

CHAPTER II

Working of Directorate of Revenue of Intelligence

2.1 Introduction

The Directorate of Revenue Intelligence (DRI) was constituted on 4 December 1957 and exercises all the powers specified in Section 100, 101, 103, 104, 106, 107 and 110 of the Customs Act, 1962. DRI has established an intelligence gathering network which relies on traditional human intelligence resources as well as contemporary technical gathering tools. DRI collects, analysis and disseminates intelligence to the field formations, help in investigation and keeps statistics of seizures and prices/rates etc, for watching trends of smuggling, movement of other contraband and suggest remedies for fixing loopholes in existing laws and procedures. Its organization set up is given in website dri.nic.in.

2.2 Scope and coverage

The scope of audit was limited to the internal controls and monitoring arrangements. The records relating to rewards to the informers, cases under investigation and the database of the organization known as ISS (Intelligence Support System) were not produced to audit though the audit intervention was at the level of Director General of Audit.

The report has been prepared on the basis of interviews, reply / information received against the audit memos issued to the department.

2.3 Audit Objectives

The objective of the Audit is to review whether:-

- DRI has adequate resources in terms of manpower, equipments etc. to take suo moto cognizance of cases.
- A suitable monitoring, coordination, communication network and feedback exists for sharing of alerts/intelligence between DRI and other agencies.
- Efficiency of intelligence gathering and application.

2.4 Audit Findings

2.4.1 Tax Evasion, Investigation and Seizures

There has been an increasing trend in evasion of cases both in terms of numbers and the amount during the last five years (FY 10 to FY 14) as shown in the **Annexure 2**. The duty evasion cases went up from 391 to 694 which valued between ₹ 615 crore to ₹ 3,113 crore during the same period.

DRI unit (CBEC) detected 2873 cases of tax evasion involving ₹ 10025.30 crore during the FY 10 to FY 14. The products involved were mainly second hand machinery, electronic goods, memory cards, helicopters, luxury cars,

mobile phone and its batteries, vehicles and their parts, rough diamonds and jewellery.

2.4.2 Trend in Seizures of Specified Commodities

Scrutiny of seizures of Specified Commodities during FY 10 to FY 14 (**Annexure 3**) reveals that there was an increasing trend in seizures of gold at All India level because of increase in import duties, other government measures to regulate import of gold for improving the current account deficit.

It was seen that total amount of seizures at all India level have gone up from ₹ 2156.50 crore to ₹ 2271.82 crore. Maximum rise was in Gold, Machinery/Parts and Vehicles/Vessel/Aircrafts etc. This was despite tariff rationalization, increasing trade openness, facilitation and advanced surveillance. FY 12 had the highest value of seizures both for all India (₹ 2755.68 crore) and DRI (₹ 2130.67 crore).

2.4.3 DRI has adequate resources in terms of manpower and equipments to meet the challenges posed by the dynamic and rising trend and sophistication of the commercial frauds and smuggling cases. Its utilisation and performance has been commented upon in the following paragraphs.

2.4.4 Staff Position

The working strength of DRI is 544 against a sanctioned strength of 740. The zone-wise position of sanctioned strength vis-à-vis men-in-position as on 31 March 2014 is as under:

Table 2.1: Sanctioned and working strength

| Sl. No. | DRI Zone | Sanctioned strength | Working staff DRI staff | Deputation staff | % of deputation staff against Working Strength | Vacancy | % of vacancy against sanctioned strength |
|--------------|-----------|---------------------|----------------------------|------------------|--|------------|--|
| 1 | HQrs | 154 | 100 | 12 | 10.7 | 42 | 27.27 |
| 2 | New Delhi | 104 | 40 | 34 | 45.9 | 30 | 28.85 |
| 3 | Mumbai | 124 | 40 | 57 | 58.8 | 27 | 21.77 |
| 4 | Chennai | 80 | 26 | 32 | 55.2 | 22 | 27.50 |
| 5 | Kolkata | 77 | 25 | 27 | 51.9 | 25 | 32.47 |
| 6 | Ahmadabad | 58 | 25 | 25 | 50.0 | 8 | 13.79 |
| 7 | Lucknow | 77 | 28 | 27 | 49.1 | 22 | 28.57 |
| 8 | Bangalore | 66 | 25 | 21 | 45.7 | 20 | 30.30 |
| TOTAL | | 740 | 309 | 235 | 43.2 | 196 | 26.50 |
| | | | | 544 | | | |

