

Chapter 2: Rationale, objective, scope, sample, methodology and criteria for the Performance Audit

2.1 Rationale for Performance audit

Project Import scheme was earlier reviewed by audit (Audit Report No. 24 of 2009-10 – Union Government- Indirect Taxes) in which audit had recommended to the Ministry that a comprehensive review of the working of the scheme including that of internal control and monitoring mechanism should be undertaken. In addition, audit had recommended that an appropriate accounting and monitoring module integrated with the EDI system needed to be developed, realistic time frame for finalisation of assessments to reduce delay in finalisation of contract should be put in place and project import regulations to be amended to avoid duality of assessments. Though the Ministry assured to conduct comprehensive review of the working of the scheme, no report was found on record which could establish any such review except issuance of a circular⁴ in May 2011.

The peak rates of customs duties in individual sectors have been reduced from 45 per cent in FY 97 to 10 per cent in FY 12. There has been a declining trend of registration of contracts under the Project Import scheme between FY 12 to FY 16. At the same time, due to introduction of similar schemes by the government, a study of comparative benefits from project imports became relevant. These altogether necessitated conducting this Performance Audit.

2.2 Audit Objectives

The objectives of performance audit were to assess the scheme to seek assurance that:

- (i) there exist adequate statutory provisions with regard to registration, import, monitoring and finalization of Project Imports which supported simplified procedures for Project Imports;
- (ii) there was compliance to the procedural requirements set up under the relevant statutory provisions for Project Imports;
- (iii) the scheme succeeded in providing mechanisms for quicker and smooth trade facilitation; and
- (iv) monitoring, coordination and internal controls procedures were adequate and effective to safeguard the best interests of the Government.

⁴CBEC's Circular No.22/2011 dated 4 May 2011

2.3 Audit Scope, Sample, Methodology and Criteria

Scope: Performance audit covers period of previous five financial years, i.e. FY 12 to FY 16. The audit was conducted in 24 Commissionerates⁵ out of the total 30 Commissionerates⁶ where project import contracts were registered.

Sample: Sample of contracts for audit was drawn out of the contracts registered, finalised and pending during FY 12 to FY 16 in the selected Commissionerates as detailed below:

Table No. 2: Sample for audit

Category	Category of Project Import contract	No. of Contracts	Contracts selected for audit	Contracts audited (% of contracts audited)
1.	Contracts finalised during FY 12 to FY 16	678	353	270 (39.82%)
2.	Ongoing Project contracts pending for finalisation during FY 12 to FY 16	2199	505	417 (18.96%)
3.	Contracts registered during FY 12 to FY 16 but import is yet to commence	27	27	27 (100%)
	Total	2904	885	714 (24.58%)

Audit sample included contracts of different sectors such as power projects, water supply projects, industrial plant projects, metro railway projects, etc. registered at various customs ports.

Five Commissionerates did not produce 171 contracts files (41 per cent), out of 417 selected for audit as detailed below:

Table No. 3: Files not produced to audit

Commissionerate	Contracts selected	Files not produced	Percentage
ICD/TKD	34	34	100
ACC New Delhi	63	22	35
Vishakhapatnam	42	5	12
NCH Mumbai	150	59	39
JNCH Mumbai	128	51	40
Total	417	171	41

List of files not produced to audit is at **Appendix 3**.

⁵ Ahmedabad, Allahabad, Bangalore (City) ICD, Bangalore (ACC), Bhubaneswar, Chennai Sea Customs, Cochin, Hyderabad, Jamnagar, Kandla, Kanpur, Kolkata, Ludhiana, Mangalore (NCH), Mumbai (JNCH), Mumbai (NCH), Mundra, New Delhi (ACC), Noida, Patparganj-ICD & other ICDS-Delhi, Tughlakabad ICD/TKD, Tuticorin, Vijayawada, and Vishakhapatnam

⁶ As per the information provided by CBEC, there were 29 Commissionerates wherein project contract were registered. Tughlakabad (TKD)/ICD Commissionerate, wherein Performance Audit was conducted was not mentioned in information provided by CBEC. Hence, total population is taken as 30 Commissionerates.

Responding to non production of files, DoR stated (December 2016) that files in ICD/TKD Commissionerate were destroyed due to fire while in ACC, New Delhi and Vizag Commissionerates the records were now traced, and will be produced to the next audit.

Methodology: This audit has been conducted using the performance audit standards and guidelines as laid down by the CAG of India. Audit methodology includes the test check of files of sample cases selected by audit, review of Commissionerate's internal records, registers and reports and analysis of data provided by the Commissionerate, DGPM, DG (Systems) and CBEC website. Additional information has also been obtained through a survey done by the PHD Chamber of Commerce and Industry (PHDCCI)⁷ and from reports of Federation of Indian Export Organisation (FIEO)⁸.

An entry meeting with the officials from the Department of Revenue (DoR) and Director General of Foreign Trade (DGFT) was held on 21 April 2016 to discuss the audit objectives and scope. The exit meeting was held on 19 December 2016 with the representatives of CBEC/DoR. During the exit meeting CBEC accepted eight recommendations out of the nine recommendations made in this report.

Criteria: Audit used relevant provisions of the Customs Act, 1962, Customs Tariff Act, 1975, Project Import Regulations, 1986, CBEC's Law Manual and circulars and notifications of CBEC which were issued from time to time and were in effect during the period of audit, as criteria, to bench mark the findings.

Reply of DoR with Commissionerate wise factual information was received on 26 December 2016, after finalisation of the Audit Report. The response of the DoR to the main findings and recommendations have however been incorporated in the Report, along with audits further comments wherever warranted. The Commissionerate wise factual information furnished by DoR will be verified in the due course.

⁷Survey dated 15.07.2016

⁸Report dated 13.07.2016

