

**PUBLIC ACCOUNTS COMMITTEE
(1971-72)**

(FIFTH LOK SABHA)

FORTY-THIRD REPORT

**[Chapter II of Report of the Comptroller and Auditor General
of India for the year 1969-70— Central Government (Civil)—
Revenue Receipts relating to Customs]**



**LOK SABHA SECRETARIAT
NEW DELHI**

April 1972/Vaisakha, 1894 (Saka)

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CORRIGENDA TO THE 43RD REPORT OF THE P.A.C.
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<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
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PART II*

Minutes of the sittings held on

29. 10. 1971

20. 4. 1972

*Not printed (One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library).

PUBLIC ACCOUNTS COMMITTEE
(1971-72)

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Shri Avtar Singh Rikhy—*Joint Secretary*

Shri B. B. Tewari—*Deputy Secretary*

Shri T. R. Krishnamachari—*Under Secretary*

*Ceased to be Member of the Committee consequent on retirement from Rajya Sabha w. e. f. 2-4-1972.

@Declared elected to the Committee on 3-6-1971 vice Shri Niranjan Verma resigned.
(iii)

INTRODUCTION

1. I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Forty-Third Report (Fifth Lok Sabha) on Chapter II of the Report of the Comptroller & Auditor General of India for the year 1969-70—Central Government (Civil)—Revenue Receipts relating to **Customs**.

2. The Report of the Comptroller & Auditor General of India for the year 1969-70—Central Government (Civil), Revenue Receipts was laid on the Table of the House on 7th June, 1971. The Committee examined Audit paragraphs relating to Customs at their sitting held on the 29th October, 1971. The Committee considered and finalised this Report at their sitting held on the 20th April, 1972. Minutes of these sittings form part II* of the Report.

3. A statement showing the summary of the main conclusions/recommendations of the Committee is appended to the Report (Appendix). For facility of reference these have been printed in thick type in the body of the Report.

4. The Committee place on record their appreciation of the assistance rendered to them in the examination of these paragraphs by the Comptroller & Auditor General of India.

5. The Committee would also like to express their thanks to the officers of the Ministry of Finance for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
April 22, 1972

Vaisakha 2, 1894 (Saka)

ERA SEZHIYAN,
Chairman,
Public Accounts Committee.

*Not printed (One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library).

CUSTOMS

Customs Receipts

Audit Paragraph

1.1. The total receipts from Customs Revenue during the years 1968-69 and 1969-70 are given below :—

	1968-69 Rs.	1969-70 Rs.
Customs imports	3,73,96,87,797	3,26,96,91,588
Customs exports	1,01,92,34,128	73,59,61,016
Additional duties		44,58,06,759
Cess on exports		1,97,14,203
Miscellaneous	6,59,24,413	6,70,91,478
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Gross revenue	4,82,48,46,338	4,53,82,65,044
Deduct—Refunds and Drawback	35,98,67,754	30,51,66,670
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Net Revenue	4,46,49,78,584	4,23,30,98,374

It will be seen from the above figures that out of a total gross revenue of about Rs. 454 crores nearly 81 per cent related to import duties including additional duties. In the year 1968-69 the revenue from additional duties leviable under section 2A of the Indian Tariff Act was included under the major head I—Customs Imports—and the receipts from Cesses on exports were likewise included under the head “Customs Exports”. It has been decided to classify the receipts from these two heads separately with effect from 1969-70 and they have accordingly been shown as separate figures in the table above.

Compared to 1968-69 the realisation from imports had a slight set back by about Rs. 2.41 crores; under exports the fall in revenue was significant amounting to Rs. 26.36 crores.

[Paragraph 8—Report of the Comptroller and Auditor General of India for 1969-70 on Revenue Receipts.]

1.2. The Committee desired to be furnished with a list of major commodities on which export duties are levied and the value of commodities exported during the years 1967-68, 1968-69 and 1969-70. The Ministry of Finance have furnished the following statement :

₹ (Exports Rupees crores)				
Sl. No.	Commodity	1967-68	1968-69	1969-70
(1)	(2)	(3)	(4)	(5)
1.	Jute manufactures	234.09	218.01	206.66
2.	Raw cotton	15.89	12.44	16.02
3.	Tea*	180.20	156.51	124.50

*Tea exempt from export duty with effect from 1-3-1970.
[Source : DCTS Monthly Statistics of the Foreign Trade of India (vol. Exports)—March 1968, March, 1969 and March, 1970.]

(1)	(2)	(3)	(4)	(5)
4.	Black Pepper	12.98	9.71	16.14
5.	Coffee	18.18	17.96	19.62
6.	Deoiled groundnut meal	37.21	41.96	32.72
7.	Tobacco unmanufactured	34.85	33.16	32.71
8.	Mica	15.04	13.46	15.22
9.	Hides, skins and leather	60.80	77.36	89.21
10.	Coir and coir manufactures	12.93	14.04	13.51
11.	Manganese ore	11.10	13.46	11.06
12.	Iron ores	74.78	88.40	94.62

1.3. Pointing out that out of custom receipts for imports amounting to Rs. 326 crores during 1969-70 the Public Sector alone contributed as much as Rs. 118 crores, the Committee enquired whether the collection work for Public Sector could be separated from the regular work. The Chairman, Central Board of Excise and Customs stated "Under the law, whether it is a government department or a public corporation or a private party, the processes and formalities to be gone through for clearance of cargo are the same. So there is no separate system that can be devised." Asked if a separate cell for this work could be created, the Finance Secretary replied: "That appears to be difficult, because. . . . the consignments keep on coming, some ship may discharge cargo both for the public and private sector. The whole procedure of clearance will have to be the same. The same officers will have to inspect it at the dock. They have to be dealt with simultaneously. They come mixed up."

1.4. The Committee desired to know in respect of the years 1966-67 to 1969-70 (i) details of receipts on account of (a) sale of confiscated goods and (b) recovery of duty and penalty on luggage and (ii) checks exercised after the clearance of goods from the Customs to prevent unauthorised disposal and to check genuineness of declarations. In a written reply the Ministry of Finance stated, "The total amount of receipts on account of sale of confiscated goods (other than Gold and Silver which are not sold, but are deposited in the Mint) and on account of luggage (Baggage) indicating separately, duty, fine, personal penalty realised is given below :

(a) *On account of sale of confiscated goods.*

	(Rs. in Lakhs)
1966-67	121.8
1967-68	276.7
1968-69	237.3
1969-70	285.9

(b) *On account of Luggage :*

	(Rs. in lakhs)		
	Duty	Fine	Personal Penalty
1966-67	184.2	62.4	1.6
1967-68	210.6	80.6	1.5
1968-69	221.2	54.01	1.1
1969-70	250.9	62.6	1.2

1.5. Misuse of baggage concessions is checked in the following manner :—

(a) Baggage duty free allowance has been reduced to Rs. 500/- only, which does not leave any margin for bringing goods for disposal after acquiring gifts for relations and friends. Articles which can be easily sold by hawkers are not permitted to be imported under I.T.C. Public Notice No. 13/71 dated the 1st February, 1971 on payment of duty but without Import Trade Control restrictions to check misuse. For T.V. and firearms there are special instructions to check misuse. For firearms instructions have been issued requiring the Customs officers to stamp the possession licence with rubber stamp indicating the condition of non-transferability for a period of 10 years.

(b) To prevent unauthorised disposal of smuggled goods including those cleared as baggage the preventive organisations in the Custom Houses and Central Excise Collectorates collect intelligence and conduct frequent town raids. In March, 1969, Customs Act was amended in order to regulate internal transactions in certain categories of goods which are either smuggled into the country or which are disposed of unauthorisedly after importation as baggage. For this purpose, certain categories of goods have been notified to which additional regulatory measures apply except when they are for personal use. These measures include requirements regarding intimation of place of storage, maintenance of accounts, transport and sale under cover of vouchers and reasonable precautions before acquisition.

1.6. In regard to the confiscated gold, the Chairman, Central Board of Excise & Customs stated during evidence : "This is kept in deposit with the mint and is taken over by the Reserve Bank of India in due course of time. Only then some credit is given. We include the credit as and when given. It is not immediately given." As regards its value the witness stated that it was calculated at the international price.

1.7. Asked whether credit was not taken on other confiscated goods at the moment they were confiscated, the Finance Secretary stated : "Credit is not taken on confiscated goods at the moment they are confiscated; at the time of confiscation, only a description of the items confiscated is included. It is only when they are sold that credit is taken. There may be a time lag between the date of seizure and date of subsequent confiscation and actual realisation of sale proceeds." The witness added : "Some goods deteriorate on stock because there are long delays in disposal and on account of deterioration there may be a fall in the actual value realised."

1.8. The Committee desired to know the basis on which rewards paid to informers were calculated in the absence of the final sale price of the goods. The Chairman of the Central Board of Excise & Customs stated : "There are some rewards which are given in advance on a rough and ready basis. The real calculation is done only when the goods have been disposed of and we have realised the money." The Member of the Board stated : "In case of gold, we give the reward on the basis of so many rupees per tola. That is not dependent upon the value. In regard to other goods, what happens is, in the case of certain categories of goods, where there is no doubt about confiscation like those goods which have been notified under section 123, we pay 50% of the expected final reward within a fortnight or a month's time. But on the final calculation the amount of the reward against which whatever amount has been given at the time of seizure is adjusted; it is dependent on the actual sale proceeds." Asked if action was

taken to recover any excess payment of reward made in advance of the actual sale, the witness stated : "Even at the time of payment of initial reward, we have issued instructions that they will take into account the value at which the National Consumer Coperative Federation is taking up the goods. There is not likely to be very much of a variation. For small difference we are able to adjust at the time of the final payment of the reward." The Finance Secretary clarified that initially 50 per cent of the amount of award was paid in advance and there was less possibility of excess payment.

1.9. The Committee drew attention to a circular issued by the Department in March, 1965 that the final rewards should be sanctioned both to the informers and the departmental officers as soon as possible after the goods were confiscated absolutely and without waiting for the final sale. The Committee enquired how, in view of these instructions it was ensured that excess rewards were not paid in cases of over-valued goods. The representative of the Board stated, "There are separate orders issued in regard to the payment of advance rewards. These are with regard to the payment of final rewards. . . . in so far as the advance reward is concerned, that is paid as near the seizure as practicable." The Finance Secretary added : "We will check it up with some of the Customs Houses how soon the payment is being made and what is the difference between the amounts actually paid on this basis and the actual amounts realised."

1.10. In a note furnished to the Committee, the Ministry of Finance have stated : "Although the orders of 1965 authorised the Collectors to pay final reward without waiting for sale of the confiscated goods, in actual practice the Collectors have reported having waited till the disposal of Appeal and Revision Application. It had been found more practicable to give final rewards after disposal of goods and hence generally final rewards have been paid after the disposal of the confiscated goods."

1.11. The Committee find that in pursuance of the recommendations of the Customs Study Team, the Ministry of Finance issued instructions on 9th February, 1970 delegating full powers to Collectors of Customs & Excise to give rewards to informers within the following overall ceilings :

Description of goods	overall ceiling
(a) Gold bullion	upto Rs. 15/- per tola.
(b) other goods	upto 10% of the estimated market price in India of confiscated goods at the time of seizure.

