CHAPTER I
DEPARTMENT OF REVENUE -CUSTOMS REVENUE

1.1 Resources of the Union Government

The Government of India's resources include all revenues received by the Union Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans. Tax revenue resources of the Union Government consist of revenue receipts from direct and indirect taxes. Table 1.1 below shows the summary of resources of the Union Government for the Financial Year (FY) 2014-15 and FY 2013-14.

Table 1.1: Resources of the Union Government	**(₹ in crore)**	
	FY 2014-15	**FY 2013-14**
A. Total Revenue Receipts	16,66,717	15,36,024
i. Direct Taxes Receipts	*6,95,792*	*6,38,596*
ii. Indirect Taxes Receipts including other taxes[1]	*5,49,343*	*5,00,400*
iii. Non-Tax Receipts	*4,19,982*	*3,93,410*
iv. Grants-in-aid & contributions	*1,600*	*3,618*
B. Miscellaneous Capital Receipts[2]	37,740	29,368
C. Recovery of Loan & Advances[3]	26,547	24,549
D. Public Debt Receipts[4]	42,18,196	39,94,966
Receipts of Government of India (A+B+C+D)	**59,49,200**	**55,84,907**
Source: Union Finance Accounts of respective years. Direct Tax receipts and Indirect tax receipts including other taxes have been worked out from the Union Finance Accounts. Total Revenue Receipts include ₹ 3,37,808 crore in FY 2014-15 and ₹ 3,18,230 crore in FY 2013-14, share of net proceeds of direct and indirect taxes directly assigned to states.		

Source: Union Finance Accounts of FY 2014-15

1.1.1 The total receipts of the Union Government increased to ₹ 59,49,200 crore in FY 2014-15 from ₹ 55,84,907 crore in FY 2013-14. In FY 2014-15, its own receipts were ₹ 16,66,717 crore including gross tax receipts of ₹ 12,45,135 crore.

1.2 Nature of Indirect Taxes

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

[1] Indirect taxes levied on goods and services such as customs duty, excise duty, service tax etc.;
[2] This comprises of value of bonus share, disinvestment of public sector and other undertakings and other receipts;
[3] Recovery of loans and advances made by the Union Government;
[4] Borrowing by the Government of India internally as well as externally;

a) Customs duty: Customs Duty is levied on import of goods into India and on export of certain goods out of India (Entry 83 of List 1 of the Seventh Schedule of the Constitution). Custom also has important border and exchange control roles.

b) Central Excise duty: Duty is levied on manufacture or production of goods in India. Parliament has powers to levy excise duties on tobacco and other goods manufactured or produced in India except alcoholic liquors for human consumption, opium, Indian hemp and other narcotic drugs and narcotics but including medicinal and toilet preparations containing alcohol, opium etc (Entry 84 of List 1 of the Seventh Schedule of the Constitution).

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

1.3 Organisational Structure

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

In addition, DoR is also responsible for the Indian Stamp Act 1899 (to the extent falling within the jurisdiction of the Union), the Central Sales Tax Act 1956, the Narcotic Drugs and Psychotropic Substances Act 1985 (NDPSA), the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 (SAFEMA), the Foreign Exchange Management Act, 1999 (FEMA) and the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974 (COFEPOSA), the Prevention of Money Laundering Act, 2002 (PMLA) and the attached/ subordinate offices for intelligence, enforcement, ombudsman and quasi judicial functions.

The overall sanctioned staff strength of the CBEC is 91,807[5](as on 1 January 2015). The organizational structure of CBEC is shown in Annual Report 2015, Ministry of Finance.

1.4 Growth of Indirect Taxes - Trends and composition

Table 1.2 below gives the relative growth of indirect taxes during FY 11 to FY 15. The percentage share of indirect taxes to GDP[6] was slightly above 4 per cent during last five years.

Table 1.2: Growth of Indirect Taxes

Cr. ₹

Year	Indirect Taxes	GDP	Indirect Taxes as % of GDP	Gross Tax Revenue	Indirect Taxes as % of Gross Tax Revenue
FY 11	3,45,371	77,95,314	4.43	7,93,307	44
FY 12	3,92,674	90,09,722	4.36	8,89,118	44
FY 13	4,74,728	1,01,13,281	4.69	10,36,460	46
FY 14	4,97,349	1,13,45,056	4.38	11,38,996	44
FY 15	5,49,343	1,25,41,208	4.38	12,45,135	44

Source: Finance Accounts, Figures for FY 15 are provisional

Indirect taxes as a percentage of GDP in FY 15 were lower than the average of 4.4 per cent in the last five years. The share of indirect taxes to gross tax revenues of FY 15 were equivalent to the five years average of 44 per cent. GDP has grown by 61 percent and gross tax revenue by 60 percent during this period, which saw major rationalization and reduction of indirect taxes. GDP increased from ₹ 77.95 lakh crore in FY 11 to ₹ 125.41 lakh crore (61 %) in FY 15 whereas Indirect Taxes increased from ₹ 3.45 lakh crore in FY 11 to ₹ 5.49 lakh crore (60 %)in FY 15.

