

Deemed Exports Drawback Scheme

Chapter I: Introduction

1.1 The business of DoC is to regulate, develop and promote India's international trade and commerce. It is implemented through formulation of appropriate trade and commercial policy. DGFT an attached office of DoC, formulates FTP, setting the annual targets of exports and implementation of programmes for increasing exports and substituting imports. FTP is meant to implement provisions of FTD&R Act, Rules and orders made there under, by laying down simple, transparent and EDI compatible procedures, which are easy to comply with and administer.

1.2 The key objectives of the current FTP are to arrest the declining exports and to reverse the trend. It also aims to bolster import substitution, however, analysis of Central Excise receipt of the Union Government vis-a-vis additional duty of customs (CVD)⁸ levied on imports revealed that the Central excise receipt has increased to ₹ 1,38,372 crore in FY11 from ₹ 72,555 crore in FY01 at an annualized rate of 8.20 per cent, correspondingly, CVD collection has also increased to ₹ 51,065 crore in FY11 from ₹ 16,582 crore in FY01 at an annualized rate of 18.9 per cent as detailed in Annexure B. Decadal Average of ratio of CVD to excise duty has been 27 per cent ranging between 16.51 per cent in FY04 to 44.68 per cent in FY 09 with an increasing trend.

1.3 FTP 2004-09 and 2009-14 provides for the Scheme of Deemed Exports (Chapter 8), which refers to the supply of domestically manufactured goods in which the indigenous manufacturers supply goods to certain prescribed categories of receivers and the taxes paid by the domestic manufacturers for those categories of supplies (as detailed in Annexure C) are reimbursed which provides a level playing field (to domestic manufacturers vis-à-vis importers) to compete for International Competitive Biddings (ICBs).

1.4 Deemed Exports are eligible for the benefits, such as (a) refund of DBK, (b) exemption or refund of TED and (c) advance authorization/Advance authorization for annual requirement, DFIA, subject to terms and conditions as in Hand Book of Procedures (HBP) vol.

1.5 FRBM requires that the Central Government shall take suitable measures to ensure greater transparency in its fiscal operation in public interest and minimise secrecy in the preparation of annual financial statement and demand for grants. The Government started showing estimates of major tax expenditure under the Central Tax System from the Receipt Budget 2006-07 onwards. The statements of revenue foregone under the Central Tax System in the

⁸ Additional Customs Duty is a duty equivalent to the excise duty for the time being leviable on a like article had it been produced or manufactured in India.

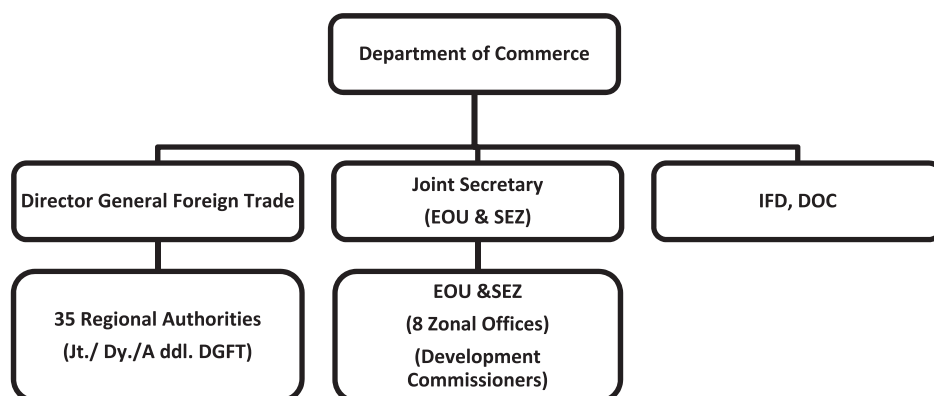
Receipts Budgets of the Union Government do not show drawback remissions and deemed export drawback. During the four year period from FY08 to FY11, those concessions (DBK remissions: ₹ 33,430 crore; deemed export drawback: ₹ 7,679 crore) constituted atleast 18 per cent of the total tax expenditure of ₹ 2,25,284 crore shown in the revenue foregone statements (Annexure A, A1). Deemed export drawback and drawback components taken together, is the third largest tax expenditure under custom duties.

