one account, pension being paid by the PDA without the Pension Payment orders (PPOs), and certain instances of pension being paid from the defence head to the pensioners of other departments.

*(Paragraph 4.4 and 4.5)*

- (d) We also observed instances of delays in recovery by the PDAs of the amounts overpaid by them.

(Paragraph 4.6)

- (e) Analysis of the pensioners' bulk data maintained by PDAs showed several deficiencies in the data maintained such as missing account number, name or the PPO number, errors in the date of birth recorded in the system, pension for the same PPO credited to different accounts, and pension for different PPOs being credited to one bank account *etc.* There were also mismatches between the information in the banks' payment scrolls and the information maintained by the sanctioning authority i.e., PCDA.

(Paragraph 4.7)

- (f) Lack of validation checks and missing information were also noticed in the Aashraya software used by the Defence Pension Disbursing Offices.

(Paragraph 4.8)

- (g) There were several cases of non-deduction of Income Tax at source.

(Paragraph 4.9)

#### **4. Control deficiencies**

We observed control deficiencies in all the four pillars of the pension disbursement system which adversely impacted the efficiency and effectiveness of the system. Some of the major control deficiencies were:

- (a) Delays in getting information from the units contributed significantly to the delays in processing of the pension cases.

(Paragraph 5.1)

- (b) The control deficiencies at the PCDA (P) included absence of controls on maintaining information about the exact number of pensioners, lack of control on correct accounting, inadequate audit, and inadequate monitoring of the cases of overpayments, fraudulent payments, and overseas claims *etc.*

(Paragraph 5.2)

- (c) Similarly, the RBI had weak or deficient controls for ensuring that the banks made correct disbursements of the pensions, and submitted accounts of the disbursements made by them in time. An example of this was the fact that there was a difference of ₹ 179.55 crore between the

amount reimbursed by RBI to Bank of Baroda (BOB) and the amount paid by BOB to the pensioners during 2011-12 to 2015-16.

(Paragraph 5.3)

## **5 Key Recommendations**

Some of the key recommendations made by us in light of the audit findings are as follows:

- RBI should make the reimbursement to the banks conditional upon the proof of submission of the payment scroll to the PCDA (P). Alternatively, RBI should introduce financial disincentives for not submitting the electronic-scrolls (e-scrolls) to PCDA (P) Allahabad.
- While the existing monitoring system for timely authorisation of the pension should be strengthened, the existing procedure should be reviewed to see if it could be simplified to make the process less cumbersome and less time consuming. Lessons learnt on the non-defence, civil pension side, including delegated powers to Heads of the Offices to sanction pension, could be explored for adoption.
- PPOs should be sent by the PSAs directly to the PDAs, in electronic form.
- The three pillars-Record Offices, PSAs, and PDAs- should be connected online, enabling automated flow of information, in a secure mode, with proper validation and security checks.
- PCDA (P) should implement comprehensive e-audit of the scrolls for timely detection of deviations, including under and overpayments, to enable prompt corrective action.
- PAN number should be captured in the original profile maintained by the Record Offices and travel through the chain of transmission to the PDAs to facilitate TDS.
- In order to provide the pensioners a hassle-free method of submitting life certificates to the PDAs, Aadhaar number should be captured to take advantage of the Jeevan Praman initiative of the Government.

## CHAPTER I : INTRODUCTION

### 1.1 Defence Pension

As of April 2016 defence pension was being disbursed to over 25 lakh defence pensioners<sup>1</sup> 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 Services<sup>2</sup>. 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 authorities<sup>3</sup> 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)

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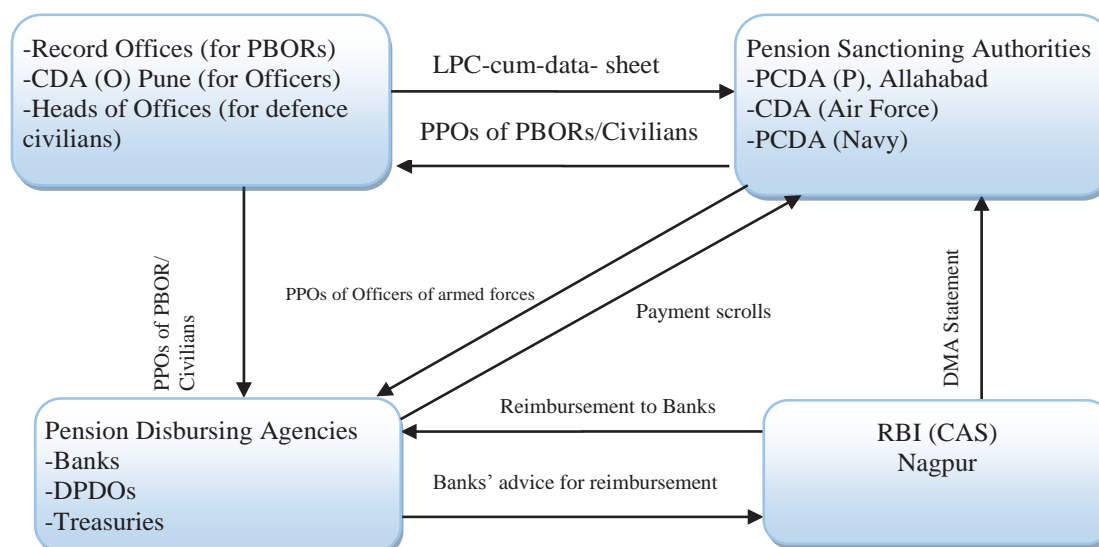
<sup>1</sup>As informed by the Principal Controller of Defence Accounts, Pension, Allahabad.

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

<sup>3</sup>Of 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	<b>Record Offices</b>	54	10	Examination of the time taken in dispatch of PPOs to PBORs and PDAs.
2	<b><u>Pension Sanctioning Authority (PSA)</u></b> -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	<b><u>Pension Disbursing Agencies (PDAs)</u></b>			
	-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	<b>Other entities</b> -RBI, CAS, Nagpur -CGDA -MoD		03	Apex units responsible for policy formulation, budgeting, cash management and accounting of defence pension
	<b>Total</b>		<b>54</b>	

\*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 DPDOs<sup>4</sup> 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 ECHS<sup>5</sup> 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.

<sup>4</sup> Defence Pension Disbursing Offices of Defence Accounts Department(DAD)

<sup>5</sup> 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.

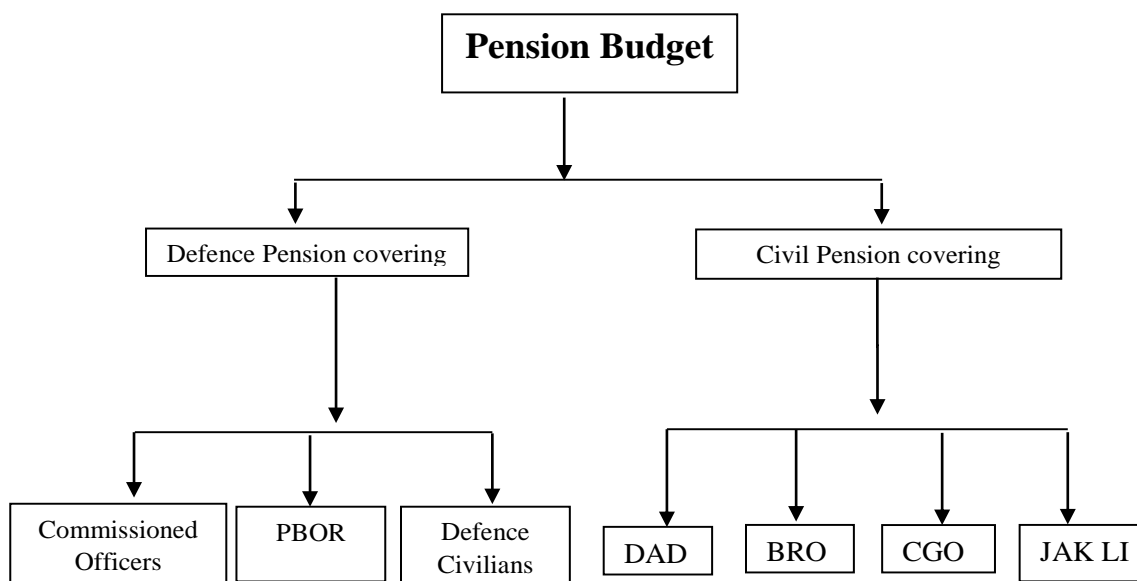


## CHAPTER II: FINANCIAL MANAGEMENT

### 2.1 Introduction

**2.1.1** The Defence Pension Budget is prepared by the PCDA (P) in two parts, one for defence pensioners and the other for civil pensioners of Ministry of Defence ( MoD), and sent to the CGDA<sup>6</sup>, who sends the estimates of the defence pension to the MoD and the estimates of the civil pension to the Central Pension Accounting Office (CPAO), MoF<sup>7</sup>, for obtaining approval of the Parliament. The schematic presentation of the defence pension budget is depicted in **Chart 2** below:

**Chart 2 : Schematic Presentation of Defence Pension Budget**



(Note: PBOR-Personnel below Officers Rank, DAD-Defence Accounts Department, BRO- Border Roads Organisation, CGO- Coast Guard Organisation, JAKLI- Jammu and Kashmir Light Infantry)

### 2.2 Budget Allotment and Expenditure on Defence Pension

#### 2.2.1 Defence Pension Grant

The details of Defence Pension Budget for the years 2011-12 to 2015-16 are given in the **Table 2.1** below:

<sup>6</sup>Controller General of Defence Accounts

<sup>7</sup>Ministry of Finance

**Table 2.1: Budget Estimates and Expenditure on Defence Pension**

( ₹ in crore)

Year	Budget Estimate	Revised Estimate approved	Booked expenditure	Excess (-) / Savings (+) (Col 3 - Col 4)	Excess/ savings as percentage of RE
1	2	3	4	5	6
2011-12	34,000	34,000	37,569.39	(-) 3,569.39	<b>10.50</b>
2012-13	39,000	39,500	43,367.71	(-) 3,867.71	<b>9.79</b>
2013-14	44,500	45,500	45,499.54	(+) 0.46	-
2014-15	51,000	50,000	60,449.75	(-) 10,449.75	<b>20.90</b>
2015-16	54,500	60,238	60,237.60	(+) 0.40	-

Source: Demand for Grants prepared by the CGDA

**Table 2.1** shows that the expenditure exceeded the allotment in 03 of the 05 years period from 2011-12 to 2015-16. There were minor savings in the years 2013-14 and 2015-16. MoD stated that the PCDA (P) was not able to get adequate funds under defence pension budget.

### 2.2.2 Civil Pension Grant

The Civil Pension Budget for the years 2011-12 to 2015-16 is given in **Table 2.2** below:

**Table 2.2 : Budget Estimates and Actual Expenditure on Civil Pension**

( ₹ in crore)

Year	Budget Estimate	Revised Estimate	Actual Expenditure	Excess (-) / Savings (+) (Col 3 - Col 4)
1	2	3	4	5
2011-12	1,199.30	1,302.87	1,308.24	(-) 5.37
2012-13	1,410.06	1,434.15	1,502.34	(-) 68.19
2013-14	1,625.67	1,690.47	1,721.07	(-) 30.60
2014-15	1,860.60	1,974.46	1,967.67	(+) 6.79
2015-16	2,150.50	2,213.47	2,222.93	(-) 9.46

Source: Demand for Grants prepared by the CGDA

There was excess expenditure in all the years except in 2014-15. MoD replied that the excess/ savings were within the permissible limit of *five per cent* of approved RE, but did not produce any authority in support of the permissibility of the *five per cent* deviation.

## 2.3 Incomplete accounting of expenditure

2.3.1 The information furnished by PCDA (P) showed that substantial amount of expenditure in each year was not booked to the pension head of account of that year and the expenditure of the earlier years was lying in the “RBI suspense unclassified” head (Table 2.3 given below), as the banks had not furnished to the PCDA (P) the detailed payment scrolls on the basis of which the PCDA would book the amounts to the final head of expenditure. The MoD stated that at the close of every financial year at least 07 to 10 per cent pension payment scrolls were not received in the PCDA (P).

