

Chapter I

Department of Revenue – Central Excise

1.1 Resources of the Union Government

1.1.1 The Government of India's resources include all revenues received by the Union Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans. Tax revenue resources of the Union Government consist of revenue receipts from direct and indirect taxes. Table 1.1 below shows the summary of resources of the Union Government for the Financial Year (FY) 15 and FY14.

Table 1.1: Resources of the Union Government

	(₹ in crore)	
	FY 15	FY 14
A. Total Revenue Receipts	16,66,717	15,36,024
<i>i. Direct Taxes Receipts</i>	6,95,792	6,38,596
<i>ii. Indirect Taxes Receipts including other taxes</i>	5,49,343	5,00,400
<i>iii. Non-Tax Receipts</i>	4,19,982	3,93,410
<i>iv. Grants-in-aid and contributions</i>	1,600	3,618
B. Miscellaneous Capital Receipts¹	37,740	29,368
C. Recovery of Loan and Advances²	26,547	24,549
D. Public Debt Receipts³	42,18,196	39,94,966
Receipts of Government of India (A+B+C+D)	59,49,200	55,84,907

Source: Union Finance Accounts of respective years. Direct Tax receipts and Indirect tax receipts including other taxes have been worked out from the Union Finance Accounts. Total Revenue Receipts include ₹ 3,37,808 crore in FY15 and ₹ 3,18,230 crore in FY14, share of net proceeds of direct and indirect taxes directly assigned to states.

1.1.2 The total receipts of the Union Government increased to ₹ 59,49,200 crore in FY15 from ₹ 55,84,907 crore in FY14. In FY15, its own receipts were ₹ 16,66,717 crore including gross tax receipts of ₹ 12,45,135 crore.

1.2 Nature of Indirect Taxes

Indirect Taxes attach themselves to the cost of the supply of goods/services and are, in this sense, transaction-specific rather than person-specific. The major Indirect Taxes/duties levied under Acts of Parliament are:

- a) Central Excise duty:** Central Excise duty is levied on manufacture or production of goods in India. Parliament has powers to levy excise duties on tobacco and other goods manufactured or produced in India except alcoholic liquors for human consumption, opium, Indian hemp

¹ This comprises of value of bonus share, disinvestment of public sector and other undertakings and other receipts

² Recovery of loans and advances made by the Union Government

³ Borrowing by the Government of India internally as well as externally

and other narcotic drugs and narcotics but including medicinal and toilet preparations containing alcohol, opium etc. (Entry 84 of List 1 of the Seventh Schedule of the Constitution).

- b) Service Tax:** Service Tax is levied on services provided within the taxable territory (Entry 97 of List 1 of the Seventh Schedule of the Constitution). Service Tax is a tax on services rendered by one person to another. Section 66B of the Finance Act, 1994 envisages that there shall be a tax levied at the rate of 12 per cent on the value of all services, other than those specified in the negative list, provided or agreed to be provided in the taxable territory by one person to another and collected in such manner as may be prescribed.⁴ 'Service' has been defined in section 65B (44) of the Act to mean any activity for consideration (other than the items excluded therein) carried out by a person for another and to include a declared service.⁵
- c) Customs duty:** Customs duty is levied on import of goods into India and on export of certain goods out of India (Entry 83 of List 1 of the Seventh Schedule of the Constitution).

1.3 Organisational structure

The Department of Revenue (DoR) of Ministry of Finance (MOF) functions under the overall direction and control of the Secretary (Revenue) and coordinates matters relating to all the Direct and Indirect Union Taxes through two statutory Boards namely, the Central Board of Excise and Customs (CBEC) and the Central Board of Direct Taxes (CBDT) constituted under the Central Board of Revenue Act, 1963. Matters relating to the levy and collection of Service Tax are looked after by the CBEC.

Indirect Tax laws are administered by the CBEC through its field offices, the executive Commissionerates. For this purpose, the country is divided into 23 zones of Central Excise and four zones of Service Tax headed by the Chief Commissioner. In CBEC, restructuring and re-organisation of field formation has taken place in August 2014. Under 23 zones of Central Excise, there are 119 executive Commissionerates and under four zones of Service Tax, there are 22 executive Commissionerates headed by the Commissioner. Division and ranges are the subsequent formations, headed by Deputy/Assistant Commissioner and Superintendents respectively. Apart from these executive Commissionerates, there are eight Large Tax Payer Units (LTU)

⁴ Section 66B was inserted by the Finance Act, 2012 with effect from 1 July 2012; section 66D lists the items the negative list comprises of

⁵ Section 66E of the Finance Act lists the declared services

Commissionerates, 60 Appeal Commissionerates, 45 Audit Commissionerates and 20 Directorates General/Directorates dealing with specific function.

The overall sanctioned staff strength of the CBEC is 84,891⁶ as on 1 January 2015. The organisational structure of CBEC is shown in Appendix I.

This chapter discusses trends, composition and systemic issues in Central Excise using data from Finance Accounts, departmental accounts and relevant data available in public domain.

1.4 Growth of Indirect Taxes - trends and composition

Table 1.2 depicts the relative growth of Indirect Taxes during FY11 to FY15.

Table 1.2: Growth of Indirect Taxes

(₹ in crore)					
Year	Indirect Tax revenue	GDP	Indirect Taxes as % of GDP	Gross Tax revenue	Indirect Taxes as % of Gross Tax revenue
FY11	3,45,371	77,95,314	4.43	7,93,307	43.54
FY12	3,92,674	90,09,722	4.36	8,89,118	44.16
FY13	4,74,728	99,88,540	4.75	10,36,460	45.80
FY14	4,97,349	1,13,45,056	4.38	11,38,996	43.67
FY15	5,46,214	1,25,41,208	4.36	12,45,135	43.87

Source: Tax revenue - Union Finance Accounts, GDP – Press note of CSO⁷

It is observed that Indirect tax collection have fallen as a ratio of GDP while as a ratio of Gross Tax revenue it has increased in FY15 vis-à-vis FY14.

