

**UNFRUITFUL  
EXPENDITURE OF  
INVESTORS MONEY — SEBI**

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

**PUBLIC ACCOUNTS COMMITTEE  
(2010-11)**

**TWENTY FIFTH REPORT**

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**FIFTEENTH LOK SABHA**



**LOK SABHA SECRETARIAT  
NEW DELHI**

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PUBLIC ACCOUNTS COMMITTEE  
(2010-11)

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UNFRUITFUL EXPENDITURE OF  
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MINISTRY OF FINANCE  
(DEPARTMENT OF ECONOMIC AFFAIRS)

*Presented to Lok Sabha on 24.2.2011*

*Laid in Rajya Sabha on 24.2.2011*



LOK SABHA SECRETARIAT  
NEW DELHI

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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE  
(2010-11)

Dr. Murli Manohar Joshi — *Chairman*

MEMBERS

*Lok Sabha*

2. Shri Anandrao Vithoba Adsul
3. Dr. Baliram
4. Shri Ramen Deka
5. Shri Naveen Jindal
6. Shri Satpal Maharaj
7. Shri Bhartruhari Mahtab
8. Dr. K. Sambasiva Rao
9. Shri Yashwant Sinha
10. Shri Jitendra Singh (Alwar)
11. Kunwar Rewati Raman Singh
12. Shri K. Sudhakaran
13. Dr. M. Thambidurai
14. Shri D. Venugopal
15. Shri Aruna Kumar Vundavalli

*Rajya Sabha*

- \*16. Vacant
17. Shri N. Balaganga
18. Shri Prasanta Chatterjee
19. Shri Kalraj Mishra
20. Shri N.K. Singh
21. Shri Tiruchi Siva
22. Prof. Saif-ud-Din Soz

SECRETARIAT

1. Shri Devender Singh — *Joint Secretary*
2. Shri Sanjeev Sharma — *Deputy Secretary*

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\* Vacancy occurred *vice* Shri Ashwani Kumar has been appointed as Minister of State *w.e.f.* 19th January, 2011.

COMPOSITION OF SUB-COMMITTEE I OF THE PUBLIC  
ACCOUNTS COMMITTEE (2010-11)

\* Shri Bhartruhari Mahtab — *Convener*

*Lok Sabha*

2. Shri Naveen Jindal — *Alternate Convener*
3. Dr. K. Sambasiva Rao — *Member*

*Rajya Sabha*

4. Shri Kalraj Mishra — *Member*

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\* Appointed as the Convener of the Sub-Committee I *w.e.f.* 28th January, 2011 in place of Shri Ashwani Kumar *vice* his appointment as Minister of State *w.e.f.* 19th January, 2011.

## INTRODUCTION

I, the Chairman, Public Accounts Committee as authorised by the Committee, do present this Twenty-fifth Report (Fifteenth Lok Sabha) on **“Unfruitful Expenditure of Investors Money (SEBI)”** based on Para 8.2 of Report No. CA-15 of 2008-09 of the Comptroller and Auditor General of India, Union Government — (Civil)—Autonomous Bodies.

2. The Report of the Comptroller and Auditor General of India for the year ended March, 2009, Union Government—(Civil)—Autonomous Bodies No. CA-15 of 2008, was laid on the Table of the House on 24th July, 2009.

3. Taking cognizance of the inordinate delay on the part of various Ministries/ Departments in furnishing the Action Taken Notes on the Non-selected Audit Paragraphs/Chapters/Reports within the stipulated time frame, the Public Accounts Committee (2010-11) took up the subject for detailed examination and report. A Sub-Committee was specially constituted for the purpose. In due consultation with the Audit, it was decided to examine the position in respect of the Department of Economic Affairs with a special reference to the SEBI.

4. In the process of the scrutiny of the Audit Paragraphs/Chapters/Reports pending with the Department of Economic Affairs, the Sub-Committee came across certain pending Paragraphs/Remedial/Corrective ATNs on very important issues and considered it prudent to examine and report the same alongwith the Non-Compliance issue. Accordingly, the Sub-Committee took up the above-mentioned Para of Audit Report for in-depth examination.

5. The Sub-Committee took evidence of the representatives of the Ministry of Finance (Department of Economic Affairs) on the subject at their sitting held on 22nd September, 2010. The Committee considered and finalised this Report at their sitting held on 3rd February, 2011. Minutes of the sittings form Appendices to the Report.

6. 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.

7. The Committee thank the Sub-Committee for their efforts in examining the subject in detail and finalizing and placing the Report before the main Committee.

8. The Committee would like to express their thanks to the representatives of the Ministry of Finance (Department of Economic Affairs) for tendering evidence before the Sub-Committee and furnishing information that the Committee desired in connection with the examination of the subject.

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9. 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;  
21 *February*, 2011  

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2 *Phalgun*, 1932 (*Saka*)

DR. MURLIMANO HAR JOSHI  
*Chairman,*  
*Public Accounts Committee.*



## **REPORT**

### **PART I**

#### **I. Introductory**

The Reports of the Comptroller & Auditor General of India, after being laid in Parliament in accordance with Article 151 of the Constitution of India, stand referred to the Public Accounts Committee for their scrutiny. As it becomes practically impossible for the Public Accounts Committee to examine each and every paragraph contained in the Audit Reports, the Committee adopt a selective approach and take up a few relatively more important paragraphs for indepth examination at the beginning of the term every year. As regards the paragraphs which are not formally selected for examination by the Committee, these are dealt with by means of a procedure whereby the Ministry/ Department is required to furnish the remedial/corrective Action Taken Notes to the Committee through the Ministry of Finance (Department of Expenditure).

2. Since there was inordinate delay on the part of the Ministries/Departments in furnishing the remedial/corrective Action Taken Notes, the Committee in their 105th Report (Tenth Lok Sabha) had recommended that with effect from 31st March, 1996 the Action Taken Notes on all the paragraphs of the Reports of the C&AG, which are not formally taken up by the PAC for examination and Reports presented thereon, should be furnished to the Committee within four months of the laying of the Audit Reports.

