

## Chapter 4

## Management of Finances and Contracts

## 4.1 Introduction-Budget and Finance

Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016, stipulates that the expenditure of UIDAI is to be met out of the Grants from the Central Government. The fees or revenue collected by the Authority is to be credited in the Consolidated Fund of India till the creation of separate UIDAI Fund. The expenditure of UIDAI is furnished below in **Table 4.1**.

**Table 4.1: Budget (Revised) Estimates and Expenditure of UIDAI**  
(₹ in Crore)

Year	Budget (Revised) Estimates	Expenditure
2009-14	4,400.18	4,365.28
2014-15	1,617.73	1,615.34
2015-16	1,880.93	1,680.44
2016-17	1,135.27	1,132.84
2017-18	1,150.00	1,149.38
2018-19	1,344.99	1,181.86
2019-20	836.78	856.12 <sup>29</sup>
2020-21	613.00	892.67 <sup>30</sup>

(Data Source: Information Supplied by UIDAI and UIDAI website)

The expenditure of UIDAI is mainly on establishment and operational expenses. The budget and expenditure of UIDAI has reduced from 2009-14 to till date. As per Aadhaar (Amendment) Act 2019, a separate UIDAI Fund<sup>31</sup> was created to which all grants, fees and charges received by the Authority were to be credited. The Fund so created was to be applied for meeting salaries and allowances and operations. Balance in this fund as on 31 March 2021 was ₹322.40 Crore.

Year-wise revenue earned, deposited in Consolidated Fund of India (CFI) and the balance utilised or lying with the UIDAI is shown below in **Table 4.2**:

<sup>29</sup> Excess expenditure met from unspent balance of 2018-19.

<sup>30</sup> Excess expenditure met from unspent balance of 2018-19 & 2019-20 and UIDAI Fund

<sup>31</sup> The Aadhaar and Other Laws (Amendment) Ordinance 2019 (No.9 of 2019) (dated 02 March 2019) which become the Aadhaar and Other Laws (Amendment) Act (dated 23 July 2019)

**Table 4.2: Statement showing Revenue earned and its utilisation**

(₹ in Crore)

Year	Revenue earned	Deposited in Consolidated Fund of India <sup>32</sup>	Balance <sup>33</sup>
2009-17	The amount is not separately available as the UIDAI was working under Planning Commission and as an attached Office under MeitY.		
2017-18	160.76	160.76	0.00
2018-19	65.38	22.09	43.30
2019-20	224.59	21.82	202.77
2020-21	331.65	9.25	322.40

(Data Source: Information Supplied by UIDAI)

All the earnings of UIDAI including the interest and the unspent Grant-in-Aid were deposited in the CFI till 2017-18. From 2018-19 onwards, the entire revenue was deposited in UIDAI Fund and since then, they have deposited only the interest earned on Grants in Aid in the CFI.

#### 4.2 Audit Observations on Revenue Management

The major source of Revenue for UIDAI comprises License Fee recoverable from ASAs and AUAs, Authentication Charges for biometric verifications in the shape of OTP, eKYC and financial disincentives levied on contractors/ partners etc for deficiencies in services. The audit observation on Revenue Resources is given below:

##### 4.2.1 Non-Levy of charges for delivery of authentication services

***UIDAI took three years from the enactment of the Aadhaar Act 2016 to decide the applicable fees for authentication services and allowed a large number of authentication transactions without charging any fees, in violation of their own Regulations, resulting in loss of revenue to the Government.***

Section 8(1) of The Aadhaar Act 2016 and Section 12(7) of Aadhaar (Authentication) Regulations 2016 authorizes UIDAI to perform authentication of the Aadhaar number of an Aadhaar holder on payment of a fee. The conditions for providing the service and the fee applicable should be decided by UIDAI. Accordingly, UIDAI notified (March 2019), the Aadhaar (Pricing of Aadhaar Authentication Services) Regulations, 2019 wherein, the charge for Aadhaar authentication services was fixed @ ₹20 (including taxes) for each e-KYC transaction and ₹0.50 (including taxes) for each Yes/ No authentication transaction from requesting entities. Government entities and the Department of Posts were exempted from authentication transaction charges. Levy of authentication transaction charges was to commence from 07 March 2019.

Audit observed that UIDAI took almost three years from the enactment of the Aadhaar Act 2016 to decide the applicable fees for authentication services. In the meantime, the Department of Telecommunication (DoT) permitted (March 2017) Telecom Service Providers (TSPs) to

<sup>32</sup> From the year 2018-19 onwards only the amount of interest earned on the Grants-in-Aids received by UIDAI has been deposited in CFI.