**Table 2.3 : Amounts lying in RBI suspense (unclassified)**

(₹ in crore)

Year	Amounts lying at the year end
2011-12	5,887.17
2012-13	5,444.90
2013-14	8,388.07
2014-15	4,090.92
2015-16	6,831.95

The information furnished by PCDA (P) further showed that the amounts in the suspense head were carried forward for several years as Table 2.4 below would indicate:

**Table 2.4 : Break up of RBI Suspense (unclassified) at the end of 2014-15**

(₹ in crore)

Year	RBI Suspense Un-classified
Upto 2008-09	247.74
2009-2010	368.36
2010-11	68.21
2011-12	711.26
2012-13	55.31
2013-14	112.14
2014-15	2,527.90
<b>TOTAL</b>	<b>4,090.92</b>

2.3.2 The outstanding balances in the suspense head indicated that the expenditure booked in government accounts did not reflect the correct picture of expenditure in the relevant year.

2.3.3 Our review indicated that a part of this problem can be traced to the system laid down by the RBI for reimbursement of the amounts disbursed by the banks. Until March 2007, the banks were being reimbursed the amounts disbursed by them under the ‘Scheme for Payment of Pensions of Defence Pensioners by Public Sector Banks’ launched by MoD from 01 January 1987. Under this scheme, the RBI or the State Bank of India (SBI) or its subsidiaries transacting Government business were responsible for checking the payment

scroll received from the banks, reimbursing to them the net amount of pension disbursed by them, and sending a copy of the debit advice together with the original scroll received from the banks to the PCDA (P) for accounting. The RBI modified this scheme with effect from 01 April 2007, introducing a Single Window System, whereby the reimbursement would be made only by the Central Accounts Section (CAS) of the RBI located at Nagpur and the agency banks were required to send the payment scrolls directly to the PCDA (P). Under this arrangement the PCDA (P) initially books the payments, as advised by RBI, under suspense head "RBI Suspense Unclassified", to be cleared on receipt of the payment scrolls from the paying banks. Since the new system has permitted the banks to get reimbursements from RBI on the basis of the advice sent by them to RBI, irrespective of whether they had sent the payment scrolls to the PCDA (P), there was little incentive for the banks to submit payment scrolls to the PCDA (P) in time. The new system led to weaker control, both by the RBI and the PCDA, over the submission of the payment scrolls by the banks.

**2.3.4** Any inefficiency in submission of payment scrolls by the banks results in two consequences:

- The amount lying in the suspense head will not get booked to the correct head of account; and will affect the correctness of the accounts for that year. An example of this is the accounts for the year 2014-15, when the compiled expenditure of ₹49,999.73 crore was revised, after closure of the accounts for the year 2014-15, to ₹60,449.75 crore due to booking of ₹10,450.03 crore of the suspense amount cleared in the year 2015-16. The matter was commented upon in the CAG's Report on Union Government Accounts 2014-15 as mentioned in Paragraph 4.14 of Audit Report No. 50 of 2015 (Financial Audit) (**Annexure-3**).
- Since the reimbursement is made by RBI by operating the cash balance of the government, any reimbursements made to the banks on the basis of incorrect claims, will not only affect the cash balance of the government, but will not get detected until the payment scrolls have been submitted by the banks and scrutinized by the PCDA.

**2.3.5** As the banks disburse pension through their automated Core Banking Systems, the generation and submission of scrolls within a short time after the disbursement can be ensured. This will in turn ensure that the expenditure incurred on account of pension in any year will get accounted for in that year itself as the Government accounts are kept open for booking expenditure for some time after the closure of the year. This will also ensure that the PCDA (P) can check the scrolls timely for any errors of omission and commission, including under and overpayments.

## **2.4 Conclusions and Recommendations**

As indicated above, the outstanding balances in the suspense head indicated that the expenditure booked in government accounts did not reflect the correct picture of expenditure in the relevant year. The de-linking of the reimbursement of the amounts to the banks from their responsibility to furnish payment scrolls to the PCDA (P) adversely impacts the correctness of the government accounts with its attendant consequences on the revenue deficit; and its cash balances with RBI on account of possible overpayments. This underscores the need for strengthening the controls to address this issue.

It is recommended that the MoD should work with RBI to review RBI's 2007 guidelines and incorporate adequate incentives/ disincentives to ensure that the banks submit the payment scrolls to PCDA (P) regularly and in time. This could be possible in two ways:

- RBI should make the reimbursement to the banks conditional upon the proof of submission of the payment scroll to the PCDA (P), *e.g.*, an electronic receipt or a report upload confirmation.
- Alternatively, RBI should introduce financial disincentives for not submitting the e-scrolls to PCDA (P), *e.g.*, deducting a certain percentage of the reimbursable amount as fine for not submitting the past scrolls.

MoD (June 2017) expressed agreement with the recommendations.

## CHAPTER III : AUTHORISATION OF PENSION

### 3.1 Introduction

**3.1.1** The Record Offices (RO) are the repositories of information in respect of PBOR. They are responsible for initiating the pension proposals<sup>8</sup> through issue of Discharge orders to the Units, getting the finalised documents from the Units eight months (Army) in advance, obtaining clearance from PAO (OR) on Last Pay Certificate (LPC)-cum-datasheets, sending these papers to the respective pension sanctioning authorities (PSA)<sup>9</sup> and dispatching the PPOs to the pensioner and the pension disbursing agencies (PDAs) after they are received from the PSAs. In case of army, the unit concerned forwards to the Records Office the Discharge Roll of the individual, together with other relevant papers like Medical Examination Report and the information regarding nominations *etc.*

**3.1.2** The ROs send the information to the PSAs in the form of LPC-cum-Data Sheets, which contain the basic information necessary to enable the Pension Sanctioning Authorities (PSAs) to process the pension case and issue the PPO. Departmental instructions<sup>10</sup> lay down specific milestones for the Units and ROs for sending the information and papers of the retiring personnel to the PSAs, obtaining the PPOs from the PSA two months preceding the date of discharge (DOD) and dispatching the same to the pensioner and the PDA, one month in advance of the DOD. The milestones for Army, Air Force and Navy are summarized in **Annexure-4A, 4B & 4C**.

### 3.2 Delays in processing and authorization of pension

**3.2.1** As stated, the instructions require that the PPOs should be dispatched to the pensioners and the PDAs one month in advance of the Date of Discharge (DOD). We test checked the dispatch of PPOs to the PDAs/ pensioners in 10 out of the 54 ROs and found that the laid down timelines in many cases were not met. The following is a summary of our findings:

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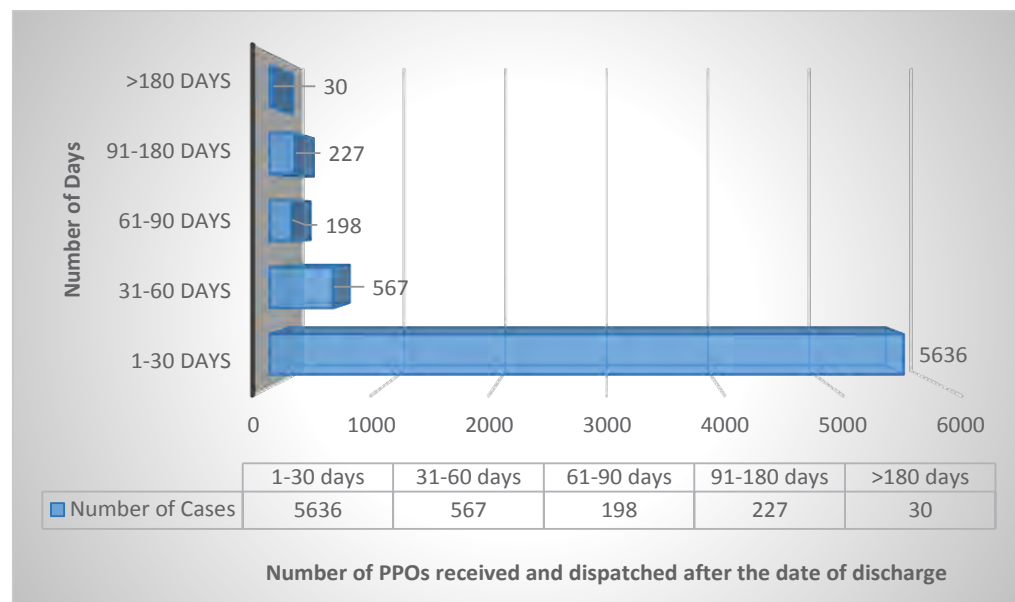
<sup>8</sup> In case of officers the proposals are initiated by the respective Heads of Departments at the Services Headquarters.

<sup>9</sup> PCDA (P), Allahabad; CDA (Air Force) and CDA (Navy).

<sup>10</sup> For example, the Integrated HQ of Ministry of Defence (Army), Adjutant General's Branch instructions (November 2013) require all Record Offices to strictly adhere to the time schedule of dispatch of original copy of PPOs to the PDAs by one month preceding the date of discharge of individual concerned from the Army and copy to be issued simultaneously to the individual. Similar instructions for Air Force are contained in Air-HQ/41005/Policy/PA-III dated 11 April 2007.

- (i) In the Records Office JAT Regiment, Bareilly pension papers were received late from the respective units in 81 out of 94 cases received in February 2015 and in 95 out of 127 cases received in February 2016.
- (ii) In the Records Office JAT Regiment, Bareilly, 26.77 per cent of the PPOs in 2011-12 and 32.27 per cent of PPOs in 2012-13 were dispatched after the date of discharge. The date of dispatch was not recorded in the prescribed column of the PPO Progress Register for the years 2013-14 to 2015-16, so the extent of delay could not be ascertained.
- (iii) In the Records Office, Rajputana Rifles, Delhi, 485 (26.72 per cent) out of 1815 PPOs dispatched during 2011-12 to 2015-16 were dispatched one to two months after the date of discharge.
- (iv) In Records Office ASC (South), Bangalore and the Records Office EME Secunderabad, of the 1040 and 985 cases test checked, 762 and 736 cases respectively were outstanding as of 31 August 2016 for finalisation of family pension claims, for want of details from the Next of Kin (NOK).
- (v) In the Directorate of Air Veterans (DAV)<sup>11</sup>, New Delhi, out of 21,340 PPOs received from PSA *i.e.*, JCDA (AF) during 2011-12 to 2015-16, 6658 PPOs (31.20 per cent) were received after the date of discharge of pensioners. Age-analysis of the delay in receipt from the PSA after date of discharge is given in the **Chart 3** below:

**Chart 3 : Delay at the DAV in receipt and despatch of PPOs after the date of discharge**



<sup>11</sup> DAV is the nodal agency for processing the pension cases for the Air Force personnel. It has a co-coordinating role *vis a vis* the Air Force Record Office, AFCAO, JCDA (AF), PCDA (P) and PDAs.

- (vi) Of the 225 test checked PPOs, all the 216 PPOs that were received in the DAV before the date of discharge were dispatched to the PDAs and pensioners after the date of discharge. DAV attributed the delay to late submission of records by the Air Force Record offices (AFRO) due to observations raised by CDA (AF), late receipt of pension papers from units and observations raised by the audit agencies (Defence Accounts Department) belatedly.

MoD stated that instructions had already been issued (November 2013) to ROs for submission of claims to the PSAs well in advance from the date of discharge/ superannuation. However, the audit findings indicate that those instructions were not implemented in the above cases.

### **3.3 Delay in payment of DCRG due to delay in issue of PPOs**

Para 49 of the Pension Regulations for Army, Part –II stipulates that if the payment of Retirement Gratuity in case of normal retirement has been authorized after three months from the date of discharge, interest may be allowed beyond the period of three months from the date of discharge; and in all the cases where the interest has been paid, action shall be taken to fix the responsibility for the delay in the payment of Gratuity and take disciplinary action against the officers responsible. We observed that of the 21,340 PPOs issued in the DAV during 01/04/2011 to 31/03/2016, 237 PPOs were issued after more than three months from the date of discharge (DOD), entailing not only financial hardship to the pensioners, but also the potential liability for interest on delayed payment of gratuity.

### **3.4 Irregularities in PPOs**

#### ***3.4.1 Sanction of both Fixed Medical Allowance and ECHS contribution***

Ex-Servicemen who retire on or after 01 April 2003 have to compulsorily become member of a Contributory Health Scheme (ECHS) and are not eligible to draw the Fixed Medical Allowance (FMA). Existing pensioners, who opt for ECHS, will also not be entitled for FMA.

