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**REFUNDS UNDER THE INCOME TAX
ACT, 1961**

**MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)**

**PUBLIC ACCOUNTS
COMMITTEE
2005-2006**

FIFTEENTH REPORT

FOURTEENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

FIFTEENTH REPORT

PUBLIC ACCOUNTS COMMITTEE (2005-2006)

(FOURTEENTH LOK SABHA)

REFUNDS UNDER THE INCOME TAX ACT, 1961

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

[Action Taken on 55th Report of Public Accounts Committee (13th Lok Sabha)]



Presented to Lok Sabha on.....

Laid in Rajya Sabha on.....

LOK SABHA SECRETARIAT
NEW DELHI

July, 2005/Sravana, 1927 (Saka)

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COMPOSITION OF PUBLIC ACCOUNTS COMMITTEE

(2005-2006)

Prof. Vijay Kumar Malhotra — *Chairman*

Lok Sabha

2. Shri Ramesh Bais
3. Shri Khagen Das
4. Dr. M. Jagannath
5. Shri R.L. Jalappa
6. Shri Raghunath Jha
7. Shri Brajesh Pathak
8. Shri Magunta Sreenivasulu Reddy
9. Dr. R. Senthil
10. Shri Madan Lal Sharma
11. Shri Brij Bhushan Sharan Singh
12. Dr. Ram Lakhan Singh
13. Kunwar Revati Raman Singh
14. Shri K.V. Thangka Balu
15. Shri Tarit Baran Topdar

Rajya Sabha

16. Shri Prasanta Chatterjee
17. Shri R.K. Dhawan
18. Dr. K. Malaisamy
19. Shri V. Narayanasamy
20. Shri C. Ramachandraiah
21. Shri Jairam Ramesh
22. Prof. R.B.S. Varma

SECRETARIAT

1. Shri P.D.T. Achary — *Secretary*
2. Shri Ashok Sarin — *Director*
3. Shri N.S. Hooda — *Under Secretary*
4. Dr. Yumnam Arun Kumar — *Committee Officer*

INTRODUCTION

I, the Chairman, Public Accounts Committee having been authorised by the Committee to submit the Report on their behalf, do present this 15th Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 55th Report (13th Lok Sabha) on "Refunds under the Income Tax Act, 1961".

2. This Report was considered and adopted by the Public Accounts Committee at their sitting held on 30th May, 2005. Minutes of the sitting form Part II of the Report.

3. For facility of reference and convenience, the recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix to the Report.

4. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
3 June, 2005
13 Jyaishta, 1927 (Saka)

PROF. VIJAY KUMAR MALHOTRA,
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

This Report of the Committee deals with action taken by Government of India, Ministry of Finance (Department of Revenue) on Observations/Recommendations contained in their Fifty-Fifth Report (13th Lok Sabha) on Chapter-5 of Report of Comptroller and Auditor General of India (Direct Taxes—System Appraisals) for the year ended 31st March, 2001 (No. 12A of 2002) relating to "Refunds under the Income Tax Act, 1961."

2. The Audit findings on which the Original Report was prepared highlighted that during the period of review *i.e.* from Financial Year 1997-98 to 1999-2000, the gross collection of Direct Taxes, the total refunds made and the percentage of refunds made to the gross collection, showed that nearly 1/4th of the gross collections were refunded to the assessees. As regards the percentage of refunds in respect of various charges, the audit reviewed state-wise details of refunds and concluded that the percentage of refunds to gross collections during the period 1997-98 to 1999-2000 had ranged from 5.3 to 43.4 per cent of gross collections.

3. The Committee in their Original Report had observed that an assessee is entitled to a refund of the excess amount when the tax paid by him in any assessed year exceeded the amount correctly payable by him. Refund may arise in many circumstances, as for instance, where the tax deducted at source is at a higher rate than the rate applicable or where total income having fallen below the taxable limit and no tax is payable at all by the assessee, or where the advance tax paid or self-assessment tax paid exceeds the tax payable as determined at the time of final assessment or as a consequence to appeal, revision, rectification of mistakes, the tax originally determined gets reduced.

