

Chapter 2: Internal Control Procedures and Internal Audit System

Internal Control procedures and internal audit system of DoC and DGFT need strengthening.

2.1 DoC and DGFT spend from one budget head on scheme related remissions. The fund management under the budget head is not proper as there was regular savings or excess spending over the four years audited. EOU division of DoC was continuously surrendering the funds whereas DGFT overspent in FY09 and FY10. *DGFT maintained that allocation of funds between DGFT and DoC is in accordance with projected expenditure of RAs and DC-SEZs.*

2.2 The principal tax collecting authority (DoR) and the authority to reimburse deemed export benefits (DoC) are different. There is no mechanism to correlate the tax collection on inputs with the deemed export benefits reimbursed, to assess the efficacy of the tax expenditure or export promotion measures. *DGFT admitted that there is no mechanism to co-relate the tax collection on inputs with deemed export benefits reimbursed.*

2.3 The objectives of the scheme have not been specifically defined though it derives its basic concept from FTP. The scheme is very old and has been operating for nearly three decades, however, its outcome has not been assessed. Committees were set up in the past by the Government to see the original intention and rationale for providing deemed export benefit and criteria for availing the benefits etc.

2.4 DoR, DoC or its CCA have not conducted any internal audit of the field units of DGFT or DoC. *According to DGFT, an inspection unit of DGFT, New Delhi, headed by an officer of the rank of Additional Director General, carries out inspection of offices of RAs from time to time including the 'Deemed Export Scheme'. Controller Aid Accounts and Audit, Department of Economic Affairs informed that for various Export Promotion Licences issued by DGFT were to be audited by them but they have not conducted any such audit for the 'Deemed Export Scheme'.*

2.5 DGFT in their policy circular dated January 2000 and October 2003 on licences and brand rates, circulated to RAs, stated that about five to ten per cent of the cases, selected on random basis, may be subjected to post audit by Internal Audit Unit and initiate requisite follow-up action immediately to review the case at appropriate level. This required RAs to create an Internal Audit Wing in their respective jurisdiction for audit activities in respect of the office. Audit found that the internal audit wings are not functional in the regional offices of DGFT. RAs are required to maintain all registers/records i.e. claim receipt register, cheque payment register, monthly technical reports and post audit

register etc., for proper monitoring of the receipt and disposal of claims under the scheme and for subsequent reference and auditing.

2.6 Audit scrutiny of the records at RAs, Ahmedabad, Amritsar, Bangaluru, Chennai, Chandigarh, Coimbatore, Cuttack, Hyderabad, Jaipur, Kanpur, Kochi, Kolkata, Ludhiana, Madurai, Moradabad, New Delhi, Pune, Rajkot, Surat, Puduchery, Vadodara, Varanasi and Vishakhapatnam and at DC-SEZ, Falta, Noida and Bangaluru, revealed the following:

- a. The scheme is not being adequately monitored. The demands were not consolidated and put up in time for timely release of funds. *DGFT in their reply stated (February 2013) that the procedure of allocation disbursement and monitoring of funds has been streamlined and strengthened last year by introduction of payment through electronic clearance system of Banks (ECS), booking and monitoring of expenditure through e-lekha¹¹ and regular compilation by Policy division of DGFT.*
- b. Internal audit of the performance of the scheme has not been done by DGFT to analyse whether the objectives were achieved and the checks were adequate to guard against erroneous payments. *DGFT stated that Inspection team of DGFT (Hqrs) are inspecting various work being done by RAs which included the scheme also but to the contrary, audit found that the role of inspection team in respect of the scheme is limited to the disposal of claims only.*
- c. DGFT has not been made any effort to correlate the reimbursement with the amount collected by DoR as input tax. *DGFT admitted the fact and stated that there is no mechanism in the Department to correlate the tax collected and the export benefits reimbursed.*
- d. DGFT have not linked their system with EDI System (of customs and central excise department) to check the correctness of the declaration made by claimants. *DGFT in their reply (February 2013) stated that online filing of claims of deemed export benefit may not be possible, because, it is reimbursement of duties and not issue of any type of Authorisation like Advance Authorisation. Further, a number of documents are prescribed to decide about the eligibility and veracity of the claim and regarding checking of veracity of claims by Customs and Central Excise Departments, invoices/statement of invoices attested by Central Excise is called for and since March 2011, a copy of declaration of non availing of cenvat is sent to Excise authority. Reply of DGFT is not acceptable as DGFT is already*

¹¹ Accounting package of PAO

connected with Customs through 'icegate'¹² and needs only to augment the software for verification purposes.

