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IT APPLICATIONS IN INCOME TAX DEPARTMENT

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

PUBLIC ACCOUNTS COMMITTEE
2014-2015

SECOND REPORT

SIXTEENTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

SECOND REPORT

PUBLIC ACCOUNTS COMMITTEE
(2014-2015)

(SIXTEENTH LOK SABHA)

IT APPLICATIONS IN INCOME TAX DEPARTMENT

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

Presented to Lok Sabha on 25-11-2014
Laid in Rajya Sabha on 25-11-2014

LOK SABHA SECRETARIAT
NEW DELHI
November, 2014/*Agrahayana,* 1936 (*Saka*)

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(2014-15)

Prof. K.V. Thomas — *Chairperson*

MEMBERS

Lok Sabha

  2. Shri S.S. Ahluwalia
  3. Shri Sudip Bandyopadhyay
  4. Shri Ranjit Singh Brahmpura
  5. Shri Nishikant Dubey
  6. Shri Gajanan Kirtikar
  7. Shri Bhartruhari Mahtab
  8. Shri Ramesh Pokhriyal ''Nishank''
  9. Shri Neiphiu Rio
*10. Vacant
 11. Shri Janardan Singh Sigriwal
†12. Vacant
 13. Dr. Kirit Somaiya
 14. Shri Anurag Thakur
$15. Vacant

Rajya Sabha

 16. Shri Satyavrat Chaturvedi
 17. Shri Vijay Goel
 18. Dr. Satyanarayan Jatiya
 19. Shri Bhubaneswar Kalita
 20. Shri Shantaram Naik
 21. Shri Sukhendu Sekhar Roy
 22. Shri Ramchandra Prasad Singh

SECRETARIAT

1.	Shri A.K. Singh	—	*Joint Secretary*
2.	Smt. Anita B. Panda	—	*Director*
3.	Shri Jayakumar T.	—	*Additional Director*

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*Vacant *vice* Shri Rajiv Pratap Rudy who has been appointed as Minister *w.e.f.* 9th November, 2014.

†Vacant *vice* Shri Jayant Sinha who has been appointed as Minister *w.e.f.* 9th November, 2014.

$Vacant *vice* Dr. M. Thambidurai who has been chosen as Hon'ble Deputy Speaker, Lok Sabha and has since resigned from the membership of the Committee.

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(2013-14)

Dr. Murli Manohar Joshi — *Chairman*

MEMBERS

Lok Sabha

2. Shri Anandrao Adsul
3. Dr. Baliram
4. Shri Ramen Deka
5. Shri Sandeep Dikshit
6. Dr. M. Thambidurai
7. Shri T.K.S. Elangovan
8. Shri Jayaprakash Hegde
9. Dr. Sanjay Jaiswal
10. Shri Bhartruhari Mahtab
11. Shri Abhijit Mukherjee
12. Shri Sanjay Brijkishorlal Nirupam
13. Shri Ashok Tanwar
*14. Shri Ajay Maken
15. Shri Dharmendra Yadav

Rajya Sabha

16. Shri Prasanta Chatterjee
17. Shri Prakash Javadekar
†18. Shri Ashwani Kumar
19. Shri Satish Chandra Misra
$20. Dr. V. Maitreyan
21. Shri N.K. Singh
22. Smt. Ambika Soni

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*Elected *w.e.f.* 14th August, 2013 *vice* Dr. Girija Vyas appointed as Minister of Housing, Urban Development and Poverty Alleviation *w.e.f.* 17th June, 2013.

†Elected *w e.f.* 3rd September, 2013 *vice* Dr. V. Maitreyan ceased to be a Member upon his retirement as a Member of Rajya Sabha *w.e.f.* 24th July, 2013.

$Elected *w.e.f.* 3rd September, 2013 *vice* Dr. E.M. Sudarsana Natchiappan appointed as Minister of State for Commerce and Industry *w.e.f.* 17th June, 2013.

COMPOSITION OF THE SUB-COMMITTEE-III (DIRECT/INDIRECT TAXES)
OF THE PUBLIC ACCOUNTS COMMITTEE
(2013-14)

Shri N.K. Singh — *Convenor*

MEMBERS
Lok Sabha

2. Shri T.K.S. Elangovan
3. Shri Sanjay Brijkishorlal Nirupam

Rajya Sabha

4. Smt. Ambika Soni
5. Shri Satish Chandra Misra

INTRODUCTION

I, the Chairperson, Public Accounts Committee (2014-15), having been authorised by the Committee, do present this Second Report (Sixteenth Lok Sabha) on 'IT Applications in Income Tax Department' based on C&AG Report No. 23 of 2012-13, Union Government relating to the Ministry of Finance (Department of Revenue).

2. The Report of the Comptroller and Auditor General of India was laid on the Table of the House on 30th April, 2013.

3. The predecessor Public Accounts Committee (2013-14) took up the subject for detailed examination and report. A Sub-Committee on Direct/Indirect Taxes under the Convenorship of Shri N.K. Singh, MP and a Member of the PAC specifically constituted for the purpose, procured written replies and took evidence of the representatives of the Ministry of Finance (Department of Revenue) on the subject at their sitting held on 14th October, 2013. The draft Report on the subject was finalized and approved by the Convenor and subsequently approved by the then Chairperson, PAC. However, due to dissolution of Fifteenth Lok Sabha, the draft Report could not be considered for adoption by the Public Accounts Committee (2013-14).

4. The subject was subsequently carried forward by the successor Committee (2014-15) for examination. The draft Report which was placed before the main Committee was considered and adopted at their sitting held on 8th October, 2014. The minutes of the Sittings are appended to the Report.

5. 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.

6. The Committee thank their predecessor Committee and the Sub-Committee for taking oral evidence of the Ministry of Finance (Department of Revenue) and obtaining the requisite information on the subject.

7. The Committee would also like to express their thanks to the representatives of the Ministry of Finance (Department of Revenue) for tendering evidence before the Sub-Committee and furnishing information in connection with the examination of the subject.

8. 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;   PROF. K.V. THOMAS,
24 *November,* 2014   *Chairperson,*
3 *Agrahayana,* 1936 (Saka)   *Public Accounts Committee.*

REPORT

PART I

I. INTRODUCTORY

The Income Tax Department (ITD) initiated computerization in early 80s which targeted specific functionalities. 'ITD Applications' refers to the collectivity of Information Communication Technology (ICT) initiatives prevalent in ITD. Its main objectives are to improve the efficiency and effectiveness of tax administration and provide management with reliable and timely information towards effective planning as also to broaden the tax base. There are four modules of ITD Applications, namely, Assessment Information System (AST) for processing returns, Online Tax Accounting System (OLTAS) for providing tax accounting and payment information, Electronic Tax Deduction at Source System (e-TDS) for providing AST with information on details of payment of taxes under TDS scheme and Individual Running Ledger Account System (IRLA) for maintaining a ledger account of each individual assessee in respect of demand and refunds of tax for each assessment year (AY).

Organization set up for IT management in ITD

2. Member (Legislation & Computerization) of.the Central Board of Direct Taxes (CBDT) has the overall responsibility of IT management in ITD. Director General of Income Tax- Systems (DGIT-S) heads the Directorate of IT system. DGIT-S is assisted by Directors and Officer on Special Duty (OSD).

3. The functions of DGIT-S are: (i) Software development, (ii) Hardware installations, (iii) Training and coordination, (iv) Planning and coordination of National Computer Center and Regional Computer Centers, and (v) Undertaking Research and Development.

4. At the field level, 36 Regional Computer Centres (RCCs) provide linkages between Assessing Officers (AOs) and DGIT-S in all matters relating to use and implementation of IT-Systems of ITD. RCCs are managed by Commissioner of Income Tax-Computer operations (CIT-CO) who works under administrative control of Chief Commissioners of Income Tax (CCsIT). CIT-CO is assisted by Deputy Directors and Assistant Directors.

5. The budget allotment and expenditure incurred during the period FY 09 and FY 12 for - DGIT-S are given below:

Crore₹

Expenditure	FY 2009	FY 2010	FY 2011	FY 2012
Establishment	7.19	8.42	7.74	10.39
Non-establishment (IT)	211.73	155.35	169.99	281.48
Total	218.92	163.77	177.73	291.87

II. AUDIT REVIEW

6. This report is based on the C&AG Report No. 23 of 2012-13 on 'IT Applications in Income Tax Department'. Performance Audit on 'IT Applications in ITD' is an update of earlier studies of Audit conducted in 2000, 2006 and 2009, which had shown that ITD's IT initiatives needed to keep pace with its business requirements as well as with the technological advancement of IT sector.

7. The objectives of Audit study were to seek assurances that:

(a) the core business applications were functioning as envisaged in Comprehensive Computerization Programme (CCP) and subsequent change requirements, the extent of fulfillment of business requirements, recommendations of Task Force on Direct Taxes and recommendations contained in Budget Period Progress Report;

(b) the core applications were duly integrated and the level of integration and interfaces was commensurate with the requirements of business, timelines, accuracy level of data, data exchange and data integrity; and

(c) there were adequate arrangements for data security, data confidentiality and disaster management.

Audit scope and coverage

8. Audit examined the following four core ITD applications with primary focus on their *inter-se* interactions:

(a) Assessment Information System (AST)

(b) Online Tax Accounting System (OLTAS)

(c) Electronic Tax Deduction at Source System (e-TDS)

(d) Individual Running Ledger Account System (IRLA)

9. The Public Accounts Committee (2013-14) selected the Subject for detailed examination and Report. For this purpose, a Sub-Committee on Direct/Indirect Taxes under the Convenorship of Shri N. K. Singh, MP and a Member of the PAC was constituted to examine the issue in detail. The Sub-Committee obtained background material and written replies from the Ministry of Finance (Department of Revenue). They took oral evidence of the representatives of the Ministry of Finance (Department of Revenue) on 14.10.2013. Based on these oral and written submissions by the Ministry of Finance (Department of Revenue), the Committee proceed with examination of the Subject in succeeding paragraphs.

III. PERFORMANCE OF IT APPLICATIONS

10. Following have been the major Information Communication Technology (ICT) initiatives that were taken up in ITD:

(a) **e-filing of income tax returns:** ITD notified the scheme of electronic furnishing of IT Return from AY 05, through an e-return intermediary.

From AY 08, ITD made e-filing mandatory for the companies and firms; and from 1st April 2010, extended that to individuals and Hindu Undivided Family (HUF) whose income exceeded ₹ 40 lakh.

(b) **Refund banker scheme:** It is a system for determination, generation, issue, dispatch and credit of refunds, presently operating in Mumbai, Kolkata, Bengaluru, Chennai, Ahmedabad, Bhubaneswar, Cochin, Hyderabad, Kanpur, Patiala, Pune, Chandigarh and Bengaluru.

(c) **e-payment of tax:** e-payment of tax (including TDS) is mandatory for all corporate assessees and certain other classes of assessees from 1st April, 2008.

(d) **System integration for database consolidation:** ITD integrated all ITD applications prevalent in 36 Regional Computer Centres (RCCs) into single national database called Primary Database Centre (PDC) in December 2008.

(e) **Establishment of Tax Information Network:** ITD established the Tax Information Network (TIN) in 2003-04, as a repository of important tax related information and appointed M/s National Securities Depository Ltd. (NSDL) as e-intermediary for managing TIN.

(f) **Centralized Processing Centre:** CPC became operational in October 2009 at Bengaluru to process all e-filed returns and paper returns of Karnataka and Goa. ITD had yet to commission two more CPCs for processing physical ITRs at Pune (Maharashtra), Manesar (Haryana) and one CPC for processing of TDS returns at Ghaziabad (Uttar Pradesh).

11. As regards the status of CPCs to be established at Pune, Manesar and Ghaziabad, the Committee were apprised as under:

"The CPC-TDS at Vaishali, Ghaziabad is operational and was dedicated to the nation by the Hon'ble F.M. in February 2013.The CPCs at Manesar and Pune were envisaged to process the paper returns of the entire country other than Karnataka and Goa. However, due to unprecedented increase in e-filing and the consequent reduction in the volume of paper returns available for processing, even after two rounds of tendering there was no adequate response. Consequently the two projects being unviable were not proceeded further with the approval of the Competent Authority."

12. During FY 06 to FY 11, ITD had spent ₹790 crore on computerization. Considering the huge amount of money which was spent in modernising the IT Applications in ITD, the Committee desired to know whether the Department was deriving the maximum possible advantage and benefit from these modules. In this regard, the Department of Revenue replied:

"Income Tax Department (ITD) has leveraged information technology to improve tax-payer services, reduce compliance cost, impart transparency,

and improve compliance. The benefits and coverage of the projects/modules is as under:

Project/Module	Benefits	Coverage
1	2	3
Online tax accounting system (OLTAS)	Online tax accounting system (OLTAS) facilitates near real time reporting, monitoring and reconciliation of tax collection.	Covers entire tax collection of the Department.
e-payment	e-payment of taxes has been enabled through Net Banking and ATMs.	More than 80% of tax is collected through this mode.
e-filing Portal	e-filing of Income Tax Return is mandatory for all the corporate assessees, taxpayers requiring statutory audit and taxpayers with income greater than INR 5,00,000. The number of e-filed returns have increased from around 3,62,000 in FY 2006-07 to 21.4 million in FY 2012-13.	The percentage of e-filed returns has now exceeded 60% of the total returns received. 74% of the total e-return are from the non-mandatory category.
CPC ITR, Bengaluru	CPC ITR has achieved validation; return processing; intimation generation; e-mail messaging and sending SMS alerts in an auto-mated environment. The peak processing capacity at CPC ITR is around 1,80,000 returns per day.	More than 60% of the returns are processed at CPC ITR.
Refund Banker Scheme	Refund Banker Scheme has enabled the system driven process for determination, generation, issue, dispatch and credit of tax refunds.	More than 98% of the refunds are issued through the refund banker.
e-TDS scheme	Under the e-TDS scheme, the tax deductors submit electronic quarterly statements of tax deductions. Under this scheme, around 400 million deductee records are received every year.	Covers all TDS statements received.