3. During 2000-01, *vide* their 9th Report, the Committee decided that the remedial/corrective Action Taken Notes furnished by the respective Ministries/Departments should be categorized by the Audit under three broad heads namely 'Accepted', 'Partially Accepted' and 'Not Accepted'. In subsequent developments, the Committee also decided that a brief on those Action Taken Notes which are categorized as 'Not Accepted' should be furnished by the Office of C&AG, clearly indicating the reasons for such categorization as well as the points of difference between Audit and the Ministry/Department concerned. The Remedial Action Taken Notes and briefs on "non-Accepted" paras are then circulated to the Members of the PAC for their perusal and then the Remedial Action Taken Notes reach the stage of finality.

4. Even after devising an elaborate system, the Committee note that various Ministries/Departments have been unable to furnish the remedial/corrective Action Taken Notes to the Committee through the Ministry of Finance (Department of Expenditure) within the prescribed time limit of four months. For example as on 25th June, 2010 remedial/corrective Action Take Notes on a total number of 4191 Chapters/Paragraphs were pending with various Ministries/Departments.

5. Against this backdrop, the Committee took up the subject of Non-compliance by the Ministries/Departments in timely submission of replies to the Audit paragraphs of the C&AG on Para 8.2 of Report No. CA - 15 of 2008-09 relating to 'Unfruitful Expenditure of Investors Money' for detailed examination during the year 2010-11. A Sub-Committee

was constituted to go deep into the matter, prepare separate Reports on each Ministry/ Department concerned with the subject and place the same before the Main Committee for their consideration. In the process, the Sub-Committee obtained Background Notes/ Preliminary Materials and Written Replies from the Ministries/Departments concerned. The Sub-Committee also took evidence of the representatives of the Ministry of Finance (Department of Economic Affairs) alongwith the representatives of SEBI on 22.09.2010.

## **II. Pendency of Audit Paragraphs in the Ministry of Finance—Department of Economic Affairs**

6. The Ministry of Finance—Department of Expenditure intimated to the Committee that a total number of 4191 Action Taken Notes are pending with various Ministries/ Departments as on 25th June, 2010. As stated by Audit a total of 2418 paras were pending with different Departments of the Ministry of Finance. Out of these, according to Department of Expenditure a total of 10 paras were pending with the Department of Economic Affairs for which Action Taken Notes were not furnished. This Report pertains to the remedial/corrective Action Taken Notes on the Audit Paragraphs pending with the Ministry of Finance, Department of Economic Affairs.

7. After the commencement of the examination of the subject, the Sub-Committee were informed by Audit that as on 31st May, 2010 a total of 3462 paragraphs were pending with all the Ministries on which remedial/corrective Action Taken Notes (ATNs) were due. With regard to Para 8.2 of CA - 15 of 2008-09, Audit revealed that revised Action Taken Notes on same was pending with the Ministry.

8. In the above context, the Committee desired to be apprised of the exact number of Audit Paragraphs received by the Ministry of Finance particularly Department of Expenditure in the last two years. The Ministry in their written reply stated that Department of Economic Affairs (DEA) had received a total of 30 Audit Paras. The exact number of Audit Paras received by the entire Ministry of Finance including Departments of Expenditure/Revenue—Direct Taxes/Indirect Taxes/Financial Services/ Disinvestment was not available and had been sought from Department of Expenditure/ Controller General of Accounts.

9. When asked to indicate the exact number of paras pending with the Ministry of Finance (Department of Economic Affairs), the Ministry informed the Committee that out of 30 Audit Paras received by Department of Economic Affairs, 14 paras were pending as on date, on which the final ATNs had not been furnished to audit.

10. The Committee note that particular para *i.e.* **Para No. 8.2 of Audit Report No. CA-15 of 2008-09 on 'Unfruitful Expenditure of Rs. 11.54 crore and undue benefit to NDSL'**, was first received as a draft para from the Audit on 01.10.2009, the review of which was done by the Ministry on 08.03.2010. Subsequently, the Ministry sent their reply conveying disagreement with audit observations on 10.02.2010 after about 4 months of receiving draft para for the first time.

11. The Sub-Committee during the course of examination of the subject learnt that the revised ATNs were sent to Audit finally on 17th September, 2010 apparently after the Sub-Committee took up this subject for examination. Then the Sub-Committee sought specific reasons for delay in sending the revised Action Taken Notes to Audit

on 17th September, 2010 despite being fully aware of the fact that ATNs were to be furnished within 4 months from the date of laying of Audit Report on the Table of House. The Secretary, Department of Economic Affairs in his deposition before the Committee stated:

“Our apologies, Sir. But it was sent on the 17th of September, 2010.”

12. Further, in their written reply it was added as under:

".....It may be observed that major delay has occurred as a result of disagreement of the Ministry with the Audit Observations, as also disagreement of the Audit with the views of the Ministry during the process of vetting of the ATN. The Final ATN was sent after recording the vetted comments of the Audit in a separate Column VI(B) in the ATN with replies of the Ministry/SEBI thereto....."

13. Asked whether any responsibility was ever fixed for not furnishing revised Action Taken Notes on the pending audit paragraphs within the stipulated time, the Department of Economic Affairs in their written note submitted thus:

"There has been no case of not furnishing revised ATNs in the DEA and as such no action has arisen for fixing of any responsibility there for."

14. The Committee then desired to know the mechanism devised or proposed in this regard by the Ministry of Finance (Department of Economic Affairs) to ensure timely submission of Action Taken Notes within the stipulated time-frame of four months and whether any constraints and difficulties were encountered/anticipated in this regard. The Ministry, in a written note explained as under:

"The Department of Expenditure lays down the overall guidelines/mechanism for ensuring timely submission of ATN within stipulated time for all Ministries/ Departments of GoI. The Department of Economic Affairs complies with these guidelines. The submission of ATNs by the concerned Divisions is regularly monitored in DEA by the Financial Advisor. A quarterly Report on the status of Audit Paras is furnished to Department of Expenditure. A Standing Audit Committee under the Chairpersonship of Finance Secretary has been constituted in August, 2010 to monitor and review the submission of ATNs on a monthly basis. The major constraint that is faced in adhering to the stipulated time schedule for replying to Audit Paras relates to obtaining the required information sought from various other entities/Departments etc. in time."

