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

**MINISTRY OF FINANCE  
(DEPARTMENT OF ECONOMIC AFFAIRS)**

**PUBLIC ACCOUNTS  
COMMITTEE  
2007-2008**

**FIFTY-EIGHTH REPORT**

**FOURTEENTH LOK SABHA**



**LOK SABHA SECRETARIAT  
NEW DELHI**

FIFTY-EIGHTH REPORT  
PUBLIC ACCOUNTS COMMITTEE  
(2007-2008)

(FOURTEENTH LOK SABHA)

CONTROL SYSTEMS IN INDIA  
SECURITY PRESS, NASHIK

(MINISTRY OF FINANCE)  
(DEPARTMENT OF ECONOMIC AFFAIRS)

*[Action Taken on 28th Report of Public Accounts Committee (14th Lok Sabha)]*



*Presented to Lok Sabha on 23.11.2007  
Laid in Rajya Sabha on 23.11.2007*

LOK SABHA SECRETARIAT  
NEW DELHI

*November, 2007/Kartika, 1929 (Saka)*

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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE  
(2007-2008)

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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 Fifty-eighth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 28th Report (14th Lok Sabha) on "Control System in India Security Press, Nashik".

2. This Report was considered and adopted by the Public Accounts Committee at their sitting held on 2nd November, 2007. Minutes of the sitting form Part II of the Report.

3. 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.

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

5. The Committee also place on record their appreciation for the invaluable assistance rendered to them by the officials of Lok Sabha Secretariat attached with the Committee.

NEW DELHI;  
7 November, 2007  
16 Kartika, 1929 (Saka)

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

## CHAPTER I

### REPORT

This Report of the Committee deals with action taken by the Government on the Observations/Recommendations of the Public Accounts Committee contained in their Twenty-Eighth Report (14th Lok Sabha) on the 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) relating to "Control Systems in India Security Press, Nashik".

2. In their Twenty-Eighth Report presented to Lok Sabha on 7th August, 2006, the Committee had dealt with various issues concerning the 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; non-investigation of sharp swings in the indents received from State Governments, Union Territories etc.; failure of India Security Press (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, 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 re-assembly 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; 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. Thus, it was concluded by the Committee that India Security Press approached the responsibility of printing of the stamps and stamp papers in a mechanical way rather than as an important partner and stake holder.

3. The Action Taken Notes in respect of all the Observations/Recommendations have been received from the Ministry of Finance (Department of Economic Affairs) and the same have been categorized as under:—

- (i) Observations/Recommendations which have been accepted by Government:

Sl. Nos. 3, 6, 8, 13, 14, 15 and 20

- (ii) Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from Government:

Sl. Nos. 1, 2, 4, 7, 10, 17, 19 and 21

- (iii) Observations/Recommendations in respect of which replies of Government have not been accepted by the Committee which requires reiteration:

Sl. Nos. 5, 9, 11, 12 and 16

- (iv) Observations/Recommendations in respect of which Government have furnished interim replies:

Sl. No. 18

4. The Action Taken Notes furnished by the Ministry of Finance (Department of Economic Affairs) have been reproduced in the subsequent Chapters of this Report. The Committee will now deal with the action taken by the Government on some of their observations/Recommendations that require reiteration or merit comments.

**Gist of Committee's Observations/Recommendations in 28th Report (14th Lok Sabha)**

5. The important Observations/Recommendations made by the Committee in their 28th Report on the subject are as follows:

- \* In order to check the mismatch between indents, production and supply of stamps and stamp papers, the Committee had recommended for examining 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.
- \* The Committee had emphasized the need to enhance the installed capacity of India Security Press and also sought for removal of the various bottlenecks such as old machinery, lack of availability of raw materials in time etc.
- \* With a view to prevent misuse of Dandy Rolls, the Committee had emphasised the need for exclusive control of Dandy Rolls by the India Security Press.
- \* The feasibility of completely doing away with the system of engagement of private paper mills for production of paper and entrusting the job to the Government Security Press by augmenting its production capacity or setting up a second line of production may be examined.
- \* With a view to curb and prevent circulation of large scale counterfeit stamp papers, the Committee had emphasised that the Ministry of Finance should explore the possibility of setting a Centralised Surveillance and Vigilance System comprising of representatives of India Security Press and State and Central Investigative Agencies.
- \* The Committee had emphasized implementation of dematting of Stamp Papers by all the States/UTs at the earliest.