Our test audit revealed that FMA was sanctioned even when the pensioner had opted for ECHS in *six* PPOs issued by the PCDA (P) and *five* PPOs issued by JCDA(AF).

MoD stated that validation checks had been applied to prevent notification of both FMA and ECHS contribution simultaneously. However, the analysis of soft data of the PCDA (P) indicated sanction by the PCDA (P) of both FMA and ECHS facility in 2,579 cases, which indicated that the validation checks needed to be re-confirmed and further verification done in the identified cases to ensure that there was no double benefit.



### 3.4.2 Grant of Pension by the Principal CDA (Navy) Mumbai

Dearness Allowance is not allowed on Classification Allowance<sup>12</sup> while calculating Death-cum-Retirement Gratuity (DCRG). Records of 606 Naval pensioners (Sailors post-2006 retirees) at the Principal CDA (Navy), Mumbai revealed that in 56 cases DA on Classification Allowance was wrongly taken into account while calculating the reckonable emoluments for DCRG. Principal CDA (Navy), Mumbai stated that the Corrigendum PPOs would be issued in those cases. The recovery of the overpayment in these cases needs to be monitored.

## 3.5 Need to review the workflow of the pension authorisation process

3.5.1 We reviewed the procedure laid down by Army, Air Force and Navy for processing the pension cases, and noted that:

- In Army, a pension case passes through *four* authorities and *six* stages before it reaches the PDAs and the pensioner; the prescribed time is *eight* months (**Annexure-4A**).
- In Air Force, a pension case passes through *five* authorities and *six* stages before it reaches the PDA and the pensioner; the prescribed time for this is *nine* months (**Annexure-4B**).
- Similarly, in Navy, a pension case passes through *four* authorities and *six* stages before it reaches the PDA and the pensioner; the prescribed time for this is *twelve* months. (**Annexure-4C**).

We also noted that in the case of PBOR, the PPOs are sent by the PSAs to the ROs for dispatching to the PDAs and the pensioner, whereas in case of officers, the PSAs send the PPOs directly to the PDAs.

3.5.2 We observed that the information flows manually from the Record Offices to the PCDA (P) in the LPC-cum Data Sheets, in hard copy as well as CDs, where it is transferred to the PCDA's system after checking the hard copy. The PPOs, after being received from the PCDA (P), are sent manually by the ROs to the PDAs and the pensioners. Similarly, the PDAs, after receiving the hard copy of the PPOs, manually transcribe the data into their systems to build a data base of customer profile containing the basic information necessary for payment of pension to the pensioners. There is no online connectivity between the ROs, PSAs and the PDAs, the three most important pillars of the pension management system in defence. This system is not only inefficient and time consuming but also prone to transcription errors at different stages. If connected online, with proper validation checks, the flow

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<sup>12</sup> Classification Allowance is granted to PBORs on attaining certain trade related qualification in each group. Fifty percent of the classification allowance is reckoned for pension.

of information can be faster and efficient. It will also ensure that only validated data is transferred from the point of origin (RO) to the point of destination (PDA), without any manual intervention at any other point of the transmission chain. Online connectivity of the three pillars and automated flow of validated information in a secure mode will obviate the need for data entry at multiple points and the attendant errors of transcription.

MoD stated that action on the points suggested regarding online connectivity, automated flow of information *etc.*, was in hand and a Request For Proposal had been issued.

### **3.6 Conclusions and Recommendations**

The defence pension authorisation process would appear to have several inefficiencies including long drawn procedures, lack of adequate monitoring and absence of an integrated transmission chain among the stakeholders that enables automated flow of validated information, free from manual transcription errors. Overcoming these inefficiencies would greatly enhance the efficiency and effectiveness of the defence pension management system.

In the past years, the pension authorisation process on the civil side has been simplified to a great extent and the authority for sanctioning pension has been delegated to the heads of the department/ offices. The matter needed further examination to see if some of the best practices on the civil pension side could be incorporated into the defence pension authorisation process, in order to make it simpler and more efficient. MoD stated that defence pension was much more complicated than civil pension and it was necessary to have limited number of Pension Sanctioning Authorities. Further, the National Institute of Smart Governance (NISG), which was appointed as consultant to review the process of pension sanction and disbursement, had not suggested decentralisation.

In light of the foregoing, we recommend that:

- The existing monitoring system for the authorisation of the pension should be strengthened. There should be stricter enforcement of the timelines prescribed for processing of the pension cases and dispatch of the PPOs to the pensioners as well as to the PDAs.
- In addition to the NISG study, the existing procedure for authorisation of pension should be reviewed by an expert body to see if it could be simplified to make the process less cumbersome and less time consuming. On the non-defence, civil pension side, the Heads of offices have the delegated powers to sanction pension, and the Central Pension Accounting Office acts as an interface between the departments and the banks. Similar delegation on the defence side could be explored which would lead to simpler procedures.

- The three pillars-ROs, PSAs and PDAs, should be connected online, enabling automated flow of information in the transmission chain, with proper validation and security checks, to ensure that only validated data travels from the ROs to the PSAs and from PSAs to the PDAs in a secure mode.
- PSAs should develop system to send the PPOs electronically to the PDAs directly, obviating the need for routing them back through the ROs. This will substantially reduce the time taken in despatch of the PPOs to the PDAs and save considerable time of the PDAs in manually transcribing the PPO data into their system, which is prone to transcription errors. The e-PPO project of the PCDA (P) should be implemented expeditiously.
- The suggested automated system should generate MIS for better monitoring of the delays at each stage of the pension processing. This will facilitate timely and focused intervention.

## CHAPTER IV : DISBURSEMENT OF PENSION

### 4.1 Introduction

**4.1.1** Pension is disbursed through Pension Disbursing Agencies (PDAs) comprising Banks, Defence Pension Disbursing Offices (DPDOs), Treasuries, PAOs and the Post Office, Kathua. Majority of the pensioners receive pension through banks (about 74.8 *per cent*) or DPDOs (18.5 *per cent*). Banks have established their Centralised Pension Processing Centres (CPPCs), which are the focal points in each bank to process the pension cases.

**4.1.2** Under the existing arrangement, the banks disburse the pension from their own funds and seek reimbursement from the RBI on a daily basis. They are required to send detailed Pension Payment Scrolls to the PCDA (P) for proper accounting of the expenditure. The banks are also authorized to revise the pension, based on government orders issued from time to time. The RBI pays agency commission to the banks based on the number of transactions handled by them. The DPDOs make the payment by directly operating the government account. The **Aashraya** software used by the DPDOs facilitates payment of pension and contains the electronic database of the pensions disbursed by the DPDOs. The disbursements made by other PDAs like treasuries and Post Office, Kathua are adjusted later through the Accountants General (A&E) or Director (Department of Post).

**4.1.3** We test checked disbursement of pension in 16 (*sixteen*) CPPCs of the Public Sector Banks, 10 (*ten*) DPDOs of the Defence Accounts Department, and 08 (*eight*) Treasury Offices of the State Governments with the objective of testing timely disbursement of correct pension. The physical sample consisted of at least 300 cases from each PDA. In addition, bulk soft data maintained by the 16 selected CPPCs and 63 DPDOs was analysed using data analytics techniques. The findings are given in the succeeding paragraphs.

### 4.2 Underpayment to Defence Pensioners

Analysis, using IT tools, of the e-scrolls and payment vouchers for one month, obtained from the PDAs during field audit, indicated that 21,434 pensioners (out of 18.96 lakh) were under-paid. The amount of under-payment in the identified cases was calculated for the entire period of disbursement to the pensioners, beginning from the date when the pension became due to them, and came to ₹ 106.17 crore as shown in the **Table 4.1** given below:

**Table 4.1 : Details of underpayment to Defence Pensioners**

Sl. No.	Description	Number of pensioners affected	Underpaid (₹ in crore)	Number of PDAs involved
1	Incorrect fixation of Service Pension	1,120	62.59	12
2	Wrong rounding-off of Qualifying Service	418	1.62	3
3	Non-restoration of Commuted portion of Pension	1,826	4.19	6
4	Disability Element not paid or paid at lower rate	35	0.47	5
5	Non-rounding off of Disability Pension	1,254	10.89	3
6	Non-payment of Monetary allowances attached to Gallantry Awards	49	0.34	8
7	Family Pension not revised	4,401	18.08	12
8	Non-revision or wrong revision of Additional Pension admissible to pensioners above 80 years of age	864	1.67	10
9	Fixed Medical Allowance not revised	11,164	5.76	19
10	Non-revision of Constant Attendance Allowance admissible to pensioners with 100% disability	79	0.38	10
11	Ex-gratia amount not revised	224	0.18	9
	<b>Total</b>	<b>21,434</b>	<b>106.17</b>	

Of these, 229 pensioners in two CPPC<sup>13</sup>s and 37 pensioners in 20 DPDOs<sup>14</sup> were not getting even the minimum guaranteed pension of ₹ 3500. In 297 cases, the pension was not revised for several years after the revision orders were issued, due to non-availability of basic records. **Annexure-5** gives a summary of the important cases of under-payments observed.

Subsequently, when the bulk soft data of e-scrolls for the five years period 2011-12 to 2015-16 was analysed using IT tools, it indicated possible under-payment aggregating to ₹228.85 crore, as shown in **Annexure-6**. The cases coming out of the audit analysis were intimated to the concerned agencies for detailed investigation and appropriate action.

MoD stated that the matter was being taken up with the concerned PDAs for necessary action.

### **4.3 Overpayment to defence pensioners**

**4.3.1** Similarly, analysis of pension payment accounts and e-scrolls for one month at the 17 PDAs and 08 treasuries indicated that overpayments were made by the PDAs to 11,973 (out of 18.96 lakh) defence pensioners due to reasons like wrong entry of date of birth, qualifying service, and the group of service *etc.*, in their databases. When the overpayment was calculated for the

<sup>13</sup> SBI Guwahati and Bank of Baroda, Delhi

<sup>14</sup> 20 DPDOs at Red Fort-II Delhi, Brar Square Delhi, Rohtak, Sonapat, Jalandhar, Amritsar, Bhatinda, Ropar, Jammu S N, Jammu A R, Udhampur, Srinagar, Leh, Allahabad, Gorakhpur, Hyderabad, Secunderabad, Bangalore, vellore, Kottayam

entire period of disbursement to the pensioners, beginning from the date when the pension became due to them, the amount came to ₹118.23 crore. The details are given in **Table 4.2** below:

**Table 4.2 : Details of Overpayments to Defence Pensioners**

Sl. No.	Description	Number of pensioners affected	Overpayment (₹ in crore)	Number of PDAs involved
1	Incorrect fixation of pension	509	36.52	15
2	Wrong rounding-off of Qualifying Service	616	2.84	1
3	Dearness relief	110	0.88	7
4	Commutation of Pension	609	10.14	9
5	Disability Pension (broad-banding)	103	0.84	3
6	Double disability	1	0.07	1
7	Disability to family pensioner	1	0.08	1
8	Gallantry Awards	8	0.02	2
9	Family Pension	39	0.55	5
10	Additional Pension	233	1.65	7
11	Irregular additional pension	83	1.27	1
12	Irregular payment of Fixed Medical Allowance (FMA)	8,604	21.62	19
13	Constant Attendance Allowance	8	0.08	2
14	Overpayment to NCC officers	41	5.95	9
15	Wrong revision of pension of civilians	100	2.95	1
16	Reservists <sup>15</sup>	908	32.77	11
	<b>Total</b>	<b>11,973</b>	<b>118.23</b>	

MoD stated that overpayments were due to incorrect feeding/ incorrect information in their data bases; and that the PDAs had been advised to take corrective steps.

**4.3.2** Subsequently, when the bulk soft data of e-scrolls for the five years period under review *i.e.*, 2011-12 to 2015-16 was analysed using IT tools, it indicated possible overpayment aggregating to ₹518.70 crore. The details are in **Annexure-6**. All the cases were intimated to the concerned agencies for detailed verification and appropriate action.

MoD stated that the matter was being taken up with the concerned PDAs for necessary action.

<sup>15</sup>The service rendered while in active service in the Armed Forces is called “Colour” service and that in reserve is called “Reserve” Service. The minimum “colour” service for earning service pension is 15 years. Individuals, who retire after 15 years of combined colour and reserve service, are granted “Reservist Pension”. Over-payments occurred due to irregular revision by the PDAs as per the orders applicable for the service personnel.

