Report of the
Comptroller and Auditor General of India

SUPREME AUDIT INSTITUTION OF INDIA
लोकहितार्थ सत्यनिष्ठा
Dedicated to Truth in Public Interest

IT Audit of Indian Customs Electronic Data Interchange System (ICES) 1.5

Union Government
(Department of Revenue- Customs)
No.14 of 2023

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Laid on the table of Lok Sabha and Rajya Sabha ……………

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PREFACE

The Report has been prepared for submission to the President of India under Article 151(1) of the Constitution of India.

The Report contains significant results of the Information Technology (IT) Audit of Indian Customs Electronic Data Interchange System (ICES 1.5).

The instances included mentioned in this Report are those which came to notice in the course of test audit conducted during December 2020 to May 2022 covering the period 2015-16 to 2019-20.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Audit wishes to acknowledge the co-operation received from the Ministry of Finance, Department of Revenue and the Ministry of Commerce and Industry, Department of Commerce, and its field formations at each stage of the audit process.

EXECUTIVE SUMMARY

About the IT Audit

The Customs Computerisation project was started in 1992, at a number of Customs Houses throughout the country with the assistance of National Informatics Centre (NIC), a Government of India entity, when after a detailed study, the requirement of Electronic Data Interchange (EDI) was felt. The pilot project was launched in the year 1994-95 at Delhi Customs House which included EDI as a key element for connecting all the players involved in international trade with Customs House electronically. After the successful implementation at Delhi Customs House, the Customs Department decided to extend the service to other Customs Houses in a phased manner since 1997-98.

ICES was developed as the core Information & Communication Technology system through which import and export documents viz. Bills of Entry (BsE), Shipping Bills (SBs), Import General Manifests (IGMs) and Export General Manifests (EGMs) were to be processed. It receives and processes all incoming messages and generates all outgoing messages automatically at the appropriate stage of the clearance process.

ICES has been developed with the help of NIC since its inception and it is also responsible for its maintenance. The Directorate General of Systems and Data Management (DG Systems) at New Delhi has been entrusted with the implementation of ICES. Initially, ICES 1.0 application was developed and implemented in distributed environment (separate servers at various locations). During 2009-10, ICES 1.0 application was migrated from a host based architecture to a three tier architecture. This version is referred to as ICES 1.5 and is deployed in the current centralised architecture under the database consolidation of Central Board of Indirect Taxes and Customs (CBIC).

Accordingly, Customs ICT systems and the ICES application have been modified from time to time in accordance with the operational requirements of Department and changes in the Customs Act and allied Acts, Rules and Regulations. Although the core ICES application has been migrated from decentralised to centralised environment from the year 2009-10, subsequently, there were several changes in the underlying ICT infrastructure, work flow, data transfer and storage, security, etc.

The IT Audit of ICES 1.5 application was conducted during December 2020 to May 2022 covering the period 2015-16 to 2019-2020. The audit scope intended to examine the functionalities of import and export modules, interface with other IT applications viz. DGFT, SEZ, Bank, RBI etc. and IT

Governance issues such as - Organisation and management, IT governance and management, and effectiveness of Change Management.

For the examination of functionalities, the audit focus was more on major changes/new functionalities added in the ICES application during 2015 to 2020.

Action taken on the previous audit findings reported in the CAG's Report on ICES 1.5 (No. 11 of 2014) was re-examined in this audit and it was noticed that the Department had taken remedial action to address many of the earlier audit observations/recommendations. Audit also noticed that some of the previous audit findings/recommendations had lost their relevance and thus rendered redundant due to change in the Customs Act and allied Acts, Rules and Regulations.

(i)   Audit reviewed the Customs EDI System for the first time in the year 2000-01 (Report No. 10 of 2002-Customs). The review was focused on procurement and software development.

(ii)   ICES 1.0 was again reviewed in the year 2008 (PA Report No. 24 of 2009-10 Customs), primarily to verify whether it had mapped the processes & provisions of the Customs Act and allied rules & regulations effectively.

(iii)   ICES 1.5, an upgraded version of the original ICES 1.0 was rolled out in a phased manner across various Customs locations from June 2009. The audit of the upgraded version i.e., ICES 1.5 was done in 2013 and its finding reported in CAG's Report No.11 of 2014 (Performance Audit).

The previous audits pointed out some systemic issues and issues involving deficiencies in designing various business rules in the system, as per the rules/Acts in force at that time.

The details of previous audit findings with the action taken/current status are given in **Annexure I**.

Structure of the Report

This report is divided into four chapters. Chapter 1 present an overview of Indian Customs EDI System (ICES) and indicates the audit objectives, scope, sample, audit criteria and audit methodology used for conduct of this 'IT Audit of ICES 1.5'. Chapters 2, 3 and 4 cover the audit findings, conclusions and recommendations pertaining to this IT Audit. This report contains 24 audit observations, including sub-paragraphs, and 16 recommendations. Responses were received for 20 observations, out of which 15 have been

fully/partially accepted and five have not been accepted. No response was received in respect of four audit observations.

Summary of Audit Findings

Chapter 2: Core ICES

Audit noticed that:

(a) Lack of certain validation controls in ICES Import module resulted in (i) Late fee wrongly levied, collected and waived off, (ii) Short/excess levy of duty under Notification 46/2011-Customs, (iii) Working of Risk Management System for Import, (iv) Lack of control in ICES regarding levy of duty in the case of BE filed prior to date of entry inwards and (v) Country of Origin not identical at BE level and Item level,

(b) Lack of validation in ICES Export module caused (i) Non - alignment of DBK Serial number with RITC (Export validation) (ii) Acceptance of negative FOB value of exported goods,

(c) Partial automation of Shipping Bills and drawback claims under Section 74 of the Customs Act 1962,

(d) Delay in implementation of Post Clearance Audit for RMS Export module,

(e) Non-Automation of closure of IGM,

(f) Non-automation of Refund process,

(g) Non- auto reversal of duty in case of double payment,

(h) Responses on the status of the implementation of the recommendations of the Time Release Study (TRS) Committee Report 2022 were awaited.

Chapter 3: Interfaces with other applications

The Interfaces of ICES with other stake holders IT applications is not fully implemented to address their requirements with regard to Linking of ICES with Banks, Sharing of RBI Export Outstanding Statement (XOS) data/ Caution list with ICES and Integration of SEZ Online with Customs ICES.

Chapter 4: IT Governance and Management

Audit noticed gaps in the governance and management of the ICES application especially (i) updation of Software Requirements Specification (SRS) and Software Design Document (SDD), (ii) Non-updation of User Manuals, (iii) Directory Change Management, (iv) Structural Change Management and (v) Help desk and end-user support system.

RECOMMENDATIONS

1. The Ministry should ensure that necessary validation checks in ICES regarding levying, collection and wavier of late fees are implemented, duly mapped and functioning correctly. It may also be ensured that in case of wavier of late fees, the reasons are also recorded.

    (Paragraph 2.2.1)

2. The Ministry should ensure necessary validation checks in ICES so that Customs duty rates are correctly reflected based on Country codes read with exemption notifications, and not solely based on self-declaration.

    (Paragraph 2.2.2)

3. The Ministry should ensure proper validation in ICES that in cases wherein a Bill of Entry is taken up for examination by the Risk Management System, the field relating to examination report should not be null.

    (Paragraph 2.2.3)

4. The Ministry should ensure that the notifications are updated in a timely manner and invariably before the effective date. The delay in updation by DMS sites should be viewed seriously and necessary action taken in cases of delay. DMS sites must comply with the existing SOP and this should be verified and ensured by DG (System).

    (Paragraph 2.2.4)

5. The Ministry should ensure necessary validation in ICES export module so that the FOB value after deducting insurance and freight is not negative.

    (Paragraph 2.3.2)

6. RMS for exports for selection of Shipping Bills for Post Clearance Audit (PCA) should be made operational at the earliest for increased transparency and targeting using a risk based approach.

    (Paragraph 2.5)

7. The module for daily updating of exchange rate may be made operational at the earliest.

    (Paragraph 2.6)

8. The Ministry may take necessary steps so that the IGMs filed in ICES are closed electronically and all goods are duly accounted for. Efforts may also be made to manually close all the open IGMs. Ministry should also

decide and prescribe a time limit for the closure of IGMs as undue delay/non-reconciliation is fraught with the risk of revenue leakage.

(Paragraph 2.7)

9. The Ministry may consider having online workflow for capturing and processing refunds on the lines of the GSTN System so that the Department is able to electronically keep track of BEs against which refund has been applied for. This would make the monitoring of refund cases more efficient, effective and transparent.

(Paragraph 2.8)

10. Ministry may expedite the development of APIs for sharing of challans/warehouse details between ICES and ICEGATE in a time bound manner.

(Paragraph 3.2)

11. Ministry may explore mapping/cross-verifying of RBI XOS data with caution list maintained by CBIC for identifying default cases for effective monitoring of export proceeds realisation.

(Paragraph 3.3)

12. Ministry should integrate SEZ Online with ICES at the earliest for better monitoring of SEZ operations (both EXIM and DTA transactions) and for ease of doing business in SEZs.

(Paragraph 3.4)

13. In addition to immediate updating of SRS and SDD, the Ministry should also ensure that SRS and SDD is kept up to date at regular intervals to factor all the important changes made in the application.

(Paragraph 4.1.1)

14. The updating of user manuals consistent with changes should be regularly carried out in a time bound manner to avoid accumulation of requirements.

(Paragraph 4.1.2)

15. Ministry must ensure that protocols are properly and completely followed at the time of sign off of any change management. They must ensure that all changes including testing and approval of such changes are properly documented.

(Paragraph 4.2.2)

16. Ministry may prescribe:
    (a) Time limits for resolving or escalating the complaints,
    (b) Average time, for resolution with useful/suitable details of tickets which take unduly long time be captured and monitored.

(Paragraph 4.3)

GLOSSARY OF TERMS AND ABBREVIATIONS

Abbreviation	Expanded form
ACC	Air Cargo Complex
ADG	Additional Director General
ADD	Anti-Dumping Duty
API	Application Programming Interface
BCD	Basic Customs Duty
BsE	Bills of Entry
BRC	Bank Realisation Certificate
CBIC	Central Board of Indirect Taxes and Customs
CCR	Compulsory Compliance Requirements
CETH	Central Excise Tariff Heading
CGM	Consol General Manifest
CHA	Customs House Agent
CIF	Cost, Insurance, Freight
CIS	Customs Integrated System
CRCL	Central Revenues Control Laboratory
CA	Customs Act, 1962
COO	Country of Origin
CTH	Customs Tariff Heading
CVD	Counter Vailing Duty
DGARM	Directorate General of Analytics and Risk Management
DGCIS	Directorate General of Central Intelligence and Statistics
DGoS/DG Systems	Directorate General of Systems and Data Management
DGFT	Director General of Foreign Trade
DGoV	Director General of Valuation
DMS	Directory Management Site
DoC	Department of Commerce
DoR	Department of Revenue
DRI	Directorate of Revenue Intelligence
DTR Module	Daily Trade Return
DBK	Duty Drawback
EDI	Electronic Data Interchange
EGMs	Export General Manifests
EDPMS	Export Data Processing and Monitoring System
EDD	Extra Duty Deposit
EODC	Export Obligation Discharge
FOB	Free on Board
FTA	Foreign Trade Agreement
GSTN	Goods and Services Tax Network
ICES	Indian Customs EDI System
ICD	Inland Container Depot
ICEGATE	Indian Customs Electronic Gateway
IEC	Importer Exporter Code
IGST	Integrated Goods & Service Tax
IGMs	Import General Manifests

LEO	Let Export Order
MCD	Manifest Clearing Department
MoU	Memorandum of Understanding
MEIS/SEIS	Merchandise/Service Exports from India Scheme
NCTF	National Committee on Trade Facilitation
NIC	National Informatics Centre
NICSI	National Informatics Centre Service Incorporated
NACIN	National Academy of Customs, Indirect Taxes & Narcotics
NCH	New Customs House
OOC	Out of Charge
PAO	Pay & Accounts Office
PA	Performance Audit
PGA	Partner Government Agency
PRS	Peer Review Site
Pr.CCA	Principal Chief Controller of Accounts
PCCC	Personal customs clearance code
RBI	Reserve Bank of India
RMS	Risk Management System
RoSL	Rebate of State Levies
RITC	Revised Indian Trade Classification
SCMTR	Sea Cargo Manifest and Transhipment Regulations
SRS	Software Requirements Specification
SDD	Software Design Document
SoP	Standard Operating Procedures
SEZ	Special Economic Zone
SBs	Shipping Bills
SION	Standard Input Output Norms
SQL	Structured Query Language
TRS	Time Release Study
UAT	User Acceptance Test
UTIITSL	UTI Infrastructure Technology and Services Limited
WH	Warehouse
XOS	Export Outstanding Statement

Chapter 1
Indian Customs EDI System (ICES): An overview

1.   Introduction

The Customs Computerisation project was started in 1992, at a number of Customs Houses throughout the country with the assistance of National Informatics Centre (NIC), a Government of India entity, when after a detailed study, the requirement of Electronic Data Interchange (EDI) was felt. The pilot project was launched in the year 1994-95 at Delhi Customs House which included EDI as a key element for connecting all the players involved in international trade with Customs House electronically. After the successful implementation at Delhi Customs House, the Customs Department decided to extend the service to other Customs Houses in a phased manner from 1997-98.

1.1   Indian Custom automation has three major Systems as components:

1.1.1   The Indian Customs EDI System (ICES)

ICES was developed as the core Information & Communication Technology system through which import and export documents viz. Bills of Entry (BsE), Shipping Bills (SBs), Import General Manifests (IGMs) and Export General Manifests (EGMs) were to be processed. It receives and processes all incoming messages and generates all outgoing messages automatically at the appropriate stage of the clearance process.

ICES has been developed with the help of NIC since its inception and NIC is also responsible for its maintenance. The Directorate General of Systems and Data Management (DG (Systems)) in the Central Board of Indirect Taxes and Customs (CBIC) at New Delhi has been entrusted with the implementation of ICES. Initially, ICES 1.0 application was developed and implemented in a distributed environment (separate servers at various locations). During 2009-10, ICES 1.0 application was migrated from a host based architecture to a three tier architecture. This version is referred to as ICES 1.5 and is deployed in the current centralised architecture under the database consolidation of CBIC.

In June 2012, a new tripartite Memorandum of Understanding (MoU) was agreed amongst CBIC, NIC and National Informatics Centre Service Incorporated (NICSI - a Government of India entity). As per the 2012 MoU, National Informatics Centre Service Incorporated (NICSI) was to handle administrative aspects related to deployment of hired personnel so that NIC could focus on software related issues.

The scope of work to be carried out under the MoU inter-alia included:

- Requirement study and preparation of Software Requirement Specifications (SRS) for new modules for ICES; Design and development of application as per the approved SRS.
- Maintenance of ICES application by providing software updates along with installation scripts for the existing ICES modules and Change Management policy agreed between NIC and CBIC.
- Documentation for the ICES including the requirement specifications, technical documents, user manuals and test cases.
- Establishing application level linkages between ICES and any other in-house application being developed by CBIC through any vendor.
- Design of EDI messages in consultation with the stakeholders for integration with ICES, preparation of detailed Message Implementation guidelines for ICEGATE and stakeholders.
- Provide Level-2 and Level-3 support to the ICES users for resolution of problems escalated by the Level-1 Helpdesk team.
- Place technical manpower at the Customs locations for support to the ICES users.
- Conduct training programs and workshops for ICES Users.
- Design/development and maintenance of remote EDI System packages.
- Maintain version control of ICES version 1.5 application.

ICES is currently running at 262 Custom sites on pan-India basis and handles more than 99 *per cent* of Customs Revenue. The main features of the ICES 1.5, which runs in a consolidated environment as a centralised application, are as follows:

a. Multi-location functionality

b. Single database with partitions for users to access data only for their location

c. Centralized maintenance and updating of software

d. Faster and better communication with external stakeholders, Banks, DGFT, etc.

e. Integration with ICEGATE in central environment leading to better response times in case troubleshooting is required.

1.1.2 The Indian Customs Electronic Gateway (ICEGATE)

ICEGATE application has been functioning since 2007 for providing various online e-services to the trade. ICEGATE is the front-end interface of ICES with the external world which caters to different stakeholders in the export and import trade to file BsE and SBs, Customs manifests and declarations, track

and trace documents, online payment of duties and interfaces with all other concerned agencies like Director General of Foreign Trade (DGFT), Director General of Valuation (DGoV), Special Economic Zone (SEZ), Banks, Reserve Bank of India (RBI), Central Revenues Control Laboratory (CRCL), Pay & Accounts Office (PAO) etc. The ICEGATE contract was awarded to M/S Wipro Limited in June 2008 and till 2019, M/S Wipro Limited was providing its services to CBIC.

In 2018, CBIC decided to implement Customs Integrated System (CIS) with the intention to update and revamp the three applications of ICES, ICEGATE and RMS. As part of (CIS) Phase I implementation, ICEGATE 1.0 was to be revamped to ICEGATE 2.0 with a range of new services and features. The focus of ICEGATE 2.0 was on building an ecosystem for efficient, transparent, contactless and paperless trade.

Request for Proposal (RFP) for CIS Phase I was issued in January 2019. After conducting pre-bid workshop, technical bid, financial bid evaluation and commercial bid processes (during January 2019 to December 2019) etc., administrative approval and financial sanction were issued in February 2020. After issuance of Letter of Award in March 2020, the Board signed the Master Service Level Agreement in May 2020 with M/s Infosys Limited for designing and development of Customs Integration System Phase I.

