



**ANNUAL REPORT
FOR THE YEAR 2013-2014**

By

**Mrs. RUBINA WASTI
Director General**

**Directorate General of Internal Audit
(Customs), Pakistan**

4th Floor Custom House Karachi, Edaljee Dinshaw Road, Karachi.
Phone# 021-99214644, Fax# 021-99214646

TABLE OF CONTENTS

R E F A C E	4
PERFORMANCE OF DIRECTORATE GENERAL INTERNAL AUDIT (CUSTOMS) DURING FY 2013-2014.....	8
(Summary).....	8
CHAPTER – 1	9
1.1 BRIEF HISTORY OF THE DIRECTORATE GENERAL.....	9
1.2 TERRITORIAL JURISDICTION OF THE DIRECTORATE GENERAL	10
1.3 DIRECTORATE OF INTERNAL AUDIT (CUSTOMS), KARACHI.....	10
1.4 DIRECTORATE OF INTERNAL AUDIT (CUSTOMS), ISLAMABAD.....	11
1.5 DIRECTORATE OF INTERNAL AUDIT (CUSTOMS), LAHORE.....	11
1.6 STAFF POSITION	12
CHAPTER – 3	19
3.1. PERFORMANCE OF THE DIRECTORATE GENERAL DURING 2013-2014	19
3.2. COLLECTORATE & DIRECTORATE WISE DETECTIONS DURING 2013-14	19
3.3.2 HIGHLIGHTS OF MAIN AUDIT OBSERVATIONS PERTAINING TO DIRECTORATE OF INTERNAL AUDIT (CUSTOMS), ISLAMABAD.....	22
3.5 ON-GOING CURRENT STUDY REPORTS ON IMPORT & EXPORT OF GOLD UNDER ENTRUSTMENT SCHEME (IRREGULARITIES IN STEEL SECTORS AND PTCL).....	28
A. PRE-MAC MEETINGS LAHORE DIRECTORATE (ABSTRACT).....	32
B. PRE-MAC MEETINGS ISLAMABAD DIRECTORATE (ABSTRACT)	32
5.2 RECOVERIES:	34
5.3 CORRESPONDENCE / COORDINATION WITH THE FIELD FORMATIONS.....	34
CHAPTER – 6	35
6.1 CONSTRAINTS	35
a) INSUFFICIENT OFFICE ACCOMODATION.....	35
b) SHORTAGE OF FUNDS.....	36
c) LACK OF MOBILITY / TRANSPORTATION.....	36

d)	SHORTAGE OF HUMAN RESOURCES	36
e)	IN ACCESSIBILITY TO WEBOC SYSTEM/ ONE CUSTOM DATA	37
f)	INTERNAL AUDIT MODULE	37
6.2	ISSUES.....	37
6.3.	INCENTIVES	38
CHAPTER – 7	39
7.1.	RECOMMENDATIONS / SUGGESTIONS FOR IMPROVING PERFORMANCE.....	39
a)	ADMINISTRATIVE CHANGES –.....	39
b)	LEGAL CHANGES	40
c)	INFORMATION TECHNOLOGY SUPPORT.....	41
C O N C L U S I O N	41

R E F A C E

This is the thirteenth (13th) successive Annual Report of the Directorate General of Internal Audit (Customs) to provide an overview of activities and performance during the Financial Year 2013-2014. The Directorate General acts as a watchdog and support arm of FBR in monitoring performance of the Customs field formations and identifying weak areas. This office also provides policy input for the FBR to improve the Law, Rules and Procedures governing the work of customs and has helped in improving the overall institutional performance of the Customs Department. The Directorate General is responsible for audit of regular customs work as well as expenditure audit of customs Field Formations. The Directorate General always strives to ensure correct application of Customs laws and Allied Regulations by the field formations so as to enhance their efficiency in terms of Revenue collection and effective Customs controls.

The purpose of conducting internal audits is to keep a check on any possible revenue leakages / loss due to inadvertence, negligence, inefficiency or deliberate omissions / commissions and fraudulent acts on the part of taxpayers or customs officers / staff and to caution the Field Formations before an external agency takes cognizance of the department's shortcomings causing subsequent embarrassment to the department. Thus critical role of the Directorate General of Internal Audit is to support the organization i.e. Customs in eliminating tax fraud and detection of evasion of Customs duty through identification of loopholes and deficiencies in the prevailing system and procedures.

The Directorate General in Financial Year 2013-14 conducted 156 audits of the field formations and issued audit observations involving an amount of Rs.24.059 billion. The Directorate General also rigorously pursued recovery of legitimate revenues so identified through regular Pre-MAC Meetings and follow-up meetings. The Director General along with her team personally took up major detections involving huge government revenue or involving serious violations of law and procedures with the concerned Collectors as well as Chief Collectors and Directors as well as Director

General. Some issues were also referred to the Board for soliciting guidance and directions for taking appropriate action. The energy and efforts put into the work is evident from the fact that around **39** (thirty-nine) Pre-MAC/Follow-up meetings were held by the Directorate General during the Financial Year 2013-14, which resulted in settlement of **1121** paras and recovery of **Rs.448.685 million**.

Besides routine audits, during Financial Year 2013-2014 the Directorate General also conducted special studies on imports under Preferential/Free Trade Agreements (PTAs/FTAs). Major discrepancies, both revenue and procedural were identified in the Preferential/Free Trade Agreements (PTAs/FTAs) regime and a comprehensive report was forwarded to the Board vide letter C. No.3 (04) IAC-Audit/2013-14/Ibd/4362 dated 30-12-2013. As a follow up actions, letters were issued to clearance Collectorates and in most of the observations recovery of amount were agreed upon by the respective Collectorates but the recovery of the same is not very much encouraging and it needs due attention on the part of enforcement Collectorates.