4. The Committee had pointed out that Audit appraisal had indicated cases of excess refunds due to mistakes in computation, double payment of refunds, refunds granted after completion of scrutiny assessment, non-adjustment of refunds granted in earlier assessments, inadmissible refunds due to incorrect allowance of TDS credit, irregular set-off of refunds, set-off of refunds against demands of other direct taxes or *vice versa*, delay in issue of refunds, non-issue of refunds, avoidable payment of interest due to delay in completion of assessment, irregular withholding of refunds, delay in allowing refunds in appeal cases, interest on refunds less than 10 per cent of assessed tax, non-maintenance of refund register, demand and collection register, cheque register and several procedural irregularities.

5. The Committee examined all the issues in details and had made suitable Observations/Recommendations. The 55th Report was presented to Lok Sabha on 15th December, 2003 and contained six Observations/Recommendations. The Action

Taken Notes on all the Observations/Recommendations have been received from the Ministry of Finance. These have been broadly categorized as follows:

- (i) Observations/Recommendations which have been accepted by Government:
Paragraph Nos. 46 and 50
- (ii) Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from Government:
Paragraph Nos. 49 and 51
- (iii) Observations/Recommendations in respect of which replies of Government have not been accepted by the Committee which require reiteration:
Paragraph No. 47
- (iv) Observations/Recommendations in respect of which Government have furnished interim replies
Paragraph No. 48

6. The Action Taken Notes by the Ministry of Finance have been reproduced in the relevant chapters of this Report. The Committee will now deal with action taken by the Government on some of their Observations/Recommendations made by the Committee in their Original Report which need reiteration or merit comments.

Delays/Irregularities in Granting Refunds (Sl. Nos. 2, Paragraph 47)

7. The Committee in paragraph 47 of the Original Report had expressed the concern over the percentage of refunds which ranged from 5.3 to 43.4 of gross revenue collection during the period 1997-98 to 1999-2000. The Committee had observed that during the period from 1997-98 to 1999-2000 refunds constituted, on an average, 23.53 per cent of gross collections in company cases and 10.5 per cent in non-company cases. The Audit scrutiny detected that the mistakes in computation had led to over payment, short-payment and non-payment of interest in 827 cases. Considering the large number of such cases, the Committee had felt that such a situation could have been avoided had the Department paid greater attention to prevent mistakes in computation and other procedural irregularities through a stringent scrutiny by their internal audit mechanism. The Committee were not convinced with the stand taken by the Ministry that due to shortage of staff, heavy workload and movement of assessment files to various authorities, several irregularities/mistakes failed to get detected by their internal audit. The Committee had, therefore, observed that the Department had not shown any interest to detect avoidable errors and mistakes which had a major role to play in the heavy outflow of government revenue in the form of interest on refund paid to assessee.

8. In the action taken note furnished to the Committee, the Ministry of Finance have stated that field formations have been directed to strengthen the mechanism of checking of computation of refund. Trainings are imparted to A.Os (Assessing Officers) to minimize errors and compendium of common mistakes have been circulated among the Assessing Officers. The processing of the return has been computerized. The computer application software AIS (Assessment Information System) connected to National Computer Centre and TMS (Tax Management Software) for processing of

return has been introduced. The software is updated from time-to-time by Directorate of Income Tax (System) based on feedback received from field formations. processing on the AST/TMS (Computer) is expected to minimize mistakes in the Tax Calculation.

9. The Ministry have further stated that the new chain audit mechanism has started functioning *vide* CBDT's Instruction No. 8 of 2001 dated 6.12.2001. Norms have been fixed for checking of the refunds. The Directorate of Income Tax (Audit) has issued instruction that audit of all refund cases of Rs. 50,000/- and above will have to be conducted. The new chain Audit has deployed 783 Addl. CIT/JCIT, TTI CDIT/ ACIT & 3855 ITOs for Internal Audit work. 360748 cases have been audited in financial year 2002-03. In this way audit mechanism has been strengthened.