From the above table it was observed that the shortage in staff is evenly distributed except in case of Ahmedabad, where vacancy was lowest at 13.79 percent. Further, the percentage of deputation staff against the DRI's own staff was also evenly distributed except at Headquarters where it was as low

as 10.7 per cent. However, the percentage of deputation staff is about 43 per cent of the posted strength and average vacancy is at 26.50.

Information relating to the tenure of staff on deputation was not provided by DRI. There was no document on record or produced to audit to indicate the use of modern work norms in the present ICT environment.

2.4.5 Financial Arrangement

The funds of DRI are released by the Director General of Human Resource Development in the form of Non-Plan grants. The heads of account also include 'Reward to informer' and 'Secret Service Fund'. The consolidated budget received by the DRI (headquarters) is further allocated to the zonal offices. The zone-wise budget and actual expenditure for the year 2011-12 to 2013-14 is as under:-

Table 2.2: Budget and Expenditure

(₹ in thousand)

| Sl. No. | DRI zone | Sanctioned budget | Actual Expdr. | Sanctioned budget | Actual Expdr. | Sanctioned Budget | Actual Expdr. |
|---------|--------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
| | | 2011-12 | | 2012-13 | | 2013-14 | |
| 1 | DRI (HQrs.) | 109358 | 97385 | 160434 | 150310 | 150725 | 145294 |
| 2 | New Delhi | 69226 | 65969 | 68184 | 66203 | 70220 | 69765 |
| 3 | Mumbai | 126135 | 123673 | 131797 | 120125 | 91867 | 91787 |
| 4 | Chennai | 64565 | 63814 | 52192 | 52115 | 62955 | 62493 |
| 5 | Kolkata | 53607 | 49149 | 61265 | 57927 | 62147 | 62071 |
| 6 | Ahmadabad | 56057 | 50293 | 59620 | 51579 | 63911 | 63726 |
| 7 | Lucknow | 43496 | 42286 | 50861 | 48954 | 61650 | 61650 |
| 8 | Bangalore | 50885 | 50729 | 52341 | 48946 | 53750 | 53750 |
| | Total | 573329 | 543298 | 636694 | 596159 | 617225 | 610536 |

There is also a separate special equipment fund. The salary component of budget expenditure of Headquarter was showing a decreasing trend against the working strength during 2011-12 to 2013-14. There was no budget analysis to show the basis of allocation.

Amount sanctioned for rewards and Secret Service Fund during the year 2011-12 to 2013-14 is tabulated below:

Table 2.3: Reward and Secret Fund

(₹ in thousand)

| Year | Reward to informer | | Secret Service Fund | |
|---------|--------------------|--------|---------------------|-------|
| | Sanction | Exp. | Sanction | Exp. |
| 2011-12 | 35000 | 27009 | 20000 | 20000 |
| 2012-13 | 5000 | 48062 | 24000 | 24000 |
| 2013-14 | 70000 | 83659# | 25000 | 25000 |

(#) vide letter No. 8/B/10(184)HRDEMC/2014 dated 20 March 2014, the O/O the DGHRD has also authorised DRI to divert funds from one item to another within the same area (i.e. within Commissionerate/Land Customs for central Excise or within Revenue Functions/ Preventive functions in respect of "Reward (Officers)" to Rewards informer and vice versa.

