

Chapter I

Department of Revenue – Central Excise

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 depicts a summary of receipts of the Union Government, which amounted to ₹ 55,83,092 crore¹ for FY 14. Out of this, its own receipts were ₹ 15,36,024 crore including Gross Tax receipts of ₹ 11,38,996 crore.

Table 1.1: Resources of the Union Government

	(₹ in crore)
A. Total Revenue Receipts	15,36,024
<i>i. Direct Tax Receipts</i>	6,38,596
<i>ii. Indirect Tax Receipts including other taxes</i>	5,00,400
<i>iii. Non-Tax Receipts including Grants-in-aid & contributions</i>	3,97,028
B. Miscellaneous Capital Receipts	27,553
C. Recovery of Loans and 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.	

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:** Central Excise 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

¹ Source: Union Finance Accounts of FY 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 14.

toilet preparations containing alcohol, opium etc (Entry 84 of List 1 of the Seventh Schedule of the Constitution).

- c) **Service Tax:** 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 66B of the Finance Act, 1994 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.² 'Service' has been defined in section 65B (44) of the 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 service.³

This chapter discusses trends, composition and systemic issues in Central Excise using data from Finance Accounts, departmental accounts and relevant data available in public domain.

1.3 Organisational structure

The Department of Revenue (DoR) of Ministry of Finance (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 Central Excise are looked after by the CBEC.

The Central Excise law is administered by the CBEC through its field offices, the Central Excise Commissionerates. For this purpose, the country is divided into 23 zones and a Chief Commissioner of Central Excise heads each zone. There are 93 Commissionerates headed by the Commissioner of Central Excise and 4 Large Taxpayer Units (LTU) Commissionerates in these zones. Division and Ranges are the subsequent formations, headed by Deputy/Assistant Commissioner of Central Excise and Superintendents of Central Excise respectively.

The overall sanctioned staff strength of the CBEC is 68,793 as on 31 March 2014. The organisational structure of CBEC is shown in **Appendix I**.

² Section 66B was inserted by the Finance Act, 2012 with effect from 1 July 2012; section 66D lists the items the negative list comprises of.

³ Section 66E of the Finance Act lists the declared services.

1.4 Growth of Indirect Taxes - trends and composition

Table 1.2 depicts the relative growth of Indirect Taxes during FY 10 to FY 14.

Table 1.2: Growth of Indirect Taxes

(₹ in crore)					
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	39.29
FY 11	3,45,371	77,95,314	4.43	7,93,307	43.54
FY 12	3,92,674	90,09,722	4.36	8,89,118	44.16
FY 13	4,74,728	1,01,13,281	4.69	10,36,460	45.80
FY 14	5,00,400	1,13,55,073	4.41	11,38,996	43.93

Source: Finance Accounts.

Figures for FY 14 are provisional.

It is seen that Indirect Taxes collection as ratio of GDP and Gross Tax revenue have fallen in FY 14 vis-à-vis FY 13 though it has increased in absolute terms.

1.5 Indirect Taxes – relative contribution

Table 1.3 depicts the trajectory of the various Indirect Tax components in GDP terms for the period FY 10 to FY 14. The relative revenue contribution of the major Indirect Taxes is depicted in **Chart 1.1**.

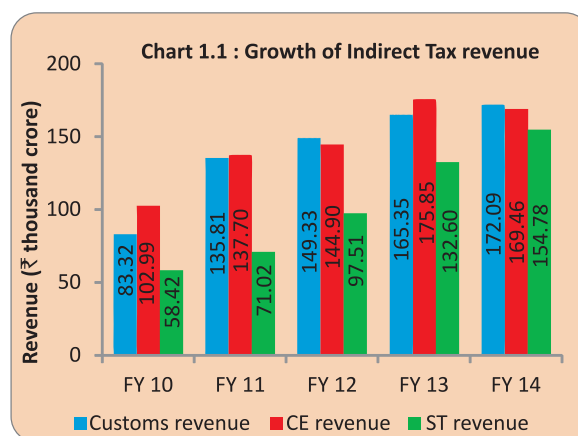


Table 1.3: Indirect Taxes - percentage of GDP

(₹ in crore)							
Year	GDP	Customs revenue	Customs revenue as % of GDP	CE revenue	CE revenue as % of GDP	ST revenue	ST revenue as % of GDP
FY 10	64,77,827	83,324	1.29	1,02,991	1.59	58,422	0.90
FY 11	77,95,314	1,35,813	1.74	1,37,701	1.77	71,016	0.91
FY 12	90,09,722	1,49,328	1.66	1,44,901	1.61	97,509	1.08
FY 13	101,13,281	1,65,346	1.63	1,75,845	1.74	1,32,601	1.31
FY 14	113,55,073	1,72,085	1.52	1,69,455	1.49	1,54,780	1.36

Source: Figures of tax receipts are as per Union Finance Accounts of respective years.

