

### Chapter 3: Governance, risk and compliance

Implementation of trade facilitation measures, inter-alia, provide for creation of adequate capacity to implement the Agreement (TFA). Article 1-5 of the section 1 of the Agreement principally address transparency issues, Articles 6-11 mainly concern fees, charges and formalities for import, export and transit, and Articles 12 & 13 address institutional arrangements. Section II of TFA which contains special and differential treatment provisions for developing country like India.

DoC in order to build an efficient trade facilitation mechanism proposed a strategic plan for DoC, notified Foreign Trade Policy and prepared a results framework to simplify trade procedures and reduce transaction costs.

Audit observed that task forces on transaction cost were constituted to:

- I. Meet all stakeholders needs
- II. Covering the trading process end to end
- III. Apply a single integrated System
- IV. Enable a holistic approach to governemance
- V. Have an assurance framework.

The Strategic plan envisaged a weighted strategic initiative to reduce transaction cost with a suitable monitoring system. The following were to be internally audited, monitored, evaluated and directed.

- I. Outcome of the export promotion Scheme.
- II. Impact of the various trade agreements,
- III. Performance of the ICT for various information system viz Customs, DGFT, SEZ etc.
- IV. Cost and impact of implementation of transaction cost reports.
- V. Internal audit of the procedures.

Audit analyzed the internal controls and observed that in order to achieve the objective of implementation of trade facilitating measures to improve trade environment for accelerating growth of exports twenty five percent weight was attributed to reduce transaction costs with the success indicator or outcome limited to constitution of the task force on transaction cost. No specific performance requirements from other departments were envisaged though, DGFT/DoR have been mentioned involvement of various agencies. No specific evaluations, monitoring or directional output was prescribed in fulfillment of the departmental objectives.

(a) Export promotion schemes were not audited by Directorate General of Export Promotion (DGEP), CBEC or Controller of Aid, Accounts and Audit, Department of Economic affairs. CCA, DoC also had not conducted any internal audit. Inspection

unit of DGFT had also not internally audited the same. However, DGFT has a post issue audit wing where licences/brand rates to the extent of 5 to 10 percent are audited.

(b) Impact of various trade agreements have not been internally audited or assessed since it was felt by DoC that exact impact of the trade agreements and their contribution would emerge after these RTAs run their course of full implementation.

(c) Internal audit of none of the information systems had been conducted by DoC or DoR viz. ICES 1.5, ICEGATE, SEZonline, DGFT (EDI), RMS, DGOV etc..

(d) DGFT (January 2015) was of the opinion that study of the World Bank in their Doing Business Report (Ease of doing business) served the purpose to analyze the cost and impact of the transaction cost studies. DGFT further added that the achievements depended on the acceptance/preparedness of multiple agencies/departments/ministries to implement recommendations of the task force.

DoR (January 2015) highlighted that delay in clearances of imported/exported goods are mainly on account of port congestion, lack of timely response from other regulatory agencies who are still working in the manual mode.

(e) Chief Controller of Accounts of DoC and Principal Chief Controller of Accounts of DoR and its field formations have been largely conducting establishment audit and do not provide a control based assurance in line with their risk assessment. E-lekha, e-PAO and COMPACT have been deployed as ICT solutions for maintaining revenue and expenditure accounts. Audit revealed that the PAO system suffered from several inadequacies in classification tax accounting and reconciliation between different information sets.

From the response of DGFT, DoR and their internal control evaluation, it was evident that inter-ministerial co-ordinations may have to be augmented to bring multiple agencies together to accept the related task and prepare to achieve them in time bound manner.

Specific cases of lapses in implementation of trade facilitation measures have been mentioned on the process of imports, exports, interpretation of extant provisions, internal control and infrastructure etc. both in EDI and manual environment.

Audit is of the view that an assurance framework needs to be developed internally for concurrent audit of various information systems in DoC/DoR. Additionally impact assessment of the trade policies and transaction analysis of simplified procedure needs to be initiated.