6. The Committee desire that Government should furnish final/conclusive action taken reply to the recommendation for which interim reply has been furnished.

**A. Introduction of a comprehensive and transparent information system to address erratic indents of stamp papers.**

**(Recommendation Sl. No. 5—Para No. 115)**

7. With a view to curtail and curb erratic indents by various indenting agencies, the Committee had urged upon the India Security Press to 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. The Committee had also suggested that the Ministry should 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.

8. Apprising the Committee about the steps taken by the Ministry of Finance to check the erratic indents by various indenting agencies, the Ministry in their Action Taken Note have stated as under:—

"Apart from introduction of the 30 per cent advance payment system which has rationalized the indents to a large extent, the ISP, Nashik has devised the proforma of indent requiring indenters to indicate reasons for any abnormal variation of more than 10 per cent over the last indent to ensure that indents are strictly according to the requirements. Most of the State/UTs (28) have started paying advance payment of 30 per cent at the time of placing their indents with the ISP. The remaining six States/UTs who have not yet adopted this system are supplied stamps after meeting the requirements of those who have made the advance payment. Moreover, with the introduction of this system in indenters have started collecting stamps regularly from the ISP. However, the ISP ensures that no artificial scarcity of stamps arises as a result of the system. Any urgent requirement of stamps reported by such State is given urgent attention to ward off any untoward situation. The issue of feasibility of introducing a comprehensive and transparent information system is being included in the agenda for discussion in the next meeting of State Revenue Secretaries organized by the National Institute of Public Finance and Fiscal Policy, scheduled in April, 2007."

**9. The Committee are dismayed to find that even after lapse of more than 3 years since the introduction of the system of advance payment of 30 per cent amount of the indented value along with indents some States/UTs are yet to comply with the system. This indicates that concerted efforts have not been made by the Ministry to make the States comply with this stipulation. The Committee reiterate that Government should take all possible measures to make the remaining States/UTs**

comply with the new system at the earliest. The Committee also regret to note that despite lapse of about a year since the presentation of their Report, a comprehensive and transparent information system in coordination with the State Governments and other indenting entities for exchanging/sharing information relating to indents has not yet been put in place. The Committee now understand that the issue of introducing a comprehensive and transparent information system for exchanging information relating to indents had recently been discussed in a meeting of State Revenue Secretaries organized by National Institute of Public Finance and Fiscal Policy. The Committee would like to be apprised of the outcome of the meeting on the issue and conclusive action taken thereon within 3 months from presentation of this Report.

**B. Strict vigilance and constant monitoring on the functioning of private paper mills called upon.**

**(Recommendation Sl. No. 9—Para No. 119)**

10. The Committee had observed that despite the contractual obligation whereunder the paper mills cannot produce more than the quantity ordered by ISP without their permission, there was no guarantee that paper mills will not violate this condition. The Committee had therefore, recommended that Ministry should be extra cautious and vigilant in monitoring the functioning of the private paper mills. They had also recommended for evolving a mechanism which can detect production of excess paper by the paper mills.

11. The Ministry of Finance in their Action Taken Note have *inter-alia* stated as under:

"It is submitted that there are sufficient safeguards in the contract with the paper suppliers that ensure that paper mills do not produce more paper than the quantity ordered. The above position stands vindicated by the fact that no genuine paper was found in any of the counterfeit stamps detected by the intelligence agencies. However, system of periodic inspections would be instituted for more effective monitoring."

