

## **CHAPTER-III**

### **DEPARTMENT OF POSTS**

#### **3.1 Excess payment of service tax due to non-availing of CENVAT Credit**

**The Director PLI Kolkata and CPMsG West Bengal, Maharashtra, Rajasthan and Delhi Postal Circle failed to avail eligible CENVAT Credit during the period 2010-11 to 2013-14 which resulted in avoidable payment of service tax and education cess to the extent of ₹ 7.52 crore.**

The CENVAT Credit Rules introduced in September 2004 allowed a manufacturer or provider of a taxable service to take credit of duty/service tax paid on input services used in or in relation to the manufacture of specified final products/output services. The CENVAT Credit so available could be utilised for payment of any duty of excise on any product or service tax on output services. Services rendered by the Department of Posts (DoP) were brought into the ambit of service tax by the Government of India with effect from 18 April 2006. DoP, being an output service provider, collects service tax and educational cess on its output services, viz., Speed Post, Postal Life Insurance, Business Auxiliary Services, etc., and pays service tax / excise duty and educational cess on input services availed like telephone bills of DoP, annual maintenance charges for computers, purchase of capital goods, etc.

A comment on “Excess payment of Service Tax” was made in Paragraph no. 2.6 of Audit Report No. 14 of 2008-09. The Ministry in their Action Taken Note (December 2010) accepted the audit conclusion and stated that detailed instructions on mechanism to claim CENVAT Credit had been issued to all the circles in November 2010.

However, despite the instructions issued by the Ministry in November 2010, deficiencies continued to persist. Audit scrutiny of records (January 2014, January 2015 to March 2015 and updated in May 2015) in the O/o Director Postal Life Insurance (DPLI), Kolkata and CPMsG Maharashtra, West Bengal, Rajasthan, and Delhi Circles revealed that payment of ₹ 7.52 crore was made during 2010-11 to 2013-14 towards service tax on account of input services. However, while paying the service tax for output services, it was noticed that these circles did not avail the eligible CENVAT Credit of ₹ 7.52 crore against the service tax on auxiliary services as shown in the table below:

(₹ in crore)

Sl. No.	Name of unit	Type of input service on which service tax paid	Excess payment due to non-availing of CENVAT Credit
1	DPLI Kolkata	Commission paid to agents	2.79
2	Maharashtra	Carriage speed post mail by private airlines	1.70
3	West Bengal	Telephone bills, AMC etc.	1.08
4	Delhi	Automatic Mail Processing System	1.61
5	Rajasthan	Telephone bills, AMC etc.	0.34
<b>Total</b>			<b>7.52</b>

On an earlier reference<sup>1</sup> by Audit, the Ministry stated (May 2015) that the un-availed CENVAT Credit of ₹ 2.79 crore as pointed out in Audit has been availed during September 2014 by the Director, PLI Kolkata.

The Chief Postmaster General, Mumbai stated (September 2015) that CENVAT Credit of ₹ 1.70 crore, as pointed out by Audit, was availed in September 2015. CPMG West Bengal accepted that proper procedure was not being followed. CPMG, Rajasthan Circle stated that necessary action will be taken for availing CENVAT Credit. As regard to Delhi Circle, the Director (Mail Business), DoP, stated in August 2015 that DDO of Postal Directorate did not avail the CENVAT Credit. It was further stated that while endorsing the copies of sanction order to the DDO for effecting payment to the vendor, a suitable note will be added for the DDO to ensure to avail CENVAT Credit. The CENVAT Credit of ₹ 3.03 crore, is yet (October 2015) to be availed by three circles.

Thus, audit findings confirm that DoP needs to ensure that the instructions issued by DoP for claiming benefits of CENVAT Credit are scrupulously followed.

### **3.2 Unfruitful expenditure on procurement of barcoded bag labels**

**DoP made procurement of barcoded bag labels without correspondingly developing the requisite software which resulted in unfruitful expenditure of ₹ 1.71 crore besides non-achievement of the intended objective.**

The primary function of Department of Posts (DoP) is collection, processing, transmission and delivery of mails. All postal articles whose contents are in the nature of message can be classified as Mails which includes Letters, Postcards, Inland letter cards, packets, Ordinary/ registered letters, insured articles, Value payable articles, speed post. These are classified as first class and second class mails. First class mails get free air mail transmission within India; whereas second class mails get air lift only if prepaid with air surcharge. The

<sup>1</sup> A reference was made to Director, DPLI Kolkata in January 2014

visibility of transmission has been enhanced by providing track and trace facility for speed post and registered mail. The customer can track the mail through India Post website by using the unique barcode number.