### **III. Unfruitful Expenditure of Investors Money\***

15. One of the important paragraphs\* is Paragraph No. 8.2 of the Report of the C&AG of India No.CA-15 of 2008-09 — relating to 'Unfruitful Expenditure of Investors Money'. Out of the pending Audit Paragraphs with the Department of Economic Affairs, the Sub-Committee decided to examine this para in regard to the compliance of the Ministry to the Audit observations/suggestions contained therein as well as the overall status of the remedial/corrective Action Taken Notes to be furnished by the Ministry. Since at the time of commencement of the examination of this subject, the above Audit

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\*Para No. 8.2 of Audit Report No. CA-15 of 2008-09.

Para did not reach the stage of finality, the Sub-Committee decided to inquire in detail the above-mentioned paragraph. However, during the course of the examination of the subject, the Sub-Committee learnt that this particular Audit Para was finally sent to the Audit on 17.09.2010, five days prior to holding of the oral evidence of the representatives of the Ministry of Finance and the Securities and Exchange Board of India (SEBI).

16. The Audit paragraph brings out a case of award of a data base preparation work by SEBI without competitive bidding and before conducting elaborate and exhaustive due-diligence such as seeking comments of all the stake-holders like individual investors, approved intermediaries, Bankers to an issue, collective investment schemes, credit rating agencies, custodians of securities, debenture trustees, depositories, depository participants, investor associations, merchant bankers, mutual funds, portfolio managers, registrars and share transfer agents, stock exchanges, underwriters and venture capital funds.

17. The Sub-Committee learnt that this 'Central Database of Securities Market Participants' and Investors Identification Number (MAPIN) was notified by SEBI on 20.11.2003 under the SEBI (Central Database of Market Participants) Regulations, 2003. It involved collection and maintenance of data in respect of the participants such as demographic details, biometric impressions and digital photographs.

18. Further the Sub-Committee were informed that SEBI prepared a comprehensive discussion paper regarding creation of the database after studying the practices and systems prevalent in other countries. It awarded the work of MAPIN to the National Securities Depository Ltd. (NSDL) in May, 2003 through a Memorandum of Understanding (MoU), without any competitive bidding. As per the MoU, market participants were required to deposit registration fees of Rs. 300 each with SEBI, which was to be passed on to NSDL at periodic intervals based on the number of cards issued by it. The exact basis on which the rate of Rs. 300 was fixed was not available in the records of SEBI.

19. Audit scrutiny has revealed that SEBI placed the discussion paper on the website and asked the participants to send them their feedback by September 20, 2003 *i.e.* four months after awarding the work to NSDL, SEBI stated therein that the comments from the market participants and the public would help it to impart a final shape to the idea of creation of a central database of market participants. Several representations were received from intermediaries, market participants, companies etc. expressing apprehensions about the database. The database was launched in November, 2003 and till June 2005 only about three lakh MAPIN Unique Identification Number had been issued compared to over 70 lakh demat accounts. The amount collected by issuing of 3 lakh MAPIN UINs, as stated by Audit stood at Rs. 11.54 crore (at the rate of Rs. 300 per investor)

However, during the course of oral evidence, it was intimated by the representatives of SEBI that the actual registrations were more than 3 lakh. To be precise, the representatives is stated that the total registration was 3.84,000. The total natural persons were 3,12,000 and as such SEBI registered intermediaries as 8.600 and other corporate bodies as 63,000.

20. Audit also pointed out the SEBI had set up in March, 2005 a committee to re-examine issues relating to MAPIN which concluded that the present system should not be continued due to investors' concerns relating to fingerprints, multiple IDs, the high cost of obtaining the UINs and the inadequate reach of the system.

In the light of these recommendations, SEBI suspended in July, 2005 all fresh registrations and the requirement of UIN under the MAPIN regulations and made a total payment of Rs. 11.54 crore collected from the participants to NSDL. From April, 2007 onwards, PAN numbers were mandated as the sole identification number for all participants in the securities market. The database was lying idle with NSDL as of date.

21. In response to the Audit Observation, the Ministry had stated in December, 2008 that MAPIN was undertaken on a pilot basis and it was operationalised initially for a small set of participants and its coverage was gradually extended. They further stated that the work was awarded to NSDL after assessing its suitability.

22. Not agreeing with the Ministry's stand, the Audit had brought out that this reply was an afterthought as these facts were not available in the records made available to audit and the MoU entered into between M/s. NSDL and SEBI did not indicate the fact that MAPIN was undertaken initially on pilot basis. Further, the reply was also silent about the basis of fixation of rate of Rs. 300 per participant which was finalized neither on competitive basis nor through negotiation. The Ministry also did not agree with the Audit conclusions stating that the feedback/comments received on the discussion paper were very general in nature and did not express any apprehension about the feasibility of the data itself.

**(a) Awarding of a database preparation work in favour of NSDL by SEBI without Competitive Bidding**

23. The Sub-Committee wanted to know about the criteria adopted by SEBI for selection of National Securities Depositories Ltd. (NSDL) as the service provider for creation of Central Database of Securities Market Participants and Investors Identification Number (MAPIN) and also the reasons why the procedure of competitive bidding was not adopted before awarding the work to NSDL. The Chairman, SEBI while deposing before the Sub-Committee stated:

".....What SEBI needed at that time was an entity which could be entrusted with the management of a large database because at that time the project was envisaged to have something like 75 to 80 lakh account details, names, fingerprints and so on and there were not too many entities in the market who could handle such large data bases. The other requirement was that the database was of a confidential nature. So we could not just give it to anybody in the market. Obviously, SEBI was far more comfortable giving it to a regulated entity so that SEBI has the ability to take any action in case something went wrong. So, SEBI came to the conclusion that NSDL and CDSL, the two depositories seem to be the entities that needed to be examined in this aspect. SEBI came to the conclusion that NSDL was handling a far larger database. The matter was considered by a

Committee of Executive Directors in SEBI and then it was later put up to the Board."

He further submitted:

"Accordingly, a MoU was signed with the National Security Depositories Limited (NSDL) after SEBI came to the conclusion that NSDL would be the correct entity to handle this....."

24. Subsequently, the Sub-Committee in this regard were informed by the Ministry in a written note as under:

"(a) Following were the evaluation criteria followed by the Committee of Executive Directors (CoED) for selection of NSDL as the service provider. The same was also placed before the SEBI Board after which the MoU was signed with NSDL.

