CHAPTER–II

Compliance Audit observations relating to Finance and Revenue Departments

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Compliance Audit observations relating to Finance and Revenue Departments

Finance Department

2.1 SSCA on 'IT Audit on Implementation of Integrated Financial Management System (IFMS) in Uttar Pradesh'

2.1.1 Introduction

The Integrated Financial Management System (IFMS) is a part of the National e-Governance Plan (NeGP). It is a comprehensive financial management system that aims to bring efficiency in financial planning and expenditure control.

The computerisation of treasuries in Uttar Pradesh was initiated in 1994-95 and all the treasuries were computerized by the end of year 2002 with data and application server at treasury level. In the year 2013-14, upgradation of old system with IFMS was initiated under Mission Mode Project (MMP) of NeGP, which envisaged to establish a central server and integration of treasury services among various stakeholders for digital exchange of information. The system has been upgraded with the help of National Informatics Centre (NIC) at a cost of ₹ 34.22 crore against sanctioned cost of ₹ 44.56 crore.

Table-2.1
Summary of Transactions Conducted through Integrated Financial Management System (IFMS) for the Period 2018-2024

Year	Number of transactions	Value of Transactions (₹ in crore)
2018-19	22,20,424	3,02,046.88
2019-20	22,57,365	3,74,096.90
2020-21	20,45,902	2,90,972.29
2021-22	21,96,161	3,43,419.58
2022-23	22,85,974	4,41,617.98
2023-24	23,19,845	5,06,088.84

Source: IFMS data

2.1.2 Organisational Setup

At the Government level, Additional Chief Secretary (ACS) Finance is the Administrative head of the Finance Department while at the departmental level, the Director of Treasuries (DoT), operating under the direct control of the Finance Department, supervises and exercises overall administrative control over the treasuries. The Director is assisted by Joint Directors/Additional Directors in 17 Divisional Offices. The Chief Treasury Officer (CTO) or the Sr. Treasury Officer (STO) heads the district treasuries at district level assisted by accountants in performing their duties. In the Districts, treasuries function under direct control of the District Magistrate.

There are 82 treasuries out of which, 75 treasuries are at Division/District level and 7 at Government/Headquarters level[1]. Treasuries have to submit their monthly accounts and other prescribed returns to Accountant General.

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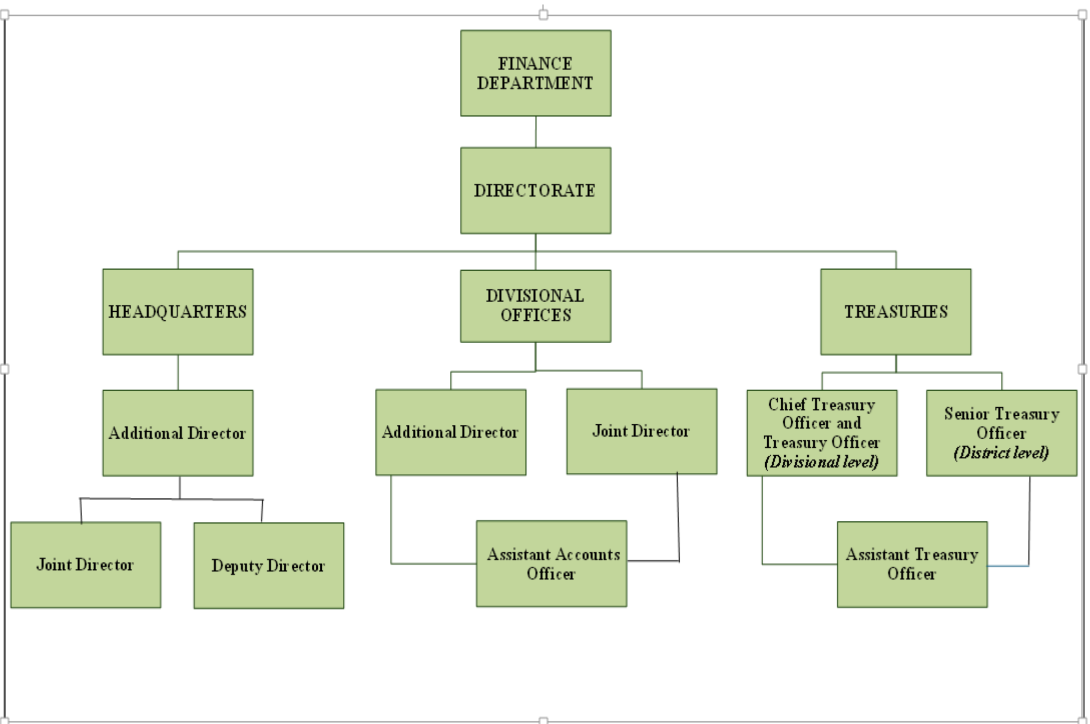
[1] Vidhan Sabha, Vidhan Parishad, IRLA Cheque and Governor's Secretariat and at Headquarters level- Jawahar Bhawan Treasury at Lucknow; Civil Lines Treasury at Prayagraj and Pay and Accounts Office (PAO) at New Delhi.

Chart-2.1



2.1.3 Applications and Modules under IFMS

The applications and modules were developed in consultation with NIC and its day-to-day operation, maintenance and change management is done by the Directorate of Treasuries with the help of *outsourced manpower under technical guidance of NIC*. As per Functional requirement specification (FRS), there are 08 applications[2] under which 22 Modules were to be developed in IFMS. Out of 22 Modules, presently (December 2024) 16 Modules are operational. Details as under:

Table-2.2

Sl. No.	Module	Name of the applications related to the Module	Status of Implementation
1.	Listing and Uniform Coding of all transactions/elements/entities	Budget Allotment	Live
2.	Budget Module	Budget Allotment System	Live
3.	Sanction or Allotment Module	Budget Allotment System	Live
4.	e-Billing Module	DDO Portal	Live
5.	Treasury Bill Passing Module	Treasury (CTS)	Live
6.	e-Payment Module	Treasury (CTS)	Live
7.	Online Receipt Module	Rajkosh	Live
8.	Treasury Module	Treasury (CTS)	Live
9.	GPF and Loan Modules (Schedules of GPF/Loan)	DDO Portal	Live
10.	Works and Forest Module	Treasury (CTS)	Live
11.	Preparation of Monthly Accounts	Treasury (CTS)	Live
12.	Reconciliation	Treasury (CTS)	Live
13.	Deposit Accounts	Treasury (CTS)	Live
14.	Debt Management Module	-	Inoperative

[2] DDO portal, Budget Management System, Rajkosh, E-Pension system, E-Kuber File Monitoring System, GST Monitoring System, Kosh MPR and Treasury (CTS).

Sl. No.	Module	Name of the applications related to the Module	Status of Implementation
15.	Long Term Advance Module	Treasury (CTS)	Inoperative
16.	Inter-State Transaction Module (Account Current)	-	Inoperative
17.	GPF Module	DDO Portal	Inoperative
18.	AG Authorisation Module	Treasury (CTS)	Inoperative
19.	Audit Module	-	Inoperative
20.	Pensioners Database	Treasury (CTS)	Live
21.	MIS Reports	Koshvani	Live
22.	Data Storage	Central Server	Live

Out of the above 22 modules, five modules *i.e.*, Budget Module, e-Billing Module, Treasury Bill Passing Module, Treasury Module and e-Payment Module were selected for examination in this IT Audit. The functions of these selected Modules are as under:

(i) Budget Module

Original and Supplementary Budget passed by Government and reappropriation orders are loaded in this module. Processes for allotment of funds and issue of Sanction Orders from the Administrative Departments at Government Level to the Budget Controlling Officers (BCO) in the Department and then from BCOs to the Drawing and Disbursing Officers (DDOs) are done through this Module.

(ii) e-Billing Module

This Module (also known as DDO portal) is used for Beneficiary Management, for preparing bills and generating token numbers. This module is used by DDOs for preparing, validating and then forwarding digitally signed bills (employees and other beneficiaries) to Treasuries, for payment.

(iii) Treasury Bill Passing Module

This Module (also known as CTS portal) is used by Treasuries for passing bills, for budget control and preparing accounts up to the standard Object Head level. The monthly accounts prepared through this Module are sent to the Accountant General Office.

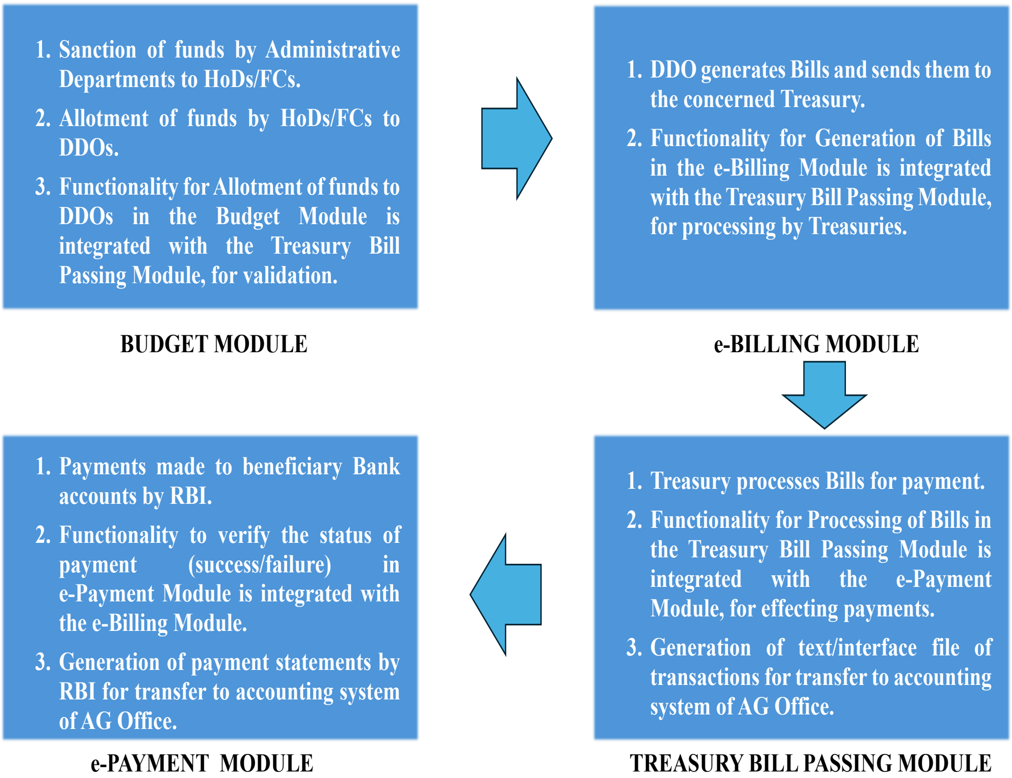
(iv) Treasury Module

This Module is designed for access controls and user management by Treasuries.

(v) e-Payment Module

This Module is used for making payments to beneficiaries, through integration with the e-Kuber platform of the Reserve Bank of India (RBI). Failed transactions, if any, are also managed through this Module.

Chart-2.2
Process flow in IFMS



2.1.4 Audit Objectives

This IT audit was conducted to examine whether:

- Business Process Re-engineering has been carried out during implementation of IFMS;
- Required functionalities and application controls in IFMS have been implemented;
- Required integration across Modules of IFMS has been implemented; and
- General controls for IFMS- governance structure, user access management, business continuity management and information security management- have been implemented.

2.1.5 Audit Scope and Methodology

Audit covered the period from 2018-19 to 2023-24 and five out of 16 functional Modules of IFMS. Ten[3] Treasuries and one Government level Treasury[4] out of 82 treasuries were selected. DDOs of four[5] departments under the jurisdiction of sampled Treasuries were selected for detailed examination of underlying documentation. Audit also examined records/documents relating to the development and implementation of IFMS at the Directorate of Treasuries.

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[3] Balrampur, Budaun, Fatehpur, Gautam Budh Nagar, Gorakhpur, Lucknow Collectorate, Mirzapur, Moradabad, Sonbhadra and Varanasi.

[4] Vidhan Sabha Treasury.

[5] Forest Department, Public Works Department, Stamp and Registration Department and Transport Department of Uttar Pradesh.

Data for the period 2018-19 to 2023-24 was obtained from the Directorate of Treasuries and was analysed using Computer Assisted Audit Techniques (CAATs).

An Entry Conference with the Department of Finance, Government of UP and the Directorate of Treasuries was held on 08 November 2023 to discuss the Audit Objectives, Criteria, Scope and Methodology.

An Exit Conference with the Department of Finance, Government of UP was held on 31.12.2024 to discuss the Audit Observations and the views of the Government on the same. Responses from the Government in the Exit Conference have been incorporated into this Report.

2.1.6 Audit Criteria

The criteria relied upon during this IT Audit included the following:

- UP Treasury Rules, U.P. Budget manual, UP Financial Handbook (FHB)
- System documentation related to IFMS
- Extant provisions of Acts and Rules, National e-Governance Policy, Standards and Guidelines issued by MeitY, Government of India and executive instructions issued by Government of UP.

