CHAPTER VIII

Audit of DGFT's EDI System

8   Introduction

The Directorate General of Foreign Trade (DGFT) under the Department of Commerce (DOC) formulates and implement the Foreign Trade Policy (FTP). It has 36 Regional Licensing Authority (RLAs) offices all over the country, including the 4 Zonal Offices, at Delhi, Mumbai, Chennai and Kolkata.

The Directorate General of Foreign Trade (DGFT) started web based application processing in the late nineties for a few export promotion schemes. All 36 RLA offices are computerized and connected to the DGFT Central server through National Informatics Centre's NICNET service. The DGFT's EDI system is part of e-Trade, an Integrated Mission Mode Project (MMP) under National e-Governance Plan (NEGP). This seeks to simplify procedures, introduce electronic delivery of services by regulatory and facilitating organisations, provide 24x7 access to users, increase transparency in procedures, reduce transaction cost and time, and introduce international standards and practices in the area of clearance of export/ import of cargo. Other organisations involved in this integrated EDI implementation are Airports, Airlines, Export Promotion Councils, Banks and RBI, Customs, Container Corporation of India (CONCOR), DGFT, Export Promotion Organisations, Director General of Commercial Intelligence and Statistics (DGCIS) and Inland Container Depots (ICDs)/ Container Freight Stations (CFS), Indian Railways and Port Trusts.

8.1   Salient Features of the DGFT EDI System

The System architecture employed is a mix of centralized server application, and Distributed functions. All the applications are developed by NIC except the application for digital signatures which is outsourced. All the data is stored at the Central Server at New Delhi. Data pertaining to each RLA is distributed to the respective licensing office for processing and the processed data is reverted back to the Central Server. Filing of applications and processing under two licensing schemes are directly being done from Central Server over the web without transferring the data to RLAs. DGFT is presently using IBM DB2 9.7 Enterprise Version Database software after migration from DB2 Ver.8.2. Migration has been completed at the central level and is in progress at RLAs.

DGFT's EDI data is stored in four databases, namely, DGFTMAIN, DGFTRLA, EBRC and DGFT. While the first three forms the set of central databases the database named DGFT resides with each Regional Licensing Authority (RLA).

8.2   Audit Objectives, Scope and Methodology

8.2.1   Audit Objectives

The Theme Based Audit was taken up with the objective of conducting a control objective based Systems Audit of the DGFT's EDI Systems to gain an assurance that adequate controls are in place to ensure the safeguard of IT Assets and the essential attributes of data/ information are appropriately maintained in terms of its Effectiveness, Efficiency, Confidentiality, Integrity, Availability, Compliance and Reliability.

Audit findings have been arranged based on the Systemic Issues, adequacy of process controls and mapping of the business processes and rules.

8.2.2   Scope of Audit and methodology

Central as well as local data pertaining to the last three years, i.e., 2011-12, 2012-13 and 2013-14, was analysed using SQL queries and test check was carried out from the physical files at the RLA offices under the audit jurisdiction of the 9 field audit offices at Ahmadabad, Bengaluru, Chennai, Chandigarh, Delhi, Lucknow, Hyderabad, Kolkata and Mumbai.

8.3   Audit findings

The audit findings are categorised into systemic issues and issues relating to incorrect mapping of business rules in the DGFT EDI System.

There were no mention of progress on EDI initiatives by DGFT, DOC in the Annual Report for the year 2013-14.   Further, the Results Framework Document (RFD) DOC (2013-2014), shows that only 2 percent weightage has been assigned to the EDI initiatives required to fulfil this objective.

In the Financial Outlays and quantifiable deliverables section of the Outcome Budget of the DOC for the year 2013-14, the DOC has made a Plan Outlay of ₹ 10 crore towards making DGFT a paperless organization to reduce transaction cost and time. However, the Outcome Budget document does not define the deliverables, stating that the deliverables cannot be quantified and the achieved results can only be gauged in terms of intangible outcomes like more transparent decision making and reduction in transaction cost to the exporting community.

8.4   Systemic Issues

Expenditure incurred on hardware, software, security audit of the eBRC project, AMCs and outsourced manpower during FY12, FY13 and FY14 was ₹ 7.09 crore, excluding the cost of acquiring digital signatures for DGFT users and the cost of basic infrastructure with NIC.

DGFT Headquarters did not have the system design and architecture or any system documentation such as User Requirement Specifications (URS),

System Design Documentation (SDD), data flow diagrams, Service Level Agreements (SLAs), manuals, backup and restoration policies, etc. DGFT did not provide files and records relating to their EDI Systems to audit. DGFT only provided audit with the backup files of their four databases along with the table and column descriptions of only 520 of the 873 user tables in the four databases. The DGFT has admitted that it's EDI System suffers from the following shortcomings;

(i)   There is no IS Organization, Steering Committee with well-defined roles and responsibilities.

(ii)   The DGFT has not developed or documented a Project Management Reports, Performance Analysis Reports for its EDI Systems, Business Continuity Plan (BCP).

(iii)   There is no Data Backup Policy; Disaster Recovery Plan (DCP) documents, Data Storage Policy, Password Policy, Access Control Policy, Hardware change policy etc.

(iv)   The DGFT EDI System does not provide for a recorded trail of all transactions and no internal audit of the EDI System was carried out.

In RFD for action 2.1 to 2.6, namely, 'Online' redemption (EODC) discharge of AA and EPCG, Online registrations and status-monitoring of EDI errors of various authorisations, consolidation and expansion of eBRC and Electronic Fund Transfer (EFT) initiatives of DGFT, message exchange program for chapter 3 schemes, operationalization of Niryat Bandhu scheme and reduction in transaction costs, the targets have not been achieved in qualitative terms. Further, in the Outcome Budget for year 2013-14, there is only a mention of the quantifiable deliverables. The claimed outcome regarding Advance Authorisation (AA), Duty Free Import Authorisation (DFIA) and EPCG schemes being made completely online is incorrect, because neither has any mechanism for online discharge of Export Obligation against these schemes been introduced (December 2014), nor was there any facility in the DGFT EDI System to automatically calculate allowable import quantities of duty free inputs based on Standard input output norms under AA and DFIA schemes.

DGFT, employes a business critical EDI System through which most of the FTP policy provisions relating to issue of licences is carried out. Therefore a regular audit for IT security audit, Source code, Application configuration, ICT infrastructure configuration, Vulnerability assessment, operating system optimization, Change management, Analysis of SLA (Service Level Agreement) indicators, Technology migration, IT Act and National Cyber Security Policy is required.