Figures for FY 14 are provisional.

The share in respect of Central Excise and Customs revenue as a percentage of GDP has suffered decline whereas share of Service Tax has increased during FY 14.

1.6 Growth of Central Excise receipts - trends and composition

Table 1.4 depicts the trends of Central Excise revenue in absolute and GDP terms during FY 10 to FY 14.

Table 1.4: Growth of Central Excise revenue

Year	GDP	Gross Tax revenue	Gross Indirect Taxes	Central Excise revenue	₹ in crore)		
					Central Excise Revenue as % of GDP	Central Excise Revenue as % of Gross tax revenue	Central Excise as % of Indirect taxes
FY 10	64,77,827	6,24,527	2,45,373	1,02,991	1.59	16.49	41.97
FY 11	77,95,314	7,93,307	3,45,371	1,37,701	1.77	17.36	39.87
FY 12	90,09,722	8,89,118	3,92,674	1,44,901	1.61	16.30	36.90
FY 13	1,01,13,281	10,36,460	4,74,728	1,75,845	1.74	16.97	37.04
FY 14	1,13,55,073	11,38,996	5,00,400	1,69,455	1.49	14.88	33.86

Source: Finance Accounts

FY 14 figures are provisional

It is observed that Central Excise as a ratio of GDP, Gross Tax Revenue and Indirect Taxes have fallen over last five years. Central Excise receipts constituted approximately 15 per cent of Gross Tax revenue in FY 14.

1.7 Central Excise receipts vis-à-vis Cenvat credit utilised

A manufacturer can avail credit of duty of Central Excise paid on inputs or capital goods as well as Service Tax paid on input services related to his manufacturing activity and can utilise credit so availed in payment of Central Excise duty.

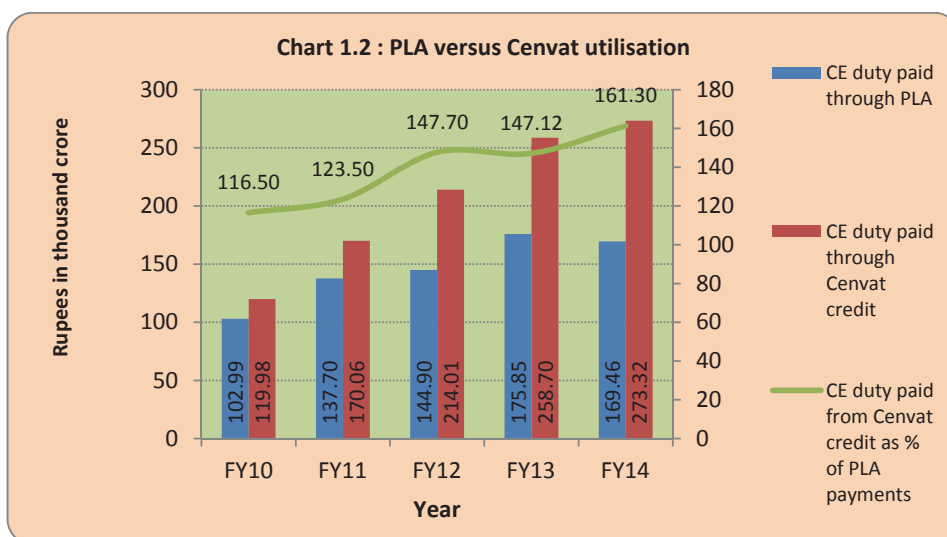
Table 1.5 and chart 1.2 depict growth of Central Excise collections through cash (PLA) and Cenvat credit during FY 10 to FY 14.

