

28

**CONTROL SYSTEMS IN INDIA
SECURITY PRESS, NASHIK**

**MINISTRY OF FINANCE
(DEPTT. OF ECONOMIC AFFAIRS)**

**PUBLIC ACCOUNTS
COMMITTEE
2006-2007**

TWENTY-EIGHTH REPORT

Fourteenth Lok Sabha



**Lok Sabha Secretariat
New Delhi**

TWENTY-EIGHTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(2006-2007)

(FOURTEENTH LOK SABHA)

CONTROL SYSTEMS IN INDIA SECURITY
PRESS, NASHIK

(MINISTRY OF FINANCE)
(DEPARTMENT OF ECONOMIC AFFAIRS)



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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2006-2007)

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5. Dr. Yumnam Arun Kumar — *Committee Officer*

INTRODUCTION

I, the Chairman, Public Accounts Committee, as authorised by the Committee, do present this 28th Report relating to “Control Systems in India Security Press, Nashik” on the Report of C&AG of India for the year ended 31 March 2004 (No. 14 of 2005), Union Government (Civil – Performance Audit).

2. The Report of the C&AG of India for the year ended 31 March, 2004 (No.14 of 2005), Union Government (Civil – Performance Audit) was laid on the Table of the House on 6th May, 2005.

3. The Committee took the evidence of the representatives of the Ministry of Finance (Department of Economic Affairs) on the subject at their sittings held on 14th and 15th September, 2005. The Committee considered and finalised this Report at their sitting held on 20th July, 2006. Minutes of the sittings form Part II of the Report.

4. For facility of reference and convenience, the Observations and 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 the Appendix to the Report.

5. The Committee would like to express their thanks to the officers of the Ministry of Finance (Department of Economic Affairs) for the cooperation extended by them in furnishing information and tendering evidence before the Committee.

6. 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;
24 July, 2006

2 Sravana, 1928 (Saka)

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

PART I

REPORT

Introductory

India Security Press (ISP) was set up by the British in 1924 at Nashik in the State of Maharashtra. At present, ISP is the only organisation in India and one of the few in the world where a wide variety of security papers are printed and supplied. The security papers comprise of Postal Stamps, Judicial and Non-Judicial Stamps, Cheque Books for Reserve Bank of India and State Bank of India, Saving Certificates, Postal Orders, Passports, Promissory Notes and other security documents required by the Central/ State and Union Territory Governments, Public Sector Undertakings and Local Bodies. In addition to postal stamps of various denominations, ISP produces 25 categories of stamps and stamp papers in 212 denominations. The non-security documents consist of Welfare Stamps, Non-MICR Cheques, and Railway Warrants etc. In so far as ISP is concerned, the value of these security and non-security documents is limited to their cost of production, which are realised from the indenters.

2. For the indenting entities, more particularly for the Union Government and the State Governments, the security and non-security documents are the financial instruments of revenue used for registration of documents, issue of securities and realisation of the cost of postal and other services. Thus, for the indenting entities, the security papers are the money worth their face value.

II. Organisational Set up

3. The India Security Press (ISP) is an Industrial establishment of the Government of India under the Ministry of Finance, Currency and Coinage Division of the Department of Economic Affairs. It is a commercial department under the direct administrative control of the General Manager (GM), who is the Head of the Department and also the Ex-Officio Controller of stamps of India. The Financial Advisor and Chief Accountant Officer (FA & CAO) assist the GM in matters relating to accounts and in other operational matters he is assisted by the Deputy General Manager (DGM). For overseeing the physical security of the Press, a Commandant of Central Industrial Security Force (CISF) is posted in the unit. Besides, a Vigilance Unit has also been set up to see the matter relating to security and vigilance which is headed by an officer of the Intelligence Bureau. As regards distribution of the stamps and stamp papers, the Central Stamp Depot (CSD), a part of India Security Press, stocks the products and disposes them to various organisations in accordance with the indents received from the various indenters. It also raises the bills on the indents and maintains the revenue receipts.

III. Audit Objectives

4. Audit reviewed the Control Systems obtaining in India Security Press, Nashik with regard to indents, production planning and printing, supply, surveillance on the entire operations, sensitivity to error signals and lessons-learnt system in respect of non-postal stamps and security papers. The review was carried out consequent to the discovery of large-scale counterfeit stamps in the country and with a view to assess whether :

- the system of indent and supply was robust to ensure fulfilment of the requirement of various types of judicial and non-judicial stamps by the state governments and other entities;
- the production plan and actual production of stamps in ISP was consistent with the indents;
- ISP put in place adequate system of control to address the risks associated with the production, supply procedures and security besides short supply against the indents;
- appropriate coordination between ISP on one hand and the indenting entities on the other, existed for review of the forecasts of requirement, indents, and actual supply;
- the disposal procedures of the machinery and equipment used for production of security papers consisted of safeguards to prevent their misuse;
- ISP was sensitive to error signals and undertook measures to address the possible risks associated with the reported aberrations and learnt appropriate lessons from the results of the investigations; and
- ISP undertook effective remedial measures consequent upon large-scale counterfeit operations.

5. For this purpose, Audit examined the documents in ISP, Nashik and Security Printing Press, Hyderabad for the period from 1996-2004 and also scrutinised secondary data in Private Paper Manufacturing Mills and Dandy Roll¹ manufacturing units. The thrust areas of Audit were high value Non-Judicial Stamps/Stamp Papers, India Insurance Stamps, India Impressed Court Fee Stamps, Revenue Stamps, Share Transfer Stamps and Notarial Stamps.

6. Audit review² brought to light the following lacunae in the system of working of India Security Press :

- Deficient controls in the procedures for indents, printing and supply;
- Non-existence of risk perception in the areas associated with different stages of Production and Supply of stamps;

¹ Dandy roll is a device for solidifying and impressing water mark in the paper during manufacture.

² CAG's Report No. 14 of 2005—Union Government (Civil-Performance Audit) relating to "Control Systems in India Security Press, Nashik."

- Non-investigation of sharp swings in the indents received from State Governments, Union Territories etc.;
- Absence of relationship between annual printing programmes and indents;
- Failure of ISP to gauge the risk of the severe short supply of stamp on the functions dependent on the stamps and stamp papers and the possibility of counterfeits;
- Absence of effective control over the actual quantity of security paper manufactured by the Private Paper Mills, nor on the manufacture, custody and use of Dandy Rolls and the equipments that introduce the security feature in the papers during its production;
- Existence of cases of theft on the shop floor and also many in transit, which entailed the risk of siphoning of the genuine stamps outside the prescribed channel;
- Impact of the decision of ISP to permit the presence of the representatives of the successful bidder for disposal of printing machine during its dismantling which entailed the risk of its reassembly for counterfeit printing;
- Non-establishment of a surveillance and intelligence system by ISP to provide assurance that genuine stamps were used and fake stamps were not in circulation;
- Confinement of ISP's role to that of a printer and limiting its work only to verification of genuineness of the stamps which are referred to it by investigative agencies; and
- Failure of ISP to prepare comprehensive response to the high risk of counterfeit stamps despite large number of stamps referred to it for examination being found fake.

7. The Committee have examined in detail the various issues raised by the Audit in their Report. The same have been discussed in detail in the succeeding paragraphs.

IV. Unmet Indents

8. The India Security Press receives quarterly indents from the State Governments, Union Territories etc. for supply of stamp papers of various categories and denominations. Within ISP, the consolidation of the indents and supply of stamp papers is managed by its Central Stamp Depot (CSD). Based on the print requisition by the CSD, the warrant section issues print warrants to the production section. The CSD is also entrusted with the responsibility for the dispatch of stamp papers to the indenters.

A. INDENTS, PRINTING AND SUPPLY

9. Audit scrutiny of the production, indent and supply of stamps and stamp papers for ISP from 1996-97 to 2003-04 revealed that the cumulative indent during the said period was 27722.52 lakh of sheets. Against this, the production and supply were

only 12783 and 11833 lakh of sheets respectively. The shortfall in supply with reference to indent was 15889.65 lakh of sheets and the percentage of shortfall in production and supply to the indent were 53.89 and 57.32 respectively.

10. When asked about the constraints due to which ISP could not achieve the targetted demand, the Ministry in a written note submitted as under :

“Indents placed by indenters were very erratic, fluctuating between 52 to 18 Crore. It was difficult to plan production according to such abnormal fluctuations in the indents. However, efforts were made by ISP to ensure supplies more than its installed capacity in general. In addition to the above, there are other constraints such as old machinery, lack of availability of raw materials in time, lengthy purchase procedure leading to delay in timely receipt of raw materials, etc.”

11. The Committee desired to know the measures taken by the Ministry to remove the bottlenecks so as to achieve optimum level of production and supply of stamps and stamp papers. In response, the Ministry of Finance in a written note stated as under :

“There has been no shortfall in production against the installed capacity except in the year 1999-2000. However, shortfall in supply is on account of the fact that indents were inflated and not realistic in most of the cases. Therefore, in order to ensure that indents are more realistic, it has been decided that the indenters should deposit 30 per cent cost of the indented material as advance. During the current financial year 2005-06, only 12 States/UTs have remitted 30 per cent the advance payment. The new system has contributed considerably to the decline in size of the indents.”

12. Enquired about the steps taken by the Ministry to make the remaining 16 States comply with the decision stipulating deposit of 30 per cent of cost of indented material as advance, the Ministry, in a written note as under:

“The 16 states which have not complied with the decision are Arunachal Pradesh, Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Karnataka, Manipur, Meghalaya, Mizoram, Punjab, Tamil Nadu, Tripura and Uttar Pradesh. The States are being requested regularly to comply with the decision of the Ministry. We have received intimation from some of the States about non-availability of budget at their end for release of advance payments. There are other cases also where States have asked for performa invoice for the advance payment, whereas several other States have not responded to the requests made by ISP so far. ISP has further communicated to all such States that indents received without advance payment will be treated as, ‘unconfirmed indents’ and ISP will not be in a position to accord any priority to such indents from the current Financial Year.”

13. Asked to furnish the details of States that have made balance payment of 70 per cent at the time of taking delivery of stamp papers, the Ministry in a written note stated as under:

“Except Union Territory of Pondicherry, none of the states or Union Territories have made balance payment of 70 per cent at the time of taking delivery of stamps / stamp papers. After dispatch of consignment, bills are raised and payment received from concerned paying authorities of State Governments in due course. Payment of balance 70 per cent amount is generally settled by the State Governments after a lapse of not less than three months from the date of dispatch of stamps.”

14. The Committee desired to know the latest position regarding production, indent and supply of stamps and stamp papers by ISP. The Ministry in their written reply stated the position as under:

“The figures depicted by Audit are more or less identical to the figures of ISP so far as indents and supplies are concerned. However, the figure differ under the head production. The production, indent and supply of stamps and stamp papers for ISP from 1996-97 to 2004-05 are as follows :

(Sheets in lakh)						
Year	Indent	Production	Supply	Shortfall in supply with reference to indent	Percentage of shortfall in production to indent	Percentage of shortfall in supply to indent
a	b	c	d	e = b-d	f = % of (b-c)/b	g = % of (b-d)/b
1996-97	5281.85	1498.44	1424.44	3857.41	71.63%	73.03%
1997-98	5128.67	2000.42	1895.85	3232.82	61.00%	63.03%
1998-99	2962.02	1338.63	1305.42	1656.6	54.81%	55.93
1999-2000	1810.13	748.45	946.56	863.57	58.65%	47.71%
2000-01	2296.57	1363.15	1306.36	990.21	40.64%	43.12%
2001-02	2738.07	1386.17	1389.2	1348.87	49.37%	49.26
2002-03	4117.45	1780.28	1616.5	2500.95	56.76%	60.74
2003-04	3279.85	1789.76	1948.84	1331.01	45.43%	40.58%
Cumulative total up to 31st March 2004	27614.6	11905.3	11833.2	15781.4	56.89%	57.15%
2004-05	2204.72	1263.62	1344.63	860.09	42.69%	39.01%
Cumulative total up to 31st March 2005	29819.3	13168.9	13177.8	16641.5	55.84%	55.81%”

A.1 Fluctuations in the Indents

15. Audit scrutiny of indents has revealed that the total of indents in terms of number of sheets varied over a wide range of 1810-5282 lakh during the eight years (*i.e.* from the period 1996-1997 to 2003-2004) for which data was collected. Further, the ISP did not maintain account of indents and supply in terms of value and there was no evidence to suggest that ISP analysed the wide fluctuations in the annual indents in consultation with the indenters to find out the reasons for such wide variations.

16. When asked whether the Ministry had at any point of time undertaken a study to find out the reasons for wide fluctuations/variations in indents, the Ministry of Finance in written note submitted as under:

“ISP is a printing agency which undertakes security printing on orders from various State Govts. /UTs and Central Govt. Ministries /offices. It is difficult for the ISP to undertake studies on an all India basis to find out reasons for abnormal fluctuations in indents. However, the States/UTs were apprised of the fluctuations in the indents placed by them and requested to place realistic indents.”

17. On being asked to explain the possible reasons due to which the State Governments submit inflated and unrealistic indents and whether ISP had established any mechanism to coordinate with States/Union Territories to monitor the indents, the Ministry of Finance in a written note delineated their view point as under :

“Indents raised by various indenters have been analysed. The indents received during the last nine years have been tabulated and it is observed that there is no pattern and they appear to have been raised in an ‘ad-hoc’ manner. From the analysis, it clearly emerges that even when the full supplies were not met against the indents of a particular year, in the subsequent year the indents did not increase in the same proportion. Instead, in most of the cases it had gone down that too without any consistent pattern. Since States were sending indents to ISP without any commitment of release of payments, the indents have been raised without analysing the requirements in a realistic manner. Even the payments after supplies of stamps and stamp papers have not been released to ISP in many cases, which clearly indicate the absence of linkages between the indenter, consignee and paying authority. This fact is further bolstered by the outcome of the introduction of procedure of calling for 30 per cent advance amount against the indents, whereby the indents have come down very drastically from around 50 crore to 14 crore in a year. It clearly indicates that State Governments have submitted inflated and unrealistic indents. ISP has attempted to educate the states / UTs to monitor the indents by conducting interactive programmes as well as by writing regularly in this regard.”

18. When asked by the Committee to specify the reasons due to which ISP could not maintain accounts of indents and supply in terms of value, the Ministry of Finance in a written reply stated as under:

“The reasons for not maintaining records as per face value are:

ISP, as a printer, is responsible for printing of different kinds of stamps / stamp papers on the basis of indents received from the indenters. Indents are received in the form of number of sheets. The record is maintained in ISP for production and supply of documents of various denominations in the form of issue sheets and hence, maintaining face value – wise record was not felt necessary from the inception;

the accounts of ISP in terms of procurement of raw material, its use, wastage, etc. are also done on the same basis;

and in terms of wastage on account of faulty printing, the value cannot be taken to be the face value and it would only be the value of production (raw material, process costs, labour, etc.).

However, in case of thefts, ISP reports the loss in terms of both volume and the face value. Further, while making delivery, face value of the stamps is written along with other details in the invoice sent to consignees”

A.2 Indents and Production

19. Audit review of the actual production of stamp papers in terms of sheets in ISP disclosed that it had no relationship with the indent. The annual production varied in the wide range of 877 and 2066 lakh sheets. Cumulatively, over the eight years *i.e.* from 1996 to 2004, ISP produced only 12783 lakh sheets against the total indent of 27723 lakh sheets, which is only 46 per cent of the indent. Audit revealed that ISP did not review the reasons for very low production with reference to the indents and its attendant risks. Category and denomination-wise analysis of production of stamps over 1995 to 2003 confirmed that there was no co-relation between indent, production and supply. Moreover, the production was consistently lower than the indent.

20. Audit also pointed out that ISP did not increase production; despite under-utilisation of the production capacity and large unmet indents. The machinery was used on an average for only five hours and 15 minutes against the effective working hours per shift of nine hours. In the absence of log books of machines, which ISP was expected to maintain, unutilised machine-hour remained unexplained.

21. The committee sought the reasons for such a low production level, which was only 46 per cent of the indents placed by States/other agencies. The Ministry in a written reply stated as under :

“There have been wide fluctuations in the indents of Non-Judicial Stamp Papers (NJSPs) placed by the State Govts./UTs. However, the production and supply have been more or less consistent over years. Because of the wide fluctuations it was impracticable to enhance the installed capacity all of a sudden and that too when there was no certainty whether the demand would continue to remain in the coming years.”

22. Replying to a query about the measures taken to increase the installed capacity of ISP so as to achieve the optimum level of production, the Ministry of Finance informed the Committee in a written note as under:

“Production capacity of ISP has been analysed and it is observed that current requirement of indents can be met with the existing capacity. For the current Financial Year i.e.2005-06 the total indent of Non-Judicial Stamp (NJSP) and allied stamps is approximately 14 crore issue sheets and the installed capacity is 13.3 crore issue sheets. Therefore, at present, there is no proposal to enhance the installed capacity. Further, it is pertinent to mention that dematting is under active consideration, whereby requirement of stamp papers is likely to reduce significantly. Some states like Karnataka, Maharashtra and Andhra Pradesh have already taken steps in this direction.”

23. The Committee desired to know whether the Ministry of Finance had initiated any steps or conducted any survey to analyse the reasons for the shortfall / deficit of 54 per cent of the indent during the period 1996 to 2004 and how the deficit had been made good by the indenters. In response, the Ministry of Finance in a written note stated as under:

“No survey was conducted by ISP to analyse as to where the indenters were meeting their requirements in the event of short-supplies with reference to the indented quantity. This was not done because under Section 10 (b) of Indian Stamps Act, State Governments have been empowered to take recourse to alternate mode of Stamp Duty Collections in the event of shortage of stamps/ stamp papers. However, the Ministry have conducted meetings with State Governments and requested them to raise realistic indents and the measures taken by the Ministry have led to very significant reduction in the indented quantity from as high as 52.8 crore in the year 1996-97 to approximately 14 crore in 2005-06.”

24. When asked as to how the Ministry could justify that they had produced Stamp Papers more than the installed capacity when the printing machines was reported to have worked only 5 hrs and 15 minutes per day against the effective working hours per shift of nine hours, the Ministry in a written reply stated as under:

“The printing capacity of 13.3 crore issue sheets as indicated for stamps / stamp papers is the printing & processing capacity to actually produce Stamps and stamp papers in a shift of nine hours. The printing capacity as depicted, takes into account the time lost due to change-over, cleaning and counting of materials, etc. Processing of stamps / stamp papers is done manually and it is also one of the important steps in the processing of stamps / stamp papers. Prior to November 2001, ISP was working 11 hours per shift. Hence, prior to this period, the related printing capacity were more than 16 crore, which is more than the actual production taken place during this period. Higher production could be achieved due to more concerted efforts in the processing where capacity is limited, but, can vary. It may be appropriate to note that in the security printing, the documents are printed at one or more stages. There are documents of which

base printing is done on one machine, body printing is done on the other and perforation, cutting & sheeting is done on some other machines. Further, installed capacity of printing machines is used for printing of different papers.”

25. When asked by the Committee about the steps taken by ISP to streamline the production process so as to increase the effective working hours of the machines, the Ministry of Finance in a written note stated as under:

“In a Security set-up akin to I.S.P., it is quite reasonable if the average effective working hours of more than 5 hours is achieved in a shift of 9 hours considering the various factors associated with security printing and processing. Being a security printing organization, as a security requirement, it is necessary to stop the production as well as inspection operations and seal off the production and inspection areas before the lunch and at the end of the shifts. In this process, the entire shop floor is evacuated. This process takes not less than one hour each in 2 changeovers. In addition to this, the personnel are ‘body searched’ before allowing them to go out. As a process requirement, the machines are to be cleaned before the end of shift to prevent drying of ink to save damage to ink ducts.”

26. To a query regarding the rationale behind non-maintenance of logbooks for machines by ISP, the Ministry replied as under:

“At India Security Press, the details of working and production output of machines is recorded daily for both the shifts separately. The monthly compilation of the same is called “*Monthly Machine Utilisation Statement*”. Similar record is perhaps called “*Log-Book*” in other establishments.”

27. When asked by the Committee about the measures which have been taken/ proposed to be taken by ISP to avoid the inherent risk of production of fake stamps / counterfeits due to consistent lower level of production than the indent, the Ministry of Finance informed the Committee in a written note as under:

“Indents raised were *ad-hoc* and inflated. Production and supply of stamps/ stamp papers have been consistent and it is felt that realistic indents can be met by ISP. It is observed that the level of production, which may be achieved by ISP, is adequate to take care of the requirements of States. Further, in the light of dematting, the demand of stamps / stamp papers is likely to go down.”

28. As regards the machinery / mechanism for ensuring effective monitoring and control of indent, production and supply by ISP, the Ministry in a written note informed the Committee as under:

“Ministry conducts ‘Annual Production Planning’ meetings to analyse and decide the production plan of all Mills and Presses, including ISP. Indents for stamps and stamp papers are received from State Governments and Union Territories, which are compiled at Central Stamp Depot (CSD). CSD calls for the indents and compiles them in accordance with procedure laid down in the ‘Rules for Supply and Distribution of Stamps’ issued by Department of Revenue,

Ministry of Finance. In order to streamline the process of monitoring and control of indents, Ministry of Finance have conducted two meetings with the Revenue Secretaries and Inspector General (Registration & Stamps) of the States and Union Territories.

Following decisions were taken in the aforesaid two meetings, which are being regularly pursued for compliance by the State Governments / Union Territories–

- (i) To curtail the erratic and unrealistic indents, from 2004 onwards, 30 per cent amount of the indented value is being asked for as advance along with the indents. As of now, 12 out of 28 states have already started making advance payments at the time of sending their indents. Other States are being requested to adopt this new procedure.
- (ii) States have been asked to centralize their indents. Several States have already centralized their indents before sending it to CSD.
- (iii) From the year 2003 onwards, there has been close interaction with the State Governments, whereby representatives of Treasuries are invited and they are provided with some elementary input about the security features of the stamp papers along with educating them to raise realistic indents. This training has become a regular feature and officials from State Governments are attending this training.”

A.3 Indents and Supply

29. The Audit scrutiny revealed that just as production of stamp/stamp papers did not have any relationship with indent, the supply also did not follow any pattern. The supply varied between as low as 27 per cent and a maximum of 59 per cent of the indents. Over the eight-year period i.e. from 1996 to 2004, the supply was only 11833 lakh sheets against the indent of 27723 lakh sheets; a shortfall of about 57 per cent. State-wise and denomination-wise analysis of supply against the indents disclosed an arbitrary pattern. While the supplies were largely much lower than the indent, it did not follow any pattern.