1	2	3
Tax credit statement (Form 26AS)	The online annual tax credit statement (Form - 26AS) on the e-filing portal shows the details of tax paid, tax deducted/ collected and refund to the taxpayer to encourage voluntary compliance.	Covers all tax credit.
CPC TDS	The CPC TDS enabled automated processing, reconciliation, default resolution to enable end-to-end reconciliation of tax paid and tax credits claimed. CPC (TDS) is a feeder of TDS credits for processing of annexure-less ITR.	All TDS returns are processed by CPC TDS.
Computer aided scrutiny selection (CASS) system	CASS system selects cases for scrutiny using a centralised rules based system. The parameters for selection are reviewed and fine tuned every year.	More than 70% of the scrutiny cases are selected through CASS.

13. On being asked about the user-friendliness of the IT modules, the Committee were informed as under:

"All new IT modules which are developed using latest technology are user friendly. ITD has recently initiated the Income Tax Business Applications (ITBA) Project to develop and rewrite the old IT applications and develop new interfaces and process flows."

14. The Ministry also apprised the Committee about the relief these IT applications had given to an average person who was subjected to assessment. Statedly, the average person has been directly benefited by the following modules:

- e-payment of taxes;
- e-filing of Income Tax Return;
- Central Processing of Income tax returns at CPC ITR;
- System driven process for determination, generation, issue, dispatch and credit of tax refunds under Refund Banker Scheme;
- View of details of tax paid, tax deducted/collected and refund in the annual tax credit statement (Form 26AS);
- Central Processing of TDS returns to enable end-to-end reconciliation of tax paid and tax credits claimed; and

- Facility through TDS Reconciliation Analysis and Correction Enabling System (TRACES-CPC TDS Portal) to download TDS certificates by the deductors to address TDS mismatch issue.

15. When asked about the benefits accrued to the Department in terms of the total volume of tax which was realised as a result of the new technology, it was submitted that:

"The year on year growth in taxes as against GDP growth clearly suggests that adoption of technologies has aided collection of taxes. The increase in Tax collection is given as under:—

Financial Year	Tax collection (₹ in crore)
2007-08	3,14,331
2008-09	3,33,818
2019-10	3,78,062
2010-11	4,46,935
2011-12	4,94,799
2012-13	5,48,845"

The technology initiatives in the field of TDS started with the inception of Tax Information Network project in the year 2004. The TDS collection figure over the year is as per the table given below:—

Financial Year	TDS Amount Received (₹ in crore)
2004-05	43,973
2005-06	58,606
2006-07	70,689
2007-08	10,5047
2008-09	1,28,230
2009-10	1,45,736
2010-11	1,68,669
2011-12	2,01,983
2012-13	2,22,013

Application Interactions

16. Inputs for IT modules come from various sources including OLTAS (tax payment and accounting) and e-TDS (returns by tax collectors). Processing of returns in AST and CPC are based on matching of data between tax credit claims of assessees with credits already available in the system (OLTAS and e-TDS).

Individual Running Ledger Account System (IRLA) would capture the outcome of matching tax credits with tax demands.

Assessment Information System (AST)

Non-recording of scrutiny assessment details

17. The Income Tax Act, 1961 (the Act) provided for scrutiny assessment under various sections. AST module has limited functionality for scrutiny assessments under regular assessment (section 143(3)), best judgment assessment (section 144), reassessment (section 147), etc. As the processes prescribed for making an assessment under these sections involved application of mind and inquiry into the financial transactions of the assessee, AST system was designed to keep track of proceedings and to integrate the results of the same into the system once final orders are prepared and uploaded. AST system thereafter calculated tax, interest, posting to Demand and Collection Register and IRLA, preparation of demand notice etc.

18. Audit found that these features were not utilised by the Assessing Officers, inspite of specific instructions for carrying out all post-processing action only on AST. Across India, out of 11.31 lakh cases selected for regular assessment under section 143(3) during FY 07 to FY 10, only 1.98 lakh cases were entered into AST. Thus the demand raised in assessment proceedings was not available in real time basis for enforcing recovery. This resulted into non-issuance of refunds on time and increasing the burden of interest in refunds. IRLA also became truncated to that extent and could not provide updated picture of taxpayers.

19. The Central Board of Direct Taxes in its reply to Audit (September 2012) accepted the observation and stated that with latest changes in the software, ITD had decided to strictly enforce the decision of passing / uploading the orders on the system. This issue was also included in the Central Action Plan for FY 13 for closer monitoring.

20. When asked about the action taken by the Department of Revenue to enforce the passing/uploading the scrutiny orders in the system, the Department replied:

> "The functionality of passing/uploading of scrutiny orders on the system has been available in the application since long. However, the same was kept optional and now with the stabilization of system, *vide* Central Action Plan 2011-12, this process has been made mandatory *i.e.* now all AOs are required to pass scrutiny assessments through AST software only. Therefore, at present functionality to pass all the assessment orders *i.e.* u/s 143(3), 144, 147, 153A/153C has been made available in AST software."

21. On being asked if the Department had developed any mechanism for closer monitoring of recording of scrutiny assessment details in the system, the Department submitted that the system had the capability of generating Management Information System (MIS) for such cases. The screens of capturing/recordings of details of additions made in scrutiny assessment were also available in the system. Some functionalities were optional and some were mandatory.

22. Asked to explain the reasons for not utilizing AST optimally, the Department of Revenue replied as under:

"The AST system was conceived and launched in mid-1990 to cater to the computerization need of Department. The software was developed as per the technology available at that time. It was hard coded and had very limited scope of enhancements/modifications. The Income Tax Law is dynamic and changed according to amendments carried out. The changes were made in the system through patches and now the system has reached a critical level above which widespread changes are not possible. Therefore, it may be inappropriate to suggest that the AST was not utilized optimally. The fact is that it is used much more than conceptualized."

23. Further, when asked about the impact of non-recording of scrutiny assessment details by Assessing Officers (AOs) on arrear demand and tax recovery, the Department of Revenue submitted that in the assessment order, the final tax demand was calculated considering total of all the additions made. The recovery process was effected against whole demand. Therefore, there was no effect on the tax recovery proceedings for non-capturing of any details of additions in the system.

24. Regarding the number of cases in which non-availability of updated information resulted in incorrect or undue tax demands notices being issued to assessees, the Department replied as under:

"As reported earlier, many actions like scrutiny assessment, rectifications, appeal effects were allowed manually. This demand was uploaded in the CPC portal. Some of the demands may have been incorrect. Notices were thus issued in most of the cases including where demands may have been incorrect also. This process enabled Department to identify cases where correction can be made. No figures can be given in this regard as notices issued by AOs are issued manually."

25. While apprising the Committee of the remedial action taken by the Department in this regard, the following submissions were made:

"(i)   From last year, three demand management fortnights/months have been observed in which the field formations has been instructed to verify the outstanding demands against the assessees and correct / modify the demands in CPC-AO portal.

(ii)   Nodal officers in the office of each CCIT(CCA) were appointed to monitor the grievances received in demand management fortnights/month.

(iii) The taxpayer has been provided information of outstanding demand against him through e-filing portal.

(iv) Before adjustment of refund against outstanding demands by CPC, Bengaluru, a notice intimating demand is being issued to the assessee.

(v)   A comprehensive Demand Management Solution is being worked out for further improvement in this area."

26. During evidence, on this issue of non-recording of scrutiny, appeals and penalty orders in the system, the Chairperson, CBDT testified as follows:—

"......as far as non-recording of scrutiny, appeals and penalty orders are concerned; the functionality is available in the system since long but it was optional till made mandatory by Central action Plan of 2011-12. But we admit that this data is not fully captured still. Because the system was not in place so we were not in a position to utilise that information. In February 2013, we started with this pilot project. Every month we have been issuing 70,000 letters. First we carved out the information which comes to the level of 12.19 lakhs, we kept them and then we made a programme that every month we will be issuing 70,000 letters and they were very polite letters. To our pleasant surprise we have got a very good success as has been mentioned. As on today, though we have issued only 2,80,000 letters, as against this 3.95 lakh returns have been filed and about ₹1,400 crore of taxes we have collected."

27. Elaborating on Demand Management Solution, which is purported to remedy the lapse of non-availability of updated information resulting in incorrect or undue tax demand notices being issued to assessees, the Department submitted:

"Demand Processing System, compliance module in e-filing portal and Centralized Processing Centre (CPC) Financial Accounting System (FAS) Portal have been envisaged to handle all demand related issues. The salient features of the Demand Processing System are proposed as under:—

  (i) Process demand entries to identify cases where verification of AO is required including cases with duplicate demand, over-adjustment of demand, under-adjustment of demand etc.;

  (ii) Process response of the taxpayer captured from the e-filing portal;

  (iii) Process response of the AO captured from CPC FAS portal; and

  (iv) Enable rule based adjustment of refund against demand.

    These systems are expected to address the problem of incorrect or undue tax demand notices."

It was further submitted that in-principle approval for the Demand Management System had been taken and the system was expected to roll out during 2014-15.

Limited utilization of functionalities on penalty proceedings and appeal

28. AST provided initiation and management of penalty proceedings from processing to appeals. Although penalty notices and penalty orders were to be made manually, the details of penalty orders such as section, date of passing of order, penalty amount were to be stored in the system. The application was designed to track and record variations in demands arising out of penalty, appeal, rectifications and revisions.

29. Audit observed that this functionality was not being used in Regional Computer Centre (RCC) Delhi. Test check of 15 assessing units in Delhi revealed that out of 195 penalty cases initiated and finalized, not a single case was entered in AST. At an all India level, Audit found that out of total 36 RCCs, this functionality was never utilized in 16 RCCs.

30. Similarly, AST module also had the option for recording the details of the appeal proceedings, which was put to limited use. Audit examination revealed that, although as on 01.06.2011, there were 77,385 cases pending in appeal, only 3205 (4 %) cases in respect of 14 RCCs, were found to be entered in the system. Further, not a single case, finalised by Income Tax Appellate Tribunal (ITAT), was found recorded while of the cases finalised by High Courts and Supreme Court, only 15 cases were entered in the system.

31. When the Department was asked whether any mechanism was devised to track and record variations in demands arising out of penalty, appeal, rectifications and revisions through the system, it was submitted that:

"At present, there is a report in IRLA namely contemporary report of demand. The latest outstanding demand of any case u/s 143(1), 143(3) and u/s 154 is available in this report. The section to which demand pertains to is also captured in the CPC portal. The complete descriptions of the demands are not available in one report in the present AST. But such functionality is envisaged in the new ITBA project of the Department."

32. When further asked about the impact of failure to record appeal related proceedings on AST on pendency of appeals, the Department stated:

"The module for the CIT(A) is available in AST. It was scarcely, used by the field formations due to various reasons. However, the data of appeal filed, disposal thereof, demands locked in the appeal are maintained manually by the respective CIT(A) who submit the information in the monthly report to higher authorities. The information of number of cases and demand locked in appeal is also provided in CAP statement of the AOs. Thus there is no impact on pendency of appeal due to non-recording of appeal related proceedings in the AST."

33. In the absence of updated information on AST, the Committee desired to know as to how the Ministry ensured that all appeal cases were being monitored and followed up. To this, the Department submitted as under:

"The monthly report of appeal related cases is filed by the respective CIT (A) to the Research and Statistics Wing of the Directorate of Logistics. The report has various fields indicating the type of appeal, year of filing of appeal, pendency, demands, result of appeal etc. The register of CIT (A), maintained manually, also contains all the relevant information. Thus functionality in the form of reporting is followed by Department to monitor appeal work."

34. Statedly, following steps have been taken by the Department of Revenue to improve the quality of assessments so that fewer cases go in for appeals:

(i) CBDT has laid emphasis on improving the quality of assessments by incorporating the strategy for ensuring quality in scrutiny assessment cases in the Central Action Plan document. Post-assessment, practice of review and inspection has been institutionalized as at the end of financial year, each CCIT/DGIT is required to forward analysis of 50 quality assessments of his charge along with suggestions for improvement to the Zonal Member concerned. Further, quality cases are being compiled and published annually which provides valuable guidance to Assessing Officers to strive upon to improve quality of orders being framed. These steps have been initiated from FY 2011-12 onwards.

(ii) To discourage Assessing Officers from making high-pitched assessments, Member (IT) issued a communiqué to all CCsIT /DGsIT wherein it was emphasized that in cases of deliberate omission or commission on part of AO in making frivolous additions, the supervisory officer may bring the matter to the notice of Competent Authority for administrative action. Supervisory officers were also advised to play effective role in this regard.

(iii) Of late, lot of emphasis is being laid on capacity building of Assessing Officers through regular training and interaction with CsIT(A) and CsIT(DR) at regular intervals. The newly promoted ACsIT from existing Cadre of ITOs are being provided rigorous training to suitably equip them to handle complex cases.

(iv) Range heads are required to have an active and dedicated role in monitoring progress of scrutiny assessment cases. During the progress of scrutiny case, they may invoke provisions of section 144A of the IT Act, if required, to issue suitable directions to the Assessing Officer to enable him to frame a judicious order.

