

18th December, 2025

**CAG's COMPLIANCE AUDIT REPORT ON CUSTOMS PRESENTED IN
PARLIAMENT**

The Compliance Audit Report No. 21 of 2025 of the Comptroller and Auditor General of India on Department of Revenue- Customs and Directorate General of Foreign Trade under Ministry of Commerce and Industry for the year ended 31 March 2023 was presented in Parliament here today.

This report contains 50 audit observations including one Subject Specific Compliance Audit with total revenue implication of ₹747 crore. The Ministries/Departments have accepted 49 paragraphs and taken rectification measures involving money value of ₹ 21 crore in the form of issue of SCNs, adjudication of SCNs and have reported recovery of ₹14 crore in 39 cases of incorrect assessment of Customs duties.

The following are the important findings in the report:

- I. During FY 23, Audit issued 203 Inspection reports to the respective Commissionerates/ Regional licensing authorities containing 1894 observations with a total revenue implication of ₹1,779 crore. Of these, this report covers 50 audit observations involving revenue implication of ₹747 crore, which were issued to both Ministries during January to May 2025. The remaining cases are being pursued by the respective field formations. The Ministries/department accepted 49 out of 50 cases issued and conveyed rectification measures involving money value of ₹21 crore in the form of issue of SCNs, adjudication of SCNs and had reported recovery of ₹14 crore in 39 cases of incorrect assessment of Customs Duties.

{Paragraph 2.6}

II. Subject Specific Compliance Audit on 'Merchandise Exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS)- Chapter III

A Subject Specific Compliance Audit was conducted to review the internal control mechanism and implementation of two schemes of the Foreign Trade Policy 2015-20 - MEIS and SEIS and reported findings with revenue implication of **₹724.96 crore**.

Following are some of the important Audit observations:

- Despite the recommendations made in the previous AR No. 5 of 2020 to address the shortcomings in automation and to improve the internal controls and monitoring mechanism, relating to both the MEIS and SEIS schemes, the Ministry/DGFT was found lacking to implement those recommendations, primarily because both the Schemes were discontinued.
- Even after discontinuance of the schemes, the number of licences issued (as per Government dispensation) under both the schemes were substantial and

involved outflow of incorrect incentive by way of duty credit which could have been avoided had the earlier recommendations been implemented.

- From a systemic perspective, Audit observed that though automation of the process of issuing MEIS and SEIS licences was taken up, the shortcomings and validation weaknesses in the automation system continued to persist requiring manual intervention. This was leading to substantial process delays, which were noticed in 39 *per cent* and 44 *per cent* of the sampled cases (MEIS and SEIS respectively). This indicates the failure of the automated system in achieving the objective of simplification of procedures and ease of doing business.
- Systemic issues noticed inter alia includes Irregular issue of scrips to firms in the Denied Entity List and also to firms whose names did not match with the names in the respective unique identifier-Importer Exporter Code (IEC), availing of dual export benefits, scrips issued for time barred claims/shipping bills, excess issue of scrips owing to non/short levy of late cut involving revenue implication aggregating **₹185.85** crore.
- From a compliance perspective, in the administration of MEIS scheme, Audit observed inadmissible and irregular grant of MEIS benefits aggregating **₹132.21** crore because of allowing benefits to ineligible products, misclassification of exported products, adoption of incorrect incentive rate, non-realisation of export proceeds or realisation of export proceeds in Indian Rupees.
- In the administration of the SEIS scheme SEIS benefits were incorrectly permitted aggregating revenue of **₹406.90** crore attributable to inadmissible services, services rendered in eligible manner, misclassification of services, incorrect computation of foreign exchange earnings, non-exclusion of government taxes while granting SEIS benefits and incorrect adoption of exchange rates.

Following are some of the important Audit recommendations:

- A. The department should achieve automation of the entire workflow process of issuing licences, mapped with the business rules, to eliminate manual intervention, minimise process delays and to ensure consistency in application of schemes. The classification of services by various agencies has to uniformly align to avoid misuse of incentives.
- B. The Department should strengthen validation controls in the automated system as well as strengthen its process of verification and sanctioning FTP schemes to ensure that duty scrips/benefits are provided as envisaged.
- C. DGFT may instruct the RAs to initiate appropriate recovery action wherever duty credit under MEIS was granted after discontinuance of the scheme particularly in respect of Apparels and Made-ups sector, which are eligible for

duty credit under another scheme Rebate of State and Central Taxes and Levies (RoSCTL).

{Paragraphs 3.1 to 3.9}

**III. Non-compliance to provisions of Customs Act, Customs Tariff, notifications and Export Promotion Schemes of Foreign Trade Policy–
Chapter IV**

Test audit of 39 Customs Commissionerates, 12 Regional Authorities of DGFT and nine Development Commissioners revealed instances of under assessments of applicable Customs duties and violations of prescribed rules, procedures framed to give effect to the provisions of the Foreign Trade Policy and procedures regarding fulfilment of export obligations and awarding export incentives involving revenue of **₹22 crore**.

{Paragraphs 4.4.1 to 4.7.3}
