Report of the
Comptroller and Auditor General
of India

For the year 2012-13

Indian Customs Electronic Data Interchange System (ICES 1.5)

Union Government
Department of Revenue
(Indirect taxes – Customs)
No. 11 of 2014

Laid on the table of Lok Sabha/Rajya Sabha _____

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Preface

The Report for the year ended March 2013 containing the results of performance audit on Indian Customs Electronic Data Interchange System (ICES 1.5) has been prepared for submission to the President under Article 151 (1) of the Constitution of India.

The audit of Revenue Receipts – Indirect Taxes of the Union Government is conducted under the Section 16 of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971.

The observations included in this Report were from the findings of the test audit conducted during the year 2013-14.

Executive Summary

The Indian Customs Electronic Data Interchange System (ICES) was developed as the core ICT system through which import and export documents {Bills of Entry, Shipping Bills, Import General Manifests (IGMs) and Export General Manifests (EGMs)} were to be processed. The main objectives of ICES were to ensure uniformity of assessments and valuations; ensure faster processing; reduce transaction cost, interaction of the Trade with government agencies, and provide quick and accurate import/export statistics for compilation by the DGC&IS. ICES Ver 1.0 was initially launched as a Pilot project at Delhi Custom House in 1995. It was gradually made operational at other custom houses from 1997.

Audit reviewed the Customs EDI System for the first time in the year 2000-01 and reported its findings in CAG's Report No. 10 of 2002 (Customs). The review focused on procurement and software development. ICES 1.0 was again reviewed in the year 2008, primarily to verify whether it had mapped the processes and provisions of the Customs Act and allied rules and regulations, effectively. The audit review had revealed deficiencies in (i) system design leading to incomplete capture of data resulting in manual interventions, (ii) incorrect mapping of business rules, (iii) absence of appropriate input controls, (iv) absence of validation between 'customs tariff heading' and the serial number of the notification for ensuring correct availing of exemption notification, (v) absence of validation of licence and scheme code, (vi) inadequate change management controls and (vii) wastage of resources as the data available in the system was not utilised and manual processes were resorted instead. In all, five recommendations designed to address the system deficiencies were included in the report (Report No. PA 24 of 2009-10 Customs). The Ministry accepted all the recommendations.

ICES 1.5, an upgrade of the original ICES 1.0 Version was rolled out in a phased manner across various customs locations from June 2009. The main features of the upgraded version were a migration from Oracle database 8i to 10g, which runs in an environment with a centralised application having:

 I. Multi-locational functionality;

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

 III. Centralized maintenance and updating of software.

The overall goal of the Directorate of Systems and Data Management (DoS) is to provide technical support to operations and safeguard resources by strengthening the computing infrastructure of CBEC. ICES was selected for performance audit since it forms the basis for Customs public interface and is

posited to leverage the CBEC revenue administration strategy as an operational solution, which is efficient, effective, transparent and reduces transaction cost while augmenting facilitation of the trade.

In this PA, we reviewed the adequacy of the Indian Customs Electronic Data Interchange (EDI) System with a control objective based assessment:

a. to safeguard assets (data, technology, applications, facilities and people),

b. to maintain data confidentiality, integrity, and

c. to ensure fulfilment of the department's business requirements stated in the Customs Act and allied rules and regulations by effectively mapping the processes and provisions of the Customs Act and allied rules and regulations through the ICES 1.5 application and its interfaces.

Audit came across systemic issues and issues involving inadequate scoping and functionality of the application. The total revenue implication of this PA report is ₹ 847.16 crore. There are 44 observations and nine recommendations. Out of nine recommendations made in this PA, CBEC accepted five recommendations.

CBEC's IS management style is repeatable but intuitive with few definable processes and creates a risk of undetected non-compliance in a rapidly changing business and technology environment. There were few qualitative changes in the management of IS while migrating from ICES 1.0 to ICES 1.5 as observed by C&AG since 2008 Performance Audit. Though DoS informed that they have drawn up risk registers and identified the risks, the register(s) were not produced to audit for scrutiny. Similarly management of benchmarks for measurement of the Key performance indicators that cover timeliness and quality of services were deficient as indicated by the systemic issues and those based on scoping and functionality of the application.

Recommendations

1.   The department may consider constituting a Steering Committee for developing IS plans according to its business strategy in consonance with its future IS needs.

(Paragraph 2.1)

2.   A personnel policy for development of internal competencies for management of the CBEC's IS management, by recruitment, development and training of IT personnel may be developed for smooth operations of the department's mission critical IS systems.

(Paragraph 2.3)

3.   Any changes in the operational features of logical security elements like password policy may invariably be implemented only after due authorisation and documentation of the changes.

(Paragraph 2.5)

4.   The department may consider examining its core application (ICES 1.5) audited periodically for detecting deficiencies and suggesting improvements in the application. The strategic control must necessarily be with the Government and accordingly, the SLAs may be urgently reviewed.

(Paragraph 2.6)

5.   DoS may consider mapping the serial numbers of the RSP notification with the Tariff line items and put in place necessary validations in the application to ensure that the importer declares the RSP, if there are any imports under a tariff line item, covered under the RSP notification.

(Paragraph 3.2)

6.   The department may consider the introduction of appropriate validations in ICES Application and RMS to detect the related cases. The facilitation accorded to ACP clients by RMS may also be re-examined, in view of the large volumes of goods cleared at RSPs declared below import cost.

(Paragraph 3.3)

7.   To ensure correct assessment, validation checks for declaration of same CETH/CTH may be provided for in ICES 1.5 application, for all goods classifiable under chapters 1 to 98 of the Customs and corresponding Central Excise Tariff Schedules.

(Paragraphs 3.7 and 3.8)

8.   The proposed Export Obligation Discharge Certificate (EODC) message exchange between the DGFT and ICEGATE has not materialised. The manual transmission of EODCs and their monitoring has not been found to be

efficient. However, the data available in the application database may be used to generate EODC discharge failure reports and the licencees as well as DGFT may be pursued, for timely initiation of the revenue recovery procedures related to the EODC.

(Paragraph 3.19.1)

9.   The information regarding provisional assessments, action taken in cases of short levy of duty and duty paid through manual challans may be provided for in the application, to allow updation of the data relating to each of import/export assessment record.

(Paragraphs 3.19.3 and 3.19.4)

Indian Customs Electronic Data Interchange System (ICES 1.5)

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Chapter I: Introduction

1.1   Background

The Indian Customs Electronic Data Interchange System (ICES) was developed as the core Information and Communication Technology (ICT) system through which import and export documents {Bills of Entry, Shipping Bills, Import General Manifests (IGMs) and Export General Manifests (EGMs)} were to be processed. The main objectives of ICES were to ensure uniformity of assessments and valuations; ensure faster processing; reduce transaction cost, interaction of the Trade with government agencies, and provide quick and accurate import/export statistics for compilation by DGCI&S. ICES Ver 1.0 was initially launched as a Pilot project at Delhi Custom House in 1995. It was gradually made operational at other custom houses from 1997.

The Central Board of Excise & Customs (CBEC) runs a number of projects aimed at harnessing ICT for achieving the objectives of Customs and Central Excise administration.   The Directorate General of Systems & Data Management (DoS) has been entrusted with the implementation of these projects. There are three major components of Indian Customs ICT Systems:

   a. ICES is running at 116 customs locations and handling nearly 98 per cent of India's International trade. It is the core internal automation system of the Custom department intended to provide a comprehensive, paperless, fully automated customs clearance system.

   b. The Indian Customs EDI Gateway (ICEGATE), is the interface of ICES with the Trade for customs clearance related messages and with licensing and regulatory agencies such as Directorate General of Foreign Trade (DGFT), Directorate of Commercial Intelligence and Statistics (DGCI&S), Ministry of Steel, Ministry of Railways, Reserve Bank of India (RBI), etc. for sharing of trade statistics/Customs clearance data. The National Import Database (NIDB) and Export Commodity Database (ECDB) for Directorate of Valuation (DoV) are also serviced through ICEGATE. This portal (ICEGATE) provides a host of services like e-filing of customs documents, e-payment of duty, document tracking status, online verification of licences, importer-exporter code (IEC) status, PAN based Custom House Agent (CHA) data, etc.

   c. The Risk Management System (RMS), is a separate application, but integrated with the ICES, which facilitates faster clearance with

minimal or no checks for low risk import consignments/entities and focuses customs compliance enforcement efforts on high risk consignments/ entities. It was introduced in November 2005 and a newer version, RMS ver. 3.1, was introduced in June 2010. It had so far functioned for imports only, but RMS for exports has been introduced from 15 July 2013 at two ICES locations on trial basis.

The overall goal of DoS is to provide technical support to operations and safeguard resources by strengthening the computing and infrastructure of CBEC.

ICES was selected for performance audit since it forms the basis for public interface (ICEGATE) and is posited to leverage the CBEC revenue administration strategy as an operational solution which is efficient, effective, transparent and reduces transaction cost while augmenting trade facilitation.

Audit reviewed the Customs EDI System for the first time in the year 2000-01 and reported its findings in CAG's Report No. 10 of 2002 (Customs). The review focused on procurement and software development. ICES 1.0 was again reviewed in the year 2008, primarily to verify whether it had mapped the processes and provisions of the Customs Act and allied rules and regulations effectively. The audit review had revealed deficiencies in (i) system design leading to incomplete capture of data resulting in manual interventions, (ii) incorrect mapping of business rules, (iii) absence of appropriate input controls, (iv) absence of validation between 'customs tariff heading' and the serial number of the notification for ensuring correct availing of exemption notification, (v) absence of validation of licence and scheme code, (vi) inadequate change management controls and (vii) wastage of resources as the data available in the system was not utilised and manual process were restored instead.   In all, five recommendations designed to address the system deficiencies were included in the report (Report No. PA 24 of 2009-10 -Customs):

1. *Review of the business rules mapped in the systems may be carried out.*

2. *Any changes built into the system may be documented and the conformity of the changes to the business rules ensured. The changes may be authorised by an appropriate authority. An audit trail of the changes made to the system and the data may be maintained. For centralised applications, a centralised change management system must be in place.*

3. *Input controls and validation checks may be reviewed and built into the system, wherever required.*

4. *The system may be modified to use the available data fully so that all business processes are done through the system instead of resorting to manual procedures.*

5. *A periodical review of the performance of the system may be put in place to ensure continued efficiency and effectiveness of the system towards the desired/dynamic business objectives.*

The Ministry accepted all the recommendations.

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 in use for more than fifteen years, with the migration from decentralised to centralised environment from the year 2009-10, there were several changes in underlying ICT infrastructure, work flow, data transfer and storage, security, etc.

1.2   System architecture

ICES 1.5, an upgrade of the original ICES 1.0 Version was rolled out in a phased manner across various customs locations from June 2009. The main features of the upgraded version were a migration from Oracle database 8i to 10g, which runs in an environment with a centralised application having:

  I.   Multi-locational functionality;
 II.   Single database with partitions for users to access data only for their location;
III.   Centralized maintenance and updating of software;
 IV.   Faster and better communication with external stakeholders, banks, e-PAO, etc.

  V.   Integration with ICEGATE in central environment leading to better response time.

However, having spent ₹ 604 crore in upgrading the application, estimation of commensurate gains in terms of cost and time savings have not been made.

1.3   Audit objectives

PA has been conducted to gain an assurance that:

a. the ICT system has adequate controls in place to safeguard assets (data, technology, applications, facilities and people),

b. to maintain data confidentiality, integrity, and

c. to ensure fulfilment of the department's business requirements set down in the Customs Act and allied rules and regulations by

effectively mapping the processes and provisions of the Customs Act and allied rules and regulations through the ICES 1.5 application and its inter phases.

1.4 Audit scope, sample, criteria and methodology

The Performance Audit has reviewed macro level systemic issues in the last five years (2008-2013) and micro level issues in the years 2011-12 and 2012-13 pertaining to the functionality of the ICES 1.5 application. The performance of the ICES 1.5 application at field locations was reviewed at EDI enabled locations (ports, airports and ICDs) coming under the audit jurisdictions of Customs Receipt Audit (CRA) offices at Ahmedabad, Chennai, Delhi, Kolkata and Mumbai.

This Performance Audit was conducted on the basis of Control Objective based assessment of the Customs ICT Systems and IS applications as per the C&AG's Performance Audit and IT Audit Manuals based on the framework of 'control objectives for information and related technology (COBIT)', comprising collection of background information on the CBEC (Customs) ICT Systems, identification and conduct of audit checks needed for reviewing the Control environment of the ICT System and analysis of the effectiveness of the controls. Audit also reviewed application related issues and the extent of field level monitoring and control at ICES locations.

The Process control questionnaire (COBIT – 4.1) and the bench marking of the process performance and capability expressed as the maturity model was used to derive an assurance. In order to gain an understanding of the audited entity's operational environment and the extent of its dependence on ICT System, background information on its organizational setup and detailed technical information on its ICT Systems and resources was obtained from the department. Audit based its conclusion on the response to process control questionnaire, observations on different importation/exportation processes in CBEC and its field formations, replies provided by CBEC/DoR, analysis of All India Customs database (ICES 1.5) and the policy and procedure documents, manuals, reports, directories, etc. relating to the ICT Systems and IS applications, available with DoS, Risk Management Division (RMD) Mumbai and DoV, Mumbai, listed in Annexure A. Information on the Department and its ICT Systems, available in the various official websites associated with the Department were also examined.

1.5 Review of the Control environment of the ICT Systems

Information system (IS) General Controls, Application Controls, and Security Controls, as enumerated below, were also reviewed:

General IS Controls
  a. Organizational & Management Controls (IS Policies & Standards)
  b. IS Operational Controls
  c. Physical Controls
  d. Logical Controls
  e. Program Change Controls
  f. Business Continuity and Disaster Recovery Controls

IS Application controls
  a. Input Controls
  b. Process Controls
  c. Output Controls

The audit checks conducted for evaluating the existence and adequacy of these Controls and their results are enumerated in Checklists 1, 2 and 3. Audit findings are discussed in the succeeding chapters of this report.

1.6   Review of application data and extent of field level monitoring and control

All-India ICES 1.5 data for the year 2011-12 and 2012-13 was analyzed for reviewing the application's effectiveness in business process mapping and existence of validation controls. The monitoring of issues having a bearing on the performance of the ICES 1.5 application at field locations, such as Post Clearance Audit (PCA) and Local risk Management (LRM), was reviewed at EDI enabled locations (ports, airports and ICDs).

1.7   Challenges to the audit process

Audit was not provided the SLAs, risk register, change logs, redo logs, data flow diagram, ICT training documents and directory updation procedures.

Despite universal standing of C&AG on IT project implementation and audit of IT system backed by a comprehensive mandate, audit's request for access to the entire export and import data with all the captured fields was continually deflected. The information and data that was assured during the Exit conference was also not made available to audit. The control evaluation and business mapping was done on the limited data made available to audit and the field audits.

Objectives, scope and audit methodology for the Performance Audit was discussed with the representatives of CBEC, DG (System and Data Management), DoV and RMD present on 15 April 2013 in the entry conference. Audit was conducted during May 2013 to August 2013. Draft report was issued on 29 November 2013 and audit findings and recommendations were discussed in the Exit conference held on 21 January 2014. The draft PA report was again sent to CBEC for final comments which were received on 25 February 2014

Chapter II: Systemic issues

2.1   IS Strategic Plan

DoS does not have any IS Strategic Plan for the strategy involved migration from distributed operations to a centralized implementation, thereby consolidating the infrastructure and hosting the applications centrally. However, the Strategic Plan referred to by the Department was the IS Consolidation Project, which was proposed in 2004 and implemented by 2011. The department also does not have any long term IS Strategic Plan for the future, after the completion of the planned migration to centralized system.

Ideally, a large government department would be expected to have a formal IS Steering Committee comprising of various stakeholders including the IT department. The Committee would be responsible for the overall direction of IS. Once the Committee agrees on a future direction for IS, the decisions need to be formalised and documented in the IS Strategic Plan.   The organization needs to develop IS plans according to its corporate strategy and match its IS needs for a given future period. This can provide the department with increasing potential for:

   I.   Enhancing the value of existing products or services,
  II.   Providing new products and services, and
 III.   Introducing alternative delivery mechanisms.

To benefit from IS requires foresight to prepare for the changes, and planning to provide an economical and effective approach.   IS planning provides a structured means of addressing the impact of technologies, including emerging technologies, on an organization. Through the planning process, relevant technologies are identified and evaluated in the context of broader business goals and targets. Based on a comparative assessment of relevant technologies, the direction for the organization can be established.