Certification of the "Secret Service Fund" was not produced to Audit, however, audit observed that DG (DRI) himself certifies its "Secret Service Fund" and no independent agency certifies its veracity.

2.5 Suo-moto cognizance of cases on the basis of its own intelligence network developed and on the basis of past experience

DRI uses IT systems for Intelligence Support System (ISS) and DRI Profiling System (DRIPS). It is also connected to its Zonal offices. We requested DRI for access to DRIPS and other data, but the same was not provided. The following audit findings are made based on the results of analysis of papers provided, interviews and system navigation of the DRI System and the challenges to the cyber security as stated above.

1. DRI does not have any IS Strategic plan for Database Management system. The data maintained manually is not internally audited or monitored.
2. It was also observed that there was no HR (Human Resources) management policy for recruitment, capacity building, skill up- gradation of manpower required to strategically manage and monitor a critical intelligence system.
3. There is a risk of undetected non compliance of a multi location, multi user critical application like ISS/ DRIPS handling sensitive intelligence data, in an IS organization. The follows is therefore recommended:
 - a. Independent third party evaluation/assessment.
 - b. Appointing/Posting the right skilled persons.
 - c. Creation of an appropriate IS organization within DRI.
 - d. Building internal walls inside the IS network.
 - e. Audit of the database, change management, operating system, infrastructure, hardware configuration, network, IS security etc.

2.5.1 Intelligence/information received and gathered

Information is received through various sources such as e-mails, phone calls, personal visits, post, etc. After the receipt of information, it is examined and analysed and if found to be prima facie correct/actionable it is further developed. The intelligence/information is recorded under DRI-1 (a specific mechanism for recording of information which also enables the informer to reward) which is maintained in a database i.e. the DRI-1 register. In addition to information, cases are also detected and investigated on the basis of intelligence gathered and developed through analysis of import/export data.

DRI-1 register has not been provided to audit. There is no technical audit or counterfactual verification of the process and procedure of DRI.

The details of intelligence received/gathered and selected for investigation during last three year are given below:

Table 2.4: Intelligence and investigation

| Year | No. of Intelligence received* | No. of cases selected for investigation | No. of cases closed before investigation | No. of cases closed after investigation | No. of cases reopened for investigation |
|--------------|-------------------------------|---|--|---|---|
| 2011-12 | 139 | 124 | 15 | 4 | Nil |
| 2012-13 | 67 | 65 | 2 | 2 | Nil |
| 2013-14 | 43 | 41 | 2 | 1 | Nil |
| Total | 249 | 230 | 19 | 7 | Nil |

*information received from informers in commercial fraud case and recorded under DRI-1

The above table denotes that the number of intelligence/information of commercial fraud cases received in DRI declined in the year 2012-13 and 2013-14.

Table 2.5: % variation of Reward Paid to Informers and Officers

| Year | Amount Paid (₹ in lakh) | | | |
|---------|-------------------------|-------------|----------|-------------|
| | Informers | % variation | officers | % variation |
| 2011-12 | 52 | | 362 | |
| 2012-13 | 374 | 619 | 484 | 34 |
| 2013-14 | 399 | 667 | 699 | 93 |

Though, the amount of reward paid to the informers had increased to 619 percent and 667 percent during the year 2012-13 and 2013-14 respectively as compared to the year 2011-12. The number of intelligence received was decreasing gradually.

Similarly, reward to Officers had increased to 34 percent and 93 percent during the year 2012-13 and 2013-14 as compared to the year 2011-12 which is not commensurate with the number of intelligence/information of cases received/investigated.

On audit enquiry, DRI replied that general information/intelligence cases which include highly sensitive NDPS (Narcotic Drugs and Psychotropic Substances) and other cases were not reported as information related to them could not be shared. Therefore, the actual number of cases selected for investigation and action thereon could not be verified.