10. In their Action Taken Notes the Ministry have tried to explain the efforts made by them to update the computerization process in relation to refunds and implementation of new chain audit for internal audit work. However, the Committee are dismayed to find that the steps taken up by the Ministry are too general and lack specifics. The Action taken Note does not contain any specific order, direction, circular number etc., regarding the instructions given to field formations on the steps taken by the Government to strengthen the mechanism of checking of computation of refunds. The details of training, if held, have also not been furnished to the Committee. The Committee, therefore, desire that documents substantiating the submission by the Ministry should be made available and at the same time performance appraisals/progress of implementation of updating of new software as well as the impact of the training imparted to Assessing Officers to minimize errors be intimated to the Committee. The report of the progress made should be supported by data suggesting improvement brought about and enhancement of efficiency noticed in strengthening the mechanism of computation of refund.

The Committee also desire that a body be set up to look into the Department's problems of shortage of staff, heavy workload and slow movement of assessment files, irregularities/mistakes which were not detected by their internal audit with a view to ensuring that such mistakes/problems are remedied at the earliest.

Existing Mechanism and Initiatives to Check the Shortcomings (Sl. No. 3, Paragraph 48)

11. With reference to the existing mechanism and initiatives to check delays/irregularities in granting refunds, the Committee had noted that there had been inordinate delay of upto 50 months on issue of refunds. Audit scrutiny had revealed that the Government had made avoidable payment of interest of Rs. 11,397.61 lakh in 1881 cases and Rs. 2133.87 lakh in 138 appeal cases due to delay in granting refunds beyond the relevant assessment year and the ministry had attributed the same to heavy workload on the Assessing Officers, shortage of refund vouchers, delay in verification of TDS certificates and deficiencies in the form of returns of Income/Challans/ Banks scrolls. The Committee had noted that a Fact Finding Committee had been set up to fix responsibility in respect of cases involving inordinate delay on issue of refunds. The Committee were given to understand that under Central Action Plan (CAP)

2002-2003, targets have been fixed to process returns involving refunds within three months as well as issue and dispatch of refunds along with advice within seven days of determination of refund. While expressing the hope that the optimism of the Ministry to speed up refunds under the CAP would bear fruit, the Committee had desired that, the Report of the Fact Finding Committee of the Ministry may be placed before them for their perusal. It was also emphasized that the Ministry would spare no efforts to ensure that their internal procedures are strengthened in the best possible manner to ensure prompt detection of delays and irregularities in handling cases of refund.

12. In their Action Taken reply, the Ministry of Finance have stated as under:

“The field formations have been instructed to strengthen their internal procedures for prompt detection of delays and irregularities in handling of refunds. Instructions included prompt issue of refunds returns within prescribed time, submission of Monthly Report on Refunds and processing of refund returns first to minimize payment of interest u/s 244A. Monitoring of refunds are also being done by higher authorities through Central Action Plan (CAP). The electronic filing of returns has been introduced for early processing of returns which will result in early issuance of refunds. Report of the Fact Finding Committee is under consideration of the Central Board of Direct Taxes (CBDT)”.

13. In riposte to Committee's desire to strengthen the internal procedures by the Ministry to avoid the huge amount of avoidable interest payment due to delay in payment of refunds, the Ministry of Finance have informed that the instructions have been issued to the field formations and efforts have been made to minimize the payment of interest u/s 244A. The Committee are however, not satisfied with the reply of the Ministry. It is not clear from the Action Taken Note whether the issuance of instructions to field formations has yielded any positive results in the internal audit system; or if the delays in making refunds have been reduced; or whether Monthly Report on Refunds and processing of refunds are being regularly monitored. It has also not been ascertained whether the target fixed to process return involving refunds within 3 months as well as issue & dispatch of returns alongwith advice within 7 days of determination of refund have been achieved. The Committee consider the reply vague and incomplete. The Committee expect the Ministry to be precise in responding to specific recommendations of the Committee.

Although the Ministry have claimed that monitoring of refunds are also being done by higher authorities through Central Action Plan (CAP), hey have not furnished details of the CAP. The Committee would like to know the various aspects of it and how it would help in minimizing delays of refunds.

The Committee are constrained to point out that no action has yet been taken on the Report of the Fact Finding Committee which was set up to fix responsibility in respect of cases involving inordinate delays on issue of refunds. The Report is stated to be under consideration of CBDT. The Committee would like to know as to what are the findings of the Fact Finding Committee and what action has been taken/proposed to be taken by the Ministry thereon.

