CHAPTER I
DEPARTMENT OF REVENUE -CUSTOMS REVENUE

1.1 Resources of the Union Government

The Government of India's resources include all revenues received by the Union Government, all loans raised by issue of treasury bills, internal and external loans and all moneys 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 below shows the summary of resources of the Union Government for the Financial (FY) 2013-14.

TABLE 1.1: RESOURCES OF THE UNION GOVERNMENT

	Cr. ₹
A. Total Revenue Receipts	15,36,024
i. Direct Tax Receipts	*6,38,596*
ii. Indirect Tax Receipts including other taxes	*5,00,400*
iii. Non-Tax Receipts including Grants-in-aid & contributions	*3,97,028*
B. Miscellaneous Capital Receipts	27,553
C. Recovery of Loan & Advances	24,549
D. Public Debt Receipts	39,94,966
Receipts of Government of India (A+B+C+D)	***55,83,092**
Note: Total Revenue Receipts include ₹ 3,18,230 crore, share of net proceeds of direct and indirect taxes directly assigned to states. *Figures rounded off.	

Source: Union Finance Accounts of FY 2013-14. The figures are provisional.

1.1.1 In FY 2013-14, total receipts of the Union Government amounted to ₹ 55,83,092 crore[1] for FY 2013-14. Out of this, its own resources were ₹ 15,36,024 crore including gross tax receipts of ₹ 11,38,996 crore.

1.2 Nature of Indirect Taxes

Indirect taxes attach themselves to the cost of the supply of goods/services and are, in this sense, transaction-specific rather than person-specific. The major indirect taxes/duties levied under Acts of Parliament are:

a) **Customs duty:** Customs Duty is levied on import of goods into India and on export of certain goods out of India (Entry 83 of List 1 of the Seventh Schedule of the Constitution).

b) **Central Excise duty:** Duty is levied on manufacture or production of goods in India. Parliament has powers to levy excise duties on tobacco and other goods manufactured or produced in India except alcoholic liquors for human consumption, opium, Indian hemp and other narcotic drugs and narcotics but including medicinal and toilet preparations containing alcohol, opium etc (Entry 84 of List 1 of the Seventh Schedule of the Constitution).

[1] Source: Union Finance Accounts of FY 2013-14. The figures are provisional. Direct Tax Receipts and Indirect Tax Receipts including other taxes have been worked out from the Union Finance Accounts of FY 2013-14.

c) **Taxes on Services:** Service Tax is levied on services provided within the taxable territory (Entry 97 of List 1 of the Seventh Schedule of the Constitution). Service Tax is a tax on services rendered by one person to another. Section 66 B of the Finance Act envisages that there shall be a tax levied at the rate of 12 per cent on the value of all services, other than those specified in the negative list, provided or agreed to be provided in the taxable territory by one person to another and collected in such manner as may be prescribed. 'Service' has been defined in section 65 B (44) of the Finance Act to mean any activity for consideration (other than the items excluded therein) carried out by a person for another and to include a declared serviceable territory (Entry 97 of List 1 of the Seventh Schedule of the Constitution).

1.3 Organisational Structure

The Department of Revenue (DoR) of MOF, functions under the overall direction and control of the Secretary (Revenue) and coordinates matters relating to all the Direct and Indirect Union Taxes through two statutory Boards namely, the Central Board of Excise and Customs (CBEC) and the Central Board of Direct Taxes (CBDT) constituted under the Central Board of Revenue Act, 1963. Matters relating to the levy and collection of Customs are looked after by the CBEC.

In addition, DoR is also responsible for the Indian Stamp Act 1899 (to the extent falling within the jurisdiction of the Union), the Central Sales Tax Act 1956, the Narcotic Drugs and Psychotropic Substances Act 1985 (NDPSA), the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 (SAFEMA), the Foreign Exchange Management Act, 1999 (FEMA) and the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974 (COFEPOSA), the Prevention of Money Laundering Act, 2002 (PMLA) and the attached/ subordinate offices for intelligence, enforcement, ombudsman and quasi judicial functions.