35. Providing details of Income Tax Business Application (ITBA), with which the Department plans to replace existing ITD application, the Department submitted as under:

"Department has undertaken a separate project called ITBA in which following activities are being undertaken:—

(i) Re-writing of ITD applications in new architecture and design;

(ii) Writing software for all process (including core functions like assessment, appeal, rectifications etc.) of Department;

(iii) Maintenance of old application till development of new application;

(iv) Migration of old data to new application;

   (v) Development of interface with UTI/NSDL/CPC Bengaluru/CPC TDS/ Refund Banker;

  (vi) Development of Data Centre for the application;

 (vii) Development of Technology Training Centre;

(viii) Development of test environment for old and new application;

  (ix) Training of 20,000 employees; and

   (x) Development of HRMS module.

The project has commenced and is likely to be completed by April 2015."

36. On Income Tax Business Application (ITBA), the Secretary, Department of Revenue, in his deposition before the Committee, *inter-alia* stated:—

"The first major initiative that the Department is working on is the Income Tax Business Application module or the ITBA. The functionalities in place today are the Assessment Information System or the AST, the OLTAS or the Online Tax Accounting System, and the Individual Running Ledger Account or the IRLA. These modules were started in the 1990s and they were upgraded according to different scenarios and situations constantly arose which were attended to through patch work. Obviously the architecture of the module of the software used now needs to be re-written. Therefore, the Department has started the process of re-writing the business processes of the AST and other modules of the Income Tax Department and bringing them under one common architecture through a project called the Income Tax Business Application. More than 300 processes have been identified and built into the ITBA, including Human Resource Management System."

Failure to issue notice to non-filers

37. As per paragraph 7.5 of Manual of Procedure (Volume-II Technical) of ITD 'once non- filers are identified, the responsibility to take further action would be that of the Assessing Officer. He should send a letter to 'non-filers' with a request to file their returns. In cases where a reply or a return is not received within a reasonable time, formal action under section 142(1) should be initiated'.

38. Audit found that 2,122 assessees who had filed their returns of income either during AY' 09 or AY' 10 had not filed their return of income for AY' 11. Tax paid by these assessees during AY' 09 and AY' 10 amounted to 997 crore. Loss of revenue for AY' 11 was not quantifiable as no return of income was available with ITD.

39. On enquiry regarding the action taken by the Department on the Audit observation, the Department submitted:

"There seems to be some error in communication while mentioning AYs by Audit. The number of returns (2122) relate to AY 2009-10. The audit of system was done somewhere in September - October, 2011. It is relevant to point out

that the time barring date for the processing of returns for AY 2010-11 is 31.03.2012 and for AY 2011-12 is 31.03.2013. Thus the true fact emerged only after 31.03.2012 for returns of AY 2010-11 and 31.03.2013 for returns of AY 2011-12.

In the present case we ran query in August 2013 to know current status of returns pointed out by Audit. It was found that out of 2122 returns, 1136 returns for the AY 2010-11 and 1278 returns for AY 2011-12 have actually been filed."

40.   Clarifying the issue, the Chairperson, CBDT, in her deposition before the Committee submitted:

"....there seems to be some miscommunication with regard to the 2122 figure which has been given by the Audit. Misconception is there because for 2010-11, the assessee can file the return up to 31.3.12. Similarly for 2011-12, the assessee can file the return up to 31.3.13, one year after. So, invariably the time was not finished at the time when this audit was done. Now we have checked up from our system and we find that already with this regard and with regard to the returns they have pointed out 2122 but actually 2414 returns have been filed. So, this is only a miscommunication because they have worked out the audit at a time when time for filing the returns was still there. Now those returns have come."

41. The Ministry informed the Committee that issuing of notices to non-filers was being contemplated through a dedicated project, *i.e.* Data Warehouse and Business Intelligence under Project II team. In order to see effectiveness of this model, more than 2 lakh notices were issued centrally and a separate compliance module namely Non-filer Management System has been created for Assessing Officers to monitor his area of work on regular basis.

42. When asked about the effectiveness of this project, the Department of Revenue submitted as under:

"The Directorate of Systems initiated the Non-filers Monitoring System (NMS) as a pilot project to prioritise action on high risk non-filers. Around 12-lakh non-filers were identified about whom specific information was available in AIR, CIB data and TDS/TCS Returns. The cases have been given different priority ratings based on the analysis of nature and value of transaction. The ratings are P1, P2, P3, P4 and P5 where P1 cases have the highest priority. Bulk letters are being sent out in batches of 35,000 containing summary of the information available with the Department along with a customized response sheet. The information in respect of the target segment has been made available to the Assessing Officers through online monitoring system in July, 2013. The results of the pilot project are encouraging and the summary of filing of return and payment of taxes by the target segment is as under:—

- 2,82,445 persons have filed 3,95,858 returns;

- Self Assessment tax of ₹ 725.50 Crore has been paid; and

- Advance Tax of ₹ 619.12 Crore has been paid".

43. Regarding the Department's plan to ensure voluntary compliance by the taxpayers to file their returns, it was submitted that:

"The Department has been continuously refining its business processes by leveraging technology to facilitate voluntary compliance by tax payers. The online annual tax credit statement (Form 26AS) on the e-filing portal shows the details of tax paid, tax deducted/collected and refund to the taxpayer. This encourages voluntary compliance on the part of taxpayers to file their returns. It has been the Department's endeavour to promote system driven environment which is objective and near discretion free. Manual selection of cases for scrutiny has been dispensed with in the current financial year and all cases have been selected through the Computer Aided Scrutiny Selection (CASS) process. All the above measures have contributed to promoting voluntary compliance. Income Tax Department has also initiated Data Warehouse and Business Intelligence Project to develop an integrated platform for effective utilisation of available information and encourage voluntary compliance."

44. The CBDT also added (September 2012) that though AST could pinpoint non-filers accurately, no action was possible as the data in AST was incomplete due to offline and standalone processing on TMS software.

45. Elaborating the CBDT's reply that 'though AST can pinpoint non-filers accurately, no action was possible as the data in AST was incomplete due to offline and standalone processing on TMS software' to the Audit contention, the Department stated:

"At present the returns are processed, ' in 'System in AST and CPC, Bengaluru. The data of processed returns is also shared by CPC with AST. Thus in AST module all the data of returns processed through System is maintained. The System provides the list of Non-filers to AOs which are the cases available in PAN or returns database but return of income not filed during the period. Due to technical problem it was not possible to process all the returns in System. The problem may be of the following nature:—

  (i)   PAN under migration

 (ii)   PAN under de-duplication

(iii)   Representative assessees

(iv)   One PAN allotted to more than one person

 (v)   Invalid PAN

In order to process these cases permission was granted to process such cases under standalone offline Track Management System (TMS). The standalone TMS (offline) was a programme installed at the PCs of each

assessing officer. The data on this module was manually fed and case was processed. Due to this reason the data of such cases could not be migrated to Central System.

As the information of cases processed in standalone offline TMS was not available in AST or central system, the cases could not be taken into account if the data of non-filers are extracted from the System."

46. Regarding the monitoring mechanism that was put in place to ensure action against non-filers pinpointed by AST, the Department of Revenue submitted:

"From the year 2012-13 onwards no permission was granted to process the cases in standalone TMS (offline). Functionality has been created to capture returns for the AY 2009-10 that have been processed outside the system. This was released in Jan-March, 2012(in phases). The functionality was extended to the returns of AY 2010-11 and 2011-12 in March 2013. This is called online TMS as the data of such cases processed out of AST/CPC is available in central System".

Non-maintenance of legacy data linkage with current assessment

47. AST Module fulfilled the requirement of summary processing under section 143(1) and provided for computation of taxable income after allowing deduction/ exemption and calculation of income tax and interest thereon. In this process, assessees' claim to set off losses and unabsorbed depreciation pertaining to earlier assessment years and carry forward of current losses/ unabsorbed depreciation for set off during subsequent years was admitted.

48. Audit scrutiny revealed that the module was deficient with regard to transactions involving legacy issues like carry forward and set off of losses and unabsorbed depreciation. The module did not provide for automatically picking up data from earlier years so that the set off claimed during current year were indeed correct.The system totally relied upon the data furnished by the assessee in its return for giving them such benefit. Such cross linkages were also found wanting even in CPC environment.

49. Enquired about the steps taken by the Department to factor in the impact of legacy issues like unabsorbed depreciation and carry forward of losses during summary processing, the Department stated:

"Unabsorbed depreciation and carry forward of losses mentioned in the return of income contains figure of the particular year as well as carried forward figures from preceding years. The figures vary with every stage of assessment *i.e.* 143(1), 143(3), 154,250 order, 254 order, 263 order etc. Therefore the figures mentioned in the returns do not remain static but change with every stage of assessment. Therefore it is very difficult to link the return with respect to different A.Y or same PAN due to structure of existing Software. The issues are being considered in the new ITBA being developed by Department.

Kind attention may be drawn to the Express language of Section 143 (1) (a)

143. [(1) Where a return has been made under section 139, or in response to a notice under sub-section (1) of section 142, such return shall be processed in the following manner, namely:

(a) the total income or loss shall be computed after making the following adjustments, namely:—

   (i) any arithmetical error in the return; or

   (ii) an incorrect claim, if such incorrect claim is apparent from any information in the return;

Thus the Income Tax Act itself does not empower the AO to go beyond the Income Tax Return that is being processed and losses as claimed have to be allowed. The same has been captured in the processes in AST and in CPC.

This can lead to a scenario where a wrong brought forward loss has been claimed or a loss of a belated return allowed Sec. 139(3) of the Income Tax provides that if a person sustains loss under the head 'profits and gains of business or profession' or 'capital gains' during the previous year and claims that the loss or any part thereof should be carried forward u/s 72(1)/73(2)/ 74(1)/ 74(3)/ or 74A(3), he needs to furnish the return within the time allowed u/s 139(1). The same applies for certain other deductions such as 80IA.

However, because of the section 143(1)(a), as it stands today, the return of the succeeding AY claiming unabsorbed loss carried forward from the preceding AY, is allowed in processing without making a cross reference to the intimation of the previous AY".

50. On being further asked as to whether any system was in place to ensure that what was previously availed was appropriately recorded and taken cognizance of the Department submitted:

"Yes, if the case is processed and scrutinized through system, all the details of deductions claimed are recorded in system. If any case is not processed through system, the details are available in the file of the case maintained with the field formations which are referred by the field formation.

In CPC, the cases have been identified where wrong carry forward of losses is taken into cognizance despite late filing of returns. As regards wrong data being entered by the Assessees pertaining to carry forward losses prior to CPC, the same can be identified through scrutiny."

51. When asked whether the Department had carried out any test check to ensure that erroneous availments were being tracked or were within acceptable limits as per predefined parameters, it was submitted that the large deductions / exemptions claimed in the returns were selected under scrutiny through CASS on the basis of risk analysis. The processing and scrutiny of the cases were subject to internal audit as well as audit by C&AG.

52. Given the fact that several deductions and exemptions under the Income Tax Act (like section 80IA etc.) were time bound and hence needed to be restricted to the eligible period, the Committee enquired about their monitoring and the impact it had on the revenue foregone statement that was submitted under Fiscal Responsibility and Budget Management (FRBM) Act to the Parliament. The Department, while expressing difficulty in imposing time restrictions on deductions, responded as under:

> ".......For example deductions u/s 80IA are for the period of 10 years from the date of commencement of such business. But the period is extended to 15 and 20 years also in specified cases. Moreover, such deductions are related to particular units / undertakings of the assessee. Hence, if any new undertaking is commissioned within the periods, then the threshold time limit cannot be applied uniformly in the System. Further the claim of such deductions is unit/ undertaking based which are not captured in the present system."

53. The Central Board of Direct Taxes had also stated (September 2012) that there was no linkage of returns w.r.t different AYs for same PAN due to the structure of the existing software. The carry forward losses also changed during scrutiny assessments and appeal orders. Thus the linkages, even if introduced in processing might not be accurate unless the assessment and appeal functions were enforced online. These issues would be taken into consideration in the new Income Tax Business Application (ITBA) being developed by ITD to replace the existing ITD applications.

54. To a specific query as to whether this lapse of non-linkage of returns w.r.t. different Assessment Years for same PAN had been resolved, the Department stated:

> "AST module and CPC have limitations with regard to transactions involving legacy issues like carry forward and set off of losses and unabsorbed depreciation. The system did not provide for automatically picking up data from earlier years so that the set off claimed during current year were indeed correct. The system totally relied upon the data furnished by the assessee in its return for giving them such benefit.

> These issues would be taken into consideration in the new Income Tax Business Application (ITBA) being developed by ITD to replace the existing ITD applications in 2015."

55. The Committee were apprised that due to technical problems such as (i) PAN under migration; (ii) PAN under de-duplication; (iii) Representative assessees; (iv) one PAN allotted to more than one person; and (v) invalid PAN, it was not possible to process all the returns in system. When asked about the actions taken by the Board to address the issues related to PAN de-duplication/migration/

invalidation etc., which had affected the processing of returns in the system, the Department submitted as under:

"With a view to address issue of PAN de-duplication, migration etc., the following steps have been taken:—

(i) PAN under migration:

PAN migration process is well defined and working fine in ITD's Assessee Information System (AIS) application. PAN transfer can be source officer (AO/RANGE/CIT) initiated or destination officer (AO) initiated. Source officers may transfer PAN to any jurisdictional officer (AO). Alternatively, destination AO, in case of individual PANs, enters PAN transfer request which has to be compulsorily allowed/confirmed by the source officers.

(ii) PAN under de-duplication

As per process, if an assessee has been found holding more than one PAN then multiple PANs are deleted / de-activated in the AIS module by retaining one PAN for one taxpayer.

