

## Executive summary

We conducted a performance audit in 40 selected Commissionerates, including examination of records relating to 239 assessee manufacturing automobiles or parts thereof, to seek assurance that the indirect tax administration is adequately placed to safeguard the interests of revenue through its compliance verification mechanisms, annual analyses of tax payers and defaulters, monitoring of exemptions etc. While doing so, we also looked into the adequacy of the Rules and extant instructions in ensuring proper assessment and collection of revenues.

The performance audit revealed certain inadequacies in the extant provisions, system as well as compliance issues relating to the assessment and collection of duty from the Automotive Sector.

- Thirty-nine out of the selected 40 Commissionerates intimated that they had not undertaken any analysis of revenue collections from the sector.

(Paragraph 2.1)

- Non-submission/delayed submission of returns prescribed under Central Excise Rules and Cenvat Credit Rules by the assessee of automotive sector.

(Paragraph 2.2)

- We observed that master files had not been created for 1,116 assesseees.

(Paragraph 2.3.1)

- We observed delays ranging between one year and five years in adjudication of demands involving revenue of ` 587.56 crore.

(Paragraph 2.6)

- Absence of provision in Cenvat Credit Rules, to reverse the proportionate Cenvat credit relating to input services at the time of clearance of input/capital goods 'as such'. We came across 44 cases involving revenue implication of ` 87.37 crore.

(Paragraph 2.7)

- During the course of this audit examination, we observed 25 cases of incorrect valuation of excisable goods involving duty impact of ` 547.93 crore.

(Paragraphs 3.1 to 3.5)

- During the course of this audit examination, we found 144 cases of incorrect availing of Cenvat credit with duty impact of ` 6.74 crore.

(Paragraphs 4.1 to 4.9)

### **Recommendations**

- The Ministry should include a provision in the Central Excise Rules, 2002 requiring assessees to pay late fees (unless waived on showing sufficient reasons) in case of non-compliance with provisions requiring filing of periodical returns by a specified date.
- The Ministry should include a provision in the Central Excise Rules, enabling filing of revised Central Excise returns within a prescribed period.
- The Ministry may insert a provision in Cenvat Credit Rules, 2004 to reverse the proportionate Cenvat credit relating to input services at the time of clearance of input/capital goods 'as such'.
- The Ministry may consider inserting a provision in the Central Excise Rules for pre-audit of all such claims submitted on the same date (or within a prescribed period) where the total value of rebate claims exceeds ` 5 lakh.
- The Ministry should review rule 10 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 as it imposes an additional requirement of "holding and subsidiary relationship" not envisaged by the Act.
- Clear provisions need to be introduced indicating what would constitute "mutuality of interest in each other's business" for the purposes of clause (iv) of Section 4 (3)(b) of the Act just as the expressions "inter-connected undertakings", "group", "related persons", "under the same management" have been explained in the law.