CBEC's IS management style is repeatable but intuitive with few definable processes and creates a risk of undetected non-compliance in a rapidly changing business and technology environment. There were few qualitative changes in the management of IS while migrating from ICES 1.0 to ICES 1.5 as observed by C&AG since 2008 Performance Audit. Though DoS informed that they have drawn up risk registers and identified the risks, the register(s) were not produced to audit for scrutiny. Similarly management of benchmarks for measurement of the Key performance indicators that cover timeliness and quality of services were deficient as indicated by the systemic issues and those based on scoping and functionality of the application.

Recommendation: *The department may consider constituting a Steering Committee for developing IS plans according to its business strategy in consonance with its future IS needs.*

CBEC in its reply (January 2014) stated that after completion of the Consolidation Project, the Department has been focusing on building additional functionalities and interfaces amongst different applications. The Annual Chief Commissioners' conference held on 17-18 July 2013 deliberated on DRISHTI (Driving Information Systems for Holistic Tax Initiatives) - IT Vision for improving the efficiency and effectiveness of Indirect Tax Administration. Under this initiative, it is proposed to set up a High Powered Committee (HPC) which will examine all issues to evolve appropriate roadmap for actualization of DRISHTI. The Charter of this HPC will include:

(i)   Identification & Formalization of the strategic objectives for achieving DRISHTI;

(ii)   Identifying data to support the business objectives;

(iii)   Recommending appropriate IT architecture to support business services;

(iv)   Suggesting security, obsolescence and archival policy, and

(v)   Evaluating the need for a Consultant to implement DRISHTI.

In addition, DRISHTI also envisages setting up of a small group headed by Member (Computerisation) CBEC, to study issues which require immediate attention and decide the sequence/priority for implementation, in view of current resource constraints in Systems.

CBEC further (February 2013) informed that approval for formation of HPC has been received by them on 20 February 2014.

However, CBEC neither furnished any record relating to formation of HPC along with its terms of reference nor provided the copy of the latest IS Strategic Plan to audit.

2.2   Monitoring by Senior Management

CBEC had committed to having an internal monitoring mechanism comprising of a high level Project Steering Committee chaired by the Member (IT) and Operations Committees chaired by Director General (Systems). These Committees would also include representatives from stakeholder communities and external consultants. However, DoS has stated (June 2013) that although such a Steering Committee was formed at the time of project implementation, it lacked the necessary focus and the implementation was done under the supervision of the Member (Computerisation) and Director General (System).

The Directorate presently has monitoring committees like IS Security Steering Committee, Change Advisory Board, Infrastructure Review Committee, etc. for monitoring specific areas.

CBEC in its reply (January 2014) stated that no comments are required on this issue. However, in their reply (February 2014) it was stated that DoS 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. These are reviewed by Information Security committee every quarter during the quarterly security review meetings. In addition to the SI (System Integration) team which generates daily, weekly and monthly system reports for CBEC for monitoring the system performance, user response time, e-filing and e-payment etc., there is a Change Advisory Board (CAB) comprising exclusively of CBEC officers that meets every week to approve major and significant changes to the system. All the changes to the system are entered into Service Manager Tools and audited by third party auditors bi-annually.

Reply of CBEC is not acceptable, as no records/reports in respect of changes were produced to audit to substantiate their claim. Copies of the Service Level Agreement with third party auditor or their bi-annual audit report were also not produced to audit.

2.3   Human Resource Development

One of the terms of reference of the Empowered Committee formed to monitor and supervise the IS Project implementation was to decide on issues relating to personnel matters and policies concerning staff assigned to work on Systems Projects. According to paragraph 5 of the Cabinet Committee on Economic Affairs (CCEA) note, there would be an ongoing process of review of the manpower and skill set requirements during the course of the project. Further, the Secretary (Revenue) had stressed (Paragraph 4.1 of the Cabinet Committee on Non-Plan Expenditure (CNE) minutes dated 09 August 2007) that mechanisms should be evolved for vendor management and the process of Project Monitoring should not be left entirely to M/s Price Waterhouse Coopers (PWC). Moreover, at the CNE/CCEA stage, the Additional Secretary (IT) had suggested that sufficient internal competencies need to be built, in addition to PWC and IIT-Delhi.

However, on being asked whether there is any strategic plan for selection, recruitment and retention of personnel for its ICT Systems, DoS stated (June 2013) that they are not aware of any such strategic plan on these issues.

Presently, nearly 98 percent of customs transactions are being processed through ICES and the department is entirely dependent on its IS systems for assessment and collection of customs revenue. Therefore, by not having a personnel policy for recruitment of technically qualified officers to manage the IS systems, the department is failing to build internal competencies and limiting its options for better management and monitoring the IS Systems to the third party vendors/ service providers who manage the IS systems.

Recommendation: *A personnel policy for development of internal competencies for management of the CBEC's IS management, by recruitment, development and training of IT personnel may be developed for smooth operations of the department's mission critical IS systems.*

CBEC in its reply (January 2014), while accepting Audit's suggestion regarding development of a personnel policy for development of internal competencies for management of CBEC's IT systems by recruitment, development, training and retention of IT personnel for continued smooth operations of the department's mission critical IT system, stated that the present engagement model for monitoring and supervising the project involves IRS (C&CE) Officers supported by Project Management Unit (PMU) manned by Price Waterhouse Coopers (PwC). The PwC consultants only provide assistance to the CBEC officers and as such, there is no delegation of responsibility to the PMU. In fact, all the projects are actively monitored and supervised by the Project Teams headed by Addl. Directors General (Joint Secretary rank officials) from CBEC. For the technical inputs, a formal engagement in the form of Technical Experts Group (TEG) is operational and a team comprising of three Professors from IIT Delhi help the teams on a regular basis.

CBEC further stated (February 2014) that IT setup in the CBEC is headed by Member (Computerisation) and consists of Director General Systems supported by 8 Addl. DG/Commissioners, 15 Additional/Joint Directors, 14 Deputy / Asst. Directors. Approval for formation of HPC has been received only on 20.02.2014. As regards the TEG, the same was functional only during the implementation phase of the consolidation Project and is not functional currently. For technical inputs, IIT New Delhi is consulted wherever felt necessary. The PMU only provides support to individual project teams headed by Addl. DGs or Commissioners and do not form a part of the functional hierarchy in the CBEC's IT Organisation.

CBEC in its replies admitted that till the course of audit, HPC, PMU and TEG were not functional in DoS. Further, CBEC has not provided a concordance or gap estimation of roles played by DoS officials and the outsourced service providers vide SLAs.

2.4   Training Policy

According to paragraph 6.2.2 of IT Security Procedures Ver.1.7, CBEC users shall be imparted training on Information Security on a periodic basis and refresher courses will be conducted to re-train the already trained employees on new threats and countermeasures.

As per DoS, Change Management and Network Management trainings were imparted to more than 19,000 users in 2010 and security awareness training for Third Party Vendors was conducted in June 2012.   However, no documentation on the Network trainings were produced to audit, and except for Feedback forms of the Security awareness Training for Third Party personnel, no other details like number of personnel trained, course content, duration of training, names of vendors covered, etc. were furnished to audit. Audit observed that the department has not imparted any periodic training on Information Security to CBEC users after 2010, although it was required to do so according to paragraph 6.2.2 of its IT Security Procedures. Further, DoS stated that the department publishes a bi-annual Information Security Newsletter 'SURAKSHIT' on its website and gives a security tip of the day to its users on the CITRIX (ICES 1.5 browser platform) homepage. It was noticed that after the inaugural issue of 'SURAKSHIT' was published on the CBEC website in January 2013, there has been no subsequent issue of the newsletter till the date of audit.

Similarly, DG Inspection sought information on officials and officers who are trained to use ICES proficiently for CBEC's five year strategic plan on 1 Feb 2013. The RFD FY13 already covers this activity; however, the measurement and success indicators are not correlated with the policy decision already taken by the Government in case of use of ICT and ICES.

CBEC in its reply (January 2014) stated that:

1. Audit team was informed that documentation related to the LAN/WAN and change management trainings imparted to approx. 19,000 users was available with LAN-WAN project team and the same could be provided on request. Audit's contention that details regarding number of personnel trained, course content, duration of training, names of vendor covered under the third party Security Awareness Training were not furnished to the audit is factually incorrect. All these relevant details were shown to audit party during the course of their visit to the office.

2. Training material on Security Awareness as mandated by section 6.2.2 of CBEC's IT Security Procedure was made available to

NACEN, CBEC's training academy for meeting end user training needs.

3. CBEC has launched the inaugural issue of the newsletter – SURAKSHIT in January 2013. The second issue of the Newsletter was published in July 2013 and is also available on CBEC's website. The next issue is due to be published in Jan 2014.

4. The efficacy of ICES related training can be gauged from the fact that officers are working online on the ICES 1.5 application at an increasing number of locations (116 as on date) and increasing volume of documents being handled on EDI. In addition, day to day user management for role allocation and revocation is also handled by CBEC officers themselves as part of the application. Since the Customs cargo clearing process is an online process, the inability of Customs Officers to work on ICES would have impacted the clearance of cargo.

However, response on Audit's observation regarding lack of measurement and success indicators with respect to RFD 2012-13 has been sought from NACEN.

On being asked to furnish reports relating to number of personnel trained, course content, duration of training for the CBEC to audit and the level of officers of CBEC (Gr. A or B or C) trained in IT Security Awareness by NACEN, CBEC in its reply (February 2014) stated that users totalling 19,621 were trained which covered 108 Commissionerates of CBEC. It covered trainings regarding Change Management, LAN and WAN. The duration of the training was 2 days for Change Management and 1 day for WAN and LAN. In respect to hosting of SURAKSHIT in CBEC's website they clarified that the July issue of SURAKSHIT Newsletter was published as hard copies and circulated during the Chief Commissioners Conference held on 17th and 18th July 2013. As regard, the upload of softcopy, the newsletter was uploaded on the website on 8th October, 2013 after correction of the Hindi version by the publisher, which was received in the corrupted, non-readable form.

In response to CBEC's role in capacity building, training and updation in smooth functioning of the system, CBEC stated (February 2014) that while specialized trainings take place from time to time, the main thrust is on "on the Job" trainings, since ICES 1.5 is a dynamic application. The training material on ICES 1.5 has been shared with NACEN which organises regular training programmes for various levels/Grades of officers. Training on ICES 1.5 application is part of regular course curriculum at NACEN for IRS Probationers and other officers. NIC/NICSI personnel are posted at major

ICES locations who train officers as per requirement. Request based training at smaller locations are also carried out with the help of NIC and NICSI officers from nearby locations. Facility to provide hands-on training is available in ICES pre – production environment at all locations. Detailed instructions are issued as and when new patch/ functionality is implemented. Suitable advisories are also issued from time to time in respect of new functionalities to instruct and advise the officers and stakeholders regarding impact and handling of the proposed changes.

Regarding lack of measurement and success indicators with respect to RFD 2012-13, CBEC clarified (February 2014) that RFD 2012-13 required that Field Executive Officers be certified for IT skills in ACES & ICES. As per criteria value/target above 25 per cent of the strength was rated as excellent. NACEN certified 9490 out of total 26,330 executive officers achieved 'Excellent' assessment in terms of the Target Value prescribed in the RFD 2012-13. The efficacy of ICES related training can be gauged from the fact that officers are working online on the ICES 1.5 application at an increasing number of locations (116 as on date) and increasing volume of documents being handled on EDI. In addition, day to day user management for role allocation and revocation is also handled by CBEC officers themselves as part of the application.

The above may be presented for verification during future audits.

2.5 IS Security

ICT Systems of Custom's department have been awarded ISO 27001 Security Certification by Standardisation Testing and Quality Certification (STQC) from the Department of Information Technology (DIT) in July 2011 and Data Security Council of India (DSCI) Excellence Award 2012 for security in e-Governance. DoS has updated IS policies and procedures in accordance with the requirements for the ISO 27001 certification and IS security audit is carried out bi-annually by Third Party Auditors (TPA), M/s Price Waterhouse Coopers.

Audit observed that some features of operational password policy like password composition requirements, account lockout from unsuccessful login attempts, etc. were different from the documented password policy (paragraph 9.2.3 - User Password Management) of the Information Security Procedures V1.7. The operational password policy has different security features for ordinary users (business) and privileged users (administrators etc.), whereas the documented password policy does not provide for separate policies for different categories of users. Neither does it provide for relaxation of number of failed login attempts for ordinary users, as

found to have been allowed in the operational policy. DoS stated that the Procedure document is presently under review and these changes are being incorporated in the annual revision. DoS reply confirms that changes regarding an issue having security implications have been implemented without corresponding provisions in the presently valid version of the documented procedures.

Recommendation*: Any changes in the operational features of logical security elements like password policy may invariably be implemented only after due authorisation and documentation of the changes.*

CBEC in its reply (January 2014) stated that the decision for a phased implementation of the password policy in respect of ICES users was duly authorized and is recorded in the Quarterly Security Review Meetings. Audit was informed that the policy was implemented for other category of users.

CBEC further stated, as mentioned in CBEC's Security Procedure Document, the document is reviewed annually. However, it is the business call of CBEC to make these changes in a phased manner. Since indirect tax, especially Customs, has a dynamic work environment, it is not possible to change the documentation multiple times in a year. All changes follow the change management process and changes required in the documentation are incorporated in the relevant document during the annual review. It is also reiterated that the needs of business would dictate issues like implementing changes in the password policy even as they are subsequently incorporated in the procedure documents as part of the annual review.

At the time of audit, the audit team was informed that the relevant document was undergoing the annual review.

CBEC further stated (February 2014) that the Change Management document is for internal circulation within CBEC only and there are reservations in sharing the complete document. It is, however, available for inspection at CBEC premises. The Security Procedure document is a document for restricted circulation within CBEC only.

The reply is not acceptable because the audit was conducted in the CBEC premises but DoS did not produce the documents.

2.6 Internal control and audit

According to paragraph 6 and Annex 4 of Cabinet Note dated 26 November 2007, TPAs would be deployed for functional audit; accordingly, M/s PWC have been engaged for conducting half-yearly Information Security Audits and quarterly audits of IT Assets and Service Level Agreements (SLAs) entered into by various service providers/vendors. Audit observed that the Internal Audit and Corrective Action-Preventive Action Procedure Ver.1.2 does not

have any provision for audit/review of any of the applications of the IT System, either by departmental officers or by TPAs. DoS stated that STQC has audited the ICES application and Oracle has conducted a code review of ICES. However, audit by STQC covers only the security aspects and a code review examines the correctness of programs. Neither STQC nor Oracle reviewed the adequacy of business processes covered and the correctness of business rules mapping, which have been found to be deficient in the ICES 1.5 application, as enumerated in succeeding paragraphs.

Audit is of the opinion that in an IS organisation a critical application like ICES with massive revenue implication requires a regular audit of the database, OS, infrastructure, application hardware for:

    I.   IT security audit

    II.   Malware analysis

    III.   Source code review

    IV.   Application configuration review

    V.   ICT infrastructure configuration review

    VI.   Application-OS-hardware-network performance reviews

    VII. Vulnerability assessment and penetration testing (VAPT)

    VIII. Analysis of system generated logs for application change management

    IX.   Web application security (WAS) assessment

    X.   Validation of the patches deployed and protocol functionality

    XI.   Analysis of SLA (Service Level Agreement) indicators and the tools to monitor and calculate the SLA indicators

    XII. Review of technology deployed to ensure continuity of IT system

    XIII. IT Act Compliance

    XIV. National Cyber Security Policy compliance

In view of the extensive outsourcing of various projects and maintenance activities, the strategic control of Service Level Agreements review, source code review and performance audit of the IT infrastructure and application needs to be mandatorily with the Government. Accordingly, SLAs may be urgently reviewed.

Recommendation: *The department may consider examining its core application (ICES 1.5) audited periodically for detecting deficiencies and suggesting improvements in the application. The strategic control must necessarily be with the Government and accordingly, the SLAs may be urgently reviewed.*

The department accepted the recommendation and stated that the Department will examine the skill set required for such audits and assign the task to appropriate Directorate under CBEC. Terms of reference of each of the Directories are under review on account of Cadre Restructuring of CBEC and appropriate agency will be assigned the task in due course.

No action has been taken on the audit recommendation as yet, therefore, the assurance can only be seen in subsequent audit.

