

Chapter IV

Tax Accounting and Reconciliation in Central Excise, Service Tax and Customs

4.1 Introduction

The Central Board of Excise and Customs (CBEC) working under the Department of Revenue, Ministry of Finance is responsible for collection of Indirect Taxes. Tax Accounting and Reconciliation is a process to ensure that the revenue realised in respect of duty/tax is duly credited to Government Account and properly accounted for without any discrepancy.

4.1.1 Tax Accounting

Union Excise Duties, Service Tax and Customs duties collected by the field formations under CBEC are classified under Major Head '0038-Union Excise Duties', '0044-Service Tax' and '0037-Customs' respectively. Refund and Drawback payments authorized by various departmental authorities are classified under the appropriate sub-heads 'Deduct-Refunds' and 'Deduct-Drawbacks, appearing under the prescribed Major and Minor Heads of accounts as given in the "list of Major and Minor Heads of Accounts of Central Receipts and Disbursements".

Assessees make payments of Central Excise Duty and Service Tax into a branch of nominated bank located within the Commissionerate exercising jurisdiction over it, through GAR-7 challans by means of cash/cheque/pay order etc. or through internet banking. Bank scrolls, containing details of challans are sent by receiving branches concerned to Pay and Accounts Offices (PAO), through their respective Focal Point Branches (FPB).

Customs duties are collected and Duty Drawbacks are paid through electronic mode with the help of Electronic Data Interchange (EDI) system. In some minor ports, Customs Duty is paid through challans in the nominated FPB.

4.1.2 Reconciliation

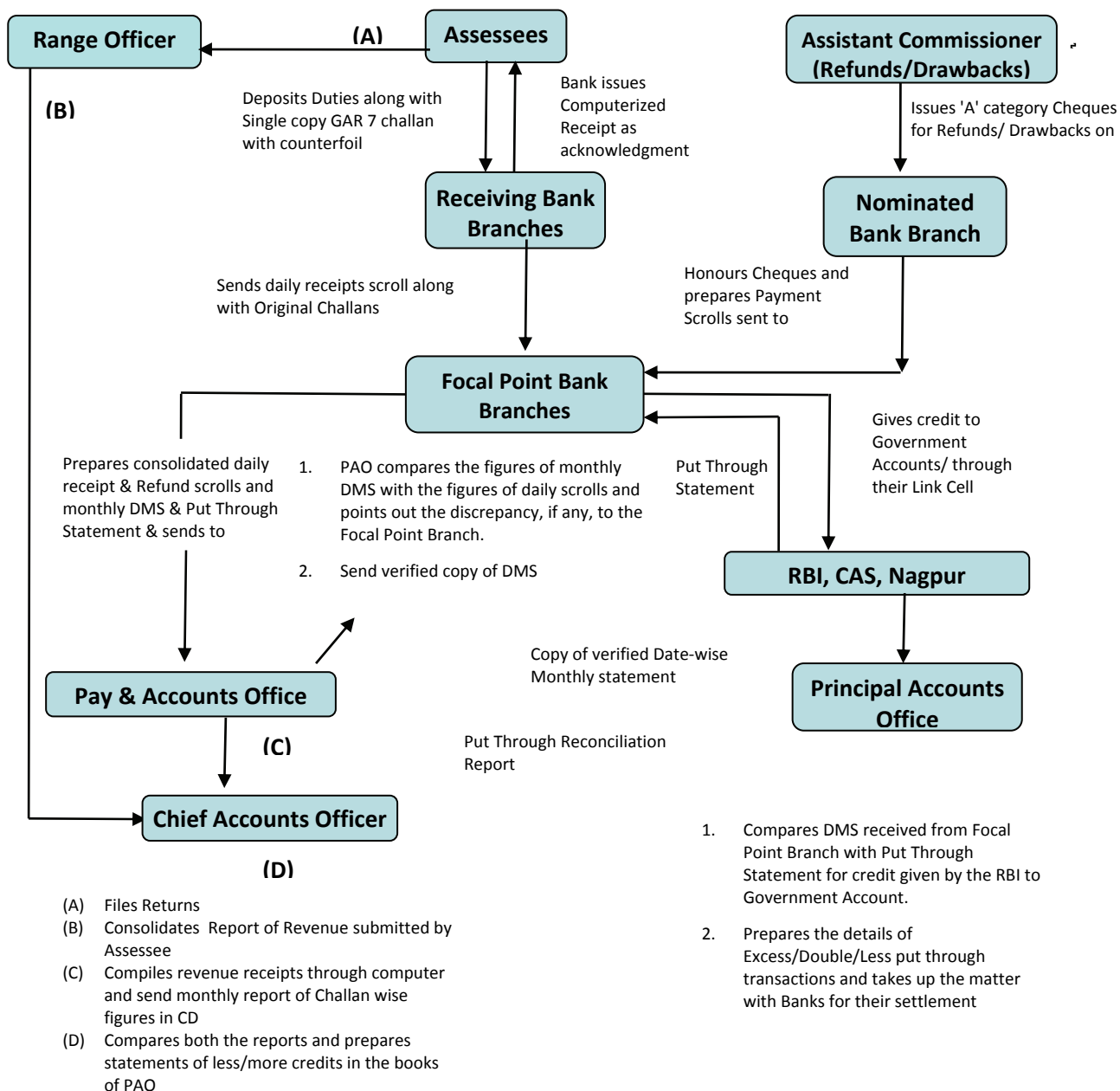
Reconciliation of receipts is an important process of internal control. In Indirect Taxes, reconciliation of revenue receipts is being done at the following stages:

- (i) Reconciliation between the Receiving Bank Branch and FPB²⁷
- (ii) FPB and PAO
- (iii) PAO and Chief Accounts Officer (CAO)

²⁷ It is carried out by the banks. Department is not undertaking this reconciliation and Audit has also not examined the same

- (iv) FPB and Reserve Bank of India, Central Account Section (CAS), Nagpur
- (v) RBI and Principal Accounts Officer (Pr. AO) in the office of the Principal Chief Controller of Accounts (Pr CCA)
- (vi) Pr.A.O in Pr CCA and PAO

Flow of accounts and reconciliation of revenue receipts with nominated banks in CBEC



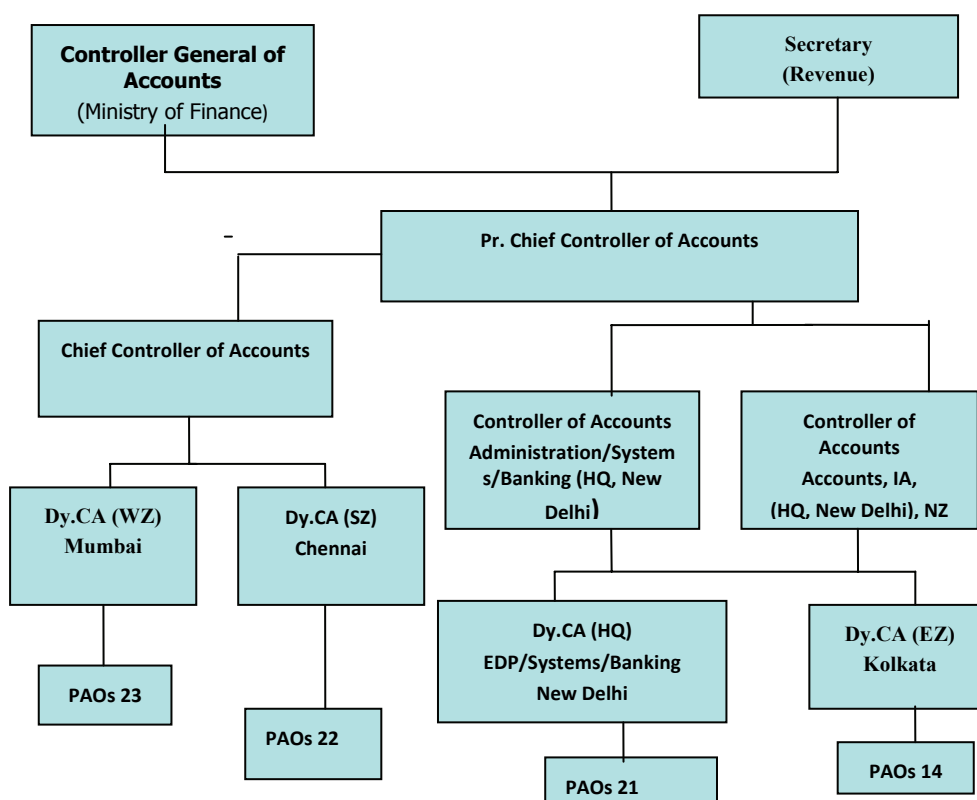
Source: Manual of Accounting of Indirect Taxes

4.1.3 Organizational setup

The Office of the Principal Chief Controller of Accounts (Pr CCA) is the head of the Accounting Organization set up in CBEC. It renders financial and

technical advice to CBEC on matters relating to collection of revenues and their accounting, prescribing banking arrangements and is responsible for accurate accounting of both expenditure and revenue (Indirect Taxes) of each Departmental Commissionerate through the PAOs located all over the country. At present there are 80 PAOs to assist Pr CCA. There are 817 Drawing and Disbursing Officers (DDOs) under the payment control of Pr CCA out of which 143 DDOs are having Cheque Drawing Powers and the remaining 674 DDOs are Non-Cheque Drawing and Disbursing Officers (NCDDOs) who submit their bills to Cheque Drawing DDOs or to the PAOs directly.

Organizational Chart of Accounting Organization, CBEC



Source: Manual of Accounting of Indirect Taxes

4.1.4 Software being used by the department

EASIEST - Electronic Accounting System in Excise and Service Tax (EASIEST) is a web based payment gateway launched by CBEC in 2007 enabling assesees to pay Central Excise duties and Service Tax online. It interfaces with the e-payment portals of the tax collecting banks and makes available accurate tax payment data from banks for revenue and tax payer accounting purposes.

ACES - Automation of Central Excise and Service Tax (ACES) 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.

ICEGATE - Indian Customs Electronic Commerce/Electronic Data interchange (EC/EDI) Gateway (ICEGATE) is a portal that provides e-filing services to the trade and cargo carriers and other clients of Customs Department (collectively called Trading Partner).

P-CBEC – It is a web-based application, aimed at gathering data from various sources and process it and generate consolidated reports by connecting all the field offices (PAOs) with the Central Server of Pr CCA, CBEC.

COMPACT (REVACT) – It is a software meant for receipt accounting in all the PAOs and two e-PAO Offices (one at Chennai for Central Excise and the other at Mumbai for Service Tax). At the PAO level it provides facility for accounting procedure to bring efficiency and accuracy in their functioning and provides information to higher levels of accounting systems for further processing.

4.1.5 Why we chose this topic

Tax Accounting and reconciliation is a mechanism for duly crediting revenue to Government Account with proper classification. After implementation of EASIEST in 2007, e-PAO was introduced in April 2010 for collection of e-payment of Central Excise Duties. Further e-reconciliation at the level of Range Officer was also introduced. In the light of these developments, we intended to examine the efficacy of the current structure of tax accounting and reconciliation system of CBEC.

4.1.6 Audit Objectives

Audit aimed to assess:

- i. Adequacy of rules, circulars, instructions and procedures in relation to tax accounting and reconciliation of Central Excise, Service Tax and Customs Duty
- ii. Compliance of statutory provisions and procedures in accounting and reconciliation of Central Excise Duty, Service Tax and Customs Duty
- iii. Effectiveness of monitoring and control mechanism.

4.1.7 Scope and coverage of audit

We selected 46 PAOs, 63 Commissionerates working under these PAOs and four Ranges under each selected Commissionerate for coverage under Audit

of Tax Accounting and Reconciliation. The period of coverage was 2011-12 to 2013-14 and the field audit was conducted between July and November 2014.

Audit observations contained in this chapter related to PAOs as well as Commissionerates. Ministry furnished its reply in respect of Commissionerates of Central Excise, Service Tax and Customs. Reply in respect of observation relating to PAO was awaited from Pr CCA (December 2015).

4.1.8 Audit Criteria

Audit criteria was based on the functions and responsibilities depicted in the following Acts, Rules, Manuals and Instructions:

- i) Manual of Accounting of Indirect Taxes of CBEC, 2013
- ii) Suspense Manual of Controller General of Accounts (CGA)
- iii) Civil Accounts Manual issued by the Ministry of Finance, CGA, 2007
- iv) Central Excise Rules, 2002
- v) General Financial Rules, 2005
- vi) Receipt and payment Rules, 1983
- vii) Finance Act, 1994
- viii) Customs Act, 1962
- ix) Notifications, Circulars, Instructions, Guidelines, etc. issued by the CBEC from time to time

PART - A
Central Excise

4.2 Accounting of Central Excise Duty

Proper accounting of Central Excise duty is necessary to have fair picture of duty collection. We observed the following inconsistencies in this regard.

4.2.1 Reconciliation of Revenue Receipts

Proper reconciliation of revenue receipts with well defined procedures is necessary for ensuring that revenue is duly credited to Government Account. On review of reconciliation procedure, certain lacunae in the system as well as inconsistencies in procedures were observed which are discussed in the following paragraphs.

4.2.1.1 Reconciliation of Central Excise revenue by Commissionerates of Central Excise with that booked by PAOs

As per Para 12.10.1 of the Manual, the PAOs will provide an assessee-wise collection report to the CAO of the Commissionerate concerned. The CAO will distribute the same to the concerned Division/Range Officers. The Range Officers in turn compare it with the returns submitted by the assessees and prepare a monthly statement for submission to CAO as directed vide CBEC's instruction No. 224/37/2005-EX-6 dated 24 December 2008. The CAO notes down the discrepancies as 'Less Credit' and 'More Credit' and forwards a copy to PAO. The CAO undertakes the necessary correspondence with the Range Officers concerned in case of 'More Credit' and PAO interacts with the FPB in case of 'Less Credit'.

We observed the following irregularities in this regard:

(i) Out of the selected 49 Commissionerates, no reconciliation was being done in 41 Commissionerates and consequently Central Excise receipts of ₹ 2,36,295 crore were not reconciled for the period 2011-12 to 2013-14.

Audit collected data in ten Commissionerates²⁸ where reconciliation was not conducted and comparison of the revenue receipt figures of PAO/e-PAO with departmental figures revealed 'Less credit' of ₹ 512.07 crore and 'More credit' of ₹ 1,230.02 crore.

We pointed this out (June to October 2014) and 41 Commissionerates responded (June to December) as follows:

Nine Commissionerates²⁹ admitted the fact of non-reconciliation.

