Chapter I
Department of Revenue -Customs Revenue

Resources of the Union Government- Trends, composition and systemic issues

1.1 The Government of India's resources includes all revenue received by the Union Government, all loans raised by issue of treasury bills, internal and external loans and all money received by the Government in repayment of loans. Tax revenue resources of the Union Government consist of revenue receipts from direct and indirect taxes. **Table 1.1** presents a summary of total receipts of the Union Government, which amounted to ₹ 5284052 crore[1] for FY 12. Union Government's own receipts were ₹1220875 crore, constituting only 23.10 percent of the total receipts. The remaining 76.90 percent receipts came through borrowings. Out of its own receipts, ₹ 889397 crore (72.85 percent) is the gross tax receipts.

Table 1.1: Resources of the Union Government

		Cr.₹
Direct Tax Receipts	493988	
Indirect Tax Receipts	395409	
Non-Tax receipts	276573	
A. Total Revenue receipts		1165970
B. Capital receipts		18088
C. Loan & Advances		36817
D. Debt Receipts		4063177
Total Receipts of Government of India		5284052

Note: Tax receipts include ₹ 255414 crore, share of net proceeds of direct and indirect taxes directly assigned to states.
Source: Finance Accounts

Revenue Receipts: Movement of Major Aggregates

Indirect Taxes have fallen on three year average basis during the beginning and end of the foregoing decade of second generation reforms, owing largely to the diminishing indirect tax- GDP ratio.

1.2 Revenue receipts come from both tax and non-tax sources. Tax revenue comprises proceeds of taxes and duties levied by the Union Government, *viz*. taxes on income and expenditure, customs, union excise duties, etc. Gross tax revenue receipts of the Union Government were 9.91 percent of the GDP in FY 12 **(Table 1.2)**. The highest level was attained in FY 08. Gross tax revenues fell to their lowest level in FY 03 to 8.55 percent of the GDP. As percentage of the GDP, gross revenue receipts had shown positive growth of 0.94 percentage points if one compares the three year average for FY 10 to FY 12 with the corresponding figure for FY 03 to FY 05.Tax revenues of the Union Government, net of the share of states, fell a little from 7.36 percent of the GDP in FY 11 to 7.06 percent in FY 12.

[1] Figures are provisional. Source: Finance Accounts

Box 1 : Reporting Parameters

Fiscal aggregates like tax and non-tax revenues have been presented as percentage to the GDP at current market prices. The New GDP series with 2004-05 as base as published by the Central Statistical Organisation has been used. Data up to FY 11 are actuals. For FY 12 provisional figures have been used.

Trend growth rates (TGR) have been indicated for relevant variables. The TGR indicates average annual percentage growth over a period. The present analysis has a reference period of ten years from FY 03 to FY 12.

For most series annual changes have also been indicated. This refers to percentage change of an observation with reference to its value in the previous year.

Three year averages or measures of central tendencies are used wherever relevant for indicating compositional changes with a view to ironing out random influences.

Average tariff is the simple average of all applied tariff rates at 6 digit level.
TWA- Trade weighted average or simply the collection rate which is obtained by dividing the total revenue by the total value of imports. Revenue from basic customs duties alone has been taken into account.

1.3 The Trend Growth Rates (TGR) of gross revenue receipts of the Union Government was 17.07 percent per annum over the last decade (**Table 1.2**). Growth in 2011-12 over the previous year was 12.11 percent, which was below the TGR.

Table 1.2: Revenue receipts: Gross and Net

Cr.₹

Year	Gross Tax Revenues	Share of States	Net Tax Revenues	Gross Direct Tax	Gross Indirect Taxes
FY 03	216266	56122	160144	83089	132542
FY 04	254350	65768	188582	105091	148534
FY 05	305047	78685	226363	132776	171273
FY 06	366172	94406	271766	165222	199702
FY 07	473534	120351	353182	230101	241906
FY 08	593161	151814	441347	312219	279497
FY 09	605309	160190	445119	333859	269989
FY 10	624527	164832	459696	377594	245374
FY 11	793308	219303	574005	445995	345371
FY 12	889397	255414	633983	493987	392674
TGR	**17.07**	**18.2**	**16.66**	**22**	**12.26**

As percent to GDP

Year	Gross Tax Revenues	Share of States	Net Tax Revenues	Gross Direct Tax	Gross Indirect Taxes
FY 03	8.55	2.22	6.33	3.28	5.24
FY 04	8.96	2.32	6.65	3.7	5.23
FY 05	9.41	2.43	6.98	4.1	5.28
FY 06	9.91	2.56	7.36	4.47	5.41
FY 07	11.03	2.8	8.22	5.36	5.63
FY 08	11.89	3.04	8.85	6.26	5.60
FY 09	10.75	2.85	7.91	5.93	4.80
FY 10	9.64	2.54	7.1	5.83	3.79
FY 11	10.18	2.81	7.36	5.72	4.43
FY 12	9.91	2.85	7.06	5.5	4.38
A:Avg (FY 03-05)	8.97	2.32	6.65	3.69	5.25
B: Avg (FY 10-12)	9.91	2.73	7.17	5.68	4.20
C:B-A	0.94	0.41	0.52	1.99	-1.05

Source: Finance Accounts

1.4 This chapter discusses trends, composition and systemic issues in indirect taxes using data from Finance accounts, departmental accounts and relevant data available in public domain, departmental MIS and compliance and performance audit findings in the last decade.

1.5 **Appendix 1 and 2** give role and responsibilities of Department of Revenue (DoR)/Central Board of Excise and Customs (CBEC), brief background of the key processes in indirect taxation, business and tax environment in the last decade**,** for better appreciation of trends and issues in fiscal aggregates of customs receipts.

1.6 The overall sanctioned staff strength of the CBEC is 73806. The organizational structure of CBEC is shown in **Appendix 3**.

Growth of Indirect Taxes - Trends and composition

Table 1.3: Growth of indirect Taxes **Cr. ₹**

Year	Indirect Taxes	GDP	Indirect Taxes as % of GDP	Gross Tax Revenue	Indirect Taxes as % of Gross Tax Revenue
FY 03	132542	2530663	5.24	216266	61.29
FY 04	148534	2837900	5.23	254350	54.80
FY 05	171273	3242209	5.28	305047	51.38
FY 06	199702	3693369	5.41	366172	48.14
FY 07	241906	4294706	5.63	473534	43.07
FY 08	279497	4987090	5.60	593161	38.39
FY 09	269989	5630062	4.80	605309	34.44
FY 10	245374	6477827	3.79	624527	29.83
FY 11	345371	7795314	4.43	793308	34.48
FY 12	392674	8974947	4.38	889397	33.14
TGR	**12.26**	**15.20**	-	**17.07**	-

Source: Finance Accounts

1.7 **Table 1.3** above gives the relative growth of indirect taxes during FY 03 to FY 12. The share of indirect taxes to gross tax revenues[2] has decreased from 61.29 percent to 33.14 percent during the period. Indirect taxes exhibited a trend growth rate (TGR) of 12.26 percent during FY 03 to FY 12. In contrast, GDP has grown by 15.20 percent and gross tax revenue by 17.07 percent during this period. GDP increased from ₹ 25.31 lakh crore in FY 03 to ₹ 89.75 lakh crore in FY 12 whereas Indirect Taxes increased from ₹ 1.33 lakh crore in FY 03 to ₹ 3.93 lakh crore in FY 12.