The above audits can provide an assurance on the confidentiality, integrity, accessibility and overall robustness of the DGFT (EDI) system.

8.5   Inadequate process controls

8.5.1   FOB Value found different in SB data entered manually *vis-à-vis* data supplied by Customs for same Shipping Bills

Under the FTP, many of the benefits to exporters are based on Shipping Bill information. Customs provides EDI SB data to DGFT on regular basis. Such information is stored in the SHBI_MAST_9001 table. Further, an applicant for duty credit benefit creates a repository of his SBs which is stored in the SHB_MAST_9100 table. This is filled with either customs supplied data, or fed manually by the applicants themselves and marked 'Y'/'N' accordingly.

It was noticed that total number of Shipping Bill records supplied by Customs, from April 2011 onwards, was 26,80,612. However, in the SHB_MAST_9100 table, only 3,16,205 (10 %) of the customs supplied records had been used as against 28,23,012 (i.e. 90 %) number of manually entered SB records.

It was also noticed that the although Customs supplied records existed for a particular SB, the data were manually entered in case of 2,60,458 SBs. On matching the SB number, SB date and IEC number (exporter details) the actual number of such SB records supplied by customs for which manual records were used instead, was not ascertainable because many SB numbers have been found entered in slightly different format from the numeric customs EDI SB format.

In the 2,60,458 SB records where the manually entered SB number matched with the Customs supplied SB number, it was noticed in 11,220 cases (4 %), that the FOB value entered in manual data was different from that provided by Customs. The FOB value of exports, which is the basis for granting duty credit, was found higher in 3097 cases amounting to ₹ 1,200 crore. Reduction in FOB value was also noticed in 8,123 cases amounting to ₹ 440.16 crore. Thus, it was noticed that there was a net increase in FOB value by ₹ 799.84 crore. Even at the minimum allowed duty credit rate for Chapter 3 schemes, i.e. 2 percent of FOB value for FPS and MLFPS, this increase in net FOB value translates into grant of excess duty credit benefits amounting to ₹ 16.00 crore in 11,220 cases. Change in Customs port of export was also noticed in 2,389 cases.

The DGFT EDI System does not have the necessary checks to ensure that authentic Customs supplied data relating to EDI Shipping Bill, which is readily available for linkage in the database, is not substituted by manually entered data by exporters while creating Shipping Bill repositories for claiming FTP benefits through eCOM applications. Lack of this validation may result in

entry of incorrect data, including inflated FOB values, which, in turn, may lead to misuse of scheme benefits.

8.5.2 Different FOB values of same SB item for VFFM Schemes and DEPB Scheme

Same shipping bills could be used for duty credit entitlement under Duty Entitlement Passbook Scheme (DEPB) Scheme of chapter 4 of the FTP and simultaneously under Chapter-3 schemes viz. Vishesh Krishi Upaj Yojana (VKUY), Focus Market Scheme (FMS), Focus Product Scheme (FPS) and Market Linked Focus Product Scheme (MLFPS), jointly known as the VFFM schemes.

A comparison of the FOB values of such SBs which had been used for availing two different scheme benefits, viz. DEPB & VFFM, during the period from April 2011 onwards, revealed that in 1,17,864 cases (77 %) out of 1,52,406 item level records, where same item were used in the both the schemes, the FOB values were different, although in 1,08,290 cases out of these, even the Bank Realisation Certificate (BRC) Number date of the SB also matched, indicating that the claims under both schemes were made post-realisation claims.

If duty credit is calculated on the lower of the two FOB values allowed, the excess duty credit allowed comes to ₹ 77.33 crores (on prorata basis) in the above 1,08,290 cases. Out of the 1,08,290 cases, there are 65,791 cases where such difference in FOB values was more than ₹ 1000.

Thus, FOB values were modified after considering values as per Shipping Bill or the bank realization information available in the relevant tables, indicating the need to improve input control to avoid grant of excess duty credit.

8.5.3 Grant of duty credit under VFFM schemes where Export date is incorrect

Shipping bills (SBs) data relating to VFFM duty entitlement claims revealed that export date was before the Let export order (LEO) date for 1,06,055 SBs. This was seen in 7,752 cases of EDI SB data also, clearly indicating that the data was incorrect and had been altered, despite the correct dates having been supplied by Customs.

Duty credit under VFFM schemes amounting to ₹ 858.01 Crore was allowed against 1,00,711 such SBs involving 1,42,456 items during the period from 2011-12 to 2013-14, where export date was before the LEO date.

There is a need to augment controls in the DGFT EDI System to prevent the alteration of Customs supplied EDI Shipping Bill data, which should have been adopted as authentic.

8.5.4 **Grant of Status Holder Incentive Scheme (SHIS) Scrips in cases where Status of Applicant/ Status Certificate Issuing Authority is not available in database**

Exporters are granted Status certificates and known as Status Holder, depending on their total export performance during the previous three years from the date of application for status certificate. A Status Holder is eligible for various privileges including duty entitlements benefits to the extent of 1 percent of FOB value of export made during previous year under Status Holder Incentive Schemes (SHIS) (Para 3.16 of the FTP). As per Para 3.10.2 of HBP Application for grant of Duty Credit Scrip under SHIS for exports made during 2009-10 onward, shall be made to jurisdictional RA concerned in Application Format ANF3E with Status Holder Certificate details including their Status Type and Status Certificate issuing Authority. This information is vital for availing the benefit under SHIS as the scheme is meant for the Status Holder only.

It was noticed that the applications for SHIS were accepted and SHIS scrips were granted without information regarding Status/ status certificate issuing authority entered in online applications. In 233 SHIS applications against which SHIS Duty Credit Scrips valuing ₹ 57.88 crore were granted, either the Status of the applicant or the Status Issuing Authority or both were indicated as '0' i.e. 'None', indicating insufficient validation of online application submission process.

Thus, there were no validations to ensure submission and recording of crucial data like Status of the Applicant or the Status Issuing Authority details for grant of SHIS benefits.

8.5.5 **Invalid IEC Allotment date**

Only one Importer Exporter Code (IEC) is allowed against a single Permanent Account Number (PAN) issued by Department of Income Tax (Paragraph 2.9 of HBP). The IEC data indicates the genuineness of an exporter/ importer and determines his/her unique identity in the Trade and helps the regulatory agencies in tracking the holder in cases of default. This IEC data is transmitted online to Customs by the DGFT.