30. Audit review also highlighted that in a few cases, the supplies were more than the indents while in many these were very low. There were also cases, where supplies were made without any indents. While the production was consistently low compared to the indent, ISP retained significant balance in stock at the close of the financial year. Though the rules on the subject provide for retention of the stamps/stamp papers by ISP equivalent to a minimum of three months’ stock, the application of this rule has rationale only when ISP has fulfilled the indents completely.

31. On being asked by the Committee whether the Ministry have been able to find out the major reasons for shortfall of supply of indents as high as 57 per cent during the years 1996-2004, the Ministry of Finance informed the Committee that the apparent shortfall have not resulted in crisis in any of the States since the indents were highly inflated.

32. When enquired about the present position of indent and supply and whether optimal equilibrium between indent & supply has been maintained. The Ministry in a written note submitted as under :

“Because of the efforts made by ISP to curb inflated indents, the indented quantities have come down substantially. There are instances where the NJSPs duly packed and ready for dispatch packets are not being lifted by the Indentors in some cases such as the governments of U.P., Punjab, Jharkhand, Bihar etc., in spite of reminders to them for collections of the products indented. From the above, it is clear that there is hardly any problem in respect of supply of Stamps/ Stamp papers. With the adherence to the procedure of depositing 30 per cent cost of the indented quantity in advance uniformly by all the States/UTs, the position will become more clear in the near future.”

33. When enquired by the Committee how ISP could supply the stamps more than the indented quantity in some cases and less in certain other cases, the Ministry of Finance in a written reply stated as under:

“In normal course, supplies are made as per indents only. However, in some stray cases, supplies are affected for the backlog indent also, on the request of indenters, thereby, giving an impression as if the supplies have been made more than the current indented quantity. There are other situations also wherein indenters who come to collect stamps/stamp papers request for more stamps of lower denominations in place of higher denominations, if the full quantity of higher face value denominations are not ready. Such situations also give an impression that supplies made are more than the indented quantity.”

34. When asked by the Committee as to why ISP had retained a significant balance in their stock, when they were unable to supply even 43 percent of the indented quantity, the Ministry in a written note stated as under:

“The balance in stock reflected in the books is the balance available on the last day of the financial year *i.e.* 31st March. Since production and supply is a continuous process, closing stock will always be available. Moreover, it may be reiterated here that there was no real shortage of production/supply since the indents placed were highly inflated and unrealistic..... a reserve stock for all kinds of stamp is required to be maintained at the CSD, Nashik to meet emergent requirements.”

35. Replying to a query as to what was the rationale for retention of the stamps/ stamp papers by ISP equivalent to a minimum of three months' stock, when ISP has not fulfilled the indents completely, the Ministry in a written note stated as under:—

“Supply of stamps was not held to create stock at CSD available stock on any particular day of the year were the rolling stock plus the stamps and stamp papers which could not be collected by the consignee as the representatives of the States have not reported to take possession of the consignment. As per the Rule No. 6 of the Supply & Distribution of stamps, ISP/CSD shall ordinarily maintain a reserve stock based on the probable monthly consumption in addition to the stocks required for a quarter/six months/one year depending upon the type of stamps/stamp papers.”

36. When asked by the Committee whether ISP had made any enquiry to find as to how the customers were meeting their requirement of stamp papers inspite of the shortfall of supply by about 57 per cent, the Ministry in a written reply stated as under:

“.....the supply was generally maintained above the installed capacity. It is pertinent to mention here that ISP responded to all communications from the Indenters, whenever any inadequate supply was intimated and the problem was resolved by making supplies. Even assuming that the ISP was not in a position to make supply of a given denomination of NJSPs, the State Govts. under Section 10(b) of the INDIAN STAMP ACT, 1899 could take recourse to alternate mode of stamp duty collections to overcome such temporary shortages.”

37. When the Committee desired to know whether any review had been done with reference to indent and supply in consultation with the users, the Ministry of Finance in a note have replied as under:

“When the indents were going beyond the printing capacity of India Security Press, this fact was communicated to all the Treasuries/Sub Treasuries and Postal Stores Depots all over the country *vide* Central Stamp Depot, Nashik Road Circular No. 2304 dated 13th November, 1991 and subsequent reminder Circular bearing No. 2606 dated 13th April, 1996. It was clearly brought out in the Circular that the indenters should raise realistic indents and the unmet indents for a quarter would not be carried forward. Apart from these steps, to meet the enhanced requirement, part of the load is diverted to Security Printing Press, Hyderabad to print and supply Non-Judicial Stamps. With this arrangement it is expected that it would take care of the enhanced requirements. The Ministry of Finance, Government of India also conducted two meetings with the Revenue Secretaries and Inspectors General (Registration & Stamps) of the States & UTs, in 2004, and highlighted the importance of raising of realistic indents by them. This, it was decided in the meeting, could be done by making advance payments to the Presses at the time of placing Indents.

In addition to the above, the awareness-cum-training programme has been organized at I.S.P. for the representatives of the Indenters, in which they are made aware about the India Security Press and its capacity and the various security features incorporated in our security products mainly in the stamps and stamp papers. Through this, they have also been persuaded to raise realistic indents only.”

38. The Committee were given to understand that some indenters request for change in the denomination of stamp papers other than what they have indented while taking delivery of stamp papers. When asked how did ISP agree to such a change, the Ministry in a written note replied as under:

“While taking personal delivery of stamps/stamp papers, the authorized representatives of the State Governments come up with a request to supply stamp papers of the denomination other than the originally indented

denominations. There are cases where the emergency indent is raised due to one or the other crisis reported by the States. ISP generally accepts such requests and accords higher priority to them. There are cases where the representatives of State Governments make a request for more low denomination stamp papers in lieu of high denomination stamps/stamp papers. Such cases are also entertained subject to availability.

There are cases when representative of the State could not come to collect the supplies and same were collected during subsequent year thereby giving an impression as if supplies are more than the indent of the year when supplies were effected. Following sample cases as pointed out by audit illustrates these types of incidents.

HARYANA

Denomination	Year: 2000-01		Year: 2001-02		Remarks
	Indent	Supply	Indent	Supply	
Rs. 5/-	9.13 lacs	1.00 lac	10.80 lacs	19.30 lacs	Excess supply than indented qty. in 2001-02 due to supply against backlog of 2000-01

MAHARASHTRA

Year	Denomination		Denomination		Remarks
	Rs. 50/-	Rs. 100	Rs. 50/-	Rs. 100	
2001-02	Indent 24.95 lacs	Supply 26.85 lacs	Indent 54.15 lacs	Supply 50.80 lacs	Excess supply of Rs. 50/- made for use in combination of Rs. 100/-

PUNJAB

Denomination	Year		Year		Remarks
	2001-02	2002-03	2001-02	2002-03	
Rs. 10/-	Indent 48.49 lacs	Supply 18.70 lacs	Indent 4.00 lacs	Supply 10.00 lacs	Excess supply than indented qty. in 2002-03 due to supply against the backlog of 2001-02

39. The Committee asked the Ministry of Finance as to whether they concur agree with the view that the India Security Press had not taken measures to rectify the various deficiencies in the control procedures of ISP relating to indent, printing and supply etc., till the Audit pointed out the same. The Ministry in a written note furnished their comments as under:

“Several drawbacks in the System were identified prior to the receipt of the observations made in the C&AG’s Report on 15.6.2005. Some of the measures which have been taken earlier by India Security Press in this regard are as under:

- When the indents were going beyond the printing capacity of ISP, the

fact was communicated to all the Treasuries/Sub Treasuries and Postal Stores Depots all over the country *vide* Central Stamp Depot, Nashik Road, Circular No.2304 dated 13th November, 1991 and subsequent reminder of the Circular bearing No.2606 dated 13th April, 1996. It was clearly brought out in the Circular that the indenters should raise realistic indents and the unmet indents for a quarter would not be carried forward and would be treated as cancelled. The indenters were made aware of the annual capacity limitations of IPS.

- Apart from the steps taken in the year 1997-98, the total indent for Non-Judicial Stamps itself shot up to 47.35 Crore. To meet this enhanced requirement, workload was diverted to Security Printing Press, Hyderabad to print and supply 11.04 Crore of Non-Judicial Stamps of Rs.1, Rs.2 and Rs.5 for the whole country and Rs.10 and Rs.20 for eight southern States. It was expected that this arrangement would take care of the enhanced requirements.
- The Ministry of Finance in two meetings with the Revenue Secretaries and Inspectors General (Registration and Stamps) of the States and UTs, held during 2004, took the following decisions:
 - to curtail erratic and unrealistic indents, from 2004 onwards, 30 per cent amount of the indented value is being asked as an advance along with the indents. The balance 70 per cent of the quantity is to be paid at the time of taking delivery of the stock;
 - the States have been asked to centralise their indents;
 - the States should give a three years' rolling indent which would enable the presses to plan their production; and
 - States were asked to give six monthly supply schedules to enable the Presses to make suitable production targets.
- Despite fluctuations in indents, the ISP ensured that it supplied stamps more than its installed capacity of around 1330 crore sheets per year during the period 1996-97 to 2003-04, except in one year i.e. 1999-2000.
- Action as stated below has already been taken:
 - From October 1998 delivery of Non-judicial and allied stamps are through personal collection under armed escort by the indenters and hence there is no question of theft en-route. The cases reported in the Report of the C&AG mostly relate to the period upto 1999-2000 when the revised procedure had not become fully operational.
 - Even in the present set-up, whatever cases of discrepancies are reported to ISP, they are recorded and investigated and reports sent to the agency that reported the discrepancy.

- As an additional measure, the consignments which are ready for dispatch are also being subjected to random audit checks for correctness of quantity delivered.
- Provisions for obtaining a legally binding oath/undertaking from the private suppliers for ensuring security and secrecy in the process of production of paper and equipments for printing of stamps/stamp papers, is already being made in the contracts.
- A procedure for resolving of discrepancies on account of short/excess supply of stamps reported by the indenters is already in existence as explained in this Departments' reply to Para 3.1 of the C&AG's Report No. 14 of 2005.
- India Security Press has already created a 'surveillance and vigilance unit, which has become functional with effect from 01-03-2005.
- Regarding installation of electronic access control system and creation of apex level security committee, it may be mentioned that procurement process was already initiated for installation of CCTV.
- Physical security has also been handed over to C.I.S.F. in a phased manner and complete deployment of C.I.S.F has already taken place.
- Disposal of obsolete machinery and equipments used for printing of stamps and stamp papers, is being done only after converting them into scrap, since 2003."

B. RISKS ASSOCIATED WITH PRODUCTION

40. Audit review indicated that many intermediate steps related to production of the stamp/stamp papers viz., manufacture of security papers, Dandy Roll for security watermark on the paper, gumming and super-calendaring etc. are outsourced. According to Audit, these activities carry very high risk of replication for counterfeit and, therefore, warrant appropriate security and surveillance procedure to minimize the risks. Examination of the procedure followed by ISP in relation to these vital activities disclosed that it was not alive to the possible risks and managed the outsourcing of such security related papers in an indifferent manner.

B.1 PRODUCTION OF PAPER

41. As per the agreement with the paper mills which produced paper for printing the mills should not produce and supply security paper to other agencies. However, Audit scrutiny revealed that ISP did not exercise any control regarding actual quantities produced by the paper mills against its supply orders, including the wastages. Absence of control by ISP on the production of paper entailed risk of diversion for counterfeit operations. Similarly, ISP did not exercise control over pulping of the rejected stock of security paper manufactured by paper mills, which entailed a risk of its misuse.

42. When asked whether ISP exercises any control over Paper Mills regarding actual quantity produced *vis-a-vis* its supply order, the Ministry of Finance in a written note stated as under:

“The only source of supply of paper for Non-judicial Stamps for ISP is Security Paper Mill, Hoshangabad, under the Ministry of Finance, Government of India with adequate security set up. Besides, no procurement of this type of paper has been made from any Private Mills. For other variety of stamp papers *viz.* Revenue Stamps, Fiscal Stamps etc., the Unit has to inevitably purchase paper from Private Mills. As per the contractual obligations, these Mills cannot produce more than the quantity ordered without the permission of the ISP. Out of the forgery cases, which have been detected in the Fake Stamps Scam, no case has been reported where genuine papers have been found in any of the fake stamps. This amply proves that there is no leakage of papers from the Mills. However, to verify the antecedents and reliability of the Private Firms/Mills before placing supply orders on them, a system of obtaining security clearance from Intelligence Bureau in respect of such firms has been introduced from 2003 onwards.”

43. When asked about the methodology adopted by ISP for the security clearance of private firms / mills prior to 2003, the Ministry in a written note replied as under:

“Prior to the year 2003, there was no system in place to obtain security clearance of private firms / mills supplying paper to ISP. However, it is pertinent to mention that the full requirement of paper for Non-Judicial Stamps have been met from the supplies made by Security Paper Mills, Hoshangabad, which is an organization of Government of India and only the paper required for other stamps was procured from Private Mills.”

44. The Committee liked the Ministry to furnish a detailed note on the procedure involved in invitation of tenders for production of stamp papers by Private Paper Mills, short-listing of paper mills and their vetting by Intelligence Bureau. In response, the Ministry in a written note submitted as under:

“The decision to take security clearance of the firms from I.B. was taken in November 2003 by Ministry of Finance, Department of Economic Affairs. As per this decision, for procurement of security sensitive items, the units were advised to obtain security clearance of the firms from I.B. before finalising tenders. Accordingly thereafter, the following procedure is followed in procurement of security sensitive items:

- The Global/Open Tenders are issued for Pre-Qualification Bid bringing out the criteria as per which the firms can qualify for issue of Techno-Commercial Tenders.
- The tenders are published through D.A.V.P. in leading newspapers as well as in Indian Trade Journal and they are also put on the Website.
- A Committee of officers evaluates pre-qualification offers.
- After evaluation, firms are short-listed to whom Techno-Commercial Tenders are to be issued.

- While short-listing the firms, such firms are excluded which are black listed or who have adverse report from I.B. Firms located in countries with weak and not up to the mark security systems, as per the assessment of I.B., are also excluded.
 - The tenders are issued to the short-listed firms and ISP through Ministry of Finance forwards the list of short-listed firms to I.B. for security clearance.
 - By the time the Techno-Commercial Tenders are received, I.B. clearance is also received.
 - The two actions namely issue of Techno-Commercial Tenders to short-listed firms (in two bid system *i.e.* Techno-Commercial bid and price bid separately) and intimation to I.B. for clearance of short-listed firms are taken together to reduce the time for finalization of orders.
 - Even if a firm has been issued tender after short-listing and if the report from I.B. is adverse about the firm, tenders from such firms are not considered and ignored on national security grounds. In other words it is ensured that the Supply order is placed only on the firm, which has been cleared by I.B.
 - On receipt of Techno-Commercial Tenders, a Committee of officers evaluates them.
 - Thereafter price bids of only those firms are opened whose offers are found to be conforming to the Techno-Commercial specifications of the tender.
- The Supply Order is placed on the lowest bidder.”

45. Enquired whether there were any instances where a firm has been short-listed by ISP but its name was not forwarded to I.B. for vetting/clearance, the Ministry in a written note replied in negative.

46. On being asked whether non-exercise of control by ISP over the Paper Mills with respect to actual quantity of paper produced by them does not entail the risk of Paper Mills producing more than the orders placed by ISP and diverting the excess production for counterfeit operations, the Ministry in a written note stated as under:

“India Security Press is not in a position to have full control over private paper manufacturers with respect to the quantity of paper produced since they supply different kinds of papers not only to ISP but also to many other users. Through the contractual arrangements between ISP and paper manufacturers, they are bound to supply paper to ISP with its watermark and design specific to ISP and it cannot be supplied to any other agency. Generally, paper manufacturers produce paper for supply to ISP as per the quantity stipulated in the supply order. Excess paper produced, if any, is re-pulped by the paper mills. This system has worked well till now. In the cases which have been sent by State Police, CBI and other Investigating Agencies to Forgery Detection Cell of ISP

for examination, it has been revealed from the examination reports that there are no forged stamps/stamp papers wherein genuine paper supplied to ISP has been used.”

47. The Committee desired to know whether ISP exercise any control in respect of management of wastage of security paper by the Paper Mills in order to avoid their probable misuse, the Ministry in a written note stated as under:

“As a standard practice, the Paper Mills re-pulp waste paper. A condition has now been incorporated in the Supply Orders of ISP that the Paper Mills will have to provide figures of total production, the quantity supplied and the waste quantity. They have to give a certificate also that they have re-pulped the waste/excess quantity. It is also stipulated in the Supply Order that they will not supply this paper to any other person/organization and written guarantee to this effect is to be given by the mill/supplier.”

B.2 Dandy Roll

48. Dandy Roll is a device used for introduction of security watermark on to the paper during the course of its manufacture is designed by ISP but manufactured by private producers. The paper mills other than ISP is responsible for manufacture of Dandy Rolls through private sources. The manufacturers of Dandy Rolls are small-scale industrial units and do not have a separate license for their manufacture from ISP. Duplicate production or theft/diversion of the Dandy Rolls is fraught with serious risk of these being misused to produce paper for counterfeit production.

49. Audit scrutiny of the system of control over Dandy Rolls disclosed disregard for security procedures of this high risk device in as much as ISP did not maintain control of the Dandy Rolls and their use through the means of their custody, verification and legal backing of agreement/oath by the private users. The inspections by ISP officials were infrequent and follow up actions were non-existent. At no time, ISP assured itself that Dandy Rolls were not misused.

50. To a query regarding measures taken by ISP to streamline the security procedures in relation to prevention of misuse of Dandy Rolls, the Ministry in a written note replied as under :

“The physical custody of Dandy Rolls remains with the Mills as it is their property but they cannot use them without ISP’s permission as per the contractual provisions. Physical verification of Dandy Rolls at Mills which was in practice earlier have been discontinued in view of the contractual obligations of the suppliers and also due to the number and the geographical spread of suppliers as well as the manpower constraints, it is very difficult to conduct physical verification of Dandy Rolls of all the Mills regularly.”

51. Explaining the role of Dandy Roll in the production of stamps and stamp papers, the Secretary, Ministry of Finance during evidence deposed as under:

“Dandy Roll is basically a cylindrical drum of metallic mesh which has a certain watermark designed on it. While paper is being manufactured, this watermark is

created on that semi-finished paper. That is basically the purpose of Dandy Rolls. At the moment, there are only two private companies that are making this. Dandy Rolls made by these two private companies go to a number of private paper mills which, in turn, manufacture paper utilising Dandy Rolls for watermarking that paper. In the past there have been eleven such private paper mills, which have been using Dandy Rolls made by these two manufacturers for making paper. Here I would like to make a clear distinction between the types of paper that come out of the Dandy Roll process. This is only for low security paper that is allowed to be manufactured by the private paper mills using Dandy Rolls.”.....For high value security paper, the ISP procures paper..... from the security Paper Mill, at Hosangabad.”

52. The Secretary added:

“There is no doubt that there is a danger in the sense that the two mills that are making the Dandy Rolls are giving it to eleven other private mills who are, in turn, making these low security paper and clandestinely they can make more paper than what is supplied to the ISP. Besides, the security features even on the low security paper are not just only the watermarking created by the Dandy Rolls. There are some other security features as well, like the security printing ink and such other things. Now, we have put in place a system where the private paper mills, those who are authorised to make these low security papers, are cleared first by the I.B. before they are put on panel for making this paper. However, there is a danger of the paper mills manufacturing more paper than what is supplied by the ISP. To that extent there is a threat of leak. Although it must be clear that the threat is not as much as it is made out to be because the water marking created by the Dandy Rolls is just not the only security feature. There are other security features as well. In fact, during the process of investigations by the CBI of the papers that had been seized, there has been no case of a paper made through this process which has figured in the seizures which basically means that this has not been the main cause of the failure.”

53. When asked to give suggestions with regard to checking the possibility of fabrication of Dandy Rolls by the Private Mills and also to make the system fool-proof, the Secretary, Ministry of Finance during evidence deposed as under:

“.....In this regard there are two suggestions. One is, of course, that we have to put in place a system for defacement as well as destruction of Dandy Rolls, which should be done in the presence of the officials of the ISP each time the contracted supply of paper, is completed. But even this is not foolproof because the mills can make more than that before they call for it. So, the only foolproof way of doing this is to have all the papers required by the ISP made in the Government control press. At the moment, we are doing for high security papers coming from Government control press, Hoshangabad. So, the only foolproof solution is that all the papers should come from Government control press and therefore, either set up another press or in one of the existing press add a new manufacturing line which will take care of this.”

B.3 Physical custody and verification of Dandy Rolls

54. According to Audit, as per the documents maintained by ISP, 53 Dandy Rolls were in the custody of nine paper mills, many of which are not manufacturing paper for ISP for years. ISP had not carried out physical verification of 21 Dandy Rolls after 1988-89 lying with seven Paper Mills. The last physical inspection was carried out by ISP in Titagarh Paper Mills, Kolkata in 1996, in which only 12 Dandy Rolls out of 26 were available. Neither the 14 missing Dandy Rolls were traced nor the 12 that were available, had been taken over by ISP despite no business with this mill for about 20 years.

55. The Committee desired to know the reasons for involving small scale industrial units which did not have a separate license in the manufacture of Dandy Rolls and whether any clause had been incorporated in the agreement with SSI Units that misuse of Dandy Rolls by them will have criminal implications. In a written reply the Ministry have stated as under:

“From the available records of ISP, it is seen that only two Indian manufacturers of Dandy Rolls have been supplying the Dandy Rolls with ISP watermark to paper mills supplying paper to ISP. They are, M/s. SWILL Limited, 27-A, Camac Street, Calcutta [they were earlier known as M/s. Shalimar Wires India Ltd.,] and M/s. Dandy Rolls India Pvt. Ltd., Bangalore. Obtaining Dandy Rolls for manufacture of paper is the responsibility of paper manufacturer. ISP does not enter into any agreement with the unit manufacturing Dandy Rolls. In the agreement entered with the Supplier of paper, there are precluding clauses whereby the Paper Supplier is restrained to use Dandy Rolls for any other purpose other than stated in the agreement. As a further measure to improve the control on Dandy Rolls, paper manufacturers are being asked to obtain an undertaking from the Dandy Roll manufacturers that they would not produce Dandy Roll of the watermark used by ISP for any other organization without the express approval of ISP.”

56. When asked as to why physical verification of Dandy Rolls had been discontinued by ISP and whether steps have been taken to ensure that they are not misused to produce counterfeits, the Ministry in a written note stated as under:

“Physical verification of Dandy Rolls by ISP has not been conducted on regular basis. The verification was carried out in the years 1987-88, 1991, 1996, 2003 and 2005. Now the mechanism has been put in place whereby inspection would be carried out on half-yearly basis. It has been decided that henceforth Dandy rolls will be defaced/destroyed after the completion of the ordered quantity of the paper is fully supplied by the mills. Effective verification of Dandy Rolls would be done thereby eliminating possibility of their misuse.”