The Directorate General of Internal Audit (Customs) is now focusing more on identification of grey areas/tax frauds through special studies. Presently the Directorate General is working on fraudulent imports and exports of **Gold** under Entrustment Scheme. The initial observations which were made by Regional Office Islamabad showed that huge foreign exchange remittance have been evaded through fake and forged E forms submitted by the importers and exporters of Gold. Resultantly on the directives of Directorate General all Directorates were ordered to conduct special audit of Gold with the tacit approval of Chairman who has been already briefed by the undersigned on the issue and the report will be submitted shortly. Another study is being conducted in respect of evasion of duty/taxes by Steel Sector. Observations made and forwarded to Collectorates i.e. Karachi East/ Port Qasim. In response, parties were called and agreed to pay the outstanding amount. After recovery audit has been planned for scrutiny of relevant data in previous financial years too. Similar exercise is also underway in respect of other sectors like Telecom / Information Technology and

Directorate General has detected anomalies to the tune of Rs.350 million till date and observations have been forwarded to the respective Collectorates for early reply / recoveries with sincere efforts. Moreover, Directorate General has also initiated audit of imports under SRO.1125(I)/2011 wherein, an anomalies and irregularities to the tune of Rs.50 million have also been detected and forwarded to respective Collectorates for effecting recoveries.

The performance of the Directorate General is outcome of a targeted approach where risk areas were identified for undertaking audit. This performance is to be viewed against the backdrop of the constraints and handicaps which this organization faces, especially with reference to shortage of technical staff and resources. Furthermore, delayed / lukewarm response from field formations is biggest barrier and long standing dilemma which invariably negatively impacts the revenue yielding potential of this organization. In this context, Directorate General is pursuing the cases actively but still there is lot of room for improvement for effective functioning, coordination and cooperation on part of all field formations.

The current environment demands effective audit so that FBR may meet its assigned targets. The Directorate General, not only strives to identify revenue leakages through effective internal controls, and observance of correct laws and procedures by the field formations, but also plays bridging role between the field formations and the FBR by pointing out distortions in certain laws / rules and suggesting appropriate amendments to the Board in the light of audit observations issued by the Directorate General.

The Directorate General acknowledges the sincere and serious efforts put in by officers and audit teams of the three Directorates namely Islamabad, Lahore and Karachi. The laudable efforts enabled the Directorate General to formulate concrete proposals regarding improvements in the existing operational procedures and also to recommend a future course of action for policy guideline.

The Directorate General hopes that this report will serve as a policy paper for the government to bring the future updates in Customs related Acts, Rules, Procedures etc.

19th November, 2014.

(RUBINA WASTI)
Director General

**PERFORMANCE OF DIRECTORATE GENERAL INTERNAL AUDIT (CUSTOMS)
DURING FY 2013-2014**

(Summary)

S. NO.	DESCRIPTION.	Detail
1	<u>Position of Human Resources.</u>	
	• Sanctioned strength of staff in all grades during 2013-2014.	231
	• Working strength during 2013-2014.	140
	• Vacant posts.	91
2	Number of formations/ units audited during 2013-2014.	156
3	Amount pointed out/ un-earthed during 2013-2014.	Rs. 24.059 billion
4	Total Cost / Expenditure inclusive salary & allowances incurred during 2013-2014.	Rs.163.010 million
5	Recoveries made during the year 2013-2014.	Rs.448.685 million

CHAPTER – 1

1.1. BRIEF HISTORY OF THE DIRECTORATE GENERAL

After the promulgation of Finance (Amendment) Ordinance, 2009, the jurisdiction of the Directorate General of Internal Audit (Customs) is now limited to Customs only. Internal Audit of Sales Tax and Federal Excise have been shifted to “Inland Revenue Service”. The evolution of this organization with the passage of time, up to its present shape, is as follows:

Pre Partition:

- ▶ Prior to 1947 : Created as Directorate of Inspection & Training.

Post Partition:

- ▶ 1966 : Directorate of Complaints & Investigation
- ▶ 1980 : Bifurcation into Directorate of Inspection and Directorate of Training
- ▶ 1984 : Creation of Directorate General of Inspection
- ▶ 1986 : Redesignated as Directorate General of Vigilance & Inspection
- ▶ 1990 : Directorate General of Inspection & Training
- ▶ 1993 : Directorate General of Inspection, Internal Audit & Training
- ▶ 1996 : Directorate General of Inspection & Internal Audit
- ▶ 2007 : Directorate General of Internal Audit
- ▶ 2009 : Directorate General of Internal Audit (Customs)

The new fiscal policies are aimed at achieving accountability and good governance with internal controls by introducing modern and scientific techniques to ensure credibility and efficiency in the national tax machinery. Under this new reformed environment, the function of Internal Audit, as a tool for ensuring correct observance of law and procedures, and for checking revenue leakages, and tax frauds has regained more importance. Despite resource constraints, the Directorate General of Internal Audit, ever since its inception, has been running as an effective system of checks and balances, dealing with the Collectorates and the

Directorates falling within its territorial jurisdiction, geared towards improving the transparency, objectivity and fairness in their assessment and enforcement functions. The Directorate General is performing its audit obligations as a major support function to the field formations in achieving the highest possible qualitative and quantitative standards of institutional performance.