1.5 Growth of Customs Receipts - Trends and composition

Table 1.3 below gives the growth trends of Customs Revenue in absolute and GDP terms during FY 11 to FY 15.

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[5] Figures furnished by the Directorate General of HRD (Customs, Central Ex. & STax as on 1 January 2015.

[6] Source: Union Finance Accounts of respective years, GDP Figures of GDP provided by Central Statistical Organisation. in June 2015.

Table 1.3: Growth of Customs Receipts

Cr. ₹

Year	GDP	Gross Tax Revenues	Gross Indirect Taxes	Customs Receipts	Customs Revenue as % of GDP	Customs Revenue as % of Gross tax	Customs as % of Indirect taxes
FY 11	77,95,314	7,93,307	3,45,371	1,35,813	1.74	17	40
FY 12	90,09,722	8,89,118	3,92,674	1,49,328	1.66	17	38
FY 13	1,01,13,281	10,36,235	4,74,728	1,65,346	1.63	16	35
FY 14	1,13,55,073	11,38,996	5,00,400	1,72,033	1.52	15	34
FY 15	1,25,41,208	12,45,135	5,49,343	1,88,016	1.50	15	34

Source: Finance Accounts, FY 14 figures are provisional

The Customs Revenue as percentage of GDP shows declining trend in the FY14 and FY 15. While, the Customs Revenue as a percentage of Indirect taxes showed decline from 40 percent in FY 11 to 34 percent in FY 15. Customs revenue as a percentage of gross tax reduced from 17 percent in FY 11 to 15 percent in FY 15. Custom duty as a ratio of gross tax and indirect taxes remained at 15 percent and 34 percent as in FY 14.

1.6 India's export and import for FY 11 to FY 15

Exports have recorded a year on year decline to (-) 0.45 percent (₹ 8,663 crore) during FY 15 as compared to 17 percent growth (₹ 2,70,692 crore) in FY 14 and 35 percent in FY 11 (Table 1.4 given below).

Table 1.4: India's Import and Export

Cr. ₹

Year	Imports	Growth %	Customs Receipts	Growth %	** %	Exports	Growth %	Trade Imbalance	% #
FY 11	1683467	23	135813	63	5	1142922	35	-540545	32
FY 12	2345463	39	149328	10	4	1465959	28	-879504	37
FY 13	2669162	14	165346	11	4	1634319	11	-1034843	38
FY 14	2715434	2	172033	4	4	1905011	17	-810423	30
FY 15	2737087	0.80	188016	9	4	1896348	-0.45	-840739	31

Source: EXIM data, Department of Commerce, ** Customs Receipts as percent of (Imports +Exports), # Trade imbalance as percent of Imports

Customs receipts have remained steadily at an average of 4 percent of the total trade in the last five years. Imports have fluctuated between 39 per cent (FY 12) to 0.80 per cent (FY 15) in the last five years. Imports registered a miniscule growth of 0.80 percent (₹ 21,653 crore) as compared to growth of 2 percent (₹ 46,272 crore) last year. There was negative export growth with higher trade imbalance vis-à-vis FY 14. There was no apparent correlation between the growth in imports to the decline in exports over the last five years. The trade imbalance reduced from 38 percent in FY 13 to 31 percent in FY 15, close to the lowest at 30 per cent in FY 14, in the last five years.

1.7 Tax base

The customs revenue base comprises of the Importers and Exporters issued with Importer Exporter Code (IEC)[7] by the Director General of Foreign Trade (DGFT). As on July 2015 there are 65011 active IECs. For managing the foreign trade there are 391 Import ports (98 EDI, 72 Non-EDI, 41 Manual and 180 SEZ) and 359 Export ports (115 EDI, 74 Non-EDI, 37 Manual and 133 SEZ). During 2014-15, ₹ 18.96 lakh crore exports (92,62,011 transactions) and ₹ 27.37 lakh crore worth of imports (75,22,430 transactions) took place. Eighteen trade agreements[8] providing some kind of tariff concession, Customs Receipts (₹ 1,88,016 crore) along with revenue forgone (₹ 4,97,945 crore) forms the basis of the tax audit.

1.8 Growth in Imports and Customs Receipts

The table 1.5 below depicts growth in Imports and Customs Receipts.