Table 1.5: Central Excise Receipts: PLA and Cenvat utilisation

(₹ in crore)

Year	CE duty paid through PLA		CE duty paid through Cenvat credit		CE duty paid from Cenvat credit as % of PLA payments
	Amount	% increase from previous year	Amount	% increase from previous year	
FY 10	1,02,991	-	1,19,982	-	116.50
FY 11	1,37,701	33.70	1,70,058	41.74	123.50
FY 12	1,44,901	5.23	2,14,014	25.85	147.70
FY 13	1,75,845	21.36	2,58,697	20.88	147.12
FY 14	1,69,455	-3.63	2,73,323	5.65	161.30

Source: Figures furnished by the Ministry

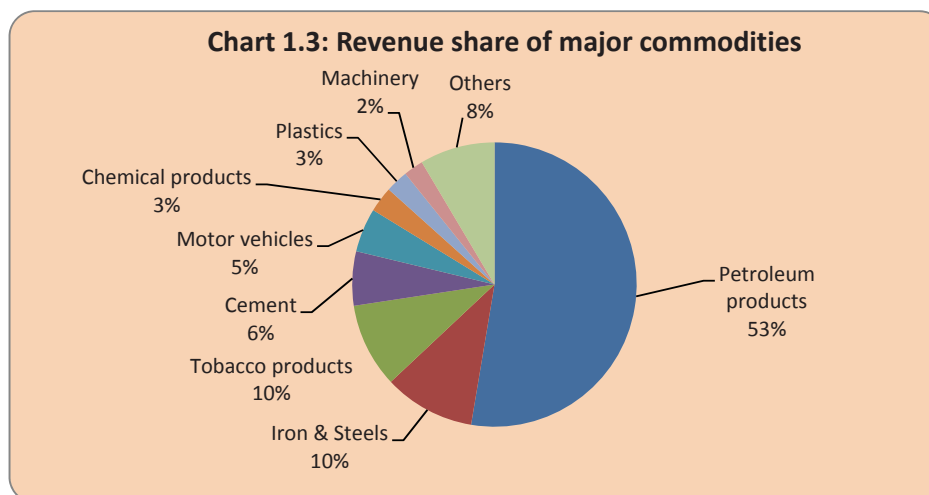


Source: Figures provided by the Ministry

It is observed that payment from Cenvat credit have increased over last five years from 117 per cent of PLA in FY 10 to 161 per cent in FY 14.

1.8 Central Excise revenue from major commodities

Chart 1.3 depicts the share of commodity groups in the Central Excise revenues (FY 14).



Source: Figures provided by the Ministry

It is observed that Petroleum (53 per cent), Iron and Steel (10 per cent), Tobacco products (10 per cent), Cement (6 per cent), Motor vehicles (5 per cent), Chemical products (3 per cent), Plastic (3 per cent) and Machinery products (2 per cent) were the eight highest revenue earners and altogether, contributed 92 per cent of the total Central Excise revenue in FY 14.

Table 1.6 depicts revenue from these commodities during last five years.

Table 1.6 : Revenue from top yielding commodities during last five years

Commodities	₹ in crore)				
	FY 10	FY 11	FY 12	FY 13	FY 14
Petroleum products	63,600	76,023	74,112	84,188	88,065
Iron & Steels	9,786	14,483	13,813	17,603	17,342
Tobacco products	12,302	13,977	15,682	17,991	16,050
Cement	5,185	7,458	8,952	10,712	10,308
Motor vehicles	5,176	7,024	7,447	10,038	8,363
Chemical products	1,618	2,802	3,443	4,872	4,845
Plastics	1,355	2,368	2,931	4,259	4,298
Machinery	1,876	2,799	3,452	4,559	3,761
Others	8,239	9,529	12,841	19,176	14,267

Source: Figures provided by the Ministry

It is observed that except Petroleum products and Plastics, all other commodities showed negative growth during FY 14.

1.9 Tax base

"Assessee" means any person who is liable for payment of duty assessed or a producer or manufacturer of excisable goods or a registered person of a private warehouse in which excisable goods are stored and includes an authorised agent of such person. A single legal entity (company or individual) can have multiple assessee identities depending upon location of manufacturing units. Table 1.7 depicts the number of Central Excise assessees during the last five years:

Table 1.7: Tax base in Central Excise

Year	No. of registered assessees	% growth over previous year
FY 10	3,19,588	-
FY 11	3,51,293	9.92
FY 12	3,82,218	8.80
FY 13	4,09,707	7.19
FY 14	4,35,668	6.34

Source: Figures furnished by the Ministry,

It is observed that there is a steady growth in number of registered assessees.