2.7   Deficiency in CRA module

(i)   After the implementation of ICES 1.5, SSOIDs were issued to CRA officers to access ICES 1.5 from specified locations for auditing BEs and SBs. However, it is observed that while making a selection for SBs, only cancelled and purged SBs are getting selected for audit. This was brought to the notice of the department in May 2012 and February 2013, apart from eleven other inherent drawbacks of CRA module (Annexure B) through this report but has not been rectified.

(ii)   Section 28 of the Customs Act 1962 was amended with effect from 8 April 2011 by Section 42 of Finance Act 2011, increasing the period for raising a demand in respect of imports from six months to one year from the date of clearance of goods. However, the corresponding changes have not been incorporated in CRA module available in the ICES system where it is possible to make a selection of auditable documents only for upto six months from the current date.

CBEC in its reply (January 2014) stated that for providing facility for accessing documents for the period of 1 year, very high processing infrastructure is required. Such retrieval is likely to impact the bandwidth and therefore DoS would examine the feasibility of such modification and resolve the issue.

CBEC was asked to provide the relevant report on configuration and memory management to audit. The same was not produced to audit.

(iii)   Similarly, in the CRA module there is no system to go to and view any particular item in a BE containing more than one item except by viewing the details of each item in sequential order. For example, in a BE containing 100 items, to go to 100th item, one need to press 'Scroll/Enter' key 200 times.

CBEC in its reply (January 2014) stated that DoS is aware of this issue in the CRA module. CRA module is in line with the ICES application available during assessment to the assessing officer which requires application of mind on line by line basis. It is presumed that audit would the same. If further details are required by audit, it can be obtained through MIS reports available in the system. Therefore, no change is required in the existing process.

Reply of CBEC is not acceptable as audit only brought out the deficiencies of CRA module being an integral part of ICES; the main issue here is to comply with the audit requirements. Further, the inherent drawback in CRA module in ICES 1.5 had been stated in the paragraph number 2.7 (i). Moreover, the role of statutory auditor cannot be presumed as that of an assessing officer in terms of scope of audit as well as level of enquiry. Mandate of audit has been communicated to CBEC by audit in several fora including this report.

2.8   Monitoring of SSOIDs issued

DoS issues Single sign-on Identity (SSOID) to local users for accessing the EDI system on the basis of request received from the appointed nodal officer. After issue of SSOID, the System Manager/Commissionerate Administrator at the field formation level assigns roles/privileges required to perform any activity within the application and monitors SSOIDs activity.

Audit observed that the number of SSOIDs issued as on 31 March 2013 was not available with System Manager/Administrator at 10 of the 19 EDI locations where the Performance Audit was conducted, indicating that SSOIDs activity was not being monitored at these locations by the local system administrator. Further, Chennai Sea, Chennai Air, Tuticorin, Mumbai Zone II JNCH, Mumbai Zone III ACC (Import & General), New Delhi, ICD Tughlakabad, ACC New Delhi, ICD Mandideep, ICD Pithampur, Ahmedabad and Kolkata Port Commissionerates have stated that the System Manager is not required to submit any report on status of SSOIDs issued for the EDI location under the Commissionerate.

CBEC in its reply (January 2014) inviting reference to DG (System)'s letters dated 15 December 2008, 18 September 2014 and 23 February 2013 stated that a procedure for monthly review of all system users is implemented at EDI locations as changes are warranted on account of transfers, promotions and retirements. Contention of field offices that System Managers were not required to submit status reports on SSOID issued in their respective jurisdiction is not admitted.

Regarding the monitoring mechanism in the cases where field formations were not following the directions/instructions issued by the Board, CBEC in its reply (February 2014) stated that a central SI team monitors the SSOIDs issued to users. Every month, the central team proactively disables users retiring in that month on the basis of the date of birth of the user in the system. VPNID analysis for users is carried out to disable VPN Ids not used in the last six months. As a proactive measure, an electronic User Access Management (UAM) tool has been developed in-house and is currently under testing.

This would be verified in subsequent audit.

2.9   Inordinate delay in implementation of RMS export module

According to contract awarded by DoS to M/s Birlasoft Ltd. on 24 August 2004, and agreement signed on 20 July 2005, the vendor was to deliver, install and commission RMS Import, Export and Post Audit Modules within 115 days of award of contract.   RMS import module was implemented at ACC, Sahar on 7 December 2005 and RMS export module at ICD Mulund and ICD Patparganj on 15 July 2013.

Thus, there was a delay of one year in implementing RMS import module and a delay of nearly nine years in introducing RMS export module.

On being pointed out, RMD, Mumbai stated (August 2013) that slippages were on account of justifiable reasons beyond the control of the vendor, such as, delay in finalisation of requirements, problems in data compilation, changes required in ICES application, etc. It has further stated that the requirements and codes for RMS export module were finalised after the implementation of RMS for import module and the export module was developed before April 2009 and was under testing at ICD Dadri. But it was not implemented as the IT consolidation project, involving migration to centralised environment, had started by then, which necessitated changes in RMS software for export as well as in the work-flow of ICES-export module.

According to the CBEC circular dated 24 June 2013, announcing the introduction of RMS for exports, it has decided to introduce RMS for exports in continuation of its ongoing Business Process Re-engineering initiative, of which introduction of RMS for imports was a part. It further states that by expediting the clearance of compliant export cargo, RMS for exports will contribute to reduction in dwell time, thereby achieving the desired objective of reducing the transaction cost and making business internationally competitive.

Thus, a Business Process Re-engineering initiative launched at the same time as RMS for imports, having obvious benefits accruing from its introduction, as claimed by the department itself, was delayed by nearly nine years due to tardy implementation arising from attaching less importance to this module and taking it up for development after implementing RMS import module.

No 'time release study' was conducted by the Board upto June 2013 to measure the efficacy and efficiency of the system to reduce the dwell time cargo clearance. Board informed that they have instituted a 'time release study' in June 2013 in different Customs jurisdiction and the finding by different Customs jurisdiction is awaited.

CBEC in its reply (January 2014) also stated that:

(i) RMS is essentially seen as a trade facilitation measure and not a tool to garner extra revenue, more particularly so in respect of RMS-Exports. RMS Imports was implemented in December, 2005 and RMS application was made ready by the vendor and taken up for testing in 2009. As regards delay in implementation of RMS-Exports, it is clarified that the delay was not due to less importance being given to exports over imports but due to various operational reasons. Initially, the Customs application was run on a distributive environment and RMS 2.7 was developed to run on the old Customs application (ICES 1.0). However, in late 2008, CBEC set up a centralised infrastructure (Data Centres etc) for running Customs, Central Excise & Service Tax, ICES and RMS applications from a centralised environment. Ideally, all the three Customs Applications namely ICES, ICEGATE and RMS should have been one single integrated application. But since these projects were taken up by CBEC over a period of time, work was awarded to different vendors, who developed separate applications. It is a challenging task to make all the three applications compatible with each other; changes in one necessitate changes/modifications in the other applications.

(ii) Meanwhile, there was an exponential growth in the number of documents on the export side and there was a need to augment the infrastructure to enable the implementation of Export RMS. Implementing RMS exports without the requisite infrastructure would have adversely affected the export clearance. The infrastructure was finally augmented during August, 2012; and after resolving the compatibility issues, carrying out further integration testing, and necessary changes in the application, and after issuance of Circular by CBEC in June, 2013, Export RMS was finally implemented on 15th July, 2013 and to avoid inconvenience to the trade, the national roll-out was planned in phases.

(iii) At present, Export RMS is implemented in 85 locations. It is scheduled to complete implementation of Export RMS in the remaining 4 locations, where RMS- Imports is also operational, by mid-February, 2014.

CBEC in their reply (February 2014) further stated that RMS is a tool to maintain an appropriate balance between trade facilitation and enforcement. Audit has commented that no report(s)/record(s) were produced to audit to indicate if there were indicators adopted by CBEC on trade facilitation and the achievement against the set indicators after rolling out of RMS (import/export). In this connection, it is clarified that trade facilitation is a very broad term and there are many intangible and non-measureable

benefits that accrue to an importer/exporter. For example, a robust RMS facilitates implementation of trade facilitation schemes like Accredited Client Programme (ACP)/ Authorised Economic Operator (AEO) etc., which has a much higher facilitation level of about 90-92. Further, CBEC's circular dated 02 September 2011 prescribed the facilitation levels of 80 per cent for ACCs, 70 per cent for Sea Ports and 60 per cent for ICDs. Efforts have been made to move towards the ideal facilitation levels. However, since facilitation and enforcement have to be balanced, the current levels of facilitation in the import module in the year 2013-14 for Air cargo was 62 per cent, Sea 45 per cent and ICDs 42 per cent.

On the exports front, the facilitation level was about 50 per cent prior to the implementation of RMS Exports. After the roll out of RMS Exports, the current facilitation level is 78 per cent. It may, however, be noted that the level of facilitation depends on various factors including the compliance requirements from other stakeholders such as DGFT and port-wise pattern/degree/trend of compliance/non-compliance by the trade. So even if customs alone improves its functioning, still the facilitation level may not reach the desired level, if there is a new compliance requirement from some other agency.

Implementing RMS exports without the requisite infrastructure would have adversely affected the export clearance. Keeping our commitment to provide better services to the exporters, CBEC focused on augmenting infrastructure before rolling out RMS Exports. The infrastructure was finally augmented during August, 2012; and after resolving the compatibility issues; carrying out further integration testing, and necessary changes in the application, and after issuance of Circular dated 24.06.2013 by CBEC, export RMS was finally implemented on 15th July, 2013. To avoid inconvenience to the trade, the national roll-out was planned in phases. This only confirms that the interest of the exporter was paramount in CBEC's automation plan.

CBEC accepted that there was substantial delay in implementation of RMS Export module due to various operational reasons including migration to ICES 1.5 version. However, even after migration to ICES 1.5 in June 2010 it took three years for RMS exports to roll out gradually in phases. It was mentioned that ICES/RMS was essentially for trade facilitation. However, no report(s)/record(s) were produced to audit to indicate if there were indicators adopted by CBEC on trade facilitation and the achievement against the set indicators after rolling out of RMS (Import)/RMS (Export).

Department's claim that there was an exponential growth in number of documents in the export side, substantiates audit's contention that CBEC

neither envisaged the trend of exports nor assigned adequate priority to the Exports.

2.10   Performance of Post Clearance Audit (PCA)

In order to implement self assessment effectively and to ensure its benefits to the trade, the Board decided that current facilitation level under RMS should be enhanced significantly. Accordingly, as per the Board's circular dated 02 September 2011, it was decided to enhance facilitation level up to 80, 70 and 60 per cent in case of air cargo complexes, ports and ICDs respectively, by rationalizing risk rules and risk parameters. According to Board circular dated 13 June 2012, higher facilitation at the same time has led to the need for more scrutiny of BEs at PCA/ PCCV[1] stage. It is therefore felt that the percentage of BEs selected for PCA needed to be enhanced by concerned field formations. Board therefore directed that till the time OSPCA[2] was made applicable to all categories of importers, the percentage of BEs selected for PCA at a Customs house should be suitably enhanced to safeguard the interest of revenue. Board also desired that concerned Chief Commissioners of Customs should review the staff position in their jurisdiction and reallocate more manpower for audit work as increased facilitation in terms of reduced examination had led to lesser requirement of staff for examination of goods. It was therefore imperative that excess staff should be diverted for activities such as PCA and SIIB[3] in Customs Houses.

Audit observed that in respect of RMS facilitation levels and PCA functioning at 19 EDI locations, the percentage of RMS facilitation in Chennai Sea, Tuticorin, Kochi Sea and Mumbai Zone II NCH ports were lower than the level directed in the circular whereas in case of Mumbai Zone I NCH, Goa, Nagpur, ICD, Tughlakabad, ICD Patparganj and Kolkata Port, the percentage of RMS facilitation was much higher than the level specified in the circular as detailed in Annexure K.

However, the figures of RMS facilitation of nearly 100 per cent as provided by Kolkata Port and Airport, Mumbai NCH, Goa, ICD Tughlakabad and ICD Patparganj appeared unrealistic and were therefore cross-checked from ICES 1.5 data pertaining to these EDI locations for the year 2012-13. It was found that the figures furnished were incorrect in comparison to the actual RMS facilitation levels, which varied from 35 to 64 per cent, all below the benchmark levels according to the Board's circular.

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[1] Post-Clearance Compliance Verification
[2] On Site Post Compliance Audit
[3] Special Intelligence and Investigation Branch

Further, in NCH Mumbai Zone I, Pune, Goa, Chennai Sea Commissionerates, ICD Tughlakabad, Patparganj, New Delhi NCH, Kolkata Port and Airport, the percentage of RMS BEs selected for PCA has gone down, contrary to the instructions of Board's circular dated 13 June 2012 as shown in Annexure L.

It was also noticed that no PCA wing has been constituted at ICD Mandideep and ICD Pithampur leaving no scope of detection of incorrect assessments by the department at these customs locations.

From the information on submission of MIS reports on PCA functioning as furnished by the 19 EDI locations, it was observed that Chennai, Tuticorin, Kochi Sea Customs, ICD Tughlakabad, NCH New Delhi, Kolkata Port, Kolkata Airport and Ahmedabad were preparing and submitting such reports, to the Chief Commissioner and/or DG (Audit), but only Sea Customs (Chennai and Kochi) and Tuticorin Customs were forwarding the report to RMD, Mumbai. In RMS facilitated assessments, the only way to ascertain whether the RMS facilitations allowed were correct or not is to audit the BEs post clearance. The trend of detections of errors in assessment in RMS facilitated cases by the PCA wing at each EDI location can provide vital information on the effectiveness of RMS. In the absence of such reporting to RMD, Mumbai, it is felt that vital inputs for improving the RMS are not being taken into consideration by RMD.

Further, DG Inspection sought inputs for CBEC's five year strategic plan on 1 Feb 2013 so that a robust RMS covering all ports and transactions could be in place. The RFD FY13 does not cover this activity.

The compilation of information on PCA activity received from field offices, as shown in Annexure M, revealed that the Board's instructions to reallocate more man power for PCA to increase scrutiny of RMS cases has not been followed in any location and showed increasing trend in pendency of cases in 8 out of the 10 customs locations for which data has been received. Among these, 2.83 lakh cases were pending with the Custom House, Delhi and 3.72 lakh cases were pending with JNCH, Mumbai.

Further, scrutiny of the pending PCA bills at ACC Chennai and Tuticorin Commissionerates as on 31 March 2013 revealed that approximately 138 and 2,172 bills of entry respectively, had already become time-barred under Section 28 of the Customs Act 1962, thereby foreclosing the opportunity to raise demand even if incorrect assessments were detected. It was also noticed that there was no practice to queue the BEs considering 'Out of Charge' date as a parameter for selection of PCA BEs to minimise the risk of recoveries becoming time-barred due to high pendency, as found to be the case in the major customs ports.

CBEC in its reply (January 2014) stated that on All-India basis, the facilitation level of air cargo complexes was 70.39 percent during 2012-13. However, regarding observation on non-reporting of PCA functioning to RMD by 19 Customs locations, pendency of PCA work at 11 locations and non-rationalization of manpower by posting enough staff to PCA sections, CBEC stated that audit findings are being shared with respective Commissionerates for appropriate corrective action at their end. RMD has been interacting with field formations regarding PCA reports and taking cognizance of detections made by them.

CBEC, further, in its reply (February 2014) stated that during 2012-13, RMD has received PCA performance reports from 21 locations. As per the reports received, in 304 cases, recovery of ₹ 2.26 crore has been made. Based on the review of these reports, interdictions wherever necessary, were put in place in RMS to address the risks subsequently.

CBEC's response would be verified during next audit.

2.11 Ineffective Functioning of Local Risk Management (LRM)

The Risk Management System of ICES 1.5 has two components – National Risk Management (NRM) and Local Risk Management (LRM). While risk rules and targets at the National level are inserted and updated by RMD, Mumbai, the LRM Committees at custom sites are responsible for inserting and monitoring local risk factors through insertion of local targets. According to CBEC dated 28 June 2007, LRM Committee was to be constituted at each Custom House/ACC headed by an officer not below the rank of Commissioner of Customs. The Committee was to meet once in every month to discuss framing and review performance of RMS and to send periodic reports to RMD, Mumbai.