2.1.7 Audit Constraints

The full list of system documents and data requisitioned by Audit from the Directorate of Treasuries was not furnished.

Key documentation not furnished included System Requirements Specification (SRS), User Requirements Specification (URS), Change Control Notes and Security Audit Certificates. Due to these circumstances, Audit was unable to derive assurance that general controls related to these aspects had been adopted, during the implementation of IFMS.

Key data not furnished included reconciliation statements between RBI and the Treasuries. Due to these circumstances, Audit was unable to derive assurance that these business processes had been mapped correctly into IFMS and were functioning as intended.

Audit Findings

2.1.8 General Controls

Adoption of IT General Controls is crucial to mitigate the risks associated with the implementation of any IT enabled information system. For a critical public sector information system such as IFMS, it is essential that general controls related to domains such as governance structure, formulation of policies, business process re-engineering, business continuity and disaster recovery management, information security management, user access management and contract management with the software vendor had been implemented. These general controls were required to establish the environment in which IFMS would be developed, operated, managed and maintained.

Audit findings in respect of examination of the adoption and adequacy of General IT Controls are described below.

2.1.8.1 Non-constitution of IT Steering Committee

An IT Steering Committee is a governance structure which is responsible for oversight and policy formulation for the implementation of an IT project in an organization. It comprises the key decision makers from the senior management and other stakeholders and is intended to achieve the objectives of risk management, monitoring and governance.

The Detailed Project Report for the IFMS project provided for the constitution of a High Level Committee at the Government level, to monitor the progress of implementation of the project.

However, Audit noticed that the High Level Committee had not been constituted since 2014-15.

DoT stated (October 2024) that an IT Steering Committee had now been constituted (October 2024) to oversee the implementation and further development of IFMS. However, the fact remains that the IT Steering Committee was only constituted after a period of more than ten years.

2.1.8.2 Absence of key IT policies for IFMS

An Information Technology (IT) policy outlines the guidelines, rules and procedures for the use, management and security of an organization's information technology resources. It ensures consistency and guides behaviour towards achieving the specific objectives of an IT project.

Audit observed that the even after more than 10 years of implementation of IFMS (2014-15), formal and documented IT Policy had not been formulated to guide decision making on key areas such as personnel requirements, Database Administration, Training and Support Services. The fact of absence of key policies was also confirmed during field visits at the selected Treasuries. Regular training of users of IFMS at the Treasury and DDO levels had also not been conducted, as verified from the sampled field visits.

DoT stated (October 2024) that the evolution of IFMS has taken place with active support of the State unit of NIC and it would not be realistic to conclude that prerequisites to working in the IT environment have not been complied with. DoT also stated that the Information Security Policy had been circulated by email to all Treasuries. However, DoT accepted the need for having proper documentation of policies.

2.1.8.3 Absence of Disaster Recovery Plan

A Disaster Recovery Plan (DRP) is a comprehensive document outlining the procedures and protocols to restore critical business operations, systems and data in the event of a disaster or major disruption. It ensures business continuity, minimizes downtime and reduces losses.

Guidelines for the IFMS MMP project provided that a Disaster Recovery and Business Continuity Plan should be formulated to ensure that the system runs on 24x7x365 basis even in case of extended power outages, floods, earthquakes, virus attacks and situations such as vendor abandoning the IT project.

However, Audit observed that-

- There was no formal, documented Business Continuity and Disaster Recovery Plan with clearly defined Recovery Point Objective and Recovery Time Objective.

- Data Centre was established at the State Data Centre, NIC, Lucknow and a Data Backup Centre was established at Financial and Statistical Directorate, Lucknow in 2014-15. Thus, both had been established at the same station and the same seismic zone.
- DoT had not included a provision for Disaster Recovery (DR) Centre in the initial estimates in 2014-15. DoT decided (November 2019) to establish a DR Centre in a separate seismic zone. The DR Centre was established at Bhubaneswar, Odisha and got operational only in July 2023. Thus, IFMS had operated without a DR Centre for almost nine years.

The absence of a formal, documented Business Continuity and Disaster Recovery Plan is a significant control failure, as it results in the avoidable risks of lack of clarity on the Recovery Point Objective, Recovery Time Objective, definitions of roles and responsibilities for key personnel in the event of disasters and frequency of conduct of Disaster Recovery Drills.

In reply DoT stated (February 2025) that the written business continuity plan is not created and will be done soon.

2.1.8.4 Loss of Central Assistance of ₹ 20.06 crore, due to non-achievement of project milestones for implementation of IFMS

The IFMS Mission Mode Project has been with financial support of 75 *per cent* of the project cost from the Central Government. The Central share was to be released to the designated State Agency in three installments- 40 *per cent* on approval of the project plan, 30 *per cent* after achieving the first milestone[6] and the remaining 30 *per cent* after achieving the second milestone[7].

The approved project cost for the IFMS project was ₹ 44.56 crore and hence, the Central share to be released to the State designated agency was ₹ 33.42 crore. The first installment of 40 *per cent i.e.* ₹ 13.36 crore was released (₹ 12.29 crore in March 2013 and ₹ 1.07 crore in June 2014) by the Central Government. However, the second and third installments amounting to ₹ 20.06 crore have not been released (as of December 2024), due to non-achievement of the specified project milestones.

Audit noticed that-

- Para 8.2 of the MMP project guidelines provided that 'the funds would be released as central assistance subject to satisfactory receipt of Utilisation Certificates'. Utilisation Certificate for the amount released as first installment from the Central Government was not available on record.
- There was no documentation furnished or made available in support of the achievement of the first and second milestones for the IFMS project.
- The advice/suggestions received (December 2012) from the Central Government Programme Steering Committee[8] has not been complied with during the implementation of IFMS.

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[6] Utilisation of the amount released earlier, purchase/upgrade of hardware, purchase/ development of software, completion of business process re-engineering exercise, e-connectivity between district treasuries and the State Finance Department, commencement of training of staff.

[7] Utilisation of the amount released earlier, completion of the code amendment exercise, demonstrated connectivity with RBI, AG, CGA and Agency Banks, operationalization of all modules of IFMS.

[8] Programme Steering Committee was a Central Government Committee to review the proposals for treasury computerization from different states.

DoT stated (September 2024) that the first and second milestones had actually been achieved and that a letter for the release of the second and third instalments of Central Assistance had been submitted to the Finance Department, GoUP.

The response was not tenable, as DoT had not furnished the Utilization Certificate for the amount received as first instalment from the Central Government, which was a pre-requisite for the release of subsequent instalments and no documentation was furnished to Audit in support of the achievement of the subsequent milestones.

2.1.8.5 Deficiencies in management of Annual Technical Support for IFMS software

Under the IFMS Mission Mode Project, hardware and software were to be procured by DoT. Oracle software was procured and installed at the Data Centre as well as the Data Backup Centre in Lucknow, Uttar Pradesh. This software had been procured in July 2013, with support period of one year (July 2014).

Audit reviewed the crucial function of management of Annual Technical Support for the IFMS software and noticed the following deficiencies-

- After three months of the expiry of the initial Annual Technical Support (ATS) contract, in November 2014, M/s TCS submitted a proposal for renewal of the Annual Technical Support for the Oracle software at a cost of ₹ 1.21 crore for one year. There was no documentation available on record to indicate action taken by DoT on this proposal.
- DoT awarded (March 2016) the Annual Technical Support contract to Uttar Pradesh Development System Corporation Limited i.e UPDESCO (a State Public Sector Undertaking) for the period 31-07-2014 to 30-07-2016 at a cost of ₹ 2.69 crore. The ATS was awarded after 19 months of the expiry (July 2014) of the initial ATS contract with M/s TCS. UPDESCO, in turn, sub-contracted this work to M/s Impulse Microelectronics Pvt Ltd for ₹ 2.54 crore in May 2016.
- After seven months of the expiry (July 2016) of the second ATS contract with UPDESCO, DoT awarded (March 2017) the ATS contract again to UPDESCO for the period 31-07-2016 to 30-11-2018 at a cost of ₹ 3.30 crore. UPDESCO in turn again sub-contracted this work to M/s Impulse Microelectronics Pvt Ltd for ₹ 3.15 crore. Thus, DoT paid for 28 months of support but only received 20 months of actual support.
- Due to these circumstances, IFMS remained without any formal ATS and at risk of adverse events in the absence of support for the periods from August 2014 to March 2016 and August 2016 to March 2017, which was avoidable.

DoT stated (September 2024) that as per the Oracle software license terms, the ATS has to be on continuous basis without any breaks in between and if renewal of ATS is carried out with breaks in between then the DoT was liable to pay a penalty.

The Government stated (December 2024) that email in support of ATS by Oracle was provided to the Audit, but the said email pertains to October 2024 and moreover no formal arrangement/agreement for the delayed ATS period was found on record.

The response from DoT is itself illustrative of the importance of timely renewal of the ATS contracts and reflected the fact that the delays in renewal should have been avoided. Further, there was no evidence in support of M/s UPDESCO or M/s Impulse Microelectronics Pvt Ltd being actually responsible for rendering the required support during the periods when the ATS contracts had expired, since the ATS contracts signed included past periods on *post-facto* basis.

2.1.8.6 Non-functional Modules of IFMS

The implementation of the IFMS project started in 2013-14 and was scheduled to be fully functional within two years.

However, Audit noticed that the following modules were not yet functional, as of December 2024:

- Debt Management Module,
- Long Term Advance Module,
- Inter State Transaction Module,
- GPF Module,
- AG Authorisation Module and
- Audit Module.

Due to non-development/implementation of all the originally planned Modules, the complete intended benefits of IFMS had not yet been realized. Furthermore, DoT did not furnish the revised scheduled dates for Go-Live for these Modules which were not functional. This reflected a major internal control deficiency in project governance and monitoring of the progress of implementation.

DoT stated (September 2024) that the decision on implementation of remaining modules will be taken in consultation with AG office and the State Government.

2.1.8.7 Absence of functionality in IFMS for Aadhaar seeding of beneficiaries

Aadhaar enabled authentications and payments provide enhanced security, avoid duplicity and facilitate e-KYC for Government schemes. The Central Government Programme Steering Committee on Treasury Computerization had recommended (December 2012) that IFMS in different States should have functionality for subsequent Aadhaar seeding of beneficiaries.

However, Audit noticed that IFMS in Uttar Pradesh does not have functionality for recording/seeding the Aadhaar numbers of payment beneficiaries. This constituted a major internal control failure in IFMS. In the absence of this functionality, Audit noticed instances of duplication of payment beneficiaries in the IFMS database (as discussed in Paragraph 2.1.9.16).

In the Exit Conference (December 2024), it was stated that the IFMS has the structure of feeding of Aadhaar numbers and mandatory usage of Aadhaar number will be done after prior approval of the Government.

2.1.8.8 Absence of functionality in IFMS for registration of mobile numbers of beneficiaries and service delivery through mobile numbers

Registration of mobile numbers of Government Scheme beneficiaries and mobile number based service delivery (such as SMS, USSD, IVRS modes) through IFMS had been planned, to enable quick, personal and interactive communication with the beneficiaries. The Central Government Programme Steering Committee also recommended the same. The State Government was required to coordinate with Ministry of Electronics and Information Technology (MeitY), Government of India for implementation of the Mobile Services Gateway.

However, Audit noticed that functionalities for registration of valid and unique mobile numbers of beneficiaries and for mobile number based service delivery has not been implemented in IFMS. The data field for recording mobile numbers of beneficiaries had neither been made mandatory nor had application controls to enforce validity and uniqueness of recorded mobile numbers been implemented. Audit noticed instances of invalid mobile numbers in the beneficiary database in IFMS.

In reply, Government stated that (February 2025), it has been decided to implement Vendor Management system where beneficiary registration with all required filed including mobile numbers will be done.

2.1.8.9 Deficiencies in user access management in IFMS

User access management consists of controls to regulate access of various users (with differing roles in the system) to data. These controls are required to be designed and implemented so that only authorised users can read and modify data and that segregation of duties is enforced by the system.

(i) Absence of Multi-Factor Authentication

Multi-Factor Authentication (MFA) is a security mechanism that requires a user to provide two or more authentication factors to access a system, network or application. This adds an additional layer of security to the traditional single factor (username and password) authentication, by requiring one or more independent factors (such as mobile/email based One Time Password or biometric authentication) to also be entered, thus mitigating the risks of exposed passwords resulting in unauthorized access.

As per Guidelines on Information Security Practices of Indian Computer Emergency Response Team (Cert-In), every Government organization should implement multi factor authentication for their important public sector information systems. IFMS is a mission critical project for the State Government since it involves Financial Sanction, Allotment and Expenditure of public funds and hence, multi factor authentication is a key control to mitigate the risk of unauthorised access.

However, Audit noticed that Multi Factor Authentication through mobile/email OTP or biometric based access had not been implemented for IFMS.