57. Enquired about the reasons for keeping 53 Dandy Rolls in the custody of nine Paper Mills, when they were not manufacturing papers for ISP, for several years, the Ministry in a note replied as under:

“The physical custody of Dandy Rolls remained with the Paper Mills as they belonged to the mills. Mills retain Dandy Rolls for the supply of paper to ISP. All

the available Dandy Rolls would be inspected and defaced/destroyed in a phased manner in the presence of the ISP representative/s. The names of the Paper Mills as pointed out in the Audit Report were M/s. Titaghar Paper Mills, Calcutta; M/s. Tribeni issues Ltd., Calcutta; M/s. Ballarpur Industries, Yamuna Nagar; M/s. Supreme Paper Mills Calcutta; M/s. Circar Paper Mills Ltd., Nellor; M/s. J.B. Paper Mills, New Delhi; M/s. Sidharth Paper Ltd., New Delhi; M/s. Ansal Papers Ltd., New Delhi and M/s. Pudumjee Paper Mills, Pune. Out of these Mills, M/s. Pudumjee Paper Mills, Pune is still supplying paper to ISP.”

58. To a specific query of the Committee as to why ISP did not carry out physical verification of 21 Dandy Rolls which were lying with seven paper mills after 1987-88, the Ministry in a written note submitted as under:

“Physical verification of Dandy Rolls by ISP has not been conducted on regular basis. The verification was carried out in the years 1987-88, 1991, 1996, 2003 and 2005. A mechanism has now been put in place whereby inspection would be carried out on half-yearly basis. It has been decided that henceforth Dandy Rolls will be defaced/destroyed after the completion of the ordered quantity of the paper is fully supplied by the mill. Effective verification of Dandy Rolls would be done thereby eliminating possibility of its misuse. List of these mills as pointed out in audit report were M/s. Ballarpur Industries, Yamuna Nagar; M/s. Supreme Paper Mills Calcutta; M/s. Circar Paper Mills Ltd., Nellor; M/s. J.B. Paper Mills, New Delhi; M/s. Sidharth Paper Ltd., New Delhi; M/s. Ansal Papers Ltd., New Delhi and M/s. Pudumjee Paper Mills, Pune.”

59. Enumerating the reasons for not taking over the possession of remaining 12 Dandy Rolls that were available in the Titagarh Paper Mills, the Ministry stated as under:

“The Titagarh Paper Mill was closed in 1983. As per available records, the mill was supposed to have 21 Dandy Rolls and not 26. Out of these 21 Dandy Rolls, 12 were verified in the year 1996 and only 9 Dandy Rolls were not verified. Subsequently, the last verification, which was done on 18-08-2005, 16 Dandy Rolls have been verified. Therefore, 5 Rolls could not be verified as they are not properly stored and there were no personnel of the mill available to identify Dandy Rolls of ISP, as the mill is closed.”

60. When asked about the changes that were envisaged to make the system fool-proof from possible misuse and tampering of Dandy Rolls as they play a critical role in the printing of stamps and stamp papers, the Ministry in a written reply submitted as under:

“To prevent even the remotest chance of any misuse of Dandy Rolls henceforth, the Dandy Rolls will be defaced after the ordered quantity is completed by the paper supplier in each contract. This will be done in the presence of ISP officials and suitable clause would be inserted in the terms and conditions of the Future Supply Orders.”

61. Replying to another question as to how ISP would ensure that the suppliers of Ink/Dye, etc. produce only the required quantities of ordered material and did not supply the same to third parties, the Ministry of Finance in a written note stated as under:

“The entire requirements of security ink/dye for printing of security features on documents at ISP was met from supplies made by BNP Dewas, which is a Central Government Organisation under Ministry of Finance. Hence, keeping the track of quantity produced and its accounting are taken care of by BNP, Dewas.”

62. As regards prescribed norms fixed for the consumption of Ink/Dye and paper, the Ministry in a written note explained as under:

“Considering the very nature of security printing, it may not be possible to lay rigid norms for consumption of paper, ink/dye, etc. Printing being done in batches, non-uniformity in the shade of printing or other related security features results in a considerable portion of product getting rejected. However, the consumption of security papers are recorded systematically and the wastages are worked out every month. The rejections are accounted for and the rejected printed stuff is shredded and duly reconciled accounts are maintained which clearly show the consumption and wastage. Therefore, the procedure of accounting of paper is considered to be appropriate and adequate.”

V. Supply and Dispatch Procedures

63. Audit review revealed that the procedure for dispatch of the stamp papers suffered from shortcomings, which are pointers towards lower level of sensitisation within ISP to the risks associated with the discrepant dispatch. While deficient control over paper production, Dandy Rolls and disposal of machines entail risk of counterfeit, loopholes in the printing, supply, dispatch and receipt procedures entail a risk of the genuine security papers printed in ISP finding their way outside the Government channel, which could be used for defrauding the Government treasuries.

A. Excess/Short Supply

64. According to Audit short supply and supply of stamps and stamp papers of denominations other than indented or declared in the packing list is high-risk deficiency that could point towards pilferage of the printed stamps and stamp papers. ISP did not take remedial measures despite a number of instances and complaints about the packets dispatched by it containing stamps of incorrect denominations, excess and short supply. Sample check of documents relating to different consignments in various states disclosed short supplies with aggregate value of Rs. 1453.75 crore *i.e.* Delhi (239.75 crore), Gujarat (332.71 crore), Haryana (Rs. 1.00 crore), Kerala (Rs. 72.26 crore), Punjab (Rs. 0.13 crore) and Uttar Pradesh (Rs. 807.90 crore) and excess supplies of stamps of value of Rs. 687.89 crore in six States during 1996-2003 *i.e.*—Delhi (Rs.15.73 crore), Gujarat (Rs.132.41 crore),

Kerala (Rs.142.75 crore), Orissa (Rs.6.75 crore), Punjab (Rs.0.25 crore) and Uttar Pradesh (Rs.390.00 crore).

65. When asked to explain the excess/short supply of stamps and stamp papers to various indenting parties, the Ministry of Finance in a written reply stated as under:

“The cases of short/excess supply reported are very less in number compared to the volume of supplies made by ISP. Despite having proper counting mechanism in place, such human errors in counting do occur. However, every such discrepancy reported by the indentors is investigated by Central Stamps Depot (CSD), Nashik. As per procedure followed by CSD, discrepancy reported is communicated to Control Section of ISP for detailed investigation. Control Section, in turn, investigates the cases and submits an investigation Report. On the basis of investigation Report furnished, the authorities reporting discrepancy are informed by CSD. The specific cases highlighted by Audit pertain to Treasuries/State Treasuries of different States/Union Territories for the year 1996 to 2003. The responsibility in regard to shortages etc. lies with them.”

66. During evidence, the Committee, enquired about the reason for excess supply of stamp papers, even though the indenting parties, namely States did not ask for it. In response, Secretary, Department of Economic Affairs deposed as under:

“Basically, what happens is that at the time of dispatch, different State Governments, at different points of time, make a request for additional supplies because, maybe, from the time that they have placed the indent to the time that the delivery is being made, they have reassessed the requirement and they want stamps more of a particular denomination, etc. So, that is one of the reasons why there is excess supply. Sometimes, there is a crisis in some States for different kinds of reasons. There could be flood or any kind of special situation. Then, at the time of delivery, they ask for additional thing. So, the excess supply comes in.”

67. On being asked whether the demand has been made by the States/indenting agencies, the Secretary (Economic Affairs) deposed as under:

“These are all written requests given at that time. The indent comes in at a particular point of time, which is written one.”

68. The Committee desired to know about the findings of the Central Stamps Depot in respect of human errors that occurred while counting stamps and stamp papers for their supply to various indenters. In response, the Ministry in a written note stated as under:

“Wherever cases of short/excess supply of stamps/stamp papers are reported by consignees, CSD initiates an inquiry through Control Section of ISP. The findings of inquiry are conveyed to complainant. There are cases where disciplinary action has been taken against the officials responsible for counting, packing and dispatch for any laxity on their part. However, it may be pertinent

to mention that cases where short/excess supplies have been reported are insignificant (less than 0.05 per cent during the period of special audit covering the period from 1996-97 to 2003-04) with respect to the number of stamp papers supplied by ISP.”

B. Discrepancy and Theft of Stamps Within India Security Press (ISP)

69. Audit review revealed that ISP did not investigate large number of cases of discrepancies in figures of the quantity of stamps between the Control Section, which was responsible for quality check on the shop floor and packing and the Central Stamp Depot, which was responsible for custody and dispatch. The result of sample check as pointed out by the Audit is indicated in the Table below:

Year	Name of Stamp	Issue Figure as per Control Section	Receipt as per CSD	Excess Receipt in CSD	Face Value
1997-98	India Adhesive court fee stamp of Rs. 5/- of set 80	3,84,425	3,85,215	790	Rs. 3.16 lakh
	India Adhesive court fee stamp of Rs. 20/- of set 80	2,88,500	2,89,290	790	Rs. 12.64 lakh
2001-02	India Imprest Court fee stamp of Rs. 5,000/-	1,17,000	2,17,000	1,00,000	Rs. 50 crore
2003-04	India Adhesive court fee stamp of Rs. 2/- of set 80	18,68,200	18,72,200	4,000	Rs. 6.40 lakh

70. It has also been revealed by Audit that there were three cases of theft of stamps from ISP shop floor with aggregate value of Rs. 1.17 crore. While two cases are pending in the courts of law, in the third case involving theft of stamps valued at Rs. 84.60 lakh, which took place in April 2002, the culprit was yet to be traced but the case was closed.

71. When asked as to why ISP had failed to investigate a large number of cases of discrepancies in figures of the stamps supplied and received by two sections of ISP, the Ministry in a written note stated as under:

“Dispatch of ISP and receipt at CSD is reconciled on a regular basis. Physical verification of stocks is also conducted to ascertain the correctness of stock and related accounts. The cases of discrepancy between dispatch figure of ISP and receipt of stamps at CSD has been looked into and it has been observed that in all such cases, the difference is due to “Sales Return” received in CSD

from consignees. "Sales Return" are the stamps, which are returned by the consignees due to delivery of stamps of other denomination or refusal of consignee to accept the consignment as it was found broken at the end of consignee and are taken into account in the books of CSD. Therefore, the figures at CSD are likely to be more than the figures of dispatch from ISP. As mentioned, there are systems in place to ensure that regular reconciliation is done between CSD and ISP as well as verification of stocks of CSD."

72. When the Committee desired to know whether ISP had introduced electronic counting machines to eliminate discrepancies while dispatching stamps and stamp papers to indenters, the Ministry of Finance in a written note stated as under:

"To check the excess and short supply, at present, 100 per cent manual counting is being done just before packing. The electronic counting machines have been introduced for some higher denominations of Non-Judicial Stamps for sample checking basis with effect from June 2005. No decision has been taken regarding the use of electronic counting machines for all denominations of stamps/stamp papers."

73. When asked by the Committee to explain the reasons for the closure of the theft case that took place in April 2002 which had led to a loss of Rs. 84.60 lakh, the Ministry in a note replied as under:

"Case of theft of India Foreign Bill Stamps amounting to Rs.84.60 lakh is not closed and the matter is being pursued with the police authorities. FIR No. 159/2002 dated 29th April 2002 has already been lodged with the State Police."

74. When asked whether only 3 cases of theft were reported from the shop floor or were there any possibilities of unreported/undetected cases, the Ministry of Finance informed the Committee in a written note as under:

"No, there were 4 cases of thefts at the shop-floor level. Apart from regular conciliation of receipt and issue of stamps from C.S.D. by such Officers, the "Verification and Vigilance Cell" of the Ministry of Finance also carry out physical verification of stock of stamps and stamp papers etc. during the month of April every year. A team of Officers from Currency Note Press, Nashik Road (which is an independent unit) also conducts physical verification of stock every year in the month of October."

75. During the evidence, the Committee enquired about the action taken by ISP against the officials involved in the theft cases. In response, the Secretary, Ministry of Finance deposed as under:

"In all the four cases of theft, apart from whatever action has been taken by the CBI, the departmental action was that the General Manager was suspended first and arrested and also dismissed from service later. A few more employees have been suspended/arrested. In one or two cases, of course, the CBI has, after due verification, have subsequently given a clean chit. But the point is that there has also been departmental action against whoever has been found to be responsible for aiding and abetting the culprits."

76. On being asked about the steps taken by ISP to avoid recurrence of such thefts, the Ministry in a written reply stated as under:

“The security set up in the ISP has been revamped. C.I.S.F. has been deployed in place of the Departmental Security Organization (DSO) and the Maharashtra State Police .”

C. Loss/Theft in Transit

77. Audit examination revealed that a large number of cases of loss/theft of the stamp papers in transit through Railways came to the notice of ISP during 1995-2000. The aggregate of the reported cases of loss/theft in terms of the value of stamps were over Rs. 25 crore, with steady increase as under:

Year in which theft was Reported	No. of Reported Cases	Face Value of Stamps (Rs.)
1995-96	10	7,16,769
1996-97	16	1,97,81,934
1997-98	18	3,83,50,107
1998-99	25	6,10,27,250
1999-00	10	13,04,92,700
Total	79	25,03,68,760

However, sample check of documents in the treasuries of the respective States by Audit showed loss of stamps worth of Rs. 181.52 crore, in transit, during 1992-93 to 2002-2003 in respect of five States as under:

Sl. No.	Name of the State	Period	Amount (Rs. in crore)
1.	Andhra Pradesh	1992-93 to 1998-99	6.81
2.	Assam	1993-94 to 2002-03	146.66
3.	Rajasthan	1994-95	2.03
4.	Uttar Pradesh	1993-94 to 2002-03	20.74
5.	Tamilnadu	1992-93 to 1998-99	5.28

78. According to Audit, this suggests that either all cases of theft/loss in transit were not reported to ISP, or the system of reconciliation of dispatch or actual receipt of stamps was unreliable. Rather than being alive to the risk of fraud and counterfeit, ISP generally assumed a legalistic posture in cases of short/incorrect supply and loss/theft in transit reported to it by the States, taking a stand that under the rules, ISP was not responsible for the discrepancies reported after the prescribed period or that

the consignments became property of the consignee, once these were dispatched, etc. ISP introduced a system of collection of stamps by the representatives of the indenters at Nashik with effect from October 1998.

79. When asked about the reasons for the wide difference in the figures relating to theft/loss of stamps as per the records of ISP and respective State Treasuries, the Ministry in a written note stated as under:

“The cases of theft/loss of stamps, if any, are reported by State Treasuries to I.S.P. All such reported cases are recorded in the books of I.S.P. The possible reason for the difference in figures could be on account of non-reporting of cases to ISP.”

80. On being asked about the action taken by ISP in respect of the cases of loss/theft reported by State Treasuries, the Ministry informed the Committee as under:

“As per the prevailing law of the country, loss/theft is investigated by State Govt. agencies and necessary action is taken by them. ISP’s cooperation is sought with respect to providing technical assistance and giving evidence etc.”

81. The Committee desired to know whether there was any mechanism to know about the cases of theft/loss of stamps that were not reported to ISP by State treasuries and in the event of such cases of non-reporting detected later what action would ISP take against the defaulters. In response, the Ministry in a written note stated as under:

“As a security printing organisation, it is not in the mandate of ISP to take any action in the cases of loss/theft of stamps not taking place within the premises of ISP. Unless reported by the consignee, ISP will not be in a position to come to know of it. Cases of theft/loss at treasuries as well as in transit are dealt with by the state authorities concerned. With the introduction of the new procedure of dispatch of stamps/stamp papers through state representative along with armed escort, no case of theft in transit has been reported so far.”

82. To a query as to whether the Ministry of Finance had evolved a system of transportation of Security documents from ISP to various nodal centres under appropriate Security cover, namely CISF etc., the Ministry in a written note stated as under:

“To prevent the increasing incidence of thefts and pilferage enroute after the dispatch of consignments by rail/posts, from India Security Press, the Ministry of Finance decided during 1998 to change the procedure for dispatch of materials to indentors. From October, 1998 onwards the collection of materials is done by the indentors from the CSD, Nashik through their representatives with armed escort. After this procedure became fully operational from 1999-2000 onwards, there is no reported case of theft in transit. The question of reverting back to the old system where the Ministry of Finance takes the responsibility of transporting materials to indentors, does not, therefore, arise.”

VI. Surveillance/Vigilance System

83. Audit scrutiny had revealed that ISP did not have an institutionalised system of surveillance/vigilance for this high risk and vulnerable operation, except for a Forgery Detection Cell, whose task was limited to verification of the genuineness of the stamps, whenever a complaint was received from the indenters or investigating agencies. Even this operation was approached in a routine manner, limiting its role to mere reporting of the findings. ISP delayed the verification of the genuineness of the stamps on the referred cases and did not extend the scope of investigation to the possibility of counterfeit on a large scale. Many cases remained un-investigated for years, sometimes on the ground of non-receipt of the examination fee of a mere Rs. 100 per document. The following Table highlights the number of cases received for examination by ISP and the number of reports issued as well as the number of outstanding cases from 1995 to 2003.

Year	No. of Cases Received for Examination	No. of Reports	
		Issued	Outstanding Cases
1995	75	69	6
1996	73	68	5
1997	92	85	7
1998	90	88	2
1999	133	124	9
2000	138	134	4
2001	139	125	14
2002	200	185	15
2003	249	170	79
Total	1189	1048	141

84. Audit also revealed that a large number of the cases referred for examination of genuineness of the stamps pertained to Uttar Pradesh (241), Maharashtra (294), Andhra Pradesh (156), New Delhi (140) and Tamil Nadu (57). Out of the total 69,648 documents of suspected counterfeit stamps consisting of non-postal stamps and stamp papers, the examination by the fraud detection unit disclosed fake stamps in 50313 documents.

85. According to Audit ISP ought to have approached the subject of suspected authenticity of the stamps with the attendant risk perception rather than approaching it from the mechanical point of view of reporting the findings and examination fee alone. In almost all cases the references were received from Government Agencies and, therefore, refusal to undertake examination of suspected security documents for non-receipt of the examination fees betrayed total lack of awareness of the risk. Besides, ISP did not set up its own surveillance and vigilance system in coordination

with the State Governments and other users by way of drawing of random samples from the users or the used stamps and appropriate intelligence system in the light of the vulnerability of the system to abuse by counterfeiting.

86. According to audit, the status of setting up of vigilance-cum-surveillance unit in ISP consequent upon Ministry's decision after the discovery of the counterfeit stamps could not be verified by them in the absence of a response from ISP.

87. On being asked about the status of setting up a vigilance cum surveillance unit in ISP, the Ministry in a written reply stated that the Vigilance-cum-Surveillance Cell had already been set up which had started functioning with effect from 1-03-2005. However, this cell is concerned only with the activities within the ISP, Nashik Road and has nothing to do with intelligence gathering and surveillance all over the country as that function is the concern of Central/State Intelligence-cum-surveillance agencies.

88. When the Committee desired to know whether ISP is exploring the possibility of setting up of its own surveillance and vigilance system in coordination with the State Governments and other users in the light of vulnerability of the system to abuse by counterfeiting, the Ministry in a written note replied as under:

“No. Since, the investigative role of handling counterfeiting matters rests with the State and Central Surveillance/Vigilance Agencies, and since ISP is concerned only with the task of printing various security documents, the question of setting up ISP's own surveillance and vigilance system did not arise.”

89. When enquired about the reasons for several cases remaining un-investigated for years by the Detective Cell of ISP, the Ministry in a written note stated as follows:

“Investigation is not the responsibility of ISP. Cases are only sent to ISP for expert opinion and are dealt by the Detection Cell. To ensure that only the genuine cases are sent to Forgery Detection Cell of ISP, a procedure has been laid down that the request for investigation should accompany along with the inspection fee. The cases that were received along with the fee were investigated and reported upon. Other cases got delayed due to non-compliance of the procedure. Further, speedy investigations also depend on the priority accorded to the case. For example, CBI cases are given priority over other routine cases.”

90. During evidence, the Committee enquired whether the genuineness of the complaints regarding suspected security documents/instruments were looked into by ISP, even though they are not accompanied by requisite examination fees. In response, Secretary, Department of Economic Affairs deposed as under:

“They have not been examined because no fee has come.”

91. The Committee enquired about the steps taken by the Ministry to prevent circulation of fraudulent and counterfeit stamps and stamp papers in the market as

detected by the Forgery Detection Unit of ISP, the Ministry in a written note replied as under:

“The documents seized by Police, Judicial Authorities, Banks, Income Tax etc. are sent to ISP to confirm their genuineness or otherwise. As per Section 292 CrPC the General Manager, ISP or his representative, is the Central Government Authority to certify whether the said paper is genuine or not. The Forgery Detection Cell of ISP performs this role. Thus, it plays a limited role of ascertaining the genuineness of the documents presented to it by various investigating agencies like State Police, CBI. Reports of the cases received from States and other agencies where forgery in the documents are detected have been also sent to CBI. Investigation of cases of forged stamps is done by State Governments and agencies of State Government take necessary action on circulation and use of Stamps at different levels. To prevent circulation of fraudulent stamps/stamp papers, Treasury and Revenue officials of State Government have been trained by ISP about the security features and to identify forged documents.”

92. When enquired about the findings of the investigation conducted by the Detection Cell of ISP, the Ministry of Finance in a written reply submitted as under:

“The findings concluded on the basis of examination of documents received from various agencies from all over India were as follows:

(i) In cases of Non-Judicial Stamps, all samples were found 100 per cent forged; (ii) in the case of Revenue Stamps, Court fee Stamps and Fiscal Stamps, it was found that 99 per cent were forged.”

93. The following are some of the prominent cases received from different investigating agencies of Government of India, and investigated by Forgery Detection Cell, ISP:

ISP Stamp Case/ Received on	Number of Documents Received for Examination	Type of Documents Received	Received from	Findings of Examination of the Documents Received
1	2	3	4	5
No. 8392(08)/4-6-2001	1003	Non-Judicial Stamp Paper of Rs. 100/- & Rs. 500/- Denominations with printing material and film positive etc.	CBI, SIU, XVII, Lodhi Road, New Delhi.	100% forged [Non-genuine paper non genuine printing.]
No. 8393(9)/16-6-2001	11 Nos.	17” Demand Draft	CBI, SPL. INVESTIGATION CELL,	100% Tampered [Originally ISP Supplied genuine

1	2	3	4	5
			LUCKNOW.	paper and genuine Printing was Altered by way of forged Printing.]
No. 8574 (190)/ 7-8-2002	1689 + 140 Nos. Printing Plates + 254 Nos. Negative and Positives	Non-Judicial Stamps, Revenue Stamps, Court Fee Stamps and Fiscal Stamps	SIT, Pune	100% Forged. [Non-genuine positives and negatives].
No. 9071(98)/ 26-5-2004	1506	Insurance Stamps Special Adhesive Stamps Revenue Stamps	CBI, Anveshan Parisar, Charlmli, Bhopal.	99% Forged [Non genuine paper non genuine printing] 1% Genuine.
No. 9083(110)/ 9-6-2004	1661	Broker's Note Stamp of Rs. 100/- & Rs. 500/-	CBI, EOU-VII, New Delhi.	92% Forged [Non genuine paper non genuine printing] 8% Genuine.

