

OVERVIEW

This report is presented in three sections :-

Section 1	Chapters I and II	Customs
Section 2	Chapters III and IV	Central Excise
Section 3	Chapter V	Service Tax

Some of the significant findings are highlighted below :-

SECTION 1 - CUSTOMS

This section contains two reviews. Some of the significant findings included in this section are indicated below:-

1. Provisional assessment

➤ Assessable value involved in provisionally assessed cases in 25 commissionerates represented 31 percent of entire assessments. Number of provisional assessments as well as their bond value increased year after year and finalization of provisional assessment cases did not keep pace with fresh receipts leading to more than doubling of cases from 2001 to 2004.

(Paragraphs 1.4.1 and 1.4.2)

➤ Age analysis of 44,169 cases with bond value of Rs.83,924 crore as on 31 December 2004 revealed pendency of 77 percent for more than a year and 23 percent for more than three years.

(Paragraph 1.4.3)

➤ Non obtaining of security deposit from importers in violation of Customs (Provisional Assessment) Regulations, 1963 in 569 non valuation cases amounted to Rs.1,521.24 crore. Non recovery of extra duty deposit of Rs.28.18 crore in 754 cases involving valuation dispute was also noticed.

(Paragraphs 1.5.6 and 1.6.1)

➤ Non compliance of Customs Valuation Rules, 1988 in 525 cases resulted in non/short levy of duty amounting to Rs.395.12 crore.

(Paragraph 1.6.2)

- **Despite submission of relevant documents for finalization of provisional assessment, 79 cases involving bond value of Rs.10.95 crore remained un-finalized for six months to six and a half years.**

(Paragraph 1.7.3)

- **Improper maintenance of records and lack of internal control mechanism causing incorrect reporting of pendency by commissionerates to Board, as well as inconsistency in data of assessment group and special valuation branch/special intelligence and investigation branch (SVB/SIIB) along with ineffective electronic data interchange (EDI) system was in evidence.**

(Paragraphs 1.8.1 and 1.8.3)

2. Advance licensing scheme/duty exemption entitlement certificate (DEEC)

- **Data furnished by 18 regional licensing authority (RLAs) revealed that free on board (FOB) value of exports actually realized was only 27 percent of that prescribed for 90,807 licences. It did not tally with that furnished by director general of foreign trade (DGFT).**

(Paragraphs 2.4.1 and 2.4.2)

- **In 146 advance licences issued by 16 RLAs duty of Rs.67.85 crore and interest of Rs.26.10 crore was recoverable. Of this 57 percent was recoverable from 13 licences alone. In 76 cases of RLA Chennai and Kolkata, customs failed to initiate action against defaulter importers to recover customs duty of Rs.7.99 crore, interest of Rs.6.30 crore on duty free imports of goods worth Rs.21.34 crore.**

(Paragraphs 2.5.1 and 2.5.2)

- **Non monitoring of 185 cases of non submission of documents evidencing fulfilment of EO on expiry of EO period by RLAs/customs resulted in duty foregone amounting to Rs.187.82 crore besides interest of Rs.56.02 crore.**

(Paragraph 2.6)

- **Import of material in excess of adhoc norms/standard input output norms (SION) fixed by special advance licensing committee (SALC) in 33 cases and imports made despite rejected applications in seven cases entailed recovery of duty amounting to Rs.3.52 crore besides interest of Rs.1.67 crore.**

(Paragraphs 2.7.1 and 2.7.2)

- **Non monitoring of 1739 bonds for Rs.2,537.50 crore and non renewal of bank guarantee (BGs) in 566 cases for Rs.33.52 crore executed in nine custom houses and one RLA led to non discharge/enforcement of bonds/BGs on expiry of their EO/validity period.**

(Paragraphs 2.9.1 and 2.9.3)

- **Non realization of foreign exchange of Rs.19.43 crore in 12 cases entailed recovery of customs duty amounting to Rs.7.68 crore besides interest of Rs.1.94 crore on unutilized inputs of Rs.13.74 crore.**

