

Executive summary

We conducted a performance audit on the 'Export Promotion Capital Goods Scheme' (EPCG) to evaluate the adequacy of the provisions of Foreign Trade Policy, Customs Act and related instructions and to assess their proper implementation in issue of authorisation under the scheme, post issue monitoring of authorisation and redemption of authorisation after completion of the export obligation (EO) periods. The aim was to see that the scheme was being effectively and efficiently implemented and there were no loopholes in the scheme being taken undue advantage of.

The Director General of Foreign Trade (DGFT) issued 89,000 licences between the year 2000 and 2008 of which 63 per cent were issued from Mumbai, Delhi, Coimbatore, Chennai and Bengaluru.

Total revenue forgone on this scheme from 2005-06 to 2009-10 was ₹ 38,188 crore.

The total revenue implication of this audit report is ₹ 3,154.87 crore.

Our major findings are:

- Under EPCG Scheme, the licences issued have to be monitored over an eight year period through many prescribed checks. We observed that authorisations were issued without complete set of documents prescribed and post verification of declarations was usually not done by Regional Licencing Authorities (RLAs) in violation of DGFT's instructions. We recommend that DGFT should prescribe a time-bound schedule for carrying out the prescribed checks and monitor the implementation of this control mechanism.

(Paragraph 2.1)

- We found that Post Issue Audit Wings (PIAW) were not operational in most places except Mumbai. The DGFT should ensure that the PIAWs become operational in the RLAs within fixed time frame for better internal control.

(Paragraph 2.2)

- We found cases of incorrect fixation of average export obligation. We recommend that the DGFT should examine the matter, reiterate the exact method of calculation of average EO and take remedial action in cases of incorrect fixation.

(Paragraph 3.1)

- We found many cases of incorrect fixation of specific export obligation due to calculation mistakes. We recommend that the calculations of EO should also be covered in the test check by Post Issue Audit Wing.

(Paragraph 3.2)

- We observed that authorisations were issued against refusal orders by granting abeyance orders by RLAs without authority. We recommend that the DGFT should issue instructions to stop the issue of abeyances and investigate the basis on which the RLAs had given themselves the discretion to issue abeyance orders.

(Paragraph 4.2)

- We found that neither the RLAs had instituted any system to monitor the receipt of installation certificates of the imported capital goods nor the Customs department initiated any address verification in most of the locations. We recommend that as authentication of the licensee premises is an important check to verify at any time that the imported capital goods were installed and operated at the declared location, Board may examine alternate methods similar to the ones followed by Credit Card Companies/Banks etc. such as periodically calling for copies of utility bills containing the address of the licensees.

(Paragraph 5.2)

- We observed that there was lack of monitoring at the redemption stage. The RLAs were not tracking the receipt of redemption applications on the due dates i.e. on completion of eight years from date of issue of licence. We also observed that there was substantial delay in finalisation of applications for redemption. We recommend that the process of monitoring of the receipt of redemption applications on due dates and their processing thereafter, upto the issue of export obligation discharge certificate (EODC), should be automated.

(Paragraph 6.1)