<sup>33</sup> The balance amount includes the amount utilised by the UIDAI as well as the amount deposited in the UIDAI Fund

re-verify all their mobile subscribers through Aadhaar based e-KYC process and the Central Government in consultation with the Reserve Bank of India made (October 2017) linkage of Aadhaar number to bank account mandatory under the Prevention of Money-Laundering (Maintenance of Records) Second Amendment Rules, 2017. As such, the TSPs and banks updated their databases using the e-KYC services of UIDAI. Data on e-KYC and authentication showed that UIDAI performed nearly 637<sup>34</sup> Crore e-KYC transactions until March 2019, of which 598 Crore transactions (94 *per cent*) were for TSPs and banks alone. Besides, the increased acceptance of Aadhaar as a valid identity document led to an increase in the authentication transactions also and UIDAI performed 2,491 Crore authentication transactions (Yes/ No) during the same period. The belated decision of levying Fee for authentication services resulted in free services to parties even though the Aadhaar Act stipulated a fee to be charged for such services.

UIDAI stated (October 2019) that Aadhaar authentication was conceived as an enabler of good governance and not as a revenue generation measure and charging for authentication services would have “stifled government’s good governance efforts”. Further, since writ petitions challenging the constitutionality of the Aadhaar Act were being heard in the Apex Court, the Authority waited for clarity and stabilization of the policy framework before introducing authentication charges. As such, it was a conscious decision to introduce user fees in a staggered manner as the priority was to promote the usage of Aadhaar. UIDAI Management also took the view that they were the sole competent authority to decide on pricing for services and took a considered policy decision on charging of the requisite fees only when the statutory and legal landscape was mature enough.

Explaining the free e-KYC service to TSPs, it was stated that re-verification of mobile subscribers was mandated by Government policy and law, UIDAI was expected to enable re-verification by provisioning of e-KYC services and therefore levying any kind of fee for it would have been wrong and not in public interest. MeitY agreed (June 2021) with replies of UIDAI to the audit observations.

Audit does not agree with the views of UIDAI since in terms of the Aadhaar Act, UIDAI was mandated to specify fees for the service, and it was never the intention of the Government to provide free services for authentication facilities. Holding back levy of fees on the plea of the pending matter in the Court is also not acceptable as UIDAI had continued with the enrolment process and authentication services and had also prescribed a licence fee for the services utilised by REs and ASAs during the pendency of the Court case whereas only fees for authentication services were not levied. The response that the Competent Authority exercised its discretionary powers to levy the fees, is also not acceptable as it cannot override express provisions of an Act passed by Parliament. Besides the UIDAI did not produce any file or records to the audit in order to substantiate their statement that it was a “conscious decision” of the Organization to defer/not charge any fees for the authentication services rendered to TSPs and others.

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<sup>34</sup> The e-KYC figure of 637 Crore represents the data from 12 September 2016 (date of effect of the Aadhaar Act 2016) to 06 March 2019 (Prior to the date of effect of Pricing of Aadhaar Authentication Service Regulations, 2019) with proportionate data for the respective years. The Authentication (Yes/ No) figures of 2,491 Crore have similarly been arrived.

The argument that levy of fee for e-KYC services given to TSPs was not in public interest, is not sound as verification of the credentials of a subscriber is compulsory for TSPs which in any case was incurring expenditure on the same by using other KYC methods. By offering free e-KYC service, UIDAI violated their own Regulations by facilitating the TSPs and banks an easy access to the Aadhaar database set up by the Government at considerable cost. In the process, a delayed decision has also resulted in a loss of revenue to the Government.

**Recommendation:** *UIDAI needs to be alert and cautious in matters concerning charges for delivery of services and ensure that decisions for non-levy of charges are taken with due process and approvals, which are properly documented and available for verification by any stake holder.*

### 4.3 Contract Management

The entire end-to-end technology infrastructure of UIDAI including data center operations, management of IT systems of UIDAI ROs, technical helpdesk etc., is managed by the Managed Service Provider (MSP) namely M/s HCL Infosystems Ltd.

Apart from the MSP contract, UIDAI has agreements for Project Management Unit (PMU) functions, supply of resources for offering handholding support to State Governments for roll out of Aadhaar, technical assignments, document management, printing and dispatch of Aadhaar letters etc.

#### 4.3.1 Selection of Contracts

The contracts and agreements entered by the UIDAI were selected for scrutiny based on a statistical sampling technique. The 25 per cent of contracts valuing less than ₹100 Crore were selected by following random sampling. However, all the contracts of ₹100 Crore and above were selected for scrutiny. The brief description of the selected Contracts is placed as **Annexure-I**. Major contracts placed in a nutshell are as below:

**Table 4.3: Statement showing brief description of Major Contracts**

Contracts	Vendor and Cost of Contracts	Description
Managed Service Provider (MSP)	M/s HCL Infosystems Ltd (HCLI)  ₹1,978.62 Crore	<ul style="list-style-type: none"> <li>✓ Expression of Interest (EoI) for selection of MSP was floated in June 2010 (Twelve Companies submitted EOI) and after evaluation Request for Proposal (RFP) was issued on 24 January 2011 to nine Companies.</li> <li>✓ Six bidders submitted their bids and finally two bidders qualified on Technical Evaluation and Due diligence. M/s HCLI emerged successful after all sorts of evaluation<sup>35</sup> and a contract with a validity of seven years was entered on 07 August 2012.</li> <li>✓ The contract was extended for nine months, from 07 August 2019 to 06 May 2020. The vendor moved to Arbitration Tribunal and under the directions of Tribunal the contract was extended for eleven months till 06 April 2021. Both the extensions were with the same terms and conditions of original contract.</li> </ul>