In order to capture bag level data electronically, DoP decided in June 2012 to introduce barcoded bag labels for unregistered first class mail bags. All the postal circles were instructed to place orders for these bag labels as per specification allocated to them commensurate with their requirements. The process was to be completed by 31 July 2012. Further, DoP in May 2012 envisaged that until application software is developed, the bag level data for ordinary mail can be captured using customized R-Net application which is used for processing of registered mail. As part of Mail Network Optimisation Project (MNOP), the Centre for Excellence in Postal Technology, (CEPT) Mysore was directed in July 2012 to get R-Net application customized and develop the functionality for capture of bag level data in mail offices. Later CEPT was asked to include the functionality for scanning of unregistered mail bag labels in Head Post Offices (HPOs) also.

Audit scrutiny of records (April 2014 and updated till July 2015) in 30 Postal Store Depots in 17 circles revealed that on the instructions of DoP, 476.21 lakh barcoded labels were procured during August 2012 to March 2015 at a cost of ₹ 1.71 crore as detailed in the **Annexure-VIII**. Audit observed that these bar coded bag labels were not used for the purpose of capturing bag level data electronically as neither the existing software was customized nor a new software was developed. It was also noticed that as these labels were not being used for the intended purpose, DoP issued instructions to all the Heads of Circles in October 2014 to use these labels while closing a bag containing unregistered mail from December 2014.

On this being pointed out by Audit, the Circles stated (June / July 2015) that the requisite software was not provided to them. However, these barcoded bag labels were being used for unregistered mail bags.

Thus, procurement of barcoded bag labels by DoP without developing the requisite software and consequent use of these labels as ordinary labels defeated the very purpose of capturing the bag level data electronically resulting in unfruitful expenditure of ₹ 1.71 crore.

Ministry's reply is awaited (November 2015).

### 3.3 Non-claiming of rent

**Failure of Chief Postmaster General, Karnataka Circle to claim rent from Bangalore Metro Rail Corporation Limited for the land given on temporary basis resulted in non-realisation of rent amounting to ₹ 1.64 crore.**

As per Paragraph 22 (b) of Schedule of Financial Powers of Department of Posts (DoP), the Heads of Circles may rent vacant lands belonging to / or leased by the Postal Department to Government officials or private persons or bodies under annual contract or lease at the most favourable rates.

A request was made by Bangalore Metro Rail Corporation Limited (BMRCL) to the Post Master General (PMG), General Post Office (GPO) Bengaluru, in July 2009 for temporary requirement of 1015 Sq mtr of land in GPO premises to facilitate construction of Metro Station between east end of GPO and west end (Chinnaswamy Cricket Stadium).

Audit scrutiny of records (March 2015) in the O/o Chief Post Master, General Post Office Bengaluru revealed that Chief Post Master General, Karnataka Circle accepted the proposal of BMRCL. However no rent was claimed for land acquired by BMRCL on temporary basis which was in contravention to the provisions contained in Schedule of Financial Powers. Further, it was also noticed that an adjacent land measuring 810.12 Sq. mtr belonging to BSNL was given to BMRCL (September 2009) on temporary basis, for which BMRCL had offered standard rent @ *7 per cent* per annum of the guidance value of land published by the Government. Thus, lapse on the part of CPMG, Karnataka Circle to claim rent from BMRCL for temporary requirement of land (1015 Sq mtr) resulted in non-claim of rent of ₹ 1.64 crore<sup>2</sup> as shown in the table below:

(₹ in crore)

Period	No. of Months	Total land	Rate per Sq.mtr / per month	Amount
01.08.2009 to 31.12.2009	5	1015 Sq. mtr	238.07	0.12
01.01.2010 to 31.12.2014	60			1.45
01.01.2015 to 31.03.2015	3			0.07
<b>Total</b>				<b>1.64</b>

On this being pointed out by Audit, the Ministry while agreeing to the audit contention replied (October 2015) that the matter regarding payment of rent has been taken up with BMRCL and the same is under consideration. BMRCL has informed that they will be indicating the amount payable towards rent shortly.

Thus omission on part of CPMG Karnataka Circle to claim rent while leasing out land to BMRCL led to non-realisation of rent of ₹ 1.64 crore.