The process of vendor selection could not be fully examined now, as only partial records were provided to Audit. This will be taken up as a separate Audit.
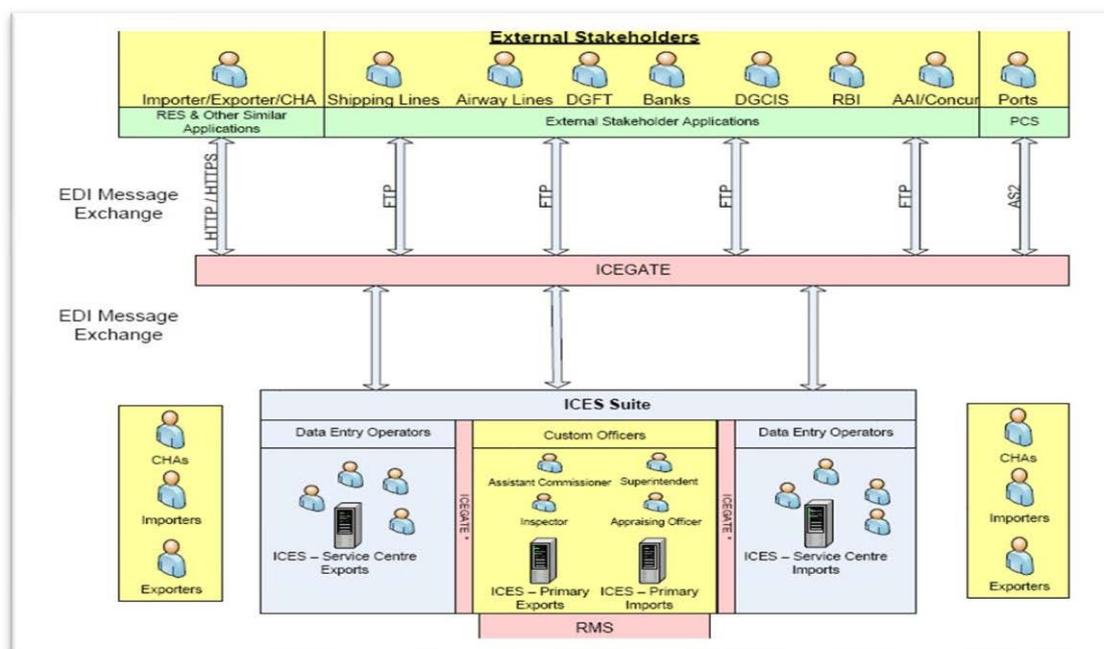
1.1.3   Risk Management System (RMS)

RMS is the third component of Indian Custom automation which facilitates compliant trade, segregating using a risk based approach, with certain transactions requiring deeper scrutiny by Customs officers. It profiles risk and paves the way for facilitation towards clearance through green and red channels. RMS is functioning under the Directorate General of Analytics and Risk Management (DGARM) wing of CBIC.

The contract for the software development, maintenance and support of RMS was awarded to M/s Birlasoft Limited in August 2004. RMS for import and export modules were implemented in December 2005 and July 2013 respectively. From June 2016, M/s UTI Infrastructure Technology and Services Limited (UTIITSL) has been associated with CBIC for the software development, maintenance and support of RMS.

The following diagram provides a view of the ICES system and its interactions with the various internal/external stakeholders:

Diagram 1

Source: SRS (Version 1.0-2010)

According to the Ministry[1] RMS does not carry out assessment of imports and so there is no provision for mapping all the conditions of a plethora of levy and exemption notifications. If RMS or ICES considers validating each condition of several notifications claimed in a Bill of Entry, it will significantly increase the interdiction level and processing time of bills. RMS is a targeting system that interdicts risky bills based on a host of dynamic risk parameters. It adopts a multi-layered process that includes the following (but not limited to):

- Selection of containers for scanning, based on risk criteria, utilising IGM declaration for examination of suspicious containers,
- interdiction of risky bills on the submission of a bill of entry for the verification by an officer, based on the self-assessed declaration data contained therein,
- providing decision support in the form of appraising and examining instructions, as well as past bills of entry for identical consignments,
- raising live alerts in respect of high-risky bills,
- issuing compulsory compliance requirement for each bill regardless of facilitation status, based on CTH, IEC and Notifications etc. for the verification prior to OOC, and
- selection of bills (largely from the facilitation pool) for post clearance audit.

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[1] Submitted by the Ministry during the study visit of the Public Accounts Committee (2022-23) to Raipur and Hyderabad from 26th to 30th August 2022 for discussion on the subject "Non-compliance to Provisions of Customs Act, Customs Tariff Notifications" the following was submitted by the Ministry with regards to RMS.

Thus, interdiction of the Bill of Entry by RMS for verification by an assessing officer is only one layer of the risk identification and mitigation process. Given the increased focus of the Government on ease of doing business and enhanced trade facilitation, a small percentage of bills of entry are marked to assessing officers for verification in a live processing environment. However, risk identification and compliance verification is a continued process until out-of-charge and even thereafter through post-clearance audit.

CBIC has taken several measures, post audit period 2017-18, to further strengthen compliance management including risk-based selection of bills for verification by officers. Some of the main measures are outlined below:

- RMS/RMCC has been upgraded to National Customs Targeting Centre (NCTC) as of 1st January, 2020, with enhanced capabilities and technological tools.
- Machine learning enabled of interdictions of risky importer consignment was introduced in 2019/2020. This has enhanced the precision and accuracy of interdictions for effectively tackling risk related to classification, value, rate of duty, exemption notifications, anti-dumping duty, safeguard duty and IGST, by utilising historical database of identical/similar goods.
- Automated risk management through predictive modelling has been introduced; it utilises various data sources across the supply chain continuum, including those from other government agencies.
- Risk rules and targets are refined regularly based on data analysis, feedback from field formations and outcomes/observations of Audit.
- In addition to RMS targeting, the Bills of Entry, related documents and associated entities in the supply chain are analysed by NCTC officers in a real time environment to raise specific alerts in respect of highly risky bills (2021).

1.1.4   Information on transactions handled by ICES

A summary of the numbers of Bills of Entry[2] (BsE), Shipping Bills[3] (SBs), Import General Manifest[4] (IGM), Export General Manifest[5] (EGM), Consol General Manifest[6] (CGM) filed, Duty Collected, Drawback/Rebate of State Levies[7] (RoSL)/Integrated Goods & Service Tax[8] (IGST) disbursed etc., during the period from 2015-16 to 2019-20 through ICES are as under:

Table No. 1.1: Average transactions handled by ICES

(Amount in ₹ crore)

Period	No. of BsE filed	No. of IGM filed	No. of CGMs filed	Amount of Duty Collected	No. of SBs filed	No. of EGMs filed	Amount of Drawback disbursed	Amount of RoSL Disbursed	Amount of IGST Disbursed
2015-16	3970261	337588	...	214758	7045363	351725	31919	....	...
2016-17	4333342	373926	...	228231	7366681	401586	30891	614	...
2017-18	4202592	306269	62465	331347	7612039	307376	15612	3062	9583
2018-19	4307097	312572	66576	414468	7648051	298278	11198	2280	56200
2019-20	4490063	352379	59624	384300	7336468	260275	17908	...	59965
Total	**21303355**	**1682734**	**188665**	**1573104**	**37008602**	**1619240**	**107528**	**5956**	**125748**

Source: ICEGATE Annual Reports available on the CBIC website.

From the above, Audit noted that on an average 31,952 consignments (Import and Export) and 1,981 IGM/EGM/CGM were handled daily by ICES during the period from 2015-16 to 2019-20. Besides, on an average, Customs

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[2]A bill of entry is a legal document that is filed by importers or Customs clearance agents on or before the arrival of imported goods. It is submitted to the Customs department as a part of the Customs clearance procedure. Once this is done, the importer will be able to claim Input Tax Credit (ITC) on the goods.

[3]The Shipping Bill is an essential document issued by the Customs Service Centre after the exporter applies to acquire this bill. This bill facilitates the exporter to get Customs clearance, load the goods, and claim duty drawback etc.

[4]The IGM helps ensure that all the import cargo carried by a vessel has been reported, the carrier has followed all statutory requirements, and that the ship is carrying all required and complete documents for import.

[5]Export General Manifest is a mandatory legal document to be filed by the carrier of goods with the Customs Department. This document is used by government authorities as proof of export. The Customs officials certify proof of export on shipping documents to exporters on the basis of EGM.

[6]Consol Import General Manifest is filed by the consol agent who acts as carrier of cargo. If any cargo is co-loaded with a freight forwarder, he needs to file consol manifest with Customs on arrival of goods. Based on such consol manifest, the importer files import documents for clearance procedures to take delivery of goods.

[7]In the ROSL scheme, the Central Govt. provided rebate of State levies comprising of State VAT/CST on inputs including packaging, fuel, duty on electricity generation and duties and charges on purchase of grid power, as accumulated through the stages of production from yarn to finished garments. The scheme has since been discontinued from March 2019.

[8]Integrated goods and services tax (IGST) means the tax levied under the IGST Act on the supply of any goods and / or services by the Central Government and for matters connected therewith or incidental thereto in the course of inter-state trade or commerce. Integrated GST also applies to import of goods and services into India.

Duty amounting to ₹ 861.97 crore was collected and Duty Drawback amounting to ₹ 58.92 crore, IGST amounting to ₹ 125.37 crore and RoSL amounting to ₹ 6.52 crore were disbursed daily by ICES during the corresponding period.

1.2. Audit Objectives

The IT Audit of ICES 1.5 has been conducted to gain an assurance that:

i. The functionalities of ICES have been developed as envisaged and the intended benefits have been achieved, including ease of tax administration;

ii. ICES has effective interfaces with other IT Applications

iii. IT governance is adequate and effective.

1.3. Audit Criteria

The following are the sources of criteria for this audit:

- The Customs Act, 1962,

- Customs Tariff Act, 1975

- Customs Manual

- Various Customs Rules and Regulations

- Circulars and notifications of CBIC which were issued from time to time and are effective during the period of audit

- MoU signed amongst CBIC, NIC and NICSI

- Software Requirements Specification (SRS), Software Design Document (SDD)and User Manuals

- Contract/agreement made with various vendors

1.4. Audit scope

The IT Audit of ICES 1.5 application was conducted during December 2020 to May 2022 covering the period 2015-16 to 2019-2020. The audit scope intended to examine the functionalities of import and export modules, interface with other IT applications viz. DGFT, DGoV, SEZ, Bank, RBI, CRCL, PAO etc. and IT Governance issues such as - Organisation and management, IT governance and management and effectiveness of Change Management.

For the examination of functionalities, the audit focus was more on major changes/new functionalities added in the ICES application during 2015 to 2020, especially the following:

(i) Project Import module

(ii) Module for Provisional Assessment

(iii) Automated out of charge of BsE

(iv)   Manual BE/SB Module

(v)   GST related changes after introduction of GST

(vi)   Deferred payment module

(vii)   Implementation of the RMS module for export

(viii)   Changes due to levy of Social Welfare Surcharge in lieu of education cess

(ix)   Changes due to introduction of new State codes

(x)   Changes due to uploading of documents of import and export through e-Sanchit

(xi)   Changes on account of flow of data of paperless licences of Advance Authorisation and EPCG schemes.

The IT Audit did not cover a detailed examination of RMS or of ICEGATE.

1.5.   Audit Methodology

The audit methodology was broadly as follows:

- Review of Documents related to rollout of the ICES application;
- Review and analysis of Software Requirement Specifications (SRSs), Software Design Documents (SDDs) and other documents related to the design and implementation of ICES with reference to the provisions of Act/Rules/notification as amended;
- Testing in User Acceptance Test environment (UAT) and auditee assisted production environment, where necessary, to check the validations/audit checks relating to functionalities of ICES;
- Extraction of data by querying on ICES database and further analysis of such data;
- Discussion and structured interviews with Stakeholders and replies from DG (Systems), CBIC.

1.6.   Previous Audit Reports

The Customs ICT systems and the ICES application have been modified from time to time in accordance with the operational requirements of Department and changes in the Customs Act and allied Acts, Rules and Regulations. Although the core ICES application has been migrated from decentralised to centralised environment from the year 2009-10, subsequently, there were several changes in the underlying ICT infrastructure, work flow, data transfer and storage, security, etc.

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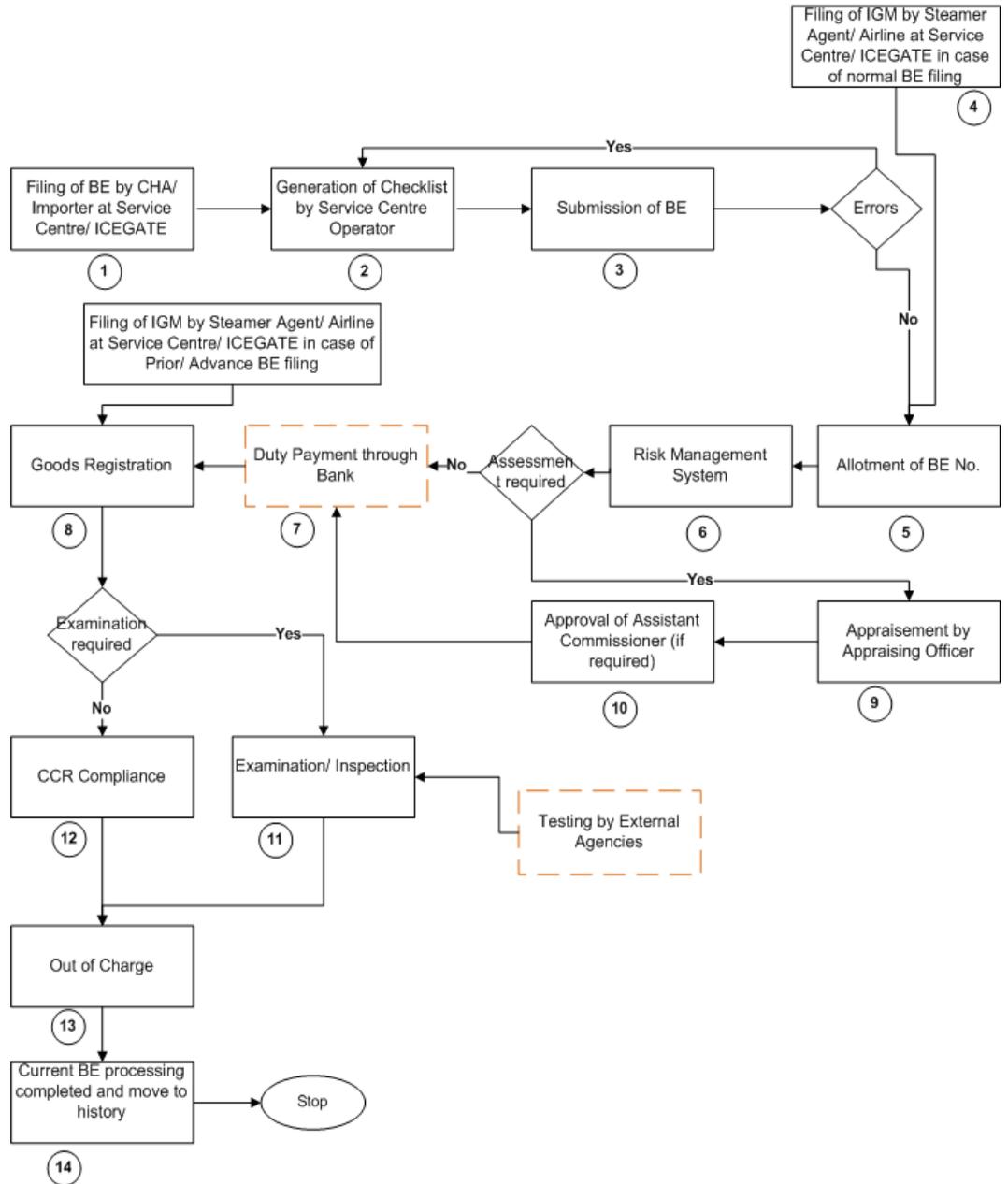
The previous audits pointed out some systemic issues and issues involving deficiencies in designing various business rules in the system, as per the rules/Acts in force at that time.

The details of previous audit findings with the action taken/current status are given in **Annexure I**.
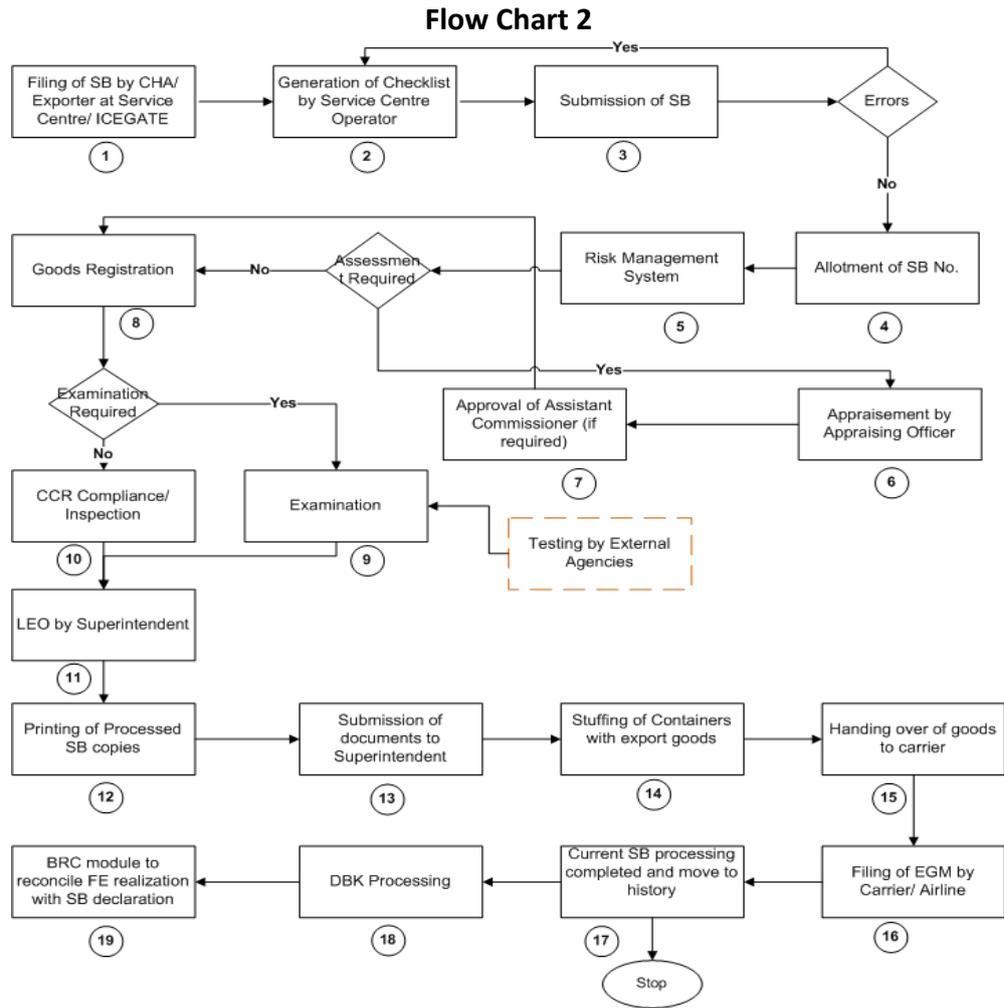
1.7. Understanding the process flow for Import and Export in ICES Application

1.7.1. Process Flow for Imports:

Flow Chart 1

1.7.2. Process Flow for Exports:

Flow Chart 2

1.8. Constraints faced by Audit

1.8.1 Non-updation of documents

Basic documents like SRSs and SDDs provided to Audit were dating back to 2010 and the same were not updated thereafter. SDDs in respect of only 9 stakeholders out of 16 (Sea line/Ports, Air/Airline-console, DGFT, DGoV, SEZ, Bank, RBI, CRCL, PAO, ICD, CHA, Pr.CCA, DRI, DGCIS, e-Sanchit & PGA) have been received from DG (Systems) till date. The Handbook for Customs officers, published in August 2013, which gives details of how to operate the ICES system and acts as a guide/manual for Customs Officers has also not been updated since August 2013, even though substantial changes happened in duty structure and process flow, particularly after the introduction (July 2017) of GST regime in India.

