



सत्यमेव जयते

Report of the Comptroller and Auditor General of India



लोकहितार्थं सत्यनिष्ठा
Dedicated to Truth in Public Interest

Performance Audit on Merchandise Exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS)

Union Government
(Department of Revenue – Indirect Taxes - Customs)
No.5 of 2020

**Report of the
Comptroller and Auditor General
of India**

for the year ended March 2019

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Laid on the table of Lok Sabha and Rajya Sabha on

Table of Contents

Sl. No.	Contents	Page
1	Preface	i
2	Executive Summary	iii-x
3	Glossary	xi-xii
4	Chapter 1: Overview of MEIS and SEIS	1-9
5	Chapter 2: Systemic issues in Implementation of MEIS and SEIS	11-25
6	Chapter 3: Results of test check based on sampling in view of Manual Processing	27-51
7	Appendices	53-58
8	Statements	59-80

Preface

This Report has been prepared for submission to the President of India under Article 151 of the Constitution of India.

The Report contains significant results of the performance audit on 'Merchandise Exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS)'.

The instances mentioned in this Report are those which came to notice in the course of test audit conducted during the period 2018-19, and covering transactions of the period April 2015 to October 2018.

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

Audit wishes to acknowledge the cooperation received from Ministry of Finance (MoF), Department of Revenue (DoR), Department of Commerce and its field formations at each stage of the audit process.

Executive Summary

About this Performance Audit

Performance Audit on the Merchandise Exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS) was conducted to seek an assurance on the success of facilitation measures introduced for simplifying the process of issuance of scrips and to examine effective linkage of rules and procedures of the Schemes in Director General of Foreign Trade (DGFT) Electronic Data Interchange (EDI) system.

This audit covered analysis of pan-India data received from DGFT for the period April 2015 to October 2018. It was noticed that 5,94,653 (5,84,650 MEIS and 10,003 SEIS) scrips amounting to ₹76,416 crore were issued by 38 Regional Authorities (RAs) and Nine Development Commissioners (DCs) of SEZs. In view of prevalent manual processes, a sample of 25 RAs (66 per cent of total RAs) and seven DC offices (77 per cent of total DC offices) was selected for this audit. These 32 units covered 5,53,726 (5,43,803 MEIS and 9,923 SEIS) scrips (93.12 percent) amounting to ₹72,743 crore (95.19 percent).

Further, in these selected units, 6,205 Scrips (5747 MEIS Scrips and 458 SEIS Scrips), representing 1.7 per cent of the total scrips in these units, were selected for detailed examination. Audit also selected Customs field offices from where exports relating to these sampled scrips were effected. Results of data analysis carried out on Pan-India data were suitably included in the report along with audit findings based on examination of the scrips selected for detailed examination.

Structure of the Report

This report is divided into three chapters. Chapter 1 presents an overview of both the schemes along with the Audit Objectives, Scope, Sample, Audit Criteria and Audit Methodology used for conducting this Performance Audit. Chapter 2 presents Audit Findings, Conclusions and Recommendations relating to gaps in integrating the policy and procedures of the schemes with the automated module, observed during analysis of pan-India data and key features of automation. The fact that many of the intermediate procedures were still being handled manually, necessitated test checks in selected units to examine the manual checks exercised by the RAs and DC offices. The Audit Findings, Conclusions and Recommendations relating to manual scrutiny in the randomly selected samples in the selected units are presented in Chapter 3. As some of the audit findings are based on test check, there is every likelihood that such errors of omission and commission might exist in other cases also.

Department may therefore, check all the remaining transactions also on the lines of audit findings reported and take appropriate corrective action.

This report has 48 Audit paragraphs with a revenue implication of ₹364.32 crores. Of these, 44 observations involving a money value of ₹233.02 crore have been accepted by the department and recovery of ₹7.82 crore has been reported till date in respect of seven observations. Four paras amounting to ₹131.30 crore have not been accepted by the department. Similarly, eight of the total 14 recommendations made in the report, have been accepted.

Responses received from Department of Commerce (September 2019/March 2020) and Department of Revenue (October 2019/March 2020) have been included in the report.

Chapter-wise summary is given below:

Chapter 1: Overview of Merchandise Exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS)

The MEIS scheme was introduced in Foreign Trade Policy (FTP) 2015-20 by merging five earlier schemes¹ and SEIS by replacing Served from India Scheme (SFIS) with effect from 1 April 2015.

An analysis of scrips issued under MEIS and SEIS revealed that there was a steady increase in the number of scrips during Financial Year (FY) 2016-17 (23.51 per cent), FY 2017-18 (20.42 per cent) and FY 2018-19 (32.12 per cent), though there was a decrease in the number of scrips in the initial year of introduction of the schemes, FY 2015-16.

(Para 1.2)

Analysis of MEIS claim for export of commodities under different sections of Custom Tariff during the period 2015-16 to 2017-18 revealed that the claim of MEIS registered growth under all sections of custom tariff. The average percentage of export claimed under MEIS increased from 11.83 percent in 2015-16 to 52.93 percent in the year 2017-18.

Audit observed that MEIS claims under Chapter 15 (Animal or vegetable fats and oil) and Chapter 71 (Pearls, precious stones / metals, gems and jewellery) during the year FY 2016-17 and FY 2017-18 were negligible when compared to their corresponding export volume.

(Para 1.3.2)

¹(1) Focus Market Scheme (FMS), (2) Focus Product Scheme (FPS), (3) Vishesh Krishi Gram Udyog Yojana (VKGUY) (4) Market Linked Focus Product Scheme (MLFPS) and (5) Agriculture Infrastructure Incentive Scrips

To promote rural and small scale industries, Government provided (November 2017) enhanced MEIS rates to handloom and handicraft products. Still a significant 70 per cent of handicraft items being exported remained outside the ambit of MEIS despite higher MEIS rates made applicable to this sector. Similar analysis under handloom category revealed that value of export claimed under handloom export for MEIS reward increased from 15.52 per cent in FY 2015-16 to 60 per cent in FY 2017-18, with nearly 40 per cent of export being out of MEIS reward.

(Para 1.3.3)

Summary of Audit Findings

Chapter 2: Systemic issues in Implementation of MEIS and SEIS

The substantial delays in issue of MEIS and SEIS scrips indicated failure of the automated system in achieving the objective of simplification of procedures and ease of doing business.

(Para 2.1 and 2.8)

The system developed for MEIS was an electronic system which required manual intervention. Manual verification of arithmetical accuracy calculated by Information Technology (IT) system should not be required if the system has been properly programmed. Besides leading to wastage of manpower, the deficiencies in automated system have also resulted in delaying the whole process and avoidable physical interface and discretion in the hands of authorised officials regarding checks to be exercised as discussed in Chapter 3, thereby defeating the scheme objectives.

There were deficiencies in MEIS module in calculating scrip values and “Late Cut” which were attributed to programming bugs by DGFT. The delays in updating the system resulted in incorrect adoption of foreign exchange rates. The MEIS module also did not restrict grant of benefits on ineligible export proceeds realised in INR. Further, the system did not enforce conditions and checks prescribed in the scheme regarding utilization of Shipping Bills (SBs) in more than one Licence and Jurisdictional Provisions.

(Para 2.2 to 2.5 and 2.7)

The extension of MEIS benefits to E-commerce exports amounting to ₹5.52 crore was delayed by almost four years due to delay in amending the regulations and operationalization of E-commerce module.

(Para 2.6)

To mitigate the risk in the automated system, Risk Management System (RMS) was designed so that sample files would be checked post rewards in order to ensure that only eligible exporters claimed the rewards. However, following deficiencies were observed in RMS:

- The non-implementation of RMS for MEIS and SEIS for the period from April 2015 to December 2017 was in contravention of policy provisions and left a key risk control measure unattended for more than two years.

(Para 2.9)

- The system granted reward on entire export proceeds realised without excluding inadmissible components viz., Commission, Insurance and Freight (CIF) charges.

(Para 2.10.1)

- The system failed to prevent excess grant of rewards due to misclassification of products and granted higher rates applicable to handloom products.

(Para 2.10.2)

- The validation controls in the MEIS module did not restrict grant of incentives to exports under Minimum Export Price (MEP) regime and exporters claimed benefits by wrongly quoting Indian Trade Clarification/Harmonised System (ITC-HS) in their SBs. Non-implementation of RMS designed to flag such ineligible/restricted items led to excess claim of credits remaining undetected.

(Para 2.10.3)

Chapter 3: Results of Test Check Based on Sampling in View of Manual Processing

The substantial delays in issue of MEIS scrips were due to incomplete system driven checks necessitating manual intervention. No clear instructions were issued to field level RAs about the extent of checks required for issuance of MEIS scrips. RAs ended up checking divergent issues. Despite having a system driven approval mechanism, RAs were checking issues like correctness of “Late Cut”. Manual verification of arithmetical accuracy calculated by IT system was necessitated as the system was not properly programmed as detailed in chapter 2. In view of such a deficient electronic system, it is not difficult to understand why RAs have been carrying out checks which were supposed to be system-driven.

(Para 3.1)

Test check also revealed failure of systemic controls in MEIS leading to incorrect grant of reward even though declaration of intent to claim reward was not given/unavailable in SBs, grant of higher rates applicable to handloom products and incorrect utilization of scrips.

(Para 3.2.1 to 3.2.5)

The exporters got rewards in cases where the services were misclassified though actual services rendered were not specified in Appendix 3D and benefits amounting to ₹172.72 crore in respect of these services were granted by 7 RAs in 37 cases, by placing reliance on Chartered Accountant (CA) certificates.

(Para 3.3)

The self-declarations and CA certificates were insufficient to provide assurance about eligibility of services and remittances for grant of rewards under SEIS. However, department relied heavily on these self-declarations and CA certificates for granting rewards. RAs failed to distinguish between eligible (Mode 1 & 2) and ineligible (Mode 3 & 4) services and to segregate and deny rewards to ineligible services resulting in excess rewards of ₹57.52 crore to 13 service providers in contravention to extant provisions. Errors in claims amounting to ₹40.47 crores were noticed in 62 cases due to incorrect self-declarations and CA certificates. Excess issue of rewards amounting to ₹13.02 crores was noticed in 34 cases due to incomplete checks by RAs and system.

There was lack of clarity in SEIS provisions for port services as to how the actual service providers would get the benefit when they were not directly providing service to foreign consumers.

(Para 3.4 to 3.6)

Condition of effecting exports through specified ports in Customs Notification (16 of 2015 dated 1 April 2015) for allowing exemption of import duties for goods imported against SEIS scrips is not consistent with SEIS provisions.

(Para 3.7)

Exporters declared different nature of services in SOFTEX returns and SEIS claims for the same export. These could have been checked by the DC offices before issue of scrips, which was not done.

(Para 3.8)

No guidelines were issued by DGFT to RAs regarding checks to be exercised as part of due scrutiny before sanctioning SEIS and there was no uniformity in procedure being followed for processing SEIS claims across RAs or DC offices.

(Para 3.9)

Audit could not find evidence of systematic monitoring on the performance of the RAs by the DGFT. DGFT stated that delays in processing of MEIS / SEIS applications were monitored through JASPER reporting module. However, there was no monitoring of scheme implementation and overall performance of RAs. Periodic evaluation of the scheme would have helped in ensuring that scheme objectives were being met and also for mid-course correction in case of any deficiencies. Mid-term review of FTP done by the Department of commerce was silent on effect of SEIS on service sector exports. Performance of the schemes in terms of achievement of goals was not assessed by DGFT.

(Para 3.10 and 3.11)

Nothing was found on record to establish that grievance redressal system existed in the online module of MEIS/SEIS and that any pendency analysis of MEIS/SEIS grievances had been done so far by DGFT.

(Para 3.12)

Recommendations

- 1. Given the Government's endeavour to shift to e-governance and the vast experience gained by DGFT in automation, it must be ensured that entire system of administration of Foreign Trade Promotion schemes is automated by rolling out fool proof system, duly mapped to Scheme provisions and also leveraging information already available in linked / base systems such as ICES, SEZ online etc., so that it becomes Single Source of Truth.*
- 2. DGFT should review the procedure of granting MEIS/SEIS scrips and lay down appropriate checklist for grant of scrips both electronically and in manual environment.*
- 3. Risk Management System (RMS) be strengthened by plugging the loopholes and leakages in the automated system on issuing of scrips. Appropriate policy framework and system alerts need to be put in place making it mandatory for exporters to declare Commission, Insurance and Freight (CIF) and for DGFT to check the correctness of self-declaration of exporter/applicant in select cases earmarked by the system.*
- 4. The audit findings on excess grant of incentives reported in chapter 3 were based on test check done on sampled cases using random sampling, in view of the prevalent manual verification. There is every likelihood that such errors of omission and commission might exist in many more cases. Department may check all the remaining transactions also on the lines of audit findings reported in Chapter 3.*

5. *To prevent scope of misclassification of power loom products under Handloom category, the distinction between power loom and handloom process may be clearly specified.*
6. *To avoid ambiguity and to bring in more clarity on eligible services, DGFT may consider insisting for CA certificate on exact classification of service with Central Product Classification (CPC) code and the Mode under which it falls, rather than simply stating the serial number of the list of eligible service. Suitable clarity regarding the codes and the modes available for scheme benefits and penal provisions on the shortcomings found in applicant's declarations and CA certificates may be brought in the system. Responsibility of CAs must also be clearly defined and failure on their part be reported to appropriate authority.*
7. *DGFT may issue clear instructions to RAs about basic checks required before issuing SEIS scrip. Invoking penal provisions may be made mandatory on shortcomings found in applicant's declarations and CA certificates.*
8. *DGFT should provide clarity in the policy and procedures on segregation of four types of services. Applicants' declarations and CA certificates on classification of services should be reviewed to address the distinction of services.*
9. *DGFT may devise mechanism in respect of port services so that the intention of granting rewards to actual service providers are protected against claims of aggregator of services and the conditions of exemption in Customs Notification may be drawn in sync with the provisions of the SEIS scheme.*
10. *The classification of services by various agencies (DGFT, Reserve Bank of India (RBI), Customs etc.) needs to be aligned to the Central Product Classification (CPC) code of UNSD to avoid any misuse of incentives which is based on CPC codes.*
11. *A mechanism must be put in place to ensure that Jurisdictional Development Commissioners verify the validity of classification of service being reported by the service providers to different authorities (DGFT, RBI, Customs etc.) for the same exports.*
12. *RAs should insist for SOFTEX forms, which was a mandatory declaration under Foreign Exchange Management (Export of Goods and Services) Regulations 2000 for supply of services through data links, in cases where the services were classified/declared under Mode-1 category.*
13. *For ease of doing business, we recommend that the DGFT may consider an inbuilt system for grievance redressal. The analysis of the same can be used as feedback mechanism for improving the scheme. Monitoring of the schemes on such parameters viz. time taken to process claims, RMS*

scrutiny etc. could be done to assess the performance of RAs in implementing the scheme.

14. *We recommend that DGFT may consider commissioning a midterm evaluation study of the achievements of any such schemes introduced vis-à-vis the main objectives of the scheme.*

DGFT accepted all the recommendations except four (2, 9, 11 and 14) and response in respect of two (1 and 4) recommendations is awaited.

On reviewing of procedure for issuing of SEIS Scrips and checklist thereon **(Recommendation 2)**, it was stated that policy and procedural provisions were already in place and issuing checklist for already existing provisions though useful, also would give an undesired leeway to the licensing authorities, which might consider the fulfilment of checklist itself as enough for the correctness of the claim. Audit reiterates that an Standard Operating Procedure (SOP) or a detailed checklist for the RAs, would ensure that all the basic checks are being adhered to uniformly by the RAs, besides streamlining the overall pendency of claims.

On “Port Services” **(Recommendation 9)**, DGFT stated that the service was rendered at the port but since it was made to a foreign liner, it would fall into the category Mode 2 and Rupee payment for such services were eligible for rewards. The reply did not address issue raised by audit in the recommendation, which was about mechanism to have a distinction between rewards due to service providers and aggregators.

On Jurisdictional Development Commissioner verifying the classification of service being reported by the service providers to different authorities **(Recommendation 11)**, it was stated that verification of reporting of services from multiple organizations, which follow different reporting formats for the same kind of services would make the Scheme non-implementable. Audit’s recommendation was not with reference to reporting format but with a mechanism to ensure uniformity in classification used for reporting of same services to different agencies.

On commissioning a midterm evaluation study of any such schemes **(Recommendation 14)**, it was stated that FTP 2015-20 was expected to sunset from 31 March 2020, therefore a Mid-term evaluation might not be feasible. Audit recommendation was generic as periodic evaluation of schemes would ensure that its intended objectives were being met besides providing for mid-course corrections in case of any deficiencies.

Glossary

Glossary	
AAI	Airport Authority of India
AIIS	Agriculture Infrastructure Incentive Scrip
ACU	Asian Clearing Union
ANF	Aayaat Niryaat Form
BE	Bills of Entry
BRC	Bank Realisation Certificate
CA	Chartered Accountant
CAG	Comptroller & Auditor General
CBIC	Central Board of Indirect Taxes and Customs
CPC	Central Product Classification
CPGRAMS	Centralised Public Grievance Redress and Monitoring System
CSEZ	Cochin Special Economic Zone
CTH	Customs Tariff Heading
DC	Development Commissioner
DGFT	Director General of Foreign Trade
DoC	Department of Commerce
DoR	Department of Revenue
DTA	Domestic Tariff Area
EDI	Electronic Data Interchange
EP	Export Promotion
EPC	Export Promotion Council
EPCH	Export Promotion Council for Handicrafts
FEMA	Foreign Exchange Management Act
FIRC	Foreign Inward Remittance Certificate
FMS	Focus Market Scheme
FOB	Free on Board
FPO	Foreign Post Office
FPS	Focus Product Scheme
FTP	Foreign Trade Policy
FTWZ	Free Trade and Warehousing Zone
FY	Financial Year
GST	Goods and Service Tax
HBP	Handbook of Procedures
HS	Harmonized System
ICES	Indian Customs EDI System
IEC	Importer Exporter Code
INR	Indian Rupee
IT	Information Technology
ITES	Information Technology Enabled Services
ITC	Indian Trade Clarification
JNCH	Jawaharlal Nehru Custom House

Glossary

KASEZ	Kandla Special Economic Zone
LEO	Let Export Order
MEIS	Merchandise Export from India Scheme
MLFPS	Market Linked Focus Product Scheme
MEP	Minimum Export Price
NCT	New Courier Terminal
NFE	Net Foreign Exchange
PN	Public Notice
RA	Regional Authority
RBI	Reserve Bank of India
RLA	Regional Licensing Authority
RCMC	Registration cum Membership Certificate
RMS	Risk management system
SAC	Service Accounting Codes
SEIS	Service Export from India Scheme
SEZ	Special Economic Zone
SEEPZ	Santacruz Electronic Export Processing Zone
SFIS	Served from India Scheme
SB	Shipping Bill
SOP	Standard Operating Procedure
SOFTEX	Software Export
STPI	Software Technology Park of India
THC	Terminal Handling Charges
VKGUY	Vishesh Krishi Gram Udyog Yojana
YoY	Year on Year
UAV	Unmanned Aerial Vehicle

CHAPTER I

Overview of Merchandise Exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS)

The Foreign Trade Policy (FTP) 2015-20, launched on 1 April 2015, provides a framework for increasing exports, generating employment and increasing value addition in the country with 'Make in India' vision. The focus of the new policy is to support both manufacturing and services sectors, with special emphasis on improving the 'ease of doing businesses'.