**12. Considering the importance and sensitivity of the issue of production of stamp papers which have grave implication for the economy, the Committee had apprehended that absence of control and monitoring of the production of stamp paper by Private Paper Mills entails the risk of diversion for counterfeit operations. From the Ministry's Action Taken Reply, the Committee find that a system of periodic inspection is yet to be set up for control and monitoring the activities of private paper mills. While deploring lack of urgency on the part of the Ministry of Finance to such a critical area of operation relating to stamp papers, the Committee once again emphasise the need to take measures for expediting setting up of an institutionalised system for periodic inspection of Private Paper Mills within a time bound period with a view to effectively controlling and monitoring the activities of Private Paper Mills. The Committee would like to be apprised of the conclusive action taken in the matter.**

**C. Augmentation of the production capacity of Government Press.**

**(Recommendation Sl. No. 11—Para 121)**

13. The Committee had noted 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. The Committee also noted that 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, ISP had chosen to rely upon the contractual obligation entered with them. The Committee, therefore, recommended 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. Further, the Committee also recommended 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. They also recommended that the Government Press should augment their production capacity or set up a second line of production.

14. In their Action Taken Note the Ministry of Finance (Department of Economic Affairs) have stated as follows:—

"The Ministry appreciates the concern of the Committee for preventing misuse of Dandy rolls by the paper manufactures. Because of its huge, weight and fragility leading to difficulty in transportation to and fro ISP and the paper mills, it is not practicable for ISP to retain Dandy Rolls with them and release only for the duration of production of security paper. Therefore, it will be appropriate to seal the Dandy Rolls during the period when it is not in use and deface/destroy them in the presence of representatives of ISP at once after the contract is fully executed. The Committee's recommendation for exploring the possibility of automatic embedding of the number of sheets has been examined and it has not been found feasible due to technical constraints since Dandy Rolls are used to produce paper in reels and not in sheets, which is a continuous process. Regarding setting up a second line of production, decision would now be taken by the Board of Security Printing & Minting Corporation of India Limited."

**15. The Committee note that steps have been taken by the Ministry for preventing misuse of Dandy Rolls by paper manufacturers. However, they regret to note that the Ministry's reply is conspicuously silent with regard to examining the feasibility of completely doing away with the system of engagement of private paper mills. The Committee, reiterate that Government should examine this important aspect as it would facilitate minimise the risk of excess and duplicate production; theft/diversion of the Dandy Rolls and also the high risk of replication for counterfeit etc. The Committee would also like to be apprised of the progress made in augmenting the production capacity of the Government Press as well as setting up**

**of a second line of production. In the opinion of the Committee, this is absolutely necessary to avoid the risk of diversion of paper for counterfeit operations.**

**D. Regular physical inspection and verification of Dandy Rolls by India Security Press emphasised.**

**(Recommendation Sl. No. 12 — Para No. 122)**

16. The Committee had noted that no periodicity or interval appeared to have been fixed for the physical verification of Dandy Rolls which was borne by the fact that verification was sometimes carried out after a yawning gap of more than 7 years which betrayed total lack of seriousness and sensitivity to this important function which was fraught with the risk of counterfeit production. They had also noted that some paper mills which were no longer producing paper for ISP were in possession of Dandy Rolls rather than destroying them. The Committee had therefore, recommended that atleast in future ISP would carry out the physical inspection at regular interval and also ensure that as soon as the mills produced the ordered quantity, the Dandy Rolls are defaced/destroyed.

17. The Ministry in their Action Taken Note have stated as under:—

"The figure of dandy rolls with various paper mills as per India Security Press records have been reconciled and the figures have been certified by a Committee of officers specially constituted for this purpose. After this the discrepancy noted regarding the dandy rolls held at Titagrah Paper Mill, Kolkata has also been rectified and all the dandy rolls held by this mill have been defaced on 10th June 2006 in the presence of India Security Press representative. During the verification, all the mills have been located and verified except two mills viz. (1) M/s J.B. Paper Mills, New Delhi (2) M/s Cicar Paper Mills Ltd., Nellore (A.P.), which could not be located as they are no more in existence at their sites, In view of this, the concerned Government authorities have been requested to locate their present whereabouts so that the dandy rolls held by these two mills could be located and defaced. Regarding the observation of the Committee about carrying out physical inspection of Dandy Rolls at regular interval and ensuring that they are defaced/destroyed, a mechanism has been put in place at ISP to ensure that Dandy Rolls are completely destroyed/defaced on conclusion of the contract for production of security paper."