#### **4.4 Double payments**

On analysis using IT tools of 10,55,000 records in e-scrolls of 16 banks' CPPCs and the DPDOs for the month of February 2015, we found 153 records in which the same PPO number was either linked to two accounts or double pension was credited to the same account. On verification in the banks, 59 of these cases turned out to be of double payment, of which in 26 cases, the banks had already detected the double payment and taken action for recovery. However, in 33 cases the recovery of double payment of ₹ 91.90 lakh had either not started or had not completed. In the remaining 94 (153-59) cases, data entry errors were noticed (the PPO number was entered wrongly by the banks) and were rectified by the bank after being pointed out.

MoD stated (June 2017) that in 19 out of the 33 cases, recovery had commenced, and necessary liaison had been done for recovery in remaining cases.

#### **4.5 Other irregularities in pension disbursement**

- In Bank of Baroda (BOB), New Delhi there were 26 accounts in which pensions of 03 to 92 pensioners were credited into *one* account number.
- In Central Bank of India (CBI), Mumbai, pension was credited twice to the accounts of pensioners against identical PPOs, resulting in overpayment of ₹34.94 lakh for the period 2013-16.
- Similarly, Bank of Maharashtra credited the amounts twice to the accounts in *nine* cases, involving overpayment of ₹10.62 lakh. Bank of Maharashtra also paid ₹20.25 lakh to four pensioners of other departments against Defence Head.
- SBI, Mumbai paid ₹ 12.56 lakh during 2011-12 to 2015-16 to *four* pensioners of Central Reserve Police Force.
- In SBI, Guwahati, the date of birth in 2,453 cases was mentioned as '31/12/3001'. SBI, Guwahati also authorised payment of pension without PPOs. 32 PPOs were missing and 51 reported burnt.
- In SBI, Patna, PPOs of 1496 pensioners were not with the CPPC and payment of pension was being made without PPO as of March 2016.
- In Pauri Garhwal Treasury, the date of birth of 30 *per cent* of the total 2285 pensioners was not fed in the system and the date of birth of 29.6 *per cent* pensioners was fed as '15/07/1947'. This Treasury also paid ₹31.83 lakh without original PPOs in *four* cases.

- In Farrukhabad Treasury, *four* PPOs were missing (reported destroyed by termite and moisture) and the payment was being authorized without PPOs.

MoD stated (March 2017) that the details had been called for from the PDAs for issue of suitable orders.

#### **4.6 Delay in recovery of overpayments**

RBI instructions stipulate that the overpayments should be adjusted against the amount standing to the credit of the pensioner. Our examination of e-scrolls and pensioners' profile showed that the PDAs delayed recovery of overpayments/ wrong payments (identified by PDAs) to 6,900 defence pensioners, amounting to ₹62.04 crore (**Annexure-7**). In some cases, the recovery was made at the rate of ₹1.00 per month only, meaning it could not be recovered during the life time of the pensioners. MoD stated that details of overpayments had been called for examination and issuing necessary guidelines.

#### **4.7 Deficiencies in the pensioners' data**

As stated in Para 1.6.2, we consolidated the e-scroll data for 2011-12 to 2015-16 received in the PCDA (P) office and from the PDAs, which totalled to about 7.15 crore records. The data was matched with the data in the pensioners' profile maintained by PCDA (P). **Annexure-8** summarises the mismatch in the data contained in the e-scrolls with that in the pensioners' profile maintained by the PCDA (P).

It was observed that the format prescribed by the PCDA (P) for the 'Pensioners Profile' to be maintained by the PDAs required 67 fields to be captured by the PDAs, such as, Name, Rank, Identity number during service, date of birth, *etc.* However, there were instances of incomplete and wrong data captured in the Pensioners' profile maintained by the PDAs. For example:

##### **(i) Missing Account number**

In 11 out of 17 PDAs the Bank Account number appearing in the pension payment scroll did not appear in the Profile database. The number of unmatched transactions in the PDAs ranged from 78 to 4,41,980 (column 4, **Annexure-8**). This indicates absence of an important validation check to ensure that the pensions are paid to the correct account.

##### **(ii) Missing Name and PPO number**

In 13 out of 17 PDAs either the name or the PPO number was not indicated in the scrolls. The number of transactions in which the names were not indicated in the PDAs' records ranged from 137 to 2,08,844; and the number of records



in which PPOs were not indicated in the PDAs' records ranged from 26 to 1,38,991 (column 5 and 6, **Annexure-8**).

**(iii) Date of birth errors**

In all PDAs except Andhra Bank, the date of birth was either not captured or captured wrongly in many cases. For example,

- a) In 27,55,097 transactions the date of birth was not captured.
- b) In 2,55,483 transactions the date of birth was mentioned as 31/12/3001.
- c) In 23,954 transactions the date of birth was not matching with that recorded by PCDA (P).
- d) In 14,125 transactions the date of birth was not matching with that in the Bank profile.
- e) In 162,777 transactions, as per the 'date of birth' in the Pensioners' profiles, the pensioner had served even after attaining the age of superannuation (column 8, **Annexure-8**).

As the date of birth has financial implication in the case of 'Additional pension', paid on attaining the age of 80 years and above, absence of or wrong date of birth was an important missing control.

**(iv) Pension for same PPO credited to different accounts**

As the PPO has a unique number, payment against a PPO cannot be credited to two different Bank accounts. We observed that in 9,696 cases (column 9, **Annexure-8**) pension was credited to more than one bank account number against the same PPO. This indicates that either the PPO number was incorrectly fed in the scroll or payment in one of the accounts was irregular.

**(v) Pension for different PPOs credited to one bank account**

Though the pension is credited to the individual pensioner's bank account on the basis of one unique PPO, we observed 38,127 cases where pension was credited to one bank account against multiple PPOs (column 10, **Annexure-8**). This indicates that either the PPO number or the account number was incorrect.

**(vi) Non-matching of the Bank scroll data with the PCDA data**

PPO contains the personal and service details of the pensioners based on the pensioners' profile data held by the PCDA (P). Ink signed PPO is issued by the PCDA (P) to the banks, which are the pension disbursing agencies. The banks transcribe the data in the PPO for building their own pensioners profile

on the basis of which pensions are disbursed. The e-scrolls contain data based on the pensioners' profile maintained by the banks.

However, on matching the e-scroll data of the banks/ DPDOs with the pensioners' profile [maintained by PCDA (P)], on the "Bank account number" and "PPO No." fields, it was observed that scroll records did not match with the PCDA (P) records in 5,15,869 cases (column 11, **Annexure-8**). This reflects that either the PPO number fed was incorrect or no reconciliation was carried out by the PCDA (P) with the records of PDAs. Due to inaccuracy in capturing data and non-reconciliation between PDAs and PCDA (P), incorrect or fraudulent payment of pension cannot be ruled out and therefore needs to be thoroughly investigated.

MoD stated (June 2017) that the matter needed further examination, and a data purification cell had been opened to reconcile the master data with the information in e-scrolls.

#### **4.8 Disbursement of pension by DPDOs**

**Aashraya** software was developed by the CGDA for accounting and disbursement of defence pension through Defence Pension Disbursing Offices (DPDOs). We observed that:

- Due to non-integration with the database of PCDA (P), DPDOs were feeding the data in the Aashraya software manually and many fields were left blank due to non-availability of the information at the DPDO level.
- Lack of validation checks on the data fed posed challenge to the integrity of the data. For example: field "Recstats" accepted alphanumeric data instead of only alphabetical; the Field "Date" accepted any number from '0' to '99999999'; and the field Qualifying service accepted '0' in many cases.

Audit scrutiny of the History Master of Aashraya software revealed that:

- (i) In 1,854 out of 425,495 records, name of two pensioners with different regimental numbers appeared against the same PPO number.
- (ii) In 31,419 cases of disability/ invalid out, the percentage of disability was not mentioned.

MoD stated (March 2017) that e-PPO project was under development stage and integration of database between PCDA (P) and DPDOs could be done after completion of that project.

#### **4.9 Non-deduction of Income Tax from pensioners**

Para 88.1 of the Defence Pension Payment Instructions requires that PDAs are responsible for deducting Income Tax at source (TDS) from the pensioners.

- Audit scrutiny of Aashraya data revealed that DPDOs deducted Income Tax only in case of 157 out of 4,38,234 pensioners (March 2016).
- Udham Singh Nagar Treasury made pension payment to 230 service pensioners in March 2015 but did not deduct Income Tax. Pauri Garhwal Treasury disbursed pension to 1140 service pensioners in March 2015 but did not deduct Income Tax in any of these cases except for 344 service pensioners of Sub-Treasury, Satpuli.
- Audit scrutiny of scroll (February 2016) of CPPC BOB New Delhi revealed that no deduction of Income Tax was made even though total payment was more than the exemption limit in 81 cases.
- The other PDAs that did not deduct TDS were DPDO, Secunderabad (3129 cases), Treasury Kozhikode (862 cases), DPDO Ernakulum (4154 cases), and CPPC BOM, Pune (32,985 cases).

We observed that Permanent Account Numbers (PAN) were not available in the bulk data obtained from the PCDA (P) and the PDAs, except for SBI and DPDOs. Capturing the PAN in the basic details of the pensioner could facilitate tax deduction at source by the PDAs.

#### **4.10 Verification of Life Certificates**

Pensioners are required to produce a life certificate signed by designated authorities, once a year. We observed that in some cases, life certificates were missing.

Obtaining a life certificate in the designated format and signed by a designated authority could be a challenge for a pensioner, especially with increasing age. To mitigate the problem, PCDA (P) had made the digital life certificates obtained through the Jeevan Praman scheme of the Government, an admissible document. The Jeevan Praman initiative enables citizens to obtain biometrically enabled digital life certificates through mobile phones and designated service centres.

Although Aadhaar number is essential in order to derive the benefit of Jeevan Praman, our examination of the banks' payment scrolls indicated that only a few of them (*e.g.*, Punjab National Bank and Central Bank of India) had captured the Aadhaar number, that too for only a part of their pensioners.

#### **4.11 Other comments**

The Post office, Kathua maintains defence pension disbursement accounts of 4,599 defence pensioners. Due to non-availability of required infrastructure the Post office is maintaining the record of pension disbursement manually.

#### **4.12 Conclusions and Recommendations**

An analysis of the reasons for the under-payments and over-payments indicates that they were mostly on account of non-revision or incorrect revision of pension and incorrect feeding of pensioners' rank, group, qualifying service, date of birth, *etc.*, in the database of the Pension Disbursing Agencies (PDA). The PDAs were building their databases of the pensioners' profiles by manually transcribing into their systems the data from the PPOs issued by the PSAs. This system was prone to transcription error as is manifest in the audit findings discussed above. Further, since the PDAs were authorized to carry out the revisions *etc.*, of the pensions, timely detection of errors committed by them would be critically dependent on timely submission of the payment scrolls to the PCDA (P) and comprehensive audit of these scrolls by the PCDA (P).

Non-integration of the databases of the PSAs and the PDAs, coupled with inadequate control over submission by the PDAs of payment details to the PCDA (P), has led to systemic inefficiencies resulting in under-payments, over-payments and other irregularities in the disbursement of pension, as discussed in the preceding paragraphs. These deficiencies were symptomatic and under-scored the need for a more robust pension disbursement system that builds upon the progress already made in the different stakeholders in automating the system and also leverages the advancements in information technology.

In light of the above, the following recommendations are made:

- The architecture of the pension system should be designed such that the pensioners' critical information should flow seamlessly and electronically from the point of origin (*e.g.*, the Record Offices) to the destination (PDAs) through the pension sanctioning authorities (PSAs). This will obviate the need for manual transcription of information, especially in the PDAs, saving resources and plugging scope for mistakes.
- There should be comprehensive validation checks for the information captured at the origin, and it should not be tampered with at any intermediate stage without proper authority and audit trail.
- PCDA (P) should implement comprehensive e-audit of the scrolls for prompt detection of deviations, including under and overpayments, to enable prompt action.

- MoD should liaise with the Department of Posts to computerise the Post Office, Kathua.
- PAN number should be captured in the original profile maintained by the ROs and travel through the chain of transmission to the PDAs to facilitate TDS.
- In order to provide a hassle-free method of submitting life certificates to the PDAs, Aadhaar number should be captured by the ROs while the person is in service and form part of the basic information that travels through the transmission chain to the Pension Disbursing Agencies through the Pension Sanctioning Authorities. In the existing cases, proactive action on the part of the PSAs and PDAs was required to obtain Aadhaar numbers of the pensioners and populate the PDAs databases. This would pave the way for hassle-free life certificates for the pensioners.
- PSAs and PDAs should undertake advocacy for propagating the advantages of Jeevan Praman.