1.10 Budgeting issues in Central Excise

Table 1.8 depicts a comparison of the Budget Estimates and the corresponding actuals for Central Excise receipts.

Table 1.8: Budget , Revised estimates and Actual receipts

(₹ in crore)						
Year	Budget estimates	Revised budget estimates	Actual receipts	Diff. between actuals and BE	%age variation between actuals and BE	%age variation between actuals and RE
FY 10	1,06,477	1,02,000	1,02,991	(-)3,486	(-)3.27	(+)0.97
FY 11	1,32,000	1,37,778	1,37,701	(+)5,701	(+)4.32	(-)0.06
FY 12	1,64,116	1,50,696	1,44,901	(-)19,215	(-)11.71	(-)3.85
FY 13	1,94,350	1,71,996	1,75,845	(-)18,505	(-)9.52	(+)2.24
FY 14	1,97,554	1,79,537	1,69,455	(-)28,099	(-)14.22	(-)5.62

Source: Union Budget and Finance Accounts.

Figure for FY 14 are provisional.

It is observed that actual receipt of Central Excise have fallen short of Budget estimates by 14.22 per cent during FY 14.

1.11 Central Excise revenue forgone under Central Excise Act

Central Government has been granted powers under Section 5A(1) of the Central Excise Act, 1944 to issue exemption notifications in public interest so as to prescribe duty rates lower than the tariff rates prescribed in the Schedules. The rates prescribed by exemption notifications are known as the “effective rates”. Revenue forgone is defined to be the difference between the duty that would have been payable but for the exemption notification and the actual duty paid in terms of the said notification –

- In cases where the tariff and effective rates of duty are specified as ad valorem rates - **Revenue forgone = Value of goods X (Tariff rate of duty - Effective rate of duty)**
- In cases where the tariff rate is on ad valorem basis but the effective duty is levied at specific rates in terms of the exemption notification, then – **Revenue forgone = (Value of goods X Tariff rate of duty) - (Quantity of goods X Effective rate of specific duty)**
- In cases where the tariff rates and effective rates are a combination of ad valorem and specific rates, revenue forgone is calculated accordingly
- In all cases, where the tariff rate of duty equals the effective rate, revenue forgone will be zero.

Besides the powers to issue general exemption notifications under Section 5A(1) *ibid*, the Central Government also has the powers to issue special orders for granting excise duty exemption on a case to case basis under circumstances of an exceptional nature, vide Section 5A(2) of the Central Excise Act. However, unlike general exemptions which form part and parcel of fiscal policy of the Central Government, the main object behind issue of exemption orders is to deal with circumstances of exceptional nature. As such, the duty forgone on account of issue of special exemption orders is not being calculated towards revenue forgone figures.

Table 1.9 depicts figures of Central Excise related revenue forgone during last five years as reported in budget documents of the Union Government.

Table 1.9: Central Excise receipts and total Revenue forgone

(₹ in crore)			
Year	Central Excise receipts	Revenue forgone	Revenue forgone as % of Central Excise receipts
FY 10	1,02,991	1,69,121	164.21
FY 11	1,37,701	1,92,227	139.60
FY 12	1,44,901	1,95,590	134.98
FY 13	1,75,845	2,09,940	119.39
FY 14	1,69,455	1,95,679	115.48

Source: Union Receipts Budget, Finance Accounts

It is observed that the Revenue forgone for FY 14 in respect of Excise duties was ₹ 1,95,679 crore (₹ 1,77,680 crore as general exemptions and ₹ 17,999 crore as area based exemptions) which is 115 per cent of revenue from Central Excise.

1.12 Trade facilitation

1.12.1 Creation of Large Taxpayer Units (LTUs)

For the trade facility LTUs have been set up by the Department. An LTU is self-contained tax office under the Department of Revenue acting as a single window clearance point for all matters relating to Central Excise, Service Tax, Income Tax and Corporate Tax. Eligible Tax Payers who opt for assessment in LTUs shall be able to file their Excise return, Direct Taxes returns and Service Tax return at such LTUs and for all practical purposes will be assessed to all these taxes there under. These units are being equipped with modern facilities and trained manpower to assist the tax payers in all matters relating Direct and Indirect Tax/duty payments, filing of documents and returns, claim of rebates/refunds, settlement of disputes etc. For trade facilitation four LTUs have been established in Delhi, Mumbai, Bengaluru and Chennai.