2.5.2 Investigation

Investigation is done in terms of the various provisions as envisaged in the Customs Act, 1962. Database of investigations during the year is maintained in DRI Profiling System (DRIPS) along with the status of SCN. Hard copies of DRIPS are not kept. Access to DRIPS was not provided to audit.

The variation in number indicated as "Number of cases" selected for investigation and age analysis below vary because of data entry practices which was indicative of lacking in input controls.

The zonal unit wise position of investigation pending as on 31st March of 2014 is given in table 2.6.

Table 2.6: Details of investigation pending

| Name of Zonal Unit | No. of investigation still alive | No. of investigation pending beyond prescribed period of (as on 31 March of 2014) | | | | % of Investigation pending more than 6 months |
|--------------------|----------------------------------|---|-------------------------|------------------------|-----------|---|
| | | < 6 months | > 6 months but < 1 year | > 1 year but < 5 years | > 5 years | |
| Ahmadabad | 147 | 64 | 20 | 63 | NIL | 56.46 |
| Bangalore | 60 | 42 | 7 | 11 | NIL | 30.00 |
| Chennai | 145 | 50 | 28 | 67 | NIL | 65.52 |
| Delhi | 97 | 56 | 12 | 29 | NIL | 42.27 |
| Kolkata | 116 | 31 | 32 | 50 | 3 | 73.28 |
| Lucknow | 44 | 27 | 9 | 8 | NIL | 38.64 |
| Mumbai | 221 | 74 | 26 | 121 | NIL | 66.52 |
| HQrs. | 38 | 27 | 6 | 5 | NIL | 28.95 |
| Total | 868 | 371 | 140 | 354 | 3 | 57.26 |

The above table denotes that the percentage of investigation pending for more than six months is ranging from 29 per cent to 73 per cent, with 3 cases pending in Kolkata for more than 5 years.

In addition, there are 497 investigations (57 per cent) pending for more than six months of a total of 868 investigations, although as per section 110 of the Customs Act, 1962, SCNs are stipulated to be issued in a time period of six months. There is a risk that on finalisation of investigation, these cases may become time barred for any revenue realisation.

DRI was requested to furnish the files of cases closed after recovery or dropped. DRI replied that the desired data is secret and confidential in nature and hence cannot be shared. In addition, it appeared that DOR/CBEC had left the entire functioning of DRI without any checks and balances or performance appraisal mechanism.

2.5.3 Customs Overseas Intelligence Network (COINS)

The COIN units pass on intelligence gathered from overseas or collected on request from the Zonal units, which assists in DRIs investigation. This report is on the work done by them as prescribed by their mandate.

The following information /files/documents interalia were requisitioned by audit from the DRI:

- (i) The success ratio of intelligence given by the COIN officers in terms of SCN, seizure and recovery.
- (ii) The efficiency of information exchanged with REIC and other intelligence agencies.

DRI replied that all the aforesaid information/files/documents are highly confidential and such details could not be shared with statutory audit. DRI did not even provide information on the number and value of cases aided by COIN.

It is not known to audit how is the efficacy of the COIN system independently evaluated especially because there is no technical audit of DRI.

2.6 Feedback system to monitor SCN issued

Show cause notices (SCNs) are issued after investigation is over within the stipulated time period of six months or special extension is taken as provided for in section 110 of Customs Act 1962, wherever goods are seized during investigations, unless provisional release of goods is allowed. In cases of duty evasion in imports, whenever the extended period of 5 years is invoked in terms of Section 28 of the Customs Act, 1962, SCN has to be issued within 5 years. In other cases such as export frauds, or policy violations, etc. there is no stipulated time period for issuance of SCN.