VII. Physical Security and Disposal of Machinery

94. Audit observed that the physical security within ISP, which ought to have multi-level reinforced security system, had been lax. While Maharashtra police managed the security at the gates, the departmental security personnel were responsible for security at the shop floor. Central Industrial Security Force replaced the Maharashtra police at the gate from October 2002 and the department security personnel at the shop floor from September 2004. However, even after introduction of Central Industrial Security Force, many security related recommendations by the Intelligence Bureau were yet to be implemented as of March 2004. Some of these included upgradation of the access control and installation of electronic access control system, creation of apex level security committee, frisking of all employees and visitors, etc.

95. The Committee having observed that there was much delay in handing over the security of ISP to CISF, enquired about the current status of action taken by the ISP on the security related recommendations made by Intelligence Bureau. In response, Ministry of Finance in a written reply submitted as under:

“The total security (inside and peripheral) of India Security Press, Nashik Road has been entrusted to Central Industrial Security Force (CISF) with effect from September 2004. The Intelligence Bureau (I.B.) had made total 38 recommendations, during their visit. Out of these recommendations, 35 have already been implemented. The positions in respect of 3 pending recommendations are:

- **Watch Tower:** C.P.W.D. is likely to complete the work before December 2005.

- **Installation of C.C.T.V. System:** The Supply order has already been issued and the system is likely to be installed by the end of year 2005.
- **Shifting of Trade Union Offices:** Shifting is likely to take some time because new building is to be constructed. Expected time of completion is Dec. 2006.”

A. Negligence in Disposal of the Machinery

96. Audit review revealed that ISP was negligent in disposal of the equipment and machinery used for printing and other operations in printing of stamp paper. It did not dismantle them on ‘as is where is basis’ with a view to eliminating any risk of their re-assembly for counterfeit operation, precluding the same person/firm from buying the condemned machinery of different types used in printing and other associated operations etc. Far from this, ISP actually facilitated knowledge of assembly of the machines by permitting up to 10 representatives of the successful bidder, M/s Unique Enterprises to witness the dismantling of the machines before their disposal, for two months, in two spells during June-September, 1998. ISP was also negligent in the sale of the condemned printing machine and perforating machine to the same firm, M/S Unique Enterprises at different points of time between June 1998 and September 1998.

97. When the Committee enquired as to why the machines of ISP were disposed off without dismantling, the Ministry of Finance in a note stated as under:

“Disposal of Machines was done on “as is where is” basis. Only bigger machines were dismantled so that it can be taken out from the doors of the shop. Other machines have been sold as it is. The machines such as *Perforating Machines* were already available with private security printers in India, who were supplying commemorative postage stamps to Department of Posts, Government of India. For the disposal of machinery, procedure prescribed in General Financial Rules has been followed. However, this case is already being investigated by CBI.”

98. On being asked whether any procedure was laid down by ISP for disposal of such machines, the Ministry in a written note replied as under:

“Keeping in view the sensitivity and security involved, a new procedure for disposal of obsolete machinery has been introduced according to which its disposal is done after converting it into scrap.”

99. The Committee during the course of examination of Audit findings were inclined to conclude that by permitting 10 representatives of the successful bidder, M/s Unique Enterprises to witness the dismantling of machines before their disposal, ISP had facilitated production of counterfeit stamp paper by the successful bidder. When asked about the reasons for permitting the bidder to witness dismantling of the machines, the Ministry in a written note replied as under:

“As per the terms and conditions of the Tender Notice No. 5/97 at S. Nos. 11, 12 and 13, the firms’ representatives were permitted to witness the dismantling of

the machines to ensure that firm satisfies itself that all the parts of machine are made available to them. Accordingly, the representatives from M/s Unique Enterprises were permitted to witness the dismantling. As regards action to be taken against officials, matter is being investigated by CBI. Relevant clauses of tender as mentioned above are reproduced as under:

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11. The successful tendered/purchaser will have to arrange for shifting and lifting tackles and labours during the working hours (days) of the Press in the presence of India Security Press accredited representative from the place where they are stored.

12. Machines in the running conditions will be dismantled if necessary and made available for shifting and lifting from Ex-GCD area by the Workshop personnel. Transport shall be arranged by the successful tenderers.

13. Representatives of the purchaser will be allowed to witness the dismantling, if desired. No claim of any kind about dismantled parts or their genuineness will be entertained after dismantling.”

VIII. Issues relating to Stamp Papers Scam

100. During evidence the Committee enquired about the status of investigation by CBI into the Stamp Papers Scam as also the number of cases that were filed by CBI relating to the scam. In response the representative of CBI deposed as under:

“We started reacting to this whole information and also received certain cases from the State Governments way back in 2003 itself. Even before 48 cases were given to us by the hon. Supreme Court in March, 2004, we already had 13 cases and 3 cases were added later. These cases included two very prestigious cases and one of them was related to ISP and in that, while conducting searches and after conducting preliminary investigation, we even arrested the then GM, Mr. Ganga Prasad. He was later dismissed from service also. Apart from that, we also registered a case against certain employees of RPF for having connived with Telgi and his gang members for pilfering genuine stamps in transit, which were supposed to have reached the States. They were stolen in transit. It went on for certain years and the value was running in crores of rupees. There, we arrested seven RPF personnel, including the then Commandant (a senior officer). In that, while investigating the RPF case, we found that the entire assessment, whether it is done on the part of the indenting units or on the part of the ISP, is being done just on the paper value of the stamps. The loss is counted only in terms of paper value whereas whosoever is stealing or pilfering it, is actually using it as real financial instrument.....This one RPF case is only a test case. There were several such instances happening around that time and not only the stamp paper case. You must be aware that Kisan Vikas Patra and other valuable documents have also been stolen from Railway wagons, but we took this as a test case because this involved Abdul Karim Telgi himself. The RPF case is about to be charge-sheeted. We were awaiting sanction for prosecution.

The Ministry of Railways has been kind enough to give the sanction recently and during the course of this month, the case will be charge-sheeted.”

The witness added:

“Though the allegations in the case of ISP were very vast, for the sake of probe, we focussed on three allegations. This did not exclude other allegations, but just to have a systematic probe, we focussed on three allegations. One of them included the dandy rolls. We found that there was no physical verification carried, but unfortunately, no *mala fide* could be attributed to a particular person because the system was simply not in practice. So, in one of our cases, we have this problem because we will need evidence beyond just supervisory or administrative lapses, to prosecute the person. So, for dandy roll, we have found that though it was the property of ISP, it was in the custody of private firms. Obviously, such an arrangement is fraught with inherent dangers....It is very difficult to pinpoint whether it was misused by any set of criminals. The second allegation we found was the callous way in which the machinery was disposed of through auction. This allegation is substantiated. We will be filing a charge-sheet soon. The third allegation which we took was basically on the basis of our interaction with the Karnataka Stamp IT. They, in their Report, also mentioned about the artificial suppression of supply so as to help the criminals. Now this was a very very serious allegation. This allegation has taken a lot of time and on the face of it, it is very difficult to say whether there was any connivance. But since the matter is still under probe, I would not be in a position to comment. One thing which has taken so long was that the day we got those 48 cases, we wanted to conduct a kind of a holistic probe. Even, we have linked the ISP probe with the investigation of other cases. Out of 48 cases, we also took some cases which were non-Telgi in nature. This shows that certain other gangs were also there who were operating and selling counterfeit stamps. What set Telgi apart from them was the scale of sophistication and the massive geographical spread. That is where the CBI scored over other investigating agencies and detected Telgi’s criminal network, spread over 71 firms/175 officers and 124 bank accounts. If you look at the value of the seizure, I am confining my statistics to 48 cases and it is a little premature to say whether the entire scam was of Rs.30,000 or Rs.50,000 crore. But the fact remains that what was seized was of Rs.3,300 crore. Out of these 48 cases, one case of Karnataka has already ended in conviction and out of the remaining cases, nearly 29 cases have been fully disposed of. Telgi’s trial is being conducted through video conferencing because he is sick and there are also security implications involved. The trial has commenced in most of the cases. He is being produced digitally before the Courts located at Mumbai, Delhi, at Bangalore and Indore. We have requested the Government of Andhra Pradesh and Tamil Nadu to also start the video-conferencing system because 48 cases which I am referring to are related not only to one or two States but to 11 States.”

101. While stating that the system of inspection and check at the State level had simply failed, the CBI representative during evidence deposed as under:

“We found in one of the States that the LIC which is one of the bulk buyers (these bulk buyers were identified by Telgi through market surveys) did not buy any stamps from the treasury for nearly a decade. It bought stamps from the stamp vendors outside the States.”

102. When asked whether more cases have come to their knowledge, the representative of CBI clarified that in all there are 64 cases relating to the Stamp Papers Scam.

103. The Committee desired to know whether the stamp papers scam that broke out in the country a few years ago was in anyway a result of the loopholes that existed in the system of production, supply and dispatch of stamp papers by ISP. In response, the Ministry of Finance in a written reply stated as under:

“It has been seen from the cases investigated so far, that there has been no direct nexus between the ISP, Nashik and the scamsters. Furthermore, the papers and inks used by scamsters for printing of counterfeit stamps and stamp papers are distinctly different from the actual security paper and inks used by ISP. ISP disposed off discarded machines through normal disposal procedure, which have been subsequently found to be used by the scamsters for printing of some of the counterfeit stamps/stamp papers. The possibility of access to such discarded equipments has now been eliminated by amending the machinery disposal procedure.”

104. During the course of evidence, the Committee learnt that the then Chief Minister of Karnataka had written letters to the Union Government alerting them about the circulation of fake stamp papers and to take remedial steps thereon. When asked as to whether Ministry of Finance was aware of the said letters and if so, what were the steps taken by the Government to curb the circulation of fake /counterfeit stamps, the Ministry in a written note stated as under:

“On receipt of the letter dated 11.7.2002 from the Chief Minister, Karnataka, the Director, Intelligence Bureau and Joint Secretary, Ministry of Home Affairs were requested to initiate intelligence surveillance over ISP and CNP, Nashik and detect the nexus with ISP officials *vide* the Department’s letter dated 19th July, 02 and 13th August, 2002 respectively. This was required in view of the fact that the letter from Karnataka CM did not mention any names of the concerned officials and only hinted at the suspect liaison of some of the officials. Information was also sought from IB *vide* this department’s letter dated 9th April, 2003 for reports regarding the nexus of ISP officials with the counterfeiters. The Head of SIT, Karnataka had also been requested to send a report regarding involvement of ISP officials. The Finance Minister *vide* D.O. letter dated 5.3.03 also informed the Chief Minister, Karnataka of the action being taken by the Ministry and drew his attention to the fact that the report from SIT, Karnataka had not yet been received. Ultimately, the report was received in May, 2003.

The Government of India has taken various steps to curb the circulation of fake/ counterfeit stamp papers which include:

- Indenters (States/UTs) were asked to raise realistic indents. Ministry conducted meetings with State Secretaries.
- To curb unrealistic indents, States have been asked to deposit 30 per cent of the value of indent as advance.
- Indenters have been requested to give rolling indent of three years and half yearly supply schedule for better production planning.
- To prevent theft in transit, States are asked with effect from 1998 to detail their representatives along with armed escorts to take personal delivery of stamps/stamp papers.
- Enhanced Security features in Non-Judicial Stamp Papers and Adhesive stamps to eliminate counterfeiting were finalized in 2003.
- In principle decision to encourage dematting of stamp papers taken on 18.12.2003.
- The definition of “stamps” has been revised through an amendment in section 2, after clause (25) of the Indian Stamps Act, 1899 so as to include any mark, seal or endorsement by any agency or person duly authorised by the State Government, which includes an adhesive or impressed stamp, for the purposes of duty chargeable under the said Act. By this amendment State Government may adopt dematting, franking and any other method decided by them for collection of stamp duty.
- Security clearance of the suppliers from IB has been introduced with effect from. November 2003.
- Security set up, both internal and external has been strengthened. CISF has been inducted with effect from 16th October 2002.
- Decision to set up Vigilance-cum-Surveillance Cell at ISP had already taken on 17.9.2003.
- Decision to dispose of obsolete security printing machinery and equipment as scrap taken on 24.7.2003.

105. In a written note the Committee were informed about the following systemic and procedural improvements that were brought about by Ministry of Finance / ISP in the aftermath of stamp paper scam :

“The steps which have been taken to reduce the possibility of forged stamps being circulated in the market are:

- **New Non- Judicial Stamps and Stamp Papers bear a unique Serial Number and name of the State:** The stamp paper printed for one particular State can be used only in that State. By the introduction of unique Serial Numbers on the stamp paper, Treasuries can keep track of the stamps issued from their chest.

- **Several enhanced security features in the paper and printing introduced:** These security features will not only make it very difficult for the forgers to printing stamps/stamp papers of identical integrity, but will also render them ineffective in the absence of technical know-how to do this specialised job.
- **Personal delivery of stamps from ISP under armed escort:** To avoid theft in transit and circulation of such stamps by antisocial elements, it was decided to ask the State Governments' representatives to come personally along with their own-armed escort and collect the consignments from ISP. After the introduction of this system, no case of theft in transit has been reported at ISP.
- **Curbing of inflated indents due to 30 per cent advance payment along with indent:** Indenters have been asked to deposit 30 per cent advance along with indents. Due to this, indents have come down drastically.
- **Close interactions with representatives of the State Governments/UTs:** From the year 2003 onwards, there has been close interaction with representatives of the State Governments/UTs whereby representatives of Treasuries are invited and they are provided with some elementary input about the security features of the stamp papers along with educating them to raise realistic indents. This training has become a regular feature and officials from State Governments are attending this training.
- **Dematting of stamp papers:** The proposal of collection of stamps duty by switching over from paper to dematting has already been considered in the meetings convened by the Ministry of Finance with the State Revenue Secretaries. After the introduction of this method, the requirement of stamp papers will come down drastically, so are the chances of forgers attempting to supply counterfeit stamp and stamp papers.”

106. The Committee asked the Ministry to give their views/suggestions and the steps that are required to be taken up immediately for preventing possible leakage of sensitive information with regard to indent, printing and dispatch of stamps and stamp papers etc. The Ministry of Finance in a written note stated that they have already undertaken major steps which are as under:

- functioning of Vigilance Cell at India Security Press, (manned by I.B. personnel);
- security entrusted to a professionally trained organization in industrial security *i.e.* C.I.S.F.;
- random rigorous search introduced before the personnel leave the Press;
- introduction of Visitor's pass with their photo issued through computerised system;

- the access to the Computer Cell is also limited to the concerned persons only and their record of entry and exit are also maintained; and C.C.T.V. is also being installed for round-the-clock surveillance and monitoring.
- Hence, adequate steps have been taken to prevent any leakage of sensitive information. In view of the measures taken it is felt that as per the present threat perception, these measures will take care to prevent any possible leakage of information.”

IX. Dematerialisation (Demat) of Stamps and Stamp Papers

107. During evidence, the Committee enquired about the role played by Dematerialisation and whether it was the only way to stop problem of fake/ counterfeit stamps/ stamp papers. In response the Secretary, Department of Economic Affairs deposed as under:

“.....at the outset, I would like to clarify that de-matting does not connote the same kind of system that is in vogue for de-matting of shares. De-matting basically means moving away physically from the material form. So if you have a system of cash instead of stamps, that could also be considered as de-matting. In fact, de-matting could be, as I said, collection of cash or it could be a combination of both. In fact, Andhra Pradesh as well as Karnataka have tried to put in place a combination of the two. Basically what we are doing is that for certain small value, stamps are made mandatory and above that it is a system of cash. So, both the features are there as far as moving away from stamp duty is concerned. To sum up, basically we are in favour of moving away from the reliance on stamps. We are trying to persuade the State Governments to do so. Some State Governments have already taken steps to move away and the others are being persuaded to do so.”

The Witness added:

“De-matting basically does not imply that we need to go through the procedure as we do so for buying and selling of shares. De-matting is a thing where stamps are not insisted on in physical form. Take for instance, franking. Now for any document to be registered, one needs to go to the Sub-Registrar’s Office. So instead of the document being on stamp paper, at the Sub-Registrar’s Office some franking could be done. So that itself would be de-matting. It is not in the sense that normally it is understood in terms of transfer of shares. So, I think there are various ways which one can do. As I said, a couple of States have already tried it and they have got a system of part stamps and part cash.”

108. The Ministry of Finance had furnished the following note on the current status of the proposed system for dematerialisation of stamps and stamp papers:

“Dematting is a process whereby stamp duty may be collected by modes other than stamps/stamp papers. There are several ways in which dematting can be introduced. These include deposit of cash through challans of banks/treasuries.

State Governments have to adopt the system most suited to their ground realities. In this regard the State of Andhra Pradesh uses stamp papers only up to the denomination of Rs.100/- and the rest is in cash whereas Karnataka has completely done away with the use of Stamp papers. Other State Governments are examining the proposed system.”

109. The Ministry added :

“The proposal to go for dematerialized form of stamp duty collection was approved by the Government on 28.02.2004. Meetings with the State Revenue Secretaries and Inspector-General (Registration & Stamps) held on 22.12.2003, 4.3.2004 and 2.9.2004 also stresses on doing away with physical use of stamps/ stamp papers and subsequently switching over to dematerialised form of stamp duty collection. One of the ways of dematting is through electronic form of stamps. As a pilot project, Ministry of Finance has appointed, IFCI Limited (IFCI) as Consultant for rendering the specific advisory services in this mode. The proposed system of dematting envisages implementation of Stamp Duty Administration in selected cities. The selected Central Record-keeping Agency (CRA) would incur Capital and Operational Expenditure to ensure adequate and appropriate logistics in the specific cities for its successful implementation. In lieu of the services which, CRA is expected to provide to the State, the designated CRA will be paid pre-approved charges. It will be decided through competitive bid process, and same will be payable on per transaction basis. The C-SDAS (Computerized- Stamp Duty Administration System) would initially be introduced on a pilot basis in 12 to 13 cities within a short period. The entire capital cost would be borne initially by the Government of India. States are free to join the system or introduce similar systems in their jurisdiction. The IFCI has already initiated the bid process management for selection of Central Record -keeping Agency (CRA) to provide for Advisory Services for alternative options and solutions for Stamp Paper Registration. The process is nearing completion and the Government would take a decision regarding selection of CRA shortly.”

110. As regards the feedback received from the States in connection with the implementation of dematting of stamps/stamp papers, the Ministry in a written note submitted as under:

“The responses of some of the States are as under:

- The Government of Bihar is considering computerisation of its Registration Offices on Karnataka pattern with the assistance of Electronics Development Corporation of India Limited on BOT basis. However the Government of Bihar does not plan to associate itself with the pilot project proposed by the IFCI.
- The Government of West Bengal has sought further details for understanding the proposal. Their requests have been forwarded to the IFCI for providing the necessary information.

- The Deputy Inspector General of Registration and Superintendent of Stamps, Chhattisgarh, Raipur have requested for furnishing further details on the Scheme as well as the proposed action plan. The IFCI were advised to get in touch with the Government of Chhattisgarh in this regard and furnish the necessary clarifications as desired by them.
- The Financial Commissioner & Principal Secretary to Government of Haryana, Revenue Department has informed that the State of Haryana is not willing to adopt the proposed Stamp Duty Administration System for the time being. They have further stated that this Ministry will be apprised if the State Government decides to adopt it at later stage.”

OBSERVATIONS/RECOMMENDATIONS

111. The India Security Press (ISP), Nashik, was set up in 1924 as an industrial establishment of the Government of India under the Ministry of Finance (Currency and Coinage Division). It is considered to be the only organisation in India and one of the few in the world where a wide variety of security and non-security papers are printed and supplied. The security papers consist of postal stamps, judicial and non-judicial stamps, cheque books for Reserve Bank and State Bank of India, saving certificates, postal orders, passports, promissory notes and other security documents required by the Central/State and Union Territory Governments, Public Sector Undertakings and Local Bodies. In addition to postal stamps of various denominations, India Security Press produces 25 categories of stamps and stamp papers in 212 denominations. The non-security documents comprise of welfare stamps, non-MICR Cheques, and railway warrants etc. In so far as India Security Press is concerned, the value of these security and non-security documents is limited to their cost of production, which are realised from the indenters. For the indenting entities *i.e.* for the Union and State Governments, the security and non-security documents are the financial instruments of Revenue. Thus, for the indenting entities, the security papers are the money worth their face value.

112. The India Security Press receives quarterly indents from the State Governments, Union Territories etc., for supply of stamp papers of various categories and denominations. As per the extant arrangement in ISP, the consolidation of the indents and supply of stamp papers is managed by its Central Stamp Depot (CSD). Based on the print requisition by the CSD, the Warrant Section issues print warrants to the Production Section. However, during 1996-97 to 2003-04 against the cumulative indent of 277.22 crore of stamp paper sheets, the production and supply were 127.83 and 118.32 crore sheets respectively. The shortfall in supply with reference to indent was 158.89 crore sheets and the percentage of shortfall in production and supply to the indents were 53.89 and 57.32 per cent respectively. Explaining the reason for ISP's inability to meet the demand raised in the indents, the Ministry informed the Committee that indents placed by indenters were very erratic, fluctuating between 52 crore to 18 crore per year and it was difficult to plan production according to such abnormal fluctuations in the indents. In addition to the above, there are other constraints such as old machinery, lack of availability of raw materials in time, lengthy purchase procedure leading to delay in timely receipt of raw materials, etc.

113. The Committee find that the total indents in terms of number of sheets varied over a wide range of 18.10 crore to 52.82 crore sheets per year during the period 1996-1997 to 2003-2004 and there was no evidence to suggest that ISP had analysed the reasons for such wide fluctuations in the indents in consultation with the indenters. The Ministry have informed the Committee that ISP undertakes printing

on orders from various State Governments/Union Territories and Central Government Ministries/Offices and it is difficult for it to undertake studies on all India basis to find out the reasons for abnormal fluctuations in the indents. The Committee were further informed that analysis of the indents received during the last nine years indicate that there was no pattern and they appear to have been raised in an 'ad-hoc' manner. Even when the full supplies were not met against the indents of a particular year, in the subsequent year the indents did not increase in the same proportion. Instead, in most of the cases, it had gone down that too without any consistent pattern.