1.12.2 Automation of Central Excise and Service Tax

Automation of Central Excise and Service Tax (ACES) is the e-governance initiative by CBEC, Department of Revenue, Ministry of Finance. It is one of the Mission Mode Projects (MMP) of the Government of India under National e-Governance Plan (NeGP). It is a software application which aims at improving tax-payer services, transparency, accountability and efficiency in the Indirect Tax administration in India. This application is a web-based and workflow-based system that has automated all major procedures in Central Excise and Service Tax.

1.13 Arrears of Central Excise duties

The law provides for various methods of recovery of revenue demanded but not realised. These include adjusting against amounts, if any, payable to the person from whom revenue is recoverable, recovery by attachment and sale of excisable goods and recovery as arrears of land revenue through the district revenue authority.

Table 1.10 depicts performance of department in respect of recovery of revenue arrears.

Table 1.10: Arrear realisation in Central Excise

Year	Amount in arrears at the commencement of the year	Collection during the year	Arrears pending recovery at the end of the year	(₹ in crore)	
				Collection as % of arrears at the commencement of the year	
FY 12	34,945	1,125	35,964	3.22	
FY 13	35,964	1,560	45,463	4.34	
FY 14	45,463	1,178	59,309	2.59	

Source: Figures furnished by the Ministry

It is observed that the collection during FY 14 has fallen drastically to 2.59 per cent compared to 4.34 per cent in FY 13. There is a need to strengthen the recovery mechanism of the department.

1.14 Additional revenue realised because of Anti-evasion measures

Both DGCEI as well as the Central Excise and Service Tax Commissionerates have well-defined roles in the task of detection of cases of evasion of Central Excise duty. While the Commissionerates, with their extensive database about units in their jurisdiction and presence in the field, are the first line of defense against duty evasion, DGCEI specialises in collecting specific intelligence about evasion of substantial revenue. The intelligence so collected is shared with the Commissionerates. Investigations are also undertaken by DGCEI in cases having all India ramifications.

Tables 1.11 and 1.12 depict the performance of DGCEI and the Commissionerates pertaining to the past three years.

Table 1.11: Anti-evasion performance of DGCEI during last three years

Year	Detection		Voluntary payment during Investigation
	No. of cases	Amount	Amount
FY 12	450	1,140	255
FY 13	458	2,940	1,019
FY 14	384	1,947	363

Source: Figures furnished by the Ministry.

It is observed that number of cases detected by DGCEI and voluntary payment during investigation have fallen drastically during FY 14 compared to FY 13.

Table 1.12 : Anti-evasion performance of Commissionerates during the last three years

(₹ in crore)

Year	Detection		Voluntary Payment during Investigation
	No. of Cases	Amount	Amount
FY 12	2,877	2,788	965
FY 13	2,150	3,415	482
FY 14	2,222	2,790	450

Source: Figures furnished by the Ministry.

At the Commissionerates level, though the number of cases detected increased but voluntary payment during investigation have reduced in FY 14, compared to FY 13.

Tax administration in Central Excise

1.15 Scrutiny of Central Excise returns

CBEC introduced self-assessment in respect of Central Excise in 1996. With the introduction of self-assessment, the department also provided for a strong compliance verification mechanism with scrutiny of returns. Assessment is the primary function of Central Excise officers who are to scrutinise the Central Excise returns to ensure correctness of duty payment. As per the manual for the Scrutiny of Central Excise Returns, a monthly report is to be submitted by the Range Officer to the jurisdictional Assistant/Deputy Commissioner of the Division regarding the number of returns received and scrutinised. Scrutiny is done in two stages i.e. preliminary scrutiny by ACES and detailed scrutiny, which is carried out manually on the returns marked by ACES or otherwise.

1.15.1 Preliminary scrutiny of returns

The purpose of preliminary scrutiny is to ensure completeness of information, timely submission of the return, timely payment of duty, arithmetical accuracy of the amount computed as duty and identification of non-filers and stop-filers.

Table 1.13 depicts the performance of department in respect of preliminary scrutiny of Central Excise returns.