Further, the SDDs provided to Audit, have only structural information of data tables and control tables for various messages. The detailed description of the fields for the tables and features and functionality of each of the messages and the specific requirement for the messages were not available in the given SDDs.

Consequently, this constrained the conduct of this Audit and findings arising therefrom.

On being pointed out (August 2022), the Ministry stated (November 2022) that the issue has already been taken up with NIC for early completion of the documentation, in terms of the MoU. Action has been initiated for hiring team of competent resources to complete the said task. As and when documents are completed, the same will be shared.

1.8.2 Non-availability of documentation of new modules/functionalities

Regarding records related to whole development cycle for each change/module including details of testing by Department etc., it was stated by the DG (Systems) that communication amongst stakeholders i.e., DG (Systems), NIC, technical team and operation team etc. is being done using e-mails and hence no physical records is available. However, even the trail of mails has also not been made available to Audit. In the absence of SRSs and SDDs of new modules and functionalities added in ICES and records relating to the various stages of whole development of these changes, Audit was constrained.

On being pointed out (August 2022), the Ministry stated (November 2022) that the point is noted for compliance.

1.8.3 Non-furnishing of records relating to updating of directories

Records related to updating of directories consequent upon the issue of various notifications relating to change of duty/exemption and exchange rate etc. by Data Management Sites (DMS) and peer reviews done by Peer Review Sites were not provided to Audit. Hence, to check the timely updation of change of duty/exemption and exchange rate, Audit issued data queries relating to a few notifications.

On being pointed out (August 2022), the Ministry stated (November 2022) that as already submitted, role of DG (Systems) comes into play when DMS finds any technical difficulties in updation of the Notification due to system error. Inaccuracy in updation of Notification is communicated by Peer Review Site (PRS) to DMS for necessary action at their end. Remedial measures in case of delay / inaccuracy in updation of the Notification are carried out by the System Manager (DMS).

The Ministry has furnished only a list of notification with date of notification and date on which these notifications entered in ICES but records of e-mails related to updation of directories by Directory Management Sites and review done by Peer Review Sites was not provided to Audit as per the stipulated SoP. This constrained the conduct of this Audit.

1.8.4 Non-furnishing of records relating to grievances/problems faced by ICES users and stakeholders

No physical records relating to suggestions/problems received from Customs House Agents, Importers, Exporters, Customs Officers and stakeholders which are the end users of ICES application and action taken on the same by DG (Systems)/Board were made available to Audit.

On being pointed out (August 2022), the Ministry furnished details of number of tickets raised, number of tickets resolved, number of tickets escalated to next level and average time taken for resolution.

However, the Ministry did not furnish details/parameters fixed for time prescribed for resolutions of ticket raised under L1, L2 and L3 supports. In the absence of this, Audit cannot verify the efficiency of help desk and user support system.

1.8.5 Constraints relating to furnishing of data dump and slow execution of data queries

In the entry conference (July 2020), it was clearly stated by Audit that Data dump (at least of one-year duration) would be crucial for checking controls and validations and unless data is provided, audit may not progress much.

In response, ADG (Systems) stated that there might be some issues in providing data dump. In such situation it was decided that Audit would provide the data queries in simple English and the same will be run on the whole data (on PAN India basis) in the presence of audit personnel and results of the queries provided to audit.

Audit issued 81 data queries to DG (Systems), results/replies to 55 queries were provided as of June 2022. Audit could cross verify the results of BsE/SBs of only those Customs sites for which they have access as the audit team had no access to view the SBs/BsE for all locations and was completely dependent on DG (Systems) to verify such records. Results/replies to 26 queries (which were not run in the presence of audit) were provided in September 2022. Analysis of responses to 26 queries is indicated in **Annexure II**. The final resolution of the queries could not be completed by Audit at the time of finalisation of this audit, and will be pursued through subsequent audits.

The data log, which would have helped us to study/analyse the data flow between the stakeholders and enable us to highlight the lacunae of the transmission mechanism with the various stakeholders, was not available, either at the local level, with the Customs Department, nor with the various stakeholders. Sample of data related to message exchange for the month of

March 2021 exchanged between ICES and all stakeholders was called for, but not provided.

1.8.6 Limitation in User Acceptance Testing (UAT) environment

To check the various validations and controls relating to filing of BsE and SBs the DG (Systems) provided Single Sign-On IDs (SSOIDs) in the UAT environment which is pre-production environment for testing purpose. The validations were tested as per the 2010 version of SRS and SDD on pre-production environment.

However, the filing of BE and SB processes could not be completed on the pre-production environment due to the following constraints:

* IGM filed for BE and EGM filed for SB in UAT is not being accepted by the system.
* Absence of E-Sanchit documents (digitally signed documents).

Further, modules related to sea-ports were also test checked in ICEGATE with required inputs. However, BEs of seaport could not be checked due to error in the first stage itself (Incorrect Terminal Operator Code – F7 for list). i.e., the list of Terminal operator code could not be generated, due to which further process of filing of BsE could not be carried out. Besides, the following modules of BsE were also not made available:

(i) Item_Export – containing IGM Airlines, Status Date, SION group, ITC HS Code, etc.
(ii) Item_Import – containing License details, IGM Airlines, Status Date, ITC HS Code, etc.
(iii) Supporting Manufacturers – containing Status date, Manufacturer details, etc.

Documents relating to application/module to capture basic data of manual BsE, which is required for validation with GSTN on imports, were not provided to Audit.

Moreover, Data dictionary related to available Tables and various fields of ICES database was not furnished to audit. In the absence of these documents and constraints faced, Audit could only furnish limited assurance regarding validation controls at the time of filing BE/SB.

On being pointed out (August 2022), the Ministry stated (November 2022) that the issue has already been taken up with NIC for early completion of the documentation, in terms of the MoU. Action has been initiated for hiring team of competent resources to complete the said task. As and when documents are completed, the same will be shared.

Ministry's reply is not relevant as the stated constraint is about limitation in User Acceptance Testing (UAT) environment provided to audit during the course of audit.

1.8.7 Slow pace in providing replies/records to Audit Requisitions

Pace of providing replies/records to Audit Requisitions was very slow. Audit issued 81 data queries to DG (Systems), results/replies to 55 queries were provided as of June 2022. Audit could cross verify the results of BsE/SBs of only those Customs sites for which they have access as the audit team had no access to view the SBs/BsE for all locations and was completely dependent on DG (Systems) to verify such records.

Audit from time to time issued various communications and held meetings with the DG (Systems) regarding furnishing of records/replies at various level; however, even after repeated pursuance, response to our requests was not satisfactory. After protracted pursuance, results/replies to the remaining 26 queries (which were not run in the presence of audit) were provided only in September 2022.

On being pointed out (August 2022), the Ministry stated (November 2022) that they are taking up the matter with other verticals such as NIC, ICEGATE, System Integration etc to fetch the required data. Therefore, all the remaining Audit requisitions are either at different stages of completion/under process. This office is in constant touch on priority basis with the respective verticals/agency to get the desired data for finalising the audit requisitions.

1.8.8 Constraints relating to furnishing of records related to ICEGATE

Records related to ICEGATE project, selection of new vendor (M/s. Infosys Ltd.) starting from proposal to change of vendor, issue of RFP till finalisation of Vendor for ICEGATE were requisitioned, but not furnished to audit.

The Department, though, furnished (November 2022) copy of RFP (CIS Phase I - ICEGATE RFP Vol 1, 2 and 3). However, related records viz Master Level Service Agreement of M/s Wipro Limited, documents related to sign-off on the successful knowledge transition between the vendors which include knowledge transfer, class room training on system and applications, hands on training, handing over application documentation, hand-holding during transition phase etc. have not been furnished.

Chapter 2
Audit Findings: Core ICES

2.1   Audit examination of functionalities/modules of ICES

To examine and understand the functionalities/modules currently functioning in ICES 1.5, Data Dump (at least of one year duration) was requisitioned (July 2020) from DG (Systems). The same was not provided to Audit. In February 2021, the Department provided a list of changes made in ICES 1.5 application along with advisories issued between 2017 to 2020, and in October 2021 the list of patches (however, with very little description for the changes) implemented in the application during the period 2015 to 2016. However, no corresponding and latest SRSs and SDDs were made available to Audit till date. The base documents - SRSs and SDDs, provided to Audit were dating back to 2010. Also, the UAT environment (NACEN Training Module), which is a pre-production environment, provided to Audit by the DG (Systems) did not contain any test data.

Hence, to test the validation controls/functionalities of ICES, test data was created by Audit by filing a few test Shipping Bills for Export and Bills of Entry for Import based on data fields of SRS 2010. This study was thus limited and based on the available information, as the data dictionary and structures of the fields to be captured in the latest ICES version, were not provided to Audit.

To check that the ICES application prompts at appropriate instances to facilitate data entry and minimize errors, various validations available and already existing in ICES for Export/Import were checked using UAT environment and Audit noticed that without input of mandatory fields and proper validations, the system does not allow the user to proceed further.

It was further noticed that on entering CTH inputs, Unit Price, Customs Tariff Notification details, Quantity, Unit Quantity Code, the system automatically and correctly picked the correct rate of Basic Customs Duty (BCD) IGST, Anti-Dumping Duty etc., in case of Import and RITC (Revised Indian Trade Classification), Drawback Serial Number, Scheme Code, Invoice Value etc. in case of Export same. Further, the mandatory documents viz. invoice, packing list etc. are being uploaded in the system with digital signature through ICEGATE and the checks for validity of digital signature quality of scanned/ PDF documents are automatically checked in e-Sanchit (e-Storage and Computerised Handling of Indirect Tax Documents) application.

It was also noticed through UAT environment (NACEN Training Module), that all the roles and functionalities allotted to various Customs officers viz. relating to Appraising, Examination, Stuffing, Drawback processing, Customs

Duty calculation, BRC operations, DTR Module to record duty paid through manual challans etc. and Paperless Licenses / Authorizations through All India License View were functioning.

For validations related to processing which could not be checked through UAT environment or to re-confirm the process controls, 81 data queries related to Export and Import in simple English were also issued (February-June 2021) to DG (Systems). DG (Systems), in turn forwarded these data queries to NIC for making queries in SQL format and the queries were run by the Department on the system available at Data Centre of CBIC.

Results/replies to 55 queries were provided of June 2022. Audit could cross verify the results of BsE/SBs of only those Customs sites for which they have access as the audit team had no access to view the SBs/BsE for all locations and was completely dependent on DG (Systems) to verify such records. Results/replies to 26 queries (which were not run in the presence of audit) were provided in September 2022.

Audit also requisitioned (December 2020) the records for the period 2015-2020 relating to suggestions/problems received from Customs House Agents, Importers, Exporters and Customs Officers who are the end users of ICES application and action taken on the same by DG (Systems)/Board. Records were not made available for the same to audit.

In the absence of updated documents of SRSs/SDDs, non-availability of SRSs/SDDs of new modules and functionalities added or removed in ICES after 2010, non-availability of sufficient data in UAT environment and non-furnishing of records related to suggestions / problems received from ICES application users etc, Audit was constrained.

2.2.   Audit Findings

Lack of certain validation controls constrained in ICES Import module

2.2.1   Late fee wrongly levied, collected and waived off

As per the extant rules, the authorized person shall file the BE before the end of the next day following the day (excluding holidays) on which the aircraft or vessel or vehicle carrying the goods arrives at a Customs station at which such goods are to be cleared for home consumption or warehousing. Where the BE is not filed within the time specified and the proper officer of Customs is satisfied that there was no sufficient cause for such delay, the importer shall be liable to pay charges for late presentation of the BE under Section 46 (3) of the Customs Act, 1962. Further, as per para 4 (3) of Notification 36/2018 dated 11.05.2018, late fee charges are leviable @ ₹ 5,000/- per day for the initial three days of default and @ ₹ 10,000 per day for each day of default thereafter, provided that where the proper officer is satisfied with

the reasons for delay, he may waive the charges referred to in the second proviso to sub-Section (3) of Section 46.

Further, the late presentation charges in respect of any BE shall not exceed the duty payable in respect of that particular BE and where the duty or any other charges in respect of any BE are not payable for any reason like exemption or otherwise, the late presentation charges shall not exceed ₹ 50,000/-.

Import data query was sought for the period from 1 October 2019 to 31 March 2020 for late filing of BsE for which Department furnished data of 83,884 records. On an analysis of the said data, the following observations are made:

(a)   In respect of 1,354 BEs, data shows that an amount of ₹ 19.29 crore was levied as late fee out of which ₹ 3.39 crore was paid by importers and ₹ 15.90 crore was waived off. Similarly, in respect of 3,659 BsE, an amount of ₹ 9.55 crore was levied as late fee and the entire amount of late fee was waived off.   Audit noticed that the reasons for waiver were not recorded under the "REASON" field of data and only "BE Late filed" was mentioned there.

(b)   In respect of 854 BsE, Audit noticed that though the total duty paid was Nil (which may be on account of exemption or otherwise), ICES has levied late fee in excess of ₹ 50,000/ contrary to the provisions mentioned above. In respect of 854 BsE, the amount / range of extant of late fees levied was between ₹ 55,000 and ₹ 20,95,000.

(c)   In respect of 3,507 BEs, it was noticed that late fee has been collected in excess of the duty contrary to the provision as the late fee cannot be more than the duty payable. Such excess late fee was collected to the extent of ₹ 6.47 crore.

(d)   In five cases (BE Nos. 6340683 dated 3 January 2020, 5641358 dated 11 November 2019, 7366935 dated 28 March 2020, 7367077 dated 28 March 2020 and BE No 7363793 dated 27 March 2020) where late fee was levied amounting to ₹ 11,323/-, the field relating to reasons was found empty.

This indicates deficiencies in certain validations in the ICES Import Module for levy of late fee.

Late fee is being calculated by the ICES system and the reasons for waiver are to be entered in the system and approved by an officer not below the rank of Joint Commissioner/ Additional Commissioner of Customs. If necessary validation controls as pointed out above are inserted, they are likely to reduce the chances of errors. Lack of proper validations may lead to

unnecessary difficulties and harassment for importers and exporters, and possibilities of delay in processing of the documents and locking up of funds.

Specifically, BE should not be processed further until the reason for waiver of late fee in case of such waiver is entered by the competent officer.

On being pointed out (August 2022), the Ministry stated (November 2022) that its technical team is working on development of necessary checks / validation on the issue and shortly Audit will be updated on the issue.

Recommendation 1: The Ministry should ensure that necessary validation checks in ICES regarding levying, collection and wavier of late fees are implemented, duly mapped and functioning correctly. It may also be ensured that in case of wavier of late fees, the reasons are also recorded.

2.2.2   Short/excess levy of duty under Notification 46/2011

As per Notification No.46 of 2011 dated 1 June 2011, as amended from time to time, goods imported from the countries listed in Appendix I (viz. Malaysia, Singapore, Indonesia, Vietnam etc.) of the notification are exempted from so much of duty of Customs leviable thereon in excess of the amount calculated at the rate specified in column (4) of the table in the notification and goods imported from Philippines, which is listed in Appendix II of the notification, are exempted from so much duty of Customs leviable thereon as is in excess of the amount calculated at the rate specified in column (5) of the table in the notification.

From analysis of data for the period 2019-20, on the goods imported under Notification 46/2011, Audit observed that:

(a)   18 items (vide six consignments), having assessable value of ₹ 1.86 crore, were imported from Philippines and assessed to BCD at the rate mentioned in column (4) instead of column (5) of the notification *ibid* which resulted in short levy of duty.

(b)   15 items (vide six consignments), having assessable value of ₹ 1.40 crore, were imported from Indonesia and Vietnam and assessed BCD at the rate mentioned in column (5) instead of column (4) of the notification *ibid* which resulted in excess levy of duty.

The above cases indicate deficiencies in validation controls in ICES regarding levying of Customs duty under Notification No. 46/2011, resulting in short/excess levy of duty.

On being pointed out (August 2022), the Ministry stated (November 2022) that as per Customs Act, 1962, levy of duty is based on self-declaration of importer and the exemption Notification(s) claimed, during self-declaration

is subject to verification as envisaged in Section 17 of Customs Act, 1962. ICES transaction is based on the extant legal provisions.

The reply is not tenable as the difference in levy of duty arises only due to Country of import. The countries are specified via codes in ICES. Accordingly, the rate should have been applied based on Country codes read with exemption notification rather than relying solely on self-declaration. If such checks are not incorporated in the system, there will be possibilities of incorrect levy of duties.

Recommendation 2: The Ministry should ensure necessary validation checks in ICES so that Customs duty rates are correctly reflected based on Country codes read with exemption notifications, and not solely based on self-declaration.

2.2.3   Working of Risk Management System for Import

As per Board's (CBIC) Circulars 43/2005 dated 24 November 2005 regarding Introduction of Risk Management System (RMS) in Imports, BsE and IGMs filed electronically into ICES through the Service Centre or ICEGATE will be transmitted by ICES to the RMS. The RMS will process the data through a series of steps and produce an electronic output for ICES. This output will determine whether the BE will be taken-up for action (appraisement or examination or both) or be cleared after payment of duty and Out of Charge directly, without any assessment and examination. Also, where necessary, RMS will provide instructions for the Appraising Officer, the Examining Officer or the Out-of-Charge Officer. It needs to be noted that the decisions communicated by the RMS on the need for assessment and/or examination and the appraising and examination instructions communicated by the RMS have been complied with by the field formations.

This implies that, if the BE is selected by RMS for examination, the field relating to examination report should not be null.

Import data query was sought for the period from 1 October 2019 to 31 March 2020 for BsE selected by RMS for examination and where the field relating to examination report is null. The Department furnished data of six records for this query. The details of these six BsE are as under:

Table No.2.1: Details of BsE selected for examination but examination report is null

Sl No	CUS_SITE	BE_NO	BE_DT	TYPE	TOT_ASS_VAL (in ₹.)	TOT_DUTY (in ₹.)
1	INWFD6	5179475	04.10.2019	H	34532686	19393556
2	INFBD6	5337697	17.10.2019	H	1388036	581769
3	INCCU1	5500992	31.10.2019	H	13084625	833797
4	INPAV1	6114210	17.12.2019	H	8738633	1572954

Sl No	CUS_SITE	BE_NO	BE_DT	TYPE	TOT_ASS_VAL (in ₹.)	TOT_DUTY (in ₹.)
5	INCBDB	7124340	05.03.2020	H	2196673	263601
6	INNSA1	7142830	06.03.2020	H	8290376	0

Source: Data furnished by DG (Systems)

The cases mentioned in the above table indicate lack of validation in ICES relating to essentiality of examination report if the BE is selected by RMS for examination.