**18. The Committee regret to note that the Ministry have yet not been able to locate and verify the whereabouts of the two paper mills viz., M/s J.B. Paper Mills, New Delhi and M/s Cicar Paper Mills. Ltd., Nellore (Andhra Pradesh) even after nearly two decades when the first verification was conducted by ISP in the year 1987-88. The Committee are not sure as to whether assistance of State police/authorities has been taken in the matter. They, accordingly, are of the strong view that Ministry should take all possible measures to locate these mills in coordination with State Government to avoid likely misuse of Dandy Rolls. The Committee also recommend that henceforth Units/Agencies who are given Dandy Rolls should be subject to prior police/intelligence scrutiny.**

**E. Implementation of the Recommendations of Intelligence Bureau regarding physical security within India Security Press.**

**(Recommendation Sl. No. 16 — Para No. 126)**

19. In their 28th Report, the Committee had noted that the physical security within India Security Press, which ought to have been multi-level reinforced security system, had been lax and that some of the security related recommendations made by the Intelligence Bureau were yet to be implemented as of March 2004 such as installation of Watch Tower, CCTV system and the shifting of Trade Union Offices. The Committee had expected that the Ministry of Finance would ensure that the remaining recommendations of Intelligence Bureau are implemented at the earliest. They also sought to be apprised of as to how far the implementation of recommendations made by Intelligence Bureau had helped in beefing/strengthening the security set up in ISP.

20. The Ministry of Finance in their Action taken Note have stated as under:

"Out of 38 recommendations by IB, all were complied with except the following two recommendations:

1. Installation of CCTV.
2. Shifting of Trade Union Offices away from Main Gate.

The present status of the above two recommendations is as under:

1. CCTV—under installation.
2. Shifting of Trade Union Offices—New building where the office will be shifted is nearing completion.

As regards the observation about the effectiveness of recommendations of IB in beefing/strengthening of security is concerned, it is submitted that the recommendations have strengthened the security to a significant extent."

**21. The Committee are happy to note that the implementation of recommendations of the Intelligence Bureau have strengthened the security set up at India Security Press. However, the Committee are disappointed to note that despite their recommendation for implementing the remaining three recommendations of Intelligence Bureau at the earliest, only one recommendation relating to installation of Watch Tower has been implemented by the Ministry so far. The remaining two recommendations pertaining to installation of CCTV and shifting of Trade Union Offices are yet to be implemented. The Committee expect that the remaining recommendations relating to vital aspects of security would be implemented by the Government expeditiously.**

## CHAPTER II

### OBSERVATIONS/RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

#### **Observation and Recommendation**

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 1996-97 to 2003-04 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 '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.

[Sl. No. 3 Appendix II, Para No. 113 of Report of PAC (14th Lok Sabha)]

#### **Action Taken**

**Reply :** The India Security Press has set up a new Section known as "Production, Planning & Warrant Section" which works in close harmony with the Central Stamp Depot and other production and Control Sections in order to correct the mismatch between indents and supplies. The Central Stamps Depot, where the indents are received and this new Section have been put under one head i.e. Dy. General Manager for closer interaction and the indent received from various indenters and the status of supply has been computerized for effective monitoring. This new Section is manned by technical hands who are being professionally trained.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

#### **Observation and Recommendation**

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 indents. 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 indent 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-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.

[Sl. No. 6, Appendix II, Para No. 116 of Report of PAC [14th (Lok Sabha)]

#### **Action Taken**

**Reply:** The existing plan & machinery at India Security Press has been overhauled and fitted with new parts and certain modifications to some of the machines has been carried out to take care of the production of the 1st Phase of new design



of stamps with enhanced security features. The issue regarding enhancement of installed capacity of ISP would be dealt with by the Board of the Security Printing & Minting Corporation of India Limited (SPMCIL), which is now responsible for the management ISP, Nashik alongwith eight other security Presses/Mints/Mill. Regarding ensuring that there is no shortage in supply of stamps and stamp papers viz-a-viz demand raised in the indents it is submitted that all the confirmed indents of year 2005-06 have been met in full and during the current year also ISP, Nashik is confident of meeting the confirmed indent fully.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March 2007]

#### **Observation and Recommendation**

The Committee note that just as production of stamp/stamp papers did not have any relationship with Indents, 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, Nasik 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 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 UTs 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 greatly minimized.