²⁸ Mumbai-I, Raigad, Thane-I, II, Belapur, Nasik, Tirupathi, Dibrugarh, Ahmedabad II and Rajkot

²⁹ Thane I, Nasik, Bhubaneswar I, II, Raigad, Kolkata VI, Madurai, Calicut and Allahabad

Six Commissionerates³⁰ stated that reconciliation could not be completed due to non-receipt of assessee-wise collection reports from PAO and e-PAO.

Three Commissionerates³¹ stated that on receipt of data from PAO/e-PAO, same was sent to ranges/divisions but reconciliation reports were not received till date.

Nine Commissionerates³² replied that reconciliation was under process. While five Commissionerates³³ replied that reconciliation was not done due to non-sanctioning/non-functioning of CAO at Commissionerates.

Four Commissionerates³⁴ replied that after introduction of e-payment system, entire process of reconciliation is automated and there was no need to verify CAO/PAO data.

The reply is not acceptable as para 12.3.4 of the manual clearly states that e-PAOs (in case of online payment) would also send assessee-wise payment/challan details to the Commissionerate every month for departmental reconciliation and as per para 12.10.1, Commissionerates have to reconcile the revenue with PAO. Reconciliation carried out by Audit in nine Commissionerates and the discrepancies in form of less/more credit indicate the need for reconciliation process.

Reply from five Commissionerates³⁵ was awaited (December 2015).

Different replies from the Commissionerates indicate that field formations have different views for reconciliation and the work is not being carried out.

Audit recommended that Board may clarify the issue with suitable instructions and make arrangements for proper implementation and monitoring of reconciliation process.

Ministry admitted (October 2015) that after implementation of ACES, procedure of revenue reconciliation prescribed in Board instructions' dated 24 December 2008 is not being followed and stated that these instructions needs to be followed timely and regularly. It also stated that reconciliation system between EASIEST software and PAOs have some discrepancies due to difference in consideration of reporting date of revenue which are being addressed and a number of measures are being initiated as follows:

³⁰ Chandigarh I, Raipur, Haldia, Panchkula, Dibrugarh and Thane II

³¹ Chandigarh II, Mumbai I and Belapur

³² Puducherry, Chennai IV, Tirunelveli, Coimbatore, Ghaziabad, Jaipur I,II, Vapi and Daman

³³ Bhopal, Delhi II, Delhi LTU, Indore and Meerut I

³⁴ Delhi I, Ahmedabad II, Rajkot, Cochin

³⁵ Bengaluru II, III, Mysore, Ranchi and Jamshedpur

- (a) Pr CCA has been requested to update assessee details in synchronisation with ACES/EASIEST
- (b) NSDL has been asked to provide revenue reporting date on the basis of challan realisation date.
- (c) Pr CCA has been asked to import challan data from EASIEST and take action for proper reconciliation of revenue by sharing information between PAOs and banks.
- (ii) Audit also observed that where reconciliation was being done, it was done for past years only and up to date reconciliation was not completed. Thus there was delay in reconciliation ranging from 12 to 66 months in six Commissionerates as detailed in Table 4.1:

Table 4.1 : Statement showing the delays in reconciliation

Sl. No	Commissionerate	Reconciliation completed upto	Delay in Months (as on December 2014)
1	Hyderabad –I	August 2013	16
2	Hyderabad-II	December 2013	12
3	Hyderabad-III	May 2013	19
4	Chennai-II	March 2012	33
5	Tirupathi	February 2011*	46
6	Bolpur	June 2009	66

* In Tirupathi Commissionerate, revenue realised through e-payment was not taken into account for reconciliation

When we pointed this out (between August to November 2014), Ministry intimated (October 2015) that in Hyderabad I and III Commissionerate, reconciliation was completed upto November and September 2013 respectively and further information was awaited from e-PAO. In Hyderabad II, reconciliation would be completed in two months. In Chennai II, reconciliation was completed upto December 2014 and no discrepancy was found. In Bolpur Commissionerate, data was not received from PAO in proper form earlier, it was received recently and reconciliation was being done. In case of Tirupathi Commissionerate, Ministry replied that reconciliation was not required due to same being verified from ACES and NSDL.

Ministry seems to have forwarded replies obtained from various Commissionerate without analyzing and taking a final view. Ministry opinion in case of Tirupathi Commissionerate is not correct as reconciliation between PAO and Commissionerates is required to ascertain that amount booked by Commissionerates is properly deposited in Government account. Ministry

may issue instruction to such Commissionerate and also ensure that data from e-PAO/PAO is sent to Commissionerates regularly.

Audit is of the view that Ministry needs to take a final view and issue instructions to field formations accordingly.

(iii) In Kolkata II and Kolkata V Commissionerates, reconciliation was initiated from July 2012 and November 2012 respectively but no reconciliation was taken up for the earlier period.

When we pointed this out (July 2014 and October 2014), Kolkata II Commissionerate replied that reconciliation reports from Ranges was not received for the period from April 2011 to June 2012, and reconciliation was done for the later period i.e. July 2012 to February 2013. Reports for the period from March 2013 to December 2013 were received in July 2014 and same were under scrutiny.

Kolkata V Commissionerate replied (October 2014) that no record was available for the year 2011-12. For 2012-13, reconciliation was done only for the months of July 2012 and November 2012 to March 2013. For 2013-14, reconciliation was done upto March 2014.

Ministry stated (October 2014) that further report for Kolkata II Commissionerate will follow.

For Kolkata V Commissionerate, Ministry on one hand stated that comparison of return with NSDL by range officer serve the purpose, on other hand it stated that instruction are being issued to the Commissionerate to follow the procedure.

Ministry's reply is contradictory which needs to be resolved and suitable instruction to be issued to field formation for consistency.

(iv) Audit observed that four Commissionerates detected 'Less credit' and 'More credit' as detailed in Table 4.2. However, no follow up action was taken for rectification of these discrepancies.

Table 4.2 : Discrepancies found during reconciliation of figures between concerned Range and PAO

(₹ in crore)

S. No.	Commissionerate	Reconciliation done up to	More Credits	Less Credits
1	Hyderabad-I	August 2013	703.55	42,357.34
2	Hyderabad-II	December 2013	4293.00	1275.00
3	Tirupathi	February 2011	54.46	35.06
4	Bolpur	June 2009	3.68	6.73

When we pointed this out (August to November 2014), Ministry intimated (October 2015) that in Hyderabad I, II and Bolpur Commissionerate reconciliation had been initiated. For Tirupathi Commissionerate, it stated that reconciliation was not required which is not acceptable for the reasons stated in previous paragraph.

(v) In Hyderabad III Commissionerate the closing balances of 'Less Credits' amounting to ₹ 406.00 crore and 'More Credits' amounting to ₹ 599.31 crore for the month of May 2012 were not carried forward as opening balance for the month of June 2012 which resulted in incorrect depiction of 'Less Credit' and 'More Credit'.

When we pointed this out (November 2014), Ministry stated (October 2015) that amount was reconciled in May 2012 and hence was not carried forward in June 2012.

(vi) During the scrutiny of the monthly accounts of e-PAO, Central Excise, Chennai for the year 2012-13 Audit observed that receipts of ₹ 198.86 crore and ₹ 202.22 crore were accounted for in the months of September and October 2012 respectively under Chennai I Commissionerate which was not consistent with normal monthly receipts trend of not more than ₹ 24 crore.

When we pointed this out (August 2014) the Deputy Controller of Accounts (DCA), Chennai replied (August 2014) that actual revenue collection for September and October 2012 was only ₹ 17.91 crore and ₹ 24.92 crore respectively and the difference in revenue collection was due to wrong location code used by some banks in the respective months. DCA further replied that due to non-reconciliation of revenue figures by the Commissionerates, these could not be rectified earlier.

Non-reconciliation of revenue by PAO and Commissionerates thus resulted in inflated booking of ₹ 180.95 crore in September 2012 and ₹ 177.30 crore in October 2012. Reconciliation system failed to notice even the cases of abnormal increase/decrease in revenue realization indicating the lack of seriousness being given to the process.

Ministry stated (October 2015) that reply will follow.

From the observations above it is clear that reconciliation is not being done at most of the places and wherever it is being done, rectification of discrepancies was not being carried out. Thus, accuracy of the revenue credited into Government account could not be ensured.

4.2.1.2 Discrepancies between Date-wise Monthly Statements (DMS) and Put-Through Statements (PTS)

As per para 6.12.3 of the Manual, the FPB will prepare DMS on a monthly basis at the end of every month for submission to the concerned PAO. Para 6.15 of the manual states that CAS, RBI, Nagpur will generate a statement showing Bank-wise, PAO-wise and Major Head-wise amount put through in Government Account and furnish the same to PAO and link cell of the concerned bank. As per para 6.10 of the Manual the PAO and FPB concerned are responsible for reconciliation between DMS and PTS.

(i) Audit observed that Out of 46 test checked PAOs, in four PAOs³⁶ reconciliation of PTS and DMS was not conducted. In PAO Bhopal, reconciliation was not conducted during the period 2006-07 to 2012-13 and was started from 2013-14 with 'Nil' opening balance.

When we pointed this out (August to October 2014), Ministry intimated (October 2015) that in Bolpur PAO, efforts were being made for reconciliation. For Calicut, Delhi, Raipur and Bhopal Commissionerates, it stated that observation related to PAO and reply of Pr CCA may be considered. Reply of Pr CCA was awaited (December 2015).

(ii) Audit further observed that in 13 PAOs³⁷ where reconciliation was done, there was difference between DMS of FPBs and PTS prepared by CAS, RBI, Nagpur amounting to ₹ 38.78 crore in Central Excise receipts and ₹ 141.17 crore in Central Excise Refunds at the end of March 2014. The difference was pending rectification.

Out of this, in receipt side, amount in DMS was more by ₹ 23.24 crore as compared to PTS, indicating that amount was paid to bank but not credited to Government Account. In payment side, amount of ₹ 118.41 crore was more in PTS which indicates that more money was claimed by banks from Government Account than actually paid by them.

When we pointed this out (between August to October 2014), DCA Chennai stated (May 2015) that matter was taken up with banks by PAOs to rectify discrepancy.

Ministry stated (October 2015) that efforts were being made at Hyderabad, Ahmedabad I, Vapi-Daman, Puducherry and Bhopal PAOs. For Nasik, Kolkata, Physical PAO Chennai, e-PAO Chennai, Kochi, Jaipur and Bhubaneswar I PAOs, it offered no comments stating that observation pertained to PAO. For

³⁶ Calicut, Bolpur, Delhi and Raipur

³⁷ Hyderabad, Tirupathi, Bhubaneswar I, Ahmedabad, Vapi-Daman, Nasik, Kolkata, Physical PAO Chennai, e-PAO Chennai, Puducherry, cochin, Bhopal, Jaipur

Tirupathi PAO, it again stated that reconciliation was not required as field formations were verifying it with ACES and NSDL.

Ministry's reply is not consistent as all the observation pertained to PAOs only. Ministry needs to take a final view and instructions may be issued to all PAOs for consistency. Reply of the Pr CCA was awaited (December 2015).

4.2.1.3 Challans not found on NSDL website resulting in non-reconciliation of duty

As per the procedure laid down in annexure 6.3 of para No. 6.5.4 of the Manual, banks would upload challan data of taxes collected on EASIEST system on daily basis. The central system at NSDL would check the file structure of data files uploaded by banks and if found correct send the consolidated data to CBEC daily on the next working day. CBEC NSDL website provides Challan Identification Number based view to track the online status of Challans deposited in Bank.

During test check of challan details in ranges, we observed that in four ranges under four Commissionerates, eight challans involving an amount of ₹ 21.74 lakh were shown as remitted to Government as per details provided in returns of the assesseees but the challans were not found on NSDL website.

Further examination revealed that in respect of one challan of M/s Flora Art amounting to ₹ 1.55 lakh in Delhi Commissionerate, discrepancy was detected by ACES and review was also carried out. However, this Challan could not be traced on NSDL website. In case of three challans amounting to Rs 16.99 lakh pertaining to Allahabad Commissionerate, ACES did not detect discrepancy.

In Central Excise Commissionerate Vapi, we observed that M/s Aniket Metals Pvt. Ltd. paid Central excise duty of ₹ 0.93 lakh through cheque No. 960418 dated 01 October 2011. But, the challan was not available on NSDL. On verifying the same with PAO records, it was observed that the amount was not credited to the Government account.

When we pointed this out (between July to October 2014), Ministry stated (October 2015) that in the case of M/s Flora art, the duty amount of ₹ 1.55 lakh was paid by the assessee and same was verified, however challan could not be found on NSDL website due to mistake of challan no. Similarly challans relating to JS Industries were verified and found correct but were not available on NSDL and bank was requested to take action. In case of M/s Champion Cibee and Co, Ministry stated that reply will follow. In case of M/s Aniket Metals Pvt. Ltd., it stated that case was adjudicated and recoveries effected.

Audit is of the view that Ministry needs to take requisite steps to address the issue.

4.2.2 Classification of Central Excise Duty

Central Excise Duties collected by field formations of CBEC are accounted for under the Major Head 0038 Union Excise Duty. Education Cess (EC) and Secondary and Higher Education Cess (SHEC) are levied for specific purposes by Central Government and are not part of shareable duty. Proceeds under EC and SHEC are to be transferred to the Ministry of Human Resource Development. Hence, correct classification of Cess is necessary not only for correct presentation of accounts but also for allotment of amount to such intended purposes.

We observed following misclassifications of Duty/Cess as detailed in the succeeding paras:

4.2.2.1 Classification of EC/ SHEC

As per Pr CCA's instructions³⁸, Central Excise duty, EC and SHEC are to be paid under accounting codes 00380003, 00380111 and 00380115 respectively.

Initially, after introduction of SHEC on Excise Duty from 01 March 2007, CBEC notified accounting codes 00380086 as 'Minor Head - Receipt Awaiting Transfer (RAT)' on temporary basis. This accounting code was subsequently modified to the new accounting code 00380115 vide the instruction *ibid*.

As per Para 5.3 of Civil Accounts Manual, to correct an error of classification in original accounts, transfer entries are required. If the accounts of the year in which errors take place are closed, such entry may be passed with the approval of Pr CCA.

We observed that 266 assesseees in four Commissionerates of Gujarat involving three PAOs, remitted SHEC of ₹ 47.85 lakh in temporary accounting code 00380086 during 2012-13 to 2013-14. Further, the PAOs incorrectly accounted such SHEC amount in 'Other Receipts Head-00380087' instead of correct Accounting Head -00380115.