Growth of Customs Receipts - Trends and composition

Customs revenue as a ratio of GDP has been stagnant at around 1.7 percent.

1.8 **Table 1.4** below gives the growth trends of Customs Revenue in absolute and GDP terms during FY 03 to FY 12. The **table 1.3** shows that indirect tax revenues as a percentage of the GDP declined during the period FY 10 to FY 12, after achieving highest percentage of 5.63 in FY 07. Though, the Customs Revenue as a percentage of Indirect taxes shows marginal increase from 33.89 percent in FY 03 to 38.17 in FY 12, it was stagnant at an average of 1.7 percent of GDP. This was largely due to increase in imports of Petroleum products, Gold and Precious stones, Gems and jewellery **(Appendix 7 & 8)**.

Table 1.4: Growth of Customs Receipt

Cr. ₹

Year	GDP	Gross Tax Revenues	Gross Indirect Taxes	Customs Receipts	Customs Revenue as % of GDP	Customs Revenue as % of Gross tax	Customs as % of Indirect taxes
FY 03	2530663	216266	132542	44912	1.77	20.77	33.89
FY 04	2837900	254350	148534	48613	1.71	19.11	32.73
FY 05	3242209	305047	171273	57610	1.78	18.89	33.64
FY 06	3693369	366172	199702	65067	1.76	17.77	32.58
FY 07	4294706	473534	241906	86327	2.01	18.23	35.69
FY 08	4987090	593161	279497	104119	2.09	17.55	37.25
FY 09	5630062	605309	269989	99879	1.77	16.50	36.99
FY 10	6477827	624527	245374	83324	1.29	13.34	33.96
FY 11	7795314	793308	345371	135813	1.74	17.12	39.32
FY 12	8974947	889397	392674	149876	1.67	16.85	38.17

Source: Finance Accounts

India's export and import for FY 03 to FY 12

1.9 Exports have recorded a growth of 27.68 percent (₹ 316359 crore) during FY 12 as compared to 35.17 percent (₹ 297388 crore) in FY 11 (**Table 1.6**). Imports too have registered a growth of 39.28 percent (₹ 661305 crore) from 23.45 percent (₹ 319731 crore) during the same period. This was mainly on account of higher imports of Petroleum, Oil and Lubricants (POL), gold and silver. With imports, exceeding exports in FY 12, the trade deficit had widened to 9.87

[2]Source: Union Finance Accounts of respective years, GDP – Figures of GDP provided by Central Statistical Organisation in February 2013.

percent of GDP as against 6.93 percent of GDP in FY 11, showing a year on year increase of 42.28 percent. The significant depreciation in the value of rupee, rise in crude oil prices in the international markets, enhanced import of gold and silver along with the import of coal, fertilizer and edible oils have contributed to the trade deficit. Though there has been faster deceleration of imports than exports in the first quarter of FY 13, the exports have registered the sharpest fall in the last three years in July by 14.8 percent owing to falling demand from Europe and US.

1.10 The top five major imports during the last decade were; Petroleum products, Gold, Electronic goods, Pearls-Precious and Semi precious stones, Machinery. The Petroleum products have shown a growth of 54 percent in FY 12 than previous year, while Gold has shown growth of 46 percent during the same period. These commodities accounted for almost 63 percent of total imports during FY 12. Similarly, the top five major Export commodities during the last decade were Petroleum (Crude and Products), Gems and Jewelry, Transport equipments, Machinery and instruments and Drugs- Pharmaceuticals and Fine Chemicals. The Petroleum (Crude and Products) has shown growth of 41 percent during FY 12 than previous year, while transport equipments have shown growth of 37 percent during this period. These commodities accounted for almost 50 percent of total exports during FY 12.

1.11 Top five exporting countries to India during the FY 12 were China, United Arab Emirates, Switzerland, Saudi Arabia and United States of America. Similarly top five importing countries during FY 12 were United Arab Emirates, United States of America, China, Singapore and Hongkong.

Tax base

1.12 The customs revenue base comprised 9,64,791 Importer Exporter Code (IEC)[3] issued, of which 6,79,177 are valid. There are 328 active ports at present; 105 EDI, 68 Non-EDI, 49 Manual and 106 SEZ. During 2011-12, ₹ 67.79 lakh exports and ₹ 62.33 lakh imports transactions took place.

Growth in Imports and Customs Receipts

The customs revenue collected has not grown in tandem with the value of imports.

1.13 The value of imports during the FY 12 had shown growth of 39.28 percent (**Table 1.5**) over the previous years. The growth of the Customs revenue was 10.35 percent in FY 12. The TGR of Imports during FY 03 to FY 12 was 25.96 percent, while TGR of Customs Receipts was 17.83 percent during the same period. During FY 08 to FY 12 the value of imports had shown growth of 132 percent**,** while customs receipts have increased only by 44 percent, although, the peak rate **(Appendix 4)** remained unchanged at 10 percent during this period.

[3] IEC is issued by DGFT, Delhi to every importer/Exporter.

Table 1.5: Growth in Imports and Customs Receipts **Cr.₹**

YEAR	Imports	Growth %	Customs Receipts	Growth %
FY 03	297206	21.21	44912	12.01
FY 04	359108	20.83	48613	8.24
FY 05	501065	39.53	57610	18.51
FY 06	660409	31.8	65067	12.94
FY 07	840506	27.27	86327	32.67
FY 08	1012312	20.44	104119	20.61
FY 09	1374436	35.77	99879	(-)4.07
FY 10	1363736	(-)0.78	83324	(-)16.58
FY 11	1683467	23.45	135813	62.99
FY 12	2344772	39.28	149876	10.35
TGR		**25.96**		**17.83**

Source: Union Budget, Exim Data- Department of Commerce

Increase in the SAD / CVD components of the customs duty do not correlate with the desired trends in the excise duty and central sales tax.

Additional Customs duties and its relation to domestic production and sale

1.14 Customs duty beside the Basic duty involves components of Special additional duty of customs (SAD)[4] and additional duty of customs (CVD). The objectives of the Export promotion schemes and trade agreements are welfare gains and increasing import substitution involving both production and sale functions. However, analysis of expenditure on Central Sales Tax of the Union Government vis-a-vis SAD levied on imports revealed that the CST collection has increased to ₹ 19230 crore in FY 11 from ₹ 8371 crore in FY 01 at an annualized rate of 11.79 percent, correspondingly, SAD collection has also increased to ₹18288 crore in FY 11 from ₹ 2442 in FY 01 at an annualized rate of 58.99 percent as detailed in **Appendix 5.**The annualized increase of CST as compared to that of SAD implied that the imports had not supposedly brought desired influence on the manufacturing activity. Decadal average ratio of CST to SAD shows a growth of 20 percent ranging from 28.62 percent in FY 02 to 95.10 percent in FY 11 with an increasing trend.