On being pointed out (August 2022), the Ministry stated (November 2022) that it is confirmed by the technical team that check exists in the system if examination report is not entered in the system in view of RMS instruction, the BE will not move forward to the next officer's queue. The technical team is assigned to check the cause of irregular movement and rectify the same.

Recommendation 3: The Ministry should ensure proper validation in ICES that in cases wherein a Bill of Entry is taken up for examination by the Risk Management System, the field relating to examination report should not be null.

2.2.4 Lack of control in ICES regarding levy of duty in the case of BE filed prior to the date of entry inwards

As per Section 15 of Customs Act 1962, the rate of duty and tariff valuation, if any, applicable to any imported goods, shall be the rate and valuation in force, in the case of goods entered for home consumption under Section 46, on the date on which a bill of entry in respect of such goods is presented under that section; provided that if a bill of entry has been presented before the date of entry inwards of the vessel or the arrival of the aircraft by which the goods are imported, the bill of entry shall be deemed to have been presented on the date of such entry inwards or the arrival, as the case may be.

Notification 50/2017-Customs, dated 30 June 2017, was amended vide Notification No.17/2019-Customs, dated 15 June 2019, where in three new serial numbers (24AA, 32B and 177A) related to goods originating in or exported from the United States of America (USA) were inserted. The notification was effective from 16 June 2019.

Import data query was sought for the period from 13 June 2019 to 17 June 2019 related to goods imported under Customs notification No.17/2019 dated 15 June 2019 and where the country of origin was USA for which the Department furnished data of 345 records. On an analysis of the said data, Audit noticed that six importers imported 33 items under CTH 08081000 from USA vide 9 BsE. These BsE were filed during 12 June 2019 to 15 June 2019 and entry inward date of these BsE was between 16 June 2019 and 19

June 2019. As per the proviso of Section 15 of Customs Act these BsE are deemed to be presented during 16 June 2019 to 19 June 2019 and BCD on these goods was to be levied @ 70 *per cent* {as per Sl. No.32B of Customs notification No.17/2019 dated 15 June 2019} instead of at the rate of 50 *per cent* which resulted in short levy of duty of ₹ 38.17 lakh.

Further, the above cases also indicate that there is lack of control in ICES regarding levy of duty in the case of BE filed prior to the entry inward date. If such checks are not incorporated in the system, there will be a possibility of incorrect levy of duties. In the instant case, the Department levied duty at 50 *per cent* instead of 70 *per cent*. The delay in updation by DMS sites should be viewed seriously and necessary action taken.

On being pointed out (August 2022), the Ministry stated (November 2022) that the logic exists in the ICES system for prior BE whenever there is a change in levy of duty due to notification, the BE is moved for re-assessment. However, if inadvertently the Notification updating takes place after the effective date then the earlier duty structure before updation of Notification will apply. The concerned DMS sites have been sensitized to follow the SOP.

The Department has not furnished the actual date of updation of Notification No.17/2019-Customs, dated 15 June 2019 and action taken on the cases (Nine BsE) pointed out by Audit.

Recommendation 4: The Ministry should ensure that the notifications are updated in a timely manner and invariably before the effective date. The delay in updation by DMS sites should be viewed seriously and necessary action taken in cases of delay. DMS sites must comply with the existing SOP and this should be verified and ensured by DG (System).

2.2.5 Country of Origin is not identical at BE Level and Item level

For Bill of Entry (BE) which contains single invoice and having single item, logically both fields, Country of Origin at the BE level and Country of Origin at the item level, should be identical.

Import data query was sought for the period from 1 October 2019 to 31 March 2020 (6 months) related to goods imported where there is single invoice having single item and where country of origin differs at the BE level and Item, for which the Department furnished data of 38,930 records. On an analysis of the said data, the following observations are made:

(a)   Out of these 38,930 BsE, in respect of 28,758 BsE having single invoice and single item, the Country of Origin at the BE level and Country of Origin at the item level are different.

(b)   In respect of the other 10,172 BsE, the country of origin at the item level was found "blank".

This indicates lack of validation in the ICES where the data fields for capturing the same data viz. Country of origin in separate tables are holding different data, leading to scope for incorrect availing of concessions under the various Country of Origin based exemption notifications or non-levy of anti-dumping duty.

A similar observation relating to mismatch of "Country-of-origin" data in different ICES table was earlier reported in Paragraph 3.11.4 of the Performance Audit Report No.24 of 2009-10 and in Paragraph 3.9 of the Performance Audit Report No.11 of 2014.

On being pointed out (August 2022), the Ministry stated (November 2022) that as per Customs Act, 1962, levy of duty is based on self-declaration of importer, which is subject to verification as envisaged in Section 17 of Customs Act, 1962. ICES transaction is based on the extant legal provisions. Patch no. 113 dated 07-10-2022 has been implemented in the system in case of a single item of BE. This will be reviewed in future audits.

If the Country of Origin is not captured correctly there could be a risk of non-levy of Anti Dumping Duty due to mismatch of 'Country of Origin' in different ICES tables. Also, there could be scope for incorrect availing of concession under various country of origin based exemption notifications.

2.3   Lack of validation in ICES Export module

2.3.1   Non-alignment of DBK Serial number with RITC (Export validation)

The Government of India from time to time determines the All Industry Rates of duty drawback of various exported goods by issuing Drawback Schedule. The tariff items and descriptions of goods in the Drawback Schedule are aligned with the tariff items and descriptions of goods with the Revised Indian Trade Classification (RITC) of First Schedule to the Customs Tariff Act, 1975 (51 of 1975) at the four-digit level only. The descriptions of goods given at the six digit or eight digit or modified six or eight digits in the said Schedule are in several cases not aligned with the descriptions of goods given in the First Schedule to the Customs Tariff Act, 1975.

During test check of regular compliance audit of SBs at Customs ports, it was observed that there were cases where Drawback Sr. No. as per drawback schedule of the goods exported did not match with the RITC as per First Schedule to the Customs Tariff Act, 1975 (51 of 1975) up to four-digit level, though they were matching up to two-digit level.

This indicates that the ICES 1.5 application lacked input controls/validations to ensure matching of declaration of Drawback serial number as per

drawback schedule with the tariff items and descriptions of goods in the First Schedule to the Customs Tariff Act, 1975 (51 of 1975) up to the four-digit level. This may lead to incorrect calculation of duty drawback and short/excess payment of duty drawback to exporters.

These facts were communicated (September 2020 and May 2021) to the DG (Systems) and data was requisitioned for cases of SBs in which Drawback Sr. No. does not match with RITC code up to the four-digit level for the period from 2015-16 to 2019-20. Department furnished (March 2022) data of 3,25,005 records in which Drawback Sr. No. does not match with RITC code up to the four-digit level.

On being pointed out (August 2022), the Ministry stated (November 2022) that alignment of both RITC and DBK Serial No. upto four digits has been enabled on 07-01-2022 in the ICES system.

2.3.2 Acceptance of negative FOB value of exported goods

For claims under Section 75 of Customs Act 1962, drawback is allowed on *ad valorem* basis on the FOB value of exported goods. Wherever transaction value is inclusive of freight and insurance cost, the freight and insurance component is reduced from the transaction value and drawback is paid on the FOB value. Further, the FOB value could only be a positive figure as items exported would definitely have some value.

A data query was sought for the period from 01.10.2019 to 31.03.2020 for SBs where the FOB value of the exported goods is zero or negative. The DG (Systems) furnished (September 2021) data of 14 records for the same. The details are as under:

Table No.2.2: Details of SBs having negative FOB value

SB No.	SB Date	IEC	Exporter Name	Port code	FOB Value in ₹.
7408006	05.10.2019	388215747	M/s A Silk Mills Limited	INBOM4	-1,530.79
7420634	05.10.2019	397015283	M/s B International Pvt. Ltd.	INVTZ1	-8,27,083
7520298	11.10.2019	588107760	M/s C Ferro Alloys LLP	INVTZ1	-1,74,152
7634052	16.10.2019	314065458	M/s D Fine Foods LLP	INVTZ1	-2,15,647
7758461	22.10.2019	314065458	M/s D Fine Foods LLP	INVTZ1	-4,32,284
7750743	22.10.2019	899007473	M/s E Chemical	INSBI6	-5,996.76
7893762	26.10.2019	388066415	M/s F Industries Ltd.	INSBI6	-72,021.9
7945429	31.10.2019	593046765	M/s G Biotec Ltd.	INDEL4	-7,031.76
8500488	25.11.2019	2214005889	M/s H Life Science Pvt.Ltd.	INDEL4	-81,800.70
9407439	03.01.2020	391146670	M/s I Exports (India) Pvt Ltd	INLKO4	-60,669.30
9721763	17.01.2020	488025702	M/s J Marine Products Pv.t Ltd.	INTUT1	-1,39,890
1662444	25.02.2020	888038241	M/s K Pharmaceuticals Ltd.	INDEL4	-3,57,983
1715839	27.02.2020	388061111	M/s L Natural Fibre & Fabrics India Pvt.Ltd.	INBOM4	-5,453.01
1799897	29.02.2020	DLGPA1579G	M/s M Imports and Exports	INCJB4	-2,412.30

Source: Data furnished by DG (Systems)

Out of the above mentioned 14 cases in the table, Audit verified three SBs pertaining to the port INDEL4 and it was noticed that the terms of invoice in these SBs were CIF. The reasons for the negative value of FOB was that the exporters declared the freight value in two SBs at 97 *per cent* and 98 *per cent* of the CIF value and Insurance value in one SB which is more than CIF value of exported goods, consequently resulting in nil drawback to the exporters.

Acceptance of negative FOB value of the exported goods indicates that there is lack of control in ICES regarding calculation of FOB value.

On being pointed out (August 2022), the Ministry stated (November 2022) that basic formulation has been stated in the earlier reply "where the invoice is on the CIF basis, such FOB value is calculated by deriving it by deducting the amount of freight and insurance cost from the invoice value. Drawback, where it is allowed on an ad valorem basis, is also calculated similarly on the FOB value of exported goods. This is consistent with the policy provisions". It cannot be inferred that as aforesaid formulation will not apply to 14 cases under reference, in so far as, design of ICES transactional design is concerned.

The reply is not tenable as the FOB value cannot be negative after deducting the amount of freight and insurance cost from the invoice value which is on CIF basis. Proper validation should be done in ICES so that negative FOB value are brought to the notice of Customs officers for detailed examination to safeguard revenue implications. Acceptance of negative FOB value of exported goods may deprive exporters of the benefits of various export promotion schemes. If any Duty Drawback has been given in any such case, necessary action may be taken.

Recommendation 5: The Ministry should ensure necessary validation in ICES export module so that the FOB value after deducting insurance and freight is not negative.

2.4 Partial automation of Shipping Bills and drawback claims under Section 74

As per Annexure-F of the Memorandum of Understanding (MoU) amongst CBIC, NIC and NICSI, which was signed on 21 December 2018, automation of Shipping Bills and claims under Section 74 of CA 1962 (Re-export) was one of the expected modules for development and implementation during the period of the MoU.

Audit noticed that the Shipping Bills along with drawback claims under Section 74 of CA 1962 (Re-export) are being filed electronically through ICES under Scheme code 19 with drawback Sr. No. 9801 by furnishing details of import, such as Bill of Entry No. and date, quantity imported, value, duty paid

etc. in the field "item details" of Shipping Bills (refer to Facilitation No. 09/2019 dated 3 September 2019 issued by ACC (Export)/NCH New Delhi). Audit noticed that after electronically filing the Shipping Bill under Section 74, settlement of drawback is being processed manually. Hence, complete Workflow automation of Shipping Bills and processing of drawback claims under Section 74 has not taken place. This indicates lack of adequate automation of Shipping Bills in ICES 1.5.

DG (Systems) replied (January 2022) that automation of SBs under Section 74 cannot be done like the automatic grant of drawback with respect to Duty Drawback Schedule and Brand rate fixed by the authority, as no rate schedule is prescribed for Section 74 as the two processes are legally distinct. The SB processed under Section 74 of The Customs Act, 1962 resides in the database and does not show, "Duty Drawback is still pending". In fact, like any other post clearance action, the processed SBs are taken up for refund claims under Section 74 of the Customs Act, 1962 following the graded system for grant of drawback in such cases depending on the period for which goods have been used, whether goods are used or unused etc. Additionally, as informed, determination of the depreciated value of the goods is to be done by the Government approved valuer for which a general logic cannot be applied in the system.

The reply is not tenable as the Department has not prepared a separate Workflow automation module for claiming and processing of Duty Drawback under Section 74 by mapping all the fields related to used/unused goods, period of use, depreciated value etc. Claims are being filed electronically through ICES under Scheme code 19 with drawback Sr. No. 9801 by furnishing details of import, such as Bill of Entry No. and date, quantity imported, value, duty paid etc. in the field "item details" of Shipping Bills which is specifically framed for claiming drawback of exported goods under Section 75. But, processing of claims is being manually handled.

On being pointed out (August 2022), the Ministry stated (November 2022) that the processing for such scenario is enabled on the ICES transactional platform. The audit observation for a separate module will be examined.

2.5 Working of Risk Management System for Export

Department of Revenue, CBIC vide Circular No.23/2013-Customs dated 24 June 2013 had introduced Risk Management Systems (RMS) in Export. With the introduction of the RMS in exports, the practice of routine verification of self-assessment and examination of SBs was discontinued and the focus is on quality assessment, examination and Post Clearance Audit (PCA) of SBs selected by the Risk Management System.

As per *ibid* circular, the Board had decided to implement RMS in export in two phases. In the first phase, the RMS would process the data and provide the output to ICES only up to goods examination stage. In the second phase, the RMS would also process the Shipping Bill data after the Export General Manifest (EGM) is filed electronically and provide output to ICES for selection of Shipping Bills for Drawback scrutiny and Post Clearance Audit (PCA).

To know the effectiveness of RMS Export Module introduced by Board in 2013, Audit requisitioned the information relating to details of Customs sites at which RMS for Exports is operational, Pan-India based number of RMS facilitated SBs, related targets fixed by Board to facilitate SBs and study/analysis, if any conducted to analyze the efficiency of RMS for Exports. The information related to RMS facilitated SBs, related targets fixed by Board to facilitate SBs and study/analysis were not furnished to Audit.

DG (Systems) stated (June 2021) that out of 252 EDI operational Customs Sites, in 250 Customs Sites, RMS for export was functioning.

Further, DG (Systems) also stated that the development of the second phase of the RMS Export is completed for processing of Drawback and is under testing between RMS and ICES. Once the same is implemented, development work for Export PCA will be initiated in coordination with RMS and added that RMS is a different application and maintained by a different entity or team. Details of study/analysis for efficiency of the RMS for Export are not available.

On being pointed out (August 2021), DGoS stated (July 2022) that RMS in exports is available at all EDI sites except for two sites (PCCC, Mumbai – INPDC4 and Surat Hira Bourse -INHIR6) where RMS is not enabled. These two sites handle precious cargo, and such precious cargo is assessed and examined under different norms as per policy, hence, at present, RMS Exports is not launched at these sites. Regarding development/progress of the second phase of RMS which was under testing stage between RMS and ICES, DGoS did not furnish any information.

However, Audit noticed that processing of Duty Drawback Claims, which was part of the second phase, had been implemented through RMS in July 2021.

Thus, after lapse of more than eight years from the decision taken by the Board, the second phase of RMS regarding selection of Shipping Bills for Drawback scrutiny was implemented. However, Post Clearance Audit (PCA) for Exports has not been implemented.

On being pointed out (August 2022), the Ministry stated (November 2022) that RMS for Exports is enabled for Shipping Bill processing and Drawback

processing and based on the output of RMS akin to Import PCA, Export PCA will function.

Generally, in the absence of RMS based selection for exports, there is lack of transparency and arbitrariness through manually selection for PCA.

Recommendation 6: RMS for exports for selection of Shipping Bills for Post Clearance Audit (PCA) should be made operational at the earliest for increased transparency and targeting using a risk based approach.

2.6   Inordinate delay in implementation of module for daily updation of exchange rate

In response to Para 3.4 of CAG's Audit Report No. 11 of 2014 - Performance Audit on Customs EDI system, the Board stated (February 2014) that testing of a module for daily update of exchange rate through message exchange with State Bank of India (SBI) had been completed and commissioning of the same can be decided only after the technical issues with the State Bank of India (SBI) get resolved.

On being pointed out (August 2022), the Ministry stated (November 2022) that as directed by the Board, ICEGATE developed the module for secure and automatic update of the exchange rate directory in the ICES and CBIC/ICEGATE website. A demonstration of the module was made before the Board on 27 July 2021. The Board suggested some changes and directed the redesign of the module. Accordingly, the module has been redesigned. As per current status the UAT testing has been completed for both API 1[9] and API 2[10]. Final Go-Live prerequisites are being completed by SBI.

The CBIC determines the rate of exchange of conversion of major transactional foreign currencies generally after every 14 days on a regular basis and issues Notifications (Non-Tariff). Based on these Exchange Rate Notifications, the Directory Officer after getting the approval of Directory Manager of Directory Management Site (which is ICD, Patparganj) makes changes in ICES.

If import and export are made at rates other than the foreign currencies mentioned in the Notification, then importer/exporter has to produce certificate of exchange rate on the day filing of BE/SB from the Bank (SBI).

Implementation of a system which captures daily fluctuation in the exchange rate, will minimise the undue benefit or loss to importers and exporters and correspondingly to the Department.

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[9] Exchange rates are pushed by SBI to ICEGATE for Imports and Exports
[10] Exchange rates received through API 1 shall be fetched by ICES for rounding-off and subsequently updating ICEGATE website and ICES directory

Recommendation 7: The module for daily updating of exchange rate may be made operational at the earliest.

2.7   Non-Automation of closure of IGM

Import General Manifest (IGM) required to be filed under Section 30 of the Customs Act 1962 is a statutory declaration and every Vessel or Aircraft or a vehicle, which enters Indian territory with the intention of discharging cargo, the person-in-charge or any other person as specified by the Central Government is bound to deliver this document. The purpose of filing IGM is to ensure that all imported goods brought in the carrier have been duly accounted for. A person filing declaration under this section has to declare the truthfulness of contents as it has legal consequences, which bind the carrier. Any mis-declaration in this document will attract the penal provisions of Section 111 (f) and Section 112. The carrier / shipping lines are required to declare details of cargo, shipper, consignee, number of packages, kind of packages, description of goods, bill of lading number and date, vessel details etc. in the IGM.