MoD, while noting the recommendations, added that instructions had been issued to include PAN, Aadhar, mobile number, and email addresses of the pensioners and their dependents. Further, instructions have been issued that no PPO would be generated without Aadhar Number for Indian Nationals.

## CHAPTER V : INTERNAL CONTROLS

Based on the findings of audit discussed in the preceding chapters, some important control weaknesses can be identified in the defence pension management system. These weaknesses, discussed in the following paragraphs, need to be addressed to make the system more robust, efficient and effective.

### 5.1 Control Weaknesses in the Record Offices

The Record offices were deficient in controls resulting in inadequate monitoring of the delays in processing of the pension claims at different stages. It was observed that although the Record Offices were designed to be the repository of service records, substantial amount of time was being taken, often contributing significantly to the delays, in getting information from the units *etc.*, before the date of discharge of the ex-servicemen. There appeared to be a need to review the existing arrangement to ensure that the Record Offices possess updated information when the pension cases are due to be taken up and the procedural requirements of sending the cases back to the units are minimized.

### 5.2 Control deficiencies in PCDA (P)

#### 5.2.1 Discrepancy in the number of pensioners

As per Ministry of Defence statement presented in Lok Sabha (February 2017) the assessed number of defence pensioners was 25,00,631 as on 01/04/2016 which was also confirmed to the Audit by the CGDA. However, on consolidating the pensioners' data obtained by Audit from all the CPPCs of banks and other Pension Disbursing Agencies for March 2016, the number of pensioners came to 29,14,594. The difference in these numbers shows lack of adequate control in maintaining correct information and it needs to be reconciled by the CGDA/PCDA (P). This also under-scored the need for only one source of truth in capturing the pensioners' information, *e.g.*, the Record Offices; for strong controls to ensure that the PDAs send their payment scrolls immediately after making the disbursements; and for comprehensive audit of the information in the scrolls received in PCDA (P)'s office.

MoD stated that data collected from each PDA indicated that the number of pensioners on 01 April 2017 was 30,31,618. However, there was no indication that the number had been reconciled with its master database of PPOs issued; in the absence of this, the authenticity of the number of pensioners remained unverified. MoD while carrying out the assessment of the actual number of

pensioners on first of April every year needs to reconcile the data with the number of PPOs issued.

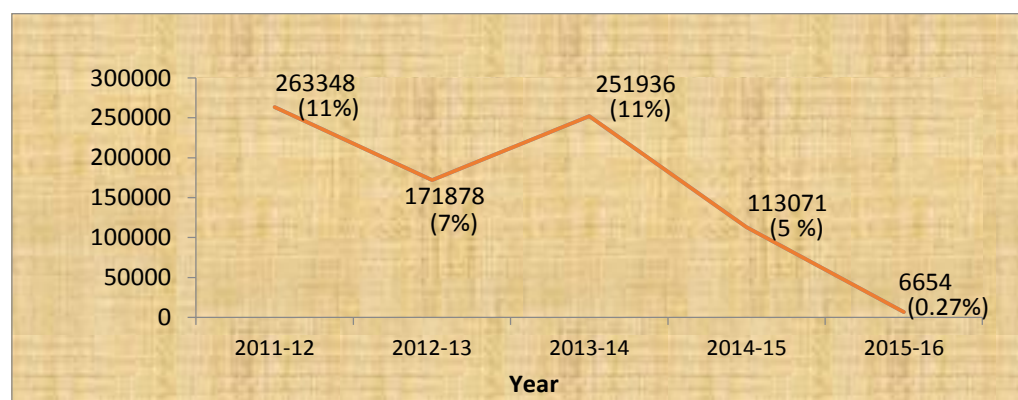
### 5.2.2 Control deficiencies in expenditure accounting

PCDA (P) is required to book the expenditure on pension to the correct head after matching the amount of reimbursement advised by the RBI with the detailed payment scrolls received from the banks. As the receipt of scrolls from the banks is irregular, PCDA (P) has little control over recording of correct expenditure on pension, and thousands of crore of expenditure, already reimbursed by RBI to the banks, remain pending for years in the suspense account, affecting the correctness of the account in a material manner. As stated in Para 5.3.2, absence of scroll numbers or mistakes in scroll numbers in the Date wise Monthly Accounts (DMAs) sent by the RBI adds to the difficulty of monitoring expenditure and its correct accounting by the PCDA.

### 5.2.3 Inadequate Audit of Pension Payments

The Defence Accounts Department Office Manual stipulates that audit of defence pension payments should be conducted at least once in a financial year to ensure that the payments made to the pensioners have been subjected to the prescribed checks. Scrutiny of Internal Audit Reports of the PCDA (P) for the period 2011-12 to 2015-16 revealed a decreasing trend in the coverage of internal audit of pension accounts, from 11 to 0.27 *per cent* of the pension accounts as shown in **Chart 4** below. PCDA (P) attributed it to shortage of manpower. MoD stated (March 2017) that PCDA (P) had started in-house development of e-audit software and their spot audit teams were also being detailed to rectify/ reconcile the mismatch in data. We observed that the e-audit project, conceptualized in September 2014 for audit of pension payment through e-scrolls, was not implemented as yet. PCDA (P) attributed it to submission of e-scrolls by PDAs in incorrect format despite several instructions. The need for priority implementation of this important control measure can hardly be over-emphasized.

**Chart 4 : Pensioners Accounts Audited by PCDA (P)**



Source: Data received from the PCDA (P)

MoD stated that efforts were on for data purification and e-audit.

#### 5.2.4 Inadequate monitoring of overpayments and fake/ fraudulent payments of pension

Overpayments, fake or fraudulent payments of pension, as pointed out in internal audit, were pending recovery at the end of each year during 2011-12 to 2015-16. The recovery in respect of the overpayments ranged from 19 to 31 per cent with the net balance at the end of March 2016 being ₹33.56 crore as per the **Table 5.1** given below:

**Table 5.1 : Status of recovery of overpayment of pension**

On the Year Ending	Cumulative balance of Overpayment (₹ in crore)	Cumulative Recoveries (₹ in crore)	Net Balance (₹ in crore)	Percentage of Recovery [(Col.3/Col.2)*100]
1	2	3	4	5
March 2012	29.96	5.82	24.14	19
March 2013	31.16	7.63	23.53	24
March 2014	35.73	11.25	24.48	31
March 2015	43.87	12.84	31.03	29
March 2016	47.29	13.73	33.56	29

The recovery in respect of the fake/ fraudulent payment ranged from 0 to 25 per cent and the net balance at the end of March 2016 was ₹ 47.70 lakh as per the **Table 5.2** given below:

**Table 5.2 : Status of recovery of fake / fraudulent payment of pension**

On the Year ending	Cumulative balance of Fake/ Fraudulent Payment (₹in lakh)	Cumulative Recovery (₹ in lakh)	Net Balance (₹ in lakh)	Percentage of Recovery [(Col.3/Col.2)*100]
1	2	3	4	5
March 2012	37.87	0	37.87	0
March 2013	41.87	8.04	33.83	19
March 2014	63.24	8.04	55.21	13
March 2015	63.24	15.54	47.70	25
March 2016	63.24	15.54	47.70	25

MoD stated that recoveries were being pursued.

#### 5.2.5 Inadequate monitoring of outward claims on foreign countries

The PCDA (P) acts as the Overseas Paying Agent (OPA) for pensioners of United Kingdom (UK), Myanmar and Pakistan, who are residing and drawing



pension in India and whose pension liability is that of United Kingdom (UK), Myanmar and Pakistan Governments respectively.

We observed that no settlement/ reimbursement of the claims from Myanmar, Pakistan and UK (in respect of HKSRAR-Hong Kong Singapore Royal Artillery Regiment) had taken place since 2011-12. Total outstanding claims from Myanmar, Pakistan and HKSRAR were ₹ 6.06 crore, ₹ 19.19 crore and ₹3.91 crore respectively as on 31 March 2016. MoD stated that the amounts had been claimed but were not being reimbursed by the concerned authorities.

### 5.2.6 Pensioners' grievances

Analysis of the data of Complaint Cell of the PCDA (P) revealed that the number of complaints outstanding reflected increasing trend, as shown in the **Table 5.3** given below:

**Table 5.3 : Details of outstanding complaints**

Year	Opening Balance	No. of complaints received	No. of complaints resolved	No. of complaints outstanding as on 31 <sup>st</sup> March
1	2	3	4	5
2011-12	303	11,785	11,851	237
2012-13	237	10,095	10,106	226
2013-14	226	10,456	10,366	316
2014-15	316	12,826	11,446	1,696
2015-16	1696	38,609	37,119	3,186

PCDA (P) Allahabad attributed it to the exponential increase in the number of complaints and less manpower for the disposal of the complaints. It was also observed that the format for registering grievances did not have the subject matter, due to which the classification of grievances into different categories was difficult.

In this connection, the defence pension system could benefit from the practice on the civil pension side, where the Central Pension Accounting Office (CPAO) has implemented a grievance monitoring system in which each PDA can log into the CPAO website and get details of the grievance cases forwarded to them by the CPAO and the number of cases remaining outstanding against them.

MoD stated that the complaint lodging facility was being revamped and the suggestion made by Audit to adopt the practice in CPAO will be implemented.

### 5.2.7 Pension Adalat Cell

All cases received in a year were not settled during the year as given in the **Table 5.4** below:

**Table 5.4 : Settlement of Pension Adalat cases**

Year	No. of Pension Adalat held	Number of Cases Received	Outstanding as on the end of March					Number of Cases Settled as of 31 March 2016
			2012	2013	2014	2015	2016	
1	2	3	4	5	6	7	8	9
2011	7	2856	299	69	00	00	00	2856
2012	6	2604	69	00	00	00	00	2604
2013	6	3441	—————	—————	160	00	00	3441
2014	6	1287	—————	—————	—————	141	00	1287
2015	10	1284	—————	—————	—————	—————	21	1263
Total	35	11472	368	69	160	141	21	11451

PCDA (P) Allahabad stated that the cases had been referred to the Record Offices, Heads of the Offices, Pension Disbursing Authorities and individuals for obtaining relevant inputs. Pension Adalats were held by JCDA (AF) at Dehradun and Nagpur in 2015. Out of 761 cases registered, 86 were outstanding as of June 2016.

### **5.3 Control Weaknesses in RBI**

#### **5.3.1 Lack of control over expenditure**

As discussed in Chapter II, after the introduction of the Single Window system in 2007, RBI has delinked the submission of scrolls from the claims of reimbursement from the banks. It was pointed out that this had weakened the control over the expenditure on account of pension. This would also appear to be corroborated from the following two examples:

- (i) During 2011-12 to 2015-16, CAS, RBI, Nagpur adjusted ₹554.81 crore pertaining to 103 transactions that had been reimbursed to the agency banks wrongly in the prior periods, ranging from 01 to 3,978 days. 97 of these transactions pertained to the period after 01 April 2007, when the Single-Window system was introduced by RBI.
- (ii) During the same period, the difference between the amount reimbursed by RBI to Bank of Baroda (BOB) and the amount paid by BOB to the Defence pensioners, was ₹179.55 crore, as detailed in the **Table 5.5** below. This indicates possible excess payment to BOB, which needs to be verified and reconciled.

**Table 5.5 : Details of re-imbursement by the RBI**

(Amount in ₹)

Year	Defence Pension reimbursed by RBI to Bank of Baroda	Defence Pension paid by Bank of Baroda (data provided by BOB)	Difference (Col 3 - Col 2)
1	2	3	4
2011-12	525,85,86,366	471,56,84,860	54,29,01,506
2012-13	579,99,01,790	531,00,37,266	48,98,64,524
2013-14	675,03,55,263	619,60,27,314	55,43,27,949
2014-15	698,45,09,803	694,02,37,346	4,42,72,457
2015-16	825,36,40,653	808,94,64,263	16,41,76,390
<b>Total</b>	<b>3304,69,93,875</b>	<b>3125,14,51,049</b>	<b>179,55,42,826</b>

Source: CAS, RBI, Nagpur and Bank of Baroda

MoD stated (March 2017) that the excess payment could be on account of the manual scrolls not furnished to audit, but BOB/ PCDA (P) did not furnish details of any manual scrolls matching with the excess amount claimed by BOB.