PAN allotted in recent time is retained and PAN allotted earlier in time is deleted/de-activated. If it is found that the PAN was never used in ITD applications it is deleted otherwise if use of PAN is found dormant for some time the PAN is de-activated. Deleted PANs are removed from main PAN database and kept in separate database table whereas de-activated PANs remain in PAN's main database.

No processing, including return processing in AST module, is done on deleted PANs whereas processing is possible on de-activated PANs after giving a prompt message, regarding de-activation of the PAN, to the AO.

However, if later on it is found that the deletion/de-activation of PAN done was erroneous, such as unrelated person's PAN have been clubbed and deleted/deactivated, process to restore deleted/e-activated PAN has also been provided.

(iii) One PAN allotted to more than one person

So far as segregation of unique PAN to unique taxpayer is concerned, the functionality is available in AIS module.

(iv) Invalid PANs

Assessing Officer is authorized in the ITD System to populate correct PAN".

56. During evidence, the Secretary, Department of Revenue, conceding that duplicate PAN cards were a source of worry for the Department, *inter-alia* submitted:

"Duplicate PAN cards, despite our publicity drive, continue to worry us. We never made Aadhaar compulsory with the PAN card. It was optional. As and when if Aadhaar gets populated on the entire PAN card basis, that is a very

good method for de-duplication. That is not only for PAN card but for other uses. As a de-duplication tool, Aadhaar is a very useful tool. But that is not there now. This is something on which we have to continuously educate the taxpayers and also take action in order to ensure that no one has more than one PAN card."

57. Observing that multiplicity of PAN cards was one of the ways of tax evasion, the Committee sought to know whether the Department had contemplated issuance of biometric PAN cards. To this, the Secretary, Department of Revenue, testified as under:

"What we are hoping is that even if Aadhaar is not compulsory, even for a voluntary process it covers most of the population, then we can start asking for it. Right now, even in the IT form, Aadhaar is totally voluntary. At some stage, we could have asked them by saying: You put in your Aadhaar number."

Online Tax Accounting System (OLTAS)

58. OLTAS evolved from the earlier Tax Accounting System (TAS) application wherein Challans were manually compiled. There were elaborate controls to ensure accuracy of data captured. OLTAS is designed to accept the Tax Credit and Refund information originating from the Banking system and routed through the Tax Information Network and make it available for the Assessment System for processing of returns. In effect, the Challan information has become an electronic token/ equivalent of cash and the accuracy and integrity of this data is of utmost importance.

Accounting and cash reconciliation

59. As per the prevalent system, the Zonal Accounts Officer (ZAO) receives input from three separate sources: (i) the Nodal branches of Banks (Details of transactions); (ii) RBI (details of cash settlements based on information from nodal branches of Banks); and (iii) Details of monthly account received from RCC; Nodal branches consolidated by NSDL in Tax Information Network (TIN).

RCC accounting figures in excess of RBI figures

60. According to Audit, the collection reported by RCC Delhi (through detailed statement minor headwise) to ZAO was more than actual tax collection reported by RBI (by put through statements) to ZAO. The difference for the two financial years is summarised below:

Crore ₹

Year	Collection (RBI)	Collection (RCC)	Difference	Refund (RBI)	Refund (RCC)	Difference
FY 10	42750.64	43081.80	331.16	12838.44	12942.84	104.40
FY 11	44824.39	45265.89	441.50	12460.43	13034.33	573.90

61. Explaining the reasons, the Board stated (September 2012) that the difference between figures reported by RCC and put through statement given by RBI was mainly on account of treatment of March residual transaction that is the Challans received on 31st March, but uploaded in the next Financial Year. The other reason could be the rejection of Challan records on account of validation failure in OLTAS whereas RBI does not reject Challan as it receives information on gross nodal scroll basis rather than Challan level.

62. Asked to enumerate the efforts made by the Department to reconcile the RCC accounting figures and RBI figures, the Department of Revenue submitted:

"The reconciliation of ITD OLTAS challan and refund figures is done jointly by the ZAO and RCC concerned.

Following steps have been taken to aid the process of reconciliation:

(a) The following reports have been provided in ITD OLTAS module to the RCC:—

    (i) ZAO detailed account report:- The report has been designed in consultation with ZAO . It gives monthly Major Headwise, Minor Head and Sectionwise figures for the current year as well as progressive figures.

    (ii) Annexure 'E' report:- It is monthly report based on annexure 'C' data provided by ZAO to the respective RCCs. The report gives bankwise, datewise, major headwise differences in amount in respect of challan and refund between RCC and ZAO.

    (iii) Simple major headwise report:- This is another monthly report for both challans and refunds. It gives major headwise current as well as progressive total amount for the entire CTU.

    (iv) Bank branchwise collection report:- This report gives bank branchwise and major headwise collection figures of each financial year.

(b) OLTAS Bank Dashboard facility is provided by TIN to each bank to verify Fund settlement status with RBI.

(c) Monthly and Yearly fund settlement status is emailed to banks and RBI with a request to take necessary steps to reduce the differences of amount reported to RBI and uploaded to TIN.

With the help of the above reports, RCCs reconcile receipt as well as refund amount with their respective ZAOs".

63. On the current status of accuracy level of tax collections reported by NSDL and those of the RCC and Banks, the Department submitted:

"The challan data strings reported by banks to NSDL (through Tax Information Network) is transmitted to RCCs automatically by daily schedulers without any manual intervention. In case of any corrections in the challan, banks transmit challan correction string (RT08) for correction in challan data including amount, which again flows from NSDL to RCCs. At the RCC level, the Assessing Officers can only do challan corrections in non-amount fields.

Any difference between figures reported by RCC and by RBI is on account of treatment of March residual transaction (challans received on 31st March, but uploaded in the next Financial Year) and rejection of Challan records on account of validation failure at NSDL (RBI does not reject Challan as it receives

information on gross nodal scroll basis rather than Challan level). MIS generated in this regard are sent by TIN through e-mail to Banks and RBI on regular basis for further necessary resolution and reconciliation."

64. Specifically when asked if the higher figure reported by RCC indicated higher advance tax credit to assessees, the Department replied in the negative.

65. When asked to explain the difference in refund outgo, the Department enumerated the following reasons:

(i) Banks have reported the refund data for previous financial years in the current financial year.

(ii) Banks may have used different Nodal Scroll Dates for reporting refund data to TIN and for reporting to RBI for settlement of funds.

(iii) Refund amount correction (RT09) is still to be transmitted by banks to TIN."

66. When asked if the refunds had been correctly and fully credited to all eligible assessees considering Departmental figures were in excess of those actually settled/ paid by RBI into assessees' account, the Department responded:

"Presently, 99.24% of refunds are transmitted through refund banker where utmost care is taken in transmission and distribution of refunds. Only Large Taxpayer Units (LTU) refunds and refunds generated out of orders not possible to capture in systems are sent by Assessing Officers through manual cheque mode."

67. The Committee enquired whether there had been any cases where refunds though authorized by the ITD were withheld by banks or were not being credited to assessees. To this, the Department replied in negative and stated as under:

"The Refund Banker is not authorized to withhold refunds cleared by ITD. The Refund banker has to send status (paid/unpaid) within 95 days in case of paper refunds and within 5 days in case of ECS refunds."

68. Regarding the revenue impact in terms of interest u/s 244A for issue/payment of delayed refunds to the assessees during the last five years *i.e.* 2007-08 to 2012-13, the Department apprised the Committee as under:

"Interest u/s 244A is given for refunds which become due to a taxpayer under various provisions of the Act. Interest for delayed refund is not separately captured. However, total interest paid with refunds is as follows:—

Sr. No.	Financial year	Total Interest paid with refund (in ₹ crores)
1.	2007-08	4434
2.	2008-09	5790
3.	2009-10	6876
4.	2010-11	10499
5.	2011-12	6486
6.	2012-13	Under compilation."

69. Asked to explain the reasons for not separately maintaining the data regarding amount paid as interest for delayed refunds, the Department submitted:

"For cases processed in the system, whether it is on AST or CPC, interest u/s 244A is duly maintained in the system.

However for the cases which are processed manually *i.e.* where either due to missing link of legacy order for rectification or appeal effect or exception case of PAN conflict, the orders are not processed on System, the breakup of interest u/s 244A is not available as the issued refund is one composite cheque containing refund as well as interest."

Banking system and Controller General of Accounts (CGA)

70. CGA authorized 12,926 branches of nationalized and private sector banks to collect taxes of which 11,638 branches collected taxes. CGA de-authorized branches from collecting taxes where the quality of PAN/TAN data in uploads to the TIN was beyond acceptable limits. NSDL constantly monitored this aspect and prepared periodic reports of quality of PAN/TAN data. Audit found that several bank branches which had been de-authorized to collect taxes were collecting taxes.

Further, branches of Punjab National Bank (15 branches), Oriental Bank of Commerce (2), Vijaya Bank (8) and State Bank of India (1) which were not in the authorized as well as in the de-authorized list were collecting taxes.

71. On this issue of tax collection by de-authorized Branches, the Secretary, Department of Revenue, deposed before the Committee as under:

"On further enquiry, it is found that in 99 per cent of the instances cited by the C&AG in their Report, taxes were collected by the cited branches in the time gap of receipt of communication de-authorising the branches from the office of the Principal CCA, CBDT.

So in that time gap these collections had taken place. Further the office of the Principal Chief Controller of Accounts will be publicising the list of authorised branches and it is also proposed to impose hefty penalty on the banks who have collected tax through such de-authorised or unauthorised bank branches."

72. Asked to elaborate on the concrete actions taken by Board to address the issue of collection of taxes through de-authorized bank branches and their eventual remittance into Government Account in the background of suspense and un-reconciled challans/demands, the Department replied:

"Principal Chief Controller of Accounts, CBDT authorizes Bank branches for collection of direct taxes. Only authorized bank branches are expected to collect taxes. However, in the past some cases where unauthorized branches have collected tax, have come to our notice. In the Monitoring Committee Meetings chaired by Pr. Chief Controller of Accounts, CBDT (for regular monitoring and assessment of the bank's performance in so far as the collection of direct taxes is concerned) the issue of collection of taxes through

de-authorized bank branches of agency banks has been raised and taken up with the defaulting banks. The banks have been strictly advised against such malpractices. The Zonal Accounts Officer reconciles the figures of collection reported by the banks in their 'Date-wise Monthly Statement' and the figures reported by the Reserve Bank of India in their 'Put-Through Statements'. The agency bank have been further advised to ensure that their Nodal Branch Managers reconcile the figures of tax collection with the respective Zonal Accounts Office, CBDT every month without fail, so as to reduce the figures of un-reconciled balances and suspense.

The office of Pr. CCA, CBDT has developed a web portal termed Challan File Movement System wherein all the agency banks are required to upload the e- files related to scroll/Challan data for the days tax collection. Validations have been inbuilt in the system which regulates any data uploaded by any de-authorized/unauthorized bank branch. The portal rejects such files prior to their incorporation for compilation of Revenue Accounts. Regular MIS from NSDL is also obtained to monitor such irregular uploads."

73. The Chairperson, CBDT also assured the Committee as:

"....what we really found in this regard is that those unauthorized branches are using the Basic Statistical Return (BSR) code of the authorized branch. So, invariably, taxes are not lost; they come to us. The only thing is, they are routed through unauthorized branches."

74. To an enquiry as to whether the Department of Revenue contemplated to initiate action against such Bank Branches who had been de-authorized to collect taxes, the Department replied that Office of Principal Chief Controller of Accounts was authorized to impose penalty on banks in such cases.

75. When asked whether tax collection by unauthorized/de-authorized branches could be attributed to lack of adequate number of authorized branches for tax collection, the Secretary, Department of Revenue, in his deposition before the Committee submitted as under:

"We are quite liberal in authorizing branches. The only thing is the banks have to come forward. Only that the authorization has to be recorded in the system. Otherwise, especially when banks are authorized, there is no reason why to withhold authorization of the branches of those banks on a liberal scale. This is what we are telling the banks also. Where it is left out, we just add that bank branch."

76. The Committee were informed by the Department that the issue of online tax collection by unauthorized banks had been taken up with Reserve Bank of India. The apex bank had been   apprised that since unauthorized banks had entered into agreements/tie-ups with 'agency banks' and were using net-banking facility for e-collection of direct taxes, it was necessary that apex bank intervened in this matter and issued suitable guidelines/instructions to stop the agency banks from entering into agreements with authorized banks and collect direct taxes.

77. Audit found that the percentage of number of branches not submitting OLTAS data was high for Oriental Bank of Commerce (6.6%), Bank of Maharashtra (9.12%), Indian Bank (10.27 %) and Punjab and Sind Bank (38.86 %).

78. On being asked whether submission of OLTAS data by banks impacted tax credit to assessees and the Department's proposal to ensure that assessees were not devoid of tax credits, the Department replied as under:

"ITD has not received any complaint of missing challans from taxpayers. However, TIN sends e-mail showing the differences in collection figures on monthly and yearly basis to the banks concerned and RBI with a request to reconcile the gap, if any. Banks can also login and verify their settlement status."

Large amount of Un-posted Credits lying in OLTAS

79. As per system documentation, all Challans are to be posted directly to IRLA in case of credits of assessees, and to TDS IRLA in case of Challans deposited by TDS Deductors. Audit found that non-TDS payments were lying unposted in OLTAS.

80. To the Audit's observation, the Board stated (September, 2012) that functionality had been provided in 'ITD application to upload such returns through ITD-ONLINE TMS' and 'Manual Upload of offline Scrutiny Orders'. Once such returns get uploaded through this functionality, respective Challans would be marked as 'POSTED' in OLTAS.