1.12. As regards advance payments it is laid down in the instructions of 9th February, 1970 "In respect of (1) gold bullion and goods 'notified' and 'specified' under section 11B and 11-I respectively of the Customs Act 1962, (2) seizures made in the Customs Area or on the Indian Customs waters of goods not declared and (3) seizures of unclaimed goods, rewards may be paid before the actual sale of the goods, as follows provided there is no doubt about the final confiscation of the goods :—

- (i) 50% of the expected final reward immediately on seizure; and
- (ii) the balance of the reward on adjudication of the case resulting in confiscation."

1.13. The Committee desired to know how it was ensured that the payment of advance reward did not exceed the final reward. In a written reply the Ministry have stated the following position :

"In seizures of gold bullion reward to the informer(s) is payable at the prescribed rate per tola for the quantity seized and not on the value of the seized gold. There can thus be no instance of the advance reward exceeding the final reward due to such cases.

"As regards other goods, immediately after the seizure is effected, an inventory of the seized goods is completed and evaluation of such goods made having regard to the price of the similar goods in the market. The Collector of Customs (Preventive), Bombay has reported that the prices for the various items of seized goods are based on the prices fixed for these items by a Joint Pricing Committee of the Central Excise Department and Custom House. The prices so fixed by the Committee are normally less by about 10-15% of the market price for the items. Where the item is not covered by the price list of the Committee market enquiries are immediately made to ascertain the estimated market prices and that price is taken into consideration for determining the quantum of reward admissible in a case. After having ascertained the prices in the above manner, the total value of goods seized is worked out and thereafter the amount of the advance reward admissible in a case determined. Where the competent authority is reasonably satisfied about the final confiscation of the seized goods, an amount not exceeding the permissible limit is sanctioned as advance reward and disbursement made. At the time of sanction of final reward, in case the advance reward is paid, a further scrutiny regarding the value of goods and the role of informant is made and further adjustments made at that stage thereby ensuring that in no case reward sanctioned exceeds prescribed limits. The other Collectors of Customs and Central Excise have also reported that they evaluate the seized goods on a realistic basis and keep a safe margin to take care of fluctuations later on. The estimated value so determined is certified both by the Assistant Collector and the other gazetted officer in charge for disposal of confiscated goods.

"Advance reward represents only a fraction of the total reward payable in a case and is adjusted against the final amount of reward determined to be paid. The procedure adopted by the Collectors as outlined above adequately ensures that the payment of advance reward does not exceed the final reward due. In fact all the Collectors of Customs & Central Excise have reported that no case has been reported where such a thing has happened."

1.14. The Committee desired to know how soon payments were made and what was the difference between the value on the basis of which rewards were actually paid and the value realised on disposal during 1969-70. In a written reply the Ministry of Finance have stated : "It has been reported by the Collectors that in most of the cases the advance rewards are generally paid within a month of the seizure. However, the payment of final reward takes long time due to various factors beyond the control of the Department, such as delaying tactics on the part of the parties, appeal and revision processes, filing of court cases, etc. The final rewards paid in a year relate to cases detected much earlier spread over a number of years. It has not been practicable to get this information as the files in which rewards are sanctioned in a year are not kept separately."

1.15. The Committee enquired about the basis, on which award of Rs. 15 per tola of gold had been fixed and how it compared with the international price. The representative of Board stated : "The IMF price per tola these days works out to about Rs. 98½ and something like that on the basis of 35 dollars per oz. The international free market price works out to about 40 dollars. And the internal price is much more." Asked if it was fixed in relation to the credit given by the Reserve Bank of India, the witness replied in the negative. The finance Secretary stated : "whether we take the international price or the IMF price or internal value, that becomes immaterial because it is Rs. 15 per tola. It is a fixed price by weight and not according to value." The representative of the Board stated : "In the case of other commodities we were giving 10 per cent. In the case of gold, 10 per cent would really work out to much more—at that time, we used to give Rs. 10 per tola. Worked out at the base of 10% it would have been about Rs. 20. But the gold seizures is of heavy amount. We did not give more. We fixed at Rs. 15. That is the rationale behind it."

1.16. The Committee desired to be furnished with a note stating the percentage of maximum reward to the actual amount of credit given by the Reserve Bank of India in respect of gold during the years 1968-69 and 1969-70. In a written reply the Ministry of Finance have stated : "The confiscated gold is deposited with the Government of India Mint for final disposal. The question of credit to be given by Reserve Bank is under examination. However, the international monetary price of gold is Rs. 98.41 per tola. The market price in India of primary gold bars ranged from Rs. 172 to Rs. 208 per tola during this period. Reward in gold cases is paid with reference to the weight of the seized gold. At the maximum rate of reward, it worked out to 15.3% of international monetary price and from 7.2% to 8.8% of the market price in India. In the case of confiscated goods other than gold the maximum reward is 10% of the market price in India and not international price."

1.17. The Committee desired to know the checks exercised by the Internal Audit Department over the issue of awards. The representative of the Board stated : "The Internal Audit checks the actual disbursement and whether the Board's orders are executed or not. . . . As far as internal Audit is concerned, all the reward files go as a matter of routine."

1.18. The Finance Secretary informed the Committee that "in the case of rewards to informers, this is not a kind of statutory or a clear executive order that you must give this reward or that reward. This is after all a discretionary reward. It was given to informers according to the amount of work they have done, the real amount of information they have given and the kind of assistance that has been received from them. So, the rewards can vary in percentages and in amounts from person to person. It is not the right of the person to receive any reward, it is not like the payment of a salary, that you must give that. I am only mentioning this point because in the case of rewards which were finally sanctioned there may be variations in the percentage but the general guideline has been given to the Collector that we should follow such and such." The witness added: "On the question whether it is excessive or not, I would like to submit that the reward given to informers who help in anti-smuggling has to be judged on the basis whether it has paid dividends or not." The Comptroller & Auditor General stated : "My audit will not certainly ask you to enforce any kind of uniformity in what you pay."

1.19. Asked if the maximum rate fixed was exceeded in some cases, the Chairman of the Board stated "All these maxima have been prescribed for the field officers. If they want to give anything more, they have to refer to the Government or the Board because these are only working rules."

1.20. The Committee asked whether the Internal Audit had reported any cases in which these discretionary payments were not in order. The Member of the Board stated, "The internal Audit go into the question whether the Board's instructions regarding the maximum powers to the various officers regarding the disbursement of the amounts and regarding the various commodities have been observed or not. But they have no power to question the use of this discretion in particular cases. Further, these disbursements are pre-audited. The file is sent to internal audit. Internal audit checks whether it is in accordance with the Board's instructions, and so long as it is so, it is paid. So, such cases cannot occur."

1.21. In a note subsequently furnished to the Committee the Ministry of Finance have stated, "While carrying out checks on the rewards sanctioned the Internal Audit Departments of the major Custom Houses ensure that the rewards are sanctioned by the competent authority. It is also checked whether Government's orders regarding the quantum of rewards payable, the time of payment of reward, the valuation of goods for grant of rewards and the requirements of other general instructions governing the grant of rewards have been complied with. No cases were detected wherein Government's orders regarding disbursement of rewards were not complied with. It has been found that the Internal Audit Departments in the Central Excise Collectorates confine their checks only to audit of revenue accounts. As the sanction and payment of rewards relates to expenditure account, the Internal Audit Departments in the Central Excise Collectorates were hitherto not exercising any checks on disbursement of rewards in Customs cases. However, instructions have been issued prescribing that Internal Audit in the Central Excise Collectorates should carry out checks on sanction of rewards to ensure that Government's orders in this regard are complied with."

1.22. The Committee enquired whether any attempt had been made to find out the percentage of the smuggled goods actually seized by the Customs Department. The Finance Secretary replied : "I am afraid, to this question at least I cannot give any answer, if one knows what is being smuggled into India, we would have known the percentage, but we do not know." The witness added : "I agree with you, sir, that the problem of smuggling is a major one. We accept that, and that measures should be tightened up. For example we know that smuggling of gold is a very major problem and therefore every possible effort should be made to tighten measures. My only point was that I cannot give you any reliable or authentic estimate of the quantity as to how much is being smuggled into India and how much we are catching. I was only saying that whatever I may give you, or I may say, that it is 5, 10 or 15%, it will be all guess." He further stated "This much we accept ourselves that what we are catching is only a small percentage of what is coming into India and therefore, the problem is much more gigantic and much bigger than we were able to tackle."

1.23. Asked about the measures taken to prevent smuggling, the Finance Secretary stated, "We know what comes from which area; we get information on what is being shipped; we know the *modus operandi*; we have got people

who give us information that this kind of commodity is coming from this world market, and we direct our operations for that purpose in that particular area."

1.24. The Committee referred to complaints from Custom Houses that they were not provided with adequate launches. The Finance Secretary replied, "We know there are complaints from many people that the total number of launches with them are inadequate. We have not got enough—both by way of fast moving and slow moving launches of different types. There is difficulty in deciding what kind of launches to buy and where to buy." The Committee asked whether any demands for launches were pending with the Ministry, the Finance Secretary stated, "We had hardly any launches a few years ago. Now we have got 30 launches in the country. This increase has taken place but the local officers are not satisfied with this. The demand is still more. In fact 31 launches have recently been given and the real difficulty has been in finally deciding what kind of craft to buy and what type of craft and how many to buy. We have been trying to get in touch with experts to finalise but practically more launches have been added, that is about 30 launches."

1.25. The Committee desired to be furnished with a detailed note (a) explaining the various measures taken by Government to prevent and detect smuggling and (b) Government's assessment on the magnitude of the problem of smuggling indicating therein the assessment of the requirements of various types of launches and the basis thereof, the views of the Exports consulted, the actual availability and the steps taken or the difficulty, if any, to procure the additional launches."

1.26. In a written reply, the Ministry of Finance have stated :

"There are not reliable means of estimating the extent of smuggling into the country. The Study Team which went into the question of leakage of foreign exchange through invoice manipulation estimated that the illegal foreign exchange required to finance smuggling of gold and other articles would be of the order of Rs. 160 to Rs. 170 crores per annum. The market price in India of the smuggled goods of which the value abroad in foreign exchange is Rs. 160 to Rs. 170 crores would work out to be of the order of Rs. 400 crores.

The Report of the Study Group set up by the Cabinet Secretariat regarding the requirement of launches is presently under examination. The Study Group has recommended the use of fast surface boats with a cruising speed of 20 knots and thrust speed of over 30 knots and with 2 to 3 days endurance. They also suggested the need for smaller medium fast boats for deployment in seas not far from the shore. Further steps will be taken on the basis of the Government's decision on the different recommendations for acquiring additional launches. Mean-while seized boats of smugglers are, on confiscation, being deployed in increasing numbers. 38 seized boats have been put to use.