<sup>35</sup> Technical Evaluation, Due Diligence, Commercial Evaluation and Quality and Cost Based Selection (QCBS) Evaluation

		<ul style="list-style-type: none"> <li>✓ The Contract extensions were managed from the unspent balance of the initial contract</li> <li>✓ The arbitration proceedings were still under progress (September 2021)</li> </ul>
Data Centre Development Agency (DCDA)	<p>M/s Wipro Ltd <b>(WIPRO)</b></p> <p>The total cost involved, including the extension was <b>₹238.11 Crore</b> (₹118.51 Crore for Bengaluru DC and ₹119.61 Crore for Manesar DC).</p>	<ul style="list-style-type: none"> <li>✓ Request for Quotation (RFQ) in respect of Selection of DCDA for the Bengaluru and Manesar Data centres was issued on 16 September 2011. Nine bidders participated and five bidders were shortlisted in the Request for Proposal (RFP) floated in April 2012.</li> <li>✓ M/s Wipro Ltd emerged as the lowest bidder (L1) and the contract was made effective from 6 December 2012.</li> <li>✓ The Capex contract was valid till 12 August 2014 for Bengaluru DC and till 30 September 2014 for Manesar DC.</li> <li>✓ The OPEX contract was valid from 13 August 2014 to 14 August 2019 for Bengaluru DC and from 01 October 2014 to 30 September 2019 for Manesar DC.</li> <li>✓ The OPEX contract was extended for six month each and the new validity was till 14 February 2020 and 31 March 2020 for the Bengaluru and Manesar Data centres respectively.</li> </ul>
Governance Risk Compliance and Performance-Service Provider (GRCP)	<p>M/s Price Waterhouse Coopers <b>(PwC)</b></p> <p><b>₹17.53 Crore</b></p>	<ul style="list-style-type: none"> <li>✓ RFP was issued on 03 November 2014 to six bidders. After Pre-qualification/ Technical and Financial Evaluation M/s PwC was awarded the contract on 06 October 2015 till 28 February 2018.</li> <li>✓ The Contract was extended four times- <ul style="list-style-type: none"> <li>• 1<sup>st</sup> extension for one year till 28 February 2019</li> <li>• 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> extension each for three months till 31 May 2019, 31 August 2019 &amp; 30 November 2019 respectively.</li> <li>• 5<sup>th</sup> extension was for one month and the contract was closed on 31 December 2019.</li> </ul> </li> <li>✓ The total amount released to the vendor including the extensions was ₹20.59 Crore.</li> </ul>
Aadhaar Document Management System (ADMS)	<p>M/s HP India sales Private Ltd <b>(HPISP)</b></p> <p>The cost of services for five years for 95.22 Crore EIDs was <b>₹278.61 Crore.</b></p>	<ul style="list-style-type: none"> <li>✓ RFP was issued on 15 January 2011. Pre-bid conference held with thirty organisations on 27 January 2011 and seven bids were submitted.</li> <li>✓ Six bidders became eligible for opening of commercial bids after evaluation of technical Committee and M/s HPISP emerged successful after completion of the tender evaluation process.</li> <li>✓ The contract was signed on 07 June 2011 and was valid for five years. The cost of services will change annually depending on the number of Enrolment IDs (EIDs) to be picked up.</li> <li>✓ The contract was given an extension on 16 September 2016 for further EIDs of 15 Crore for ₹49.37 Crore. Total cost for 110.22 Crore documents was ₹327.98 Crore. The contract was successfully closed on 07 June 2021.</li> </ul>

#### 4.4 Audit Observations on Contract Management

Since the complete files relating to award of contract of the above were not made available, audit could not provide a reasonable assurance on these contracts. However, audit observations on the management of the various contracts by UIDAI are brought out in the succeeding paragraphs:

#### 4.4.1 Liquidated damages (LD) for deficient performance of biometric solutions not levied

*UIDAI did not penalize deficient Biometric Service Providers (BSPs) despite shortcomings in their services.*

The Service Level Agreement (SLA) conditions of the MSP contract prescribe the expected service levels to be provided by the service provider including the performance of the biometric solutions. Wrong decisions by the biometric solutions would lead to issue of multiple Aadhaars (FNIR<sup>36</sup>) to the same resident or denial of Aadhaar to a genuine applicant (FPIR)<sup>37</sup>. Similarly, wrong outcomes of authentication transactions, will result either in a genuine person not getting the intended benefit (FNMR)<sup>38</sup> or a wrong person is availing the undue benefit (FMR)<sup>39</sup>. Thus, it was imperative that the biometric solution related levels are maintained as close to the defined threshold levels as possible. Non-compliance with the performance benchmarks would attract liquidated damages (LD), as per the Agreements depending on the severity level. The cumulative LD i.e. LD applicable of all the SLAs was limited to 20 *per cent* of the fee payable for each quarter and the quarterly payments comprised of the amortized cost of cell<sup>40</sup> payable in that quarter and the cost of managed services for that quarter.