Year-wise details of SCN issued during the last three years are as under:-

Table 2.7: Position of SCN

| Year | Number of SCN issued on the basis of intelligence/information received from informers | Number of SCN issued on Suo Moto basis | Total number of SCN issued | No. of Transactions | |
|--------------|---|--|----------------------------|---------------------|--------------------|
| | | | | Imports* | Exports* |
| 2011-12 | 99 | 566 | 665 | 62,33,000 | 67,79,000 |
| 2012-13 | 85 | 735 | 820 | 74,60,630 | 65,61,921 |
| 2013-14 | 273 | 743 | 1016 | 84,11,542 | 69,15,958 |
| Total | 457 | 2044 | 2501 | 1,46,44,542 | 1,36,94,958 |

*Source: Directorate General of Commercial Intelligence and Statistics, Kolkata

The adjudication of cases lies with the adjudicating authority which is part of the Commissionerate system. A copy of the adjudication order is sent to the respective DRI Zonal Unit for updation of the adjudication records in DRIPS.

The total number of SCNs issued does not seem to be commensurate to the total customs transactions that had taken place during these years.

DRI stated that it has no control over adjudication of SCN and hence no monitoring is done in this respect. The number of cases adjudicated along with value of goods confiscated and duty confirmed for last three years as given below.

Table 2.8: Cases adjudicated

| | 2011-12 | 2012-13 | 2013-14 |
|-----------------------------------|------------|-------------|--------------|
| No. of cases adjudicated | 134 | 357 | 355 |
| Duty Confirmed | 296 | 4310 | 3774 |
| Value of Goods Confiscated | 693 | 3271 | 7419 |
| TOTAL (Row 2 + 3) | 989 | 7581 | 11193 |

Cr. ₹

The table overleaf denotes that there was an increase in adjudication cases in 2012-13 which only slightly declined in 2013-14. There were a number of cases where adjudication had not started (e.g. 2501 cases).

Table 2.9: Duty confirmed and value of goods confiscated

| Year | Customs Receipts* | Revenue Forgone on Commodities includ. Schemes | Total | Duty confirmed | Value of goods confiscated | Cr. ₹ | |
|---------|-------------------|--|--------|----------------|----------------------------|-----------------------|-----------------------|
| | | | | | | % of Col.5 over Col.4 | % of Col.6 over Col.4 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 2011-12 | 149328 | 285638 | 434966 | 296 | 693 | 0.07 | 0.16 |
| 2012-13 | 165346 | 298094 | 463440 | 4310 | 3271 | 0.93 | 0.71 |
| 2013-14 | 172033 (P) | 326365 (P) | 498398 | 3774 | 7419 | 0.76 | 1.49 |

Source: *Union Receipts Budget, CBEC-DDM,

The duty confirmed is a small per cent (0.07 to 0.76 per cent) of the total Customs Receipts and Duty foregone. The value of goods confiscated is 0.16 to 1.49 percent of the total Customs Receipts and Duty foregone indicating a need for improvement in intelligence gathering.

DRI was asked to furnish the records/register maintained for recording/monitoring the final outcome of SCNs adjudicated by the concerned Commissionerates. The DRI replied that the brief points of adjudication orders as and when received from the adjudicating authority are entered in the DRIPS and could be viewed therein. They are not independently monitored. The current position though is maintained by the DRI was not provided to audit for verification.

2.7 Co-ordination and communication network for sharing of alerts/intelligence between DRI and other agencies

Revenue realised at the behest of DRI and its percent share in the total trade value (Exports + imports) is shown below. It appears that the contribution of DRI's action are negligible.

Table 2.10: Revenue realized at the behest of DRI

| Year | Exports* | Imports* | Total | Revenue realized at the behest of DRI# | Cr. ₹ | |
|---------|-----------|-----------|-----------|--|--------------------|--------------------|
| | | | | | % Col.5 over Col.4 | % Col.6 over Col.4 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2011-12 | 14,65,959 | 23,45,463 | 38,11,422 | 1728 | 0.05 | 0.11 |
| 2012-13 | 16,34,319 | 26,69,162 | 43,03,481 | 4743 | 0.11 | 0.11 |
| 2013-14 | 19,05,011 | 27,15,434 | 46,20,445 | 3113 | 0.07 | 0.07 |

Source: * Ministry of Commerce and Industry, Exim data, www.commerce.nic.in

Directorate of Revenue Intelligence, CBEC

(a) Intra-departmental co-ordination

Information/intelligence is shared with the zonal units, field formations and other ministries and departments on a case to case basis depending on the nature of information/intelligence. Further action in these cases depends on the respective unit's own analysis and examination of the matter.