1.15 Similarly, analysis of Central Excise receipt of the union Government vis-a-vis additional duty of customs (CVD)[5] levied on imports revealed that the Central excise receipt has increased to ₹ 138372 crore in FY 11 from ₹ 72555 crore in FY 01 at an annualized rate of 8.24 percent, correspondingly, CVD collection has also increased to ₹ 51065 crore in FY 11 from ₹16582 in FY 01 at an annualized rate of 18.90 percent as detailed in **Appendix 6**. Decadal average of ratio of CVD to excise duty has been 27 percent ranging from 16.51 percent in FY 04 to 44.68 percent in FY 09 with an increasing trend.

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[4] Special Additional duty is leviable on all imported goods to counterbalance sales tax, VAT, local tax or otherwise

[5] CVD is a duty equivalent to the excise duty for the time being leviable on a like article had it been produced or manufactured in India.

1.16 In addition, the inverted duty structure in certain commodities reportedly impacted the domestic production value chain. The above is further substantiated by the manufacturing trade deficit having worsened since the early 2000s, which changed the structure of demand in favour of capital goods and did not help the domestic manufacturing of these goods.

Increase in overall Trade Imbalance during the decade FY 03 to FY 12

Balance of Payment and other key economic factors influence the Customs revenue.

1.17 The trade imbalance in FY 12 had increased to ₹8.85 lakh crore from ₹ 0.42 lakh crore in FY 03 **(Table 1.6)** largely due to net imports of oil & petroleum products **(Appendix 7)** and gold **(Appendix 8**). Similarly, FDI[6] **(Appendix 9**) inflow and impact of REER[7] **(Appendix 10**) and inflation have significantly impacted the balance of payment in the burgeoning current account deficit. The trade imbalance in Gold, Precious stones, Gems and Jewellery (Chapter 71 of the Customs Tariff) had increased from ₹ 6693.47crore in FY 03 to ₹ 208307.52 crore in FY 12 **(Appendix 8**).

Table 1.6: Overall Trade imbalance

Trade Imbalance							Cr.₹
YEAR	**Imports**	**Growth %**	**Customs Receipts**	**Growth %**	**Exports**	**Growth %**	**Trade Imbalance**
FY 03	297206	21.21	44912	12.01	255137	22.06	-42069
FY 04	359108	20.83	48613	8.24	293367	40.35	-65741
FY 05	501065	39.53	57610	18.51	375340	27.94	-125725
FY 06	660409	31.80	65067	12.94	456418	21.60	-203991
FY 07	840506	27.27	86327	32.67	571779	25.28	-268727
FY 08	1012312	20.44	104119	20.61	655864	14.71	-356448
FY 09	1374436	35.77	99879	-4.07	840755	28.19	-533681
FY 10	1363736	-0.78	83324	-16.58	845534	0.57	-518202
FY 11	1683467	23.45	135813	62.99	1142922	35.17	-540545
FY 12	2344772	39.28	149876	10.35	1459281	27.68	-885492

Source: EXIM data, Department of commerce

Monitoring of Departmental performance

Department of Revenue does not have a results framework document with objectives, activities, performance and success indicators in line with the subjects of its business allocation, for clearer performance monitoring and evaluation.

1.18 Though Business rules prescribe the subjects allocated to DoR but because of absence of measurable performance indicator as required in Result

[6] Foreign direct investment inflow helps long term fiscal aggregates.
[7] Real effective exchange rate.

Framework Document (RFD)[8] its revenue policy strategy and methodology of gauging its performance is not known. Department of Revenue does not prepare the results framework document (RFD) as is done by 74 other ministries and departments of Government of India with responsibility centers (RC) though, there is one annual report and outcome budget for the entire Ministry of Finance with five big departments and numerous RCs.

Budgeting issues in Customs receipts

Fluctuating gap between Revised Estimates/ Budget Estimates suggests that the department did not adopt any rational method for pre budget analysis and forecasting.

1.19 Despite the actual collections falling short of the budget estimates year after year, the Government continued to make optimistic projections during presentation of the Annual Budget. The percentage variation during the last decade between budget estimates and actual collections was in the range of (-) 16.02 percent to (+) 22.35 percent as shown in **Table 1.7** below. The revised estimates to actual receipts also varied from (-) 7.52 percent to (+) 5.43 percent.

Table 1.7: Budget and Revised estimates, Actual receipts **Cr.₹**

Year	Budget estimates	Revised budget estimates	Actual receipts	Diff. between actuals and BE	%age variation between actuals and BE	%age variation between actuals and RE
FY 03	45193	45500	44912	(-) 281	(-)0.62	(-)1.29
FY 04	49350	49350	48613	-737	(-)1.49	(-)1.49
FY 05	54250	56745	57610	3360	6.19	1.52
FY 06	53182	64215	65067	11885	22.35	1.33
FY 07	77066	81880	86327	9261	12.02	5.43
FY 08	98770	100766	104119	5349	5.42	3.33
FY 09	118930	108000	99879	(-)19051	(-)16.02	(-)7.52
FY 10	98000	84477	83324	(-)14676	(-)14.98	(-)1.36
FY 11	115000	131800	135813	(+)20813	18.10	3.04
FY 12	151700	153000	149876	(-)1824	(-)1.20	(-)2.04

Source: Union Budget and Finance Accounts

Accounting by Principal Chief Controller of Accounts (Pr CCA)

1.20 The Principal Chief Controller of Accounts (Pr CCA) is the Head of the Payment and Accounting Organization in the Central Board of Excise and Customs. Secretary (Revenue) is the Chief Accounting Authority for CBEC. The indirect taxes are accounted for by Pay and Accounts Offices (PAOs) which are under the administrative control of the Office of the Principal Chief Controller of Accounts (O/o Pr CCA), CBEC.

1.21 Pr CCA equipped all its PAOs to perform their functions of accounting and reporting through an automated process. It replaced physical instruments

[8] RFD is required to be prepared under the "Performance Monitoring and Evaluation System (PMES) of Cabinet Secretariat.

and processes with electronic means. This IT initiative is named as "P-CBEC (Principal Chief Controller of Accounts, CBEC)".

1.22 Pr.CCA has deployed "elekha and COMPACT" as ICT solution for maintaining both revenue and expenditure accounts of CBEC and its field formations and is developing appropriate MIS for the user Ministry. Pr CCA, CBEC do not have basic reconciliation features for reconciliation between Pay and Account Offices (PAOs) of different related ministries (Excise, DoC, DGFT) and line offices. The existing accounting classification does not capture interest payment separately (e.g. DBK / CST interest payment). Refunds made from regular expenditure heads are not reflected under tax expenditure.

Tax expenditure and Customs revenues

1.23 The main objective of any tax system is to raise revenues to fund Government expenditures. The amount of revenue raised is determined to a large extent by tax bases and tax rates. It is also a function of a range of measures – special tax rates, exemptions, deductions, rebates, deferrals and credits – that affect the level and distribution of tax. These measures are sometimes called "tax preferences". They have an impact on Government revenue (i.e. they have a cost) and reflect the policy choices of the Government.

1.24 Tax preferences may be viewed as subsidy payments to preferred taxpayers. Such implicit payments are referred to as "tax expenditures" and it is often argued that they should appear as expenditure items in the Budget. In this context, the basic issue is not one of tax policy but one of efficiency and transparency – programme planning requires that the policy objectives be addressed explicitly; and programme budgeting calls for the inclusion of such outlays under their respective programme headings. Tax expenditures are spending programmes embedded in the tax statute.

