

CHAPTER- 2

AUDIT OBJECTIVES, CRITERIA AND AUDIT METHODOLOGY

2.1 Audit Objectives

Performance audit of working of ICDs and CFSs was taken up with a view to assess the extent to which ICDs and CFSs are able to facilitate foreign trade of India, through containerised movement of cargo. The audit objectives were:

To examine the procedures for setting up and closure of ICDs and CFSs: Audit examined whether the procedures were in consonance with laid down policies and whether the procedures facilitate the achievement of policy objectives. Audit also examined the systems put in place for implementing the policy with a view to assess whether the systems were helping in creation of the logistics infrastructure through ICDs and CFSs as envisaged in the government policies.

To assess the performance of ICDs and CFSs in providing containerised cargo handling and customs clearance facilities to facilitate trade : Audit examined whether the ICDs and CFSs were able to provide cargo handling infrastructure and security to goods as laid down in the various regulations and notifications concerning handling of customs cargo.

To examine the regulatory framework for the operation of ICDs and CFSs: Audit examined whether the framework is being complied with, whether these were sufficient for safeguarding government revenues and whether there was an appropriate internal control system including internal audit that promotes compliance, prevents misuse and enhances monitoring and coordination between the customs and other relevant entities involved in the operation of ICDs and CFSs.

2.2 Audit Scope, Sample, Audit Methodology and Audit Criteria

2.2.1 Audit Scope: The performance audit covered transactions over a five year period from 2012-13 to 2016-17. Audit covered the concerned ministries and their field formations, which included Ministry of Commerce and Department of Revenue/CBEC, customs field formations and custodians of ICDs and CFSs.

2.2.2 Sample: Audit selected 44 ICDs (38 functional and 6 closed/non-functional) and 41 CFSs under 35 Commissionerates out of 103 Commissionerates for this Performance Audit (**Appendix II**).

(i) Selection of ICDs - a two level selection method has been followed.

At the first level- an all-India risk matrix for ICDs was drawn up using data¹ for ICD like value and volume of exports and imports, number of importers,

¹ Data of imports and exports of 2012-13 obtained from ICES and DGFT.

exporters using the ICD and product profile. All India ranking based on risk weighted scores was defined. Top six ICDs² in the risk weighted list were compulsorily selected for audit.

At the second level –field office wise list of ICDs having a risk weighted score between 3-6, and less than 3 was compiled. Using data analytics and Tableau software for data representation, ICD wise risk profile was created for each ICD.

At least 50 *per cent* of the ICDs under each field (audit) offices' audit jurisdiction upto a maximum of 3 ICDs were selected. In addition and where applicable, the sample selected by field office included at least one ICD which had been closed during the audit period, and at least one new ICD setup during the audit period.

(ii) Selection of CFSs- Since all India data of imports and exports volume/value handled through CFSs was not available, the field offices, based on criteria given below selected 50 *per cent* of the CFSs falling under their jurisdiction.

- The criteria of selection was based on volume/value of cargo handled, past audit objections indicating significant risk of theft, pilferage, malpractices, nature of cargo handled specifically if hazardous and sensitive commodities are handled, and other relevant information.
- All CFSs pertaining to ICDs selected for audit were compulsorily selected.
- The total sample size selected for audit did not exceed 6 per office.

2.2.3 Audit Methodology: This audit has been conducted using the performance audit standards and guidelines as laid down by the CAG of India.

Data analytics were deployed in selection of sample, as stated above, as well as to report on key trends emerging from the data as reported in Chapter I.

Audit methodology included desk review of files, collection of data and data analysis, test check of bills of entry (BE)/shipping bills (SB) based transactions, walk through and physical examination of premises of the ICDs and CFSs, questionnaire based information collection and survey of the users and service providers for the period of 5 years from 2012-13 to 2016-17.

The entry conference was held on 7 July 2017 with the officials of Department of Revenue (DoR) (CBEC), Department of Commerce (DoC), CONCOR and Customs officials from ICD Tughlakabad to discuss the audit objectives and scope of audit. The audit findings and recommendation

²ICD Tughlakabad, Ludhiana, Whitefield Bangalore, Sabarmati, Patparganj and Tuticorin

were discussed with the officials from DoR and DoC in an exit meeting held on 7 February 2018.

2.2.4 Criteria: Audit used relevant provisions of the Customs Act, 1962, Customs Tariff Act, 1975, Project Import Regulations, 1986, CBEC's Law Manual, CBEC's Customs Manual, Goods Imported Conditions of Transshipment Regulations, 1995, Handling of Cargo in Customs Areas Regulations, 2009, Hazardous and Other Wastes (Management and Transboundary Movement) Rules, 2016 and circulars and notifications of CBEC which were issued from time to time and were in effect during the period of audit, as criteria, to bench mark the findings.