STEPS TAKEN TO PREVENT SMUGGLING

Administrative Measures

Redeployment of staff in sensitive areas

1. In the past anti-smuggling operations were confined to checking passengers and their baggage at various points of entry and rummaging of the incoming vessels and aircrafts. However, with the change of the *Modus-*

operandi adopted by the smugglers, it has become necessary not only to guard the vulnerable points along the western and south-eastern coast of India but also to arrange for the patrolling on water for intercepting the smugglers' launches. In view of the present trend in smuggling through the western coast extra staff exclusively for preventive work is being deployed in sensitive areas. The preventive formation in the Bombay and Madras Custom Houses and Ahmedabad, Bombay, Cochin and Madurai Customs and Central Excise Collectorates have been reorganised. In Ahmedabad Collectorate, 5 divisions under the charge of Assistant Collector have been created exclusively for anti-smuggling work along the coast of Gujarat. Similarly, in Madurai Collectorate two divisions under the charge of Assistant Collectors have been created exclusively for anti-smuggling work along the coast of Tamil Nadu.

Intelligence set up

2. In order to strengthen the intelligence machinery the Government has set up zonal units of Directorate of Revenue Intelligence at Bombay, Calcutta, Madras and Delhi. To coordinate efforts of the field formations from the Indo-Nepal border, the Directorate, Headquarters were, however, strengthened by the creation of a Nepal Unit headed by an officer of the rank of D.I.G. of Police. The Directorate of Revenue Intelligence also maintains liaison with similar organisations in some of the foreign countries directly as well as through INTERPOL.

The Director-General of Revenue Intelligence and Investigation has also been appointed with a view to achieve closer coordination amongst the intelligence and investigation agencies, namely, the Enforcement Directorate and Directorate of Revenue Intelligence. These organisations now function under the cabinet Secretariat.

Launches

3. In order to make up the inadequacy in sea-going launches, 38 confiscation launches have been appropriated for anti-smuggling work. Some small launches built in an Indian yard have also been procured. Suitability of other launches (seized from time to time) for anti-smuggling work was also examined to that more confiscated launches can be pressed into service. The High level Study Group set up by the Cabinet Secretariat to examine and advise on the overall requirement of fast sea going crafts, interceptors and other logistic support that would be necessary for anti-smuggling operations has since submitted its report, and it is currently under examination.

Vehicles

4. 396 vehicles, cars, station wagons have been provided for anti-smuggling work to Custom Houses/Central Excise Collectorates recently.

Wireless Communication

5. A Pilot Cell has been sanctioned for evolving a scheme for providing wireless net-work along Western coast.

Arms and Ammunition

6. Instructions already exist for equipping our officers with arms and ammunition. Every effort is being made to provide rifles to sepoy and revolvers to officers. Recently, the Ministry of Home Affairs have allocated to us 100 imported revolvers for use by the officers for anti-smuggling duties.

Binoculars, Walkie-talkie sets, gold detectors, Tape-Recorders and Picker-Fluoroscopic units

7. These equipments have been provided where considered necessary for interception and investigation purposes. Recently, 256 binoculars have been sanctioned for preventive work. In addition confiscated items like tape-recorders, and binoculars have been brought into use. Five picker-fluoroscopic units have been brought into use at five important Foreign Post Offices for screening packages suspected to contain contraband articles.

Encouragement to the officers

8. In addition to cash rewards which are given to officers other than class I officers as an incentive officers are also given appreciation certificates (i) for exceptionally meritorious service rendered in undertaking a particular task even at the risk of life, and (ii) for specially distinguished record of service. Officers in category (i) belonging to class II, III and IV are also granted cash allowance.

Rewards to public

9. In order to encourage the public to come forward with information regarding smuggling, Government has introduced a scheme for the payment of rewards. In order to streamline the procedure for sanction of reward and to remove grievances regarding the delay in the payment of the rewards, the Government have appointed a Committee which is going into the question of prompt disbursement of rewards. The Committee's report has since been submitted and orders have been issued.

Legislative Measures

Amendment of the Customs Act

1. In March, 1969, the Customs Act was amended in order to provide for control over internal transactions in certain categories of goods of which the smuggling is on a substantial scale. On the import side certain categories of goods have been notified to which additional regulatory measures will apply except when they are for personal use. These measures include requirements regarding intimation of the place of storage, maintenance of accounts, transport and sale under cover of vouchers and reasonable precautions before acquisition on the export side a specified area extending to 50 kilometers in width from the west coast and that part of the east coast which falls within the state of Tamil Nadu has been notified within which the regulatory provisions will apply in regard to silver, bullion and coins.

Proposal for enhancement of punishments in certain cases

2. The Customs Act provides for the stringent punishment in cases of smuggling. There is a provision for a minimum sentence for 6 months and maximum sentence of 5 years, in cases where the Indian market price of smuggled goods exceed Rs. 1 lakh. However, a recent study made on the punishment awarded by courts in various States indicated that even in proved cases of smuggling in which the courts could have awarded high sentences, the sentence awarded was much less. It is, therefore, proposed to amend the relevant provisions in the Customs Act to provide for deterrent punishment for smuggling of gold and other goods. The Law Commissioner's recommendations have just been received and are under Govt's consideration.

Gold Control Act

3. In 1963, the Gold Control Act was introduced with a view *inter alia*, to supplementing the anti-smuggling efforts with a detailed system of control over internal transactions in gold so as to make the circulation of smuggled gold more difficult. In its original form the core of the Gold Control was the 14 carat purity restriction on manufacture of ornaments. With the withdrawal of the 14 carat restriction on manufacture of ornaments in November, 1966, a ban has been imposed on private possession of primary gold with a provision for declaration of ornaments above specified limits. As refineries were believed to be important link in the chain of agencies handling contraband gold, the licences of private refiners have also not been renewed for the year 1969. The Government Mint has been licensed under Gold Control law to render service to the gold trade for its refining needs.

Other Measures

4. All these measures are being taken in addition to the usual vigilance at the port, airports, land customs stations and in important commercial centres inside the country by the officers of the Customs and Central Excise so as to prevent smuggling and to detect smuggled goods. Checks of vessels and conveyances coming from abroad and scrutiny of imports and exports is being made by the officers of Customs at the ports, airports and land customs stations.

Difficulties faced in anti-smuggled Efforts

Some of the difficulties being faced in anti-smuggling efforts are :

(i) In view of the size of the country with its long frontiers and coast line extending over thousands of miles it is not practicable to effectively man all the points through which goods can be smuggled into the country.

(ii) Shortage of sea-going crafts makes interception of smugglers launches at high seas difficult.

(iii) Compact volume of gold, watches, etc. being suitable for concealment on the person of smugglers and in passengers' baggage to make its detection difficult.

(iv) The ease with which gold can be converted into ornaments rendering the detection of smuggled gold difficult. Since there is no restriction of purity or otherwise in the acquisition or sale of genuine ornaments, it is difficult to prove the smuggled nature of gold once it is converted into ornaments.

(v) The persistence of internal demand of gold because of social customs and conditions in the country, which offers a lucrative market to gold smugglers.

(vi) The craze for foreign consumer articles.

(vii) Shortage or absence of internal production in articles like watches, synthetics fabrics, clothes."

1.27. The Committee are concerned over the significant fall in revenue amounting to Rs. 26.36 crores in receipts from Custom Exports during the year 1969-70. From the statement furnished by the Ministry of Finance, the Committee find that the export value of Jute manufactures fell from Rs. 218.01 crores in 1968-69 to Rs. 206.66 crores in 1969-70 and that

of Tea from Rs. 156.51 crores to Rs. 124.50 crores. The Committee desire that Government in the Ministry of Foreign Trade should look into the reasons for fall in the export of these and other commodities with a view to taking necessary export promotion measures.

1.28. The Committee note that the Department is paying rewards to the informers who give useful information about the goods being smuggled into the country. The rewards are paid within an overall ceiling of Rs. 15 per tola in case of gold and 10% of the estimated market price in India of other confiscated goods. The Collectors are also authorised to pay advance awards (50% of the expected final award) immediately on seizure of goods.

1.29. The Committee feel alarmed about the magnitude of the problem of smuggling in the country. The Committee were informed during evidence that the Department were catching "Only a small percentage of what is coming into India and therefore, the problem is much more gigantic and much bigger than we were able to tackle". The Committee are unhappy that in spite of the awareness of the problem and repeated requests from Custom Houses, the Department have failed to provide the Custom Houses with launches in adequate number and of required speed in the country. The Committee desire that the Ministry should ensure that the preventive network is strengthened by providing the requisite anti-smuggling equipment and staff with necessary powers.

1.30. The Committee further desire that an early decision should be taken by Government on the report of the Study Group set up by the Cabinet Secretariat regarding the requirement of launches.

Cost of Collection

Audit Paragraph

1.31 The expenditure during 1969-70 in collecting customs receipts together with the corresponding figures for the preceding years is shown below :

	(In crores of rupees)	
	Custom collec- tion	Expendi- ture on collec- tion
1966-67	585.37	5.48
1967-68	513.35	5.61
1968-69	446.50	6.78
1969-70	423.31	7.83

[Paragraph 7—Report of the Comptroller and Auditor General of India for 1969-70 on Revenue Receipts.]

1.32 The Committee desired to know the reasons for the increase of expenditure of the Customs Department from Rs. 5.48 crores in 1966-67 to Rs. 7.83 crores in 1969-70. The Finance Secretary stated : "Part of the increase would be due to increase in the dearness allowances of the Government servants. That is reflected in this. But it is not fully reflected. I notice under union excise, but it is really reflected under the other heads on corporation tax and the income tax. There has also been a substantial

increase in staff on anti-smuggling work under Customs." The Committee desired to know the break-up of expenditure on collection and anti-smuggling and preventive work. The witness stated: "We will try to make some estimate of the special staff which has been sanctioned for preventive work, though prevention is also part of the responsibility of the normal staff." The Committee desired to be furnished with a note showing (a) the reasons for increase in expenditure on collections giving break-up of (i) normal increase due to increment, increased allowance etc. and (ii) increase due to additional staff, category-wise and (b) break-up of expenditure on collections during each of the years 1966-67 to 1969-70 as between the expenditure incurred on normal assessment and collection work and that on anti-smuggling and preventive work.