The overall sanctioned staff strength of the CBEC is 73,817[2](as on 1 July 2014). The organizational structure of CBEC is shown in Annual Report 2014, Ministry of Finance.

1.4 Growth of Indirect Taxes - Trends and composition

Table 1.2 gives the relative growth of indirect taxes during FY 10 to FY 14. The percentage share of indirect taxes to GDP[3] was slightly above 4 per cent during last five years.

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[2] Figures furnished by the Directorate General of HRD (Customs, Central Ex. & STax as on 1 July 2014.

[3] Source: Union Finance Accounts of respective years, GDP Figures of GDP provided by Central Statistical Organisation in February 2014.

Table 1.2: 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 10	2,45,373	64,77,827	3.79	6,24,527	39
FY 11	3,45,371	77,95,314	4.43	7,93,307	44
FY 12	3,92,674	90,09,722	4.36	8,89,118	44
FY 13	4,74,728	1,01,13,281	4.69	10,36,460	46
FY 14	5,00,400	1,13,55,073	4.20	11,38,996	42

Source: Finance Accounts, Figures for FY 14 are provisional

Indirect taxes as a percentage of GDP in FY 14 were lower than the average of 4.3 per cent in the last five years. The share of indirect taxes to gross tax revenues of FY 14 were lower than the five years average of 43 per cent. GDP has grown by 75 percent and gross tax revenue by 82 percent during this period, which saw major rationalization and reduction of indirect taxes. GDP increased from ₹ 64.78 lakh crore in FY 10 to ₹ 113.55 lakh crore in FY 14 whereas Indirect Taxes increased from ₹ 2.45 lakh crore in FY 10 to ₹ 5 lakh crore in FY 14.

1.5 Growth of Customs Receipts - Trends and composition

Table 1.3 below gives the growth trends of Customs Revenue in absolute and GDP terms during FY 10 to FY 14.

Table 1.3: Growth of Customs Receipts

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 10	64,77,827	6,24,527	2,45,373	83,324	1.29	13	34
FY 11	77,95,314	7,93,307	3,45,371	1,35,813	1.74	17	40
FY 12	90,09,722	8,89,118	3,92,674	1,49,328	1.66	17	38
FY 13	1,01,13,281	10,36,235	4,74,728	1,65,346	1.63	16	35
FY 14	1,13,55,073	11,38,996	5,00,400	1,72,033	1.52	15	34

Source: Finance Accounts, FY 14 figures are provisional

The Customs Revenue as percentage of GDP shows declining trend in the FY13 and FY 14. Though, the Customs Revenue as a percentage of Indirect taxes showed increase from 34 percent in FY 10 to 38 percent in FY 12, but it declined to 34 percent in FY 14. Customs revenue as a percentage of gross tax is also at the lowest level after FY 11. Customs revenue as a ratio of GDP has been stagnant at an average of 1.6 percent.

1.6 India's export and import for FY 10 to FY 14

Exports have recorded a growth of 17 percent (₹ 2,70,692 crore) during FY 14 as compared to 11 percent (₹ 1,68,360 crore) in FY 13 (Table 1.4).

Table 1.4: India's Import and Export

Cr. ₹

Year	Imports	Growth %	Customs Receipts	Growth %	** %	Exports	Growth %	Trade Imbalance	% #
FY 10	1363736	(-) 1	83324	(-) 17	4	845534	1	-518202	38
FY 11	1683467	23	135813	63	5	1142922	35	-540545	32
FY 12	2345463	39	149328	10	4	1465959	28	-879504	37
FY 13	2669162	14	165346	11	4	1634319	11	-1034843	38
FY 14	2715434	2	172033	4	4	1905011	17	-810423	30

Source: EXIM data, Department of Commerce, ** Customs Receipts as percent of (Imports +Exports), # Trade imbalance as percent of Imports

Imports have fluctuated between (-) 1 per cent (FY 10) to 39 per cent (FY 12) in the last five years. Imports registered a growth of 2 percent (₹ 46,272 crore) as compared to growth of 14 percent (₹ 3,23,699 crore) last year. In the last five years growth in exports has fluctuated between 1 percent (FY 10) to 35 percent (FY 11). There seems to be no clear relation between the growth in imports to the growth in exports over the last five years. The trade imbalance is lowest at 30 per cent in FY 14 which was highest in FY 10 and FY 13 at 38 percent. Customs receipts has remained at an average of 4 percent of the total trade in the last five years after the peak custom rates were brought down and maintained at 10 percent after 2009.