### 5.3.2 Deficiencies in the DMA Statement

RBI furnishes to the PCDA (P) a Date wise Monthly Account (DMA) giving date wise details of the amounts reimbursed to each bank. The DMA should contain important details like the scroll number of the bank against which the reimbursement was made, the date and amount of payment *etc.*, to enable the PCDA to match the information in the DMA with the details contained in the payment scrolls received from the banks and book it to the correct head of account. Therefore, the DMA is an important control instrument.

Our examination of the 110 DMA statements sent by CAS, RBI, Nagpur revealed important omissions in the DMA, such as missing scroll number; reimbursements made for an amount for which the scroll number was given in the receipt column (in which case, it should be credited to government account); payment made for an amount for which the scroll number was mentioned as zero; the same scroll number being mentioned on two different dates; the scroll number not being mentioned serially; and reimbursement for transactions that had taken place upto seven years back. These deficiencies considerably undermined the value of the DMA as a control instrument. For example, in the absence of correct information about the scroll number, it will be difficult for the PCDA to link the reimbursement made by RBI with the concerned scroll number sent by the bank. The details of such cases are mentioned in **Annexure-9**.


## 5.4 Conclusions and Recommendations

It would be apparent from the above findings that control weaknesses existed in each pillar of the defence pension system, which tended to reduce its efficiency and effectiveness. Strengthening the existing controls and incorporating some new controls, keeping in mind the technological developments and the need to integrate the different pillars of the pension system in a co-ordinated manner, will add to its robustness and enhance the effectiveness of the system as well as the pensioner satisfaction.

In light of the foregoing, it is recommended that:


- Controls should be strengthened to ensure that the PDAs send e-scrolls electronically to the PCDA (P) Allahabad simultaneously while seeking reimbursements from RBI.
- Regular updating and reconciliation of Master Data of banks and PCDA (P) needs to be done. Any change in Master Data by the PDA should be mandatorily communicated to PCDA (P) once in a month.
- PCDA (P) should consider adopting the grievance monitoring system of the CPAO.

New Delhi  
Date: 3 July 2017

  
(Praveen Kumar Tiwari)  
Director General of Audit  
Defence Services

Countersigned

New Delhi  
Date: 3 July 2017

  
(Shashi Kant Sharma)  
Comptroller and Auditor General of  
India



**ANNEXURE-1**

*(Referred to in paragraph 1.1)*

**Abbreviations and Glossary**

AF	Air Force
AFRO	Air Force Record Office
AG	Accountant General
Armed Forces	Armed forces mean Army, Navy, Air Force, Defence Security Corps and Territorial Army except Civilians.
CAA	Constant Attendance Allowance
CAS	Central Account Section
CBS	Core Banking System
CCS	Central Civil Services
CDA (AF)	Controller of Defence Accounts (Air Force)
CDA (PD)	Controller of Defence Accounts (Pension Disbursement)
CGA	Controller General of Accounts (in the Ministry of Finance)
CGS	Coast Guard Service
CGDA	Controller General of Defence Accounts
CGO	Coast Guard Organisation
CPAO	Central Pension Accounting Office
CPPC	Centralised Pension Processing Centres
CRO	Chief Record Office
DAD	Defence Accounts Department
DAV	Directorate of Air Veterans
DCRG	Death-cum-Retirement Gratuity
DE	Disability Element
Disability Pension	Disability pension is granted if disability is attributable to or aggravated by Military Service and disability percentage is 20 <i>per cent</i> or more.
DMA	Date wise Monthly Accounts
DOD	Date of Discharge
DPDO	Defence Pension Disbursing Office
DSC	Defence Security Corps
ECHS	Ex-servicemen Contributory Health Scheme

EME	Engineer Military Service
ESW	Ex-servicemen Welfare
e-Scroll	Electronically generated payment scrolls
Family pension	Family pension is granted to the widow/next of kin depending upon the circumstances of death.
FMA	Fixed Medical Allowance
Gratuity	Gratuity includes service/retiring/retirement/ death/family/invalid/ special/terminal gratuity
GRESF	General Reserve Engineers Force
HKSRR	Hong kong Singapore Royal Artillery Regiment
Invalid pension	Invalid pension granted on discharge from service on medical ground.
JAKLI	Jammu & Kashmir Light Infantry
Jt. CDA	Joint Controller of Defence Accounts
ICO	Indian Commissioned Officer
JCO	Junior Commissioned Officer
LFP	Liberalised Family Pension
MIS	Management Information System
MNS	Military Nursing Services
MoD	Ministry of Defence
NCC	National Cadet Corps
NCs (E)	Non Combatants (Enrolled)
NOK	Next of Kin
OFF	Ordinary Family Pension
OPA	Overseas Paying Agent
OR	Other Ranks
PAO	Pay Accounts Officer
PBOR	Personnel Below Officer Rank
PCDA (P)	Principal Controller of Defence Accounts (Pension)
PDA	Pension Disbursing Authority/Agency
Pension	Pension includes gratuity except when the term pension is used in contradistinction to gratuity but does not include dearness relief.
PPI	Pension Payment Instructions
PPO	Pension Payment Order
PSA	Pension Sanctioning Authority

PSB	Public Sector Bank
QS	Qualifying Service
RBI	Reserve Bank of India
Retiring gratuity/ Service gratuity	An Officer who retires/permitted to retire from service or whose services are otherwise terminated and has not earned retiring pension shall be granted a retiring gratuity.
Retiring Pension/ Service pension	Retiring pension is granted to the Officers. Service pension is granted to the PBORs retiring after minimum qualifying regular service
Retirement gratuity/ Death gratuity	Retirement Gratuity is admissible to Service personnel who has completed 05 years actual qualifying service and is eligible for retiring/ service/ invalid/ special/ disability/ war-injury/ liberalised disability pension or retiring/service/special gratuity. Death gratuity shall be admissible in the event of death of Service personnel while in service, to the family.
RO	Record Office
SFP	Special Family Pension
TO	Treasury officer
UK	United Kingdom
ZO (PD)	Zonal Officer (Pension Disbursement)



**ANNEXURE-2**

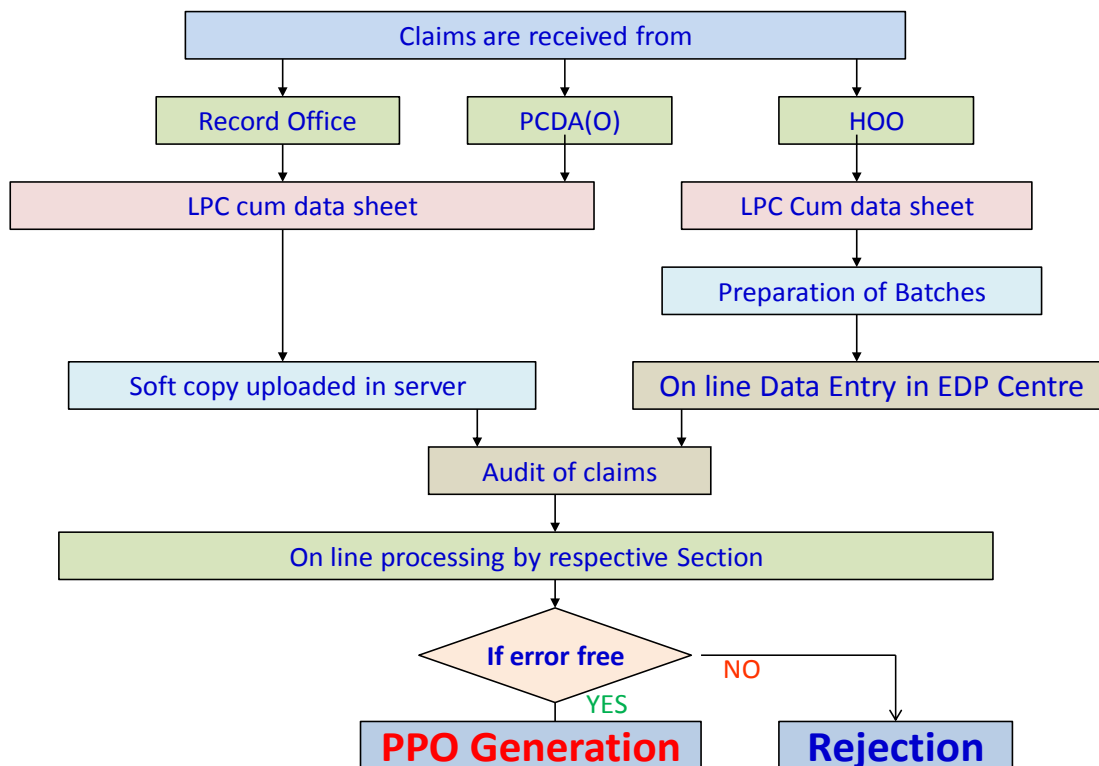
(Referred to in paragraph 1.2)

**(A) Stakeholders in the Pension Management System**

**Record Offices**

For the Personnel Below the Officers Rank (PBOR), the pension cases are initiated by the Record Offices (RO) of the Army, Navy and Air Force which maintain the service records of the armed forces personnel. The Record Offices send the complete case file to respective Pension Sanctioning Authorities (PSAs) who authorize the pension and send to the pension disbursing agencies (PDAs), as shown in the flow chart 5 given below:

**Flow chart 5 : Processing of Pension Claims**



HOO : Head of the office, EDP : Electronic Data Processing, LPC : Last Pay Certificate

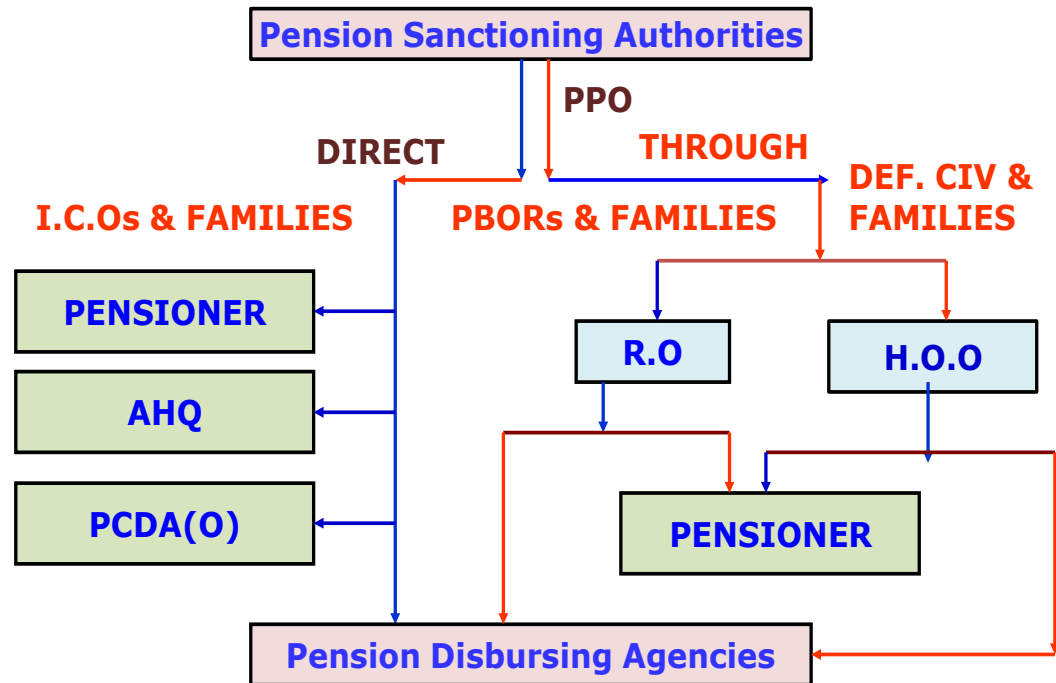
**Pension Sanctioning Authorities (PSA)**

The following three PSAs are responsible for sanction of pension:

1. Principal Controller of Defence Accounts (Pension), Allahabad
2. Principal Controller of Defence Accounts (Navy), Mumbai
3. Controller of Defence Accounts (Air Force), New Delhi

The PSAs issue the Pension Payment Orders (PPOs) which are sent to the PDAs who disburse the pension to the pensioners' accounts. The process is indicated in the following schematic diagram flow **chart 6** :

**Flow Chart 6 : Process of Pension Payment Order**



### Pension Disbursing Agencies (PDA)

The Defence pension is paid in India as well as in Nepal through the Pension Disbursing Agencies (PDAs), which may be categorised as under: -

1. **Banks:** Public Sector Banks (25)/ Private Sector Banks (03) through 46,000 branches are managed by 51 Centralised Pension Processing Centres (CPPCs). The CPPCs prepare the Pension Payment/Recovery Scrolls (the scrolls also contain details of recoveries made from pensioners) and submit to the PCDA (P). Simultaneously, they seek reimbursement of the amount from the Reserve Bank of India (RBI), CAS, Nagpur through their Link Cells at Nagpur. The banks process the pension payments through their core banking system.
2. **Defence Pension Disbursing Offices (DPDOs):** 63 DPDOs of the Defence Accounts Department function under the administrative Control of CDA (PD), Meerut and CDA, Chennai. The disbursement of pension made by the DPDOs are booked to relevant Pension Accounting Heads

by themselves and the monthly paid vouchers are sent direct to CDA(PD) Meerut/ CDA Chennai. **Aashraya Project** was implemented in 1998, for processing the data of the DPDOs and generating the Pension Payment Schedules.