DoT stated (September 2024) that a proposal for biometric authentication for the Treasury Module had been sent to the State Government for approval and will be implemented soon.

(ii) Deficiencies in controls for user access management

- Under the DDO user, other users with roles for Operator Transaction, Operator Bill Entry and Operator Pension can be created. Operator Transaction is responsible for creating/updating beneficiary details and Operator Bill Entry is responsible for preparation of bill details. These two roles should not be performed by same individual to ensure segregation of duties, which is a critical internal control. However, there are no application controls in IFMS to prevent assignment of both these roles to the same user, including users who may be contractual personnel.

- IFMS does not have any application controls to de-activate users with reference to master data on employees, in cases of transfer or retirement. The absence of these application controls resulted in the avoidable risk of unauthorized access to the system by other users who may have the required single factor login credentials.

Case Study

One operator (Operator ID-32666) working under DDO code-4257, Gorakhpur Zoo, Forest Department retired from service on 31.07.2023. There had been no formal re-assignment of this Operator ID to any other user. However, Audit noticed that transactions (333 numbers having value ₹ 5,18,80,384) had been generated using the same operator ID during the period from August 2023 to March 2024. This indicated the material risk of misuse and lack of a clear trail of accountability in case these non-compliant user actions had been committed with this Operator ID.

- IFMS does not have controls to enforce change of password after first login by users.
- IFMS does not mandate the entry of Aadhaar number for contractual personnel users and employee ID for Government employee users.
- IFMS does not have controls to prevent creation of multiple sessions with the same user login credentials on different systems. This resulted in the avoidable risks of users sharing their login credentials.
- System logs on assignment of user IDs were not furnished for Audit scrutiny.

DoT stated (February 2025) it is the responsibility of the concerned DDO to deactivate logins of transferred and retired employees.

The response was not tenable as it only highlighted the fact that the burden of compliance had not shifted from the users to the system. The system should have had application controls to enforce segregation of duties and de-activation of retired/transferred employees with reference to the employee master data.

DoT stated that provisions for mandatory password change after first login, for recording Government ID/Aadhaar for users and to prevent multiple sessions using the same login credentials would be implemented.

2.1.8.10 Absence of regular Security Audits

As per National Cyber Security Policy 2013 issued by MEITY, Security Audit should be done by an empaneled agency every six months and as and when any changes are done to the source code.

However, Audit noticed that-

- Security Audit had not been conducted at regular intervals. There were gaps ranging from 44 months to 126 months between the Security Audits for IFMS.
- The contract for Security Audit of IFMS had been awarded (January 2020) to UPDESCO, but the Security Audit Certificates were not made available to CAG Audit. As a result, there was no assurance on whether the Security

Audit had been conducted by an empaneled agency and that any actions recommended by the Security Auditor had been implemented by DoT.

- Further, in case of any changes/updates to IFMS, the provision for arranging for Security Audit had not been complied with.

DoT stated (September 2024) that a firm has been engaged on contractual basis for three years for conducting regular Security Audit of IFMS.

In the absence of documentation in the form of Security Audit Certificates and action taken on recommendations made, CAG Audit was unable to derive assurance that any identified information and cyber security risks had been adequately mitigated.

2.1.8.11 Conclusion

There were significant deficiencies in the IT General Controls adopted and implemented for IFMS. The absence of a governance structure, formally documented IT policies, lack of clarity on processes for Business Continuity and Disaster Recovery management, deficiencies in user access management, lack of functionalities as originally envisaged and absence of regular Security Audits indicated that there was scope for improvement in these aspects of general controls. The resulting impact on the manner in which application controls had been implemented in IFMS are described in the subsequent Sections of this Chapter.

2.1.8.12 Recommendations:

- *The High Level Committee constituted in October 2024 may hold regular meetings to monitor the progress of implementation of IFMS, decide on timelines for unimplemented functionalities, assess emerging risks and recommend suitable mitigation measures.*
- *The State Government may ensure that key IT policies for personnel requirements, procurement of hardware, software and services, business continuity and disaster recovery management and user access management are formulated and adopted.*
- *DoT may address the deficiencies in IT General Controls- including the absence of the key functionality for Aadhaar seeding and initiate remedial actions to mitigate risks arising from such deficiencies.*

In the Exit Conference, the Government accepted the Audit recommendations.

2.1.9 Application Controls

Application controls are specific IT controls unique to the application, which are necessary to enforce the business rules of the organization. When business processes are mapped into an IT application, application controls are the input, processing and output controls which enforce the business rules for those processes. These controls ensure that the input data is valid and complete, processing of input data is done correctly and by authorized users and that output data is presented in the required formats and reports in a time-bound manner. In this way, the application is expected to maintain a correct and comprehensive record of the entire process *i.e.* from input to output.

Audit findings arising from the examination of application controls implemented in IFMS are described below.

2.1.9.1 Incomplete functionality and missing application controls in Budget Module

IFMS MMP Guidelines prescribed a Budget Module for Budget Management, including preparation, allotment and revision of budget. The Module was supposed to enable the Administrative Departments to review and consolidate the budget demands prepared by their field offices and submit them to the Finance Department, for further review and processing. After the Finance Department had placed the overall State Government budget before the Legislature and had obtained approval, the process of budget allotment was to be enabled through the Module. Further, Re-appropriations, release of Supplementary Budget and Surrender of budget at the end of the financial year were also to be handled by the Module.

However, against the above envisaged functionalities for the Budget Module, Audit observed the following-

- The Budget was being prepared manually (which has also been accepted by the Finance Department) and not through IFMS. As a result, the trail of budget demands raised by field Offices of various Administrative Departments, the modifications made by the Administrative Departments, the modifications made by the Finance Department is not available in the system.

- Only after approval of the Budget by the Legislature, the Budget data was being uploaded into the Budget Module of IFMS, for initiating the budget allotment process. During the year 2022-23, there were 706 instances of differences of amounts under the budget heads (15 digit classification) which was to be uploaded (as per the XML file furnished by the Finance Department for the approved budget) and the actual amounts uploaded under these budget heads in IFMS for that year, as detailed under-

Table-2.3

Year	Number of instances where difference in 15 digit budget heads exist	Amount under these budget heads as approved by Legislature (XML file provided by Finance Department) (₹ in crore)	Actual Amount under these budget heads as per the IFMS data (₹ in crore)	Difference (₹ in crore)
2022- 23	706	4,946.27	2,900.12	2,046.15

Source: IFMS data taken from Budget Original and Budget Supplementary files

If the entire business processes for budget preparation, approval and allotment had been mapped into IFMS, this kind of discrepancy would have been avoided.

- During 2022-23, the State Legislature approved Vote on Account in which the budget allotment was to be made against the budget heads specified therein. However, when the Main Budget was approved, there were no provisions made under some of the budget heads previously specified during the Vote on Account. As a result, expenditure of ₹ 219.57 crore had been incurred without budgetary provision and allotment under these budget heads **(Appendix-2.1)**, which has not yet been regularised. This discrepancy had arisen since there were no application controls to ensure that in cases where expenditure had already been incurred under specified budget heads during

Vote on Account, the budget provision under those heads could not be lower than the expenditure already incurred, during the Main Budget.

DoT stated (September 2024) that the adjustment expenditure already incurred during Vote on Account was the responsibility of the concerned Administrative Departments and Controlling Officers.

The response was not tenable, since it only indicated that even after the implementation of IFMS, the burden of compliance had not shifted from the individual users to the system, through implementation of the required application controls.

- Functionality for surrender of budget provision had not been implemented in IFMS, and therefore, the budget surrender business process is being carried out manually in offline mode outside the system. As a result, the objective of real time accounting of the surrender amounts with the benefit of timely re-appropriation of such surrendered amounts before the end of the financial year had not yet been realised, despite the implementation of IFMS.

DoT stated (September 2024) that implementation of functionality for online surrender of budget provision is a policy decision and that the Directorate had not received any directions from Government for the same.

The response was not tenable, since the business process for surrender of budget is clearly specified in the IFMS MMP Guidelines as well as the Government of UP Budget Manual and functionality for the same should have been implemented.

- Budget re-appropriations were being processed through physical files and after approval in offline mode outside the system, were being entered into IFMS. This had resulted in delays in processing re-appropriations in the system and non-utilization of the budget amounts for the revised purposes. In one case, re-appropriation data was entered after the close of the financial year (2018-19) having value of ₹ 11.65 crore and there was one instance where the date of data entry was prior to the date of the offline re-appropriation order by 147 days, which reflected the absence of validation controls in the system.

Table-2.4
Cases where delay in entering re-appropriation data into IFMS was more than 15 days from the date of offline re-appropriation order

Financial Year	Range of delayed days	Total amount (₹ in crore)	Total no. of cases
2018-19	15 to 376 days	1,640.01	271
2019-20	15 to 266 days	299.05	215
2020-21	15 to 233 days	660.89	210
2021-22	15 to 88 days	3,048.28	232
2022-23	15 to 50 days	171.58	29
2023-24	19 to 127 days	9.47	16
Total		**5,829.28**	**973**

Source: Re-appropriation table of IFMS

DoT stated (September 2024) that functionality for online processing of re- appropriations had been implemented from financial year 2022-23.

The response was not tenable, as the full adoption of online processing of re-appropriations had not been completed during 2022-23, as evidenced by the number of cases in which there were delays in entering the re-appropriations data after offline re-appropriation orders. The number of such cases had reduced compared to previous years, but the functionality had not yet been utilized by all Departments.

2.1.9.2 Absence of application controls to prevent re-appropriation to new services

Rule 151 (iv) of UP Budget Manual provides that, re-appropriations are not permissible to provide for new services, whether voted or charged.

Audit noticed that contrary to the above provisions, during the period from 2018-24, there were instances of re-appropriations of ₹ 5,120.88 crore to expenditure on new services. The year-wise details are as under:

Table-2.5

(₹ in crore)

Financial Year	Number of new schemes	Total Amount
2018-19	16	1,245.22
2019-20	16	62.64
2020-21	20	247.94
2021-22	24	80.03
2022-23	48	1,301.78
2023-24	61	2,183.27
Total	**185**	**5,120.88**

Source: New Scheme Detail Data
Note- The scheme of new expenditure has been determined based on the data of the New Schemes provided by the Directorate of Treasury.

The above irregularity had occurred due to the absence of application controls in IFMS to prevent such re-appropriations for expenditure on new services, as provided by the UP Budget Manual.

The Government accepted (February 2025) to develop required functionality in the IFMS system.

2.1.9.3 Absence of application controls to prevent re-appropriation from Resource Linked Schemes

As per the executive instructions[9] issued by the Finance Department from time to time, the amounts under budget provisions made in Resource Linked Schemes (such as Centrally Sponsored Schemes, Schemes financed by Financial Institutions and Externally Aided Schemes) cannot be re-appropriated to other schemes.

However, Audit observed that during 2018-24, there were 151 instances (involving amount of ₹ 10,186.62 crore) of irregular re-appropriations from Resource Linked Schemes to other Schemes.

Case Study

It was observed that an amount of ₹ 2.04 crore was re-appropriated (23.03.2023) from Grant no. 43 Uttar Pradesh Core Road network development programme (Scheme head- 5055-00-800-97-01) under Road safety to account head[10] for building related work to Regional Transport Offices.

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9 OM number 13/2022/बी-1-454/दस-2022-231/2022 dated 07 June 2022.

10 Account head *4059-01-051-19 and 4059-01-051-19-20.*

The above irregularity had occurred due to the absence of application controls in IFMS to prevent such re-appropriations from Resource Linked Schemes to other schemes.

DoT stated (February 2025) that this application control had not been implemented since the budget file provided by the Finance Department does not have any data field to identify budget heads for Resource Linked Schemes. The matter being policy decision, has been referred to Finance Department, GoUP.

The Government accepted (February 2025) the audit point and assured that adequate system controls will be made in the system.

The response was not tenable, as the required application control should have been implemented through a formal Change Management process to identify budget heads for Resource Linked Schemes, to achieve compliance with the executive instructions.

2.1.9.4 Lack of application controls in the Budget Allotment System

Under the Budget module of IFMS system, the communication of budget by the Administrative Departments to HoDs/FCs (Finance Controller) and by HoDs/FCs to DDOs (allotment) is carried out online through Budget Allotment System. Data analysis of the system revealed the following:

(i) It was noticed that, during 2020-23, the amounts of Financial Sanction[11] for budget distribution generated in the system were in excess of the total budgetary provisions in the respect of three Grants as detailed in **Table 2.6**:

Table-2.6
Grant wise summary of Financial Sanction for budget distribution in excess of Budgetary Provision

(₹ in crore)

Year	Number of Grants	Total Budgetary Provisions	Financial sanction	Sanction in excess of Budgetary provision (Financial Sanction – Budgetary Provisions)
2020-21	1	1,369.88	1,581.41	211.53
2021-22	1	1,505.88	1,585.44	79.56
2022-23	1	271.30	275.93	4.63
Total				**295.72**

(Data from Budget Original, Budget Supplementary, Sanctions table of the IFMS)

This is indicative that the Budget Allotment System did not restrict the amounts of the financial sanction for the budget distribution within the total budgetary provision.