Audit also noticed that department did not take any action to disable the temporary accounting code 00380086 from the directory of EASIEST software, after the new accounting code 00380115 was allotted to SHEC in October 2007 which led to misclassification of SHEC.

When we pointed this out (July to September 2014), ministry stated (October 2015) that in Rajkot and Ahmedabad II PAOs, assessee mentioned temporary accounting code which was not available in REVACT software,

³⁸ No. Co-Ord/13-6/98-99/ Vol. IV/454 dated 4 October 2007

hence, the amount was booked under Head 00380087 so that Challans may be compiled in the monthly accounts. In Vapi-Daman PAO, assesseees were requested to pay under proper head and to submit request for rectification of wrong accounting codes.

Audit recommended that Board may take action to carry out necessary updation in all relevant software and issue instruction for proper follow-up of accounting of various cess in proper head as improper accounting of cess impacts transfer to respective heads.

Ministry admitted the recommendation and stated that necessary updation will be made in software and fresh instruction will be issued for proper accounting of EC and SHEC.

4.2.2.2 Rectification of error in accounting head

As per Pr CCA instructions³⁹ for correction of Accounting Head, the PAO should get approval from the concerned Commissioner confirming that necessary changes have been made or being made in the Personal Ledger Account (PLA) of that year maintained at their end and after getting the approval from the Commissioner, necessary correction shall be made through the COMPACT (REVACT). If the amount involved is above ₹ 50 lakh in each case, further approval from the Pr CCA should be obtained.

During the audit of PAOs/Commissionerates, we observed the following irregularities:

(i) Six assesseees under Bhubaneswar I and II Commissionerates requested the PAO Bhubaneswar for rectification of error in accounting head, involving ₹ 3.10 crore and PAO forwarded such requests to the concerned Commissionerates. But, no approval from the concerned Commissionerates was received in all these cases.

When we pointed this out (July 2014), the PAO replied (July 2014) that further information is awaited from the Commissionerates.

Ministry stated (October 2015) that in Bhubaneswar I Commissionerate, no compliance was received from PAO but steps were being taken by the Commissionerate, for rectification in accounting code. In respect of Bhubaneswar II Commissionerate, it stated that reply would follow.

Ministry's reply indicates lack of coordination between PAO and Commissionerates to carry out the rectification.

(ii) M/s Aastha Alloycorp (P) Limited under Kurnool Range of Tirupathi Commissionerate incorrectly remitted (July 2013) Central Excise Duty

³⁹ OM No Coord/i(S)/R.II/9-10/23 dated 27 May 2009

amounting to ₹ 8.59 lakh under Accounting Code 00380031 (Others) instead of 0038003 (BED). The assessee applied (August 2013) for correction of Accounting Code to CAO which was forwarded to e-PAO, Chennai for rectification in accounts and e-PAO referred the case to Commissionerate for their approval. CAO then asked the range Kurnool I to make necessary changes in the PLA of the assessee. However, the rectification was not carried out till October 2014.

When we pointed this out (October 2014), Ministry stated (October 2015) that the unit was closed, however, action was being taken to rectify the error and forward the same to PAO.

4.2.3 Outstanding balances under Suspense and Remittance heads

Both Suspense and Remittance heads are intermediary and their clearance through per contra debit/credit to the final head should be ensured.

4.2.3.1 Outstanding Balances under the Head of Suspense Account in respect of Central Excise, Service Tax and Customs

As per Para 1.1 of Suspense Manual, Suspense heads are operated in Government Accounts to reflect transactions of receipts and payments which cannot be taken to final head of receipts or expenditure owing to lack of information as to the nature or for any other reason.

Suspense heads are also used to book temporarily, transactions of receipts and payments carried out by different entities i.e. banks, DDO etc. and then amount is transferred from suspense account to relevant head in the Government accounts which cannot be taken to final head of receipts or expenditure owing to lack of information as to the nature or for any other reason. They are finally cleared by minus debit or minus credit when the amount is taken to the final head of account. If amount under suspense head remained unadjusted, the balances under these heads get accumulated resulting in understatement of Government's receipts and refunds.

As per para 12.11.4 of Manual of Accounting of Indirect Taxes (Manual), on receipt of PTS from RBI Nagpur in Pr CCA, a transfer entry should be passed to transfer the total amount debited/credited by RBI to the account of CBEC, from the major head "8658-Suspense Account-Public Sector Bank Suspense" by minus debit or minus credit, as the case may be, to the major head "8675-Deposit with Reserve Bank". Similarly, other suspense heads are to be cleared by minus debit/credit entries.

Audit observed from the records of Pr CCA, New Delhi that there were outstanding balances under the major head "8658-Suspense Account" during last five years as detailed in Table 4.3.

**Table 4.3 : Outstanding balances under the major head “8658 – Suspense Account”
– as on 31 March**

Head	(₹ in crore)									
	2009-10		2010-11		2011-12		2012-13		2013-14	
101 - PAO Suspense	58.41	Cr	31.80	Cr	19.67	Cr	18.60	Cr	21.90	Cr
102 - Suspense Account Civil	1.22	Dr	1.51	Dr	2.31	Dr	1.55	Dr	0.39	Dr
108 - PSB suspense	209.36	Dr	504.54	Dr	784.12	Dr	517.42	Dr	433.46	Dr
138 - Other nominated Bank suspense	1.00	Dr	1.26	Dr	1.16	Dr	1.38	Dr	1.47	Dr

Pr CCA was asked to provide the details of the outstanding balances, but the same was not provided and it could not be ascertained for how long the balances are pending in suspense accounts. Reconciliation is also not possible without item wise details.

When we pointed this out (October 2014) the Pr CCA office replied (October 2014) that efforts were being made to clear the balance from suspense head.

Ministry stated (October 2015) that operation of suspense account is an ongoing process as suspense balances under various heads keeps added and getting cleared. However, efforts will be made to clear old suspense balances in coordination between banks and Commissionerates.

Audit is of the view that item-wise details should be available to clear pending suspense balances in time.

4.2.3.2 Outstanding amount under Major Head 8670-Cheques and Bills

As per para 9.8.2 of the Manual, the Divisional Officer shall prepare a List of Payments (LOPs) on weekly basis i.e. 7th, 14th, 21st and 30th of every month and send it to the PAO along with paid refund vouchers.

As per para 2.3 and 2.4 of Suspense Manual (issued by CGA), the total amount of cheques issued by PAO and cheques issued by cheque drawing DDO during the month as verified from list of payment (LOP) will be credited to the minor head ‘102 - PAO cheques’ and ‘103 - Departmental cheques’ respectively under major head ‘8670 - Cheque and Bills’. Similarly payments made through electronic advices will be credited to ‘110- Electronic advices’ and ‘111 - PAO’s electronic advices’. Further as per Para 2.6 of the manual, on receiving ‘Date-wise monthly statement (DMS) from FPB, the PAO, after reconciliation, pass a transfer entry to transfer the amount under 8670 to 8658-Suspense Account.

During the scrutiny of records of Pr CCA New Delhi, Audit observed that there were outstanding balances under the major head “8670-Cheques and Bills” as detailed in Table 4.4.

Table 4.4 : Outstanding balance under the major head "8670-Cheques and Bills" – as on 31 March

Head	(₹ in crore)									
	2009-10		2010-11		2011-12		2012-13		2013-14	
102 - PAO Cheques	497.16	Cr	544.63	Cr	432.38	Cr	372.84	Cr	350.32	Cr
103 - Deptt. Cheques	-1,776.98	Cr	-1,033.25	Cr	-131.55	Cr	-144.16	Cr	133.17	Cr
110 - Electronic Advices	-40.91	Cr	35.20	Cr	-114.93	Cr	13.10	Cr	-4.44	Cr

There was a minus bookings under the head Electronic Advices – 8670 110 for an amount of ₹ 4.44 crore in 2013-14. This minus booking indicated payment in excess of advices issued. When we pointed this out (October 2014), the Pr CCA office replied that minus booking under the heads was due to delay in receipt of List of Payments (LOP) from the Commissionerates.

During the Audit, we also observed delays in receipt of LOPs in 5 PAOs⁴⁰.

Credit balance in 102-PAO Cheques and 103-Deptt. Cheques above indicate that refund is being paid by the department through cheques and large number of cheques is pending credit in account of assesseees. Instructions of the Board for online payment of refund are not being followed by the department as depicted in paragraph 2.1.3 and 2.1.4.

Audit is of the view that payment of refund through cheques should be stopped to avoid delayed refund and interaction with the assesseees.

When we pointed this out (July to October 2014), Ministry stated (October 2015) that refund through online payment by RTGS had already been introduced. Chandigarh and Rajkot Commissionerates had also issued trade notices in this regard and steps were being taken to expand the system further.

4.2.4 (a) Updation of interest rate in software for delayed remittance of revenue by banks to Government account

As per Para 12.11.9 of the Manual, settlement of transactions of revenue remittances with CAS, RBI, Nagpur is required to be completed within T⁴¹+3 working days, in case of local transactions where the collecting branch and the FPB are in the same city/agglomeration and within T+5 working days in the case of outstation transactions.

Reserve Bank of India notified⁴² interest rate on delayed credit of revenue receipt into Government Account as bank rate +2%. Para 12.11.14 of Manual prescribes rate of interest on delayed credit of revenue receipt into

⁴⁰ Mumbai II, Mumbai III, Cochin, Calicut and Vapi

⁴¹ T is the day when money is available to the branch

⁴² Notification No. RBI/2006-2007/235 DGBA.GAD.No.H-11763 / 42.01.011 /2006-07 dated 24 January 2007

Government Account as 8% (i.e. then bank rate of 6% +2%) with effect from 1 January 2007.

Audit observed that bank rate was revised by RBI from time to time after 1 January 2007 as depicted in table 4.5.

Table 4.5 : Revision of bank rate by RBI

Date	Bank rate	Date	Bank rate
09-Apr-03	6	20-Sep-13	9.5
13-Feb-12	9.5	07-Oct-13	9
17-Apr-12	9	29-Oct-13	8.75
29-Jan-13	8.75	28-Jan-14	9
19-Mar-13	8.5	15-Jan-15	8.75
03-May-13	8.25	04-Mar-15	8.5
15-Jul-13	10.25	02-Jun-15	8.25

However, no revision of interest rate was carried out by Pr CCA, CBEC as and when bank rate was revised and interest was being calculated by the system at the rate of 8% (6+2). Thus, interest from 13 February 2012 onwards was being calculated at reduced rate.

It was also observed that no instruction was issued by CGA for revision of interest in the system after January 2007.

4.2.4 (b) Recovery of interest on delayed credit of revenue receipts into Government account

Para 12.11.15 stipulates that the Delay Monitoring Module of P-CBEC software calculates automatically the delay in remitting revenue receipts by collecting banks to RBI, and penal interest to be levied thereon. From this system, bank-wise and branch-wise reports, relating to delay in remittance of revenue receipts, can be generated. Para 12.11.7 of the Manual provides that the Pr AO of Pr CCA office, New Delhi monitors the delays in remittances of Revenue Receipts to Government Account by authorized Banks and recovery of interest on such delayed remittances.

During the Audit of Pr CCA it was observed that Pr CCA calculated (April 2014) and demanded (August 2014) penal interest of ₹ 59.84 crore through P-CBEC on delayed remittances in respect of 29 banks. No recovery of the interest was reported till (October 2014).

When we pointed this out (October 2014), Pr CCA replied (May 2015) that interest of ₹ 16.60 crore was recovered from 27 banks and it was also intimated that four banks requested for waiving of interest as they remitted the amount to government in time. The claim of the banks was found correct by Pr CCA as interest was calculated wrongly due to wrong scroll dates

provided by the banks and same was entered in the software resulting in erroneous calculation of interest.

Further, due to non-updation of interest rate in the system, interest was being calculated at reduced rate. Though audit could not quantify the differential interest, Pr CCA may quantify and recover the differential interest from the banks from 13 February 2012 onward.

Audit recommended that Board should issue instructions for updation of interest rate in the system and recovery of balance interest from banks for previous period due to revision of interest rate from time to time.

Ministry stated (October 2015) Software used for monitoring the delay was being reviewed for making modification to incorporate for applicable bank rate as revised by RBI periodically. It further stated that representation made by the bank to justify delay, were under examination and recovery would be affected accordingly.

Audit will watch the progress.

4.3 Effectiveness of Monitoring and Internal Control

Monitoring and Internal Control is an integral process which addresses risk and provides reasonable assurance about effectiveness and adequacy of system and procedures. We noticed the following inadequacies in this regard.

4.3.1 Conduct of Internal Audit

As per Para 3.2.2 (vi) of the manual, Pr CCA is responsible for conducting Internal Audit of Customs, Service Tax and Central Excise Commissionerates at the Headquarters, Division and Range levels, and subordinate authorities including Pay and Accounts Offices (PAO).

Audit observed that out of 46 PAOs selected by Audit, no internal audit was conducted by Pr CCA at 20 PAOs⁴³ for the years 2011-12 to 2013-14. Further, in North and west zones, nine Commissionerates⁴⁴ were also not audited during the three years. Details of Commissionerates audited by Dy. Controller of Accounts (South Zone), Chennai was not furnished. It was also observed that Range Offices were not considered for internal audit at all.

Internal audit is an important tool of internal control. Non-conducting of internal audit may result in irregularities, inconsistencies and systemic lapses remaining unnoticed.

⁴³ Bhubaneswar, Allahabad, Ghaziabad, Ahmedabad, Vapi, Jaipur, Bhopal, Rajkot, Delhi, Hyderabad, Chandigarh I, Chandigarh II, Mumbai-II, Mumbai-III, Nasik, Raipur, Kolkata, Dibrugarh, Jamshedpur, Ranchi

⁴⁴ West Zone (Thane-I, Thane-II, Belapur, Raigarh, Mumbai-I, Nasik), North zone (Allahabad, Ghaziabad, Meerut)

When we pointed this out (July 2014 to April 2015), Ministry stated (October 2015) that due to limited resources, internal audit of all Commissionerates was not possible. As more Commissionerates had been created recently, proposal to augment resources would be sent to Board and Department of revenue and internal audit would be conducted on regular basis.

The efforts made by Board in this regard would be examined in subsequent audit.