2.7 RAs were required to maintain records such as claim receipt register; ripe register; cheque payment register, brand rate letter register, monthly technical reports, data base of the claims submitted, claims sanctioned, interest paid, payment made and post audit reports. Audit found that either these records were not maintained or maintained by not closing the registers regularly and submitting these to higher authorities. In absence of proper records and non-functioning of the Internal Audit wing there are high inherent and detection risks. A case is highlighted below to indicate the effect of weak monitoring of the scheme by the Department.

2.8 In RA, Hyderabad, a firm applied for fixation of Brand rate (₹ 14.67 crore) on supplies made to 330 MW Srinagar Hydro Electric Project, Uttarakhand. The claims were made under paragraphs 8.2 (g) and 8.4.4(iv) of FTP and it was restricted to ₹ 4.76 crore as the amounts pertaining to supplies of cements and steels were disallowed.

2.9 Audit found that ₹ 13.18 crore was sought from DGFT, New Delhi, for payment to the claimant which was released by DGFT, New Delhi, even though the claim was approved for ₹ 4.76 crore. Eventually the approved amount of ₹ 4.76 crore was paid to the claimant and the excess fund released amounting to ₹ 8.42 crore was diverted for other claims which did not form part of the list of approved cases where funds were sought from DGFT, New Delhi. Improper maintenance of ripe register led to seeking of amount in excess of approved amount.

2.10 Audit also observed that the total fund sought by RA, in April 2011 was ₹ 41.33 crore in respect of 31 cases and the same was released but the actual payment of ₹ 41.33 crore were made to 65 cases. Thus, it can be seen that due to weak monitoring by the competent authorities and suo moto diversion of fund to other cases for which amounts were never sought or released without intimating the Headquarter can lead to excess/fraudulent payments. This contradicts stand of DGFT as mentioned in paragraph 2.6 (d) above.

Regional authorities and Zonal DC-SEZ

2.11 RAs and DCs do not check the mandatory documents submitted with the claims. Mandatory records were either not maintained or maintained improperly and no internal audit wings have been set up by RAs and DC-SEZs.

2.12 *DGFT in their reply (February 2013) stated that a number of steps such as (a) they have started reimbursement of funds under deemed export scheme to all of its RAs through RTGS¹³, (b) issued instruction to RAs to ensure that expenditure*

¹² Indian Customs EDI gateway

¹³ Real time gross settlement

is booked on the e-lekha system of accounting as soon as expenditure was incurred, (c) Policy division of DGFT is monitoring reports from RAs regarding pending claims, claims approved, projected expenditure and submits proposal for release of funds to IFD of DoC, (d) PAO of DoC in consultation with Central Bank of India developed a scheme wherein expenditure incurred by any RA individually or by all RAs of DGFT collectively can be viewed at any point of time on real time basis and (e) from Financial Year 2012-13, funds for SEZs of DoC and RAs of DGFT are being allocated separately to streamline the mechanism of fund allocation, utilization and monitoring of the same.

2.13 The steps taken by DGFT, as stated above, are subject to verification in subsequent audit. However, perusal of demands for grant of DoC for the financial year 2012-13 revealed that a consolidated amount of ₹ 2,656 crore was again allocated to DGFT against major Head-3453.

Recommendation 1: Internal control procedures and internal audit system of DoC need strengthening for efficient budgeting, accounting, payment and internal audit, aligned to its RFD objectives. Budget estimation, fund allocation and demand utilisation needs close monitoring.