Scrutiny of the IEC master records revealed that the IEC allotment dates were *prima facie* incorrect in 42 cases, since the date of IEC allotment was found to be after the current date, viz. between 18 March 2088 and 07 January 2992. All 42 such IECs are active in the database.

Thus, the DGFT EDI System lacks output control checks even for important IEC data such as the issue date.

8.5.6 Existence of varied licence Validity periods in database for a particular type of licence

Every Duty credit/ remission schemes, Advance Authorization, EPCG schemes has fixed validity period during which the importation could be made under the licence.

A comparison of licence validity date (LIC_VLDT_1500) with the licence issue date (LIC_DATE_1500) stored in LIC_MAST_1500 table revealed that the validity periods granted varied widely from the prescribed validity periods. For example, Advance Authorisation validity period is 24 months, as per the LIC_CATG_144 table, while in licence data, the validity period was found to vary from 0 to 56 months in different cases. In 36,712 cases the validity period was found incorrect and in one case, the licence validity date was found to be even before the Licence issue date.

Similarly, as per the LIC_CATG_144 table, SFIS and VFFM schemes of chapter 3 have also the validity period of 24 months from the date of issue of licence. However, it was found incorrect in 511 cases where it varied between be 5 to 35 months. Here too, there were two cases where validity date was before the licence issue date. In another 3,99,019 cases, the validity date of scrips of Chapter-3 schemes was found entered as '01-01-1900', the default date setting.

Incorrect validity periods will allow importations even beyond the prescribed validity periods of the licences under various schemes and violate the policy provision relating to the respective schemes.

8.5.7 Differences in licence data in Central Database vs Local database:

A comparison was done between duty credit value (CIF), amendment details etc. of licences issued by RLA, Kolkata, during 1 April 2011 and 17 April 2014 (till which the backup of database was provided to Audit), stored in table LIC_MAST_1500 in LICM schema of DGFT database and the same data stored in central server in the table with same name in DGFTRLA database. It was noticed in audit that in 89 licence records, there were differences in CIF Value of ₹ 174.72 crore (in 85 cases of AA/DFIA) and Duty credit amount of ₹ 0.76 crore (in 4 cases of VKUY/EPCG) totalling ₹ 175.48 crore.

Further scrutiny revealed that the Advance Release Order (ARO) or invalidation of direct imports were issued against 85 AA/DFIA license and the reason for the difference in CIF value could be ascertained in only 77 cases from ARO data stored in table ARO_MAST_1700 in the local RLA's DGFT database. In the remaining 12 cases, difference in CIF/duty credit entitlement could not be ascertained from the database.

Thus, the amendments in licence data at local RLA databases after issuance of AROs/ invalidations were not fully reflected in central server data, which may lead to incorrect information being transmitted to Customs through message exchange, and consequently to unauthorised duty free importation of invalidated imports under the licences. The duty implication involved in the excess imports of ₹ 174.72 crore in 85 AA/DFIA cases above in the form of duty foregone worked out (on the basis of peak import duty rates; (10 % BCD+12 % CVD+4 % SAD=28.13 %), to ₹ 49.15 crore. Hence, total revenue implication in the above 89 cases comes to ₹ 49.91 crore (49.15 + 0.76).

Though in the present system of manual discharge of EO by RLAs, any excess imports in AA/DFIA/EPCG cases come to notice and are regularised by recovery of differential duties, such cases may go undetected once the proposed system of online discharge of EO commences on the basis of the data stored in the central server.

8.5.8 Multiple ECOM references with same file number and Licence data without file number

Every online application for seeking Licence/ duty credit scrips/ or Authorisation to import duty free generates a unique ECOM reference number.

In audit it was noticed that separated ECOM reference numbers has the same file number in 10 cases, which resulted in invalid trail of the online ECOM application in the database.

Further, the file number was found to be missing in licence master table, LIC_MAST_1500 of DGFTRLA database in 48 cases where total duty credit granted was ₹ 3.27 crore under VFFM Schemes. The Licence Numbers of these records could not be traced to duty credit calculation table of specific schemes either. Thus, it could not be verified as to how these duty credit entitlements were arrived at. This indicates poor process controls to fill in the information in the relevant tables or manual interventions which could allows licences to be irregularly issued.

8.5.9 Absence of password storage security in DGFT's EDI databases

Login identification and password details of importers/exporters and authorised DGFT employees using DGFT's online application utilities are stored in three tables of DGFT database.

Audit observed that application processing is done by DGFT users at the RLAs who gain access to the local system using their login and password details and not digital signatures. Although the uploading of the consolidated data is authenticated using digital signatures, the contents of this consolidated data are secured only by usernames and passwords. Further, it was observed from the DGFT website (http://dgft.gov.in/ecommerce/ecom/EcomHelp.htm) that

electronic filing of applications is also allowed using IEC, IEC Branch Code and Password under the heading User Name-Password Based Access, in addition to filing of applications using digital signatures.

During audit it was noticed that in the above two tables, the user passwords are stored in unencrypted form and visible to anyone having access to these tables. The entire user password database is thus at the risk of being compromised, as anyone who gains access to these tables will know the user passwords, and the password preferences of the users.

User passwords, being private and confidential data of the users, should therefore not be kept in a format that makes it visible to even DGFT and NIC staff, and instead, should be stored in an irreversibly encrypted format using a hash generator algorithm or a more secure algorithm.

Therefore, storage of passwords as text data in the DGFT database tables, entails the risk of compromising the login access details of DGFT users and importers/exporters, eBRC loading banks, etc.

8.5.10 VKGUY on ineligible items

Products eligible for duty credit benefit under VKGUY Scheme are specified in Appendix 37A to the FTP. As per this appendix, certain products, such as those under ITC (HS) code 0903, 0904 (except those under 09041110) are not eligible for any duty credit benefits under the Scheme.

An audit check for confirming the correct implementation of this FTP provision by analysing VKGUY scheme records pertaining to the 3 year period from April 2011 onwards in the VFFM and VKGUY duty entitlement tables in the database revealed that duty credits under the VKGUY scheme amounting to ₹ 0.20 crore were allowed in 172 records on such ineligible products, indicating absence of sufficient checks in the DGFT EDI system to ensure disallowance of VKGUY benefits for ineligible products.