Audit observed poor functioning of LRM at almost all locations in discharging its function to monitor the performance of RMS and PCA. No LRM Committee has yet been constituted in Goa, ICD Patparganj, ICD Mandideep, ICD Pithampur and Kolkata Airport Commissionerates. In Chennai Air Commissionerate, the LRM Committee was constituted only in June 2013 after being pointed out by Audit. In ICD Tughlakabad, NCH Mumbai Zone-I, Nagpur, Nasik, Aurangabad, Ahmedabad Commissionerate, the LRM committee was formed three to five years after the issuance of the circular. The Commissionerates at Kolkata Port and Pune have no information regarding the LRM Committee meetings. Except for Kochi Commissionerate, LRM Committee meetings to review performance of RMS were being held infrequently at the remaining 10 of the 19 EDI locations where LRM functioning was examined in audit. Moreover, from the information

furnished by RMD Mumbai, audit observed that Pune, Kolkata (Port), Kolkata (Airport), ICD Patparganj, ACC Chennai, etc. had been inserting substantial number of local LRM targets during the period 2010-2013 without having any constituted LRM committees which deliberates and authorises the insertion of local targets.

The department in their reply (January 2014) stated that presently RMS Import is functional at 88 ICES sites. The audit findings are being shared with the respective Commissioners of Customs for appropriate corrective action at their end. Regarding inserting local targets by Pune, Kolkata Port, Kolkata Airport, ICD Patparganj, ACC (Chennai) had been inserting local targets during 2010-13 without any review by the LRMC. DoS stated that LRMC is not a pre-requisite for insertion of targets/interventions to address local risks. The function of LRM is discharged by the Additional Commissioner (SIIB) who remains in constant touch with the trends in imports of various commodities and their valuation. He also deals on a day-to-day basis with any intelligence, feedback, violation of Customs or Allied Acts and any evasion of duty at the local level. LRM is required to take every possible action immediately including insertion of local targets in order to prevent any violation of law or evasion of duty.

CBEC, further, in its reply (February 2014) stated that as per paragraph 7 of the Board Circular dated 24 November 2005, "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. The Commissioners of Customs are required to appoint the administrator for the 'Local Risk Management System' at the level of the Joint/Additional Commissioner for assigning user privileges on the Local Risk Management System. Local processing of BEs in RMS is based on the interdictions inserted at local level."

Reply of CBEC is not acceptable because Board's circular dated 28 June 2007 stipulates that a LRM Committee was to be constituted at each Custom House/ACC headed by an officer not below the rank of Commissioner of Customs. Accordingly, insertion of local targets by officers without constituting LRM committee is in contravention of Board circular dated 28 June 2007. No records/instruction issued by Board/DoS authorizing LRMs to insert local targets without review of LMRC was produced to audit.

Chapter III: Functionality of the Application

3.   Short scoping of ICES 1.5

The deficiency in customising various business rules in the system, as per the rules/Acts in force were observed relating to the following business requirements:

3.1   Incorrect calculation of warehousing interest by ICES 1.5 Application:

According to section 61(2)(ii) of the Customs Act 1962, if any warehoused goods specified in sub-clause (b) of sub-section (1), remain in a warehouse beyond a period of 90 days, interest shall be payable for the period from the expiry of the said 90 days till the date of payment of duty on the warehoused goods.

An analysis of ICES data for the period of 1 April 2012 to 31 March 2013 revealed that out of 6,887 Ex-Bond BEs involving clearances from Warehouse beyond 90 days *(considering the WBE_WH_DT field from the BE_STATUS Table and the PAYMENT_DT field from the BE_CASH Table)* and where WH interest was levied, in 6,756 BEs WH interest was levied for one day less, resulting in short-levy of WH interest by ₹ 13.28 lakh. In the remaining 131 BEs, WH interest was found to have been either excess or short-levied for periods varying from 28 days in excess to 6 days less, for reasons not ascertainable from the available data. This indicates that 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.

CBEC in its reply (January 2014) clarified that:

Interest on the warehoused goods is to be computed as per the provisions of Section 61 of the Customs Act, 1962 read with the provisions of General Clauses Act, 1897 and Customs Circular dated 01.10.2013. Presently, ICES application calculates the warehousing interest for warehoused goods after completion of 90 interest free days and interest shall be payable by the importer from 91st day till the date of payment of duty.

CBEC further reiterated that the first day needs to be excluded for the purpose of ascertaining the period the goods remain in the warehouse, in terms of the General Clauses Act, as well as settled case law. A plain reading of Section 61(2) of the Customs Act, 1962 clearly indicates that the interest liability commences from the expiry of the said 90 days period for goods that remain in a warehouse beyond a period of 90 days. This inherently implies that there is no gap if the duty is paid on the 91st day after availing the 90 day period, as the goods have not remained in the warehouse beyond the

specified period and therefore interest liability would arise if the goods were not removed on the 91st day.

CBEC added that, it is evident that 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.

The Department, however, did not initially provide the formula adopted for calculation of interest in ICES to audit. After the exit conference, the formula was provided to audit (February 2014), which would be verified in subsequent audit.

3.2 Absence of RSP validations to enforce RSP declaration for imports attracting RSP based assessment

According to sub-Sections (1) & (2) of section 4A of the Central Excise Act 1944, the Central Government, vide NT notification dated 24 December 2008, has specified certain goods (for which it is required under the Legal Metrology Act 2009 to declare the 'retail sale price (RSP)' on their package) which shall be charged to central excise duty on the declared RSP, less such amount of abatement, as may be allowed under the notification.

Sub-section (4) of section 4A states, *inter alia*, that if such goods are removed without declaring the retail sale price on the packages or by declaring a RSP which is not the RSP as required to be declared under the provisions of the Act, rules or other law as referred to in the sub-section, then such goods shall be liable to confiscation and the retail sale price of such goods shall be ascertained in the prescribed manner and such price shall be deemed to be the retail sale price for the purposes of that section.

Further, according to proviso to section 3(2) of CTA, for imported goods which are required under the Legal Metrology Act 2009 to declare the RSP on their package and are covered under the RSP notification under section 4A (1) of the Central Excise Act 1944, the value for the purpose of levy of countervailing duty (CVD), shall be the RSP declared on the imported article, less the abatement admissible according to the said RSP notification.

To ascertain whether imported goods attracting RSP based assessment were being assessed correctly by the ICES 1.5 Application, ICES data on BEs given OOC during the one year period 01 April 2012 to 31 March 2013 was analysed. For this analysis, a sample of 76 out of 135 serial numbers of the RSP notification were mapped with the Central Excise Tariff Headings (CETH) intended to be covered under these serial numbers of the notification.

The results of the data analysis are summarised in Annexure C.

The analysis revealed that there were no validations in the ICES 1.5 application to ensure that importers of goods falling under any of the Tariff lines attracting RSP based assessment were required to declare the RSP of the imported goods.

In 61 per cent of the imports valuing ₹ 44,612.93 crore, CVD amounting to ₹ 5,746.40 crore was levied on ad valorem basis. Had these imports been assessed under RSP, the revenue realisation could be much more. The exact short realisation of revenue cannot be quantified as RSP were not declared in these cases.

Kolkata (Port) Commissionerate in their reply stated (October 2013) that as per rule 3 in Chapter II of The Legal Metrology (Packaged Commodities) Rules, 2011, packages of commodities containing quantity of more than 25kg or 25 litre excluding cement and fertilizer sold in bags up to 50 kg, and packaged commodities meant for industrial consumers or institutional consumers are exempted from the provisions of Chapter II.

Recommendation: *DoS may consider mapping the serial numbers of the RSP notification with the Tariff line items and put in place necessary validations in the application to ensure that the importer declares the RSP, if there are any imports under a tariff line item, covered under the RSP notification.*

CBEC 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, it cannot be used for validations in an automated system. Moreover, RSP based duty is leviable *only* if the goods imported are in a packaged form. The other condition applicable for RSP based levy of duty is that the goods must be for sale. Therefore, if the same goods are imported in bulk or for captive consumption, promotion, free distribution, etc. they will not attract RSP based duty. Similarly, if the goods are imported for 100 per cent EOU units or under EPCG/ DEEC/ any other export incentive scheme, RSP based duty is not attracted. Also, the Legal Metrology Act excludes packaged commodities meant for industrial consumers or institutional consumers. Similarly, packages of commodities containing quantity more than 25 kgs or 25 litres are also excluded. For all these reasons, a foolproof and comprehensive RSP validation cannot be built into an automated system, as these facts can only be determined at the time of assessment.

Further, validations with regard to CETHs to the extent possible as per RSP notifications have already been built in the system from 1st March 2013 onwards. However, as mentioned above, these cannot be an infallible validation, as the RSP based levy would be dependent on product description, packaging and sale. It also needs to be kept in mind that 100% validations cannot be built into the System given the way the notifications are structured. A distinction also needs to be drawn between the technical feasibility of what an application can be programmed to do, vis-à-vis the role and responsibilities of the proper officer.

CBEC in its reply (February 2014) stated that EPCG and DEEC incentive schemes are monitored through licences and have a large number of validations built on quantifiable parameters such as CTH, quantity, UQC, value/duty etc. as per requirement. The requirement for validations for RSP as suggested by Audit is qualitatively and technically quite different from the license monitoring.

Reply is not acceptable because further audit scrutiny of 4,106 records of such goods imported through Kolkata (Port) during the period 2012-13 revealed that the goods imported included parts of motor vehicles, manicure sets, flower vases, lunch boxes, cup plates, make up mirror, glass show pieces, digital set-top boxes, etc. In 3,713 of these records, the field for END_USE was left blank, indicating that there was no information available with the department on the basis of which it could be ascertained that such items were packaged commodities meant for industrial consumers or institutional consumers and hence to be exempted from RSP based assessment.

However, in the Exit Conference with the local customs commissionerates (Kolkata) held on 17 October 2013 the department had agreed with the audit view that if goods otherwise attracting RSP based assessment were exempt under any clause of the applicable laws, the ICES application should have necessary additional fields to record such declaration by the importer.

Further, based on the claim made that validations have been introduced in the ICES application from 01 March 2013 onwards, audit re-tested data for the month of March 2013. Out of 2,80,564 items attracting RSP based assessment imported under these 565 CETHs in March 2013, 1,73,006 items, were found to have been not assessed on RSP basis, indicating that there was 'no change' in the percentage of non-compliance even after the claimed introduction of validations.

3.3   Absence of validation to check mis-declaration of RSP

According to the proviso to the section 3(2) of the Customs Tariff Act 1975 (CTA), for imported goods which are covered under the RSP notification under section 4A (1) of the Central Excise Act 1944, the value for the purpose of levy of CVD, shall be the RSP declared on the imported article, less the abatement admissible according to the said RSP notification.

According to explanation to section 4A of the Central Excise Act 1944 'retail sale price' means the maximum price at which the excisable goods in packaged form may be sold to the ultimate consumer and includes all taxes, local or otherwise, freight, transport charges, commission payable to dealers, and all charges towards advertisement, delivery, packing, forwarding and the like and the price is the sole consideration for such sale.

Sub-section (4) of section 4A states, *inter alia*, that if such goods are removed without declaring the RSP on the packages or by declaring a RSP which is not the retail sale price as required to be declared under the provisions of the Act, rules or other law as referred to in the sub-section, then such goods shall be liable to confiscation and RSP of such goods shall be ascertained in the prescribed manner and such price shall be deemed to be RSP for the purposes of that section.

From the above statutes, it follows that imported articles which are specified in the RSP notification issued under section 4A (1) of the Central Excise Act 1944 should be mandatorily assessed on RSP basis and the correct RSP should be declared for such goods, otherwise they are liable to confiscation and ascertainment of RSP price in the prescribed manner.   According to definition, the declared RSP should be inclusive of the various elements of cost suffered, and therefore for imported goods, it cannot be less than the import cost, i.e. the sum of Assessable Value and the import duty. Further, in the Conference of Chief Commissioners of Customs held on 25/26 March 2003 at Visakhapatnam, it was decided that duty may be levied on the basis of transaction value ignoring the RSP, wherever there was evidence that the RSP has been deliberately mis-declared.

Analysis of ICES 1.5 data for BEs given OOC during the period from 01 April 2012 to 31 March 2013, revealed that CVD was collected on mis-declared RSP {i.e. where RSP declared was less than the import cost (Assessable Value + Duty)} in 20,970 cases.   Of these, there were 12,071 records where the declared RSP was even less than the assessable value of the imported goods.

A few instances of CVD collected on mis-declared RSP, as noticed from ICES 1.5 data indicate the extent to which importers have mis-declared RSP without detection by the system (as tabulated in Annexure D).

Further, it was observed reputed importers including ACP clients M/s Acer India (P) Ltd. and M/s Lenovo (India) Ltd., have been regularly importing goods in substantial volumes at declared RSPs which were lower than their import cost, resulting in under-assessments of CVD. A summary of such imports by four importers is given in Annexure E.

Incorrect declaration of RSP by importers could have been detected through a validation check to compare the declared RSP value with the import cost. The above cases indicate that no such validation exists in the ICES 1.5 application or in RMS, resulting in scope for mis-declaration of RSP and consequent short realisation of revenue.

Recommendation: *The department may consider the introduction of appropriate validations in ICES Application and RMS to detect the related cases. The facilitation accorded to ACP clients by RMS may also be re-examined, in view of the large volumes of goods cleared at RSPs declared below import cost.*

CBEC in its reply (January 2014) stated that RSP notification is not based purely on CTH or CETH but is dependent on numerous other variables.

Against all the CTHs where RSP based CVD is applicable, CCRs to that effect are already in place which instruct the OOC Officers to ensure compliance of declaration of RSP and correctness of CVD levied/collected before the consignment is allowed out of Customs. As of now, 1455 CTHs have been identified for RSP based assessment.

Further, 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. Further, as mentioned in the Audit report itself, the decision in the Conference of Chief Commissioners was that transaction value would be taken wherever there was evidence that RSP was deliberately mis-declared. Such evidence would not be available within the system, and therefore no validation can be built rejecting an RSP merely on the grounds that it is less than the AV. To establish the mis-declaration, the case needs to be investigated by the assessing formation, and such action cannot be taken within the System.

In view of the above, no validations are considered necessary for determining mis-declaration. For the specific instances where the RSP based duty is lower than the assessable value based duty, relevant annexure have been forwarded to the respective field formations to examine the issue.

CBEC in its reply (February 2014) stated that It is not correct to say that CBEC has taken a considered decision to maintain the system and practices at

present level of validation. It was clarified earlier 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. For the specific instances where the RSP based duty is lower than the assessable value based duty, relevant annexure have been forwarded to the respective field formations to examine the issue. Risk assessment is a dynamic process and CBEC can never take a stand to maintain the system and practices at a particular level of validation. Based on risk assessment and legal provisions, whenever a need is felt, appropriate interdictions are put in place.

Reply of CBEC is not acceptable as it is the responsibility of CBEC to amend Customs law for protection/safeguard of revenue, if need arises. Further, no reply has been furnished against the cases highlighted by audit. Data for the period 2013-14 has not been provided to audit despite request made to DoS. Moreover, the reply is also silent about the monitoring mechanism they have to protect the revenue in such cases of mis-declaration. Even Kolkata (Port) Commissionerate concurred with the views of audit (October 2013) that most of the cases pointed out were facilitated by RMS. In the cases where RSP based CV duty was found to be lower than CV duty on ad valorem basis, it was stated that documents/ explanations were being called from importers and demand would be raised, if necessary. Similarly, Kolkata (Airport) commissionerate stated (October 2013) that as a corrective measure, the office was issuing letters to the concerned to submit the import documents and to declare the correct RSPs. Further, they stated that DoS should be suitably requested to take up the matter so that there should be some checks in ICES to detect when RSP declared is less than the assessable value.

3.4 Acceptance of multiple rate of exchange rates by the application

According to Section 14 of the Customs Act 1962, valuation of goods for assessment to duties of customs is to be ascertained with reference to the 'rate of exchange' of the foreign currency of the invoice, as in force on the date of presentation of BE and the rate notified by CBEC. The Board, vide NT notifications dated 21 May 2012 and 24 May 2012, had upwardly revised the exchange rates for the Japanese Yen (JPY), the U.S. Dollar (USD), and the Hong Kong Dollar (HKD), effective from 22 May 2012 and 25 May 2012, respectively. However, audit observed that the changes were not updated in the system, resulting in incorrect assessment and consequently short levy of duty.