A major initiative towards simplification under the FTP was introduction of two new schemes namely Merchandise Exports from India Scheme (MEIS) by merging five earlier schemes² and Service Exports from India Scheme (SEIS) by replacing Served from India Scheme (SFIS) with effect from 1 April 2015.

1.1 The Schemes

(i) Merchandise Exports from India Scheme (MEIS)

MEIS has been introduced to promote export of notified goods manufactured/produced in India. The scheme aims to rationalise the incentives by bringing more and more products under its ambit so as to make a larger number of Indian products competitive in the international market. MEIS, which began with 4914 tariff lines, currently covers 8315 tariff lines.

Scripts under the MEIS scheme are issued at varied rates fixed for different countries ranging from 2 per cent to 10 per cent of the Free on Board (FOB) value of exports. The incentives issued as duty scrips can be used for payment of a number of duties/taxes including the customs/ excise duty/ service tax/Goods and Service Tax (GST).

Major product groups covered under MEIS are: Agricultural and Village Industry products, Pharmaceutical products, Textile and Garments, Electrical and Electronics products and automobiles.

(ii) Service Exports from India Scheme (SEIS)

SEIS is an incentive scheme for eligible service exports offering reward at 3 per cent or 5 per cent of Net Foreign Exchange (NFE) earned. Services rendered under two modes viz. services exported out of India and services provided to a foreign consumer in India are eligible for SEIS. This scheme covers 'Service

²(1) Focus Market Scheme (FMS), (2) Focus Product Scheme (FPS), (3) Vishesh Krishi Gram Udyog Yojana (VKGUY) (4) Market Linked Focus Product Scheme (MLFPS) and (5) Agriculture Infrastructure Incentive Scrips

Providers located in India' instead of 'Indian Service Providers', which has been the case in the earlier policy. Under the new scheme, the incentive scrips issued are fully transferable. SEIS benefits have also been extended to Special Economic Zones (SEZ) units.

1.2 Statistical Overview

Analysis of rewards provided to export of goods and services in the past five-year period from Financial Year 2014-15 (FY 15) to FY 19 revealed that amounts forgone in the form of incentive scrip increased from ₹19,031 crore to ₹44,305 crore. The pro-rata tax expenditure for earning of foreign exchange under MEIS and earlier schemes came down to 3.14 per cent in FY 19 from 3.15 per cent in FY 15. Pro-rata tax expenditure for SEIS Scheme could not be worked out as details of SEIS Scheme (Scrips, duty credit and FOB value of exports) for FY 16 and earlier scheme (SFIS) were not given in Director General of Foreign Trade (DGFT), Management Information System (MIS) Report. Number of scrips issued also increased from 1.82 lakh in FY 15 to 3.09 lakh in FY 19, as shown in **Table 1** below:

Table 1: Details of Rewards awarded during FY 15 to FY 19

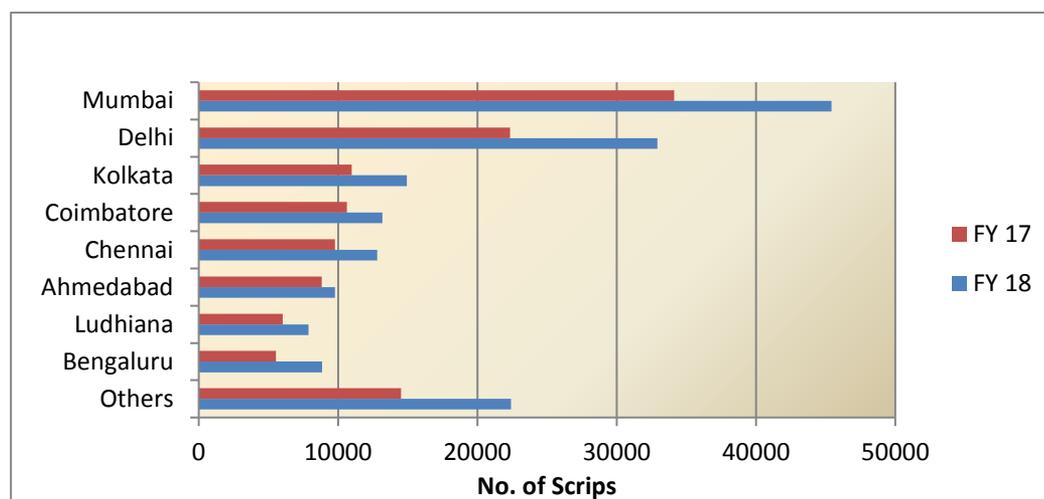
Number of Scrips, Duty Credit, FOB value of Exports under various Export Incentive Schemes						
Year	Criteria	FY 15	FY 16	FY 17	FY 18	FY 19
Five pre-existing Schemes	No. of Scrips	180002	123858	32053	9250	4159
	Duty Credit	17731	11028	2337	702	550
	FOB (₹ in cr)	562589	334247	64687	21268	20775
MEIS	No. of Scrips		31375	159446	218402	298350
	Value of Scrips (₹ in cr)		4104	18117	25994	39298
	FOB (₹ in cr)		138014	688473	978286	1246772
Total of MEIS and pre-existing schemes	No. of Scrips	180002	155233	191499	227652	302509
	Value of Scrips (₹ in cr)	17731	15132	20454	26696	39848
	FOB (₹ in cr)	562589	472261	753160	999554	1267547
Ratio of scrip value to FOB		3.15	3.2	2.72	2.67	3.14
YoY of ratio of scrip value to FOB		(-) 12.25	(+) 1.58	(-) 15.00	(-) 1.83	(+) 17.60
SFIS	Number of Scrips	1984	2072	1423	751	259
	Duty Credit (₹ in cr)	1300	1126	1252	309	194
	FOB (₹ in cr)	Not available in DGFT Reports				
SEIS	Number of Scrips		0	1368	5569	6376
	Duty Credit (₹ in cr)		0	561	3475	4263
	FOB (₹ in cr)		0	167172	1587379	1372212

Year	Criteria	FY 15	FY 16	FY 17	FY 18	FY 19
Total of SFIS and SEIS	Number of Scrips	1984	2072	2791	6320	6635
	Value of Scrips (₹ in cr)	1300	1126	1813	3784	4457
	FOB (₹ in cr)		Not available in DGFT Reports			
Grand Total	Number of Scrips	181986	157305	194290	233972	309144
	Value of Scrips (₹ in cr)	19031	16258	22267	30480	44305
	FOB (₹ in cr)	562589	472261	920332	2586933	2639759

Source: DGFT MIS Report on Export Promotion Scheme 2019

As could be seen from Table 1 above, there was a steady increase in the number of scrips during FY 17 (23.51 per cent), FY 18 (20.42 per cent) and FY 19 (32.12 per cent), though there was a decrease in the number of scrips in the initial year of introduction of the schemes, FY 16. Top eight Regional Authorities (RAs) in terms of issuing scrip sunder MEIS/SEIS in FY 18 along with a comparison of scrips issued in FY 17 have been shown in the graph below.

Fig 1: MEIS/SEIS Scrips issued by Major RAs during FY 17 and FY 18



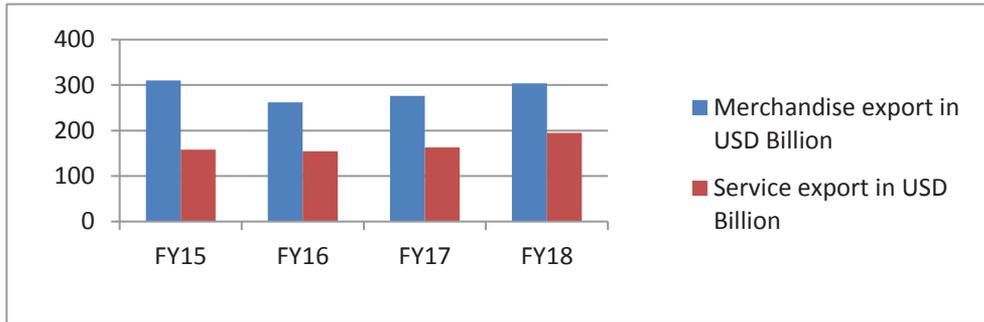
RA Mumbai has issued the highest number of MEIS / SEIS scrips during FY 18 and FY 19, accounting for 20.8 per cent of total scrips, followed by Delhi (15.07 per cent), Kolkata (6.85 per cent), Coimbatore (6.03 per cent) and Chennai (5.87 per cent).

1.3 Export Performance under MEIS and SEIS

1.3.1 Export performance and duty forgone through scrips

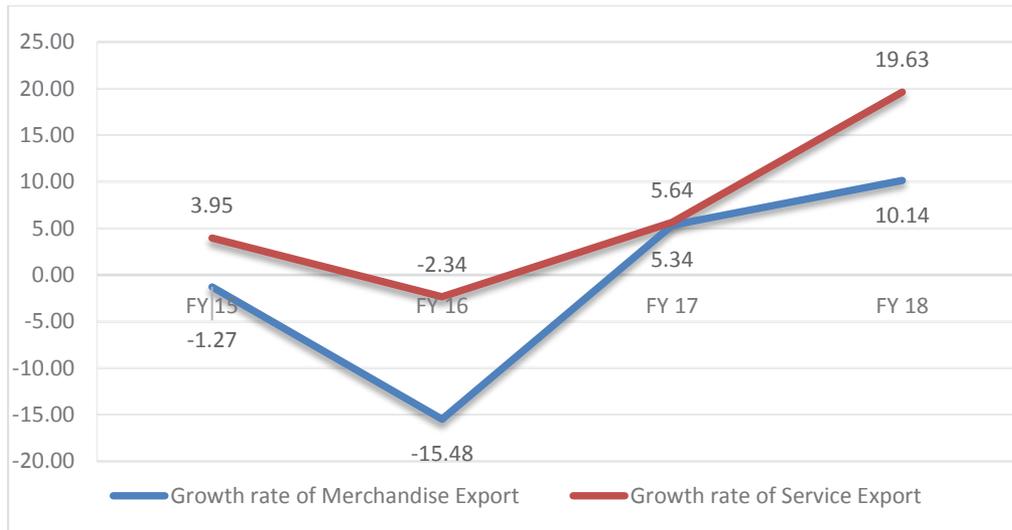
Export performance of Merchandise and Service in US Billion dollars in last four years from FY 15 to FY 18 is represented in the charts below.

Fig 2. All India Export of Merchandise Goods and Services



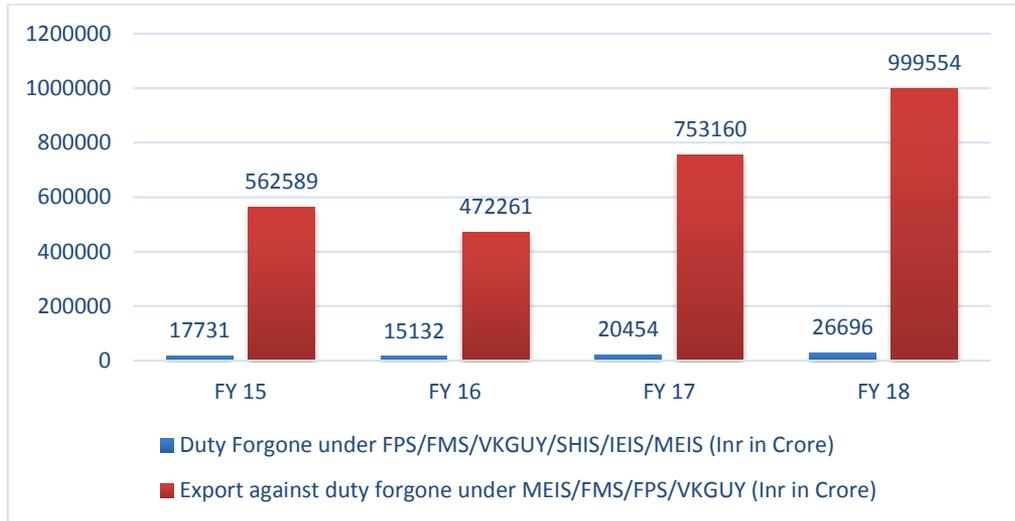
Source: dashboard.commerce.gov.in

Fig 3: Rate of growth of Export



Export of merchandise and services, after registering a decline in FY 16, made a recovery during FY 17 and FY 18.

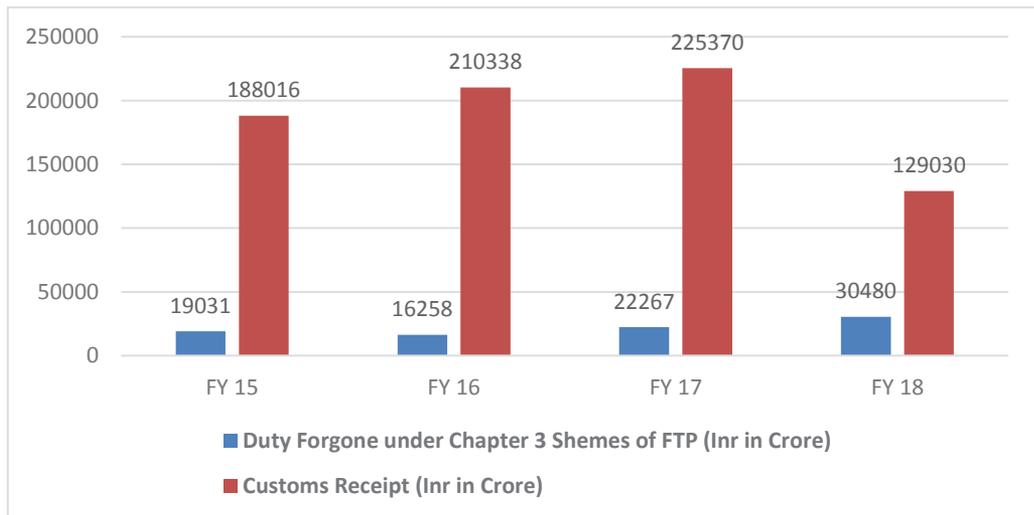
Fig. 4: Export of Merchandise vis-a-vis duty forgone



Source: MIS Report on Export Promotion Scheme 2017

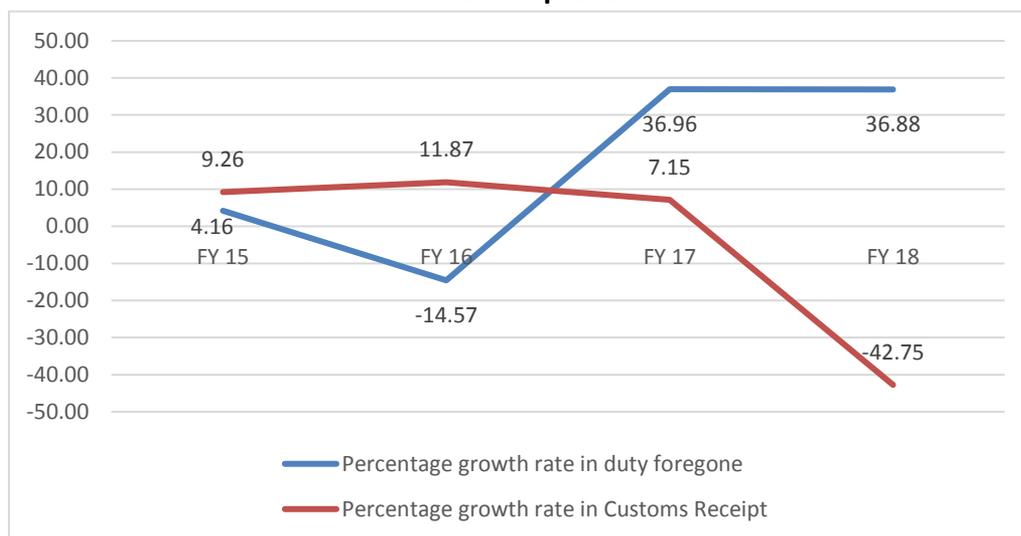
The percentage growth of export of merchandise was 59.47 per cent in FY 17 and 32.71 per cent in FY 18. The Year on Year growth rate declined only in FY 16, the year of introduction of MEIS.

Fig. 5: Customs receipts vis-a-vis duty forgone under Chapter 3 of FTP



Source : Receipt Budget and MIS Report on Export Promotion Scheme 2017

Fig 6: Growth rate of customs receipts vis a vis duty forgone under Chapter 3



Duty foregone on account of export of every one billion United States Dollar (USD) of items exported under Chapter 3 of FTP works out to ₹11.82 crore and ₹61.18 crore for Services and Merchandise respectively.

1.3.2 Share of MEIS in total exports

Analysis of MEIS claim for export of commodities under different sections of Custom Tariff over the period FY 16 to FY 18 revealed that claim of MEIS registered growth under all sections of custom tariff. The average percentage export claimed under MEIS to that of total exports increased from 11.83 percent in FY 16 to 52.93 percent in the FY 18.

Audit observed that MEIS claims under Chapter 15 (Animal or vegetable fats and oil) and Chapter 71 (Pearls, precious stones / metals, gems and Jewellery) during the year FY 17 and FY 18 were negligible when compared to their corresponding export volume. **(Appendix 1)**.

1.3.3 Analysis of MEIS benefits to Handloom and Handicraft products

To promote rural and small scale industries, Government provided (November 2017) enhanced MEIS rates to handloom and handicraft products. An analysis of the total handicraft export vis-à-vis handicraft export under MEIS revealed that there was a five-fold increase in per cent of handicraft exports covered under MEIS from 5.55 per cent to 29.34 per cent, as depicted in **Table 2** below. Still a significant 70 per cent of handicraft items being exported remained outside the ambit of MEIS despite higher MEIS rates made applicable to this sector.

Table 2: Handicraft Exports

YEAR	Value of handicraft export (other than hand knotted carpet) (₹ in cr)	Value of Export of handicraft claimed under MEIS (₹ in cr) ³	Percentage of export claimed for reward under MEIS
FY 16	21557.12 ⁴	1197.88	5.55
FY 17	24392.39	6243.28	25.60
FY 18	23029.36	6732.96	29.34

Similar analysis under handloom category, as depicted in **Table 3**, revealed that value of export claimed under handloom export for MEIS reward increased from 15.52 per cent to 60.08 per cent in FY 18, with nearly 40 per cent of export remaining out of MEIS reward.⁵

Table 3: Handloom Exports

YEAR	Value of handloom Export ⁶ (₹ in cr)	Value of Export of handloom claimed under MEIS (₹ in cr) ⁷	Percentage of export claimed
FY 16	2353.33	365.23	15.52
FY 17	2392.21	1106.04	46.24
FY 18	2280.19	1370.03	60.08

1.4 Audit Objectives

The audit objectives of the Performance audit were as follows:

- (i) To examine the success of facilitation measures introduced for simplifying the process of issue of MEIS and SEIS scrips,
- (ii) To examine effective linkage of rules and procedures of the Schemes in DGFT Electronic Data Interchange (EDI) system,

³MEIS data as made available by DGFT New Delhi.

⁴Source : Export data from data of Handicraft Export Promotion Council on the website of Ministry of Commerce and Export claimed under MEIS as per data made available by DGFT New Delhi

⁵Total of 32 CTH get covered under Handloom goods (Appendix 3B).

⁶Export figure of Handloom Export Promotion Council as available on website of Ministry of Commerce.

⁷MEIS data as made available by DGFT New Delhi.

- (iii) To examine whether internal control measures were sufficient to minimize the risks of revenue loss, misuse and fraud in the environment of simplification and automation.