3. **State Treasury offices (640):** The Treasury Officers, after making payment of pension, send paid vouchers monthly direct to PCDA (P) Allahabad and simultaneously advising the Accountant General of the State for claiming reimbursement of the amount paid by them on account of Defence pension. The amounts claimed by the Accountants General are reimbursed by PCDA through cheque.
4. **Pay and Accounts offices (05):** Both the paid vouchers as well as the claims for reimbursement of amount paid on account of Defence pension are received by PCDA (P) directly from the PAOs concerned. The transaction is settled in cash by issue of cheque in favour of the PAO concerned.
5. **Military and Air Attaché, Indian Embassy, Kathmandu, Nepal:** The transactions relating to payment of pension to Defence Pensioners residing in Nepal are settled between Chief Controller of Accounts, Ministry of External Affairs, New Delhi, and PCDA (P), Allahabad through RBI, CAS, Nagpur. For this purpose, the pension payment vouchers are sent to the PCDA (P) by Indian Embassy Nepal.
6. **Post Office, Kathua, J&K.** Post offices send debit advice to the RBI, CAS, Nagpur through the Director of Post Office. The RBI, CAS, Nagpur debits the Defence Proforma Account and affords credit to the Postal Department.

#### **Reserve Bank of India**

RBI reimburses the PDAs the amount claimed by them on account of pension paid by them to defence pensioners.

#### **(B) Units selected for Performance Audit**

##### ***Principal Controller of Defence Accounts(P), Allahabad***

EDP Section, Accounts section, Audit Section, Pension Adalat Section, Legal and Complaint Cell.

##### ***Centralised Pension Processing Centres (CPPCs)***

1. CPPC, SBI, Delhi; 2. CPPC, SBI, Panchkula; 3. CPPC, SBI, Navi Mumbai;
4. CPPC, SBI, Chennai; 5. CPPC, SBI, Patna; 6. CPPC, SBI, Guwahati;
7. CPPC, PNB, Patna; 8. CPPC, PNB, Chandigarh; 9. CPPC, PNB, Ludhiana;
10. CPPC, PNB, Chennai; 11. CPPC, State Bank of Bikaner & Jaipur, Jaipur;
12. CPPC, CBI, Mumbai; 13. CPPC, Allahabad Bank, Lucknow; 14. CPPC,

Andhra Bank, Hyderabad; 15.CPPC, Bank of Maharashtra, Pune; 16.CPPC, Bank of Baroda, New Delhi.

***Treasury Offices***

1. Treasury Office, Udhamsingh Nagar (Uttarakhand); 2. Treasury Office, Pauri Garhwal (Uttarakhand); 3. Treasury Office, Ballia (UP); 4. Treasury Office, Hardoi (UP); 5. Treasury Office, Ferozabad (UP); 6. Treasury Office, Farrukhabad (UP); 7. Krishnagiri (Tamil Nadu); 8. Treasury Office, Kozhikode (Kerala).

***Defence Pension Disbursing Offices (DPDOs)***

1. DPDO, Jhunjhunu; 2. DPDO, Bhatinda; 3. DPDO, Batala; 4. DPDO, Hamirpur; 5. DPDO, Una; 6. DPDO, Secunderabad; 7. DPDO, Meerut; 8. DPDO, Gorakhpur; 9. DPDO, Allahabad; 10. DPDO, Ernakulam; 11. CDA (Pension Disbursement), Meerut; 12. Zonal Office (Pension Disbursement), Chennai.

***Post Office***

Post Office, Kathua (J & K)

***Pension Paying Offices in Indian Embassy, Nepal***

1. Military Attaché, Kathmandu (Nepal); 2. Paying Office, Dharan (Nepal); 3. Paying Office, Pokhara (Nepal).

***Record Offices***

1. Record Office, Rajputana Rifles; 2. Record Office, The Jat Regiment; 3. Record Office, Army Medical Corps; 4. Record Office, 14 GTC, Sabathu; 5. Record Office, BEG Roorkee; 6. Record Office Madras Regimental Centre, Wellington; 7. Record Office EME, Secunderabad; 8. Record Office ASC (Supply) (South), Bangalore; 9. Directorate of Air Veterans, Delhi; 10. Record Office (Navy), Mumbai.

**ANNEXURE-3**

*(Referred to in paragraph 2.3.4)*

**(Extract of Para 4.14 of the CAG Report No. 50 of 2015 (Financial Audit) on Union Government Accounts 2014-15)**

**4.14 Erroneous estimation of budget in the Ministry of Defence**

In Demand No.21-Defence Pensions for the 2014-15, a legislative authorisation of ₹50,999.30 crore in Revenue (Voted) Section was obtained. During the course of the year, the provision under this section of the demand was reduced by ₹1,000 crore by the Ministry of Finance (MoF) at revised estimates stage, although the Ministry of Defence (MoD) had projected an estimated expenditure of ₹53,824 crore. During the year, expenditure amounting to ₹49,985.18 crore was booked on account of defence pension with resultant savings of ₹1,014.12 crore, duly approved by the Chief Accounting Authority of the Grant, viz., Secretary, Ministry of Defence.

Subsequently in November 2015, the appropriation accounts of this Demand was revised, thereby booking an expenditure of ₹60,435.20 crore under revenue voted against the legislative authorisation of ₹50,999.30 crore, resulting in excess expenditure of ₹9,435.90 crore. The expenditure figure was revised on the ground that pension payment scrolls of ₹10,450.03 crore lying under the suspense heads, which had been booked in the financial year 2015-16, was to be adjusted in the financial year 2014-15 itself.

During the course of audit of this Demand in July 2015, a query was raised relating to injudicious surrender amounting to ₹1,009.30 crore based on revised estimates, even though pension scrolls amounting to ₹10,450.03 crore were pending for booking to the final head of account in 2014-15 accounts. However, no concrete reply was furnished by the MoD. Given the large accumulation of pension payment scrolls lying in suspense heads pending clearance, the MoD should have taken up the matter well in advance with the MoF for enhancement of provision in the financial year 2014-15, so that the expenditure already incurred on pensions could be booked to the final head of account. Instead MoD projected erroneous revised estimates of expenditure of only ₹53,824 crore for 2014-15, and did not contest the reduction in provision made by the MoF. Besides, MoD booked expenditure of ₹49,985.18 crore, showing a savings of ₹1,014.12 crore, despite keeping the expenditure already incurred under suspense head.

Pension payments being a committed expenditure, and given the trend of persistent excess expenditure in the Demand of Defence Pensions, there is urgent need to review the initial budget estimating process in the MoD and to make it more realistic.

**ANNEXURE-4**

(Referred to in paragraph 3.1.2)

**(A) Timelines for processing of Pension Payment Orders (Army)**

Sl. No.	Particulars	Timeframe	Flow Chart
1.	By Units to Record Office	08 months in advance to Record Office	
2.	By Record Office to PAO (OR)	06 months in advance to PAO (OR)	
3.	By PAO(OR) to PCDA(P) through Record Office concerned	04 months in advance to PCDA(P) through Record Office	
4.	By Record Office courier to PCDA(P)	04 months in advance to PCDA(P)	
5.	Generation of PPOs and handing over to Record Office	Generation of PPOs and handing over to courier of Record Offices by 02 months in advance	
6.	Despatch of original copy of PPOs to PDA by Record Office.	Despatch of original copy of PPOs to PDAs by one month preceding date of DOD of individual concerned from the Army. Copy of PPO to be issued to Individual simultaneously one month in advance. Individual copy of PPOs to be handed over in the last week of service in Depot Coy with RL No and date vide which original copy was sent to PDAs.	

(Authority: Para 3(f) of Integrated HQ of MoD (Army) Addl dte Gen MP/MP-8 (I of R) Adjutant General's Branch New Delhi letter No. A/20037/Ruling/MP-8 (I of R) (a) dated 18 November 2013)

**(B) Timelines for processing of Pension Payment Orders (Air Force)**

Time Frame	Flow Chart	Activity	Time Period	Flow Chart
AT D-9	RW-LC-P&W(SP)	Submitting tallied and audited RCSR along with P5 to LC for Checking/Media updation and onward submission to service pension.	Within One month after Final Clearance	
AT D-8	P&W (SP)-LC-AFCAO(CCS)	Checking of pension claims with RCSR/UCSR raising of LPCDS and Submission of RCSR, P5 pension claims and LPCDS to LC for Checking/Media updation and onward submission to AFCAO (CCS)	01 Month	
AT D-7	AFCAO (CCS)-LC-JCDA(Pre NE)	Attaching last three years audited IRLA, furnishing required information in LPCDS. Submission of RCSR, P5, LPCDS, IRLA and pension claim to LC for checking/Media updation and onward submission to JCDA (Pre NE) along with control sheet and control number.	01 Month	
AT D-4	JCDA(PC) (P5&PP) JCDA (PRE NE) LC - FCAO(CCS) (IRLA SET) - RW (POST NE) (RCSR)	Pre-NE audit will be carried out. Submission of pension claims, P5, LPCDS to JCDA (PEN-III) for issue of PPO and RCSR & IRLA Set returned to LC for Checking/Media updation and onward submission to RW (Post NE) and AFCAO (CCS) respectively.	03 Month	
AT D-2-D	JCDA (PC) – P&W (SP)	Final Audit of case file, Edit list for issue of Pension Payment Order printing and submission of PPO, Pension Book, P5 and other relevant documents to AFRO (Service Pension Section)	02 Month	

(Authority: Annexure I to Air HQ/41005/Policy/PA-III dated 11 April 2007)

**(C) Timelines for processing of Pension Payment Orders (Navy)**

Sl. No.	Particulars	Timeframe	Flow Chart
1.	Forwarding of Pension Forms /availability of pension forms online on publication of release serial	12 months prior to release	NAVPEN
2.	Receipt of Pension Forms and audited Service Documents from units at NAVPEN	11 months prior to release	LAST UNIT
3.	Receipt of Release Medical Board (RMB) proceedings at NAVPEN	06 months prior to release	NAVPEN
4.	Issue of Local Release Discharge Order (LRDO) by NAVPEN	06 months prior to release	IRLA
5.	Receipt of Last Pay Drawn Certificate (LPDC) from Naval Pay Office	05 months prior to release	PCDA(N)MB
6.	Forwarding of Pension claim to PCDA(N)/IRLA	04months prior to release	NAVPEN
7.	Receipt of PPO from PCDA(N) Mumbai	02 months prior to release	PDA
8.	Issue of PPOs to the individuals	On last day of release	
9.	Dispatch of PPO to Pension Disbursing Agency (PDA)	Within 07 days after release	
10.	Commencement of Pension	Following month of release	

(Authority: As per Navy order 17/2013& Naval Pension Office letter No. PEN/S/600 dt. 08 June 2017)

**ANNEXURE-5**

*(Referred to in paragraph 4.2)*

**Examples of under-payments of pension**

- (i) 1120 pensioners did not get revised basic pension amounting to ₹62.59 crore as the PDAs did not revise or revised wrongly the pension in terms of PCDA(P) Circular 501 dated 17 January 2013.
- (ii) 418 pensioners pertaining to CPPC, SBI, Delhi, and Treasuries at US Nagar and Pauri Garhwal were underpaid ₹1.62 crore, as the qualifying service fed in the system was either incorrect or the rounding off of the qualifying service was not done as prescribed.
- (iii) In SBI, CPPC, Guwahati and CPPC, BOB, New Delhi minimum basic payment of ₹3500 was not allowed in 229 cases. BOB cited software migration as the reason, while CPPC, Guwahati revised the cases on being pointed out.
- (iv) Analysis of the soft data of Aashraya Project (related to DPDOs) revealed that 37 pensioners were paid basic pension less than minimum pension.
- (v) 1826 pensioners were under-paid ₹4.19 crore as the PDAs<sup>1</sup> did not restore the commuted portion of pension after the prescribed 15 years. MoD instructed PDAs to pay the arrears.
- (vi) 11,164 pensioners were not paid fixed medical allowance (FMA) of ₹5.76 crore due to non-revision of FMA by the PDAs.
- (vii) 79 pensioners were underpaid ₹38.14 lakh as the PDAs did not revise the rates of Constant Attendance Allowance (CAA), sanctioned in case the disability pension is awarded for 100 per cent disablement.
- (viii) 35 pensioners were under-paid ₹46.80 lakh due to payment of disability element (DE) at lower rate/ non-revision of DE by the PDAs<sup>2</sup>.
- (ix) 1, 254 pensioners were under-paid ₹ 10.89 crore as the PDAs<sup>3</sup> did not carry out the Department of Ex-Servicemen Welfare order (January 2010), for broad banding and revising the disability element by the

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<sup>1</sup>CPPCs SBI, Delhi and Patna, PNB Patna, Allahabad Bank Lucknow, Bank of Maharashtra, Pune and Assistant Treasury Officer, Krishnagiri.

