<div align="right">**PRESS RELEASE**</div>

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

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08th AUGUST, 2023</div>

CAG IT AUDIT REPORT ON CUSTOMS PRESENTED

The IT Audit of Indian Customs Electronic Data Interchange System (ICES) 1.5-Report No. 14 of 2023 of the Comptroller and Auditor General of India on Union Government (Department of Revenue-Indirect Tax-Customs) and Director General of Foreign Trade under the Ministry of Commerce and Industry covering the period 2015-16 to 2019-2020 was presented in the Parliament here today.

The audit scope intended to examine the functionalities of import and export modules, interface with other IT applications viz. DGFT, SEZ, Bank, RBI etc. and IT Governance issues such as - Organisation and management, IT governance and management, and effectiveness of Change Management. For the examination of functionalities, the audit focus was more on major changes/new functionalities added in the ICES application during 2015 to 2020.

This report is divided into four chapters. Chapter 1 present an overview of Indian Customs EDI System (ICES) and indicates the audit objectives, scope, sample, audit criteria and audit methodology used for conduct of this 'IT Audit of ICES 1.5'. Chapters 2, 3 and 4 cover the audit findings, conclusions and recommendations pertaining to this IT Audit. This report contains 24 audit observations, including sub-paragraphs, and 16 recommendations. Responses were received for 20 observations, out of which 15 have been fully/partially accepted and five have not been accepted. No response was received in respect of four audit observations.

The following are the important findings in the report:

Audit noticed that:

Core Indian Customs EDI Systems

a) Lack of certain validation controls in ICES Import module resulted in (i) Late fee wrongly levied, collected and waived off, (ii) Short/excess levy of duty under Notification 46/2011-Customs, (iii) Working of Risk Management System for Import, (iv) Lack of control in ICES regarding levy of duty in the case of BE filed prior to date of entry inwards and (v) Country of Origin not identical at BE level and Item level,

b) Lack of validation in ICES Export module caused (i) Non - alignment of DBK Serial number with RITC (Export validation) (ii) Acceptance of negative FOB value of exported goods,

c) Partial automation of Shipping Bills and drawback claims under Section 74 of the Customs Act 1962,

d) Delay in implementation of Post Clearance Audit for RMS Export module,

e) Non-Automation of closure of IGM,

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f) Non-automation of Refund process,

g) Non- auto reversal of duty in case of double payment,

h) Responses on the status of the implementation of the recommendations of the Time Release Study (TRS) Committee Report 2022 were awaited.

Interfaces with other applications

The Interfaces of ICES with other stake holders IT applications is not fully implemented to address their requirements with regard to Linking of ICES with Banks, Sharing of RBI Export Outstanding Statement (XOS) data/ Caution list with ICES and Integration of SEZ Online with Customs ICES.

IT Governance and Management

Audit noticed gaps in the governance and management of the ICES application especially:

(i) updation of Software Requirements Specification (SRS) and Software Design Document (SDD),

(ii) Non-updation of User Manuals,

(iii) Directory Change Management,

(iv) Structural Change Management and

(v) Help desk and end-user support system.

Recommendations:

1. The Ministry should ensure that necessary validation checks in ICES regarding levying, collection and wavier of late fees are implemented, duly mapped and functioning correctly. It may also be ensured that in case of wavier of late fees, the reasons are also recorded.

(Paragraph 2.2.1)

2. The Ministry should ensure necessary validation checks in ICES so that Customs duty rates are correctly reflected based on Country codes read with exemption notifications, and not solely based on self-declaration.

(Paragraph 2.2.2)

3. The Ministry should ensure proper validation in ICES that in cases wherein a Bill of Entry is taken up for examination by the Risk Management System, the field relating to examination report should not be null.

(Paragraph 2.2.3)

4. The Ministry should ensure that the notifications are updated in a timely manner and invariably before the effective date. The delay in updation by DMS sites should be viewed seriously and necessary action taken in cases of delay. DMS sites must comply with the existing SOP and this should be verified and ensured by DG (System).

(Paragraph 2.2.4)

5. The Ministry should ensure necessary validation in ICES export module so that the FOB value after deducting insurance and freight is not negative.

(Paragraph 2.3.2)

6. RMS for exports for selection of Shipping Bills for Post Clearance Audit (PCA) should be made operational at the earliest for increased transparency and targeting using a risk based approach.

(Paragraph 2.5)

7. The module for daily updating of exchange rate may be made operational at the earliest.

(Paragraph 2.6)

8. The Ministry may take necessary steps so that the IGMs filed in ICES are closed electronically and all goods are duly accounted for. Efforts may also be made to manually close all the open IGMs. Ministry should also decide and prescribe a time limit for the closure of IGMs as undue delay/non-reconciliation is fraught with the risk of revenue leakage.

(Paragraph 2.7)

9. The Ministry may consider having online workflow for capturing and processing refunds on the lines of the GSTN System so that the Department is able to electronically keep track of BEs against which refund has been applied for. This would make the monitoring of refund cases more efficient, effective and transparent.

(Paragraph 2.8)

10. Ministry may expedite the development of APIs for sharing of challans/warehouse details between ICES and ICEGATE in a time bound manner.

(Paragraph 3.2)

11. Ministry may explore mapping/cross-verifying of RBI XOS data with caution list maintained by CBIC for identifying default cases for effective monitoring of export proceeds realisation.

(Paragraph 3.3)

12. Ministry should integrate SEZ Online with ICES at the earliest for better monitoring of SEZ operations (both EXIM and DTA transactions) and for ease of doing business in SEZs.

(Paragraph 3.4)

13. In addition to immediate updating of SRS and SDD, the Ministry should also ensure that SRS and SDD is kept up to date at regular intervals to factor all the important changes made in the application.

(Paragraph 4.1.1)

14. The updating of user manuals consistent with changes should be regularly carried out in a time bound manner to avoid accumulation of requirements.

(Paragraph 4.1.2)

15. Ministry must ensure that protocols are properly and completely followed at the time of sign off of any change management. They must ensure that all changes including testing and approval of such changes are properly documented.

(Paragraph 4.2.2)

16. Ministry may prescribe:

(a) Time limits for resolving or escalating the complaints,

(b) Average time, for resolution with useful/suitable details of tickets which take unduly long time be captured and monitored.

(Paragraph 4.3)

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