4.3.2 Payment of Central Excise duty through physical mode

As per Rule 8 (1) of Central Excise Rules 2002, an assessee who had paid total duty of ₹ 10 lakh⁴⁵ or more including the amount of duty paid by utilization of Cenvat credit in the preceding financial year, shall thereafter, mandatorily deposit the duty electronically through internet banking. The total duty paid amount was further reduced to ₹ one lakh with effect from 1 January 2014⁴⁶. From October 2014, electronic payment was made compulsory for all assesseees irrespective of amount of duty payment.

Test check in selected Commissionerates revealed that 219 assesseees in 22 Commissionerates⁴⁷ made central excise duty payments through physical mode instead of depositing the same electronically and Department did not initiate any steps for enforcing this mandatory provision. It is also observed that there is no provision to levy penalty for non-compliance in Central Excise, as exists in Service Tax⁴⁸.

We pointed this out between August to October 2014.

Rajkot Commissionerate replied (February 2015) that the assesseees have been suitably guided to pay the duty through electronic mode and that since then all assesseees are paying duty through e-payment.

Daman Commissionerate replied (February 2015) that show cause notices had been served to assesseees for paying duty through physical payment.

Vapi Commissionerate replied (December 2014) that assesseees had then started paying duty through electronic mode, however, necessary action would be taken for earlier period.

⁴⁵ With effect from 01 April 2010 vide Notification No.04/2010-Central Excise (NT), dated 19 February 2010

⁴⁶ Vide Notification no 15/2013-CE (NT) dated 22 November 2013

⁴⁷ Hyderabad I, Hyderabad III, Tirupathi, Bolpur, Kolkata-VI, Kolkata-II, Kolkata-V, Thane-I, Raigad, Allahabad, Rajkot, Ahmedabad-II, Vapi, Daman, Jaipur-I, Jaipur-II, Bhubaneswar I, Bhubaneswar II, Delhi, Bhopal, Indore, Raipur

⁴⁸ Penalty of ₹ 10,000 vide section 77(1)(d) of Finance Act, 1994

Jaipur I and II Commissionerates replied (November 2014) that concerned officers would be directed to take necessary action in this regard.

Delhi Commissionerate replied that assessee could not pay duty through e-payment because of non-availability of net banking facility. Reply of the Department is not tenable as it was department's responsibility to educate the assessee about making necessary arrangement for mandatory payment of the duty through electronic mode.

Ministry stated further (October 2015) that in Ahmedabad II Commissionerate, M/s Vital Technoplast paid the duty through physical mode but same was reflected in ACES as online payment and hence, ACES needs modification to rectify the error. It also stated that in Vapi, Daman, Hyderabad I and III Commissionerates, SCNs were issued against the assessee and they started paying duty electronically.

Audit recommended that Board may consider inclusion of penalty clause for failure of payment of Central Excise Duty electronically in the lines of provision under section 77(1)(d) of Finance Act, 1994 in respect of Service Tax.

On the recommendation, Ministry stated that rule 27 of Central Excise Rules, 2002 already have a general penalty of ₹ 5,000 which could also be invoked in such cases and no fresh penalty was required.

Ministry's reply is not tenable as general penalty is also available in Service Tax but there is specific penalty in case of failing in online payment. Further, in practice, neither the assessee are aware that general penalty may be invoked for not making online payment nor departmental officers invoke general penalty in case of such default. Ministry either needs to impose specific penalty or instruct department to invoke general penalty in such defaults.

4.3.3 Payment of Refund claim through cheques instead of directly to the Assessee/ Exporters Bank Account

CBEC advised⁴⁹ that the practice of payment of refunds to the assessee through A/c payee cheques is outdated and entails a lot of paper work besides causing undue hardship to the assessee and to put in place a system and mechanism for transfer of Refund claim amount directly to the bank account of the respective assessee/exporters.

⁴⁹ Vide letter FTS No. 171722/2012 dated 09 October 2012

Audit observed that the payments of refund claims amounting to ₹ 2.43 crore were made through A/c payee cheques in Kadapa division of Tirupathi Commissionerate contrary to the aforesaid instructions of the Board.

When we pointed this out (February 2014), the department accepted the observation (February 2014) and intimated that the procedure would be followed in future.

Ministry stated (October 2015) that proposal to create e-PAO (refunds) is being considered for electronic payment of refund and correct and timely accounting.

4.3.4 Issue of refunds cheques of ten lakh and above with single signature

According to para 3.5.1 (viii) of CAM, all cheques drawn for ₹ 10 lakh and above shall bear two signatures. For this purpose the Head of the accounting organization shall nominate another gazetted officer/senior most non-gazetted officer, as second signatory⁵⁰.

Further, para 9.4.2 of the Manual clearly stipulates that instructions contained in Central Government Accounts (Receipts and Payments) Rules, 1983 and para 3.5.1 of CAM should be carefully observed by the departmental authorized officer in relation to issue of cheques of payment of refunds.

Audit observed that in PAO Bhopal, all cheques drawn for ₹ 10 lakh and above were issued with single signature instead of two signatures contrary to the provisions, *ibid*.

When we pointed this out (July 2014), PAO Bhopal accepted the observation (July 2014) and intimated that the audit observation was forwarded to the Commissionerate for making necessary arrangements by nominating one more gazetted officer as second signatory.

Ministry stated (October 2015) that matter had been taken up with check signing authority and banks to follow the procedure of two signatures on cheques amounting ₹ 10 lakh and above.

4.3.5 Supply of list of outstanding cheques

As per Para 10.17 of the Manual, a cheque writer prepares a list of outstanding cheques at the end of each month from the Cheque Payment Register. A daily statement of cheques encashed is received from the Bank

⁵⁰ O.M. No. 1(3)/95/TA/Pt.File/578 dated 27 July 1998

and the details are posted against the relevant columns of the Cheque Payment Register. Items against which no entries have been made become outstanding and such items are picked up and brought together in the form of a statement and a total is struck, which is verified with the figures already worked out separately in the Cheque Payment Register itself. After agreement the list is put up to CAO for signature and after its approval, the same should be attached to the monthly Cash Accounts to be sent to the PAO.

We observed that the list of outstanding cheques was not received in 15 PAOs⁵¹ from the department and no action was taken for obtaining the same.

When we pointed this out (August 2014 to April 2015), the PAO, Tirupathi and Hyderabad intimated (October 2014) that issue would be taken up with department for providing list of outstanding cheques at the end of each month. Replies from other PAOs were awaited (May 2015).

Ministry stated (October 2015) that instructions are being issued by the Commissionerates to concerned DDOs to send list of outstanding cheques to PAOs. It further stated that it had no comments to offer on observations relating to PAOs. Reply from Pr CCA was awaited (December 2015).

4.3.6 Obtaining of 'Nil' pendency certificates from FPBs

As per Para 6.11.1 (j) of the Manual, the FPB should furnish a monthly certificate on the last working day of the following month to the concerned PAO certifying that 'nil' amounts of Central Excise, Service Tax, Customs collected are lying with the collecting branches under its control or in the pipeline somewhere between itself and the collecting branch.

We observed in 20 PAOs⁵² that FPBs had not submitted such pendency certificate along with monthly scroll.

When we pointed this out (July to October 2014), 16 PAOs intimated (July 2014 to January 2015) that matter would be taken up with FPBs concerned to send the statement regularly. Replies from the PAOs of Bolpur, Dibrugarh, Ranchi and Jamshedpur were awaited (May 2015).

Ministry also stated (October 2015) that PAOs are taking action to obtain the certificates from the banks.

⁵¹ Hyderabad, Tirupathi, Kochi, Coimbatore, PAO(Revenue) Kolkata, Vapi-Daman, Ahmedabad, Rajkot, Jaipur, Delhi, Ghaziabad, Meerut, Allahabad, Jamshedpur, Ranchi

⁵² Hyderabad, Tirupathi, Bhubaneswar, Delhi, Bhopal, Cochin, Calicut, Chandigarh-I, Chandigarh-II, Bolpur, Dibrugarh, Allahabad, Ghaziabad, Meerut, Ranchi, Jamshedpur, Ahmedabad, Rajkot, Vapi and Jaipur

4.3.7 Delayed submission of Branch scrolls

As per Para 6.8 of the Manual, the receiving Bank Branch should identify all those challans against which payment had been received in cash for the day, or for which payment by Cheque/ Draft have been realized, the electronic file containing all the Challan data for which payment have been realized for that day are transmitted electronically to FPB. However, the physical scroll and the underlying challans are forwarded to FPB for preparation of main scroll. At the start of the next working day, the receiving branch will forward two copies of the branch scroll along with the concerned challans to the designated FPB with a forwarding memo. Further, the FPB should furnish the Branch Scrolls along with challans to PAO on the next working day.

Audit observed that in PAO Tirupathi, Branch scrolls from Corporation Bank were received at the end of the month for the transactions during the month. Similarly, in PAO Bhubaneswar, we observed delay in submission of Branch scrolls by UCO bank on 62 occasions.

When we pointed this out (July and October 2014), both the PAOs replied (July and October 2014) that the matter was taken up number of times with bank branches and also reported to Pr CCA, New Delhi. However, banks continued delayed furnishing of scrolls. PAOs stated that further steps would be taken for timely furnishing of scrolls.

Ministry stated (October 2015) that in PAO Tirupathi scrolls were being received on daily basis. For other PAOs, it stated that detailed comments would be submitted by Pr CCA.

4.3.8 Maintenance of Register of Bank Scrolls and Register of Lost Challans

As per Para 12.2 of the Manual, in order to watch timely receipt and disposal of Bank Scrolls a Register of Bank Scrolls shall be maintained in the office of PAO. This register should be closed monthly and a report indicating the date for which daily scrolls have not been received from the Bank and action taken in this regard shall be put up to the PAO. Similarly Register for Lost or Misplaced Challans also needs to be maintained in specified format and should be closed by 10th of following month.

We observed in four PAOs⁵³ that both the Register of Bank Scrolls and Register of Lost Challans were not maintained. In five PAOs⁵⁴ Register of Bank Scrolls was maintained but Register of lost challans was not maintained. Non

⁵³ Delhi, Bhopal, Jamshedpur, Ranchi

⁵⁴ Vapi-Daman Ahmedabad, Raipur, Hyderabad, Mumbai II (Revenue)

maintenance of such register indicates deficiency in internal control mechanism.

When we pointed this out (July 2014 to April 2015), Ministry stated (October 2015) that registers were not maintained in some PAOs due to shortage of staff and they were being maintained now.

4.3.9 (i) Compilation of Revenue Receipts and Refund Payments by Single Data Entry Operator

As per para 12.7.1 of the Manual, the Branch Scrolls received along with the challans will be compiled by the PAO in his computer system using revenue accounting software "COMPACT (REVACT)". According to para 12.7.2 of the Manual, the Main Scroll (FPB), branch scroll and underlying challans are entered into "COMPACT (REVACT)" software by two separate Data Entry Operators (DEOs) as Set I and Set II to ensure correct capture of challan data. Unless these two sets of documents are tallied, the system does not allow the DEOs to consolidate the main scroll and forward it to the Set II DEO. Further, if there is a difference between data entered by Set I and Set II, the system sends it to the AAO/PAO for physical verification of documents. After identifying the error, the data is again sent back to the DEO for making necessary changes before it is accepted by the AAO/PAO for final compilation.

We observed in five PAOs (Bhopal, Bolpur, Raipur, Ranchi and Jamshedpur) that the data was entered only through Set-I client. As the data was not entered through Set-II client also verification by Set-II client does not happen thereby affecting the reliability of the Monthly Account.

When we pointed this out (July to August 2014), the PAOs accepted (July to August 2014) the observation.

Ministry stated (October 2015) that points raised by Audit would be looked into for making suitable changes in revenue accounting system.

4.3.9 (ii) Conduct of test-check of data entered in software

As per Para No. 12.8.1 of the Manual, the compilation sheets of revenue receipts and refunds shall be test checked at the time of acceptance of data entered by the Data Entry Operators (DEOs) through COMPACT (REVACT) software by the Assistant Accounts Officer / Pay and Accounts Officer in accordance with the procedure laid down in Para 5.4.6 of CAM. Pr CCA, CBEC vide letter No. Co-ord/1(5)/Gen. Policy/93/532, dated 3 September 2002, prescribed the limits for test check which are as follows:

- Assistant Accounts Officer – All challans amounting to ₹ 25,000 and above.
- Senior Accounts Officer/Account Officer – All challans amounting to ₹ 1,00,000 and above.

Audit observed in PAO Raipur that no such test check was done either by Assistant Accounts Officer or by Account Officer before entry of data into COMPACT (REVACT).

It was also observed that there is no provision in COMPACT (REVACT) software for test check at Senior Accounts Officer/PAO level for all challans amounting to ₹ 1,00,000 and above. In the absence of provision in the software for electronic test check by the Senior Accounts Officer/Account Officer, the compliance of the instructions of Pr CCA, CBEC was not feasible.

When we pointed this out (August 2014), PAO Raipur replied (August 2014) that the staff was over burdened with office work and could not exercise such test check. PAO Mumbai replied (August 2014) that COMPACT (REVACT) software provided for acceptance of data at Assistant Accounts Officer level only and not at PAO level.

However, in view of online payment of duties and transfer of data between banks and department, Board may analyse whether these instructions are still relevant. Penalty provisions for assessee may also be made and enforced to eliminate physical payment by the assessees.

Ministry stated (October 2015) that due to heavy work load, test check of revenue receipts and refund could not be conducted. However, arrangements were being made to facilitate such tests.

Audit is of the view that Ministry should examine whether these instructions are still relevant.

4.3.10 Mismatch of total revenue and assessee-wise details in PAO

As per Para 12.1 of the Manual, each PAO is responsible for the accounting of revenue receipts and payments on account of refunds, rebates and drawbacks for Commissionerates under its accounting jurisdiction using the software package COMPACT (REVACT). Further, as per Para 12.10.1 of the Manual, the PAOs will provide an assessee-wise collection report to the CAOs of the Commissionerates concerned. Thus, it is necessary that REVACT software shows the correct information of assessee-wise revenue collection for reconciliation purpose.

Audit observed that in PAO Ahmedabad, the assessee-wise ledger generated an amount of ₹ 1,538.04 crore as against the gross receipt of Excise/Service

Tax of ₹ 1,556.38 crore for the period 2011-12 to 2013-14 resulting in short exhibition of ₹ 18.34 crore in assessee-wise ledger.

Similarly, in PAO Vapi, it was observed that the assessee-wise ledger generated an amount of ₹ 514.38 crore as against the gross receipt of Excise/Service Tax of ₹ 523.64 crore for the period 2011-12 to 2013-14 resulting in short exhibition of ₹ 9.26 crore in assessee-wise ledger.