Incorrect grant of VKGUY credit in 22 cases was also pointed out to RLA Chennai in October 2014. Reply of the RLA is awaited.

8.6   Improper maintenance of directory tables

8.6.1   Import Quantity & Export Quantity is kept in text format in SION directory and cannot be used for calculation of eligible Import quantity against declared / actual Export quantity

A Standard Input Output Norm (SION) exists for most export products. In case SION for the said product is notified, SION would be made applicable for deciding wastage norms and Export Obligation (Para 4.7 of HBP Vol. 1), and where SION is not fixed, same is to be got fixed by the proper authority, within prescribed time.

The calculation of input that can be imported is an important aspect in the issue and regularisation of Advance Authorization (AA) and Duty Free Import Authorization (DFIA). Tables EXP_ITEM_1401 and IMP_ITEM_1402 in SION Schema of the DGFTMAIN Database are used as directory table for Export Product (7,391 in total) and related inputs required for importation, respectively. It was noticed that the export quantity and import quantity of respective inputs (in total more than 35,500 import items) are stored in text/character format which is not amenable to calculation, thus requiring manual intervention during the issue of license or at the time of redemption.

The total Revenue forgone against 67,801 such Advance Authorisations and Duty Free Import Authorisations, whose duty free import entitlements had been computed manually with the aforementioned risks, amount to ₹ 64,558 crore during three financial year period from 2011-12 to 2013-14.

Therefore, it was observed that the Standard Input Output Norm (SION) directory in the DGFT EDI System is in text form, making it un-amenable to automatic calculation of eligible input quantities from the SION standards, and necessitating manual calculation of entitlements with the attendant risk of human omissions.

8.6.2 Double entry of an item in DEPB directory with different rate on the same date

Duty Entitlement Passbook Scheme rates are stored in DEPB_RAT_413 table, with reference to the product Code and DEPB serial Number for which applicable, from the given effective date.

It was noticed that the same DEPB serial number was entered twice in the directory with different rates, effective from the same date. There were 6 such cases noticed, apart from 8 duplicate entries for the same product.

8.6.3 Incorrect updation of foreign currency Exchange Rate directory

CBEC notifies applicable exchange rates for various foreign currencies for the purpose of valuation of import & export goods from time to time. The exchange rate for export so notified is also used for conversion of FOB value realised in foreign currency into INR, on the basis of which duty credit entitlements are awarded. These rates notified for export consignments are stored in CUR_EXPT_181 table of COMMON Schema of DGFTMAIN database.

It was found that 15 of such exchange rates notified by CBEC since April 2011 were not updated in the said table for exchange rate. Also, in another 12 cases, it was noticed that there was incorrect data of exchange rate vis-à-vis their effective date in the said table against the rates notified.

The directory updation procedure of the DGFT EDI System is manual and without any subsequent authentication resulting in non-updation / incorrect

updation of the Exchange Rate directory on several occasions which led to incorrect computation of duty credit entitlements.

8.7   Incorrect mapping of Business processes & Rules

The DGFT carries out provisions of Foreign Trade (Development & Regulation) Act, 1992 and implements the provisions of Foreign Trade Policy (FTP) notified for every five years. During the Audit period, the FTP 2009-14 was in force. The following Audit findings relate to the provisions of FTDR Act, FTP and HBP which were not efficiently implemented in the DGFT's EDI application leading to irregularities and incorrect grant of benefits.

8.7.1   Issue of more than one Importer Exporter Code against single PAN

No export or import shall be made by any person without a valid Importer Exporter Code (IEC), unless specifically exempted (Para 2.12 of FTP). As per Para 2.9 of Hand Book of Procedures (HBP) to the FTP 2009-14, only one IEC is allowed against a single PAN issued by Department of Income Tax.

Analysis of IEC master details table revealed that multiple IECs had been issued against single PAN. Audit located 9,175 such irregularly issued IECs in the DGFT database. 409 such IECs had been issued in the last three years (i.e. after April 2011). A cross check with the Customs EDI database (ICES 1.5) further revealed that imports valuing ₹ 25,351.30 crore had been made by 929 such IEC holders during the 2 year period from April 2011 to March 2013. Further, during this period, 71 importers (PAN holders) were found to have used their multiple IECs (152 IECs used) concurrently to make imports valuing ₹ 578.16 crores. In one case, in particular, 27 IECs were found to have been issued to one PAN holder. All 27 IECs were found as having 'active' status, as per the DGFT database and 8 of these IECs (Sl. Nos.11 to 18) had been used to import 74 consignments valuing ₹ 3.84 crore between April 2011 and March 2013 (2 years).

Cross check of the result of analysis from database with the physical IEC issue files in a sample of 247 cases at 10 RLAs[18]and online check of IECs data at DGFT website also confirmed the audit findings stated above. However, RLA Kanpur, in response to an Audit Query in this regard, replied that multiple IECs had not been issued by that office. In all 13 cases pointed out by audit at RLA Hyderabad, it was stated that corrective measures were being taken. Replies from other RLAs are awaited. RLA Ludhiana admitted that multiple issue of IECs had been made in 4 of the 5 cases pointed out by audit and that in 1 case, the second IEC had been issued after cancellation of the first one. However, in this case too, the cancellation was reflected in the IEC database, i.e. both IECs were found active.

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[18]10 RLA: Kolkata, Chennai, Cochin, Hyderabad, Kanpur, Mumbai, Ahmedabad, Jaipur, Ludhiana & Delhi.

Further, test checks from RLA files revealed that several cancellations of IECs were not reflected in database. Moreover, since an IEC holder can apply for modification/ updation of IEC data, there is no provision to get an existing IEC cancelled, instead, the same IEC should be modified/updated as per the holder's requirement or in case of suspended IECs, can be revalidated/ activated again, on fulfilment of requirements of DGFT. Issuance of another IEC against cancellation of a previous one can be misused in cases where the previous IECs was cancelled as a result of default/penal action.

Thus, the DGFT EDI System does not have adequate validation check if there is any existing active IEC against the PAN submitted with the IEC application or the present IEC is being modified.

8.7.2   Imports against cancelled IECs due to delay in intimation to Customs

The DGFT issues IEC to applicants, which are also liable to cancellation in cases of default on any count under the FTP or the FTDR Act, thereby preventing the defaulting importer/exporter from making further imports/ exports. The DGFT transmits the latest status of an IEC regarding its issue, suspension, cancellation, etc. to Customs, online.