Further, it was noticed from the all-India ICES data that 6,709 BEs with invoices in USD filed on 25 May 2012 were assessed to duty at the revised

rate of 1USD (₹ 55.95) whereas another 1,084 BEs filed on same date were assessed at the older rate of 1USD (₹ 53.10). Similarly, assessments at both old and new rates were noticed in the case of BEs filed on 25 May 2012 with invoices in HKD and also in the case of BEs filed on 22 May 2012 with invoices in JPY. Although this is likely to have occurred due to the delayed updating of the JPY, USD and HKD exchange rates in the 'Exchange Rate Directory', it also indicates lack of validation controls to enforce acceptance of a single exchange rate for BEs filed on a particular date, which is stipulated in section 14 of the Customs Act.

CBEC in its reply (January 2014) stated that the responsibility for updation of exchange rates is assigned to ICD Patparganj, and the exchange rate notifications are sent to ICD, Patparganj directly by the Board. The exchange rate notification is effective from the time it is entered in the ICES 1.5 application. In this regard, it is informed that earlier the exchange rate notification was issued once a month. This practice was changed without providing due notice to the directory managing site or DoS. There was delay in receipt of notification by the directory manager which forced DoS to remove an existing validation in the system which ensured that exchange rate notifications could be made effective in ICES only from a future date. Instead, a facility was immediately provided for the System Managers of all locations to change the effective exchange rate for those BEs which were assessed according to earlier existing exchange rate.

However, in all such situations, all sites are alerted through an advisory issued by the concerned directory manager for re-assessing and recovering the differential amount.

It is further informed that as directed by the Board, DG (System) is presently working on a module for daily updation of exchange rates with SBI. This would enable the exchange rate to be applicable from midnight and the issue would get resolved automatically.

CBEC further stated (February 2014) that testing of daily exchange rate update message has been completed. However, date of commissioning can be decided only after the technical issues with State bank of India (SBI) get resolved.

CBEC accepted the audit observation. However, copy of the direction of the Board to DG (System) has not been produced to audit.

3.5   Absence of reliable directory updating procedure

According to the ICES Directory Management User Manual Ver.1.0, DoS follows a centralised directory updating procedure. The updating of several

important directories of the ICES 1.5 application has been delegated to different customs sites. The National System Manager (NSM) at the highest level assigns directories to different sites which are responsible for maintenance of these directories. The System Manager at each site assigns roles of Directory Officer (DIROFF) and Directory Manager (DIRMGR) to the users to perform operations on the directories assigned to their site. DIROFF has the privilege to make new entries in the directories assigned for the role, modify these entries, generate checklist and submit these entries to DIRMGR for approval. DIRMGR 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.

(i)   Failure to update the central excise duty rate and notification directories

The updating of rates of central excise duty and the central excise notification directories are delegated to the Jawaharlal Nehru Custom House (JNCH), Nhava Sheva. Audit observed that these directories were not updated when the Finance Act 2012-13 was passed and notified vide Gazette of India notification No. 25 dated 28 May 2012. The omission continued for the rest of the FY 2013, as a result of which a number of amendments in the Central Excise Tariff Schedule involving changes in duty rates was not incorporated in the system. This resulted in continued short levy of CVD on goods like 'cigarettes (Chapter 24)' and 'railway wagons', 'parts of locomotives' etc. (CETH 8607, 8608 and 8609) throughout the year.

The impact of short levy on imports under chapter 86 vide 1,696 BEs at all-India level due to application of CVD rate of 6 per cent instead of the higher applicable rate of 12 per cent from 28 May 2013 amounted to ₹ 97.55 crore, as ascertained from ICES 1.5 data.

Similarly, the specific rates of Central Excise Duty on various types/lengths of cigarettes were revised with effect from 28 May 2013. It was observed from the ICES data that there were incorrect assessments of duty in 468 records, out of which there was under-assessment of customs duty amounting to ₹ 5.14 crore in 401 records and over-assessment of ₹ 0.22 crore in 67 records. The change in specific rate of duty on cigarettes was tabulated in Annexure F.

Though the irregularity was brought to the notice of ICD, Tughlakabad and Kolkata (Port) between September 2012 to March 2013, DoS had not instituted any system for centralized monitoring of the directory updating or for cross-verification of the directory updating delegated to the various customs field formations.

(ii)   Delay in updating of Customs Exemption Notification and Duty rate Directories

The updating of rates of customs duty and the customs notification directories are delegated to Chennai Sea Customs. Custom's exemption dated 17 March 2012 was amended by notification dated 23 January 2013 enhancing the BCD rate from 'nil' to 2.5 percent in respect of certain goods involving crude oil imports. However, audit observed that in 15 instances of imports of 'crude sunflower oil' and 'crude palm kernel oil' made on 23 and 24 January 2013 under Chennai Sea Customs were assessed at 'nil' rate of BCD vide exemption notification dated 17 March 2012, resulting in short collection of duty of ₹ 2.29 crore. The reason for the incorrect exemption was the delay in updating of customs exemption notification.

(iii)   Failure to update the SAD Exemption notification

As per the Finance Act, 2011 effective from 08 April 2011, all goods specified in the First Schedule of the Additional Duty of Excise (Goods of Special Importance) Act, 1957 were deleted from the purview of the said Act. Consequently, the goods specified under the said Act, which were exempted from the levy of 4 percent Special Additional Duty of Customs under serial No. 50 of notification dated 01 March 2006, became liable to the duty in terms of notification dated 1 March 2006.

It was noticed that in several instances at Chennai Sea, Air and Tuticorin Commissionerates, incorrect exemption from SAD was allowed under serial No. 50 of notification dated 1 March 2006 though the goods are liable to SAD in terms of the other notification dated 1 March 2006. This resulted in short levy of duty of ₹ 2.33 crore, out of which recovery of ₹ 0.98 crore had been effected till July 2013 (Audit Paragraph No. 4.3 of Report No.14 of 2013). Similarly, in 49 instances in Kochi Sea Customs incorrect grant of exemption resulted in short levy of duty of ₹ 0.89 crore (Audit Paragraph No. 1.75 (4) of Report No.14 of 2013). Similar case was once again noticed in audit in Kochi in November 2012 which resulted in short levy of ₹ 0.51 lakh.

Scrutiny of the EDI transaction data from 8 April 2011 to 31 March 2013 pertaining to Kolkata Port and Airport Commissionerates revealed that in 1,034 and 9154 cases SAD was not levied. This resulted in short levy of SAD amounting to ₹ 46.59 crore and ₹ 29.26 crore in the respective Commissionerates.

CBEC in its reply (January 2014) stated that:

The audit team has pointed out non updation of central excise duty rate, customs exemption notification and duty rate directories and SAD exemption notifications in time, resulting in loss of revenue.

In this regard, the role of the Directorate is restricted to the aspect of automation, and providing a platform for updation of the directories. Content management, including timely updation of directories is the responsibility of the specific field formation to which the role has been assigned by the Board. Keeping in view the limited staff working in DG Systems, New Delhi, centralized monitoring of directories is not possible. Therefore, the work of updation of the notification directories is entrusted to Chennai Custom House and updation of CTH and CETH tariff directories is the responsibility of JNPT, Mumbai. The directory entry itself has a maker-checker procedure, so that any erroneous entries can be determined before entry into the System itself.

It is informed that by providing facility for central updation of directories by different Directory Managing site, the process of updation has been simplified, and therefore any lag due to delay during the process of updation has been taken care of. However, the issue of delay in communication of the issuance of notification to the Directory manager remains, which may not be addressed even by introducing cross verification facility regarding directory updation.

It is not possible for the Ministry to directly undertake updation of the notifications on ICES, as Ministry officials do not have access to ICES. The notifications are communicated to DG Systems and the Zones by email. At present there is no system of feedback to the issuing wing. The concerned formations updating the notifications are being instructed to confirm the successful updation of notifications by return mail. In the event of non-receipt of a confirmation of updation in a reasonable time, appropriate action for updation can be taken.

As regards the specific cases listed by Audit, the issue has been forwarded to respective field formations for examination and necessary action. However, some of these issues, for instance, specific rate of duty on cigarettes and levy of CVD on certain chapter 86 goods were already in the notice of the department and suitable corrective action to recover the short levy of duty was initiated by the department through customs field formations. All the System Managers had been informed of the aforesaid issue.

CBEC in its reply (February 2014) again reiterated the reply of January 2014 and stated that details regarding recovery will be provided in the due course by Cus-PAC Wing in CBEC.

The Department has accepted the loopholes in the directory updation procedure. Directory updating is a fundamental activity of CBEC for correct and timely realisation of revenue. This is indicative of integrity of the revenue information system. This is to be coordinated and linked in ICES to ensure revenue leakage.

3.6 Absence of validations to ensure declaration of unique IEC/PAN

According to paragraph 2.9 of the HBP, Vol.1 of FTP, only one Importer-Exporter Code (IEC) should be issued against a single PAN number. Further, according to Chapter 2 of the CBEC's Manual on Self-Assessment 2011, IEC is validated online in ICES with database of DGFT and PAN is validated online with database of CBDT.

However, analysis of all-India ICES 1.5 data for the year 2012-13 revealed that there are records of imports against 33 PAN numbers for which more than one unique IEC number has been quoted. Conversely, there are records of 251 imports where more than one PAN number has been quoted against one IEC. There are also 13 imports where no PAN number has been given.

CBEC 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. Similarly, the PAN database is owned and maintained by the CBDT. The ICES 1.5 application only validates the existence of the IEC number/ PAN quoted by the Importer/ exporter in the customs document with the DGFT/CBDT database online, to ensure that the same is a valid number issued by the concerned authority, as mandated in the CBEC's Manual on Self-Assessment which provides that:

"For entry in B/E or S/B. IEC is validated online in ICES with database of DGFT" and "for DGFT, Bank etc. PAN is validated online in ICES with database of CBDT."

What audit pointed out was that the data validation can flow from the initiatives taken by user department (CBEC in this case), especially if the information helps in better implementation of the departmental objectives of revenue safeguard. In the present scenario of electronic information environment, the databases to be utilized by various stake holders are required to be correct and uniform for all concerned.

CBEC in its reply (February 2014) stated that the observation will be sent to DGFT for correction at their end.

Final outcome may be intimated to audit.

3.7   Absence of validations to ensure declaration of same CTH and CETH

From 28 February 2005, vide the Central Excise Tariff (Amendment) Act, 2004 (5 of 2005), the classification of goods under the Central Excise Tariff Schedule was harmonized with the Customs Tariff Schedule according to 8 digit ITC HS classification system. Thus, CTH and CETH are identical for all goods, except for those classifiable under chapters 97 and 98 of the Customs Tariff Schedule for which the corresponding chapters 97 and 98 do not exist in the Central Excise Tariff Schedule.

However, it was noticed from ICES 1.5 all-India import data for the year 2012-13 that out of 2,63,40,427 records pertaining to imports under chapters 1 to 96 of the Customs Tariff, there were 4,81,864 records in which the CTH and CETH did not match. This shows that the ICES 1.5 application does not have any input controls/validations to ensure declaration of same CTH/CETH for imports. This may lead to incorrect assessments and short/excess levy of customs duty. As an illustration, in the case of BE No. 7948637 dated 14 September 2012 pertaining to ICD Patparganj, the item imported was 'sports shoes' for which CTH was correctly declared as 6403 19 90, but the CETH was incorrectly declared as 3924 90 90. By declaring incorrect CETH, importer availed higher abatement of 40 per cent (Sl. No. 53) on his declared RSP as against admissible abatement of 35 per cent (Sl. No.56) of RSP based assessment Notification No. 49/2008 CE (NT) dated 24 December 2008.

The absence of such validation was earlier reported in paragraph 3.14.1 of the Performance Audit Report No.24 of 2009-10, when the Ministry had accepted that validation between CTH and CETH was not done in ICES 1.0. However, it is noticed that the necessary validations have not been incorporated in ICES 1.5 either.

3.8   Absence of validations to ensure declaration of goods imported under chapter 98 of Customs Tariff with corresponding CETH

For the purpose of levy of BCD and CVD, imported goods were classified under CTH and CETH respectively. In respect of Project Imports, the goods are to be classified under chapter 98 for the purpose of levying BCD. However, as there is no corresponding CETH such goods are classified under chapters 1 to 96 of central excise tariff for the purpose of levying CVD. Audit observed that the system could generate various reports based on CTH and not on CETH. For example, to find out list of BEs where goods falling under CETH 8607, 8608 and 8609 were imported from 28 May 2012 to March 2013 by charging less CVD as reported in paragraph 3.7 above, audit tried to generate a list of all such imports by giving respective CTH as the system does not accept CETH. It was noticed that five bill of entries, where items falling

under CETH 8607 were imported under CTH 9801, were not included in the report run for CTH wise report. It is therefore recommended that there should be facility to generate report based on CETH also.

CBEC in its reply (January 2014) stated that more than 250 MIS reports, new MIS reports and MIS reports have been provided in ICES 1.5 after due consideration of requests forwarded by different field formations. Request for CETH based reports have not been received by DoS. The present request from audit will be examined for consideration.

Audit is of the view that when the data/information are available in the system, the databases need to be utilized by various stakeholders.

Recommendation: *To ensure correct assessment, validation checks for declaration of same CETH/CTH may be provided for in ICES 1.5 application, for all goods classifiable under chapters 1 to 98 of the Customs and corresponding Central Excise Tariff Schedules.*

In a similar recommendation of Audit in the Performance Audit Report No.24 of 2009-10, the Ministry had accepted that validation between CTH and CETH was not done in ICES 1.0.   However, it is noticed that the necessary validations have not been incorporated in ICES 1.5 either.

CBEC 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. As and when the changes are made in the system, the business process map and Software Requirement Specifications (SRS) would be made available to audit.

Though CBEC accepted similar observation pointed out in 2009-10, they are yet to incorporate the validation leaving scope for importers to mis-declare CETH to get higher abatement/exemption from CVD.

3.9   Mis-match of country of origin data in different ICES tables

The risk of non-levy of anti-dumping duty due to mis-match 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. The Ministry then stated (December 2008) 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 anti-dumping duty and that any short-levy pointed out by audit then could be on account of assessment lapse.

Analysis of ICES 1.5 data on 32,83,674 BEs given OOC during the year 2012-13 revealed that the COO data, appearing under the field name 'CRG' in the BE_ITEM_DET table as well as under the field name 'CORG' in the BE_MAIN table, are different in 2,50,325 cases, i.e. in 7.6 per cent of BEs. This indicates

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

There are presently about 25 COO based exemption notifications in force as on date, out of which imports under 11 single-country specific notifications, allowing partial or full exemption from BCD, were examined to check for availing of these exemptions due to absence of 'country of origin' validation in the application. It was observed that in 13,413 records the declared COO at the 'item' level, as recorded in 'CRG' field in the BE_ITEM _DET table, was different from the Country Code for which the notification was valid, resulting in incorrect grant of exemption from BCD amounting to ₹ 125.53 crore in these cases. Thus, inspite of the Ministry's claim that the system has been properly designed by capturing 'country of origin' at two places and using the value at the 'item' level, the absence of validations for COO data in the ICES application are continuing to cause loss of revenue.

CBEC in its reply (January 2014) stated that CORG is the Country of Origin at the BE level and CRG is the Country of Origin at the item level. When all or most of the goods have the same country of origin, the CORG field is declared. Only for those items of the BE, where the country of origin is different from the CORG, CRG for those items is declared. The logic for consideration of the country of origin for the items of BE has been in built accordingly. The objection that the same data should be captured in both the fields is erroneous, as both the fields relate to different data. For instance, one BE may contain goods whose origin is of different countries. Thus, a consignment coming from Dubai, may have goods of Chinese, Taiwanese, Korean origin. This does not indicate a lack of validation nor does it lead to scope for incorrect availment of COO based notifications. Rather it facilitates the levy of ADD, as well as restricting COO based concessions to specific items rather than to the whole BE.

It is further informed 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. The data used by Audit pertains to the period before these validations were built in. However, the annexure have been forwarded to the respective customs field formations for necessary action regarding incorrect availment of notification, if any.

The reply of CBEC is not acceptable. The data for the month of March 2013 has again been tested by audit to test validation of COO with COO based exemptions and it was found that validations for all 11 COO based exemption notifications had been introduced with respect to CORG/CRG data.