(ii) On analysis of the systemic controls over the allotment of the budget based on the financial sanction for its distribution, it was found that the allotment under various grants during 2018-24 was in excess of the amounts specified in the respective financial sanction for the budget distribution, the details of which is summarised as under:

[11] The term 'Financial Sanction' denotes the process of communication of Budget by the Administrative Department to Head of Department.

Table-2.7
Grant wise summary of Allotment in excess of Financial Sanction

(₹ in crore)

Year	Number of Grants	Financial sanction	Allotment	Total amount of excess allotment over financial sanction
2018-19	5	24,442.97	28,710.87	4,267.90
2019-20	5	37,131.28	39,415.07	2,283.79
2020-21	1	325.37	592.37	267.00
2021-22	1	106.53	107.03	0.50
2022-23	3	14,150.12	15,235.45	1,085.34
2023-24	3	19,679.61	31,105.46	11,427.00
Total	**18**			**19,331.53**

(Data from DDO Allotment, DDO Surrender and Financial Sanction tables of IFMS)

Thus, it is evident from the above that the budget allotment system was not mapped to control the allotments based on the amounts of the financial sanction for the budget distribution, which allowed excess allotment during the years 2018-19 to 2023-24 in 18 grants having total value of ₹ 19,331.53 crore.

DoT stated (September 2024) that the provision for online issue of financial sanction by the administrative Department was made in 2022-23 and proper checks and validation are there in the system to disallow financial sanction in excess of provisions. The discrepancy was there in old data due to inclusion of online generation for concurrence sanction in mid financial year. The Government stated (December 2024) that the discrepancies pointed out by the Audit have been referred to the technical team for resolution.

2.1.9.5 Absence of functionality and application controls to mandatorily link Bills of expenditure to a valid underlying Sanction Order

As per provisions of the UP Budget Manual, every expenditure proposed to be incurred from the budgetary provision should be done after getting financial sanction by the competent authority.

However, Audit noticed that there was no functionality in IFMS to mandatorily link each Bill with a valid underlying Sanction Order. This was a significant control failure, since as a result, it was not possible to map each Bill of expenditure against a particular Sanction Order. Despite the physical Bill form containing a specific column to record the Sanction Order number, the required functionality and application control to enforce this key business rule had not been implemented in IFMS.

DoT stated (September 2024) that the mandatory online mapping of Sanction Orders to Bills will be implemented after the development of the e-Sanction Module and sub-voucher level computerisation for paperless Bill submission. Further, it stated that e-sanction module is a policy decision and referred to the Government for decision.

In the Exit Conference (December 2024), the Government stated that mapping of financial sanction with expenditure will be done after the development of e-sanction module in IFMS.

The response was not tenable, as it only highlighted the fact that the functionality for the e-Sanction Module in IFMS had not been implemented and in its absence, application controls to mandatorily record the Sanction Order number (for manually prepared Sanction Orders) should have been implemented as required by the provisions of the UP Budget Manual.

2.1.9.6 Expenditure in excess of Allotment

As per the provisions of the UP Budget Manual and executive instructions and orders issued from time to time by the Finance Department, the expenditure under any account head should not exceed allotment under that head.

From the IFMS data analysis, Audit observed that the expenditure in various major heads of account (up to object head level) was in excess of the allotment which had been made under the respective heads. Summary of cases during the years 2018-19 to 2023-24 was as under-

Table-2.8

Year	Number of instances where expenditure on account head exceeded allotment	Total amount of expenditure exceeding allotment (₹ in crore)
2018-19	931	4,087.47
2019-20	301	3,048.42
2020-21	283	3,256.65
2021-22	185	1,444.83
2022-23	96	1,042.17
2023-24	89	1,058.73
Total	**1,885**	**13,938.27**

Source: Cts_bill_ent table (for expenditure) and cts_alt_ord table (for allotment) for the years 2018-19 to 2023-24

This irregularity indicated that application controls to prevent expenditure in excess of the budget allotment had not been implemented in IFMS. The fact that the e-Sanctions Module had not been implemented was a major contributing factor to this irregularity, since there was absence of tracking of expenditure across the budget allotment to sanction to drawal of Bills of expenditure in the system.

DoT stated (September 2024) that if budget allotment was not available at the time of Bill passing, the system does not allow the same and an error message of 'insufficient budget' is generated. It further stated that before 2023-24 minus allotment was auto detected from allotment data and plus allotment has to be accepted by the treasury on receipt of allotment order's hard copy.

In the Exit Conference (December 2024), the Government had stated that due to grouping of object heads discrepancy is appearing.

The response was not tenable, as the above listed instances clearly indicate that expenditure had exceeded the budget allotment in the respective years. Moreover, there were similar cases in the year 2023-24 which clearly shows that there still exists lack of adequate controls in the system.

2.1.9.7 Allotment of budget and generation of sanction orders outside IFMS in case of Grant-61 (Debt Service and Other expenses)

Grant number 61 (Debt service & Other expenses) pertains to Finance Department. The budgetary provision, sanction, allotment and expenditure for Grant-61 for the period from 2020-21 to 2023-24 is detailed below:

Table-2.9

(₹ in crore)

Year	Budgetary Provision	Sanction	Allotment	Expenditure	Percentage of Expenditure against Budget Provision
2020-21	1,05,454.92	-	-	18,080.50	*17.15*
2021-22	94,601.99	-	-	21,716.52	*22.96*
2022-23	93,657.61	19,461.34	19,107.64	23,076.06	*24.64*
2023-24	1,03,030.04	26,483.45	9,053.93	29,927.51	*29.05*

(Data taken from Budget Original, Budget Supplementary, Sanction DDO Allotment and CTS Bill Entry tables)

This indicated that the processes of allotment of budget and issue of sanctions had been carried out outside of IFMS and that there were no application controls implemented to enforce referential integrity for incurring expenditure under Grant-61.

On this issue, Finance department stated (June 2024) that for some expenditure under Grant 61, deductions are directly made by RBI[12] for which financial sanction is not required. The remainder of the expenditure (establishment expenditure, expenses relating to State Finance commission, loan and interest payment of NABARD *etc*) under Grant-61 is routed through the Treasuries, for which necessary sanction is accorded through IFMS.

The response was not tenable, since Audit noticed that even for the expenditure routed through the Treasuries, allotment and sanction details had not been recorded in IFMS (2020-21 and 2021-22) and in the year 2022-23 and 2023-24, the expenditure booked was higher than the budget allotment made through IFMS.

2.1.9.8 Absence of implementation of specified bill formats in IFMS

(i) For making payments through the Treasury system, the following six types of Bill forms had been specified in the Financial Handbook:

Table-2.10

Type of bill	Record code number
Salary Payment bill	101
Travelling allowance payment bill	102
Contingency bill	103
Special, Deposit refund, compensation payment bill	104
General payment bill	105
Retirement benefits payment bill	106

The above bill types containing the relevant information in respect of bill processed for payment were to be used for the different purpose of payments.

During walkthrough of the IFMS, Audit observed functionality for preparation of all the six bill types had been implemented. However, except for Salary payment bills, only a common format for all the remaining five Bill types containing basic details had been implemented. The absence of the specified Bill formats for these five Bill types had resulted in the absence of key details such as sanctioning authority, details of expenditure, details of TA *etc*. The absence of the specified Bill formats had necessitated manual attachment of detailed physical Bill formats and therefore, duplication of work.

[12] Repayment of principal and interest on market loans, amount received from Govt. of India, funds received from National small savings funds *etc*.

DoT stated (September 2024) that when paperless e-bill presentation and sub-voucher level computerisation is implemented in IFMS, the specified Bill formats other than Salary payment Bills will be implemented in consultation with the AG office.

In the Exit Conference (December 2024), the Government had also accepted that specified bill formats will be developed in the IFMS system in consultation with AG (A&E) Office.

(ii) Absence of application controls to prevent the use of Bill format codes other than those specified in the Financial Handbook

Apart from six types of Bill formats listed above, Audit analysed the IFMS data for 2018-19 to 2023-24 and noticed that:

- In the DDO portal, there were transactions with Bill format types specified with values such as 107, C, D, E, L and N which are not the six specified Bill formats as per the Financial Handbook, as detailed below-

Table-2.11

Record number	Nos. of records	Amount (₹ in crore)
107	71,406	3,223.97
C	5,52,820	1,08,867.69
D	2,83,140	45,134.07
E	1,36,740	16,568.17
L	91,467	11,364.33
N	1,21,239	45,627.35

Source: Data taken from DDO bill entry table

- In the CTS portal as well, there were transactions with Bill format types specified with values such as 107, 108, 109, 110 and P, which are not the six specified Bill formats as per the Financial Handbook, as detailed below-

Table-2.12

Record number	Nos. of records	Amount (₹ in crore)
107	1,25,846	7,122.38
108	1,14,826	40,708.44
109	1,34,157	16,100.65
110	1,479	1,059.64
P	22	0.23

Source: Data taken from cts bill entry table

The existence of such unspecified Bill format types indicated that application controls to enforce referential integrity with the defined list of Bill format types as master data had not been implemented in IFMS.

In response, (October 2024) DoT provided the description of Bill format codes with values as 107, C, D, E, L and N appearing in DDO portal but did not provide the description of the Bill format codes appearing in the CTS portal. DoT also stated that hard copies of physical Bills were still being presented by DDOs to the Treasuries and that only the mandatory data fields were being recorded on IFMS.

In the Exit Conference (December 2024), the Government stated that the different record nos. are used to categorize the different bill type *viz.* CCL, DCL, PLA *etc*. However, the bills are generated in the specified bill formats and hard copies are presented in treasury only.

The response was not tenable, since it only indicated that the data in IFMS was not yet reliable and consistent with the Financial Handbook and there was no assurance as to whether the use of Bill format types being recorded on IFMS but not specified in the Financial Handbook had been approved by the competent authority.

(iii) Continued use and dependence on physical Bills prepared manually, even after implementation of IFMS

Audit observed that while creating a new payment beneficiary, there was no functionality in IFMS to record PAN and GSTIN (where applicable).

Since the functionality for recording component-wise details of payments (such as GST) and deductions (Income Tax, royalty *etc*.) had not been implemented in IFMS, the vendor-wise details of such deductions had to be prepared and computed manually in order to record the Gross and Net Bill figures on IFMS.

Audit further noticed that even though the rate of GST was revised from 12 to 18 *per cent* w.e.f. 18 July 2022 for construction works, the absence of functionality in IFMS to make changes towards GST had resulted in Bills being processed with the incorrect rates.

Case Study

Construction Division, PWD, Sonbhadra made a payment of ₹ 95,99,918 to the contractor vide token number 6923093365 dated 23.03.2023 which included GST at the rate of 12 *per cent* instead of applicable 18 *per cent*. However, Construction Division-2, PWD, Fatehpur made a payment of ₹ 17,56,740 to its contractor vide token number 2123103070 dated 05.03.2023 to its contractor which included GST at the rate 18 *per cent*.

Thus, despite the implementation of IFMS, there was continued use and dependence on physical Bills prepared manually, which was a time consuming and error prone process. This was due to the absence of functionality for recording component-wise payments and deductions during Bill processing in IFMS.

DoT stated (September 2024) that it is the duty of concerned DDO and firm submitting the bill to check the rate of applicable GST and it was the responsibility of the DDO to correctly deduct Income Tax at source. In the Exit Conference (December 2024), the Government stated that roll out of Vendor Management system is under consideration. Further, it stated that mapping of GST rates is not possible as the GST rates keep on changing from time to time and GST department does not allow integration with other systems.

The response was not tenable, as it only indicated that despite the implementation of IFMS, the burden of compliance had not shifted from individual users to the system and hence, the full benefits of IFMS implementation had not yet been realized. Various components of bill such as GST, Income tax deduction, GST deduction, penalties, other recoveries *etc.* should be captured in the IFMS system so that benefits of an integrated IT system could be effectively utilized.

(iv) Absence of functionality in IFMS to adjust Detailed Contingent Bills against outstanding Abstract Contingent Bills

The drawal of contingent charges, for which final classification and supporting vouchers are not available at the time of drawal is made through 'Abstract

Contingent' (AC) Bills, which are in the nature of advances drawn by Government servants. These advances are required to be adjusted through the submission of 'Detailed Contingent' Bills (which contain vouchers in support of expenditure incurred) within a stipulated period of time, or through refund of the unutilized portion of the advances drawn.

Audit conducted a walkthrough of the AC-DC Bills functionality on the DDO portal and noticed the following issues-

- Functionality for recording a Bill as an AC Bill had been implemented. However, in the physical printout of the Bill, there was no marking to indicate that such a Bill was an AC Bill.

