

### **4.3 Information Technology system in Registration and Stamps Department**

#### *Highlights*

**The department did not have an IT policy and disaster recovery and business continuity plan.**

*(Paragraph 4.3.5)*

**Non-mapping of business rules resulted in incorrect application of depreciation rate on construction and short levy of stamp duty, allowing of rebate of stamp duty on the instruments of purchase of agriculture land admissible to individual women, and other deficiencies which resulted in short levy of stamp duty.**

*(Paragraph 4.3.6)*

**Inadequate change management controls resulted in incorrect application of District Level Committee (DLC) rates and consequential under realisation of stamp duty.**

*(Paragraph 4.3.7)*

#### **4.3.1 Introduction**

The revenue in the Registration and Stamps department (department) is derived mainly in the form of stamp duty and registration fee chargeable on specified documents and is regulated under the Indian Stamp Act, 1899, Registration Act, 1908, Rajasthan Stamp Law (Adaptation) Act, 1952, Rajasthan Stamp Act, 1998 and rules made thereunder. In January 2003, the department introduced computerisation to improve efficiency and effectiveness in their work. The application software was designed using EXCEL as the database and VISUAL BASIC at the front end developed at a cost of Rs. 2.49 crore (including hardware) by the Department of Information Technology, Government of Rajasthan for implementation all over the State. At present, this software is functioning in 56 sub-registrar offices of 12 circles on stand-alone computers. In Jaipur circle, the above application software was re-engineered during 2006 using Oracle RDBMS platform as the back end.

The computerisation activity is being looked after by the Department of Information Technology, Government of Rajasthan. The department does not have any designated official to look after its computerised activities.

**It was decided to conduct an IT audit of Information Technology system in the Registration and Stamps Department. The review revealed a number of system deficiencies which are discussed in the succeeding paragraphs.**

#### **4.3.2 Scope of audit**

The scope of audit included the evaluation of IT application controls and the effectiveness of this IT system in achieving organisational objectives. The data pertaining to April 2004 to January 2006 of 11<sup>21</sup> sub-registrar offices and data pertaining to April 2004 to December 2006 of five sub-registrar offices<sup>22</sup> were selected for analysis and checking of data completeness, regularity and consistency which was done between December 2006 and May 2007 using Computer Aided Audit Tools (CAATs).

#### **4.3.3 Audit objectives**

The audit objectives were to evaluate and assess whether:

- the department had an IT policy;
- the data captured in the system was complete and correct in all respect;
- the input, process and output controls available in the system were adequate;
- the department has incorporated relevant business rules in the application software;
- the internal control framework and the monitoring mechanism were adequate; and
- suitable built in security controls and business continuity plan were in place.

#### **4.3.4 Acknowledgement**

Indian Audit and Accounts Department acknowledges the co-operation of the Registration and Stamps Department in providing necessary information and records for audit. The audit findings as a result of test check of the system and the records were reported to the Government in July 2007; their replies have not been received (September 2007).

### **Audit findings**

#### **System deficiencies**

Stamp duty and registration fee are important sources of revenue for the Government. Audit observed that the relevant business rules had not been fully and properly mapped into the application along with lack of input controls which resulted in incomplete and incorrect data and also had an impact on the revenue collection. It was also observed that the security control features were inadequate and weak.

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<sup>21</sup> Sub-registrar Jaipur I to VIII, Amer, Sanganer I and Sanganer II.

<sup>22</sup> Sub-registrar Jodhpur I, II & III, Sub-registrar Udaipur I & II.

These deficiencies are mentioned in the following paragraphs.

### **4.3.5 General controls**

#### **4.3.5.1 Lack of IT policy**

The department was using IT application since 2003 but is yet to formulate and document an IT policy and a long/medium term IT strategy. **The department also has not formulated any planning/steering committee for monitoring the implementation of IT applications in a systematic manner with clear roles and responsibilities.**

#### **4.3.5.2 Lack of adequate ‘disaster recovery and business continuity plan’**

**The department has not documented any disaster recovery and business continuity plan.** The emergency hot sites, correct/current versions of system software, etc. were neither identified nor documented. It was also observed that backups were not taken at periodical intervals and even the backups that were taken were not kept separately at a safe place.

#### **4.3.5.3 Inadequate audit trails**

On analysis of the database, 11 gaps<sup>23</sup> in respect of fee receipt numbers in five offices<sup>24</sup>, 106 gaps in respect of document serial numbers in four offices<sup>25</sup> and 139 gaps in respect of document registration numbers in four offices<sup>26</sup> were noticed. **There was no internal control mechanism to detect any attempts of deletion which enhanced the risk of frauds by unauthorised deletion.**

Moreover, audit trails viz. ‘updated by’, ‘updated on’, updated from’, ‘deleted by’ and ‘authorised by’ to track the history of transactions had not been incorporated.

After the case was pointed out, the department replied in May 2007 that reasons behind deletion were not known.

**The Government may consider designing and incorporating audit trails to track the transactions and monitor exceptional changes made to the data.**

### **4.3.6 Application controls**

#### **4.3.6.1 Input controls**

Input controls ensure that the data received for processing is genuine, complete, properly authorised, is entered accurately without duplication and is not previously processed. Input controls also serve as an effective measure to detect or prevent error or fraud in a computerised system.