Scrutiny of the tables regarding master details of IECs, their cancellation, current status and transmission details to Customs and their cross-check with customs EDI data (ICES 1.5) relating to the 2 year period from April 2011 to March 2013 revealed that in 9 cases, the IECs had been cancelled but intimation to customs was delayed, resulting in irregular import of 35 consignments amounting to ₹ 2.02 crore against these cancelled IECs.

The time lag between the date of IEC cancellation and date of transmission of the cancellation data to customs in these cases indicates that there is lack of automation in the process of online transmission of IEC data to Customs, resulting in irregular imports against cancelled IECs. In one case in particular, the IEC (No. 0388028416) was cancelled on 17 April 2001, but the date of transmission of cancellation data is not available in the relevant field (CUST_DAT_224 of Table IEC_STAT_224) indicating that the information regarding the cancellation of the IEC has not reached Customs and their EDI data for the period from April 2011 to March 2013 shows that that 20 imports were made against this cancelled IEC.

It was observed that the process of online transmission of data relating to cancellation of IECs is not automated, resulting in delayed intimation to Customs, and consequent irregular imports against cancelled IECs.

8.7.3 Issue of Licenses to firms in the Denied Entity List (DEL)

A Denied Entity List (DEL) is maintained as per provisions of Enforcement Division of DGFT Circular vide F.No. 18/24//HQ/99-2000/ECA II dated December 31, 2003, read with Rule 7 of Foreign Trade (Regulation) Rules 1993. An IEC holder is refused any further licences if put under DEL for any violation of the FTP or FTDR Act.

Scrutiny of DGFT databases for the period from April 2011 onwards (3 years) revealed that 1,606 authorisations and duty credit scrips had been issued to 248 firms while they were in the DGFT's DEL list.

Out of the above, 1,439 cases related to issue of duty credit scrips and EPCG authorisations on which duty credit/duty saved amounted to ₹ 681.90 Crore was allowed and in another 167 cases, Advance Authorisations (AA), Duty Free Import Authorisation (DFIA) and Import Authorisations for Negative List items for imports of CIF value of ₹ 597.94Crore were allowed.

A sample of 145 such cases were cross checked from records at 10 RLAs[19] for confirmation of findings of the data analysis. In response to the audit queries in this regard issued to the RLAs, RLA Kanpur stated that in all 4 cases there, licences/ scrips were issued after removal from DEL, which is incorrect because the firm was issued licences between May and October 2011 but was withdrawn from DEL in February 2012. CLA Delhi admitted in 6 out of 7 cases that licences / scrips had been issued irregularly.RLA Hyderabad replied in respect of only one licence out of 30 such cases that the firm should have been removed from DEL earlier as they had fulfilled their EO, but the removal was done only after audit raised the issue. RLA, Jaipur stated that in one case, the licensee had been put in DEL for non-compliance with an audit objection, which according to the RLA, was incorrect and hence licence was correctly granted. In another case, it stated that party's removal from DEL was not updated in time in the database. Out of 12 such cases of irregular issue of licences/ scrips at RLA Ludhiana, the RLA admitted the irregularity in 2 cases but stated that issuance was in order in the remaining cases. However, DGFT data shows that the licencees were in DEL at the time of issue of licences/scrips. In 16 cases at RLA, Mumbai and 1 at RLA, Ahmadabad it was noticed that the licences were issued keeping DEL order in abeyance. Issuance of Licences to entities in DEL keeping DEL order in abeyance was not in order, since as per Circular of December 2003 and provision of Foreign Trade (Regulation) Rules 1993, an IEC holder cannot be issued a licence, if black listed under DEL.

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[19]10 RLA: Kolkata, Chennai, Cochin, Hyderabad, Kanpur, Mumbai, Ahmedabad, Jaipur, Ludhiana & Delhi.

Moreover, it was noticed from the RLA replies that insertion into and removal from, DEL was not being updated into the central DEL database promptly, which has resulted in creation of an unreliable DEL list.

Thus, the DGFT EDI system does not have mapping of business rules for barring entities in DEL from submitting e-COM applications or for issuance of authorisations/ duty credit scrips to such entities. DEL status is being checked manually on a case-to-case basis, resulting in lapses and irregular issuance of licences.

8.7.4 Grant of SHIS duty credit scrips to companies already issued Zero duty EPCG and vice-versa

Status Holders Incentive Scrips (SHIS) can be applied for in the year subsequent to year of export. As per Para 3.10.3 (b) of the HBP, in case an applicant has availed Zero Duty EPCG Authorisation during the year 2010-11 or 2011-12 or 2012-13, they shall not be entitled to SHIS for that year [i.e. for export made during the respective previous years (2009-10, 2010-11, 2011-12)]. Such SHIS applications will be rejected and Para 9.3 (late cut for delay in filing application) shall also not be applicable.

Similarly, zero duty EPCG scheme shall not be available to exporters, who availed in that year, the benefit of SHIS under Paragraph 3.16 of FTP {Para 5.1 (b) of the FTP (2013)}. In case they have already availed SHIS benefit, they would be eligible for Zero Duty Scheme if they surrender or refund their SHIS benefits availed with applicable interest.

However, analysis of the DGFT EDI data for the period from April 2011 onwards (3 years) revealed that 227 nos. SHIS scrips for duty credit of ₹ 181.95 Crore were irregularly issued in cases where Zero duty EPCG authorisations had already been issued to the same firm in the same year. It was also noticed that 84 Zero Duty EPCG authorisations for duty saved amount of ₹ 87.44 Crore were irregularly issued in cases where SHIS scrips had already been issued to the same firms during the year. Thus, total amount of irregularly allowed duty credit/duty saved in these 311 cases amounted to ₹ 269.40 crore.

A sample of 75 cases was cross checked at eleven RLAs[20] for confirmation of the data analysis. It was confirmed that licences/scrips had indeed been incorrectly issued in all these cases. However, in twenty-two cases at Chennai, Kanpur, Delhi and Bengaluru RLAs corrective action issue of SCN, cancellation of licence, duty recovery, etc. had been initiated/taken, but the cancellation data had not been updated in the database. Further, in 3 out of

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[20] 11 RLA: Kolkata, Chennai, Cochin, Hyderabad, Kanpur, Mumbai, Ahmedabad, Jaipur, Ludhiana, Delhi & Bengaluru

the 5 cases where action had been initiated by RLA Bengaluru, it was noticed that the SHIS scrip holders had already transferred their scrips.

