

**OFFICE OF THE
COMPTROLLER & AUDITOR GENERAL OF INDIA**

NEW DELHI
10th March, 2017

**CAG PERFORMANCE AUDIT REPORT ON CUSTOMS ON
PROJECT IMPORTS PRESENTED IN PARLIAMENT**

Union Audit Report of the Comptroller and Auditor General of India No. 42 of 2016 on Department of Revenue-Indirect Taxes–Customs for the year ended March 2016 on Project Imports was tabled in Parliament today and has now become a public document.

Revenue implication of ₹ 1,822 crore indicated in the performance audit on the ‘Project Imports’.

This report contains results of the performance audit on the ‘Project Imports’ and has revenue implication of ₹ 1,822 crore. In addition, this report points out cases involving loss of potential revenue of ₹ 203 crore, where no recoveries were possible because of systemic lacunae due to inconsistency and ambiguity in the existing regulations and lapses in internal control. The period covered under performance audit was 2011-12 to 2015-16.

The performance audit was conducted to seek assurance that adequate statutory provisions exist to support simplified procedures for project imports; there was compliance with procedural requirements; scheme succeeded in providing mechanisms for trade facilitation and monitoring, coordination, and internal controls were adequate and effective.

There are nine recommendations in this performance audit report, out of which the Ministry has accepted eight recommendations.

'Project Imports' is a scheme of Government of India to facilitate setting up of or substantial expansion of industrial plants, by facilitating imports of capital goods and related items required for these industrial projects. The scheme seeks to achieve the objective of smooth and quick assessment of imports by providing for a simplified process of classification and valuation. The scheme is available to projects falling under specified sectors like, industrial plant, irrigation project, power project, mining, and oil/mineral exploration project.

Significant findings of this report are:-

I. The scheme has shown a decelerating trend in the number of contracts registered and revenue generated from FY 11-12 to FY 15-16. Percentage of new contracts registered under the scheme has come down to nearly half and revenue from project imports has declined by about 40 per cent.

(Paragraph 1.3)

II. Due to issue of notifications and amendments which were inconsistent with each other, assessment of imports were done in an inconsistent manner, leading to under/over valuation and incorrect levy of duty.

(Paragraph 3.1)

Audit recommends that the Ministry of Finance, referred as Ministry hereafter, after reviewing the existing statutory provisions and rulings of the apex court, removed the inconsistency in the provisions for assessment under project imports by issuing appropriate instructions.

The Central Board of Excise and Customs, referred as Board hereafter, stated that they were considering withdrawal of the circular dated 8 August 1987.

III. Lack of appropriate provisions in the regulations to monitor completion of imports have resulted in many projects lingering for indefinite periods, and undue advantage of concessional imports being extended to importers, even after the commencement of projects.

(Paragraph 3.2)

Audit recommends that the Ministry may consider amending the PIR 1986, to provide for the condition of time bound completion of imports to be incorporated in the contracts registered under Project Import scheme.

The Board stated that they were considering a time period of three years, extendable by two years for completion of imports under Project Imports in consultations with other ministries.

IV. There are multiple sponsoring authorities for a single project without clear administrative responsibilities for monitoring completion of projects and ensuring whether the projects for substantial increase in capacity have achieved their objective.

(Paragraph 3.3)

Audit recommends that the provisions regarding sponsoring authority in the PIR 1986 may be clarified to establish a primary sponsoring authority for composite/integrated projects to avoid any scope for undue benefits and for better monitoring of projects.

The Board agreed to examine the recommendation and issue suitable amendment/clarification.

V. Contracts were finalised even in the absence of requisite documents, contracts for substantial expansion of project were allowed without actual verification of the expansion of capacity, and inadmissible imports.

(Paragraph 4.1)

VI. Examining trade facilitation aspect for Project Imports, Audit noticed considerable delay in clearance of cargo at some of the major ports. Multiple documents are required to be submitted by importers availing the scheme. Thus, it was noticed that importers had either not submitted the documents or had submitted the same with delays.

(Paragraph 5.1)

Audit recommends that the Ministry may consider reviewing the volume of documents required under the Project Import scheme with a view to simplify the requirements.

The Board stated that documents specified in the Regulation for pre and post import stages are reasonable. However, Ministry concurs that there is a need for meticulous monitoring at the senior level.

VII. Although the time prescribed for finalisation of provisional assessments by the Board is three months, Audit noticed delay in finalization of the project imports especially when the imports were effected from ports, other than the port of registration.

(Paragraph 5.3)

Audit recommends that the Board may streamline the process and monitor the imports effected through other ports, by exploring the possibility of electronic transmission of TRA assessments (BEs) from TRA ports to the port of registrations, to avoid delay in finalisation of contracts.

The Board agreed to develop a Project Management Module in ICES 1.5 including electronic transmission of TRA assessments (BEs) from TRA ports to the port of registration.

VIII. In a significant finding, Audit pointed out non-integration of Project Imports transactions with Customs EDI System. The system does not capture complete data of project import transactions. Consequently, it is almost impossible to have a complete overall picture of all the imports being effected under the projects registered under the scheme, besides making the monitoring of the scheme highly cumbersome and dependent on manual interventions.

(Paragraph 6.1)

Audit recommends that for effective monitoring of Project Import cases through Customs EDI (ICES 1.5v) Board may explore the possibility of a Project Management Module on the lines of EPCG scheme in ICES, so as to reduce the dependency on monitoring of Project Import cases through manual system.

The Board stated that based on the changes in the PIR, a Project Management Module will be developed in ICES 1.5.