As per the contract, the MSP was responsible for selection and evaluation of biometric solutions meeting UIDAI's requirements and implementation of three biometric solutions<sup>41</sup>.

Audit observed that there were regular breaches of FMR and FNMR targets in the authentication transactions to levels that attracted LD of two *per cent* in every quarter. Accordingly, the Technical Centre, Bengaluru had recommended imposition of LD amounting to ₹13.29 Crore on the MSP for the period up to January 2019. However, UIDAI finally did not impose any LD on the MSP for deficient performance.

UIDAI stated (February 2020) that as per the MSP contract, biometric payments do not form part of the quarterly payment on which LD could be applied. Further, it was indicated that deviations in biometric SLA are factored in the LD computed for a quarter, by including the LD *per cent* for biometric track SLAs in the overall LD *per cent* calculated for the quarter and the maximum rate of 20 *per cent* is being imposed on the vendor every quarter.

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<sup>36</sup> FNIR- False negative identification is an incorrect decision of the biometric system that an applicant for a UID, making no attempt to avoid recognition, has not previously enrolled in the system, when in fact he/ she has. FNIR is the ratio of the number of false negative identification decisions to the total number of enrolment transactions by enrolled individuals.

<sup>37</sup> FPIR-False positive identification is an incorrect decision of the biometric system that an applicant has already enrolled in to Aadhaar when he/ she has not. FPIR is the ratio of the number of false positive identification decisions to the total number of enrolment transactions by unenrolled individuals.

<sup>38</sup> FNMR-The ratio of the number of authentication transactions conducted by data subjects resulting in a false non-match to the total number of transactions.

<sup>39</sup> FMR-The ratio of number of authentication transactions conducted by authentication subjects resulting in false match to the total number of transactions.

<sup>40</sup> Cell means any set of technology and physical components which collectively hosts the software programs that performs/enables the set of UIDAI's business requirements. As per MSP agreement with M/s HCL, one cell denotes two Crore Aadhaar enrolment. 'Amortized cost of Cell' has been considered as balance 30 *per cent* cost of cell components which is being paid to MSP in equal installments in every quarter.

<sup>41</sup> The biometric solution is primarily comprised of the multi modal "Automatic Biometric Identification Subsystem (ABIS) for De-duplication and the software Development Kit (SDK). Multiple multi-modal solutions from three vendors (known as BSP-Biometric service Provider) are being used to ensure a vendor independent & technology Neutral solution.

The response was not acceptable, because there was a capping of 20 *per cent* for LD to be imposed which had already reached the maximum due to the failure to meet other SLA parameters. In fact, the LD recommended by the Tech Center in respect of deviation in Biometric SLAs never came to reckoning as evident from the fact that the quantum of LD to be applied was only on the sum of Amortised cost of ‘Cell Payable’ & ‘Cost of Managed Services’ in a quarter. The Cost of Biometric Solution was never considered for levying the LD based on agreement. Success of Aadhaar hinges upon the efficiency of the biometric de-duplication services and hence it was important to ensure that the biometric service providers (BSPs) are accountable for any deficiency in service. When the payments for biometric services are kept out of the purview of LD, the shortcomings in the services provided by BSP were not adequately covered in the MSP contract.

We further observed that as per the agreement (June 2013) between the MSP and the BSPs, the MSP could levy LD on the BSPs for deficient performance of biometric solutions. However, the said condition was amended (November 2016), with the consent of UIDAI to the effect that the MSP will waive off all SLAs, if the same were waived off by UIDAI for the MSP under the MSP contract. With UIDAI keeping payments for biometric services out of the purview of its quarterly payments to the MSP, the MSP waived off the LD due from BSPs for deficiencies in the performance of biometric services. Thus, breaches in the performance benchmarks for biometric services were never penalized either by UIDAI or by the MSP, which gave undue advantages to the MSP/ BSPs.

UIDAI further intimated (October 2020) that the matter was under arbitration and counter claims including the LDs to be recovered from the biometrics’ payments was submitted in September 2020 to the Tribunal. UIDAI further submitted that it has engaged three new BSPs through exclusive contracts signed directly between UIDAI and BSPs, having provision of biometric SLAs and LD which would be levied on BSPs for any breach of these SLAs. MeitY agreed (June 2021) with replies of UIDAI to the audit observations.