1.33. In a note furnished to the Committee the Ministry of Finance have furnished the following break-up of expenditure under the "Customs" grant for the years 1966-67 and 1969-70 :

	Expenditure (In crores of rupees)		
	1966-67	1969-70	Increase (+) Decrease (-)
(i) Salary of officers and Establishments	1.44	1.61	(+) .17
(ii) Allowances and Honoraria	1.23	1.70	(+) .47
	2.67	3.31	(+) .64
(iii) Other charges (including various other Misc. heads)	.33	.93	(+) .60
(iv) Estt. charges paid to other Govt. Departments (DGP&T)17	.14	(-) .03
(v) Charges paid to Union Excise Deptt. (for outports and Land Customs)	2.31	3.45	(+) 1.14
	5.48	7.83	(+) 2.35

1.34. As regards break-up of expenditure between collection work and anti-smuggling and preventive work, it has been stated that the expenditure in the Customs grant is not booked on 'Function-wise' basis and as such, it is difficult to separate the exact expenditure on 'Preventive Functions' and 'Other Functions' during the years 1966-67 to 1969-70. However, an attempt has been made to work out estimated expenditure incurred on 'Preventive Functions' and 'Other Functions' during the above years. The break-up of the estimated expenditure is shown below :

Year	EXPENDITURE			
	B-Sea Customs Charges at Major Ports		Charges paid to the Union Excise Department for Outports and Land Customs	
	Preventive Functions	Other Functions	Mostly Preventive Functions	Preventive Functions
	(Figures in crores of Rupees)			
1966-67	1.27	1.90	2.31	
1967-68	1.29	2.04	2.28	
1968-69	1.99	2.17	3.02	
1969-70	2.03	2.35	3.45	

1.35. The Committee are concerned to find that while the Customs Receipts are decreasing the expenditure on their collection is continuing to increase. The Customs Receipts have decreased from Rs. 585.37 crores in 1966-67 to Rs. 423.31 crores in 1969-70, while the expenditure on collection increased from Rs. 5.48 crores to Rs. 7.83 crores. From the break-up of expenditure furnished to them, the Committee find that out of the total expenditure of Rs. 7.83 crores the estimated expenditure on preventive functions accounted for Rs. 2.03 crores, charges paid to the Union Excise Department for Outports and Land Customs (mostly preventive functions), Rs. 3.45 crores and other functions Rs. 2.35 crores. The Committee have been informed that as the expenditure in the Custom Grant is not booked on function-wise basis, it is difficult to separate the exact expenditure on preventive functions and other functions. In para 1.21 of their 8th Report (Fifth Lok Sabha) the Committee suggested that the Ministry should examine in consultation with Audit the desirability of maintaining separate accounts for these activities. The Committee desire that this examination should be expedited so that a more objective and realistic appraisal of the expenditure on these two activities could be made.

1.36. The Committee find that there is substantial increase in charges paid to the Excise Department for Outports and Land Customs from Rs. 2.31 crores in 1966-67 to Rs. 3.45 crores in 1969-70. The charges paid to the Excise Department work out to about 44% of the total expenditure of the Customs Department. The Committee suggest that it should be examined whether the charges paid to the Excise Department for Outports and Land Customs are worked out on a scientific and rational basis.

1.37. The estimated expenditure on other functions of the Customs Department has increased from Rs. 1.90 crores in 1966-67 to Rs. 2.35 crores in 1969-70. In view of the fact that there is considerable reduction in Custom Revenue, the Committee would like Government to examine the feasibility of effecting economy in expenditure on collection.

Results of Test Audit

Audit Paragraph

1.38. Test audit of the records in the various Customs Stations revealed under-assessments and losses of revenue amounting to Rs. 39.83 lakhs. In some cases, however, the full amount of short levy or loss of revenue has not yet been intimated to Audit.

Over assessments of Rs. 3.40 lakhs were also noticed during test audit.

[Paragraph 9 of the Report of the Comptroller and Auditor General of India for the year 1969-70 on Revenue Receipts]

1.39. The Committee pointed out that test audit by Revenue Audit had revealed under-assessment amounting to Rs. 39.83 lakhs. The Member of the Board stated during evidence : "So far as the figures of 39 lakhs is concerned, this was disputed by us at the draft para stage. The officers of the Auditor General did agree to drop the figure of 33 lakhs which was due to landing charges. Actually in the concerned paragraph it has been dropped, but it appears that in so far as this general para is concerned, it has not been dropped from that. From the concerned para it was dropped because it was agreed that this was a conjectural figure.... If you leave this

amount which is due to one kind of objection, Rs. 33 lakhs, the balance will be 6 lakhs. I submit that when there is a realisation of about Rs. 500 crores, objections out of that for a total of 6 lakhs forms a very small proportion."

1.40. The Committee asked if the Ministry were satisfied with the working of Internal Audit which carried out cent per cent check of the assessments. The witness replied: "I am fully satisfied with the working of the Internal Audit after the reorganisation we have done. Prior to that, we were not satisfied, hence the reorganisation. The reorganisation was done in middle 1969."

1.41. The Committee desired to be furnished with a note giving an appraisal of the working of the internal audit after the reorganisation. In a note the Ministry of Finance have stated as under :

"A number of measures were taken by the Government to strengthen the Internal Audit Department in the major Custom Houses. Additional staff was sanctioned for strengthening the Internal Audit Departments in Bombay, Calcutta and Madras Custom Houses in March, 1969. Prior to the reorganisation, the Audit Departments in the Custom Houses were manned exclusively by ministerial staff. After reorganisation, with a view to improve the quality of assessment appraisers were inducted into the Audit Departments. In accordance with the instructions issued under Central Board of Excise and Customs letter F. No. 55/82/70-Cus. IV dated 19th September, 1970, all bills of entries (value of any entry exceeding Rs. 20,000) which are required to be endorsed to the Assistant Collectors in accordance with the instructions issued in Central Board of Excise & Customs letter F.No. 21/31/67-Cus. IV dated 19th September, 1970, are audited by Appraisers in the Audit Departments. Besides this, 20-25% of the remaining bills of entries are selected and audited by Appraisers. With the posting of experienced Appraisers in the Internal Audit Departments, it is now easier to audit effectively even complicated and technical assessment cases. To enhance usefulness of the Internal Audit Department, as a result of reorganisation, most of the primary workers at the level of LDC were upgraded to the level of UDCs. The UDCs are required to do cent per cent audit of all assessment documents. The Internal Audit Departments in the Bombay and Calcutta Customs Houses are now headed by Deputy Collectors whereas at Madras and Cochin the officer in charge is an Assistant Collector of Customs.

"In order to ensure that assessment audit is complete in all respects, after reorganisation, stress is laid on proper selection of appraising personnel for work in the audit departments. No Appraiser with less than 3 years appraising experience is posted in the Internal Audit Department. Computists have been provided for facility of calculation checks and for ensuring that errors due to miscalculation are kept to the minimum. Appraisers and Auditors concentrate on all aspects relating to application of countervailing duty, correct rates of duty and classification and valuation which are common areas of errors in assessment. All officers required to audit assessment documents are required to keep up-to-date Tariff Schedules and Tariff Guides. Tariff Advices issued by the Board from time to time are also primarily made available to them. Regular indices of special valuation circulars are also maintained, supplier and importer-wise, in order to ensure that loading of invoice value, wherever necessary, is not lost sight of.

"A statement showing the number of cases and their money value (i) for under-assessments and (ii) for over-assessment noticed by the Internal Audit Departments of major Custom Houses during the years 1968-69 *i.e.* prior to reorganisation and 1969-70 *i.e.* after reorganisation is given below :

Custom House	Year	No. of cases of under-assessments	Money value (Rs. in lakhs)	No. of cases of Over-assessments	Money Value (Rs. in lakhs)
Bombay	1968-69	1135	33.10	930	21.16
	1969-70	1624	40.21	1097	23.12
Calcutta	1968-69	388	6.64	400	6.81
	1969-70	470	13.38	323	5.73
Madras	1968-69	786	10.00	819	14.18
	1969-70	884	43.59	830	19.78

"It will be seen that in Bombay, Calcutta and Madras Custom Houses the number of objections raised by the Internal Audit Departments and the value of such objections after reorganisation showed increase as compared to the period prior to reorganisation.

"The working of the Internal Audit is reviewed by the Board whenever considered necessary. Before reorganisation in 1969, a review of the working of the Internal Audit in Major Custom Houses was done by the Board in 1968. In order to assess the results of the reorganisation, at the instance of the Board, the Directorate of Inspection (Customs and Central Excise) reviewed the working of the Internal Audit Departments in major Custom Houses in August-September, 1970. The Directorate of Inspection will be undertaking another review shortly as directed by the Board."

1.42. The Committee desired to know as to why the number of cases and value of under-assessments detected by internal audit during 1969-70 in Calcutta Custom House were lower. In a written reply the Ministry of Finance have stated : "The number of cases and value of under-assessments detected by the Internal Audit during the year 1969-70 in Calcutta Custom House were lower than the number of cases and value of under-assessments detected by Bombay and Madras Custom Houses. The performance of the Internal Audit Department in Calcutta Custom House during the year 1969-70 showed improvement over the performance during the year 1968-69. Directorate of Inspection has been asked to make a study. Since this will involve a comparative study of the working of Audit in these three major Custom Houses, it will be some time before the study is completed."

1.43. The Committee note the improvement in the working of the Internal Audit Department as a result of the reorganisation of the Department effected in March, 1969. The results of Internal Audit in Bombay, Calcutta and Madras Custom Houses revealed that during the year 1969-70, 2978 cases of under-assessments involving an amount of Rs. 97.18 lakhs were detected as against 2309 cases involving Rs. 49.74 lakhs in 1968-69.

The Internal Audit Department also detected 2250 cases of over-assessment of duty involving an amount of Rs. 48.63 lakhs in 1969-70 as against 2149 cases involving Rs. 42.15 lakhs during 1968-69. The Committee, however, find that the performance of the Internal Audit Department in the Calcutta Custom House has not shown much improvement as compared with the Custom Houses in Bombay and Madras. During the year 1969-70, the Internal Audit Department of Calcutta Custom House detected only 470 cases of under-assessment involving an amount of Rs. 13.38 lakhs and 323 cases of over-assessment involving an amount of Rs. 5.73 lakhs. The Committee were informed during evidence that the Directorate of Inspection had been asked to undertake a study of the working of the Internal Audit Department in Calcutta Custom House. The Committee desire that this study should be completed as early as possible and necessary steps taken to improve the working of the Department.

1.44. The Committee note that with the reorganisation of the Internal Audit Department, appraisers have been inducted into the Department with a view to improving the quality of assessment work. All bills of entries containing value of any entry exceeding Rs. 20,000 which are required to be endorsed to the Assistant Collectors and 20-25% of the remaining bills of entries are being audited by the appraisers. The Committee desire that the procedure should be kept under watch with a view to increasing the percentage of bills to be audited by the appraisers. The Committee also suggest that the area of audit by the appraisers and auditors should be enlarged to cover all aspects which are at present being covered by the Revenue Audit.

Incorrect computation of assessable value

Audit Paragraph

1.45. In computing the assessable value of certain export goods in a Customs port, the freight charges paid in Canadian dollars were deducted from the C.I.F. value in U.S. dollars without converting the Canadian dollars to equivalent U.S. dollars. As the rate of exchange for U.S. dollar to a rupee was less than for Canadian dollars, the assessable values adopted were lower resulting in short levy of export duty. Audit after pointing out the short levy in one case requested the Custom House to review all past cases. On a review the total short levy of customs duty was found to be Rs. 59,376 out of which a sum of Rs. 21,493 has been recovered so far.

[Paragraph 10 of the Report of the Comptroller and Auditor General of India for the year 1969-70, on Revenue Receipts.]

