

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

**New Delhi**

**18<sup>th</sup> December, 2025**

**CAG AUDIT REPORT on 'DUTY DRAWBACK SCHEME' PRESENTED IN  
PARLIAMENT**

The Performance Audit Report of the Comptroller and Auditor General of India on 'Duty Drawback Scheme', Union Government (Customs) (Report No. 33 of 2025) for the year ended 31 March 2023 was presented in Parliament here today.

Performance Audit of this scheme was conducted to ascertain whether Drawback sanctioned by the Customs, Directorate General of Foreign Trade (DGFT) and Development Commissioners are in compliance with the extant provisions; the Electronic Data Interchange (EDI) System facilitates monitoring of drawback claims and the internal control measures are sufficient to minimize the risks of revenue loss, misuse, etc.

This report contains 66 audit observations and 19 recommendations. The performance audit has revenue implication of ₹701.69 crore. Responses received from CBIC and DGFT have been considered and appropriately included in this report. This report is divided into seven chapters. Chapters 2 to 7 cover the audit findings, conclusions and recommendations related working of Drawback Division in the Ministry, specified categories of drawback viz., AIR, Brand/Special Brand Rates, Re-export of Imported goods, Deemed Exports and Monitoring & Internal Control.

Significant findings included in this Report are as follows:

1. The absence of Drawback Committee during 2021 and 2022 impeded timely revision of drawback rates in response to duty changes brought in the annual budget. Timely constitution of the Committee would have ensured regular updates to rates and inclusion of new entries would have better neutralized tax burdens, thereby enhancing export competitiveness and enabling market differentiation.

**(Para 2.1)**

2. Audit observed that considerable time was taken in formation of the Committee in the other three years. Timely constitution immediately after or before the budget would allow adequate time to analyze trade data and make necessary adjustments in AIR. Audit opines that an exclusive SOP for Drawback Committee, would ensure consistent standardized approach for achieving enhanced quality by reducing redundancies.

**(Para 2.2.1 & 2.2.2)**

3. Pendency reflected in realization of export proceeds in Indian Customs EDI System (ICES) due to non-updation of already realized amounts indicates a critical flaw. This incorrect reporting hampers the Department's ability to accurately identify genuine cases of non-realization thereby defeating the very intent of integrating Export Data Processing

and Monitoring System (EDPMS) with the ICES module. It also highlights the absence of an effective monitoring mechanism within the ICES system for tracking export proceeds realization.

**(Para 3.1)**

4. The significant delays in processing claims (70.69 *per cent* in the selected 23 Commissionerates and 78.70 *per cent* for pan-India cases) with 543 cases and 51,252 cases respectively delayed for more than six months indicates lack of supervision and internal control affecting Department's endeavour of achieving the objective of simplification of procedures, trade facilitation and ease of doing business.

**(Para 3.6)**

5. The incomplete data capturing in the ICES system and sanction and payment of duty drawback without verification of relevant details of the shipping bills indicates an inadequate monitoring mechanism in drawback disbursement.

**(Para 3.7)**

6. Audit observed that incorrect attribution of the Drawback identifier distorts the classification of drawback payments under Rule 6 and Rule 7. This incorrect representation undermines the reliability of data crucial for reporting, policy formulation and strategic planning. Further, since the processing is carried out manually and necessary rectifications are not effected in the ICES, the risk of persistent inaccuracies and systemic inefficiencies remains unaddressed.

**(Para 4.1.3 to 4.1.5)**

7. Internal Audit of Brand Rate cases needs to be undertaken to enhance the overall functioning of the Commissionerates and to prevent potential revenue leakage. Timely and effective implementation will contribute to a more streamlined Brand Rate fixation process and reinforce the Board's overarching governance framework.

**(Para 4.2.6)**

8. Audit observed inadequacies in the ICES, which fails to accurately reflect the real-time status of export proceeds realization. Even in cases where proceeds have been timely and fully realized, the system continues to display nil realization, thereby compelling unnecessary manual verification of physical e-BRCs. This not only leads to operational inefficiencies but also raises concerns about the reliability and effectiveness of the system in supporting informed monitoring and compliance efforts.

**(Para 5.1)**

9. Divergent practices were being followed by Customs field formations in allowing or rejecting Section 74 drawback claims filed from Domestic Tariff Area for re-export of goods to SEZ, owing to lacunae in the extant provisions as supply of Goods from SEZ to DTA is not clearly defined as "Imports" neither under Section 2(o) of the SEZ Act, 2005 nor under Section 2 (23) of the Customs Act, 1962.