1.5 Indirect Taxes – relative contribution

Table 1.3 depicts the trajectory of the various Indirect Tax components in GDP terms for the period FY11 to FY15.

Table 1.3: Indirect Taxes – percentage of GDP

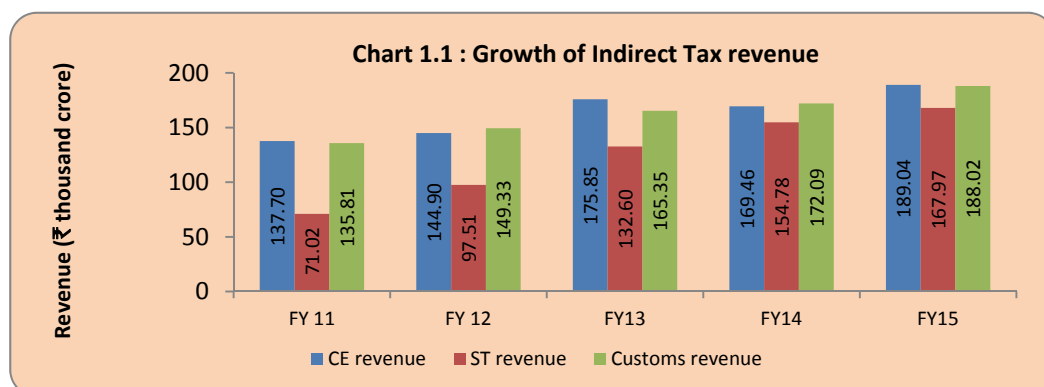
(₹ in crore)							
Year	GDP	CE revenue	CE revenue as % of GDP	ST revenue	ST revenue as % of GDP	Customs revenue	Customs revenue as % of GDP
FY11	77,95,314	1,37,701	1.77	71,016	0.91	1,35,813	1.74
FY12	90,09,722	1,44,901	1.61	97,509	1.08	1,49,328	1.66
FY13	99,88,540	1,75,845	1.76	1,32,601	1.33	1,65,346	1.66
FY14	1,13,45,056	1,69,455	1.49	1,54,780	1.36	1,72,085	1.52
FY15	1,25,41,208	1,89,038	1.51	1,67,969	1.34	1,88,016	1.50

Source: Figures of tax receipts are as per Union Finance Accounts of respective years.

⁶ Figures provided by the Ministry

⁷ Press note on GDP released on 29 May 2015 by Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation. This indicates that the figures for GDP for FY13 and FY14 are based on New Series Estimates; and figure for FY15 are based on provisional estimates at current prices. The figures of GDP for FY11 and FY12 are based on current market price with base year 2004-05. Figures are being continually revised by CSO and this data is meant for an indicative comparison of fiscal performance with macro economic performance.

The relative revenue contribution of the major Indirect Taxes is depicted in Chart 1.1.



The share of Central Excise revenue as a percentage of GDP has increased while share of Customs and Service Tax has suffered decline during FY15.

1.6 Growth of Central Excise receipts - trends and composition

Table 1.4 depicts the trends of Central Excise revenue in absolute and GDP terms during FY11 to FY15.

Table 1.4: Growth of Central Excise revenue

Year	GDP	Gross Tax revenue	Gross Indirect Taxes	Central Excise revenue	₹ in crore		
					Central Excise Revenue as % of GDP	Central Excise Revenue as % of Gross tax revenue	Central Excise as % of Indirect taxes
FY11	77,95,314	7,93,307	3,45,371	1,37,701	1.77	17.36	39.87
FY12	90,09,722	8,89,118	3,92,674	1,44,901	1.61	16.30	36.90
FY13	99,88,540	10,36,460	4,74,728	1,75,845	1.76	16.97	37.04
FY14	1,13,45,056	11,38,996	4,97,349	1,69,455	1.49	14.88	34.07
FY15	1,25,41,208	12,45,135	5,46,214	1,89,038	1.51	15.18	34.61

Source: Figures of tax receipts are as per Union Finance Accounts of respective years.

It is observed that Central Excise as a ratio of GDP, Gross Tax Revenue and Indirect Taxes has increased during FY15 and it constituted approximately 15 per cent of Gross Tax revenue in FY15.

1.7 Central Excise receipts vis-à-vis Cenvat credit utilised

A manufacturer can avail credit of duty of Central Excise paid on inputs or capital goods as well as Service Tax paid on input services related to his manufacturing activity and can utilise credit so availed in payment of Central Excise duty.

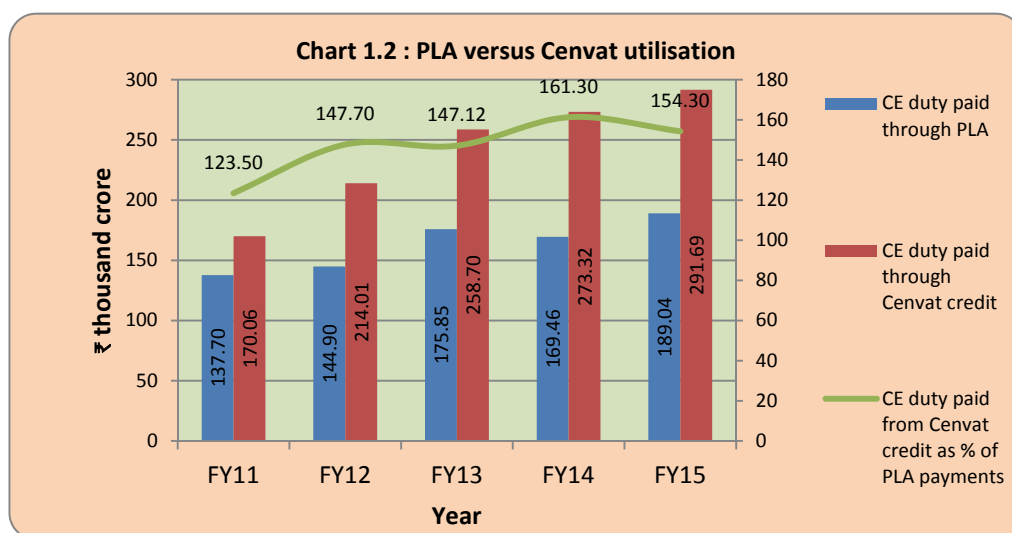
Table 1.5 and chart 1.2 depict growth of Central Excise collections through cash (PLA) and Cenvat credit during FY11 to FY15.