Further, as per Standing Order No.2/2018 dated 30.1.2018 issued by the Office of the Pr. Commissionerate of Customs (Import), NCH, New Delhi, the custodian will provide details of IGMs (Import General Manifests) of imported goods, which may contain one or more than one lines, within 7 days of filing to the Manifest Clearing Department (MCD) Section. According to this order the following cases may arise with respect to imported goods:

Table No.2.3: Details regarding action required in respect of IGM

Sl. No.	Case	Action required to be taken
(i)	Where BsE have been filed against line Nos. of IGM and goods were cleared in full manifested quantity.	The respective line No. of the IGM may be treated as closed.
(ii)	Where BsE have been filed against line Nos. of IGM and goods were cleared in part of manifested quantity.	The appropriate reasons and break-up for the same may be ascertained and amendment in IGM or action as per Section 45 (3) or Section 116 of the Customs Act, 1962 for pilferage of goods after arrival or short landed goods respectively may be taken.
(iii)	Where BsE have been filed, but goods remained un-cleared for home consumption.	Necessary action as per Section 48 of the Customs Act, 1962 to be taken by custodian for disposal of goods after obtaining NOC from Customs.
(iv)	Where no BE has been filed and goods remained un-cleared.	

Sl. No.	Case	Action required to be taken
(v)	Where Warehouse (WH) BE has been filed.	Verify the details of ex-bond BE with reference to WH BE from Bond Section of the Customs House. If the whole manifested quantity as mentioned in WH BE is accounted for, the relevant line no. shall be treated as closed.
(vi)	Where transhipment of goods has been allowed.	The line nos., which are referred as transhipped by the custodian, shall be treated as closed.

Source: Standing Order No.2/2018 dated 30.1.2018 issued by the Office of the Pr. Commissionerate of Customs (Import), NCH, New Delhi

Once all the Line Nos. of IGMs are accounted for, the Inspector (MCD) shall make necessary endorsement of closure of IGM and put up the same to the Supdt./Appraiser (MCD), who after scrutinizing the same, shall put up the case to Assistant Commissioner/Dy. Commissioner (MCD) for approval of closure of IGM.

Audit observed that even though the ICES application of Customs introduced in 1998 provided for the facility to file IGM electronically, the ICES application did not have the functionality for closure of IGM electronically and the same was being done manually during the audit period 2015-16 to 2019-20.

Audit noticed that 16,82,734 IGMs were filed in Pan-India during the period from 2015-16 to 2019-20. DG (Systems) was requisitioned in January 2021 to arrange to provide the details of IGMs filed during this period on Pan-India basis against which IGMs are still to be closed but no details were furnished to Audit.

On being pointed out (August 2022), the Ministry stated (November 2022) that the details of IGMs closed against the IGMs filed is a jurisdictional matter since in the current module, IGM closure does not get a perfect match with IGM filed on account of complexity of the movement of goods covered in the IGM. It is gathered that action related to monitoring and closure is currently undertaken by the IGM Cell or Department of Commissionerate. The Department is seized of the issue and on implementation of the above mentioned module as well as Sea Cargo Manifest and Transshipment Regulations (SCMTR), the desired objective of correctly matching is hoped to be achieved.

The purpose of closure of IGM is to ensure that all imported goods brought through the carrier have been duly accounted for and applicable duties have been levied. Non automation of closure of IGM leads to lack of proper reconciliation and accounting for all imported goods brought through the carrier and a built up of pendency which will be difficult to resolve as time

goes by. There is no compulsion on the jurisdictional officers to close all the IGMs.

> **Recommendation 8: The Ministry may take necessary steps so that the IGMs filed in ICES are closed electronically and all goods are duly accounted for. Efforts may also be made to manually close all the open IGMs. Ministry should also decide and prescribe a time limit for the closure of IGMs as undue delay/non-reconciliation is fraught with the risk of revenue leakage.**

2.8 Non-automation of Refund process

According to Customs Act, 1962 (CA) any person who has paid Customs duty or paid any interest, could claim for its refund in the following circumstances:

(a) When the goods are exported after payment of the export duty/cess and the exported goods are returned to the exporter otherwise than by way of resale and the goods are re-imported within one year (Section 26 of CA).

(b) When the imported goods are found to be defective or otherwise not in conformity with the specification agreed upon between the importer and the supplier of goods and the imported goods are exported as such (Section 26A of CA).

(c) Any person who has paid duty on assessment of imported goods and applies for refund of duty consequent on (i) remission /abatement of duty due to pilferage of goods, damage of goods, and deterioration in the value of goods, goods lost or destroyed, (ii) finalization of provisional assessment where the duty is refundable (iii) cash Security Deposit on the finalization of project import,(iv) modification of an adjudication order or decision of lower authority in an appeal case or revision,(v) reduction of duty on reassessment due to wrong application of rate of duty, incorrect classification, adoption of higher valuation (Section 27 of CA).

Audit observed that though the ICES application of Customs introduced in 1998, provided for the facility to file and process BsE and SBs electronically but till date, the ICES application does not have functionality for refund of Customs duty and the same is being done manually.

On being enquired whether any need/requests have been received from Customs field formation regarding electronic processing and refund of Customs duty, DG (Systems) stated (June 2021) that as per available records, no such request seems to have been received from Customs field formations and added that the requirement of enabling online refund under Customs law is a policy matter.

Further, ICES presently has also no provisions for capturing data regarding details of refund of Customs duty made against particular BE/SBs.

Audit is of the view that incorporation of module for refund of Customs duty for processing refunds electronically through ICES would eliminate the need to file a copy of BE with refund application as well as help the Department in keeping record of BEs against which refund has been granted and would make the monitoring mechanism of refund cases more efficient. Further, it would increase transparency in the refund process.

On being pointed out (August 2022), the Ministry stated (November 2022) that the ICES transactional platform is designed for linear processing in a time stamp manner and the current design is not suited to back and forth movement of a Bill of Entry after Out of Charge. It is reiterated that the refund process cannot be automated as processing of refund may be related to post-adjudication, post-Appeal etc. and amount may be reduced or be sanctioned to Consumer Protection Welfare Fund, if there is unjust enrichment etc.

The reply is not tenable as refund is mostly associated with a particular BE and at least online workflow automation of refund process could lead to more optimal automation with increased transparency.

In Audit's opinion, the work flow related to capturing and processing of refund claims needs to be automated on the lines of the GSTN System. Decision of refund taking into considerations various factors like post-adjudication, post-Appeal, double duty refund, refund due to re-assessment of duty etc could be taken by the competent authority online, with work flow automation. This will lead to effective monitoring and increase transparency.

Recommendation 9: The Ministry may consider having online workflow for capturing and processing refunds on the lines of the GSTN System so that the Department is able to electronically keep track of BEs against which refund has been applied for. This would make the monitoring of refund cases more efficient, effective and transparent.

2.9   Non-auto reversal of duty in case of double payment

ICEGATE is internally linked with multiple partner agencies including RBI, Banks, DGFT, DGCIS, Ministry of Steel, Directorate of Valuation and other various Partner Government Agencies involved in EXIM trade enabling faster Customs clearance. All electronic documents/ messages being handled by ICEGATE are processed at the Customs' end by the Indian Customs EDI System (ICES). Any person having net banking facility in the designated bank can proceed for the payment of Customs Duty through ICEGATE.

It was observed during audit of refund claims, that several times due to technical error at the time of payment of duty, the duty amount gets debited but the same does not get reflected on ICEGATE. Under such circumstances, the party has to make duty payment again, which results in payment of Customs duty twice.

Audit noticed that the ICEGATE/ICES does not refund the duty automatically to the importer's bank account from which the duty was erroneously paid and the importer has to manually claim refund of duty paid twice as the refund module is still not automated. Further, the double duty payment does not get reflected in ICES for which confirmation of double duty payment is sought from e-PAO office.

Hence, manual process of refund of double duty and its cross checking of with e-PAO office requires extra amount of resources besides blockage of capital of importers.

Audit inquired from the Department in January 2021 to arrange to furnish the reasons for non-reflection of double duty in ICES/ICEGATE and total number of cases related to double payment of Customs duty due to technical error during the period from 2015-16 to 2019-20 but no reply was received as of June 2021.

On being pointed out (August 2022), the Ministry stated (November 2022) a functionality is being developed in API based Customs duty payment module for ICEGATE to avoid double duty payment. The process is as under:

(i)   Once a payment has been initiated through Net banking, the selected challan(s) will be locked for initiation of another transaction for a period of 2 hours. After the period of 2 hours, the lock on the challan will be lifted and the user can initiate a fresh transaction with the same set of unpaid challans or a new group of challans.

(ii)   After every transaction, a Double verification API will be invoked to reconfirm the transaction status before updating the transaction details at ICEGATE. The response of double verification API will be treated as the final and valid response.

(iii)   These transactions are completed in real time. After the completion of browser based request and Double Verification API, the transactions are considered complete.

This will be verified in future audits.

2.10   Dwell Time

Dwell time is the measure of the time elapsed from the time the cargo arrives in the port to the time the goods leave the port premises after all permits

and clearances have been obtained. To examine the same (dwell time of export and import consignments), Audit called for (September 2020) information relating to year-wise Time Release data for Import Cargo and Export Cargo of various categories of BsE and SBs for the period from 2015-16 to 2019-20 mentioning various stages of consignments. However, related information was also not made available to Audit.

DGoS replied (June 2022) that the Time Release Study (TRS) is conducted by National Committee on Trade Facilitation (NCTF) Secretariat as mandated by Board. DGoS provides data in respect of 15 ports to National Committee and data as requested by Audit in the format sent is being extracted in consultation with NIC.

Audit further called for Pan India information relating to year-wise Time Release data for Import Cargo and Export Cargo of various categories of BsE and SBs for the period from 2015-16 to 2019-20 mentioning various stages of consignments. However, related period information was not made available to Audit.

Department has provided a copy of report of National Committee on Trade Facilitation (NCTF) Secretariat conducts the Time Release Study (TRS) for the year 2022. This study covers the Bills of Entry (for import) and Shipping documents (exports) filed during the first week of January 2022 for cargo clearance through 15 major Customs formations, which were tracked till February 7, 2022.

Audit noticed that the Committee on TRS for the year 2022 had made following recommendations:

i. NTRS 2022 had identified two 'impact dissipating' actions namely, delays in payment of duty after assessment and increase in Bills of Entry involving amendment that need to be resolved through appropriate mix of Policy cum administrative actions which need to be addressed in a multi-pronged initiative for achievement of the NTFAP targets in a time bound manner (sub-para 12.3 of TRS).

ii. The study has also highlighted further examination of lack of appetite by the trade for Authorised Economic Operator (AEO) programme in terms of share of Bills of Entry filed, despite clear evidence of its benefits in terms of higher facilitation and lower average release time taking into account granular data at the IEC level (sub-para 12.4 of TRS).

iii. Further streamlining of faceless assessments to minimise the time taken at the assessment stage, which has been noted to have increased from NTRS 2021 to NTRS 2022 (sub-para 12.5 of TRS).

iv. It is felt that it is possible to use TRS tool for assessing the performance of various custodians, including private terminal operators, ICDs and CFSs using more sophisticated tools. Such a quantitative analysis would

enable the government to draw up an evidence-based plan to incentivise cum nudge the concerned stakeholders to enhance their trade facilitation performance (sub-para 12.6 of TRS).

v.   On the export front, even as the sample size for the study has increased considerably collating the data from the Customs automated system and the concerned custodians, issues relating to data insufficiency and reconciliation were found in case of many Shipping Bills. This has resulted in a large number of Shipping Bills to be excluded from the sample. It is expected that these issues would be further ironed out before the conduct of next NTRS (sub-para 12.7 of TRS).

vi. As regards the average export release time, there is a need to focus on the larger logistics issues that take considerable time after the grant of LEO, which continues to remain high despite compression of the time taken in regulatory clearance, as reflected in reduction in the time taken from arrival of the cargo to grant of LEO (sub-para 12.8 of TRS).

vii. Strengthening the infrastructure and manpower, along with setting up of more and modern testing labs across the country and closer to seaports, ICDs and specifically Inland Customs Ports (ICPs) would go a long way in facilitating export cargo (sub-para 12.9 of TRS).

Responses from the Ministry/CBIC/DGFT on the current status of the implementation of the recommendations made by the TRS Committee 2022 were awaited (January 2023).

Chapter 3
Interfaces with other applications

3.   Interfaces with other applications

ICES captures data related to exports and imports. Various other IT applications interact with ICES on a periodic basis. The audit scope here was to seek assurance on the effectiveness of the interface of ICES with the other applications of various stakeholders. Software Design Documents (SDDs), which were of 2010 version, in respect of only 9 out of 16 stakeholders[11] were received from DG (Systems).   However, related Functional Requirement Specification (FRS)/SRSs and Service Level Agreements and the latest user manuals for testing of message exchange between ICES and all stakeholders were not made available to Audit.

Further, the SDDs provided to Audit have only structural information of data tables and control tables for various messages. The detailed description of the fields for the tables and features & functionality of each of the messages, the specific requirement for the messages were not available in the given SDDs.

Sample Data log, which might help us to study/analyse the data flow between the stakeholders and enable us to highlight the lacunae of the transmission mechanism with the various stakeholders, were not available, either at the local level, with the Customs Department, or with the various stakeholders.

Sample of data related to message exchange for the month of March 2021 exchanged between ICES and all stakeholders was called for, but not provided.

The details of interactions with major stakeholders are given below:

3.1   Message exchange between Customs and DGFT

DGFT is under the Ministry of Commerce and Industry. The Regional Offices of DGFT collect the data from offices under their jurisdiction and transmit it centrally to Customs through ICEGATE. The messages are then integrated with ICES 1.5. The data exchange between the ICES and DGFT applications are crucial in the implementation and monitoring of all DGFT export promotion schemes. The SDD, Vol. VI -Part 6 (EDI.DGFT, Version 1.0

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[11]Sealine/Ports, Air/Airline-console, DGFT, DGoV, SEZ, Bank, RBI, CRCL, PAO, Inland Container Depot (ICD), Customs House Agent (CHA), Principal Chief Controller of Accounts (Pr.CCA), Directorate of Revenue Intelligence (DRI), Directorate General of Central Intelligence and Statistics (DGCIS), e-Sanchit & Partner Government Agency (PGA)

September 2010) outlined a total number of 13 messages to be exchanged between ICES 1.5 and DGFT through EDI.

Out of 13 number of messages listed to be exchanged between ICES and DGFT, DG (Systems) confirmed (March 2021) that only 5 numbers of messages, as enumerated below, were operational/ functional during the year 2019-20:

Table No. 3.1: Messages in operation between ICES and DGFT

Sl. No.	Message Description	From	To
1.	IE (Importer/Exporter) Code Directory	DGFT	Customs
2.	IE Code Acknowledgement	Customs	DGFT
3.	License Information	DGFT	Customs
4.	License Acknowledgement	Customs	DGFT
5	Shipping Bill Data	Customs	DGFT

Source: SDD, Vol. VI -Part 6 (EDI.DGFT, Version 1.0, September 2010)

A total of eight message exchanges, between the ICES and DGFT, were not operational/functional during the year 2019-20, as enumerated below:

Table No. 3.2: Messages not in operation between ICES and DGFT

Sl. No.	Message Description	From	To
1.	Notification Directory	Customs	DGFT
2.	Export Obligation Discharge (EODC) Certificate	DGFT	Customs
3.	Acknowledgement of EODC Certificate	Customs	DGFT
4.	SB Acknowledgement	DGFT	Customs
5.	Non receipt of SB message	Customs	DGFT
6.	Non receipt of acknowledgement from DGFT	Customs	DGFT
7.	Bill of Entry Data	Customs	DGFT
8.	BE Acknowledgement	DGFT	Customs

Source: SDD, Vol. VI -Part 6 (EDI.DGFT, Version 1.0, September 2010) and DG (Systems) reply

The following were envisaged as the key advantages in ICES 1.5:

i)   Centralized Directory Management, Centralized License and Bond Management, reduced interface between officers and trade,

ii)   Reduction in manual administrative processes, resulting in fewer errors and no duplication,

iii)   SMS/ Email based update on status of document to Importers/Exporters etc.

Automated transmission of SB, BE data and its acknowledgements are necessary for timely issue of licenses, calculation of export obligations on basis of duty exemptions and automated message transmission of EODC will make the recovery of duty from defaulters timely and ensure better coordination between DGFT and Customs.

Absence of Notification Directory may lead to irregular benefits to traders, and manual discharge of Export Obligation Discharge Certificate may result in undue delay in recovery of duty from defaulters. Further, if all messages are operational or functional, there will be better coordination between Customs and DGFT.

It needs to be highlighted that in the absence of necessary documents such as SLA, SRS, FRS, any sample data of messages exchange between ICES and DGFT applications and due to non-possibility of verifying the exchange of messages through UAT, assurance could not be derived on the effectiveness of message exchanges.

The earlier Audit Reports/Paras that mentioned non-integration with Customs EDI systems are summarised below:

i) Performance Audit Report No. 13 of 2015 mentioned non-integration of the various stakeholders EDI applications viz., ICES, DGFT EDI System, SEZ Online, wherein it was recommended to improve interconnectivity with other agencies and the Department replied that online EODC work is underway with DGFT to finalize the message format for online receipt of EODC from DGFT, but results are yet to be observed.

ii) Para 2.3 of the same Report revealed that the exchange rates were incorrectly adopted which was a result of delay in updation of notifications.

iii) In Para 2.1.2 of the Performance Audit Report on MEIS/SEIS No. 5 of 2020, Audit observed that most of the delay in issue of the scrips was due to non-integration of SEZ exports module with the Customs ICES network. The non-integration resulted in non-receipt of SB data of SEZs in the DGFT Shipping Bill Repository.

iv) Para 2.1.2 of the Compliance Audit Report No.41 of 2017 revealed that irregular registration of licence for imports without Standard Input Output (SION) norms had resulted in loss of revenue.

v) Similarly, Para 4.1 of Compliance Audit Report No.1 of 2017 revealed excess utilization of duty credit in respect of instruments issued under Chapter 3 of Foreign Trade Policy through manipulation of registration of scrip/use of scrip. A robust EDI communication between DGFT and Customs might have prevented huge loss of revenue to Government exchequer.

On being pointed out (August 2022), the Ministry stated (November 2022) in respect of Notification Directory that API was not to be developed, as discussed in the meeting held with DGFT on 11.12.2020 and Notification

Directory shall be shared on email within the Departments. On Export Obligation Discharge (EODC) Certificate and ACK, API has been made live through which EODC details are received by DGFT since December 2020. On SB Acknowledgement, the Ministry stated that SB API is live between DGFT and Customs and ACK for the same is shared as response from DGFT for the SB API since December 2020.

With regards to non-receipt APIs, it was stated that it was not part of the Technical Document Phase 1 or 2. For Bill of Entry API and ACK, API has been made live where Customs shares BE list for Licenses issued till T-1 day through post BE API and DGFT calls get BE API with BE number to fetch BE details for any particular BE.