- (i) Credibility of the institution.
- (ii) Promoters of the institution.
- (iii) Relative experience in establishing, upgrading and operating huge databases.
- (iv) Ability to maintain confidentiality.
- (v) Quality of key personnel and operating staff.
- (vi) Compliance standards with regulatory requirements.

At the time of allotting the work to NSDL, NSDL was largely owned (to the extent of 82%) by public sector financial institutions and UTI. And that time it already had experience in handling large databases of similar nature.

(b)The other agency that was considered was Central Depository Services Ltd. (CDSL).

(c) Competitive bidding was not resorted to as this type of job was being done in our country for the first time and no organization had actual execution experience. SEBI chose NSDL as it was the organization which, in the combined wisdom of Executive Directors at SEBI, was most suited based on the criteria enumerated in (a) above."

25. The Sub-Committee desired to know from the Department of Economic Affairs about the justification of SEBI entering into a contract with NSDL without seeking public comments on the issue. The Ministry, in this regard intimated to the Sub-Committee through a written note as under:

"At that point of time when the exercise was undertaken first of its kind in our country and there was no precedence to be followed as a guide. Some preparatory time for setting up the infrastructure, acquiring software and hardware for the said registrations were required by NSDL. Further, it was planned by SEBI that the infrastructure for registration should be in place at the time of notification of the regulations to save time and early implementation of MAPIN."

26. On a clarification whether the implementation of the MAPIN Project was on a pilot basis or a policy decision, the representatives of the SEBI during evidence stated:

"..... The first question that was raised was with regard to whether this was a pilot project or not. I think, what SEBI had done was that it had decided this project would be implemented in phases."

In a related context, the Ministry also stated in their Background Note that it was a policy decision and not the project which required feasibility study. They also informed that this policy decision was taken in the backdrop of JPC recommendation and after extensive study of international practices and consultation with the regulator and public.

27. The Sub-Committee's examination of the subject revealed that MAPIN was introduced/executed on a recommendation of Joint Parliamentary Committee (JPC) on 'Stock Markets Scam and matters relating thereto' which was presented to Parliament on 19.12.2002.

**(b) Constraints faced in implementation of MAPIN Project**

28. The Committee were given to understand that due to various issues which arose during the implementation including resistance by the market participants to the use of biometric identification, cost of obtaining UIN, coverage of investor categories etc. a Committee under the Chairmanship of Shri Jagdish Capoor, former Dy. Governor, RBI Jagdish Capoor Committee set up on 07.03.2005. The Committee submitted its report on 23.06.2005. The report was put up on website for public comments for the period 28.06.2005 - 15.07.2005. Pending a view on this report, the issue of fresh MAPIN was suspended from July 1, 2005.

Based on the recommendations and public comments, amendment to MAPIN regulations was put up to SEBI Board in its meeting on December 30, 2005. The Board while approving the same said that those agencies capable of providing such facilities in a cost effective manner will be assigned the responsibility of maintaining the database (PR dated 30.12.2005). Consequently, an 'Implementation Committee' on MAPIN was formed under the chairmanship of Prof. Sadgopan on 27.12.2006 to examine the need for a biometric based MAPIN and to identify a new Designated Service Provider through a tendering process.

29. Asked about the type of resistance noticed by the market participants to the use of biometric identification, cost of obtaining Unique Identification Number (UIN), coverage of investors categories etc., the Ministry informed the Committee through a written reply as under:

"The concerns of the market participants with regard to the various issues related to MAPIN registrations are as under:

**Finger printing:** Finger printing was perceived, by and large, as an invasion of privacy and often associated with identification of criminals and thus a humiliating experience. It also militates free market spirit. There was also concerns about the security of finger prints data.



**Multiple IDs:** Investors questioned the need of yet another capital market ID besides DP Client ID and Unique Client Codes. This is in addition to the several IDs that a person has-PAN, Passport Number, Bank Account Number/s, Voter Identity and Driving License.

**Cost:** The cost of obtaining UIN of Rs. 300 was considered high by the market participants when seen in conjunction with further indirect costs like DD charge, travel/conveyance (multiple visits) etc.

**Reach:** The infrastructure and reach of Point of Service (PoS) was considered inadequate, leading to hardships and indirect costs to the investors. Moreover, the biometric system required presence of the persons, for taking IDs. This made it difficult for a section of the investing class like senior citizens, physically challenged persons etc."

**(c) Suspension of MAPIN Project and subsequent substitution with PAN**

30. The Sub-Committee was informed by the Ministry that while the 'Implementation Committee' was found to identify a new Service Provider and assess the need for a biometric based MAPIN, the Budget Speech announcement 2007-08 made PAN the sole identification number which was mandatory for all participants for transactions in the securities market. The Sadgopan Committee then deliberated on the issue of making PAN the sole identification number and recommended that the responsibility may be cast on the concerned intermediary to verify the details of PAN with IT website and authenticate the same.

31. When the Sub-Committee enquired about the reasons for suspending MAPIN which led to a wasteful expenditure of Rs. 11.54 incurred by the SEBI, the Chairman, SEBI explaining the position, stated in Oral evidence as under:

".....the project never reached the stage where it was actually made applicable to retail investors. So, no retail investor was required by SEBI to register under MAPIN. Before that only all these events took over and ultimately MAPIN was suspended."

He further elaborated as under:

"The question raised also is whether the fingerprint was the only reason why people resisted. I think that was the major concern that people had. There were other issues that were raised by people which were more practical in nature. For example, when SEBI asked that intermediary employees should register, there was also a requirement that the immediate relatives also need to register because people do not trade in their own name. They typically trade in the name of either the wife or the son and so on. So what should be the extent of this coverage, those kinds of issues were also raised. But the main issue that resulted in a lot of resistance to this scheme was fingerprints."