Table 1.5: Central Excise Receipts: PLA and Cenvat utilisation

(₹ in crore)

Year	CE duty paid through PLA		CE duty paid through Cenvat credit		CE duty paid from Cenvat credit as % of PLA payments
	Amount#	% increase from previous year	Amount*	% increase from previous year	
FY11	1,37,701	-	1,70,058	-	123.50
FY12	1,44,901	5.23	2,14,014	25.85	147.70
FY13	1,75,845	21.36	2,58,697	20.88	147.12
FY14	1,69,455	-3.63	2,73,323	5.65	161.30
FY15	1,89,038	11.56	2,91,694	6.72	154.30

Source: # Union Finance Accounts, * Figures furnished by the Ministry

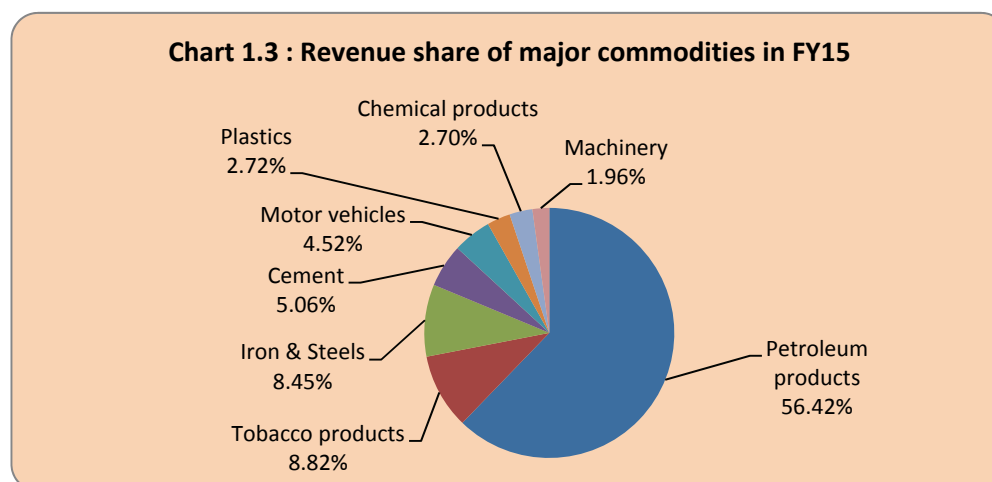


Source: Figures provided by the Ministry

It is observed that Central Excise revenue (PLA) has shown 11.56 per cent growth in FY15 compared to FY14. Payment from Cenvat credit, has increased over last five years from 124 per cent of PLA in FY11 to 154 per cent in FY15. Though, it has decreased marginally in comparison of FY14.

1.8 Central Excise revenue from major commodities

Chart 1.3 depicts the share of commodity groups in the Central Excise revenues (FY15).



Source: Figures provided by the Ministry

It is observed that Petroleum (56.42 per cent), Tobacco products (8.82 per cent), Iron and Steel (8.45 per cent), Cement (5.06 per cent), Motor vehicles (4.52 per cent), Plastic (2.72 per cent), Chemical products (2.70 per cent) and Machinery products (1.96 per cent) were the highest revenue earners and altogether, contributed 90.66 per cent of the total Central Excise revenue in FY15.

Table 1.6 depicts revenue from these commodities during last five years.

Table 1.6 : Revenue from top yielding commodities during last five years

(₹ in crore)

Commodities	FY11	FY12	FY13	FY14	FY15
Petroleum products	76,023	74,112	84,188	88,065	1,06,653
Tobacco products	13,977	15,682	17,991	16,050	16,676
Iron and Steels	14,483	13,813	17,603	17,342	15,970
Cement	7,458	8,952	10,712	10,308	9,572
Motor vehicles	7,024	7,447	10,038	8,363	8,546
Plastics	2,368	2,931	4,259	4,298	5,150
Chemical products	2,802	3,443	4,872	4,845	5,103
Machinery	2,799	3,452	4,559	3,761	3,707

Source: Figures provided by the Ministry

It is observed that during FY15, the specific Central Excise duty on petrol and high speed diesel increased from ₹ 1.2 per litre and ₹ 1.46 per litre to ₹ 8.95 per litre and ₹ 7.96 per litre respectively which resulted not only in increase

of Central Excise collection from petroleum sector but also lead to overall growth of Central Excise. It is further observed that during FY15 except Petroleum products and plastic, revenue growth is either stagnant or negative.

1.9 Tax base

"Assessee" means any person who is liable for payment of duty assessed or a producer or manufacturer of excisable goods or a registered person of a private warehouse in which excisable goods are stored and includes an authorised agent of such person. A single legal entity (company or individual) can have multiple assessee identities depending upon location of manufacturing units. Table 1.7 depicts the number of Central Excise assessees during the last five years:

Table 1.7: Tax base in Central Excise

Year	No. of registered assessees	% growth over previous year	No. of assessees who filed return	% age of assessees who filed return
FY11	3,50,257	-	99,399	28
FY12	3,81,439	8.90	1,45,667	38
FY13	4,09,139	7.26	1,61,617	40
FY14	4,35,213	6.37	1,65,755	38
FY15	4,67,286	7.37	1,72,776	37

Source: Figures furnished by the Ministry

It is observed that there is a steady growth in number of registered assessees. However, only around 40 per cent assessees are filing returns. Ministry needs to look into the reasons for the same.

The data furnished by the Ministry this year related to registered assessees does not tally with the data furnished last year by the Ministry and reported in CAG's report no. 7 of 2015.