**Recommendation:** *UIDAI may levy penalties on Biometric Service Providers for deficiencies in their performance in respect of biometric de-duplication (FPIR/ FNIR) and biometric authentication (FMR/ FNMR). Agreements in this regard should be modified, if required*

#### 4.4.2 Deficiencies in monitoring contracts with NISG

UIDAI had partnered with the National Institute for Smart Governance (NISG)<sup>42</sup> for setting up a professionally managed team for project management, operations management, technology support, handholding support to State Governments for implementation of Aadhaar project etc. Details of assignments handled by NISG for UIDAI are in **Table 4.4**.

<sup>42</sup> NISG is a non-profit company setup in PPP in 2002 with 51 *per cent* equity contributed by the private sector and 49 *per cent* by the public sector. It assists Central and State Governments in e-governance initiatives to improve services to citizens, businesses and all sections of society.

Table 4.4: Assignments handled by NISG

Agreement	Date of Agreement	Agreement period	Contract value (₹ Crore)	Amount released (₹ Crore)	Amount utilized (₹ Crore)
1. Establishment of Project Management Unit (PMU)	30 Nov 2009	Up to Nov 2014	47.91	110.20	107.74
	Addendum-I 18 Dec 2013	Up to Mar 2017	40.68		
	Addendum-II 01 Apr 2017	Up to Mar 2020	28.10		
2. Project management resource (SRP) for assisting State Registrars	22 Nov 2010	Up to Nov 2013	Value of contract not specified in the agreement	17.23	17.23
	Addendum-I	Up to Nov 2016			
	Addendum-II	Up to Mar 2017			
	Addendum-III 01 Apr 2017	Up to Mar 2020			
3. Aadhaar Enabled Applications Group (AEAG)	18 Apr 2011	Up to Mar 2016	28.50	22.71	22.71
	Addendum-I 08 July 2015	Up to Mar 2017	*		
	Addendum-II 01 Apr 2017	Up to Mar 2020	16.50		
4. Establishment of Technology Services Unit (TSU) for UIDAI	22 May 2013	Up to May 2018	62.30	31.20	30.47
	Addendum-I 01 Apr 2017	Up to Mar 2020	*		
5. Establishment of Field Support Engineer PMU for UIDAI	31 Aug 2012	Up to Aug 2014	5.43	23.34	23.34
	28 Aug 2014	Up to Mar 2017	19.21		
	Addendum-I 01 Apr 2017	Up to Mar 2020	9.90		

(\* The amount of contract of Addendum -I to the original Contract was met from the savings of Original Contract)  
(Data Source: Copies of agreement and fund utilisation statements of UIDAI)

Thus, till the end of March 2020, UIDAI had released payment amounting to ₹204.68 Crore to the NISG out of which NISG utilised a sum of ₹201.49 Crore.

This is pertinent to mention here that UIDAI does not has its own personnel resources. While it employed Government staff on deputation to manage the works that are mostly administrative and financial in nature, the technical support resources were hired from NISG. UIDAI has not made any serious attempt to have its own dedicated staff especially in technical cadre. A notification for appointment of officers and employees was issued in recent past only (January 2020) but no selection of resources could be finalised till March 2021. It is a cause of concern that UIDAI has continuously relied on outsourced people at the cost of building their own expertise and competence in the designated areas.

Audit observations on the management of the agreements with NISG by UIDAI are in succeeding paragraphs:

#### 4.4.2.1 State Resource Personnel (SRP) contract with National Institute of Smart Governance (NISG) extended beyond the period envisaged in the ICT guidelines

*The support services to States by way of a State Resource Personnel to be provided by NISG through the ICT assistance given to them, was duly approved by the Cabinet Committee for one year only, but the same continued for years together as approved by UIDAI.*

The services from NISG for providing skilled project management resource persons (SRP) to the states seeking for such resources was part of the financial assistance for Information & Communication Technology (ICT) infrastructure to states. As per the agreement with NISG, each SRP would be engaged at a consolidated remuneration of ₹1 Lakh per month on a one-year contract with an option for extension. NISG would be paid 15 *per cent* of actual manpower cost over and above the resource cost as fees for their services. All costs related to the recruitment process, such as travel costs of candidates, panel members and cost of advertisements, if any required, would be met by UIDAI at actuals. It was seen that indicative cost of SRP, which was important for exercising control over expenditure, was not estimated for the services provided by NISG.

The agreement, which was initially for a period of three years, was extended initially for three years i.e. up to November 2016 and again up to March 2017 and finally up to March 2020. Thus, an assistance that was envisaged for only one year as per the guidelines for ICT infrastructure assistance, continued for more than nine years by which time Aadhaar saturation had crossed 98 *per cent* of the adult population in the country or in terms of numbers, more than 125 Crore (March 2020) Aadhaar letters were issued. The agreement which was initially envisaged for only one year was repeatedly extended for years together.