The difference between actual receipts and assessee-wise ledger receipts was needed to be reconciled as assessee-wise figures are sent to Commissionerates for reconciliation. Analysis of the error revealed that error was due to non-updation of assessee's master data in COMPACT (REVACT) software in line with ACES/NSDL, due to which the payments of the assesseees which are not found in master data of COMPACT (REVACT), were not reflected in assessee's ledger.

When we pointed this out (September to October 2014), Ministry stated (October 2015) that the problem is related to COMPACT (REVACT) software and competent authority would be approached for the said correction in the COMPACT (REVACT) software. It further stated that in respect of PAO Vapi, reply will be submitted by Pr CCA.

PART - B

Service Tax

4.4 Accounting of Service Tax

Proper Accounting of Service Tax is necessary to have fair picture of duty collection. We observed following inconsistencies in accounting of Service Tax.

4.4.1 Reconciliation of Service Tax Receipts

Proper reconciliation of Revenue Receipts is necessary for ensuring that revenue is duly credited to Government Account. On review of reconciliation procedure, certain lacunae in the system as well as inconsistencies in procedures were observed as detailed below.

4.4.1.1 Reconciliation of Service Tax by Commissionerates

As per Para 12.10.1 of the Manual, the PAO will provide an assessee-wise collection report to the CAO of the Commissionerate concerned. The CAO will distribute the same to the concerned Division/Range officers. The Range Officers in turn compare it with the returns submitted by the Assessee and prepare a monthly statement for submission to CAO. The CAO notes down discrepancies as 'Less Credit' and 'More Credit' and forwards a copy to PAO. The CAO undertakes the necessary correspondence with the Range Officers concerned in case of 'More Credit' and PAO interacts with the Focal Point Branch in case of 'Less Credit'.

As per CBEC's instruction⁵⁵, the Range Officer has to prepare monthly statements of TR-6/GAR-7 challans received from assessees and reconcile the same with copies of challans received from Banks and send reports to CAO.

We observed the following irregularities in this regard:

(i) In 39 Commissionerates, reconciliation of Service Tax revenue with PAO figures was not done for the period from 2011-12 to 2013-14. Consequently Service Tax receipts of ₹ 3,01,436 crore remained unreconciled.

Audit collected data in seven Commissionerates where reconciliation was not conducted and comparison of the revenue receipt of PAO/e-PAO with that of departmental figures revealed 'Less Credit' of ₹ 1,088.89 crore and 'More Credit' of ₹ 37.74 crore.

We pointed this out (June to October 2014) and 39 Commissionerates responded (June to December 2014) as follows :

⁵⁵ Serial no. 14.1 of instruction No. 224/37/2005-EX-6 dated 24 December 2008

Ten Commissionerates⁵⁶ admitted the fact of non-reconciliation.

Five Commissionerates⁵⁷ stated that reconciliation could not be completed due to non-receipt of assessee-wise collection reports from PAO and e-PAO.

Kolkata ST Commissionerate replied (September 2014) that assessee-wise collection reports were received from PAO but not forwarded to range offices.

Chandigarh II Commissionerate replied (July 2014) that on receipt of data from PAO/e-PAO, same was sent to ranges/divisions but reconciliation reports were not received till date.

Nine Commissionerates⁵⁸ replied that reconciliation was under process.

Four Commissionerates⁵⁹ replied that reconciliation was not done due to non-sanctioning/non-functioning of CAO at Commissionerates.

Bengaluru ST Commissionerate replied (August 2014) that after introduction of ACES, the reconciliation was being carried by the PAO with bank and no separate reconciliation had been carried out by the Commissionerate. Rajkot Commissionerates replied (February 2015) that Range Officers were reconciling returns with data available in ACES and verification of challans from CAO/PAO is not required. It further stated that data from PAO/e-PAO was not available with CAO and data received from e-PAO Chennai for the month of August 2014 was sent to field formations for verification.

The reply is not acceptable as para 12.3.4 of the manual clearly states that e-PAOs (in case of online payment) would also send assessee-wise payment/challan details to the Commissionerate every month for departmental reconciliation and as per para 12.10.1, Commissionerates have to reconcile the revenue with PAO. Reconciliation carried out by Audit in 7 Commissionerates and the discrepancies in form of less/more credit indicate the need of reconciliation process.

Tirupathi Commissionerate replied (October 2014) that though field formations were instructed to reconcile revenue statement with PAO for Central Excise but very few ranges were responding. No instructions were issued in respect of Service Tax.

Ahmedabad ST Commissionerate replied (February 2015) that reconciliation was conducted by Range Officers and no discrepancy was reported to CAO.

⁵⁶ Mumbai ST I, ST II, Allahabad, Cochin, Bhubaneswar I, II, Nasik, Raigad, Madurai and Calicut

⁵⁷ Chandigarh I, Raipur, Haldia, Panchkula and Dibrugarh

⁵⁸ Puducherry, Tirunelveli, Coimbatore, Chennai ST, Ghaziabad, Jaipur I, II, Vapi and Daman

⁵⁹ Bhopal, Delhi LTU, Indore, and Meerut I

However, Ranges examined by Audit stated that there was no mechanism/system available with Range office to get any separate compiled details of challans paid by the assessee which indicates that PAO/e-PAO data was not sent to Range offices for reconciliation.

Reply from Five Commissionerates was⁶⁰ awaited (May 2015).

Different replies from the Commissionerates indicate that field formations have different views for reconciliation and the work is not being carried out.

Audit recommended that Board may clarify the issue with suitable instructions and make arrangements for proper monitoring of reconciliation process.

Ministry stated (October 2015), that present system of reconciliation involve manual intervention and in built delays and can not be monitored and tracked from the headquarter and needed to be reviewed for improvement. It also admitted that reconciliation of Service Tax as envisaged in Board's instructions dated 24 December 2008 and in Manual is to be done timely and regularly. It further stated that the system will be reviewed and time limit would be fixed to complete the reconciliation. Instructions will also be issued for proper implementation and monitoring of reconciliation process.

(ii) We observed delays in reconciliation of PAO figures with that of Commissionerate. In Hyderabad I, III and Bolpur Commissionerates ranging from 16 to 66 months as detailed in table below :

Table 4.6 : Statement showing the delays in reconciliation

Sl. No	Commissionerate	Reconciliation completed upto	Delay in Months (as on December 2014)
1	Hyderabad –I	August 2013	16
2	Hyderabad-III	May 2013	19
3	Bolpur	June 2009	66

When we pointed this out (between August to November 2014), Ministry replied (October 2015) that In Hyderabad I and III Commissionerates reconciliation was completed upto November 2013 and August 2013 respectively and it was being done for further period. In Bolpur Commissionerate, reconciliation had been started on receipts of data from PAO.

⁶⁰ Hyderabad II, Ranchi, Jamshedpur, Delhi ST and Mysore

4.4.1.2 Discrepancies between Date-wise Monthly Statements (DMS) and Put-through Statements (PTS)

As per para 6.12.3 of the Manual, the FPB will prepare DMS on a monthly basis at the end of every month for submission to the concerned PAO. Para 6.15 of the manual states that CAS, RBI, Nagpur will generate a statement showing Bank-wise, PAO-wise and Major Head-wise amount put through in Government Account and furnish the same to PAO and link cell of the concerned bank. As per para 6.10 of the Manual the PAO and FPB concerned are responsible for reconciliation between DMS and PTS.

Audit observed non rectification of discrepancies detected in reconciliation of DMS with PTS in Mumbai e-PAO and Tirupathi PAO, as tabled below :

Table 4.7 : Discrepancies between DMS and PTS as on 31.03.2014

Commissionerate/ PAO	Receipts		Payment	
	More in DMS	More in PTS	More in DMS	More in PTS
e-PAO, Mumbai	573.87	0	0	0
Tirupathi	12.24	16.68	9.97	0
Total	586.11	16.68	9.97	0

(₹ in lakh)

In receipts side, more amount in DMS indicates possibility of payment of Service Tax amounting to ₹ 586.11 lakh by the assesseees to the authorised banks, but the same was not credited to the Government Account.

When we pointed this out (July 2014 and October 2014), e-PAO (Service Tax), Navi Mumbai accepted the observation (July 2014) and intimated that the matter was under correspondence with the banks. PAO Tirupathi replied (October 2014) that necessary steps would be taken to settle the differences.

Ministry stated (October 2015) that reconciliation between DMS and PTS requires better coordination between PAOs and banks and the system will be strengthened by issuing fresh instructions to banks.

4.4.1.3 Challans not found on NSDL website

As per Annexure 6.3 under Para 6.5.4 of the Manual, banks would upload challan data of taxes collected under EASIEST system on daily basis. The central system at NSDL would check the file structure uploaded by banks and if found correct send consolidated data to CBEC on the next day. CBEC NSDL website provides Challan Identification Number based view to track the online status of challans deposited in bank.

During test check of challan details in range, Audit observed that in four Ranges under two Commissionerates⁶¹, 13 challans involving amount of ₹ 5.49 crore shown realized as per departmental records but the challans were not found on NSDL website.

On further scrutiny, it was observed that in respect of six challans amounting to ₹ 1.57 crore, discrepancies were detected by ACES and review was also carried out. However, these Challans could not be traced (May 2015) on NSDL website. In case of seven challans amounting to ₹ 392.23 lakh, ACES did not detect the discrepancy.

When we pointed this out between August to October 2014, Ministry stated (October 2015) that the issue needs to be taken up by the system team of CBEC and Pr CCA with banks involving NSDL. Reply in respect of Delhi ST and Kolkata ST Commissionerates would follow.

4.4.2 Classification of Service Tax

Service Tax collected by field formations of CBEC is accounted for under the Major Head 0044 Service Tax.

As per Board's instructions⁶², EC is to be paid and accounted for under specific head '00440298' whereas SHEC is to be paid and accounted for under specific code '00440426'.

Further, as per Para 5.3 of Civil Accounts Manual, to correct an error of classification in original accounts Transfer Entries are required. If the accounts of the year in which errors take place are closed such entry may be passed with the approval of Pr CCA.

We observed the following cases of misclassification of Tax/ Cess as detailed in the succeeding paras.

4.4.2.1 Accounting of Service Tax/EC/SHEC

M/s Vodafone Infrastructure Limited in Service Tax Commissionerate, Ahmedabad remitted Service Tax of ₹ 5.42 crore (accounting code 00440366), EC of ₹ 10.84 lakh (accounting code 00440298) and SHEC of ₹ 5.42 lakh (accounting code 00440426) through physical payment by challan dated 6 January 2012. The PAO incorrectly accounted for the amounts as detailed in Table 4.8:

⁶¹ Delhi ST and Kolkata ST

⁶² Circular No. 161/2012-ST dated 06 July 2012 and 165/16/2012- dated 20 November 2012 issued by CBEC read with Pr CCA's letter No. CO-ORD/13-6/98-99/Vol. IV/454 dated 04 October 2007

Table 4.8 : Incorrect accounting of Remittance

			(₹ in lakh)
A/c Head	Amount remitted by assessee as per challan	Amount booked in REVACT by PAO	Excess (+)/Less (-)
00440366	542.09 (Service Tax)	5.42	-536.67
00440298	10.84 (2% E cess)	542.09	+531.25
00440426	5.42 (1% SHE cess)	10.84	+5.42

When we pointed this out (September 2014), the PAO intimated (September 2014) that the matter would be taken up with Pr CCA for further necessary action. The Service Tax Commissionerate, Ahmedabad replied (February 2015) that the assessee had been directed to deposit the Service Tax in the appropriate head.

Ministry stated (October 2015) that instruction had been issued by the Commissionerates to the assesseees to deposit Service Tax in appropriate heads. It further stated that necessary updation will be carried out in software being used by PAOs and fresh instructions would be issued in that regard.

4.4.2.2 Classification of Education Cess (EC)/ Secondary Higher Education Cess (SHEC)

Service Tax collected by field formations of CBEC is accounted for under the Major Head 0044 Service Tax. Education Cess (EC) and Secondary and Higher Education Cess (SHEC) are levied for specific purposes by Central Government and are not part of shareable duty. Proceeds under EC and SHEC are to be transferred to the Ministry of Human Resource Development. Hence, correct classification of Cess is necessary not only for correct presentation of accounts but also for allotment of amount to such intended purposes.

Audit observed that in 12 cases pertaining to ranges Group I and II of Hyderabad II Commissionerate, EC and SHEC amounting to ₹ 53.87 lakh was not accounted for properly and misclassified the amounts to improper revenue accounting code.

When we pointed this out in (December 2014), Ministry stated (October 2015) that field formations are advised to bring instances of misclassification to the notice of PAO for rectification.

4.4.2.3 Rectification of error in Accounting Head

As per Pr CCA instruction⁶³ for correction of Accounting Head, the PAO should get approval from the Commissioner concerned, confirming that necessary changes have been made or being made in the Personal Ledger Account (PLA)

⁶³ Notification No Coord/i(S)/R.II/9-10/23 dated 27 May 2009

of that year maintained at their end. Necessary correction shall be made through the COMPACT (REACT). If the amount involved is more than ₹ 50 lakh in each case, approval from Headquarters should be obtained.

Audit observed that in PAO Bhubaneswar, in 19 cases the assessee requested PAO for rectification of the error in Accounting Head. The PAO forwarded all such requests for rectification of error in Accounting Head to the Commissionerates concerned but no such approvals were received. Total tax misclassified was ₹ 75.88 lakh (₹ 50.09 lakh in Bhubaneswar I Commissionerate and ₹ 25.79 lakh in Bhubaneswar II Commissionerate).

When we pointed this out (July 2014), the PAO stated (July 2014) that approval was awaited from Bhubaneswar-I and II Commissionerates.

Ministry stated (October 2015) that in Bhubaneswar I Commissionerate necessary direction would be made to concerned section to carry out rectification and in Bhubaneswar II, rectification was under process.

4.4.2.4 Classification of Service Tax in residuary head

As per the Board's instructions⁶⁴ for payment of Service Tax in the Negative List regime, a new accounting code '00441089-All Taxable Services Other Than in Negative List' (residuary accounting code) was notified by the CBEC and simultaneously service specific codes prevailing at that time were discontinued. Later, through circular No. 165/16/2012-ST dated 20 November 2012, different accounting codes for 120 services, interest penalty etc. were notified. This included replacement of residuary accounting code from '00441089' to '00441480- Other Taxable Services'. Assessee were required to make payment of Service Tax in the accounting head notified for each of the services.

