

Executive summary

We conducted the Performance Audit on Cenvat credit scheme, to seek an assurance that provisions in the Act/rules/clarifications/procedures as laid down are unambiguous and adequate to safeguard any misuse of the Cenvat credit scheme and that the internal control and monitoring mechanism were in place and effective. The Performance Audit was conducted in 41 selected Commissionerates which included examination of records relating to 469 assessees.

The Performance Audit revealed certain inadequacies in the extant provisions, both of system as well as deficiencies in internal controls relating to the Cenvat credit scheme.

- a. We observed that the proportionate value of service tax credit on input services of ₹ 21.63 crore was not reversed due to absence of suitable provision in Cenvat Credit Rules, 2004.

(Paragraph 2.2)

- b. We observed that concessional rate of duty in respect of mobile phones, allowing benefit of Cenvat credit in respect of input services even though it was meant to be restricted to inputs and capital goods resulted in unintended benefit of ₹ 7.30 crore to the assessee.

(Paragraph 2.3)

- c. During test check we observed in three cases where goods were declared as obsolete but Cenvat credit was not reversed due to absence of suitable provisions.

(Paragraph 2.4)

- d. We observed that there is no provision for charging interest in case of non/delayed reversal of Cenvat credit in respect of non/delayed receipt of goods sent to job worker.

(Paragraph 2.5)

- e. We observed instances of non-submission of various prescribed returns by the assessees. Non-submission of returns would hinder the department's ability to verify the duty paid by assessees, correctness of valuation, availing of Cenvat credit, admissibility of exemption, etc.

(Paragraph 3.1)

- f. In violation of the existing instructions 21 out of selected 41 Commissionerates had not conducted any detailed scrutiny of the returns. The reply from the remaining 20 Commissionerates is still awaited.

(Paragraph 3.2)

- g. We observed various shortcomings while examining adherence to the rules and regulations of Cenvat Credit Rules, 2004 involving ₹ 128.31 crore which failed to come to the notice of the department due to non-observance of the compliance verification mechanism as envisaged.

(Chapter 4)

Summary of Recommendations

1. *The Ministry may insert a provision in Cenvat Credit Rules, to reverse the proportionate Cenvat credit of input services at the time of clearance of input/capital goods.*
2. *Government may consider making suitable amendment to the Notification to restrict credit on input services.*
3. *The government may consider inserting provision for reversal of Cenvat credit where the inventories were declared as obsolete but were not written off from the books of accounts and where capital goods after being used are written off but not removed from the factory.*
4. *The Government may consider inserting provision for charging interest in case of non/delayed reversal of Cenvat credit in respect of non/delayed receipt of goods sent to job worker.*
5. *The government may consider inserting provision for furnishing detailed information regarding Cenvat credit availed by the assessee containing invoices/documents nos., date of invoices, name of goods with chapter heading, amount of credit taken etc. so that preliminary check may be exercised at Range level.*