1.10 Budgeting issues in Central Excise

Table 1.8 depicts a comparison of the Budget Estimates and the corresponding actuals for Central Excise receipts.

Table 1.8: Budget, Revised estimates and Actual receipts

(₹ in crore)

Year	Budget estimates*	Revised budget estimates*	Actual receipts#	Diff. between actuals and BE	%age variation between actuals and BE	%age variation between actuals and RE
FY11	1,32,000	1,37,778	1,37,701	(+)5,701	(+)4.32	(-)0.06
FY12	1,64,116	1,50,696	1,44,901	(-)19,215	(-)11.71	(-)3.85
FY13	1,94,350	1,71,996	1,75,845	(-)18,505	(-)9.52	(+)2.24
FY14	1,97,554	1,79,537	1,69,455	(-)28,099	(-)14.22	(-)5.62
FY15	2,07,110	1,85,480	1,89,038	(-)18,072	(-)8.73	(-)1.92

Source: *Union Receipts Budget and # Union Finance Accounts.

It is observed that in FY15, actual receipt of Central Excise have fallen short of Budget estimates by 8.73 per cent though variation reduced to 1.92 per cent in comparison of revised estimate.

1.11 Central Excise revenue forgone under Central Excise Act

Central Government has been granted powers under Section 5A(1) of the Central Excise Act, 1944 to issue exemption notifications in public interest so as to prescribe duty rates lower than the tariff rates prescribed in the Schedules. The rates prescribed by exemption notifications are known as the “effective rates”. Revenue forgone is defined to be the difference between the duty that would have been payable but for the exemption notification and the actual duty paid in terms of the said notification –

- In cases where the tariff and effective rates of duty are specified as ad valorem rates - **Revenue forgone= Value of goods X (Tariff rate of duty - Effective rate of duty)**
- In cases where the tariff rate is on ad valorem basis but the effective duty is levied at specific rates in terms of the exemption notification, then – **Revenue forgone = (Value of goods X Tariff rate of duty) - (Quantity of goods X Effective rate of specific duty)**
- In cases where the tariff rates and effective rates are a combination of ad valorem and specific rates, revenue forgone is calculated accordingly
- In all cases, where the tariff rate of duty equals the effective rate, revenue forgone will be zero.

Besides the powers to issue general exemption notifications under Section 5A(1) *ibid*, the Central Government also has the powers to issue special orders for granting excise duty exemption on a case to case basis under circumstances of an exceptional nature, *vide* Section 5A(2) of the Central Excise Act. However, unlike general exemptions which form part and parcel of fiscal policy of the Central Government, the main object behind issue of exemption orders is to deal with circumstances of exceptional nature. As such, the duty forgone on account of issue of special exemption orders is not being calculated towards revenue forgone figures.

Table 1.9 depicts figures of Central Excise related revenue forgone during last five years as reported in budget documents of the Union Government.

Table 1.9: Central Excise receipts and total revenue forgone

(₹ in crore)			
Year	Central Excise receipts#	Revenue forgone*	Revenue forgone as % of Central Excise receipts
FY11	1,37,701	1,92,227	139.60
FY12	1,44,901	1,95,590	134.98
FY13	1,75,845	2,09,940	119.39
FY14	1,69,455	1,96,223	115.80
FY15	1,89,038	1,84,764	97.74

Source: *Union Receipts Budget and #Union Finance Accounts.

It is observed that the Revenue forgone for FY15 in respect of Excise duties was ₹ 1,84,764 crore (₹ 1,77,680 crore as general exemptions and ₹ 17,284 crore as area based exemptions) which is 97.74 per cent of revenue from Central Excise. It is the first time in five years that revenue forgone is less than the total tax revenue.

1.12 Trade facilitation

1.12.1 Creation of Large Taxpayer Units (LTUs)

For the trade facility LTUs have been set up by the Department. An LTU is self-contained tax office under the Department of Revenue acting as a single window clearance point for all matters relating to Central Excise, Service Tax, Income Tax and Corporate Tax. Eligible Tax Payers who opt for assessment in LTUs shall be able to file their Excise return, Direct Taxes returns and Service Tax return at such LTUs and for all practical purposes will be assessed to all these taxes there under. These units are being equipped with modern facilities and trained manpower to assist the tax payers in all matters relating Direct and Indirect Tax/duty payments, filing of documents and returns, claim of rebates/refunds, settlement of disputes etc. For trade facilitation eight LTUs have been established.

1.12.2 Automation of Central Excise and Service Tax

Automation of Central Excise and Service Tax (ACES) is the e-governance initiative by CBEC, Department of Revenue, Ministry of Finance. It is one of the Mission Mode Projects (MMP) of the Government of India under National e-Governance Plan (NeGP). It is a software application which aims at improving tax-payer services, transparency, accountability and efficiency in the Indirect Tax administration in India. This application is a web-based and workflow-based system that has automated all major procedures in Central Excise and Service Tax.

Tax administration in Central Excise

1.13 Scrutiny of Central Excise returns

CBEC introduced self-assessment in respect of Central Excise in 1996. With the introduction of self-assessment, the department also provided for a strong compliance verification mechanism with scrutiny of returns. Assessment is the primary function of Central Excise officers who are to scrutinise the Central Excise returns to ensure correctness of duty payment. As per the manual for the Scrutiny of Central Excise Returns, a monthly report is to be submitted by the Range Officer to the jurisdictional Assistant/Deputy Commissioner of the Division regarding the number of returns received and scrutinised. Scrutiny is done in two stages i.e. preliminary scrutiny by ACES and detailed scrutiny, which is carried out manually on the returns marked by ACES or otherwise.

1.13.1 Preliminary scrutiny of returns

The purpose of preliminary scrutiny is to ensure completeness of information, timely submission of the return, timely payment of duty, arithmetical accuracy of the amount computed as duty and identification of non-filers and stop-filers.