With a view to remove this discrepancy, instruction⁶⁵ were issued by Director General of Service Tax, Mumbai to all the Chief Commissionerates instructing them to persuade the assessee for payment of tax under appropriate head instead of residuary accounting head 00441089.

Audit observed that assessee continued to misclassify Service Tax in residuary heads and no action was taken by the PAO/Commissionerates as depicted in following cases:

(i) In PAO Hyderabad, Service Tax receipts continued to be posted under residuary head '00441089' instead of appropriate service-wise heads, even

⁶⁴ Circular No. 161/12/2012-ST dated 6 July 2012

⁶⁵ Circular No F.NO.V/ DGST/Rev.Misc/ 98/ 2012/3517 dated 25 September 2013

after November 2012. In 2013-14, total Service Tax of ₹ 696.30 crore was misclassified under residuary head '00441089'.

When we pointed this out (December 2014), the PAO intimated (January 2015) that posting under Service-wise head would be undertaken after receipt of necessary instructions from Pr CCA.

Reply of the Ministry was awaited (December 2015).

(ii) Test check in six Commissionerates⁶⁶ also revealed that 6,858 assesseees paid Service Tax amounting to ₹ 335.64 crore in residuary head instead of proper service-wise heads. No action was taken by the Commissionerates to instruct assesseees in compliance of the instructions issued in November 2012 and September 2013.

We pointed this out (July to October 2014).

Service Tax Commissionerate, Ahmedabad accepted the observation (February 2015) and intimated that Range Offices had initiated action to educate the assesseees for payment of tax in correct head and issued instructions to that effect.

Daman Commissionerate intimated (January 2015) that assesseees were asked to either pay the Service Tax under correct head or submit request to this office regarding change of Accounting Code.

Division I, Silvassa of Vapi Commissionerate intimated (December 2014) that the assessee had paid Service Tax under residuary head due to lack of information and requested the Commissionerate for issue of suitable trade notice in this regard.

Rajkot Commissionerate replied (July and September 2014) that instructions to the authorized signatory of assessee had already been issued orally/telephonically.

Jaipur I and II Commissionerates replied (November 2014) that concerned officers were being directed to take necessary action in this regard.

Ministry confirmed the reply of the Commissionerates (October 2015). In case of Rajkot Commissionerate it also stated that it was only a technical error and there was no revenue impact.

Though the issue has no revenue impact, however, mis-classification of Tax in wrong heads defeat the purpose of revenue allocation service category wise for budgetary and financial analysis.

⁶⁶ Rajkot, Ahmedabad ST, Vapi, Daman, Jaipur I and Jaipur II

Audit recommended that Board may instruct Pr CCA to issue necessary instruction to PAOs for proper classification and Commissionerates to instruct assesseees for making payment under proper heads.

Ministry admitted the recommendation partly stating that audit observation was conveyed to Pr CCA to issue instructions to PAOs. However, for issuing instructions to assesseees for proper classification under proper service heads, it stated that as definition of different services no longer exists, assessee could not be compelled to pay tax under proper service code.

Ministry replies is not correct as circular dated 20 November 2012 require assesseees to pay Service Tax in the accounting head notified for each service. Further, it would not be possible for PAOs to classify tax service-wise if same is not classified by the assesseees.

Ministry need to examine the issue and issue consistent instructions to assesseees and PAOs.

4.4.2.5 Classification of Service Tax refund

As per Para 9.8.4 of Manual of accounting of indirect taxes (Manual), in the case of refund of revenue there is no budgetary allocation and the total monthly payments on account of refunds are booked in the accounts as "Deduct Refunds" below the relevant revenue receipt major head of Account.

Audit observed lapses of misclassifications as follows:

(i) In PAO Meerut, during 2013-14, FPB booked refund of Service Tax and Customs as Central Excise and sent the refund payment scroll to PAO. However, PAO did not verify scroll details with cheques and consequently, booked the amount under Head of Account 0038 (Central Excise) instead of 0037 (Customs) and 0044 (Service Tax) as mentioned in refund cheques attached with scrolls. This resulted in misclassification of Service Tax and Customs refunds amounting to ₹ 134.63 lakh as Central Excise refunds.

When we pointed this out (November 2014), the PAO intimated (November 2014) that as per scrolls generated by the FPBs the booking was done. Reply of the PAO is not acceptable as PAO has to verify all refund payments along with the list of payments and refund cheques as per Rule *ibid*. It also indicates that PAO did not exercise proper checks in respect of such refunds.

Ministry stated (October 2015) that reconciliation could not be done due to non-receipt of assessee-wise collection report from the PAO.

(ii) In PAO, Jamshedpur payment of refund claim amounting to ₹ 42.91 lakh was made to M/s Rungta Mines Ltd, Chaibasa and ₹ 0.52 lakh to M/s Quality Steel Product, Jamshedpur, which were to be debited under Head of Account

0044 (Service Tax) on duty deduct refund, but it was erroneously debited to 0038 (Central Excise) by the FPB, Jamshedpur.

When we pointed this out (in September 2014), Ministry stated (October 2015) that bank was asked to carry out necessary correction.

(iii) In PAO (Customs), New Delhi, refund claim of Service Tax was included in scrolls of Central Excise and Customs by FPB erroneously between January and November 2013. However, PAO did not verify the scrolls and Service Tax refund was booked under head 0037-Customs instead of 0044-Service Tax resulting in misclassification of Service Tax refund amounting to ₹ 139.18 lakh.

When we pointed this out (September 2014), PAO intimated (December 2014) that Commissionerates while sending List of Payments (LOPs) did not indicate Service Tax refund and proforma for submission of LOP was revised.

Reply of the Ministry was awaited (December 2015).

4.5 Effectiveness of Monitoring and Internal Control

Monitoring and Internal Control is an integral process which addresses risk and provides reasonable assurance about effectiveness and adequateness of system and procedures. We noticed the following inadequacies in this regard.

4.5.1 Payment of Service Tax through electronic mode

As per Rule 6(2) of Service tax Rules, 1994, read with notification No. 01/2010 ST dated 19 February 2010, effective from 1 April 2010 assessee who paid total duty of ₹ 10 lakh or more including the amount of duty paid by utilization of Cenvat credit in the preceding financial year, shall mandatorily deposit the duty electronically through internet banking. This limit was reduced to ₹ 1 lakh with effect from 1 January 2014 through CBEC circular No. 16/2013 ST dated 22 November 2013. From October 2014, electronic payment was made compulsory for all assesseees irrespective of amount of duty payment.

Further, As per Section 77(1)(d) of the Finance Act 1994, a person who is required to pay tax electronically through internet banking fails to pay the tax electronically, shall be liable to pay ₹ 10,000 as penalty.

Audit observed that in 16 Commissionerates, 1,765 assesseees made payment through physical mode in-stead of electronic mode. Despite the provision in section 77(1)(d) of the Finance Act 1994, no penalty was imposed by the department to stop the assesseees from paying duty by physical mode. Amount of penalty leviable on these assesseees, amounted to ₹ 1.77 crore, considering single default by each assessee.

We pointed this out between August 2014 to October 2014.

Service tax Commissionerate, Ahmedabad intimated (February 2015) that the concerned range offices had directed the assesseees to deposit service tax through e-payment.

Vapi Commissionerate (December 2014) replied that assesseees had now started paying duty through electronic mode, however, necessary action would be taken for earlier period.

Jaipur I and II Commissionerates replied (November 2014) that Concerned Officers would be directed to take necessary action in this regard.

Rajkot Commissionerate replied (July and September 2014) that assesseees were suitably guided to adhere the Board's instructions on the subject matter and point was noted for further compliance.

Cochin Commissionerate replied (July 2014) that both the assesseees were informed to use electronic payment and they were complying with since then.

Delhi Commissionerate replied that there was no mechanism on the ACES system to ascertain the mode of payment.

Reply of the department is not tenable as there is separate column for payment mode in ACES for challan particulars.

Reply from remaining 11 Commissionerates was awaited (May 2015).

Ministry stated (October 2015) that all the assesseees had been suitably guided to pay duty through electronic mode. Ministry was silent on imposing penalty for violation of the instructions.

4.5.2 Payment of Rebate/ Refund claims to the Assesseees' Bank Account

CBEC through letter FTS No. 171722/2012 dated 9 October 2012 instructed to put in place a system/mechanism for transfer of refund claim amount directly to the bank account of the respective assesseees/exporters.

Audit observed that payments of rebate/ refund claims of ₹ 34.19 crore for the year 2013-14 were made through A/c payee cheques in CAO, Hyderabad II Commissionerate, contrary to the instructions.

When we pointed this out (December 2014), CAO intimated (December 2014) that instructions would be complied in future.

On one hand, department has provision of penalty of ₹ 10,000 for assessee in case of physical payment to discourage assessee but department itself is not paying refund through electronic mode.

Audit recommended that Board may issue instruction to monitor the compliance of its instructions by field formations to avoid hardship to the assesseees.

Ministry admitted the recommendation (October 2015) and stated that the issue of direct payment of refund/rebate to the bank accounts was being considered and detailed procedure would be laid down.

4.5.3 Sanction of Refund from the Consumer Welfare Fund (CWF)

Consumer Welfare Fund (CWF) was established in accordance with Section 12 C of Central Excise Act, 1944. As per Section 73A(6) of Finance Act, 1994 any surplus amount left as a result of unjust enrichment shall be credited to CWF. As per rule 3 of Consumer Welfare Fund rules 1992, any amount having been credited to CWF is ordered or directed as payable to any claimant by orders of proper officer, appellate authority or court shall be paid from the fund.

As per Para 8.7.1 (vi) and (vii) of the Manual, PAO attached to each Commissionerate will be designated to handle the transactions relating to refund from CWF on the "Department of Revenue" side. Pr CCA will issue cheque to PAO concerned for payment of refund out of CWF. Initially, PAO is required to deposit the cheque into Government account and subsequently refund amount would be debited to Government account.

Audit observed that in PAO Ahmedabad, refund of ₹ 4.72 lakh was sanctioned to M/s Karnawati Club Ltd. out of CWF and Pr CCA issued cheque to PAO for remitting the amount in Government account and pay the refund claim to the assessee. However, PAO Ahmedabad, instead of remitting the cheque to Government account and then issue a refund cheque to the assessee, remitted the cheque in bank as a payment by the assessee for tax liability. Thus, the amount was not included in refund figures and same were understated.

When we pointed this out (September 2014), PAO Ahmedabad admitted (November 2014) that the amount was erroneously deposited in bank account and also intimated that Service Tax Division concerned was advised not to allow refund to the party to avoid double claim.

Ministry confirmed the reply of the PAO (October 2015).

PART - C

Customs

4.6 Accounting of Customs Duty

Proper Accounting of Customs Duty is necessary to present fair picture of duty collection. We noticed the following inconsistencies in accounting of Customs Duty:

4.6.1 Reconciliation of Customs revenue receipts

Proper reconciliation of revenue receipts with well defined procedures is necessary for ensuring that revenue is duly credited to Government account. On review of reconciliation procedure, we observed lacunae in the system as well as inconsistencies in procedures which are discussed in the following Paragraphs.

4.6.1.1 Reconciliation of Customs revenue by the Commissionerates

As per Para 10.3.1 and 10.4.1 of the Manual, in the manual payment, the importer/exporter is required to fill in the Bill of Entry (BE)/Shipping Bills (SB) as prescribed by the department for import or export of goods. On the basis of details provided in the BE/SB the designated officer does the appraisal/item-wise calculation of various duties and prepares four copies of challans manually or through ICEGATE for tendering duty payment at the counter of the authorised banks. One copy of the challan is sent to the PAO along with the receipt scrolls for detailed accounting and reconciliation. Para 10.3.2 of the Manual stipulates that the revenue account compiled by the PAOs is also reconciled with the challan information collected by the departmental officer viz. CAO.

We observed that in nine Commissionerates⁶⁷, reconciliation of customs revenue figures of Commissionerate with those of PAO figures was not carried out for the period 2011-12 to 2013-14. Thus, total Customs Duty receipt of ₹ 82,224 crore pertaining to these Commissionerate remained unreconciled. It was also observed that Refund/drawback in respect of two Commissionerates⁶⁸ amounting to ₹ 3,947 crore was not reconciled.

Audit conducted reconciliation of CAO data with PAO data in Customs(Preventive) Kolkata and Customs Cochin Commissionerates and detected the following discrepancies:

⁶⁷ Kandla, Kolkata (Preventive Customs), Kolkata (Port), Kolkata (Airport), Amritsar, Chennai Customs, Cochin(Customs), Trichy and Tuticorin

⁶⁸ Kolkata (Preventive Customs) and Kandla

(i) In Commissionerate of Custom (Preventive), Kolkata and Customs Cochin, reconciliation of Customs revenue with PAO(Revenue) Kolkata revealed difference of Customs duty during the years 2011-12 to 2013-14 as detailed in Table 4.9.

Table 4.9 : Differences of Customs Duties between PAO and CAO

(₹ in lakh)

Name of the Commissionerate of Customs	Year	Customs receipts of CAO	Customs Receipts PAO	Difference due to non-reconciliation by the Commissionerate
Commissionerate of Customs (Preventive), Kolkata	2011-12	20,814	40,882	(-)20,068
	2012-13	40,943	46,200	(-)5,257
	2013-14	36,582	32,564	4,018
Commissionerate of Custom, Cochin	2011-12	1,89,514	1,90,454	(-)940
	2012-13	59,655	59,755	(-)100
	2013-14	18,085	17,999	86

It is observed from above table that there was difference in CAO and PAO figures in all the years. Thus, accuracy of revenue credited into Government account could not be ensured.

(ii) There was also difference in Refund/Drawback figures of Commissionerate of Customs (Preventive) Kolkata with figures booked by PAO as detailed in Table 10:

Table 4.10: Differences in drawback/refund between PAO and CAO

(₹ in lakh)

Name of the Commissionerate of Custom	Year	Drawback/Refund as per Commissionerate	Drawback/Refund as per PAO(Revenue) Kolkata	Difference
Commissionerate of Custom (Preventive), Kolkata	2011-12	5,977	2,651	3,326
	2012-13	17,038	19,946	(-)2,908
	2013-14	19,447	9,857	9,590

Difference of ₹ 95.90 crore in 2013-14 indicated that though the refund was sanction by the Commissionerate, same was not credited to the accounts of the assesseees in time.

We pointed this out (July to November 2014).

CAO Commissionerate of Customs (Preventive), Kolkata replied (September 2014) that PAO was sending customs receipt data at three or four months interval which could not be reconciled in the absence of major or minor head wise segregation. Further PAO (Revenue), Kolkata intimated that CD on monthly basis would henceforth be sent to CAO.