1.7 Tax base

The customs revenue base comprises of the Importers and Exporters issued with Importer Exporter Code (IEC)[4] by the Director General of Foreign Trade (DGFT). As on November 2014 there are 864022 active IECs. For managing the foreign trade there are 414 Import ports (93 EDI, 67 Non-EDI, 60 Manual and 194 SEZ) and 362 Export ports (108 EDI, 65 Non-EDI, 40 Manual and 149 SEZ). During 2013-14, ₹ 19.05 lakh crore exports and ₹ 27.15 lakh crore worth of imports transactions took place. Eighteen trade agreements[5] providing some kind of tariff concession, Customs Receipts (₹ 1,72,033 crore) along with revenue forgone (₹ 3,49,405 crore) forms the basis of the tax audit.

1.8 Growth in Imports and Customs Receipts

The table 1.5 depicts growth in Imports and Customs Receipts.

Table 1.5: Growth in imports and Customs Receipts

Cr.₹

Year	Imports	Growth %	Customs Receipts	Growth %	Peak rate of duty
FY10	1363736	(-) 1	83324	(-) 17	10
FY 11	1683467	23	135813	63	10
FY 12	2345463	39	149328	10	10
FY 13	2669162	14	165346	11	10
FY 14	2715434	2	172033	4	10

Source: Union Budget, EXIM Data- Department of Commerce

[4] IEC is issued by DGFT, Delhi to every importer/Exporter.
[5] http://commerce.nic.in/trade/international

During FY 14 the value of imports had shown growth of two percent**,** while customs receipts have increased by four percent over previous year. The customs revenue collected has not grown in tandem with the value of imports.

1.9 Monitoring of Departmental performance

Department of Revenue does not have a Results Framework Document (RFD)[6]. In the absence of measurable performance indictor its revenue policy strategy and methodology of gauging its performance is not known. Department of Revenue prepares one annual report and outcome budget for the entire Ministry of Finance with five big departments and Responsibility Centres (RCs).

1.10 Budgeting issues in Customs receipts

Table 1.6 depicts Budget and Revised estimates vis-a vis actual Customs receipts.

Table 1.6: Budget and Revised estimates, Actual receipts

Cr.₹

Year	Budget estimates	Revised budget estimates	Actual receipts	Diff. between actuals and BE	% variation between actuals and BE	% variation between actuals and RE
FY 10	98000	84477	83324	(-)14676	(-)14.98	(-)1.36
FY 11	115000	131800	135813	(+)20813	(+)18.10	(+)3.04
FY 12	151700	153000	149328	(-)2372	(-)1.56	(-)2.40
FY 13	186694	164853	165346	(-)21348	(-)11.43	(+)0.30
FY 14	187308	175056	172033	(-)15275	(-)8.16	(-)1.73

Source: Union Budget and Finance Accounts

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 five years between budget estimates and actual collections was in the range of (-) 14.98 percent to (+) 18.10 percent as shown in Table 1.6 below. The revised estimates to actual receipts also varied from (-) 2.40 percent to (+) 3.04 percent.

Ministry listed (November 2014) following reasons for variation in BE, RE and actual in 2013-14 in Customs revenue:

i. Economic slowdown (the GDP at constant prices has registered a growth of 4.7 percent in 2013-14 over 2012-13).

ii. The total imports in rupee terms have registered a growth of 1.73 per cent in 2013-14 over 2012-13, against the import growth of 13.8 per cent in 2012-13 over 2011-12.

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

iii. The non-oil imports in rupee terms have registered a negative growth in 2013-14 over 2012-13.

The factors were existent for the last few years and were known before preparing the BE and could have been factored therein.