1.5 Audit Scope, Audit Coverage, Audit Criteria and Audit Methodology

Audit Scope

This performance audit covered the records and transactions for the period from April 2015 to October 2018. Audit covered DGFT and its RAs, Customs field formations through Customs Commissionerates, concerned.

Audit Coverage

Analysis of Pan India data received from DGFT for the period April 2015 to October 2018 revealed that 5,94,653 (5,84,650 MEIS and 10,003 SEIS) scrips amounting to ₹ 76,416 crore were issued by 38 RAs and Nine Development Commissioners (DCs) of SEZs.

In addition to Pan-India data analysis, in view of prevalent manual processes, a sample of 25 RAs (66 per cent of total RAs) and seven DC offices (77 per cent of total DC offices) was selected for this audit to examine the manual checks being exercised by the RAs and DC offices. These 32 units covered 5,53,726 (5,43,803 MEIS and 9,923 SEIS) scrips amounting to ₹72,743 crore. The percentage scrips handled by the 32 selected units in terms of value and number worked out to 95.19 and 93.12 respectively (**Appendix 2**).

Further, in these selected units, 6,205 Scrips (5747 MEIS Scrips and 458 SEIS Scrips), representing 1.7 per cent of total scrips in these units, were selected for detailed examination. Audit also selected Customs field offices from where exports relating to these sampled scrips were effected (**Appendix 3**).

Results of data analysis carried out on Pan-India data and the audit findings based on test check carried out in selected units and sampled scrips were suitably included in the report.

Audit Criteria

Audit used the relevant provisions of the applicable Acts, manuals, rules, government notifications as criteria, to benchmark the findings. The important provisions are listed below:

- FTP 2015-20,
- Hand Book of Procedures (HBP) and its Appendices and Forms,
- Public Notice (PN)/Circulars issued by the DGFT,
- Central Board of Indirect taxes and Customs (CBIC) Notifications and Circulars on MEIS and SEIS, which were issued from time to time and were in effect during the period of audit,

Audit Methodology

This performance audit was conducted using the guidelines of CAG of India for Performance Audit, and within the scope prescribed in the CAG's DPC Act, 1971.

Audit methodology includes desk review of files, collection of data and data analysis, test check of scrip files, bills of entry (imports) availing benefit of MEIS and SEIS duty credit scrips.

Chapter 2

Systemic issues in Implementation of MEIS and SEIS

The schemes MEIS and SEIS were introduced mainly with the objective of improving ease of doing business, simplifying the procedures, a drive towards paperless processing and for better trade facilitation. DGFT introduced enhanced electronic governance for these schemes to put in place a system driven receipt of applications and issue of scrips with minimum physical interface between RAs and exporters.

Audit examined the implementation of facilitation measures introduced for simplifying the process of issuance of MEIS and SEIS scrips by analysing the pan-India data for the period from 2015-16 to 2018-19 (October 2018) and key features in the automated system. The analysis revealed that while automation of SEIS was partial, in case of MEIS which was largely automated, there were shortcomings and gaps in the automated processes. The automated system developed for MEIS/SEIS required manual intervention thereby leading to avoidable physical interface and discretion in the hands of authorised officials resulting in delays. In view of the manual intervention in the electronic system, in addition to carrying out analysis of Pan-India data, limited field audits were also carried out by drawing out a sample of scrips in the 32 selected units. **As the audit findings are based on test check, there is every likelihood that such errors of omission and commission might exist in other cases also. Department may therefore, check all the remaining transactions also and take appropriate corrective action.**

The audit findings indicated the failure of the automated system in achieving the objective of simplification of procedures and ease of doing business, as summarised below:

- Findings relating to MEIS
 - Substantial delay in issuance of MEIS scrips;
 - Discrepancies between scrip value and actual entitlement;
 - Incorrect adoption of foreign exchange rates;
 - Incorrect levy of “Late Cut”;
 - Grant of benefits on export proceeds realised in Indian Rupee (INR) and
 - Delay in operationalization of E-commerce module for MEIS
- Findings relating to SEIS
 - Delay in issuance of SEIS scrips

- Findings relating to Risk Management System (RMS)
 - Delay and deficiencies in functioning of RMS and
 - Consequences of ineffective RMS

Findings relating to MEIS

2.1 Delay in issuance of MEIS scrips

DGFT, in its Citizen Charter under Para 1.09 of FTP prescribes⁸ three days for disposal of applications under chapter 3 of FTP. In case of any suspicion of wrong classification or mis-declaration in application, the RA concerned may seek physical document for scrutiny and on receipt of such document, the claim must be decided within seven days⁹ after scrutiny. Audit measured the success of facilitation measures vis-à-vis these timelines and observed delays as detailed below:

2.1.1 Delay in issuance of MEIS scrips

We analysed the entire data of MEIS for the period from FY 16 to FY 19 (October 2018) and delay of more than 10 days in issuing scrips was noticed in 12,002 files (42.33 per cent) during FY 16, in 73,320 files (49.87 per cent) during FY 17, in 78,771 files (38.93 per cent) during FY 18 and 32,886 files (20.13 per cent) during FY 19 (up to October 2018) in selected 32 units (25 RAs and 7 SEZs). The delay in terms of per cent decreased slightly from 42 per cent in FY 16 to 39 per cent in FY 18 and further to 20 per cent in first half of FY 19. However, number wise, the delayed scrips remained substantial. The delay was observed in more than 50 per cent of files in RAs in charge of SEZs because they were non-EDI ports and hence required verification of physical records **(Statement 1)**.

DGFT replied (March 2020) that the approval of MEIS had since been made system operated for more than 99 per cent Harmonised System (HS) Codes.

2.1.2 Delay in issue of MEIS scrips in SEZs

Exports through SEZ units are considered as exports through Non-EDI mode due to non-integration of SEZ exports module with the Customs ICES network and non-receipt of Shipping Bill (SB) data of SEZs in the DGFT Shipping Bill Repository.

Audit observed that the delay in issue of the scrips in 50 per cent of the cases commented pertained to SEZs. The timelines prescribed in the Citizen charter

⁸ Vide Public Notice No.16/2015-20 dated 4 June 2015

⁹As specified in para 3.01 of HBPv1 made effective from 5 December 2017

for issuance of scrips for EDI and Non-EDI ports were the same which need to be reviewed.

DGFT stated (March 2020) that since April 2019, after the integration of the data exchange mechanism of the DGFT and the SEZ online module operated by National Securities Depository Limited (NSDL), the data of shipping bills was being received electronically. They also reported that the time taken for SEZ units to process applications, received for shipping bills after April 2019, improved considerably.

The system developed for MEIS was an electronic system which required manual intervention. Hence in addition to carrying out analysis of Pan-India data, limited field audits were carried out by drawing out a sample of scrips in the 32 selected units and the reasons for such substantial delays in issue of scrips were analysed, the audit findings on which have been reported in Chapter 3 of this report.

2.2 Discrepancies between MEIS scrip value and actual entitlement as per shipping bills

In the application made by the exporter for grant of rewards, the automated MEIS module should add up the actual entitlement of rewards for each shipping bill in the application and issue the incentive scrip equal to the sum of all such rewards.

Data analysis on pan India basis on MEIS scrips granted during the period April 2015 to October 2018 revealed that in 39,184 scrips (6.70 per cent of total scrips), the scrip value issued was more than the sum of actual entitlement of the SBs in the application resulting in excess payment of ₹13.37 crore **(Statement 2)**.

The above extracted data was correlated with 355 physical records from the selected units to confirm the issue of excess issue of scrip against actual entitlement.

DGFT replied (September 2019) that a programming bug was identified in the system related to “non-updation of deleted shipping bills in calculation of final entitlements” and consequently, it asked RAs to initiate recoveries wherever due.

2.3 Incorrect adoption of foreign exchange rates

Foreign exchange shall be converted to Indian Rupee¹⁰ using the exchange rates as on the date of Let Export Order (LEO). These rates are published by CBIC from time to time and updated by the DGFT in its EDI system. In respect of EDI Shipping Bills, the exchange rate as on the LEO date is captured from the DGFT EDI system to convert the FOB in Indian rupees and export incentives are awarded as a percentage of FOB.

Audit observed that the exchange rates as per Customs notifications¹¹ were not updated in time in the DGFT system, resulting in excess or short issue of incentives.

Data analysis of MEIS claims for the period from FY 16 to FY 19 (up to October 2018) on application of exchange rates revealed that in 20,834 SBs pertaining to 8,218 applications, the exchange rates were incorrectly adopted resulting in excess sanction of ₹3.40 crore duty credit and short sanction of duty credit of ₹ 3.31 crore in 50,433 SBs (0.46 per cent of total) in 12,371 applications **(Statement 3)**.

DGFT stated (March 2020) that necessary recovery action for such excess claims was underway and RAs were informed to initiate recovery action. They also intimated that in total, there were some short claims also, and the net excess was ₹ 0.09 Cr. RA Kochi and Bengaluru reported recovery of ₹ 0.12 crore.

No specific reply was given by DGFT regarding delay in updation of notifications. Further, the contention of DGFT on net excess was not correct and both excess and short claims were irregular and could have been avoided with timely updation of forex rates in the automated system.

2.4 Excess issue of MEIS benefit due to incorrect levy of "Late Cut"

In terms of para 3.15 read with para 9.02 of HBP, applications claiming duty credit scrip under MEIS shall be filed within a period of twelve months from LEO date of shipping bills or within three months of customs uploading of shipping bills of EDI ports to DGFT server, whichever is later. Whenever application is received beyond due date, the same can be considered after

¹⁰paragraph 1.15 of HBP Volume I read with paragraph 9.12(D)

¹¹Customs (NT) Notification Nos.97/2015, dated 1 October 15; 52/2016 dated 4 June 2016, 119/2016 dated 1 September 2016; 136/2015 dated 3 December 2015 and 22/2017, dated 16 March 2017.

imposing a “Late Cut” of 2 per cent if received within six months from the due date; 5 per cent if received after six months but not later than one year from the due date, 10 per cent if received after 12 months but not later than 2 years from the due date.

Audit analysed the data of MEIS claims for the period from April 2015 to October 2018 which revealed that the system had incorrectly applied “Late Cut” in 32,591 SBs (in 6013 files) resulting in excess sanction of MEIS duty credit of ₹ 5.66 crore in selected units (**Statement 4**) indicating that the system was not aligned to calculate the “Late Cut” correctly.

DGFT replied (September 2019) that a programming bug was identified in the system related to Calculation of “Late Cut” and that the RAs had been asked to initiate recoveries wherever due. RA Kochi reported recovery of ₹ 5.23 lakh.

2.5 Incorrect grant of MEIS incentives on INR realisation of export proceeds

As per Para 2.52 of the FTP 2015-20, the export proceeds shall be realized in freely convertible currency to claim benefits under the Policy except when:

- the export proceeds were received in INR from exports to IRAN;
- amounts were received in rupees through a freely convertible Vostro account of a non-resident bank situated in any country other than a member country of Asian Clearing Union (ACU) or Nepal or Bhutan and rupee payment through Vostro account must be against payment in free foreign currency by buyer in his non-resident bank account.

An analysis of MEIS claims for the period from FY 16 to FY 19 (up to October 2018) revealed that an amount of ₹21,802.08 crore was received in INR (out of FOB value of ₹24,52,036 crore) and reward of ₹643.33 crore was granted by DGFT.

Audit observed that there was neither a mechanism with RAs to ensure that export proceeds were received in INR by way of Vostro accounts nor the RAs insisted for any declaration from the exporters.

Audit further analysed the INR receipts from ACU countries and it was found that an amount of ₹48.90 crore was received in INR from Nepal and Bhutan and reward of ₹1.36 crore was awarded by eight units¹², against 690 SBs (**Statement 5**). This indicated failure of MEIS module to align with the

¹²RAs Ahmedabad, Chennai, CSEZ Kochi, Coimbatore, Delhi, Kolkata, Pune and SEEPZ, Mumbai

restrictive condition envisaged in the Policy. RA Kochi reported recovery of ₹1.92 lakh.

DGFT stated (March 2020) that the systemic improvements in the procedure were effective vide PN 08 and Trade Notice 15 (May 2019) under which Vostro Payments were being examined by the RAs with necessary documents before grant of MEIS.

2.6 Delay in operationalization of E-commerce module for MEIS resulting in non-availability of MEIS rewards for e-commerce exports

MEIS rewards are allowed¹³ for export of goods through courier or Foreign Post Office (FPO) using e-commerce for goods notified in Appendix 3C, for FOB value upto ₹25000. Such goods can be exported in manual mode through FPO, New Delhi, Chennai and Mumbai.

E-commerce exports amounting to FOB value of ₹276.46 crore in respect of goods notified in Appendix 3C for the period FY 16 to FY 18 were undertaken through New Courier Terminal (NCT), Delhi. These exports were eligible for MEIS rewards. However, audit noticed that no claims/licences were issued under MEIS on e-commerce during FY 16 to FY 18 in respect of RA, Delhi.

This happened due to following reasons:

- Appropriate amendments to the Courier Imports and Exports (Electronic Declaration and Processing) Regulations 2010 for allowing MEIS benefits under e-commerce through courier were made only on 28 March 2018 after a lapse of nearly 3 years after the roll out of the scheme.
- Non-operationalization of e-commerce module of MEIS by DGFT.

DGFT informed that e-commerce module had been made operational from 5 February 2019 and attributed delay in the rollout to Department of Revenue (DoR).

Thus, E-commerce module was not operational for almost four years after the introduction of the scheme. The exporters were deprived of their legitimate benefits of approximately ₹5.52 crore (2 percent of the e-commerce exports valuing ₹ 276.46 crore) and the objective of extending export incentives to smaller e-commerce exporters could not be achieved.

¹³Under paragraph 3.05 of the Policy 2015-20,

2.7 Other deficiencies relating to issue of MEIS licenses:

2.7.1 Utilisation of shipping bills in more than one license

Single shipping bill can be utilised for generating license scrips only once and hence the system should prevent utilisation of same shipping bill for generating multiple licenses.

Data analysis of MEIS claims for the period from FY 16 to FY 19 (up to October 2018) revealed that in 13,040 cases, same SBs were utilised for issue of different licences.

The issue was examined in 32 units and it was observed that repeated use of SBs occurred when scrips containing such SBs were either cancelled or surrendered for various reasons. The SBs related to that cancelled scrip had been reactivated in the DGFT repository to make them available for the exporters to claim again.

Even after excluding such cancelled/surrendered scrips, double use of SBs was observed in 240 instances in 482 files. There were also 84 instances where SBs got repeated in scrips issued by different units viz., Delhi, FSEZ, Pune and Mumbai and got registered at different Ports of registrations involving MEIS rewards amounting to ₹6.95 lakh. **(Statement 6 & 7)**. It was clear that system failed to alert the users, about SBs being used for the second time.

RA SEZ-Falta reported (December 2018) recovery of ₹2.97 lakh.

2.7.2 Issue of MEIS licence against provisions of Jurisdiction

As per provisions Para 3.06 of HBP applicant shall have the option to choose Jurisdictional RA on the basis of Corporate Office/Registered Office/Head Office/Branch Office addressed on Importer Exporter Code (IEC) for submitting application/applications under MEIS and SEIS. This option need to be exercised at the beginning of the financial year. Once the option is exercised no change would be allowed for claim relating to that year. In this regard, DGFT has stated that in the MEIS application module, the IEC holder who applies to a RA, is allowed to apply to only that RA in a financial year.

Data analysis of MEIS data on pan India basis for the period from FY 16 to FY 19 (up to Oct. 2018) revealed that, exporters had not followed the jurisdictional condition as per provisions and had applied in different RAs for exports in the same financial year **(Statement 8)**. The total number of exporters who applied/issued licenses in different RAs for exports in the same financial year in contravention to the provisions had been given below:

Table 4

Sl.No.	Year	No. of exporters(IEC)
1.	2015-16	199
2.	2016-17	224
3.	2017-18	173
4.	2018-19 (upto Oct 18)	34

DGFT stated (September 2019) that the jurisdictional issue was not important as there was no revenue implication.

The reply was not acceptable as this was a clear violation of laid down policy. The checks in the provisions of FTP were not duly aligned to the MEIS application module resulting in issuance of MEIS licences in contravention to the Policy.

Findings relating to SEIS

2.8 Delay in finalization of SEIS scrips

Analysis of Pan-India SEIS data revealed that out of 10,003 scrips issued during the period April 2016 to October 2018, 8,686 scrips (around 87 per cent of scrips) were issued beyond the prescribed 10 days' time.

Such significant delay in issuing of 87 per cent scrips reflected lack of integration of automation and trade facilitation into the SEIS scheme, thereby defeating the very intent of having an automated system to streamline the process of issuance of scrips.

DGFT stated (March 2020) that only the applications under the SEIS scheme were received online and the processing was not automated yet. It was also stated that the documents were being checked manually and entitlements were granted after duly examining the eligibility and other necessary pre-conditions.

The timelines prescribed in DGFT's Citizen Charter for issuance of scrips for both MEIS (which is being processed online) and SEIS (wherein processing is not automated) are the same which needs to be reviewed by DGFT.

In case of SEIS, only receipt of application is automated while the process of issue of scrips remained largely manual. The systemic issues in implementation of SEIS, which emanated from the limited field audits carried out by drawing out a sample of scrips in the 32 selected units, have been reported in Chapter 3 of this report.

Findings relating to Risk Management System (RMS)

2.9 Delay and deficiencies in functioning of RMS

Paragraph 3.19 of FTP 2015-20 envisaged that DGFT will select 10 per cent of issued scrips every month for each RA for scrutiny through RMS on random basis and also on the basis of guidelines issued by the DGFT from time to time. RA in turn may call for original documents in all such selected cases for further examination in detail.

It would be the responsibility of the applicants to maintain such documents for a period of at least three years from the date of issuance of scrips or completion of scrutiny under RMS initiated by the RA, whichever is later.

Audit examined the functioning of RMS in the 32 selected units. It was observed that no cases under RMS were undertaken by RA, Delhi till October 2018. In response, RA, Delhi intimated that DGFT had given (November 2018) list of RMS cases from January 2018 to September 2018 only and that cases for RMS prior to this period were not received.

Similarly, RMS cases from DGFT were also not received in RAs-Chennai, Coimbatore, Kochi, Hyderabad, Visakhapatnam, Cuttack, Guwahati, SEZs-Chennai, Kochi, Visakhapatnam, Falta and Noida.

Further, details of RMS cases were not/partially furnished to audit by RAs in Ahmedabad, Bengaluru, Bhopal, Indore, Rajkot, Mumbai, Pune, Kolkata, Patna, Chandigarh, Ludhiana, Panipat, Goa, and Jaipur and SEZs-Mumbai, Kandla.

RA Pune randomly furnished 49 files completed under RMS. It was seen that in 28 files, verification was done and invoices, landing certificates, BRC, Registration cum Membership Certificate (RCMC) and other documents were checked. However, in the remaining cases RMS was completed in summary manner on the ground that PN No.62/2015-2020 dated 16 February 2018 had obviated the necessity of matching description with invoices and no past cases needed to be reopened and assessed except those products specified in that PN.

DGFT replied that RMS list was given to RAs for period April 2015 till December 2016. The scrutiny under RMS was not required for MEIS after 4 May 2016 (when requirement of landing certificate was done away with) as no documents were required for submission to claim MEIS. Later, RMS was initiated for scrips issued after 1st January 2018 in light of PN 62 ibid, wherein the MEIS rewards for most codes were to be granted automatically on the basis of HS codes.