1.2 TERRITORIAL JURISDICTION OF THE DIRECTORATE GENERAL

The jurisdiction of three Regional Directorates of this Directorate General during the reporting period is as follows:-

1.3 DIRECTORATE OF INTERNAL AUDIT (CUSTOMS), KARACHI.

Territorial jurisdiction of the Directorate of Internal Audit (Customs), Karachi comprises of the Collectorates / Directorates falling in the Southern Region, i.e., the Provinces of Sindh & Balochistan, which are as follows:-

- Model Customs Collectorate Appraisement (West), Karachi
- Model Customs Collectorate (Preventive), Karachi
- Model Customs Collectorate (Exports), Custom House, Karachi
- Model Customs Collectorate (Exports) Port Qasim, Karachi
- Model Customs Collectorate (Port Muhammad Bin Qasim), Karachi
- Model Customs Collectorate Appraisement (East), Karachi
- Model Customs Collectorate, Hyderabad
- Model Customs Collectorate, Quetta
- Model Customs Collectorate, Gawadar
- Collectorate of Adjudication, I/II, Karachi/ Quetta
- Collectorate of Customs (Appeals), Karachi
- Directorate of Customs Valuation, Karachi
- Directorate of Customs Intelligence & Investigation, Karachi
- Directorate of Customs Intelligence & Investigation, Quetta
- Directorate General of Training & Research, Karachi
- Directorate General of PCA, Karachi
- Directorate of I.O.C.O, Karachi
- Directorate of Transit Trade, Karachi
- Directorate of Transit Trade, Quetta

1.4 DIRECTORATE OF INTERNAL AUDIT (CUSTOMS), ISLAMABAD.

Territorial jurisdiction of the Directorate of Internal Audit (Customs) Islamabad encompasses the Northern regions, i.e., Rawalpindi / Islamabad and NWFP. The Collectorates / Directorates, falling in its ambit are:-

- Model Customs Collectorate, Islamabad.
- Model Customs Collectorate, Peshawar.
- Model Customs Collectorate, Gilgit-Baltistan.
- Collectorate of Appeals, Rawalpindi/Peshawar.
- Directorate General of Intelligence and Investigation- FBR, Islamabad.
- Directorate of Intelligence and Investigation- FBR, Peshawar.
- Directorate of Training and Research (Customs) Islamabad.
- Directorate General of Post Clearance Audit (PCA), Islamabad.
- Directorate of Transit Trade, Peshawar.

1.5 DIRECTORATE OF INTERNAL AUDIT (CUSTOMS), LAHORE.

Territorial jurisdiction of the Directorate of Internal Audit (Customs) Lahore, encompasses the Northern regions, i.e., excluding Rawalpindi / Islamabad and NWFP. The Collectorates / Directorates, falling in its ambit are:-

- Model Customs Collectorate, Multan
- Model Customs Collectorate, Faisalabad
- Model Customs Collectorate (Appraisalment), Lahore
- Model Customs Collectorate (Preventive), Lahore
- Model Customs Collectorate, Sialkot
- Collectorate of Appeals (Customs), Lahore
- Directorate of Customs Intelligence & Investigation, Lahore
- Directorate of Customs Intelligence & Investigation, Faisalabad
- Directorate of Research & Training (Customs), Lahore
- Directorate of Post Clearance Audit, Lahore
- Directorate of Customs Valuation, Lahore

1.6 STAFF POSITION

The Sanctioned and working strength of various cadres in the Directorate General of Internal Audit (Customs), is as under:-

- Shortage + Excess

HEAD COUNT TOTAL					
S. #	Name of Post	BS	Sanctioned Strength	Working Strength	Vacancy
1.	Director General	21	1	1	-
2.	Director	20	3	3	-
3.	Additional Director	19	5	5	-
4.	Deputy / Assistant Director	18/17	12	11	-1
5.	Private Secretary	17	2	-	-2
6.	Assistant Private Secretary.	16	2	1	-1
7.	Accounts Officer	16	2	1	-1
8.	Audit Officer IR	16	23	14	-9
9.	Superintendent	16	43	35	-8
10.	Principal Appraiser	16	12	1	-11
11.	Superintendent, Admin	16	4	2	-2
12.	Appraiser	15	3	-	-3
13.	Stenographer	15	1	-	-1
14.	Inspector Preventive Services	15	1	-	-1
15.	Deputy Superintendent	15	11	10	-1
16.	Inspector	14	6	5	-1
17.	Office Superintendent	14/13	1	-	-1
18.	Assistant	14	8	6	-2
19.	Auditor	14	34	8	-26
20.	UDC	9	10	6	-4
21.	LDC	7	8	6	-2
22.	Havaldar	7	3	4	+1
23.	Driver	5	11	3	-8
24.	Despatch Rider	5	1	1	-
25.	Sepoy	5	14	9	-5
26.	Naib Qasid	2/1	6	4	-2
27.	Sanitary Worker	2/1	4	4	-
TOTAL			231	140	(-) 91

As is evident from the above mentioned table, during 2013-14, the Directorate General was functioning with a shortage of 39 % of the sanctioned strength.

Chapter - 2

2.1 DEFINITION OF INTERNAL AUDIT.

Internal Audit has been recognized as an aid to the top management for monitoring the performance and effectiveness of various programs, schemes and activities. It ensures that the system is working effectively and provides the management with information for comprehensive management review. Minor corrections in the system are made as they occur.

An internal control system consists of all the policies and procedures adopted in achieving management's objective and ensuring the orderly, efficient conduct of its business, including adherence to policies, prevention and detection of omissions, accuracy and completeness of records, and timely preparation of reliable information.

The primary function of Internal Audit is to evaluate processes that are in place to identify any weaknesses in internal controls that might lead to undetected errors or lapses. When any such weakness is identified it is reported to the line management for corrective action. The basic thrust of audit is not just detection of evaded duties and taxes but also over seeing that various provisions of the Acts, rules, regulations and procedures are being followed in true letter and spirit. This is included in the scope of audits performed by the Directorate General.