<sup>2</sup> Worked out on the basis of rent claimed by BSNL. (Guidance Value of Land as published by Government = ₹ 40812/ per sq. mtr. Rent for per square meter of land on temporary basis = *7 per cent* of Guidance value per annum i.e. ₹ 2856.84 per annum. Rent for temporary area per month = ₹2856.84/12 = ₹ 238.07)

### 3.4 Avoidable Payment of Electricity Charges

**Delay in assessment of energy requirements by two units under Tamil Nadu Postal Circle and one unit under West Bengal Postal Circle resulted in avoidable payment of ₹ 0.84 crore towards electricity charges**

The Airmail Sorting Division (ASD) Chennai and General Manager (Postal Accounts and Finance) (GM (PA&F)), Chennai under Tamil Nadu Postal Circle and ASD Kolkata under West Bengal Postal Circle entered into agreements with Tamil Nadu Electricity Board (TNEB) and Calcutta Electricity Supply Corporation Limited (CESC) in July 2002, March 2006 and February 2012 respectively in order to meet their energy requirements. A Contracted Maximum Demand<sup>3</sup> (CMD) of 325 KVA (reduced to 275 KVA in August 2004) and 250 KVA was made for ASD Chennai and GM (PA&F) Chennai respectively and 428 KVA for ASD Kolkata.

Audit scrutiny of records (January 2014 and March 2015) revealed that ASD Chennai and Kolkata and GM, PA&F Chennai did not review the demand regularly for their respective units and continued with the existing CMD which was far in excess of the required demand. This lapse on the part of postal authorities in Tamil Nadu and West Bengal circles resulted in excess payment of ₹ 83.80 lakh towards demand charges as shown in the table below:

(₹ in lakh)

Name of unit	Period	CMD (in KVA/ KW)	Range of demand	Minimum demand to be billed <sup>4</sup>	Average maximum demand	Difference (Col 5 - Col 6)	Excess amount paid <sup>5</sup>
1	2	3	4	5	6	7	8
ASD, Chennai	January 2003 to August 2004	325	145 to 231 40 to 237	293	185	108	6.48
	September 2004 to November 2014	275		248	133	115	42.43
	December 2014	275		248	135	113	0.37
	January 2015 to March 2015	275		248	131	117	1.23
GM, PA&F Chennai	September 2006 to December 2014	250	102 to 185	225	146	79	23.70
ASD Kolkata	February 2013 to January 2015	428	145 to 320	364	238	126	9.59
<b>Total</b>							<b>83.80</b>

<sup>3</sup> Contracted demand is based on the electricity consumption pattern

Further it was also observed that despite closure of Automated Processing Centre in January 2012, ASD Chennai continued with the existing CMD of 275 KVA whereas maximum demand recorded was between 40 to 74 KVA during the period from January 2012 to March 2015.

On this being pointed out by Audit, the Ministry stated (October 2015) that as regard ASD Chennai, the load was reduced to 275 KVA from 325 KVA with effect from May 2004. The maximum demand came down to 110 KVA as AMPC machines stopped functioning since 2012 and TNEB was requested to reduce the load from 275 KVA to 125 KVA. A new service connection was sanctioned in March 2015 for conversion of HT supply to LT supply and a transformer for LT supply was fixed in August 2015. In respect of GM, PA&F Chennai, it was stated that TNEB had admitted that meter was faulty and would be replaced with a new meter. In respect of ASD Kolkata, it was stated that CESC was raising bill for 290 KVA from May 2015.

The reply furnished by the Ministry is not acceptable as it had entered into an agreement with Tamil Nadu Electricity Board for supply of 325 KVA, which was reduced to 275 KVA from August 2004 and continued till March 2015 which was still higher than the required CMD as detailed below:

- From August 2004 the CMD remained 275 KVA whereas the average consumption during September 2004 to December 2011 was 167 KVA only.
- After the closure of AMPC from January 2012 the average consumption was 51 KVA only.

Despite the above, steps for reduction in load were only initiated after a lapse of nine years (January 2013) and ASD Chennai continued to pay for higher CMD despite reduction in consumption.

Thus due to delay in regularly assessing the energy requirements by Tamil Nadu and West Bengal Postal Circles, the Department had to incur avoidable excess payment of ₹ 0.84 crore as demand charges for the period from January 2003 to March 2015.