Contention of DGFT was not tenable for following reasons:

- Even though DGFT mentioned that RMS files were provided to RAs for period till December, 2016, many of the sampled RAs did not receive the list from DGFT excepting a few RAs as stated above. Thus, there was no uniform approach in implementing the RMS.
- MEIS was designed primarily to be an automated scheme with minimal manual intervention/checks so that exporters receive the reward quickly (in three days). To mitigate the risk in such an automated system, RMS was designed so that sample files could be checked after awarding the reward to ensure that only eligible exporters claim the reward. This requirement was there from the starting of the scheme till now. Thus, DGFT's contention, that RMS was not required after May 2016, indicated that the implications of non-implementation of RMS were not fully understood.
- Being primarily based on declaration by exporter and in the absence of any data validation in MEIS in the DGFT system, the veracity of the declaration made by the exporters could not be relied upon.
- DGFT referred only to MEIS in their reply, while RMS is applicable to SEIS also.

The non-implementation of RMS for MEIS and SEIS for the period from April 2015 to December 2017 was in contravention of policy provisions and left a key risk control measure unattended for almost three years. RAs were scrutinising the applications in detail in the initial application stage causing delay in issue of licenses, as detailed in Para 2.1 of this chapter, which defeated the core objective of scheme of ease of doing business and trade facilitation.

DGFT stated (March 2020) that RMS procedure has been strengthened and since January 2017 all RAs were being provided with the RMS List (till December 2019).

2.10 Consequences of ineffective RMS

2.10.1 Excess grant of MEIS duty credit scrips due to inclusion of Commission/Insurance/Freight (CIF) charges

In terms of paragraph 3.04 of the FTP, the quantum of reward under MEIS is based on FOB value of exports. The element of CIF charges is required to be deducted from the export proceeds realized, to arrive at the FOB value.

Audit observed that data in respect of CIF charges, though available in the Shipping Bill, was not captured by DGFT Server for computing MEIS

entitlement. The applicant had to fill this data manually and in case applicants did not fill such data, MEIS entitlement would consider the entire FOB realized without deducting these charges resulting in excess entitlement to the applicants. Audit observed that CIF charges were not declared by the exporters in 95 cases in 7 units (RA Bhopal, Jaipur, Pune, Kolkata, Patna, SEZ-Indore and SEZ-Falta), which resulted in excess issue of MEIS rewards amounting to ₹46.46 lakh **(Statement 9)**.

DGFT stated (September 2019) that the figures for Commission as mentioned in the shipping bills were not always correct. They stated that mostly this figure was mentioned as zero and the exporter was expected to fill in the figures for each shipping bill in the E-commerce module at the time of applying. It was further held that the information of the correct commission amount was available only with the exporters, who were supposed to report it to bank and that this information was not verifiable from any other document, therefore, the system was based on a self-declaration by the exporter/ applicant.

Incorrect representation of FOB value had direct revenue implication on MEIS rewards. It was clear from the reply that there was no policy or preventive measures like system alert facility in the extant system to ensure mandatory declaration of CIF charges by the exporters and checking of the correctness of the declared value by the RAs. Also, recovery in respect of excess grant was required to be effected.

2.10.2 Incorrect issue of MEIS reward due to misclassification

Scrutiny of classification of goods in audit revealed that misclassification of goods led to claim of higher rates of MEIS duty scrips. The responsibility of ensuring the correctness of Indian Trade Clarification/Harmonised System (ITC/HS) code of the goods exported with reference to the item description given in the Shipping Bills, invoices and packing list, at the time of permitting export lies with the Customs department. At the time of processing and sanctioning MEIS claims in the Automation module, the role of RA, was to generate the license without verification of the item description of the product as per Public Notice 62/2015-2020 dated 16 February 2018. However, prior to the PN, the RAs were required to match the product description as well as ITC (HS) codes before sanction of MEIS reward.

Audit noticed that in 31 categories of products, system allowed higher rates as claimed by the exporters amounting to ₹ 27.24 crore in RA, Ahmedabad, Chennai, Coimbatore, Kochi, CSEZ-Kochi, MSEZ-Chennai, Mumbai, SEEPZ-Mumbai, Pune and Kolkata **(Statement 10** for power loom made-ups claimed

as handloom and **Statement 11** for other Misclassification). Audit further observed that the above ITC HS codes did not figure in the PN 62/2015-2020 dated 16 February 2018 due to which matching of product description with ITC HS Code was not required and the same was required to be included in the said PN.

The system failed to prevent excess grant of rewards due to misclassification of products and granted higher rates applicable to handloom products. The RAs quoted PN for not taking action, which was not correct as the reference to past cases in Para 3 of said PN related to those ITC codes covered in the Annexure only. Non-inclusion of specific description of Power loom/Handloom separately under Made-ups category descriptions in serial numbers 2824 to 2826 indicated weakness in system.

DGFT stated (March 2020) that the classification of goods needed to be checked at Customs Ports and online system could not interpret misclassification of an item. While recovery of ₹ 20 lakh was reported in respect of RA Kochi, DGFT assured to inform RAs to initiate recovery action, wherever due.

2.10.3 Incorrect issue of MEIS scrip to ineligible products and categories

Export categories not eligible to incentives viz., exports prohibited/restricted and exports liable to export duties or Minimum Export Price (MEP) are enumerated in para 3.06 of FTP, 2015-20, as amended vide PN 44/2015-20 dated 5 December 2017.

Audit observed in RAs, Chennai, Kochi, Mumbai and Ahmedabad, scrips were granted in 250 files to ineligible products like potatoes, onions, crabs, lobsters, shark fins, sodium hypophosphite which were either under MEP or deleted from MEIS incentives or fall under prohibited categories. Incorrect grant amounted to ₹4.80 crore in 956 SBs (**Statement 12**).

DGFT was asked to clarify whether this possibility of misclassification of goods leading to incorrect reward rates was considered during policy formulation and whether any measures were introduced/ contemplated to address this issue. DGFT informed that with the objective of improving ease of doing business and reducing delays, directions were issued (February 2018) for processing the MEIS claims only on the basis of ITC (HS) code on the shipping bill except for a few lines where descriptions were also to be matched. Further, DGFT informed that the classification of goods was checked by customs at the ports.

The above indicated that the duty credits were primarily given based on the declaration of the exporters and classification was not checked scrupulously at Customs Port.

The system failed to stop reward claims on exports under MEP regime. The validation controls in the MEIS module were inadequate to avoid automatic grant of incentives to such products and exporters claimed benefits by wrongly quoting ITC (HS) in their SBs. Non-implementation of RMS designed to flag such ineligible/restricted items also led to excess claim of credits.

DGFT stated (March 2020) that the list of such cases would be informed to the RAs for necessary examination and assured that the validation control for such items would be built for MEP goods in the MEIS module. RA Coimbatore, Kochi reported recovery of ₹3.20 crore.

Conclusion

An essential pre-requisite of trade facilitation via automated tools was a system with inbuilt checks and balances duly mapping the key rules, procedures and conditions of the Scheme. The substantial delays in issue of MEIS and SEIS scrips indicated the failure of the automated system in achieving the objective of simplification of procedures and ease of doing business.

The system developed for MEIS was an electronic system which required manual intervention. Manual verification of arithmetical accuracy calculated by IT system should not be required if the system has been properly programmed. Besides leading to wastage of manpower, the deficiencies in automated system have also resulted in delaying the whole process and avoidable physical interface and discretion in the hands of authorised officials regarding checks to be exercised as discussed in Chapter 3, thereby defeating the scheme objectives.

There were deficiencies in MEIS module in calculating scrip values and “Late Cut” which were attributed to programming bugs by DGFT. The delays in updating the system resulted in incorrect adoption of foreign exchange rates. The MEIS module also did not restrict grant of benefits on ineligible export proceeds realised in INR. Further, the system did not enforce conditions and checks prescribed in the scheme regarding utilization of Shipping Bills (SBs) in more than one licence and jurisdictional provisions.

The extension of MEIS benefits to E-commerce exports amounting to ₹5.52 crore was delayed by almost four years due to delay in amending the regulations and operationalization of e-commerce module.

In case of SEIS, only receipt of application is automated while the process of issue of scrips remained largely manual.

To mitigate the risk in the automated system, RMS was designed so that sample files would be checked post rewards in order to ensure that only eligible exporters claimed the rewards. The non-implementation of RMS for MEIS and SEIS for the period from April 2015 to December 2017 was in contravention of policy provisions and left a key risk control measure unattended for more than two years. The system granted reward on entire export proceeds realised, without excluding inadmissible components viz., Commission, Insurance and Freight (CIF) charges. The system failed to prevent excess grant of rewards due to misclassification of products and granted higher rates applicable to handloom products. The validation controls in the MEIS module did not restrict grant of incentives to exports under Minimum Export Price (MEP) regime and exporters claim benefits by wrongly quoting ITC (HS) in their SBs. Non-implementation of RMS designed to flag such ineligible/restricted items led to excess claim of credits remaining undetected.

The intended benefits of automation facilities would have been realised only when the procedures for granting scrips were adequately defined to address the risk of erroneous/fraudulent claims and were uniformly followed across all the field offices. Incomplete automation and gaps in the processes to the extent they were automated, resulted in manual intervention, the audit findings on which have been discussed in chapter 3.

Recommendations

1. Given the Government's endeavour to shift to e-governance and the vast experience gained by DGFT in automation, it must be ensured that entire system of administration of Foreign Trade Promotion schemes is automated by rolling out fool proof system, duly mapped to Scheme provisions and also leveraging information already available in linked / base systems such as ICES, SEZ online etc., so that it becomes Single Source of Truth.
2. DGFT should review the procedure of granting MEIS/SEIS scrips and lay down appropriate checklist for grant of scrips both electronically and in manual environment.

DGFT replied (March 2020) that the approval of MEIS had since been made system operated for more than 99 per cent HS Codes. For SEIS, it was stated that policy and procedural provisions were already in place and issuing checklist for already existing provisions though useful, also would give an undesired leeway to the licensing authorities, which might consider the fulfilment of checklist itself as enough for the correctness of the claim.

It is reiterated that a Standard Operating Procedure (SOP) or a detailed checklist for the RAs would ensure that all the basic checks are being adhered to uniformly by the RAs, besides streamlining the overall pendency of claims.

- 3. Risk Management System (RMS) be strengthened by plugging the loopholes and leakages in the automated system on issuing of scrips. Appropriate policy framework and system alerts need to be put in place making it mandatory for exporters to declare Commission, Insurance and Freight (CIF) and for DGFT to check the correctness of self-declaration of exporter/applicant in select cases earmarked by the system.**

DGFT, agreeing to the recommendation, stated (March 2020) that RMS had been strengthened and MEIS applications in which Shipping bills have Zero value for each of the Commission, Insurance and Freight would be given a higher weightage for identification in the RMS list generated.

Chapter 3

Results of Test Check Based on Sampling in View of Manual Processing

An essential pre-requisite of trade facilitation via automated tools would be a system with inbuilt checks and balances duly mapping the key rules, procedures and conditions of the Scheme. Audit observed certain gaps in integrating the policy and procedures of the scheme with the automated module as detailed in Chapter 2. Many of the intermediate procedures were still being handled manually. This necessitated test check in selected units to examine the manual checks exercised by RAs and DC offices. The 32 units selected for test check (25 RAs and 7 DC offices) represented 93.12 per cent of MEIS / SEIS scrips covering a money value of 95.19 per cent of the scrips. A sample of 6205 scrips (5747 MEIS Scrips and 458 SEIS Scrips) was selected in these 32 units on the basis of random sampling. **As the audit findings are based on test check, there is every likelihood that such errors of omission and commission might exist in many more cases. Department may therefore, check all the remaining transactions also on the lines of audit findings reported in this Chapter and take appropriate corrective action.**

The audit findings emanating from the test check so carried out have been summarised hereunder:

- Findings relating to MEIS:
 - Delay in issue of MEIS scrips due to incomplete system driven checks necessitating manual checks and
 - Deficiencies indicating insufficient linkage of rules of the scheme to MEIS module
- Findings relating to SEIS:
 - SEIS incentives to ineligible services due to misclassification;
 - Incorrect grant of SEIS scrips to Mode-3 and Mode-4 manner of services;
 - Errors in SEIS claims due to incorrect self-declarations and Chartered Accountant (CA) certificate;
 - Excess issue of SEIS rewards due to incomplete checks by RAs;
 - Condition of effecting exports through specified ports in Customs Notification (16 of 2015 dated 1 April 2015) for allowing exemption of import duties for goods imported against SEIS scrips is not consistent with SEIS provisions;
 - Declaration of same services differently to DGFT and to the Reserve Bank of India (RBI);
 - Absence of uniform procedure in processing SEIS claims

- Findings relating to Monitoring and Evaluation:
 - Audit could not find evidence of systematic monitoring on the performance of the RAs by the DGFT;
 - Mid-term review of FTP made by the Department of commerce was silent on effect of SEIS on service sector exports. Performance of the schemes in terms of achievement of goals was not assessed by DGFT and
 - Nothing was found on record to establish that grievance redressal system existed in the online module of MEIS/SEIS and that any pendency analysis of MEIS/SEIS grievances had been done so far by DGFT.

Detailed audit findings are given below:

Findings relating to MEIS

3.1 Analysis of delay in issuance of MEIS scrips

Analysis of Pan-India MEIS data for the period of April 2015 to October 2018 revealed significant delay in issuance of MEIS licences, as detailed in Para 2.1.1 of Chapter 2. To analyse the reasons for delay, 926 MEIS files were test checked from the selected units, and the findings had been summarized below:

- More than 10 days were taken in issuing scrips in 380 (88 per cent) files out of 433 files where no deficiency letters were issued by the RAs while the scrips were supposed to be issued within 3 days.
- In 493 files, where deficiency letters were issued, the time taken to issue deficiency letters exceeded the prescribed period of 3 days in 337 files (68 per cent).
- Further in 378 out of the above 493 files (77 per cent), more than three days' time was taken to issue the scrips even after receipt of full compliance from the exporters (**Statement 13**).

Audit ascertained from DGFT whether any physical records were required at RA level for processing of claims under MEIS. DGFT informed that no documents were required to be submitted in physical form, if the exports were through EDI ports. Further, as per guidelines issued on 11 September 2018, RAs were to process MEIS applications based on a system driven approval mechanism.

However, audit noticed that RAs were verifying divergent issues like

- Availability of documents such as RCMC and landing certificate,
- Correctness of "Late Cut" and classification with item description etc.

Above checks like classification of exported goods, availability of landing certificate etc., were essential for issuing scrips correctly. These checks were not system driven, leading to physical interference and delay in issuance of scrips.

DGFT, while accepting a few instances of delay, stated (September 2018) that about 85 per cent applications were being processed automatically and attributed the delays to shortage of man power. They held that though the system was automated, RAs might be asking physical files and assuming a larger role than required. It was further stated that though faster issue of license was a priority, more important was to ensure that entitlements were correct and there was no revenue loss. Hence, some checks by RAs were warranted which might have resulted in delay.

Audit appreciates DGFT's view that prevention of revenue loss is important. However, ***manual verification of arithmetical accuracy calculated by IT system was necessitated as the system was not properly programmed as detailed in chapter 2.*** In view of such a deficient electronic system, it is not difficult to understand why RAs have been carrying out checks which were supposed to be system-driven. ***Besides leading to wastage of manpower, the deficiencies in automated system have also resulted in delaying the whole process and avoidable physical interface and discretion in the hands of authorised officials regarding checks to be exercised, thereby defeating the scheme objectives.***

3.2 Deficiencies indicating insufficient linkage of rules of the scheme to MEIS module:

During test check of selected scrips, the instances of excess grant of scrips noticed indicated that the rules of the scheme have not been sufficiently linked to MEIS module as detailed below:

3.2.1 Declaration of Intent on shipping bills for claiming rewards under MEIS

To be eligible for claiming rewards under MEIS, declaration of intent to that effect on the Shipping Bills was mandatory with effect from 1 June 2015. Also in EDI generated shipping bills, exporters are required to mark 'Y' or 'N' in the reward box, in case they intend or do not intend to claim benefits under MEIS. Further, in terms of DGFT PN No. 40 dated 9 October 2015 and PN No. 47 dated 8 December 2015 for exports made before 30 September 2015 through EDI shipping bills, if the exporters have inadvertently marked 'N' in the reward box item but declared his intention in the affirmative in the SB, the same are allowed for transmission to DGFT; the exporters are to submit the physical

export promotion (EP) copy of such SBs to RA, for verification of declaration in the SBs.

(a) Audit noticed that 9 units (RA Delhi, Jaipur, Kanpur, Kolkata, Ludhiana, Panipat, Mumbai, SEZ-Visakhapatnam and SEZ-Falta) had granted rewards of ₹2.73 crore in 441 SBs though the prescribed declaration of intention to claim rewards under the MEIS was not available on the SBs (**Statement 14**). RA, Jaipur reported (December 2018) recovery of ₹3.88 lakh including interest.

(b) In RAs Cuttack, Delhi, Ludhiana and Panipat rewards amounting to ₹5.28 crore were granted involving 167 SBs with intent marked 'N' without physical verification of SBs (**Statement 15**).

RA Delhi admitted (January 2019) that SBs were submitted with intent marked 'N' and other RAs intimated that matter would be examined and recovery made.

(c) Audit noticed in RA, Delhi that in one application involving one SB, the column on declaration of intent was not available in office note and MEIS reward amounting to ₹46.94 lakh (**Statement 16**) was granted without due verification. RA Delhi intimated (January 2019) that they called for intent declaration from the firm. Final outcome is awaited (March 2020).

3.2.2 Incorrect grant of higher MEIS benefits to non-handicraft items

Handicraft exports were incentivized with higher rates for specified countries in group A, B & C vide DGFT Public Notice No. 27/2015-20 dated 14 July 2015.

RA, Mumbai had granted rewards to an exporter for exports of Dress materials of manmade fabrics to Group B and C countries during the period from October 2015 to April 2016, at the rate of 2 or 3 per cent, amounting to ₹9.05 lakh. However, exports to B & C group countries were not eligible during that period unless they are handicraft goods. Since the exporter ticked the goods as handicrafts, system allowed the higher rates.

Audit scrutiny revealed that the exporter unit was not a member of Export Promotion Council for Handicrafts (EPCH), and had furnished RCMC from Synthetic & Rayon Textiles EPC. Para 2.94 of the HBP prescribed that an exporter has to declare his main line of business in the application to get RCMC from the notified EPCs and obtain RCMC from the Council which was concerned with the product of his main line of business. Hence, neither the rates as applicable to handicrafts should have been allowed to the exporter, nor was the unit eligible under other than handicrafts because goods were exported to

Group B and C countries. Thus, the benefit granted was irregular and required to be recovered.

Similarly, RA Kanpur had granted rewards of ₹0.47 lakh for ineligible exports of Steel kitchen utensils to the Group C countries. **(Statement 17).**

DGFT stated (February 2020) that on wrongful disbursement of benefits under MEIS/SEIS, the Directorate had already initiated action for recovery for certain matters and for remaining matters, recovery action would be initiated as per rules, RA wise.

3.2.3 Issue of MEIS scrips to ineligible categories

As per para 3.06 of Foreign Trade Policy 2015-20, supplies made from Domestic Tariff Area (DTA) units to SEZ units are not eligible for MEIS claims.

During test check, Audit noticed that MEIS scrips of ₹8.29 lakh were granted by RA, Kolkata on supplies to SEZ by DTA unit **(Statement 18)**. Thus, neither the system prevented issue of MEIS scrips in respect of these supplies by DTA to SEZ units, nor there were checks prescribed to ensure that scrips are not issued to ineligible categories.