Table 1.5: Growth in imports and Customs Receipts

Cr.₹

Year	Imports	Growth %	Customs Receipts	Growth %	Custom Receipts to Imports %	Peak rate of duty
FY 11	1683467	23	135813	63	8.1	10
FY 12	2345463	39	149328	10	6.4	10
FY 13	2669162	14	165346	11	6.2	10
FY 14	2715434	2	172033	4	6.3	10
FY 15	2737087	1	188016	9	6.9	10

Source: Union Budget, EXIM Data- Department of Commerce

Growth in value imports has reduced to one percent because of the huge reduction in the International prices of Crude and Commodities. The Customs receipts to value of imports averaged at 6.8 percent, ranging between 6.2 to 8 percent. In FY 15 it was 6.9 percent.

During FY 15, for one percent growth of value of imports, customs receipts increased by nine percent over the last financial year.

1.9 Monitoring of Departmental performance

Department of Revenue does not have a Results Framework Document (RFD)[9]. In the absence of measurable performance indictor its revenue policy strategy and methodology of gauging its performance is not known. Department of Revenue prepares one annual report and outcome budget for the entire Ministry of Finance with five big departments and Responsibility Centres (RCs).

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[7] IEC is issued by DGFT, Delhi to every importer/Exporter.
[8] http://commerce.nic.in/trade/international
[9] RFD is required to be prepared under the "Performance Monitoring and Evaluation System (PMES)" of Cabinet Secretariat.

1.10 Budgeting issues in Customs receipts

Table 1.6 below depicts Budget and Revised estimates vis-a vis actual Customs receipts.

Table 1.6: Budget and Revised estimates, Actual receipts

Cr.₹

Year	Budget estimates	Revised budget estimates	Actual receipts	Diff. between actuals and BE	% variation between actuals and BE	% variation between actuals and RE
FY 11	115000	131800	135813	(+)20813	(+)18.10	(+)3.04
FY 12	151700	153000	149328	(-)2372	(-)1.56	(-)2.40
FY 13	186694	164853	165346	(-)21348	(-)11.43	(+)0.30
FY 14	187308	175056	172033	(-)15275	(-)8.16	(-)1.73
FY 15	201819	188713	188016	(-)13803	(-)6.84	(-)0.37

Source: Union Budgets and Finance Accounts

Despite the actual receipts falling short of the budget estimates year after year, the Government continued to make optimistic projections during presentation of the Annual Budget. The percentage variation during the last five years between budget estimates and actual collections was in the range of (-) 11.43 percent to (+) 18.10 percent as shown in Table. The revised estimates to actual receipts also varied from (-)3.97 percent to (+) 3.04 percent.

Ministry may furnish reasons for variation in BE, RE and actuals in 2014-15 alongwith its forecasting methodology in Customs revenue.

1.11 Customs Revenue forgone under Customs Act, 1962

The Central Government has been delegated powers of duty exemption under Section 25(1) of the Customs Act, 1962 to issue notifications in public interest so as to prescribe duty rates lower than the tariff rates prescribed in the Schedule to the Customs Tariff Act. These rates prescribed by notification are known as the “effective rates”.

The revenue forgone is thus defined by Ministry of Finance to be the difference between duty that would have been payable but for the issue of the exemption notification and the actual duty paid in terms of the relevant notification. In other words,

Revenue forgone= Value X (Tariff rate of duty – Effective rate of duty)

Table1.7: Customs Receipts and Total Customs Revenue forgone

Cr.₹

Year	Customs Receipts	Revenue forgone on commodities including Schemes	Refunds	Drawback paid	Rev. forgone +Refunds+ DBK	Revenue forgone as % of Customs Receipts
FY 11	135813	230131	3474	9001	242606	179
FY 12	149328	285638	3202	12331	301171	202
FY 13	165346	298094	3031	17355	318480	193
FY 14	172033	326365	4501	18539	349405	203
FY 15	188016	465618	5051	27276	497945	265

Source: Union Receipts Budget, CBEC DDM, CBEC

The Revenue forgone as a percentage of Customs Receipts was the highest in FY 15 at 265 percent (Table 1.7). During the last five years it ranged from 179 to 265 percent. Revenue foregone on commodities as well as total revenue foregone had doubled in the last 5 years from ₹ 2.43 thousand crore to ₹ 4.98 thousand crore in FY 15. Drawbacks have grown 200 per cent in the last 5 years, whereas refunds have only grown by 47 per cent. During the FY 15, 78 percent of the Revenue forgone was on precious metals and articles thereof, mineral fuels and Iron and Steel etc.