32. Asked to state specifically whether any action had been initiated against those responsible for the loss of public money and how would the Ministry make amends for the loss of amounting to Rs. 11.54 crore caused due to suspension of MAPIN system



in July, 2005, the Ministry informed that this exercise was undertaken for the first time in our country and there was no benchmark applicable/available that could be followed. They also informed that there were no malafides in the decision. Further, the implementing agency—NSDL had done its job by providing registration as required therefore it had done its part. However, as the project was abandoned midway the registrations were of no use. There was no loss to SEBI or Government of India. The amount of Rs. 300 per registration was collected from around 3.84 lac investors and given to NSDL which was registering, servicing and maintaining the database."

33. The Committee, then, desired to be apprised of the effective steps being taken by SEBI to prevent irregularities, scams, frauds etc., such as tracking multiple membership and others in the absence of MAPIN. In reply the Chairman, SEBI deposed in evidence:—

".....The other thing we have done is that we have instructed the depositories to carry out an analysis when they find that the same PAN number occurs in different accounts on more than, say, two or three occasions. It may be that a person has opened two or three accounts and if you find that PAN number occurs in 30 accounts then something needs to be investigated. Then the intermediaries are asked to do the Know Your Client (KYC) all over again for that account. We also examine these accounts for PAN number being different but the address being the same. Again a family staying in one place can have a common address and PAN numbers will be different. But that will be five or ten. But if you find that 100 people have the same address and different PAN numbers then you need to look into it. So, we have put in various mechanisms to see that the purpose that JPC had in mind should still be fulfilled and our process of protecting the investors should not get affected just because MAPIN has gone out of the way. Nothing is 100 per cent foolproof, but we are reducing the possibility of somebody doing this."

34. In response to a query on putting in place a system of proper checks and balances and internal control mechanism to track multiple memberships and safe guarding the interests of the investors, the Ministry in a written note elucidated as under:—

- (i) PAN is mandatory to be furnished at the time of opening of demat account.
- (ii) All fresh and existing demat account to furnish PAN number.
- (iii) All PAN non-complaint accounts have been frozen.
- (iv) In-person verification to establish the identity of the applicant is mandatory.
- (v) Copy of the PAN card provided by the applicant is validated with the original card and also checked with Income Tax Department website.
- (vi) The system of the depositories is built in such a manner that it identifies multiple accounts with identical PAN.

- (vii) No credits or debits other than automatic corporate action are allowed in a PAN non-complaint demat account. Now even corporate action credits are not allowed in PAN non-complaints account.
- (viii) The Unique Client Code (UCC) allotted by the broker to the client is mapped with the PAN number of the client.
- (ix) It is mandatory to mention PAN number for applying in Public issues. The applications without PAN number are rejected.
- (x) The PAN number provided in the application is checked with the depository database. The application is liable for rejection if the same does not match.

35. In regard to the internal control mechanism to effectively control and regulate the securities market, the Ministry in a Post-Evidence Reply have informed the Sub-Committee that the steps taken by SEBI *inter-alia* includes Rules, Regulation, Guidelines registration and Supervision of intermediaries, Strengthened Surveillance mechanism by setting IMSS in SEBI, Closed coordination and regular interaction with stock exchanges in the matters of surveillance, Regular oversight of stock exchanges and intermediaries and Investigation. They also stated that the measures taken by SEBI to effectively control and regulate securities market are continuously evaluated and vary with the need of the market.

36. When asked to state categorically how could the SEBI protect the interest of the investors in the absence of MAPIN specially keeping in view of the fact that this system was put in place consequent to the recommendation of Joint Parliamentary Committee (JPC) on stock market scam and matters relating thereto and also this was very sophisticated system like Central Registration Depository System of US-NASD-R (now FINRA). In reply, the Chairman, SEBI elaborated in evidence as under:—

"JPC had not suggested any specific system of identify. SEBI had planned to introduce MAPIN as the identification system based on its study of identification systems in developed market. However as explained in answers to other questions due to issues associated with MAPIN as also with the announcement that PAN should be used as identity MAPIN was discontinued. And PAN was made sole identification number despite the fact that there are challenges with regard to having PAN which is a non-biometric based ID as the sole identification number due to exemptions granted to a section of population *i.e.* residents of Sikkim and few entities having multiple PAN cards, PAN was still made the sole identification number..... ."

**(d) Unique Identification Number—'Aadhar' Scheme**

37. During the course of examination of the subject, the Sub-Committee observed that PAN was not a fool-proof system in safeguarding the interests of the investors and other stake-holders. They were also informed that SEBI will consider alternative Unique Identification Number to effectively control and regulate securities market.

The Ministry in this connection informed the Sub-Committee through a written note as under:—

"SEBI will consider adopting the Unique Identification (UID) Number, an initiative (Aadhar) recently undertaken by Government of India which is also biometric and is issued with the purpose of establishing the identity of the citizen. However, an alternate for such unique number needs to be deliberated with regard to corporate, NRIs etc."

38. In another context, the Ministry in a written note intimated as follows:—

"As observed by Jagdish Capoor Committee, one of the reasons for which MAPIN met with resistance was the lack of investor education about the system. More than 5 years after discontinuation of MAPIN, now GoI has taken up the initiative 'Aadhar' to put in place a Unique Identification Number which is similar to MAPIN of capturing biometric impression. When 'Aadhar' is fully implemented it can be explored to move from the current system of PAN card after following a consultative process with all the stakeholders in the securities market. As per the present proposal of GoI, 'Aadhar' is meant only for citizens where in case of financial market transactions identity needs to be established for corporates as well."

**(e) Safeguarding data and return of money**

39. The Sub-Committee observed that it was the onerous duty of SEBI to look into the aspects of checking the misuse of the data of 3.84 lakhs persons whose identity was still in possession of NSDL in the form of biometric identification. When asked whether SEBI was keeping the data secured so as to avoid its misuse, the Chairman, SEBI, stated as under:—

"The data is still with NSDL. Frankly speaking, we do not see much use for that data except for the intermediaries' data. We are looking at whether the intermediaries' data can be put to some use."

40. In response to a query on feasibility of returning the collected money of back to the investors, the Chairman, SEBI stated during evidence:—

"The money has already been paid to NSDL."

Further, the Chairman, SEBI also stated:

"NSDL made capital expenditure. It wrote the software which is of no use today. It cannot use it."