2.2 CHARTER OF INTERNAL AUDIT.

As greater emphasis is now being laid on good governance and accountability, Internal Control assumes much greater importance, and must be designed in a more modern and scientific manner in order to ensure credibility and efficiency.

The main function of all departments of the Federal Board of Revenue is to ensure the collection of due revenue for the Federal Government, and to check its leakage through evasion. An effective Internal Control, through Internal Audit, thus has a direct bearing on revenue. If it has a positive impact on revenue collection, it will be viewed as being useful and effective. The Directorate General, Internal Audit (Indirect Taxes) whose main task is Internal

Control, through Internal Audit, Investigative audit & vigilance, has this main objective in view. Even when Audits are conducted for ensuring correct application of law, procedures, rules and regulations, the basic idea is to help secure legitimate revenue.

The Charter of Functions and Mandate of the Directorate General, which have been specified by the Federal Board of Revenue, vide two notifications (SRO. No. 26(I)/2006, dated 9.1.2006, for Sales Tax and Federal Excise, and SRO. No. 75(I)/2006, dated 26.1.2006, for Customs), is summarized below:

- To carry out inspections of Customs, Sales Tax & Federal Excise cases and offices.
- To carry out internal audit and inspections of cases involving Customs, Sales Tax and Federal Excise and other taxes at import stage.
- To investigate or cause investigation internally to be carried out in respect of cases or items involving leakage of revenue or evasion of duties and taxes and expenditure.
- To furnish an Annual Report about the working of Customs offices to the Federal Board of Revenue.
- To carry out any other work or function that may be assigned to it by the Federal Board of Revenue.

Briefly, the charter of functions of Directorate General, is as under:

- To supervise the execution & application of Customs, Federal Excise, Sales Tax and allied laws, rules and regulations in force at import stage.
- To conduct audit of records maintained by Collectorates and Directorates of Customs.
- To conduct audit of records of State Warehouses.
- To examine inspection notes & tour notes submitted by the Collectorates/ staff.
- To submit monthly reports to the Board on performance.
- To look into complaints received from the Board.
- To collect information on evasion of duty and taxes and to take appropriate measures.
- To advise the Board on harmonization and simplification of laws and procedures.
- To monitor the progress of court cases involving revenue.
- Any other functions that may be assigned by the Federal Board of Revenue.

2.3 OBJECTIVES AND STANDARDS OF INTERNAL AUDIT

The Directorate General of Internal Audit is required to monitor and evaluate the performance of the Customs formations vis-à-vis the objectives set by the Board. It strives to suggest improvements by highlighting risks and non-compliances. Hence, the main purpose of the internal audit is to ensure reduction in the risk of revenue loss, errors, irregularities, and fraud due to incorrect application of laws and procedures. Internal Audit is the first line of defense in detecting errors and risks. The scope of internal audit encompasses the examination and evaluation of the adequacy and effectiveness of the system of internal controls and the quality of performance in carrying out assigned responsibilities within the parameters of law. This requires a certain standard of knowledge, skills and proficiency in applying methods and techniques in performing the function of audit. Thus, the primary objectives of the internal audit are as follows:

- Point out deviations from policies and procedures devised for the system
- Detection of error, omission and fraud
- Obtaining sufficient and appropriate evidence to draw an opinion
- Reliability and integrity of information
- Analytical review of identified fluctuations or relationships that are inconsistent with other relevant information
- Impartial conclusion
- Facilitating management in decision-making and strategic development

2.3.1 INTERNAL AUDIT STANDARDS

The institution should act in a manner consistent with good governance and refrain from any conduct which might bring discredit to the organization. Internal Audit standards define the way in which the internal audit service should be established and undertake its functions. Internal audit should display appropriate professional objectivity when providing their opinions, assessments and recommendations. It is universally accepted that each internal auditor must follow the following principles and standards:-

- 2.3.2 **Integrity** – The auditor should be straightforward and honest in performing professional services. The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment. Integrity implies honesty, fair dealing and truthfulness. It imposes the obligation on all auditors to be fair, intellectually honest and free of conflict of interest.
- 2.3.3 **Objectivity** – An auditor should be fair and should not allow prejudice, bias or influence of others to override objectivity. Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- 2.3.4 **Confidentiality** - Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- 2.3.5 **Competency** - Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services. The attainment of professional competency requires a continuing awareness of taxation and other relevant regulations and statutory requirements, which also includes examination and appropriate trainings.

In short, internal auditors should have impartial and unbiased attitude, characterized by integrity and an objective approach to work and should avoid conflict of interest. They should not allow external factors to compromise their professional judgment.

2.4 REPORTING RESPONSIBILITIES

A written audit report is prepared and after approval from the senior management, is issued following the conclusion of each audit, and is forwarded to the audited section of the field formation, and the head of the formation. The head of the audited section receiving the report responds to audit recommendations, and these responses are included in the finalized report. The final report primarily includes:

- Significant findings during the audit work.
- Any difficulties encountered during the course of the audit, including any restrictions on scope or access to information.
- Description of control or procedural weaknesses identified and suggested corrective actions to address the weaknesses.
- A timeline for anticipated completion of action to be taken.

For audit reports with corrective actions required, a follow-up review is planned within an appropriate timeframe to allow for the corrections to be made. A follow-up report is presented to the head of the formation to report on the compliance or corrective actions taken.