### **3.5 Under-utilization of Automatic Mail Processing Centres**

**Department of Posts (DoP) procured Automatic Mail Processing Centres (AMPCs) for Delhi and Kolkata at ₹ 82.53 crore. The non-compatibility of AMPCs with the requirements of Indian mail standards resulted in un-satisfactory performance and underutilisation of these AMPCs.**

Mail processing is one of the core activities of Department of Posts (DoP) besides collection, transmission and delivery of mails. DoP discharges these functions through a network of

<sup>4</sup> 90 per cent of CMD in Chennai and 85 per cent of CMD in Kolkata

<sup>5</sup> Excess amount has been calculated multiplying col.7 with number of months and rate per KVA. The rate per KVA for Tamil Nadu - ₹ 300, from December 2014 it is ₹ 325 and from January 2015 is ₹ 350 and for Kolkata rate per KVA - ₹ 317.

more than 1.55 lakh Post Offices and 400 mail processing centres. Mechanisation of this activity was necessitated as the mail handling was entirely manual which made its processing error prone and sluggish. DoP introduced Automatic Mail Processing Centres (AMPCs)<sup>6</sup> for mail processing activities at Mumbai and Chennai during 7th and 8th Five Year Plans which became operational in the year 1993 and 1996 respectively. The utilisation pattern of these AMPCs indicated that these systems could not be used optimally as the mail was not standardised which rendered it unfit for processing on these machines.

A comment on under-utilisation of AMPCs at Mumbai and Chennai was made in Para 1.14.1 and 1.14.2 of CAG's Audit Report No. PA 1 of 2007. Ministry in their Action Taken Note (July 2008) while explaining the reasons for under-utilisation of AMPCs had also stated that the Department was aware of the need to standardise the mail articles and during the 11th Plan a structured exercise had been planned for this. However, it was observed that AMPCs installed at Delhi and Kolkata during 11th Plan were also grossly under-utilised as discussed below:

Audit scrutiny of records (May 2014 and updated in February 2015) related to procurement and utilisation of AMPCs revealed that as per the technical bid of the vendor, articles of all types viz. Postcards, Inland Letter Cards, etc. could be processed through AMPCs. However, it was observed that the first class unregistered standardized mail i.e. business mail and speed post were only sorted through AMPCs. Further, due to non-processing of all types of articles through AMPCs, 42 and 30 *per cent* (January 2013 to July / October 2014) of mail could only be processed through AMPCs at Delhi and Kolkata respectively as shown in the table given below:

(Number in lakh)

Centre	Average Mail received per day	Average Mail sorted by AMPC	Percentage of mail sorted per day
Delhi (up to October 2014)	7.76	3.26	42
Kolkata (up to July 2014)	5.41	1.64	30

The above contention was substantiated by the fact that the Chief Postmaster General, Delhi informed DoP (September 2013) that only 40 *per cent* of the mail could be sorted through AMPCs and the balance was being sorted manually. It was also stated that expenditure on manpower in Delhi had actually gone up after the installation of AMPC. Thus noncompatibility of AMPCs with the requirements of Indian mail standards resulted in unsatisfactory performance and under-utilisation of these AMPCs.

On this being pointed out by Audit (August 2015) Ministry in their reply (September 2015) stated that reason for not sorting articles like Post Card, Inland letter Card, etc. was that the quantum of such articles was very less and hence they were sorted through Letter Sorting

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<sup>6</sup> Each AMPC would comprise Optical Character Reader (OCR), Letter Sorting Machine (LSM), Mixed Sorting Machine (MSM), etc.

Machines. Ministry also stated that funds had been allocated to Circles for standardisation of Mail though the expected results regarding standardisation of mails had not been achieved so far. Further, standardisation of mail was the prime pre-requisite for automated sorting and DoP was pursuing this aspect but given the vast geographical area of our country and big percentage of rural population, desired success has not been obtained. At the end, it is the general public which has to use standardised stationary and write correct address on the mail piece.

Hence, the DoP's admission that 100 *per cent* speed post and business post articles are not sorted through AMPCs confirms the audit contention that non-standardisation of mail is not the only lacunae and the non-compatibility of AMPC with Indian mail standard is also the reason for unsatisfactory performance and under-utilisation of these AMPCs. Though DoP had stated (July 2008) that steps were being taken to standardise the mail, the same had not been achieved till date. DoP needs to ensure that effective steps are taken to utilise the AMPCs optimally.