DGFT stated (February 2020) that on wrongful disbursement of benefits under MEIS/SEIS, the Directorate had already initiated action for recovery for certain matters and for remaining matters, recovery action would be initiated as per rules, RA wise.

3.2.4 Incorrect utilization of MEIS scrips

In terms of para 3.02(i) of FTP 2015-20, duty credit scrips issued under MEIS and SEIS can be used for payment of Customs duty for import of inputs of goods, including capital goods except items listed in Appendix 3A of the HBP. As per Sl. No. 2, 3 and 4 of Appendix 3A, coconut, arecanut, oranges, lemon, fresh grapes, apple and pears and all other fruits and all spices with a Duty of more than 30 per cent falling under Chapter 8 and 9 respectively of ITC (HS) Classification are not eligible items for import by utilising MEIS duty credit scrips. Sales to DTA units from SEZ unit are not imports and therefore applicable customs duties on DTA sales cannot be set off against MEIS scrips.

Audit observed 323 instances of incorrect utilisation of MEIS scrips amounting to ₹6.47 crore, in contravention of provisions quoted *ibid*, as detailed below:

- i) Audit observed from verification of utilisation of MEIS scrips that the import items with Tariff rate of duty of more than 30 per cent were imported through Chennai and Tuticorin Sea Customs by utilising MEIS

licences for customs duty amounting to ₹27.70 lakh in seven instances, in contravention to the provisions *ibid*.

In 11 instances, items like spices, oil seeds, peas harvester machines, and stationery diesel engines specified in Appendix 3A were imported by utilizing MEIS licenses through Nhava Sheva Customs port, which was in contravention to the provision cited above. The utilization of duty credit amounting to ₹33.95 lakh was not in order **(Statement 19)**.

DoR replied (March 2020) that recovery of ₹20.20 lakh along with interest was made in 5 cases and corrective action was initiated in the remaining 13 cases commented in audit. The reply was however silent about absence of validation in the system to prevent such incorrect utilisation of MEIS scrips.

- ii) In SEZ-Indore, it was noticed that MEIS scrips were used in 305 instances for payment of customs duties amounting to ₹5.85 crore **(Statement 20)** at the time of clearance/sale to DTA units from SEZ units.

DGFT stated (September 2019) that the matter was being examined in consultation with SEZ Division in the Department, since the interpretation of the SEZ rules was involved and different SEZs gave different interpretation of the eligibility of MEIS scrips for DTA Sale.

Findings relating to SEIS:

3.3 SEIS incentives to ineligible services on account of misclassification

3.3.1 Information Technology/ Information Technology Enabled Services (IT/ITES)

More than 40 percent of India's services exports are in the IT/ITES sector. DGFT has clarified¹⁴ (April 2018) that Appendix 3D does not mention any services as IT/ITES Service. Majority of the services delivered through IT/ITES platform viz., computer related-hardware, software and other database services falls under CPC (Central Product Classification of United Nations Statistics Division) provisional codes 841 to 849. However, such codes are not specified in Appendix 3D.

Audit noticed that 5 units (RA Goa, Mumbai, Pune, SEZ-Kochi and SEEPZ-Mumbai) had incorrectly granted incentives in 28 claims aggregating to ₹130.83 crore to services for which CPC codes were not specified in Appendix 3D **(Statement 21)**.

¹⁴vide Trade Notice No.04/2018 dated 25 April 2018

Three illustrations are given below:

- i) DC, SEEPZ, Mumbai granted duty credit scrip of ₹41.17 crore to **M/s. A Ltd.**, for Technical testing & Analysis services not included in Appendix 3D.
- ii) DC, Kochi SEZ had granted duty credit scrips to five units of **M/s. B Ltd.**, amounting to ₹14.12 crore for the year 2015-16 for engineering services, technical testing and analysis and management consultancy services not included in Appendix 3D. The SOFTEX filed before Specified Officer in SEZ also declared type of service under RBI distinct code, 907 representing software development, falling under CPC 842 not specified in Appendix 3D.
- iii) **M/s. C Ltd.**, provided various testing services as part of the software delivery in an IT enabled platform, which fall under Provisional CPC code 842 which was not included in Appendix 3D and therefore not eligible for SEIS. However, the exporter misclassified the services under CPC Code 8676 – ‘Technical Testing and analysis services’ and got the SEIS reward of ₹6.21 crore and ₹4.77 crore claimed from O/o DC, CSEZ, Kochi for the years 2015-16 and 2016-17 respectively. The grant of the rewards was irregular.

3.3.2 Other Services

Audit noticed that exporters in 4 units (RA Bengaluru, Kochi SEZ, Mumbai, and Pune) in nine applications, got excess rewards amounting to ₹41.89 crore (**Statement 22**) by misclassifying the services, though actual services rendered were not specified in Appendix 3D. RAs placed reliance on CA certificates. Misinterpretation of description of services and overlapping of services among different codes also led to unintentional benefit to exporters as detailed hereunder:

i) Patent and Copy right distribution rights

Royalties for right to use Patents, copyrighted materials fall under CPC 8921 and 8923 respectively, which were not specified in Appendix 3D and hence not eligible to incentives. But RA Mumbai and DC, SEZ-Kochi granted scrips amounting to ₹17.33 crore to three exporters on earnings of royalties on patent and copyrighted materials.

ii) Medical transcription services

M/s. D Ltd., providing Medical transcription services coming under CPC 8432 (not included in Appendix 3D), claimed SEIS for the year FY 16 by misclassifying these services under 8675 "related scientific technical services". DC, SEZ-Kochi had incorrectly granted reward of ₹ 19.56 lakh as claimed by the exporter.

iii) Services auxiliary to financial intermediation & banking

M/s. E Ltd., claimed incentive under Management Consultancy services (CPC 865) and Accounting, auditing and book keeping service (CPC 862).

DC, SEZ-Kochi granted scrip of ₹16.95 crore to the exporter in 22 split SEIS scrip. Audit scrutiny revealed that services claimed under CPC 865 and 862 were in fact related to banking and financial services falling under CPCs¹⁵ which were not specified in Appendix 3D. Hence grant of scrips to ineligible services was irregular.

iv) Testing and analysis services of beauty care products

RA, Mumbai granted duty credit scrips to **M/s. F Ltd.** against NFE earned during the years FY 16 and FY 17 classifying the services under marketing and related services (CPC 865), and technical testing and evaluation services related to beauty products under related scientific and technical consulting services (CPC 8675).

Audit observed that the classification “Related scientific and technical consulting services” codified with CPC 8675 was about engineering related scientific and technical consulting services. The services of the exporter were related to technical testing and evaluation of beauty products, and hence not classifiable under CPC 8675. This resulted in incorrect grant of scrip to the extent of ₹7.06 crore for two years.

v) Services not related to Air Transport services

RA, Bengaluru issued two SEIS scrips for ₹ 35.24 lakh to **M/s. G Ltd.**, for rendering Technical, Installation and Support Services related to Unmanned Aerial Vehicle (UAV) or Drone which were not covered under Appendix 3D and hence not eligible.

DGFT replied (September 2019) that the policy did not mandate all invoices/ service agreement to mention Provisional CPC Code. They held that the Provisional CPC with the service categories were notified to describe the nature of services under the incentivized category. They further stated that there were some service categories in the Appendix 3D, such as Sound

¹⁵CPC 81-Financial Intermediation services and auxiliary services therefore; 8111- Service of monetary intermediaries, 8132- services relating to securities market, 8133- Other services auxiliary to financial intermediation and 8425- system maintenance services and 8439- other data processing services

recording and Ground Handling in which the matching Provisional CPC code was not notified.

The reply of DGFT was not tenable as incorrect grant of SEIS pointed out in audit was the result of misclassification of services, while the actual services rendered were not notified in Appendix 3D.

3.4 Incorrect grant of SEIS scrips to ineligible (Mode-3 and Mode-4) services

SEIS scrips shall be granted¹⁶ to an exporter of notified services, who rendered specified services and earned net foreign exchange from the export of services under Mode 1 (Supply of service from India to any other country) and Mode 2 services (Supply of service from India to service consumers of any other country in India).

The Scheme does not provide rewards to service providers who provide service through commercial presence in any other country (Commercial Presence-Mode 3) or supply of a service from India through the presence of natural persons in any other country (Presence of natural persons-Mode4).

The self-declarations and CA certificates were insufficient to provide assurance about eligibility of services for grant of rewards under SEIS. But department relied heavily on these self-declarations and CA certificates for granting rewards. RAs failed to distinguish between eligible (Mode 1 & 2) and ineligible (Mode 3 & 4) services and to segregate and deny rewards to ineligible services.

Test check of Contractual agreements, work orders or description of invoices of 13 exporters revealed supply of materials, inspection, transport, fabrication, installation and supervision of projects being done at onsite. This was also corroborated by exporters' personnel frequent foreign visits; recovery of their foreign travel, stay expenses, which pointed out that the manner of supply of service to some extent would fall under Mode-4 manner of supply, viz. through natural persons in any other country.

Audit also observed that six exporters provided services to their clients through their group/related companies. All invoices were raised to such companies located abroad and foreign exchange received from such group companies (Mode-3 manner of services)

¹⁶In terms of paragraphs 3.08 to 3.12 of FTP, 2015-20

Though RAs had such information, they did not record the manner of services rendered in any of the files. The CA certificates based on which claim would be determined did not throw light on involvement of Mode-3 and Mode-4 manner of services. All foreign exchange receipts were declared having received through Mode-1 and extended the SEIS benefits.

Audit observed that 4 units (RA Kolkata, Mumbai, Pune and SEEPZ-Mumbai) had granted rewards of ₹57.52 crore to 13 service providers which included Mode-3 and Mode-4 manner of services (**Statement 23**) in contravention to extant provisions.

DGFT stated (February 2020) that on wrongful disbursement of benefits under MEIS/SEIS, the Directorate had already initiated action for recovery for certain matters and for remaining matters, recovery action would be initiated as per rules, RA wise.

3.5 Errors in SEIS claims due to incorrect self-declarations and CA certificate

In terms of para 3.04(b) of HBPv1, an application for grant of duty credit scrip for eligible service rendered shall be filed online on annual basis under digital signatures. Further, in terms of para 3.10 ibid, RAs shall process the application after due scrutiny of the application as well as information in annexure being signed by the Chartered Accountants.

Thus RAs have to grant scrips based on scrutiny of application and its annexure, duly signed by the Chartered Accountant. In absence of any further instructions on scrutiny of extra documents, reliance is placed on self-declaration of applicant and chartered accountant certificates for grant of scrips.

Audit observed irregular grant of rewards on services in 62 applications involving incorrect issue of scrips amounting to ₹40.74 crore (**Statement 24**) due to following lacunae:

3.5.1 Incorrect grant of scrips for services rendered prior to the start of the Scheme

In terms of para 3.12 of the FTP, the rewards under SEIS shall be admissible for exports made/services rendered on or after the date of notification of the Policy.

Audit noticed irregular grant of rewards of ₹26.02 crore to services rendered prior to April 2015 by 8 units (RA Ahmedabad, Chennai, Coimbatore, Mumbai, Pune, SEZ-Kandla, SEEPZ-Mumbai and SEZ-Kochi) in 24 applications. CA certificates had failed to flag this discrepancy, based on which scrips were allowed.

DC, KASEZ and RA Chennai reported recovery of ₹81.36 lakh along with the interest.

3.5.2 Excess grant of scrip due to incorrect Net Foreign Exchange (NFE) values

Five RAs (Ahmedabad, Chennai, Kochi, Kolkata and Jaipur) in 15 applications, had issued excess rewards of ₹4.31 crore on account of

- errors in computation of NFE by including expenses in foreign exchange,
- not adopting the lower value between the invoice value or actual receipts,
- improper Foreign Inward Remittance Certificate (FIRCs) and
- incorrect consideration of services.

RA Kochi reported recovery of ₹8.31 lakh including interest in one case.

3.5.3 Incorrect grant of scrip on NFE including sums collected towards Government taxes

DGFT has clarified¹⁷ that Central/State Government taxes collected by the service provider from the Customers on behalf of the Governments concerned, are not earnings of the service provider and thus not eligible to export incentives on such taxes.

RAs, Jaipur, Kochi and Mumbai had incorrectly granted rewards on taxes amounting to ₹2.35 crore in eight applications.

RA Kochi reported (September 2018) recovery of ₹9.90 lakh along with interest in four cases.

¹⁷ Vide Trade notice No.11/2015-20 dated 21 July 2016

3.5.4 Incorrect grant of scrip due to non-exclusion of expenses of withholding taxes

In terms of para 3.08(d) of the FTP, incentive is granted at a notified rate on net foreign exchange earned, which is arrived at by deducting total expenses/payments/remittances in foreign exchange from the gross earnings of foreign exchange. Receipts in foreign exchange are evidenced from FIRC's issued by the Banks for grant of benefit. When such amounts are received after deduction of withholding tax payable to foreign country, net amount shown in FIRC's shall be considered for grant of rewards.

RAs, Mumbai and SEEPZ-Mumbai had issued scrips on NFE which included amounts paid towards withholding taxes to foreign countries, resulting in grant of excess reward of ₹3.21 crore.

RA SEEPZ Mumbai reported (May 2019) recovery of ₹ 0.68 lakh.

3.5.5 Excess grant of scrip due to adoption of incorrect exchange rates

Annexure A of application captures details of transaction, date wise foreign exchange earnings in USD, and in case of proceeds received in other than USD, their equivalent USD on the date of transaction, by applying exchange rate as per customs notification on the date of transaction.

Scrutiny of the Annexure A filed by **M/s. H Ltd** in SEZ Kandla revealed that the exporters had not adopted the custom notified exchange rates applicable as on date of transaction (invoice date), resulting in incorrect declaration of NFE and consequent excess grant of reward by ₹2.53 crore. SEZ Kandla reported (May 2019) recovery by way of cancelling unutilized licence of ₹2.5 crore and cash payment of remaining amount of ₹2.13 lakh.

Similarly, **M/s. I Ltd.**, incorrectly adopted the exchange rates prevailing at the time of realization of foreign currency instead of rates prevailing on the transaction date, resulting in excess issue of rewards by RA, SEEPZ-Mumbai amounting to ₹1.39 lakh.

3.5.6 Incorrect grant of incentives to ineligible remittances

Audit observed that in eleven applications in 4 RAs (Bengaluru, Goa, Jaipur and Kochi) reward of ₹2.32 crore was granted on ineligible remittances viz., earnings from un-notified services and cases where the nature of service for such currency earnings was not known. In one case, CA had not certified the

correlation of bills/invoices with forex receipts which was essential to establish eligibility of the remittances for SEIS rewards.

The above observations were brought to the notice of the DGFT (September 2019) and DGFT replied that (February 2020) on wrongful disbursement of benefits under MEIS/SEIS, the Directorate had already initiated action for recovery for certain matters and for remaining matters, recovery action would be initiated as per rules, RA wise.

3.6 Excess issue of SEIS rewards due to incomplete checks by RAs and system

The process of scrip issue is semi-automatic involving both system and manual interventions. The extent of checks that are required to be exercised by RA before issue of scrips under SEIS are not clearly spelt out.

In 34 applications, audit noticed incorrect grant of scrips on account of non-deduction of "Late Cut", scrips issued without RCMC/IEC, Services rendered to Indian companies, incorrect adoption of NFE amounting to ₹13.02 crore **(Statement 25)**.

Some issues are detailed below:

3.6.1 Non deduction of "Late Cut" in SEIS applications received beyond due dates

Audit observed non-imposition of "Late Cut" in 24 SEIS applications filed before 6 units (RA Ahmedabad, Chennai, Delhi, Mumbai, SEZ-Kochi and SEEPZ-Mumbai), though they were received after due dates. The "late cut" recoverable was ₹5.49 crore.

DGFT stated (February 2020) that on wrongful disbursement of benefits under MEIS/SEIS, the Directorate had already initiated action for recovery for certain matters and for remaining matters, recovery action would be initiated as per rules, RA wise.

3.6.2. Irregular issue of SEIS scrips without RCMC/IEC

Para 3.08 (f) of FTP prescribes that service provider shall have an active IEC at the time of rendering services for which rewards are claimed. Further Para 2.56 prescribes requirement of a valid RCMC from relevant export councils,

(i) Audit noticed that RA, Delhi had irregularly issued scrips of ₹4.07 crore in two applications without valid RCMC.

(ii) In three applications, RAs Kochi and Chennai had irregularly issued scrips amounting to ₹85.33 lakh to service providers without an IEC at the time of rendering services.

RAs, Delhi and Kochi intimated issue of notices and surrender of scrips and also recovery of ₹43.63 lakh by RA Kochi.

3.6.3. Incorrect grant of SEIS benefits when services rendered to Indian companies

In case of maritime transport services specified in Appendix 3E, services rendered in Customs notified Areas to a foreign liner (or procured by a foreign entity in case of services included in rental of vessels with crew) would be considered as deemed to be received in foreign exchange and deemed to be earned in foreign exchange and shall be eligible for issuing rewards under the Services Exports from India Scheme. Accordingly, a unit providing port terminal services to foreign shipping liners is eligible to rewards.

Audit observed in RA Mumbai that an applicant, **M/s. J Ltd.**, had rendered such services partially to four Indian companies/shipping lines. As the service consumers are Indians, no benefits shall be allowed on amounts received from Indian consumers as per para 9.5(i) of the policy. Accordingly, scrips issued to the tune of ₹175.58 lakh (5 per cent of ₹35.12 crore) were irregular, which were to be recovered from the service provider.

DGFT stated (February 2020) that on wrongful disbursement of benefits under MEIS/SEIS, the Directorate had already initiated action for recovery for certain matters and for remaining matters, recovery action would be initiated as per rules, RA wise.

3.6.4 Grant of SEIS rewards on incorrect adoption of NFE

In two applications, RA, SEEPZ-Mumbai, and Indore granted excess rewards of ₹7.96 lakh without verifying the variations in NFE declarations in 'online application' and CA certificates.

DGFT stated (February 2020) that on wrongful disbursement of benefits under MEIS/SEIS, the Directorate had already initiated action for recovery for certain matters and for remaining matters, recovery action would be initiated as per rules, RA wise.

3.6.5 Non maintenance of jurisdiction discipline

Under Para 3.06 of HBP read with DGFT PN 30/2015-20 dated 26th August 2015 and 58/2015-20 dated 10th February 2017 IEC holders having units in SEZs /EOUs shall apply to the concerned DCs of SEZs given in appendix 1A.

RA, Mumbai had granted SEIS scrip of ₹76.52 lakh to **M/s. K Ltd.**, a Free Trade and Warehousing Zones (FTWZ) unit operating under the provisions of SEZ Act, 2005. As the unit falls under the jurisdiction of DC, SEEPZ, Mumbai, the grant of reward on forex earnings made during the FY 2015-16 was irregular.

DGFT stated (February 2020) that on wrongful disbursement of benefits under MEIS/SEIS, the Directorate had already initiated action for recovery for certain matters and for remaining matters, recovery action would be initiated as per rules, RA wise.

3.6.6 Excess payment of SEIS under Port Services

DGFT has clarified¹⁸ that SEIS benefits in case of Port services shall be given to the actual service providers and not to the aggregator of services who simply routed the earnings through them, for making payments to actual service providers. The aggregator of services (Ports) shall be entitled for benefits under SFIS/SEIS for services exclusively rendered by them and for which the foreign exchange earnings (or INR payments as allowed under the scheme) are received and retained by them on this account.