<sup>2</sup>CPPC SBI Delhi, Navi Mumbai and Patna, Treasury Pauri Garhwal and DPDO Ernakulam

<sup>3</sup>CPPC, SBI, Delhi (7), CDA (PD) (1123) and CPPC, Allahabad Bank, Lucknow (124)



PCDA (P). 297 pensioners were not given the benefit of broad-banding by DPDOs of Allahabad and Gorakhpur.

- (x) Additional pension is admissible to senior citizens attaining the age of 80, 85, 90, 95 and 100 years of age at increasingly higher rates. 864 pensioners above 80 years of age were not paid ₹1.67 crore due to non-revision/ wrong revision of additional pension by the PDAs.
- (xi) Date of Birth of 83 family pensioners was same as that of original service pensioner in soft data of CPPC Central Bank of India, Mumbai.
- (xii) In 49 cases, the monetary allowances attached to the various Gallantry Awards were not paid as fixed by the Government and resulted in under payment of ₹34.46 lakh.
- (xiii) In DPDO Allahabad, 15 pre-2006 pensioners were getting only the bare minimum pension due to non-revision even after eight years as the basic information to revise the pension cases was not available. There was no evidence of any correspondence to obtain the requisite information in the case files of the pensioners.

**ANNEXURE-6**

(Referred to in paragraph 4.2 and 4.3)

**Results of data analysis for five years 2011-12 to 2015-16**

Sl. No.	Subject	Under payment (₹ in lakh)	Over payment (₹ in lakh)
1	Under payment of minimum Service Pension	2,652.15	
2	Excess payment of Dearness Relief		6,812.08
3	Payment of fixed Medical Allowance for the pensioners retired after April 2003		140.66
4	Payment of fixed Medical Allowance for the pensioners enrolled under ECHS		2,946.78
5	Under payment due to non-revision of fixed Medical Allowance	891.23	
6	Excess payment of fixed Medical Allowance		108.06
7	Excess payment of Enhanced Rate of Family Pension		1,169.67
8	Incorrect revision of Special Family Pension (SFP)		189.19
9	Under-revision of Special Family Pension	2,229.31	
10	Excess - fixation of Ordinary Family pension		9,926.08
11	Under -fixation of Ordinary Family pension	3,124.23	
12	Payment of additional pension at lower rate	1,827.28	
13	Non- payment of additional pension	929.59	
14	Payment of additional pension before 80 years of age		674.9
15	Incorrect fixation of pension of civilian NCC Officers at par with Army Officers		118.08
16	Under-fixation of disability pension	81.58	
17	Excess -fixation of disability pension		67.71
18	Payment of Constant Attendance Allowance without 100% disability		37.56
19	Non-broad-banding of disability pension of individuals invalidated out	163.97	
20	Incorrect broad-banding of disability pension		19.36
21	Non-recovery of commuted value of pension		5,180.21
22	Non-restoration of commuted value of pension	1,706.73	
23	Recovery of commuted value of pension from family pensioners	19.50	
24	Excess payment of pension to Reservists		1,143.25
25	Excess fixation of Service pension		23,337.11
26	Under -fixation of Service pension	9,205.79	
27	Non-revision of Constant Attendance Allowance (CAA)	32.39	
28	Non-revision of monetary allowance attached to Gallantry Awards	15.92	
29	Non-revision of Ex-gratia allowance	5.46	
	<b>TOTAL</b>	<b>22,885.13</b>	<b>51,870.70</b>
	<b>GRAND TOTAL</b>		<b>74,755.83</b>

**ANNEXURE-7**

*(Referred to in paragraph 4.6)*

**Overpayments not recovered**

Some notable cases were as follows:-

- CPPC, SBI, Delhi had to recover ₹ 34.87 crore from 3,108 pensioners as of July 2016 but no recovery was being made from 2,504 pensioners involving over payment of ₹ 29.82 crore.
- CPPC, SBI, Patna had to recover ₹13.20 crore from 1,531 pensioners as on 31 March 2016.
- Audit scrutiny of the Project Aashraya revealed that in 1,421 cases overpayment amounting to ₹ 10.14 crore had been made by DPDOs as on 31/3/2016, but recovery was being made only in 1,382 cases involving ₹9.88 crore. In seven cases recovery was being made at the rate of ₹1.00 per month only, meaning it could not be recovered during life time of the pensioners.
- In CPPC, SBI, Guwahati, ₹89.22 lakh was outstanding against 179 pensioners
- Annual identification of 344 pensioners was not done during 2011-2012 to 2015-16 which resulted in disbursement of ₹1.91 crore after due date of identification by the DPDO, Meerut. Further, the outstanding cases of recovery in case of the deceased pensioners increased from 85 to 154 and the amount increased from ₹11.80 lakh to ₹ 25.48 lakh during March 2013 to March 2016.

## ANNEXURE-8

(Referred to in paragraph 4.7)

## Mismatch in e-scrolls and profiles of Defence Pensioners

Sl. No.	Name of the PDA	Total No. of records	No. of scroll records where Bank Account did not match with the profile (Percentage)	No. of scroll records without name (Percentage)	No. of scroll records without PPO No. (Percentage)	No. of scroll records with incorrect or blank date of birth (Percentage)	No. of records with age more than 60 years on discharge date (Percentage)	No. of records with same PPO account and different numbers (Percentage)	No. of records with same account number and different PPO number (Percentage)	No. of records not matched with PCDA (P) records
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	State Bank of India, Delhi	1,39,78,778		2,08,844 (1.49%)	179	57 (0.02%)	166 (0.05%)	594	3	85,761
2	State Bank of India, Panchkula	85,01,880	2,68,466 (3.16%)	179		2,26,985 (2.67%)	662 (0.01%)	2,622 (0.03%)	224	65,281
3	State Bank of India, Chennai	41,26,958			32	40	87 (0.08%)	802 (0.02%)	3,626 (0.09%)	18,794
4	State Bank of India, Navi Mumbai	86,60,755	4,41,980 (5.10%)	137		19 (0.01%)	89 (0.04%)	75	63	33,725
5	State Bank of India, Guwahati	39,57,192		16,633 (0.42%)		209 (0.32%)	179 (0.27%)			0
6	State Bank of India, Patna	23,11,092	51,713 (2.24%)		1,38,991 (6.01%)	132	359 (0.02%)	704 (0.03%)	32,096 (1.39%)	20,263
7	Punjab National Bank, Chennai	47,308	78 (0.16%)		57 (0.12%)	16 (0.62%)				0
8	Punjab National Bank, Patna	7,21,856	393 (1.51%)	3,373 (0.47%)		5,069 (0.70%)				13,100

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Sl. No.	Name of the PDA	Total No. of records	No. of scroll records where Bank Account did not match with the profile (Percentage)	No. of scroll records without name (Percentage)	No. of scroll records without PPO No. (Percentage)	No. of scroll records with incorrect or blank date of birth (Percentage)	No. of records with age more than 60 years on discharge date (Percentage)	No. of records with same PPO account and different numbers (Percentage)	No. of records with same account number and different PPO number (Percentage)	No. of records not matched with PCDA (P) records
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
9	Punjab National Bank, Ludhiana	31,41,159	7143 (0.23%)		2,696 (0.08%)	1,612 (0.05%)				0
10	Punjab National Bank, Chandigarh	26,75,656	5,224 (5.30%)		26	17,273 (0.65%)				1,055
11	Bank of Maharashtra	5,28,498	3,10,663 (58.78%)		29 (0.01%)	2,50,776 (47.45%)	117 (0.02%)	339 (0.06%)	6	24,002
12	Allahabad Bank	7,30,684	14,109 (1.93%)			19005 (2.60%)	8,767 (1.2%)	31		0
13	Central Bank of India	28,79,380		602 (0.02%)		373 (0.01%)	1,379 (0.05%)	1,920 (0.07%)	17	44,956
14	State Bank of Bikaner & Jaipur	34,96,394	2,274 (3.30%)	1,015 (0.03%)	24,441 (0.70%)	2,24,837 (6.43%)	1,50,959 (4.32%)	763 (0.02%)	246 (0.01%)	26,639
15	Bank of Baroda	23,79,619				23,00,116 (96.65%)	13			25,089
16	Andhra Bank	5,77,600								8,304
17	DPDOs	1,28,16,659	1472			2,140 (0.01%)		1,846 (0.01%)	1,846 (0.01%)	1,48,900
	<b>TOTAL</b>	<b>7,15,31,468</b>	<b>11,03,515</b>	<b>2,30,783</b>	<b>1,66,451</b>	<b>30,48,659</b>	<b>1,62,777</b>	<b>9,696</b>	<b>38,127</b>	<b>5,15,869</b>

**ANNEXURE-9**

(Referred to in paragraph 5.3.2)

**Irregularities in DMA**

- (i) RBI reimbursed ₹380 crore to the agency banks without the Scroll Number, as was evident from 04 DMA statements of CPPCs of ICICI, HDFC and PNB, for the year 2015-16. When pointed out, RBI issued advisory to all the link cells to ensure scroll numbers mandatorily entered failing which the transaction would not be authorised in CBS.
- (ii) RBI reimbursed ₹1150 crore to Union Bank of India when the amount claimed against scroll was shown in the payment column but the scroll number was shown in the receipt column. This showed reimbursement without any validation check.
- (iii) In 02 DMAs (out of the 110 DMA statements for the year 2015-16) the amount against the Pay scroll number was mentioned as zero.
- (iv) RBI reimbursed to SBI ₹17,70,430/- on 23/06/2015 against a transaction date of 12/12/2007, and ₹13,36,537/- on 21/08/2015 against transaction date of 01/05/2007, without analysing the reasons for submitting the claims after more than seven years.
- (v) The same scroll number was mentioned for transaction of BOB Patna (Nodal Branch) on two different dates, e.g., pay scroll number 03 was mentioned against transaction dates 02/06/2015 and 31/07/2015 for ₹89,77,376.00 and ₹7,082.00 respectively. Pay scroll number 89 was mentioned against transaction dates 11/02/2016 and 09/05/2015 for amount ₹1,07,005/- and ₹43,592/- respectively.
- (vi) Pay scroll serial number was not mentioned serially in transactions of CPPC, Canara Bank, Bangalore, e.g., pay scroll serial number 50 dated 17/07/2015 comes before pay scroll serial number 49 dated 01/08/2015. Similarly, pay scroll serial number 43 date 20/07/2015 comes before pay scroll serial number 42 date 23/07/2015; pay scroll serial number 53 dated 11/08/02015 comes before number 52 dated 18/08/2015; pay scroll serial number 56 dated 19/07/2015 comes before number 55 dated 27/08/2015.



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