DGFT, New Delhi, in response regarding the status of message exchanges between Customs and DGFT which were specified by the DG (Systems) to have been made live, stated (March 2023) that out of 17 message exchanges including four[12] additional messages, 14 are active except the remaining three messages {(i) Notification Directory, (ii) Non-Receipt of SB Message and (iii) Non-receipt of Acknowledgement from DGFT}. However, DGFT further stated (March 2023) that there were issues in respect of six active messages detailed below:

Table 3.3: Issues faced by the DGFT with existing Messages

Sl. No.	Message Description	From	To	Issue
1	Shipping Bill Data	Customs	DGFT	1. Old records are still being set through MFTP. 2. Records are not transmitted to DGFT but shown on Public enquiry that the data has been sent. 3. Amendment of shipping bill not transmitted to DGFT. It is issued in physical letter, which is then updated in DGFT systems manually.
2	Get Shipping Bill Data	Customs	DGFT	API does not give output to records more than two weeks old.
3	Bill of Entry Data	Customs	DGFT	1. Duty saved value is not coming in case of EPCG licenses. 2. Item wise ITCHS code is not available for debited item. 3. Debit for TRQ licenses is exceeding allowed quantity. 4. Online Debit of Post Export EPCG not happening for EDI ports

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[12] Four additional message exchanges (i) Port Details, (ii) EDPMS Data (iii) Get Bill of Entry and (iv) Get Shipping Bill

Sl. No.	Message Description	From	To	Issue
				5. Bill of Entry quantity is found to be missing in get Bill of Entry API for TRQ schemes
4	Port Details	Customs	DGFT	EDI/Non- EDI ports are shared but SEZ ports are not shared as part of this message exchange.
5	Licence information	DGFT	Customs	SEIS and MEIS are still being sent through file based method rather than API.
6	EODC	DGFT	Customs	Public enquiry portal is not available at ICEGATE; hence it becomes tough for exporters to show EODC status to Port officer.

Source: Ministry of Commerce and Industry, DGFT, New Delhi letter dated 27 March 2023

3.2 Linking of ICES with Banks

Options for e-payment and payment through any designated bank branch are available through the Customs EDI System. The Importer/Exporter can make the duty/cess payment through the designated bank branches or - payment through any of the designated bank branches. After the assessment of the BE/SB, the challan information is made available to the Bank, the Customs House and at the EDI System. The SDD, Vol. VI -Part 5 (EDI-Bank, Version 1.0 September 2010) outlined a total number of 13 messages to be exchanged between Customs and Banks through EDI (ICES 1.5).

Out of the 13 messages mentioned to have been exchanged between the Bank and ICES, DG (Systems), stated (December 2020) that only five numbers of messages are exchanged between ICES and Bank as detailed below. It was noted that an additional two number of messages (Sl. No 6 and 7), other than those mentioned in SDD, were being exchanged between ICES and Bank.

Table No. 3.4: Messages in operation between ICES and Bank

Sl. No.	Message Description	From	To
1.	Challan Message	Customs	Bank
2.	Challan Message after receipt of Duty	Bank	Customs
3.	Challan Summary Statement at the End of Day	Bank	Customs
4.	End-of-day Challan summary Message	Customs	Bank
5.	Drawback Scrolls	Customs	Bank
6.	Cess Challan Message	Customs	Bank
7.	Receipt of Cess payments	Bank	Customs

Source: SDD, Vol. VI -Part 5 (EDI. Bank, Version 1.0, September 2010)

A total of eight message exchanges, between the ICES and Banks, were not operational/functional during the year 2019-20, as enumerated below:

Table No. 3.5: Messages not in operation between ICES and Bank

Sl. No.	Message Description	From	To
1.	End-of-day Cess summary message	Customs	Bank
2.	IE Code information	Customs	Bank
3.	Non - receipt of Challan Information by bank	Customs	Bank
4.	Confirmation of non-payment of Duty	Bank	Customs
5.	Scroll after remittance of Drawback proceeds	Bank	Customs
6.	Non - acceptance of Scroll	Bank	Customs
7.	Non - credit of Drawback	Bank	Customs
8.	Allotment of Account Number	Bank	Customs

Source: SDD, Vol. VI -Part 5 (EDI.Bank, Version 1.0, September 2010) and DG (Systems) reply.

Messages such as 'scroll after remittance of drawback proceeds', 'non-credit of drawback', IEC, confirmation on non-payment of duty etc. are not exchanged through ICES. This calls for manual administrative processes for manual checking of required documents resulting in increased risk of error, delayed processing, deficient interaction between exporters and government agencies etc. which were all designed to be mitigated through ICES. This may also lead to incorrect calculation of drawback, short/excess payment of duty drawback to exporters and non-recovery of export benefit granted to defaulter exporters and thereby revenue loss to the Government exchequer.

It needs to be highlighted that in the absence of necessary documents such as SLA, SRS, FRS, any sample data of messages exchange between ICES and Banks applications and due to non-possibility of verifying the exchange of messages through UAT, assurance could not be derived on the effectiveness of message exchanges.

On being pointed out (August 2022), the Ministry stated (November 2022) that ICES shall share challan/transaction details with ICEGATE through APIs which shall be on real time basis. These APIs are to be developed by ICES and ICEGATE and the same are under discussion.

Recommendation 10: Ministry may expedite the development of APIs for sharing of challans/warehouse details between ICES and ICEGATE in a time bound manner.

3.3   Sharing of RBI Export Outstanding Statement (XOS) data/caution list with ICES

Export Data Processing and Monitoring System (EDPMS) is an online system, launched by RBI, on March 1, 2014, for monitoring all export activities in India. With this system, all banks have come on a single platform, thus bringing uniformity in the modus operandi on exports related transactions in

India. One of the benefits of EDPMS is integration of banks with the RBI system, giving ease of the following:

a. Handling of Shipping Bills

b. Unravelling delayed utilisation of advance received for exports

c. Detect Export Outstanding Statement (XOS)/Caution (Export Outstanding) list

d. Simplifying overall process as everything is online.

SB data/BE data is matched with the data on inward remittance of export proceeds from the exporters so as to immediately track the status of each consignment exported with all instruments and also allows exporters to claim benefits faster. RBI stipulates that exporters whose data are not captured by the software will figure in a Caution List and shall be denied packing credit which hampers their exports and it also leads to non-negotiation of 'non-letter of credit bills'. So even if the goods reach the buyer on time, the banking documents get delayed which will lead to extra cost and demurrage charges to be paid by the exporters.

There are seven message exchanges between Customs and the Reserve Bank of India (RBI) in ICES which are functional/operational as shown below.

Table No. 3.6: Messages in operation between ICES and RBI

S. No.	Message ID	Description
1	CHRBE01	SB information on Let Export Order (LEO)
2	RBCHE01A	SB – Acknowledgement
3	CHRBE02	SB Cancellation
4	RBCHE02A	SB Cancellation -Acknowledgement
5	RBCHE03	FE Realization Report
6	CHRBE03A	FE Realization Report .-Acknowledgement
7	CHRBI01	BE Information

Source: Reply received from DG (Systems) in reference to AR No.11 of 2014

There is no message exchange with ICES relating to generation of XOS data/information and caution list maintained by RBI.

Thus, ICES is incapable of flagging further exports/imports by exporter/importer included in XOS information/caution list maintained by RBI, and to detect Defaulter Exporters who have not realised the export proceedings within stipulated time allotted in RBI Guidelines resulting in non-recovery of export benefits granted.

On being pointed out (August 2022), the Ministry stated (November 2022) that in respect of message exchange with ICES relating to generation of XOS data/information and caution list maintained by RBI, the prospects will be explored in consultation with RBI.

Recommendation 11: Ministry may explore mapping/cross-verifying of RBI XOS data with caution list maintained by CBIC for identifying default cases for effective monitoring of export proceeds realisation.

3.4 Integration of Special Economic Zones (SEZ) online with Customs ICES

Special Economic Zones (SEZs) are significant for the Customs Department because they promote exports of goods and services and generate employment opportunities for the population. There are various benefits of SEZs viz. they create an economic enclave to cater to overseas markets, promote investment, both domestic and foreign, help earn significant Foreign Exchange through exports and can help develop world class infrastructure facilities.

With the combined efforts of the Ministry of Commerce and Industries and Ministry of Finance, an initiative had been taken from August 2015, to integrate SEZ Online System with EDI System of CBIC commissioned at Airports and Sea Ports across India so as to facilitate smoother clearance of cargo for SEZ Units, reducing manual interface, automatic acknowledgement of receipt of cargo at SEZ, System based Closure of IGM lines and marking of shipment success etc. and thereby developing co-ordination and controls over movement of goods between SEZ and Custom Ports. Also with the automated process of generation of EGM in EDI System, which provide the EGM information for SEZ Exports to SEZ Online system, the need for manual process of bringing EGM from Port, submitting shipment status to Customs for verification and verification of proof of export by Customs could be dispensed with.

It was also noted that data in respect of BsE in the SEZ Online system are not correlated with IGM data. As was confirmed (March 2021) by DG (Systems), 5,90,253 number of IGM data were transmitted to SEZ Online from ICES but only 2,13,699 numbers of BsE were integrated with IGM data transmitted to ICES for the period 2019-20.

ICES application also does not have the functionality for closure of IGM electronically and the same is being done manually, which otherwise could have enhanced the effectiveness of the System. Manual intervention may result in non-timely closure of IGM which may lead to non-recovery of duty/charges from importers who have filed BEs beyond permissible time.

DG (Systems) also mentioned that there were no data transmission for SBs and 'Let Export Order' (LEO) in ICES 1.5. i.e., there were no message exchanges in respect of SB data, from SEZ Online to ICES.

The absence of automated transmission of SBs from SEZ, may result in delay in export procedure i.e., delay in the process of cargo release, increase in processing time, increased error possibilities and lead to increase of export cost in form of demurrage charges, rent and rates charged by the port authority. Manual administrative processes may also lead to delayed payment of Duty Drawback to exporters.

In Para 2.1.2 of Performance Audit Report No. 5 of 2020 on MEIS/SEIS, Audit observed that most of the delay in issue of the scrips was due to non-integration of SEZ exports module with the Customs ICES network.

Further in Para 1.20.1 of Compliance Audit Report No.5 of 2016, it was mentioned that audit of the SEZ online system application revealed that the data captured was incomplete, inconsistent and at times incorrect without a linkage with the ICES system of the CBIC. DoC and Development Commissioners of SEZ also could not avail of the system as its Dashboard and MIS.

Though the Department committed to rectify the deficiencies/lacuna in the system, the follow up audits revealed that the deficiencies still persist.

On being pointed out (August 2022), the Ministry stated (November 2022) that migration of SEZ operations to Customs has been proposed to be done. Registration module for SEZ Units has been developed and is under testing.

Audit had inter-alia recommended in PA No. 19 of 2022 – 'Working of Customs Bonded warehouse and Free Trade Warehousing Zones' about having a time bound plan for devising an IT strategy for integration/reconciliation of ICES with SEZ online.

Recommendation 12: Ministry should integrate SEZ Online with ICES at the earliest for better monitoring of SEZ operations (both EXIM and DTA transactions) and for the ease of doing business in SEZs.

Chapter 4
IT Governance and Management

4.1   System documentation of ICES project

As per para 3 of Part A of the MoU, the scope of work under the project of ICES clearly states the documentation for the ICES which includes requirement specifications, technical documents, user manuals and test cases. Accordingly, the scope of work included preparation of Software Requirements Specification (SRS), Software Design Document (SDD) and User Manuals for the following Customs functional areas:

(i)   Service Centre (Import and Export);

(ii)   Imports Declaration Processing;

(iii) Exports Declaration Processing;

(iv)   Information / Message interchange between internal and external stakeholders (DGFT, CHA, Banks, RBI, Custodian, DGCIS, etc.);

(v)   Interface requirements with external applications (ICEGATE, RMS)

Audit observations on this aspect are as under:

4.1.1   Updation of SRS and SDD

The Software Requirements Specification (SRS) provides detailed mapping of the Customs business processes through various modules / functionalities of software application - ICES. Similarly, Software Design Document (SDD) describes the architecture and system design of the ICES and User Manual describes information on 'how to use a product' to end-users.

Audit scrutiny revealed that the SRS and SDDs were last documented in 2010. These documents were not updated even though many changes had taken place since then. The documentation of such changes at regular intervals in the main document is crucial to run the IT project smoothly as envisaged in MoU.

On being pointed out (August 2022), the Ministry stated (November 2022) that the issue has already been taken up with NIC for early completion of the documentation, in terms of the MoU. Action has been initiated for hiring team of competent resources to complete the said task. As and when documents are completed, the same will be shared.

As per para 3 of Part A of the MoU, the scope of work under the project of ICES clearly states the documentation for ICES which includes requirement specifications, technical documents, user manuals and test cases.

Further, in terms of Para 2 of point no. 11 of clause A read with point no. 12 of Clause B of the 2012 MoU, NIC is responsible for preparing/updating the documentation of SRSs, SDDs etc. and NICSI is entrusted with the responsibility for providing the skilled technical resources under the guidance of NIC development team for documentation assignment.

Updated and complete documentation helps keep track of all aspects of the application and helps in identifying and tracking the changes in the software.

Recommendation 13: In addition to immediate updating of SRS and SDD, the Ministry should also ensure that SRS and SDD is kept up to date at regular intervals to factor all the important changes made in the application.

4.1.2 Non-updation of User Manuals

Similarly, User Manuals of ICES published in 2010 to 2013, were not updated thereafter, even though there were substantial changes that occurred in the structure of the database and duty component, particularly after the introduction (July 2017) of GST regime in India. The details of these manuals are as under: -

Table No. 4.1: List of user manuals & their latest date of publication

Sl. No.	User Manual	Last Published	Purpose
1.	ICES Service Centre – Imports Version 1.1	1st June 2013	This document describes the process of entering/ modifying documents related to imports namely Bill of Entry (BE), Import General Manifest (IGM) and Console Manifest.
2.	ICES Service Centre – Exports Version 1.1	1st June 2013	This document describes the process of entering/modifying documents related to Exports.
3.	ICES Primary Processing – Imports Version 1.1	11th May 2013	This document describes the process of entering / modifying documents related to imports namely BE, Import General Manifest (IGM) and Console Manifest.
4.	ICES Primary Processing – Exports Version 1.1	15th July, 2011	The purpose of this document is to describe the process of entering / modifying documents related to Exports namely Shipping Bill (SB) and Export General Manifest (EGM).
5.	Directory Management Version 1.0	20th November, 2010	The purpose of this document is to describe the process of Directory Management.

Source: Users-Manual provided by DG (Systems)

On being pointed out by Audit, DG (Systems) stated (March 2021) that these documents (SRS, SDD and Manuals) were prepared when the entire ICES application was going through an overhaul and migration from 1.0 to 1.5 version. All the subsequent changes are documented in the patch file, patch

mail as well as in a detailed Patch Tracker, even if the terminology as SDD or SRS is not used as such. However, details of the said patch file/patch mail and related records has not been made available to Audit.

DG (Systems) informed (June 2021) Audit, while confirming that these are the latest version of SRSs, SDDs and User Manuals, that in terms of para 2 of point no. 11 of clause A read with point no. 12 of Clause B of MoU, NIC is responsible for preparing/updating the documentation of SRSs, SDDs etc. and NICSI is entrusted with the responsibility for providing the skilled technical resources under the guidance of NIC development team for documentation assignment.

For a vast and critical application like ICES 1.5, which deals with massive information on a daily basis, updation of document of SRSs, SDDs and User Manuals is a must. The presence of updated documentation helps keep track of all aspects of the application and helps in identifying the changes in the quality of a software product. Successful documentation will make information easily accessible, help new users learn quickly, simplify the product and help cut support costs.

Updated user manuals also provide details of changes in the ICES application to users and guides them to use the application in a secure manner.

On being pointed out (August 2022), the Ministry stated (November 2022) that the issue has already been taken up with NIC for early completion of the documentation, in terms of the MoU. Action has been initiated for hiring team of competent resources to complete the said task. As and when documents are completed, the same will be shared.

Recommendation 14: The updating of user manuals consistent with changes, should be regularly carried out in a time bound manner to avoid accumulation of requirements.

4.2 Change Management

In ICES application, changes can be categorized into:

(i)   Routine changes due to issuance of Notifications relating to changes in duty rates of BCD, IGST, Antidumping duty, Cess etc. **(Directory Change Management)**

(ii)   Structural change in ICES application due to introduction of new modules and functionalities added in it**. (Structural Change Management)**

4.2.1   Directory Change Management

The master data information is common to various modules of ICES; hence there are separate tables referred to as Directories. All applications implemented on the centralized system of CBIC, namely – ICES, Automation

of Central Excise and Service Tax (ACES) and RMS access these Directories for its processing. Directory management can be summarized as follows:

(i)   National System Manager (NSM) at the highest level assigns directories to different sites which are responsible for maintenance of these Directories.

(ii)   System Manager at each site assigns the roles of Directory Officer (DIROFF) and Directory Manager (DIRMGR) to the users to perform operations on the Directories assigned to their site.

(iii)   DIROFF: Directory Officer has the privilege to make new entries in the directories assigned for the role, modify these entries, generate checklist and submit these entries to the Directory Manager for approval.

(iv)   DIRMGR: Directory Manager has the privilege to approve the entries thereby making them available to external users, reverting entries to DIROFF in case the entries are not correct, and modify the entries if required.

The Board has issued (June 2015) a Standard Operating Procedure to Directory Management Site (DMS) for updation of directories pursuant to any changes and has also approved (March 2017) a system of Peer Review of Directory updation after appointing nodal officers for such review. As per this SOP, the nodal officer of the concerned Peer Review Site (PRS) shall review the directory to ensure that the notification has been updated correctly and in time. E-mail intimation to this effect shall be sent to the nodal officer in the Board, National System Manager, DG (Systems) and the DMS.

In case the PRS identifies any inaccuracy in the updation of the notification, the nodal office shall contact the DMS immediately to resolve the issue. In case the issue remains unresolved, the same shall be brought to the notice of NSM, DG (Systems) and nodal officer in Board.

In case of delay in updation, the PRS shall follow the same procedure and further advise the DMS to inform System Managers regarding the delay so that the latter can take rectification action.

Whenever there is a delay/inaccuracy in updation of ICES directory for any reasons, the list of the affected BsE/SBs are taken immediately after updation and circulated to Customs sites for recovery of shortfall of revenue, if any.