1.6 The pattern of change in the deemed export drawback and drawback has been similar though with varying intensity. Total duty foregone on all export promotion schemes similarly showed the same overall trend between FY08 to FY11.

Organisational set up

1.7 DGFT through its thirty five RAs and by DoC through the eight Zonal DC-SEZ implements the scheme as shown below:

Chart 1: Organogram of DoC



1.8 DGFT collects and compiles information for requirement of funds from its RAs. Policy and Drawback wing submits the demand for approval of IFD, DoC. After the approval and allotment of funds, DGFT issues sanction for payments. Pay & Accounts office (PAO), Commerce & Textile, issues advice to the authorised bank for opening of letter of credit (LC) in respective banks for different RAs. RAs then, issues cheques to the bank with list of beneficiaries to transfer the amounts to the accounts of the beneficiaries online. After issuing the cheques, RAs reconcile the figure of expenditure with concerned regional PAO. Similarly, SEZ-EOU wing of DoC collects and compiles information of requirement of funds from the regional SEZs and obtain the approval of JS (SEZ-EOU) with the concurrence of AS & FA. The concerned CCA/PAO accounts for the expenditure by DCs.

Audit Objectives

1.9 The objectives of the performance audit of Deemed Export Drawback Scheme are to seek an assurance on the following:

- a. Effectiveness of the internal control procedures and internal audit system for management of the scheme;
- b. Compliance with the extant provision to guard against loss of revenue or any irregular payment of DBK;
- c. Fixation of the brand rates;
- d. Timely disposal of deemed exports cases;
- e. Implementation of the Policy Interpretation Committee (PIC)'s clarifications and outcome assessment of the scheme.

Audit scope and coverage

1.10 We examined, the eligibility, criteria, procedure for claiming DBK and refund of TED as laid down in FTP (2004-09 and 2009-14) and the internal control procedures and internal audit system of the Ministry and the field formations to monitor the scheme as per DoCs own RFD, strategy and outcome reporting. Cases of refund of DBK and TED made during 2007-08 to 2010-11 were audited in the field offices of DGFT and DoC (EOU & SEZ) located all over the country during March 2012 to June 2012.

Audit methodology

1.11 The audit was managed as per the C&AG's Audit Quality Management Framework, 2009 employing professional Auditing Standards, 2nd Edition, 2002 and Performance Auditing Guidelines, 2004.

Audit sample

1.12 Audit scrutinised the cases of refund of DBK and TED in a sampled population in 25 RAs⁹ out of 35 RAs of DGFT and 7 DC-SEZ¹⁰ out of eight SEZs of DoC. In these 25 RAs, refund of DBK and TED involving an amount of ₹ 5,941 crore were made in 18,843 cases during 2007-08 to 2010-11 out of which 3,725 cases (20 percent) were scrutinised. Similarly, in the seven SEZs, 5,151 claims involving refund of ₹ 640 crore were made, out of those cases 984 cases (18 per cent) were selected for audit scrutiny. Sample for the performance audit was selected based on the volume of transactions in the field formations of DGFT and DoC using stratified random sampling with strata as tabulated below:

Table 1: Stratified Sample

Category	Cases selected for audit
Claims of ₹ Two crore and above	100 per cent
Claims between ₹ 50 lakh and ₹ 2 crore	50 per cent
Claims less than ₹ 50 lakh	20 per cent

⁹ Ahmedabad, Amritsar, Bangaluru, Chandigarh, Chennai, Coimbatore, Cuttack, Gandhidham, Hyderabad, Jaipur, Kanpur, Kochi, Kolkata, Ludhiana, Madurai, Moradabad, Mumbai, New Delhi, Puduchery, Pune, Rajkot, Surat, Varanasi, Vadodara and Vishakhapatnam

¹⁰ Cochin, Chennai, Gandhidham, Mumbai, Noida, Kolkata and Vishakhapatnam