1.25 The Fiscal responsibility and Budget Management Act 2003, requires that the Central Government shall take suitable measures to ensure greater transparency in its fiscal operations in public interest and minimize secrecy in the preparation of the annual financial statement and demand for grants. It also stipulates that the Central Government shall at the time of the preparation of annual financial statement and demand for grants make such disclosure and in such forms as may be prescribed. Further the Rule 6 of the FRBM Rules 2004 provides that in order to ensure greater transparency in its fiscal operation in the public interest, the Central Government shall at the time of presenting the annual financial statement and demands for grants, make disclosures of any significant change in accounting standard, policies and practices affecting or likely to effect the computation of prescribed fiscal indicators. It further states that these provisions shall be complied, along with the presentation of the annual financial statement and demand for grants for the FY 07.

1.26 The Department of Revenue uses revenue forgone method. The situation has not changed since recommendation of the FC-XIII for more transparent methodology and its disclosure in calculating tax expenditure.

Customs Revenue forgone under Customs Act, 1962

The Customs Revenue forgone is increasing exponentially without commensurate increase in the exports.

1.27 The Central Government has been delegated powers of duty exemption under Section 25(1) of the Customs Act, 1962 to issue notifications in public interest so as to prescribe duty rates lower than the tariff rates prescribed in the Schedule to the Customs Tariff Act. These rates prescribed by notification are known as the "effective rates".

1.28 The revenue forgone is thus defined to be the difference between duty that would have been payable but for the issue of the exemption notification and the actual duty paid in terms of the relevant notification. In other words,

Revenue foregone= Value X (Tariff rate of duty – Effective rate of duty)

1.29 The Revenue foregone as percentage of Customs Receipts during the last five years has shown increase from 162 percent in FY 07 to 191 percent in FY 12 **(Table 1.8).** During the FY 12, 88 percent of the Revenue foregone was on the commodities, Crude and mineral oils, Diamond and Gold, Machinery, vegetable oils and cereals, chemicals and plastics. The Revenue forgone under Export Promotion schemes accounts for 46 percent of the Customs Receipts during the FY 12 **(Table 1.9)**.

Table 1.8: Customs Receipts and Total Customs Revenue foregone **Cr.₹**

YEAR	Customs Receipts	Revenue foregone on commodities including Schemes	Refunds	Drawback paid	Rev. foregone +Refunds+ DBK	Revenue foregone as % of Customs Receipts
FY 07	86327	137105	479.71	2654.55	140239.26	162.45
FY 08	104119	153593	440.69	3236.25	157269.94	151.05
FY 09	99879	225752	912.14	12116	238780.14	239.07
FY 10	83324	233950	2309.32	9219	245478.32	294.61
FY 11	135813	230131	3474.05	8859	242464.05	178.53
FY 12	149876	270693	3020.14	12331	286044.14	190.85

*Note: Data for previous years is not available. Under FRBM Act the Revenue foregone figures were placed first time in the Union Budget in 2006-07.
Source: Union Budget, CBECDDM, CBEC.

Table1.9: Revenue foregone under various Export promotion schemes

Scheme	**Amount foregone/disbursed**				**Cr.₹**
	FY 08	**FY 09**	**FY 10**	**FY 11**	**FY 12**
1. Advance Licence	17654.13	12389	10089.21	19355.28	18306.12
2. SEZ	1803.95	2324.29	3987.06	8630.16	4559.87
3. EOU/EHT/STP	18978.46	13400.65	8076.46	8579.87	4554.64
4. EPCG	10521.39	7832.71	7020.25	10621.24	9672.28
5. Duty Drawback (excluding at Sl.No. 8 below)	9015.77	12116.07	9218.96	9001.39	12513.55
6. DEPB (excluding at 7 below)	5311.5	7087.49	8008.45	8736.4	10404.37
7. DEPB benefits availed by SEZ units	29.29	4.52	19.51	20.15	4.52
8. Drawback benefits availed by SEZ units	14.84	4.45	12.28	17.85	2.55
9. DFRC	607.13	110.61	62.3	43.53	39.93
10. DFECC Schemes to status holder (NTN.53/03-Cus)	471.62	342.32	179.74	96.6	69.93
11. DFECC Schemes to Status holder (NTN.54/03-Cus)	267.95	75.4	54.16	59.79	120.42
12. Target plus schemes-Notification No. 32/2005-Cus and 73/2006-Cus.	923.32	1220.12	267.28	373.99	436.31
13. Vishesh Krishi and Gram Udyog Yojana Notification No. 41-2005-Cus.	537.97	2059.11	2868.68	1788.48	2263.34
14. Served from India Scheme Notification No. 92/2004-Cus.	641.7	530.53	514.86	542.18	555.46
15. DFIA Schemes Notification No. 40/2006-Cus.	1359.14	1267.6	1398.55	1403.99	1224.33
16. Focus Market Scheme – Notification No. 90/2006-Cus.	8.3	264.05	432.38	548.12	894.46
17. Focus Product Scheme – Notification No. 91/2006-Cus.	32.77	144.16	396.26	1209.46	3056.31
TOTAL	**68179.23**	**61173.08**	**52606.39**	**71028.48**	**68678.39**
% of Customs Receipts	**65.48**	**61.25**	**63.13**	**52.30**	**45.82**

Source: CBEC, Ministry of Finance

1.30 Scheme wise duty foregone ranged from 65 percent to 46 percent between FY 08 to FY 12 **(Table 1.9)**. The statement of Revenue foregone would serve the purpose better, if the Revenue outcome assessments of the various promotional schemes, trade agreements and general exemptions are made available as a part of the budget document.

1.31 Receipt Budget of Union has been giving statement[9] of tax expenditure since FY 05. We examined the completeness of these disclosures and found them to be incomplete. Revenue Budget does not take into account drawback refunds and certain scheme based refunds including the refunds made from regular expenditure heads by administrative ministries as indicated in **Table 1.8**.

1.32 *CBEC (Customs) in its reply stated that TRU unit of the Ministry which prepares Revenue Budget may examine inclusion of such disclosures in the Revenue Budget.*

1.33 The first five commodities contributing to majority of revenue foregone are**:**

a. Crude oil and mineral oils
b. Machinery
c. Diamond and gold
d. Edible oils
e. Chemicals and Plastics

Similarly, the country wise duty foregone indicates around 63 exporting countries involved in 98 percent transactions.

Performance of Special Economic Zone in FY 11 to FY 12

There was no outcome analysis of the Scheme at the macroeconomic level.

1.34 Under the SEZ Act 2005, there are 579 approvals given for establishing SEZs, of which 384 have been notified, in addition, there are about 49 in-principle approvals for SEZ **(Appendix 11).**There are 3622 units approved. A total of ₹ 218795 crore has been invested resulting in generation of employment for 945990 persons. It has shown a growth of 15.39 percent over 2010-11 with exports of ₹ 364478 crore **(Table 1.10 below).** Despite a huge growth in exports from SEZ after the Act came into force there is still no revenue outcome analysis at the economic and the Government levels. Most of the quoted performance figures when de-trended may indicate exogenous influences including changes in taxation policy with respect to SEZ and SEZ units. PAC has also discussed the CAG Performance audit report on SEZ at length.