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<sup>23</sup> Data deleted/not recorded (missing).

<sup>24</sup> Sub-registrar Jaipur I, Amer, Jodhpur I & III and Udaipur II.

<sup>25</sup> Sub-registrar Jaipur VII, Jodhpur I & III, Udaipur I.

<sup>26</sup> Sub-registrar Amer, Jodhpur I & III, Udaipur I.

It was noticed that important fields such as claimants' name, age, sex, etc. were not made mandatory, resulting in incomplete database. For e.g. in SRO, Amer, the claimants' names were not entered in 49 transactions rendering it difficult to trace the claimant when required.

#### 4.3.6.2 Mapping of business rules

All the relevant business rules and procedures are required to be identified and suitably incorporated in the application. Data analysis revealed that non-mapping of business rules resulted in revenue loss which are mentioned below:

- **Irregular exemption in stamp duty under the Investment Promotion Scheme, 2003**

As per the State Government notification<sup>27</sup> (28 July 2003), stamp duty chargeable on instruments of purchase/lease of land for the purpose of setting up an industrial unit could be reduced to the extent of 50 *per cent*, if the prescribed authority under the provisions of the Rajasthan Investment Promotion Scheme, 2003, approved it. **There was no provision for allowing rebate on final face value.**

Audit observed in eight sub-registrar offices<sup>28</sup> that prescribed criteria for allowing exemption on value of bare land was not incorporated in the application, though it was available in documents/database which resulted in 50 *per cent* exemption on the final face value<sup>29</sup> of the property instead of the bare land and consequent short levy of stamp duty of Rs. 40.17 lakh in 141 transactions.

- **Non-levy of copying, scanning and inspections (CSI) fee**

The State Government vide a notification dated 5 December 2002 incorporated CSI fees in the article (vii) of the Indian Registration Act, 1908 for copying the endorsement, copying/scanning the document furnished for registration either by computer or manual and site inspection for verification of facts of documents. The fee structure prescribed fees on the basis of the market value of the property i.e. Rs. 100 where market value does not exceed Rs. 50,000 and Rs. 200 thereafter on the basis of possibility of valuation of the property and the market value.

Audit observed in nine sub-registrar offices<sup>30</sup> that due to non-incorporation of CSI fee rate in the application, CSI fee in 9,303 transactions with market value exceeding Rs. 50,000 each regarding mortgage deed for agriculture purposes was not charged which resulted in non-realisation of revenue of Rs. 18.61 lakh.

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<sup>27</sup> Notification no. F4(18)FD/Tax div/2001-74, dated: July 28, 2003.

<sup>28</sup> Sub-registrar Jaipur I, III, IV, V, VII & VIII, Sanganer I and Sanganer II.

<sup>29</sup> Final face value includes value of land, construction area, boundary wall, tin shade and common space.

<sup>30</sup> Sub-registrar Jaipur III, Amer, Sanganer I, Sanganer II, Jodhpur I, II & III and Udaipur I & II.

- **Incorrect calculation of depreciation**

On scrutiny of the database in respect of 16 sub-registrar offices<sup>31</sup>, it was observed that the department adopted incorrect parameters of rounding off on higher side for calculation of depreciation resulting in undervaluation of constructed portion of the property.

Due to incorrect mapping of the depreciation formula in the application software, 17,199 documents executed between April, 2004 and December, 2006 were valued by department as Rs. 868.51 crore instead of Rs. 877.61 crore which resulted in short levy of stamp duty of Rs. 14.92 lakh and registration fee of Rs. 1.67 lakh.

- **Irregular exemption of stamp duty for purchase of agricultural lands by category other than women**

As per the Government notification dated 14 January 2004, stamp duty chargeable on the instruments for purchase of agricultural land in the name of women was reduced from 11 to 5.5 *per cent*. The above duty was further reduced to 5 *per cent* from 1.4.2006.

Audit observed in eight sub-registrar offices<sup>32</sup> that the application did not have a provision which restricted/disallowed exemption to property document registered in the name of company or a male owner or jointly owned by a male and a female. Thus, the system allowed rebate on the instruments of purchase of agricultural land, which were transferred in the name of company/male/joint name of male and female, by treating them as individual women. This resulted in short levy of stamp duty of Rs. 17.71 lakh in 45 transactions.

- **Allowance of agricultural rebate on residential property**

Audit observed in 10 sub-registrar offices<sup>33</sup> that the department valued properties as residential but allowed agricultural rebate on these residential properties despite the fact that the agriculture rebate was allowable only on agricultural land. This resulted in short levy of stamp duty of Rs. 1.04 crore in 195 transactions.

- **Incorrect application of stamp duty rate**

As per section 3 of the Rajasthan Stamps Act, stamp duty is chargeable at the prescribed rates at the time of execution of the document. The application software did not have a provision to apply stamp duty according to the execution date of the document.

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<sup>31</sup> Sub-registrar Jaipur I to VIII, Amer, Sanganer I & II, Jodhpur I to III and Udaipur I & II.