Considering the fact that mandatory electronic filing of Central Excise returns had been introduced with effect from 1 October 2011, returns scrutiny through ACES should have stabilised at least by 2014-15. One of the main intentions behind introducing preliminary scrutiny online was to release manpower for detailed scrutiny, which could then become the core function of the Range/Group.

Table 1.10 depicts the performance of department in respect of preliminary scrutiny of Central Excise returns.

Table 1.10: Preliminary scrutiny of Central Excise returns

Year	No of returns filed in ACES	No. of returns marked for *R&C	% of returns marked for R&C	No. of returns cleared after R&C	No. of returns pending for R&C	% of marked returns pending correction
FY13	12,09,197	11,39,968	94.27	9,74,675	1,65,293	14.50
FY14	12,60,659	11,74,911	93.20	8,93,225	2,81,686	23.98
FY15	13,11,127	12,23,006	93.28	6,96,139	5,26,867	43.08

Source : Figures furnished by the Ministry

*R&C – Review and correction

Data relating to FY13 and FY14 does not tally with similar data provided by the Ministry last year. The very high percentage of scrutinised returns being thrown up for R & C and resultant high number of returns pending corrective action are indicative of deficiencies in the ACES system. Marking so many returns for R&C would increase the workload of departmental officer though online system was aimed to reduce it. This is evident from the pendency of 43 per cent returns at the end of FY15 which is almost double of pendency at FY14. As R&C is carried out at range level and there are 2,518 ranges dealing with Central Excise, on an average, only 446 (FY15) R&C are to be carried out by a range in a year. Instructions may be issued to ranges to carry out R&C in all cases.

1.13.2 Detailed scrutiny of returns

The purpose of detailed scrutiny is to establish the validity of information furnished in the tax return and to ensure correctness of valuation, availing of Cenvat credit, classification and effective rate of tax applied after taking into consideration the admissibility of exemption notification availed etc. Unlike preliminary scrutiny, detailed scrutiny is to cover only certain selected returns, identified on the basis of risk parameters, developed from the information furnished in the returns submitted by the taxpayers.

Table 1.11 depicts the performance of the department in carrying out detailed scrutiny of Central Excise returns.

Table 1.11: Detailed scrutiny of Central Excise returns

Year	No. of returns marked for detailed scrutiny	No. of returns where detailed scrutiny was carried out	Number of returns where detailed scrutiny was pending	Age-wise breakup of pendency		
				Returns pending for between 6 months to 1 year	Returns pending for between 1 to 2 year	Returns pending for over 2 years
FY13	50,039	38,900	10,144	8,108	1,684	240
FY14	10,665	6,894	3,771	3,787	796	116
FY15	DNP*	DNP	DNP	DNP	DNP	DNP

Source: Figures furnished by the Ministry

*DNP - Data for FY15 was not provided

The number of returns marked for detailed scrutiny for FY14 has come down significantly compared to FY12 and FY13. The ministry needs to examine the drastic reduction in number of detailed scrutiny carried out in FY14.

It is further noticed that data for FY14 supplied by the Ministry was not only arithmetically incorrect but was also supplied to audit after obtaining the same from their field formations which led to considerable delays.

Data for FY15 was not provided. During performance audit on Cenvat credit, it has been noticed that out of 41 test checked Commissionerates, no detailed scrutiny was being conducted in 21 Commissionerates and reply of 20 Commissionerates was awaited.

1.14 Refunds

Section 11B of the Central Excise Act, 1944 provides the legal authority for claim and grant of refund of any Central Excise duty. The term refund includes rebate of excise duty paid on excisable goods exported out of India as well as of excise duty paid on material used in the manufacture of goods exported out of India. Further, section 11BB of the Act stipulates that interest is to be paid on refund amount if it is not refunded within three month of the date of application of refund.

Table 1.12 depicts the details of refund related performance of the department during last three years.

Table 1.12: Refunds in respect of Central Excise during the last three years

(₹ in crore)

Year	OB plus claims received during the year		Disposals during the Year						Closing Balance	
			Refunds sanctioned during the year		Cases disposed of within 90 days	Delayed disposal	Cases where interest has been paid			
	No. of Cases	Amt.	No. of Cases	Amt.			No. of Cases	No of cases	No. of Cases	Interest paid
FY13	2,15,146	26,873	1,70,797	21,139	1,64,669	6,128	20	15	44,349	5,734
FY14	2,70,321	28,461	2,09,549	11,875	1,98,256	64,215	241	91	60,754	4,714
FY15	2,47,196	DNP*	2,04,353	DNP	DNP	DNP	DNP	DNP	42,843	30,714

Source: Figures furnished by the Ministry

*DNP - Data not provided

It is observed on the basis of data available that despite the fact that there is a liability on department to pay interest on delayed refunds, department is not paying interest to the assessees in most of the cases. Board must ensure that the provisions regarding payment of interest on delayed refunds are implemented in right earnest.

Despite best pursuance of Audit, Ministry failed to provide certain figures as shown in table above, though same were provided by the Ministry last year. Data provided also does not match with figures provided last year. Data provided also seems incorrect as no of cases in closing balance for FY15 has decreased from FY14 but amount has increased by 600%.

1.15 Internal Audit

Modernisation of Indirect Tax administration in India is based on the Canadian model. The new audit system EA 2000 has four distinct features: scientific selection after risk analysis, emphasis on pre-preparation, scrutinising of business records against statutory records and monitoring of audit points.

Audit processes include preliminary review, gathering and documenting systems' information, evaluating internal controls, analysing risks to revenue and trends, developing audit plan, actual audit, preparation of audit findings, reviewing the results with the assessee/Range Officer/Divisional Assistant Commissioner and finalisation of the report.