Case Study

For example, in Lucknow Collectorate Treasury Token number 4324459826 pertaining to PWD has been processed by marking 'Yes' option of AC bill through the system but print out of the Bill does not show this marking.

- Functionality for mapping the DC Bills submitted against each AC Bill drawn had not been implemented in IFMS.
- Functionality to generate MIS Reports on AC Bills drawn, and AC Bills not adjusted through submission of DC Bills had not been implemented in IFMS.
- Application controls to prevent Government servants from drawing additional AC Bills without completing adjustment/refund of previous advances drawn by them had not been implemented in IFMS.

As a result of the absence of the above functionalities, the system is not in a position to facilitate monitoring of pending AC Bills (*i.e.* advances drawn by Government servants but not adjusted through proof of actual expenditure incurred).

The Government (December 2024) accepted this Audit observation and stated that the required functionality for keeping track of AC Bills drawn, mapping of AC and DC Bills and submission of DC Bills through the DDO portal would be implemented.

2.1.9.9 Absence of application controls to prevent the use of invalid and incomplete heads of account in IFMS

All budgeting, expenditure and accounting is required to be made as per the prescribed list of 15 digit classification of heads of accounts specified in the State Budget literature. Further, this classification of heads of accounts up to the Minor Head (first 9 digits) level is required to be compliant with the List of Major and Minor Heads prescribed by the Controller General of Accounts.

However, Audit analysed the IFMS Bill data for the period from 2018-24 and noticed that-

- In 1,724 cases, the classification of heads of accounts in the Bills was not compliant with the LMMH up to the Minor Head level.
- In 9,836 cases, the classification of heads of accounts in the Bills was not compliant with master data for the State Budget heads.
- In 4,59,281 cases (involving expenditure of ₹ 12,705.21 crore), the length of the heads of account under which expenditure had been classified ranged between 7 to 14 digits, which indicated the use of invalid heads of accounts.

These instances not only reflected the absence of application controls in IFMS to prevent the use of invalid or incomplete heads of accounts, but also highlighted the lack of referential integrity between the master data for the approved budget provision and the downstream business processes of budget allotment, financial sanction and Bills processing.

In reply, DoT stated that in none of these cases, wrong entries are approved or forwarded to treasury. Further, in the Exit Conference (December 2024), the Government stated that the payments at CTS level could not be accepted in IFMS without insertion of 15-digit classification. There may be some legacy data or other issue, and technical team has been directed to check reasons for such discrepancy.

2.1.9.10 Absence of application controls to ensure compliance with business rules for processing Grants-in-aid (GIA) Bills

As per Financial Handbook Vol-V, the payment of various classes of grants-in-aid are subject to instructions, by the general or special orders of Government. Grants-in-aid are of two kinds, viz. conditional and un-conditional. During 2023-24, the provision for Grants-in-aid was 25.56 *per cent* of the total budget.

Audit analysed the IFMS functionality at the front end of the application and the data on Grants-in-Aid Bills at the back end of the application and noticed that-

- There was no functionality in IFMS to record the details of conditions in case of conditional Grants-in-Aid. The conditions had to be communicated outside the system and there were no workflows or mechanism for monitoring whether the conditions had been fulfilled by the grantees, for previous GIA Bills.
- The Indian Government Accounting Standard (IGAS)-2 for accounting of Grants-in-Aid by Union and State Governments specifies that Grants-in-aid shall be classified as Revenue Expenditure. But, in the absence of functionality and application controls to ensure compliance with IGAS-2 in IFMS, GIA Bills could be drawn by specifying the heads of account for these Bills from the Capital Section of the List of Major Minor Heads. This deficiency had resulted in the material risk of mis-classification of Revenue Expenditure as Capital Expenditure.
- Functionality for maintenance of a GIA Register, which was required as per Para 209 of the Financial Handbook, had not been implemented in IFMS.
- Functionality for recording details of Utilisation Certificates from grantees (where the conditions of the grant required the same) had not been implemented in IFMS. The actual status of pending UCs (compiled manually by Audit) was as follows:

Table-2.13
Year wise break-up of outstanding UCs

Year	Number of UCs	Amount (₹ in crore)
2001-02 to 2011-12	19,468	5,055.74
2012-13	321	158.93
2013-14	1,187	600.36
2014-15	1,635	899.75
2015-16	718	518.56
2016-17	532	425.95

Year	Number of UCs	Amount (₹ in crore)
2017-18	399	554.82
2018-19	766	1,418.21
2019-20	2,121	1,121.35
2020-21	3,148	8,528.85
2021-22 (Up to September 2021)	611	698.72
Total	**30,906**	**19,981.24**

Source-SFAR for the year ended 31 March 2023

In its absence, the business process of monitoring the pending UCs was being carried out outside IFMS and the system was not in a position to facilitate the monitoring of pending UCs by the State Government and the AG Office.

In the Exit Conference (December 2024), the Government accepted to make necessary corrective measure to develop adequate system controls in the IFMS system.

2.1.9.11 Absence of application controls to ensure correct accounting of expenditure under Centrally Sponsored Schemes

According to the Government of India's OM F. No. 1(13) PFMS/FSC/2020 dated 23.03.2021, all Centrally Sponsored Schemes (CSS) should be operated through Single Nodal Accounts (SNA). Budget literature of Uttar Pradesh provides that expenditure of Central share under each CSS shall be categorized under sub-heads 01 and 02, and that the corresponding State share under each CSS shall be categorized under sub-head 89.

Audit analysed IFMS data for 2022-23 and 2023-24 related to Centrally Sponsored Scheme expenditure and noticed that-

- In 694 cases (2022-23) and 393 cases (2023-24) the expenditure exceeded the budget allotment figure, as listed in **Appendix-2.2**.
- In 67,302 cases (30,814 cases in 2022-23 and 36,488 cases in 2023-24), expenditure under CSS had been booked under sub-heads other than 01, 02 & 89, which indicated mis-classification. This indicated that application controls to ensure correct accounting of expenditure under CSS had not been implemented in IFMS. Audit was unable to derive assurance that non-CSS expenditure had not been classified as CSS expenditure.

Table-2.14
Summary of expenditure on sub-heads other than those specified for CSS (2022-23 and 2023-24)

Sub-head	2022-23		2023-24	
	No of records	Amount (₹ in crore)	No of records	Amount (₹ in crore)
03	15,303	16,777.42	19,727	15,434.48
04	215	5,626.63	98	5,014.21
05	4,058	9,143.87	4,332	12,632.97
06	10,889	1,584.83	11,997	2,292.29
07	141	2,121.73	144	2,395.37
09	--	--	2	8.91
13	2	21.45	--	--
15	141	2,789.91	120	2,770.50
67	1	5.27	2	9.98
97	64	150.00	66	61.99
Total	**30,814**	**38,221.11**	**36,488**	**40,620.70**

Source: Summarisation of 'cpsms expenditure' table of respective years

As per the procedure, the State Government is to transfer the Central share received in its accounts to the concerned SNAs along with the corresponding State share by preparing a bill through the treasury system. As per Finance Accounts 2022-23 (with data obtained from PFMS of GoI), during 2022-23 ₹ 79,064.99 crore had been transferred to SNAs (Central Share ₹ 40,531.31 crore, State Share ₹ 38,533.68 crore).

However, as per IFMS data, the amount transferred to SNAs during 2022-23 was higher *i.e.*, ₹ 1,09,887.61 crore.

Reasons for this difference between the amounts had not been analysed and no reconciliation statement had been prepared. The difference indicated deficiency in the controls implemented in IFMS related to the Bills processing and expenditure monitoring under Centrally Sponsored Schemes.

In the Exit Conference (December 2024), the Government stated that there were some issues in 2022-23 but the same has been rectified in 2023-24.

Further Government stated (February 2025) that SNA was rolled out in the State from July 2021 and expenditure data is shared to PFMS through integration. Data in PFMS also includes legacy data which is filled out by departments and includes transactions outside SNA or transactions done in incorrect account numbers not mapped in PFMS.

The reply is not correct as discrepancy also existed in the data for the year 2023-24. The response only indicated that the State Government had accepted that the figures in the Finance Accounts (with data obtained from PFMS of GoI) were correct but did not explain why there was a difference in the expenditure amount for CSS recorded in IFMS. The difference indicated that the expenditure data in IFMS for CSS was therefore not reliable. This deficiency had arisen due to lack of application controls to ensure correct accounting of expenditure towards CSS in IFMS.

2.1.9.12 Absence of Application Controls in IFMS to prevent misclassification of expenditure under Revenue and Capital Sections

As per the UP Budget Manual, the classification of expenditure can be done under Capital and Revenue Sections. The Finance Department has adopted a list of Object heads as primary units of appropriation. Certain Object heads correspond only to Capital expenditure and others only to Revenue expenditure.

However, Audit analysed the IFMS data for the period 2018-19 to 2023-24 and noticed that in 9,134 cases (involving expenditure of ₹ 751.88 crore), Capital Section Object heads had been irregularly used to book Revenue Expenditure and in 172 cases (involving expenditure of ₹ 99.54 crore) Revenue Section Object heads had been irregularly used to book Capital Expenditure. The details are listed in **Appendix-2.3**.

The absence of mapping of the Object heads correctly under Revenue and Capital Sections in IFMS had resulted in the above material mis-classifications.

In the Exit Conference (December 2024), the Government stated that IFMS uses Budget file provided by the Finance Department.

The reply affirms that due to non-preparation of Budget through IFMS system, mis-classification of revenue and capital heads could not be addressed.

2.1.9.13 No Budget control at DDO portal

During walkthrough of the DDO portal, it was observed that the system does not have any check regarding availability of budget and allows the operator to prepare bill even if the budget is not available under that account head. It does not even display information regarding availability of budget and the operator had to check availability of budget manually.

Thus, despite computerization operator has to go through tedious and error prone manual process of budgetary control.

In reply, DoT had stated (February 2025) that expenditure amount is reduced only after voucher generation at treasury level after bill passing. It further stated that reduction of budget after generation of bill by DDO is possible only if the amount of bill prepared is blocked, which does not appear to be feasible, as it will block substantial amount in un-submitted bill.

The reply is not tenable as the validity of token is 10 days from bill generation and in case of incorrect bill prepared by the DDO, the same can be cancelled. Thus, the issue of blocking of un-submitted bill does not seem to be relevant.

2.1.9.14 Absence of validation controls in IFMS for payment beneficiary management

For making payment to different types of beneficiaries (Government servants for salary payment bills, suppliers of goods and services, *i.e.* vendors, contractors for works and Government scheme beneficiaries), users of the DDO portal create beneficiaries who are then approved by the DDOs.

Audit analysed the beneficiaries data in IFMS for the period from 2018-19 to 2023-24 and noticed the following deficiencies in the application controls implemented-

- Beneficiary Bank Account Numbers were not validated during data entry. Due to the absence of validation controls, there had been instances of failed payment with remarks such as ‘Account closed/Account does not exist/No such account type/Wrong account/Invalid account number’ *etc.*, with details as under-

Table-2.15
Treasury wise summary of failed payments due to incorrect Bank Account Number

Treasury Code	Treasury Name	No. of instances of failed payment	Amount (₹ in crore)
1300	Budaun	12,480	29.88
1400	Moradabad	25,696	38.82
2100	Fatehpur	10,821	19.91
2700	Varanasi	24,406	51.36
2800	Mirzapur	19,921	23.60
3200	Gorakhpur	30,918	92.60
4300	Lucknow Collectorate	27,667	121.68
6900	Sonebhadra	14,963	32.67
7600	Gautam Budh Nagar	6,428	86.84
7900	Balrampur	15,861	23.08
9600	Vidhan Sabha	101	0.23
Total		**1,89,262**	**520.67**

Source: ekuber_gst_rbi_notification for the years 2018-19 to 2023-24, of IFMS data

- There were 48,545 instances of different beneficiary IDs under different DDOs, who had been mapped to the same Bank Account number. The list of such irregular mapping of the same Bank Account number to multiple beneficiary IDs under multiple DDOs is at **Appendix-2.4**.

This indicated that key application controls to ensure sanctity of the master data for payment beneficiaries and prevent duplication of mapping of the same Bank Account number to multiple beneficiary IDs had not been implemented in IFMS. This was a major control deficiency, as it created the material risk that irregular payments could be made to the Bank Account holder by recording payments to different beneficiaries in IFMS.

While accepting the Audit observation DoT stated (December 2024) that the validation controls to ensure correct mapping of unique Bank Account numbers for each beneficiary ID would be implemented with the assistance of the look-up functionality developed by the National Payments Corporation of India Limited. It further stated (February 2025) that a Vendor Management module has been proposed for better control and management of beneficiaries.