2.5 AUDIT APPROACH

The performance of the Directorate General of Internal Audit (Customs), through its offices at Karachi, Lahore and Islamabad, has shown significant improvement in its performance. Number of audits of various field formations, of Customs has increased this year and observations pointed out have been of great significance.

2.6 Audit Procedure

An Audit schedule is drawn up by the Directorates every month on the basis of Annual Audit Program, approved by the Director General, Internal Audit (Indirect Taxes). The schedule is formulated in such a way that at least one office/ group / section of a Collectorate / Directorate is audited in a month.

During audit, if any discrepancy or deviation from law or procedure is detected, it is brought to the notice of the officer in charge of the office under scrutiny. If such discrepancy cannot be explained to the satisfaction of the audit staff, it becomes a part of audit report.

2.7 Types of Audit observations / Discrepancies

There are generally two types of irregularities / discrepancies that come to light during the course of audit exercise.

2.7.1 Procedural Discrepancies:- In this type of irregularity, it is observed that certain prescribed procedures, as laid down by the rules and regulations, are not being followed by an office. The procedural lapses are pointed out in the audit report, but it is not necessary that a contravention report be issued.

2.7.2 Revenue Discrepancies:- In this kind of irregularity, a procedural lapse may be coupled with, or give rise to, incorrect calculation of duty and taxes which may be livable on a unit, or refund/ rebate are paid in excess of what is actually payable. In such case, follow-up action / contravention report / show cause notice or recovery becomes imperative.

CHAPTER – 3

3.1. PERFORMANCE OF THE DIRECTORATE GENERAL DURING 2013-2014

During the financial year 2013-2014, the Directorate General conducted 156 audits. An amount of Rs. 24.059 billion was involved in audit observations made by this Directorate General during the period under review. Region wise position is given below:-

(Rs.in Millions)

Directorate	2012-2013		2013-2014	
	Audits Conducted	Amount involved in observations	Audits Conducted	Amount involved in observations
Karachi	25	1,297.794	87	20,267.476
Lahore	20	889.384	26	1,564.045
Islamabad	47	485.069	43	2,228.078
Total	92	2,762.04	156	24,059.599

During financial year under reference, the performance of this Directorate General has shown improvement in the quality of audits conducted, as well as the quantum of evaded duty and taxes unearthed, as compared to last financial year 2012-13, in which the amount of evaded duty & taxes pointed out was Rs.2762.040 million.

3.2. COLLECTORATE & DIRECTORATE WISE DETECTIONS DURING 2013-14

Collectorate/ Directorate-wise position of detections made by Lahore, Islamabad and Karachi Directorates during the period July 2013 - June 2014, is shown in the table below:-

S.No	Collectorates / Directorates.	2013-14	
		No. of Audit Reports.	Amount Involved/ Detected (Rs. in Millions)
1	MCC Appraisalment (West), Karachi	14	3285.691
2	MCC (Preventive), Karachi	13	2177.783
3	MCC (Exports), C.H. Karachi	04	1521.290
4	MCC (Exports), Port Qasim, Karachi	01	6.015
5	MCC (Port Qasim), Karachi	09	1392.869
6	MCC, Appraisalment (East), Karachi, (Previously named PaCCs)	09	8205.050
7	MCC, Quetta	10	577.544
8	MCC, Hyderabad	09	2880.692
9	MCC, Gwadar.	04	0.123
10	MCC Islamabad.	21	608.663
11	MCC Peshawar.	18	1612.040
12	MCC Appraisalment Lahore	3	489.502
13	MCC Preventive, Lahore	3	87.643
14	MCC Sialkot	5	37.531
15	MCC Faisalabad	7	538.937
16	MCC Multan	4	382.822
17	Collector of Customs (Appeals), Karachi.	02	0.625
18	Directorate of Intelligence and Investigation, Karachi	05	7.888
19	Directorate of Intelligence and Investigation, Regional Office, Quetta.	02	188.155
20	Directorate of Customs Valuation, Karachi	01	3.210
21	Directorate of Training and Research, Karachi.	01	1.255
22	Directorate of Post Clearance Audit, Karachi.	03	19.286
23	Directorate of I.O.C.O, Karachi.	0	0
24	Directorate General of Intelligence and Investigation (Customs) - FBR, Islamabad.	04	7.375

25	Directorate of Intelligence and Investigation (Customs) - FBR, Peshawar.	0	0
26	Directorate of Training and Research (Customs), Islamabad.	0	0
27	Directorate of Customs Intelligence, Lahore	2	4.328
28	Directorate of Customs Intelligence, Faisalabad	1	22.54
29	Directorate of Post Clearance, Lahore	1	0.742

3.2.2 MAIN OBSERVATIONS PERTAINING TO CUSTOMS COLLECTORATES/ DIRECTORATES

- Short realization of Duty & Taxes due to incorrect classification;
- Short realization of Duty & Taxes due to under valuation;
- Non-recovery of redemption fine in violation of SRO 574(I)/2005, Dated 06-05-2005;
- Non-encashment of financial securities despite expiry of time period;
- Non disposal of seized goods/vehicles;
- Inadmissible and unlawful exemptions given under concessionary SROs;
- Non-compliance of warehousing rules and procedures;
- Non-compliance of transshipment rules;
- Non realization of surcharge and additional duty;

3.3 AUDIT ACTIVITIES OF DIRECTORATE GENERAL OF INTERNAL AUDIT, (CUSTOMS)

During the financial year 2013-14, some significant procedural lapses were observed by the Directorate General of Internal Audit (Customs) details are as follows:-

3.3.1 HIGHLIGHTS OF MAIN AUDIT OBSERVATIONS PERTAINING TO DIRECTORATE OF INTERNAL AUDIT (CUSTOMS), KARACHI.

- Short realization of Duty & Taxes due to incorrect classification & under-valuation amounting to Rs.426,28 million.
- Non-recovery of redemption fine in violation of SRO499(I)/2009, Dated 13.06.2009 amounting to Rs.305.726 million.