The Audit framework consists of three parts. Directorate General of Audit and the field Commissionerates share the responsibility of administration of Audit. While the Directorate is responsible for collection, compilation and analysis of audit results and its feedback to CBEC to improve tax compliance and to gauge levels of client satisfaction, audit parties from

Commissionerates undertake audit in terms of EA 2000 audit protocol. In order to improve audit quality, CBEC took the assistance of Asian Development Bank in developing audit manuals, risk management manuals and manuals to train auditors in EA 2000 and CAATs, which prescribe detailed processes for conduct of audit. Table 1.13(a) depicts details of Central Excise units due for audit (during FY15) by audit parties of the Commissionerates vis-à-vis units audited.

Table 1.13(a): Audits of assesseees conducted during FY15

Slab of annual duty (PLA+Cenvat)	Periodicity	Number of units due	Number of units audited	Shortfall in audit (%)
Units paying CX duty >₹ 3 crore (Category A)	Annual	12,048	8,550	29.03
Units paying CX duty between ₹ 1 and 3 crore (Category B)	Biennial	6,717	3,888	42.12
Units paying CX duty between ₹ 50 lakh and ₹ 1 crore (Category C)	Once in five years	2,592	1,793	30.83
Units paying CX duty <₹ 50 lakh (Category D)	10 % every year	6,092	3,548	41.76

Source: Figures furnished by the Ministry

It is observed that during FY15, there was a huge shortfall in the Central Excise audits conducted, as compared with audits due, across all categories of units.

The results of the audit, conducted by the department, is tabulated in table 1.13 (b).

Table 1.13(b): Amount objected and recovered during the year

Slab of annual duty (PLA+Cenvat)	Amount (₹ in crore)	
	Amount of short levy detected	Amount of total recovery
Category A	2,013	546
Category B	222	113
Category C	198	39
Category D	113	58
Total	2,546	756

Source: Figures furnished by the Ministry

It is observed that amount of short levy detected and recovered in Category A units are significantly large than the non-mandatory units. The Ministry needs to ensure internal audit of all category A (mandatory) units.

1.16 Call book

Extant circulars on the subject envisage that cases that cannot be adjudicated due to certain reasons such as the department having gone in appeal, injunction from courts, contesting CAG audit objection etc. may be

entered into the call book. Member (CX), vide his D.O.F.No. 101/2/2003-CX-3, dated 3 January 2005, had emphasised that call book cases should be reviewed every month. Director General of Inspection (Customs and Central Excise) has reiterated the need for monthly review in his letter dated 29 December 2005 stating that review of call book may result in substantial reduction in the number of unconfirmed demands in call book.

Table 1.14 depicts the performance of the department in respect of call book clearance in Central Excise during recent years.

Table 1.14: Call book cases pending on 31 March

Year	Opening balance	New Cases transferred to call book during the year	Disposals during the year	Closing balance at the end of year	Revenue involved (₹ in Cr)	Age-wise break up of pendency at the end of the year		
						Less than 6 months	6-12 months	Over 1 year
FY13	30,542	6,753	8,152	29,143	45,267	4,609	2,958	21,576
FY14	30,966	9,624	4,126	36,464	64,356	6,179	3,419	26,866
FY15	35,617	9,552	8,846	36,323	65,765	4,841	2,276	29,206

Source : Figures furnished by the Ministry

It is observed that the pendency of cases in the call book is still very high indicating the need for close monitoring of the process of review of call book items. During FY15, the number of cases pending in call book had reached 36,323 involving revenue of 65,765 crore. It is further observed that the opening balance does not match with closing balance of previous years.

1.17 Arrears of Central Excise duties

The law provides for various methods of recovery of revenue demanded but not realised. These include adjusting against amounts, if any, payable to the person from whom revenue is recoverable, recovery by attachment and sale of excisable goods and recovery as arrears of land revenue through the district revenue authority.

Table 1.15 depicts performance of department in respect of recovery of revenue arrears.

Table 1.15: Arrear realisation in Central Excise

Year	Amount in arrears at the commencement of the year	Collection during the year	Arrears pending recovery at the end of the year	(₹ in crore)
				Collection as % of arrears at the commencement of the year
FY13	49,654	3,920	50,345	7.89
FY14	58,632	2,882	59,885	4.92
FY15	61,872	1,616	93,925	2.61

Source: Figures furnished by the Ministry

It is matter of concern that the collection as ratio of arrears is falling continuously. In FY15, it has fallen drastically to 2.61 per cent compared to 7.89 per cent in FY13. Although, falling ratio of collection of arrears have been repeatedly pointed out by audit but there is no sign of improvement. There is a need to strengthen the recovery mechanism of the department.

The data furnished by the Ministry related to arrears recovery does not tally with the data furnished last year by the Ministry and reported in CAG's report no. 7 of 2015.

1.18 Additional revenue realised because of Anti-evasion measures

Both, Director General of Central Excise Intelligence (DGCEI) as well as the Central Excise and Service Tax Commissionerates have well-defined roles in the task of detection of cases of evasion of Central Excise duty. While the Commissionerates, with their extensive database about units in their jurisdiction and presence in the field, are the first line of defense against duty evasion, DGCEI specialises in collecting specific intelligence about evasion of substantial revenue. The intelligence so collected is shared with the Commissionerates. Investigations are also undertaken by DGCEI in cases having all India ramifications.

Tables 1.16 and 1.17 depict the performance of DGCEI and the Commissionerates pertaining to the past three years.

Table 1.16: Anti-evasion performance of DGCEI during last three years

(₹ in crore)

Year	Detection		Voluntary payment during Investigation
	No. of cases	Amount	Amount
FY13	458	2,940	1,019
FY14	384	1,947	363
FY15	388	1,876	240

Source: Figures furnished by the Ministry.

It is observed that number of cases detected by DGCEI in FY15 increased marginally as compared to FY14 but voluntary payment during investigation have fallen. In comparison to FY13 it has reduced drastically.

Table 1.17 : Anti-evasion performance of Commissionerates during the last three years

(₹ in crore)

Year	Detection		Voluntary Payment during Investigation
	No. of Cases	Amount	Amount
FY13	2,150	3,415	482
FY14	2,222	2,790	450
FY15	1,750	2,456	300

Source: Figures furnished by the Ministry.