81. Elaborating about the system in place to monitor un-posted credits to prevent their misuse, the Department submitted:

"Challans (other than regular tax) are posted to ledger at the time of processing of return. Challans are lying un-posted because of error in challan data which can be posted only after correction/ validation. The error in data could be due to invalid combination of minor head and assessment year, wrong major heads, invalid combination of TAN/PAN and minor head etc. Un-posted challans are monitored in the following ways:—

(a)   Challan which are identified as ready for posting (*i.e.* after the Assessing Officer has corrected the same) can only be posted to IRLA.

(b)   A suspense challan can be both claimed and verified by an Assessing Officer only if the challan amount is <=₹5 lacs. For high value challans, with amount more than ₹5 lacs, there is a maker checker system, *i.e.* the change made by the Assessing Officer needs to be verified by Designated Officer at RCC to make it effective.

(c)   If a valid PAN1 is already populated in a challan and an assessing officer wants to change the PAN1 by another PAN2, in that case

verification by both the Assessing Officers of PAN1 and PAN2 is required to make the change effective.

(d) Since CIN is unique key in IRLA, one challan can be posted only once to IRLA for credit.

(e) AST has contra entry facility to reverse the credit in case it is given to wrong taxpayer."

82. Regarding current status of non-TDS payment lying un-posted in OLTAS, the Department submitted as under:

"A new demand management functionality is being worked out in which it is proposed that the posting of all the challans will be automatically done by CPC. Hence the work will be performed in automated environment leaving very little room for human intervention."

83. Apprising the Committee of the impact of non-posting of Challans on arrear demand collection, the Department of Revenue stated:

"Non-posting of challans of arrear demand in IRLA results in incorrect collection/reduction figures in system in individual cases. However, such gross collections figures come to system through OLTAS. The AO also manually accounts for such collections against individual cases in his registers. Such gross collection is also included in the CAP by the individual AO. Thus non- posting of challan in IRLA does not make any significant adverse impact in demand collection though it increases the work of field formation till the improved system is made functional."

84. To a pointed query as to whether the system of posting all challans to eligible accounts was completed, the Department submitted as under:

"Posting of challans is an ongoing process. TDS with valid TAN and Regular tax challans, where PAN, AY and amount matches with that of demand are posted immediately to ledger. Non TDS (advance tax, self assessment tax etc.) are posted to ledger manually at the time of assessment and giving credit. Other regular tax challans where PAN and AY matches but amount does not match with that of demand is manually posted."

85. Further, when asked whether this non-posting of challans resulted in undue or wrongful tax demand notices to the assessees, the Department submitted:

"Non-posting of challans means wrong reflection of demand recoverable from assessees. The issue of notices by AO is a routine recovery exercise, which gives opportunity to assessee to either get the demand rectified or get it recovered. Since most of the notices are issued manually, no such data can be provided from the System."

Individual Running Ledger Account System (IRLA)

86. IRLA is a central ledger accounting system for assessee related transactions *viz.* demand, collection and refund. Prior to introduction of IRLA, this requirement was being met through separate registers like Current Demand and Collection

Register, Arrear Demand and Collection Register, Stay Register, Installment Register, Write off Register etc. IRLA was to interact with OLTAS for information on credits and with AST for recording demand and refund.

Generation of MIS Reports

87. One of the objectives of computerization is generating MIS Reports to assist tax administration. ITD has prescribed various MIS reports which would provide information to CBDT and for performance evaluation by the Government. Two important reports are CAP-I and CAP-II.

Inaccurate preparation of CAP-I Reports

88. CAP-I report deals with demands, collections, disputed demands and demands which are difficult to collect. The monthly report prepared by AO is to be generated from IRLA module. Audit found that as information capturing in IRLA module was incomplete, CAP-I reports prepared through them were inaccurate.

89. However, ITD replied that CAP-I reports generated from ITD Applications were complete with regard to summary orders. Since most of the scrutiny orders were passed outside the system, CAP-I could not give a complete picture of Demand and Collection.

90. Regarding action taken by the Department for generation of desired comprehensive Management Information System (MIS) *vis-a-vis* improvement in accuracy of CAP Report, the Department submitted:

> "Multiple reports are possible to be generated through AST/CPC data. Ideally most CAP fields should be directly populated from such reports. However, due to legacy issues of orders being passed outside the system, the subsequent processes like rectification, appeal effect, recovery and audit outside the system. Thus there will already be a gap. The earlier manual work is phased out. The Board has now recommended entire scrutiny and processing work to be done on the System."

91. Asked to delineate the Department's proposal to use the information of CAP Report without having an accurate robust MIS, the Department submitted that the CAP was accurate as AO had access to manual information which supplemented the system generated MIS. The Department also submitted that CAP information was monitored by Board effectively, every month and remedial action was quickly initiated.

92. It was submitted that several parameters contained in the CAP- I report were eventually reflected in the Annual Financial Statement (Budget), Annual reports of the Ministry etc. In this context, the Committee sought to know how the sanctity and completeness of this data was being ensured. To this, the Department stated:

> "CAP reports are presently being filled up by the Assessing Officers in field formations. They extract the desired data from ITD applications which are available online and the manual records maintained by them. These reports

are compiled at the Range level by Addl. CIT/ JCIT after validation/verification of data. This process is repeated further at level of CIT and CCIT. CCsIT submit the information which is compiled at apex level of CBDT."

Manual Generation of CAP-II Report

93. CAP-II report deals with status of workload and achievement *inter alia* covering assessments, action on audit observations, appeals, new cases added, surveys and deployment of officers. Audit found that as much of the information depicted in CAP-II is not recorded in AST, it is not being generated from AST module.

94. The report of MIS advisory group on reducing reporting burden in the Income Tax Department recommended the reorganisation of crucial statistical reports so as to make them informative and accurate, using the IT systems of ITD.

95. When asked if the incompleteness of IRLA had affected tax collections and arrear demand collections, the Department submitted as under:

"At present the manual demands are not integrated in IRLA. Similarly any rectifications out of System are also not reflected in IRLA. The demand not available in System are available in the registers of AO for collection and also reported in CAP-I. To improve this aspect, exercise of Demand Management was undertaken during the year where each AO was required to upload all non IRLA demands to CPC portal so that it is available for collections along with IRLA demands. A comprehensive Demand Management Solution is being worked out for further improvement in this area. However this limitation of IRLA had no impact on the tax collections or arrear collections."

Electronic Tax Deduction at Source System (e-TDS)

96. Tax deduction at source (TDS) is one of the important means of pre-assessment collection of tax. All TDS returns are received in ITD in electronic format through TIN (NSDL) and are processed through e-TDS module. e-TDS makes available the deductees TDS particulars to AST when the income tax returns of deductees are being summarily processed. e-TDS returns were validated based on challan particulars available in OLTAS.

Non-verification of certificates issued under section 197

97. Section 197 of the Income Tax Act, provided that in case of payments covered under certain sections, AO might issue certificate for deduction of tax at a lower or nil rate.

98. Till FY 10, the certificates under section 197 were being issued manually. Since May 2010, it was mandatory to issue certificates under section 197 through the system. Certificates could also be generated manually in exigent circumstances but data regarding the same had to be captured in the system within 7 days of issue. During the years 2009-10 and 2010-11, ITD issued 34972 and 308795 certificates respectively through system.

99. Audit examination had revealed that while processing e-TDS/TCS returns, information regarding certificates issued under section 197 was not being used for matching data provided by the deductor in TDS return.

100. On being enquired, the Department delineated the actions taken to address the system inadequacies in e-TDS module:

"With respect to the verification of 197(1) certificates, the following inadequacies were identified:—

(a)   Before the FY 2009-10, 197(1) certificates were issued by the various field formations in a distributed manner. No centralized source of data was available to verify the claims of the deductors in the TDS statements.

(b)   Further, the TDS statements did not allow the deductors to enter the details of 197(1) certificates.

Without a reliable Central database, enforcing the verification of 197(1) certificates in the processing of TDS statements would have led to large number of taxpayer grievances.

In view of the above, it was decided to enforce the verification of 197(1) certificates in a phased manner. From October, 2009, it was made mandatory for field formations to issue 197(1) certificates for lower deduction through the e-TDS module of the Income tax Department. As a result a centralized database of the 197(1) certificates issued has been created. In the next phase, the newly created Centralized Processing Cell (TDS) has been utilizing the data of 197 certificates for verifying the claim of deductors regarding lower deduction from the FY 2012-13 onwards."

101. When asked whether any efforts had been made to cross link certificates issued under section 197 with the e-TDS returns filed by deductors, the Department replied:

"The TDS statement forms have been suitably modified w.e.f. 01.04.2013 to allow the deductors to enter the 197(1) certificate data in the TDS statement. During the processing of statements, defaults will be generated in cases where the corresponding data is not available in the Income tax Department database for 197(1) certificates issued by the field formations. Thus, a lower deduction claim will be entertained only against a valid 197(1) certificate number."

Tax deducted at source and tax credits claimed

102. Audit found that between 2006-07 and 2010-11, the difference between TDS available (as per TDS module) *vis a vis* TDS claimed in ITRs amounted to ₹43268 crore.

103. Providing details of the difference between amount of TDS claimed in ITRs and amount of TDS as per TDS module for FY 2012-13, the Department in a written reply stated:

> "The TDS amount as per the TDS module cannot be reconciled with the TDS as per ITRs at this stage as the due date for filing of ITRs for FY 2012-13 (AY 2013-14) was 31st July, 2013. The ITRs filed for FY 2012-13 are now being processed."

104. Enumerating the specific reasons for substantial difference between TDS available as per TDS module *vis-a-vis* TDS claimed in ITRs, the Department submitted:

> "The difference in the claim of TDS in ITRs with reference to TDS credit available in TDS module cases is on account of various reasons:—
>
> (a) The TDS credits reported for non-PAN cases in TDS statements [Such cases will reduce to large extent as Income Tax Act (Section 206AA) has mandated the deduction of tax at source at higher rate of 20% by the deductors from 01-04-2010 in cases of non-PAN/invalid PANs].
>
> (b) There are ITRs which could not be processed either at CPC or AST on account of certain technical reasons *e.g.* the cases where transfer of PAN is not technically feasible. Such ITRs have been processed on TMS application till the FY 2010-11. The TDS claims in these ITRs have not been factored in the data above.
>
> (c) Certain taxpayers may not have filed ITRs whereas in their cases the tax has been deducted by the deductors. [In this regard, Department has initiated the action in the cases of Non-filers (Corporate and Non-corporate) based on the data analysis of TDS statement reporting *vis-a-vis* ITR statement reporting]."

105. Statedly, in order to address these issues, the Department has taken following steps:

- The annual tax credit statement in form 26AS has been generated for 3.5 crore taxpayers and has been made available online. The transparency initiative will help in the accurate reporting of income by the taxpayers on the basis of TDS data available with the Income tax Department.

- It is also proposed to pre-populate the TDS data during the e-filing of returns by the taxpayers.

- With the Centralized Processing Cell (TDS) becoming operational only digital TDS certificates can be issued. Thus the data relating to TDS available with the Department is reliable and will be used for ensuring accurate reporting of income.

IV. VENDOR MANAGEMENT

Delay in project execution

106. In September 1994, an agreement with Tata Consultancy Services (TCS) was entered into to develop seven modules of ITD system.

107. Audit found that there were substantial delays ranging from 2 to 54 months in execution of various projects. Further, there were no penal clauses for delay in execution of work against TCS which could have been deterrence for delayed performance. It was also found that there was no service level agreement (SLA) for maintenance/technical support with TCS to enforce quality standards.

ITD while admitting the fact (September, 2011) stated that SLA has been entered into to enforce quality and efficiency.

108. On being asked to explain the reasons for not incorporating penal clauses in the agreement with TCS to develop ITD system module, the Department submitted as under:

> "TCS team works under the continuous guidance and monitoring of the four project teams each headed by a DIT. The change in requirements or problem pertaining to each module are being monitored by the respective Module In-charge Director of Income Tax (DIT), and the Module Team of the Directorate of System also decides about the priority on which issues need to be taken up for solution depending upon the criticality of the problem. Module teams of TCS work under continuous monitoring by the Module Teams of the Directorate of Income Tax (Systems). The initial contract with M/s TCS was entered into in 1990s and work orders were being issued on the basis of / in continuation of the same. From 01.07.2011, Service Level Agreements (SLAs) with initiation of penalty have also been introduced in the Work Order with M/s TCS. Presently this arrangement with M/s TCS is going to end very shortly on 09.11.2013 and new Contract having detailed Service Level Agreements (SLAs) and penal clauses has been entered into for maintenance and development of ITD Application.

> Further in the Tenders being floated very detailed Service Level Agreements have been prescribed and strong penalties have been incorporated both for delayed implementation and poor performance during operations."

109. When further asked to intimate the action taken to increase the quality of the agreements executed with outsourced vendors for ensuring timely, efficient and effective IT products/services, the Department reiterated the above reply.

Non-enforcement of contractual conditions

110. M/s IBM India Private Ltd. was responsible for roll out of computer systems at all designated ITD stations such that all users would be able to use the centralized application with predefined response time parameters within 150 days of the release of purchase order. Failure to complete the work would attract liquidated damages at

the rate 2 per cent on total fee payable for commissioning and acceptance for each week beyond scheduled completion date.

111. Audit scrutiny revealed that as against the scheduled completion date of September, 2007 the project was completed in June, 2009 after delay of 92 weeks. Accordingly the vendor was liable to pay liquidated damages of ₹ 24.47 crore. ITD stated (September 2011) that liquidated damages were being worked out based on delays attributable to the vendor.