1.46. The Committee desired to know how the mistake occurred and whether it was detected by the Internal Audit. The Member of the Board stated: "This was a very peculiar type of invoice. The value in the contract was the c.i.f. value. It was a case of exports. It was indicated in US dollars, but the shipping company had charged the freight in Canadian dollars. As you know, in the case of exports there is usually an anxiety to pass the documents quite quickly after applying the checks and it did not occur to them that this was not the same type of dollars as was given in the total c.i.f. price. So he made a reduction of the amount straightaway without realising that this was Canadian dollars and not US dollars. The Finance Secretary added: "This was a genuine mistake, because apparently in the

same document both US dollars and Canadian dollars were mentioned. We should have been more careful on this matter. I admit that "the internal audit also did not detect it. It was a mistake." The Member of the Board stated: "I would also submit that our instructions to the assessing officers are that the greater the magnitude of the value or duty in a particular consignment, the greater the emphasis that they should give to the scrutiny of it. In these two or three instances the amount involved is only Rs. 1,400." Asked if action was taken against the officer concerned, the Finance Secretary stated: "He has accepted the error of computation. He has made the mistake and he has admitted it."

1.47. Referring to the figure Rs. 59,376 mentioned as short levy in port cases in the Audit paragraph, the Member of the Board stated: "The figure which is given as Rs. 59,000 is in respect of a different thing altogether; not on account of this. The difference arising out of the conversion was about Rs. 1,400. The Collector of Customs, while looking into this objection checked other cases. Many times in the case of the c.i.f. consignment from the tables the freight is taken and it is deducted. The freight which is given in the tables may be somewhat slightly different from the actual thing which has been paid. Therefore, he went into all the shipping bills and then on the difference between the actual and table rates he found there was a difference of Rs. 59,000. That was in a very large number of cases." The Finance Secretary stated: "Due to the conversion as between Canadian and US dollars the loss is less."

1.48. Asked about the position of recovery, the Finance Secretary stated: "Till August, 1971, a little over Rs. 32,000 had been recovered."

1.49. At the instance of the Committee, the Ministry of Finance have furnished a note showing another similar case detected by Audit which concerned import. In that case a Government Undertaking imported a consignment of Urea from Canada ex S. S.-Everlife and filed a Bill of Entry on 17-7-69 under prior entry system. The local Central Revenue Audit Department pointed out the rate of exchange, applicable from 19-7-69 was 14.13 Canadian dollars for Rs. 100 and not 14.22 and there was a less charge of Rs. 2,802. Bombay Customs accordingly issued a less charge demand for this amount. In reply to the less charge demand the party pointed out that the freight charges were in USA dollars and not Canadian dollars. Hence the amount of less charge was re-calculated and a sum of Rs. 7197 was recovered. The mistake in application of correct rate of exchange with reference to the date was not detected by the Internal Audit Report through oversight. The mistake about the freight being in US dollars was not detected by Internal Audit Department or Central Revenue Audit Department.

1.50. The Committee find from the two cases brought to their notice that mistakes occurred in converting Canadian dollars into Rupees for the purpose of levy of customs duty, due to confusion between the US dollars and Canadian dollars. The Committee desire that necessary instructions should be issued by the Board to the Custom Houses to avoid confusion in conversion of the currencies bearing the same name prevalent in different countries. The Internal Audit Department should be particularly vigilant in auditing the conversion calculations.

Non-levy of countervailing duty

Audit Paragraph

1.51. With effect from 1st March, 1963 Polyvinyl Pyrolidon (hereinafter referred to as P.V.P.) was being assessed under Tariff item 28A of the Indian Customs Tariff read with item 14-E of the Central Excise Schedule, if imported in packings of less than 1,000 adult doses and under item 28 of the Indian Customs Tariff with no countervailing duty, if the packing was above 1,000 adult doses. P.V.P. imported falls into three grades :

- (1) injectable grade for use as blood-plasma substitute;
- (2) tablet grade for use in tablet coating; and
- (3) technical grade for use as textile auxiliary.

It was pointed out that countervailing duty was leviable in respect of assessments made under item 28 because P.V.P. should be considered as a 'synthetic resin' falling under Tariff item 15A of the Central Excise Schedule. The findings of the Deputy Chief Chemist also supported this view. When the matter was referred to the Central Board of Excise and Customs by the Collector of Customs concerned in June, 1965, it was ruled in March, 1968 that P.V.P. of industrial grades for coating tablets or for use of textile industry should be assessed under item 87. of the Indian Customs Tariff and countervailing duty under 15A of the Central Excise schedule should also be levied.

Consequently short levies aggregating to Rs. 1,95,910 on account of countervailing duty were realised in 45 cases in one Custom House for the period from August, 1964 to December, 1967.

[Paragraph 11(i) of the Report of the Comptroller and Auditor General of India for the year 1969-70 on Revenue Receipts]

1.52. The Committee desired to know the reason why a period of 2½ years was taken by the Board to give a ruling on a reference made by the Collector in June, 1965. The Member of the Board stated: "The issue involved in this particular case had a bearing on a rule that was issued in 1956 for the first time. Thereafter we had to examine the implications of certain budget changes which has been made in the Customs Tariff Entry of 1963 and, then, when it comes to a question of determining the appropriate countervailing duty, we have also to look at the appropriate Central Excise classification under which this would fall. So, in the process of examining all these issues, we had also to consult our Chief Chemist at least on two occasions. Cumulatively this led to some time-lag. Some part of it might have been avoidable, but some of it was really necessary because of the complicated nature. I would only submit that the whole issue arose out of the Audit objection raised in the Bombay Customs House and the Collector had taken all the necessary precautions to ensure that from the time the objection was raised, there was absolutely no possibility of loss of revenue. In fact, in respect of every one of the 45 cases where clearance had taken place without the levy of countervailing duty in the first instance, demands had been issued and recoveries have been effected. So, there has effectively been no loss of revenue. "Asked whether there was no review of the Board's ruling of 1956, the witness added: "There was no review till this issue was raised by Audit and the Bombay Customs House referred the matter to us. The Collector of Customs, Bombay simultaneously referred it to the other ports and also requested them to give their views and practice to the Board. After we received the reports

of all the Customs Houses, the process of further scrutiny, looking into the old records, consultation and the rules that might have been issued in relation to items under the Central Excise Tariff, had all to be studied before we could give a final ruling. That naturally took some time."

1.53. The Committee enquired whether there was the practice of periodical review of the rulings issued by the Board regarding Duty Leviable on P.V.P. and, if so, why in this case the practice was not followed. The Ministry have stated in written reply: "There is no fixed procedure for periodical review of Tariff Rulings or Tariff Advices issued by the Board. The Collectors of Customs at the ports, who actually administer the Tariff, report to the Board whenever they feel that changed conditions in respect of types of goods imported etc. have rendered a Tariff Ruling Advice incorrect or inappropriate. Such a reference was in this case made by the Collector of Customs, Bombay in June, 1965 when the matter was examined by the Board. In the course of consideration of fresh question of tariff classification, principles followed in the past are also reviewed and earlier advices modified, whenever called for in the light of such consideration."

1.54. The Committee asked whether in 1956 the Board knew that this product P.V.P. was used in industrial concerns. The Secretary stated: "In 1956 the Board was advised that though it could be used for industrial purposes, there was no such industrial use in India and it was only being used as a substitute for blood plasma. Therefore, the clarification in 1956 related only to its use as blood plasma, but it subsequently came to be used for industrial purposes in India."

1.55. The Committee enquired about practice followed in other Customs Houses in regard to levy of duty on P.V.P. The Ministry of Finance have stated in a note: "In Madras and Cochin Customs Houses no imports of Polyvinyl Pyrolidone had been noticed prior to the issue of Board's Tariff Ruling No. 2/68 dated 16th March, 1968 and hence there was no practice of assessment. In Calcutta Custom House during this period pure P.V.P. was being levied under item 14-E, C.E.T. The Collector of Customs on verification has reported that during this period there had been three cases of assessment of technical grade of P.V.P. under item 28 ICT in his Custom House. Further information such as amount of short-levy of duty etc. could not be ascertained as relative records have been destroyed."

1.56. The Committee drew attention to the recommendation in para 1.22 of their 110th Report (Fourth Lok Sabha) that objection raised by Audit should be resolved within 3 months or so. The Chairman of the Board stated: "There is a very big improvement in the situation since the matter was discussed some time ago. Now most of the tariff instructions and rulings are discussed in a conference of the Customs Collectors. It does not take place in Delhi; it takes place in the ports so that practical experience may be available to the people concerned about actual working. The Member concerned goes from Delhi and issues are settled soon except very controversial issues which may take some time." The Finance Secretary stated: "It is only in a comparatively small number of very complicated cases which cannot be resolved in those meetings that delays take place. . . . I must admit that as soon as an objection is received or any point of doubt is raised, it may be watched carefully to see whether it is settled within three or four months. The Board must devise a procedure whereby delays do not take place."

1.57. It was suggested that the Board should keep a register in which the objections which were received were entered and the time of disposal noted so that they could consider whether the procedure was effective or not. Secondly, the Board should make it a part of responsibility of Internal Audit to raise such objections about the levy of countervailing duty. The Finance Secretary stated: "It would be part of the function of the Internal Audit. We can rigidly follow this instruction. I would certainly accept the suggestion that the Board should have a special register where the objection is entered with its date of disposal. Now the Board sends a member to the customs house for discussion. But I think they should have a special meeting themselves every three weeks or month when the pending objections are discussed and ruling given so that the time-lag is reduced."

1.58. The Committee enquired why the Internal Audit could not send a copy of the report to the Auditor General. The Secretary stated: "There is no objection."

1.59. With regard to the rationalisation of the classification of goods, the Finance Secretary stated: "The bill was introduced in Parliament but, unfortunately, it lapsed with the dissolution of the Lok Sabha. It will have to be introduced again."

1.60. Asked about the outcome of proposal to set up a Central Exchange of Classification and Evaluation, the Finance Secretary stated: "A decision has been taken that we should set up a central exchange and we are making a beginning with a small unit to see how it works. Then we will see to what extent expansion of that exchange is required. We have not yet set up this cell. The details are being worked out in consultation with the other divisions of the Finance Ministry."

1.61. The Committee are not happy over the delay in the giving of ruling by the Central Board of Excise and Customs in this case. This was referred to the Board by the Collector in June, 1965 but the Board gave a ruling in March, 1968 that the P.V.P. of industrial grades for coating tablets or for use of textile industry should be assessed under item 87 of the Indian Customs Tariff and countervailing duty under 15-A of the Central Excise should be levied. In para 1.22 of their 110th Report (Fourth Lok Sabha), the Committee had suggested that the objections raised by Audit should be resolved within 3 months. The Committee have been informed that under a revised procedure, a Member of the Board goes to the various Customs Houses and settles objections after discussions with the officers on the spot. The Committee hope that as a result of this procedure delay in giving clarifications and rulings by the Board on the references made by the Collectors and objections raised by Audit will be avoided.

1.62. The Committee suggest that the Board should maintain a register in which Audit objections should be entered and keep a watch over their disposal so that objections are normally disposed of within the time limit of 3 months.