- Non-encashment of financial securities despite expiry of time period amounting to Rs.3148 million.
- Irregularities found in audit of auction of goods upto amount of Rs.321.560 million
- Non disposal of seized goods/vehicles to the tune of Rs.231.80 million.
- Inadmissible and unlawful exemptions given under concessionary SROs. amounting to Rs.366.208 million
- Non-recovery of adjudged / detected amount to the tune of Rs.6537 million.
- Stuck up arrears in Court Cases despite in the absence of valid Stay from respective Courts amounting to Rs.1521 million.
- Short realization of duty & Petroleum Development Levy (PDL) Rs.1318 million.
- Non recovery of duty/taxes on goods not exported in DTRE cases Rs.337 million.
- Non production of Record / Data/ Relevant Information.
- Clearance of commercial quantity of goods under baggage scheme.
- Absence of effective strategy to effect recovery of stuck-up govt. revenue.
- Non-compliance of warehousing rules and procedures.
- Non-compliance of transshipment rules.
- Non maintenance of different prescribed Registers both on expenditure as well as on Revenue sides.
- Non realization of Surcharge and Additional Duty.
- Failure of finalizing the cases of Provisional Assessments.

3.3.2 HIGHLIGHTS OF MAIN AUDIT OBSERVATIONS PERTAINING TO DIRECTORATE OF INTERNAL AUDIT (CUSTOMS), ISLAMABAD.

The Directorate of Internal Audit (Customs), Islamabad pointed out the following major irregularities during 2013-2014:-

- Revenue leakages to the tune of Rs.28.084 Million on account of misclassification of goods imported under FTA/PTA Regime.

- Lower side Customs duty rate application in FTAs/PTAs causing revenue loss to the tune of Rs.7.433 Million.
- Concessions to the goods not covered/mentioned under FTAs/PTAs causing revenue loss to the tune of Rs. 22.246 Million.
- Extension of Pak-China FTA concessions to the goods originating from other countries causing short realization of revenue of Rs.13.198 Million.
- Extension of concessions of Pak-china FTA on the basis of undertaking/without production of certificate of origin causing short realization of revenue amounting to Rs. 0.50 Million. The said discrepancy was observed during the audit of MCC Peshawar for the period 2009-10 and 2011-2012.
- Short Realization of government revenue amounting to Rs. 0.845 Million due to under valuation of goods imported under FTAs/PTAs.
- Short realization of Income Tax amounting to Rs.4.324 Million at “Bond Section”, Hattar, MCC Peshawar on account of non-compliance of SRO 140(I)/2013 dated February 26, 2013 issued by Income Tax Wing of FBR.
- Blockade of Government revenue to the tune of Rs. 1512 Million at MCC Peshawar due to non clearance of vehicles.
- Blockade of Government revenue to the tune of Rs. 8.877 Million at MCC Islamabad due to non clearance of vehicles
- Pointation of revenue leakages to the tune of Rs. 17.779 Million in imports made under “Prior Release Regime” at AFU, MCC Islamabad.
- Non-Realization of Anti Dumping Duty amounting to Rs. 27.349 Million by MCC Peshawar
- Non encashment /revalidation of the expired Indemnity Bonds and Post dated Cheques involving revenue of Rs. 28.333 Million by MCC Peshawar.
- Non encashment of the expired Bank Guarantees to the tune of Rs. 3.967 Million by MCC Peshawar.

- Non encashment /revalidation of the expired Indemnity Bonds and Postdated Cheques involving revenue of Rs. 14.23 Million. The said observation was pointed out during the audit of “Bank Guarantee Cell”, MCC Islamabad.
- Non perusal of cases of dishonored postdated cheques amounting to RS. 25.741 Million.
- Non pursuance of 63 recovery cases involving revenue to the tune of Rs.180.623 Million.
- Non-transfer of share of FBR (HQ), DOT (Customs) & DG Internal Audit (Customs), Islamabad amounting to Rs. 0.817 Million and Rs.0.419 million MCC Peshawar, Directorate of Intelligence & Investigation (Customs), Islamabad.
- Blockade of Government Revenue due to non-disposal of valuable confiscated goods amounting to Rs. 113.30 Million and non disposal of liquor amounting to Rs. 32.825 Million at MCC Islamabad.
- Stock Unaccounted for or locally sold and inadmissible wastages in violation of DTRE amounting to Rs.129.615 million and Rs. 5.342 Million.
- Short realization of revenue amounting to Rs. 2.688 Million by MCC Islamabad on account of non application of valuation ruling No. 355 dated 18.07.2011 for “DLP Projectors”.
- Misclassification of various pharmaceutical raw materials at AFU, MCC Islamabad causing revenue loss to the tune of Rs. 1.119 Million.
- Non-verification of Certificate of Origin under rule 16 (a) of the rules of origin of Pak-China FTA.
- Non deposit of the seized goods/ vehicles in State Warehouses. The irregularity pointed out during scrutiny of “Anti-Smuggling” record both of MCC Islamabad and MCC Peshawar.
- Non-transparent process adopted for reduction in price of confiscated goods causing huge loss to Government revenue at the Directorate of Intelligence & Investigation (Customs), Islamabad.
- Non conduct of Stock-taking in SWH which is violation of Rule 33 (X) of Chapter IX of CGO 12/2002 dated 15.06.2002.