41. Not satisfied with the reasoning adduced by the Department in the evidence, the Sub-Committee enquired whether it would be appropriate for SEBI to refund the collected amount of Rs. 300 each to the investors since the project was abandoned. In reply, the Chairman, SEBI while tendering the evidence stated as under:—

"To return the money we will have to recover it from NSDL when they will ask and say: 'Look. I had set up the infrastructure for your project. You decided to abandon it halfway. How am I responsible for this?'..."

## PART II

### OBSERVATIONS/RECOMMENDATIONS

1. The Public Accounts Committee pursuant to the recommendations made in their 105th Report (10th Lok Sabha) devised a procedure whereby the Ministries/ Departments were required to furnish Remedial/Corrective Action Taken Notes to the Committee on the Audit Paragraphs which were not formally selected and taken up for detailed examination by the Committee. From March, 1996 furnishing of such Remedial/Corrective Action Taken Notes were made time-bound and were to be furnished within four months of the laying of the Audit Reports in Parliament. To regulate and implement this system of checks and balances Ministry of Finance (Department of Expenditure) was entrusted to be the Nodal Agency for furnishing these notes to the Public Accounts Committee for their perusal. The Notes once received by the PAC Secretariat from Department of Expenditure (Monitoring Cell), are then forwarded to Audit for categorizing them into three parts *viz.*, 'Accepted', 'Not Accepted' and 'Partially Accepted'. Once categorized, these Notes are then circulated to the Chairman and Members of the PAC for their perusal. If no concerns are raised by the Members, the Audit Paragraphs then reach the stage of finality.

2. The Public Accounts Committee (2009-10) of the 15th Lok Sabha took a serious view on the large number of pending Audit Paragraphs on which Remedial/Corrective ATNs were not furnished by Ministries/Departments. They constituted a Sub-Committee especially on this subject which examined several Ministries/ Departments and a total of Eight Reports were presented to Parliament on the subject. The Committee are perturbed to note that even after the intervention through the examination of this subject during 2009-10, the overall picture in regard to the pending Remedial/Corrective Action Taken Notes remains dismal. As per information furnished by the Ministry of Finance (Department of Expenditure) 4191 Remedial/ Corrective Action Taken Notes were pending as on 25th June, 2010. The Audit also supplied a figure in this regard which stated that a total of 3462 Paragraphs were pending with all the Ministries as of 31st May, 2010. Out of these, the Committee note that 2418 paras were pending with different Departments of the Ministry of Finance. The Committee also note that as stated by Department of Expenditure, a total of 10 paras were pending with the Department of Economic Affairs. However, the number of pending paras of this Department (Economic Affairs) as intimated to the Committee during the course of examination of the subject stood at 14. The Committee, therefore, would like to be apprised of correct figures in regard to the number of pending Remedial/Corrective Action Taken Notes as supplied by the Department of Expenditure and Audit. Also taking serious note of the delay/negligence on the part of the Department of Economic Affairs, the Committee would like to be intimated about the specific reasons of delay for each of these pending paragraphs. The Committee further recommend that the issue of pendency of Remedial/Corrective Action Taken Notes be reviewed on a quarterly basis by the departmental Secretary and the result of such review brought to the notice of the Minister in charge invariably under intimation to the Committee.

3. Against the backdrop of huge pendency of the Remedial/Corrective Action Taken Notes with different Ministries/Departments, the Public Accounts Committee (2010-11) again took up this subject for examination. The Committee were informed of the elaborate mechanism which is in place in the Department of Economic Affairs to ensure timely submission of ATNs within the stipulated time frame of 4 months. Nevertheless, the Committee are constrained to note that the number of pending paras within the Ministry of Finance stands at 2418 on 25th June, 2010 and the Department of Economic Affairs could not furnish the ATNs within the stipulated time frame of 4 months. In his own statement the Secretary, Department of Economic Affairs has intimated to the Committee that Department of Expenditure has laid down guidelines for ensuring timely submission of ATNs. Such submission is regularly monitored in the DEA by the Financial Adviser and a Quarterly Report on the status of the pending paras is furnished to the Department of Expenditure. In this regard, the Committee have also been informed that a Standing Audit Committee under the Chairmanship of Finance Secretary has been constituted in August, 2010 to monitor and review the submission of ATNs on a monthly basis. The Committee have also been informed that the major constraints faced by the DEA in adhering to the stipulated time frame for replying to the Audit Paras is in obtaining the required information from other entities/departments in time. In this regard, the Committee would recommend that Ministry should remove this bottleneck by devising a mechanism for timely procuring of the information from entities/departments in order to enable them to adhere to the time-line of four months for furnishing Remedial/Corrective Action Taken Notes.

4. What is baffling to the Committee is the fact that even after monthly appraisals of the status of pending ATNs by high Government functionaries such a large number of Audit paras are found to be pending within the Ministry of Finance itself and also in the DEA. As the situation stands now, the Committee, recommend that all the 14 pending Audit paragraphs within the Department of Economic Affairs be settled within one month of the presentation of this Report to the Parliament under intimation to the Committee and due care should be taken in future to obviate such instances of delay in finalising the Remedial/Corrective Action Taken Notes.

5. In view of the pending Remedial/Corrective Action Taken Notes, the Committee thought it prudent to examine at least one case out of the Audit paragraphs pending with Department of Economic Affairs. Accordingly, the Committee selected Paragraph No. 8.2 of the Report of the C&AG of India No. CA 15 of 2008-09 relating to 'Unfruitful Expenditure of Investors Money (SEBI)'.

6. Audit Report No. CA 15 of 2008-09 in which Para No. 8.2 on SEBI figures, was presented to Parliament on 24th July, 2009. The DEA have stated that this para was first received as a draft para from the Audit on 01.10.2009 and the review of the same was done by the Ministry on 08.03.2010. The Ministry then sent their reply conveying this disagreement with Audit observations on 10.02.2010 and the revised ATNs were finally sent to Audit on 17.09.2010. The Committee do not understand that the Report which was presented to Parliament on 24th July, 2009 first reached Ministry on 01.10.2009 after a delay of little over two months. The Ministry sent their reply to Audit on 10.02.2010 after a delay of almost four months of receiving of the draft para

for the first time. The Committee note that this exercise of sending the documents back and forth with Audit continued and this para was finally sent to Audit on 17.09.2010 noticeably after a delay of almost 14 months, whereas the time-line prescribes a period of four months for settlement of the para. It is apparent that progress in the settling of the para was made only after the Committee took up the subject for examination. Such an indifferent attitude on the part of the Ministry of Finance, which is the watch-dog Ministry as far as audit objections are concerned is cause for concern. In this regard, the Committee recommend that DEA should take up the matter with the Audit urgently so as to obtain copies of the Audit Reports immediately after their presentation to Parliament and gear up their internal mechanism to settle Audit paras within prescribed time frame.