1.63. The Committee have already suggested that the scope of the Internal Audit should be suitably enlarged. The Committee would particularly like to emphasise that the cases of levy of the countervailing duty should be subjected to careful scrutiny by the Internal Audit Department.

1.64. The Committee hope that the bill regarding Rationalisation and Classification of Goods would be reintroduced in Parliament as early as possible. The Committee desire that the necessary details for setting up of a Central Exchange of Classification and Evaluation should be finalised expeditiously.

Loss of revenue due to delay in revising the rates of landing charges

Audit Paragraph

1.65. Landing charges form part of the value of the goods under section 14 of the Customs Act, 1962. For this purpose, the Customs Houses fix a flat rate of landing charges. According to Board's instructions issued in November, 1963, these charges are required to be reviewed periodically at least once in two years and even at shorter intervals, if changes in the rates prescribed by the Port Trust authorities warrant the same.

A major Custom House did not revise till February, 1968 the rate of landing charges fixed in April, 1965 even when there had been a substantial rise in the Port Trust rates. From June, 1966 to November, 1966, the Port Trust authorities had collected a sum of Rs. 170.68 lakhs as landing charges on Cargo. But the Custom House while computing the assessable value of imports relating to the said period had made an addition of only Rs. 70.10 lakhs on account of landing charges. The extent of loss that had occurred on account of the delay in revising the rates of landing charges could not be worked out for want of relevant documents indicating value of goods imported during this period. The Ministry have replied that though action was initiated to review the landing charges in December 1966, the actual revision could not be notified earlier than February, 1968 because of difficulty in collecting necessary statistics.

In another Custom House a flat rate of landing charges of Rs. 5.85 per ton fixed in 1960 was continued to be applied without any review. There was an increase in the rate of landing charges from February 1963 by way of a surcharge of 20 per cent imposed by Port Trust authorities. The increase was brought to the notice of the Custom House by Audit in May, 1964 suggesting a revision of the existing rate, but the Custom House did not revise the rate till March, 1966. The extent of loss on account of delay in the revision of rate has not been intimated. The Ministry have replied that the Department tried to review the landing charges twice in 1964 but owing to opposition from trade interests the proposals were dropped.

[Paragraph 12 of the Report of Comptroller and Auditor General of India for 1969-70 on Revenue Receipts.]

1.66. Referring to the delay in revision of landing charges, the Committee desired to know the procedure for revising landing charges. The Finance Secretary stated, "This whole question of landing charges, it is disputable whether there has been loss of revenue or not and what should be the system of review." The Member of the Board stated, "If we want to arrive at the landing charges realistically we should add the landing charges incurred for each consignment. That will mean delay of another two or three days before the consignment can be cleared because after our people have cleared it they have to go to the Port Trust and it will take a day to collect the landing charges. Then the calculations have to be done and payment made. So, it will mean a delay of at least 2 to 3 days if one were meticulous with regard to addition of landing charges. Therefore, ever since

we know it is an agreed thing between the trade and the Customs House that some sort of agreed percentage should be added as a compromise for purposes of landing charges. It is revised from time to time. While many a time it works against the trade, at times it works against the government. But if one were to take it for a period of ten years the pluses and minuses should even out." As regards the time prescribed for revision, the witness stated, "As and when the Collector feels that there has been any significant change in the landing charges he should take steps to revise the landing charges. Otherwise, it should be done every two years. But this two years limit is not a statutory limit. If there is nothing particularly urgent, he can do it later also."

1.67. The Finance Secretary agreed that "as a rule the Collector should be in touch with the port trust and whenever there is any variation he should consider whether any change in the landing charges is needed." The witness added: "There should be a procedure whereby as a normal rule every two years it has to be seen whether any change is called for or not, and earlier in case any change in rates has taken place."

1.68. The Committee enquired how it was ensured by the Board that review of landing charges was made promptly by various Customs Houses. In a note, the Ministry of Finance (Department of Revenue and Insurance) have stated, "Instructions (F.No.3/1/63-Cus. VI dated 29-4-64) have been issued by the Board to review rates of landing charges once in every two years and at shorter intervals if changes in the rates prescribed by the Port Trust authorities warrant the same. In order to ensure that reviews are undertaken in time, the Board has issued instructions (F.No. 520/29/71-Cus. VI dated 10-11-71) for adhering to the periodicity of such reviews and to maintain guard files for this purpose."

1.69. The Committee asked the reasons for not revising the landing charges immediately after there was a substantial rise in the Ports Trust rates. The Member of Board stated, "In this case also the revision was taken up earlier than two years; after one year and eight months to be exact. But, unfortunately, on account of the difficulty of getting statistics from the Port Trust it took an unduly long time. They wanted to be a little meticulous in the sense, they wanted to deduct the figure of coastal cargo from other cargo."

1.70. It was suggested that action should be taken against the Collectors if there was laxity in following the instructions of the Board and that the Internal Audit Department should also check this aspect. The Chairman of the Board stated, "When the Board's order is issued it should be obeyed and if anybody has been lax, we should see that this type of laxity does not recur. We also agree that it should be one of the functions of the internal audit to look into this. I may make only one observation; when we say two years, it implies that it will be initiated within two years, but completed in a reasonable time. Usually it takes three to six months to collect all the information and that little delay is likely to be there."

1.71. The Committee enquired about the estimated loss of revenue due to late revision of landing charges. The Chairman of the Board stated, "Probably there was no loss of revenue. The landing charges in Calcutta were fixed in April 1965 at .4%. The calculation that had been arrived at after taking into consideration the landing charges by Port Commissioner actually had come to .25% but as a matter of abundant caution, the Collector of Customs, Calcutta at this stage had fixed these rates at .4%. Now in June,

1966 when the devaluation came, the Port Commissioner raised their charges by about 50%. Calculating even on that basis, .25 would have become about .38%. Still it was less than .4%. So because the rates had been fixed much higher than the circumstances justified, from that point of view there could not have been any loss." "There is another slightly different way of calculating the same, even if we were to assume that .4% was the proper rate earlier. The charges levied by the Port Commissioner are by and large specific; that is to say that if earlier they were 50 p. per tonne, after a rise of 50%, it will be 75 p. As a result of the devaluation, the same tonne of goods which would have cost 100 rupees earlier would have cost over 150 rupees. Because our landing charges are on a percentage basis therefore .5% of 150 also comes to .75 p. In other words, merely because the Port Commissioner in June, 1966 raised the charge by 50%, it did not automatically follow that our percentage of .5 should have been raised because their basis was specific by and large, whereas the landing charges added by the Customs are *ad valorem*. But in any case this argument apart, since earlier in June, 1965 the percentage fixed was higher than calculated at that time, therefore, one can reasonably take a view perhaps that there was no loss."

1.72. According to Audit the loss due to delay in revision of landing charges was 'a little over one crore of rupees'. The Finance Secretary informed the Committee that the Ministry would work out their calculations and show them to Audit.

1.73. In a written reply the Ministry have stated, "The rate of landing charges fixed from 31-3-65 was 0.4% though the actual percentage of landing charges worked out was 0.25%. Therefore, it is obvious that the Custom House was charging more for some period. It is not practicable to work out the exact amount of excess collection as it will involve scrutiny of thousands of Bills of Entry. As was explained during the course of the oral evidence there was excess collection during the earlier period and there was less collection during some latter period and in the long run these would tend to even out."

1.74. The Committee see no justification for the delay that occurred in these two cases in revising the rate of landing charges. The delay has involved the Government in a loss of over a crore of rupees as worked out by Audit. The Ministry of Finance have not however furnished any calculations of their own. In the first case the Customs House did not revise the rates fixed in April, 1965 till February, 1968 even though there had been a substantial rise in the Port Trust rates. In the other case the rates fixed in 1960 were continued till March, 1966, even though there was an increase in the rates of landing charges from February, 1963 by way of surcharge of 20% imposed by Port Trust Authorities and this increase was brought to the notice of the Custom House by Audit in May, 1964. The Committee find that according to instructions issued by the Board, review of the landing charges is required to be undertaken by the Custom Houses once in two years and at shorter intervals if changes in the rates prescribed in the Port Trust Authorities warrant such action. The Committee desire that the Board should take serious note of the cases where Collectors fail to review the landing charges within the period prescribed by the Board or at shorter interval, if necessary. These reviews should be completed by the Collectors expeditiously after taking into account the relevant statistics etc. The Committee suggest that the Board may lay down some reasonable time-limit for completing the reviews.

1.75. The Committee also suggest that the Internal Audit Department should look into the causes of delay in revision of landing charges.

Excess collection due to the application of wrong rate of duty

Audit Paragraph

1.76. The rate of export duty applicable in the case of shipping bills filed prior to the date of entry outwards of the vessels, is the rate prevailing on the date of such entry outwards according to proviso to section 16(1) of the Customs Act, 1962. If the goods have been assessed and the duty levied prior to entry outwards, such assessments have to be revised with reference to the duty leviable on the date on which entry outwards is given.

Tea was completely exempted from the levy of export duty with effect from 1st March, 1970. However, a Custom House collected duty amounting to Rs. 85,418 on tea exported in vessels which were granted entry outwards after 1st March, 1970. When this excess collection of duty was pointed out to the Ministry, it was stated in reply that the excess collection occurred due to the fact that the list of the vessels furnished by the Import and Export Department was defective. It has further been stated that refunds amounting to Rs. 85,418 have already been granted to the exporters.

[Paragraph 13 of the Report of Comptroller and Auditor General of India for 1969-70 on Revenue Receipts.]

1.77. In a written note, the Ministry of Finance have stated that on 1-3-1970 the export duty on Tea was abolished by the issue of Notification 28-Customs dated 1-3-1970. Shipping Bills had been filed in Cochin Custom House for export of tea on dates prior to 1-3-1970 and Export duty as payable during that period was assessed and collected by the Custom House. The vessels by which this tea was shipped namely 'Vishwamangal' and 'Jaladhuruv' however were granted entry outwards after 1-3-1970. The relevant date for levy of Export duty is the date of filing of shipping Bills or the date of entry outwards of the vessel whichever is later [proviso to Section 16(1) of the Customs Act 1962]. Hence the duty collected became refundable. In the Cochin Customs House the list was being prepared by an Upper Division Clerk posted for entry and clearance assisted by an Upper Division Clerk attending to Export Shipping Bills. The Board has since, on 28th October, 1971 instructed the Collectors of Customs that lists of vessels for purposes of reassessment of duty in all affected cases should be examined personally by the Assistant Collector In-Charge of the concerned Departments to ensure that they are correct. Special audit is conducted by the Internal Audit Department to the extent that all Bills of entry filed under the prior entry system are checked and returned to the appraising Department for reassessment, if necessary. As the list prepared by the Import and Export Department and forwarded to the Internal Audit Department was defective and did not include the names of the two vessels 'Vishwamangal' and 'Jaladhuruv' even though these vessels had not entered outward before 1-3-1970 that Department could not detect the irregular levy of duty. It was a case of failure on the part of the Upper Division Clerk who prepared the List. The then existing procedure required only that a list of vessels for which manifests had been filed but which had not arrived till the midnight of 28-2-1970 should be prepared. In the case of vessels 'Vishwamangal' and 'Jaladhuruv' manifests had not been filed by 28-2-1970 but only Export requests had been filed.