DGFT (HQ) instructed all RLAs (18 February 2014) to take action in cases of double benefit. However, it was noticed from the DGFT EDI data that even after 18 February 2014, SHIS scrips/zero duty EPCG licences continued to be issued irregularly, indicating that no modification of EDI application to implement this provision of the Policy had been carried out. Twenty-nine (19 SHIS and 10 EPCG) licences/scrips were issued incorrectly in the span of two months (upto 17 April 2014, the date of data backup provided by DGFT) after the issue of the DGFT circular.

In response to an Audit Query (17 October2014) to RLA Hyderabad on this issue, the RLA stated (22 October 2014) that in one of the cases pointed out by audit, it had only issued the SHIS scrip and not the EPCG licence to the firm. From the all-India database it was found that the EPCG authorisation was issued by RLA, Vishakhapatnam. Thus neither RLA Hyderabad nor RLA Vishakhapatnam had any means of knowing that another licence/ scrip had been issued to the firm.

Based on RLA Hyderabad's response, the 311 cases of incorrect issue of EPCG authorisations/SHIS scrips, as pointed out above, was re-examined and it was found that in 37 cases *(as indicated by 'Yes' remark in the last Column: 'Mismatch RLA'),*the issuing RLAs were different for the two types of scrips, leaving no scope of detection of such cases by either of the RLAs.

Thus, the DGFT EDI system does not map the process to prevent concurrent availment of SHIS/zero-duty EPCG, in contravention of FTP provisions, resulting in irregular grant of duty credits. Moreover, there is no functionality built into the DGFT EDI system for RLAs to determine whether any SHIS/zero duty EPCG licence has been issued earlier to the same firm from any other RLA although such data can be easily retrieved from the DGFT database.

8.7.5   Multiple use of same Shipping Bills under VFFM Schemes

As per Para 3.17.8 of the Foreign Trade Policy relating to Exclusivity of Entitlement, only one benefit under Chapter 3 schemes can be claimed by an exporter for a particular shipment. Accordingly, as per the common Aayaat-Niryaat application Form for VKGUY, FMS and FPS (including MLFPS), an applicant for duty credit benefits under any Ch.3 scheme has to declare that no benefit under any other Ch.3 scheme was claimed and will be claimed for Shipping Bills currently included in his application.

Analysis of the DGFT EDI data relating to utilisation of shipping bills and grant of duty credit entitlement under Schemes of the Chapter-3 of the FTP for the 3 year period from April 2011 onwards revealed that in 12 cases, the same

Shipping Bills were used in different applications on which duty credit scrips under different schemes of Chapter 3 of the FTP were granted, resulting in incorrect duty credit of ₹ 0.05 crore.

Verification of two case files at RLA Ahmadabad and one at Delhi CLA revealed that the licence holder had surrendered the licence himself where Shipping Bill had been considered for the second time. However, re-check from the database revealed that none of these licenses had been cancelled in the EDI system. Moreover, in the Delhi case, the CLA issued a fresh scrip (No.0510354229 dated 15.5.13) for reduced amount in lieu of previous scrip and later, another duty credit was awarded against the same SB in another scrip (No. 0510382707 dated 26.03.2014), resulting in second use of the said SB.

There were inadequate checks in the EDI system to prevent repeated use of same Shipping Bill.

8.7.6 Application of incorrect Exchange Rate leading to incorrect grant of duty credit

Duty Credit Scrips under Chapter 3 and DEPB scrips shall be granted on FOB value of exports in free foreign exchange declared on the Shipping Bill (SB) and converted into Indian Rupees at the Monthly Customs Rate of Exchange on the date of the Let Export Order (LEO) (Paras 3.11.11 and 4.43 of the HBP). The customs rate of exchange, as notified from time to time by the MoF (DoR), are entered and updated in the Exchange Rate directory table.

Analysis of the DGFT EDI data for the period from April 2011 onwards (3 years) revealed that application of incorrect rate of exchange resulted in wrong computation of FOB value of exports and consequent incorrect (both higher & lower) duty credit in the case of 1,30,998 DEPB Shipping Bill items and 11,083 VFFM SB items. Out of these, grant of excess duty credit of ₹ 3.62 crore occurred against 84,739 Shipping Bill items and short duty credit of ₹ 3.43 crore occurred against 57,342 Shipping Bill items, as shown in Table 8.1.

Table 8.1: Incorrect grant of duty credit

		Excess duty credit		Short duty credit		Total no. of SB items
		No. of SB items	Amount (₹)	No .of SB items	Amount (₹)	
DEPB		77,086	1,79,37,532	53,912	2,81,06,304	1,30,998
VFFM		7,653	1,82,95,726	3,430	62,37,848	11,083
	Total:	84,739	3,62,33,258	57,342	3,43,44,152	1,42,081

Source: Audit Worksheets

Thus, the total quantum of incorrect duty credit granted amounted to ₹ 7.06 crore (3.62 +3.43) in 1,42,081 records (84739+57342). It was also noticed that different exchange rates were applied to different items in the same Shipping Bill, although there can be only one LEO date for a SB and hence only one Exchange Rate for all items under it.

A sample of 759 item level DEPB Shipping Bill records and 356 VFFM Shipping Bill records were physically verified from files at 7 RLAs[21] to confirm the results of the data analysis. In all the verified cases, it was noticed that the exchange rate were taken incorrectly, as observed from database. RLA, Hyderabad, in its reply (October 2014) to an Audit Query in this regard, stated that for applications filed online, the system automatically calculates the FOB in INR at applicable exchange rate, and the RLA has no authority to change any exchange rate. However, they assured to take up the matter with their HQ. Replies from the other RLAs are awaited.

Thus, the DGFT EDI System is applying incorrect Forex rates in a large number of cases, and even fetching different exchange rates for different items in the same Shipping Bill, leading to incorrect grant of duty credit entitlements.

8.7.7 Excess grant of duty credit entitlements under DEPB Scheme

As per Para 4.3.1 of the FTP relating to the DEPB Scheme, which was available upto 30 September 2011, an exporter could apply for duty credit, at a specified percentage of the FOB value of exports, made in freely convertible currency.