1.11 Customs Revenue forgone under Customs Act, 1962

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”.

The revenue forgone is thus defined by Ministry of Finance 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 forgone= Value X (Tariff rate of duty – Effective rate of duty)

Table 1.7: Customs Receipts and Total Customs Revenue forgone

Cr.₹

Year	Customs Receipts	Revenue forgone on commodities including Schemes	Refunds	Drawback paid	Rev. forgone +Refunds+ DBK	Revenue forgone as % of Customs Receipts
FY 10	83324	233950	2309	9219	245478	295
FY 11	135813	230131	3474	9001	242606	179
FY 12	149328	285638	3202	12331	301171	202
FY 13	165346	298094	3031	17355	318480	193
FY 14	172033	326365	4501	18539	349405	203

Source: Union Receipts Budget, CBEC DDM, CBEC

The Revenue forgone as percentage of Customs Receipts during the last five years ranged from 179 to 295 percent (Table 1.7). During the FY 14, 87 percent of the Revenue forgone was on the commodities, Crude and mineral oils, Diamond and Gold, vegetable oils and cereals, Machinery, textiles and chemicals and plastics.

Table 1.8: Revenue forgone under various Export promotion schemes

Scheme	Amount forgone/disbursed				Cr.₹
	FY10	FY 11	FY 12	FY 13	FY 14
1. Duty Drawback excluding SEZ	9219	9001	12331	17422	21799
2. Advance Licence	10089	19355	18306	18971	20956
3. EPCG	7020	10621	9672	11218	8990
4. Focus Product Scheme (FPS)	396	1209	3056	4579	7640
5. SEZ	4019	8668	4567	4503	6206
6. Others *	21863	22174	20564	15649	17261

Scheme	Amount forgone/disbursed				Cr.₹
TOTAL	52606	71028	68496	72342	82852
% of Customs Receipts	**63**	**52**	**46**	**43**	**48**

*Others include EOU/EHT/STP, DFIA Schemes, FMS, Vishesh Krishi and Gram Udyog Yojana (VKGUY), Target plus schemes, Status Holder Incentive scrip scheme (SHIS), Served from India Scheme (SFIS), DEPB (exclud. SEZ), DFECC Schemes, DFRC etc.

Source: Directorate of Data Management, CBEC, Ministry of Finance

The Revenue forgone under Export Promotion schemes accounts for 48 percent of the Customs Receipts during the FY 14 (Table 1.8).

Scheme wise duty forgone ranged from 63 percent to 43 percent between FY 10 to FY 14 (Table 1.8). During FY 14 top five schemes on which duty was foregone were Duty drawback scheme, Advance licence scheme, EPCG, Focus Product Scheme and SEZ. These five schemes accounted for 79 percent of total duty foregone under the schemes. Revenue outcome assessments of the various promotional schemes, trade agreements and general exemptions are not made available as a part of the budget document.

1.12 Human Resources management in CBEC

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 73,817 strong work force (as on 1 July 2014). After cadre re-structuring in 2013, total 18067 additional posts have been sanctioned (December 2013) by the Ministry which included 490 posts of Principal Chief Commissioners/ Chief Commissioners/ Principal Commissioners/ Commissioners 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 are strengthened.

The RFD FY 14 of CBEC already covers the important activities mentioned above. The measurement and success indicators have not been correlated with the policy decisions already taken by Government in case of self assessment, OSPCA, RMS and use of ICT, ICES. Customs duty is intertwined with other tax and foreign policies of Government necessitating, restructuring and re-allocation of human resources with appropriate skills to fill the capacity gaps.

CBEC has not provided information about the trainings conducted by their Regional training institutes during FY 14 despite several reminders.

1.13 Arrears of customs duties

Table 1.9 depicts Customs revenue demanded up to March 2014 but not realised by the department at the end of the FY 14.