UIDAI intimated (October 2020) that SRPs were deployed in the states mainly to assist state departments/ agencies for implementing their schemes with Aadhaar authentication. It justified the continued engagement of SRP for liaisoning with state/ UT departments/ agencies based on project requirement as UIDAI did not have its own office in all the states/ UTs. Eventually the SRPs were made part of PMU which could not be foreseen. It added that the cost for this service depended on progress made by the State Governments in integrating their schemes with Aadhaar and the cost of SRP was subsumed in the overall ICT assistance to the state. MeitY agreed (June 2021) with replies of UIDAI to the audit observations.

The reply is not convincing as the ICT guidelines envisaged this support only for a one-year period to be met out of ICT assistance provided to the state. The contract value was not mentioned as it depended on the requisitions placed by the respective states/ UTs. No separate approval for funding was sought apparently on the plea that the assistance for ICT was approved by the Cabinet Committee on UIDAI. It was observed that UIDAI was keen on utilizing the resources for various additional works other than the intended handholding and now the resources have been made part of PMU which clearly supports the view that SRP services were being continued for one reason or another. UIDAI had not even made any amendment related to resource persons despite releasing subsequent guidelines on ICT.

In light of the fact that Aadhaar numbers are nearing saturation limits for the country as a whole, continued assistance to the States by way of State Resource Personnel and consequential payments to NISG on this count including their service charges needs to be reviewed. The

UIDAI have to accept their own responsibility for issue of Aadhaar and limit their continued reliance on other agencies for support.

**Recommendation:** *UIDAI have to accept their own responsibility for issue of Aadhaar and limit/reduce their continued reliance on other agencies for support. They may partner with State Governments to increase the enrolment functions for issue of Aadhaar.*

#### 4.4.2.2 Deficiencies in engagement of Field Service Engineers (FSE)

***Deficiency in assessment of the requirements for Field Service Engineers (FSE) resources to be hired from NISG and in monitoring the payments made to them.***

UIDAI added an addendum to the PMU Agreement (August 2012) for engagement of Field Service Engineers (FSEs) team at UIDAI ROs for a period of two years with an additional indicative value of ₹5.43 Crore. On completion of the two years period (August 2014) a fresh agreement was signed for the period up to March 2017 for an indicative cost of ₹19.21 Crore which was further extended up to March 2020 at an additional cost of ₹9.90 Crore taking the total cost to ₹29.11 Crore.

We noticed that UIDAI released (May 2014) ₹1.5 Crore to NISG as advance for the last quarter of the agreement while the utilization for FSE never exceeded ₹34 Lakh in any of the previous quarters leading to an unspent balance of ₹1.28 Crore available with NISG at the end of the agreement period in August 2014. Instead of refunding the unspent balance to the Government, NISG was allowed to utilize it against a fresh agreement signed in August 2014. We also noticed that the sanctioned cost for FSE agreements was always on the higher side than the actual expenditure throughout the period as indicated in the **Table 4.5**.

**Table 4.5: Details of utilization for Field Service Engineers**

Agreement type & Effective Period	Amount		(₹ in Crore)
	Sanctioned	Released	Utilised
<b>Old Addendum 31 August 2012 to 30 August 2014</b>	5.43	3.02	1.75
<b>Fresh Agreement 31 August 2014 to 31 March 2017</b>	19.21	7.43	7.03
<b>Addendum to fresh agreement 01 April 2017 to 31 March 2020</b>	9.90 <sup>43</sup>	12.89	14.57

The above indicated deficiency in assessing the requirements for resources to be hired from NISG and in monitoring the payments made to them.

UIDAI replied (June 2020) that funds were sanctioned to NISG on the basis of estimates provided by NISG and are indicative values depicting the maximum allowable expenditure. Further, it was added that the actual expenditure depends on the actual deployment of resources. The differences in the actual expenditure and amount utilized were on account of proactive policies taken by UIDAI for regulating the CTC of outsourced resources. It was further stated that UIDAI's endeavor is to reduce costs and promote propriety in expenditure.

UIDAI further informed (October 2020) that deficiency pointed out by the audit has already been taken into cognizance and accordingly they were in a better position to assess the

<sup>43</sup> Cumulative total from 31 August 2014 is ₹29.11 Crore (₹29.10- ₹19.21= ₹9.90)

requirements of PMUs and TSUs. The estimates provided by the NISG at the time of latest extension of agreement have already been rationalized. MeitY agreed (June 2021) with replies of UIDAI to the audit observations.

The response was not convincing because there was consistent release of excess funds to a service vendor despite being aware of the fact that the actual expenditure was constantly below the funds released. This was against financial propriety and tantamount to parking of funds with agencies. Moreover, as discussed in para 4.4.2.1 above, there was continuous dependence on the outsourced personnel without any corresponding creation of expertise within the organization.