At the Commissionerates level also, number of case, amount involved in them and recovery during investigation has decreased in FY15, compared to FY14.

1.19 Revenue collection due to departmental efforts

Besides, the voluntary payment of Central Excise by the tax payers, there are various methods by which the department collects the revenue due but not paid by the taxpayers. These methods include Scrutiny of Returns, Internal Audit, Anti-Evasion, Adjudication etc.

The result of departmental efforts is tabulated in Table 1.18

Table 1.18: Revenue recovered by departmental efforts

(₹ in crore)			
Sl. No.	Departmental Action	Recovery during FY14	Recovery during FY15
1	Internal audit	717	411
2	Anti-Evasion	379	288
3	Confirmed Demands	462	1,248
4	Pre Deposit	178	307
5	Scrutiny of Returns	145	478
6	Recovery from Defaulters	709	1,298
7	Provisional Assessment	31	0
8	Others	196	197
	Total	2,816	4,227

Source: Figures furnished by the Ministry

Total Central Excise collection during FY15 is ₹ 1,89,038 crore out of which only ₹ 4,227 crore is collected due to departmental efforts which is only 2.24 per cent of total revenue. Further, it is noticed that revenue collection shown above under Internal Audit (₹ 411 crore) does not tally with amount shown in table 1.13 (b) (₹ 756 crore). Similarly, recovery shown above under anti-evasion (₹ 288 crore) does not tally with amount shown in tables 1.16 and 1.17 (₹ 540 crore).

It is further observed that though, data of detailed scrutiny for FY15 has not been provided and during performance audit on Cenvat credit, it has been noticed that out of 41 test checked Commissionerates, no detailed scrutiny was being conducted in 21 Commissionerates and reply of 20 Commissionerates was awaited, but recovery during FY15 over FY14 due to scrutiny of returns has been increased from ₹ 145 crore to ₹ 478 crore. Ministry needs to ascertain authenticity of all these figures.

1.20 Cost of collection

Table below depicts the cost of collection vis-a-vis the revenue collection.

Table 1.19: Central Excise and Service Tax receipts and cost of collection

Year	Receipts from Central Excise	Receipts from Service Tax	Total receipts	Cost of collection	(₹ in crore)
					Cost of collection as % of total receipts
FY11	1,37,901	71,016	2,08,917	2,072	0.99
FY12	1,44,540	97,356	2,41,896	2,227	0.92
FY13	1,75,845	1,32,601	3,08,446	2,439	0.79
FY14	1,69,455	1,54,780	3,24,235	2,635	0.81
FY15	1,89,038	1,67,969	3,57,007	2,950	0.83

Source: Union Finance Accounts of respective years

It is observed that despite automation and extensive use of ICT, cost of collection continues to show a rising trend.

1.21 Adjudication

Adjudication is the process through which departmental officers determine issues relating to tax liability of assessee. Such process may involve consideration of aspects relating to, inter alia, Cenvat credit, valuation, refund claims, provisional assessment etc. A decision of the adjudicatory authority may be challenged in an appellate forum as per the prescribed procedures.

Table 1.20 depicts an age-wise analysis of Central Excise adjudication.

Table 1.20: Cases pending for adjudication with departmental authority

Year	Cases pending as on 31 March		No. of Cases Pending for more than 1 year
	No.	Amount	
	FY13	16,801	16,020
FY14	20,428	21,734	3,142
FY15	27,425	23,765	4,984

Source: Figures furnished by the Ministry

It is observed that cases involving duty of ₹ 23,765 crore were pending as on 31 March 2015 for adjudication. It was also observed that 4,984 cases were pending for more than one year. Pendency of cases is increasing over the years. Ministry may initiate measures for adjudication of pending cases as large amount of revenue is blocked.

1.22 Appeal cases

Besides the adjudicating authorities, there are several other authorities including departmental appellate authorities, courts of law etc. where issues of law, interpretations etc. are considered. Besides, the department also

resorts to coercive recovery measures in many instances. Huge amounts of revenue thus remain outside the Consolidated Fund of India for substantial periods of time. Based on data furnished by CBEC, we have tabulated the pendency of cases at various forums in Table 1.21 (a).

Table 1.21(a): Pendency of Appeal in CX and ST

Year	Forum	Appeals pending at the end of the year					
		Details of party's appeals		Details of departmental appeals		Total	
		No. of Appeals	Amount Involved (Cr. ₹)	No. of Appeals	Amount Involved (Cr. ₹)	No. of Appeals	Amount Involved (Cr. ₹)
FY13	Supreme Court	760	1,429	1,632	5,743	2,392	7,172
	High Court	5,631	6,844	5,430	5,527	11,061	12,371
	CESTAT	35,964	63,278	15,832	12,010	51,796	75,288
	Settlement Commission	70	103	3	0	73	103
	Commissioner (Appeals)	23,233	7,103	2,965	558	26,198	7,661
	Total	65,658	78,757	25,862	23,838	91,520	1,02,595
FY14	Supreme Court	855	1,835	1,702	6,078	2,557	7,913
	High Court	5,856	9,359	5,505	6,764	11,361	16,123
	CESTAT	41,257	90,447	16,685	14,806	57,942	1,05,253
	Settlement Commission	109	230	4	1	113	231
	Commissioner (Appeals)	23,783	7,054	3,225	669	27,008	7,723
	Total	71,860	108,926	27,121	28,318	98,981	1,37,244
FY15	Supreme Court	815	2,202	1,754	6,428	2,569	8,630
	High Court	5,577	10,206	5,408	9,231	10,985	19,437
	CESTAT	44,710	1,05,905	16,719	14,240	61,429	1,20,145
	Settlement Commission	155	349	2	1	157	350
	Commissioner (Appeals)	25,617	6,272	3,676	655	29,293	6,927
	Total	76,874	1,24,935	27,559	30,554	1,04,433	1,55,489

Source: Figures furnished by the Ministry

It is observed that cases involving revenue of ₹ 1,55,489 crore were pending in appeals at various levels out of which ₹ 81,538 crore pertained to central Excise. The amount is increasing every year. Despite, a number of measures initiated by the Board, locking up of such a large revenue is a matter of concern.