114. With a view to ensure that the States raise realistic indents, the Ministry of Finance have decided that from 2004 onwards, 30 per cent cost of the indented material should be deposited as an advance by the indenters. Indents received without advance money would be treated as unconfirmed indents and ISP will not accord any priority to such indents from 2005-06. However, the Committee find the new system to be a non-starter which can be gauged from the fact that only 12 States/Union Territories have remitted the advance payment during the Financial Year 2005-2006 and the remaining 16 States viz., Arunachal Pradesh, Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Karnataka, Manipur, Meghalaya, Mizoram, Punjab, Tamil Nadu, Tripura and Uttar Pradesh have not yet complied with the new system. According to the Ministry of Finance, the major reason for non-compliance of States to the new arrangement is the reported non-availability of budget in some States for release of advance payment. While some States have asked for performa invoice for the advance payment other States have not responded to their request so far.

115. According to the Ministry, with the introduction of procedure of calling for 30 per cent advance amount against the indents, the indents have come down very drastically from around 50 crore to 14 crore sheets in a year which seems to indicate that State Governments used to submit inflated and unrealistic indents. Though the Committee appreciate the efforts made by the Ministry to curb erratic indents by way of introduction of a system of payment of advance of the material to be indented, the fact remains that it is only after Audit have taken up the review of ISP, the Ministry have become alive to the problem and decided as late as in 2004 to introduce the system. With a view to curtail and curb erratic indents by various indenting agencies, the Committee recommend that India Security Press should set up an institutional mechanism to rationalise the indents received from various entities and also introduce a system of coordination with indenters to address the issue of erratic and inflated indents by setting up a printing and supply plan consistent with the indents. However, at the same time it should also be ensured that for want of payment of 30 per cent advance, States do not place low indents so that it could lead to a situation of scarcity in the market which could be exploited by the unscrupulous elements. The Committee also urge upon the Ministry to examine the feasibility of introducing a comprehensive and transparent information system in coordination with the State Governments and other indenting entities on one hand and the Finance Ministry on the other for exchanging/sharing the information relating to indents so that the possibility of shortages of stamp papers could be eliminated.

116. The Committee are constrained to point out that the actual production of stamp papers in terms of sheets disclosed that it did not have any relationship with the indent. There was a wide variation in the annual production varying between 8.77 crore to 20.66 crore sheets. During the eight years period, *i.e.* from 1996 to 2004, India Security Press cumulatively produced 127.83 crore sheets against the total indents of 277.23 crore sheets, which is only 46 per cent of the indents. Analysis of Category and denomination-wise production of stamps over the period from 1995 to 2003 confirmed that there was no co-relation between indent and production as well as indent and supply. Moreover, the production was consistently lower than the indent and the ISP did not bother to increase production despite large unmet indents. The Ministry of Finance have however contended that production and supply were more or less consistent over years. Because of wide fluctuation in indents it was impracticable to enhance installed capacity all of a sudden and that too when there was no certainty that demand would continue to remain in the coming years. The Ministry have further informed the Committee that on analysis of production capacity of ISP it had been observed that current requirement of indents can be met with the existing capacity and therefore, at present, there is no proposal to enhance the installed capacity. Since dematting is under active consideration, the requirement of stamp papers is likely to reduce significantly. Though the Committee appreciate the Ministry's view point that it would be difficult for ISP to increase the installed capacity all of a sudden and that too in the light of erratic indents which vary from year to year, nevertheless the fact remains that ISP did not bother to review the reasons for consistently low production with reference to the indents and the attendant risks such as the possibility of counterfeit stamp papers entering the market to make good of the wide variation in the supply and demand. The Committee feel that this betrays total lack of risk perception in ISP towards their highly sensitive and risk function of production and supply of stamps and stamp papers. The Committee are quite sceptical about the Ministry's optimism that the existing production capacity of ISP would take care of the current requirements of indents, since there is no evidence to suggest that ISP had carried out an assessment in this regard. Further, the Committee cannot subscribe to the Ministry's view that demat of stamp papers would significantly reduce the demand for stamps and stamp papers when it is still at a very nascent stage and is yet to be implemented. With a view to maintain equilibrium between indent and production, the Committee recommend that the Ministry of Finance may consider the feasibility of enhancing the installed capacity of ISP. Various bottlenecks such as old machinery, lack of availability of raw materials in time etc. that come in the way of achieving optimum production level should have been removed by taking timely remedial action. The Ministry ought to ensure that there is no shortages in supply of stamps and stamp papers *vis-à-vis* demand raised in the indents which could lead to a crisis situation that can be exploited by the scamsters. Requisite quantity of stamp papers should be made available by fulfilling all the indents raised by the indenting agencies.

117. The Committee are dismayed to note that no survey was conducted by the Ministry to analyse as to how the indenters were able to meet their requirements of

stamps and stamp papers when ISP was unable to fulfill the entire demand raised in the indents so much so that 54 per cent of the total demand raised in the indents had remained unfulfilled. Explaining the reasons for not conducting the survey by ISP, the Ministry have stated that under Section 10(b) of Indian Stamps Act, State Governments are empowered to take recourse to alternate mode of Stamp duty collection in the event of shortage of stamps/stamp papers. The Committee do not accept the Ministry's argument which appears to be hypothetical and presumptuous and is not backed by any evidence suggesting that States/UTs have been invoking the provisions under the Indian Stamp Act to meet their requirements. The Committee cannot but deplore the lackadaisical approach of the Ministry to such an important and sensitive issue which have grave implication for the economy. Far from being alive to the inherent dangers implicit in the shortage of stamps and stamp papers that could be exploited by the unscrupulous elements to their advantage, the Ministry have sought to take refuge in the provision of Indian Stamp Paper Act, which betrays a total lack of seriousness and insensitivity on the part of the Ministry to their sovereign function of printing and supply of stamps and stamp papers in adequate quantities.

118. The Committee note that just as production of stamp/stamp papers did not have any relationship with indent, the supply also did not follow any pattern. The supply varied between as low as 27 per cent and a maximum of 59 per cent of the indents. Over the eight-year period *i.e.* from 1996 to 2004, the supply was only 118.33 crore sheets against the indent of 277.23 crore sheets *i.e.*, a shortfall of about 57 per cent. State-wise and denomination-wise analysis of supply against the indents disclosed that while the supplies were largely much lower than the indent, it did not follow any pattern. The Ministry have taken a stand that the apparent shortfall of indents by 57 per cent had not resulted in crisis in any of the States since the indents were highly inflated and because of the efforts initiated by ISP to curb inflated indents, the indented quantities have come down substantially. It has also been stated that some of the indenters did not lift the non-judicial-stamp-papers which were duly packed and ready for dispatch, inspite of reminders which shows that there was hardly any problem in respect of supply of stamps and stamp papers. The Committee have been further informed that when the indents were going beyond the printing capacity of ISP, the fact was communicated to all the Treasuries/Sub Treasuries and Postal Stores Depots all over the country *vide* Central Stamp Depot, Nashik Road, Circular No. 2304 dated 13th November, 1991 and subsequent reminder Circular bearing No. 2606 dated 13th April, 1996. It was clearly brought out in these Circulars that the indenters should raise realistic indents and the unmet indents for a quarter would not be carried forward and would be treated as cancelled. The Committee regret to note that post 1996 the Ministry have not made any efforts to review the indents in consultation with the users. Though the Ministry had issued a Circular way back in 1991 followed by a reminder in 1996 asking the indenters to make realistic indents, it appears that thereafter it had not bothered to review the situation and slept over the matter till Audit had pointed out the mismatches in the Indent, Production and Supply. It is only after Audit had taken up review of ISP, the Ministry had woken up to the issue

and conducted meetings with the respective State Governments and Union Territories in 2004. The Committee are of the opinion that had the Ministry been alive to the problem in the intervening period from 1996-97 to 2003-04, and taken remedial measures to correct the imbalances between Indent and supply things would not have come to such a pass. Further, the possibility of scammers exploiting the situation arising out of consistent low supply of stamp papers for counterfeit operations would have been greatly minimised.

119. Generally, paper manufacturers produce paper for supply to ISP as per the quantity stipulated in the supply order. Excess paper produced, if any, is repulped by the paper mills. As per the agreement entered into by ISP with the paper mills which produce paper for printing, the mills should not produce and supply security papers to other agencies. However, Audit review revealed that ISP did not exercise any control regarding actual quantities produced by these mills against its supply orders, including the wastages. The Committee apprehend that absence of control on the production of paper entails risk of diversion for counterfeit operations. In support of their contention that the extant system of private paper mills producing paper as per the quantity stipulated in the supply order of ISP has been working well, the Ministry have stated that the examination reports in respect of the fake stamp paper cases that were sent by State Police, CBI and other Investigating Agencies to Forgery Detection Cell of ISP, for examination, had revealed that there are no forged stamps/stamp papers wherein genuine paper supplied to ISP by private mills has been used. On the other hand, the Ministry have conceded that ISP is not in a position to have full control over private paper manufacturers with respect to the quantity of paper produced since they supply different kinds of papers not only to ISP but also to many other users. The Committee are of the view that despite the contractual obligation whereunder the paper mills cannot produce more than the quantity ordered by ISP without their permission there is no guarantee that paper Mills will not violate this condition. Further ISP do not have any mechanism to find out whether the mills have been strictly adhering to this condition. Under these circumstances it is naïve on the part of ISP to repose confidence in the private paper mills. Though the Ministry can find solace from the fact that in none of the cases where forgery has been detected by the investigating agencies, genuine paper manufactured by private mills are used, the Committee however, caution the ISP not to become complacent. The Ministry should take extra caution and have a strict vigil and constant monitoring on the functioning of the private paper mills so that they do not divert the stamp paper to unscrupulous persons for counterfeit operations. The Committee further recommend that ISP should ensure that the paper mills do not produce papers more than the quantity ordered and also to evolve a mechanism by which ISP can detect production of excess paper by the paper mills.

120. The Committee are informed that dandy roll, a device used for introduction of security watermark on to the paper during the course of its manufacture is designed by ISP but manufactured by private producers. The paper mills rather than ISP is responsible for manufacture of dandy rolls through private sources. The manufacturers of dandy rolls are small scale industrial units and do not have

a separate licence for their manufacture from ISP. In his deposition before the Committee, the Secretary (Economic Affairs), Ministry of Finance had clarified that only low value security paper is allowed to be manufactured by the Private Paper mills using dandy rolls. For High Value security paper, ISP procures paper from the security paper mill, Hoshangabad. However, the review of Control Systems in ISP over dandy rolls disclosed disregard for security procedures of this high risk device in as much as ISP did not maintain control of the dandy rolls and their use through the means of their custody, verification and legal backing of agreement/oath by the private users. The inspections by ISP officials were infrequent and follow up actions were non-existent. At no time, ISP assured itself that dandy rolls were not misused. The Ministry have informed the Committee, that the physical custody of dandy rolls remain with the mills as it is their property. Obtaining dandy rolls for manufacture of paper is the responsibility of paper manufacturer and ISP does not enter into any agreement with the unit manufacturing dandy rolls. In the agreement entered with the Supplier of paper, there are precluding clauses whereby the Paper Supplier is restrained to use dandy rolls for any other purpose other than stated in the agreement. As a further measure to improve the control on dandy rolls, paper manufacturers are being asked to obtain an undertaking from the dandy roll manufacturers that they would not produce dandy roll of the water mark used by ISP for any other organization without the express approval of ISP.

121. The Committee apprehend that duplicate production or theft/diversion of the dandy rolls is fraught with serious risk of these being misused to produce paper for counterfeit production. The Secretary, Department of Economic Affairs, Ministry of Finance while deposing before the Committee shared the apprehension of the Committee that the private mills can make more paper than what is required by virtue of their possession of the dandy rolls. The Secretary mooted a suggestion that the only fool proof mechanism for prevention of misuse of dandy rolls is that all the papers should come from Government controlled presses. For this either another Press should be set up or a new manufacturing line be added to the existing Government press. The Committee cannot but over emphasise the critical role played by dandy rolls and any misuse of this critical input would have a serious repercussions on the economy in as much as it could not only lead to production of counterfeit stamp paper but also loss of revenue to the Central and State Government exchequers. The Committee regret to note that there was a total lack of threat perception on the part of ISP towards the high risk involved in the use of dandy rolls in the production of Stamp Papers Far from carrying out a risk assessment on the probable misuse of dandy rolls by the Private Paper Mills for excess production of papers than the indented quantity for counterfeit production of stamp papers, ISP had chosen to rely upon the contractual obligation entered with them. It is only after discovery of large scale counterfeit stamp papers in the recent past followed by Audit review on their functioning that ISP had become alive to the problem and has since decided that hence forth dandy rolls will be defaced/destroyed after the ordered quantity of the paper is fully supplied by the mills. The Committee recommend that with a view to prevent misuse of dandy rolls, the custody and use of

dandy rolls should be controlled by ISP by way of retaining the same with them and released only for the duration of production of security paper. Possibility of automatic embedding of the number of sheets of use with each dandy roll may also be explored. The Committee further recommend that the feasibility of completely doing away with the system of engagement of Private Paper Mills for production of paper and entrusting the job of producing all the papers required for security paper production — both high and low value security paper to the Government Security Press should be explored. This can be done either by augmenting the production capacity of the Government Press or setting up a second line of production.

122. The Committee note that as per the documents maintained by India Security Press, 53 dandy rolls were in the custody of nine paper mills, many of which are not manufacturing paper for ISP for years. ISP had not carried out physical verification of 21 dandy rolls that were lying with seven paper mills after 1988-89. The last physical inspection was conducted by ISP in Titagarh Paper Mills, Kolkata in 1996, in which only 12 dandy rolls out of 26 were available. Neither the 14 missing dandy rolls were traced nor the 12 that were available, had been taken over by ISP despite no business with this mill for about 20 years. According to the Ministry the physical custody of dandy rolls remained with paper mills as they belonged to them. While conceding that the physical verification of dandy rolls had not been conducted on a regular basis, the Ministry, however, stated that the same was carried out in the year 1987-88, 1991, 1996, 2003 and 2005. The Ministry have now informed that a mechanism has since been put in place whereby inspection would be carried out on half-yearly basis and effective verification of dandy rolls would be done eliminating the possibility of their misuse. Henceforth, dandy rolls will be defaced/destroyed after ordered quantity is supplied by the mills. The Committee are distressed to note that ISP could not give any plausible explanation for the irregular/infrequent physical verifications of dandy rolls. No periodicity or interval appears to have been fixed for the physical verification which is borne by the fact that verification was sometimes carried out after a yawning gap of more than 7 years, which betrays lack of seriousness and most importantly sensitivity to this important function which is fraught with the risk of counterfeit production. It is only after the Committee were seized of the matter that ISP had now decided to conduct physical verification of dandy rolls at half-yearly intervals. What has surprised the Committee is the fact that some paper mills which are no longer producing paper for ISP are still in possession of dandy rolls rather than destroying them. ISP had justified the possession of dandy rolls by these paper mills on the ground that they lie with the paper mills since they belonged to them, which is anything but inexplicable. The Committee expect that atleast in future ISP would carry the physical inspection at regular intervals. They also expect ISP would strictly ensure that as soon as the mills produce the ordered quantity, the dandy rolls are defaced/destroyed. The Committee recommend that ISP should set up a monitoring mechanism both in headquarters as well at each private paper mill which produce papers for ISP to oversee that dandy rolls are completely destroyed.

123. Instances of short and excess supply and supply of stamps and stamp papers of denominations other than indented or declared in the packing list have come to the notice of the Committee which is a high-risk deficiency that could point towards pilferage of the printed stamps and stamp papers. Sample check of documents relating to different consignments in various States disclosed short supplies with aggregate value of Rs. 1453.75 crore i.e. Delhi (239.75 crore), Gujarat (332.71 crore), Haryana (Rs 1.00 crore), Kerala (Rs. 72.26 crore), Punjab (Rs 0.13 crore) and Uttar Pradesh (Rs 807.90 crore) and excess supplies of stamps of value of Rs. 687.89 crore in Six States during 1996-2003 i.e. —Delhi (Rs.15.73 crore), Gujarat (Rs.132.41 crore), Kerala (Rs.142.75 crore), Orissa (Rs.6.75 crore), Punjab (Rs.0.25 crore) and Uttar Pradesh (Rs.390.00 crore). The Committee are constrained to point out that India Security Press did not take suitable remedial measures despite a number of instances and complaints about the packets dispatched by them containing stamps of incorrect denominations, excess and short supply. The Committee hope that suitable steps would be taken by ISP in future to avoid such instances.

124. Audit Review has revealed that there were three cases of theft of stamps from ISP shop floor with an aggregate value Rs. 1.17 crore. Out of these, two cases were reported to be pending in the courts of law. In the third case involving theft of stamps valued at Rs. 0.85 crore, which took place in April 2002, the culprit was yet to be traced but the case was reported to have been closed. The Ministry have clarified that the theft case relating to India Foreign Bill Stamps amounting to Rs.0.85 crores has not been closed and the same is being pursued with the concerned State police authorities. An FIR had already been lodged with State police. Explaining the action taken against the culprits involved in the theft cases, the Secretary, Department of Economic Affairs, Ministry of Finance during evidence deposed that General Manager of ISP was suspended and arrested and later on dismissed from the service. Besides, a few more employees have been suspended/arrested and in one or two cases, the CBI after due verification, had subsequently given clean chit. The Committee while expressing their serious concern over the theft that occurred in ISP shop floor, recommend that suitable penal action should be taken against all the persons found guilty in the theft cases. The Committee would like to be apprised of the steps taken to strengthen the security and vigilance systems in the shop floor of ISP so as to prevent recurrence of theft.

125. The Committee find that India Security Press did not have an institutionalised system of surveillance/vigilance in discharge of its high risk and vulnerable operation, except for a Forgery Detection Cell, whose task was limited to verification of the genuineness of the stamps, whenever a complaint was received from the indenters or investigating agencies. Even this operation was approached in a routine manner, limiting its role to mere reporting of the findings. The Committee note that there was an inordinate delay in the verification of the genuineness of the stamps on the referred cases and ISP did not extend the scope of investigation to the possibility of counterfeit on a large scale which again points to the lack of threat perception by ISP towards this high risk function. The Ministry of Finance have contended that ISP is not an investigative agency and its role is limited to ascertaining genuineness of the documents presented to it by

various investigating agencies like State Police, CBI etc. According to the Ministry, investigation of cases of forged stamps is done by respective State Governments. The Committee note that many cases relating to forgery of stamps/ stamp papers had remained un-investigated for years, sometimes on the ground of non-receipt of the examination fee of a mere Rs. 100 per document. They further note that a large number of the cases referred for examination of genuineness of the stamps pertained to Uttar Pradesh (241), Maharashtra (294), Andhra Pradesh (156), New Delhi (140) and Tamil Nadu (57), where incidentally a number of cases relating to counterfeit stamp papers were reported/found in the wake of Forged Stamp Paper Scam. Out of the total 69,648 documents of suspected counterfeit stamps consisting of non-postal stamps and stamp papers, the examination by the fraud detection unit disclosed fake stamps in 50313 documents. The Committee regret to note that though the Ministry had subsequently set up a Vigilance-cum Surveillance Cell which had started functioning with effect from 1.3.2005, the Cell is concerned only with activities within ISP and it has nothing to do with intelligence gathering and surveillance all over the country. Though it is appreciated that intelligence gathering and surveillance relating to circulation of counterfeit stamps in the economy pertains to State and Central Intelligence Agencies, nevertheless the Committee are of the opinion that with a view to curb and prevent circulation of large scale counterfeit stamp paper in the system, the Ministry of Finance should explore the possibility of setting a Centralised Surveillance and Vigilance System comprising of representative of ISP and State and Central Investigative Agencies. The modalities of functioning of the system should be worked out by Ministry of Finance in coordination with Ministry of Home Affairs and in consultation with respective State Governments. The system so set up should be alert to the error signals that may manifest in various form *viz.* theft within ISP and in transit, missing dandy rolls etc. The Committee further recommend that in view of the ramifications of counterfeit stamps on the economy as a whole ISP should therefore, examine the genuineness of stamps in respect of all the complaints received irrespective of whether the examination fee had been paid or not.

126. The Committee were concerned to note that the physical security within India Security Press, which ought to have multi-level reinforced security system, had been lax. While Maharashtra police managed the security at the gates, the departmental security personnel were responsible for security at the shop floor. Though Central Industrial Security Force (CISF) replaced the Maharashtra police at the gate as late as October, 2002 and the department security personnel at the shop floor with effect from September, 2004, the Committee regret to note that still some of the security related recommendations made by the Intelligence Bureau were yet to be implemented as of March 2004. The Committee have been subsequently informed that out of total 38 recommendation, 35 have already been implemented. The remaining 3 recommendations that are pending implementation relate to installation of Watch Tower, CC.TV system and the shifting of Trade Union Offices. The Ministry have informed that Watch Tower and CCTV system would be installed by December, 2005. The Committee would like to be apprised as to how far the

implementation of recommendations made by Intelligence Bureau has helped in beefing/strengthening the security set up in ISP. They also expect that the Ministry of Finance would ensure that the remaining recommendations are implemented at the earliest.

127. The Committee were concerned to note that far from dismantling the equipment and machinery used for printing and other operations in printing of stamp paper, on 'as is where is basis', with a view to eliminating any risk of their re-assembly for counterfeit operation, and precluding the same person/firm from buying the condemned machinery of different types used in printing and other associated operations etc., ISP had actually facilitated knowledge of assembly of the machines by permitting up to 10 representatives of the successful bidder, M/s Unique Enterprises to witness the dismantling of the machines before their disposal for two months, in two spells, during June-September, 1998. ISP was also negligent in the sale of the condemned printing machine and perforating machine to the same firm at different points of time between June 1998 and September 1998. The Committee were informed that only bigger machines were dismantled so that it can be taken out from the doors of the shop and other machines have been sold as it is. The machines such as *Perforating Machines* were already available with private security printers in India, who were supplying commemorative postage stamps to Department of Posts, Government of India. In this connection the Ministry have tried to explain that as per the terms and conditions of the Tender Notice No. 5/97 (S. Nos. 11, 12 and 13) the firms' representatives were permitted to witness the dismantling of the machines to ensure that firm satisfies itself that all the parts of machine are made available to them. The Ministry have contended that procedure prescribed in General Financial Rules had been followed for the disposal of machinery. However, they have added that keeping in view the sensitivity and security involved a new procedure had since been introduced whereunder disposal of machines is done after converting them into scrap. The Committee are perplexed at the casual and negligent approach adopted by ISP towards the high risk function of dismantling of printing machines, which is totally devoid of any threat/risk perception. Far from being alive to the possible risk associated with such operation such as chances of misuse of machinery, the tender documents were designed in such a manner that the knowledge of assembly of machines was unwittingly passed on to the bidder. The issue had become all the more serious and alarming and the motive of ISP behind incorporation of certain clauses in the tender notice questionable after the Fake Stamp Paper Scam came into light. It is only after the Scam broke out that ISP had become wiser and decided to adopt a new procedure whereunder the obsolete machinery is disposed after converting into scrap. The Committee are of the firm view that had this new procedure been put in place earlier, the possibility of alleged misuse of the machinery by the bidders would have been completely eliminated. Suitable deterrent action should be taken against all those who are found guilty.