Table1.8: Revenue forgone under various Export promotion schemes

Scheme	**Amount forgone/disbursed**					**Cr.₹**
	FY11	**FY 12**	**FY 13**	**FY 14**	**FY 15**	**(% of Total)**
1. Duty Drawback excluding SEZ	9001	12331	17422	21799	26998	(29)
2. Advance Licence	19355	18306	18971	20956	23461	(26)
3. Focus Product Scheme (FPS)	1209	3056	4579	7640	10083	(11)
4. EPCG	10621	9672	11218	8990	8010	(9)
5. SEZ	8668	4567	4503	6206	4752	(5)
6. Others *	22174	20564	15649	17261	18660	(20)
TOTAL	71028	68496	72342	82852	91964	
% of Customs Receipts	**52**	**46**	**43**	**48**		**49**

*Others include EOU/EHT/STP, DFIA Schemes, FMS, Vishesh Krishi and Gram Udyog Yojana (VKGUY), Target plus schemes, Status Holder Incentive scrip scheme (SHIS), Served from India Scheme (SFIS), DEPB (exclud. SEZ), DFECC Schemes, DFRC etc.

Source: Directorate of Data Management, CBEC, Ministry of Finance

The Revenue forgone under Export Promotion schemes stood at 49 percent of the Customs Receipts during the FY 15. Scheme wise duty forgone ranged from 52 percent to 43 percent between FY 11 to FY 15 (Table 1.8 above).

During FY 15 top five schemes on which duty was foregone were Duty drawback scheme, Advance license scheme, Focus Product Scheme, EPCG, and

SEZ. These five schemes accounted for 80 percent of total duty foregone under the schemes.

During FY 15 revenue foregone under Duty Drawback Scheme was the highest among the different Export Promotion Schemes. It had regular upward increase from FY 11 onwards and exceeded Advance License scheme in FY 14 and FY 15. The revenue foregone under Advance License Scheme and Focus Product Scheme had shown increasing trend from FY 12 onwards. Duty foregone under EPCG Scheme correlated with the export growth during FY 11 to FY 15 except in the FY 14.

Revenue outcome assessments of the various promotional schemes, trade agreements and general exemptions are not made available as a part of the budget document.

1.12 Human Resources management in CBEC

Director General of Human Resource Development formed in November 2008 has specific roles with respect to Cadre management, Performance management (of group and individual levels), capacity building, strategic vision development and welfare and Infrastructure divisions for a 91,807 strong work force (as on 1 January 2015) which included 18067 additional posts sanctioned (December 2013) by the Ministry after cadre re-structuring in 2013 so that:

a. Indirect tax to GDP ratio could be improved;
b. A robust Risk Management System (RMS) covering all ports and transactions could be in place;
c. Officials and officers are trained to use ICES proficiently;
d. Technical audit procedures are strengthened.

The RFD FY 15 of CBEC covers the important activities mentioned above. The measurement and success indicators have not been correlated with the policy decisions already taken by Government in case of self assessment, OSPCA, RMS and use of ICT, ICES and inter linkages with other tax and foreign policies of Government necessitating, restructuring and re-allocation of human resources with appropriate skills to fill the capacity gaps.

CBEC has not provided information about the trainings conducted by their Regional training institutes during FY 15 despite several reminders.

1.13 Arrears of customs duties

Table 1.9 overleaf depicts Customs revenue demanded up to March 2014 but not realised by the department at the end of the FY 15.

Table1.9: Arrears of Customs duties

Cr.₹

Zone	Amt. under dispute				Amt. not under dispute				
	Less than 5 years	Five years but < 10 years	More than 10 years	Total (Co.2+3+4)	Less than 5 years	Five years but < 10 years	More than 10 years	Total (Co.6+7+8)	Grand total (Col.5+9)
1	2	3	4	5	6	7	8	9	10
Ahmedabad Cus	2039	88	69	2196	465	465	265	1195	3390
Chennai Cus	1700	291	28	2019	174	258	246	678	2697
Delhi	989	53	43	1085	641	169	31	841	1926
Bangalore Cus	1465	134	4	1603	142	39	14	195	1798
Mumbai-I	755	106	11	872	437	271	212	920	1715
Vizag	1422	39	29	1490	111	16	50	178	1667
Mumbai-III	923	262	41	1226	126	83	35	244	1470
Delhi Cus-Prev	865	94	01	960	127	33	32	192	1152
Sub total	10158	1067	226	11451	2223	1387	775	4443	15815
Others	2272	746	129	3146	728	695	403	1768	4993
Grand Total	**12430**	**1813**	**355**	**14597**	**2951**	**2082**	**1178**	**6211**	**20808**
Arrears of top eight zone to total Arrears in percentage									**76%**

Source: Chief Commissioner, Tax Arrears Recovery, Central Excise, Customs & Service Tax

Customs revenue of ₹ 20,808 crore demanded up to March 2015, was not realised by the department at the end of the FY 15 (Table 1.9). Of this ₹ 6211 crore was undisputed. However ₹ 3260 crore (53 percent of total arrears) of the undisputed amount had not been recovered for a period of over five years. Customs revenue arrears for top eight zones account for 76 per cent of total arrears pending during FY 15. There is a need to strengthen the recovery mechanism of the department.