2.1.9.15 Absence of application controls in IFMS to map Bill types with beneficiary type

In IFMS, the following types of beneficiaries may be created-

Table-2.16

Beneficiary Type in DDO Portal	Beneficiary Type Description in DDO Portal
1	Employee (NEFT)
2	Non-Employee (NEFT)
3	Draft Payment
4	Society Account
5	LIC/RD
6	Group-A
7	Group-B
8	Group-C
9	Group-D
10	GST-TDS
11	PFMS

Audit noticed that there were no application controls to prevent incorrect mapping of Bill types with beneficiary types. For example, Salary Payment Bill should not permit selection of beneficiaries who are not Government servants and Government scheme expenditure Bill should not permit payment to Government servants.

Data analysis revealed that during 2018-19 to 2023-24, in 52,993 cases (involving expenditure of ₹ 451.42 crore) GST TDS had been paid to beneficiary types other than beneficiary type 10, as listed in **Appendix-2.5**.

This was a major control deficiency, as it created the material risk that incorrect payments could be initiated and completed on IFMS, with individual responsibility to ensure compliance still on the users rather than being borne by the system through application controls.

DoT stated (September 2024) that validations have now been implemented to ensure that beneficiaries with IFSC Code RBIS0GSTPMT can only be created with GST TDS type. However, the response did not address the other risks outlined in the Audit observation.

2.1.9.16 Absence of application controls to ensure completeness of data in the Employee Master Database

Audit analysed the employee master data in IFMS and noticed that entry of essential data fields related to employee profile had not been made mandatory. As a result, the following deficiencies were noticed-

- Out of total 5.99 crore records in the monthly payment to employees, in 1.04 crore records (17.38 *per cent*), the Basic Pay field was 'Null'. This resulted in lack of assurance through application controls on whether the salary payment was being made in compliance with the pay scale and pay matrix for Government employees.
- In sampled treasuries, for a total of 11,706 employees involving 86,416 instances of payment had been made with these employees' data not included in the employee master data.
- In 8,42,714 instances **(Appendix-2.6)** HRA recorded in IFMS did not correspond to any valid, applicable rate of HRA as per extant Rules. The value of HRA amounts in IFMS ranged between ₹ 1 and ₹ 99,999.
- Classification of employee (Gazetted/Non-Gazetted) was not being recorded in IFMS. As a result, validation checks such as eligibility for Bonus cannot be applied by the system.
- Payment of Bonus was not being done only through dedicated Bonus interface but being done through other interfaces too resulting in payment of bonus more than once in year to the same employee. As per data analysis during the years 2018-19 to 2023-24 there were 6,249 such instances. **(Appendix-2.7)**.
- Category of Divyang (Physically Disabled) was not being captured in IFMS. As a result, validation checks such as eligibility of Transport Allowance applicable to that category cannot be applied by the system.
- In the dropdown menu for Gender, the option of 'Transgender' has not been implemented, as required by the Transgender Persons (Protection of Rights) Act, 2019.
- Nominee details of employee are not being captured in IFMS.
- Details of Dependents family members of the employees were not being captured in the IFMS. As a result, validation checks for payments related to Children's Education Allowance, reimbursement of medical claims, leave travel concession *etc*. cannot be applied by the system.
- The data field in respect of 'Urban' or 'Rural' station of posting of employees was not captured in IFMS. As a result, validation check for correctness of HRA cannot be applied by the system.
- The field of 'Hometown' of the employee was not being captured. As a result, validation check for LTC/HTC cannot be applied by the system.
- In 6,87,956 out of 12,36,080 (55.55 *per cent*) records PAN field was blank. Fourth character of PAN indicates type of assessee. In case of employees, it should be "P" (Person). However, in 4,426 records fourth character of PAN was not "P". 5,685 PANs had been recorded more than once in the database (11,801 instances), indicating lack of de-duplication checks.

As a result of application controls to mandate data entry and ensuring validity and uniqueness in these key fields, all the necessary checks during Bills processing have to be carried out by DDOs/Treasuries manually outside the system, even after implementation of IFMS.

DoT stated (September 2024) that the functionality and application controls to address the above deficiencies would be implemented. It further stated (February 2025) that it is primarily responsibility of DDOs to ensure correctness of data.

In the Exit Conference (December 2024), the Government stated that the feasibility of incorporating checks and controls to the extent possible shall be explored.

The reply is not tenable as the effectiveness of any IT system entirely depends upon minimum human intervention by applying mapping of rules and adequate system/validation controls at all levels.

2.1.9.17 Absence of validation controls to prevent excess payment of Non-Practising Allowance (NPA) to government medical practitioners

As per the orders of GoUP[13], government medical practitioners are entitled to get non practising allowance (NPA) at the rate of 20 *per cent* of the basic pay but subject to condition that Basic Pay plus NPA should not exceed ₹ 2,37,500.

Data analysis of sampled treasuries for year 2018-19 to 2023-24, revealed the following:

- In 571 cases the amount of Basic Pay + NPA exceeded prescribed maximum limit of ₹ 2,37,500. Data analysis revealed that amount paid as Basic Pay + NPA was upto ₹ 16,93,364. The Treasury-wise instances are listed at **Appendix-2.8.**

Case Study

In Moradabad Treasury, it was observed that one Sr. Consultant was drawing basic pay of ₹2,04,200 and NPA of ₹40,840 (total ₹2,45,040), during the period July 2022 to January 2023, which exceeded the permissible limit of ₹2,37,500. Thus, excess payment of NPA ₹7,540+ DA applicable from time to time, was made to her.

- In 1,660 cases, NPA was paid at a rate higher than the prescribed 20 *per cent*. Rate applied in these cases ranged between 21 *per cent* to 167 *per cent*. The Treasury-wise number of instances are listed at **Appendix-2.9**.
- NPA was paid to 106 employees (21 Designations) not eligible for NPA, as they were not Government Medical Practitioners **(Appendix-2.10)**.

The above instances indicated that application controls to map and enforce business rules related to NPA had not been implemented in IFMS.

DoT stated (September 2024) that mapping of NPA rules would be implemented in IFMS.

[13] U.P Government order no. 2/2019/वे०आ०-2-08/दस-2019-01(एम)/2019 dated 9 March 2019.

2.1.9.18 Absence of application controls to enforce business rules related to GPF

As per UP GPF rules, 1985 read with order of Government of Uttar Pradesh[14] (March 2023), the limit of GPF subscription has been revised. The minimum subscription of the GP shall not be less than 10 *per cent* of the emoluments and threshold limit is ₹ 5 lakh per financial year.

During data analysis of IFMS data for the year 2023-24, Audit observed the following deficiencies:

- Against the defined minimum subscription of 10 *per cent*, there were instances where the subscription was less than 10 *per cent*, as listed in **Appendix-2.11**.
- In 14 cases **(Appendix-2.12)**, the GPF subscription made by the subscriber exceeded the threshold limit of ₹ 5 lakh in a financial year.

The above instances indicated that application controls to map and enforce business rules related to GPF had not been implemented in IFMS.

DoT stated (September 2024) that mapping of GPF rules would be implemented in IFMS.

2.1.9.19 Absence of application controls for payments to Government aided institutions

As per the budget literature of GoUP, several institutions were mentioned as Government aided institutions which get Grant-in-aid from the State Government in accordance with the budgetary provisions. The employees working in these institutions get regular monthly emoluments from defined Object head 31 {*i.e* Grant-in-aid, General (Salary)}.

During data analysis for 2018-19 to 2023-24 and walkthrough of system, Audit observed that:

- The year-on-year original budgetary provision under the object head 31 ranged from ₹ 66,962.64 crore to ₹ 79,660.36 crore which constitutes 7.54 *per cent* of the total budget.
- The employee master database of employees entitled to get salary from the object head 31 is not maintained in the IFMS system. Due to which, the IFMS system is not capable of providing information as to how many employees are working in a particular institution.
- Audit observed that some institutions are making direct payment to its employees by creating beneficiary in the IFMS system whereas some institutions are taking the amount of salary in their own account and then making payment to their employees.
- The NPS contribution of the employees & employer made by the respective institutions is also not maintained in the IFMS system.

Thus, in absence of employee profiling, the salary payment to Government aided institutions lacks uniformity and subscriber-wise NPS contribution (employee and employer) could not be ascertained through the IFMS system.

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[14] U.P Government order no. 2/2023/जी-2-256(1)/दस-2023 dated 21 March 2023.

In reply DoT had stated (September 2024) that the salary of aided institutions is drawn from grant provided by Government, the data of employees of aided institutions are maintained on *Manav Sampada* portal. Web service of DDO portal has been provided to Basic education department for pushing salary bills is under testing phase and stated that similar provisions will be done for other such aided institutions.

2.1.9.20 Non integration of *Chanakya/Vishwakarma* portal of UPPWD with IFMS

The 'Business Process re-engineering' of Detailed Project Report of the IFMS system provided that 'the applications of different stakeholders will also be integrated with each other to have a complete networked system.'

In UP Public works department, *Chanakya* and *Vishwakarma* application is being used for the purpose of execution and processing of contractor bills for payment. Audit observed that both the systems (*Chanakya/Vishwakarma* & IFMS) are not integrated with each other. Due to non-integration of both the systems, each time manual entry for making payment is initiated on IFMS system. Moreover, the payment made for a particular work/measurement could also not readily be linked with each other. In addition, the component wise break up is also not available in the IFMS system due to which the expenditure trail of any work is not captured in the system.

While accepting the Audit observation (September 2024), DoT replied that no request has been received from UPPWD for integration of *Chankya/ Vishwakarma* portal with IFMS system.

In the Exit Conference (December 2024), the Government stated that development of WAMIS is being done for works department and will be integrated with IFMS system.

2.1.9.21 Conclusion

The functionality for budget preparation, surrender, demand, and re-appropriation, is lacking in the system. Data analysis revealed excess financial sanctions, allotments, and expenditures indicating inadequate IT controls. There are issues with bill formats, GIA mapping, pairing of AC bills with DC bills, classification of Revenue and Capital items and beneficiary creation. IFMS system also lacks adequate functionality and application controls to mandatorily link Bills of expenditure to a valid underlying Sanction Order. There is lack of validation checks in beneficiary creation leading to failed transactions. The IFMS system also lacks adequate mapping of business rules in respect of emoluments (such as pay, HRA, bonus, NPA *etc*).

2.1.9.22 *Recommendations:*

- *Develop adequate functionality for budget preparation, surrender, re-appropriation, and demand for budget. Ensure budget control through IFMS.*
- *Develop required functionality and application controls to mandatorily link bills of expenditure to a valid sanction order. Adequate mapping of complete Account Head classification needs to be scrupulously complied with in the existing IFMS system.*
- *Map rules for re-appropriation of funds, time pairing of AC bills with DC bills, rules regarding Grant-in-aid and rule to check basic pay & allowance payable to employees.*

- *Classification of Capital & Revenue nature items should be defined and mapped in the IT system.*
- *Implement proper inbuilt input validation controls during beneficiary creation and develop bill formats as per the Financial Handbook.*
- *Adequate mapping of business rules in respect of emoluments (such as to pay, HRA, non-practising allowance, bonus etc) payable to the employees as per the defined criteria should be made in the IFMS system.*

In Exit Conference, the Government accepted the Audit recommendations.

2.1.10 Other Issues

2.1.10.1 Differences in amounts as per MIS Reports and IFMS database

Koshvani (upkosh.nic.in) is the reporting portal of IFMS system which can be accessed by any individual, Administrative Department, HoDs, DDOs, stakeholders *etc.* to view and download all the relevant financial information/ data in respect budgetary provision, allotment, sanctions, expenditure, receipts, several MIS reports *etc.* of all the Departments falling under the jurisdiction of Government of Uttar Pradesh.

A comparison between the IFMS data (as provided by the DoT) and data appearing on the *Koshvani* portal was made and the following differences were found-

Table-2.17

Budget Provisions

(₹ in crore)

Financial year	Total number of grants where differences appear	Total of budgetary provision as per *Koshwani* portal	Total of Budgetary provision as per IFMS data	Difference
2020-21	09	1,22,859.63	1,22,976.59	-116.96
2021-22	10	67,339.10	67,340.56	-1.46
2022-23	12	1,23,011.73	1,22,831.88	179.85
2023-24	02	27,385.08	27,370.08	-15.00

Financial Sanction

(₹ in crore)

Financial year	Total number of grants where differences appear	Total of financial sanction of *Koshwani* portal	Total of Financial Sanction of IFMS data	Difference
2020-21	86	40,571.00	2,82,515.56	-2,41,944.56
2021-22	40	3,10,251.92	2,67,124.77	43,127.16
2022-23	55	4,04,643.44	3,52,884.34	51,759.10
2023-24	34	3,79,522.58	2,93,381.04	-86,141.43

Budget Allotment

(₹ in crore)

Financial year	Total number of grants where differences appear	Total of budget allotment of *Koshwani* portal	Total of Budget allotment of IFMS data	Difference
2020-21	64	2,95,933.34	2,37,852.05	58,081.30
2021-22	70	3,37,022.60	2,73,673.34	63,349.26
2022-23	22	1,54,891.32	1,03,744.00	51,147.32
2023-24	89	5,18,783.83	1,96,137.95	3,22,645.88

Expenditure

(₹ in crore)

Financial year	Total number of grants where differences appear	Total of Expenditure of *Koshwani* portal	Total of Expenditure of IFMS data	Difference
2020-21	27	2,31,140.89	1,67,458.08	63,682.81
2021-22	31	2,52,712.06	1,96,340.00	56,372.06
2022-23	49	3,60,207.11	3,14,179.48	46,027.62
2023-24	47	3,93,653.72	3,44,731.01	48,922.70

Thus, the data in the *Koshwani* portal was not reliable and consistent with actual IFMS data.