Table 1.10 : Performance of SEZs in FY 11 TO FY 12

Exports in 2010-11	₹315867.85 crore (Growth of 43.11% over 2009-10)
DTA Sale (Counted for +ve NFE)	₹29093.02 crore (8.11% of total production)
DTA Sale (Not counted for +ve NFE)	₹13881.20 crore (3.87% of total production)
Exports in 2011-12	₹364477.73 crore (Growth of 15.39% over 2010-11)
DTA Sale (Counted for +ve NFE)	₹32472.70 crore (8% of total production)
DTA Sale (Not counted for +ve NFE)	₹29664.83 crore (7% of total production)

Source: www.sezindia.nic.in

[9] As Annex-15 of the Receipt Budget of Union since 2004-05

1.35 *CBEC stated (April 2013) that a Study group headed by Director General (DRI) had in their interim report recommended that;*

a. *Introduction of system of Revenue audit of the units and developers operating within the SEZ on periodical basis;*
b. *Application of provisions of Customs Act including those relating to enforcement, prosecution and recovery of dues to detect cases of mis-declaration, import-export of prohibited or hazardous materials instead of relying on self certification with minimal checks;*
c. *The powers of supervision and control over the officials performing customs functions in SEZ be vested with the jurisdictional Commissioner of Customs.*

1.36 *CBEC further stated that as the Department of Commerce administered the scheme of SEZ and they would submit the final report of the Study Group.*

1.37 DRI unit (CBEC) found that some SEZ units were involved in export of junk items having no commercial value, undervaluing imports and clearing them into Domestic Area and replacing goods declared in shipping bills after customs stuffing. This further necessitates an outcome assessment of SEZ and such a report be made available as a part of the budget document.

1.38 *CBEC replied (April 2013) that the amount of duty foregone on the imported goods was approximately ₹45 crore and the Director of the firm was arrested and remanded under judicial custody.* The reply did not address the audit observation that there was a need for an outcome assessment of SEZ by DoR factoring in the DRI inputs.

Customs procedure and Trade facilitation

ICT based solutions (ICES) and self assessment were not extended to all customs transactions.

1.39 The Government continued to streamline customs procedures and implement various trade facilitation measures **(Appendix 12)**. Self Assessment is a major trade facilitation measure that could result in significant reduction in the time taken for clearance of imported/export goods through Customs as witnessed in case of the Excise and Service tax department. Some of the initiatives taken include the introduction of EDI, "self assessment" for imports as well as exports and increased coverage of the risk management system (RMS) to carry out assessment on randomly selected bills of entry based on risk parameters and On Site Post Clearance Audit (OSPCA) . The level of customs intervention in the clearance of import and export cargos is intended to progressively reduce. In addition AEO (Authorized Economic Operator) and large taxpayer unit (LTU) have been introduced for international and national facilitation. For expeditious sanction and refund of 4% SAD, the procedures applied in general and especially for ACP importers have been simplified for sanction of refund without pre-audit within a fixed time of 30 days. Further, the utilization of refund of 4% SAD paid through different scrips such as DEPB/Reward Schemes has been relaxed by allowing manual registration of such scrips.

Risk Management system (RMS)

1.40 Efficiency of RMS is hinged on the precision of the outliers highlighted and increasing the coverage of the ICT application to all air cargo, sea port and land ports, SEZ / EOU. All Non-EDI ports may be included while EDI ports may necessarily do all fillings through the system. *CBEC concurred with the views of audit.*

On Site Post Clearance Audit (OSPCA) Scheme

1.41 After introduction of OSPCA, on one hand Customs department had effectively stopped the audit of ACP clients, while on the other the OSPCA scheme had not fully picked up. We found that during FY 12, only 51 out of 260 ACP clients against 6.81 lakh importers/ exporters were audited. The present level of ICT application (ICES) needs to be augmented and self assessment needs to be extended to all official customs transactions for an effective facilitation.

1.42 *CBEC stated that as per guidelines issued, all ACP importers are required to be mandatorily audited once in the year, 51 ACP were audited during FY 12 after the scheme was made operational from October 2011.*

1.43 The reply did not address the audit observation that self assessment enabled by ICES and RMS had not been extended to all the exporters/importers (paragraphs 1.39 – 1.41).

Reduction in the Transaction cost

1.44 Trade facilitation and issues of efficiency in tax administration intrinsically point at reduction in the transaction cost of exports which could also help in making exports competitive. Ministry of Commerce and Industry in October 2009 constituted a Task force on transaction cost. The mandate of the Task force was to look into various issues affecting the competitiveness of Indian exports, provide recommendations to the Government and initiate a set of 'executable' remedial measures towards reducing latencies and costs associated with trading across borders. Task force report (January 2011) on Transaction cost analysis, acknowledged the estimates of US $ 13 billion (8-10 percent of the cost) made by World Bank's Doing business report. It considered the costs associated with enforcement of the legislation, regulation and administration of trade policies involving seven Ministries and identified 44 issues and estimated a benefit of ₹ 2100 crore "in perpetuity" on amelioration of 23 issues.

1.45 *CBEC stated (April 2013) that instructions were issued to field formations on recommendations relating to Customs. CBEC further added that they had introduced various maintenance initiatives like 24x7 clearance operations at selected ports and air ports, expansion of coverage of ACP scheme, introduction of common bond facilities in respect of export promotion schemes besides* *principally agreeing to integrations of ACES and ICES, EDI and SEZ automation software.* Audit maintained that there should be a periodic analysis of the reduction in transaction cost.

Human Resources management objectives in CBEC

1.46 Director General of Human Resource Development formed in November 2008 has specific roles with respect to Cadre management, Performance management (of group and individual levels), capacity building, strategic vision development and welfare and Infrastructure divisions for a 73806 strong work force. Inputs for CBEC's five year strategic plan was sought by DG Inspection on 1 Feb 2013 so that;

a. Indirect tax to GDP ratio could be improved;

b. A robust RMS covering all ports and transactions could be in place;

c. Officials and officers are trained to use ICES proficiently;

d. Technical audit procedures is strengthened;

1.47 The RFD FY 13 already covers the important activities mentioned above. The measurement and success indicators are not correlated with the policy decisions already taken by Government in case of self assessment, OSPCA, RMS and use of ICT, ICES. Since Customs duty is intertwined with other tax and foreign policies of Government, there is a need to look at the systemic level for restructuring and re-allocation of human resources after honing appropriate skills and filling the capacity gaps.

1.48 *CBEC concurred (April 2013) with the audit that there was a need to look at the systemic level for restructuring and relocation of human resources. It however, added that fixing benchmark in terms of RFD parameters for recently initiated measures such as self assessment and OSPCA may be a premature step on account of initial constraints associated with implementation of these schemes.*

1.49 Audit maintains that measurement methodology defining the success indicators would be necessary for a precise RFD reporting of CBEC (Customs)/DoR.

Arrears of customs duties

There is a need to strengthen the recovery mechanism of the department.

