

Executive Summary

Section 16 of CAG's (DPC) Act, 1971 mandates CAG to audit receipts payable into the Consolidated Fund of India and to satisfy that the rules and procedures are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed. We examined functions of Central Excise Department relating to scrutiny, internal audit etc. and verified records of assessees, which form the basis for tax calculation, to examine the extent of effectiveness of the systems in place in ensuring that assessees comply with extant rules and procedures in this era of self-assessment. Besides regular audit of departmental functions and compliance by the assessees, this year we conducted subject specific compliance audit (SSCA) on two major commodities i.e. Plastic and articles thereof and Tobacco products.

This Report has 104 audit observations on Central Excise duties, having financial implication of ₹ 665.93 crore. The Ministry/Department had, till September 2017, accepted 93 audit observations involving revenue of ₹ 343.30 crore and reported recovery of ₹ 271.45 crore in 44 cases. Some significant observations and findings are as follows:

Chapter I: Central Excise Administration

- Central Excise revenue collection was ₹ 3,80,495 crore during financial year 2016-17 (FY17) and accounted for 44.13 per cent of Indirect Tax revenue in FY17. In comparison of FY16, Central Excise revenue increased by ₹ 93,346 crore (32.51 per cent) in FY17. Revenue forgone in Central Excise, on account of conditional exemptions was ₹ 76,844 crore in FY17 which was 20.20 per cent of total Central Excise revenue.

(Paragraphs 1.6 and 1.11)

- Cases involving revenue of ₹ 1,08,563 crore were pending in appeals at the end of FY17 registering a 18 per cent increase over the amount pending at the end of FY16. As no action can be initiated for recovery of revenue till the appeal is pending, early disposal by the various authorities to bring in possible revenue of ₹ 1,08,563 crore to the Government coffers, is important.

(Paragraph 1.18)

Chapter II: Levy and collection of Central Excise duty on Plastics and articles thereof

Audit observed inadequacies in the compliance to rules and procedures by the Department in relation to levy, assessment and collection of Central Excise duty in the plastic sector.

- The Department had neither taken any action nor imposed any penalty in 128 (100 per cent) cases of non-filed returns and in 809 (62.42 per cent) cases of delayed filed returns out of 1,296 cases, related to manufacturers of Plastic articles, during the period 2013-14 to 2015-16.

(Paragraph 2.4.3)

- Out of 25,898 returns marked for Review and Correction (R&C) by ACES system, in 2,900 (11.20 per cent) cases the Department failed to carry out R&C during the period 2013-14 to 2015-16.

(Paragraph 2.4.4)

- In 106 cases relating to plastic manufacturers, Audit noticed Internal Audit and other lapses of the Department, involving revenue of ₹ 4.71 crore. In another 190 cases Audit noticed non-compliance of Act, Rules etc. by the assesseees involving revenue of ₹ 7.68 crore.

(Paragraphs 2.4.7 to 2.4.9 and 2.4.11)

- There were no serious efforts by the Department to cross verify Central Excise data with State Commercial Tax databases to widen the tax net.

(Paragraph 2.4.10)

Chapter III: Levy and collection of Central Excise duty on Tobacco products

Audit observed inadequacies in compliance to the specific provisions of the Act/Rules/Notifications relating to Tobacco products as indicated by lack of effective mechanism to identify and ensure filing of returns by beedi units which operate mostly in the informal sector; and poor enforcement of maintenance of prescribed records and non-conducting of quarterly inspection of cigarette units by the Department. In the case of pan masala and chewing tobacco products, Audit observed that the Department failed to take cognizance of abnormal excess production of pouches over and above the deemed production which led to loss of revenue. Significant observations are:

- The Department had neither taken any action nor imposed any penalty in 3,822 (99.58 per cent) cases of non-filed returns out of 3,838 cases and in 901 (60.88 per cent) cases of delayed filed returns out of 1,480 cases, during the period 2013-14 to 2015-16.

(Paragraph 3.4.1)

- Out of 46,767 returns marked for Review and Correction (R&C) by the ACES system, the Department failed to carry out R&C in 10,071 (21.53 per cent) cases during the period 2013-14 to 2015-16.

(Paragraph 3.4.2)

- In 10 test-checked cases of payment of duty on chewing tobacco/pan masala, based on capacity of production, Audit observed excess production as much as 325 per cent over 'deemed production' involving revenue of ₹ 309.18 crore.

(Paragraphs 3.6.3)

- In 40 cases relating to Tobacco manufacturers Audit noticed non-compliance of Act, Rules etc. by the assesseees involving revenue of ₹ 97.72 lakh.

(Paragraphs 3.7)

Chapter IV: Non-compliance with Rules and Regulations

- Audit observed 44 cases of irregular availing and utilisation of CENVAT credit, non/short payment of Central Excise duty involving revenue of ₹ 45.40 crore.

(Paragraph 4.1)

Chapter V: Effectiveness of Internal Control

- Audit observed 58 cases of deficiencies in internal audit carried out by departmental officials and other issues involving revenue of ₹ 279.19 crore.

(Paragraph 5.2)