3.3.3 HIGHLIGHTS OF MAIN AUDIT OBSERVATIONS PERTAINING TO DIRECTORATE OF INTERNAL AUDIT (CUSTOMS), LAHORE.

The Directorate of Internal Audit (Customs), Lahore pointed out the following major irregularities during 2013-2014:-

- Rs. 93.211 million was found to be recoverable on account of non realization of government revenue in violation of SRO 565(I)/2006 dated 05.06.2006.
- Rs. 75.348 million was found to be recoverable on account of inadmissible extension of concession of FTAs pointed out on the basis of difference in terms of description of goods, quantity, HS Code, importer/exporter name, port of shipment, date of departure etc between the GD and the respective certificate of origin.
- Rs. 19.063 million was found to be recoverable on account short export against DTRE approval.
- Rs. 53.754 million was found to be recoverable on account of non inclusion of freight charges as per Rule 25(2) of the Customs Act, 1969.
- Inadmissible extension of concession of Pak Malaysia FTA notified vide SRO 126(I)/2007 dated 30-012-2007 by misclassifying “RBD Palm Olein” under PCT heading 1511.9030 instead of its correct heading i.e.1511.9090 causing short realization of revenue amounting to Rs. 89.793 million
- Rs. 37.824 million was found to be recoverable on account of in admissible grant of Pak China FTA concession.
- Rs. 25.548 million was found to be recoverable on account of under valuation of PU coated Fabrics classifiable under PCT Head 5903.2000.

Import/DTRE Section:

- Clearance of goods on invalid/without test report
- Under valuation.
- Misclassification.
- Grant of DTRE approvals without the approved formula of input/output and wastage ratio
- Non observance of rule 299(4) of DTRE Rules
- Non compliance of section 19-B of the Customs Act, 1969.

Bank Guarantee Section:

- Non compliance of Rule XI of SRO 492(I)/2009 dated 13.06.2009
- Inadmissible benefit of SRO 492(I)/2009 dated 13.06.2009
- Mis-declaration of input output ratio regarding consumption, free of duty and taxes imports.

Expenditure Section:

- Non disposal of newspapers and periodicals.
- Non surrendering of unspent budget in violation of para 95 of GFR.
- No surprise visit of Cash Book and non maintenance of leave account.
- Irregular expenditure without calling tender.

Baggage Section

- Non submission of Passport copy.
- Inadmissible benefit of SRO. 682(I)/2006 dated 29.06.2006.
- Goods brought in commercial quantity.
- Non admissibility of allowance and non availability of capacity/size, type and origin.

3.4 SPECIAL ENQUIRIES AND INVESTIGATIONS

Apart from routine audit assignments, the mandate of this Directorate General also includes special assignments given by the Federal Board of Revenue. The Directorate General derives these powers under Clause 2 (e) of SRO. No. 75(I)/2006, dated 26.1.2006, and SRO. No. 26(I)/2006, dated 9.1.2006. The said Clause states as under:

“The functions and powers of the Directorate of Internal Audit shall be to carry out any other work or function that may be assigned to it by the Federal Board of Revenue.”

The Directorate General accordingly undertook special assignments and inquiries entrusted and assigned to it by the Board from time to time during 2013-14.

SPECIAL ASSIGNMENTS.

During the course of routine audits conducted by the Regional Directorates various reports regarding misuse of concessions under FTAs/PTAs were noticed. Therefore, the Directorate General Internal Audit (Customs), Islamabad being subordinate office of FBR deemed it appropriate to carry out an exclusive study/analysis of imports made under FTAs/PTAs during July 2009 to June 2013 across Pakistan. The basic emphasis of this exercise was to unearth leakages of revenue due to non-compliance/ deviation from the provisions of rules of origin and SROs governing the FTAs/PTAs, assess revenue impact of FTAs/PTAs on economy and furnish suggestions/recommendations for Board to minimize the chances of misuse of FTAs/PTAs in future. The study was also intended to provide policy feedback to FBR for streamlining the procedure of granting concessions under FTA/PTA regime in Collectorates and uniform application thereof. To accomplish the objectives of the Audit-cum-Study Report the Directorate General advised its Regional Directorates located at Karachi, Lahore and Islamabad to initiate Special Audits of imports made under FTAs/PTAs at Collectorates during July 2009 to June 2013 falling in their respective jurisdiction.

Despite facing acute shortage upto the tune of 39% of the staff the Regional Directorates managed to initiate and completed the task assigned by Directorate General and submitted their

respective reports on the matter. These audit reports raised some pertinent identifications which inter alia includes evasion of revenue by submission of wrong certificates, misclassification, undervaluation, incorrect application of rates of customs duty, extension of FTA concessions to goods not covered under FTA etc causing short realization of revenue to the tune of Rs. 366.208million.

Besides identifying the massive misuse of the concessions of FTA/PTA as summarized above the report also brings to the light systematic weaknesses of the procedural lapses relating to verification/authentication of certificates of origin.

One of the major weaknesses identified is the apathy of customs officials at operational level towards handling FTA/PTA documents. The most important aspect of granting concession under FTA/PTA is verification and authentication of the signatures on certificates of origin but this job is mostly being performed at the level of Lower Division Clerk (LDC). Moreover, the photocopied book of specimen signatures are not duly authenticated by any officer-in-charge thus creating the possibility of manipulation, fabrication and tampering of such an important document.

The Audit-cum-Study Report not only provides generalized input for improving the system but also indicate specific cases through which unscrupulous elements have misused the facilities under FTAs/PTAs. The report also contains recommendations for improving the system so as to pre-empt any possibility of such misuse in future.