Table 1.9: Arrears of Customs duties

Cr.₹

Zone	Amt. under dispute				Amt. not under dispute				
	Less than 5 years	Five years but < 10 years	More than 10 years	Total (Co.2+3+4)	Less than 5 years	Five years but < 10 years	More than 10 years	Total (Co.6+7+8)	Grand total (Col.5+9)
1	2	3	4	5	6	7	8	9	10
Ahmedabad	2896	79	45	3020	101	495	234	830	3850
Mumbai III	1008	229	57	1294	897	38	25	960	2254
Bangalore	938	148	5	1091	476	14	12	502	1593
Delhi	987	209	68	1264	191	66	55	312	1576
Mumbai I	378	358	29	765	157	271	212	640	1405
Chennai	567	117	38	722	207	232	29	468	1190
Delhi Prev	763	2	1	766	270	24	7	301	1067
Sub total	7537	1142	243	8922	2299	1140	574	4013	12935
Others	2166	748	186	3100	1022	678	251	1951	5051
Grand Total	**9703**	**1890**	**429**	**12022**	**3321**	**1818**	**825**	**5964**	**17986**
%									**71.91%**

Source: Chief Commissioner, Tax Arrears Recovery, Central Excise, Customs & Service Tax

Customs revenue of ₹ 17,986 crore demanded up to March 2014, was not realised by the department at the end of the FY 14 (Table 1.9). Of this, ₹ 5,964 crore was undisputed. However, ₹ 2,643 crore (15 percent of total arrears) of the undisputed amount had not been recovered for a period of over five years. Customs revenue arrears for top seven zones account for 72 per cent of total arrears pending during FY 14. There is a need to strengthen the recovery mechanism of the department.

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

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 28 investigations during FY 12 to FY 14 as shown in Table 1.10 below. Safeguard measures could also take the form of quantitative restrictions.

Table 1.10 Investigation done by the Director General of Safeguards

	FY 11	FY12	FY13	FY14
No. of cases in hand	2	2	4	11
No. of active SGs	3	3	5	3
Name of Commodities involved (*)	(a) N1, 3-Dimethyl butyl N' Phenylene diamine (b) Aluminium flat rolled products and foil 7606 & 7607 (Review)	(a)Phthalic Anhydride (b)Carbon black	(a) Di octyl Phthalate (DOP) (b) Electrical insulators (c) Hot rolled flat products or stainless steel 304 grade (d) Phthalic anhydride (Review)	(a) Sodium Nitrite (b) Seamless pipes,Tubes and Hollow profiles of Iron or non alloy steel (c) Methyl Aceto acetate (d) Rubber ChemicalsN-1, 3 – dimethyl butyl N Phenylene diamine (6PPD) (e) Fatty Alcohols (f) Sodium Citrate

Source: Directorate General of Safeguards, Customs and Central Excise

1.15 Anti Dumping Duties

Director General of Antidumping, Department of Commerce, initiated the first anti-dumping investigation in 1992. During this period the DGAD received large number of applications for initiating anti-dumping investigations. During FY 12 to FY 14 anti-dumping investigations were initiated in 92 cases and 109 cases were finalized involving 31 countries.

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

The major product categories on which anti-dumping duty levied are PVC paste Resin, chemicals, petrochemicals, pharmaceuticals, fibres /yarns, steel & other metals and consumer goods. The duties collected due to the remedial measures are nominal compared to total Customs duty. The duties form (0.22 percent in 2014) of the total customs duties. The current CAG's Compliance Audit report has reported some ways adopted by importers to evade the Anti dumping duties. Total duties collected vide safeguards, anti subsidy and anti dumping has not been computed by DoR.

1.16 Cost of Collection for the FY 10 to FY 14

Table 1.11 indicates the cost of collection for the five year financial period from 2009-10 to 2013-14.