Details of various directories assigned to different sites by National System Manager for updation, modification and removal of entries etc., are as under:

Table No. 4.2: Details of Directory Management Site (DMS) and Peer Review Site (PRS)

DMS	Name of Directories	PRS
Chennai Customs House (INMAA1)	Antidumping Directory, Tariff Value, Notification Directory, Safeguard Duty, RITC (HS) Directory	Vishakhapatnam Custom House (INVTZ1)
JNCH, Nhava Sheva (INNSA1)	BCD Directory, Custom Cess, CVD Directory, CE Cess, RSP Directory	ACC, Delhi (INDEL4)
ICD, Patparganj (INPPG6)	Cess Directory, Exchange Rate Directory, Drawback Directory	Bengaluru Custom House (INBLR4)

Source: Reply furnished by DG (Systems)

In response to an audit query (December 2020), DG (Systems) informed (March 2021) that all Customs Notifications, related to General Exemptions, FTAs and Export Promotion Schemes, ADD and Safeguards are mapped in the ICES and there is no delay and no inaccuracy communicated by PRS in updation of exchange rate/Customs/IGST/Central Excise Exemption notifications and duty rate directories etc.

Audit called (March 2021) for the records of e-mails related to updation of Directories by DMSs and review done by PRSs but the same was not provided to Audit. To verify the claim of DG (Systems) that there were no delay and no inaccuracy in updation of various types of Directories, Audit requisitioned the data dump of at least one year, which was not provided to Audit.

On being pointed out (August 2022), the Ministry furnished only the list of notifications with date of notification and date on which these notifications were entered in ICES (November 2022).

However, records of e-mails related to updation of directories by Directory Management Sites and review done by Peer Review Sites was not provided to Audit as per the stipulated SoP. In the absence of the same, Audit cannot derive assurance as to the timely and correct updation of Directories.

4.2.2 Structural Change Management

As per Memorandum of Understanding (MoU) between CBIC, NIC and NICSI dated 21.12.2018, *vide* clause 'A' Scope of work to be carried under the project, (under para 2), the ICES application is required to be maintained by providing software updates along with installation scripts for the existing ICES modules as per the specifications received from CBIC and Change Management Policy agreed between NIC and CBIC.

Further, as per para 5 (D) of *ibid* MoU, it is the responsibility of the Department to get the application audit done through a third party for all aspects of ICES and software updates and analyse the recommendations and communicate to NIC in writing for implementation of the recommendations.

On being asked (February 2021) regarding Change Management Procedure Document, DG (Systems) informed (March 2021) that ICES application has been designed, developed and maintained as per the tripartite MoU signed amongst CBIC, NIC and NICSI and explained the detailed procedure followed from the stage of design of the module, development, testing, and implementation in the system. However, the Change Management Procedure Document was not provided to Audit. The stages of the same, as detailed by DG (Systems) are as under:

Stage 1: Whenever there is a requirement of adding or changing any functionality in the ICES as per the evolving legal mandate such as Customs Act/ Notifications / Regulations / Circulars /Instructions, it is discussed with the development team. Depending on the merit of the case and depending on the complexity, the development team is given an approach paper either through email or an approach paper describing the software requirements.

Stage 2: Accordingly, the changes/modifications are undertaken by the development team. The changes are given in the form of a software patch. The development team does not have any rights or access to execute the patch either in pre-production or in production environment. Only the development environment is available to them. The software patch is uploaded by the Development team on FTP to be executed by the Operations Team. Each patch file also has a readme document which enlists the changes being done by the patch.

Stage 3: Once the software patch incorporating the required changes is uploaded by the Development team on the FTP, an email is sent to DG (Systems) officers for approval. The approval is given by the DG (Systems) officers (of the rank of Assistant Director or above) to the Operation Team to download the patch file from FTP and execute it.

Stage 4: The patches are applied in pre-production first and are tested by some ICES users in test environment. Subsequently, the approval is given for executing in production.

Hence, DG (Systems) implements the changes through patch files and have no SRS/SDDs of the structural changes/modifications made in the ICES Application after 2010.

DG (Systems) also stated (March 2021) that currently the development team of ICES comprises of NIC scientists and NICSI resources engaged as per the tripartite MoU signed amongst CBIC, NIC and NICSI. Further, there is a robust mechanism with defined responsibilities and role-based access to carry out any change in the ICES application which has stood the test of time. It would be incorrect to infer that the essence of having an 'SRS/SDDs' is not being applied and followed. DG (Systems) stated that the SRS/SDD documents already shared with Audit were prepared when the entire ICES application was going through an overhaul and migration from 1.0 to 1.5 version. All the subsequent changes are documented in the patch file, patch mail as well as in a detailed Patch Tracker, even if the terminology as SDD or SRS is not used as such. No patch can be applied in pre-production and production without the express approval of DG (Systems) officers. Each patch approval and its execution by the Operations team is recorded in the Patch Tracker shared by the Operation team on a daily basis with the DG (Systems) officers and the Development Team. ICES is an extremely dynamic application where most changes that were required came with pressing timelines. The above process ensures a track of all the changes along with their approvals while also helping in timely and quick delivery.

Audit requisitioned (August 2020 and January 2021) to arrange to provide details/records related to the whole development cycle of new functionalities/module added in ICES during the period from 2015-16 to 2019-20 with details of application audit done through a third party on all aspects of ICES and software updates along with records of expected modules for development and implementation (i.e. currently in pipeline) and their present status.

With regards to structural changes, DG (Systems) provided (February 2021) an 'Index of Advisories issued by Directorate of Systems with respect to ICES' during 2017-20 in which 16 changes[13] were shown.

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[13] These included Implementation of ROSL Scrolls, Implementation of changes in ICES for late fees, Alignment of State Codes of ICES with GSTN, Changes in BE/SB, IGST refund for non EDI sites, IGST Refunds for EDI sites in ICES, New Cess applied, Goods Registration online on ICEGATE, UQC, SCMTR, Turant Customs, Border Crossing Report at LCSs for Transshipped Cargo, Project Import, Custodian Code Warehouse Mapping, e-Sanchit and Container Scanning Module.

DG (Systems) also provided (October 2021) a list of ICES patch tracker which included 10 changes in the import module and 10 changes in the export module.

But no records relating to development cycle of new module/functionalities added. Further, the details provided do not have details of the stages of the Change Management Procedure as indicated by DG (Systems). Moreover, the trail of mails has also not been made available to Audit. The Department has also not provided details of third party audit of ICES and software updates.

On being pointed out (August 2022), the Ministry stated (November 2022) the issue has already been taken up with NIC for early completion of the documentation, in terms of the MoU. Action has been initiated for hiring team of competent resources to complete the said task. As and when documents are completed, the same will be shared.

Recommendation 15: Ministry must ensure that protocols are properly and completely followed at the time of sign off of any change management. They must ensure that all changes including testing and approval of such changes are properly documented.

4.3   Help desk and end-user support system

A help desk is an important component and a multi-dimensional resource, designated to help in reducing downtime in IT services and functions and making them available for maximum time. It is specially focused on end user functionality, and, thus, is responsible for quick resolution of immediate needs, incidents and technical issues of end users.

Further, as per Memorandum of Understanding (MoU) dated 21.12.2018, vide clause A (7), the scope of work to be carried out under the project relating to help desk and end user support system is to provide Level-2 (provided by Regional Centers Teams regarding the ICES related problems forwarded by Level-1 help desk) and Level-3(provided by NIC team of ICES for the modifications of applications as suggested by Level-2 team and approved by CBIC team) support to the ICES users for resolution of problems escalated by Level-1 (refers to the helpdesk managed by the System Integrator to provide first level technical support to the user) support team.

Audit requisitioned (December 2020) from DG (Systems) details regarding:

(i)   Number of tickets raised for technical support forwarded by L-1 service desk to L-2 support team and for technical support requests forwarded by L-2 support team to L-3 support team, number of tickets resolved and average time taken for resolution,

(ii)   Details of modification of ICES application carried out by L-3 support team as suggested by L-2 support team, and,

(iii)   The list of all tickets raised from 1st October 2019 to 31st March 2020 on ICES,

(iv)   How does DG (Systems) monitor the problems escalated by Level-1 Support team till its resolution etc?

On being pointed out (August 2022), the Ministry furnished details of number of tickets raised, number of tickets resolved, and number of tickets escalated to next level and average time taken for resolution.

However, the Ministry did not furnish details/parameters fixed for time prescribed for resolutions of ticket raised under L1, L2 and L3 supports. In the absence of which Audit cannot comment on the efficiency of help desk and user support system.

Delay by L1, L2 and L3 support teams in resolving incidents may result in delay in import/export procedures i.e. delay in the process of cargo release, increase in processing time and could lead to increase of export/import cost in the form of demurrage charges, rent and rates charged by the port authority/Custodian etc.

Recommendation 16: Ministry may prescribe:
(a)   Time limits for resolving or escalating the complaints,
(b)   Average time, for resolution with useful/suitable details of tickets which take unduly long time be captured and monitored.

4.4   Internal audit

In response to Audit observation relating to lack of Internal Audit system in ICES 1.5 (Para no. 2.6 of Audit Report no. 11 of 2014), DGoS replied that a Working Group has been constituted comprising Officers of the Directorate of Audit and field formations to conduct audit on the functioning of ICES 1.5 for detecting deficiencies and suggesting improvement in the application.

Audit requisitioned (December 2020) from DG (Systems) about the details of Audit carried out by the "Working Group" constituted as above on the functioning of ICES during the period 2015-2020 along with the Working Group's fact finding reports, action taken on deficiencies noticed or suggestions made for its improvement.

On being pointed out (August 2022), the Ministry furnished (November 2022):

a)   Audit report of the Working Group
b)   Action taken on deficiency noticed by the Working Group

The Working Group Audit report stated that it had studied how to do audit of applications of IT system for detecting deficiencies with an aim to suggest improvements in the ICES application. The previous CAG reports were taken as basic back ground material for the study and recommendations.

On the deficiencies noticed by Working Group, an Action Taken report was sent (August 2018) to CBIC.
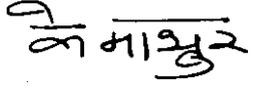
It has been noticed from the DG (Systems) response of August 2018 that against some of the areas pointed by the Working Group, it was mentioned that these are policy issues which require further discussion or that these issues pertains to the ICEGATE.

Audit requested DG (Systems)/CBIC that the current status of the action taken on the following issues may be provided. Their response was awaited (January 2023).

Deficiencies noticed by Working Group		ATN Status (August 2018)
Adequacy of Business processes		
i.	**OOC for a BE from a CFS** should be cleared by officer from that CFS only	These are policy issues which requires further discussion
ii.	**Currently CFS code is given at IGM level** against Bill of lading only, not in BE include CFS code at BE level also	
iii.	No effective message exchange with Custodian	
iv.	**Duty reflection on ICEGATE** portal is late and sometimes lead to Double duty payment. Reflection of Duty on ICEGATE portal should be on real time basis.	Issue pertains to ICEGATE
v.	**Timely updation of Notifications:** It is suggested that authorities in Board may be asked to directly upload the notification in ICES directory. A mechanism may be implemented by Systems for updating and cross verification of Directory updating.	It is a policy issue
Improvement and Additional functionalities		
vi.	**License related issues:** In many cases, especially involving amendments in licences, old data is transmitted, even after transmission of correct data from DGFT. This creates problem for trade as well as for the Department.	Pertains to ICEGATE
vii.	**One more UQC** should be allowed irrespective of the standard UQC provided in the Tariff.	Policy issue may be taken up with Board
viii.	**In-bond sales** to the SEZ units are not processed in the ICES 1.5 till date.	Need further discussions

Deficiencies noticed by Working Group	ATN Status (August 2018)
Adequacy of Business processes	
ix.	**Identifiers for BsE** under investigation.	Policy issue may be taken up with Board
x.	**There is no** provision in export module for electron filing of SBs.	Development is under process

New Delhi

Dated: 06 June 2023

(Kartikaye Mathur)

Principal Director (Customs)

Countersigned

New Delhi

Dated: 06 June 2023

(Girish Chandra Murmu)

Comptroller and Auditor General of India

ANNEXURE

Annexure I
Previous audit findings on ICES and action taken/current status
(Refer Para 1.6)

S No.	Para No.	Audit Findings	Action Taken/Current Status
CAG's Report on ICES 1.5 No.11 of 2014			
1	2.1	IS Strategic Plan was not long term	A High Powered Committee (HPC) was set up in February 2014 for the same with the approval of the Hon'ble Finance Minister, for defining an IT strategy for CBIC (Government of India, Ministry of Finance, Department of Revenue, Office Memorandum issued vide F. No. 296/33/2014.Cx.9 dated 27.02.2014 constituted Committee.)IT road map of CBIC and the recommendation of the DRISHTI (Driving Information Systems for Holistic Tax Initiatives) related to various IT projects and their implementation is being monitored by the Board.
2	2.2	Improper monitoring by Senior Management	DG (Systems) adopted 25 key indicators from system monitoring perspective, some of which are compliance indicators and others are numeric/percentage indicators. These cover availability, incidents, changes, security, user access and business continuity.
3	2.3	There was no strategic plan for selection, recruitment and retention of personnel for its ICT Systems	Ministry (DoR) stated that DG (Systems) is providing necessary backup for development of in-house technical expertise for CBIC's IT management. Whenever required and seems necessary for work exigencies the workforce for IT related work is being outsourced by the Department. IS management through recruitment may create cadre related problems of promotion, absorption etc.
4	2.4	Department has not imparted any periodic training on Information Security to CBIC users after 2010	CBIC stated that training is being imparted to the users from time to time, However, no records were furnished to audit at that time.
5	2.5	Some features of operational password policy were different from the documented password policy	The password policy related to all verticals of DG (Systems) including ICES was last reviewed in August 2019 and then again in August 2020. Hence, DG (Systems) is updating/reviewing the password policy on yearly basis.
6	2.6	Internal control and audit	Ministry replied that a Working Group has been constituted comprising Officers of the

			Directorate of Audit and field formations to conduct audit on the functioning of ICES 1.5 for detecting deficiencies and suggesting improvement in the application. Ministry added that a working group constituted in this regard had submitted a report which was under examination.
7	2.7	CRA module was not according to the requirements of Audit	The Department is undertaking changes in CRA module from time to time. However, still the reports available are not according to requirements of Audit.
8	2.8	SSOIDs activity was not being monitored by the System Manager	The CBIC, in its reply (February 2014) stated that an electronic User Access Management (UAM) tool has been developed and is being used by the Systems Managers of all field formations.
9	2.9	No RMS export module in ICES	From July 2013, RMS export module was implemented. Presently, it is running in 250 out of 252 EDI Customs sites.
10	2.10	Poor functioning of Post Clearance Audit (PCA) wings of the Commissionerate	Ministry stated that Field Formations have been asked to review the performance of Post Clearance Audit and Special Investigation and Intelligence Branch (SIIB) and post additional staff after taking into account of overall vacancy position. From April 2018, a new Audit Commissionerate was created, which is responsible to conduct Post Clearance Audit of the BsE cleared through RMS Import.
11	2.11	Audit observed poor functioning of LRM at almost all locations in discharging its function to monitor the performance of RMS and PCA	CBIC in its reply (February 2014) stated that there will be a local Risk Management System catering to the needs of the Customs Houses. The local Risk Management System will carry out the live processing of the BEs and IGMs etc.
12	3.1	There is an error in the 'program for the calculation of WH Interest' in ICES 1.5 application, which, if not rectified, will result in continued short levies of WH interest	Para was not accepted by the Department as the interest calculated as per the contention of the Department is tallying with the actual interest collected. Since audit has applied direct formula from the interest per day calculated backwards from the duty amount without any rounding off, hence the shortfall. This formula of reverse calculation by audit is erroneous and produces misleading results. PAC also in its 50th Report stated not pursue this para, in view of the reply submitted by the Ministry.
13	3.2	Absence of RSP validations to enforce RSP declaration for imports attracting RSP based assessment	CBIC in its reply (January 2014), while not accepting the observation stated that that RSP notification is not purely based on Customs Tariff Heading (CTH) Or Central Excise Tariff Heading (CETH), i.e., in most

			cases the goods description under the description column is also relevant. The goods description, being a non-structured field, cannot be used for validations in an automated system. After introduction of GST, RSP based assessment is abolished. Hence this issue is not relevant in the present context.
14	3.3	Absence of validation to check mis-declaration of RSP	CBIC in its reply stated (January 2014) that there are no legal provisions empowering the Customs authorities to mandatorily disallow lower RSP based assessment vis-a-vis transaction value based assessment. Selling goods at a price lower than the cost may be a purely commercial decision. After introduction of GST, RSP based assessment is abolished. Hence this issue is not relevant in present context.
15	3.4	Acceptance of multiple rate of exchange rates by the application	It was stated (February 2014) that testing of a module for daily update of exchange rate through message exchange with State Bank of India (SBI) had been completed and commissioning of the same can be decided only after the technical issues with State bank of India (SBI) get resolved. DG (Systems) replied in March 2021 that development of the updation of exchange rate through message exchange with SBI is under advance stage of development
16	3.5	Failure/Delay to update the Central excise/ Customs/ Special Additional Duty (SAD) Exemption notifications and duty rate directories	The Board has issued (June 2015) Standard Operating Procedure (SOP) to Directory Management Site (DMS) for updation of directories in pursuant to any changes and has also approved (March 2017) a system of Peer Review of Directory updation after appointing nodal officers for such review. As per this SOP, the nodal officer of the concerned Peer Review Site shall review the directory to ensure that the notification has been updated correctly and in time. E-mail intimation to this effect shall be sent to the nodal officer in the Board, National System Manager, DG (Systems) and the DMS.
17	3.6	Absence of validations to ensure declaration of unique IEC/PAN	CBIC in its reply stated (January 2014) that DGFT is the owner of the IEC data and the responsibility of its accuracy and validity rests with them and the same was sent by CBIC to DGFT for correction at their end.
18	3.7	Absence of validations to ensure declaration of same CTH and CETH	CBIC while accepting the recommendation stated (January 2014 and February 2014) that validations are yet to be built in to ensure declaration of same CTH and CETH.