**Recommendation: UIDAI should strictly follow the standards of financial propriety while procuring services and ensure that advances are not paid for in excess of requirements.**

#### 4.4.3 Rebate on Franking Values on dispatch of Aadhaar not availed

***Deficiency in the contract with the DoP for delivery of Aadhaar Letters, deprived UIDAI of rebate on postage charges loaded in franking machines, despite UIDAI meeting the cost for franking.***

Aadhaar letters, in respect of new enrolments and update or modification of resident details are dispatched and delivered to the residents in the form of laminated document through the Department of Posts (DoP) as First-Class Mail<sup>44</sup>. UIDAI has agreements with three Print Service Providers<sup>45</sup> (PSPs) located at Manipal, Mumbai and Sangareddy (Telangana) for printing Aadhaar documents. As per the agreements, the PSPs were to bundle and bag Aadhaar documents on pin code basis after digitally franking them with the required postage. The postage charges are borne by UIDAI by loading the franking machines with the required funds. The bundled and bagged documents were then to be presented to the DoP for dispatch. For franking operations, PSPs were required to hold a valid commercial license issued by DoP.

DoP allowed a rebate of three *per cent* on the franked value, whenever the meter is reset i.e. credit is uploaded in the machine. Further, an additional two *per cent* rebate was also available on presentation of pin-code wise sorted mails. UIDAI released ₹648 Crore from the year 2012-13 to 2018-19 to Karnataka (Manipal), Maharashtra (Mumbai) and Andhra Pradesh/Telangana (Sangareddy) Postal Circles to replenish the postage loaded in franking machines for delivery of Aadhaar letters, of which the Circles utilized ₹603.84 Crore.

The rebate available as refund on the franked value for the above period @ three *per cent* amounted to ₹18.12 Crore and as Aadhaar documents capture pin-code and present them sorted on pincode wise to DoP, an additional two *per cent* rebate amounting to ₹12.08 Crore was also available. Thus, the total rebate available on the franked value was ₹30.19 Crore.

We observed that since UIDAI had signed Agreements with the PSPs, which did not contain any clause binding the PSPs to pass on the benefits to them, the deficient contracts deprived

<sup>44</sup> First class mail is a service offered by DoP with free air transmission within India for letters, post cards and letter cards.

<sup>45</sup> M/s Manipal Technologies Ltd, Manipal, M/s Sessaasai Business Forms (P) Limited, Mumbai and M/s K.L. Hi-tech Secure Print Limited, Sangareddy, Telangana.

UIDAI of rebate amounting to ₹30.19 Crore during the years 2012-13 to 2018-19 despite meeting the entire franking cost.

Responding to our observation, UIDAI management stated (March 2020) that the matter was referred to the DoP authorities for getting the admissible discount/rebate retrospectively and for future. However, DoP has clearly stated (July 2020) that the rebates were given to the PSPs as they were the license holder of franking machines.

UIDAI accepted (October 2020) its ignorance about the rebate being utilized by the print partners. The recommendation of audit was noted for compliance in future agreements and the matter was being followed up in accordance to the provisions of the existing contract with the print partners to pass on the rebates availed by them to UIDAI. MeitY agreed (June 2021) with replies of UIDAI to the audit observations.

**Recommendation:** *UIDAI may incorporate suitable clauses in their Agreements with all agencies mentioning clearly that the benefits accruing due to UIDAI's resources need to be passed on to them and vendors to indemnify UIDAI towards the loss/cost arising due to their actions.*

#### **4.4.4 Monitoring of Information & Communication Technology (ICT) Assistance to States**

##### ***Improper management of Grants-in-Aid and utilizing ICT assistance for creating infrastructure.***

The Cabinet Committee on UIDAI approved (September 2010) ₹ 350 Crore as assistance to the Registrars/other departments in the states and union territories for setting up Information & Communication Technology (ICT) infrastructure for making their systems UID compliant. Guidelines for regulating the assistance for ICT infrastructure was developed (September 2010) by UIDAI. Initially a normative amount of ₹ 10 Crore was approved as assistance to each state which would be released in five tranches. The quantum of each tranche was linked to the deliverables/ milestones to be achieved by states.

Under Phase-I of the assistance, Grants-in-Aid (GIA) amounting to ₹147.80 Crore was released to 38 agencies (States/ Departments/ Ministries) for ICT infrastructure during the years from 2010-11 to 2018-19. Subsequently ten more agencies were granted the ICT assistance amounting to ₹19.50 Crore during the years 2019-20 to 2020-2021.

It was seen in audit that, once the Aadhaar generation crossed the 100-Crore mark and the saturation of adult population reached 98 *per cent*, a new stream of ICT assistance was introduced (September 2016) by modifying the existing Phase-I guidelines of September 2010. The unspent amount from the normative amount of ₹10 Crore was given as additional support for procurement of enrolment kits. These kits were to be primarily used for targeted enrolments especially of new born and school going children covering their enrolment and mandatory biometric update at age five and 15 years. In addition, the kits were to be used for enrolment of adult beneficiaries of direct benefit programs who had not been earlier enrolled into the Aadhaar database. The quantum of the ICT assistance was fixed at a maximum 50 *per cent* of the total ICT assistance of the State viz., ₹5 Crore which were to be released in two tranches of ₹2.5 Crore each. Other than procurement of equipment from the assistance, the ancillary

costs like infrastructure, deployment of personnel, operating expenses, maintenance etc. were to be borne by the States.

