

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

New Delhi

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CAG Audit Report Performance Audit on Merchandise Exports from India Scheme and Service Exports from India Scheme presented

The Performance Audit Report of the Comptroller and Auditor General of India on Merchandise Exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS), Union Government (Customs) (Report No. 05 of 2020) for the year ended 31 March 2019 was presented in the Parliament here today.

This report contains significant results of the performance audit on MEIS and SEIS, which was conducted to seek an assurance on the success of facilitation measures introduced for simplifying the process of issuance of scrips and to examine effective linkage of rules and procedures of the Schemes in Directorate General of foreign Trade (DGFT) Electronic Data interchange (EDI) system. This audit covered analysis of pan-India data received from DGFT for the period April 2015 to October 2018.

Significant findings included in this Report are mentioned in the following paragraphs:

- I. The substantial delays in issue of MEIS and SEIS scrips indicated failure of the automated system in achieving the objective of simplification of procedures and ease of doing business.

(Para 2.1 and 2.8)

- II. There were deficiencies in MEIS module in calculating scrip values and “Late Cut” which were attributed to programming bugs by DGFT. The delays in updating the system resulted in incorrect adoption of foreign exchange rates. The MEIS module also did not restrict grant of benefits on ineligible export proceeds realised in INR. Further, the system did not enforce conditions and checks prescribed in the scheme regarding utilization of Shipping Bills (SBs) in more than one Licence and Jurisdictional Provisions.

(Para 2.2 to 2.5 and 2.7)

- III. The extension of MEIS benefits to E-commerce exports amounting to ₹5.52 crore was delayed by almost four years due to delay in amending the regulations and operationalization of E-commerce module.

(Para 2.6)

- IV. To mitigate the risk in the automated system, Risk Management System (RMS) was designed so that sample files would be checked post rewards in order to

ensure that only eligible exporters claimed the rewards. However, deficiencies like non-restriction of inadmissible components viz., Commission, Insurance and Freight (CIF) charges and failure to restrict excess grant on account of misclassification, exports under Minimum Export Price (MEP) were observed due to non-implementation of RMS designed to flag such ineligible/restricted items.

(Para 2.10.1 to 2.10.3)

- V. The non-implementation of RMS for MEIS and SEIS for the period from April 2015 to December 2017 was in contravention of policy provisions and left a key risk control measure unattended for more than two years.

(Para 2.9)

- VI. The substantial delays in issue of MEIS scrips were due to incomplete system driven checks necessitating manual intervention. No clear instructions were issued to field level Regional Authorities (RAs) about the extent of checks required for issuance of MEIS scrips. RAs ended up checking divergent issues. Despite having a system driven approval mechanism, RAs were checking issues like correctness of "Late Cut". In view of such a deficient electronic system, it is not difficult to understand why RAs have been carrying out checks which were supposed to be system-driven.

(Para 3.1)

- VII. Test check also revealed failure of systemic controls in MEIS leading to incorrect grant of reward even though declaration of intent to claim reward was not given/unavailable in SBs, grant of higher rates applicable to handloom products and incorrect utilization of scrips.

(Para 3.2.1 to 3.2.5)

- VIII. The exporters got rewards in cases where the services were misclassified though actual services rendered were not specified in Appendix 3D and benefits amounting to ₹172.72 crore in respect of these services were granted by 7 RAs in 37 cases, by placing reliance on Chartered Accountant (CA) certificates.

(Para 3.3)

- IX. The self-declarations and CA certificates were insufficient to provide assurance about eligibility of services and remittances for grant of rewards under SEIS. However, department relied heavily on these self-declarations and CA certificates for granting rewards. RAs failed to distinguish between eligible (Mode 1 & 2) and ineligible (Mode 3 & 4) services and to segregate and deny rewards to ineligible services. There was lack of clarity in SEIS provisions for port services as to how the actual service providers would get the benefit when they were not directly providing service to foreign consumers.

(Para 3.4 to 3.6)

- X. Condition of effecting exports through specified ports in Customs Notification (16 of 2015 dated 1 April 2015) for allowing exemption of import duties for goods imported against SEIS scrips is not consistent with SEIS provisions.

(Para 3.7)

XI. Exporters declared different nature of services in SOFTEX returns and SEIS claims for the same export. These could have been checked by the DC offices before issue of scrips, which was not done.

(Para 3.8)

XII. No guidelines were issued by DGFT to RAs regarding checks to be exercised as part of due scrutiny before sanctioning SEIS and there was no uniformity in procedure being followed for processing SEIS claims across RAs or DC offices.

