

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

**New Delhi
21 December, 2022**

**CAG's COMPLIANCE AUDIT REPORT ON DEPARTMENT OF REVENUE-CUSTOMS
PRESENTED IN THE PARLIAMENT**

The Compliance Audit Report No. 30 of 2022 of the Comptroller and Auditor General of India on Union Government (Department of Revenue-Customs) and Director General of Foreign Trade under the Ministry of Commerce and Industry, for the year ended March 2021 was presented in the Parliament here today.

This report contains 105 paragraphs with total revenue implication of `86 crore. In 93 paragraphs involving money value of `71 crore, rectificatory action has been taken by the Department/Ministry and recovery of `65 crore in 59 cases has been effected till date.

The following are the important findings in the report:

- I. During FY 21, audit issued 198 inspection reports to the respective Commissionerates/ Regional Licensing Authorities containing 1,424 observations and carrying a total revenue implication of `441 crore. Out of these, 105 audit observations with revenue implication of `86 crore noticed during FY 21 have been covered in this report. The remaining cases are being pursued by the respective field formations. The Ministry of Finance and Ministry of Commerce have responded in 50 out of 105 cases issued. Additionally, in 43 cases, responses were received from the local Customs Commissionerates/Regional Authorities. The Ministries/ Departments have accepted 93 paragraphs and taken rectificatory action involving money value of `71 crore in the form of issue of SCNs, adjudication of SCNs and have reported recovery of `65 crore in 59 cases of incorrect assessment of Customs Duties.

(Paragraph 2.6)

Non-compliance to provisions of Customs Act, Customs Tariff Act and Tariff notifications

- II. Pan India data requisitioned by Audit for import and export transactions for the FY 19, 20 and 21 was not received, despite repeated requests. In the absence of Pan India transactional data, audit was conducted through the CRA Module interface of Indian Customs EDI System (ICES), which had its limitations. The limitations in the CRA and ICRA modules were also communicated to the CBIC. Accordingly, the conclusions in this Chapter on Compliance Audit were based on limited audits carried out by physically visiting the 32 Commissionerates.

The samples were selected at the level of individual field formations in the absence of Pan- India data, which is sub-optimal. Significant Audit observations with revenue implication of `10 lakh or more noticed during test check of import/export documents in the Customs Commissionerates have been covered in this Report. Minor observations were issued to the respective Commissionerates through Inspection Reports for corrective action.

The cases of non-compliance noticed during audit could be broadly categorized as follows:

- Misclassification of imports **(Paragraphs 3.6.1 to 3.6.15)**
- Incorrect application of notifications **(Paragraphs 3.7.1 to 3.7.5).**
- Other irregularities **(Paragraph 3.8).**

Audit noticed 88 cases of under assessments of applicable Customs Duties due to, misclassification of imported goods, incorrect application of notifications and incorrect levy of applicable levies and other charges, as result of which revenue of `75 crore was at risk.

{Paragraphs 3.6 to 3.8}

(A) Systemic issues

Audit noticed systemic issues in a few import cases wherein the Risk Management System (RMS) allowed clearance even though the prescribed import conditions were not fulfilled. The RMS needs to address such issues so that the prescribed import conditions are complied with and applicable duties are automatically charged once the BE passes through the system. A few cases are mentioned below and also discussed in Chapter III of the Report.

- (i) Misclassification of “Mandarin (kinow) juice” as “Orange juice” **(Paragraph 3.6.1)**
- (ii) Misclassification of Machines for the reception, conversion and transmission or re-generation of voice, images or other data, including switching and routing apparatus **(Paragraphs 3.6.3 and 3.6.6)**
- (iii) Incorrect application of IGST rate on parts of Diesel engines imports **(Paragraph 3.7.1)**

(B) Persistent irregularities

Similar instances of non-realisation of export proceeds and misclassification of imports flagged to the Ministry in the previous Audit Reports continue to be reported in the Customs field formations, notwithstanding assurances of the CBIC that their field formations have been sensitised to check similar issues cautiously.

A few cases are mentioned below:

- (i) Misclassification of ‘Network Interface Cards’ **(Paragraph 3.6.4).**
- (ii) Misclassification of “Smart watches” **(Paragraph 3.6.5)**

- (iii) Non-recovery of drawback in cases of un-realised export proceeds
(Paragraph 3.8.1).

Non-compliance to provisions of various Export Promotion schemes of Foreign Trade Policy

- III. Test audit of 17 Regional Authorities and eight Development Commissioners revealed instances of 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. Revenue of `11 crore was due from exporters/importers who had availed the benefits of the duty under various export promotion schemes but have not fulfilled the prescribed obligations/ conditions.

{Paragraphs 4.2.1 to 4.2.2}