128. The Committee understand that several cases relating to fake stamp papers scam are currently under investigation by CBI. The Committee were informed that as on 12th September, 2005 CBI had registered and filed charge sheets in 64 cases in the fakes stamp paper scam. Out of these 39 were related to Abdul Karim Telgi, the kingpin of the scam and the remaining 25 cases were stated to be not directly linked to Telgi. As regards ISP's role in the fake stamp papers scam, the representative of CBI during evidence had deposed that CBI had focussed on three allegations relating to ISP namely—(i) physical verification of Dandy Rolls, (ii) negligent disposal of machinery, and (iii) artificial suppression of supply of stamps. The Committee recommend that the Ministry of Finance should periodically review the progress made in the cases relating to ISP and urge upon the CBI to expedite the investigation/examination of the cases. The Committee would like to be apprised of the findings of CBI in the matter of ISP related cases together with suitable remedial Action Taken by the Government to obviate recurrence of such instances.

129. The Committee are of the considered view that there is an urgent need to revamp/overhaul the functioning of ISP. This has attained paramount importance particularly in the wake of recent fake stamp paper scam that has rocked the country. For this, an expert Committee comprising of eminent personalities/professionals drawn from different fields with experience relevant to the functioning of ISP should be set up to examine the entire gamut of activities relating to ISP. The Expert Committee should examine all the existing procedures/rules in relation to indent, production, supply and dispatch from the standpoint of threat/risk perception. Risk analysis with respect to all activities pertaining to production of stamps and stamp papers viz. procurement, short-listing of private paper mills, dandy rolls, ink, security etc. should be conducted so that the scope for error and lapses in these processes are minimised to a large extent.

130. The Committee note that though the Ministry of Finance had taken a decision in principle to encourage dematting of Stamp Papers way back in December, 2003 i.e. 18/12/2003, the proposal was approved by the Government after more than a year i.e. on 28/2/2005. Despite holding 3 meetings so far with State Revenue Secretaries and Inspector General (Registration and Stamps) on 22/12/2003, 4/3/2004 and 2/9/2004, respectively, the Committee regret to note that dematting of Stamp Papers is yet to take a final shape. The Committee were given to understand that some States are still in the process of understanding the proposal. The Committee while expressing their unhappiness over the tardy progress made in the implementation of demat process recommend that Ministry should make concerted efforts to convince all the States/UTs so that the demat of Stamp Papers is implemented at the earliest. The Committee would like to be apprised of the latest position in this regard.

131. Apart from dematerialisation of stamp papers, the Committee are of the considered view that in the present age of information technology other alternative methods should be explored so as to completely do away with the physical form of the Stamp Papers. The Ministry of Finance may examine the feasibility of implementing various ways and means to achieve these objectives.

NEW DELHI;
24 July, 2006

2, Sravana, 1928 (Saka)

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

APPENDIX I

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR
THE YEAR ENDED 31 MARCH 2004, (NO. 14 OF 2005) UNION GOVERNMENT
(CIVIL-PERFORMANCE AUDIT)

MINISTRY OF FINANCE

DEPARTMENT OF ECONOMIC AFFAIRS

Control Systems in India Security Press, Nashik

Highlights

ISP Nashik approached the management of the printing and supply of the security papers and stamps to the Union/State Governments, public sector undertakings and local bodies with an attitude of a vendor rather than as an entity entrusted with a high-risk sovereign function of the Government. It did not carry out appropriate risk assessment of the entire process of indent, printing and supply of stamp and stamp papers to the State and Union Governments and bodies and authorities in the public sector.

There was a serious disconnect between the objectives of the indenters and ISP in relation to stamp papers, a contributory factor to ISP's insensitivity to the risks.

ISP consistently printed and supplied the stamps and stamp papers far below the quantities indented by the State Governments and other indenting agencies without a concern as to how the indenters coped with supplies of stamps and stamp papers less than half their indents. The documents in the ISP did not display a sound system of production planning, which was far removed from the indents placed by the users.

The perception of risk within ISP associated with different stages of production and supply of stamps was non-existent in as much as it had little control over production of security papers by the paper mills, most of which were in the private sector, over dandy rolls, which is a device to introduce watermark security features in the papers during the course of its production and on supply procedures including discrepancy and theft of stamps.

Far from eliminating all chances of misuse of machinery and equipment due for disposal by complete dismantling with a view to rendering them beyond reassembly, ISP management, in effect, facilitated possible misuse of the machinery by permitting for about two months up to 10 representatives of successful bidder to watch the dismantling operations of the printing machine to be disposed of. It also sold the

printing machinery and perforating machine to the same firm, M/S Unique Enterprises without assessing the risks associated with their sale to the same agency.

The sensitivity of ISP management to error signals was very low and effective lessons-learnt system did not exist. ISP failed to take appropriate measures, despite error signals manifesting in various forms viz. thefts within ISP and in transit, missing dandy rolls and large number of counterfeit stamps detected upon examination of suspected documents received from investigating agencies for verification.

Adequacy and effectiveness of remedial measures in relation to indent, printing and supply of stamps and stamp papers in the wake of large scale counterfeit could not be verified in the absence of comprehensive information from ISP.

Gist of Recommendations

- ISP may institute a system to rationalise the indents received from various entities and introduce a system of coordination with them to address erratic indents. It should establish printing plan consistent with the indents along with embedded comprehensive performance information system.
- ISP should carry out a detailed risk assessment associated with each stage of the production of paper, manufacture and use of dandy rolls and other equipment used in the process of printing and set up a system of effective control over their custody and utilisation to eliminate the risks of misuse/abuse.
- ISP should sensitise the supply procedures to be alive to the risks of short supply, discrepancies, theft etc. and institute a system of time-bound reconciliation, investigation remedial actions along with suitable performance information and lessons-learnt system.
- ISP should institute a surveillance and vigilance system to gather intelligence and may consider random drawal of sample of stamps and stamp papers suo-moto in systematic manner for examination to assure their genuineness.
- ISP should strengthen the physical security within its premises by consolidating the measures already taken.
- There is a need to establish a formal procedure for disposal of machinery and equipment used for printing of stamps and stamp papers to eliminate all chances of their misuse.

1. Introduction

India Security Press (ISP), Nashik under the administrative control of Department of Economic Affairs, Ministry of Finance is responsible for printing and supply of security papers viz. postal stamps, judicial and non-judicial stamps, cheque books for Reserve bank of India and State Bank of India, saving certificates postal orders, passports, promissory note and other security documents required by the Central/

State and UT Governments, Public Sector Undertakings and Local Bodies. In addition to postal stamps of various denominations, ISP produces 25 categories of stamps and stamp papers in 212 denominations. In so far as ISP is concerned, the value of these security papers is limited to their cost of production, which is realised from the indenters. For the indenting entities, more particularly for the State Governments and the Union Government, these security papers are the financial instruments of revenue used for registration of documents, issue of securities and realisation of documents, issue of securities and realisation of the cost of postal and other services. Thus, for the indenting entities, the security papers are the money worth their face value.

1.1 Audit Objectives

Audit of the control environment obtaining in ISP in regard to indents, production planning and printing, supply, surveillance on the entire operations, sensitivity to error signals and lessons-learned system in respect of non postal stamps and security papers was carried out consequent to the discovery of large scale counterfeit stamps with a view to assessing whether:

- the system of indent and supply was robust to ensure fulfilment of the requirement of various types of judicial and non-judicial stamps by the State Governments and other entities;
- the production plan and actual production of stamps in ISP was consistent with the indents;
- ISP put in place adequate system of control to address the risks associated with the production, supply procedures and security besides short supply against the indents;
- appropriate coordination between ISP on one hand and the indenting entities on the other, existed for review of the forecasts of requirement, indents, and actual supply;
- the disposal procedures of the machinery and equipment used for production of security papers consisted of safeguards to prevent their misuse;
- ISP was sensitive to error signals and undertook measures to address the possible risks associated with the reported aberrations and learnt appropriate lessons from the results of the investigations; and
- ISP undertook effective remedial measures consequent upon large-scale counterfeit operations.

1.2 Scope of Audit

The audit was carried out through examination of documents in ISP, Nasik and Security Printing Press, Hyderabad relating to printing and supply of non-postal stamps and security papers over 1996-2004 and through examination of secondary data in private paper manufacturing mills and dandy roll¹ manufacturing units.

¹Dandy roll is a device for solidifying and impressing water mark in the paper during manufacture.

1.3 Audit Methodology

The thrust areas of audit were high value non-judicial stamps/stamp papers, India Insurance Stamps, India Impressed Court Fee Stamps, Revenue Stamps, Share Transfer Stamps and Notarial Stamps. Detailed testing of documents was made in ISP through examination, analysis and questionnaires. Limited secondary tests were carried out of the documents relating to the production and suppliers of security paper, dandy rolls etc. besides examination of documents at Security Printing Press, Hyderabad.

1.4 Acknowledgement

The audit plan including the audit objectives was discussed in the entry and exit conference and in several meetings with the General Manager, ISP as also with the respective heads of various wings in ISP during the course of audit. Memoranda containing audit observations were issued to ISP management. While the cooperation of the ISP Management during the meetings and in course of audit is acknowledged with thanks, inadequate response by way of written communication was received. Out of 54 audit observation memos relating to this performance audit, General Manager ISP provided reply to only 37. The draft audit report was issued to the Ministry and the General Manager, ISP in July 2004 with a request to furnish response within the prescribed period of six weeks. The Ministry as well as the General Manager, ISP did not furnish reply to the draft audit report. The audit findings and conclusions in this report are, therefore, constrained with the limitation of not having the response from the Ministry and ISP.

2. Unmet Indents

ISP received quarterly indents from the State Governments, Union territories etc. for supply of stamp papers of various categories and denominations. Within ISP, the consolidation of the indents and supply of stamp papers is managed by its central stamp depot. Based on the print requisition by the central stamp depot of ISP, the warrant section issues print warrants to the production section. The central stamp depot is also entrusted with the responsibility of the despatch of the stamp papers to the indenters.

2.1 Indents, Printing and Supply

The production, indent and supply of stamps and stamp papers for ISP from 1996-97 to 2003-04 is given below:

(sheets in Lakh)

Year	Indent	Production	Supply	Shortfall in supply with reference to indent	Percentage of shortfall in production to Indent	Percentage of shortfall in supply to indent
1	2	3	4	5	6	7
1996-97	5281.89	1711.96	1424.32	3857.57	67.59	73.03
1997-98	5128.18	2012.23	1895.81	3232.37	60.76	63.03
1998-99	3085.69	1311.74	1305.30	1780.39	57.49	57.70

1	2	3	4	5	6	7
1999-00	1810.14	876.93	946.58	863.56	51.55	47.71
2000-01	2281.13	1406.18	1306.36	974.77	38.36	42.73
2001-02	2738.08	1497.17	1389.22	1348.86	45.32	49.26
2002-03	4117.57	2066.04	1616.51	2501.06	49.82	60.74
2003-04	3279.84	1900.73	1948.77	1331.07	42.04	40.58
Total	27722.52	12782.98	11832.87	15889.65	53.89	57.32

2.1.1 Fluctuations in the Indents

The total of indents in terms of number of sheets varied over a wide range of 1810 and 5282 lakh sheets during the eight years for which data was collected. ISP did not maintain account of indents and supply in terms of value. The unexplained wide fluctuation in the indents should have raised a doubt about their accuracy and completeness. However, there was no evidence to suggest that ISP analysed the wide fluctuations in the annual indents in consultation with the indenters to find out the reasons for such wide variations.

2.1.2 Indents and Production

The actual production of stamp papers in terms of sheets disclosed that it had no relationship with the indent. The annual production varied in the wide range of 877 and 2066 lakh sheets. Cumulatively, over the eight years 1996 to 2004, ISP produced only 12783 lakh sheets against the total indent of 27723 lakh sheets, which is only 46 per cent of the indent. ISP did not review the reasons for very low production with reference to the indents and its attendant risks. Category and denomination-wise analysis of production of stamps over 1995-2003 confirmed that there was no co-relation between indent, production and supply.

The production was consistently lower than the indent. ISP did not increase production; despite under-utilisation of the production capacity and large unmet indents. The machinery was used on an average for only five hours and 15 minutes against the effective working hours per shift of nine hours. In the absence of log books of machines, which ISP was expected to maintain, unutilised machine-hour remained unexplained.

2.1.3 Indents and Supply

Just as production of stamp/stamp papers did not have any relationship with indent, the supply also did not follow any pattern. The supply varied between as low as 27 per cent and a maximum of 59 per cent of the indents. Over the eight-year period 1996-2004, the supply was only 11833 lakh sheets against the indent of 27723 lakh sheets; a shortfall of about 57 per cent.

State-wise and denomination-wise analysis of supply against the indents disclosed an arbitrary pattern. While the supplies were largely much lower than the indent, it did not follow any pattern. In a few cases, the supplies were more than the indents while in many these were very low. There were also cases, where supplies were made without any indents. A few illustrative examples are given in **Annex-A**.

While the production was consistently low compared to the indent, ISP retained significant balance in stock at the close of the financial year. Though the rules on the subject provide for retention of the stamp/stamp papers by ISP equivalent to a minimum of three month's stock, the application of this rule has rationale only when ISP has fulfilled the indents completely.

The management of ISP stated that comparison of supply with indents might not be appropriate in view of unrealistic indents placed by various state governments. But, ISP could produce only one evidence wherein a State government had requested ISP not to despatch indented stamps in view of sufficient stock with them. The contention of ISP in support of lower production and supply with reference to the indent is not backed by any review of the indents in consultation with the users.

ISP ought to have reviewed the risk associated with consistent low supply and as to how the indenters were meeting their requirement of stamp papers.

Recommendations

- ISP may institute a system to rationalise the indents from various entities and introduce a system of dialogue with them to address erratic indents and
- ISP should set up a printing and supply plan consistent with the indents and introduce a transparent system of comprehensive performance information system to the State governments and other indenting entities on one hand and Finance Ministry on the other.

2.2 Risks Associated with Production

Many intermediate steps related to production of the stamp/stamp papers *viz.*, manufacture of security papers, dandy roll for security watermark on the paper, gumming² and super-calendering³ etc. are out sourced. These activities carry very high risk of replication for counterfeit and, therefore, warrant appropriate security and surveillance procedure to minimize the risks. Examination of the procedure followed by ISP in relation to these vital activities disclosed that it was not alive to the possible risks and managed the outsourcing of such security related papers in an indifferent manner, as discussed in the succeeding paragraphs.

2.2.1 Production of Paper

The agreement with the paper mills which produced paper for printing provided that the paper mills should not produce and supply security paper to other agencies. However, ISP did not exercise any control regarding actual quantities produced by

² Process of application of gum/adhesives in adhesive stamps.

³ Process of smoothening.

the paper mills against its supply orders, including the wastages. Absence of control by ISP on the production of paper entailed risk of diversion for counterfeit operations. Similarly, ISP did not exercise control over pulping of the rejected stock of security paper manufactured by paper mills, which entailed a risk of its misuse.

2.2.2 Dandy Roll

Dandy roll, a device used for introduction of security watermark on to the paper during the course of its manufacture is designed by ISP but manufactured by private producers. The paper mills rather than ISP is responsible for manufacture of dandy rolls through private sources. The manufacturers of dandy rolls are small scale industrial units and do not have a separate licence for their manufacture from ISP. Duplicate production or theft/diversion of the dandy rolls is fraught with serious risk of these being misused to produce paper for counterfeit production.

Examination of the system of control over dandy rolls disclosed disregard for security procedures of this high risk device in as much as ISP did not maintain control of the dandy rolls and their use through the means of their custody, verification and legal backing of agreement/oath by the private users. The inspections by ISP officials were infrequent and follow up actions were non-existent. At no time, ISP assured itself that dandy rolls were not misused.

2.2.3 Physical Custody and Verification of Dandy Rolls

As per the documents maintained by ISP, 53 dandy rolls were in the custody of nine paper mills, many of which are not manufacturing paper for ISP for years. ISP had not carried out physical verification of 21 dandy rolls after 1988-89 lying with seven paper mills. ISP had carried out last physical inspection in Titagarh Paper Mills, Kolkata in 1996, in which only 12 dandy rolls out of 26 were available. Neither the 14 missing dandy rolls were traced nor the 12 that were available, had been taken over by ISP despite no business with this mill for about 20 years.

Recommendations

- ISP should carry out a detailed risk assessment associated with each stage of the production of paper, manufacture and use of dandy rolls and other equipment used in the process of printing and address them effectively to eliminate the risks of misuse/abuse.
- It should also attempt to obtain a legally binding oath/undertaking from the private players involved in the process of production of paper and equipment and printing of stamps/stamp papers.
- The custody and use of dandy rolls should be controlled by retaining them with ISP and released only for the duration of production of security paper. Possibility of automatic embedding the number of sheets of use with each dandy roll may be explored.

3. Supply and Dispatch Procedures

The procedure for dispatch of the stamp papers suffered from shortcomings, which are pointers towards lower level of sensitisation within ISP to the risks associated with the discrepant dispatch. While deficient control over paper production, dandy rolls and disposal of machines entail risk of counterfeit, loopholes in the printing, supply, dispatch and receipt procedures entail a risk of the genuine security papers printed in ISP finding their way outside the government channel, which could be used for defrauding the government treasuries.

3.1 Excess/Short Supply

Short supply and supply of stamps and stamp papers of denominations other than indented or declared in the packing list is high-risk deficiency that could point towards pilferage of the printed stamps and stamp papers. ISP did not take remedial measures despite a number of instances and complaints about the packets dispatched by it containing stamps of incorrect denominations, excess and short supply.

Sample check of documents relating to different consignments in various States disclosed short supplies⁴ with aggregate value of Rs. 1453.75 crore and excess⁵ supplies of stamps of value of Rs. 687.89 crore in six states during 1996—2003.

3.2 Discrepancy and Theft of Stamps within ISP

ISP did not investigate large number of cases of discrepancies in figures of the quantity of stamps between the Control section, which was responsible for quality check on the shop floor and packing and the Central Stamp Depot, which was responsible for custody and despatch. The result of sample check is indicated in the table below:

Year	Name of stamp	Issue figure as per control section	Receipt as per CSD	Excess receipt in CSD	Face value
1997-98	India Adhesive court fee stamp of Rs. 5/- of set 80	3,84,425	3,85,215	790	Rs. 3.16 lakh
	India Adhesive court fee stamp of Rs. 20/- of set 80	2,88,500	2,89,290	790	Rs. 12.64 lakh
2001-02	India Imprest Court fee stamps of Rs. 5,000/-	1,17,000	2,17,000	1,00,000	Rs. 50 crore
2003-04	India Adhesive court fee stamp of Rs. 2/- of set 80	18,68,200	18,72,200	4,000	Rs. 6.40 lakh

⁴ Short supply—Delhi (Rs. 239.75 crore), Gujarat (Rs. 332.71 crore), Haryana (Rs. 1.00 crore), Kerala (Rs. 72.26 crore), Punjab (Rs. 0.13 crore) and Uttar Pradesh (Rs. 807.90 crore).

⁵ Excess supply—Delhi (Rs. 15.73 crore), Gujarat (Rs. 132.41 crore), Kerala (Rs. 142.75 crore), Orissa (Rs. 6.75 crore), Punjab (Rs. 0.25 crore) and Uttar Pradesh (Rs. 390.00 crore).

There were three cases of theft of stamps from ISP shop floor with aggregate value of Rs. 1.17 crore. While two cases are pending in the courts of law, in the third case involving theft of stamps valued at Rs. 84.60 lakh, which took place in April 2002, the culprit was yet to be traced but the case was closed.

Such instances of discrepancy and thefts entail risk of printed stamps being diverted through unauthorised channels and warrant a fool-proof system of reconciliation and security.

3.3 Loss/Theft in Transit

Large number of cases of loss/theft of the stamp papers in transit through railways came to the notice of ISP during 1995-2000. The aggregate of the reported cases of loss/theft in terms of the value of stamps were over Rs. 25 crore, with steady increase as under:

Year in which theft was reported	No. of reported cases	Face value of stamps (Rs.)
1995-96	10	7,16,769
1996-97	16	1,97,81,934
1997-98	18	3,83,50,107
1998-99	25	6,10,27,250
1999-00	10	13,04,92,700
Total	79	25,03,68,760

However, sample check of documents in the treasuries of the respective States showed loss of stamps in transit of Rs. 181.52 crore during 1992-93 to 2002-2003 in five States as under:

Sl. No.	Name of the State	Period	Amount (Rs. in crore)
1.	Andhra Pradesh	1992-93 to 1998-99	6.81
2.	Assam	1993-94 to 2002-03	146.66
3.	Rajasthan	1994-95	2.03
4.	Uttar Pradesh	1993-94 to 2002-03	20.74
5.	Tamil Nadu	1992-93 to 1998-99	5.28

This suggests that either all cases of theft/loss in transit were not reported to ISP or the system of reconciliation of dispatch and actual receipt of stamps was unreliable.

Rather than being alive to the risk of fraud and counterfeit, ISP generally assumed a legalistic posture in cases of short/incorrect supply and loss/theft in transit reported to it by the states, taking a stand that under the rules, ISP was not responsible for the discrepancies reported after the prescribed period or that the consignments became property of the consignee, once these were dispatched, etc.

ISP introduced a system of collection of stamps by the representatives of the indenters at Nashik with effect from October 1998.

Recommendations

- ISP should sensitise the supply procedures to be alive to the risks of short supply, discrepancies and thefts etc. and institute a system of reconciliation, investigation and remedial actions in a time-bound manner.
- ISP should institute an information system to document all discrepancies/theft etc. with periodic reports to the Ministry and indenting agencies along with the stage of reconciliation/investigations.
- ISP may institute a system of accountability for discrepancies in the accounts of stamps and stamp papers within its complex.

4. Surveillance/Vigilance System

ISP did not have an institutionalised system of surveillance/vigilance for this high risk and vulnerable operation, except for a Forgery Detection Cell, whose task was limited to verification of the genuineness of the stamps, whenever a complaint was received from the indenters or investigating agencies. Even this operation was approached in a routine manner, limiting its role to mere reporting of the findings. ISP delayed the verification of the genuineness of the stamps of the referred cases and did not extend the scope of investigation to the possibility of counterfeit on a large scale. Many cases remained un-investigated for years, sometimes on the ground of non-receipt of the examination fee of a mere Rs. 100 per document.