112. M/s Bharti Televenture Limited (BTL) was handed over the contract of LAN and WAN connectivity in ITD across India. Given the large scale of the contract, M/s Engineers India Limited (EIL) was designated as the monitoring agency for ensuring the rollout obligations by BTL. EIL computed the total delay at 1589 weeks for phase-I and 17160 weeks for phase-II for which liquidated damages of ₹ 2.56 crore and ₹ 27.64 crore were leviable.

113. Audit found that even after the monitoring, agency EIL had computed the liquidated , damages leviable, ITD had not enforced the recovery of the same. ITD stated that they were in the process of ascertaining actual damages.

114. When specifically asked whether the Department had put any system in place to monitor the non-enforcement of contractual conditions, it was submitted:

"The Contracts with Vendors are being monitored scrupulously by the Directorate of Income Tax (Systems) which is an attached office of the CBDT. There are different Project Teams headed by DIT(S) (JS Level Officers) in the Directorate of Income Tax (Systems) to monitor the day to day operations of the projects as implemented by the vendors and confirmation to contractual terms and conditions".

115. On being queried whether liquidated damages were quantified and crystallized in respect of all defaulted vendors the Department submitted:

"The work of calculation of Liquidated Damages (LD) on M/s IBM India Private Limited is in progress.

The work of finalization of LD on Sify and TCL(VSNL) are over and LD amount of ₹ 19,59,998/- (₹ 17,88,891/- of TCL and ₹ 1,71,107/- of Sify) have already been deducted from their respective Invoices.

As far as Taxnet Contract with M/s Bharti Airtel (earlier as M/s Bharti Televentures Ltd.) is concerned, Liquidated Damages of ₹ 20,82,69,993/- were imposed *vide* notice dated 10.08.2011 and this amount was recovered. A further Liquidated Damages of ₹ 1,51,618/- have been levied *vide* notice dated 25.05.2012 and this amount also has been recovered. Total Liquidated Damages imposed on M/s Bharti Airtel and recovered are ₹ 20,84,21,611/-".

116. When asked to explain as to why the Department had not acted on the report of EIL, it was submitted that:

"Computation submitted by the EIL was examined by a Committee constituted to examine and report on the Liquidated Damages issue. Thereafter

opportunities were provided to M/s. Bharti Airtel as per the principles of natural justice to explain their side. Their objections were dealt with and a notice was issued by the Directorate on 10.08.2011 *vide* which Liquidated Damages of ₹20,82,69,993/- were imposed and this amount was recovered. A further Liquidated Damages of ₹1,51,618/- have been levied *vide* notice dated 25.05.2012 and this amount also has been recovered. Total Liquidated Damages imposed and recovered are ₹20,84,21,611/-. Further reference in this regard is also made to para 3.10 on page 28 of the CAG Report No. 23 of 2012- 13 on IT Applications in Income Tax Department. The relevant part of the para reads as "Liquidated damages of ₹20.82 crore has been recovered from M/s Bharti Airtel in August 2011. Crystallization of damages in other cases is in progress."

117. In this regard, the Committee sought the information regarding requirements of the contract analysed during the Software Development. Life-Cycle (SDLC) process and the contract conditions framed and if any scientific study was done in framing timelines for various stages of the contract. The Department in this regard submitted that the timelines were framed in the Contracts based on the past experience in the Directorate and inputs from Consultants wherever available.

118. About details of the monetary impact on project costs due to time overruns, it was submitted that in case of Taxnet Project carried out by M/s. Bharti Airtel (earlier as M/s. Bharti Televentures Ltd.), no additional cost was paid by the Department to M/s. Bharti Airtel and rather Liquidated Damages of ₹20,84,21,611/- were recovered from the vendor.

119. When queried about the effect of the delays on the rollout obligations of the CBDT, the Committee were apprised that this affected the timelines of the rollout obligations of the CBDT as the delays had cascaded. However, statedly, every effort was made to minimize the delays.

Non-link up of e-Banking with e-filing of Income Tax Return

120. ITD has provided a facility to assessees for viewing of tax credits (26AS) through NSDL site or through internet banking. Internet banking also provided an opportunity for ITD to generate income tax return and file them online in a secure manner without considerable resource deployment.

121. A perusal of ITR-I Sahaj to resident individual revealed that only four additional columns *viz,* income from salary/pension; income from one house property; income from other sources and deductions under chapter VI A would be required for completing the details.

122. All other details in Part A and Part D are readily available in the online bank accounts. An assessee would be able to generate a pre populated form with the existing details and if additional details as given in previous paragraphs were entered then a complete ITR-I could be generated with verification and signature of the assessee.

123. In this context, the Committee enquired about the action taken by the Department to reap the benefits of synergising e-banking with IT. The written submission of the Department was:

> "In the current e-filing project, features to provide data to pre-fill PAN, form 26AS and OLTAS data at the time of preparing the ITD have been introduced. The Directorate of Systems is well seized of this aspect. In fact the new e-filing RFP mentions that the e-filing system seeks to exploit the significant benefits that can be obtained from wide use of fully electronic payment methods to complement e-filing and to complete the cycle. In this connection the linkages to e-payment have already been provided. Integration with payment gateways or any other leveraging involves a policy decision that involves concurrence of other stakeholders such as the Principal CCA. The matters are under discussion".

Inadequate monitoring of outsourcing agencies with reference to Service Level Quality governing data and network security issues

124. A number of outsourcing contracts are operational with various vendors for delivery of IT services, such as data handling at Primary Data Centre (Delhi), Business Continuity Centre (Mumbai) and Disaster Recovery Centre, data receipt, its digitisation and transmission, data processing, connectivity between the various tax offices of the country in an inter-connected national network terminating at PDC and provision of space for establishing data centres. Thus, the critical IT assets of ITD are under management of the outsourcing agency.

125. All agreements entered into with the outsourcing agencies *viz* M/s. IBM India Pvt. Ltd., M/s. Sify Ltd., M/s. VSNL Ltd., M/s. Infosys Ltd., M/s. Bharti Televentures Ltd. and M/s. NSDL Ltd. includes clauses relating to 'security architecture and requirements' which envisages various types of controls required to be exercised by the outsourcing agency for information, networking and physical security in respect of assets handled by them. These agreements also involve furnishing of periodic security audit reports to 1TD, incident reporting and MIS reports on security violations.

126. Audit observed that the security requirements given in the SLA were comprehensive; however, the requirement for periodicity of audit by ITD/third party was not uniformly specified in all the agreements. As a result, M/s. VSNL and M/s. Sify were never audited by ITD or any third party. On this being pointed out ITD appointed (September, 2011) M/s. STQC for conducting third party audit of these agencies. Similarly, M/s. IBM India Ltd. was engaged as SLA for ITD in the year 2007 and the agreement also provided for half yearly audit. However, ITD never conducted any Security audit by itself or by any third party. As regards M/s. Infosys Ltd, only one third party audit report was furnished to audit. No further audits were undertaken by ITD.

127. When specifically asked about the efforts made to enforce adequate conditions relating to third party security audit as well as security audit, by itself, the Department submitted that:

"So far as M/s IBM is concerned, the discrepancy was noticed in third party security audit that unsecured access was allowed for Department's other project namely CPC (Bengaluru) at the instance of Department by opening the RDP port 3389 which was unsecured access. As unsecured access to data center was at the instance of Department's business requirement therefore it was reviewed and there after unsecured access through unsecured port 3389 has been blocked and alternative solution of secure access through Tivoli Endpoint has been put in place now which is secure.

The security audit has also been pointed out towards weak password being used by ITD users therefore following security auditor's recommendations, a strong password management policy incorporating the best practices like the password being of minimum of 8 characters, at least one number, at least one special character, changing the password at fixed regular intervals, not using the last three passwords, no default password etc. has already been implemented with effect from April 2012.

Further Department has undertaken its own review of enhancement of security and as an added security feature, the single sign on solution integrating RSA solution with user-id and password of ITD application has been successfully implemented with effect from May 2013. This solution implementation will keep proper track/ audit trail of user incoming/outgoing activity on the system. Further in order to enforce the system discipline, a change management policy has already been implemented to all ITD application users at directorate of System. In the new e-filing system, a Security Audit has been carried out by STQC for vulnerabilities at the form level as well as the security architecture. The architecture has been vetted by Computer Emergency Response Team-India (CERT-In) too. Quarterly audits are being carried out. As regards CPC and M/s. lnfosys, Security Audit by a third party audit, a Systems audit by Standardisation Testing and Quality Certification (STQC) and further regular SLA Audits are being conducted on a quarterly basis by STQC. The Security Audit of CPC found no vulnerabilities in the CPC architecture and solution.

Third Party Security Audits have been carried out in case of Taxnet Project (M/s Bharti-Airtel). As far as carrying out of Security Audit by the Directorate is concerned, the Directorate is not having adequate technical manpower for the same".

128. On being asked to explain reasons for not carrying out periodical audits of outsourced vendors, the Department stated as under:

"So far as Department's Data Centre Service Providers (DCSPs), namely M/s TCL and M/s Sify are concerned, periodic audit had been conducted and

after completion of audit on DCSPs M/s. TCL (erstwhile M/s. VSNL) and M/s. Sify, wherever any shortfall was noticed on service standard, the same was either immediately removed or vendor was penalized. Wherever discrepancy of not meeting SLAs has been noticed on DCSPs, appropriate penalty was levied. Penalty amount ₹4,62,860/- and ₹93,214/- has been levied on M/s. TCL (erstwhile M/s. VSNL) and M/s. Sify respectively and said penalty amounts have also been recovered from their bills. Further Department is now regularly monitoring DCSPs day to day services as per SLA in the agreement and is taking action accordingly.

Such activities are being carried out 'regularly especially in projects under CPC,e-filing , SI, DCSP, Network project and such other critical areas".

129. Regarding action taken by the Department on the reports carried out by third party auditor, it was submitted that:

"So far as System Integrator (SI) M/s. IBM is concerned, the discrepancy was noticed in SLA audit after joint meeting with auditor and SI, for closure of deficiencies pointed out in audit reports. On any SLA breach noticed which was attributable to SI, appropriate penalty was levied on SI M/s. IBM. So far penalty amount of ₹67,81,500/- has been levied on SI which stands deducted from their bills.

In CPC and e-filing Projects, Reports have been complied with.

Immediately after receipt of such reports, the Department analyses each and every issue pointed out by the third party Auditor keeping in view the Service Level Agreement. The Department convenes joint meetings with vendors *viz.* Bharti-Airtel, IBM etc. in which it fixes deadline for removing the lacuna pointed out by the Auditors. The Department continuously evaluates and monitors issues until they are addressed. Officers of the Department ensure non-recurrence of such problems in future for which they regularly interact with the MSP and inspect the sites. Directorate issues instructions and guidelines to field formations from time to time".

130. The Committee enquired about the absence of provision for security audit by the Department in respect of National Securities Depository Limited (NSDL) considering the fact that massive functions of Departments had been outsourced to NSDL. In this regard, the Department responded as under:

As per agreement between Directorate of Systems and NSDL, after taking approval from the Department, the Service provider conducts third party system audit which includes security audit as well. NSDL is an ISO 27001 company which certifies quality management and security status according to accepted criteria. The main audit action points included in scope of work are as under:—

(a) IT set-up for TIN function

(b) General Controls for Data Centre facilities

(c) New software version release etc.

(d) Data communication controls

(e) Security controls—general office infrastructure

(f) Business continuity facilities

(g) TIN Support Desk (TSD)

(h) Entity Specific software

(i) TIN facilitation centers review

The agreement entered into with NSDL by ITD mandates an annual systems audit to be carried out by an external auditor approved by ITD. The scope of the audit includes security audit of facilities, procedures and processes of NSDL with respect to the Tax Information Network Project."

Security aspects relating to digitisation of physical returns

131. The work of digitisation of paper returns has been outsourced by ITD. Audit brought out that there was no centralized system for identifying qualified vendors for digitisation. Vendors were engaged by the jurisdictional officers at the field level. As the digitisation of returns involves direct interaction with the live system of ITD, it was not clear as to how the roles of private vendors was defined in the software or whether they were using the user ID and password of the Departmental officers. DGIT (Systems) could not provide Audit an assurance that there were any norms for this activity.

132. The CBDT stated (September 2012) that as ITD did not have the technical workforce initially for digitisation of physical returns, they permitted the cadre controlling CCIT to outsource the work on a rate approved by DGIT. Access to system was through the user ID and password given to the Assessing Officers and authorized staff. Since audit trails were available for the online activity being done on the system, inherent in such uses, this itself served as an essential security cover. In any case with the dwindling volumes of physical returns, due to surge in e-filing the problem had got minimized and the data entry work was closely monitored.

133. To the query of the Committee regarding addressing all security violations reported during security audits, the Department stated as under:

"Till day no security violation has been reported/noticed, wherever any security breach like RDP port 3389 has been noticed or weakening of password policy etc., has been noticed then immediate necessary action has been taken either to block the port or strengthening of password management policy.

No major security issue has been reported in the audit reports. Besides, NSDL is an ISO-9001-2008 as well as ISO-27001 company which certifies quality management and security status according to internationally accepted criteria.

All security violations as reported by the Auditors have been addressed. Broadly such violations may be categorised in three spheres —

(a) Initiatives required to be taken by the Service provider (Vendors), (b) Departmental initiatives, and (c) Users' level initiatives. As regards actions to be taken by the Service Providers, Officers of the Department regularly monitor and evaluate each and every issue pointed out by the Auditors until they are mitigated *e.g.* the Department has got the local syslog and AAA servers configured to protect critical devices. The Directorate ensures that the problems that require immediate attention by the field formations are promptly resolved. Such issues include proper up-keep of Communication Rooms, entry restrictions etc. The Directorate had written to all Chief Commissioners of Income Tax (CCA) for immediate compliance. The Directorate apart from advising to all CSIT (CO), for regular inspections had also communicated Security guidelines to all CCsIT from time to time, the last one being letter no. DIT-(S)-IV/2012-13 date 04.06.2012, requesting them to ensure proper upkeep of the infrastructure. To ensure proper security at User Level, we got the services of HTTP and Telnet disabled to restrict the access to the critical devises. Further, it has also been instructed that all unauthorised switches/hubs used for sharing ITD connection, if any, at any site(s) across the country be disconnected immediately. Strong password policy has also been put in place instead of dictionary based password."