Table 1.13: Preliminary scrutiny of Central Excise returns

Year	No of returns filed in ACES	No. of returns marked for R&C	% of returns marked for R&C	No. of returns cleared after R&C	No. of returns pending for R&C	% of marked returns pending correction
FY 12	17,00,773	16,39,176	96.38	6,95,098	9,44,078	57.59
FY 13	29,08,856	27,78,012	95.50	19,67,536	8,10,476	29.17
FY 14	14,67,149	11,86,384	80.86	7,33,141	4,53,243	38.20

Source : Figures furnished by the Ministry

It is observed that a very high percentage of cases, scrutinised by ACES were marked for review and correction. It is also observed that number of returns filed in ACES has come down drastically in FY 14 compared to FY 13 which needs an examination.

Considering the fact that mandatory electronic filing of Central Excise returns had been introduced with effect from 1 October 2011 and hence returns scrutiny through ACES should have stabilised at least by 2013-14. One of the main intentions behind introducing preliminary scrutiny online was to release manpower for detailed scrutiny, which could then become the core function of the Range/Group.

The very high percentage of scrutinised returns being thrown up for R & C and resultant high number of returns pending corrective action are indicative of deficiencies in the ACES system which the department needs to address urgently. Completion of Review and correction of returns in ACES is the prerequisite for scrutiny of subsequent returns submitted by the assesseees.

1.15.2 Detailed scrutiny of returns

The purpose of detailed scrutiny is to establish the validity of information furnished in the tax return and to ensure correctness of valuation, availing of Cenvat credit, classification and effective rate of tax applied after taking into consideration the admissibility of exemption notification availed etc. Unlike preliminary scrutiny, detailed scrutiny is to cover only certain selected returns, identified on the basis of risk parameters, developed from the information furnished in the returns submitted by the taxpayers.

Table 1.14 depicts the performance of the department in carrying out detailed scrutiny of Central Excise returns.

Table 1.14: Detailed scrutiny of Central Excise returns

Year	No. of returns marked for detailed scrutiny	No. of returns where detailed scrutiny was carried out	Number of returns where detailed scrutiny was pending	Age-wise breakup of pendency		
				Returns pending for between 6 months to 1 year	Returns pending for between 1 to 2 year	Returns pending for over 2 years
FY 12	27,404	13,055	14,142	13,701	452	20
FY 13	50,039	38,900	10,144	8,108	1,684	240
FY 14	10,665	6,894	3,771	3,787	796	116

Source: Figures furnished by the Ministry,

The number of returns marked for detailed scrutiny for FY 14 has come down significantly compared to FY 12 and FY 13. The ministry needs to examine the drastic reduction in number of detailed scrutiny carried out in FY 14.

It is further noticed that data for FY 14 supplied by the Ministry was not only arithmetically incorrect but also supplied to audit after obtaining the same from their field formations which led to considerable delays. Audit is of the view that in the age of IT, such type of key statistics should be available with the Board.

1.16 Adjudication

Adjudication is the process through which departmental officers determine issues relating to tax liability of assessee. Such process may involve consideration of aspects relating to, inter alia, Cenvat credit, valuation, refund claims, provisional assessment etc. A decision of the adjudicatory authority may be challenged in an appellate forum as per the prescribed procedures.

Table 1.15 depicts an age-wise analysis of Central Excise adjudication.

Table 1.15: Cases pending for adjudication with departmental authority

(₹ in crore)

Year	Cases pending as on 31 March		Age-wise breakup of cases		
			Cases pending for less than a year	Cases pending for over one year but less than three years	Cases pending for over three years
	No. of cases	Amount	No. of cases	No. of cases	No. of cases
FY 12	17,418	16,637	16,227	883	308
FY 13	16,801	16,020	15,712	909	184
FY 14	20,428	21,734	17,286	2,625	517

Source: Figures furnished by the Ministry

It is observed that cases involving duty of ₹ 21,734 crore were pending as on 31 March 2014 for adjudication. It was also observed that 517 cases were

pending for more than three years. Overall there was increase in number of pending cases in FY 14.

1.17 Refunds

Section 11B of the Central Excise Act, 1944 provides the legal authority for claim and grant of refund of any Central Excise duty. The term refund includes rebate of excise duty paid on excisable goods exported out of India as well as of excise duty paid on material used in the manufacture of goods exported out of India.