Year	No. of cases received for examination	No. of reports issued	No. of outstanding cases
1995	75	69	6
1996	73	68	5
1997	92	85	7
1998	90	88	2
1999	133	124	9
2000	138	134	4
2001	139	125	14
2002	200	185	15
2003	249	170	79
Total	1189	1048	141

Large number of the cases referred for examination of genuineness of the stamps pertained to Uttar Pradesh (241), Maharashtra (294), Andhra Pradesh (156), New Delhi (140) and Tamil Nadu (57).

Out of the total 69,648 documents of suspected counterfeit stamps consisting of non-postal stamps and stamp papers, the examination by the fraud detection unit disclosed fake stamps in 50313 documents.

ISP ought to have approached the subject of suspected authenticity of the stamps with the attendant risk perception rather than approaching it from the mechanical point of view of reporting the findings and examination fee alone. In almost all cases the references were received from Government agencies and, therefore, refusal to undertake examination of suspected security documents for non-receipt of the examination fees betrayed total lack of awareness of the risk.

Besides, ISP did not set up its own surveillance and vigilance system in coordination with the state governments and other users by way of drawing of random samples from the users or the used stamps and appropriate intelligence system in the light of the vulnerability of the system to abuse by counterfeiting.

The status of setting up of vigilance-cum-surveillance unit in ISP consequent upon Ministry's decision after the discovery of the counterfeit stamps could not be verified in the absence of a response from ISP.

Recommendations

- ISP should give effect to the decision of the Ministry to set up surveillance and vigilance system to gather intelligence and samples of stamps and stamp papers *suo-moto* in a systematic manner for examination to assure their genuineness and exclusion of counterfeit. It should also complete examination of genuineness of stamps received for check from the investigating agencies delinking it from the actual receipt of examination fee in view of high risks involved.

5. Physical Security and Disposal of Machinery

The physical security within ISP, which ought to have multi-level reinforced security system, had been lax. While Maharashtra police managed the security at the gates, the departmental security personnel were responsible for security at the shop floor. Central Industrial Security Force replaced the Maharashtra police at the gate from October 2002 and the department security personnel at the shop floor from September 2004. However, even after introduction of Central Industrial Security Force, many security related recommendations by the Intelligence Bureau were yet to be implemented as of March 2004. Some of these included upgradation of the access control and installation of electronic access control system, creation of apex level security committee, frisking of all employees and visitors, etc.

5.1 Negligence in Disposal of the Machinery

ISP was negligent in disposal of the equipment and machinery used for printing and other operations in printing of stamp paper. It did not dismantle them for 'as is where is basis' with a view to eliminating any risk of their reassembly for counterfeit operation, precluding the same person/firm from buying the condemned machinery of different types used in printing and other associated operations etc. Far from this, ISP

actually facilitated knowledge of assembly of the machines by permitting up to 10 representatives of the successful bidder, M/s Unique Enterprises to witness the dismantling of the machines before their disposal for two months in two spells during June-September 1998. ISP was also negligent in the sale of the condemned printing machine and perforating machine to the same firm, M/s Unique Enterprises at different points of time between June 1998 and September 1998.

6. Insensitivity to Error Signals and Absence of Lessons-Learnt System

ISP did not sanitise its systems and procedures in the light of error signals it received by way of discrepancy in the quantity of stamps in the packing within the Press, between the quantities dispatched and actual receipt by the indenters, theft in transit and within ISP etc. It also failed to take remedial measures after dandy rolls were not found in physical inspections. Even the large scale discovery of counterfeit stamps upon examination of the suspected stamps received from various investigating agencies did not prompt ISP to set up a surveillance and intelligence system in order to minimise or eliminate the risk of production and circulation of counterfeit stamps.

Recommendations

- ISP should consolidate the physical security within its premises by consolidating the measures already taken;
- ISP should establish a formal procedure for disposal of machinery and equipment used for printing of stamps and stamp papers to eliminate all chances of their misuse, in the light of remedial measures decided by the Ministry; and
- Institute proper system to be alive to signals of errors/aberrations and establish a lessons-learn system.

7. Conclusion

It would, thus, be seen from the above that ISP approached the responsibility of printing of the stamps and stamp papers in a mechanical way, more or less like a vendor rather than as an important partner and stakeholder. It was because of this approach that the level of sensitivity to the correctness of indents, supply against indents, risks with production, despatch, security and disposal etc. was rather low. As brought out in the introduction, the detached approach was borne out of the perceived value ISP attached to the stamp papers.

There is inherent disconnect between the value of the security papers for the producers and the indenters and the objectives of the two are detached. In view of this, it is imperative that the procedures for indent, printing, supply and utilisation are interlinked and controlled in an integrated manner. For the same reason, it is also necessary that appropriate risk assessment is carried out and structured procedures are put in place to address the risks to the entities.

However, as disclosed from the audit findings the procedures were not integrated and transparent. Risk assessments of the various operations were not made.

8. Remedial Measures

In response to an audit memo about remedial measures taken in the light of discovery of large scale counterfeit stamp papers, the Ministry of Finance stated in March 2004 that the following remedial measures had been taken:

- Introduction of new security features in non-judicial adhesive stamps;
- Disposal of machinery after dismantling and crushing them for sale as scrap;
- Change in the system of indenting procedure from quarterly to half-yearly, with three-year rolling indent;
- Regular surveillance by Intelligence Bureau and setting up of vigilance-cum-surveillance cell at ISP; and
- Replacement of the existing security with CISF.

Verification of actual implementation of remedial measure in ISP could not be made. General Manager, ISP did not furnish information on the status of the above remedial measures except confirming that CISF security and the system of forecasting the indent for three years had been introduced.

However, the remedial measures approved by the Ministry do not address some of the other critical issues relating to risks associated with inaccurate indents, insufficient printing and supply, absence of coordination between indenters and ISP, production of paper, manufacture, custody and use of dandy rolls etc., discrepancy in the packaging and absence of lessons-learnt system.

Annex-A
(Refers to paragraph 2.1.3)
India Non-judicial Stamps

(Figure in lakh sheets)

Denomination	2001-02			2002-03		
	Indent	Production	Supply	Indent	Production	Supply
Rs. 100	232.580	155.240	129.620	445.950	290.480	225.810
Rs. 500	85.950	60.240	55.990	134.90	52.80	67.420
Rs. 1000	330.425	156.600	186.540	443.317	243.960	177.770
Rs. 5000	76.258	65.000	47.870	133.618	47.200	62.680

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State-wise analysis (Illustrative examples)

Name of the State	2001-02								2002-03							
	Rs. 100		Rs. 500		Rs. 1000		Rs. 5000		Rs. 100		Rs. 500		Rs. 1000		Rs. 5000	
	Indent	Supply	Indent	Supply	Indent	Supply	Indent	Supply	Indent	Supply	Indent	Supply	Indent	Supply	Indent	Supply
Assam	5.760	0.000	2.460	0.000	1.930	0.000	1.120	0.000	9.550	2.310	3.225	0.900	2.367	1.070	0.944	0.530
Haryana	3.550	1.600	2.100	2.000	3.620	2.980	3.130	1.900	8.640	2.970	2.570	0.000	6.780	4.000	2.880	1.000
Punjab	20.000	8.000	6.000	3.000	12.000	6.500	2.000	1.400	48.50	4.410	21.820	6.320	33.350	6.500	11.350	2.900
Uttar Pradesh	99.150	37.400	57.150	27.500	132.800	51.620	14.000	4.900	148.80	90.830	70.300	43.800	133.400	53.850	52.400	28.800

APPENDIX II

STATEMENT OF OBSERVATIONS/RECOMMENDATIONS

Sl. No.	Para	Ministry	Observations/Recommendations
1	2	3	4
1.	111	M/o Finance (D/o Economic Affairs)	The India Security Press (ISP), Nasik, was set up in 1924 as an industrial establishment of the Government of India under the Ministry of Finance (Currency and Coinage Division). It is considered to be the only organisation in India and one of the few in the world where a wide variety of security and non-security papers are printed and supplied. The security papers consist of postal stamps, judicial and non-judicial stamps, cheque books for Reserve Bank and State Bank of India, saving certificates, postal orders, passports, promissory notes and other security documents required by the Central/State and Union Territory Governments, Public Sector Undertakings and Local Bodies. In addition to postal stamps of various denominations, India Security Press produces 25 categories of stamps and stamp papers in 212 denominations. The non-security documents comprise of welfare stamps, non-MICR Cheques and railway warrants etc. In so far as India Security Press is concerned, the value of these security and non-security documents is limited to their cost of production, which are realised from the indenters. For the indenting entities i.e. for the Union and State Governments, the security and non-security documents are the financial instruments of Revenue. Thus, for the indenting entities, the security papers are the money worth their face value.
2.	112	-do-	The India Security Press receives quarterly indents from the State Governments, Union Territories etc., for supply of stamp papers of various categories and denominations. As per

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			<p>the extant arrangement in ISP, the consolidation of the indents and supply of stamp papers is managed by its Central Stamp Depot (CSD). Based on the print requisition by the CSD, the Warrant Section issues print warrants to the Production Section. However, during 1996-97 to 2003-04 against the cumulative indent of 277.22 crore of stamp paper sheets, the production and supply were 127.83 and 118.32 crore sheets respectively. The shortfall in supply with reference to indent was 158.89 crore sheets and the percentage of shortfall in production and supply to the indents were 53.89 and 57.32 per cent respectively. Explaining the reason for ISP's inability to meet the demand raised in the indents, the Ministry informed the Committee that indents placed by indenters were very erratic, fluctuating between 52 crore to 18 crore per year and it was difficult to plan production according to such abnormal fluctuations in the indents. In addition to the above, there are other constraints such as old machinery, lack of availability of raw materials in time, lengthy purchase procedure leading to delay in timely receipt of raw materials, etc.</p>
3.	113	M/o Finance (D/o Economic Affairs)	<p>The Committee find that the total indents in terms of number of sheets varied over a wide range of 18.10 crore to 52.82 crore sheets per year during the period 1996-1997 to 2003-2004 and there was no evidence to suggest that ISP had analysed the reasons for such wide fluctuations in the indents in consultation with the indenters. The Ministry have informed the Committee that ISP undertakes printing on orders from various State Governments/Union Territories and Central Government Ministries/Offices and it is difficult for it to undertake studies on all India basis to find out the reasons for abnormal fluctuations in the indents. The Committee were further informed that analysis of the indents received during the last nine years indicate that there was no pattern and they appear to have been raised in an 'ad-hoc' manner. Even when the full supplied were</p>

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4.	114	M/o Finance (D/o Economic Affairs)	<p>not met against the indents of a particular year, in the subsequent year the indents did not increase in the same proportion. Instead, in most of the cases, it had gone down that too without any consistent pattern.</p> <p>With a view to ensure that the States raise realistic indents, the Ministry of Finance have decided that from 2004 onwards, 30 per cent cost of the indented material should be deposited as an advance by the indenters. Indents received without advance money would be treated as unconfirmed indents and ISP will not accord any priority to such indents from 2005-06. However, the Committee find the new system to be a non-starter which can be gauged from the fact that only 12 States/Union Territories have remitted the advance payment during the Financial Year 2005-2006 and the remaining 16 States <i>viz.</i>, Arunachal Pradesh, Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Karnataka, Manipur, Meghalaya, Mizoram, Punjab, Tamil Nadu, Tripura and Uttar Pradesh have not yet complied with the new system. According to the Ministry of Finance, the major reason for non-compliance of States to the new arrangement is the reported non-availability of budget in some States for release of advance payment. While some States have asked for proforma invoice for the advance payment other States have not responded to their request so far.</p>
5.	115	-do-	<p>According to the Ministry, with the introduction of procedure of calling for 30 per cent advance amount against the indents, the indents have come down very drastically from around 50 crore to 14 crore sheets in a year which seems to indicate that State Governments used to submit inflated and unrealistic indents. Though the Committee appreciate the efforts made by the Ministry to curb erratic indents by way of introduction of a system of payment of advance of the material to be indented, the fact remains that it is only after Audit have taken up the review</p>

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			<p>of ISP, the Ministry have become alive to the problem and decided as late as in 2004 to introduce the system. With a view to curtail and curb erratic indents by various indenting agencies, the Committee recommend that India Security Press should set up an institutional mechanism to rationalise the indents received from various entities and also introduce a system of coordination with indenters to address the issue of erratic and inflated indents by setting up a printing and supply plan consistent with the indents. However, at the same time it should also be ensured that for want of payment of 30 per cent advance, States do not place low indents so that it could lead to a situation of scarcity in the market which could be exploited by the unscrupulous elements. The Committee also urge upon the Ministry to examine the feasibility of introducing a comprehensive and transparent information system in coordination with the State Governments and other indenting entities on one hand and the Finance Ministry on the other for exchanging/sharing the information relating to indents so that the possibility of shortages of stamp papers could be eliminated.</p>
6.	116	M/o Finance (D/o Economic Affairs)	<p>The Committee are constrained to point out that the actual production of stamp papers in terms of sheets disclosed that it did not have any relationship with the indent. There was a wide variation in the annual production varying between 8.77 crore to 20.66 crore sheets. During the eight years period, i.e. from 1996 to 2004, India Security Press cumulatively produced 127.83 crore sheets against the total indents of 277.23 crore sheets, which is only 46 per cent of the indents. Analysis of category and denomination-wise production of stamps over the period from 1995 to 2003 confirmed that there was no correlation between indent and production as well as indent and supply. Moreover, the production was consistently lower than the indent and the ISP did not bother to increase production despite</p>

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			<p>large unmet indents. The Ministry of Finance have however contended that production and supply were more a less consistent over years. Because of wide fluctuation in indents it was impracticable to enhance installed capacity all of a sudden and that too when there was no certainty that demand would continue to remain in the coming years. The Ministry have further informed the Committee that on analysis of production capacity of ISP it had been observed that current requirement of indents can be met with the existing capacity and therefore, at present, there is no proposal to enhance the installed capacity. Since dematting is under active consideration, the requirement of stamp papers is likely to reduce significantly. Though the Committee appreciate the Ministry's view point that it would be difficult for ISP to increase the installed capacity all of a sudden and that too in the light of erratic indents which vary from year to year, nevertheless the fact remains that ISP did not bother to review the reasons for consistently low production with reference to the indents and the attendant risks such as the possibility of counterfeit stamp papers entering the market to make good of the wide variation in the supply and demand. The Committee feel that this betrays total lack of risk perception in ISP towards their highly sensitive and risk function of production and supply of stamps and stamp papers. The Committee are quite sceptical about the Ministry's optimism that the existing production capacity of ISP would take care of the current requirements of indents, since there is no evidence to suggest that ISP had carried out an assessment in this regard. Further, the Committee cannot subscribe to the Ministry's view that demat of stamp papers would significantly reduce the demand for stamps and stamp papers when it is still at a very nascent stage and is yet to be implemented. With a view to maintain equilibrium between indent and production, the Committee recommend that the Ministry of Finance may consider the feasibility</p>

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			of enhancing the installed capacity of ISP. Various bottlenecks such as old machinery, lack of availability of raw materials in time etc. that come in the way of achieving optimum production level should have been removed by taking timely remedial action. The Ministry ought to ensure that there is no shortages in supply of stamps and stamp papers vis-a-vis demand raised in the indents which could lead to a crisis situation that can be exploited by the scamsters. Requisite quantity of stamp papers should be made available by fulfilling all the indents raised by the indenting agencies.
7.	117	M/o Finance (D/o Economic Affairs)	The Committee are dismayed to note that no survey was conducted by the Ministry to analyse as to how the indenters were able to meet their requirements of stamps and stamp papers when ISP was unable to fulfill the entire demand raised in the indents so much so that 54 per cent of the total demand raised in the indents had remained unfulfilled. Explaining the reasons for not conducting the survey by ISP, the Ministry have stated that under Section 10(b) of Indian Stamps Act, State Governments are empowered to take recourse to alternate mode of Stamp duty collection in the event of shortage of stamps/stamp papers. The Committee do not accept the Ministry's argument which appears to be hypothetical and presumptuous and is not backed by any evidence suggesting that States/UTs have been invoking the provisions under the Indian Stamp Act to meet their requirements. The Committee cannot but deplore the lackadaisical approach of the Ministry to such an important and sensitive issue which have grave implication for the economy. Far from being alive to the inherent dangers implicit in the shortage of stamps and stamp papers that could be exploited by the unscrupulous elements to their advantage, the Ministry have sought to take refuge in the provision of Indian Stamp Paper Act, which betrays a total lack of seriousness and insensitivity on the part of the Ministry to

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8.	118	M/o Finance (D/o Economic Affairs)	<p>their sovereign function of printing and supply of stamps and stamp papers in adequate quantities.</p> <p>The Committee note that just as production of stamp/stamp papers did not have any relationship with indent, the supply also did not follow any pattern. The supply varied between as low as <i>27 per cent</i> and a maximum of <i>59 per cent</i> of the indents. Over the eight-year period <i>i.e.</i> from 1996 to 2004, the supply was only 118.33 crore sheets against the indent of 277.23 crore sheets <i>i.e.</i>, a shortfall of about <i>57 per cent</i>. State-wise and denomination-wise analysis of supply against the indents disclosed that while the supplies were largely much lower than the indent, it did not follow any pattern. The Ministry have taken a stand that the apparent shortfall of indents by <i>57 per cent</i> had not resulted in crisis in any of the States since the indents were highly inflated and because of the efforts initiated by ISP to curb inflated indents, the indented quantities have come down substantially. It has also been stated that some of the indenters did not lift the non-judicial-stamp-papers which were duly packed and ready for dispatch, inspite of reminders which shows that there was hardly any problem in respect of supply of stamps and stamp papers. The Committee have been further informed that when the indents were going beyond the printing capacity of ISP, the fact was communicated to all the Treasuries/Sub Treasuries and Postal Stores Depots all over the country <i>vide</i> Central Stamp Depot, Nashik Road, Circular No.2304 dated 13th November, 1991 and subsequent reminder Circular bearing No.2606 dated 13th April, 1996. It was clearly brought out in these Circulars that the indenters should raise realistic indents and the unmet indents for a quarter would not be carried forward and would be treated as cancelled. The Committee regret to note that post 1996 the Ministry have not made any efforts to review the indents in consultation with the users. Though the Ministry had issued a Circular way back in</p>

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9.	119	M/o Finance (D/o Economic Affairs)	<p>1991 followed by a reminder in 1996 asking the indenters to make realistic indents, it appears that thereafter it had not bothered to review the situation and slept over the matter till Audit had pointed out the mismatches in the Indent, Production and Supply. It is only after Audit had taken up review of ISP, the Ministry had woken up to the issue and conducted meetings with the respective State Governments and Union Territories in 2004. The Committee are of the opinion that had the Ministry been alive to the problem in the intervening period from 1996-97 to 2003-04, and taken remedial measures to correct the imbalances between Indent and supply things would not have come to such a pass. Further, the possibility of scamsters exploiting the situation arising out of consistent low supply of stamp papers for counterfeit operations would have been greatly minimised.</p> <p>Generally, paper manufacturers produce paper for supply to ISP as per the quantity stipulated in the supply order. Excess paper produced, if any, is re-pulped by the paper mills. As per the agreement entered into by ISP with the paper mills which produce paper for printing, the mills should not produce and supply security papers to other agencies. However, Audit review revealed that ISP did not exercise any control regarding actual quantities produced by these mills against its supply orders, including the wastages. The Committee apprehend that absence of control on the production of paper entails risk of diversion for counterfeit operations. In support of their contention that the extant system of private paper mills producing paper as per the quantity stipulated in the supply order of ISP has been working well, the Ministry have stated that the examination reports in respect of the fake stamp paper cases that were sent by State Police, CBI and other Investigating Agencies to Forgery Detection Cell of ISP, for examination, had revealed that there are no forged stamps/stamp papers wherein genuine paper</p>

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			<p>supplied to ISP by private mills has been used. On the other hand, the Ministry have conceded that ISP is not in a position to have full control over private paper manufacturers with respect to the quantity of paper produced since they supply different kinds of papers not only to ISP but also to many other users. The Committee are of the view that despite the contractual obligation whereunder the paper mills cannot produce more than the quantity ordered by ISP without their permission there is no guarantee that paper Mills will not violate this condition. Further ISP do not have any mechanism to find out whether the mills have been strictly adhering to this condition. Under these circumstances it is naïve on the part of ISP to repose confidence in the private paper mills. Though the Ministry can find solace from the fact that in none of the cases where forgery has been detected by the investigating agencies, genuine paper manufactured by private mills are used, the Committee however, caution the ISP not to become complacent. The Ministry should take extra caution and have a strict vigil and constant monitoring on the functioning of the private paper mills so that they do not divert the stamp paper to unscrupulous persons for counterfeit operations. The Committee further recommend that ISP should ensure that the paper mills do not produce papers more than the quantity ordered and also to evolve a mechanism by which ISP can detect production of excess paper by the paper mills.</p>
10.	120	M/o Finance (D/o Economic Affairs)	<p>The Committee are informed that dandy roll, a device used for introduction of security watermark on to the paper during the course of its manufacture is designed by ISP but manufactured by private producers. The paper mills rather than ISP is responsible for manufacture of dandy rolls through private sources. The manufacturers of dandy rolls are small scale industrial units and do not have a separate licence for their manufacture from ISP.</p>

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			<p>In his deposition before the Committee, the Secretary (Economic Affairs), Ministry of Finance had clarified that only low value security paper is allowed to be manufactured by the Private Paper mills using Dandy Rolls. For High Value security paper, ISP procures paper from the security paper mill, Hoshangabad. However, the review of Control Systems in ISP over dandy rolls disclosed disregard for security procedures of this high risk device in as much as ISP did not maintain control of the dandy rolls and their use through the means of their custody, verification and legal backing of agreement/oath by the private users. The inspections by ISP officials were infrequent and follow up actions were non-existent. At no time, ISP assured itself that dandy rolls were not misused not enter into any agreement with the unit manufacturing dandy rolls. In the agreement entered with the Supplier of paper, there are precluding clauses whereby the Paper Supplier is restrained to use dandy rolls for any other purpose other than stated in the agreement. As a further measure to improve the control on dandy rolls, paper manufacturers are being asked to obtain an undertaking from the dandy roll manufacturers that they would not produce dandy roll of the water mark used by ISP for any other organization without the express approval of ISP.</p>
11.	121	M/o Finance (D/o Economic Affairs)	<p>The Committee apprehend that duplicate production or theft/diversion of the dandy rolls is fraught with serious risk of these being misused to produce paper for counterfeit production. The Secretary, Department of Economic Affairs, Ministry of Finance while deposing before the Committee shared the apprehension of the Committee that the private mills can make more paper than what is required by virtue of their possession of the Dandy Rolls. The Secretary mooted a suggestion that the only fool proof mechanism for prevention of misuse of Dandy Rolls is that all the papers should come from Government controlled presses. For this either</p>

another Press should be set up or a new manufacturing line be added to the existing Government press. The Committee cannot but over emphasise the critical role played by Dandy Rolls and any misuse of this critical input would have a serious repercussions on the economy in as much as it could not only lead to production of counterfeit stamp paper but also loss of revenue to the Central and State Government exchequers. The Committee regret to note that there was a total lack of threat perception on the part of ISP towards the high risk involved in the use of Dandy Rolls in the production of Stamp Papers Far from carrying out a risk assessment on the probable misuse of Dandy Rolls by the Private Paper Mills for excess production of papers than the indented quantity for counterfeit production of stamp papers, ISP had chosen to rely upon the contractual obligation entered with them. It is only after discovery of large scale counterfeit stamp papers in the recent past followed by Audit review on their functioning that ISP had become alive to the problem and has since decided that hence forth Dandy Rolls will be defaced/destroyed after the ordered quantity of the paper is fully supplied by the mills. The Committee recommend that with a view to prevent misuse of Dandy Rolls, the custody and use of dandy rolls should be controlled by ISP by way of retaining the same with them and released only for the duration of production of security paper. Possibility of automatic embedding of the number of sheets of use with each dandy roll may also be explored. The Committee further recommend that the feasibility of completely doing away with the system of engagement of Private Paper Mills for production of paper and entrusting the job of producing all the papers required for security paper production—both high and low value security paper to the Government Security Press should be explored. This can be done either by augmenting the production capacity of the Government Press or setting up a second line of production.