In reply DoT (September 2024) had stated that there were instances where, with permission of AG office, correction of account is done by treasuries. This data sometimes is left out at *Koshvani* portal. It further stated that matter was discussed with NIC technical team and data upload procedure of *Koshvani* will be changed soon for ensuring accuracy and reliability of data.

In the Exit Conference (December 2024), the Government accepted the Audit observation and stated that the matter has been referred to the NIC technical team for corrective action.

2.1.10.2 Absence of digitally time-stamped MIS reports

Audit observed that *Koshwani* has the facility of generating various reports, but reports generated by it have no time stamps. Thus, the generated reports lack the features of authentication, non-repudiation and timestamp verification.

In reply DoT had stated (September 2024) that all DDOs get time stamped and signed reports of their respective receipts and expenditure through the concerned treasuries.

The reply is not tenable as the *Koshwani* portal is public access portal from where any interested stakeholder can view and download reports.

2.1.10.3 Absence of application controls to prevent modification of classification of head of account at Treasury level

DDO prepares Bills with 15 digit account head classification on the DDO portal and sends the Bills for payment to the Treasury (CTS portal). Data of both the portals were compared (for the period 2018-19 to 2023-24) and Audit found that in following instances there were differences in the head of accounts appearing in DDO portal and at CTS portal for the same Bill numbers as detailed below-

Table-2.18
Summary of Head Code classification changed at treasury level

Treasury Code	Name of Treasury	No of records where Account head at CTS portal differs from Account Head Appearing in DDO portal	Amount (₹ in crore)
1300	Budaun	6,135	146.36
1400	Moradabad	11,543	287.50
2100	Fatehpur	6,638	227.69
2700	Varanasi	20,763	788.53
2800	Mirzapur	17,786	360.69
3200	Gorakhpur	19,968	641.46

Treasury Code	Name of Treasury	No of records where Account head at CTS portal differs from Account Head Appearing in DDO portal	Amount (₹ in crore)
4300	Lucknow Collectorate	49,184	1,124.46
6900	Sonebhadra	6,858	212.31
7600	Gautam Budh Nagar	5,955	343.50
7900	Balrampur	7,142	194.18
9600	Vidhan Sabha	144	6.21
Grand Total		**1,52,116**	**4,332.89**

***Source:** Cts_bill_ent, cts_bill_rec matched with ddo_bill_ent tables for the years 2018-19 to 2023-24*

The above modifications to the heads of account were being made by the Treasuries in contravention of executive instructions that the 15 digit classification of the treasury vouchers should be the same as the one filled by the DDO for the corresponding Bills and should reflect in the monthly schedule of payments.

Further, Audit observed that DDOs were not aware of such changes made at the Treasury level, which may result in subsequent reconciliation issues.

While accepting the Audit observation, DoT stated (September 2024) that auto population of head of account for Bills would be implemented.

In the Exit Conference (December 2024), the Government stated that the prevention of modification of classification of head of account at Treasury level will be possible after the auto posting of bills at treasury level, which will be made after due consultation with the AG.

2.1.10.4 Deficiencies in IFMS for management of failed payments

After processing of bills through e-billing and CTS module, the data is sent to e-payment module for payment to beneficiary. In case of any error, payment fails. Audit analysed the data and noticed that-

- During 2018-19 to 2023-24, there was a total of 10,35,463 instances of failed payments (56.17 *per cent* of total return transaction) having value of ₹ 1,546.22 crore which lapsed at the end of financial year.
- There were no application controls to alert beneficiaries regarding failed payments.
- User Departments does not have functionality to generate reports of failed payments, and all such processes are being managed manually outside IFMS.
- There is no interface in the system to send the data of failed payments to the Accountant General Office. All such data is being shared offline, outside IFMS.

DoT stated (September 2024) that for every payment done by DDOs, they have facility to view details of returned/failed transactions. The management of failed transactions is the responsibility of the concerned DDO.

The reply was not tenable as it only indicated that the burden of compliance had not shifted from the individual users to the system, despite the implementation of IFMS and that there was no functionality/MIS Reports to assist the users in achieving compliance. As a result, the full benefits of implementing IFMS had not yet been realised.

2.1.10.5 Conclusion

The IFMS has several gaps that need attention. Key issues include the inconsistent data on the *Koshvani* portal, deficiency in managing failed transactions and absence of digitally time-stamped MIS reports. There is absence of application controls to prevent modification of classification of head of account at Treasury level. To ensure data accuracy and consistency, enhancements are necessary to address these shortcomings.

In light of the observations noted in the report, it is evident that the IFMS system has not taken over the responsibility of shifting of the burden of compliance from individual users to the IFMS application implemented.

2.1.10.6 *Recommendations:*

- *Strengthen the IFMS reporting portal to generate authentic reports for stakeholders, ensuring reliable data.*
- *Develop adequate functionality to prevent modification of classification of head of account at Treasury level.*

In the Exit Conference, the Government accepted the Audit recommendations.

Audit Paragraphs

Stamp and Registration Department

2.2 Short levy of stamp duty and registration fee due to violation of Section 27 of the Indian Stamp Act, 1899

Full/correct particulars of the lands in the documents presented for registration was not declared which resulted in short levy of stamp duty and registration fee amounting to ₹ 6.83 crore.

Section 27 of the Indian Stamp (IS) Act, 1899 specifically provides that "the consideration (if any) and all other facts and circumstances affecting the chargeability of any instrument with duty, or the amount of the duty with which it is chargeable, shall be fully and truly set forth therein" which means that all the facts affecting the valuation of the property *i.e.* nature of land (agricultural/residential/commercial), construction, distance from road, *etc*., are required to be mentioned truthfully in the instrument by the executants. Stamp duty on a deed of conveyance is chargeable either on the value of the consideration, as set forth therein or the market value of the immovable property, which is higher. As per Guidelines dated 5 June 2003 issued by the Inspector General of Registration (IGR), registration of plots in the same *Gata*[15] number with levy of stamp duty at different rates *i.e.* residential and agricultural rates was declared wrong. As per Circular dated 27 November 2018 issued by the IGR, the authority of fixing market value and imposing the short stamp duty vests in Collector Stamp as per valuation of property. Collector Stamp shall check the market value keeping in view the potentiality of transferred property with reference to date of execution of deed at the time of determining the market value.

Audit test-checked (between June 2022[16] and June 2023[17]) the records[18] (Index-2) for the period (February 2016[19] to May 2023[20]) of 36 Sub Registrar Offices (SROs)[21]. It was noticed in these 36 SROs that 119 sale deeds (Out of 1,24,974 test checked in the Index-2 register) mentioned the land under sale as away from main road and *Abadi,* existence of agricultural activity in radius of 200 meters and purpose of purchase of land as farming. Further, scrutiny of the other sale deeds registered in respective SROs revealed that in same *Araji*

15 Araji/Khasra/Gata indicate the particular number of a land holding in a locality.

16 Sub Registrar, Soraon, Prayagraj has been audited in June 2022 .

17 Sub Registrar, Sadar, Raibareily has been audited in June 2023.

18 Sale deeds, rate list of concerned SRO's and Index-2.

19 Audit Period of Sub Registrar, Rampur was February 2016 to March 2023.

20 Audit Period of Sub Registrar, Sadar, Raibareily was September 2017 to May 2023.

21 1-SR Dadri GB Nagar, 2-SR I GB Nagar, 3-SR Mahasi Bahraich, 4-SR Sadar II Saharanpur, 5-SR Chandausi Sambhal, 6-SR Sadar II Prayagraj, 7-SR Phoolpur Prayagraj, 8-SR Sadar I Kanpur Nagar, 9-SR Sadar II Kanpur Nagar, 10-SR Sadar IV Kanpur Nagar, 11-SR Sadar Unnao, 12-SR Sadar I Prayagraj, 13-SR Dhaulhana Hapur, 14-SR Sadar II Lucknow, 15-SR Sadar III Lucknow, 16-SR Sadar I Merrut, 17-SR Sadar Barabanki, 18-SR Sadar III Kanpur Nagar, 19-SR Mohanlalganj Lucknow, 20-SR Soraon Prayagraj, 21-SR Sadar Orai Jalaun, 22-SR Sadar I Mathura, 23-SR Sadar II Agra, 24-SR Sadar I Bareilly, 25-SR Sadar I Gorakhpur, 26-SR Sadar I Jhansi, 27-SR Sadar I Moradabad, 28-SR Sadar I Varanasi, 29-SR Etmadpur Agra, 30-SR Sadar Fatehpur, 31-SR Sadar I Firozabad, 32-SR Sadar Ghazipur, 33-SR Akbarpur Kanpur Dehat, 34-SR Chhata Mathura, 35-SR Sadar Raibareilly and 36-SR Sadar Rampur.

numbers shown in questioned[22] deeds, residential plots were sold before and after the registration of questioned sale deeds. In some cases, there were houses in the same *Araji* number. These facts indicated that the executants had concealed the facts for evasion of duty and fees, which is violation of Section 27 of IS Act, 1899.

Though, the documents are registered in on-line mode through the PRERNA software, the registering authorities did not utilise the facility available in the system to determine the potentiality of land presented for registration vis-a-vis sale deeds executed in the same *Araji* number. This resulted in short levy of stamp duty and registration fees amounting to ₹ 6.83 crore, as shown in **Appendix-2.13**.

Audit reported the matter to the Government (April 2024 and August 2024). The Government in its reply (March 2025) had accepted the 32 cases as per the decision of the suit/inspection, ₹ 30.43 lakh has been deposited in 10 cases and in 22 cases RCs (valuing ₹ 1.22 crore) have been issued/are being issued by the Department. In addition to this, in 78 cases stamp suit has been filed, which are yet to be decided. The Department further replied that sufficient stamp duty was paid in 09 cases were decided through field inspection, but reply was not supported by documentary evidence hence audit has not accepted the reply.

Transport Department

2.3 Certificate of fitness of vehicles not renewed

Total 2,010 transport vehicles and 1,537 non-transport vehicles did not renew certificate of fitness and were liable for levy of fitness fee of ₹ 37.18 lakh. The concerned RTOs/ARTOs did not initiate any action to issue notices to owners of these vehicles and cancel the permits in case of transport vehicles.

Section 56 of the Motor Vehicles (MV) Act, 1988 provides that a transport vehicle shall not be deemed to be validly registered unless it carries a certificate of fitness and Rule 62 of the Central Motor Vehicles (CMV) Rules, 1989 provided that a certificate of fitness granted in respect of a newly registered transport vehicle up to eight years old is valid for two years and is required to be renewed every year thereafter. Further, as per Transport Commissioner's office order dated 12 December 2005, certificate of fitness is compulsory for Omni buses (vehicle having more than six seats but up to nine seats excluding driver) even if registered as non-transport vehicles. The transport authority may cancel or suspend the permit of vehicles without valid certificate of fitness for such period as it thinks fit under Sections 84 and 86 of the MV Act, 1988.

Rule 81 of the CMV Rules, 1989 prescribes test fee of ₹ 400 and ₹ 600 for three wheelers/light vehicles and medium/heavy vehicles respectively. In addition to this, fitness certificate renewal fee of ₹ 200 is also leviable in case of all categories of vehicles. In case of default in presenting the vehicle on time for inspection for fitness test, an additional amount equal to the prescribed test fee is also leviable.

[22] Questioned deeds are deeds on which short levy of stamp duty and registration fee has been pointed out. These deeds have been mentioned in bold in Appendix of the paragraph.

- Audit test-checked the records[23] of 8,861 transport vehicles pertaining to 12[24] Regional Transport Offices (RTOs)/Assistant Regional Transport Offices (ARTOs) and noticed (between August 2022 and October 2023) that out of these, certificate of fitness of 2,010 transport vehicles[25] were not renewed even after lapse (ranging from 02 to 72 months) of expiry of fitness certificate. Registration certificates of these vehicles were not surrendered for non-use of vehicles. Audit further noticed that after expiry of fitness certificate, due tax was paid for 894 out of 2,010 vehicles and enforcement team had challaned on road 934 out of 2,010 vehicles which indicates that these vehicles are plying on the road even after expiry of certificate of fitness. Necessary application controls to prevent such vehicle owners from paying tax in those cases where fitness had expired was not built into the *VAHAN* software. Information relating to date of expiry of fitness was available in the *VAHAN* database, however, the RTOs/ ARTOs also did not initiate any action to issue notices to these vehicle owners and cancel their permits. As a result, the Government was deprived of fitness fee of ₹ 21.78 lakh **(Appendix-2.14)**.