(Para 3.9)

XIII. Audit could not find evidence of systematic monitoring on the performance of the RAs by the DGFT. DGFT stated that delays in processing of MEIS / SEIS applications were monitored through JASPER reporting module. However, there was no monitoring of scheme implementation and overall performance of RAs. Periodic evaluation of the scheme would have helped in ensuring that scheme objectives were being met and also for mid-course correction in case of any deficiencies. Mid-term review of Foreign Trade Policy (FTP) done by the Department of commerce was silent on effect of SEIS on service sector exports. Performance of the schemes in terms of achievement of goals was not assessed by DGFT.

(Para 3.10 and 3.11)

XIV. Nothing was found on record to establish that grievance redressal system existed in the online module of MEIS/SEIS and that any pendency analysis of MEIS/SEIS grievances had been done so far by DGFT.

(Para 3.12)

Recommendations:

CAG recommends that:

1. Given the Government's endeavour to shift to e-governance and the vast experience gained by DGFT in automation, it must be ensured that entire system of administration of Foreign Trade Promotion schemes is automated by rolling out fool proof system, duly mapped to Scheme provisions and also leveraging information already available in linked /base systems such as ICES, SEZ online etc., so that it becomes Single Source of Truth.

(Para 2.1 and 2.8)

2. DGFT should review the procedure of granting MEIS/SEIS scrips and lay down appropriate checklist for grant of scrips both electronically and in manual environment.

(Para 2.2 to 2.5 and 2.7)

3. Risk Management System (RMS) be strengthened by plugging the loopholes and leakages in the automated system on issuing of scrips. Appropriate policy framework and system alerts need to be put in place making it mandatory for exporters to declare

Commission, Insurance and Freight (CIF) and for DGFT to check the correctness of self-declaration of exporter/applicant in select cases earmarked by the system.

(Para 2.9 and 2.10)

4. The audit findings on excess grant of incentives reported in chapter 3 were based on test check done on sampled cases using random sampling, in view of the prevalent manual verification. There is every likelihood that such errors of omission and commission might exist in many more cases. Department may check all the remaining transactions also on the lines of audit findings reported in Chapter 3.

5. To prevent scope of misclassification of power loom products under Handloom category, the distinction between power loom and handloom process may be clearly specified.

(Para 3.2)

6. To avoid ambiguity and to bring in more clarity on eligible services, DGFT may consider insisting for CA certificate on exact classification of service with Central Product Classification (CPC) code and the Mode under which it falls, rather than simply stating the serial number of the list of eligible service. Suitable clarity regarding the codes and the modes available for scheme benefits and penal provisions on the shortcomings found in applicant's declarations and CA certificates may be brought in the system. Responsibility of CAs must also be clearly defined and failure on their part be reported to appropriate authority.

(Para 3.3 and 3.4)

7. DGFT may issue clear instructions to RAs about basic checks required before issuing SEIS scrip. Invoking penal provisions may be made mandatory on shortcomings found in applicant's declarations and CA certificates.

(Para 3.5)

8. DGFT should provide clarity in the policy and procedures on segregation of four types of services. Applicants' declarations and CA certificates on classification of services should be reviewed to address the distinction of services.

(Para 3.4)

9. DGFT may devise mechanism in respect of port services so that the intention of granting rewards to actual service providers are protected against claims of aggregator of services and the conditions of exemption in Customs Notification may be drawn in sync with the provisions of the SEIS scheme.

(Para 3.6 and 3.7)

10. The classification of services by various agencies (DGFT, RBI, Customs etc.) needs to be aligned to the Central Product Classification (CPC) code of UNSD to avoid any misuse of incentives which is based on CPC codes.

(Para 3.8)

11. A mechanism must be put in place to ensure that Jurisdictional Development Commissioners verify the validity of classification of service being reported by the service providers to different authorities (DGFT, RBI, Customs etc.) for the same exports.

(Para 3.8)

12. RAs should insist for SOFTEX forms, which was a mandatory declaration under Foreign Exchange Management (Export of Goods and Services) Regulations 2000 for supply of services through data links, in cases where the services were classified/declared under Mode-1 category.

(Para 3.8)

13. For ease of doing business, we recommend that the DGFT may consider an inbuilt system for grievance redressal. The analysis of the same can be used as feedback mechanism for improving the scheme. Monitoring of the schemes on such parameters viz. time taken to process claims, RMS scrutiny etc. could be done to assess the performance of RAs in implementing the scheme.

(Para 3.12)

14. We recommend that DGFT may consider commissioning a mid-term evaluation study of the achievements of any such schemes introduced vis-à-vis the main objectives of the scheme.

(Para 3.10 and 3.11)

The response of the Department to audit observations and recommendations have been incorporated in the Audit Report along with further audit comments wherever required.

BSC/SS/TT