

**OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA**

**NEW DELHI  
17<sup>th</sup> DECEMBER, 2024**

**Audit Report No. 17 of 2024 - Performance Audit on 'Export Promotion Capital Goods (EPCG) Scheme', Union Government (Customs) presented in Parliament**

The Performance Audit Report of the Comptroller and Auditor General of India on 'Export Promotion Capital Goods (EPCG) Scheme', Union Government (Customs) Report No. 17 of 2024 for the year ended 31 March 2021 was presented in the Parliament here today.

Performance Audit was conducted to ascertain whether the issue, utilization, redemption and implementation of authorizations by the Directorate General of Foreign Trade (DGFT) and the Customs Department is being done in an efficient and effective manner. Audit also examined the effectiveness of inter-departmental coordination involved in the administration of the scheme and whether the internal control measures are sufficient to minimize the risks of revenue loss, misuse, etc. Audit covered DGFT, its Regional Authorities (RAs) and related Customs field formations through the Customs Commissionerates concerned.

This report contains 72 audit observations and 26 recommendations. The performance audit has revenue implication of `479.81 crore. However, response were received only for 31 paras from Central Board of Indirect Taxes and Customs (CBIC)/DGFT out of which 27 paras have been fully/partially accepted by CBIC/DGFT. Response for remaining 41 paras are awaited. Similarly, 20 out of 26 recommendations have been accepted by CBIC/DGFT; response awaited in respect of two recommendations and not accepted in respect of four recommendations.

Significant findings included in this Report are as follows:

1. Audit observed incorrect fixation of Specific Export Obligation (SEO), fixing same Average Export Obligation (AEO) for different financial years as well as different AEOs for same financial years and its non-updation due to change of status or actual utilization of Duty Saved Value (DSV) indicating non-monitoring of fulfilment of Export Obligation.

**(Para 2.1 & 2.2)**

2. Audit found the implementation of the Denied Entity List (DEL) mechanism, perceived to make the exporters strictly comply with the conditions of authorizations, to be ineffective with delay in placing the entities under DEL and issuing of multiple abeyance orders. As seen from the cases highlighted, abeyance orders were issued without recording any reasons and

authorizations were issued to DEL status without issuing abeyance orders. There is no limit fixed for the number of abeyance orders that can be issued to an exporter. There are no Standard Operating Procedures (SOP)/mechanism prescribed for placing the entity in abeyance.

**(Para 2.4.1)**

3. Audit found that facilitation measures of online system for processing of applications under the ease of doing business for simplifying the process of issuance of EPCG authorizations needs to be reviewed as the online system do not check the veracity of the documents submitted, but only prompts to upload the documents before submission. Audit observed that even if some of the mandatory documents are not uploaded, the system is accepting the application for issue of authorizations indicating lack of validation controls/soft alerts in the online system which is fraught with the risk of misuse viz., importing unrelated/ineligible/restricted capital goods, incorrect fixation of SEO, etc.

**(Para 2.6)**

4. Issuing authorizations without mandatory requirements like endorsement of supporting manufacturer, description of export product, Export Obligation in authorizations as well as in Advance Release Order (ARO) in cases of domestic procurements is fraught with the risk of misuse by diversion of duty free imports allowed under the scheme and consequent non-accounting/monitoring. The DGFT IT systems needs to be reviewed and adequate validation controls to be factored for restricting issue of authorizations without mandatory requirements/information.

**(Para 2.7)**

5. DGFT had migrated (November 2020) to a new online and centralized DGFT System for application receipt and processing of authorizations. The new IT system adopted should flag these issues, however, even after digitization of the licensing processes, authorizations beyond the delegated financial powers are being issued.

**(Para 2.8)**

6. Audit observed that the timelines stipulated in the HBP/FTP for issue of EPCG authorizations are not strictly complied by the Regional Authorities.

**(Para 2.9)**

7. DGFT must have a data driven monitoring mechanism for ensuring compliance to the provisions of FTP. Issuance of subsequent authorizations without ensuring fulfilment of progress of obligations of earlier authorizations remaining unredeemed must be considered a risk factor.

**(Para 2.10)**

8. Audit observed that DGFT IT system captures the data in respect of issuance, SEOs, etc. however, the data on utilization of authorizations viz., details of the Capital Goods (CG) imported/Duty Saved are not captured in the new system introduced by DGFT and were not available with the RAs as seen from the verification of physical authorization files.

**(Para 3.1)**

9. RAs were not monitoring the import of Capital Goods and timely submission of Installation Certificates (ICs). Although the details of the import as captured by the Customs authorities are accessible to the RAs through the Message Exchange System (MES), Audit noticed that many RAs were not analyzing the data so received to identify the capital goods imported against the authorizations issued beyond the due date and the status of actual utilization of authorizations is not known to RA till the Authorization Holders submits Installation Certificate (IC)/EODC application.

**(Para 3.2)**

10. The non-compliance with the prescribed procedures in case of domestic procurement of capital goods has a risk of availing dual benefit (of availing exemption from payment of IGST and also importing items duty free). The controls to ensure compliance needs to be strengthened by the DGFT. The MES between the RA and the Customs authorities was not fully functional in all the RA offices and the old practice of manual communication was still continued in such RAs and whether the communication reached to the port of registration was not monitored either by RAs or Customs.