Subsequently, (August 2018) UIDAI considered that the requirement of enrolment of newborn or children between the age 0-5 years and mandatory requirement of biometric updates at ages five & 15 years would be continuous. As such new ICT guidelines (Phase-II) were issued (September 2018) for providing assistance to State Governments, Kendriya Vidyalaya Sangathan (KVS) and Navodaya Vidyalaya Samiti (NVS) for provisioning of Aadhaar Enrolment Kits (AEKs) to be deployed dedicatedly for this category of residents. These revised guidelines also provided for assistance to BSNL to set up two AEKs in each of its Customer Service Centers to provide enrolment and update services. The total support on this account was estimated at ₹315 Crore. Financial assistance under the scheme was ₹1.5 Lakh per kit. Accordingly, UIDAI released ₹280.31 Crore to 33 agencies during 2018-19 for procurement of AEKs. A further sum of ₹0.3 Crore and ₹7.5 Crore was released to one more agency in each years of 2019-20 and 2020-21 respectively. These funds were over and above the assistance provided to states under Phase-I. The Phase II guidelines envisaged that savings if any, after procurement of two kits per block, were to be refunded.

A review of the release and utilization of the ICT assistance to various entities by UIDAI under different phases revealed the following:

- a. General Financial Rules 2005 stipulates that in respect of non-recurring Grants to an Institution or Organization, the authority sanctioning the Grants-in-Aid should insist upon a certificate in the prescribed form, of actual utilization of the Grants for the purpose for which it was sanctioned. The Institution/ Organization should submit the Utilization Certificate (UC) within twelve months of the closure of the financial year. It was seen that UIDAI had released grants of ₹147.80 Crore till 2018-19 and an additional GIA of ₹19.50 Crore in 2019-20 under Phase I, of which UCs for ₹25.34 Crore were pending from States till 31 March 2021.
- b. It was also seen that UCs for grants released as far back as February 2014 were pending submission. Seven (7) agencies, out of the 38 agencies had not even submitted partial UCs including for assistance released in the years 2013-14 and 2014-15.
- c. As per GFR conditions interest earned on unutilized funds should also be made part of the assistance. However, accrued interest earned on the ICT grants were accounted for in the UCs only by the States of Jammu & Kashmir and Himachal Pradesh. The other States neither had shown the interest earned nor had UIDAI taken review of the same.
- d. In the Phase-II ICT guidelines the entire fund was released in one lump sum to the entities instead of in installments based on submission of UCs. Audit noted that the grantee entities were erratic/ inconsistent in furnishing UCs or in refunding unspent balances. In this scenario, the possibility of the fund remaining parked or being diverted for other use cannot be ruled out. As an example, it is pointed out that the NVS Regional Office, Pune had procured 20 AEKs @ ₹1,19,068 per AEK while the assistance provided to them was @ ₹1.5 Lakh per AEK. This shows that this entity had unspent balances/ excess funds with it.

- e. The prime intention of providing ICT assistance under Phase-II guidelines was to capture the un-enrolled population belonging to the age group of less than five years. The assistance however was issued to the schools or to the State Registrars with an instruction to utilize the AEKs in Schools. As the age of school-going children is above five years the decision of funding purchase of AEKs in schools for enrolment of new-born or children between 0-5 years of age was ab-initio flawed.

Further, as mentioned in Para 3.2.3 of this Report, the issue of Baal Aadhaar without biometrics of the child, itself is not in keeping with the basic conditions of uniqueness of the identity envisaged under the Aadhaar Act. Therefore, the expenditure by way of grants for ICT assistance (Phase-II) given to States to enroll children below five years was avoidable.

UIDAI justified the release of Phase II ICT assistance in one tranche on the grounds that this was a one- time assistance as also the decision to provide AEKs to schools in view of less saturation in age groups 0-5 years and 5-18 years. They further stated (July 2020) in response that efforts were underway to obtain UCs from the nodal agencies and the non-submission of UCs have been raised with Chief Secretaries of defaulting states. It also stated that it was obtaining inputs on interest accrued on funds parked by states /UTs. MeitY agreed (June 2021) with replies of UIDAI to the Audit Observations.

The replies relating to UCs shows that UIDAI has not monitored utilization of the funds released as ICT assistance to States regularly and needs to take remedial action in financial management issues.

***Recommendation: UIDAI may improve upon its financial management of grants given to State Authorities by proper monitoring and ensuring regular and timely receipt of Utilization Certificates from them. It may also discontinue monetary assistance given to States/schools and other agencies for enrolment of minor children below five for issue of Aadhaar numbers.***