Table: 1.11: Cost of Collection during FY 10 to FY 12

Cr.₹

Year	Expdr. on Revenue, Import /export and trade control functions	Expenditure on preventive and other functions	Transfer to Res. Fund, Deposit A/c and other expdr.	Total	Customs receipts	Cost of collection as % of customs receipts
FY 10	304	1218	10	1532	83324	1.84
FY 11	293	1421	5	1719	135813	1.27
FY 12	306	1577	5	1888	149876	1.26
FY 13	315	1653	10	1979	165346	1.20
FY 14*	333	1804	5	2142	172033	1.25

Source: * Provisional figures from Finance Accounts

Expressed in terms of percentage of receipts, cost of collection was in the range of 1 to 2 percent during FY 10 to FY 14 (Table 1.11). Despite automation and extensive use of ICT, the cost of collection has increased in FY 14 as compared to FY 13. CBEC did not provide to audit the methodology to calculate the Reserve fund and Deposit Account expenditure in the overall cost of collection mentioned in the table above. Notwithstanding automation and extensive use of ICT, cost of collection continues to show a rising trend.

1.17 Tax accounting and internal Audit irregularities

1.17.1 Audit of Tax accounting, controls and reconciliation in the offices of PCCA, PAOs, Customs Commissionerates and their subordinate field offices for the period 2011-14 (three years) revealed that the system suffered from several inadequacies. There were instances of:

- Lack of internal audit at PAO (Customs), New Delhi, Kolkata, Kandla, Tiruchirapalli, Chennai and Tuticorin for the period 2011-14 in contravention of the codal provisions.
- Non-reconciliation of revenue collected by the 9 Commissionerates[7] with PAO figures for the period 2011-14. Thus, total Customs Duty receipt of ₹ 1,07,875 crore pertaining to the Commissionerates and Refund/ drawback in respect of 3 Commissionerates[8] amounting to ₹ 8,652 crore was not reconciled.
- In e-PAO (Customs), Delhi (March 2014), there were 7853 cases (₹ 538.16 crore) of mismatch of ICEGATE data with Bank data for Customs Duty. Similarly, there were 8464 cases (₹ 628.37 crore) in bank which did not match with ICEGATE data.
- In PAO Hyderabad, Ghaziabad, Cochin, Kandla the banks had drawn from the Government Account but did not make payment of Drawback, for 1 to 82 days, due to transaction failure or various amounts having been drawn from the Government Account without actual payment to exporters. In Customs Commissionerate, Kandla, the undisbursed amount returned through Banker's cheques to Customs department remained with Customs, for a period ranging from 40 to 1568 days. Similarly, in PAO Cochin, cases of drawback payments were noticed which were neither paid to the exporters nor credited back to Government Account. PCCA had instructed department to transfer such amount to the Government Account in its reply to audit (PAO Kandla, Cochin, October 2014).

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[7] Kandla, Kolkata (Preventive Customs), Kolkata (Port & Airport), Delhi (Customs), Amritsar, Chennai (Customs) ,Cochin (Customs) , Tirupati and Tuticorin

[8] Kolkata (Preventive Customs), Delhi PAO(Customs) and Kandla

- Misclassifications of Education Cess and Secondary Higher education cess under different accounting head during 2011-14 were noticed in PAOs Ahmedabad / Cochin.
- In PCCA New Delhi, an amount of ₹ 223.26 crore (2013-14) was booked under Suspense account resulting in understatement of Government's receipts. PCCA stated (October, 2014) that this amount includes receipt of advance payments of ₹ 144.13 crore of the year 2014-15. Outstanding balance of ₹ 79.13 crore pertains to previous years.
- Discrepancies between Date-wise Monthly Statements (DMS) and Put-Through Statements (PTS) prepared by CAS, RBI, Nagpur were noticed in four PAOs/e-PAOs[9]. For Customs receipts, this difference amounted to ₹ 11.66 crore (₹ 4.80 crore more in DMS and ₹ 6.86 crore excess in PTS). For Customs refunds/drawbacks, difference amounting to ₹ 1.03 crore (₹ 30.82 lakh excess in DMS and ₹ 71.68 lakh excess in PTS) was noticed.
- Non-maintenance of Cash Book 2014 in Petrapole Preventive Unit, Kolkata Customs Commissionerate, resulted in non-reconciliation of the amount collected through Challans and the figure reported to Chief Commissioner (Preventive), West Bengal. Similarly, registers of Bank Scrolls and Lost Challans were not maintained in PAO Kandla, Delhi, Amritsar and Kolkata for the period 2011-14. Non maintenance of these registers indicate weak internal controls.