PART II

OBSERVATIONS AND RECOMMENDATIONS

Introductory: The Income Tax Department (ITD) initiated computerisation in early 80s which targeted specific functionalities. 'ITD Applications' refers to the collectivity of Information Communication Technology (ICT) initiatives presently prevalent in ITD. Its main objectives are to improve the efficiency and effectiveness of tax administration and provide management with reliable and timely information towards effective planning as also to broaden the tax base. There are four modules of ITD Applications, namely, Assessment Information System (AST) for processing returns, Online Tax Accounting System (OLTAS) for providing tax accounting and payment information, Electronic Tax Deduction at Source System (e-TDS) for providing AST with information on details of payment of taxes under TDS scheme and Individual Running Ledger Account System (IRLA) for maintaining a ledger account of each individual assessee in respect of demand and refunds of tax for each Assessment Year (AY). The Committee's examination of 'IT Applications in Income Tax Department' based on C&AG Report No. 23 of 2012-13 revealed that ₹790 crore were spent on computerisation of the Department of Income Tax between 2006 to 2011, yet the Department had not utilized important functionalities of various modules. Other glaring lapses included non-recording of scrutiny assessment details, penalty proceedings and appeals, non-filers identified by the Assessment Information System not being issued notices, non-reconciliation of revenue collections as reported by banks and as accounted by Zonal Accounts Office, collection of taxes by de-authorised bank branches, serious deficiencies in Individual Ledger Accounts, multiple uses of same challans resulting in inadmissible tax credit to assessees, etc.

2. Commissioning of Central Processing Centres (CPCs): The Committee note that CPCs at Bengaluru and Vaishali, Ghaziabad became operational in October, 2009 and February, 2013, respectively, to process all e-filed returns. CPCs at Karnataka and Goa dealt with processing of paper returns. Two more CPCs at Manesar and Pune were to be commissioned to process the paper returns of the entire country other than Karnataka and Goa. However, the Committee were apprised by the Ministry that the projects of CPCs at Manesar and Pune, being unviable, were not carried out further. The reason advanced by the Ministry was that due to unprecedented increase in e-filing and the consequent reduction in the volume of paper returns available for processing, there was no adequate response to tendering for the projects of CPCs at Manesar and Pune. Since e-returns are taking precedence over paper returns in today's digitized world and paper returns are increasingly becoming redundant, the Ministry chose to scrap the project of commissioning CPCs at Manesar and Pune dedicated to process paper returns.

Apparently, the Department failed to make a thorough and diligent assessment before chosing to commission the CPCs at Manesar and Pune. Keeping in view the increasing volume of e-returns, the Committee feel that instead of scrapping the project of CPCs at Manesar and Pune altogether, the Ministry could have alternatively dedicated the said CPCs for processing e-returns. The Committee would like the Ministry of Finance to consider this aspect and apprise the Committee at the earliest.

3. **Recording scrutiny assessment details**: The Income Tax Act, 1961 (the Act) provided for scrutiny assessment under various sections. Assessment Information System (AST) module had limited functionality for scrutiny assessments under regular assessment [section 143(3)], best judgement assessment (section 144), reassessment (section 147), etc. As the processes prescribed for making an assessment under these sections involved application of mind and inquiry into the financial transactions of the assessee, AST system was designed to keep track of proceedings and to integrate the results of the same into the system once final orders were prepared and uploaded. AST system thereafter calculated tax, interest, posting to Demand and Collection Register and Individual Running Ledger Account System (IRLA), preparation of demand notices, etc. The Committee found that these features were not utilised by the Assessing Officers, inspite of specific instructions to carry out all post-processing actions only on AST. Across India, out of 11.31 lakh cases selected by Audit for regular assessment under section 143(3) during FY 07 to FY 10, only 1.98 lakh cases were entered into AST. In this regard, the Ministry submitted that the functionality of passing/uploading orders on the system was kept optional earlier and with the stabilisation of system *vide* Central Action Plan 2011-12, this process was made mandatory *i.e.,* all Assessing Officers were required to pass scrutiny assessments through AST software only. Though the Ministry denied any impact of non-recording of scrutiny assessment details by Assessing Officers on arrear demand and tax recovery, the Committee are of the considered view that recording of scrutiny assessment details is a *sine qua non* for providing updated information of demand raised in assessment proceedings and issuance of refunds on time. Therefore, the Committee recommend that as per the assurance given to them, the Ministry of Finance should ensure that scrutiny assessment details under various sections of the Act are recorded invariably in the designated system.

4. **Demand Management Solution**: Assessment Information System (AST), as admitted by the Ministry, was conceived and launched in mid-1990 to cater to the computerisation need of Department. The AST software, developed as per the technology available at that time, was hard coded and had a very limited scope of enhancements/modifications. The Income Tax Law is dynamic and changed according to amendments carried out. The Committee were apprised that Demand Processing System, compliance module in e-filing portal and Centralised Processing Centre (CPC) Financial Accounting System (FAS) Portal have been envisaged to handle all demand related issues. The salient features of the Demand Processing System are processing demand entries to identify cases where

verification of Assessing Officer is required including cases with duplicate demand, over-adjustment of demand, under-adjustment of demand, etc., processing response of the taxpayer captured from the e-filing portal, processing response of the Assessing Officer captured from CPC FAS portal and enabling rule based adjustment of refund against demand. These systems are expected to address the problem of incorrect or undue tax demand notices. Given the fact that Demand Management Solution is expected to roll out during 2014-15, the Committee hope that the Demand Management Solution is expeditiously implemented by the Ministry of Finance and the lapses of non-availability of updated information resulting in incorrect or undue tax demand notices issued to the assessees do not recur. The Committee would also like to be apprised about the outcomes achieved as a result of implementation of Demand Management Solution.

5. Utilization of functionalities on penalty proceedings and appeal: Assessment Information System (AST) provided for initiation and management of penalty proceedings from processing to appeals. Although penalty notices and penalty orders were to be made manually, the details of penalty orders such as section, date of passing of order, penalty amount were to be stored in the system. The application had been designed to track and record variations in demands arising out of penalty, appeal, rectifications and revisions. The Committee were given to understand that this functionality was never utilized in 16 Regional Computer Centres (RCCs). Similarly, the option for recording the details of the appeal proceedings in AST module had been put to limited use by the Department of Income Tax. The Committee further learnt that although as on 01.06.2011, there were 77,385 cases pending in appeal, only 3205 (4%) cases in respect of 14 RCCs, were found to be entered in the system. Further, not a single case, finalised by Income Tax Appellate Tribunal (ITAT), was found recorded while of the cases finalised by the High Courts and the Supreme Court, only 15 cases were entered in the system. Further, the data of appeals filed, disposal thereof, demands locked in the appeal were maintained manually by the respective Commissioner of Income Tax who submitted the information in the monthly report to higher authorities. The information of number of cases and demand locked in appeal was also provided in Central Action Plan (CAP) statement of the AOs. Statedly, certain steps have been initiated by the Department of Income Tax *viz.,* institutionalization of post-assessment practice of review and inspection, compilation and annual publishing of quality cases to provide valuable guidance to Assessing Officers to strive upon to improve quality of orders being framed, discouraging Assessing Officers from making high-pitched assessments, capacity building of Assessing Officers through regular training and interaction with Commissioners of Income Tax at regular intervals and ensuring active and dedicated role of Range heads in monitoring progress of scrutiny assessment cases. Though the Committee are pleased to note the mechanisms instituted by the Ministry, they urge the Ministry to implement these measures with full fidelity and expeditiously with a view to improving the quality of assessments as well as effective monitoring of the appeal cases.

6. Income Tax Business Applications (ITBA): The Committee note that the Department of Revenue has undertaken a project called Income Tax Business Applications (ITBA). The broad scope of the project ITBA undertakes re-writing of ITD applications in new architecture and design which *inter-alia* includes writing software for all processes (including core functions like assessment, appeal, rectifications, etc.) of Department, maintenance of old application till development of new application, migration of old data to the new application, development of interface with UTI Infrastructure Technology And Services Limited/ National Securities Depository Limited /CPC Bengaluru/CPC TDS/ Refund Banker, development of Data Centre for the application, development of Technology Training Centre, development of test environment for old and new application, training of 20,000 employees and development of HRMS module. An overview of the scope and functionalities of this project reveals that ITBA is key to achieving efficient and effective digitization of the overall functioning of ITD. As per the Ministry's admission, the project is likely to be completed by April, 2015. With completion and implementation of ITBA in the Department of Income Tax within the stipulated time, the Committee hope that a state-of-the-art IT infrastructure will be put in place which in turn would ensure better tax administration.

7. Issuance of notices to non-filers: As per paragraph 7.5 of Manual of Procedure (Volume-II Technical) of ITD 'once non-filers are identified, the responsibility to take further action would be that of the Assessing Officer. He should send a letter to 'non-filers' with a request to file their returns. In cases where a reply or a return is not received within a reasonable time, formal action under section 142(1) should be initiated'. The Committee were apprised that issuing of notices to non-filers was being contemplated through a dedicated project, *i.e.* Data Warehouse and Business Intelligence Project. In order to see effectiveness of this model, more than 2 lakh notices were issued centrally and a separate compliance module namely Non-filer Monitoring System (NMS) was created as a pilot project to prioritize action on high risk non-filers. Around 12 lakh non-filers were identified by the Department of Income Tax about whom specific information was available in Annual Information Return (AIR) Central Information Branch (CIB) data and TDS/TCS returns. The cases had been given different priority ratings based on analysis of the nature and value of transaction. The information in respect of the target segment had been made available to the assessing officers through online monitoring system in July, 2013. The results of the pilot project were cited as encouraging by the Department of Income Tax as 2,82,445 persons had filed returns and Self Assessment tax and Advance Tax of ₹ 725.50 crore and ₹ 619.12 crore had been paid respectively. The Committee would like to be apprised about the status of implementation of the Non-Filer Monitoring System (NMS) in due course.

8. Voluntary compliance by the taxpayers: The Committee were apprised that the Department of Income Tax has been continuously refining its business processes by leveraging technology to facilitate voluntary compliance by taxpayers. The online annual tax credit statement (Form 26AS) on the e-filing portal shows the details of tax paid, tax deducted/collected and refund to the taxpayer. Manual selection

of cases for scrutiny has been dispensed with in the current financial year and all cases have been selected through the Computer Aided Scrutiny Selection (CASS) process. These mechanisms have been instituted by the Department of Income Tax to promote voluntary compliance by the taxpayers. Notably, the Department has also initiated Data Warehouse and Business Intelligence Project to develop an integrated platform for effective utilisation of available information and encourage voluntary compliance. Apart from effective implementation of these measures, the Committee recommend that the Ministry consider greater outreach programmes, taxpayer education and providing a user-friendly platform to the taxpayers in order to increase responsiveness and compliance. The Committee would like to be apprised of the outcome of these measures in due course.

9. **Legacy data linkage with current assessment:** AST Module fulfilled the requirement of summary processing under section 143(1) and provided for computation of taxable income after allowing deduction/exemption and calculation of income tax and interest thereon. In this process, assessees' claim to set off losses and unabsorbed depreciation pertaining to earlier assessment years and carry forward of current losses/ unabsorbed depreciation for set off during subsequent years was admitted. The Committee were apprised that the AST module was deficient with regard to transactions involving legacy issues like carry forward and set off of losses and unabsorbed depreciation. Such cross linkages were also found wanting even in CPC environment. The module totally relied upon the data furnished by the assessee in its return for giving them such benefit. Admitting that AST module and CPC had limitations with regard to transactions involving legacy issues like carry forward and set off of losses and unabsorbed depreciation, the Department of Income Tax stated that the system did not provide for automatically picking up data from earlier years so that the set off claimed during current year were correct. The Committee were assured that these issues would be taken into consideration in the new Income Tax Business Application (ITBA) being developed by ITD to replace the existing ITD applications by 2015. The Committee would like the Department to factor in the legacy issues and ensure basic linkages regarding unabsorbed depreciation, carry forward of losses etc. are carried out and they be apprised.

10. **Lapses in respect of Permanent Account Number (PAN):** Another disquieting lapse observed by the Committee while examining the subject was duplicate/ multiple/invalid PAN cards being issued by the Department of Income Tax. The Secretary, Department of Revenue, admitted in his deposition that the matter of duplicate PAN cards, despite the publicity drive by the Department of Income Tax, was a constant source of tension. The Committee, observing that multiple/duplicate PAN cards aid tax evasion, recommend that the Department explore the possibility of issuing PAN cards based on biometric data (fingerprints/iris scan/face photo) with a view to overcome this problem.