**(Para 3.4)**

11. Import of Capital Goods from ports other than the registered port without adhering to the prescribed procedure in the FTP/HBP involves risk of importing Capital Goods from multiple ports using the same authorization which have revenue implications and also has the risk of misuse of the bonds. The Customs/RAs should monitor such cases scrupulously and invoke penal action for non-compliance. In the cases commented in audit, no action was taken either by Customs Department or by the RA.

**(Para 3.6)**

12. The Customs Authorization Utilization Module in Indian Customs EDI System (ICES) is supposed to monitor the Duty Saved Value (DSV) of authorizations and should restrict clearance of excess import which needs to be regularized either with payment of duty or enhancement of Export Obligation. Non-monitoring of excess imports by both Customs and DGFT indicates weak institutional mechanism between two Departments in exchange of information and coordinated action against the non-compliant firms.

**(Para 3.7)**

13. Audit observed that the extensions were granted in a routine manner without any reasonable assurance in the form of export orders, purchase contracts, block-wise obligation met, filing of annual returns etc., to ascertain the feasibility of fulfilment of EO within the extended period.

**(Para 3.8)**

14. The scheme not only allows duty free imports of Capital Goods but also grants a long gestation period for meeting the Export Obligation (EO) and therefore needs to be duly

monitored by the Regional Authorities for successful implementation of the scheme. Timely submission of the periodical returns and data exchanged with Customs was required to be analysed for identifying the defaulting AHs and penal provisions prescribed in the FTDR could have been invoked. The central server data is to be regularly updated and reconciled with the MIS reports.

**(Para 4.2)**

15. DGFT is required to have an effective mechanism to continuously and regularly monitor EO both block-wise as well as initiate action for inordinate delay in filing of redemption application by the Authorization Holders.

**(Para 4.3)**

16. Mandatory requirement of endorsing authorization details in the Shipping Bills (SBs) is an inbuilt check envisaged by DGFT to obviate multiple use of same exports for multiple authorizations/other schemes, however, the same was not insisted by RAs and relying on affidavit/Chartered Accountant (CA) certificate, the SBs are reckoned for discharging of EO without resorting to any verification even on test check basis to act as a deterrent for applicants/CAs making wrong declarations/certifications.

**(Para 5.1)**

17. Audit observed that the control environment for monitoring of Export Obligation and process of issuing EODC to be deficient and requires review by DGFT as cases of issuing EODC without verifying actual user condition, on export of ineligible items (not available in authorization), ineligible SBs, non-fulfillment of AEO/SEO, incorrect waiver of AEO allowed to SSI unit, etc. were found. Besides, delay in issuance of EODC, same SBs were found to be utilized for both AEO and SEO. Non-compliance in respect of third party exports, supporting manufacturers and non-endorsement of SBs with authorization details was also observed.

**(Para 5.2 to 5.9)**

18. The scheme allows duty free imports of capital goods with the intended objective of producing quality goods and services to enhance our manufacturing competitiveness and therefore any delayed/short remittances of export proceeds and its non-monitoring by DGFT needs to be reviewed.

**(Para 5.11)**

19. Timely and regular conduct of meetings with proper documentation (minutes) thereon along with follow-up of actionable items, fixing of accountability for inaction on part of the RAs would have strengthened the internal control environment.

**(Para 6.1)**

20. EPCG scheme related trade issues needs to be finalized expeditiously to achieve the intended objectives and a robust monitoring mechanism may be institutionalized for effective and efficient implementation of the scheme.

**(Para 6.1.3)**

21. The mismatch of redeemed/unredeemed authorizations between various IT systems of DGFT indicates that IT systems and its integration and data management had shortcomings and has concerns regarding transparency and also monitoring which needs to be reconciled and adequately addressed.

**(Para 6.7)**

22. Inaction on part of RAs was observed in insisting for regular returns or invoking penal measures against non-filers indicating weak monitoring mechanism and consequently Department being not aware of cases remaining unredeemed after the long gestation period allowed for fulfilling Export Obligation. These periodic returns were intended for updating the Regional Authorities on a continual basis for effective monitoring and therefore should have been insisted upon by the Regional Authorities. The fact of non-filers should have been factored in the MIS reports to DGFT by Regional Authorities so that the same could be monitored.

**(Para 6.9)**

23. There were significant staff shortages both at DGFT Headquarters and at RAs with substantial accumulated vacancies.

**(Para 6.10.1)**

24. Audit observed that timely realisation of export proceeds were not monitored by DGFT. The scheme allows duty free imports of capital goods with the intended objective of producing quality goods and services to enhance our manufacturing competitiveness and therefore any delayed/short/non realisation of export proceeds needs to be monitored more effectively by DGFT rather than waiting for AH to apply for EODC for verifying this aspect. DGFT may request for EDPMS access akin to Customs for real-time access to data of bank realisation for effective and timely monitoring.

**(Para 6.10.2)**