(b) Inter-departmental co-ordination

Sharing of intelligence / information is done with other agencies such as ED, IT, etc. through Central Economic Intelligence Bureau (CEIB) and Regional Economic Intelligence Committee (REIC) meetings which are held periodically. Secret information / intelligence is also shared with RAW, IB, CBI, etc. on a case to case basis and on a need to know basis and there is no specific protocol prescribed for this.

(c) International co-ordination

The international coordination is also done now by Regional International Liaisoning Office (RILO) which works under the umbrella of World Customs Organisation (WCO). DRI is the nodal point of contact with RILO.

2.7.1 Monitoring of alerts issued within DRI and its zones

Alerts are issued by DRI Hqrs to sensitize the field formations regarding undervaluation, overvaluation, incorrect grant of notification benefits, concealment, etc. & modus operandi employed by traders. No record is maintained by DRI for number of cases detected by the field formations on the basis of such alerts and on the SCNs issued or adjudications done consequently. CBEC also does not do any internal audit of the alerts issued by DRI and those acted upon by the field formations, thus leaving the use of intelligence information at the discretion of the Assessing Officers (AOs). A feedback mechanism is required for effective use of alerts by the commissionerates.

2.7.2 Rewards

The informers and Government servants are eligible for reward upto 20 per cent of the net sale-proceeds of the contraband goods seized and/or amount of duty evaded plus amount of fine and penalty levied/imposed and recovered as stipulated in the Ministry of Finance's circular no. R-13011/6/2001-Cus (AS) dated 20 June 2001. Award paid to informers and Government officers during the period 2011-12 to 2013-14 is given in table below:

Table 2.11: Cases detected and reward paid to informers

| Year | No. of cases detected | No of informers rewarded | Amount paid (₹ in thousand) | Amount paid to officers (₹ in thousand) |
|--------------|-----------------------|--------------------------|-----------------------------|---|
| 2011-12 | 289 | 36 | 5206 | 36204 |
| 2012-13 | 362 | 26 | 37411 | 48384 |
| 2013-14 | 514 | 45 | 39929 | 69945 |
| Total | 1165 | 107 | 82546 | 154533 |

Though the amount of the reward paid to informers and officers was increasing gradually, when compared to the numbers of Intelligence received and cases

selected for investigation as shown in Table 2.4, the intelligence/ information and number of cases received/investigated seemed to be decreasing.

2.8 Internal Control and audit

Pr. Chief Controller of Accounts (Pr. CCA), Central Board of Excise and Customs conducts establishment and expenditure audit of the DRI without certification of 'Secret Service Fund' (SSF). The DG DRI certifies the SSF. The last audit of Pr. CCA was done in March 2011 after a gap of five years for the period April 2006 to March 2010.

The Director General of Audit, Customs and Central Excise, CBEC, Ministry of Finance does not audit the DRI to check its internal control or for its performance. No technical audit of the DRI organisation was being done.

Periodic reports are sent by Policy Section of DRI to the Board and Department of Revenue which are produced, collated and delivered by DRI without any provision for cross checks.

No Internal control mechanism is in place to get assurance about the effective fulfillment of the tasks/mandate as evident from the cases taken up by DRI. Relied upon documents (RUD) were not provided in the first instance in some cases which could reduce the opportunity given to the parties to respond.

The Statutory audit conducted was closely monitored at the level of Director General of Audit (Central Receipts), Delhi. DRI did not co-operate with audit in terms of sharing the processes and information required to form adequate assurance of its systems and performance.