

# OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

NEW DELHI  
10<sup>th</sup> March, 2017

## CAG COMPLIANCE AUDIT REPORT ON INDIRECT TAXES- CENTRAL EXCISE PRESENTED IN PARLIAMENT

The Comptroller & Auditor General of India Audit Report No. 03 of 2017 on Central Excise revenue was tabled in Parliament today and hence it has become a public document.

Report has 93 audit observations on Central Excise having financial implication of ₹ 178.68 crore. The Ministry/Department had accepted (upto December 2016) audit observations involving revenue of ₹ 132.13 crore and reported recovery of ₹ 30.44 crore. Significant findings are as follows:

### Chapter I: Department of Revenue – Central Excise

- Central Excise revenue has shown 52 per cent growth in FY16 compared to FY15.  
(Paragraphs 1.7)
- During FY16, increase in Central Excise duty on petrol and high speed diesel led to overall growth of Central Excise.  
(Paragraph 1.8)
- Revenue forgone for FY16 in respect of Excise duties was ₹ 2,24,940 crore (₹ 2,05,940 crore as general exemptions and ₹ 19,000 crore as area based exemptions) which is 78.34 per cent of revenue from Central Excise.  
(Paragraph 1.11)
- Large amount of Central Excise revenue amounting to ₹ 92,162 crore is under litigation at various levels. The amount is increasing every year.  
(Paragraph 1.21)

## **Chapter II: Recovery of Arrears**

- Arrears of Central Excise increased by 50 per cent in 2014-15 as compared to 2012-13. However, the recovery of arrears has been showing a decreasing trend over the last three years. In Chennai-I Commissionerate, increase in arrears was 387.33 per cent.

(Paragraph 2.7)

- In 37 test checked cases, under 12 Commissionerates, action for recovery under section 11 of Central Excise Act, 1944, and section 142 of Customs Act, 1962, were not taken, which resulted into non-recovery of ₹ 95.87 crore.

(Paragraph 2.8.2)

- In 23 test checked cases, pending from 2 to 10 years involving revenue of ₹ 137.81 crore, in four Commissionerates, applications for early hearing were not filed.

(Paragraph 2.8.3)

- Cases need to be transferred to the Recovery Cells which have been empowered to take action for recovery by attachment and sale of property of the defaulter, in case no recovery is made by Departmental efforts. No cases were transferred to the Recovery Cells in 23 Commissionerates during 2014-15, there were 15,388 cases amounting to ₹ 18,700.27 crore pending for recovery. Non-transfer of cases has not only resulted into Recovery Cells becoming redundant but has also led to piling of arrears and poor recoveries thereof.

(Paragraph 2.8.6)

- The Board constituted, in 2004, a Centralised Task Force (CTF) to co-ordinate, facilitate, monitor and oversee the efforts of Customs and Central Excise field formations in recovery of arrears. We observed that though the Task Force was entrusted with finalising and implementing strategies for realisation of arrears it did not take any such action for realization of arrears. As on March 2015, out of total arrears of ₹ 63,925.42 crore, cases involving arrears of ₹ 44,747.82 crore, ₹ 1,485.15 crore and ₹ 77.07 crore were pending with CESTAT, Commissioner (Appeals) and Settlement Commission respectively which constituted 72.44 per cent of total arrears for recovery.

(Paragraph 2.11.1)

## **Chapter III: Effectiveness of Internal Audit**

- Audit requisitioned 750 Assessee Master Files (AMF) and 1125 Internal Audit Files (IAF) out of which we received only 565 AMF and 1039 IAF respectively. Further five Commissionerates did not produce Audit Planning Register and Audit follow-up register during the period of audit. Poor maintenance of records by a wing which is the backbone of compliance verification mechanism reflects poorly on the functioning of the Department.

(Paragraph 3.6)

- Audit noticed instances of delay of 331 and 241 days in issue of draft Audit reports in two cases and in issue of final report in two other cases of 589 and 206 days.

(Paragraph 3.9.3 and 3.9.5)

- Audit observed in eight Commissionerates, that out of a total 580 Internal Audit Files, no scoring had been done for evaluation of Audit Reports in 434 files. In three Commissionerates no scoring had been done in any of the Internal Audit Files.

(Paragraph 3.9.4)

#### **Chapter IV: Non-compliance with Rules and Regulations**

- Audit observed 35 cases of irregular availing and utilisation of CENVAT credit, non/short payment of Central Excise duty involving revenue of ₹ 73.99 crore.

(Paragraph 4.1)

#### **Chapter V: Effectiveness of Internal Control**

- Audit observed 56 instances of deficiencies in internal audit carried out by departmental officials and other issues involving revenue of ₹ 104.68 crore.

(Paragraph 5.1)