CAO (Port and Airport), Kolkata confirmed (September 2014) that reconciliation was not conducted.

Customs Commissionerate, Amritsar intimated (December 2014) that reconciliation could not be conducted in the absence of proper data from PAO and PAO was requested to provide party wise report.

Reply from Chennai Customs, Tuticorin, Kandla, Kochi customs and Trichy Commissionerate was awaited (May 2015).

PAO Kandla intimated (October 2014) that as accounts of financial year 2011-12 to 2013-14 had been closed there was no possibility to amend them and figures intimated to the Government by PAO had been accepted by department. PAO however agreed that from current financial year (2014-15) reconciliation work would be started.

Reply is not acceptable as reconciliation of monthly figures was necessary to ascertain the accuracy of accounting of Customs duty. Further Paragraph 5.3.3 of the Civil Accounts Manual has provision of transfer entries, if error was detected within existing financial year. In case, accounts have been closed, there is provision to make entry below specific wrong entry. Reply of Kandla Commissionerates was awaited.

PAO Customs house, Chennai confirmed (August 2014) the non-reconciliation.

PAO (Tuticorin) stated (August 2014) that the reconciliation by CAO was carried out up to the period October 2012 and the reconciliation from November 2012 onwards was yet to be taken up.

PAO (Customs), Cochin intimated that matter would be taken up with the department to reconcile these figures.

Ministry stated (December 2015) that in Kandla and Cochin Commissionerates, reconciliation had been initiated. In Amritsar Commissionerate, assessee-wise revenue report was not received from PAO despite repeated requests due to which no reconciliation was done. After restructuring in CBEC in October 2014, revenue collection and reconciliation work has been shifted to Ludhiana Commissionerate. In Chennai Commissionerate, revenue figures will be obtained monthly henceforth. In Tuticorin and Trichy Commissionerates, reconciliation for the years 2011-12 to 2013-14 was completed. In Kolkata (Preventive), Kolkata (Port) and Kolkata (Airport) Commissionerates, audit observation was noted and officers were instructed for necessary action. Further progress would follow.

4.6.1.2 Discrepancies between Date-wise Monthly Statements (DMS) and Put-Through Statements (PTS)

As per Para 6.12.3 of the Manual, the FPB will prepare DMS on monthly basis for submission to the concerned PAO. Para 6.15 of the Manual states that CAS, RBI, Nagpur will generate a PTS statement showing Bank-wise, PAO-wise and Major Head-wise amount in Government account.

Para 6.10 of the Manual provides that PAO and FPB concerned are responsible for reconciliation between DMS and PTS.

Audit observed that in PAO Amritsar reconciliation of PTS and DMS was not conducted. It was also observed that in three PAOs/e-PAOs⁶⁹ difference between DMS of FPBs and PTS prepared by CAS, RBI, Nagpur was detected for the years 2011-12 to 2013-14 as tabled below but same was not rectified.

Table 4.11 : Difference in DMS and PTS (for the period 2011-12 to 2013-14)

Commissionerate/PAO	Receipts		Payments	
	More in DMS	More in PTS	More in DMS	More in PTS
Kolkata		23.06		19.61
Tirupathi		4.69		52.07
e-PAO ⁷⁰ (Customs) Delhi	476.00	658.00		
Total	476.00	685.75		71.68

(₹ in lakh)

In receipt side amount of ₹ 4.76 crore was more in DMS indicating that amount was paid to bank but not credited to Government Account. In payment side, amount of ₹ 71.68 lakh was more in PTS which indicate that more money was claimed by banks from Government Account then actual paid by them.

When we pointed this out (July to October 2014), e-PAO Customs, New Delhi intimated that matter had been taken up with the banks. PAO, Tirupathi intimated (October 2014) that necessary steps would be taken to settle the differences. PAO, Kolkata intimated that discrepancies were pending with SBI and several reminders had been issued in this regard to the bank.

Ministry stated (December 2015) that in Kolkata Commissionerate audit observation was noted and officers were instructed for necessary action. Further progress would follow. For e-PAO (Customs) Delhi, it stated that matter pertains to PAO and reply will follow. Reply for Amritsar and Tirupathi Commissionerates was awaited.

⁶⁹ Kolkata, Tirupathi and e-PAO(Customs) Delhi

⁷⁰ e-PAO (Customs) deals with electronic payment at all India level

4.6.1.3 Mismatch in ICEGATE and Bank data for Customs Duty

As per para 10.9 of the Manual, e-PAO (Customs) receives Customs Duty collection data from authorised banks receiving Customs Duty through e-payments on day-to-day basis. Further, e-PAO also receives Customs Duty data from ICEGATE on daily basis. Both the data are uploaded in the system COMPACT-REVACT and accounts are compiled on daily basis.

Test check of e-PAO (Customs), Delhi data for March 2014 revealed that there were 7,853 cases amounting to ₹ 538.16 crore in ICEGATE which did not match with bank data. Similarly, there were 8464 cases amounting to ₹ 628.37 crore in bank data which did not match with ICEGATE data.

When we pointed this out (October 2014), the e-PAO intimated (December 2015), that it did not have structural data of the database hence it would approach NIC for difference in ICEGATE data and clarification in difference of bank data.

Ministry stated (December 2015) that reply will follow.

4.6.2 Classification of Customs Duty

Education Cess (EC) and Secondary Higher Education Cess (SHEC) are being levied for specific purposes by the Government of India and are not part of shareable Customs Duty. Proceeds under EC and SHEC are to be transferred to the Ministry of Human Resource Development. Hence correct classification of this Cess is necessary for proper presentation of accounts and for allotment of the amount for such intended purposes.

4.6.2.1 Classification of EC/SHEC

As per Pr CCA's instructions⁷¹, Education Cess on Customs duty is to be paid under accounting head 00370066 and SHEC is to be paid under accounting head 00370068. Deputy Controller of Accounts (WZ), Mumbai instructed⁷² to all the PAOs to check the discrepancies in challans and book the figures of EC/SHEC properly so that the revenue under these heads remains equal to three per cent of Customs Duty realized.

Audit observed instances of misclassification due to wrong information from bank as detailed below:

(i) In PAO Ahmedabad, Customs duty of ₹ 2,792.95 crore (which included Import Duty and EC/SHEC) was booked during the years 2011-12 to 2013-14 under Import Duty Head 00370002/00370005, instead of booking the

⁷¹ Letter No. Co-ord/13-6/98-99/Vol.IV/454 dated 4 October 2007

⁷² Vide circular No. DCA/WZ/Circular/2012-13/744 dated 13 December 2012 read with Pr CCA's OMs dated 24 July 2012 and 16 November 2012

EC/SHEC amount in respective heads. Thus, EC amounting to ₹ 54.23 crore and SHEC amounting to ₹ 27.11 crore were misclassified as Customs Duty.

When we pointed this out (September 2014), PAO Ahmedabad intimated (October 2014) that posting was done on the basis of physical challans received from Banks and as the assessee did not classify the amount in any sub-head, the challans were posted in the same way as received.

The reply is not acceptable because Audit scrutiny revealed that in some challans, the assessee had shown EC/SHEC amount separately. Further, the PAO did not take up the matter with Customs Commissionerate for rectification of challan data as directed in aforesaid instructions.

Ministry stated (December 2015) that revenue pertaining to the years 2011-12 to 2013-14 was already accounted for, however, matter was being taken up with higher authorities for making necessary correction. Reconciliation of Customs revenue is now being done regularly.

(ii) In PAO Central Excise Cochin, Audit observed that entire Customs receipts of ₹ 4.31 crore was booked under 'Other Receipts-Customs' head for the years 2011-12 to 2013-14. Thus, EC/SHEC amounting to ₹ 12.56 lakh was misclassified as Customs Duty.

We pointed this out in July 2014. Reply from PAO was awaited (December 2015).

Ministry stated (December 2015) that para pertained to PAO and reply was required to be furnished by them.

(iii) In PAO (Customs) Cochin, total receipts inclusive of Cess for the period 2011-12 to 2013-14 were ₹ 2,682.08 crore and EC/SHEC cess at the rate of three per cent on the above amount worked out to ₹ 78.12 crore. However, Cess booked in the classified abstract for the above period was ₹ 11.84 crore resulting in short accounting of EC and SHEC to the tune of ₹ 66.28 crore as detailed in Table 4.12.

Table 4.12 : Difference in Cess collection

Year	Receipts as per Consolidated Abstract	Admissible Cess [col.(2)*3/103]	Amount shown in consolidated abstract figure			Difference
			EC	SHEC	Total	
			(4)	(5)	(6)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)= (3-6)
2011-12	1,90,453.66	5,547.19	514.74	246.41	761.15	4,786.04
2012-13	59,754.88	1,740.43	116.93	56.45	173.37	1,567.06
2013-14	17,998.99	524.24	167.70	81.81	249.51	274.73
Total	2,68,207.53	7,811.87	799.37	384.67	1,184.04	6,627.83

(₹ in lakh)

When we pointed this out (September 2014), the PAO Cochin intimated (September 2014) that consolidated abstract was prepared on the basis of the monthly account figures of CAO and that the matter would be taken up with the Commissionerate to review the figures and to ascertain the actual amount of Cess.

The reply is not acceptable as PAO has to classify the duty based on information provided by banks in challans/bank scroll and RBI.

DCA, Chennai stated (May 2015) that accounting by PAO would be done properly and that department has to take up the matter and issue necessary instructions.

4.6.2.2 Posting of Challan-wise entry of Customs Duty Receipts in COMPACT (REVACT)

As per Para 12.1 of the Manual, each PAO is responsible for the accounting of revenue receipts and payments on account of refunds and drawbacks for Commissionerates under its accounting jurisdiction using the software package COMPACT (REVACT). Pr CCA office instructed⁷³ all the PAO offices to carry out posting of challan-wise entries.

Audit observed the lapses in posting of challans as detailed below:

(i) In PAO Kandla, challan-wise entries of Customs receipts were not carried out in REVACT Software prior to October 2013 and figures as submitted by FPB in their Date-wise Monthly Statement (DMS) were entered in accounts. Test check of challans of February-March, 2014 revealed that in 17 cases, EC, SHE and Clean Energy Cess were wrongly booked in single head of Customs Duty (00370005), instead of the respective heads. This resulted in misclassification of amount of ₹ 66.08 lakh, ₹ 33.04 lakh and ₹ 8.91 crore respectively in 17 cases, test checked.

Further, it was also observed that the PAO did not account for certain Cess such as Rubber Cess, Clean Energy Cess etc. which are collected for specific purposes. In the absence of proper accounting, the correctness of amount of these Cess, collected for intended purpose could not be ensured.

When we pointed this out (October 2014), the PAO Kandla intimated (October 2014) that the amounts were classified correctly and also submitted copy of year-wise figures of Customs receipts. The reply was not acceptable as in cases test checked by Audit, entries in the REVACT software were erroneously accounted for in single head. The reply was silent regarding the

⁷³ Vide letters dated 14 February 2012, 21 December 2012 and Circular No. DCA/WZ/Circular/2012-13 dated 31 December 2012

mechanism for ensuring proper accounting of other Cess in the absence of Challan-wise entry.

Ministry stated (December 2015) that from November 2013, challan-wise entry in REVACT had been started and amount of cess was being entered under proper accounting head.

(ii) At PAO Delhi, we observed that there was no regular feeding of each challan. However, the figures of Date-wise Monthly Statement (DMS) of receipts and refunds were entered in the system through transfer entries most of the time. Posting made through transfer entries during 2011-12 to 2013-14 is tabled below :

Table 4.13 : Customs duty receipt not entered challan-wise

(₹ in crore)			
Year	Figures as per revenue accounts compiled by PAO(Customs)	Figures of Transfer entries made during the period	Percentage of figures entered through transfer entries
2011-12	17,446.04	17,218.85	98.70
2012-13	8,070.15	7,796.24	96.60
2013-14	2,159.99	885.55	41.00
Total	27,676.18	25,900.64	93.58

During 2011-12 to 2013-14, out of ₹ 27,676.18 crore, ₹ 25,900.64 crore (93.58%) was entered into the system through transfer entries. Percentage of figures entered through transfer entries were 98.7%, 96.6% and 41% in 2011-12, 2012-13 and 2013-14 respectively. Further we noticed that all Customs Duty on imports was classified under '0037001010201-All Other Articles' and there were no bookings under EC/ SHEC in the months of April 2011, August 2011, January 2012, April 2012, December 2012, February 2013, August 2013 and January 2014.

When we pointed this out (October 2014), the PAO accepted the observation and intimated (December 2014) that because of non-availability of staff, feeding of challans could not be done and now the Challan-wise feeding had been started.

Audit is of the view that in absence of challan-wise entry, entry of the EC, SHEC and other cess could not be accounted for correctly and due to non-accounting of cess, transferring of the correct amount of cess to respective heads could not be ensured, defeating the purpose of imposing the cess.

Reply of the Ministry was awaited (December 2015).

(iii) In PAO Kolkata also, it was observed that instead of challan-wise entry, postings were made in the system through transfer entries on the basis of DMS received from banks.

When we pointed this out (October 2014), the PAO admitted (October 2014) the observation.

Ministry stated (December 2015) that audit observation was noted and officers were instructed for necessary action. Further progress would follow.

Board may take appropriate action for proper entries of challans to ensure correct accounting of duty and cess.

4.6.3 Outstanding Balances under the Head of Suspense Account

Suspense heads are operated in Government Account to reflect transactions that cannot be booked initially to their final head of account for some reason or the other. They are finally cleared by minus debit or minus credit when the amount is taken to the final head of account. If amount under suspense head remains unadjusted, the balances under these heads get accumulated resulting in understatement of Government's receipts and payments. Minor Head 136 under Major Head 8658 are operated for booking Customs receipts under suspense.

Audit observed from the records of Pr CCA, New Delhi that there were outstanding balances under the major head "8658 – Suspense Account" during the period 2009-10 to 2013-14 as detailed in Table 4.14.

Table 4.14 : Outstanding balances under the major head "8658 – Suspense Account"
(₹ in crore)

Accounting head	2009-10		2010-11		2011-12		2012-13		2013-14	
136 - Customs receipts awaiting transfer	145.47	Cr	252.28	Cr	249.50	Cr	222.56	Cr	223.26	Cr

When we pointed this out (October 2014), the Pr CCA stated (October 2014) that the amount included receipt of advance payments of ₹ 144.13 crore of the current financial year 2014-15. Thus, the balance of ₹ 79.13 crore pertained to previous years awaiting clearance. Further progress was awaited (December 2015).