8.7.7.1 Excess DEPB credit due to application of incorrect DEPB credit rate

The DEPB credit rates, as intimated by Public Notice from time to time, are stored and updated in the DEPB_RAT_413 table of DEPB Schema of DGFTMAIN database and the data on entitlement at the Shipping Bill item level is stored in DEPB_PEP_403 table.

Analysis of data of DEPB entitlements revealed that though the applicable credit rate is fetched from the DEPB rate directory, the rate awarded was higher than the applicable rate, in 2,864 records, which led to higher award of duty credit amounting to ₹ 11.89 crore. Out of these, incorrect duty credit amounting to ₹ 8.92 crore in 2,312 records in 232 licence files related to RLA, Hyderabad alone.

A sample of 91 records was physically verified from files at 6 RLAs[22] to confirm the correctness of analysis with respect to data entered in the DEPB claims, where it was found that the DEPB rate allowed was other than that fetched from the directory, as noticed in the analysis. At RLA Ahmedabad, in

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[21] 7 RLAs: Kolkata, Cochin , Hyderabad, Ahmedabad, Jaipur, Kanpur & Jaipur
[22] 6 RLAs: Ahmadabad, Kolkata, Cochin, Hyderabad, Ludhiana and Kanpur.

one case 44 percent DEPB rate had been allowed eligible rate of 4 percent. Regarding the large number of such cases at RLA Hyderabad, the office stated (30.10.2014) that the facts would be verified with reference to the files. However, in view of the large number of cases (2,312 records) involved, the verification would take some time.

At RLA, Cochin it was noticed that incorrect DEPB rate was fetched in one case (Sl. No. 2587) because of incorrect LEO date and inanother 4 cases (Sl. Nos. 1930 to 1933), due to incorrect product code. It was noticed that in these cases, the RLA awarded the correct duty credit rate, but the corresponding records in the EDI data was not corrected.

It was observed that the DGFT EDI system allows manual override to the RLAs to make corrections in system calculated values (worked out on data furnished in eCOM applications) on the basis of physical records presented with the hard copy of the eCOM application, but without making corresponding amendments in the database and without an electronic record (in the system) of either the reasons for the changes or record of the user who made the changes. Privilege to alter critical licensing data manually has resulted in incorrect grant of duty credit and leaves the scope for irregular grant of benefits without any electronic audit trail of the person making the changes.

8.7.7.2 Excess DEPB credit for items attracting Value Cap

Wherever a value cap is prescribed in the DEPB Schedule of rates, the credit entitlement is calculated by applying the admissible DEPB rate on the FOB value of exports or the value arrived at by applying the value cap on the export quantity, whichever is lower.

Analysis of the DEPB entitlement table specifically for items attracting value caps revealed that incorrect application of the value cap or ignoring the same resulted in grant of excess DEPB credits amounting to ₹ 9.77 crore in 3,780 records.

In 1545 records out of the above, it was also noticed that the DEPB credit amount was arrived at by directly multiplying the export quantity with the Value Cap, without applying the DEPB credit rate, resulting in excess duty credit of ₹ 7.10 crore (out of the above ₹ 9.77 crore).

There are inaccuracies in the calculation in the DGFT EDI system procedure relating to computation of DEPB credit admissible for items attracting Value Caps, resulting in grant of excess duty credit.

8.7.7.3 Irregular grant of DEPB benefit on exports made after withdrawal of the scheme

Vide Public Notice No. 54(RE-2010)/2009-2014 dated 17 June 2011 the DEPB Scheme was declared as closed w.e.f. 01 October 2011, i.e. DEPB duty credits would no longer be awarded on exports made from 01 October 2011 onwards.

Analysis of records pertaining to the period from April 2011 onwards (3 years) revealed that DEPB credits amounting to ₹ 2.56 crore had been incorrectly granted in 175 records, although the date of export in all these cases was beyond 30 September 2011.

On physical verification of a sample of 68 cases at 4 RLAs[23] and checking of 21 cases from the MIS application at RLA, Mumbai it was noticed that DEPB credits were allowed on Shipping Bills in cases where the LEO/export date as printed on ECOM application was beyond the closure of the scheme. On this being pointed out, RLA Hyderabad replied that in all 40 cases, the goods relating to the concerned SBs had been handed over to customs before the cut-off date of 30.09.2014, and hence eligible for DEPB benefits in terms of Para 9.12 of the HBP, Vol.-I. However, it is not clear how the RLA determined the 'date of handing over to customs' in these cases, since this data is not captured in the EDI system. The facts remains that there was lack of validation of the cut-off date, and DEPB benefits were allowed even in cases where the date of export entered was beyond the closure date of the scheme. Response from the remaining 3 RLAs is awaited.

Thus, there was ambiguity in determination of the date of export (LEO date, export date, date of handing over to customs, etc.) as a crucial date for cut-off date for allowing entitlement under DEPB, resulted in incorrect grant of DEPB benefits on exports made after withdrawal of the Scheme.

8.7.7.4 DEPB duty credits allowed on products withdrawn from the scheme

Different products were added as well as taken out of the Schedule of DEPB Rates from time to time through Public Notices issued by the DGFT, e.g. export of Skimmed Milk Products (SMP), Casein and any other Milk Products was declared ineligible for DEPB benefit with respect to shipments made on or after 25.01.2011 vide Public Notice No.26 (RE-2010) /2009-2014 dated 24.01.2011. Further, export of Cotton was declared ineligible for DEPB benefit for shipments made on or after 21.4.2010 vide P.N.45 (RE-2010) /2009-2014 dated 31.03.2011 and the DEPB benefits were restored w.e.f. 01.10.2010, vide P.N.68 /2009-2014(RE 2010) dated 04.08.2011.

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[23]4 RLAs: Kolkata, Cochin , Hyderabad and Kanpur

Audit conducted a check to confirm the correct implementation of these changes in EDI System. Analysis of DEPB scheme records pertaining to the 3 year period from April 2011 onwards revealed that DEPB duty credit was incorrectly allowed in 24 records against milk products, cotton and casein. The amount of DEPB credit allowed irregularly amounted to ₹ 0.21 Crore. The above cases again indicate poor mapping of business rules and absence of checks in the EDI system to ensure disallowance of DEPB benefits on products withdrawn from the scheme.

Five cases were physically verified at RLA, Kanpur and RLA, Mumbai, which confirmed the incorrect allowance. Department's reply to the Audit Queries was awaited.