1.50 The amount of customs duty assessed up to 31 March 2012 which was to be realised as on 31 December 2012, was ₹ 10506 crore. Customs revenue of ₹ 7420.42 crore demanded up to March 2012, was not realised by the department at the end of the FY 12 (**Table 1.11**). Of this, ₹ 2709.59 crore was undisputed. However, ₹ 1039.88 crore (38 percent) of the undisputed amount had not been recovered for a period of over five years.

1.51 *CBEC replied (April 2013) that directions were issued for a multi pronged action for realization/liquidation of revenue arrears. Chief Commissioner (Tax*

Arrear Revenue) circulated an action plan to all field formations, which includes creation of computerized database; special monitoring of cases under Section of 142 of the Customs Act etc. for obtaining time bound results in this direction. CBEC further added that Chief Commissioners were to take steps to publish the names of defaulters and also offer reward to informers. To monitor the progress of arrears recovery, inspection of the Zones was undertaken. During the 26 March2013 meeting DoR informed that the tax recovery mechanism was very elaborate with a dedicated Director General. A target of Rs 9000 crore had been set for recovery and the department had fared well against this target. CBEC also agreed to provide recovery details of the last two years.

1.52 Audit maintains that there is a need to strengthen the recovery mechanism of the department.

1.53 Another interesting trend emerged from the customs revenue collection figures wherein the same was mostly the highest in the month of February/March and subsequently the refunds (including Drawback) was the highest in the following months from April-June. It indicates the measures adopted by Government to meet the ad hoc revenue targets. **Table 1.11** below gives information on the arrears.

Table 1.11: Arrears of Customs duties **Cr.₹**

Zone	Amount under dispute				Amount not under dispute				
	< five years	five years but < ten years	> ten years	Total (Col.2+3+4)	< five years	five years but < ten years	>ten years	Total (Col. 6+7+8)	Grand Total (Col.5+9)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
1. Delhi	222.38	40.68	34.29	297.35	210.04	93.69	27.64	331.37	628.72
2. Delhi-Prev	16.96	3.99	0.74	21.69	4.90	2.65	6.00	13.55	35.24
3. Delhi-CX	54.41	1.66	0.00	56.07	1.51	14.50	0.00	16.01	72.08
4. Jaipur	4.58	6.33	21.21	32.12	0.00	1.62	6.14	7.76	39.88
5. Chandiagarh	17.11	3.99	1.26	22.36	4.90	2.65	6.00	13.55	35.91
6. Lucknow	0.31	0.00	0.00	0.31	3.95	0.00	0.00	3.95	4.26
7. Meerut	42.59	1.72	12.38	56.69	284.63	96.00	0.43	381.06	437.75
8. Nagpur	196.87	23.60	0.82	221.29	0.32	0.32	0.14	0.78	222.07
9. Pune	57.40	40.27	6.81	104.48	4.85	19.42	7.51	31.78	136.26
10. Mumbai – 1	283.83	74.20	18.28	376.31	114.07	128.27	51.6	293.94	670.25
11. Mumbai-ICX	29.75	12.49	81.52	123.76	25.17	6.64	0.00	31.81	155.57
12. Mumbai – 2	46.42	3.08	0.00	49.50	413.14	13.80	0.00	426.94	476.44
13. Mumbai-II CX	16.92	39.55	12.18	68.65	0.00	0.00	0.00	0.00	68.65
14. Mumbai – III	135.15	150.87	63.97	349.99	81.57	40.00	102.20	223.77	573.76
15. Mumbai LTU	67.12	0.00	0.00	67.12	0.00	0.00	0.00	0.00	67.12
16. Vadodara	86.44	11.78	0.92	99.14	5.98	3.59	0.34	9.91	109.05
17. Ahmedabad	654.84	228.21	59.49	942.54	4.71	4.69	33.30	42.70	985.24
18. Ahmedabad-CX	54.25	1.32	0.00	55.57	3.98	0.00	0.50	4.48	60.05
19. Bhopal - CX	0.00	0.00	0.02	0.02	0.00	12.15	0.00	12.15	12.17
20. Chennai – Cus	101.43	128.31	23.00	252.74	266.83	176.47	25.09	468.39	721.13
21. Chennai -CX	160.58	0.01	0.56	161.15	3.41	0.28	0.14	3.83	164.98
22. Chennai - Prev.	76.26	4.00	0.84	81.10	59.30	2.76	0.75	62.81	143.91

Zone	Amount under dispute				Amount not under dispute				
	< five years	five years but < ten years	> ten years	Total (Col.2+3+4)	< five years	five years but < ten years	>ten years	Total (Col. 6+7+8)	Grand Total (Col.5+9)
23. Bangalore- Cus	224.58	8.92	13.4	246.90	43.23	6.13	7.85	57.21	304.11
24. Bangalore - CX	16.92	2.67	0.26	19.85	1.19	31.32	4.06	36.57	56.42
25. Hyderabad	91.33	13.72	9.93	114.98	3.61	27.95	8.5	40.06	155.04
26. Cochin	11.11	5.16	8.27	24.54	28.75	6.22	2.51	37.48	62.02
27. Coimbatore	108.19	2.79	27.87	138.85	10.42	1.02	0	11.44	150.29
28. Mysore	9.63	0	9.68	19.31	1.03	2.34	0.00	3.37	22.68
29. Visakhapatnam	159.59	25.09	9.31	193.99	19.98	37.46	1.85	59.29	253.28
30. Kolkata - Cus	385.28	46.13	55.85	487.26	62.40	11.37	0.32	74.09	561.35
31. Kolkata -CX	2.06	0	0	2.06	2.60	0	0	2.60	4.66
32. Bhubneshwar -CX	0.00	18.25	2.27	20.52	2.05	0.48	0.51	3.04	23.56
33. Patna - Cus (P)	0.00	0.05	0.00	0.05	0.00	2.71	0.00	2.71	2.76
34. Shillong -CX	2.57	0.00	0.00	2.57	1.19	0.00	0.00	1.19	3.76
Total	**3336.86**	**898.84**	**475.13**	**4710.83**	**1669.71**	**746.50**	**293.38**	**2709.59**	**7420.42**

Source: Departmental MIS, CBEC, CAG Audit reports

Additional revenue realized because of Directorate General of Valuation

1.54 As a result of inputs given by the Directorate General of Valuation (DGOV), additional revenue realized during last five years is as shown in **Table1.12** below. The ratio of realized amount to the Customs revenue collected is insignificant (0.76 percent). With the reduced tariff, greater depth of classification and enhanced ICT application, valuation could be leveraged for a greater significance.

Table 1.12: Additional revenue realized because of DGOV

Financial Year	**Amount realized Cr. ₹**	**% increase/decrease over last year**
FY 08	735	+17.22%
FY 09	727	-1.09%
FY 10	790	+8.67%
FY 11	930	+17.70%
FY 12	1096	+17.86%

Source: Annual Reports, Ministry of Finance

Trade remedial duties due to Safeguards, Antidumping and Anti Subsidy measures

1.55 The Director General of safeguards is required under Customs Tariff (Identification and Assessment of Safeguard Duty) Rules, 1997 to investigate the existence of 'serious injury' or 'threat of serious injury' to the domestic industry as a result of increased imports of an article into India and submit his findings to the Central Government. The Directorate General of safeguards has carried out 25 investigations shown in **Appendix 13.** Since 2010, Safeguard measures could also take form of quantitative restriction.