CHAPTER II

OBSERVATIONS/RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Committee note that an assessee is entitled to a refund of the excess amount when the tax paid by him in any assessed year exceeds the amount correctly payable by him. Refund may arise in many circumstances, as for instance, where the tax deducted at source is at a higher rate than the rate applicable or where total income having falling below the taxable limit and no tax is payable at all by the assessee, or where the advance tax paid or self-assessment tax paid exceeds the tax payable as determined at the time of final assessment or as a consequence to appeal, revision, rectification of mistakes, the tax originally determined gets reduced. The Committee's examination of the Audit review on "Refunds under the Income Tax Act", has revealed several lacunae in the existing law and procedures regarding issue of refunds which are commented upon in the succeeding paragraphs.

(Para 46 of 55th Report of PAC)
(13th Lok Sabha)

Action Taken

Amendments have been made in section 244A for reduction of rate of interest payable to assessee. New section 2341 has been inserted for charging of interest on excess refund granted at the time of summary assessment.

In order to simplify procedures, computerized processing of returns have been introduced E-filing of returns have also been introduced. This will result into early processing of refunds.

Ministry of Finance/Department of Revenue O.M.F. No. 241/1/2004-A&PAC. I
dated 24th August, 2004

TPL Div. (CBDT) F.No. 154/10/2002-TPL dt. 18.09.2003.
ITA-II (CBDT) F.No. 228/3/2002-ITA-II dt. 11.11.2003.

Recommendation

The Committee is perturbed to note that many Public Sector Undertakings are claimants for refunds as they were paying excess advance tax to by pass their responsibility. Therefore, they feel that the Department should conduct a study on the trends in advance tax payment system and other factors giving rise to huge refunds in order to ascertain as to who are major claimants for refunds and rationalize further the procedure for advance tax payments. In this connection, the Committee desire that the cases of habitual excess advance tax payers may be selected for scrutiny assessment under section 143(3) as a deferent. With regard to individual assesseees, the Committee

note the Ministry's view that most of the returns are received during the fortnight preceding the due date of filing of refunds. In this context, they suggest that the fixed deadlines for filing I.T. returns each year may be made suitably flexible as in the last-minute rush, the possibility of receiving incorrect returns tends to increase, thus leading to further rise in refund claims. The Committee therefore, feel that providing more time to the assesseees for self-assessment of income would encourage a positive response to file correct returns and thus, put less pressure/workload on the Department in processing refund claims.

(Para 50 of 55th Report of PAC)
(13th Lok Sabha)

Action Taken

The Taxation Laws (Amendment) Act, 2003 has reduced the rates of interest payable on refunds from 8% to 6% per annum. This will discourage parking of funds with the Income Tax Department in the form of extra advance tax payments.

CBDT has noted the observation of the Hon'ble Committee that the cases of habitual excess advance tax payers may be selected for scrutiny.

As per the existing provisions of the Income-tax Act, 1961, the due date for filing of returns is 31st July, for non-auditable/non-corporate assessee and 31st October for auditable/corporate assesseees. Thus, there is sufficient time available to an assessee for filing his return after due verification of his record. Moreover, an assessee can file his return of income well before the due date. Thus, the law already allows sufficient time and flexibility for filing correct returns.

Ministry of Finance/Department of Revenue O.M.F. No. 241/1/2004-A&PAC. I
dated 24th August, 2004

TPL Division, CBDT's O.M.F. No. 154/2/2004-TPL dated 16.8.04
ITA-II (CBDT) F.No. 228/2/2004-ITA-II dt. 7.7.2004.

CHAPTER III

OBSERVATIONS/RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES RECEIVED FROM GOVERNMENT

Recommendation

The Committee note that another highlight of the audit findings following their review of refund cases was improper maintenance of the records of refunds in various field formations. Although the Department informed that necessary records of cases involving refunds are maintained for six years from the end of the Financial Year, however, vital records pertaining to refund applications, vouchers and cheques, TDS certificates etc. were either not submitted to audit or also if submitted, were found to be ill-maintained. The Committee's examination further revealed that though the Department have issued instructions regarding maintenance of refund records, same was not being monitored at appropriate levels leaving a lot to be desired. The Committee, therefore, recommend that Government should seriously address this issue and take appropriate measures with a view to ensuring that their instructions regarding maintenance of necessary records are followed scrupulously and diligently with supervision by senior level officers in all the field formations so that those could be properly utilized for *bona-fide* purposes as well as produced promptly whenever required.