However, a fresh analysis to confirm whether the CORG and CRG fields in the BE_MAIN and BE_ITEM tables respectively, contain the same data on COO in case of Single Invoice – Single Item imports, where logically both fields should contain identical data, revealed that in the month of March 2013 alone, there were 5,398 single item imports where the CORG and CRG data were different. Thus, there is clearly no validation in such cases where both data should be identical. Neither customs data for the period FY13-14 nor any sample data was provided to audit for necessary verification.

3.10   Details of producer of goods not captured in ICES for levy of ADD

Anti Dumping Duty (ADD) is leviable on certain imported goods based on factors such as customs classification, description of goods, country of origin, country of export, name of the producer and name of exporter. The amount to be levied depends on one or more of the above factors. It is observed that in the BE display screens in the ICES application, such as Master, invoice, GATT declarations, etc. there is no field showing name of producer. In the absence of such vital information, it cannot be assured in audit that correct ADD has been levied. For example, according to notification dated 11 March 2008, ADD on the 'ACETONE' falling under CTH 2914 11 00 with country of origin and country of export as 'Chinese Taipei' is USD 89.42 per MT if the producer is M/s Formosa Chemicals and Fibre Corporation and for producer being M/s Taiwan Prosperity Chemicals Ltd, ADD to be levied at the rate of USD 87.14 per MT. Since there is no field showing name of the producer, the correct rate of ADD leviable cannot be ascertained at the time of assessment and also during audit.

CBEC in its reply (January 2014 and February 2014) stated that the EDI BE format is compliant to the prescribed format for electronic filing of import documents. The format has evolved over last few decades as per requirements. It is not possible to capture each and every detail of the importer/supplier/manufacturer by introducing separate fields in the BE format. Levy of ADD is dependent on the serial no. of the anti-dumping notification declared by the importer. Anti-dumping notifications may prescribe any kind of conditions such as description of goods, country of exports, name of the producer, name of the exporter etc., none of which are structured fields. Hence, automation of such fields for automatic decision-making is not possible. The risk management system populates CCR in the BE

based on the CTHs where anti-dumping has being levied. Such BEs are routed through shed examination where the necessary checks are carried out manually by the customs officers. This directorate has already discussed the issue of making the notifications automation friendly with the Board.

It is pertinent to mention here that, if more data is captured, it would require more storage space apart from entailing more work for the trade/agent. It would put unnecessary load on the system. The instance pointed out by the audit team is applicable in a very small percent of the cases. Therefore, it may not be appropriate to carry out changes in the application at the format level.

CBEC has not clarified the mechanism available in ICES to ascertain correctness of levy of ADD at correct rate without the field of 'name of producer' as ADD notifications are producer specific in many cases.

3.11   Absence of mapping of tariff items with customs exemption notification

It had been pointed out in paragraph 3.13.1.2 of the Performance Audit Report No.24 of 2009-10 that ICES 1.0 did not have a validation check to ensure whether any imported item was eligible for the benefit of exemption under the relevant notification. The Ministry then explained that CTH/CETH was captured in the 'notification directory' only in the case of unconditional notifications.

To ascertain whether necessary validations had since been introduced to ensure that imported goods were being assessed correctly by the newer version of the ICES application by allowing only eligible exemption benefits under the customs exemption notification to be claimed, all-India data on BEs given OOC during the year period 1 April 2012 to 31 March 2013 was analysed. For this analysis, 422 out of 521 serial numbers of notification dated 17 March were mapped with the Customs Tariff line items intended to be covered under these serial numbers of the notification.

All-India data was analysed to detect cases of incorrect availing of exemption benefits, if any, by claiming exemptions under serial nos. against which the imported tariff item were not eligible for exemption/concessional rate of duty. This was run on the one year data on the BE_ITEM_DET, BE_A_ITEM_DET and BE_STATUS tables. Imports under Chapters/ Headings/Tariff Items not leviable to BCD or attracting 'NIL' tariff rate of BCD have been ignored for this analysis. The results of the data analysis are summarised in Annexure G.

Analysis of imports made under claims of duty exemption under various serial numbers of the customs exemption notification dated 17 March 2012 during

the FY 2012-13 showed that there were no validations or mapping of CTH with the serial numbers of the notification, either for conditional or for unconditional exemptions, which resulted in incorrect assessments and inadmissible exemptions from customs duty amounting to ₹ 93.05 crore.

CBEC in its reply (January 2014 and February 2014) 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. There are several notifications which cannot be automated since these are description based and not linked to a specific CTH, or listed as 'all CTH'. Similarly, general exemptions for generic imports, for instance, 'ship stores' cannot be validated in the system.

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 as part of pre-budget exercise. The data used by Audit pertains to the period before these validations were built in. Further, test check of some of the entries in annexure shows that while in some cases, wrong serial number of the notification has been used, however, the rate of duty is the same, and there appears to be no loss of revenue.

However, the cases listed have been forwarded to the field formations for examination and necessary action. It is also pertinent to note that applicability of a notification is finally the decision of the assessing officer.

Different directory managing sites are responsible for monitoring the status of different directories as per the direction of Board.

Reply of CBEC is not acceptable as audit tested the validation of 422 out of 521 Sl. Nos. of Customs general exemption notification No.12/2012-Cus against CTH on data for March 2013 and it was found that validations for Sl.No.123 of the said exemption notification had not been introduced with respect to CTH. Hence, CBEC's claim that validation has been introduced cannot be accepted. Further, the relevant report(s)/record(s) bringing about the changes in the system had not been provided to audit. CBEC also did not provide the benchmark adopted to arrive at the extent of validation designed in the system and monitoring system in DoS to check the validations incorporated in the system.

3.12 Absence of mapping of tariff items with central excise exemption notification

As in paragraph 3.11, ICES data was analysed to check the correctness of exemption allowed to importers for the purpose of levy of CVD under Central Excise notification dated 17 March 2012 was carried out.

The analysis revealed that that 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 from CVD allowable under the said notification were correctly claimed. This resulted in incorrect assessments and inadmissible exemptions from customs duty amounting to ₹ 137.02 crore being allowed to importers who had incorrectly claimed the benefits of exemptions under the said notification. The results of the data analysis are summarised in Annexure H.

The ICES 1.5 data was further analysed to check the validation controls in the system with reference to the findings of audit of BEs through CRA module or physical verification of BEs for which Draft Audit Paragraphs were issued to the Ministry for inclusion in the Customs Compliance Audit Report for the year ending March 2013. Audit found that 1,20,951 cases were wrongly assessed by the system due to lack of proper validation control in the system. Summary of the results of the analysis of ICES 1.5 import data for the year 2012-13 are detailed in Annexure I.

These incorrect assessments were neither detected by the system nor in PCA or by Internal Audit of the department indicating shortcoming in the validation controls in the ICES application, RMS and PCA. The department may review all these cases and recover the short levy/non levy etc.

CBEC in its reply (January 2014) referring the response in paragraph 3.11 stated that the exemption notifications apply CVD rates against CETHs qualified by description, serial no. and the list of conditions. Since the list of conditions and the description are unstructured fields, it is not possible to build 100 per cent validations with regard to the CETH and the notification duty rates. It is informed that mapping of tariff items with exemption notifications to the extent possible has now been built in the notification directory since 1st March 2013 by the officers of different custom sites as part of pre-budget exercise. The data used by Audit pertains to the period before these validations were built in.

However, the cases listed have been forwarded to the field formations for examination and necessary action.

CBEC in its reply (February 2014) reiterating the reply of January 2014, stated that different directory managing sites are responsible for monitoring the status for different directories as per the direction of Board.

Reply of CBEC is not acceptable as audit tested the validation on data for March 2013 and it was found that validations for Sl.No.326 of the said exemption notification had not been introduced with respect to CETH. Hence CBEC's claim that validation has been introduced cannot be accepted. Further, the relevant report(s)/record(s) bringing about the changes in the system had not been provided to audit. CBEC also did not provide the benchmark adopted to arrive at the extent of validation designed in the system and monitoring system in DoS to check the validations incorporated in the system.

3.13   Difference in duty calculated and duty collected:

During the analysis of ICES 1.5 import data pertaining to Chennai Sea Customs, audit observed that M/s Visteon Automotive Systems India Private Limited imported goods vide BE No. 3614987 dated 26 May 2011, which was assessed by the system under RMS facilitation (on merit duty) and the duty payable was ₹ 33.62 lakh. However, the goods were cleared and given OOC on 2 June 2011 on payment of lesser duty of ₹ 33.14 lakh. The findings of the data analysis were confirmed by cross checking through the CRA module of the ICES 1.5 application. The variation between the assessed duty and the duty collected was also confirmed by the department; however, neither any plausible explanation was furnished for this difference by the department nor there was any audit trail of the same available in the system.

The issue was also analysed on the all-India ICES 1.5 data for the FY 2011-12 and 2012-13 by comparing the duty payable (TOT_DUTY field in the BE_CASH Table) and the duty paid (sum of the DUTY_AMT field in BE_CASH Table) and related information from the BE_MAIN and BE_STATUS Tables.

The analysis revealed that there were differences in the calculated duty payable and duty actually paid in the cases of 1,057 and 1,729 BEs for the year 2011-12 and 2012-13 respectively. The total duty payable in these BEs were ₹ 106.77 crore and ₹ 195.73 crore, whereas, only ₹ 20.87 crore and ₹ 59.07 crore were collected on clearance of imported goods for the year 2011-12 and 2012-13, resulting in short collection of ₹ 85.70 crore and ₹ 136.66 crore in these BEs for the respective years 2011-12 and 2012-13. Further, out of 1,057 BEs for the year 2011-12 and 1,729 BEs for the year 2012-13, in 162 and 445 BEs calculated duty payable were ₹ 32.29 crore and ₹ 72.68 crore for the respective years 2011-12 and 2012-13, against which no amount was collected.

CBEC 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.

Audit called for the details of the duty debited through scrips in each case and the procedure existing in ICES to capture the entire picture of the duties forgone as required under FRBM Act to be reported in 'Statement of Duty forgone' in the Union Receipt Budget.

CBEC in its reply (February 2014) stated that details of duty debited through scrips are captured in BE_CASH_LIC table. ICES can generate location specific duty forgone statement for import through EDI systems. No utility exists in ICES to provide the entire picture of the customs duties forgone. The statement of duty forgone reported in the Union Receipts Budgets is prepared by TRU in CBEC based on inputs received from Directorate of Data Management (collated from statements uploaded by field formation), Directorate of Drawback and Director General Export Promotions.

Reply of CBEC could not be verified because audit was neither provided with BE_CASH_LIC table nor case-wise details of duty debited through scrips intimated to audit. The total revenue collected and forgone was not reconciled by CBEC or by Pr. CCA. CBEC admitted that there is no utility in ICES to capture the entire duty forgone.

3.14 Business processes not covered under ICES, requiring manual assessments

According to sections 46 and 50 of the Customs Act 1962, import documents (BEs) as well as export documents (SBs) are mandatorily required to be filed electronically (through EDI system). In order to prevent misuse, CBEC issued instructions on 04 May 2011, that manual processing and clearance of import/export goods shall be allowed only in exceptional cases and data for manual documents should be compulsorily entered and transmitted by all locations within the stipulated time period.

Year wise summary of customs document filing data from 19 EDI Ports, which include all the major ports, viz. JNCH, NCH Mumbai, ACC New Delhi, ICD Tughlakabad, ICD Patparganj, Chennai Sea, ACC Chennai, Tuticorin, Kochi Sea, ACC Ahmedabad, Kolkata Sea and Kolkata Air is given in the Annexure J.

It was observed that an average of 3.64 per cent, 1.87 per cent and 1.39 per cent BEs were filed manually at these 19 EDI ports during the years 2010-11, 2011-12 and 2012-13. Similarly 4.35 per cent, 2.16 per cent and 2.19 per cent SBs were filed manually at these 19 EDI ports during the years 2010-11, 2011-12 and 2012-13. However, the number of EDI processed customs documents has increased over the past three years. The percentage of

manual filing of BEs were higher at Tuticorin, Goa, Nagpur and Kolkata Port, ranging between 3.53 percent to 6.90 percent, whereas the manual filing of SBs were higher at Chennai Air, Kochi, Goa, Nagpur and Kolkata Airport, ranging between 4.77 percent to 23.76 percent, which were in contravention of section 46 and 50 of the Customs Act and the Board's instructions. It was also noticed that 100 per cent of BEs were assessed manually at West Bengal (Preventive) Commissionerate.

Further, examination revealed that manual BEs were being filed mainly for imports of Aircraft/Ship stores, diplomatic cargo, post parcel, domestication of containers, imports under 'Status Holder Incentive Scrip (SHIS)' scheme, for imports attracting more than one duty exemption notification, imports against notifications not accepted by the ICES 1.5 application, BEs filed for payment using SAD re-credited duty credit scrips like DEPB, FMS, FPS, etc., temporary imports under ATA Carnet and for imports against DEPB, EPCG licenses, etc. for which TRAs were issued manually. In most of these cases the BEs were filed manually due to lack of provision to handle such cases in the ICES application. On the export side, the SBs were filed manually for lack of provision in ICES system for coverage of re-exports under section 74 of Customs Act 1962, export of free unaccompanied baggage, Aircraft/Ships stores and Aviation Turbine Fuel (ATF).

Audit also observed that out of 116 EDI enabled locations, only in 89 locations, electronic filing of import documents were carried out, out of which in 29 locations, less than 500 BEs were filed during 2012-13. Similarly export documents were filed in 99 locations; out of this in 20 locations, less than 500 SBs were filed during the same period.

In response to Audit observation on Customs procedure and trade facilitation – ICT based solutions (ICES) and self assessment not being extended to all customs transactions (Paragraph No. 1.39 of Audit Report No. 14 of 2013), DoS stated (October 2013) that there are very few sites where ICES is not implemented; however, there are efforts going on to include them under the purview of ICES.

CBEC in its reply (January 2014) stated that the percentage of manually assessed documents has been reducing over the years and presently it is less than one per cent of import documents and less than 2.5 per cent of export documents.

CBEC in their reply (February 2014) reiterated that work on development of modules depends on the feasibility and prioritization based on revenue impact demand satisfaction, Ministry requirement and other factors.

The reply of CBEC is not acceptable, since majority of the issues raised in Audit Report No.24 are still persisting as on date though the department accepted all the recommendations of the Audit Report No. 24 of 2009-10.

3.15   Absence of linkage with 'sezonline' portal of MoC

ICES 1.5 has not been linked with 'sezonline' portal of Ministry of Commerce (MoC), which facilitates online clearance of both imports and exports by the Development Commissioners of SEZs, to monitor the closure of IGM filed at the customs port for the goods imported which are intended for use in SEZs.

CBEC in its reply (January 2014 and February 2014) stated that the modalities for exchange of data with SEZ online are under discussion stage between DoS and MoC and progress is dependent on the response from DoC.

Final outcome may be intimated to audit.

3.16   No mechanism to monitor goods released on transhipment

ICES 1.5 does not have any mechanism to monitor goods released on transhipment.

CBEC in its reply (January 2014 and February 2014) 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. However, the access path in the application was not specified by CBEC.

This would be verified in next audit.

3.17   Absence of integration of NIDB and ECDB data with ICES

There is no direct integration of National Import Database (NIDB) and Export Commodity Database (ECDB) with the ICES 1.5 application. NIDB and ECDB can only be assessed by departmental officers indirectly by the following two methods:

(i)   After logging in using SSOID and password, the officer has to click on the 'Mozilla Firefox' web-browser icon available on the CITRIX homepage. Then the officer has to connect to DoV website, www.dov.gov.in on the internet, and use another set of UserID/Password assigned by DoV to access the NIDB and ECDB data.

(ii)   After logging in using SSOID and password, the officer has to click on the 'Mozilla Firefox' web-browser icon available on the CITRIX homepage. Then the officer has to connect to the Local File & Print Server by typing the IP address of the Local Server in the address bar of the Firefox browser. This takes him/her to the

'Mulyakosh' Query Module where another set of UserID/Password issued by the local commissionerate's System Manager has to be used to access the Valuation data available in the 'Mulyakosh' Valuation Query Module. The valuation data accessed through 'Mulyakosh' is updated periodically by DoV.

CBEC in its reply (January 2014) stated that the Directorate General of Valuation is developing their own module by employing their own vendors.

CBEC, further, in its reply (February 2014) stated that the hardware is being procured and the prototype of the module will be loaded for testing as soon as the server is delivered. Efforts are being made to meet the deadline of 31st March 2014 for commissioning of the module.

Final outcome may be intimated to audit.