1.14 Cost of Collection for the FY 11 to FY 15

Table 1.10 below indicates the cost of collection for the five year financial period from 2010-11 to 2014-15.

Table1.10: Cost of Collection during FY 11 to FY 15

Cr.₹

Year	Expdr. on Revenue, Import /export and trade control functions	Expenditure on preventive and other functions	Transfer to Res. Fund, Deposit A/c and other expdr.	Total	Customs receipts	Cost of collection as % of customs receipts
FY 11	293	1421	5	1719	135813	1.27
FY 12	306	1577	5	1888	149876	1.26
FY 13	315	1653	10	1979	165346	1.20
FY 14	333	1804	5	2142	172033	1.25
FY 15	382	2094	20	2496	188016	1.33

Source: Finance Accounts

Expressed in terms of percentage of receipts, cost of collection ranged between 1.20 percent (FY 13) to 1.33 percent (FY15) (Table 1.10). Despite automation and extensive use of ICT, the cost of collection was the highest in FY 15 in the last five years. CBEC did not provide to audit the methodology to calculate the Reserve fund, Deposit Account and other expenditure in the overall cost of collection mentioned in the table above.

1.15 Tax accounting and internal Audit irregularities

1.15.1 Audit of Tax accounting, controls and reconciliation in the offices of PCCA, PAOs, Customs Commissionerates and their subordinate field offices for the year 2015 revealed that the system suffered from several inadequacies. There were instances of Non reconciliation of revenue figures by the P.A.O. with Chief Accounts Officers of the respective commissionerates (₹ 5319.24 crore), Non reconciliation of refund figures (₹ 2465.96 crore), Cases of mismatch of ICEGATE data with Bank data for Customs Duty paid (₹ 1166.53 crore), Non-availability of details of Education Cess separately in the physical challans received in PAO (Customs), Discrepancies between Date-wise Monthly Statements (DMS) and Put-Through Statements (PTS) prepared by CAS, RBI, Nagpur (₹ 3.84 crore), Custom receipts of ₹ 20.75 crore are awaiting transfer to receipt head and Non-conduction of internal audit at PAO (Customs), New Delhi, Kolkata, Kandla, Tiruchirapalli, Chennai and Tuticorin for the period 2011-15.

The department had not given reasons for the mismatch claiming that it does not have details of e-payments through ICEGATE and could only respond after receiving data from NIC. It was also observed that register of lost challans and register of bank scrolls were not maintained.

1.15.2 Principal Chief Controller of Accounts (Pr.CCA), CBEC audits different payment and accounting functions of CBEC. Though internal audit is an integral part of the internal control system, the internal audit reports of Pr.CCA indicated pendency to the tune of 475 internal audit paras with gross value of ₹ 34670.68 crore[10].

Pr.CCA audit comments comprised the following irregularities apart from points of establishment audit till FY 15:

a) Non recovery of dues from Govt. Department/State Government Bodies/Private parties/ Autonomous bodies; ₹ 16192.69 crore.
b) Blocking of government money; ₹ 7387.90 crore.
c) Idle machinery/ surplus stores, ₹ 71.72 crore

[10] Pr.CCA DO letter No. IA/NZ/HQ/CAG INFO/2015-16/198 dated 18 September 2015

The internal audit report does not provide a control based assurance in line with its risk assessment.

1.16 Technical audit by DG (Audit), CBEC

Custom department has been computerized by introducing ICES in 1994 which has been further upgraded to ICES 1.5 version (2009). It has also introduced Risk Management System (RMS) by flagging various risk factors on valuation, classification, notification etc. in the system. Computerization seeks to improve the assessment process of imported goods as well as exported goods and minimizes irregularities of incorrect calculation of duty, application of tariff rates, application of exemption notifications, mis-classification of goods in general.

Table1.11: Departmental audit during FY 11 to FY 14

Cr.₹

FY	Audits conducted	Duty detected	Duty recovered	Duty detected to Customs Receipts %	Duty recovered to Detected %	Duty recovered to Customs Receipts %
FY 11	323399	548	447	0.40	82	0.32
FY12	525406	439	459	0.29	105	0.31
FY13	446911	1824	1058	1.10	58	0.64
FY14	494393	294	223	0.17	76	0.13
FY 15	441068	4.45	3.50	0.002	79	0.001

Source: Directorate General of Audit, Customs & Central Excise

Departmental audit is an important instrument of internal control which detects non compliance and inefficiencies and initiates remedial action on shortcomings. To ensure effective inspection system CBEC issued instructions on the subject recently. Table 1.11 given above gives quantitative achievements in this area during FY 11 to FY 15.