1.17.2 Principal Chief Controller of Accounts (Pr.CCA), CBEC audits 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 10 internal audit paras with gross total value of ₹ 145607.24 crore[10].

Pr.CCA audit comments comprised the following irregularities apart from points of establishment audit till FY 14:

a. Non recovery of dues from Govt. Department/State Government Bodies/Private parties/ Autonomous bodies; ₹ 67888.61 crore.
b. Loss/ Infructuous expenditure; ₹ 59537.46 crore.
c. Blocking of government money; ₹ 1835.97 crore.

The internal audit report does not provide a control based assurance in line with its risk assessment. C&AG's report on the audit of the accounting done by Pr.CCA would be presented in the year 2015-16.

1.18 Technical audit by DG (Audit), CBEC

Custom department has been computerized by introducing ICES in 1994 which has been further upgraded to ICES 1.5 version (2009). It has also

[9] Kolkata, Tirupati, e-PAO(Customs) Delhi and Cochin
[10] Pr.CCA DO letter No. IA/NZ/HQ/CAG INFO/2014-15/616 dated 3 November 2014

introduced 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.

Table 1.12: Departmental audit during FY 11 to FY 14

Cr.₹

FY	Audits conducted	Duty detected	Duty recovered	Duty detected to Customs Receipts %	Duty recovered to Detected %	Duty recovered to Customs Receipts %
FY 11	323399	548	447	0.40	82	0.32
FY12	525406	439	459	0.29	105	0.31
FY13	446911	1824	1058	1.10	58	0.64
FY14	494393	294	223	0.17	76	0.13

Source: Directorate General of Audit, Customs & Central Excise

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 1.12 above gives quantitative achievements in this area during FY 11 to FY 14.

1.19 Customs procedure and Trade facilitation

The Government continued to streamline customs procedures and implement various trade facilitation measures. 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 the case of 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 cargoes 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 per cent 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 percent SAD paid through different scrips such as DEPB/Reward Schemes has been relaxed by allowing manual registration of such scrips. Time release studies have been conducted in limited ports. It was observed that ICT based solutions (ICES) were not extended to all customs transactions.

1.20 Risk Management system (RMS)

Efficiency of RMS hinges 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. It does not include the non-EDI ports and all filings in the EDI ports. Table 1.13 depicts number of Import and export transactions flagged by RMS vis-a-vis import and export transactions during FY13 and FY 14.

Table 1.13: Transactions flagged by the RMS

No. of transactions flagged by RMS	FY 11	FY 12	FY 13	FY 14
Imports	16,31,287	12,52,001	12,52,001#	16,21,734# (23.24 %)
Exports	-	-	3007	3,20,047# (03.80 %)
Total transactions (Imports)		62,36,748	65,61,921*	69,15,958*
Total transactions (Exports)		67,81,392	74,60,630*	84,11,542*

Source: # Risk Management Division, DRI, CBEC, * DGCI&S, MOC and Industry, Govt. of India

RMS in exports has been launched in July 2013 and 3.20 lakh (3.80 %) transactions against total export transactions of 84.11 lakh were flagged in FY 14.

1.21 On Site Post Clearance Audit (OSPCA) Scheme

After introduction of OSPCA, on the one hand Customs department had effectively reduced the audit of ACP clients, while on the other the OSPCA scheme had not fully picked up. During the FY14, out of 483 planned, audit of only 226 units under OSPCA, was conducted which resulted in detection of short levy of ₹ 55.85 crore, of which ₹ 5.95 crore (10.65 percent) was recovered.

1.22 24X7 Customs Clearance Operation

In order to facilitate import and exports the Board decided to begin on a pilot basis 24X7 customs clearance with effect from September 1st 2012 at identified Air cargo complexes (Chennai, Mumbai, Delhi and Bangalore) and seaports (Kandla, JNPT, Chennai and Kolkata) in respect of following categories of imports and exports:

a. Facilitated Bills of Entry where no examination and assessment is required; and
b. Factory stuffed export containers and export consignment covered by Free Shipping Bills.