[Sl. No. 8, Appendix II, Para No. 118 of Report of PAC (14th Lok Sabha)]

#### **Action Taken**

**Reply :** As already submitted in reply to para 113, a new Section has been created and started functioning to ensure complete synchronization between indents and supplies. Further, as submitted in reply to para 115, a revised Indent Proforma has been prescribed to keep a watch on fluctuation in the indents.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

#### **Observation and Recommendation**

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 paper. 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 contained 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.

[Sl. No. 13, Appendix II, Para No. 123 of Report of PAC (14th Lok Sabha)]

### **Action Taken**

**Reply :** In the old design of non judicial stamps, there was no State name nor any serial number on the Non-judicial Stamps. Hence this could be used anywhere in India and since it had no number; it was difficult to keep a track. In the new design of Non-Judicial Stamps, every stamp paper bears the State name and a running serial number and hence discrepancy is very remote and can be easily detected. Hence this aspect has been taken care of. This has resulted into streamlining the process of packing and dispatch thereby almost eliminating the possibility of shortage/excess in supply of stamp papers.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

### **Observation and Recommendation**

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 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. Beside, 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.

[SI. No. 14, Appendix II, Para No. 124 of Report of PAC (14th Lok Sabha)]

### **Action Taken**

**Reply:** The Security set up in the ISP has been revamped. CISF has been deployed in place of the Departmental Security Organization and the Maharashtra State Police. A Vigilance-cum-Surveillance Cell has also been set up. In all four cases of theft from shop floor, the persons concerned have been removed from service and criminal case against them is also going on. For further strengthening of security surveillance, installation of Closed Circuit T.V. systems is already underway.

As already submitted before the Committee, one Vigilance-cum-Intelligence Cell has started functioning *w.e.f.* 01.3.2005.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

### **Observation and Recommendation**

The Committee find that India Security Press did not have an institutionalized system of surveillance/vigilance in discharge of its high risk and vulnerable operation, expect 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 tile to more 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 at investigating agency and its role is limited to ascertaining genuineness of documents presented to it by various investigating agencies like State Police 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), were 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 face 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 stamps in respect of all the complaints received irrespective of whether the examinations fee had been paid or not.

[Sl. No. 15, Appendix II, Para No. 125 of Report of PAC (14th Lok Sabha)]

#### **Action Taken**

**Reply :** No centralized system is possible except that which already exists under the aegis of the Ministry of Home Affairs for sharing of information on crime between Central Government and State Governments. As regards examination of documents referred to by the CBI, all the cases were examined without insisting on advance payment. There is no hold up on this count as on date. The ISP has already implemented the recommendation of the Committee that all the cases received for examination of stamps be examined irrespective of whether the examination fee has been paid or not. A Vigilance-cum-Surveillance Cell responsible for vigilance/surveillance within the ISP, Nashik has started functioning with effect from 1.3.2005.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

#### **Observation and Recommendation**

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.

[Sl. No. 20, Appendix II, Para No. 130 of Report of PAC (14th Lok Sabha)]

**Action Taken**

**Reply :** Stock Holding Corporation of India Limited (SHCIL) has been appointed as the Central Record Keeping Agency which has been authorised to undertake the project on a pilot basis in selected cities in States willing to join the system. Most of the States have shown interest on the project and presentation has been made/is being made by the SHCIL as intimated. SHCIL has received mandates for implementation of e-stamping systems from Maharashtra, Gujarat and Delhi.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

### **CHAPTER III**

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

##### **Observation and Recommendation**

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/States 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 realized 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.

[Sl. No. 11, Appendix II, Para No. 111 of Report of PAC (14th Lok Sabha)]

##### **Action Taken**

**Reply :** This para contains factual information about ISP and its functioning and requires no comments.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

##### **Observation and Recommendation**

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 warrant 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 vary 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.

[Sl. No.2, Appendix II, Para No. 112 of Report of PAC (14th Lok Sabha)]

#### **Action Taken**

**Reply :** This Para needs no reply as it only contains observations of the Committee.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

#### **Observation and Recommendation**

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/UTs have remitted the advance payment during the Financial Year 2005-06 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 to 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.