RA, Mumbai, in the case of **M/s. L Ltd**, which was engaged in international maritime transport, granted rewards for foreign exchange earnings on freight and demurrage charges received from international charterers. However, the maritime transport freight amount also includes the Terminal handling charges (THC) of loading, unloading at ports and storage charges. Hence, part of the freight actually goes to the actual service providers in INRs who provide Terminal handling services viz. Ports, loading and unloading agencies.

Thus, the shipping liners as in this case are not eligible to claim benefit on freight portion which represents THC and storage charges paid to actual service providers. These payments were not excluded from shipping liner claim as there was no mechanism to make an applicant to deduct expenses incurred in INR.

¹⁸vide Policy Circular Nos.06 dated 22 May 2018 and 08 dated 21 June 2018

Similarly, **M/s. M Ltd** had supplied repair and maintenance services to foreign aircrafts in Indian airports during FY 16 and 17. The concerned service invoices depicted levy and collection of charges in the range of 13 to 32.50 per cent which was retained by the aggregator. Since these levies ultimately belong to the aggregator, the proportionate benefit on account of such levies was not to be granted to M/s. M Ltd.

DGFT informed (March 2020) that Mumbai RA has been asked to examine and scrutinize the applications based on certain DRI references received in the HQs.

3.7 Inconsistency between policy and notification

CBIC issued Notification No.25/2015-cus dated 8 April 2015 providing exemption from Import duties if goods are imported against SEIS scrip issued by the RAs under paragraph 3.10 read with paragraph 3.08 of the FTP subject to the conditions mentioned therein. Two such conditions are:

(1) the duty credit scrip is issued to a service provider located in India against export of notified services listed in Appendix 3D of Appendices and Aayat Niryaat Forms (ANF) of Foreign Trade Policy 2015-2020;

(2) that the imports and exports are undertaken through the seaports, airports or through the inland container depots or through the land customs stations as mentioned in the Table 2 annexed to the Notification No. 16/2015- Customs dated 01 April 2015 or a Special Economic Zone notified under section 4 of the Special Economic Zones Act, 2005 (28 of 2005):

Provided that the Commissioner of Customs may within the jurisdiction, by special order, or by a Public Notice, and subject to such conditions as may be specified by him, permit import and export through any other sea-port, airport, inland container depot or through any land customs station;

i) RAs, Mumbai and Pune issued SEIS duty credit scrips to 16 service suppliers who had exported services like engineering design services, legal and attorney services, management consultancy, book keeping, accounting and auditing services, construction related services; or supplied services to foreign consumers in India in Hotel and Hospital industries. These service exports were not undertaken through any of the ports specified under Sl.No.2 of the Customs Notification, but exported directly from exporters' offices either through data links or consumption in Hotel and Hospital premises. There was no proof in RAs office that services were exported through any of the specified ports.

ii) RA, Mumbai had also issued scrips to two suppliers of deemed export services notified in Appendix 3E vide public notice No.7/2015-20 dated 4 May 2016 of the DGFT. These services were mostly related to Maritime Transport and support services in port areas, where no actual export of services would take place. Services rendered to foreign liners within port areas did not satisfy the conditions of customs notification, which allowed services enlisted in Appendix 3D to be eligible for exemption when exports were undertaken through specified ports.

Thus conditions of notification dated 8 April 2015 are not consistent with SEIS provisions. However, 33 scrips related to such services have been registered in Jawaharlal Nehru Customs House (JNCH), Mumbai and used for payment of import duties (**Statement 26**).

DoR replied (October 2019) that Custom's Notification no.25/2015 dated 8 April 2015 was not consistent with SEIS provisions and that they were in the process of removing the inconsistency.

3.8 Declaration of same services differently to DGFT and to the RBI

Audit observed in three applications filed in DC, CSEZ-Kochi, SEEPZ- Mumbai and SEZ-Kandla that the exporters had declared their services as Engineering services (CPC code 8672) as per Appendix 3D. In the declaration of foreign exchange earnings filed to the RBI through SOFTEX returns,¹⁹ the same services were declared as software development and other software falling under distinct codes 907 and 908 respectively. Thus, to one authority (DGFT) the services were classified as Technical Testing and analysis services/Engineering services and to another (RBI) the services were declared as software development.

DCs, being the administrators of SEZ units, are authorised to issue Letter of Approvals for specified authorized operations. These operations are normally declared on the SOFTEX returns. DCs are also authorities to grant rewards for their export performance under SEIS. The different declarations of nature of services from the same exporter for the same export could have been checked by the DC offices before issue of scrips.

Besides, different classification codes exist for the same service and vendors are reporting different codes to different authorities for the same service.

¹⁹As per regulations 3 and 6 of Foreign Exchange Management (Export of Goods & Services) Regulations, 2000

DGFT replied (February 2020) that the Directorate would notify the codes in line with the GST Service Accounting Codes (SAC), so that there would be an inbuilt check while reporting service categories to different authorities at the firm level from the year 2020-21 and suitable measures would be accordingly incorporated in the procedures and policy paragraphs.

3.9 Absence of uniform procedure in processing SEIS claims

As per Note 3.04 (c) of HBP, “RA shall process the application received online after due scrutiny”. However, it was observed that no guidelines were issued by DGFT to RAs regarding checks to be exercised as part of due scrutiny before sanctioning SEIS.

Audit observed that there was no uniformity in procedure being followed for processing SEIS claims across RAs or DC offices. For instance, in 5 RAs (Mumbai, Kolkata, Pune, Ahmedabad, Kochi), applications were processed based on verification of sample invoices, FIRCs, CA certificates, etc. In 2 DC offices (CSEZ-Kochi and SEEPZ-Mumbai), SEIS claims were being sanctioned relying only on the certificates of CA regarding correctness and admissibility of the SEIS claim without any cross-verification.

DGFT stated (March 2020) that CA certificate was the document based on which the claims were currently being processed and additional documents were being sought by RAs based on typical scenarios of any specific case, wherein service classification was not correct. It was stated that this was being done to prevent a claim being granted on misclassification or for an ineligible category.

In absence of specific directions, divergent practices were being followed by the RAs regarding scrutiny required to be undertaken before issue of scrips.

Monitoring and Evaluation:

3.10 Monitoring mechanism of the scheme

It is imperative that for major scheme like MEIS/SEIS, performance of the RAs be periodically monitored on identified performance criteria to ensure that scheme is being implemented as per design. The details of oversight/monitoring mechanism and related files called for by audit (January 2019) were not furnished by DGFT. Audit could not find evidence of systematic monitoring on the performance of the RAs by the DGFT.

DGFT informed (March 2020) that since January 2017, monitoring of delays in processing of MEIS / SEIS applications was being done through JASPER

reporting module and RMS also was fully functional and that RAs had been asked to clear the pendency.

The reply of DGFT dealt only on monitoring the pendency of claims since 2017 and was silent on monitoring of scheme implementation and overall performance of RAs.

3.11 Evaluation of the schemes

MEIS/SEIS are the major trade facilitation schemes under FTP 2015-20 with significant revenue foregone implications to the government. Periodic evaluation of the scheme would have helped in ensuring that scheme objectives are being met and also for mid-course correction in case of any deficiencies.

It was observed that performance of the schemes in terms of achievement of goals was not assessed by DGFT (February 2019).

Audit enquired (January 2019) whether any specific targets/goals were fixed for MEIS and SEIS schemes and if fixed, whether they were evaluated. DGFT stated (March 2019) that the same was not possible because they provided incentives based on exports already happened and they could not set a target to achieve the exports. Moreover, export growth was a multi-factorial issue and not dependent on MEIS alone. DGFT stated that exports depended on a variety of international factors, such as global demand, currency fluctuations, seasonality of exports and as such, no cause effect analysis was done. The products once included for MEIS benefit stayed for a certain period to have a stable regime. DGFT further stated that a study on the schemes by Niti Ayog was in progress and no other studies were conducted.

Audit understands that export growth is a multi-factorial issue and not dependent on trade facilitation schemes alone. At the same time, it is an area of concern that such major schemes (with annual revenue foregone figure more than ₹25,000 crore) are being implemented without having any performance matrix.

Mid-term review of FTP made by the Department of commerce was silent on effect of SEIS on service sector exports. The impact of new features introduced in SEIS viz. extension of incentives to all 'service providers located in India' as against 'Indian service exporters'; restriction of rewards to Mode-1 and Mode-2 manner of services were not evaluated and commented upon. There was no periodic review of duty foregone, sector-wise services, and its impact on

sectoral growth in service exports. Mid-term review was also silent on rewards gained by the Foreign Service providers located in India and rewards gained by the Indian service exporters to estimate the impact of deviation of SEIS from its earlier version, SFIS.

DGFT stated (March 2020) that NITI Aayog Committee reviewed the MEIS Scheme and for SEIS, the revenue foregone was being monitored regularly in the Monitoring Committee meetings.

The reply was silent about non-evaluation of effect of SEIS on service sector exports and impact of amended provisions brought in SEIS as compared with its earlier version SFIS in the Mid-term review of Schemes by DGFT.

3.12 Grievance redressal system

The provisions/modes available for redressal of grievances of applicants for MEIS and SEIS were examined in audit. It was noticed that there are no specific grievance redressal system for MEIS/SEIS in the online module. On audit enquiry, DGFT informed that applicants seeking redressal of grievances can address through (i) e-mail, (ii) Centralised Public Grievance Redress and Monitoring System (CPGRAMS) portal and (iii) Contact@DGFT. While the first two were general grievance redressal mechanisms in government, Contact@DGFT service was implemented on 6 September 2017 as single point contact for all foreign trade related issues. Importers/exporters could use this through email specified or toll-free number for resolution of foreign trade related issues either directly through DGFT (Headquarters or regional offices) or through other agencies of the Central or State Governments.

It was seen that the details regarding total number of cases of grievances and total cases resolved for the period FY 16 to FY 18 in respect of MEIS and SEIS were not maintained in DGFT. The details only in respect of Contact@DGFT for FY 18 were made available to audit, as given below:

Table 5 : Grievance redressal

Description	Total no. of cases of grievances received	Cases resolved within 5 days	Total no. of cases pending as on March 2018
MEIS/SEIS-Ch.3	868	815	53
MEIS application-EDI	3189	3023	166
SEIS application-EDI	182	133	49

The reasons for pendency of cases under Contact@DGFT, sought (January 2019) by audit were not furnished till date. The details of grievances through channels other than Contact@DGFT and their status of redressal were not furnished to audit.

In the absence of all the relevant records/data, audit was not in a position to assure whether grievances of the exporters were adequately addressed in a timely manner.

Conclusion

The substantial delays in issue of MEIS scrips were due to incomplete system driven checks necessitating manual intervention. No clear instructions were issued to field level RAs about the extent of checks required for issuance of MEIS scrips. RAs ended up checking divergent issues. Despite having a system driven approval mechanism, RAs were checking issues like correctness of "Late Cut". Manual verification of arithmetical accuracy calculated by IT system was necessitated as the system was not properly programmed as detailed in chapter 2. In view of such a deficient electronic system, it is not difficult to understand why RAs have been carrying out checks which were supposed to be system-driven.

Test check also revealed failure of systemic controls in MEIS leading to incorrect grant of reward even though declaration of intent to claim reward was not given/unavailable in SBs, grant of higher rates applicable to handloom products and incorrect utilization of scrips.

SEIS suffered from semi-automation and lack of uniformity in processing of claims by various RAs. The exporters got rewards in cases where the services were misclassified though actual services rendered were not specified in Appendix 3D and benefits amounting to ₹172.72 crore in respect of these services were granted by 7 RAs in 37 cases, by placing reliance on CA certificates. The self-declarations and CA certificates were insufficient to provide assurance about eligibility of services and remittances for grant of rewards under SEIS. However, department relied heavily on these self-declarations and CA certificates for granting rewards. RAs failed to distinguish between eligible (Mode 1 & 2) and ineligible (Mode 3 & 4) services and to segregate and deny rewards to ineligible services resulting in excess rewards of ₹57.52 crore to 13 service providers in contravention to extant provisions. Errors in claims amounting to ₹40.47 crores were noticed in 62 cases due to incorrect self-declarations and CA certificates. Excess issue of rewards amounting to ₹13.02 crores was noticed in 34 cases due to incomplete checks by RAs and system.

There was lack of clarity in SEIS provisions for port services as to how the actual service providers would get the benefit when they were not directly providing service to foreign consumers.

Condition of effecting exports through specified ports in Customs Notification (16 of 2015 dated 1 April 2015) for allowing exemption of import duties for goods imported against SEIS scrips is not consistent with SEIS provisions.

Exporters declared different nature of services in SOFTEX returns and SEIS claims for the same export. These could have been checked by the DC offices before issue of scrips, which was not done.

No guidelines were issued by DGFT to RAs regarding checks to be exercised as part of due scrutiny before sanctioning SEIS and there was no uniformity in procedure being followed for processing SEIS claims across RAs or DC offices.

There were significant discrepancies in respect of SEZ units, which were brought under the export incentive schemes for the first time and the scrips were processed without proper scrutiny.

Audit could not find evidence of systematic monitoring on the performance of the RAs by the DGFT. DGFT stated that delays in processing of MEIS / SEIS applications were monitored through JASPER reporting module. However, there was no monitoring of scheme implementation and overall performance of RAs. Periodic evaluation of the scheme would have helped in ensuring that scheme objectives were being met and also for mid-course correction in case of any deficiencies. Mid-term review of FTP made by the Department of commerce was silent on effect of SEIS on service sector exports. Performance of the schemes in terms of achievement of goals was not assessed by DGFT.

Nothing was found on record to establish that grievance redressal system existed in the online module of MEIS/SEIS and that any pendency analysis of MEIS/SEIS grievances had been done so far by DGFT.

Recommendations

We recommended that

4. The audit findings on excess grant of incentives reported in chapter 3 were based on test check done on sampled cases using random sampling, in view of the prevalent manual verification. There is every likelihood that such errors of omission and commission might exist in many more cases. Department may check all the remaining transactions also on the lines of audit findings reported in Chapter 3.

5. To prevent scope of misclassification of power loom products under Handloom category, the distinction between power loom and handloom process may be clearly specified.

DGFT stated (March 2020) that classification of goods was required to be checked at the Customs Ports. The online system can identify only the HS Codes and cannot read the item description for interpreting the misclassification of an item. The RAs would be informed to initiate recovery action, wherever due.

6. To avoid ambiguity and to bring in more clarity on eligible services, DGFT may consider insisting for CA certificate on exact classification of service with Central Product Classification (CPC) code and the Mode under which it falls, rather than simply stating the serial number of the list of eligible service. Suitable clarity regarding the codes and the modes available for scheme benefits and penal provisions on the shortcomings found in applicant's declarations and CA certificates may be brought in the system. Responsibility of CAs must also be clearly defined and failure on their part be reported to appropriate authority.

DGFT, while accepting the recommendation, stated (March 2020) that it would be implemented in the next FTP, if the SEIS is continued. In the instances, where CAs have been found to mis-declare/ certify a claim based on misclassification the Regional Authorities have been asked to take necessary action under Foreign Trade (Development and Regulation) Act, 1992.

This recommendation may be considered for any such scheme where reliance is placed on CA certificates.

7. DGFT may issue clear instructions to RAs about basic checks required before issuing SEIS scrip. Invoking penal provisions may be made mandatory on shortcomings found in applicant's declarations and CA certificates.

DGFT stated (March 2020) that this recommendation will be examined for implementation in the next FTP, if the SEIS is continued.

This recommendation may be considered for any such scheme where reliance is placed on CA certificates.

8. DGFT should provide clarity in the policy and procedures on segregation of four types of services. Applicants' declarations and CA certificates on classification of services should be reviewed to address the distinction of services.

DGFT, while accepting the recommendation, stated (March 2020) that ANF 3B, would be modified to add an entry wherein the CA would be able to certify that the services claimed under SEIS would fall under Mode 1 and Mode 2 specifically for each category of service claimed.

9. DGFT may devise mechanism in respect of port services so that the intention of granting rewards to actual service providers are protected against claims of aggregator of services and the conditions of exemption in Customs Notification may be drawn in sync with the provisions of the SEIS scheme.

DGFT stated (March 2020) that the service was rendered at the port but since it was made to a foreign liner, it would fall into the category Mode 2 and Rupee payment for such services were eligible for rewards.

The reply did not address issue raised by audit in the recommendation, which was about mechanism to have a distinction between rewards due to service providers and aggregators.

10. The classification of services by various agencies (DGFT, RBI, Customs etc.) needs to be aligned to the Central Product Classification (CPC) code of UNSD to avoid any misuse of incentives which is based on CPC codes.

DGFT, while accepting the recommendation, stated (March 2020) that it would be implemented in the next FTP by aligning with the GST SAC codes, if the SEIS is continued.

11. A mechanism must be put in place to ensure that Jurisdictional Development Commissioners verify the validity of classification of service being reported by the service providers to different authorities (DGFT, RBI, Customs etc.) for the same exports.

DGFT stated (March 2020) that verification of reporting of services from multiple organizations, which follow different reporting formats for the same kind of services would make the Scheme non-implementable. Audit's recommendation was not with reference to reporting format but with a mechanism to ensure uniformity in classification reported to various agencies. Department should consider devising a feasible mechanism to ensure uniformity in classification used for reporting of same services to different agencies.

Besides, the cases pointed in audit pertained to SEZs wherein jurisdictional DCs were the authorities for granting SEIS and also had the administrative control of SEZs. Thus, reporting of divergent classification for same services could be checked at least on a test check basis.

12. RAs should insist for SOFTEX forms, which was a mandatory declaration under Foreign Exchange Management (Export of Goods and Services) Regulations 2000 for supply of services through data links, in cases where the services were classified/declared under Mode-1 category.

DGFT stated (March 2020) that the suggestion on the requirement of SOFTEX forms would be examined, however, this would add to the documentary requirements for the scheme and would be an intrusive measure, as there may be a scope of having this SOFTEX also confirmed from RBI.

SOFTEX is already a mandatory requirement under Foreign Exchange Management Act (FEMA) for Mode 1 type of services rendered through data link. This recommendation of RAs being given access to these forms, will provide an additional confirmation for Mode-1 services in software and related

services and is already being followed by SEZs and Software Technology Park of India (STPI) units.

13. For ease of doing business, we recommend that the DGFT may consider an inbuilt system for grievance redressal. The analysis of the same can be used as feedback mechanism for improving the scheme. Monitoring of the schemes on such parameters viz. time taken to process claims, RMS scrutiny etc. could be done to assess the performance of RAs in implementing the scheme.

DGFT stated (March 2020) that the revamp of Information Technology backbone for the MEIS/SEIS scheme was underway and a monitoring dashboard was being built to address issues such as time taken to process claims, RMS etc. They informed that the JASPER system at the DGFT headquarters had been currently monitoring the pendency of MEIS and SEIS claims.

Audit appreciates DGFT's endeavour of bringing such reengineered software platform, however, such software with built-in quantifiable performance metrics, dashboard, etc. should be developed with generic features so as to be useful for all the existing and new schemes envisaged by DGFT. Such solution would not only be cost effective but also would provide pedestal for evaluating/comparing all the related schemes against common benchmarks.

14. We recommend that DGFT may consider commissioning a mid-term evaluation study of the achievements of any such schemes introduced vis-à-vis the main objectives of the scheme.

DGFT stated (March 2020) that since the FTP 2015-20 was expected to sunset from 31 March 2020, a mid-term evaluation might not be feasible.