Table 1.16 depicts the details of refund related performance of the department during last three years.

Table 1.16: Refunds in respect of Central Excise during the last three years

(₹ in crore)

Year	OB plus claims received during the year		Disposals during the Year						Closing Balance	
			Refunds sanctioned during the year		Cases disposed of within 90 days	Delayed disposal	Cases where interest has been paid			
	No. of Cases	Amt.	No. of Cases	Amt.	No. of Cases	No of cases	No. of Cases	Interest paid	No. of Cases	Amt.
FY 12	2,04,473	32,215	1,65,229	27,138	1,58,538	6,691	18	7	39,244	5,077
FY 13	2,15,146	26,873	1,70,797	21,139	1,64,669	6,128	20	15	44,349	5,734
FY 14	2,70,321	28,461	2,09,549	11,875	1,98,256	64,215	241	91	60,754	4,714

Source: Figures furnished by the Ministry

It is observed on the basis of data available that despite the fact that there is a liability on department to pay interest on delayed refunds, department is not paying interest to the assesseees in most of the cases. Board may consider to issue instructions to its field formations to pay interest on delayed refunds suo-moto, similar to Direct Taxes.

It is further noticed that data for FY 14 supplied by the Ministry was not only arithmetically incorrect but also supplied to audit after obtaining the same from their field formations which led to considerable delays. Audit is of the view that in the age of IT, such type of key statistics should be available with the Board.

1.18 Call book

Extant circulars on the subject envisage that cases that cannot be adjudicated due to certain reasons such as the department having gone in appeal, injunction from courts, contesting of CERA audit objections etc may be entered into the call book. Member (CX), vide his D.O.F. No. 101/2/2003-CX-3, dated 3 January 2005, had emphasised that call book cases should be reviewed every month. Director General of Inspection (Customs and Central

Excise) has reiterated the need for monthly review in his letter dated 29 December 2005 stating that review of call book may result in substantial reduction in the number of unconfirmed demands in call book.

Table 1.17 depicts the performance of the department in respect of call book clearance in Central Excise during recent years.

Table 1.17: Call book cases pending on 31 March

Year	New Cases transferred to call book during the year	Disposals during the year	Closing balance at the end of year	Revenue involved (₹ in Cr)	Age-wise break up of pendency at the end of the year		
					Less than 6 months	6-12 months	Over 1 year
FY 12	7,927	4,867	30,542	46,586	5,702	2,874	21,966
FY 13	6,502	5,966	29,143	45,267	4,609	2,958	21,576
FY 14	7,278	4,126	36,464	64,356	6,179	3,419	26,866

Source : Figures furnished by the Ministry

It is observed that the pendency of cases in the call book is still very high indicating the need for close monitoring of the process of review of call book items. During FY 14, the number of cases pending in call book had reached 36,464.

1.19 Cost of collection

Table 1.18 depicts the cost of collection vis-a-vis the revenue collection.

Table 1.18: Central Excise and Service Tax receipts and cost of collection

Year	Receipts from Central Excise	Receipts from Service Tax	Total receipts	Cost of collection	(₹ in crore)
					Cost of collection as % of total receipts
FY 10	1,02,991	58,422	1,61,413	2,127	1.32
FY 11	1,37,901	71,016	2,08,917	2,072	0.99
FY 12	1,44,540	97,356	2,41,896	2,227	0.92
FY 13	1,75,845	1,32,601	3,08,446	2,439	0.79
FY 14	1,69,455	1,54,780	3,24,235	2,635	0.81

Source: Union Finance Accounts of respective years.

Figures for FY 14 are provisional

It is observed that despite automation and extensive use of ICT, cost of collection continues to show a rising trend.

1.20 Internal Audit

Modernisation of Indirect Tax administration in India is based on the Canadian model. The new audit system EA 2000 has four distinct features:

scientific selection after risk analysis, emphasis on pre-preparation, scrutinising of business records against statutory records and monitoring of audit points.

Audit processes include preliminary review, gathering and documenting systems' information, evaluating internal controls, analysing risks to revenue and trends, developing audit plan, actual audit, preparation of audit findings, reviewing the results with the assessee/Range Officer/Divisional Assistant Commissioner and finalisation of the report.