(Paragraph 2.10)

- **Other irregularities like incorrect fulfilment of EO, availment of double benefit, imports of inputs beyond validity period of licence as well as before issue licence, incorrect clubbing of licences and excess imports due to non observance of licence conditions involved incorrect grant of exemption of duty amounting to Rs.15.08 crore besides interest of Rs.6.93 crore.**

(Paragraph 2.14)

- **Lack of coordination between customs and RLA non monitoring/submission of documents in RLAs was in evidence in 194 cases of import/export involving customs duty of Rs.122.42 crore along with interest of Rs.49.11 crore besides penalty of Rs.50.59 crore.**

(Paragraphs 2.15 and 2.15.2)

SECTION 2 - CENTRAL EXCISE

This section contains two reviews. Some of the significant findings included in this section are indicated below: -

1. Excise duty on inorganic and organic chemicals

- **Absence of specific provision in new section 4 relating to payment of excise duty on maximum price fixed under the law led to revenue being foregone to the extent of Rs.16 crore in one unit.**

(Paragraph 3.6)

- **Absence of specific sub-heading in Chapter 28 led to loss of Rs.35.53 crore in four units alone.**

(Paragraph 3.7)

- **Irregular availment of Cenvat credit resulted in revenue loss of Rs.98.72 crore.**

(Paragraph 3.11)

- **Non-adjudication of demands resulted in blockage of revenue of Rs.76 crore.**

(Paragraph 3.14.5)

2. Delay in finalisation of demands

➤ In spite of incorporation of time limit in the statute with effect from 11 May 2001, 15251 cases involving central excise duty of Rs.8625.87 crore were pending adjudication as on 31 March 2004. Increase was 13 per cent in terms of number and 51 per cent in terms of amount as compared to position on 31 March 2001.

(Paragraph 4.5.1)

➤ Cases reported to be pending beyond one year were 38 per cent in terms of number and 48 per cent in terms of amount.

(Paragraph 4.5.2)

➤ In six test checked cases alone, an amount of Rs.153.01 crore was pending adjudication for want of administrative action.

(Paragraph 4.6.1)

➤ Cases numbering 829 involving central excise duty of Rs.1687.83 crore were pending adjudication for want of clarifications by the Board.

(Paragraph 4.6.5)

➤ Due to ineffective internal controls, 31 cases with duty effect of Rs.6.61 crore were lost sight of while transferring cases on revision of monetary limit for adjudication and 200 cases involving duty of Rs.145.48 crore not reflected in the monthly technical report of ten divisions alone.

(Paragraphs 4.7.2 and 4.7.3)

SECTION 3 – SERVICE TAX

This section contains a review on service tax on manpower recruitment agency's services and security agency's services. Significant findings of audit included in this section are mentioned below: -

➤ Measures taken by the department to bring unregistered service providers into tax net proved ineffective and inadequate. Audit identified 2492 unregistered service providers in 45 commissionerates with estimated loss of revenue of Rs.40.96 crore.

(Paragraph 5.7)

➤ Service tax of Rs.2.69 crore was not paid by academic institutions providing manpower recruitment agency services. Penalty and interest amounting to Rs.4.09 crore was also leviable.

(Paragraph 5.8)

- **In 51 commissionerates of central excise around 25 per cent of returns due were not submitted by manpower recruitment and security agencies, while 11 and 20 per cent respectively were received late.**

(Paragraph 5.10.1)

- **Service tax of Rs.10.04 crore was evaded by 141 assesseees in 20 commissionerates during the period when they did not file returns. Penalty and interest amounting to Rs.14.04 crore was also leviable.**

(Paragraph 5.10.2)

- **Short payment of Rs.43.44 crore inclusive of interest and penalty on account of suppression of taxable value by 289 assesseees in 39 commissionerates was noticed.**

(Paragraph 5.11.7)

- **Penalty leviable under section 78 amounting to Rs.6.97 crore from two service providers, who had not paid service tax/suppressed the value of services not demanded.**

(Paragraph 5.12)