[Sl. No.4, Appendix II, Para No. 114 of Report of PAC (14th Lok Sabha)]

### **Action Taken**

**Reply :** After introduction of the system of 30% advance along with the indents, the indents are being raised as per the realistic needs. For the year 2006-07, 28 States/UTs have made advance payments and the remaining are also being persuaded for payment of advance. Moreover, with the introduction of the 30% advance payments, the States/UTs have started collecting stamps regularly from the Central Stamps Depot.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

### **Observation and Recommendation**

The Committee are dismayed to note that no survey was conducted by the Ministry to analyze as to how the indentors 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 unfilled. 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 Stamps 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.

[Sl. No.7, Appendix II, Para No. 117 of Report of PAC (14th Lok Sabha)]

### **Action Taken**

**Reply :** It is the responsibility of the respective State Governments/UTs and not of the Union Finance Ministry, to invoke the provisions under the Indian Stamp



Act, if they foresee any shortage. However, whenever shortages were reported to ISP, the supplies were made without delay. The Ministry has the evidence that several States/UTs including UP, MP, Meghalaya & Pondichery invoked the provision of Section 10B under the Indian Stamp Act authorizing alternative ways of duty collection.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F.No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

### **Observation and Recommendation**

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 this 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 of the water mark used by ISP for any other organization without the express approval of ISP.

[Sl. No.10, Appendix II, Para No. 120 of Report of PAC (14th Lok Sabha)]

**Action Taken**

**Reply :** This para needs no reply as it only contains observations of the Committee.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F.No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

**Observation and Recommendation**

The Committee were concerned to note that far from dismantling the equipment and machinery used for printing and other operations in printing of stamp papers, 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 at 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.No. 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 where under 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 where under 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.

[Sl. No. 17, Appendix II, Para No. 127 of Report of PAC (14th Lok Sabha)]

#### **Action Taken**

**Reply:** The case was investigated by CBI and charge sheets have already been filed in competent courts. Suitable action will be taken in accordance with court's orders.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

#### **Observation and Recommendation**

The Committee are of the considered view that there is an urgent need of 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 stamp 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.

[Sl. No. 19, Appendix II, Para No. 129 of Report of PAC (14th Lok Sabha)]

**Action Taken**

**Reply:** The issue regarding revamp/overhaul the functioning of ISP will now be decided by the Board of the Security Printing & Minting Corporation of India Limited (SPMCIL), since the ISP, Nashik is now under the management of SPMCIL.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

**Observation and Recommendation**

Apart from dematerialization 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 to away with the physical form of Stamp Papers. The Ministry of Finance may examine the feasibility of implementing various ways and means to achieve these objectives.

[Sl. No. 21, Appendix II, Para No. 131 of Report of PAC (14th Lok Sabha)]

**Action Taken**

**Reply:** Though it is a totally State subject, the issue of completely doing away with the physical form of the stamp papers and implementing various ways and means to this end, was discussed in the meeting of State Revenue Secretaries held on 04.03.2004. The present status of the step taken for Dematting of Stamps is already given in the previous paragraph.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

## CHAPTER IV

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

#### **Observation and Recommendation**

According to the Ministry, with the introduction of procedure of calling 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 Government used to submit inflated and unrealistic indents. Though the Committee appreciate the efforts made by the Ministry of 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 has 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 percent advance, States do not place low indents so that it could lead to 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 Government 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 shortage of stamp papers could be eliminated.

[Sl. No. 5, Appendix II, Para No. 115 of Report of PAC (14th Lok Sabha)]

#### **Action Taken**

**Reply:** Apart from introduction of the 30% advance payment system which has rationalized the indents to a large extent, the ISP, Nashik has devised the proforma of indent requiring indenters to indicate reasons for any abnormal variation of more than 10% over the last indent to ensure that indents are strictly according to the requirements.