The procedure has since, 21st October, 1970, been changed by the Custom House. Export requests would also be linked with applications for entry outwards and the list of Vessels prepared at the time when changes of duty occur will then be complete and such levy of duty would not escape detection.

1.78. The Committee view with disfavour cases of over-assessment as much as those of under-assessment. In the present case failure on the part of the Upper Division Clerk to include the names of the vessels which were granted entry outward after 1st March, 1970 resulted in excess collection of duty on Tea amounting to Rs. 85,418. The Committee hope that as a result of the revised procedure under which the list of vessels for the purpose of reassessment of duty should be personally examined by the Assistant Collector, such mistakes will not recur.

1.79. The Committee find that in this case the Internal Audit Department could not detect the mistake as the list prepared by the Import & Export Department was defective. The Committee suggest that in future such lists should be also checked by the Internal Audit Department so that any mistake in the list should not remain undetected.

Arrears of customs duty

Audit Paragraph

1.80. The total amount of customs duty remaining unrealised for the period upto 31st March, 1970 was Rs. 50.06 lakhs on 31st October, 1970 as against Rs. 59.75 lakhs for the corresponding period in the previous year. Out of the sum of Rs. 50.06 lakhs, Rs. 36.80 lakhs have been outstanding for more than one year.

In addition, the department has requested for voluntary payments of customs duty amounting to Rs. 16.16 lakhs in cases where regular demands have become time-barred. This amount is also pending realisation.

[Paragraph 15 of the Report of the Comptroller and Auditor General of India for 1969-70 on Revenue Receipts.]

1.81. The Committee desired to know the position of arrears of Customs duty pending for more than a year. In a written reply the Ministry of Finance have stated, "Customs duty amounting to Rs. 36.80 lakhs was shown as pending for more than one year out of the total arrears of duty assessed upto 31st March, 1970 and pending on 31st October, 1970. However, certain discrepancies were noticed and the actual figure was Rs. 44.75 lakhs and not Rs. 36.80 lakhs. This arrear of Rs. 44.75 lakhs has come down to Rs. 39.53 lakhs as on 31st July, 1971."

1.82. Referring to the position stated while tendering evidence on the 29th October, 1971, the Member of the Board stated that, "The latest figures we have got are, Rs. 39 lakhs are pending on account of court orders and only Rs. 9 lakhs are pending for other reasons and out of this, Rs. 6½ lakh is pending for only one year."

1.83. The Committee desired to know whether it was not provided that the duty should be paid before going to the Court. The Finance Secretary stated, "That provision is already there in the Customs law." The Member of the Board stated, "In so far as going to the courts is concerned, these are writ matters and we cannot make any provision in any law debarring the jurisdiction of high courts in writ matters because they have got the jurisdiction on writ matters."

1.84. In a written reply the Ministry stated that the amount of arrears due from the Government Departments Public Undertakings, both Centre and States, in respect of which demands have already been raised is stated to be Rs. 21.15 lakhs. The amount is pending for the following reasons :

- (i) Some of the cases were pending due to disputes regarding classification of the goods under the Customs Tariff, or non-availability of correct account heads for raising debits, or due to non-production of import documents for verification.
- (ii) Some cases are pending since there is a difference of opinion between Custom Houses and Audit regarding correct classification. In some cases the importers have also filed representation against the demands made.
- (iii) In one case importer has filed a Revision application which is pending decision of the Revisional Authority.
- (iv) In certain other cases where duty has not been paid, action to recover the same has been initiated under section 142 of the Customs Act, 1962.

1.85. As regards time-barred demands, the Ministry have stated in a written note "the amount involved in time-barred demands where voluntary payments had been asked for was Rs. 16.58 lakhs. Out of this, an amount of Rs. 0.57 lakhs was realised and demands for Rs. 4.25 lakhs were withdrawn. The balance on 31-7-71 was Rs. 11.76 lakhs." Explaining latest position during evidence, the Finance Secretary stated, "Rs. 64,000 has been paid by the parties concerned and another Rs. 6.0 lakhs have now been withdrawn because the parties went in appeal and then out of Rs. 16.00 lakhs, six lakhs had to be withdrawn. Their contention is that they are time-barred but it has been accepted. Now, the amount remains at Rs. 10.00 lakhs. This amount of Rs. 6.0 lakhs has been withdrawn on merits also." The witness added, "We had the protection and requested the party to make the payment voluntarily. Even then, we have no legal right to claim the money. Similarly they have also got the claim. They have to follow the time-limit. If we have made some mistake, we request them."

1.86. A point was raised as to whether the system of voluntary payment should not be abandoned as the people paid, "because the Custom office threaten them with action in handling their future import of consignments, or alternatively some legal provision should be made for this which may later on not expose the Department to charges of corruption and undue pressure". The Member of the Board stated, "We will consider it further. We had actually brought to their notice and we issued strict instructions that no pressure should be put." The Finance Secretary stated, "The point is whether it is at all desirable or wise? We can pursue if there is a *mala fide* case. We can take action."

1.87. The Committee desired to know the total number of provisional assessments made under Section 18 of Customs Act and pending finalisation as on 31-3-1970. In a written reply the Ministry of Finance have stated that the total number of provisional assessments made under section 18 of the Customs Act, 1962 and pending finalisation as on 31st March, 1970 is 6,487 involving an amount of Rs. 59.32 crores. Year-wise break-up of the

pendency with reference to the year in which the provisional assessments were made is given below :—

Year	No.	Amount
1960-61	121	10,76,870
1961-62	309	19,26,020
1962-63	452	22,18,557
1963-64	218	1,04,16,215
1964-65	220	65,90,101
1965-66	368	3,22,23,100
1966-67	454	3,38,86,906
1967-68	779	23,13,99,383
1968-69	1,236	8,62,46,092
1969-70	2,330	18,72,43,390
TOTAL	6,487	59,32,26,634

1.88. The Committee desired to know the basis for making provisional assessment. The Chairman of the Board stated, "When the case comes, a decision cannot be taken about the assessment quickly, because either the party wants some more time to produce the documents or we feel that certain documents are missing. We resort under the law itself to the provisional assessment."

1.89. A suggestion was made whether it would not be desirable to abandon the system of provisional assessment and instead to make a final assessment on the basis of the facts available at that time allowing the party to appeal on receipt of the relevant documents so that there is no loss in the Government revenue. The Chairman of the Board stated, "This question regarding provisional assessment was considered and we will consider it again. If the method was to be followed, the tendency on the part of the officer will be to assess at the higher level so that there is no risk. In a provisional assessment the first assessment can be both ways and the safety of revenue is ensured either by charging at the higher rate or by charging at the lower rate and securing the rest by taking a bond etc." The Member of the Board stated, "Here the assessment is done as the most likely assessment. Many a time, when one sees, it may be pending for court cases. There are sometimes few cases which have been pending for a long time." The witness added, "The Officers are trying to make a final assessment and if necessary they refer to the Collector and it is only when the Collector himself feels that this is the type of case where he cannot decide, only in those cases, he does." The Finance Secretary stated, "The numbers are very large and have been pending for a long time. Therefore, some method has to be devised to clear them quickly." He added, "It should not take such a long time. It is completely wrong to take ten years."

1.90. The Ministry furnished the details of amount of unconfirmed demands issued upto 31st March, 1970 but pending as on 31st July, 1971 :—

Year	Amount
1962-63	3,194
1963-64	99,439
1964-65	2,79,904
1965-66	13,31,630
1966-67	35,65,503
1967-68	26,90,180
1968-69	23,63,405
1969-70	81,92,087
TOTAL	1,85,25,342

1.91. The Member of the Board stated during evidence that, "These are actually show-cause notices issued. In fact last time the Auditor General had pointed out that we should not take notice of these because these are really show-cause notices issued. They are not really confirmed demands."

1.92. In paragraph 1.120 of their 8th Report (Fifth Lok Sabha), the Committee had observed, "It is surprising that demands are raised under a fiscal law and not entered in Government's accounts." The Committee had suggested that legal implications of the "unconfirmed demand" and whether some other description for such demands should be used, should be examined in consultation with the Ministry of Law. In their action taken note furnished after consultation with the Ministry of law, the Finance Ministry have stated, "The amounts indicated in the notices served under section 28(1) of the Customs Act, 1962 cannot be correctly termed as a demand or an arrear of revenue. The term 'unconfirmed demand' used for the amounts indicated in the show cause notices issued under section 28(1) of the Customs Act, 1962 appears to have given rise to some confusion. It is proposed to term these amounts as 'amounts in respect of which notices have been issued under section 28(1) of the Customs Act, 1962'.

1.93. The Committee note that the total amount of Custom duty remaining unrealised for the period upto 31st March, 1970 was about Rs. 48 lakhs, out of which an amount of Rs. 39 lakhs is pending on account of court orders and Rs. 9 lakhs for other reasons. The arrears include Rs. 21.15 lakhs due from Government Departments, Public Undertakings etc. The Committee desire that vigorous efforts should be made to recover the arrears which do not relate to court cases.

1.94. The Committee were informed that some parties have paid arrears amounting to Rs. 64,000/- voluntarily in cases where the regular demands became time-barred. The Department have withdrawn demands amounting to Rs. 6 lakhs leaving an amount of Rs. 10 lakhs for voluntary payment by the parties. While the Committee appreciate the efforts of the Department to realise the time-barred demands under the voluntary system of payment, they are anxious that such an action should not expose the Department to the charges of using undue pressure. The Committee therefore desire that it should be seriously considered whether the system of voluntary payment should not be abandoned or alternatively some legal provision made in the Act.

1.95. The Committee are concerned to note that there were 6487 pending cases of provisional assessment involving an amount of Rs. 59.32 crores as on 31st March, 1970. Some of these cases relate to the period as early as 1960-61. The Committee desire that the reasons for pendency of these old cases should be gone into by the Board and necessary steps taken to finalise them expeditiously. The Committee also suggest that some time-limit should be fixed for finalisation of the cases of provisional assessment so that the assessments do not remain provisional for several years.

1.96. An amount of Rs. 1.85 crores is involved in cases where notices have been issued by the Customs Department under Section 28(1) of the Customs Act upto 31st March, 1970, for payment of duty. The amounts relate to the years 1962-63 to 1969-70. The Committee desire that necessary steps should be taken to finalise these cases and to avoid accumulation of old cases.

NEW DELHI;
April 22, 1972
Vaisakha 2, 1894 (Saka)

ERA SEZHIAN,
Chairman,
Public Accounts Committee..