11. **RCC accounting figures in excess of RBI figures:** As per the prevalent system, the Zonal Accounts Office (ZAO) receives input from three separate sources: (i) the Nodal branches of Banks (Details of transactions); (ii) RBI (details of cash settlements based on information from nodal branches of Banks); and

(iii) **Details of monthly account received from Regional Computer Centre (RCC); the input of Nodal branches consolidated by NSDL in Tax Information Network (TIN). The Committee found that the collection reported by RCC Delhi (through detailed statement minor head-wise) to ZAO was more than actual tax collection reported by RBI (by put through statements) to ZAO. This difference amounted to ₹331.16 crore and ₹441.50 crore in Financial Years 10 and 11, respectively. Submitting the reasons for such a discrepancy, the Ministry stated that the difference between figures reported by RCC and put through statement given by RBI was mainly on account of treatment of March residual transaction that is the Challans received on 31st March, but uploaded in the next Financial Year. The other reason was the rejection of Challan records on account of validation failure in OLTAS whereas RBI did not reject Challan as it received information on gross nodal scroll basis rather than Challan level. Spelling out the efforts made by the Department to reconcile the RCC accounting figures and RBI figures, the Department submitted that with the help of ZAO detailed account report, annexure E report, simple major head-wise report, Bank branch-wise collection report and OLTAS Bank Dashboard facility, RCCs reconciled receipt as well as refund amount with their respective ZAOs. Taking note of the discrepancies in the figures of revenue collections as reported by Banks and as accounted by Zonal Accounts Office and the consequent implications on tax credits to be provided to the assessees, the Committee urge the Department to ensure that the accounting system is so instituted that there is no mismatch between the revenue actually collected and as reported by the collecting Banks.**

12. Tax Collections made at de-authorized/unauthorized branches: Controller General of Accounts (CGA) authorized 12,926 branches of nationalized and private sector banks to collect taxes of which 11,638 branches collected taxes. CGA de-authorized branches from collecting taxes where the quality of PAN/TAN data in uploads to the TIN was beyond acceptable limits. NSDL constantly monitored this aspect and prepared periodic reports of quality of PAN/TAN data. However, the Committee found that several bank branches which had been de-authorized to collect taxes were collecting taxes. On this aspect of tax collection by de-authorized Branches, the Secretary, Department of Revenue, submitted that in 99 per cent of the instances cited by the C&AG in their Report, taxes were collected by the defaulter branches in the time gap of receipt of communication de-authorising the branches from the office of the Principal Chief Controller of Accounts, CBDT. The Chairperson, CBDT, assured the Committee that collections made at de-authorized/ unauthorized branches eventually reached the Government Account as unauthorized branches used the Basic Statistical Return (BSR) code of the authorized branch. The Committee were also informed by the Ministry that the issue of online tax collection by unauthorized banks had been taken up with the Reserve Bank of India. Further, the RBI was requested to intervene in this matter and issue suitable guidelines/instructions to stop the agency banks from entering into agreements with authorized banks and collect direct taxes. The Committee observe that inadequate number of authorized branches for tax collection might also be a factor for collections made by de-authorized/unauthorized bank branches.

Taking note of the testimony of the Secretary, Department of Revenue, that the Department of Income Tax was liberal in authorizing branches, the Committee recommend that the Ministry authorize more banks/branches for tax collection so that tax is collected in an authorized manner. The Committee also recommend that the defaulter banks/branches be dealt with strictly.

13. **Vendor Management:** The Committee were perturbed to note delay in project execution by various vendors *viz*. Tata Consultancy Services (TCS), M/s. IBM India Private Ltd. and M/s. Bharti Televenture Ltd. M/s. IBM India Private Ltd. was responsible for roll out of computer systems at all designated ITD stations such that all users would be able to use the centralized application with predefined response time parameters within 150 days of the release of purchase order. It was found that as against the scheduled completion date of September 2007, the project was completed in June 2009 after delay of 92 weeks which resulted in liability of the vendor to pay liquidated damages of ₹ 24.47 crore. In this regard, the Ministry submitted that the calculation of liquidated damages on M/s. IBM India Private Ltd. was in progress. M/s. Bharti Airtel (earlier as M/s. Bharti Televenture Limited) was handed over the contract of LAN and WAN connectivity in ITD across India. The total delay at 1589 weeks for phase-I and 17160 weeks for phase-II amounted to liquidated damages of ₹ 2.56 crore and ₹ 27.64 crore, respectively. Out of this, the Ministry submitted that liquidated damages of ₹ 20,84,21,611 had been recovered from M/s. Bharti Airtel.

In September 1994, an agreement with Tata Consultancy Services (TCS) was entered into to develop seven modules of ITD system. There were substantial delays ranging from 2 to 54 months in execution of various projects. Further, there were no penal clauses for delay in execution of work against TCS which could have been deterrent for delayed performance. It was also found that there was no service level agreement for maintenance/technical support with TCS to enforce quality standards. The Ministry, in this regard, submitted that the initial contract with M/s. TCS was entered into in 1990s and work orders were being issued on the basis of in continuation of the same. From 01.07.2011, Service Level Agreements (SLAs) with initiation of penalty had also been introduced in the Work Order with M/s. TCS. This arrangement with M/s. TCS ended on 09.11.2013 and new Contract having detailed Service Level Agreements (SLAs) and penal clauses had been entered into for maintenance and development of ITD Application. Further, in the Tenders being floated, very detailed Service Level Agreements had been prescribed and strong penalties had been incorporated for both delayed implementation and poor performance during operations. Deploring the laxity of the Department to safeguard its interest at the initial stages while executing contracts, the Committee exhort the Ministry to execute contracts with vendors in accordance with best international practices and incorporate deterrent penalty clause in the contract so that cases of time overruns do not recur and the cascading effect of such delays are minimized.

14. **Non-link up of e-Banking with e-filing of Income Tax Return:** ITD provided a facility to assessees for viewing of tax credits (26AS) through NSDL site or

through internet banking. Internet banking also provided an opportunity for ITD to generate income tax return and file them online in a secure manner without considerable resource deployment. A perusal of ITR-I Sahaj to resident individual revealed that only four additional columns *viz.* income from salary/pension; income from one house property; income from other sources and deductions under chapter VIA would be required for completing the details. In this context, the Department submitted that integration of e-filing of ITR with payment gateways available at internet banking or any other leveraging was a policy decision that involved concurrence of other stakeholders such as the Principal Chief Controller of Accounts. The Department further stated that this matter was under discussion. The Committee note that all other details in Part A and Part D are readily available in the online bank accounts. An assessee would be able to generate a pre populated form with the existing details and if additional details as given in previous paragraphs are entered then a complete ITR-I could be generated with verification and signature of the assessee. Therefore, the Committee desire that policy decision regarding linking e-banking with e-filing of ITR be expedited with a view to ensuring tax payment agility and the Committee apprised.

15. **Setting up of National Economic Information Sharing System :** Setting up of information systems that would regularly capture economic data and make it available to authorized users in a timely and secure manner is important for effective administration of various taxation and economic laws and sound policy formulation. The Committee observe that at present, the Country has a diverse array of independent organizations with information in 'silos'. This does not enable the law enforcement agencies and policy makers to 'connect the dots' even when the required information is sloshing in disparate systems. Therefore, the Committee recommend setting up of a National Economic Information Sharing System to establish a set of data sharing standards with legal backing and enable data sharing among agencies such as Central Board of Excise and Customs, Central Board of Direct Taxes, Reserve Bank of India, etc.

16. **Re-orientation of tax administration on functional basis:** Efficiency in tax administration demands that the present structures that are geographical in nature should be re-oriented on functional basis. With the growth in Information Communication Technologies (ICT), geographical presence at a given location is no longer a mandatory requirement to perform some of the specialized functions. With trade transactions becoming more complex and large in number and with increasing emphasis on risk based compliance management models, the Committee feel that it is necessary to re-orient the tax administration on functional basis. The Committee also recommend that the staff in the Department of Income Tax should be encouraged to develop expertise and experience in the vital business processes and functions, audit, enforcement, dispute resolution, taxpayer services, administration, etc.

NEW DELHI;

24 *November,* 2014

3 *Agrahayana,* 1936 (*Saka*)

PROF. K.V. THOMAS,
Chairperson,
Public Accounts Committee.

MINUTES OF THE SECOND SITTING OF SUB-COMMITTEE-III (DIRECT/ INDIRECT TAXES) OF THE PUBLIC ACCOUNTS COMMITTEE (2013-14) HELD ON 14TH OCTOBER, 2013

The Sub-Committee-III (Direct/Indirect Taxes) of the Public Accounts Committee sat on Monday, the 14th October, 2013 from 1150 hrs. to 1245 hrs. in Committee Room 'E', Parliament House Annexe, New Delhi.

PRESENT

Shri N.K. Singh — *Convenor*

Rajya Sabha

2. Smt. Ambika Soni

SECRETARIAT

1.	Shri Devender Singh	—	*Joint Secretary*
2.	Shri Abhijit Kumar	—	*Director*
3.	Smt. A. Jyothirmayi	—	*Deputy Secretary*

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

1.	Dr. Prasanjit Mukherjee	—	Dy. CAG (Accounts & Central Receipts)
2.	Shri S. Nandkeolyar	—	Director General (Direct Taxes)
3.	Shri Purushottam Tiwary	—	Principal Director of Audit (PAC)

Representatives of the Ministry of Finance (Department of Revenue)

1.	Shri Sumit Bose	—	Revenue Secretary
2.	Dr. Sudha Sharma	—	Chairperson and Member (Legislation & Computerisation), CBDT
3.	Shri R.K. Tiwari	—	Member (Income Tax), CBDT
4.	Ms. Anita Kapur	—	Member (Audit & Judicial), CBDT
5.	Shri Anthony Alianzuala	—	Principal Chief Controller of Accounts, CBDT
6.	Shri Dileep Shivpuri	—	DGIT (Systems), CBDT

2. At the outset, the Convenor welcomed the Members and the Audit Officers to the second sitting of the Sub-Committee on Direct/Indirect Taxes convened to take oral evidence of the representatives of the Ministry of Finance (Department of Revenue) on the subject 'IT Applications in Income Tax Department' based on C&AG Report No. 23 of 2012-13. Thereafter, the representatives of the Ministry of Finance (Department of Revenue) were called in. Before commencing the examination of the aforesaid subject, the Convenor made it clear that the deliberations of the Sub-Committee were confidential and were not to be divulged to any outsider until the Report on the Subject was presented to the Parliament. The Sub-Committee then proceeded with the examination of the subject.

3.The Revenue Secretary apprised the Sub-Committee of the various initiatives undertaken by the Department namely Income Tax Business Applications, Non-filers Monitoring System, Demand Management System, Data Warehouse and Business Intelligence Project, operationalisation of CPC at Vaishali, Ghaziabad etc. During the course of examination, the Convenor and the Member sought clarifications on various issues which *inter-alia* included issuing of notices to non-filers, non-maintenance of legacy data linkage with current assessment, PAN duplication, tax collections made at de-authorized/unauthorized bank branches, difference between TDS available (as per TDS module) *vis-a-vis* TDS claimed in ITRs, penalty proceedings and appeals and harassment of honest taxpayer. The representatives of the Ministry responded to some of the queries of the Sub-Committee and assured to furnish detailed notes on rest of them.

4. At the end, the Convenor thanked the representatives of the Ministry of Finance (Department of Revenue) and also asked them to furnish the requisite information on the various points raised by the Sub-Committee. The Convenor also thanked the representatives of the Office of the C&AG of India for providing valuable assistance to the Sub-Committee in the examination of the subject.

The witness, then, withdrew.

A copy of the verbatim proceedings of the Sitting was kept on record.

The Committee, then adjourned.

MINUTES OF THE SIXTH SITTING OF THE PUBLIC ACCOUNTS
COMMITTEE (2014-15) HELD ON 08TH OCTOBER, 2014

The Committee sat on Wednesday the 08th October, 2014 from 1545 hrs. to
1645 hrs. in Room No. '62', Parliament House, New Delhi.

PRESENT

Prof. K. V. Thomas — *Chairperson*

MEMBERS

Lok Sabha

2. Shri Nishikant Dubey
3. Shri Bhartruhari Mahtab
4. Shri Janardan Singh Sigriwal

Rajya Sabha

5. Dr. Satyanarayan Jatiya
6. Shri Shantaram Naik
7. Shri Sukhendu Sekhar Roy

SECRETARIAT

| 1. | Shri A. K. Singh | — | *Joint Secretary* |
| 2. | Shri Jayakumar T. | — | *Additional Director* |

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

1.	Shri A.K. Singh	—	Dy. CAG (RC/LB)
2.	Shri Balvinder Singh	—	Dy. CAG (CRA)
3.	Ms. Subha Kumar	—	Director General (RC)
4.	Shri S. Loomba	—	DGA
5.	Shri T. Theethan	—	Director General
6.	Shri Manish Kumar	—	Principal Director
7.	Shri P. Tiwary	—	Principal Director
2.	**	**	**
3	**	**	**
4.	**	**	**

5. After the witnesses withdrew, the Committee took up following Draft Reports for
consideration:

   (i) Draft Report on 'Non-compliance by Ministries/Departments in timely
        submission of Action Taken Notes on the non-selected Audit Paragraphs
        of C&AG Reports.

** Not related to the Report.

(ii) Draft Report on 'IT Applications in Income Tax Department';

(iii) Draft Report on 'Environment Management in Indian Railways—Stations, Trains and Tracks'; and

(iv) Draft Report on 'Rail Link to Kashmir'.

6. One of the Members suggested that more stringent words should be incorporated in the recommendation portion of the Draft Report at (i) The suggestion was accepted by the Committee. The Chairperson desired to invite suggestions/ comments in writing, if any, on the four reports from the members of the Committee so that the same can be included in the Reports. The Committee also authorized the Chairperson to finalise the Reports in light of the suggestions, if any, of the Members and the factual verification received from the Audit and present the Reports to the House on a date convenient to him.

7. The Chairperson thanked the Members for their cooperation.

A copy of the verbatim proceedings was kept on record.

The Committee, then, adjourned.