7. The Committee observe that the Central Database of Securities Market Participants' and Investors Identification Numbers (MAPIN) was put in place by Securities and Exchange Board of India (SEBI) consequent to a recommendation of Joint Parliamentary Committee (JPC) on 'Stock Markets Scam and matters relating thereto' which was presented to Parliament on 19th December, 2002. The system at the time was state-of-the-art in nature as it was based on advanced data base systems in other countries and in particular the US on Central Registrations Depository System of US-NASD-R (now FINRA). This system was concerned to check irregularities and shortcomings in the stock market operations and was meant to cover 75 to 80 lakh account details. In its outreach the system intended to cover approved intermediaries, Bankers to an issue, collective investment schemes, credit rating agencies, custodians of securities, debenture trustees, depositories, depository participants, investor associations, merchant bankers, mutual funds, portfolio managers, registrars and share transfer agents, stock exchanges, underwriters and venture capital funds etc. in nutshell, the system covered all stake-holders concerning stock market transactions.

8. The Committee further note that the work in regard to this system was awarded to National Securities Depository Ltd. (NDSL) through a Memorandum of Understanding (MoU) without any competitive bidding. They also note that MAPIN was notified by SEBI on 20.11.2003 under the SEBI (Central Database of Market Participants) Regulations, 2003.

9. However, the before entering into a contract with NDSL, no suggestions were invited from the stake-holders on the MAPIN system especially when it involved collection and maintenance of data in respect of the participants such as their demographic details, biometric impressions and digital photographs. Although there is no doubt that SEBI's decision was actuated and motivated by a desirable objective and was taken *bonafide*, larger consultations with stake-holders would have been beneficial. The Committee, however, deplore the manner in which this contract was awarded to NSDL in haste. Had SEBI exercised due dilligence by inviting the suggestions from all the stake-holders prior to awarding the contract, they could have obviated such a situation which led to infructuous expenditure of Rs. 11.54 crore.

10. It is brought out in the inquiry that there was another player in the field namely Central Depository Services Ltd. (CDSL). The view presented by DEA/SEBI that the



type of job in question was being undertaken for the first time in the country and that no organization had actual execution experience should have been on ground for extra care in deciding the issue of award of contract. DEA/SEBI could not satisfy the Committee as regards the basis for recovery of Rs. 300 per registration from the stakeholders. However, considering that the exercise appear to be bonafide and actuated by consultations for ensuring transparency in stock market transactions and that NSDL a public sector institution of credibility was awarded the contract, the Committee is content with observing that for the future credible, purposive and transparent mechanism for awarding contract should be devised which would ensure the best quality of service at a competitive and market driven price.

11. The Committee note that the eventual suspension of MAPIN led to a wasteful expenditure of Rs. 11.54 crore collected from 3.84 lakh investors. During the course of examination of the subject, the Committee have been given to understand by DEA/SEBI/ that SEBI did not lose any money. Even if this be so, the fact remains that the various stake-holders were meant to part with registration fee for a specific purpose, the benefit of which did not accrue either to SEBI or to the stake-holders.

12. The Committee note with concern that the infrastructure (both hardware and software) and the data inventory collected by NSDL is still idling with the company which is no more a service provider for MAPIN as this project has already been suspended and there are no assurances given either by the DEA or the SEBI regarding its recommencement. The Committee, therefore, recommend that the infrastructure and the DATA inventory should be secured by SEBI without any further delay and put in safe custody so that it is not misused in any delinquent manner.

13. The Committee have been given to understand that SEBI will be exploring an alternative scheme akin to MAPIN for further safeguarding the interests of the investors and other stake-holders. The Committee recommend that after the abandonment of the MAPIN scheme for reasons brought out above, SEBI should formulate a concrete proposal and perhaps suitably adapt the Unique Identification Number (UID) — 'Aadhar' Scheme to their optimum benefit. All technicalities such as identity needs to be established for corporate entities in addition to individual entities should be worked out well in advance including seeking public opinion through newspapers/websites etc. by SEBI so that maximum benefit of this scheme can be obtained when it reaches the implementation stage. The Committee would like this to become one of the priorities for SEBI as it would not only safeguard the interests of the market participants but accord credibility to SEBI as well. The Committee would like to be apprised of the initiatives taken in this regard.

NEW DELHI;  
21 February, 2011  

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2 Phalgun, 1932 (Saka)

DR. MURLI MANOHAR JOSHI  
Chairman,  
Public Accounts Committee.

APPENDIX I

MINUTES OF THE THIRD SITTING OF SUB-COMMITTEE-I OF THE PUBLIC  
ACCOUNTS COMMITTEE (2010-11) ON "NON-COMPLIANCE BY THE  
MINISTRIES/DEPARTMENTS IN TIMELY SUBMISSION OF ACTION  
TAKEN NOTES ON THE NON-SELECTED PARAGRAPHS OF THE  
C&AG OF INDIA HELD ON 22ND SEPTEMBER, 2010

The Sub-Committee-I of the Public Accounts Committee sat on Wednesday, the 22nd September, 2010 from 1445 hrs. to 1600 hrs. in **Committee Room No. 'B', Parliament House Annexe, New Delhi.**

PRESENT

Shri Ashwani Kumar — *Convenor*

*Lok Sabha*

2. Shri Bhartruhari Mahtab
3. Shri Naveen Jindal

*Rajya Sabha*

4. Shri Kalraj Mishra

SECRETARIAT

1. Shri Raj Shekhar Sharma — *Director*
2. Shri Sanjeev Sharma — *Deputy Secretary*

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

1. Shri Roy S. Mathrani — *Director General of Audit*
2. Shri Kulwant Singh — *Director (Audit)*

**Representatives of the Ministry of Finance (Department of Economic Affairs)**

1. Shri Ashok Chawla — *Secretary*
2. Shri Bimal Julka — *Director General (Currency) & Additional Secretary*
3. Shri Thomas Mathew — *Joint Secretary*
4. Shri C.S. Mohapatra — *Director (RE)*