1.17 Tax Evasion, Investigation and Seizures

There has been decreasing trend in evasion of cases both in terms of numbers and the amount during the last 3 years (FY 13 to FY 15) as shown in the **Annexure 1**. The number of duty evasion cases came down from 709 to 407 and value went down from ₹ 4,743 crore to ₹ 2,926 crore during the same period. Interestingly, this was also the period when various ICT solutions were in use and Self assessment, RMS based PCA and intelligence was embarked on with a gradual shift towards OSPCA.

DRI unit (CBEC) detected 2889 cases of tax evasion involving ₹ 13335.61 crore during the FY 11 to FY 15. The products involved were mainly second hand machinery, electronic goods, memory cards, helicopters, automobiles and its accessories, gold and diamonds.

1.18 Irregular trend in Seizures of Specified Commodities

Scrutiny of seizures of Specified Commodities during FY 11 to FY 15 (**Annexure 2**) reveals that there was an irregular trend in seizures of specified commodities. During FY 12 and FY 14 there was a sudden increase. Seizures over the period have reduced to 0.10 percent (FY 15) of the value of imports from 0.20 percent (FY 11) in tandem with the decreasing trend in scheme based duty evasion **(Annexure 1)**.

It was seen that total amount of seizures at All India level have come down from ₹ 2475.70 crore in FY 11 to ₹ 2029.18 crore in FY 15. Maximum rise was in Gold, Narcotic Drugs, Machinery/Parts and Vehicles/Vessel/Aircrafts etc. This was despite tariff rationalization, increasing trade openness, facilitation and surveillance.

1.19 Customs procedure and Trade facilitation

The Government continued to streamline customs procedures and implement various trade facilitation measures. Self Assessment is a major trade facilitation measure that could result in significant reduction in the time taken for clearance of imported/export goods through Customs as witnessed in the case of Excise and Service tax department. Some of the initiatives taken include the introduction of EDI, "self assessment" for imports as well as exports and increased coverage of the risk management system (RMS) to carry out assessment on randomly selected bills of entry based on risk parameters and On Site Post Clearance Audit (OSPCA). The level of customs intervention in the clearance of import and export cargoes is intended to progressively reduce. In addition, AEO (Authorized Economic Operator) and large taxpayer unit (LTU) have been introduced for international and national facilitation. For expeditious sanction and refund of 4 per cent SAD, the procedures applied in general and especially for ACP importers have been simplified for sanction of refund without pre-audit within a fixed time of 30 days. Further, the utilization of refund of 4 percent SAD paid through different scrips such as DEPB/Reward Schemes has been relaxed by allowing manual registration of such scrips. Time release studies have been conducted in limited ports. It was observed that ICT based solutions (ICES) were not extended to all customs transactions.

1.20 Customs procedures are largely computerised and supplement all the facilitation measures. The import and export documents have to be e-filed in Custom's ICEGATE portal which is processed in ICES 1.5 system of the CBEC. ICES was developed as the core ICT system through which import and export documents were to be processed to ensure uniformity of assessment and valuation for collection of revenue. The Government from time to time issues various notifications for change in duty rates, imposition and exemption of duties and taxes, change in currency exchange rates etc. Likewise, licensing procedures for imports and exports are computerised (DGFT EDI) by the DGFT. Similarly, imports into and exports from Special Economic Zones are managed by SEZs through computerised portal SEZ ONLINE. Audit observations based on the EDI Customs data on the schemes and assessment orders have been reported in the respective chapters

1.20.1 SEZ online system inter-alia captured, maintained and managed data base for export value (₹ 232944.79 crore), DTA sales (₹ 51474.94 crore), DTA purchase (₹ 59118.68 crore), import value (₹ 233460.58 crore) and the duty forgone (₹ 22569.08 crore) in 2014-15. Audit of the application revealed that the data captured was incomplete, inconsistent and at times incorrect without a linkage with the ICES system of the CBEC. DoC and DCs SEZ also could not avail of the system as its Dashboard and MIS.

Though DoC committed (June 2014) to rectify the deficiencies/lacuna in the system, the irregularities still persisted as on date (September 2015).

1.20.2 DGFT's EDI data is stored in four databases, namely, DGFTMAIN, DGFTRLA, EBRC and DGFT. While the first three forms the set of central databases and reside at the NIC Data Centre at New Delhi, the database called DGFT resides at the Local Sever of each of the 36 Regional Licensing Authorities (RLAs). The data in each RLA's 'DGFT' database is finally collated at the central server.

