Chapter 3: Vendor Management

- There were no penal clauses for delay in execution of projects. ITD did not enforce all the contractual conditions on outsourced vendors.

- ITD has not linked up e-Banking with e-filing of Income Tax Return.
- ITD has not adequately monitored outsourcing agencies with reference to Service Level Quality governing data and network security issues.

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Delay in project execution

3.1 In September 1994, an agreement with Tata Consultancy Services (TCS) was entered into to develop seven modules of ITD system viz. iPAN, AIS, AST, TDS, TAS, IRLA and EFS with the following timelines:

Table 3.1: Project timelines

Task	Nature of Activity	Completion Time
Task-I	Detailed Systems Analysis & Design	2 Months
Task-II	System Development & System Testing	13 Months
Task-III	Acceptance & Implementation	13 Months
Task-IV	Training	13 Months
Task-V	Maintenance	One year after acceptance

3.2 We found that there were substantial delays ranging from 2 to 54 months in execution of various projects. Extraordinary delay in TDS module affected the entire business plan of ITD as all other tax collection and processing modules were dependent on this.

3.3 We found that there were no penal clauses for delay in execution of work against TCS which could have been deterrence for delayed performance. We also found that there was no service level agreement (SLA) for maintenance/technical support with TCS to enforce quality standards.

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

3.5 The Board (September 2012) stated that delays observed in execution of project was primarily on account of unsteady steps associated with the initial phases of computerization, the re-prioritization of modules and the learning of the computerization process, limitation of resources etc. A Project Monitoring Unit is under active consideration of ITD to strengthen monitoring the performance of vendors.

Non enforcement of contractual conditions

3.6 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 schedule completion date.

3.7 We found 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.

3.8 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 roll out obligations by BTL. EIL computed the site wise 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.

3.9 We 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.

3.10 The Board (September 2012) stated that main reasons for delay in execution was inter-dependency of various projects and vendors; delay in approvals from government departments including State Governments and

Local bodies for laying of optic fibers etc; redefinition of the road map for consolidation of regional data bases into single national data base and resolution of contentious issues between with vendors. 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.

ITD has not linked up e-Banking with e-filing of Income Tax Return.
e Banking and Income Tax Returns

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

3.12 A perusal of ITR-I Sahaj to resident individual reveals 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.

3.13 All other details in Part A[26] and Part D[27] 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. Given that ITD is facing problems relating to suspense on account of incomplete data, this method could easily establish the identity of assessees with accuracy.

3.14 Internet banking user base is estimated to be 2 crore and would reach 18.5 crore by 2020[28]. If implemented, it could be of tremendous utility to individual taxpayers who otherwise have to pass through third parties or obtain their own digital signature.

3.15 *The Board stated (September 2012) that linking the banks collecting income tax on the intranet of ITD application is a policy matter, which requires deeper analysis and also consent of various stake holders. 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 ITR have been introduced.*

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[26] Covering name, address, PAN, sex, date of birth, e-mail address, telephone, employment, residency status are readily available in the bank account
[27] Covering prepaid taxes is already available through 26AS. Tax computation could be built into the system.
[28] Estimates quoted in compendium of papers submitted in Annual Bankers' Conference (BANCON) 2011

ITD has not adequately monitored outsourcing agencies with reference to Service Level Quality governing data and network security issues.

Security audit of third party services

3.16   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.

3.17   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 ITD, incident reporting and MIS reports on security violations.

3.18   We note that the security requirements given in the SLA are comprehensive; however, the requirement for periodicity of audit by ITD/third party is not uniformly specified in all the agreements. As a result, as on date M/s VSNL and M/s Sify have never been audited by ITD or any third party. On pointing this, ITD has now appointed (September, 2011) M/s STQC for conducting third party audit of these agencies.

3.19   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 has never conducted any Security audit by itself or by any third party. ITD stated that third party security audit of M/s IBM India Ltd. is in progress.

3.20   As regards M/s Infosys Ltd, only one third party audit report was furnished to audit. No further audits have been undertaken by ITD.

3.21 Thus, ITD while relying on the outsourcing agencies to secure the information assets is not adequately monitoring these agencies with reference to the SLQ governing data and network security issues.

3.22 *The Board stated (September 2012) that reports of audit carried out by M/s STQC (third party auditor) in respect of M/s IBM, M/s VSNL and M/s Sify have been received and is under consideration for carrying improvements to data centre functioning.*

3.23 *With reference to NSDL, there is no separate provision for security audit by ITD. No major security issue has been reported in the security audit report submitted by NSDL during last 5 years.*

3.24 The Board's reply needs to be viewed in the light of the massive functions outsourced to NSDL. The Ministry needs to explore avenues for securing its data by appropriately prescribing conditions for security audit with regard to its domain.

Security aspects relating to digitisation of physical returns

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

3.26 As the Income Tax returns contain confidential data of assesses like bank account number, PAN, TAN, employment etc., it is not clear as to what verification and validation procedures are being adopted for hiring of vendors as well as security of the confidential data. The Ministry in its submissions during examination of an earlier audit report[29]had stated to the Public Accounts Committee[30] that

> *"CBDT decided in November, 2002 that wherever it is not possible to complete processing of returns within 4 months with the*

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[29] Performance Audit on Status of Improvement of Efficiency through Restructuring of the Income Tax Department (Report no. 13 of 2005)
[30] Report No. 29 of 14th Lok Sabha-Status of improvement of efficiency through the restructuring of the Income Tax Department presented on 11 Aug 2006

*departmental   manpower   the   local   Chief
Commissioners/Commissioners may outsource data entry of
salary returns, and other small income non-company returns
subject to necessary security safeguards so as to ensure
processing of returns within 4 months."*

3.27 Thus even after a decade of computerization and BPR, ITD has failed to come up with reliable scheme for capturing data from income tax returns.

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

Password controls

3.29 In ITD, a two factor authentication mechanism exists for accessing the system, in which dual check is exercised in the form of RSA tokens[31] and individual user passwords. We observed that RSA tokens passwords keep changing periodically. However, there is no provision in ITD system for asking individual user password change at the time of initial login by the user and the system also does not enforce any periodic change of individual user password. Although, after three unsuccessful attempts made by the user, ITD application session gets closed automatically but there is no facility to display the date and time of last access and number of unsuccessful attempts after last successful login attempts. Hence, un-authorised attempts to access the system may go undetected. Though the account can be compromised only if both the password and RSA token is in possession of the unauthorized personnel, we feel that there is need for further strengthening control over user password administration. In its reply, ITD stated that change in the current password policy for ITD applications is under discussion and consideration.

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[31] RSA token is a secured user authentication system.

3.30 *The Board stated (September 2012) that new password management policy has been implemented in ITD application with effect from April, 2012.*

Recommendations

a. Outsourced activities need to be monitored on realtime basis. ITD may include and enforce adequate conditions relating to third party security audit as well as security audit by itself.

b. Contracts for digitization of returns should have comprehensive provisions for ensuring security and confidentiality of information.

c. Password controls need to be comprehensive with strong physical and logical access controls.

d. Performance of the vendors/ system developers needs to be monitored scrupulously and contractual obligations of the vendors should be invoked in case of default.

New Delhi   **(MANISH KUMAR)**
Dated: 25 February, 2013   **Principal Director (Direct Taxes)**

Countersigned

New Delhi   **(VINOD RAI)**
Dated: 25 February, 2013   **Comptroller and Auditor General of India**