			After introduction of GST from July 2017, CETH are not required. Hence this issue is not relevant in present context.
19	3.8	Absence of validations to ensure declaration of goods imported under chapter 98 of Customs Tariff with corresponding CETH and there is no facility to generate report based on CETHs	CBIC in its reply stated (January 2014) that the present request to generate report based on CETHs from audit will be examined for consideration. After introduction of GST from July 2017, CETH are not required. Hence this issue is not relevant in present context.
20	3.9	Country of Origin at the BE level and Country of Origin at the item level were different	CBIC stated that before March 2013, direct linkage between the country codes and the preferential tariff notifications were not built in the system due to absence of facility in the directory for such linkage. System was facilitating capture of Country of Origin for anti-dumping notifications only and validating the same with the COO provided against the relevant item of the Bill of Entry. Since 1st March 2013, such linkage has been provided for all Country of Origin based notifications. A para regarding the same has been issued as such discrepancy continues to exist in the system.
21	3.10	Details of producer of goods not captured in ICES for levy of ADD	The field related to name of Producer/Manufacturer details is being displayed in ICES.
22	3.11	In ICES, there were no validations or mapping of CTH with the serial numbers of the notification, either for conditional or for unconditional exemptions	CBIC in its reply stated that the exemption notifications apply BCD rates against CTHs qualified by description, serial no. and the list of conditions. Both the list of conditions, as well as the description are unstructured fields, and are not conducive to automation. Correct availment could be validated in the system only if the exemption notification was defined on the basis of the CTH. However, as neither the conditions, nor the description can be quantified/ structured, it is not possible to build 100 *per cent* validations with regard to the CTH and the notification duty rates. It is informed that mapping of tariff items with exemption notifications to the extent possible has been built in the notification directory since 1st March 2013.
23	3.12	In ICES, there was no validation or mapping of CTH with the serial number of the notification in the ICES 1.5 application, to ensure that exemptions	After introduction of GST from July 2017 IGST is being levied instead of CVD and Additional Customs Duty. Hence this issue is not relevant in present context.

		from CVD allowable under the said notification were correctly claimed	
24	3.13	The goods were cleared and given OOC on payment of lesser duty. There were not checks in the system	CBIC while not accepting the observation stated (January 2014) that duty can be paid through cash payment, as well as through scrips and the cases highlighted by audit were those where duty debit was made through scrips.
25	3.14	Import documents (BEs) as well as export documents (SBs) are filed manually instead of electronically (through EDI system)	Ministry stated that the percentage of manually filed BsE and SBs are quite low and steps are being taken to remove the constraints and further increase the EDI filing to the extent possible. Further, Board has devised Manual BE Module and Manual SB Module in June 2017 and necessary changes have been made in ICES 1.5. Hence, manual filing of BsE/SBs are also being fed in the ICES application through these modules. Audit noticed that total BsE and SBs processed manually during the period 2017-18 to 2019-20 was 0.086 *per cent* and 0.126 *per cent* of the total BsE and SBs processed through EDI.
26	3.15	Absence of linkage with 'sezonline' portal of MoC	Accepted by the Govt. {Ref: ATR (2015-16) 50th Report at page no. 01}.With the combined efforts of Ministry of Commerce & Industries and Ministry of Finance, an initiative has been taken from August 2015, to integrate SEZ Online System with EDI System of CBIC. However, IGM data not yet correlated with Bills of Entry data in SEZ online and there is no data transmission for Shipping Bill and Let Export Order in ICES 1.5.
27	3.16	ICES 1.5 does not have any mechanism to monitor goods released on transhipment	CBIC stated that in ICES 1.5, the module for transhipment of goods from Gateway Sea Ports to Inland Container Depots (ICDs) is already functional since the last few years. The Sea to Sea transhipment module has been launched on 7 February 2014.
28	3.17	Absence of integration of NIDB and ECDB data with ICES	There is no interaction between any active server of ICES and Server of DGoV and NIDB and ECDB are standalone databases and not integrated with ICES 1.5. No development as of yet.
29	3.18	Details of 'import against essentiality certificate for project not captured in ICES	Ministry has rolled out a Project Import Module in ICES vide Circular No 27/2019-Customs dated 3rd September 2019.
30	3.19.1	The information related to Export obligation fulfilment is not collated and utilised	As per reply of DG (Systems) (September 2021) ICES is able to generate licence-wise

		by department through any module/report in the application	information under "All India License View" role
31	3.19.2	No information on finalization of provisional assessments	DG (Systems) had launched a module for finalization of PA Bills of Entry in ICES 1.5 in April 2014 for online finalization of provisionally assessed bills and to monitor the pendency in finalization of provisionally assessed BsE/SBs. For the finalization of provisionally assessed BEs two new roles viz. FAO for Assessing Officers and FOC for group Asstt./Dy. Commissioner are created.
32	3.19.3	No information on action taken in short levy cases	Board in its reply (January 2014) stated that the EDI system already provides the facility to capture the details of fine and penalty in their respective columns till the OOC of the BE. Reference to the file no., show cause notice no. and details of the adjudication order are captured in the departmental comments of the BE.
33	3.19.4	Wherever duty is debited through manual challans, information about such payments is not uploaded into the system	The Department in their reply (January 2014) stated that in ICES, provision is there to capture payments made against manual BEs in the manual DTR module which is available with all EDI sites.
34	3.19.5	There is no facility to levy and collect EDD through ICES application, due to which it has to be collected separately manually	The calculation of EDD was integrated in ICES from 1st August 2015. However, Levy of EDD has been discontinued vide Customs circular 05/2016. Hence this issue is not relevant in present context.
35	4.1	Under-utilization of Thin Client terminals	Ministry stated that DG (Systems) has been informed that new procurement should be commensurate with the actual requirement and manpower availability. Further, all Chief Commissionerates are directed to ensure that all thin clients are put use.
36	4.2	Protection of EDI Hardware, software and Staff from lightning strikes at ICD, Pithampur	CBIC stated (2014) that in terms of the extant instructions site preparation is the responsibility of the custodian. The action taken to resolve the position will be informed to Audit. Final outcome is not known
37	4.3	Limited power back up for working of the EDI system at ICD, Mandideep (Bhopal)	CBIC stated (2014) that under the Local Area Network project only power back up has been provided. However, site specific requirements will be examined and appropriate action as considered necessary will be taken. Final outcome is not known.
38	4.4	Details of manually filed bills were not entered in the ICES	CBIC in its reply (January 2014) stated that a utility for entering such data is available. Further, through DTR module manual BE/SB can be entered in ICES.

			CAG Report No.24 of 2009-10	
1	3.11.1	Lack of provision to calculate/classify export duty	The software has since been modified and the export duty/cess is being levied correctly by the system.
2	3.11.2	Non-availability of collections of extra duty deposit (EDD)	The calculation of EDD was integrated in ICES from1st August 2015. Further, Levy of EDD has been discontinued vide Customs circular 05/2016. Hence this issue is not relevant in present context.
3	3.11.3	Incomplete capture of the parameters and manual intervention leading to short levy of BCD	The Ministry informed that the design deficiency pointed out by audit regarding system using pre-amended data has been rectified, post audit, through a software patch.
4	3.11.4	Data regarding country of origin	The Ministry informed that the system has been properly designed by capturing 'country of origin' at two places and using the value at the 'item' level for levy of ADD. Accordingly, any short levy pointed out by audit could be on account of assessment lapse.
5	3.11.5	SBs not matched with export general manifest (EGM) on DEPB items	The ministry in its reply informed that even after correcting the EGM error, the current status of the SB continued to be shown as mismatched in the system, which was subsequently rectified by NIC.
6	3.11.6	Currency of packing charges	The Ministry in its reply agreed to make provision in the system for capturing packing charges in Indian Rupees. Test check of Shipping Bills revealed that system is capturing packing charges
7	3.11.7	Items imported against licences not checked with revised Indian trade classification code (RITC)	Data is being transmitted online/electronically by DGFT containing RITC. However, Department stated that validation relating to matching of RITC in license and in BE will create hardship to the trade.
8	3.11.8	Interest on goods cleared from the warehouse was not built into the system	Calculation and collection of interest in respect of warehouse goods are being done in ICES 1.5.
9	3.12.1	Agency Commission was not restricted to 12.5 per cent of the value of goods	The agency commission is being restricted by the System upto 12.5 per cent.
10	3.12.2	No amount of drawback shall be allowed, if the amount or rate of drawback is less than one per cent of the FOB value	The Ministry in its reply assured that the necessary corrections in the logic built in the system will be done. Further, this restriction has been removed in drawback schedule from 2017 onwards.
11	3.12.3	Abatement of CVD in respect of imported footwear was not mapped correctly in the system	RSP calculation has been abolished since the introduction of GST. Hence this issue is not relevant in present context.

12	3.13.1.1.i	Incorrect computation of assessable value. Acceptance of zero or null values in respect of freight/insurance	The Ministry, while agreeing with the observation, informed that the defect has since been rectified by implementation of a software patch.
13	3.13.1.1.ii	Acceptance of lesser percentage values against freight /insurance	The Ministry stated that, there was no bar in accepting lesser percentage of freight/insurance, if documentary evidence to that effect exists and these documents are subject to verification by the Customs officers.
14	3.13.1.2	Benefits of notification	Ministry stated that 100% validation with regard to Notification/CTH, CETH not possible.
15	3.13.1.3	Debiting of licences under multiple schemes	Ministry stated that the validation is now done of scheme code instead of scheme codes grouping by implementation of software patch.
16	3.13.1.4	Grant of exemption of special CVD	Special CVD has been abolished since introduction of GST. Hence this issue is not relevant in present context.
17	3.13.1.5	CVD based on RSP	RSP based assessment has been abolished since introduction of GST. Hence this issue is not relevant in present context.
18	3.14.1	Change management control- Non-matching of the CTH and CETH	CETH has been abolished since introduction of GST. Hence this issue is not relevant in present context.
19	3.14.2	Non-updating of notification master tables	This issue has been addressed in ICES 1.5. All directories are updated centrally and are available to all sites immediately.
20	3.14.3	Incorrect updating of drawback schedule	The Ministry in its reply agreed that due to the large number of the entries in the drawback schedule some discrepancies may creep in during updation and these discrepancies are rectified on such discrepancies being reported. Test check revealed that the system is fetching the details of drawback schedule rates as prescribed.
21	3.15.1	Difference between the assessment and collection files	The Ministry stated that it was possible that the amount collected was less (upto rupees nine) than the duty assessed, as the system accepts duty payment, if the amount paid is matching upto 'tens' level. It further stated that duty can be recalculated for BEs taken up for post clearance audit, etc. However, the inconsistency is not due to any design deficiency.
22	3.15.2	In Ex-bond BE, the interest for delayed payment of duty was not calculated by the system	This para was settled by Audit in November 2009. Moreover, the interest is being calculated by the system.

23	3.15.3	Calculation of duty foregone item-wise was in negative figure	The problem was rectified by the department.
24	3.16.i	Database not utilised to its potential - Maintenance of bond register	Bond registers are being maintained in ICES 1.5. Whenever, audit sought data in respect of Bonds, the reports are generated and furnished.
25	3.16.ii	Levy of bond interest for delayed clearance of goods was calculated and collected manually	The levy of interest, calculation and collection are being processed through ICES 1.5.
26	3.16.iii	Finalisation of the provisional assessment were being finalised manually	Module has been added in ICES for finalization of Provisional Assessment.
27	3.17	Non updation of documentation	SRS/SDD was last updated in 2010 and Customs user manual was also last updated 2013. These are the latest versions available with the Department.
28	3.18	Business Continuity Planning	The Ministry in its reply stated that instructions for safe keeping of backup tapes/cartridges to field formations would be reiterated. It further informed that a data centre at Delhi and disaster recovery centre at Chennai have been set up and gradually the existing ICES locations will migrate to the data centre. Further, it is a part of the System Integrator's work and is being done by SI Contract Audit team.

Annexure II
Constraints relating to furnishing of data dump and slow execution of
data queries   (Refer Para 1.8.5)

Sl. No	Description of Data Query	Whether data received from DG (Systems)	Whether query passed/failed	Details in brief
1	Details of SB where RMS marked the SB for assessment and SB cleared without assessment from 01/10/2019 to 31/03/2020 (six months)	Yes	Could not be examined	Data furnished by the Department in .txt format. Hence, data could not be examined.
2	Details of SB where RMS marked the SB for Examination and SB cleared without examination done during the period from 01/10/2019 to 31/03/2020 (six months)	Yes	Passed	To know details of SB where RMS marked the SB for examination or SB cleared without examination. A query was run by the Department and 809 records were retrieved. On analysis, it was noticed that no Let Export Order (LEO) has been issued in these cases without examination where ever required.
3	Details of BsE in respect of those licences in which Import end date was from 01/10/2019 to 31/03/2020 (six months) and import allowed after import end date	Yes	Failed	Data was sought for those licenses in which import end date was from 01/10/2019 to 31/03/2020 (six months) and imports allowed after that. Audit observation in respect 31 authorisations/50 BEs was issued (March 2023); response of the Department is awaited. This will be pursued in future audits.
4	Details of SBs where SQC for CTH are not as per the first schedule during the period from 01/10/2019 to 31/03/2020 (six months)	No	NA	Data furnished by the Department could not be opened.
5	Details of SBs where exporters are GST taxpayers but did not declared GSTIN in SBs during the period from 01/10/2019 to 31/03/2020 (six months)	Yes	Not Applicable	Data given was related to the period of year 2015. Hence, no conclusion could be drawn due to incorrect data.

Sl. No	Description of Data Query	Whether data received from DG (Systems)	Whether query passed/failed	Details in brief
6	Details of Shipping Bills in which sample was drawn and EGM was given without/before entering test report during the period from 01/10/2019 to 31/03/2020 (six months)	Yes	Passed	DG (Systems) furnished 456 records. On analysis, it was found that date of sampled data was correctly entered before date of EGM.
7	Report the electronically amended IGM cases where fees are not paid from 01/10/2019 to 31/03/2020 (six months)	Query could not developed	Not Applicable	Department intimated that no such fee was levied in ICEGATE for electronically amended IGM cases where fees were not paid.
8	For all import cases to be reported where field relating to 'BE Selected by RMS' is null from 01/10/2019 to 31/03/2020 (six months)	Yes	Failed	Audit observation was issued in respect of 10,309 records (March 2023); response of the Department is awaited. This will be pursued in future audits.
9	Details of Home consumption BE data where rate of duty / Tariff value is not equal to rate of duty/ Tariff value prevailing on BE filing date from 01/10/2019 to 31/03/2020 (six months)	Yes	Failed	Audit observation was issued in respect of 2,352 BEs (March 2023); response of the Department is awaited. This will be pursued in future audits.
10	Details of Ex-bond BE data cleared under Section 68 where rate of duty / Tariff value is not equal to rate of duty/ Tariff value prevailing on Ex-Bond BE date from 01/10/2019 to 31/03/2020 (six months)	Yes	Failed	Audit observation was issued in respect of 151 records (March 2023); response of the Department is awaited. This will be pursued in future audits.
11	Details of cases of Advance/Prior BEs filed where tariff value is different on the date of filing BE and date of entry inwards of the goods in respect of from 01/10/2019 to 31/03/2020 (six months)	Yes	Passed	No cases were noticed.
12	Details of Warehousing BE data and corresponding Ex-Bond BE where the total item wise quantity is not equal to item wise Warehousing BE	Yes	Passed	On an analysis no discrepancy observed in the data provided.

Sl. No	Description of Data Query	Whether data received from DG (Systems)	Whether query passed/failed	Details in brief
	Quantity from 01/10/2019 to 31/03/2020 (six months)			
13	Detail of SBs where commission added in FOB value is more than 12.5 *per cent* of invoice value for the period 01/03/2020 to 31/03/2020	Yes	Not Applicable	To know details of SBs where commission added in FOB value is more than 12.5 *per cent* of invoice value, a query was run by the department and 159 records were retrieved. On analysis, it was found that the columns FOB value in foreign currency, FOB value in INR and Drawback paid were not available.
14	Detail of SBs where drawback paid is more than drawback calculated on drawback cap per unit for the period 01/03/2020 to 31/03/2020	Yes	Not Applicable	A query was run by the Department and 5,88,210 records were retrieved. On analysis, it was found that data was furnished at SB level instead of item level.
15	Detail of SBs where net weight is more than gross weight for the period 01/03/2020 to 31/03/2020	Yes	Passed	A query was run by the Department and 12 records were retrieved. On analysis, it was noticed that these Shipping Bills were amended Shipping Bills. Accordingly, there was no observation.
16	Details of goods imported under Customs Notification No. 16/2019 (dated 15/06/2019) with CTH 0713 40 00, 2810 00 20 and 3822 00 90 from 13/06/2019 to 17/06/2019	Yes	Not Applicable	Data was provided for Out of charge date instead of BE date. Further, the data provided was of BE date prior to date of notification (15 June 2019).
17	Details of goods imported under Customs Notification No. 02/2019 (dated 29/01/2019) with CTH 8507 60 00, 8517 62 90 and 8517 69 90 from 28/01/2019 to 01/02/2019	Yes	Passed	Data was provided of Out of charge date instead of BsE date. Data of 530 records was furnished. Fourteen records were checked and found correct.
18	Details of goods imported under Customs Notification No. 36/2001 (Customs – NT) as amended 01/10/2019 to 31/03/2020 (six months)	No	Not Applicable	Data was not received.

Sl. No	Description of Data Query	Whether data received from DG (Systems)	Whether query passed/failed	Details in brief
19	Details of goods imported where Anti-Dumping Duty/Safe Guard Duty has been levied 01/10/2019 to 31/03/2020 (six months)	No	Not Applicable	Data was not received.
20	Details of cases in which Out of Charge BEs which are ordered for examination (FIRST CHECK) from 01/10/2019 to 31/03/2020 (6 months).	No	Not Applicable	Data was not received.
21	Details of BEs where duty were paid after one day (excluding holidays) of the assessment for the period 01/11/2019 to 31/03/2020 (five months)	Yes	Failed	Audit observation was issued (March 2023); response of the Department is awaited. This will be pursued in future audits.
22	To check that RMS Exports is not selecting SBs for examination where the Exports Goods are factory stuffed under the supervision of Central Excise Officers. Details of SB where goods are factory stuffed and RMS marked for examination during the period from 01/10/2019 to 31/03/2020 (six months)	Yes	Passed	DG (System) furnished 1,000 records related to 18 SBs. On analysis, it came to notice that Factory stuffed consignments were also being selected by RMS.
23	Details in respect of Amended Bill of Entries from 01/10/2019 to 31/03/2020 (six months)	Yes	Not Applicable	Data furnished could not be examined, because of format issues.
24	Details in respect of Bill of Entries where duty paid is less than the duty assessed/payable from 01/10/2019 to 31/03/2020 (six months).	Yes	Failed	Audit observation was issued in respect of 11,214 records (March 2023); response of the Department is awaited. This will be pursued in future audits.
25	Details of Warehousing and corresponding ex-bond BE data for the period 01/04/2018 to 31/03/2020 to verify the correctness of the web ledger of the goods	Yes	Not Applicable	Only sample data has been given. Less than 90 days - 631 More than 90 days - 363 The Department has given only sample data of 1,000 each at WBE

Sl. No	Description of Data Query	Whether data received from DG (Systems)	Whether query passed/failed	Details in brief
	imported and cleared thereon along with interest levied/paid			Item level and Ex-BE level in respect of three ports (INAKV6 - Ankaleshwar (Gujarat), INAPL6 - Dadri-ACPL CFS, INAMD4 - Ahmedabad). Whether the interest was calculated, levied and collected correctly could not be ascertained, since the details of duty are not captured in the data.
26	Data in respect of Re-export BEs and corresponding SBs to verify whether conditions prescribed in the various re-export Notifications are fulfilled or not for the period 01/04/2018 to 31/03/2020	Yes	Failed	Audit observation was issued (March 2023); response of the Department is awaited. This will be pursued in future audits.