Audit of the application revealed that there were still cases relating to incorrect or insufficient mapping of FTP provisions, lack of validations of entered data, permissions for too many manual interventions and alterations of data, incorrect updating of important rate directories, poor synchronization with ICES data. A few cases are illustrated below:

i Audit observed that FOB Value in SB data entered manually was different *vis-à-vis* data supplied by Customs for the same Shipping Bills. In the 3,72,458 SB records were manually entered, it was noticed that in 15691 cases (4 %), the FOB value entered in manual data was different from that provided by Customs. The FOB value of exports, which is the basis for granting duty credit, was found higher in 2580 cases amounting to ₹ 608.66 crore. Reduction in FOB value was also noticed in 13,111 cases amounting to ₹ 401.75 crore. Even at the minimum allowed duty credit rate for Chapter 3 schemes @2 percent of FOB value for FPS and MLFPS, the increase in net FOB value translates into grant of excess duty credit benefits amounting to ₹ 4 crore in 15691 cases. Manual change in Customs port of export was also noticed in 2,389 cases.

ii. Comparison of VKGUY scrip records for the period 2014-15 with records of items attracting specific DEPB rates not falling under product codes

90/22C and 90/22D, revealed that excess duty credit under VKGUY Scheme was allowed due to non-restriction of the allowed rates to the reduced rates of the applicable 3 percent or 5 percent, in 44 cases.

iii. Audit of the Status holders and their status certificates revealed that in 59 cases SHIS duty scrip were issued to the firms wherein their status/certificate issuing authority is not available in the DGFT licensing database.

DGFT in reply (November 2014) to similar observations in the C&AG Audit Report no.8 of 2015 (Chapter 8) stated that the audit observations would go a long way in improving their systems and processes. However on a follow up audit in (September 2015), the systemic deficiencies seemed to persist in the DGFT EDI system.

1.21 Risk Management system (RMS)

Efficiency of RMS hinges on the precision of the outliers highlighted and increasing the coverage of the ICT application to all air cargo, sea port and land ports, SEZ / EOU. It does not include the non-EDI ports and all filings in the EDI ports. Table 1.12 given overleaf depicts number of Import and export transactions flagged by RMS vis-a-vis import and export transactions during FY14 and FY 15.

Table 1.12: Transactions flagged by the RMS

No. of transactions flagged by RMS	FY 14	FY 15
Imports	16,21,734# (23.24 %)	18,12,765 (24 %)
Exports	3,20,047# (03.80 %)	18,10,718 (20 %)
Total transactions (Imports)	69,15,958*	75,22,430
Total transactions (Exports)	84,11,542*	92,62,011

Source: # Risk Management Division, DRI, CBEC, MOC and Industry, Govt. of India

In imports 18.13 lakh transactions (24 percent) and in exports 18.11 lakh (20 percent) transactions have been flagged against total imports and export transactions during FY 15.

1.22 On Site Post Clearance Audit (OSPCA) Scheme

After introduction of OSPCA, on the one hand Customs department had effectively reduced the audit of ACP clients, while on the other the OSPCA scheme had not fully picked up. During the FY15, out of 519 planned, audit of only 113 units under OSPCA, was conducted which resulted in detection of short levy of ₹ 4.73 crore, of which ₹ 2.38 crore was recovered.

1.23 24X7 Customs Clearance Operation

In order to facilitate import and exports the Board decided to begin on a pilot basis 24X7 customs clearance with effect from 1 September 2012 at identified Air cargo complexes (Chennai, Mumbai, Delhi and Bangalore) and seaports

(Kandla, JNPT, Chennai and Kolkata) in respect of following categories of imports and exports:

a. Facilitated Bills of Entry where no examination and assessment is required; and
b. Factory stuffed export containers and export consignment covered by Free Shipping Bills.

In order to further facilitate trade, coverage of 24X7 customs clearance operations was extended to cover export consignments at four air cargo complexes. Further, 24X7 services for select import and export documents have now been extended (May 2013) to 13 more air cargo complexes working on EDI. The facility was extended to airports such as Chennai, Mumbai, Delhi and Bangalore.

1.24 Single window Customs clearance

In order to cut transaction cost and time, as well as for better utilization of resources, implementation of single window scheme has been conceptualized by CBEC with customs being lead agency to implement the same.

Single window in customs aims to provide a platform for traders to file a common declaration electronically, meeting requirements of other regulatory agencies involved in clearance process of imported/exported goods. Under single window regime, data fields/information relating to other regulatory agencies is transmitted electronically to get their clearance/input before clearance is allowed by customs.

1.25 Border control and facilitation issues

It has been observed in audit that infrastructure available with Customs' agencies at Land, Air and Sea Custom Stations are not always adequate and sufficient.

Like Air and Sea Ports, an institutional framework viz. Land Ports Authorities of India (LPAI Act 2010) was also established and entrusted the responsibility to undertake the construction, management and maintenance of Integrated custom port (ICPs) for regulatory and support functions in an integrated manner in one complex with a single agency responsible for co-ordinated functioning of various Government authorities/service providers.