The Audit framework consists of three parts. Directorate General of Audit and the field Commissionerates share the responsibility of administration of Audit. While the Directorate is responsible for collection, compilation and analysis of audit results and its feedback to CBEC to improve tax compliance and to gauge levels of client satisfaction, audit parties from Commissionerates undertake audit in terms of EA 2000 audit protocol. In order to improve audit quality, CBEC took the assistance of Asian Development Bank in developing audit manuals, risk management manuals and manuals to train auditors in EA 2000 and CAATs, which prescribe detailed processes for conduct of audit. Table 1.19 depicts details of Central Excise units due for audit (during FY 14) by audit parties of the Commissionerates vis-à-vis units audited.

Table 1.19: Audits of assessees conducted during FY 14

Slab of annual duty (PLA+Cenvat)	Periodicity	Number of units due	Number of units planned	Number of units audited	Shortfall in audit (%)
Units paying CX duty > ₹ 3 crore (Category A)	Annual	12,502	12,110	10,647	12.08
Units paying CX duty between ₹ 1 and 3 crore (Category B)	Biennial	6,734	6,773	5,613	17.13
Units paying CX duty between ₹ 50 lakh and ₹ 1 crore (Category C)	Once in five years	2,688	2,897	2,537	12.43
Units paying CX duty < ₹ 50 lakh (Category D)	10 % every year	8,319	7,193	5,639	21.60

Source: Figures furnished by the Ministry.

It is observed that there was shortfall in coverage of 'category A' and 'category B' units (mandatory units and high revenue non-mandatory units).

1.21 Audit efforts and Central Excise audit products - Compliance Audit Report

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

1.22 Sources of information and the process of consultation

Data from the Union Finance Account, along with examination of basic records/documents in DoR, CBEC, 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 1,086 (CX and ST) units in FY 14.

1.23 Report overview

The current report has 68 paragraphs of ₹ 125.11 crore. There were generally four kinds of observations: incorrect availing/utilisation of Cenvat credit, non/short payment of Central Excise duty, effectiveness of internal control and other issues. The department/Ministry has already taken rectificatory action involving money value of ₹ 90.71 crore in case of 60 paragraphs in the form of issue of show cause notices, adjudication of show cause notices and reported recovery of ₹ 27.44 crore in 28 cases.

1.24 Remedial action taken on the Compliance Audit Report

Table 1.20 depicts remedial action taken on the compliance audit report and their status as of March 2014.

Table No 1.20: Remedial action taken on the compliance audit report

Report No.	CBEC	
	ATNs pending	ATNs not received
CA 12 of 2009-10(CX)	2	-
CA 17 of 2013 (CX & ST)	2	-
Total	4	-

1.25 Performance Audit Reports

Performance audit with the aim to seek an assurance that the systems and procedures were adequate and adhered to by the CBEC, was conducted. This year we have covered Performance audit on Administration of Prosecution and Penalties in Central Excise and Service Tax and Central Excise Administration in Automotive Sector. These reports were laid in the Parliament on 28 November 2014 and 19 December 2014, respectively.

1.26 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 526 audit paragraphs (Table 1.21) involving ₹ 863.10 crore.

Table 1.21: Follow up of Audit Reports

(₹ in crore)

Year		FY 10	FY 11	FY 12	FY 13	FY 14	Total	
Paragraphs included	No.	150	159	87	62	68	526	
	Amt	327.77	158.00	69.32	182.90	125.11	863.10	
Paragraphs accepted	Pre printing	No.	91	133	85	58	60	427
		Amt	62.07	117.64	67.07	179.44	90.71	516.93
	Post printing	No.	7	15	6	-	-	28
		Amt	9.58	34.76	8.34	-	-	52.68
	Total	No.	98	148	91	58	60	455
		Amt	71.65	152.40	75.41	179.44	90.71	569.61
Recoveries effected	Pre printing	No.	55	67	48	36	28	234
		Amt	29.12	46.60	24.72	21.29	27.44	149.17
	Post printing	No.	6	3	1	-	-	10
		Amt	7.50	0.19	0.04	-	-	7.73
	Total	No.	61	70	49	36	28	244
		Amt	36.62	46.79	24.76	21.29	27.44	156.90

Source: CAG Audit reports

It is observed that the Ministry had accepted audit observations in 455 audit paragraphs involving ₹ 569.61 crore and had recovered ₹ 156.90 crore.