3.18 Details of 'import against essentiality certificate for project' not captured in ICES

ICES does not have any field to capture 'import against essentiality certificate for a particular project' and hence cannot be queried. Further, the invoice numbers of the invoices submitted as physical documents were not entered into the System during data entry of BE.

CBEC in its replies (January 2014 and February 2014) stated that requirement for capturing the details of essentiality certificate as a ledger will be examined.

Final outcome may be intimated to audit.

3.19 Functionalities lacking in the ICES 1.5 applications

3.19.1 No option to generate licence-wise imports made, duty forgone and exports made for monitoring export obligations (EO)

Since every duty-free/concession duty import licence issued by the DGFT, e.g. EPCG, Advance Authorisations, etc., has to be registered in the ICES application before any imports and exports are allowed thereagainst, licence-wise information relating to exports and imports made from every customs location in the country (except manual ports) is available with the department in the ICES 1.5 application database, which can be used for monitoring and ascertaining the duty forgone on the imports as well as the quantum of exports made in fulfilment of the EO against such licences. However, this information is not collated and utilised by department through any module/report in the application to monitor EO fulfilment for identifying licencees failing to discharge their EO within the stipulated EO discharge period of the licence.

Recommendation: *The proposed Export Obligation Discharge Certificate (EODC) message exchange between the DGFT and ICEGATE has not materialised. The manual transmission of EODCs and their monitoring has not been found to be efficient. However, the data available in the application database may be used to generate EODC discharge failure reports and the licencees as well as DGFT may be pursued, for timely initiation of the revenue recovery procedures related to the EODC.*

CBEC in its reply (January 2014) stated that the responsibility of monitoring of EODC lies with DGFT. As far as customs is concerned, license wise import ledger is maintained in ICES where duty forgone, quantity, value, credit remaining, etc is available.

CBEC further stated (February 2014) that all custom houses are having export obligation monitoring cells where the pre exports licenses and their bonds are monitored.

Audit is of the opinion that, since duty forgone in export incentive schemes are allowed under Customs notifications and it is the onus of the CBEC to recover the duty and act against the importer/exporter in case of default, therefore when the data is available with CBEC, the same can be made use of especially to cater to the report mandated under FRBM Act.

3.19.2 No information on finalization of provisional assessments

There is no provision for finalisation of provisional assessments through the Application even after more than fifteen years of its development, and even after this being pointed out in audit in the CAG's PA Report {Paragraph 3.16 (iii) of Report No. PA 24 (Customs) of 2009-10}.

CBEC in its reply (January 2014 and February 2014) stated that the module for finalization of provisional assessment in ICES has been created by NIC and is under testing stage. Depending on progress of testing and user satisfaction the module will be finalized.

Though the issue was pointed out in 2009-10, the department failed to commission the module till date. However, final date of completion and target date of commissioning of the module may be intimated to audit.

3.19.3 No information on action taken in short-levy cases

Section 28 of the Customs Act, 1962 provides that where any duty has not been levied or has been short levied or erroneously refunded or when any interest payable has not been paid, part paid or erroneously refunded, the proper officer may issue notice within the prescribed time to the concerned person to show cause why he should not pay the amount specified in the notice. Audit observed that wherever action has been initiated by the

department in the form of issue of less charge notice/show cause notice or recovery of duty short levied, no information about such action is available in the ICES application.

CBEC 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 and further stated (25.02.2014) that details regarding recovery will be provided in due course by Cus-PAC Wing in CBEC.

CBEC's reply is not satisfactory and may be verified during subsequent audit.

3.19.4 No provision in application to record duty paid through manual challans

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.

This could be verified in subsequent audit.

Recommendation: *The information regarding provisional assessments, action taken in cases of short levy of duty and duty paid through manual challans may be provided for in the application, to allow updation of the data relating to each of import/export assessment record.*

3.19.5 No facility to levy and collect Extra Duty Deposit (EDD)

There is no facility to levy and collect EDD through ICES application, due to which it has to be collected separately manually.

CBEC in its their reply (January 2014 and February 2014) stated that the necessity and scenarios for extra duty deposit requires detailed study which includes ascertaining the requirement for automating this activity, its formal process flow, as well as the priority of development of the module.

CBEC's reply is not relevant to the audit observation. Action initiated by CBEC in this regard has not been elaborated.

3.19.6 Quality of EDI data

DGCI&S, Kolkata has informed (July 2013) in response to an audit query that ITC (HS) corrections were carried out by DGCI&S in about 4 per cent of EDI records in case of imports and in 7 to 10 per cent EDI records of export pertaining to the years 2010-11, 2011-12 and 2012-13. Quantity corrections

were done in more than 40 per cent EDI records on both import and export data of the same period whereas value and country code corrections were made in few cases.

The incorrectness in the EDI data pointed out by DGCI&S is indicative of lack of validations which leaves the scope for incorrect declarations that could impact the assessments and the quality of the country's trade statistics as well.

CBEC in its reply (January 2014) stated that enhancing validation on all data fields would lead to increased rejections and keeping in view the objectives of trade facilitation and accurate data analysis, a balance needs to be maintained between validations of data and transaction costs. However, in their reply dated February 2014 CBEC admitted that 70 per cent and 55 per cent SBs and BEs are filed with UQCs other than Standard UQC respectively. Hence, it has been considered by the department not to enforce absolute validations with regard to Standard UQCs, as it may have a serious potential to hamper the smooth flow of international trade. It was reiterated that efforts of the department are geared towards standardization of trade data without disturbing the fine balance between revenue and smooth flow of international trade.

Reply of CBEC is not acceptable. From the reply it appears that the Board adopted an easy approach not to enforce validation in the system rather than educating the trade for filing of correct UQCs in the guise of smooth flow of international trade. However, no records/reports were produced to audit on any study conducted for dwell time analysis of cargo clearance, impact on the trade facilitation in terms of measurable indicators, transaction cost saved etc. Further, the reply of the department seemed to emphasize on preventing rejections rather than revenue safeguard.

Chapter IV: Other issues of operational malfunction

Few other issues such as improper allocation/utilisation of hardware, inadequate disaster management system, non uploading of manually filed import and export transaction in ICES 1.5, as listed below were also observed in audit.

4.1   Improper allocation/utilization of hardware

Audit observed that only 250 and 100 numbers of Thin Client terminals have been installed at Chennai Sea and Chennai Air Commissionerates against 414 and 166 numbers received by them. Further, in case of Chennai Air and ICD Patparganj, it was observed that out of 100 and 62 numbers of installed terminals, only 80 and 30 terminals were actually in use as on 31 March 2013. This indicates that optimum utilization of hardware was not being done.

The department in their reply (January 2014) furnishing tabular statement of total thin clients supplied, thin clients used and thin clients not used in Custom House, Chennai, ACC, Chennai and ICD, Patparganj stated that data has been collected through site survey conducted by the Resident Engineers of M/s HP deployed at the above sites on 9th January 2014. The reasons for under-utilization of hardware supplied were due to online filing of BEs/SBs in ICEGATE, number of users in the Service Centre having gone down resulting in under utilization of 'thin clients', shortage of officers/staff under various cadres due to which less number of 'thin clients'/nodes have been used as against initial estimates and due to non-availability of modules pertaining to the processing of BEs filed in Courier and APSO less number of thin clients' have been used as against initial estimates. The Commissioner of Customs, Airport and Air Cargo, Chennai has informed that all the 'thin Clients' will be put to use after implementation of Cadre Restructuring in the Department.

Reply of CBEC indicates that they have accepted that optimum utilization of hardware was not being done and the procurement and distribution lacks proper planning.

4.2   Protection from lightning strikes

Protection from lightning strikes was not available at ICD, Pithampur. It may be installed for protection of EDI Hardware, software and Staff.

CBEC in its reply (January 2014 and February 2014) stated that in terms of the extant instructions at the time of implementation of LAN project, site preparation is the responsibility of the custodian. The action taken to resolve the position will be informed to Audit in due course.

Final outcome may be intimated.

4.3 Limited power back up

The duration of power back up available at ICD, Mandideep (Bhopal) was only half an hour which appeared insufficient, for protection of data and continuation of working of the EDI system.

CBEC in its reply (January 2014 and February 2014) stated that under the LAN project only power back up has been provided. However, the site specific requirements will be examined and appropriate action as considered necessary will be taken. The action to taken to resolve the position will be informed to Audit in due course.

Final outcome may be intimated.

4.4 Details of manually filed bills were not entered in the ICES

It is observed that in respect of Air Customs, Chennai and Tuticorin Sea Customs, the details of the manually filed import and export bills were not entered in the ICES system after giving OOC in the cases of imports and 'let export order (LEO)' in the cases of exports. On this being pointed out, the Tuticorin Customs stated (June 2013) that action would be initiated to enter all the manually filed documents in the ICES.

CBEC in its reply (January 2014) stated that a utility for entering such data is available. The instructions in this regard will be reiterated to all the formations. CUS-PAC wing will separately provide the relevant details on action taken by Tuticorin.

Final outcome may be intimated.

5 Conclusion

The Indian Customs EDI System (ICES) has been in operation for nearly 18 years. It has automated many of the business processes of the Customs department relating to clearance of imports and exports, providing transparency and uniformity in assessments and trade facilitation at the same time. At the management level, the present performance review has found weaknesses in areas of IT Strategic planning, personnel management and training policy and policy for internal assessment and audit of the core applications.

The department does not have any roadmap for future development of the system. It has not built sufficient internal competencies over the years for better management and monitoring of the ICT systems and applications by recruiting technically qualified manpower, which may affect operational efficiency. There is no provision for internal audit of the core applications to review their effectiveness. At the application level, even after 18 years of operation and despite having been pointed out by C&AG in the last
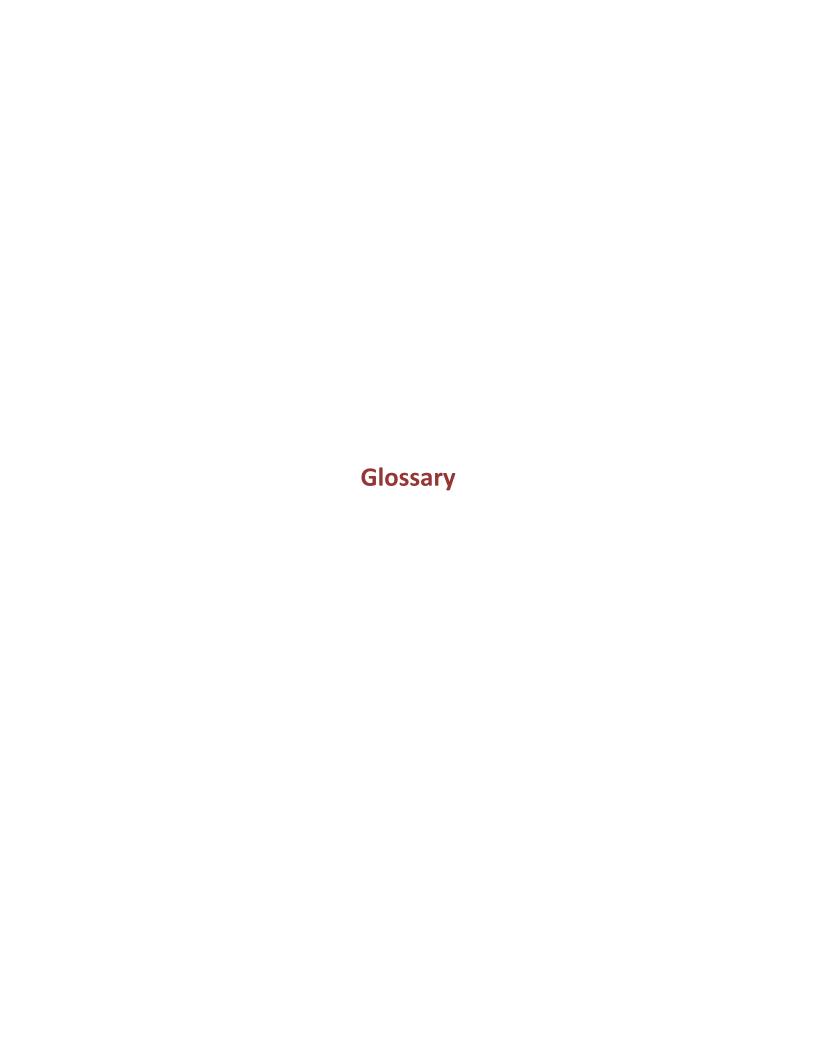
performance audit, data validations in several critical areas such as customs and excise exemption notifications, country of origin based exemption, RSP based assessments, etc., which are essential for ensuring correct assessments, were found to be lacking, allowing incorrect exemptions which were accepted by the application, leaving scope for mis-declarations and incorrect assessments and consequent leakage of revenue. The Directory Updating procedure for the master tables of notifications, duties, exchange rates, etc. was also found lacking in appropriate checks, leading to delayed updating and failure to detect missed updating. Having spent ₹ 604 crore in upgrading the version from ICES 1.0 to ICES 1.5 commensurate gains in terms of cost and time saving have not been estimated. Audit does not have an unfaltering assurance of the risks mitigated and feedback actions on the measure of the performance indicators of such a mission critical system.

CBEC's IS management style is repeatable but intuitive with few definable processes and creates a risk of undetected non-compliance in a rapidly changing business and technology environment. There were few qualitative changes in the management of IS while migrating from ICES 1.0 to ICES 1.5 as observed by C&AG since 2008 Performance Audit. Though DoS informed that they have drawn up risk registers and identified the risks, the register(s) were not produced to audit for scrutiny. Similarly, management of benchmarks for measurement of the Key performance indicators that cover timeliness and quality of services were deficient as indicated by the systemic issues and those based on scoping and functionality of the application.

New Delhi   **(Nilotpal Goswami)**
Dated : 28 May 2014   **Principal Director (Customs)**

Countersigned

New Delhi   **(Shashi Kant Sharma)**
Dated : 30 May 2014   **Comptroller and Auditor General of India**

Glossary

Glossary

ACP	Accredited Client Program
ACC	Air Cargo Complex
ADD	Anti Dumping Duty
AEO	Authorised Economic Operator
ATF	Aviation Turbine Fuel
AV	Assessable Value
BCD	Basic Customs Duty
BE	Bill of Entry
CAB	Change Advisory Board
CBDT	Central Board of Direct Taxes
CBEC	Central Board of Excise & Customs
CCEA	Cabinet Committee On Economic Affairs
CCR	Compulsory Compliance Requirement
CETH	Central Excise Tariff Heading
CHA	Custom House Agent
CNE	Committee on Non-Plan Expenditure
COO/CORG	Country of Origin
CRA	Customs Receipt Audit
CTA	Customs Tariff Act
CTH	Customs Tariff Heading
Cus	Customs
CVD	Countervailing Duty
DEPB	Duty Entitlement Pass Book Scheme/Scrip
DGCI&S	Directorate General of Commercial Intelligence & Statistics
DGFT	Director General of Foreign Trade
DIT	Department of Information and Technology
DoR	Department of Revenue
DoS	Directorate General of Systems & Data Management
DoV	Directorate of Valuation
DSCI	Data Security Council of India
ECDB	Export Commodity Database
EDD	Extra Duty Deposit
EDI	Electronic Data Interchange
EGM	Export General Manifest
EO	Export Obligation
EODC	Export Obligation Discharge Certificate
EPCG	Export Promotion Capital Goods
FMS	Focus Market Scheme/Scrip
FPS	Focus Product Scheme/Scrip
HPC	High Powered Committee

HS	Harmonized Commodity
ICD	Inland Container Depot
ICEGATE	Indian Customs EDI Gateway
ICES	Indian Customs EDI System
ICT	Information & Communication Technology
IEC	Importer Exporter Code
IGM	Import General Manifest
IS	Information System
ISO	International Organization for Standardization
IT	Information Technology
ITC	International Trade Classification
JNCH	Jawarharlal Nehru Custom House, Nhava Sheva
LEO	Let Export Order
LRM	Local Risk Management
MIS	Management Information System
MoC	Ministry of Commerce
NACEN	National Academy of Customs Excise & Narcotics
NCH	New Custom House (Mumbai)
NIC	National Informatics Centre
NIDB	National Import Database
Notfn.	Notification
NRM	National Risk Management
NSM	National System Manager
NT	Non Tariff
OOC	Out of Charge
PA	Performance Audit
PAN	Permanent Account Number
PCA	Post Clearance Audit
PMU	Project Management Unit
PwC	Price Waterhouse Coopers
RBI	Reserve Bank of India
RMD	Risk Management Division
RMS	Risk Management System
RSP	Retail Sale Price
SAD	Special Additional Duty (SAD)
SB	Shipping Bill
SBI	State Bank of India
SHIS	Status Holder Incentive Scrip
SIIB	Special Investigation and Intelligence Branch
SLA	Service Level Agreement
SRS	Software Requirement Specification
SSOID	Single Sign-on Identity