**(Para 5.8)**

10. Audit observed that old applications wherein reply to deficiency memo was not received within prescribed time period of 90 days were not rejected by Regional Authorities resulting in undue delay ranging between 68 days to 2,371 days. This made these applications liable to late cuts and in some cases time barred too.

**(Para 6.1 & 6.2)**

11. The control environment for monitoring and processing of Deemed Exports Drawback cases was deficient and requires review by DoC/DGFT in view of findings viz., irregular sanction of time-barred claims, double payment of drawback on same invoice, delay in processing of claims and non-payment of interest on delayed disbursements, ineligible sanction of drawback against supply of services and on additional duties of excise on fuels, imported capital goods, etc.

**(Para 6.3 to 6.8)**

12. The scheme allows deemed drawback based on the invoice or Shipping Bill value, with the primary objective of promoting foreign exchange earnings and therefore delays, shortfalls in remittances as reflected in eBRCs and the lack of effective monitoring by DGFT needs to be reviewed.

**(Para 6.13)**

13. Audit observed inconsistencies in the issuance of Deficiency Memos across various Commissionerates. Adoption of a prescribed, uniform format would ensure consistency, enable comprehensive identification of deficiencies in a single communication, and facilitate timely processing and finalization of claims.

**(Para 7.1)**

14. Despite CBIC's ongoing digital transformation efforts, digitization in duty drawback claims remains incomplete, particularly for Brand Rate, Special Brand Rate, and Supplementary Claims, which are still processed manually. This impedes the objectives of trade facilitation and ease of doing business and CBIC need to leverage its existing digital platforms for comprehensive automation.

**(Para 7.2)**

15. Audit observed that the identification and tracking of converted Shipping Bills were not adequately supported in the ICES 1.5 system, resulting in monitoring gaps related to duty drawback claims. Further, several Commissionerates were unable to provide data on such converted shipping bills, highlighting the need for improved record-keeping practices and better integration within the system infrastructure.

**(Para 7.4)**

16. Audit observed deficiencies in the integration of Customs EDI with SEZ, GSTN, and DGFT EDI systems, leading to challenges in data reconciliation and transparency. Proper integration of these systems would lead to seamless flow of data across departments with enhanced tracking, monitoring, and accuracy in the duty drawback disbursement process.

**(Para 7.6)**

17. Acute staff shortages in some of Customs Commissionerates, particularly in the Duty Drawback wing, was found to be adversely impacting the ability of the department in ensuring effective and timely processing of Duty Drawback claims of exporters.

**(Para 7.7)**

### **Recommendations**

**Few of the major recommendations of the PA Report are enumerated hereunder:**

1. CBIC may establish a comprehensive Standard Operating Procedure (SOP) for the timely constitution and functioning of the Drawback Committee, with clearly defined criteria for member selection, quorum requirements, and strict timelines for submission of reports, while ensuring systematic record-keeping and optimal use of data analytics from diverse sources to facilitate consistency, efficiency, and timely notification of drawback rates.
2. CBIC's ICES system may be reviewed for capturing of essential parameters, alert system for inconsistencies, cross-verification of available datasets, viz., local and Custodian EGM for streamlining the automated process of drawback disbursements.
3. The BRC module of ICES should be synchronized with the EDPMS module of RBI to accurately reflect foreign exchange realization on real time basis so as to instill an effective monitoring mechanism on pending forex realization and obviating the need for issuing avoidable demand notices when foreign exchange has already been fully realized.
4. CBIC may address the technical glitches in the extant ICES so as to have unique identifiers and have accurate MIS reporting distinctly for specific types of drawback.
5. CBIC may streamline and expedite verification of claims and fixation processes of brand rate applications, thereby ensuring prompt disposal of drawback claims.
6. DoC should ensure prompt processing of applications within the 90-day period to uphold fairness and efficiency. Additionally, duty drawback refunds should be disbursed within the prescribed 30 days of RA approval to mitigate interest charges, promoting financial prudence and timely benefits to eligible claimants.
7. CBIC should leverage its existing platforms like E-Sanchit and SWIFT for comprehensive automation beyond AIR drawback cases to include all types of claims such as Brand Rate, Special Brand Rate and Supplementary claims.
8. CBIC may develop a robust system by integrating ICES (Indian Customs EDI System) with SEZ online System, GSTN and DGFT EDI Systems so that reconciliation of data may be done with accuracy and transactions may be tracked and managed ensuring transparency in duty drawback processes.

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