Anti Dumping Duties

1.56 Director General of Antidumping initiated first anti-dumping investigation in 1992. During this period the DGAD received large number of applications for initiating anti-dumping investigations. After examination of these applications, anti-dumping investigations initiated in 281 cases involving 35 countries/territories (considering 25 EU countries as a single territory).

1.57 The countries prominently figuring in anti-dumping investigations are China PR, EU, Chinese Taipei, Korea RP, Japan, USA, Singapore, Indonesia, Thailand, Russia etc.

1.58 The major product categories on which anti-dumping duty was levied are chemicals & petrochemicals, pharmaceuticals, fibers /yarns, steel and other metals and consumer goods. The duties collected due to the remedial measures are nominal compared to total Customs duty. The duties form an insignificant portion (0.020 percent in 2011) of the total customs duties. However, CAG's Compliance Audit reports have reported ways adopted by importers to evade of the Anti dumping duties.

Tax Evasion, Investigation and Seizures

There has been an increasing trend in duty evasion cases. Recent trends in duty evasion were in the case of Gold, Flora and fauna, Fake Indian Currency Notes, Memory cards, Rough diamonds.

1.59 We noticed during the analysis of duty evasion cases under the various schemes that there was an increasing trend in evasion of cases both in terms of numbers and in terms of amount as well during the last 5 years (2007-08 to 2011-12) as shown in the **Appendix 14**. The duty evasion cases rose from 434 to 527 and from ₹ 726 crore to ₹ 1842 crore during the period of five years referred to above. Interestingly, this was also the period when various ICT solutions were introduced and Self assessment, RMS based PCA and intelligence was embarked on with a gradual shift towards OSPCA.

Increasing Trend in Seizures of Specified Commodities

1.60 Scrutiny of Seizures of Specified Commodities during FY 07 to FY 11 **(Appendix 15)** reveals that there was an increasing trend in seizures of specified commodities in terms of All India as well as DRI level.

1.61 It was seen that total amount of Seizures at All India and DRI levels rose from ₹ 689.16 crore to ₹ 2475.70 crore and from ₹ 377.40 crore to ₹ 813.26 crore respectively. Maximum rise was in Machinery/Parts, Fabrics/Silk Yarn etc., Electronic Items, Narcotic Drugs and Vehicles/Vessel/Air Crafts etc. This was despite tariff rationalization, increasing trade openness, facilitation and surveillance.

Cost of Collection for the FY 03 to FY 12

Despite automation and extensive use of ICT, the cost of collection has not come down appreciably

1.62 The cost of collection ranged from 0.89 percent to 1.84 percent with average decadal cost of 1.19 percent **(Table 1.13)**. The average cost of collection during the period FY 10 to 12 as compared to FY 03 to 05 had increased by 0.29 percent, despite automation and extensive use of ICT.

Table: 1.13: Cost of Collection during FY 03 TO FY 12 Cr.₹

Year	Expdtr. on Revenue, Import /export and trade control functions	Transfer to Res. Fund, Deposit A/c and other expenditure	Expenditure on preventive and other functions	Total	Customs receipt	Cost of collection as percentage of customs receipts
FY 03	131.61	270.33	0.00	401.94	44912	0.89
FY 04	155.56	514.58	0.00	670.14	48613	1.38
FY 05	145.42	573.10	0.00	718.52	57610	1.25
FY 06	159.45	646.60	11.55	817.60	65067	1.26
FY 07	152.55	687.06	10.71	850.32	86327	0.98
FY 08	165.40	759.71	13.91	939.02	104119	0.90
FY 09	234.56	989.28	11.65	1235.49	99879	1.24
FY 10	304.38	1217.85	9.83	1532.06	83324	1.84
FY 11	292.89	1420.71	4.76	1718.36	135813	1.27
FY 12	306.05	1577.31	5.02	1888.38	149876	1.26
A: Avg (FY 03-05)						1.17
B: Avg (FY 10-12)						1.46
C: B-A						0.29

Source: Figures from Finance Accounts

1.63 *DoR in its reply agreed to analyze the reason for the rising cost of collection which adversely impacts the net divisible share apportionable to the States. It stated that -prima facie- it appeared to be on account of ICT costs.*

Accounting based Internal Audit irregularities.

The internal audit report does not provide a control based assurance in line with its risk assessment.

1.64 Internal audit done by the Principal Chief Controller of Accounts (Pr.CCA), CBEC is aimed at audit of different payment and accounting functions of CBEC. Though internal audit is an integral part of the internal control system, the internal audit reports of Pr.CCA indicated pendency to the tune of 13,942 internal audit paras.

1.65 Irregularities apart from points of establishment audit indicated by Pr. CCA till FY 12;

a. Cases pending adjudication in 29 offices of ₹ 692 crore.

b. Non-disposal and delay in disposal of confiscated goods of ₹ 13.25 crore.

c. Non-realisation of custom revenue of ₹ 22 crore.

d. Non recovery of arrears.

e. Non reconciliation of revenue credit (₹ 2219.42 crore).

f. Non reconciliation of refund, rebate, drawback.

g. Non recovery of dues from Private parties/ Autonomous bodies (₹ 21.74 crore.)

1.66 *CBEC stated (April 2013) that PAO will look into the matter.*

Effectiveness of Technical audit by DG (Audit), CBEC

1.67 Departmental audit is an important instrument of internal control which detects non compliance and inefficiencies and initiates remedial action on shortcomings. To ensure effective inspection system CBEC issued instructions on the subject recently. Table below gives quantitative achievements in this area during FY 05 to FY 10. The ratio of percentage of duty detected/recovered to Customs Receipts was insignificant.

Table 1.14: Departmental audit during FY 05 to FY 10 **Cr.₹**

FY	Audits conducted	Duty detected	Duty recovered	Duty detected to Customs Receipts %	Duty recovered to Detected %	Duty recovered to Customs Receipts %
FY 05	25938	2094	280	3.63	13.37	0.49
FY 06	28596	3846	581	5.91	15.11	0.89
FY 07	64060	5046.89	894.94	5.85	17.73	1.04
FY 08	71903	7503.72	1522.49	7.21	20.29	1.46
FY 09	1147	260	74	0.26	28.46	0.07
FY 10	2486	1025	232	1.23	22.63	0.28

Source: Annual Reports, Ministry of Finance

Quality of EDI assessments

1.68 The Indian Customs Electronic Data Interchange System (ICES) envisages acceptance of customs documents electronically and exchange of information electronically in centralized/structured formats, integrating customs with other agencies and was developed to implement the various provisions of the Customs Act 1962, Customs Tariff Act 1975 (CTA) and Central Excise Tariff Act 1985 (CETA). The system was designed to transact customs clearance electronically using Electronic Data Interchange (EDI).