(Para 49 of 55th Report of PAC)
(13th Lok Sabha)

Action Taken

Field formations have been directed to ensure that instructions regarding maintenance of necessary records are followed scrupulously and diligently and to be monitored by concerned senior officers. Adequate supervision is continuously maintained by the senior officers and annual inspection is also carried out by Commissioners of Income Tax which includes timely issuance of refunds as per CBDT's instruction and proper maintenance of records. Manual record keeping will be minimized by computerized processing of returns.

Ministry of Finance/Department of Revenue O.M.F. No. 241/1/2004-A&PAC. I
dated 24th August, 2004

ITA-II (CBDT) F.No. 228/2/2004-ITA-II dt. 7.7.2004.

ITA-II (CBDT) F.No. 228/3/2002-ITA-II dt. 11.11.2003.

Recommendation

The Committee note that as a sequel to the deposition by the representatives of the Ministry of Finance before the Public Accounts Committee, the Union Minister of

Finance informed Parliament, while presenting the Annual Budget for 2003-2004, that the Government was due to initiate "direct crediting of all refunds to the bank accounts of the tax payers, through electronic clearance system, but obviously only if the tax payers furnish a bank account number". The Committee are optimistic that such an initiative would go a long way in bringing about tax administration reforms, decreasing the workload of the department and minimizing harassment to the tax payers. In this regard, the Committee would also like to know the steps taken to further streamline the procedure.

(Para 51 of 55th Report of PAC)
(13th Lok Sabha)

Action Taken

The Board has decided *vide* AIS Instruction No. 26 dated 16/3/2004 to introduce facility of issuing of electronic refunds and their direct credit to the bank account of tax payer through Electronic Clearance Scheme (ECS) of the Reserve Bank of India. Presently, refunds upto Rs. 25,000 can be issued through ECS in 12 cities including Delhi.

Ministry of Finance/Department of Revenue O.M.F. No. 241/1/2004-A&PAC. I dated 24th August, 2004

ITA-II (CBDT) F.No. 228/2/2004-ITA-II dt. 16.08.2004.

DIT (System) Delhi's Note F.No. SW/07/01/03/04-DIT(S) dt. 12.07.2004.

TPL, Division F. No. 154/2/2004-TPL dt. 16.08.2004

CHAPTER IV

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

The Committee are constrained to note that the percentage of refunds during the period 1997-98 to 1999-2002 ranged from 5.3 to 43.4 per cent of gross revenue collection. They also find that during Financial year 1997-98 to 1999-2000, refunds constituted, on an average, 23.53% of gross collections in company cases and 10.5% in non-company cases. The Committee are further dismayed to find that mistakes in computation have led to over-payment, short-payment and non-payment of interest in 827 cases detected during audit scrutiny. Considering the large number of such cases, they feel that such a situation could have been avoided had the Department paid greater attention to prevent mistakes in computation and other procedural irregularities through a stringent scrutiny by their internal audit mechanism. In this regard, the Committee are not convinced with the stand taken by the Ministry that due to shortage of staff, heavy workload and movement of assessment files to various authorities, several irregularities/mistakes failed to get detected by their internal audit. Though the Department has claimed to have revamped their audit mechanism, the number of computational mistakes have yet to show any decline. From the foregoing, it is amply clear to the Committee that hardly any interest has been shown by the Department to detect avoidable errors and mistakes which have a major role to play in the heavy outflow of Government revenue in the form of interest on refund paid to the assessee.

(Para 47 of 55th Report of PAC)
(13th Lok Sabha)

Action Taken

Field formations have been directed to strengthen the mechanism of checking of computation of refund. Trainings are imparted to A.O.s (Assessing Officers) to minimize errors. Compendium of Common Mistakes is circulated among the Assessing Officers.