Disposal of appeal cases relating to Central Excise and Service Tax in various forum is depicted below in Table 1.21(b):

Table No. 1.21 (b): Breakup of cases decided during the year

Year	Forum	Department's Appeal				Party's Appeal			
		Decided In favour of Deptt.	Decided Against the Deptt.	Remanded	% of Successful appeal of Deptt.	Decided in favour of party	Decided against party	Remanded	% of Successful appeal of party
FY13	Supreme Court	15	75	9	15.15	16	23	7	34.78
	High Court	102	486	97	14.89	473	1,007	269	27.04
	CESTAT	346	955	271	22.01	1,805	2,447	1,380	32.05
	Comm. (Appeals)	1,162	1,198	139	46.50	6,432	13,221	1,575	30.30
	Total	1,625	2,714	516	33.47	8,726	16,698	3,231	30.45
FY14	Supreme Court	21	82	5	19.44	14	33	3	28.00
	High Court	193	355	22	33.86	379	1,247	223	20.50
	CESTAT	248	1,407	151	13.73	2,314	2,125	1,574	38.48
	Comm. (Appeals)	1,141	1,248	31	47.15	7,064	12,888	697	34.21
	Total	1,603	3,092	209	32.69	9,771	16,293	2,497	34.21
FY15	Supreme Court	24	149	16	12.70	16	52	29	16.49
	High Court	230	712	130	21.46	447	1,397	206	21.80
	CESTAT	216	1,121	218	13.89	2,255	1,987	1,874	36.87
	Comm. (Appeals)	717	869	87	42.86	4,202	9,151	931	29.42
	Total	1,187	2,851	451	26.44	6,920	12,587	3,040	30.69

Source: Figures furnished by the Ministry

It is observed that success ratio of department's appeal against adjudication order has decreased from 33.47 per cent in FY13 to 26.44 per cent in FY15. The success ratio of departmental appeals is around 50 per cent when decided by Commissioner (Appeal) but in extra-departmental higher forums, it ranges from 15 per cent to 34 per cent. Appeals filed by the assesseees have better success rate in extra-departmental higher forums. There is a need to analyse the reasons of low success rate and effective measures may be taken to improve the success rate as well as to reduce the pendency of appeals.

1.23 Non-furnishing of data and discrepancy in data furnished by the Ministry

The Ministry could not provide data related to detailed scrutiny of returns (refer paragraph 1.15.2) and disposal of refund cases (paragraph 1.17) for FY15 as format of data and responsibility to maintain the data were revised from November 2014. This indicates that continuity of maintenance of critical data is not ensured during change management in CBEC. Further, we have compiled this chapter based on data mainly obtained through CBEC. It is observed that same data obtained from different sources did not tally (paragraph 1.20) and in some instances, data furnished this year did not tally

with data furnished for last Audit Report no. 7 of 2015 (Para 1.9, 1.13 and 1.15.1). There is a need to improve the quality of data maintenance in respect of Central Excise.

1.24 Audit efforts and Central Excise audit products - Compliance Audit Report

Compliance audit was managed as per the Comptroller and Auditor General's (CAG) Audit Quality Management Framework, 2014 employing professional auditing standards of the Auditing Standards, 2nd Edition, 2002.

1.25 Sources of information and the process of consultation

Data from the Union Finance Account, along with examination of basic records/documents in DoR, CBEC, and their field formations, MIS, MTRs of CBEC along with other stake holder reports were used. We have nine field offices headed by Directors General (DGs)/Principal Directors (PDs) of audit, who managed audit of 781 (CX and ST) units in FY15.

1.26 Report overview

The current report has 64 paragraphs involving money value of ₹ 147.87 crore. There were generally four kinds of observations: incorrect availing/utilisation of Cenvat credit, non/short payment of Central Excise duty, effectiveness of internal control and other issues. The department/Ministry admitted audit observations in case of 47 paragraphs involving money value of ₹ 135.85 crore and reported recovery of ₹ 27.95 crore in 30 cases.

1.27 Remedial action taken on the Compliance Audit Report

Ministry furnished remedial action taken on all paragraphs of the compliance audit report and no ATN pertaining to previous Compliance Audit reports was pending from Ministry.

1.28 Performance Audit Reports

Performance audit, with the aim to seek an assurance that the systems and procedures were adequate and adhered to by the CBEC, was conducted. This year we have covered Performance audit on 'Working of Automation of Central Excise and Service Tax'. This report was laid in the Parliament on 18 December 2015.

1.29 Revenue impact of Audit reports

In the last five audit reports (including current year's report) we had included 440 audit paragraphs (Table 1.22) involving ₹ 683.20 crore.

Table 1.22: Follow up of Audit Reports

Year			FY11	FY12	FY13	FY14	FY15	Total
Paragraphs included	No.		159	87	62	68	64	440
	Amt.		158.00	69.32	182.90	125.11	147.87	683.20
Paragraphs accepted	Pre printing	No.	133	85	58	60	47	383
		Amt.	117.64	67.07	179.44	90.71	135.85	590.71
	Post printing	No.	15	2	-	1	-	18
		Amt.	34.76	8.34	-	0.36	-	43.46
	Total	No.	148	87	58	61	47	401
		Amt.	152.40	75.41	179.44	91.07	135.85	634.17
Recoveries effected	Pre printing	No.	67	48	36	28	30	209
		Amt.	46.60	24.72	21.29	27.44	27.95	148.00
	Post printing	No.	3	1	1	3	-	8
		Amt.	0.19	0.04	0.56	3.09	-	3.88
	Total	No.	70	49	37	31	30	217
		Amt.	46.79	24.76	21.85	30.53	27.95	151.88

Source: CAG Audit reports

Ministry had accepted audit observations in 401 audit paragraphs involving ₹ 634.17 crore and had recovered ₹ 151.88 crore.