STQC	Standardisation Testing and Quality Certification
TEG	Technical Experts Group
TPA	Third Party Auditor
TRA	Telegraphic Release Advice
UQC	Unit Quantity Code
WH	Warehouse

Annexure

Annexure A

Document/Information asked for.	Document/Information received from DG System
Cabinet Note on CBEC's IT Consolidation Project	Note for the Cabinet Committee on Economic affairs 26 November 2007.
ICES 1.5 Migration policy documents	ICES 1.5 Migration Overview (Wipro/CBEC)
ICES 1.5 Migration implementation documents	(i) ICES 1.5 Migration Site Migration Report. Location ACC Sahar (Wipro) (ii) ICES 1.5 Migration Site Migration Summery Report dated 31 May 2011 (Wipro)
Organisation Chart with brief job description of DG(Systems), DoV, and RMD	Detailed Description of DoV functions.
Access Control Policy documentation	CBEC User Access management procedure version 1.2 (August 2012).
Password Policy documentation	Information Security documents. CBEC Information Security Policy version 1.6, June 2012. Document Control.
SSOID issue and monitoring records	CBEC User Access Management Procedure version 1.2 August 2012.
Complete list of ICT contracts with nature of contracts (Hardware/software/application AMC's, other service agreements, Audits contracts, etc.), total contract value, when contracted, valid up to, payments till end of FY 2012-13.	List of Contracts relating to SI Contracts of CBEC & HP India Sales Pvt. Ltd. (HP) dated 28th March 2008 Contracts of CBEC & BSNL, VSNL, HP dated 9th March 2007 MoU with NIC, Service Centre Contract with CMC Contract with Wipro, NDA with Wipro Tenders for Mulyaankan, for development of NIDB & ECDB Contract With M/s Birlasoft Ltd.
Business Continuity Plan (Contingency Plan) document	Information Security Documents, CBEC ITSCM document version 2.0, March 2012
Disaster Recovery Plan document	Information Security Documents, CBEC ITSCM document version 2.0, March 2012
Disaster Recovery test reports	CBEC DR Drill Report (11th, 12th & 13th January 2013) Version 3.0, January 2013.
Change Management Procedure documentation	Change Management Process Document version 2.0 June 2011.
IT Security Policy documentation	Information Security documents CBEC Information Security Policy version 1.6, June 2012. Document Control
Performance Analysis Reports	ICES and ACES Performance Report regarding BE & IGM Filing Trend, CPU & Memory utilisation, Bandwidth utilization of DC & DR
Data Backup Policy document	CBEC Backup Policy Document version 2.1 August 2012
Data Storage Policy documentation (both on & off-site storage policy)	CBEC Backup Policy Document version 2.1 August 2012
Third-party evaluation/appraisal Reports	1) PWC Half yearly Security Audit Report October 2011- March 2012 2) PWC Asset Audit Report September-12 to November 12 3) CBEC LAN SLA Audit reports by PWC. Qtr. 14 (17 November 12 – 16 February 13) & Qtr. 13 (17 August 12- 16 November 12) 4) CBEC WAN SLA Audit reports by PWC. Qtr. 14 (1 December 12 – 28 February 13) & Qtr. 13 (1 September 12- 30 November 12)
System Down-time records	System Availability Report
List of Customs sites at where RMS is operational	Annexure – IV of Contract (Birlasoft)

Document/Information asked for.	Document/Information received from DG System
SI Contract; Asset Audit Report by PWC; Half-yearly Security audit Report by PWC; Performance Reports; Info. Security Policy; Info Security Procedures;	Not provided.
Docs Rcvd by email in August'2013:	Data Dictionary; Directory Updation Procedure- Manual; ICES User Access Matrix; Job description and work allocation at DoS;
Other documents as per audit requisition	Compendium of Instructions on Consolidation Project compiled by DG Systems & Data Mgmt. Centralised Management of ICES Directories ITCHS Code Directory Management form : User Manual Guidelines for Budget Updations in ICES 1.5, Version 1.0 April 2013 Message List.
Contract/Agreement for RMS software with M/s Birlasoft	17 Pages Contract agreements received on 27.05.2013.
SLA with M/s Birlasoft, if any	
Criteria and procedure for monitoring performance of service provider/vendor, if any, such as through Third Party Auditors	
Updation details of the CCR Directory maintained by RMD for the YR 2012-13	
RMD's Patch development and deployment procedure	CBEC (RMS) Weekly Status Review 15th March-21st March 2013 , CBEC Post Production Maintenance Weekly Status Review 22nd March 2013 & Pre-patch implementation & Patch process docs provided on 28.05.2013
Formats and frequency of PCA monitoring reports and records/files pertaining to monitoring thereof	Format of Monthly performance report on implementation of RMS
Formats and frequency of LRM monitoring reports and records/files pertaining to monitoring thereof	Not provided
Internal/External/Third Party Audit/evaluation report of the functioning of RMD	
Is Joint Secretary (Customs) a member of the NRMC, and if yes, since when?	
Stipulated Frequency of NRMC meetings and dates of NRMC meetings during the FYs 2011-12 and 2012-13	
Agreed periodicity for DoV to supply list of MSCs with value bands, validation alerts and list of Unusual Quantity Codes (UQC), etc.	
Periodicity of review and assessment of targets/interventions inserted by LRMs	Periodicity of review and assessment of targets/interventions inserted by LRMs
Service Provider contracts/agreements for NIDB and ECDB	Tender and quotation notice of NIDB and ECDB.
Detailed description of DoV functions related to the processing of import and export data and valuation analysis	Brief report made available.
Fields names and descriptions in the import and export data received from ICES 1.5 database	1 page document received.
Fields names and descriptions in the import and export data received from ICES 1.5 database	Information provided.
Procedure followed to check completeness of ICES 1.5 data received from Directorate of System.	Information provided
Present status of work relating to identification/valuation analysis for Most Sensitive Commodities for RMS Export Module and number of such commodities identified	Information provided.
Number of MSCs for which valuation data advice is presently provided by DoV to RMD	Information provided.

Document/Information asked for.	Document/Information received from DG System
Is the NIDB and ECDB accessible through thin clients under ICES 1.5? If so, how?	Information provided.
Other documents information provided	Screen shot of NIDB and ECDB web front page. Circular No. 29/2012- Customs dated 7/12/2012 reg. Functional control of special valuation Branches. F. No. 224/23/2005CX6 dated Oct. 16 2007 reg. Creation of Central Excise Valuation Division under DGOV, and development of Central Excise Valuation Data Base- Proposal.
SLA with M/s Birlasoft, if any	Not provided

Annexure B

Inherent drawbacks of CRA module

I.   At least 18 screens are to be viewed to come to an audit conclusion even for a single item in a bill of entry.

II.   Selection of bills based on Assessable value, IEC, CTH, Customs Notification alone is possible.

III.   Selection of bills based on Export Promotion Schemes notifications is not possible.

IV.   Selection of bills based on assessable value between two ranges is not possible.

V.   Selection involving multiple parameters is not possible.

VI.   Selection of bills exceeding 180 days from the assessment date is not possible even after the board had increased the timeline for raising a demand to one year.

VII.   Wild card selection is not possible

VIII.   Audit is not having any option for customized bill selection.

IX.   Each bill of entry has to be viewed separately. There is no option to compare the BEs/ of similar goods/importer etc.

X.   Absence of sorting of data according to audit need.

XI.   Each bill of entry has to be viewed separately. No option to compare BEs of similar goods/importers.

Annexure C

(₹ in crore)

Total serial Nos. in RSP Notfn.	No. of Sl. nos. of Notfn. analysed	No. of Tariff Lines covered	No. of items found to be assessable on RSP basis	No. of records found correctly assessed	Total CVD realised in correctly assessed cases	CVD realisable on same goods had *ad valorem* assessment been done	Increased CVD realisation due to RSP based assessment	Total A.V. of incorrectly assessed goods	Total CVD realised on incorrectly assessed goods
135*	76	565	35,48,596	13,79,687 (39%)	5,669.68	3,853.70	47.1%	44,612.93	5,746.40

*Nine serial numbers stand deleted from total of 144 notifications

Annexure D

(Values in ₹.)

BE No./ Invoice No./ Item No.	BE Dt.	Description of Goods	Cost of Import (AV+ Duty)	No. of Units	Cost of Import/ Unit	Declared RSP/Unit	Under-declaration /Unit	Total CVD actually paid (on RSP basis)	CVD payable on transaction value basis* (i.e. on AV+BCD)
9507075 1/37	07-03-13	Parts of VOLVO Const. Equipment	1,90,72,368	107	1,78,246	527	1,77,720	4,735	22,81,876
7438409 1/1	19-07-12	Set top box	54,55,503	5000	1,091	2.5	1,089	975	6,53,606
6606216 3/5	21-04-12	LCD Projector	43,43,831	2	21,71,915	47,000	21,24,915	7,896	5,18,868
9124858 2/1	24-01-13	Software in media	28,27,742	16	1,76,734	5,710	1,71,024	9,319	3,38,211
6994286 1/1	02-06-12	System HYDR Jack	33,35,407	1	33,35,407	7,14,537	26,20,870	60,021	3,76,648

*According to decision in the Conference of Chief Commissioners of Customs held on 25-26 March 2003 at Visakhapatnam

Annexure E

(₹ In crore)

Importer Name	No. of BEs	Description of Goods	No. of Units imported	ASSESS_VAL (₹ crore)	CVD actually paid (on RSP basis)	CVD payable on *transaction value* basis* (i.e. on AV+BCD)
HLL Lifecare Ltd.	118	Sanitary Napkins	40,29,68,960	41.80	1.41	2.47
Daikin Air conditioning India Pvt. Ltd.	113	Daikin ACs (Indoor units)	20,862	14.33	1.19	1.74
Lenovo (India) Pvt. Ltd.	34	Laptops/Notebooks	66,506	90.28	9.40	10.83
Acer-India (Pvt.) Ltd.	74	Notebooks/Laptops/LCD Monitors	2,00,636	266.12	24.06	31.93

*According to decision in the Conference of Chief Commissioners of Customs held on 25-26 March 2003 at Visakhapatnam

Annexure F

CETH	Description of goods	Rate of CVD upto 27.05.2013	Rate of CVD w.e.f. 28.05.2013
2402 20 20	Cigarettes without Filter, (more than 65mm but less than 70mm)	10% +₹ 1,218 per thousand	₹ 1,463 per thousand
2402 20 40	Filter Cigarettes, (more than 65mm but less than 70mm)	10% +₹ 809 per thousand	₹ 1,034 per thousand
2402 20 50	Filter Cigarettes, (more than 70mm but less than 75mm)	10% + ₹ 1,218 per thousand	₹ 1,463 per thousand
2402 20 60	Filter Cigarettes, (more than 75mm but less than 85mm)	10% + ₹ 1,624 per thousand	₹ 1,974 per thousand
2402 20 90	Other Cigarettes, containing Tobacco	10% + ₹ 1,948 per thousand	₹ 2,373 per thousand

Annexure G

(₹ In crore)

Total serial Nos. In Notfn. No. 12/2012-Cus	No. Of Sl. Nos. Of Notfn. Analysed	Item level records assessed under inadmissible Sl. Nos. Of Exemption Notfn.	Assessable Value of goods imported under incorrect exemptions (ASSESS_VAL)	Total duty exemption allowed under incorrect claims for exemption (BCD_AMT_FG)
521	422	3,538	786.06	93.05

Annexure H

₹ In crore

Sl No.	Subject	DAP Nos. issued to Ministry for Compliance Report	No. of cases	Money Value
1	Antidumping Duty	A12, 31, 38, 50, 65, 69, 70, 77, 94, 97,and B01	5,796	15.58
2	Incorrect Assessable value	A29	662	0.08
3	Incorrect Exemption	A01, 25, 56, 86 and B14	8,123	78.15
4	Incorrect debit from credit scrips	A35	1,969	2.09
5	Incorrect levy of education cess on clean energy cess	A49	475	15.30
6	Non levy of CVD	A60	7,872	0.16
7	Loss of revenue due to delay in implementation of APEX Court Judgment guiding classification	A48	2	11.17
8	Misclassification	A02, 05, 06, 10, 11, 14, 16, 17, 18, 19, 21, 22, 24, 28, 83, 54, 55,66, 72, 74, 76, 79, 81, 82, 87, 101, 105 and B 02, 04, 06, 06, 08, 10, 11,	79,051	12.81
9	Non levy of safeguard duty	B03	416	0.24
10	Non-recovery of duty on failure to fulfil the conditions of the notifications	A91	14,738	0.12
11	Short debit of customs duty in EPCG licence due to misclassification	B17	958	0.14
12	Short levy of customs duty	A39, 71, 75	439	0.58
13	Short levy of customs duty due to incorrect application of basic customs duty rate	B18	3	0.52
14	Short levy of duty due to non levy of CVD on RS/MRP basis and excess allowance of abatement on MRP/RSP	A51	447	0.08
	TOTAL		1,20,951	137.02

Annexure I

(₹ In Crore)

Total serial Nos. in Notfn. No. 12/2012-CE	No. of Sl. Nos. of Notfn. analysed	Item level records assessed under inadmissible Sl. Nos. of Exemption Notfn.	Assessable Value of goods imported under incorrect exemptions (ASSESS_VAL)	Total duty exempted under incorrect claims for exemption (CVD_AMT_FG)
344	307	5,940	1313.54	180.30

Annexure J

Bills of Entry

Year	2010-2011			2011-2012			2012-2013		
	Manual BEs	EDI BEs	Total	Manual BEs	EDI BEs	Total	Manual BEs	EDI BEs	Total
Grand total	87,151	20,69,052	21,47,229	40,261	21,13,920	21,54,181	29,846	21,23,531	21,53,387
Percentage	3.64	96.36		1.87	98.13		1.39	98.62	

Shipping Bills

Year	2010-2011			2011-2012			2012-2013		
	Manual SBs	EDI SBs	Total	Manual SBs	EDI SBs	Total	Manual SBs	EDI SBs	Total
Grand total	1,96,291	30,26,818	32,23,019	1,43,611	31,54,580	32,98,191	72,664	32,94,500	33,67,164
Percentage	6.09	93.91		4.35	95.65		2.16	97.84	

Annexure K

Commissionerate	% of reply facilitated BEs (According to Circular 39/2011–Cus)	% of RMS facilitated BEs (Actual) (2012-13)
Chennai-Sea	70	56.57
Tuticorin	70	62.36
Kochi Sea	70	43.04
Mumbai Zone II JNCH	70	59.71
Kolkata AirPort	80	99.71
Mumbai Zone I NCH	70	100
Goa	70	100
Nagpur	60	91.45
ICD Tughlakabad	60	100.00
ICD Patparganj	60	100.00
Kolkata Port	70	99.99

Annexure L

Percentage of RMS bills selected for PCA

Year	Chennai Sea	NCH Mumbai	JNCH Mumbai	Pune	Goa	ICD TKD	ICD PPG	NCH, Delhi	Kolkata Port	Kolkata AirPort
2010-11	26.49	41.87	Na	96.00	53.46	36.32	44.80	47.23	37.15	26.58
2011-12	21.70	38.52	8.38	79.00	40.18	31.79	43.66	41.21	43.26	38.17
2012-13	19.85	27.31	28.27	33.00	25.67	26.07	18.36	27.58	22.92	23.44

Annexure M

Commissionerate	2010-11 MIP	2011-12 MIP	2012-13 MIP	Cases of Pending cases with PCA as on 31 March 2013
Chennai Sea	9	11	10	87075
Chennai Air	1	1	5	43472
Tuticorin	4	4	4	5026
Mumbai Zone I NCH	5	5	7	19281
Mumbai Zone III ACC	5	5	3	92577
Nagpur	0	2	2	934
New Delhi, NCH	9	10	9	283182
Kolkata, Port	2	2	2	47304
Kolkata, Airport	3	3	3	15737
Ahmedabad	0	0	0	9482
JNCH, Mumbai Zone II	Not furnished	Not furnished	Not furnished	371631