**Officers from Securities and Exchange Board of India (SEBI)**

1. Shri C.B. Bhave — *Chairman, SEBI*
2. Shri J.N. Gupta — *Executive Director*
3. Shri S.V. Murli Dhar Rao — *Chief General Manager*



2. At the outset, Hon'ble Convenor, Sub-Committee I of the Public Accounts Committee welcomed the representatives of the Office of the C&AG of India to the sitting of the Sub-Committee. The Convenor then informed the Members that the sitting has been convened for taking oral evidence of the representatives of the Ministry of Finance (Department of Economic Affairs) on the subject relating to "Non-compliance by the Ministries/Departments in timely submission of Action Taken Notes on the Non-selected Paragraphs of the C&AG of India". The Convenor also informed the Members that the meeting will proceed with a discussion on para 8.2 on 'Unfruitful Expenditure of Investor's money' of Audit Report No. CA 15 of 2008-09.

3. Thereafter, the Audit Officers and the Secretariat briefed the Sub-Committee on the various issues concerning the subject on "Non-compliance by the Ministries/Departments in timely submission of Action Taken Notes on the Non-selected Paragraphs of the C&AG of India".

4. Thereafter, the representatives of the Ministry of Finance (Department of Economic Affairs) and the Officers from Securities and Exchange Board of India (SEBI) were called in and the Convenor welcomed them to the sitting of the Sub-committee. The Chairman, SEBI then briefly explained their viewpoint on the audit Para and later replied to various queries of the Members. As some queries required detailed and statistical information, the Convenor, directed the Chairman SEBI to furnish written replies thereon. The Secretary, Ministry of Finance Department of Economic Affairs, too briefed the Sub-Committee on the initiative taken by their Ministry in timely submission of Audit paragraph to the C&AG of India.

5. The Convenor then thanked the representatives of the Ministry of Finance (Department of Economic Affairs) and officers from SEBI for appearing before the Sub-Committee and for furnishing information in connection with the examination of the subject. The Convenor also thanked Officers of the C&AG of India for providing assistance to the Sub-Committee in the examination of the subject.

A copy of the verbatim proceeding has been kept on record.

*The Sub-Committee then adjourned.*

APPENDIX II

MINUTES OF THE TWENTY FIRST SITTING OF THE PUBLIC ACCOUNTS  
COMMITTEE (2010-11) HELD ON 3RD FEBRUARY, 2011

The Committee sat on Thursday, the 3rd February, 2011 from 1130 hrs. to 1250 hrs. in Room No. '62', First Floor, Parliament House, New Delhi.

PRESENT

Dr. Murli Manohar Joshi — *Chairman*

*Lok Sabha*

2. Shri Anandrao Vithoba Adsul
3. Shri Ramen Deka
4. Shri Naveen Jindal
5. Shri Bhartruhari Mahtab
6. Shri Yashwant Sinha
7. Shri Jitendra Singh (Alwar)
8. Kunwar Rewati Raman Singh
9. Shri K. Sudhakaran
10. Dr. M. Thambidurai
11. Shri Aruna Kumar Vundavalli

*Rajya Sabha*

12. Shri N. Balaganga
13. Shri Prasanta Chatterjee
14. Shri Kalraj Mishra
15. Shri N.K. Singh
16. Prof. Saif-ud-Din Soz

SECRETARIAT

1. Shri Devender Singh — *Joint Secretary*
2. Shri M.K. Madhusudhan — *Additional Director*
3. Shri Sanjeev Sharma — *Deputy Secretary*
4. Shri D.R. Mohanty — *Deputy Secretary*

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

1. Shri R.S. Mathrani — Director General of Audit  
(Central Expenditure)
2. Shri C.M. Sane — Pr. Director of Audit (Air Force & Navy)
3. Ms. Ahladini — Director, (Central Expenditure)
4. Shri Bhawani Shankar — Director, (Economic Service & Ministries)

2. At the outset, the Chairman welcomed the Members and the representatives of the Office of the C&AG to the sitting of the Committee. The Chairman, then, apprised that the meeting was convened to consider six Draft Reports of the Committee. Accordingly, the Committee took up the following Draft Reports for consideration:

- (i) \*\*               \*\*               \*\*               \*\*               \*\*               \*\*
- (ii) Draft Report on "Unfruitful Expenditure of Investors Money—SEBI"  
(Ministry of Finance—Department of Economic Affairs) based on Para  
No. 8.2 of C&AG Report No. CA15 of 2008-09;
- (iii) \*\*               \*\*               \*\*               \*\*               \*\*               \*\*
- (iv) \*\*               \*\*               \*\*               \*\*               \*\*               \*\*
- (v) \*\*               \*\*               \*\*               \*\*               \*\*               \*\*
- (vi) \*\*               \*\*               \*\*               \*\*               \*\*               \*\*

3. After some discussions, the Committee adopted the Draft Reports mentioned at Sl. Nos. (i) to (v) with some modifications/amendments. While considering the Draft Reports mentioned at Sl. Nos. (iv) and (v), the Committee desired that the C&AG should conduct thorough audit of the Centrally Sponsored Schemes by devising a suitable mechanism in consultation with the Ministry of Finance so as to assure that the funds released by the Union to the States are spent in the prescribed manner to meet the intended objectives. The Committee also underlined the need for another audit of the Mid Day Meal Scheme in the six defaulting States namely Kerala, Jharkhand, Uttar Pradesh, Andhra Pradesh, Nagaland and Bihar. The Chairman requested the Members to give their respective suggestions to the Audit in this regard.

4. \*\*               \*\*               \*\*               \*\*               \*\*               \*\*

5. The Committee authorized the Chairman to finalise the five Reports adopted by them, in light of their suggestions and the factual verifications received from the Audit and present the same to the House on a date convenient to him.

6. The Chairman thanked the Members for their valuable suggestions on the consideration of the Draft Reports.

*The Committee, then, adjourned.*

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\*\* Matter does not pertain to this Report.