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12.	122	M/o Finance (D/o Economic Affairs)	<p>The Committee note that as per the documents maintained by India Security Press, 53 dandy rolls were in the custody of nine paper mills, many of which are not manufacturing paper for ISP for years. ISP had not carried out physical verification of 21 dandy rolls that were lying with seven paper mills after 1988-89. The last physical inspection was conducted by ISP in Titagarh Paper Mills, Kolkata in 1996, in which only 12 dandy rolls out of 26 were available. Neither the 14 missing dandy rolls were traced nor the 12 that were available, had been taken over by ISP despite no business with this mill for about 20 years. According to the Ministry the physical custody of dandy rolls remained with paper mills as they belonged to them. While conceding that the physical verification of dandy rolls had not been conducted on a regular basis, the Ministry, however, stated that the same was carried out in the year 1987-88, 1991, 1996, 2003 and 2005. The Ministry have now informed that a mechanism has since been put in place whereby inspection would be carried out on half-yearly basis and effective verification of dandy rolls would be done eliminating the possibility of their misuse. Henceforth, dandy rolls will be defaced/destroyed after ordered quantity is supplied by the mills. The Committee are distressed to note that ISP could not give any plausible explanation for the irregular/infrequent physical verifications of dandy rolls. No periodicity or interval appears to have been fixed for the physical verification which is borne by the fact that verification was sometimes carried out after a yawning gap of more than 7 years, which betrays lack of seriousness and most importantly sensitivity to this important function which is fraught with the risk of counterfeit production. It is only after the Committee were seized of the matter that ISP had now decided to conduct physical verification of dandy rolls at half-yearly intervals. What has surprised the Committee is the fact that some paper mills which are no longer producing paper for ISP are still in</p>

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			possession of dandy rolls rather than destroying them. ISP had justified the possession of dandy rolls by these paper mills on the ground that they lie with the paper mills since they belonged to them, which is anything but inexplicable. The Committee expect that atleast in future ISP would carry the physical inspection at regular intervals. They also expect ISP would strictly ensure that as soon as the mills produce the ordered quantity, the dandy rolls are defaced/destroyed. The Committee recommend that ISP should set up a monitoring mechanism both in headquarters as well at each private paper mill which produce papers for ISP to oversee that dandy rolls are completely destroyed.
13.	123	M/o Finance (D/o Economic Affairs)	Instances of short and excess supply and supply of stamps and stamp papers of denominations other than indented or declared in the packing list have come to the notice of the Committee which is a high-risk deficiency that could point towards pilferage of the printed stamps and stamp papers. Sample check of documents relating to different consignments in various States disclosed short supplies with aggregate value of Rs. 1453.75 crore <i>i.e.</i> Delhi (239.75 crore), Gujarat (332.71 crore), Haryana (Rs 1.00 crore), Kerala (Rs. 72.26 crore), Punjab (Rs 0.13 crore) and Uttar Pradesh (Rs. 807.90 crore) and excess supplies of stamps of value of Rs. 687.89 crore in six states during 1996-2003 <i>i.e.</i> Delhi (Rs.15.73 crore), Gujarat (Rs. 132.41 crore), Kerala (Rs.142.75 crore), Orissa (Rs. 6.75 crore), Punjab (Rs.0.25 crore) and Uttar Pradesh (Rs.390.00 crore). The Committee are constrained to point out that India Security Press did not take suitable remedial measures despite a number of instances and complaints about the packets dispatched by them containing stamps of incorrect denominations, excess and short supply. The Committee hope that suitable steps would be taken by ISP in future to avoid such instances.
14.	124	M/o Finance	Audit Review has revealed that there were three

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		(D/o Economic Affairs)	cases of theft of stamps from ISP shop floor with an aggregate value Rs. 1.17 crore. Out of these, two cases were reported to be pending in the courts of law. In the third case involving theft of stamps valued at Rs. 0.85 crore, which took place in April 2002, the culprit was yet to be traced but the case was reported to have been closed. The Ministry have clarified that the theft case relating to India Foreign Bill Stamps amounting to Rs.0.85 crores has not been closed and the same is being pursued with the concerned State police authorities. An FIR had already been lodged with State police. Explaining the action taken against the culprits involved in the theft cases, the Secretary, Department of Economic Affairs, Ministry of Finance during evidence deposed that General Manager of ISP was suspended and arrested and later on dismissed from the service. Besides, a few more employees have been suspended/arrested and in one or two cases, the CBI after due verification, had subsequently given clean chit. The Committee while expressing their serious concern over the theft that occurred in ISP shop floor, recommend that suitable penal action should be taken against all the persons found guilty in the theft cases. The Committee would like to be apprised of the steps taken to strengthen the security and vigilance systems in the shop floor of ISP so as to prevent recurrence of theft.
15.	125	M/o Finance (D/o Economic Affairs)	The Committee find that India Security Press did not have an institutionalised system of surveillance/vigilance in discharge of its high risk and vulnerable operation, except for a Forgery Detection Cell, whose task was limited to verification of the genuineness of the stamps, whenever a complaint was received from the indenters or investigating agencies. Even this operation was approached in a routine manner, limiting its role to mere reporting of the findings. The Committee note that there was an inordinate delay in the verification of the genuineness of the stamps on the referred cases and ISP did not

extend the scope of investigation to the possibility of counterfeit on a large scale which again points to the lack of threat perception by ISP towards this high risk function. The Ministry of Finance have contended that ISP is not an investigative agency and its role is limited to ascertaining genuineness of the documents presented to it by various investigating agencies like State Police, CBI *etc.* According to the Ministry, investigation of cases of forged stamps is done by respective State Governments. The Committee note that many cases relating to forgery of stamps/ stamp papers had remained un-investigated for years, sometimes on the ground of non-receipt of the examination fee of a mere Rs. 100 per document. They further note that a large number of the cases referred for examination of genuineness of the stamps pertained to Uttar Pradesh (241), Maharashtra (294), Andhra Pradesh (156), New Delhi (140) and Tamil Nadu (57), where incidentally a number of cases relating to counterfeit stamp papers were reported/found in the wake of Forged Stamp Paper Scam. Out of the total 69,648 documents of suspected counterfeit stamps consisting of non-postal stamps and stamp papers, the examination by the fraud detection unit disclosed fake stamps in 50313 documents. The Committee regret to note that though the Ministry had subsequently set up a Vigilance-cum Surveillance Cell which had started functioning with effect from 1.3.2005, the Cell is concerned only with activities within ISP and it has nothing to do with intelligence gathering and surveillance all over the country. Though it is appreciated that intelligence gathering and surveillance relating to circulation of counterfeit stamps in the economy pertains to State and Central Intelligence Agencies, nevertheless the Committee are of the opinion that with a view to curb and prevent circulation of large scale counterfeit stamp paper in the system, the Ministry of Finance should explore the possibility of setting a Centralised Surveillance and Vigilance System comprising of

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			<p>representative of ISP and State and Central Investigative Agencies. The modalities of functioning of the system should be worked out by Ministry of Finance in coordination with Ministry of Home Affairs and in consultation with respective State Governments. The system so set up should be alert to the error signals that may manifest in various form <i>viz.</i> theft within ISP and in transit, missing dandy rolls etc. The Committee further recommend that in view of the ramifications of counterfeit stamps on the economy as a whole ISP should therefore, examine the genuineness of stamps in respect of all the complaints received irrespective of whether the examination fee had been paid or not.</p>
16.	126	M/o Finance (D/o Economic Affairs)	<p>The Committee were concerned to note that the physical security within India Security Press, which ought to have multi-level reinforced security system, had been lax. While Maharashtra police managed the security at the gates, the departmental security personnel were responsible for security at the shop floor. Though Central Industrial Security Force (CISF) replaced the Maharashtra police at the gate as late as October, 2002 and the department security personnel at the shop floor with effect from September, 2004, the Committee regret to note that still some of the security related recommendations made by the Intelligence Bureau were yet to be implemented as of March 2004. The Committee have been subsequently informed that out of total 38 recommendation, 35 have already been implemented. The remaining 3 recommendations that are pending implementation relate to installation of Watch Tower, CCTV system and the shifting of Trade Union Offices. The Ministry have informed that Watch Tower and CCTV system would be installed by December, 2005. The Committee would like to be apprised as to how far the implementation of recommendations made by Intelligence Bureau has helped in beefing/</p>

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			strengthening the security set up in ISP. They also expect that the Ministry of Finance would ensure that the remaining recommendations are implemented at the earliest.
17.	127	M/o Finance (D/o Economic Affairs)	<p>The Committee were concerned to note that far from dismantling the equipment and machinery used for printing and other operations in printing of stamp paper, on 'as is where is basis', with a view to eliminating any risk of their re-assembly for counterfeit operation, and precluding the same person/firm from buying the condemned machinery of different types used in printing and other associated operations <i>etc.</i>, ISP had actually facilitated knowledge of assembly of the machines by permitting up to 10 representatives of the successful bidder, M/s Unique Enterprises to witness the dismantling of the machines before their disposal for two months, in two spells, during June-September, 1998. ISP was also negligent in the sale of the condemned printing machine and perforating machine to the same firm at different points of time between June 1998 and September 1998. The Committee were informed that only bigger machines were dismantled so that it can be taken out from the doors of the shop and other machines have been sold as it is. The machines such as <i>Perforating Machines</i> were already available with private security printers in India, who were supplying commemorative postage stamps to Department of Posts, Government of India. In this connection the Ministry have tried to explain that as per the terms and conditions of the Tender Notice No. 5/97 (S. Nos. 11, 12 and 13) the firms' representatives were permitted to witness the dismantling of the machines to ensure that firm satisfies itself that all the parts of machine are made available to them. The Ministry have contended that procedure prescribed in General Financial Rules had been followed for the disposal of machinery. However, they have added that keeping in view the sensitivity and security involved a new procedure had since been introduced whereunder</p>

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			<p>disposal of machines is done after converting them into scrap. The Committee are perplexed at the casual and negligent approach adopted by ISP towards the high risk function of dismantling of printing machines, which is totally devoid of any threat/risk perception. Far from being alive to the possible risk associated with such operation such as chances of misuse of machinery, the tender documents were designed in such a manner that the knowledge of assembly of machines was unwittingly passed on to the bidder. The issue had become all the more serious and alarming and the motive of ISP behind incorporation of certain clauses in the tender notice questionable after the Fake Stamp Paper Scam came into light. It is only after the Scam broke out that ISP had become wiser and decided to adopt a new procedure whereunder the obsolete machinery is disposed after converting into scrap. The Committee are of the firm view that had this new procedure been put in place earlier, the possibility of alleged misuse of the machinery by the bidders would have been completely eliminated. Suitable deterrent action should be taken against all those who are found guilty.</p>
18.	128	M/o Finance (D/o Economic Affairs)	<p>The Committee understand that several cases relating to fake stamp papers scam are currently under investigation by CBI. The Committee were informed that as on 12th September, 2005 CBI had registered and filed charge sheets in 64 cases in the fakes stamp paper scam. Out of these 39 were related to Abdul Karim Telgi, the kingpin of the scam and the remaining 25 cases were stated to be not directly linked to Telgi. As regards ISP's role in the fake stamp papers scam, the representative of CBI during evidence had deposed that CBI had focussed on three allegations relating to ISP namely – (i) physical verification of Dandy Rolls; (ii) negligent disposal of machinery; and (iii) artificial suppression of supply of stamps. The Committee recommend that the Ministry of Finance should periodically</p>

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			review the progress made in the cases relating to ISP and urge upon the CBI to expedite the investigation/examination of the cases. The Committee would like to be apprised of the findings of CBI in the matter of ISP related cases together with suitable remedial Action Taken by the Government to obviate recurrence of such instances.
19.	129	M/o Finance (D/o Economic Affairs)	The Committee are of the considered view that there is an urgent need to revamp/overhaul the functioning of ISP. This has attained paramount importance particularly in the wake of recent fake stamp paper scam that has rocked the country. For this, an expert Committee comprising of eminent personalities/ professionals drawn from different fields with experience relevant to the functioning of ISP should be set up to examine the entire gamut of activities relating to ISP. The Expert Committee should examine all the existing procedures/rules in relation to indent, production, supply and dispatch from the standpoint of threat/risk perception. Risk analysis with respect to all activities pertaining to production of stamps and stamp papers viz. procurement, short-listing of private paper mills, dandy rolls, ink, security etc. should be conducted so that the scope for error and lapses in these processes are minimised to a large extent.
20.	130	-do-	The Committee note that though the Ministry of Finance had taken a decision in principle to encourage dematting of Stamp Papers way back in December, 2003 <i>i.e.</i> 18/12/2003, the proposal was approved by the Government after more than a year <i>i.e.</i> on 28/2/2005. Despite holding 3 meetings so far with State Revenue Secretaries and Inspector General (Registration and Stamps) on 22/12/2003, 4/3/2004 and 2/9/2004, respectively, the Committee regret to note that dematting of Stamp Papers is yet to take a final shape. The Committee were given to understand that some States are still in the process of understanding the proposal. The Committee

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21.	131	M/o Finance (D/o Economic Affairs)	<p>while expressing their unhappiness over the tardy progress made in the implementation of demat process recommend that Ministry should make concerted efforts to convince all the States/ UTs so that the demat of Stamp Papers is implemented at the earliest. The Committee would like to be apprised of the latest position in this regard.</p> <p>Apart from dematerialisation of stamp papers, the Committee are of the considered view that in the present age of information technology other alternative methods should be explored so as to completely do away with the physical form of the Stamp Papers. The Ministry of Finance may examine the feasibility of implementing various ways and means to achieve these objectives.</p>

PART II

MINUTES OF THE TENTH SITTING OF PUBLIC ACCOUNTS COMMITTEE (2005-2006) HELD ON 14TH SEPTEMBER, 2005

The Committee sat from 1600 hrs. to 1715 hrs. on 14th September, 2005 in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Prof. Vijay Kumar Malhotra—*Chairman*

MEMBERS

Lok Sabha

2. Shri Khagen Das
3. Shri R.L. Jalappa
4. Shri Madan Lal Sharma
5. Shri Brij Bhushan Sharan Singh
6. Dr. Ramlakhan Singh
7. Shri K.V. Thangka Balu
8. Shri Tarit Baran Topdar

Rajya Sabha

9. Shri Prasanta Chatterjee
10. Shri R.K. Dhawan
11. Dr. K. Malaisamy
12. Shri Jairam Ramesh
13. Prof. R.B.S. Varma

SECRETARIAT

- | | | |
|--------------------------|---|------------------------|
| 1. Shri Ashok Sarin | — | <i>Director</i> |
| 2. Smt. Anita B. Panda | — | <i>Under Secretary</i> |
| 3. Shri M.K. Madhusudhan | — | <i>Under Secretary</i> |

REPRESENTATIVES OF THE OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

- | | | |
|--------------------------|---|---------------------------------|
| 1. Shri M.S. Shekhawat | — | ADAI (RC) |
| 2. Shri K.P. Sashidharan | — | Pr. Director, Audit (C), Mumbai |
| 3. Ms. Parma Sen | — | Director (RC) |

REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS—
CURRENCY & COINAGE DIVISION)

1. Shri Ashok Jha — Secretary (EA)
2. Shri Ashok Chawla — Additional Secretary
3. Shri Arvind Mayaram — Joint Secretary

REPRESENTATIVE OF THE INDIA SECURITY PRESS, NASHIK

Mr. Prakash Narayan — General Manager

REPRESENTATIVE OF CENTRAL BUREAU OF INVESTIGATION

Mrs. Archana Ramasundaran — Spl. IGP & Jt. Director, EOW-II

2. At the outset, the Chairman, PAC welcomed the Members and Audit Officers to the sitting of the Committee. The Officers of the Office of C&AG of India briefed the Committee on specific points arising out of Audit Report No. 14 of 2005 relating to "Control Systems in India Security Press, Nashik". Thereafter, the representatives of the Ministry of Finance (Department of Economic Affairs) and India Security Press, Nashik were called in and the Committee took their evidence on the subject. The Secretary, Ministry of Finance (Department of Economic Affairs) made a brief audio-visual presentation on the subject. The Members sought clarifications on various points arising out of the Audit Report as also the Advance Information furnished by the Ministry on the subject.

3. As the evidence on the subject remained inconclusive, the Committee decided to meet again on 15th September, 2005 for the purpose.

4. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

MINUTES OF THE ELEVENTH SITTING OF PUBLIC ACCOUNTS COMMITTEE
(2005-2006) HELD ON 15TH SEPTEMBER, 2005

The Committee sat from 1100 hrs. to 1200 hrs. on 15th September, 2005 in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Prof. Vijay Kumar Malhotra — *Chairman*

MEMBERS

Lok Sabha

2. Shri R.L. Jalappa
3. Shri Brajesh Pathak
4. Shri Madan Lal Sharma
5. Shri Brij Bhushan Sharan Singh
6. Dr. Ramlakhan Singh
7. Kunwar Revati Raman Singh
8. Shri Tarit Baran Topdar

Rajya Sabha

9. Shri R.K. Dhawan
10. Shri Jairam Ramesh

SECRETARIAT

1. Shri Ashok Sarin — *Director*
2. Shri M.K. Madhusudhan — *Under Secretary*

REPRESENTATIVES OF THE OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

1. Shri M.S. Shekhawat — ADAI (RC)
2. Shri K.P. Sashidharan — Pr. Director, Audit (C), Mumbai
3. Ms. Parma Sen — Director (RC)

REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS—
CURRENCY & COINAGE DIVISION)

1. Shri Ashok Jha — Secretary (EA)
2. Shri Ashok Chawla — Additional Secretary
3. Shri Arvind Mayaram — Joint Secretary

REPRESENTATIVE OF THE INDIA SECURITY PRESS, NASHIK

Mr. Prakash Narayan — General Manager

REPRESENTATIVE OF CENTRAL BUREAU OF INVESTIGATION

Mrs. Archana Ramasundaram — Spl. IGP & Jt. Director, EOW-II

2. At the outset, the Chairman welcomed the Members of the Committee, the Officials of C&AG of India, the representatives of the Ministry of Finance (Department of Economic Affairs—Currency & Coinage Division) and India Security Press, Nashik to the sitting of the Committee.

3. Thereafter, the Committee resumed the oral evidence on Audit Report No. 14 of 2005, Union Government (Civil—Performance Audit) on "Control Systems in India Security Press, Nashik which remained inconclusive on 14th September, 2005. The Secretary, Ministry of Finance (Department of Economic Affairs) and other officers of the Ministry and India Security Press replied to the various points/queries raised by the Members. After some discussion, Hon'ble Chairman directed the Ministry of Finance to furnish written information on all points relating to the subject, which were raised by the Members during the evidence, at the earliest.

4. A copy of the verbatim proceedings of the sitting has been kept on record.

5. The Committee then decided to undertake a Study Tour to Kochi, Mumbai and Ahmedabad from 14th to 19th October, 2005 **instead** of 22nd to 27th September, 2005, as decided earlier by them.

The Committee then adjourned.

MINUTES OF THE SIXTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE
(2006-2007) HELD ON 20TH JULY, 2006

The Committee sat from 1100 hours to 1215 hours in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Prof. Vijay Kumar Malhotra — *Chairman*

MEMBERS

Lok Sabha

2. Shri Khagen Das
3. Shri P.S. Gadhavi
4. Shri Raghunath Jha
5. Shri Brajesh Pathak
6. Shri Madan Lal Sharma
7. Shri Mohan Singh
8. Shri Kharabela Swain
9. Shri K.V. Thangkabalu
10. Shri Tarit Baran Topdar

Rajya Sabha

11. Shri V. Narayanasamy
12. Shri R.K. Dhawan
13. Shri Prashanta Chatterjee

SECRETARIAT

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Shri Ashok Sarin — *Director*
3. Shri M.K. Madhusudhan — *Under Secretary*

REPRESENTATIVES OF THE OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

1. Shri B.K. Chattopadhyaya — *Additional Deputy C&AG*
2. Dr. A.K. Banerjee — *Director General of Audit (CR)*
3. Shri R.N. Ghose — *Principal Director (AB)*

4. Shri P. Shesh Kumar — Principal Director (RC)
 5. Mrs. Sudha Krishnan — Principal Director (Direct Taxes)

REPRESENTATIVES OF THE MINISTRY OF INFORMATION & BROADCASTING

1. Shri S.K. Arora — Secretary
 2. Shri Raghu Menon — Additional Secretary & Financial Advisor

REPRESENTATIVES OF THE PRASAR BHARATI

1. Shri Navin Kumar — Chief Executive Officer
 2. Shri Sanjeev Datta — ADG(A)

2. At the outset, the Chairman, PAC welcomed the Members and Audit Officers to the sitting of the Committee. The Committee then took up for consideration of the following draft Reports and adopted the same without any modifications/amendments.

(i) Draft Report on C&AG's Report No. 14 of 2005 for the year ended March, 2004, Union Government, (Civil-Performance Audit) relating to '**Control Systems in India Security Press, Nashik**'.

(ii) XXX XXX XXX

(ii) XXX XXX XXX

The Committee authorised the Chairman, to finalise these draft Reports in the light of changes suggested by Audit through factual verification, if any, or otherwise and to present the same to the Parliament.

3. XXX XXX XXX

4. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.