The processing of the return has been computerized. The computer application software AIS (Assessment Information System) connected to National Computer Centre and TMS (Tax Management Software) for processing of return has been introduced. The software is updated from time-to-time by Directorate of Income Tax (System) based on feedback received from the field formations. Processing on the AIS/TMS (Computer) is expected to minimize mistakes in the Tax Calculation.

The new chain audit mechanism has started functioning *vide* CBDT's Instruction No. 8 of 2001 dated 6.12.2001. Norms have been fixed for checking of the refunds. The Directorate of Income Tax (Audit) has issued instruction that audit of all refund

cases of Rs. 50,000 and above will have to be conducted. The new Chain Audit has deployed 783 Addl. CIT/JCIT, 771 DCIT/ACIT & 3855 ITOs for Internal Audit work. 360784 cases have been audited in Financial Year 2002-03. In this way audit mechanism has been strengthened.

Ministry of Finance/Department of Revenue O.M.F. No. 241/1/2004-A&PAC. I dated 24th August, 2004

DIT (A). Delhi F.No. -Audit/55th Report/PAC/Refund/DIT/78 dt. 12.04.2004.

DIT (A). Delhi F.No. -Audit/PAC/2002-03/DIT/3382 dt. 5.08.2003.

ITA-II (CBDT) F.No. 228/3/2002-ITA-II dt. 11.11.2003.

CHAPTER V
OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH
GOVERNMENT HAVE FURNISHED INTERIM REPLIES

Recommendation

Another disquieting feature about issue of refunds as noted by the Committee have been the inordinate delays of upto 50 months in the issue of refunds. In this connection, the Audit scrutiny had revealed that due to delay in granting refunds beyond the relevant assessment year, there was avoidable payment of interest of Rs. 11,397.61 lakh in 1881 cases and Rs. 2133.87 lakh in 138 appeal cases. During the course of examination by the Committee, the Ministry have attributed the same to heavy workload on the Assessing Officers, shortage of refund vouchers, delay in verification of TDS certificates and deficiencies in the form of returns of income/challans/bank scrolls. On further inquiry by the Committee, the Ministry informed that a Fact Finding Committee was set up to fix responsibility in respect of cases involving inordinate delays in issue of refunds. It has also been informed that the power with the Income Tax authorities to hold back refunds has been removed *w.e.f.* 1/6/2001. The Committee further note that under Central Action Plan 2002-2003, targets have been fixed to process returns involving refunds within three months as well as issue and dispatch of refunds alongwith advice within seven days of determination of refund. While hoping that the optimism of the Ministry to speed up refunds under the Central Action Plan will bear fruit, the Committee desire that on completion, the report of the Fact Finding Committee of the Ministry may be placed before them for their perusal. The Committee further desire that the Ministry should spare no efforts to ensure that their internal procedures are strengthened in the best possible manner to ensure prompt detection of delays and irregularities in handling cases of refund.

(Para 48 of 55th Report of PAC)
(13th Lok Sabha)

Action Taken

The field formations have been instructed to strengthen their internal procedures for prompt detection of delays and irregularities in handling of refunds. Instructions include prompt issue of refunds within prescribed time, submission of Monthly Report on Refunds and processing of refund returns first to minimize payment of interest u/s 244A. Monitoring of refunds are also being done by higher authorities through Central Action Plan (CAP). Electronic filing of returns has been introduced for early processing of the returns which will result in early issuance of refunds. Report of The Fact Finding Committee is under consideration of the CBDT.

Ministry of Finance/Department of Revenue O.M.F. No. 241/1/2004-A&PAC. I
dated 24th August, 2004

ITA-II (CBDT) F. No.-228/2/2004-ITA-II dt. 7.7.2004

ITA-II (CBDT) F. No.-228/3/2004-ITA-II dt. 11.11.2003

NEW DELHI;
3 June, 2005
13 Jyaishta, 1927 (Saka)

PROF. VIJAY KUMAR MALHOTRA,
Chairman,
Public Accounts Committee.