It has already been submitted in reply to para 114 that most of the States/UTs (28) have started paying advance payment of 30% at the time of placing their indents with the ISP. Moreover, with the introduction of this system the indentors have started collecting stamps regularly from the ISP. The remaining six States/UTs who have not yet adopted this system are supplied stamps after meeting the requirements of those

who have made the advance payment. However, the ISP ensures that no artificial scarcity of stamps arises as a result of the system. Any urgent requirement of stamps reported by such States is given urgent attention to ward off any untoward situation.

The issue of feasibility of introducing a comprehensive and transparent information system is being included in the agenda for discussion in the next meeting of State Revenue Secretaries organized by the National Institute of Public Finance and Policies, scheduled in April, 2007.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F.No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

#### **Observation and Recommendation**

Generally, paper manufactures 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 wastage. 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 naive on the part of the 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 the 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.

[Sl. No. 9, Appendix II, Para No. 119 of Report of PAC (14th Lok Sabha)]

#### **Action Taken**

**Reply:** It is submitted that there are sufficient safeguards in the contract with the paper suppliers that ensure that paper mills do not produce more paper than the quantity ordered. The above position stands vindicated by the fact that no genuine paper was found in any of the counterfeit stamps detected by the intelligence agencies. However, system of periodic inspections would be instituted for more effective monitoring.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F.No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

#### **Observation and Recommendation**

The Committee apprehend that duplicate production or theft/diversion of the dandy rolls in 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 emphasize the critical role played by Dandy Rolls and any misuse of this critical input would have a serious repercussion 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 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 also recommend that the feasibility by 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.

[Sl. No. 11, Appendix II, Para No. 121 of Report of PAC (14th Lok Sabha)]

#### **Action Taken**

**Reply:** The Ministry appreciates the concern of the committee for preventing misuse of Dandy Rolls by the paper manufactures. Because of its huge size, weight and fragility leading to difficulty in transportation to and fro ISP and the paper mills, it is not practicable for ISP to retain Dandy Rolls with them and release only for the duration of production of security paper. Therefore, it will be appropriate to seal the Dandy Rolls during the period when it is not in use and deface/destroy them in the presence of representatives of ISP at once after the contract is fully executed. The Committee's recommendation for exploring the possibility of automatic embedding of the number of sheets has been examine and it has not been found feasible due to technical constraints since Dandy Roll are used to produce paper in reels and not in sheets, which is a continuous process. Regarding setting up a second line of production, decision would now be taken by the Board of Security Printing & Minting Corporation of India Limited.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F.No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

#### **Observation and Recommendation**

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 not 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 that 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 at least 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 the dandy rolls are completely destroyed.

[Sl. No. 12, Appendix II, Para 122 of Report of PAC (14th Lok Sabha)]

#### **Action Taken**

**Reply:** The figures of dandy rolls with various paper mills as per India Security Press records have been reconciled and the figures have been certified by a Committee of officers specially constituted for this purpose. After this, the discrepancy noted regarding the dandy rolls held at Titagargh Paper Mill, Kolkata has also been rectified and all the dandy rolls held by this mill have been defaced on 10th June, 2006 in the presence of India Security Press representative.

During the verification, all the mills have been located and verified except two mills viz. (1) M/s. J.B. Paper Mills, New Delhi (2) M/s. Circar Paper Mills Ltd., Nellore (A.P.), which could not be located as they are no more in existence at their sites. In view of this, the concerned Govt. authorities have been requested to locate their present whereabouts so that the dandy rolls held by these two mills could be located and defaced.

Regarding the observation of the Committee about carrying out physical inspection of Dandy Rolls at regular interval and ensuring that they are defaced/

destroyed, a mechanism has been put in place at ISP to ensure that Dandy Rolls are completely destroyed/defaced on conclusion of the contract for production of security paper.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I, dated 2nd March, 2007]

#### **Observation and Recommendation**

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 departmental 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 a total of 38 recommendations, 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/strengthening the security set up on ISP. They also expect that the Ministry of finance would ensure that the remaining recommendations are implemented at the earliest.

[Sl. No. 16, Appendix II, Para No. 126 of Report of PAC (14th Lok Sabha)]

#### **Action Taken**

**Reply:** Out of 38 recommendations by IB, all were complied with except the following two recommendations:

1. Installation of CCTV.
2. Shifting of Trade Union Offices away from Main Gate.

The present status of the above two recommendations is as under:

1. CCTV—under installation.
2. Shifting of Trade Union Offices—New building where the offices will be shifted is nearing completion.