APPENDIX

Summary of Main Conclusions/Recommendations

S. No.	Para No.	Ministry/Department concerned	Conclusions/Recommendations.
1	2	3	4
1.	1-27	Ministry of Foreign Trade	<p>The Committee are concerned over the significant fall in revenue amounting to Rs. 26.36 crores in receipts from Custom Exports during the year 1969-70. From the statement furnished by the Ministry of Finance, the Committee find that the export value of Jute manufactures fell from Rs. 218.01 crores in 1968-69 to Rs. 206.66 crores in 1969-70 and that of Tea from Rs. 156.51 to Rs. 124.50 crores. The Committee desire that Government in the Ministry of Foreign Trade should look into the reasons for fall in the export of these and other commodities with a view to taking necessary export promotion measures.</p>
2.	1-28	Ministry of Finance	<p>The Committee note that the Department is paying rewards to the informers who give useful information about the goods being smuggled into the country. The rewards are paid within an overall ceiling of Rs. 15 per tola in case of gold and 10% of the estimated market price in India of other confiscated goods. The Collectors are also authorised to pay advance awards (50% of the expected final award) immediately on seizure of goods</p>
3.	1-29	Do.	<p>The Committee feel alarmed about the magnitude of the problem of smuggling in the country. The Committee were informed during evidence that the Department were catching "Only a small percentage of what is coming into India and therefore, the problem is much more gigantic and much bigger than we were able to tackle." The Committee are unhappy that in spite of the awareness of the problem and repeated requests from Custom Houses, the Department have failed to provide the Custom Houses with launches in adequate number and of required speed in the country. The Committee desire that the Ministry should ensure that the preventive network is strengthened by providing the requisite anti-smuggling equipment and staff with necessary powers.</p>
4.	1-30	Do.	<p>The Committee further desire that an early decision should be taken by Government on the report of the Study Group set up by the Cabinet Secretariat regarding the requirement of launches.</p>
5.	1-35	Do.	<p>The Committee are concerned to find that while the Customs Receipts are decreasing the expenditure on their collection is continuing to increase. The Customs</p>

1	2	3	4
			<p>Receipts have decreased from Rs. 585.37 crores in 1966-67 to Rs. 423.31 crores in 1969-70, while the expenditure on collection increased from Rs. 5.48 crores to Rs. 7.83 crores. From the break-up of expenditure furnished to them, the Committee find that out of the total expenditure of Rs. 7.83 crores the estimated expenditure on preventive functions accounted for Rs. 2.03 crores, charges paid to the Union Excise Department for outports and Land Customs (mostly preventive functions), Rs. 3.45 crores and other functions Rs. 2.35 crores. The Committee have been informed that as the expenditure in the Custom Grant is not booked on function-wise basis, it is difficult to separate the exact expenditure on preventive functions and other functions. In para 1-21 of their 8th Report (Fifth Lok Sabha) the Committee suggested that the Ministry should examine in consultation with Audit the desirability of maintaining separate accounts for these activities. The Committee desire that this examination should be expedited so that a more objective and realistic appraisal of the expenditure on these two activities could be made.</p>
6	1-36	Ministry of Finance	<p>The Committee find that there is substantial increase in charges paid to the Excise Department for Outports and Land Customs from Rs. 2.31 crores in 1966-67 to Rs. 3.45 crores in 1969-70. The charges paid to the Excise Department work out to about 44% of the total expenditure of the Customs Department. The Committee suggest that it should be examined whether the charges paid to the Excise Department for outports and Land Customs are worked out on a scientific and rational basis.</p>
7.	1-37	Do.	<p>The estimated expenditure on other functions of the Customs Department has increased from Rs. 1.90 crores in 1966-67 to Rs. 2.35 crores in 1969-70. In view of the fact that there is considerable reduction in Custom Revenue, the Committee would like Government to examine the feasibility of effecting economy in expenditure on collection.</p>
8.	1-43	Do.	<p>The Committee note the improvement in the working of the Internal Audit Department as a result of the reorganisation of the Department effected in March, 1969. The results of Internal Audit in Bombay, Calcutta and Madras Custom Houses revealed that during the year 1969-70, 2978 cases of under-assessments involving an amount of Rs. 97.18 lakhs were detected as against 2309 cases involving Rs. 49.74 lakhs in 1968-69. The Internal Audit Department also detected 2250 cases of over-assessment of duty involving an amount of Rs. 48.63 lakhs in 1969-70</p>

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			<p>as against 2149 cases involving Rs. 42.15 lakhs during 1968-69. The Committee, however, find that the performance of the Internal Audit Department in the Calcutta Custom House has not shown much improvement as compared with the Custom Houses in Bombay and Madras. During the year 1969-70, the Internal Audit Department of Calcutta Custom House detected only 470 cases of under-assessment involving an amount of Rs. 13.38 lakhs and 323 cases of over-assessment involving an amount of Rs. 5.73 lakhs. The Committee were informed during evidence that the Directorate of Inspection had been asked to undertake a study of the working of the Internal Audit Department in Calcutta Custom House. The Committee desire that this study should be completed as early as possible and necessary steps taken to improve the working of the Department.</p>
9.	1-44	Ministry of Finance	<p>The Committee note that with the re-organisation of the Internal Audit Department, appraisers have been inducted into the Department with a view to improving the quality of assessment work. All bills of entries containing value of any entry exceeding Rs. 20,000 which are required to be endorsed to the Assistant Collectors and 20-25% of the remaining bills of entries are being audited by the appraisers. The Committee desire that the procedure should be kept under watch with a view to increasing the percentage of bills to be audited by the appraisers. The Committee also suggest that the area of audit by the appraisers and auditors should be enlarged to cover all aspects which are at present being covered by the Revenue Audit</p>
10.	1-50	Do.	<p>The Committee find from the two cases brought to their notice that mistakes occurred in converting Canadian dollars into Rupees for the purpose of levy of customs duty, due to confusion between the U. S. dollars and Canadian dollars. The Committee desire that necessary instructions should be issued by the Board to the Custom Houses to avoid confusion in conversion of the currencies bearing the same name prevalent in different countries. The Internal Audit Department should be particularly vigilant in auditing the conversion calculations.</p>
11.	1-61	Do.	<p>The Committee are not happy over the delay in the giving of ruling by the Central Board of Excise and Customs in this case. This was referred to the Board by the Collector in June, 1965 but the Board gave a ruling in March, 1968 that the P.V.P. of industrial grades for coating tablets or</p>

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			for use of textile industry should be assessed under item 87 of the Indian Customs Tariff and countervailing duty under 15-A of the Central Excise should be levied. In para 1-22 of their 110th Report (Fourth Lok Sabha), the Committee had suggested that the objections raised by Audit should be resolved within 3 months. The Committee have been informed that under a revised procedure, a Member of the Board goes to the various Custom Houses and settles objections after discussion with the officers on the spot. The Committee hope that as a result of this procedure delay in giving clarifications and rulings by the Board on the references made by the Collectors and objections raised by Audit will be avoided.
12.	1-62	Ministry of Finance	The Committee suggest that the Board should maintain a register in which Audit objections should be entered and keep a watch over their disposal so that objections are normally disposed of within the time limit of 3 months.
13.	1-63	Do.	The Committee have already suggested that the scope of the Internal Audit should be suitably enlarged. The Committee would particularly like to emphasise that the cases of levy of the countervailing duty should be subjected to careful scrutiny by the Internal Audit Department.
14.	1-64	Do.	The Committee hope that the bill regarding Rationalisation and Classification of Goods would be reintroduced in Parliament as early as possible. The Committee desire that the necessary details for setting up of a Central exchange of Classification and Evaluation should be finalised expeditiously.
15.	1-74	Do.	The Committee see no justification for the delay that occurred in these two cases in revising the rate of landing charges. The delay has involved the Government in a loss of over a crore of rupees as worked out by Audit. The Ministry of Finance have not however furnished any calculations of their own. In the first case the Customs House did not revise the rates fixed in April, 1965 till February, 1968 even though there had been a substantial rise in the Port Trust rates. In the other case the rates fixed in 1960 were continued till March, 1966, even though there was an increase in the rates of landing charges from February 1963 by way of surcharge of 20% imposed by Port Trust Authorities and this increase was brought to the notice of the Custom House by Audit in May, 1964. The Committee find that according to instructions issued by the Board, review of the landing charges is required to be undertaken by the Custom Houses once in two

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			years and at shorter intervals if changes in the rates proscribed in the Port Trust Authorities warrant such action. The Committee desire that the Board should take serious note of the cases where Collectors fail to review the landing charges within the period proscribed by the Board or at shorter interval, if necessary. These reviews should be completed by the Collectors expeditiously after taking into account the relevant statistics etc. The Committee suggest that the Board may lay down some reasonable time limit for completing the reviews.
16.	1-75	Ministry of Finance	The Committee also suggest that the Internal Audit Department should look into the causes of delay in revision of landing charges.
17.	1-78	Do.	The Committee view with disfavour cases of over-assessment as much as those of under-assessment. In the present case failure on the part of the Upper Division Clerk to include the names of the vessels which were granted entry outward after 1st March, 1970 resulted in excess collection of duty on Tea amounting to Rs 85,418. The Committee hope that as a result of the revised procedure under which the list of vessels for the purpose of reassessment of duty should be personally examined by the Assistant Collector, such mistakes will not recur.
18.	1-79	Do.	The Committee find that in this case the Internal Audit Department could not detect the mistake as the list prepared by the Import & Export Department was defective. The Committee suggest that in future such lists should be also checked by the Internal Audit Department so that any mistake in the list should not remain undetected.
19.	1-93	Do.	The Committee note that the total amount of Custom duty remaining unrealised for the period upto 31st March, 1970 was about Rs. 48 lakhs, out of which an amount of Rs.39 lakhs is pending on account of court orders and Rs. 9 lakhs for other reasons. The arrears include Rs. 21.15 lakhs due from Government Departments, Public Undertakings etc. The Committee desire that vigorous efforts should be made to recover the arrears which do not relate to court cases.
20.	1-94	Do.	The Committee were informed that some parties have paid arrears amounting to Rs. 64,000- voluntarily in cases where the regular demands became time-barred. The Department have withdrawn demands amounting to Rs. 6 lakhs leaving an amount of Rs. 10 lakhs for voluntary payment by the parties. While the Committee appreciate the efforts of the Department to realise the time-barred demands under

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21.	1-95	Ministry of Finance	<p>the voluntary system of payment, they are anxious that such an action should not expose the Department to the charges of using undue pressure. The Committee therefore desire that it should be seriously considered whether the system of voluntary payment should not be abandoned or alternatively some legal provision made in the Act.</p> <p>The Committee are concerned to note that there were 6487 pending cases of provisional assessment involving an amount of Rs. 59.32 crores as on 31st March, 1970. Some of these cases relate to the period as early as 1960-61. The Committee desire that the reasons for pendency of these old cases should be gone into by the Board and necessary steps taken to finalise them expeditiously. The Committee also suggest that some time-limit should be fixed for finalisation of the cases of provisional assessment so that the assessments do not remain provisional for several years.</p>
22.	1-96	Do.	<p>An amount of Rs. 1.85 crores is involved in cases where notices have been issued by the Customs Department under Section 28(1) of the Customs Act upto 31st March, 1970, for payment of duty. The amounts relate to the years 1962-63 to 1969-70. The Committee desire that necessary steps should be taken to finalise these cases and to avoid accumulation of old cases.</p>