Ministry stated (December 2015) that para pertained to Pr CCA. Reply of Pr CCA was awaited (December 2015).

4.6.4 Arbitrary transfer of amounts of Receipts Awaiting Transfers (RAT) to different head of account of Customs Duty

Para 12.7.7 of the manual stipulates that in case of missing/lost challan, the certificate in lieu of lost or misplaced challan containing all details including account classification available electronically with the bank is to be obtained from the bank by the PAO. Till the certificate is obtained, the total amount of the missing challan is booked under relevant head of account namely, 0044(ST)/0038(CX) or 0037(Cus.)-RAT. On receipt of certificate in lieu of

lost/misplaced challans on a subsequent day, the booking under 0044/0038 or 0037-RAT is reversed by booking the amount under the appropriate head of accounts as provided in the certificate in lieu of the missing challan.

Audit observed that in e-PAO Customs Delhi, during the period January 2012 to March 2014 the figures under the head “00370080001 – Receipt Awaiting Transfer (RAT) to other minor heads etc”, were reflected in the accounts every month except for the month of December 2012 and March 2014. The consolidated figures reflected under this head in the monthly accounts for the period 16.1.2012 to 28.02.2014 are detailed in table 4.15:

Table 4.15 : Amount under Receipts Awaiting Transfer (Customs)

(₹ in crore)		
Sl.No.	Period	Figures under the head RAT
1.	16.01.2012 to 31.03.2012	89.10
2.	01.04.2012 to 31.10.2012	744.61
3.	01.11.2012 to 30.11.2012	(-)744.61
4.	01.01.2013 to 28.02.2013	655.83
5.	01.03.2013 to 31.03.2013	(-)655.83
6.	01.04.2013 to 31.01.2014	2,622.30
7.	01.02.2014 to 28.02.2014	(-)2,622.30

Audit further observed that amount booked under the head was being arbitrarily transferred to other Minor Heads.

When we pointed this out (October 2014) e-PAO intimated (December 2014) that since their office was not in a position to know the exact classification of the amounts appearing under RAT, the amount from RAT was cleared to different heads of account of Customs Duty collection and the matter had been taken up with Pr CCA for clarification.

The reply indicated that PAO did not follow the Accounting Manual procedures/instructions for adjustment of RAT figures.

Ministry stated (December 2015) that para pertained to Pr CCA. Reply of Pr CCA was awaited (December 2015).

4.6.5 Recovery of interest from banks on delayed credit of revenue receipts into Government Account

As per Para 12.11.9 of the Manual, settlement of transactions of revenue remittances with CAS, RBI, Nagpur is required to be completed within T+3 working days in the case of local transactions where the collecting branch and the FPB are in the same city/agglomeration and within T+5 working days in the case of outstation transactions.

Para 12.11.7 of the Manual provides that the Pr.A.O. of Pr CCA office, New Delhi monitors the delays in remittances of Revenue Receipts to Government

Account by authorized Banks and recovery of interests on such delayed remittances.

Audit observed in PAO, Hyderabad that though there were delays ranging from 11 days to 385 days in crediting of revenue receipts into Government Account, interest amounting to ₹ 3.15 crore on such delayed credit was not recovered.

Audit also observed that this delay was not included in the interest calculated by Pr CCA for all banks (refer para 4.2.4 (b) – CX).

Further, it was observed that rate of interest was not updated in the software at the time of change in base rate of RBI as detailed in para 4.2.4 (a).

When we pointed this out (October 2014), Ministry stated that recovery of interest would be taken up with Pr CCA.

4.6.6 Delayed remittance of revenue to the bank

In terms of Rule 6(1) of Receipts and Payment Rules 1983, all moneys received by or tendered to Government Officers on account of revenue or receipts or dues of the Government shall, without undue delay, be paid in full into the accredited bank for inclusion in Government account.

Audit observed that in Commissionerate of Customs (Preventive) Kolkata, and Customs House Treasury Kolkata Port Commissionerate there was delay in remittance of cash receipts. In test checked cases, we observed delays ranging from 6-32 days in remitting the receipts amounting to ₹ 1.03 crore into Government account.

When we pointed this out (September 2014), Superintendent Customs of Petrapole Customs Circle admitted the delayed remittance (September 2014) in respect of Bagda Preventive Unit and assured that the prescribed norms would be strictly followed in future.

Range Officers of Ghojadanga LCS and PU and Tentulia Customs Preventive Unit intimated (September 2014) that due to non-availability of suitable transport/government vehicle for carrying cash to the bank and due to intervening holidays the cash could not be deposited in time. CAO Customs House Kolkata stated (September 2014) that due to non-availability of armed guards, there were such delays and cash receipts are being deposited currently to RBI once or twice a week.

Ministry stated (December 2015) that audit observation was noted and officers were instructed for necessary action. Further progress would follow.

Board may take steps to provide necessary facilities for timely remittance of cash receipts into Government account.

4.6.7 Non/Delayed payment of Drawback

As per Para 11.5.2 of the Manual, on receipt of “Monthly Reconciliation Statement of Drawback Disbursement” from the Customs Department (Drawback/Refund), the PAO will reconcile the figures of drawback/refund payments authorised during the month and payment made by the bank shown in reconciliation statement, with figures as per his accounts. Any discrepancy shall be brought to notice by PAO to the Customs Department (Drawback) for rectification.

As per the Memorandum of Understanding between Banks and RBI, the Banks have to first make payments of drawback and then make claim for reimbursement from RBI.

Audit observed the following inadequacies in this regard.

In PAO Hyderabad, in respect of drawback relating to Inland Container Depot, Hyderabad and Air Cargo Complex, Shamshabad, the banks had drawn the amount from Government Account before making payment to exporters. The gap between period of drawal of amount and actual payment ranged from 1 to 185 days. Further, the bank had not made payment of Drawback amounting to ₹ 35.09 lakh due to transaction failure after drawing the amount from Government Account. Out of this amount, the bank refunded ₹ 10.21 lakh to the government but remaining amount of ₹ 24.88 lakh was not refunded till October 2014.

Similarly in Ghaziabad Commissionerate , 79 Drawback payments amounting to ₹ 64.65 lakh for the year 2013-14, relating to Inland Container Depot, Loni were not paid to the assesseees due to failed transactions but the amount was subsequently withdrawn from Government account.

In Customs Commissionerate Kandla, in 66 cases involving drawback amount of ₹ 48.35 lakh, bank returned the unpaid amount through Banker’s cheques to Customs department. The validity of banker’s cheques got expired and same were revalidated by bank at later dates with delay ranging 40 to 1,568 days. Thus the drawback amounts were kept pending with department and not paid back to the Government. In 29 other cases, amount returned by the bank was not remitted to the Government account but paid to the exporters with delay ranging from 172 to 1,204 days.

In PAO Cochin, drawback payments were transferred electronically to the Bank. In 153 cases amounting to ₹ 33.38 lakh pertaining to the Custom Commissionerate Cochin, amounts were neither paid due to non availability of exporters nor credited back to Government Account.

When we pointed this out (between August 2014 to October 2014), PAO Hyderabad intimated (August 2014) that the matter had been taken up with concerned bank.

PAO Kandla stated (October 2014) that matter was taken up in workshop on audit of bank held at Pr CCA office in August 2012 and again by Zonal DCA, Mumbai with SBI, Kandla.

PAO Cochin intimated (September 2014) that Pr CCA had instructed department to transfer such amount to the Government Account.

DCA, Chennai stated (May 2015) that Pr CCA undertook audit of duty drawback payment by banks and payment have been streamlined. All the banks have deposited the unsettled payments to department which have been credited to government accounts by respective PAOs.

The reply indicates that government revenue was blocked by banks which gave financial advantage to them and loss of interest to the government due to non-reconciliation of drawback payment.

Ministry stated (December 2015) that in Hyderabad, DD of ₹ 38.95 lakh received from the bank on 11.09.2014 got expired which was revalidated on 24.02.2015 and sent to PAO. In respect of objection pertaining to Ghaziabad Commissionerate, it stated that amount of ₹ 42.76 lakh was received from the bank on account of failed transaction of drawback disbursement which had been deposited to Government account. In kandla Commissionerate, amount of ₹ 48.35 lakh had been deposited in Government account as per direction of PR CCA. In Cochin Commissionerate, all drawback amount returned by bank had been credited to Government account.

Board needs to examine flouting of MOU clauses by banks in claiming drawback re-imburements from Government before actual payments.

4.7 Effectiveness of Monitoring and Internal Control

Monitoring and Internal Control is an integral process which addresses risk and provides reasonable assurance about effectiveness and adequateness of system and procedures. We noticed the following inadequacies in this regard.

4.7.1 Conduct of Internal Audit

As per Para 3.2.2 (vi) of the manual, Pr CCA is responsible for conducting Internal Audit of Customs, Service Tax and Central Excise Commissionerates at the Headquarters, Division and Range levels, and subordinate authorities including Pay and Accounts Offices (PAO).

Audit observed that internal audit had not been conducted at e-PAO (Customs) New Delhi, PAO (Customs) New Delhi, Amritsar, Kolkata, Kandla, Tiruchirapalli, Chennai and Tuticorin for the years 2011-12 to 2013-14.

All PAOs confirmed (July to April 2015) the non-conduct of internal audit.

Ministry stated (December 2015) that internal audit of Tuticorin had been conducted upto June 2013 and audit of PAO Trichy was scheduled in November 2015. It also stated that no audit was conducted by Pr CCA in Kandla during the period July 2014 to April 2015, though the audit observation pertained to the period 2011-12 to 2013-14. Reply in respect of remaining PAO was awaited.

4.7.2 Maintenance of Cash Book

As per Rule 13 read with Rule 21 of Central Government Account (Receipt and Payment) Rules, 1983, every officer who is authorised to receive cash on behalf of Government, should maintain cash book in Form G.A.R.3 and issue the payee a receipt duly signed by him after he has satisfied himself, before signing the receipt and initialising its counterfoil.

Audit observed that in Petrapole Preventive Unit under Customs Commissionerate (Preventive) Kolkata, no cash book was maintained. Scrutiny of Monthly Technical Report (MTR) for the months of January and February 2014 revealed difference in the amount actually collected through TR-5 Challans and the figure reported to Customs Commissionerate (P) Kolkata as shown in Table 4.16.

Table 4.16 : Mismatch between TR-5 Challans and MTR figures

Month	Total of TR-5 Challans	MTR figure	(₹ in lakh)
			Excess/Less
Jan-2014	151.65	149.91	1.74
Feb-2014	158.28	177.13	(-) 18.85

When we pointed this out (September 2014), the Superintendent, Petrapole Preventive Unit admitted (September 2014) the discrepancies and confirmed that the figures shown in TR-5 were correct.

As the cash book was not maintained, there was no scope for cross verification of actual realization with remittances and cash balance. Incorrect reporting of revenue collection would consequently result in incorrect accounting by CAO.

Ministry stated (December 2015) that report will follow.

4.7.3 Obtaining of 'Nil' pendency certificates from FPBs

As per Para 6.11.1 (j) of the Manual issued by Pr CCA, the FPB should furnish a monthly certificate on the last working day of the following month to the concerned PAO certifying that 'nil' amounts collected of Central Excise, Service Tax, Customs are lying with the collecting branches under its control, or in the pipeline somewhere between itself and the collecting branch (RBI's No.358/41.04.001/97-98 of 29 May 1995).

Audit observed that in six PAOs⁷⁴, FPBs had not submitted 'nil' pendency certificate along with monthly scroll. In the absence of this certificate, possibility of retaining Government revenue with FPB could not be ruled out.

When we pointed this out (August to October 2014), all the concerned PAOs admitted the observation and intimated (August to October 2014) that matter would be taken up with FPBs to send the said certificates regularly.

Ministry stated (December 2015) that in Gujarat zone, before closing the accounts for the financial year, it is ensured that no scroll from the bank is pending.

The reply is not tenable as the procedure requires 'Nil' pendency certificates from the banks.

For Cochin Commissionerate, it stated that reply is to be furnished by PAO. Reply for remaining PAOs was awaited.

4.7.4 Maintenance of Register of Bank Scrolls and Register of Lost Challans

As per Para 12.2 of the Manual, a Register of Bank Scrolls shall be maintained by PAO in order to watch timely receipt and disposal of Bank Scrolls. This register should be closed monthly and a report indicating the date for which daily scrolls have not been received from the Bank and action taken in this regard shall be put up to the PAO. Similarly Register for Lost/Misplaced Challans needs to be maintained in specified format and should be closed by 10th of the following month.

Audit observed that in PAO Kandla, Delhi, Amritsar and Kolkata register of bank scrolls was not maintained. Further, in PAO Delhi neither certificate in respect of lost challans was obtained from concerned banks nor any register to watch over lost Challans was maintained for the years 2011-12 to 2013-14. As these registers are essential for effective monitoring of receipt and disposal of Bank scrolls, non-maintenance of the same indicates lapse in internal control mechanism.

⁷⁴ PAO(Customs) Kolkata, Kolkata Customs(Preventive), Kandla, Delhi, Cochin and Amritsar

When we pointed this out (September 2014 to October 2014), all the PAOs admitted (September to October 2014) the observation. PAO Amritsar further intimated that points were noted for future compliance.

Ministry stated (December 2015) that observation pertained to PAO. Reply of the Pr CCA was awaited (December 2015).

4.8 Conclusion

Tax Accounting and Reconciliation process in CBEC needs revision due to change in mode of duty payment and electronic exchange of data. Existing manual/instructions to be followed by the field formation also need to be revised. Better monitoring of compliance of the instruction by field formation is required to ensure proper accounting and reconciliation of revenue.

Recommendation no. 3

Board may analyse the extant Manuals/instructions in view of electronic payment and transfer of data and revise them accordingly.

Ministry stated (October 2015) that discrepancies in reconciliation between EASIEST and PAOs are being examine and measures are being initiated to address the issue.

Recommendation no. 4

Necessary updation may be carried out in software for rate of interest as and when revised by RBI and ensure recovery of differential interest from banks for prior period.

Ministry admitted and stated (October 2015) that Software used for monitoring the delay was being reviewed for timely updation of interest rate.

Recommendation no. 5

Online payment of refund and drawback to the assesseees instead of by cheque may be ensured.

Ministry stated (October 2015) that efforts are underway to pay refund and drawback online and proposal to create e-PAO (refunds) is being considered for electronic payment of refund.