Audit recommendation was generic as periodic evaluation of schemes would ensure that its intended objectives were being met besides providing for mid-course corrections in case of any deficiencies.

New Delhi
Dated: 13 July 2020


(Sandeep Lall)
Director General (Customs)

Countersigned

New Delhi
Dated: 15 July 2020


(RAJIV MEHRISHI)
Comptroller and Auditor General of India

Appendices

Appendix 1 (Refer Paragraph 1.3.2)								
Percentage of export claimed under MEIS to the total exports made under different chapters of Custom tariffs								
Section Under CTH covering first two digit	Description	Total Export (₹ in cr) FY17	Total Export (₹ in cr) FY18	Export claimed under MEIS (₹ in cr) FY17	Export claimed under MEIS (₹ in cr) FY18	%of export claimed under MEIS FY17	%of export claimed under MEIS FY18	Whether covered under Appendix 3B (Y/N)
XII (CTH 64-67)	Footwear headgear umbrellas sun umbrellas walking-sticks seat-sticks whips riding-crops and parts thereof prepared feathers and articles made with artificial flowers articles of human hair	20516.81	19995.43	17379.56	18757.51	84.71	93.81	Y
VIII (CTH 41-43)	Raw hides and skins leather fur-skins & articles thereof saddlery and harness travel goods handbags and similar containers articles of animal gut (other than silk-worm gut)	21752.09	21345.14	16659.4	19669.33	76.59	92.15	Y
XV (CTH 72-83)	Base metal & articles of base metal	152251.19	187657.36	86800.73	164628	57.01	87.73	Y
VI (CTH 28-38)	Products of the chemical or allied industries	230208.34	254876.05	173586.9	211202.1	75.4	82.86	Y
XX (CTH 94-96)	Miscellaneous manufactured articles	14493.68	15178.92	10268.57	12483.78	70.85	82.24	Y
XVII (CTH 86-89)	Vehicles aircraft vessels & associated transport equipment	154726.97	147906.14	89904.48	105494.6	58.11	71.33	Y

Report No.5 of 2020 (Performance Audit)

Section Under CTH covering first two digit	Description	Total Export (₹ in cr) FY17	Total Export (₹ in cr) FY18	Export claimed under MEIS (₹ in cr) FY17	Export claimed under MEIS (₹ in cr) FY18	%of export claimed under MEIS FY17	%of export claimed under MEIS FY18	Whether covered under Appendix 3B (Y/N)
X (CTH 47-49)	Pulp of wood or of other fibrous cellulosic material recovered (waste and scrap) paper or paperboard paper and paperboard & articles thereof	9814.03	10974.04	5464.607	7761.309	55.68	70.72	y, except CTH 47
XI (CTH 50-63)	Textile & textile articles	244664.06	236813.65	122786.1	159155.1	50.19	67.21	Y
I (CTH 01-05)	Live animals animal products	66985.45	74656.54	32521.64	46052.21	48.55	61.69	Y
IV (CTH 16-24)	Prepared food stuffs beverages spirits and vinegar tobacco and manufactured tobacco substitutes	40310.26	40012.95	17324.17	24136.47	42.98	60.32	Y, CTH 24 (Tobacco)
IX (44-46)	Wood and articles of wood wood charcoal cork and articles of cork manufactures of straw of esparto or of other plaiting materials basketware and wickerwork	2780	2765.86	1559.34	1641.463	56.09	59.35	Y
XVIII (CTH 90-92)	Optical photographic cinematographic measuring checking precision medical or surgical instruments and apparatus clocks and watches musical instruments parts and accessories thereof	18733.5	19946.38	6820.256	11775.76	36.41	59.04	Y
VII (CTH 39-40)	Plastics and articles thereof rubber and articles thereof	52220.23	60019.05	26423.55	35289.23	50.6	58.8	Y

Section Under CTH covering first two digit	Description	Total Export (₹ in cr) FY17	Total Export (₹ in cr) FY18	Export claimed under MEIS (₹ in cr) FY17	Export claimed under MEIS (₹ in cr) FY18	%of export claimed under MEIS FY17	%of export claimed under MEIS FY18	Whether covered under Appendix 3B (Y/N)
XVI (CTH 84-85)	Machinery and mechanical appliances electrical equipment and parts thereof sound recorders and reproducers television image and sound recorders and reproducers and parts and accessories of such articles	149706.81	175300.61	59640.15	96352.13	39.84	54.96	Y
XIII (CTH 68-70)	Articles of stone plaster cement asbestos mica or similar materials ceramic products glass and glassware	20822.42	21945.32	8224.249	9703.622	39.5	44.22	Y
II (CTH 06-14)	Vegetable products	102209.97	113907.22	37181.33	43785.57	36.38	38.44	Y
XXI	Works of art collectors pieces and antiques	2524.85	1168.87	83.66649	153.2737	3.31	13.11	Y
XIX (CTH 93)	Arms and ammunition parts and accessories thereof	694.15	637.59	26.59567	66.33586	3.83	10.4	Y
III (CTH 15)	Animal or vegetable fats and oil and their cleavage products prepared edible fats animal or vegetable waxes	5983.57	8146.91	57.18372	232.8161	0.96	2.86	Only 03 products
XIV (CTH 71)	Natural or cultured pearls precious or semi-precious stones precious metals clad with precious metal and articles thereof imitation jewellery coin	292313.53	269115.51	845.8011	915.0153	0.29	0.34	Y, except imitation jewellery

Appendix 2 (Refer Paragraph 1.5)						
Details of MEIS/SEIS Scrips and value for the period April 2015 to October 2018						
Year	Pan India		Selected Units		%age coverage	
	Scrips	Value in Cr	Scrips	Value in Cr	Number wise	Value wise
MEIS						
2015-16	31375	4104	28546	3779	90.98	92.08
2016-17	159446	18117	148017	17189	92.83	94.88
2017-18	218402	25994	203353	24673	93.11	94.92
2018-19 (upto 10/18)	175427	22274	163887	21218	93.42	95.26
Total	584650	70489	543803	66859	93.01	94.85
SEIS						
2015-16	No data given for 2015-16					
2016-17	1396	561	1381	559	98.93	99.64
2017-18	5500	3475	5469	3456	99.44	99.45
2018-19 (upto 10/18)	3107	1891	3073	1869	98.91	98.84
Total	10003	5927	9923	5884	99.20	99.27
G Total for MEIS and SEIS	594653	76416	553726	72743	93.12	95.19

Appendix 3 (Refer Paragraph 1.5)			
Details of offices selected			
Sl No.	RAs/SEZs	Sl. No.	Commissionerate
1	RLA, Ahmedabad	1	Dy Commissioner of Custom ICD Khodiyar under Ahmedabad Commissionerate
2	RLA, Rajkot	2	Office of Dy Commissioner of Custom, Pipavav (Jamnagar Commissionerate) and Mundra (Mundra Commissionerate)
3	DC KASEZ	3	Office of Dy Commissioner of Custom ICD Thar Dry Port Jodhpur
4	RLA, Jaipur	4	Customs commissionerate Airport and Air Cargo, Bengaluru
5	RLA Bengaluru	5	Customs commissionerate, City Commissionerate, Bengaluru
6	RLA, Chandigarh	6	Customs Commissionerate, New Customs House, Mangaluru
7	RLA, Ludhiana	7	Customs Commissionerate CONCOR Kanech
8	RLA, Panipat	8	Customs Commissionerate GRFL
9	Zonal/Joint DGFT, Chennai	9	Customs Commissionerate CONCOR Ludhiana
10	Zonal/Joint DGFT, Coimbatore	10	Office of Commissionerate of Customs [Sea], Chennai
11	Zonal/Joint DGFT, , Kochi	11	Office of Commissionerate of Customs, Tuticorin
12	DC, Chennai	12	Office of Commissionerate of Customs, Kochi
13	DC, Kochi	13	Office of Principal Commissioner (Customs), Hyderabad
14	RLA, Hyderabad	14	Office of Customs Commissioner, Visakhapatnam
15	RLA, Visakhapatnam	15	Office of Customs Commissioner (Preventive), Bhubaneswar
16	RLA, Cuttack	16	Office of Customs Commissionerate, Kolkata Port
17	DC, VSEZ	17	Office of Customs Commissionerate, Kolkata Airport
18	RLA, Kolkata	18	Office of Customs Commissionerate, Kolkata Preventive
19	RLA, Guwahati	19	Office of Customs Commissionerate (Preventive), Lucknow
20	DC,SEZ, Falta	20	Office of Customs Commissionerate, Noida
21	RLA, Kanpur	21	Office of Customs Commissionerate, Patna
22	RLA, Muradabad	22	Office of Customs Commissionerate, ICD, Panki
23	RLA, Patna	23	Office of Customs Commissionerate, ICD, Loni
24	NSEZ, Noida	24	Office of Customs Commissionerate, Land Customs Station, Raxaul
25	RLA, Mumbai	25	Office of Customs Commissionerate, JNCH
26	RLA Authority, Pune	26	Office of Customs Commissionerate, ACC

Report No.5 of 2020 (Performance Audit)

Sl No.	RAs/SEZs	Sl. No.	Commissionerate
27	RLA, Goa	27	Office of Customs Commissionerate, NCH, Mumbai
28	DC, SEEPZ, Mumbai	28	Office of Principal Commissioner of Customs, ICD, Tughlakabad, Delhi
29	RLA, Delhi	29	Office of Commissioner of Customs, ICD, Patparganj and other ICDs
30	RLA, Bhopal	30	Office of Principal Commissioner of Customs, Air Cargo Imports, NCH, New Delhi
31	RLA, Indore	31	Office of Commissioner of Customs, Indore
32	DC, SEZ, Indore	32	Office of Customs Commissionerate, New Courier Terminal, NCH, Delhi
		33	Office of Customs Commissionerate, Foreign Post Office New Delhi

Statements

Statement 1 (Refer Paragraph 2.1.1)

Delay in issue of MEIS Scrips for the period April 2015 to October 2018

Year	Application received	Licence Issued	No. of scrips issued beyond more than 10 days					Total licences beyond 10 days	Delay %
			beyond 10 days-1 month	Delay 1-3 month	Delay 3-6 month	delay 6-12 month	delay beyond 12 month		
2015-16	28352	28546	8509	3067	388	31	7	12002	42.33
2016-17	147036	148017	40607	23307	6996	2252	158	73320	49.87
2017-18	202346	203353	43037	22434	7022	4616	1662	78771	38.93
2018-19 (upto Oct 2018)	163395	163887	16761	9347	3116	2028	1634	32886	20.13
Total	541129	543803	108914	58155	17522	8927	3461	196979	36.40

Statement 2 : Discrepancy between scrip value and actual entitlement (Refer Paragraph No. 2.2)						
Sr. No.	RA	RA Code	No. of Cases	Actual Entitlement	Licence Value awarded	Excess (₹)
1	Kolkata	2	2446	1744180418	1754819496	10639078
2	Mumbai	3	8200	7753754416	7780587915	26833499
3	Chennai	4	1995	2188391033	2192292800	3901767
4	New Delhi	5	6336	5606580726	5621194177	14613451
5	Kanpur	6	1311	1148814196	1152047244	3233048
6	Bangalore	7	1412	1366467600	1370823681	4356081
7	Ahmedabad	8	1843	1738010533	1743068013	5057480
8	Hyderabad	9	561	1076721740	1078946993	2225253
9	Cochin	10	863	504345232	507622329	3277097
10	Bhopal	11	59	46964056	47032126	68070
11	Amritsar	12	100	51547869	51593807	45938
12	Jaipur	13	1358	1012086024	1014162749	2076725
13	Guwahati	14	8	1604352	1604884	532
14	Varanasi	15	419	256056333	256557119	500786
15	Goa	17	29	25136877	25242207	105330
16	Jammu	18	3	4755731	4762561	6830
17	Patna	21	2	703214	705667	2453
18	Chandigarh	22	164	146548933	146769907	220974
19	Cuttack	23	11	18903231	18938276	35045
20	Rajkot	24	903	821398058	822668552	1270494
21	Puducherry	25	14	7028263	7048790	20527
22	Visakhapatnam	25	77	211424020	222546300	11122280
23	SEEPZ Mumbai	27	538	1352531650	1358283773	5752123
24	Moradabad	29	1193	841662699	844200682	2537983
25	Ludhiana	30	1431	745624827	748904335	3279508

Sr. No.	RA	RA Code	No. of Cases	Actual Entitlement	Licence Value awarded	Excess (₹)
26	Pune	31	1059	1369500015	1375232823	5732808
27	Coimbatore	32	3246	1773698759	1777584294	3885535
28	Panipat	33	690	750603048	751939405	1336357
29	Vadodara	34	470	310830103	312478592	1648489
30	Madurai	35	376	203465042	204154575	689533
31	Kandla FT	37	84	136569330	136748162	178832
32	CHENNAI SEZ	38	477	613620091	614312869	692778
33	COCHIN SEZ	39	265	409752364	410142547	390183
34	FALTA SEZ	40	36	29073459	29121128	47669
35	NOIDA SEZ	41	42	62043470	77373631	15330161
36	VSEZ	46	20	65113395	65113472	77
37	Nagpur	50	64	49424233	49448191	23958
38	Surat	52	251	212173207	213970962	1797755
39	Trivandrum	53	345	117068744	117265203	196459
40	Srinagar	55	68	24193806	24219590	25784
41	Indore	56	202	164442034	164641442	199408
42	Dehradun	61	78	49475681	49542942	67261
43	Raipur	63	8	4180048	4188504	8456
44	Indore SEZ	64	98	243726462	243887521	161059
45	Belgavi	65	11	5995681	6012966	17285
46	Vijayawada	66	18	15527223	15570847	43624
	Total		39184	35281718226	35415374049	133655823

Statement 3: Incorrect adoption of Foreign Exchange Rate (Refer Paragraph No. 2.3)								
Sl.No.	RA code	RA	Excess sanction					
			April 2015 to October 2018			April 2015 to October 2018		
			No. of SBs	No. of Appln.	Amount	No. of SBs	No. of Appln.	Amount
1	05	Delhi	762	357	804127	5248	638	13063396
2	08	Ahmedabad	162	107	444260	28	6	41116
3	37	Kandla	98	38	113349	201	81	110258
4	24	Rajkot	61	29	79482	73	47	114943
5	13	Jaipur	49	38	67182	56	21	94743
6	07	Bengaluru	3457	1182	2379439	1949	303	407593
7	10	Cochin	95	56	260307	0	0	0
8	38	MSEZ chennai	50	20	99193	0	0	0
9	39	DC CSEZ	548	124	1865417	0	0	0
10	32	Coimbatore	156	21	131557	0	0	0
11	02	DGFT Kolkata	365	218	596357	286	82	287091
12	40	FSEZ Kolkata	17	8	27657	0	0	0
13	17	Goa	36	20	102922	206	64	105999
14	27	SEEPZ Mumbai	1108	497	4952617	3968	949	3982705
15	31	Pune	2785	1090	7030378	6438	1475	4037759
16	03	Mumbai	10681	4146	14428183	31903	8675	10825876
17	22	Chandigarh	41	23	88917	0	0	0
18	30	Ludhiana	159	105	151331	0	0	0
19	33	Panipat	74	55	59311	0	0	0
20	46	DC VSEZ Hyderabad	27	17	99329	1	1	177
21	23	Addl. DGFT Cuttack	0	0	0	1	1	5999

Sl.No.	RA code	RA	Excess sanction					
			April 2015 to October 2018			April 2015 to October 2018		
			No. of SBs	No. of Appln.	Amount	No. of SBs	No. of Appln.	Amount
22	26	Jt. DGFT Visakhapatnam	6	5	23036	4	1	4839
23	09	Addl. DGFT Hyderabad	34	21	57133	1	1	451
24	11	Jt. DGFT Bhopal	7	2	13582	0	0	0
25	64	DC SEZ Indore	2	2	2597	0	0	0
26	56	Extension Office BPL, Indore	7	6	13183	3	3	6939
27	41	NSEZ Noida	12	7	32375	54	14	15590
28	21	Jt. DGFT Patna	0	0	0	0	0	0
29	29	Jt. DGFT Moradabad	19	14	17138	5	4	401
30	06	Jt.DGFT Kanpur	16	10	27712	8	5	28812
		Total	20834	8218	33968071	50433	12371	33134687

Statement 4: Incorrect application of "Late Cut" (Refer Paragraph 2.4)											
Sl. No.	RA	No. of SB	Reward amount granted (with or without "Late Cut")	Reward amount to be granted after actual "Late Cut"	Excess reward	no. of Shipping bills with respect to "Late Cut"					
						2%	amount	5%	amount	10%	amount
1	Delhi	15567	640337066	616473839	23863227	7445	6562241	6459	9839433	1663	7461553
2	Ahmedabad	637	40197905	39244383	953522	508	667660	97	220110	32	65752
3	Kandla	270	9875668	9669427	206241	256	181644	14	24597	0	0
4	Rajkot	424	21298107	20530580	767527	136	264214	197	242008	91	261305
5	Jaipur	560	21012333	20423164	589168	292	290322	220	265958	48	32888
6	Bengaluru	1058	24955656	24348834	606822	804	393484	160	125018	94	88320
7	Cochin	858	27639212	26883202	756010	517	427744	174	233603	167	94663
8	MSEZ Chennai	103	4199636	4115643	83993	103	83993	0	0	0	0
9	DC CSEZ	1156	68049546	63223084	4826462	515	731846	446	919073	195	3175543
10	Coimbatore	165	3028219	2948734	79485	94	35056	62	38651	9	5778
11	DGFT Kolkata	747	92435256	89874102	2561154	575	1459556	123	688843	49	412755
12	FSEZ Kolkata	162	1456544	1427375	29169	155	29089	5	35	2	45
13	Goa	4	240593	235721	4872	4	4872	0	0	0	0
14	SEEPZ Mumbai	729	64438508	62512182	1926326	499	981846	202	824024	28	120456
15	Pune	648	29949479	29271406	678073	626	646730	22	31343		
16	Mumbai	3869	258983915	253107038	5876877	3658	4660213	168	549695	43	666969
17	Chandigarh	36	1711237	1671244	39993	19	24332	16	15408	1	253
18	Ludhiana	223	11402481	11134159	268322	163	183862	49	60505	11	23955
19	Panipat	301	24295530	22890998	1404532	223	221755	52	55171	26	1127606
20	DC VSEZ Hyderabad	3	229201	223292	5909	2	3899	1	2010	0	0
21	Addl. DGFT Cuttack	1	159325	156139	3187	1	3187	0	0	0	0

Sl. No.	RA	No. of SB	Reward amount granted (with or without "Late Cut")	Reward amount to be granted after actual "Late Cut"	Excess reward	no. of Shipping bills with respect to "Late Cut"					
						2%	amount	5%	amount	10%	amount
22	Jt. DGFT Visakhapatnam	13	1366286	1305633	60653	4	2935	4	28600	5	29118
23	Addl. DGFT Hyderabad	5	152718	149233	3485	3	2243	2	1242	0	0
24	Jt. DGFT Bhopal	49	3723067	3551593	171474	28	37797	14	23258	7	110419
25	DC SEZ Indore	1137	231583482	225553722	6029760	990	4171239	91	267653	56	1590868
26	Extension Office BPL, Indore	814	21159725	21069590	90135	140	74765	13	15370	0	0
27	NSEZ Noida	590	27600737	26423789	1176948	not available					
28	Jt. DGFT Moradabad	1375	39019909	37796346	1223563						
29	Jt. DGFT Kanpur	1002	49925582	47670063	2255519						
30	Guwahati	2	169563	165285	4278	1	1617	1	2661	0	0
31	Chennai Jt.DGFT	83	2688646	2617382.82	71263.18	31	32234	39	24545	13	14484
	Total	32591			56617950						