APPENDIX

OBSERVATIONS AND RECOMMENDATIONS

Sl. No.	Para No.	Ministry/Deptt. Concerned	Observations/Recommendations
1	2	3	4
1	10	Finance (Department of Revenue)	<p>In their Action Taken Notes the Ministry have tried to explain the efforts made by them to update the computerization process in relation to refunds and implementation of new chain audit for internal audit work. However, the Committee are dismayed to find that the steps taken up by the Ministry are too general and lack specifics. The Action Taken Note does not contain any specific order, direction, circular number etc., regarding the instructions given to field formations on the steps taken by the Government to strengthen the mechanism of checking of computation of refunds. The details of training, if held, have also not been furnished to the Committee. The Committee, therefore, desire that documents substantiating the submission by the Ministry should be made available and at the same time performance appraisals/progress of implementation of updating of new software as well as the impact of the training imparted to Assessing Officers to minimize errors be intimated to the Committee. The report of the progress made should be supported by data suggesting improvement brought about and enhancement of efficiency noticed in strengthening the mechanism of computation of refund.</p> <p>The Committee also desire that a body be set up to look into the Department's problems of shortage of staff, heavy workload and slow movement of assessment files, irregularities/mistakes which were not detected by their internal audit with a view to ensuring that such mistakes/problems are remedied at the earliest.</p>

1	2	3	4
2	13	Finance (Department of Revenue)	<p>In riposte to Committee's desire to strengthen the internal procedures by the Ministry to avoid the huge amount of avoidable interest payment due to delay in payment of refunds, the Ministry of Finance have informed that the instructions have been issued to the field formations and efforts have been made to minimize the payment of interest u/s 244A. The Committee are however, not satisfied with the reply of the Ministry. It is not clear from the Action Taken Note whether the issuance of instructions to field formations has yielded any positive results in the internal audit system; or if the delays in making refunds have been reduced; or whether Monthly Report on Refunds and processing of refunds are being regularly monitored. It has also not been ascertained whether the target fixed to process return involving refunds within 3 months as well as issue & dispatch of returns alongwith advice within 7 days of determination of refund have been achieved. The Committee consider the reply vague and incomplete. The Committee expect the Ministry to be precise in responding to specific recommendations of the Committee.</p> <p>Although the Ministry have claimed that monitoring of refunds are also being done by higher authorities through Central Action Plan (CAP), they have not furnished details of the CAP. The Committee would like to know the various aspects of it and how it would help in minimizing delays of refunds.</p> <p>The Committee are constrained to point out that no action has yet been taken on the Report of the Fact Finding Committee which was set up to fix responsibility in respect of cases involving inordinate delays on issue of refunds. The Report is stated to be under consideration of CBDT. The Committee would like to know as to what are the findings of the Fact Finding Committee and what action has been taken/ propose to be taken by the Ministry thereon.</p>

PART II

MINUTES OF THE SECOND SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2005-2006) HELD ON 30TH MAY, 2005

The Committee sat from 1100 to 1140 hours on 30th May, 2005 in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Prof. Vijay Kumar Malhotra — *Chairman*

MEMBERS

Lok Sabha

2. Shri Madan Lal Sharma
3. Shri Brij Bhushan Sharan Singh
4. Dr. Ramlakhan Singh
5. Shri Tarit Baran Topdar

Rajya Sabha

6. Shri R.K. Dhawan
7. Dr. K. Malaisamy
8. Prof. R.B.S. Verma

SECRETARIAT

1. Shri Ashok Sarin — *Director*
2. Shri N.S. Hooda — *Under Secretary*
3. Smt. Anita B. Panda — *Under Secretary*

Representatives of the Office of the Comptroller and Auditor General of India

1. Ms. Mamta Kundra — Pr. Director of Audit (Direct Taxes)
2. Mrs. Sumedha Verma Ojha — Director of Audit (Direct Taxes)

2. To begin with, the Chairman, PAC welcomed the Members and Audit Officers to the sitting of the Committee.

3. The Committee took up for consideration the Action Taken Report on 55th Report (13th Lok Sabha) on Chapter V of C&AG's Report No. 12A of 2002 relating to "Refunds under Income Tax Act, 1961".

4. The Committee adopted the same without any modifications/amendments and authorised the Chairman to finalise the Draft Report in the light of changes suggested by Audit through factual verification, if any, or otherwise and to present the same to Parliament in the next session.

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The Committee then adjourned.