<sup>32</sup> Sub-registrar Amer, Sanganer I, Sanganer II, Jodhpur I, II & III and Udaipur I & II.

<sup>33</sup> Sub-registrar Jaipur I, III, VI, Amer, Sanganer I and Sanganer II, Jodhpur I, II & III and Udaipur I.

Audit observed in nine sub-registrar offices<sup>34</sup> that due to above deficiency in the software, stamp duty was not recovered according to the execution date which resulted in short levy of stamp duty aggregating Rs. 6.64 lakh in 224 cases.

- **Short levy of registration fee**

Audit observed in four sub-registrar offices<sup>35</sup> that the system was not designed with inbuilt checks to disallow the document to be registered in case registration fee was short paid. Audit observed that documents were registered with short levy of registration fee aggregating Rs. 16,232 in 15 transactions.

The matter was brought to the notice of the department and reported to the Government in July 2007; their replies have not been received (September 2007).

**The Government may consider incorporating necessary controls into the software to ensure collection of correct amount of stamps duty and registration fees.**

#### **4.3.7 Change management controls**

Any information system requires a sound change management procedure covering control of the ongoing maintenance of system, standard methodology for recording and performing changes in the system, which need to be authorised at an appropriate level in the administration.

**Audit scrutiny revealed that the department did not have a policy relating to change management controls, testing standards, quality assurance and documentation.** It was seen that lack of a policy on the change control led to short levy of stamp duty and registration fee due to incorrect application of district level committee rate (DLC).

Audit observed in 10 sub-registrar offices<sup>36</sup> that the system did not archive the old DLC rates as soon as the revised/new DLC rates were entered in the database. It was observed that an option to apply either old or the new rates was made available to the users, due to which the value of the property was determined at old rates in 180 transactions. This resulted in short levy of stamp duty of Rs. 34.58 lakh and registration fee of Rs. 2.88 lakh.

#### **4.3.8 Conclusion**

The Stamp and Registration system developed with the objective of improving the efficiency and effectiveness of the system had deficiencies like poor input controls. Application of the business rules in the transactions for the registration of properties was not ensured. Such deficiencies led to irregular and incorrect levy of stamp duty. The department also did not devise any monitoring mechanism to ensure the correctness and completeness of the data

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<sup>34</sup> Sub-registrar Jaipur III, IV, V, Amer, Sanganer I, Jodhpur I & II and Udaipur I & II.

<sup>35</sup> Sub-registrar Jaipur V, Jodhpur I & II and Udaipur I.

<sup>36</sup> Sub-registrar Jaipur III, IV, V, VI, VII & VIII, Amer, Jodhpur I, III and Udaipur I.

input in the system. The department did not ensure adequate security of the system where lack of audit trail led to gaps in the database. The system was also not appropriately backed up nor was there a plan in place to be implemented to ensure continuity in the operation of the system. Thus, implementation of the system did not achieve the intended effectiveness and efficiency. It also did not ensure correct realisation of revenue.

#### 4.3.9 Summary of recommendations

The Government may consider taking the following action for rectifying the system and other issues:

- Designing and incorporating in the system audit trails to track the transactions, in order to monitor exceptional changes made to the data; and
- Programming necessary controls into the software to ensure collection of correct amount of stamp duty.

#### ~~4.4 Short levy of stamp duty and registration fee on registration of lease deeds~~

~~As per clarification issued in July 2004 by the State Government, under the Rajasthan Stamp Act, 1998, private educational institutions are to be considered as commercial institutions. The Act, further provides that, where the lease purports to be for a term in excess of 20 years, the stamp duty is chargeable as on a conveyance on the market value of the property.~~

~~In three sub-registrar offices, test checked between May 2006 and November 2006 it was noticed that, in case of lease deeds pertaining to a period for more than 20 years registered between February 2005 and June 2005, the stamp duty was not recovered as on conveyance on the market value of property. This resulted in short levy of stamp duty and registration fee aggregating to Rs. 1.18 crore as mentioned in the following paragraphs:~~

~~4.4.1 A lease deed was executed for 50 years by Birla Educational Institute, Jodhpur for establishment of an educational institution. This being a commercial activity, the property was to be valued as Rs. 6.27 crore i.e. at the rates applicable to commercial purposes. But the executant's deed was valued as Rs. 10.50 lakh i.e. at rates applicable to agriculture purpose. SRO Pali failed to detect the mistake and levied stamp duty and registration fee of Rs. 94,500 against Rs. 50.43 lakh resulting in short realisation of Rs. 49.49 lakh.~~

~~4.4.2 A lease deed was executed for 30 years by R.L. Yadav Educational Society, Kotputli (Jaipur) for establishment of an educational institution. This being a commercial activity, the property was to be valued as Rs. 5.81 crore i.e. at the rates applicable to commercial purposes. But the deed was valued as Rs. 3.60 lakh i.e. at one per cent on lease rent of 30 years. SRO Kotputli (Jaipur) failed to detect the mistake and levied stamp duty and registration fee of Rs. 7,200 against Rs. 46.75 lakh resulting in short realisation of Rs. 46.68 lakh.~~