As regard the observation about the effectiveness of recommendations of IB in beefing/strengthening of security is concerned, it is submitted that the recommendations have strengthened the security to a significant extent.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

## CHAPTER V

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

#### Observation and Recommendation

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 fake 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.

[Sl. No. 18, Appendix II, Para No. 128 of Report of PAC (14th Lok Sabha)]

#### Action Taken

**Reply:** CBI has stated that there are two cases in which allegations pertaining to ISP, Nashik were investigated by them. In the case against A.K.L. Telgi, Ganga Prakash, N.A. Bhusare, Mahender Singh, P.P. Konkane, D.S. Salig Ram, they have filed a Closure Report in the court of Special Judge, Nashik which is pending for acceptance. The next date of hearing in the Nashik Court is 18-10-2007. In the other case, the accused Shri R.R. Reddy, Shri M.T. Kulthey, Shri S.T. Sharma, all ISP officials are facing trial alongwith 65 other accused persons for having abetted the unlawful activities of A.K.L. Telgi.

Regarding the investigation by CBI into three allegations concerning ISP, Nashik namely (1) physical verification of Dandy Rolls; (2) negligent disposal of machinery; and (3) artificial suppression of supply of stamps, it is submitted that for physical verification of Dandy Rolls a mechanism has already been put in place as given in reply to para 122. Regarding disposal of machinery, a new procedure for disposal of obsolete/old machinery has already been put in place as mentioned by the Committee in the preceding para. A mechanism has been put in place to analyze

the indents received from the State/UT Governments and delivery of stamps are ensured strictly in accordance with the confirmed indents raised by the indenters.

Sd/-

Signature of Joint Secretary (Infra)

[Ministry of Finance, (Department of Economic Affairs) F. No. 9/8/2006-CY-I,  
dated 2nd March, 2007]

NEW DELHI;  
7th November, 2007  
16 Kartika, 1929 (*Saka*)

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

## **PART-II**

### **MINUTES OF THE TWELFTH SITTING OF PUBLIC ACCOUNTS COMMITTEE (2007-2008) HELD ON 2nd NOVEMBER, 2007**

The Committee sat from 1100 hrs. to 1250 hrs. in Committee Room 'C' Parliament House Annexe, New Delhi.

#### **PRESENT**

Prof. Vijay Kumar Malhotra — *Chairman*

#### *Lok Sabha*

2. Shri Khagen Das
3. Shri Raghunath Jha
4. Shri Bhartruhari Mahtab
5. Shri Brajesh Pathak
6. Shri K.S. Rao
7. Shri Tarit Baran Topdar

#### *Rajya Sabha*

8. Shri Prasanta Chatterjee
9. Dr. K. Malaisamy

#### **SECRETARIAT**

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Shri Brahm Dutt — *Director*
3. Shri M.K. Madhusudhan — *Deputy Secretary-II*
4. Shri R.K. Suryanarayanan — *Under Secretary*
5. Shri N.K. Jha — *Under Secretary*

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

1. Shri B.K. Chattopadhyay — ADAI (RC)
2. Shri A.N. Chatterji — DG (PA)
3. Shri K.R. Sriram — PD (ESM)
4. Shri Jayanti Prasad — PD (INDT)
5. Shri R.B. Sinha — PD (AF&N)

\* \* \* \* \*

2. At the outset, the Chairman, PAC welcomed the Members to the sitting of the Committee. Thereafter, the Committee took up for consideration, the following Draft Reports:

(a) \* \* \* \* \*

(b) Draft Action Taken Report on 28th Report of PAC (14th Lok Sabha) on “Control systems in India Security Press, Nashik”.

(c) \* \* \* \* \*

After brief discussion, the Committee adopted the draft Reports without any modifications/amendments and authorized the Chairman to finalise and present the same to the Parliament in the light of factual verification done by the Audit.

(3) \* \* \* \* \*

(4) \* \* \* \* \*

(5) \* \* \* \* \*

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

*The Committee then adjourned.*