1.69 A review of the ICES was conducted (C&AG's Performance Audit Report No. 24 of 2009-10) where the salient observations were; (i) deficiencies in the system design which led to incomplete capture of data leading to manual interventions and consequently incorrect levy of customs duty, (ii) incorrect mapping of the business rules which enabled excess sanction of drawback/DEPB credits and (iii) inadequate change management controls led to non-updating of notification master tables and incorrect updating of 'drawback schedule'.

Audit effort and Customs Audit Products

The accounts based internal audit by Pr.CCA and technical audit (PCA or OSPCA) by DG Audit, CBEC, do not provide an assurance on the adequacy of the internal controls.

1.70 Custom department has been computerized by introducing ICES in 1994 and further upgraded to ICES 1.5 version also introduces Risk Management System (RMS) by flagging various risk factors on valuation, classification, notification etc. in the system. Computerization seeks to improve the assessment process of imported goods as well as exported goods and minimizes irregularities of incorrect calculation of duty, application of tariff rates, application of exemption notifications, mis-classification of goods in general.

1.71 However, we have found during test check that in number of cases ineligible exemptions, deductions and concessions were given to the licensees and importers. Audit report for the period FY 03 to FY 12 indicated that there were generally six kinds of observation involving ₹2129.73 crore in 1709 paragraphs (**Table 1.16**).

a. Incorrect classification;
b. Incorrect application of exemption notification;
c. Condition of notification not fulfilled;
d. Incorrect exemption due to miscalculation;
e. Scheme based exemption;
f. Incorrect assessment of customs duties

1.72 During the FY 07 to FY 12, audit observations were noticed in respect of top five commodities imported namely Petrol, Oil, Polymers, Electronics, Yarns and Fibres. Similarly, most observations were made in respect of promotion and exemption schemes in the Export Oriented Units/EPZ/SEZ units, Export Promotion Capital Goods Scheme, Advance authorisations and Vishesh Krishi Upaj Yojana during the same period.

Compliance Audit Report

1.73 Compliance audit was managed as per to the Comptroller and Auditor General's (CAG) Audit Quality Management Framework, 2009 employing professional auditing standards of the Auditing Standards, 2nd Edition, 2002.

Sources of information and the process of consultation

1.74 Data from the Union Finance Account, Annual Data Dump of Customs (CBEC), Single Sign On (SSO id) based access of ICES 1.5 was used along with examination of basic Records/ documents in DoR, CBEC, Department of Commerce and their field formations. MIS, MTRs of CBEC along with other stake holder reports were used. We have nine field offices headed by Director Generals (DGs)/ Principal Directors (PDs) of audit, who managed audit of 532 units in FY 12, issued 12461 Audit observations valued at ₹ 10824 crore.

1.75 Chapter one of the current Compliance audit report analyses the customs revenue framework its fiscal size and significance, relative to the gross Union Revenue aggregates. The resultant issue area has been audited and presented in Chapter two, which reports the observations on scheme based duty exemption or remission, while Chapter three highlights the cases of incorrect assessment, Chapter four reports cases of incorrect application of general exemption and Chapter five highlights the cases of misclassification of goods. The current report has 31 paragraphs of ₹31.48 crore. We had issued another 90 paragraphs for the audit conducted upto March 2012 (Annexure-I). The department/Ministry has already taken rectificatory action involving money value of ₹ 30.80 crore in these 90 paragraphs in the form of issue of show cause notices, adjudication of show cause notices and reported recovery of ₹ 27.76 crore.

1.76 Remedial action taken on the compliance audit report and their status as of March 2013 is given in **Table 1.15** below.

Table No 1.15

Report No.	CBEC, Customs		DoC	
	ATNs pending	ATNs not received	ATNs pending	ATNs not received
CA 10 of 1998 (CUS)	1	-	-	-
CA 10 of 2005 (CUS)	-	-		-
CA 7 of 2006 (Cus,CX,ST)	1	-	5	-
CA 7 of 2007 (Cus,CX,ST)	3	-	1	-
CA 7 of 2008 (Cus,CX,ST)	3	-	1	-
CA 20 of 2009-10 (Cus, CX, ST)		-	5	-
CA 14 of 2009-10	1	-	1	1
CA 24 of 2010-11	1	-	3	
CA 31 of 2011-12	6	1	7	5
Total	**16**	**1**	**23**	**6**

Source: CBEC, Ministry of Finance

Performance Audit Report

1.77 Performance audit with the aim to highlight the outcome of the schemes on certain specific procedures revealed that the outcome was difficult to gauge because of a lack of specific performance indicator and success measurements. 2004-05 onwards the reports started giving recommendations, 74 recommendations were given, of which 44 were accepted by Government. Generally, a period of five years is taken for performance audit of the Scheme employing professional auditing standards and Performance Auditing Guidelines, 2004. **Appendix 16** gives details of Performance Reviews carried out during the period FY 02 to FY 12

Public Accounts Committee (PAC):

1.78 PAC has taken up 10 reviews (Part or complete) for discussion, of which, Action Taken Report of three reviews have been prepared. Of all the topics, PAC extensively discussed SEZ, on which ATR has been received. PAC recommendations have been broad based at the levels of tax policy, administration and implementation. It has also observed on issues of inter ministerial coordination, scheme outcome as well as inadequate monitoring.

Response to CAG's audit, revenue Impact/follow-up of Audit Reports

1.79 In the last ten audit reports (including current year's report); we had included 1709 audit paragraphs (**Table 1.16**) involving ₹ 2129.73 crore. Of these, the Government had accepted audit observations in 1390 audit paragraphs involving ₹ 1177.03 crore and had recovered ₹ 156.89 crore.

Table 1.16: Follow up of Audit Reports **Cr. ₹**

Year	Paragraphs included		Paragraphs accepted						Recoveries effected					
			Pre printing		Post printing		Total		Pre printing		Post printing		Total	
	No.	Amt	No.	Amt	No.	Amt	No.	Amt	No.	Amt	No.	Amt	No.	Amt
FY 03	252	222.42	165	132.23	16	0.6	181	132.83	106	8.70	16	0.60	122	9.30
FY 04	251	941.10	177	94.44	11	494.84	188	589.28	128	10.06	23	1.59	151	11.65
FY 05	256	355.79	178	45.41	5	0.87	183	46.28	122	4.13	5	0.87	127	5.00
FY 06	139	63.22	74	25.92	38	6.84	112	25.92	49	11.69	36	5.93	85	17.62
FY 07	133	121.99	94	105.18	25	8.15	119	113.33	57	7.32	25	2.31	82	9.63
FY 08	182	96.50	137	37.83	27	5.51	164	43.34	80	9.85	22	4.08	102	13.93
FY 09	133	56.20	101	33.75	23	10.89	124	44.64	68	16.54	18	3.30	86	19.84
FY 10	124	79.62	102	32.71	7	2.35	109	35.06	63	18.01	3	0.37	66	18.38
FY 11	118	130.61	102	98.68	14	11.81	102	98.68	56	17.81	3	4.07	59	21.88
FY 12	121	62.28	108	47.67	Not Applicable		108	47.67	79	29.66	Not Applicable		79	29.66
Total	**1709**	**2129.73**	**1238**	**653.82**	**166**	**541.86**	**1390**	**1177.03**	**808**	**133.77**	**151**	**23.12**	**959**	**156.89**

Source: CAG Audit reports