8.7.8   Grant of excess duty credit on exports under VFFM Schemes due to incorrect calculation of entitlement

Freely Transferable Duty Credit Scrip shall be granted on FOB value of exports (Para 3.11.11 of HBP). Further, all pre-realization cases are to be monitored by RA concerned with respect to realization of export proceeds and for adjustment of excess/ short realisation, procedure in Para 3.11.13 is to be followed.

The duty credit entitlement on an export product under VFFM schemes (VKGUY, FMS, FPS and MLFPS Schemes) in post realization cases should be calculated on the basis of the realized FOB in INR multiplied by the duty credit rate admissible under the scheme, reduced by the percentage of Late Cut, if any.

As per the Data Dictionary provided by the DGFT, FOB realized in Indian currency is stored in the 'FOB_ONBC_2503' field of the VFFM duty credit entitlement calculation table. Calculation of the duty credit entitlement by Audit on the basis of FOB realized in Indian rupees, revealed that there were 5,917 records where excess duty credit amounting to ₹ 0.98 crore was allowed, during the 3 year period from April 2011 onwards.

A sample of 12 files were physically verified at 3 RLAs[24] to confirm the correctness of analysis with respect to data entered on VFFM claims, where it was found that the VFFM duty credit was not calculated at the FOB realized in INR but on some other value. RLA Hyderabad in a reply to an AQ in this regard, stated that corrective action was being taken in cases where scrips were issued incorrectly, as pointed out by audit. However, in two cases at RLA, Cochin it was noticed that the Foreign Currency data was entered incorrectly, leading to incorrect calculation by the EDI system and the duty

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[24]3 RLAs: Hyderabad, Cochin ,Kolkata

credit scrip was issued after doing manual correction in the file, leaving the EDI data not corrected.

It was observed that, apart from incorrect allowance of duty credit by the EDI system, the RLA chose to do manual calculations rather than making necessary amendments in the system through proper change mangement and letting the EDI system do the calculations.

8.7.9 Grant of excess duty credit under VKGUY scheme due to non-application of reduced rates on Shipping Bills already utilised under DEPB Scheme

Products (as listed in Appendix 37A of HBP), are entitled for Duty Credit Scrip equivalent to 5 percent of FOB value of exports (in free foreign exchange) under the VKGUY Scheme. However, as per Para 3.13.3, VKGUY credit entitlement is available only at the reduced rate of 3 percent in cases where the exporter has also availed duty credit benefit at specific DEPB rate (i.e. other than Miscellaneous Category – Sr. Nos. 22 C & 22 D of Product Group 90) . Further, some products, as listed in Table 2 of Appendix 37A, are entitled to an additional Duty Credit Scrip equivalent to 2 percent of FOB value of exports; over and above the 5 percent or 3 percent reduced rate VKGUY.

Thus, for exports on which specific rate of DEPB credit has been availed, VKGUY credit is available at higher reduced rate of 5 percent for products under Table 2 of appendix 37A, and at the reduced rate of 3 percent on other products of the said appendix.

Comparison of VKGUY scrip records for the 3 year period from April 2011 onwards with records of items attracting specific DEPB rates (i.e. not falling under product codes 90/22C and 90/22D) revealed that excess duty credit under VKGUY Scheme amounting to ₹ 1.17 crore was allowed in 957 records due to non-restriction of the allowed rates to the reduced rates of 3 percent or 5 percent, as applicable. This revealed inadequate mapping of the provision of FTP relating to restriction on VKGUY rates in the EDI application, which led to incorrect grant of the above duty credit entitlements.

The issue was also taken up with the RLAs at Kolkata (19 November 2014) and Chennai (23 October 2014) in respect of 40 and 42 such cases noticed there, respectively. Their replies are also awaited.

Inadequate mapping in the EDI System of the entitlements to lower rates relating to VKGUY in cases where DEPB benefits had also been availed, resulted in excess grant of VKGUY duty credits.

8.7.10 Business process not covered under EDI System, requiring manual checks and failure to capture important data

Customs supply SB data to DGFT online on regular basis, which is an important source of genuine information for granting various benefits under different schemes of the FTP. The online receipt of data also ensures the correctness of information, minimal manual intervention, accurate and fast processing, etc.

However, it was noticed in audit that various types of information which are necessary to carry out business processes i.e. provisions of the FTP, are not captured or sought from customs along with the SB data, namely,

a) Scheme under which exports was intended.

b) Licence No/ Licence File mentioned in export Bill, for quick discharge of licence under EPCG/ DFIA/ AA scheme.

c) Whether availing submitted under Duty Drawback benefits

d) Drawback claimed/ awarded, if any, which is crucial for determination of reduced entitlement rate to be awarded under VKGUY scheme

e) In the DGFT EDI system, the actual item description of goods is not taken from the Customs SB data for assessment of DEPB/VFFM duty credit calculations. Instead, the item description is taken from the DEPB/ VFFM schedule, thus ignoring the customs authenticated item descriptions of the export items may lead to incorrect grant of duty credit benefits.

f) Crucial dates for determination of Late Cut applicable, such as date of printing/ release of Shipping Bill as per Para 3.11.9 of the HPB (2012-13).

g) Date of handing over of goods to the customs, required for determination of eligibility of FTP benefits in case of changes of policy provision, as per proviso to Para 9.12.

In reply to the Audit Observations issued (14 November 2014), DGFT in its reply acknowledged audit's efforts in understanding the business rules and analyzing the issues in the database, which they believe would go a long way in improving their systems and processes.

8.8   Conclusion

The DGFT and its regional offices are now heavily dependent on the DGFT EDI System for their mandated work. Analysis of the DGFT EDI databases and processes revealed several shortcomings on issues relating to systemic issues, inadequate controls, incorrect or insufficient mapping of FTP provisions, lack of validations, permissions for too many manual

interventions and alterations of data and incorrect updation of important rate directories.

There is a need for a commensurate IS organization in the DGFT with the capability to manage the business critical online system having considerable revenue implication.

Audit noticed systemic issues and issues related to operational malfunction and incorrect mapping of business rules worth ₹ 1062.40 crore and ₹ 987.21 crore respectively.

New Delhi

Dated: 10 March 2015

(DR. NILOTPAL GOSWAMI)

Principal Director (Customs)

Countersigned

New Delhi

Dated: 11 March 2015

(SHASHI KANT SHARMA)

Comptroller and Auditor General of India