These Customs stations and ICPs have outstanding issues duly supported by DRI, Local Risk Management (LRM) inputs with security implications impacting border control functions of Customs e.g. availability of full body truck scanners, inadequate system of examination of passenger baggage and passengers at passenger terminal; no mechanism to inspect the purity of gold/Precious stones; lack of sufficient manpower to curb smuggling activities despite increasing trend in seizure of gold, absence of facility of X-ray/ Non intrusive investigation (NII) techniques, ICES coverage of Precious Cargo Customs Clearance (PCCC), Foreign Port Officer (FPO), hand baggage; access to Directorate of Valuation database, etc. This often led to smuggling of unauthorized goods and /or lack of facilitation.

The overall impact, of not having the desired augmentations in the port infrastructure on border control/ facilitation gains importance under the following scenarios where:

- Customs department had not made formal request for any augmentation to the port authorities for equipment/ infrastructure for security/ facilitation purposes.
- Customs department had for a defined and acknowledged need, requested for specific augmentations but the same has not been acceded by the port authorities.
- For a defined and acknowledged need of the Customs department, specific augmentations have been acceded by the port authorities but were not acted upon in time.

1.26 Audit effort and Customs Audit Products

Compliance Audit Report

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

1.27 Sources of information and the process of consultation

Data from the Union Finance Account, Exim Data DoC, DGFT (EDI) data, SEZ online data DoC, Annual Import/Export Data of Customs (CBEC), Single Sign On (SSO id) based access of ICES 1.5 was used along with examination of basic Records/ documents in DoR, CBEC, Department of Commerce and their field formations. MIS, MTRs of CBEC along with other stake holder reports were used. We have nine field offices headed by Director Generals (DGs)/ Principal Directors (PDs) of audit, who managed audit of 415 units in FY 15 and issued 2175 Audit observations. Transaction level date of ICES 1.5 for imports and exports in 2014-15 as per the data directory was not provided by Director General (System), CBEC despite several reminders. The CRA module also does not cater to macro analysis and periodic analysis of the transaction data.

Remedial action taken on the compliance audit report and their status as of January 2016 is given in Table 1.13:

Table 1.13: Remedial action taken on the compliance audit report

Report No.	CBEC, Customs		DoC	
	ATNs pending	ATNs not received even for the first time	ATNs pending	ATNs not received
CA 7 of 2006 (Cus,CX,ST)	1	0	0	0
CA 20 of 2009-10 (Cus, CX, ST)	0	0	1	0
CA 24 of 2010-11	1	0	0	0
CA 14 of 2013	1	0	1	1
CA 12 of 2014	5	9	3	2
CA 8 of 2015	1	38	0	6
Total	**9**	**47**	**5**	**9**

Source: CBEC, Ministry of Finance, Deptt. of Commerce

The current report has 120 paragraphs and two thematic paragraphs of ₹ 1162 crore. There were generally six kinds of observation: Incorrect classification; Incorrect application of exemption notification; Condition of notification not fulfilled; Incorrect exemption due to miscalculation; Scheme based exemption, Incorrect assessment of customs duties in addition to systemic issues and matters of Policy interpretations. The department/ Ministry has already taken rectificatory action involving money value of ₹ 81.58 crore in case of 80 paragraphs (**Annexure 3**) in the form of issue of show cause notices, adjudication of show cause notices and reported recovery in some cases.

1.28 Public Accounts Committee (PAC)

PAC has taken up performance review on 'ICES 1.5', Special Economic Zones and three long paragraph on 'Management of Narcotic substances (Department of Revenue)', Disposal of seized and confiscated goods, Public and private bonded warehouses and Incorrect Application of General Exemption Notifications for examination/discussion. PAC's advance questionnaires to the Department of Revenue/ Commerce have been broad based at the levels of tax policy, administration and implementation. It has also observed lack of inter-ministerial coordination, scheme outcomes as well as inadequate monitoring in the past.

1.29 Response to CAG's audit, revenue Impact/follow-up of Audit Reports

In the last five audit reports (including current year's report) we had included 654 audit paragraphs (Table 1.14) involving ₹ 5615 crore.

Table 1.14: Follow up of Audit Reports

Cr. ₹

Year	Paragraphs included		Paragraphs accepted						Recoveries effected					
			Pre printing		Post printing		Total		Pre printing		Post printing		Total	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
FY 11	118	131	102	99	29	18	131	117	56	18	3	4	59	22
FY 12	121	62	108	48	11	11	119	59	79	30	14	3	93	33
FY 13	139	1832	100	66	27	29	127	95	63	17	12	8	75	25
FY14	154	2428	104	42	10	4	114	46	65	16	0	0	65	16
FY 15	122	1162	80	82	0	0	80	82	61	22	0	0	61	22
Total	**654**	**5615**	**494**	**337**	**77**	**62**	**571**	**399**	**324**	**103**	**29**	**15**	**353**	**118**

Source: CAG Audit reports

Government had accepted audit observations in 80 audit paragraphs involving ₹ 82 crore and had recovered ₹ 22 crore for the current report.