- Similarly, Audit test-checked the records[26] of 7,831 non-transport vehicles pertaining to 13[27] RTOs/ARTOs and noticed (August 2022 to October 2023) that out of these, certificate of fitness of 1,537 non-transport vehicles[28] were not renewed even after lapse (ranging from 02 to 72 months) of expiry of fitness certificate. Certificate of Registration of these vehicles were not surrendered/cancelled. Audit further noticed that after expiry of certificate of fitness, 520 vehicles were challaned by the enforcement team on road which established that these vehicles plied on road. Information relating to date of expiry of fitness was available in the *VAHAN* database, however, the RTOs/ARTOs did not initiate action to issue notices to owners of these vehicles. As a result of not renewing certificate of fitness, fitness fee amounting to ₹ 15.37 lakh was not realised **(Appendix-2.15)**. In addition, plying of vehicles without certificate of fitness poses a threat to road safety and can lead to accidents.

The matter was reported to the Department (August 2024, September 2024, and November 2024), however, their reply was not received (May 2025).

2.4 Failure to take action on expired permits of registered vehicles

RTOs did not initiate any action on expired permits of vehicles. Owners of these vehicles did not surrender their registration certificate too. This led forgoing of permit fee and application fee amounting to ₹ 96.38 lakh.

As per Sections 66 and 81 of the Motor Vehicles (MV) Act, 1988, a permit other than a temporary permit shall be effective for a period of five years and no

[23] *VAHAN* database, tax position, concerned files, receipt books, *etc*.

[24] RTOs-Agra, Bareilly, Jhansi, Kanpur, Lucknow, Mathura, Meerut, Saharanpur and Varanasi. ARTOs- Bahraich, Bulanshahr and Hapur.

[25] Agra-15, Bahraich-1,144, Bareilly-111, Bulandshahr-178, Hapur-62, Jhansi-29, Kanpur Nagar-93, Lucknow-41, Mathura-8, Meerut-147, Saharanpur-44, and Varanasi-138.

[26] *VAHAN* database, tax register/position, concerned files, *etc*.

[27] RTOs-Agra, Banda, Bareilly, Jhansi, Kanpur, Lucknow, Mathura, Meerut, Saharanpur and Varanasi. ARTOs- Bahraich, Bulanshahr and Hapur.

[28] Agra-93, Bahraich-302, Banda-176, Bareilly-92, Bulanshahr-85, Hapur-66, Jhansi-29, Kanpur Nagar-74, Lucknow-31, Mathura-230, Meerut-101, Saharanpur-111, and Varanasi-147.

owner of a motor vehicle shall use or permit the use of the vehicle as a transport vehicle in any public place without permit. Rule 125 of the Uttar Pradesh Motor Vehicles (UPMV) Rules, 1989 (revised in February 2019) prescribes application fees and fees for issue of new permit and its renewal.

Audit test-checked the records[29] (for the period from December 2019 to August 2023) of six RTOs[30] and noticed (between September 2022 and September 2023) that permits of 2,208 out of 10,816 transport vehicles (goods vehicles, maxi cab, school bus, stage carriage, tankers and three wheelers) had expired between January 2021 and August 2023. Audit observed that permits of these vehicles were not renewed even after lapse of period ranging from 02 to 30 months at the time of audit. Audit further observed that neither owners of these vehicles had surrendered certificate of registration for non-use of vehicles under Rule 22 of Uttar Pradesh Motor Vehicles Taxation (UPMVT) Rules, 1998 nor the Department had cancelled their registration. Out of 2,208 vehicles, 666 vehicles have also deposited their tax after expiry of permit. Further, 950 out of 2,208 vehicles were challaned by the enforcement team on road after expiry of permit which establishes that these vehicles had plied on road without renewal of permit.

Information such as the expiry of permit validity was available in the *VAHAN* database, however, the RTOs also did not initiate any action to issue notices to these permit holders. As a result, permit fee and application fee amounting to ₹ 96.38 lakh was not realised **(Appendix-2.16)**.

The matter was reported to the Department (April 2023, January 2024, August 2024, September 2024 and November 2024, however, the reply was not received (May 2025).

2.5 Additional tax on JNNURM buses not levied

Additional tax of ₹ 1.38 crore was not levied on 84 JNNURM buses plying outside the designated municipal areas.

No transport vehicle of the State Transport Undertaking (STU) shall be used in any public place in Uttar Pradesh unless additional tax prescribed under Section 6 (1) of the Uttar Pradesh Motor Vehicles Taxation (UPMVT) Act, 1997 (as amended on 28 October 2009) has been paid. However, motor vehicles of STU operating within the limits of Municipal Corporation or Municipality are exempted from payment of additional tax.

Audit test-checked the records[31] of RTO, Kanpur Nagar during the year 2022-23. Cross-check of the list of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) buses with routes falling under Kanpur Municipal Corporation revealed (October 2022) that 84 JNNURM buses under one STU namely Kanpur City Transport Services Ltd. were plying outside the designated municipal areas of Kanpur Municipal Corporation for periods between December 2019 and September 2022, for which they were liable to pay additional tax[32] of ₹ 1.38 crore. Although, road tax in respect of these buses

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[29] *Vahan* database, permit register, receipt books, *etc*.

[30] RTOs-Agra, Bareilly, Jhansi, Meerut, Saharanpur and Varanasi.

[31] *VAHAN* database, records of route files of areas (inside/outside) from Nagar Nigam, records of additional tax deposit, Nagar Nigam route list, *etc*.

[32] Rate of additional tax under Section 6 (1) of the UPMVT Act, 1997 on the buses of STU is given, minimum monthly rate (₹ 150) of additional tax per seat has been considered in case of Vehicles more than six years old.

were being paid regularly by the STU, additional tax of ₹ 1.38 crore for these 84 buses was not paid by the STU.

The concerned RTO did not check the route chart of these buses and therefore, failed to notice that these JNNURM buses were plying outside the municipal areas of the municipal corporation. As a result, additional tax of ₹ 1.38 crore was not levied and collected.

In reply, RTO, Kanpur Nagar stated (December 2024) that at present there is no such provision to levy additional tax from Kanpur Nagar Transport Services Ltd. Reply is not acceptable as provision of additional tax is clearly made in Section 6 (1) of UPMVT Act, 1997.

Audit reported the matter to the Department (January 2024, March 2024, September 2024 and November 2024). Their reply is still awaited (May 2025).

2.6 Penalty not imposed on UPSRTC buses for delayed payment of Additional Tax

Penalty was not imposed on Uttar Pradesh State Road Transport Corporation (UPSRTC) buses for delay in payment of additional tax in 6,907 cases.

As per Sections 6, 9 (1) and 9 (3) of the Uttar Pradesh Motor Vehicles Taxation (UPMVT) Act, 1997 read with Rule 24 of the UPMVT Rules[33], 1998, where the tax or Additional Tax is not paid within the period specified (15th of each calendar month), penalty at the rate of five *per cent* of the due tax/additional tax per month or part thereof, (not exceeding the due amount) shall be payable.

Audit test-checked the records[34] of 11[35] RTO/ARTOs for the period from November 2017 to November 2023 and noticed (September 2022 to January 2024) that in 6,907 cases out of 7,261 cases, Additional Tax (for a period from June 2010 to October 2023) was paid by UPSRTC with a delay[36] ranging from 01 to 124 months. However, the Department did not impose and realise penalty from UPSRTC buses for delayed payment of additional tax. Penalty for delayed payment of additional tax calculated at the rate of five *per cent* of due additional tax per month works out to ₹ 15.36 crore **(Appendix-2.17)**.

The matter was reported to the Department (between January 2024 and November 2024). In reply, the Department stated (October 2024 and November 2024) that penalty is not payable on delayed payment of the additional tax of UPSRTC buses as no time limit has been prescribed under Section 9(1) of the UPMVT Act for payment of additional tax payable under Section 6.

The reply of the Department is not acceptable because Rule 24 of UPMVT Rules, 1998 provides that where the tax or additional tax in respect of a motor vehicle is not paid within the period specified in sub sections (1) of Section 9 of the Act *ibid*, a penalty at the rate of five *per cent* of the due tax or additional tax,

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33 Section 6(1) of UPMVT Act read with Rules 24 of UPMVT Rules, 1998 .

34 VAHAN database, monthly deposit scrolls of UPSRTC buses, deposit challans, records of online/offline payments of additional tax *etc*.

35 RTOs-Bahraich, Bareilly, Jhansi, Kannauj, Kanpur Nagar, Lucknow, Meerut, and Varanasi; ARTOs- Bulandshahr, Hapur, and Saharanpur.

36 One month to 3 months – 5184 cases, More than 3 months to 12 months – 798 cases, More than 12 months to 36 months – 869 cases and more than 36 months – 56 cases.

per month or part thereof, shall be payable. It is notable that prior to amendment in the UPMVT Act, 1997 in 2009, sub-clause (a) of clause (iv) of the Section 9(1) clearly provided that additional tax under Section 6 shall be payable in advance on or before 15th day of each calendar month. However, Section 6 of UPMVT Act, 1997, as amended vide UPMVT (Amendment) Act, 2009 (passed by State Legislature of UP in Hindi) provided that *'additional tax would be payable along with tax payable under Section 4'*; whereas English translation of Section 6 provided that *'additional tax would be payable in addition to tax payable under Section 4'.* Thus, there is a difference between Hindi and English versions of Section 6 and as the Hindi version was passed by the State Legislature, it should prevail. Section 9 (1) prescribes the time limit for depositing tax by vehicles, whereas Section 6 (Hindi version) prescribes that additional tax will be payable along with tax. Thus, Section 9 (1) read with Section 6 prescribes time limit for depositing additional tax and therefore penalty on delayed payment of additional tax was leviable.

Recommendation:

The Government should amend Section 9 (1) of the UPMVT Act, 1997 to clearly mention the time limit for depositing additional tax.

State Excise Department

2.7 Interest not levied on delayed payment of QR code amount

Interest amounting to ₹ 2.00 crore was not levied on delayed deposits of excise revenue by eight distilleries/breweries.

Under the provision of Section 38A of the United Provinces Excise Act, 1910, where any excise revenue has not been paid within three months from the date on which it becomes payable, interest at the rate of 18 *per cent* per annum, shall be payable from the date such excise revenue becomes payable till the date of actual payment.

Further, Excise Policy for the year 2018-19 prescribes method of working out the Maximum Retail Price (MRP) of liquor and its different components. One of the components is Track and Trace Application (QR code). If the MRP so worked out is not in multiple of ₹ 5 (in case of country liquor) or ₹ 10 (in case of Indian made foreign liquor/beer), it shall be fixed to the next multiple of ₹ 5 or ₹ 10 respectively. The differential amount shall be recovered as an additional consideration fee.

Audit examined (between September 2022 and March 2023) the data/records of eight offices of Assistant Excise Commissioner, Distilleries & Breweries[37] (for the period from January 2019 to February 2023) and noticed that the distilleries/breweries had issued liquor without using the Track and Trace Application (QR code). As cost of QR code (₹ 0.15 per bottle) was included in the price of liquor bottles issued without QR code during this period, The distilleries/breweries had deposited the amount of ₹ 3.06 crore in Treasury on being demanded by the Department. Though there were delays ranging from

[37] AEC Wave Distilleries & Breweries Aligarh; AEC Unnao Distilleries & Breweries Unnao; AEC Mohan Mekins Ltd. Ghaziabad; AEC M/s Millar India Ltd. Unit Central Distilleries & Brewery Meerut; AEC United Spirits Ltd. Meerut Cant Meerut; AEC Roja Distillery Shahjahanpur; AEC DCM Sri Ram Industries Ltd. Unit-Daurala Sugar Works Distillery Daurala Meerut; and AEC National Industrial Corp. Ltd. Raja Ka Sahaspur, Moradabad.

33 to 56 months in deposit of QR code amount, the distilleries/breweries did not pay due interest amounting to ₹ 2.00 crore calculated at the rate of 18 *per cent* per annum for delayed deposit of excise revenue **(Appendix-2.18)**. The Department also did not levy and realise the due interest.

The matter was reported to the Department (February 2023 and March 2023). In their reply (October 2023), the Department stated that the QR code expense amount recovered from the distilleries does not fall under the category of "Excise Revenue" defined under Section 3 of the United Provinces Excise Act, 1910. Therefore, it does not seem logical to recover the amount of interest on the amount of late deposit of QR code expense under Section 38A of the United Provinces Excise Act, 1910.

The reply of the Department is not acceptable as the QR code amount deposited by the distilleries/breweries was part of additional consideration fee, therefore, it is part of the Excise Revenue which attracts interest of ₹ 2.00 crore as per Section 38A of the United Provinces Excise Act, 1910. Hence, the Department has to recover the amount of interest on delayed deposit of QR code expense.