Statement 5: Exports proceeds in INR for the exports made to Nepal and Bhutan (Refer Paragraph No. 2.5)								
Sr. No.	RLA	RLA Code	Number of SB	FOB S.B. In ₹	MEIS Credit allowed in ₹	Realised currency	Country of export	
							Nepal	Bhutan
1	Kolkata	2	3	15512310	314169	INR	3 SB	0 SB
2	Mumbai	3	382	271109875	7355191	INR	375 SB	7 SB
3	Chennai	4	106	104401525	3099889	INR	106 SB	0 SB
4	Delhi	5	173	60005680	1715584	INR	164 SB	9 SB
5	Ahmedabad	8	10	4288881	124380	INR	10 SB	0 SB
6	Mumbai	27	1	728855	20771	INR	1 SB	0 SB
7	Pune	31	5	9178590	252805	INR	5 SB	0 SB
8	Coimbatore	32	7	1048751	29487	INR	6 SB	1 SB
9	Cochin EPZ	39	3	22682532	680473	INR	3 SB	0 SB
		Total	690	488956999	13592749			

Statement 6 : Double use of Shipping Bills after excluding cancelled licenses (Refer Paragraph No. 2.7.1)						
Sl.No.	RA	RA Code	No of SBs	No. of SBs used twice	ENTT_1	ENTT_2
1	DGFT Kolkata	2	32	16	4875393	4874302
2	Mumbai	3	57	28	3873762	3875190
3	Chennai	4	55	27	3170145	3171656
4	Delhi	5	60	30	2650411	2650411
5	Kanpur	6	12	6	712874	712874
6	Bengaluru	7	32	16	3191472	3173904
7	Ahmedabad	8	43	22	2616305	2616305
8	Secunderabad	9	4	2	105477	105477
9	Cochin	10	6	3	333600	333600
10	Bhopal	11	4	2	227903	232262
11	Jaipur	13	14	7	621524	623296
12	Chandigarh	22	2	1	145936	145936
13	Rajkot	24	10	5	449105	449105
14	SEEPZ Mumbai	27	6	3	601537	601537
15	Moradabad	29	22	11	497652	497652
16	Ludiana	30	6	3	279108	279108
17	Pune	31	21	10	935447	934019
18	Coimbatore	32	47	24	2661088	2661088
19	Panipat	33	12	6	690780	690780
20	Vadodara	34	8	4	891071	891071
21	Kandla FT	37	2	1	33694	33694
22	Chennai SEZ	38	5	2	21429	21137
23	Cochin SEZ	39	8	4	145435	145435
24	Falga SEZ	40	2	1	14733	14733
25	Noida SEZ	41	2	1	91452	91452
26	Surat	52	2	1	240034	240034
27	Indore	56	8	4	476580	472221
	Total		482	240	30553947	30538279

Statement 7: Double use of Shipping Bills with Port details (Refer Paragraph No. 2.7.1)						
Sl.No	RA	RA Code	No. of cases	MEIS Allowed 1	MEIS Allowed 2	Port of reg.
1	Delhi	5	1	43459	44346	INDEL4
2	FSEZ	40	80	553930	542806	INDEL4
3	Mumbai	3	1	29679	29679	Mundra
4	Pune	31	2	78423	78423	DIGHI,INNSA1
		Total	84	705491	695254	

Statement 8: Same party filing before more than on RA for SBs related to same FY (Refer Paragraph No.2.7.2)		
Sl.No.	Year	No. of exporters(IEC)
1	2015-16	199
2	2016-17	224
3	2017-18	173
4	2018-19 (upto Oct 18)	34
	Total	630

Statement 9 : Excess grant of MEIS duty credit scrips due to inclusion of Commission/Insurance/Freight (CIF) charges (Refer Paragraph No. 2.10.1)						
Sl No.	RLA	RLA code	No. of scrips issued.	Reward amount granted	Reward amount to be granted	less/excess reward (₹)
1	DGFT Kolkata	2	24	37937417	35576473	2360944
2	DGFT Bhopal	11	7	13917839	13868029	49810
3	Jaipur	13	7	12145787	10905566	1240221
4	Patna	21	3	810644	762256	48388
5	Pune	31	19	2926896.61	2511905.21	414991.4
6	FSEZ Kolkata	40	31	12856648	12450461	406187
7	DC(SEZ) Indore	64	4	2535434	2409965	125469
	Total		95	83130665.61	78484655.21	4646010.4

Statement 10: Power loom made-up and Fabrics claimed as Handloom Products (Refer Paragraph 2.10.2)									
Sl. No.	RA code	RA	No. of files	No. of SBs	MEIS rate allowed	Rate to be allowed	MEIS granted in Rs	MEIS to be granted in Rs	Excess granted in Rs
1	4	Chennai	101	476	5	0/2	15678956	5375982	10302974
2	3	Mumbai	505	1363	5	0/2	143991005	52311845	91679160
3	32	Coimbatore	371	1515	5	0/2	51431497	20198551	31232945
4	31	Pune	2	12	5	0/2	1320244	171257	1148987
		Total	979	3366			212421702	78057635	134364066

Statement 11 : Other Misclassification (Refer Para 2.10.2)									
SI No.	RA code	RA	No. of files	No. of SBs	MEIS rate allowed	Rate to be allowed	MEIS granted in Rs	MEIS to be granted in Rs	Excess granted in Rs
1	3	Mumbai	331	826	3,5,20	0,2,3,5	39743848	11833547	27910301
2	10	Kochi	192	425	3,5,10	0,2,3,6	26038545	11788293	14250249
3	39	CSEZ,Kochi	102	286	3,5	0,2,3	23909770	14455263	9468741
4	13	Jaipur	3	5	3	2	144184	96124	48059
5	27	SEEPZ, Mumbai	77	808	10	0	102576765	26047927	76528837.8
6	2	Kolkata	2	5	5	0	385636	0	385636
7	4	Chennai	22	177	5	2	212073	84864	127209
8	32	Coimbatore	5	15	5	2	3908738	1563507	2345231
9	38	MSEZ, Chennai	11	68	10	7	24416094	17911495	6508973.45
10	31	Pune,	11	22	2	0	496751	0	496751
11	8	Ahmedabad	2	3	2	0	594	0	594
		Total	758	2640			221832998	83781020	138070582

Statement 12 : Misclassification of Ineligible exports (Refer Paragraph No.2.10.3)									
SI No.	RA code	RA	No. of SBs	MEIS rate allowed	Rate to be allowed	MEIS granted in	MEIS to be granted in	Excess granted in	
1	3	Mumbai	90	2,3,5	0	1139256	0	1139256	
2	4	Chennai	220	3,5	0	2994790	0	2994790	
3	10	Kochi	282	5	0	35067092	0	35067092	
5	32	Coimbatore	246	3	0	4142933	0	4142933	
9	8	Ahmedabad	111	3	0	2750762	0	2750762	
10	10	JDGFT, Kochi	7	5	0	1907999	0	1907999	
		Total	956			48002832	0	48002832	

Statement 13 : Reasons For Delay in issuance of MEIS Scrips (Refer Paragraph No. 3.1)								
Sr. No.	RA	RA Code	No. of Cases	Cases where DM not issued	Delay of more than 10 days where DM not issued	Cases where DM Issued	Cases where delay of more than 3 days in issue of DM	Delay of more than 3 days in issue of licence even after receipt of response to DM
1	Ahmedabad	8	67	55	55	12	12	10
2	Bhopal	11	22	0	0	22	20	17
3	Kandla FT	37	2	2	2	0	0	0
4	Rajkot	24	7	1	1	6	3	3
5	RA Bengaluru	7	62	9	9	53	48	45
6	Chandigarh	22	20	0	0	20	9	18
7	Chennai	4	20	10	10	10	6	8
8	Chennai EPZ	39	20	18	18	2	1	2
9	Cochin	10	21	0	0	21	12	19
10	Cochin EPZ	39	21	21	18	0	0	0
11	Coimbatore	32	20	15	15	5	4	4
12	Cuttack	23	100	94	63	6	4	6
13	Indore SEZ	64	20	9	9	11	11	8
14	Delhi	5	15	2	2	13	12	12
16	DGFT Kolkata	2	90	42	42	48	39	35
17	FSEZ	40	23	15	15	8	8	8
18	Indore	56	17	0	0	17	12	7
19	JDGFT Jaipur	13	43	11	11	32	22	28
20	Kanpur	6	20	8	7	12	2	2
21	Ludhiana	30	46	0	0	46	23	34
22	Mumbai	3	22	2	2	20	0	19
23	Muradabad	29	19	7	3	12	3	2

Report No.5 of 2020 (Performance Audit)

Sr. No.	RA	RA Code	No. of Cases	Cases where DM not issued	Delay of more than 10 days where DM not issued	Cases where DM Issued	Cases where delay of more than 3 days in issue of DM	Delay of more than 3 days in issue of licence even after receipt of response to DM
24	Noida EPZ	41	20	17	16	3	3	2
25	Panipat	33	34	0	0	34	30	33
26	Patna	21	77	18	18	59	42	55
27	Pune	31	20	0	0	20	10	0
28	Secunderabad	9	45	44	44	1	1	1
29	Visakhapatnam	26	33	33	20	0	0	0
	Total		926	433	380	493	337	378

Statement 14: Issue of MEIS scrips where no intent declaration found in physical copies of SBs of exports up to 30.09.2015. (Refer Paragraph No.3.2.1 (a))				
SI No.	RA	RA code	No.of SBs	(amt in rupees)
				Credit granted
1	FSEZ Kolkata	40	176	408193
2	DGFT Kolkata	2	54	2571318
3	Panipat	33	20	1526980
4	Ludhiana	30	7	60327
5	Jaipur	13	16	274593
6	Delhi	5	2	108941
7	Kanpur	6	19	847489
8	VSEZ	46	144	21307035
9	Mumbai	3	3	179095
	Total		441	27283971

Statement 15: Cases where reward item box ticked as N but physical copies of S.B s were found absent (Refer Paragraph No.3.2.1(b))				
Sr. No	RLA	CODE	No. of S.Bs	MEIS amount granted in ₹
1	Panipat	33	90	4769428
2	Ludhiana	30	1	46944
3	Delhi	5	1	60617
4	Cuttack	23	75	47881365
	Total		167	52758354

Statement 16: Declaration of intent not available on office note (Refer Paragraph No.3.2.1 (c))				
Sr. No	RLA	CODE	No. of S.Bs	MEIS amount granted in ₹
1	Delhi	5	1	4693907

Statement 17 : Incorrect grant of higher benefit to non-handicraft items (Refer Paragraph No.3.2.2)						
SI No.	RLA	RLA code	Number of Scrips	Reward amount granted	Reward amount to be granted	Excess reward
1	Mumbai	3	68	904705	0	904705
2	Kanpur	6	41	46775	0	46775
3	Goa	17	1	431	0	431
	Total		110			951911

Statement 18: MEIS Scrips to ineligible categories (Refer Paragraph No.3.2.3)								
SI No.	RA	RA code	Reward amount	Product code	Product description	port of registration	Nature of ineligibility or specify the SI.No.of paragraph 3.06 of FTP.	Remarks
1	DGFT Kolata	02	829356	53101013, 63051030	HESSIAN CLOTH, Burlap plain Hessain cloth	INFLT6	SI.No.VI	exports of SEZ unit through DTA unit

Statement 19: Utilisation of MEIS/SEIS scrips for ineligible items (Refer Paragraph No.3.2.4(i))						
SI No.	RA	RA code	Number of BEs	Nature of licence- MEIS/SEIS	Port of registration	Amount debited (₹)
1	JDGFT Chennai	4	5	MEIS	INMAA1	2078968
2	Kolkata	2	2	MEIS	INTUT1	690959
3	Bengaluru	7	1	MEIS	JNCH	125474.40
4	Pune	31	1	MEIS	JNCH	428260.20
5	Panipat	33	1	MEIS	JNCH	53489.20
6	Mumbai	3	6	MEIS	JNCH	2477914.10
7	SEEPZ	27	2	MEIS	JNCH	309463.05
		Total	18.00			6164527.95

Statement 20: Utilisation of MEIS scrip for payment of ineligible duties (Refer Paragraph No.3.2.4(ii))							
SI No.	RA	RA code	Number of BEs	Nature of licence- MEIS/SEIS	Port of registration	Type of ineligible duty debited	Amount debited (in crores)
1	ISEZ- Indore	64	305	MEIS	INIDR6	SEZ to DTA sales	5.85

Statement 21 : Software development (Refer Paragraph No.3.3.1)						
SL. No.	RA	RA code	Number of Exporters	Reward amount granted	Reward amount to be granted	Excess reward (₹)
1	SEEPZ	27	2	451417699	36312977.3	415104721.6
2	Pune	31	4	143010284	97101127.5	45909156.16
3	DC, CSEZ	39	20	1027139222	191057766	836081456
4	Mumbai	3	1	786833	0	786833
5	Goa	17	1	12662604.2	2270635.67	10391968.57
Total			28	1635016642	326742507	1308274135

Statement 22: Incentives to services not specified in Appendix 3D (Refer Paragraph No.3.3.2)						
SI No.	RA	RA code	Number of exporters	Reward amount granted (₹)	Reward amount to be granted (₹)	Excess reward (₹)
1	Mumbai	3	3	65185263.52	9856295.1	55328968.42
2	DC, CSEZ	39	3	352369748	27656748	324713000
3	PUNE	31	1	37804305	2491349	35312956
4	RLA Bengaluru	7	2	3635325	111642	3523683
Total			9	458994642	40116034	418878607

Statement 23 : Ineligible (Mode 3 & 4) services (Refer Paragraph No.3.4)							
SI No.	RA	RA code	Number of the exporters	Reward amount granted	Reward amount to be granted	Excess reward (₹)	Remarks
1	Mumbai	3	3	26.43	0	26.43	Mode-3 and Mode 4 services
2	SEEPZ	27	2	4.18	2.47	1.71	
3	Pune	31	4	33.07	11.42	21.65	
4	Kolkata	2	4	57.39	49.66	7.73	Service provider falls under the category as defined under Paragraph 9.51(iii) of the Policy and notified service.
Total			13	121.07	63.55	57.52	

Statement 24: Failure of self-declaration and CA certificate in checking the errors in the claims						
(Refer Paragraph No.3.5)						
24(i) SEIS benefits to exports prior to April, 2015						
Sl No.	RA	RA code	Number of exporters	Reward amount granted (₹)	Reward amount to be granted (₹)	Excess reward (₹)
1	JDGFT, Chennai	4	5	30448736	0	7330575
2	JDGFT Coimbatore	32	1	12433445	0	937108
3	DC, CSEZ	39	2	243657240	0	15570835
4	Mumbai	3	2	434815622	0	219821245
5	PUNE	31	2	33703889.68	30373870.16	3330019.46
6	Ahmedabad	8	7	44289112.18	38205616.18	6083496
7	Kandla FT	37	1	32044915	27631982	4412933
8	SEEPZ Mumbai	27	4	91851515.34	89166003.43	2685511.91
	Total		24			260171723.4
24(ii) Incorrect NFE						
9	JDGFT Chennai	4	4	136997357	102191577	34805780
10	DGFT Kolkata	2	1	3443618	2496326	947292
11	JDGFT, Kochi	10	2	3049927.96	52841.55	2997086.41
12	Ahmedabad	8	2	476927726	473323507	3604219
13	Jaipur	13	6	27971146.15	27257033.10	714113.05
	Total		15			43068490.33
24(iii) FOB including local taxes						
14	Mumbai	3	2	82504572	59721541	22182879
15	Jaipur	13	1	1185250.45	1007462.88	177787.57
16	JDGFT, Kochi	10	5	17263870.71	16128002.71	1135868
	Total		8			23496534.57

Report No.5 of 2020 (Performance Audit)

Sl No.	RA	RA code	Number of exporters	Reward amount granted (₹)	Reward amount to be granted (₹)	Excess reward (₹)
24(iv) Claim on FOB including Withholding taxes						
17	Mumbai	3	1	222315622	0	22663478
18	SEEPZ	27	1	9475522	0	9475522
	Total		2			32139000
24(v) Wrong forex conversion rate adopted						
19	SEEPZ	27	1	117791678.4	117652377.1	139301.33
20	Kandla FT	37	1	436139346	410926231.5	25213114.5
	Total		2			25352415.83
24(vi) Grant of licence on ineligible remittances						
21	RLA Bangalore	7	4	16552325	0	758309
22	Goa	17	2	41950827	0	2602216
23	Jaipur	13	3	3362453	0	3362453.00
24	JDGFT, Kochi	10	2	9238888	0	16470927
	Total		11			23193905

Statement 25: Excess issue of rewards due to incomplete checks by RAs and system (Refer Paragraph No.3.6)						
25 (i) "Late Cut" not applied/incorrectly applied on SEIS						
Sl No.	RA	RA code	Number of Exporters	Reward amount granted (with or without "Late Cut")	Reward amount to be granted after actual "Late Cut"	Excess reward (amt in rupees)
1	Ahmedabad	8	6	493735654.5	469438216.5	24297438
2	JDGFT Chennai	4	1	31772624	30183993	1588631
3	DC, CSEZ	39	4	80702842	78978112	1724730
4	Delhi	5	2	35067185	34365842	701343
5	Mumbai	3	1	6904234	6766149	138085
6	SEEPZ	27	10	623272776	453275469	26454842
			24			54905069
25 (ii) Invalid RCMC/IEC related to issuance of SEIS						
Sl No.	RA	RA code	Number of Exporters	Reward amount granted (with or without "Late Cut")	Reward amount to be granted after actual "Late Cut"	Excess reward (amt in rupees)
7	Delhi	5	2	55540322	14825917	40714405
8	Chennai	4	1	6777614	2607538	4170076
9	KOCHI	10	2	4363238.57	0	4363238.57
			5			49247719.57
25 (iii) Incorrect grant of benefits when services rendered to Indian companies						
Sl No.	RA	RA code	Number of Exporters	Reward amount granted (with or without "Late Cut")	Reward amount to be granted after actual "Late Cut"	Excess reward (amt in rupees)
10	Mumbai	3	1	227458867	209900867	17558000

25 (iv) Grant of rewards on incorrect adoption of NFE.						
Sl No.	RA	RA code	Number of Exporters	Reward amount granted (with or without "Late Cut")	Reward amount to be granted after actual "Late Cut"	Excess reward (amt in rupees)
11	SEEPZ	27	2	24432048	23684046	748002
12	Indore	56	1	129000	80625	48375
			3			796377
25 (v) Non maintenance of jurisdiction discipline						
Sl No.	RA	RA code	Number of Exporters	Reward amount granted (with or without "Late Cut")	Reward amount to be granted after actual "Late Cut"	Excess reward (amt in rupees)
13	Mumbai	3	1	7651845	0	7651845
					Total	130159010.6

**Statement 26: Inconsistency in SEIS Policy and Customs Notifications
(Refer Paragraph No.3.7)**

Appendix 3D services not exported through authorised ports

Sl No.	RA	RA Code	Number of Exporters	Number of scrips used for payment of Import duty	Port of regn.
1	Mumbai	3	13	13	Nhava sheva sea
2	Pune	31	3	3	Nhava sheva sea

Appnedix 3E services not exported through authorised ports

1	Mumbai	3	2	17	Nhava sheva sea
			Total	33	

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