In order to further facilitate trade, coverage of 24X7 customs clearance operations was extended to cover export consignments at four air cargo complexes. Further, 24X7 services for select import and export documents have now been extended (May 2013) to 13 more air cargo complexes working on EDI. The facility was extended to airports such as Chennai, Mumbai, Delhi and Bangalore.

1.23 Single window Customs clearance

In order to cut transaction cost and time, as well as for better utilization of resources, implementation of single window scheme has been conceptualized by CBEC with customs being lead agency to implement the same.

Single window in customs aims to provide a platform for traders to file a common declaration electronically, meeting requirements of other regulatory agencies involved in clearance process of imported/exported goods. Under single window regime, data fields/information relating to other regulatory agencies is transmitted electronically to get their clearance/input before clearance is allowed by customs.

1.24 Audit effort and Customs Audit Products

Compliance Audit Report

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

1.25 Sources of information and the process of consultation

Data from the Union Finance Account, Annual Import/Export Data 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 415 units in FY 14 and issued 15050 Audit observations. Transaction level date of ICES 1.5 for imports and exports in 2013-14 as per the data directory was not provided by Director General (System), CBEC despite several reminders.

Remedial action taken on the compliance audit report and their status as of March 2013 is given in Table 1.14.

Table 1.14: Remedial action taken on the compliance audit report

Report No.	CBEC, Customs		DoC	
	ATNs pending	ATNs not received	ATNs pending	ATNs not received
CA 7 of 2006 (Cus,CX,ST)		-	2	-
CA 20 of 2009-10 (Cus, CX, ST)		-	1	-
CA 14 of 2009-10		-	2	-
CA 24 of 2010-11		-	2	-
CA 31 of 2011-12	-		3	3
CA 14 of 2013		2	-	-
CA 12 of 2014	1	47	-	7
Total	**1**	**49**	**11**	**10**

Source: CBEC, Ministry of Finance, Deptt. of Commerce

The current report has 150 paragraphs and four long thematic paragraphs of ₹ 2428 crore. There were generally six kinds of observation: Incorrect classification; Incorrect application of exemption notification; Condition of notification not fulfilled; Incorrect exemption due to miscalculation; Scheme based exemption, Incorrect assessment of customs duties in addition to systemic issues and matters of Policy interpretations. The department/ Ministry has already taken rectificatory action involving money value of ₹ 38.90 crore in case of 92 paragraphs (**Annexure-1**) in the form of issue of show cause notices, adjudication of show cause notices and reported recovery in some cases.

1.26 Performance Audit Report

This year we have covered Performance audit on '100% Export Oriented Units' and 'Imports and exports Trade facilitation through customs ports". Performance audit of the Scheme/Institutions/ processes are conducted employing professional auditing standards and Performance Auditing Guidelines, 2014.

1.27 Public Accounts Committee (PAC)

PAC has taken up performance review on 'ICES 1.5', SEZ and three long paragraph on 'Management of Narcotic substances (Department of Revenue)', Disposal of seized and confiscated goods and Public and private bonded warehouses for examination/discussion. PAC's advance questionnaires to the Department of Revenue/ Commerce have been broad based at the levels of tax policy, administration and implementation. It has also observed lack of inter-ministerial coordination, scheme outcomes as well as inadequate monitoring in the past.

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

In the last five audit reports (including current year's report) we had included 656 audit paragraphs (Table 1.15) involving ₹ 4533 crore.

Table 1.15: 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 10	124	80	102	33	16	4	118	37	63	18	3	-	66	18
FY 11	118	131	102	99	29	18	131	116	56	18	3	4	59	22
FY 12	121	62	108	48	14	11	122	59	79	30	9	1	88	31
FY 13	139	1832	100	66	0	0	100	66	63	17	4	5	67	22
FY14	154	2428	104	42	-		104	42	65	16	-		65	16
Total	656	4533	516	288	59	33	575	320	326	99	19	10	345	109

Source: CAG Audit reports

Government had accepted audit observations in 575 audit paragraphs involving ₹ 320 crore and had recovered ₹ 109 crore.