3.5 ON-GOING CURRENT STUDY REPORTS ON IMPORT & EXPORT OF GOLD UNDER ENTRUSTMENT SCHEME (IRREGULARITIES IN STEEL SECTORS AND PTCL).

Presently the Directorate General is working on fraudulent imports and exports of **Gold** under Entrustment Scheme as briefly discussed with yourself in meeting with undersigned. The government had announced 'Entrustment Scheme' through SRO. 266 (I)/2001 dated May 07, 2001 to broaden the base of Pakistani exports and provide opportunity to Pakistani artisans to

sell jewellery abroad. There is massive misuse of Entrustment Scheme, which allowed duty/tax exemption and restricted gold importers to export value-added gold products within eight months. The initial observations show that huge foreign exchange remittance have been evaded through fake and forged E forms submitted by the importers and exporters of Gold. Moreover, there is huge evasion of duty and taxes as well. The Directorate General of Internal Audit is working on it and legitimately expects that huge amounts would be detected on both sides that is non remittance of export proceeds as well as non-payment of duty and taxes.

Moreover, another study is being initiated in respect of evasion of duty/taxes by **Steel Sector**. The observation has been forwarded to concerned Collectorates like Port Qasim and MCC West. The response received from MCC Port Qasim partly agreeing with the observation and the Collectorate assured this Directorate that recovery of Rs.20 million will be made shortly.

The Directorate General aims to gradually shift its focus from routine audit to issue based audits so that huge amounts evaded are detected and meaningful changes in the system proposed for betterment of the organization.

Chapter-4

4.1 FOLLOW-UP ACTION AND MEETINGS OF MEMBER ACCOUNTS COMMITTEE (MAC)

Unfortunately the role of internal audit did not have the same degree of seriousness and acceptance in the field formations as is granted to DRRA. The nature and extent of compliance that was desirable, due to the above reason could not be achieved. Field formations were not paying proper attention to the observations of the Internal Audit. The audited Collectorates / Directorates were not seriously responding, contesting, reconciling or taking timely action on internal audit observations.

To review the contested / outstanding internal audit observations and to give directions to field formations for appropriate action, a structure of Member (Audit) Accounts Committee (MAC – meeting equivalent to DAC) and Chairman Accounts Committee (CAC – equivalent to PAC) was formulated vide Board’s letter No. 1(19)M(Audit)/2006, dated 6.3.2007. The Board decided that all the Audit Reports received from the Directorate General of Internal Audit (Customs, Sales Tax & Federal Excise) shall be treated at par with the Audit Reports issued by the Revenue Receipts Audit and the audit observations shall be properly responded in annotated form and in stipulated period. This procedure ensured that action on the recommendation of audit is accepted at a sufficiently senior management level. Hence, a system of follow-up of the audit observations was initiated. Establishment of this Review Committee helped to settle backlog of audit observations.

This interaction between Directorates of Internal Audit and field formations helped in highlighting the deficient areas of the audited Collectorates/Directorates. Pre-MAC meetings for the period 2012-13 & 2013-14, were held during December, 2013 & April, 2014 at Sales Tax House Karachi to discuss the outstanding internal audit observations pertaining to following Collectorates/ Directorates of the Southern Region (Sindh and Balochistan).

S.No	Collectorates/ Directorates	PERIOD OF AUDIT CONDUCTED	Details of Paras /Observations		
			No. of Paras discussed	No. of Paras settled	Ongoing paras
1	MCC Appraisalment (West), Karachi	2012-2013	20	2	18
2	MCC Appraisalment (West), Karachi	2013-2014	91	17	74
3	MCC (Port Qasim), Karachi	2013-2014	13 (Out of 46)	03	40
4	MCC, Quetta	2013-2014	73	29	44
5	MCC, Gawadar	2013-2014	20	12	8
6	MCC Hyderabad	2012-2013	11	5	6
7	MCC Hyderabad	2013-2014	22 (Out of 78)	5	73
8	Directorate of Intelligence and Investigation, Karachi	2013-2014	26	8	18
9	MCC Gawadar	2010-11	21	12	09
10	MCC Appraisalment (East), Karachi	2012-13	06	-	06
11	MCC Hyderabad	2011-12	19	05	14
Total			322 (Out of 411)	98	313

A. PRE-MAC MEETINGS LAHORE DIRECTORATE (ABSTRACT)

S.No.	Collectorates/ Directorates	PERIOD OF AUDIT CONDUCTED	Details of Paras /Observations		
			No. of Paras discussed	No. of Paras settled	Ongoing paras
1	MCC (Appraisalment), Lahore	2013-2014	178	17	161
2	MCC (Preventive), Lahore	2013-2014	81	15	66
3	Directorate of Post Clearance, Lahore	2013-2014	24	4	20
4	MCC Multan	2013-2014	147	73	74
5	MCC Sialkot	2013-2014	166	35	131
6	MCC Faisalabad	2013-2014	217	59	158
7	Directorate of Customs Intelligence and investigation Lahore	2013-2014	39	5	34
	Grand Total		852	208	644

B. PRE-MAC MEETINGS ISLAMABAD DIRECTORATE (ABSTRACT)

S.No.	Collectorate/ Directorate	Audit Year	No of Paras	Paras Settled	Pending Paras.
1	Model Customs Collectorate of Islamabad	2005-2006	89	81	8
2		2006-2007	51	43	8
3		2007-2008	108	85	23
4		2008-2009	115	101	14
5		2009-2010	84	62	22
6		2010-2011	117	13	104
7		2011-2012	89	16	73
	Sub Total (1)		653	401	252

S.No.	Collectorate/ Directorate	Audit Year	No of Paras	Paras Settled	Pendin g Paras.
1	Model Customs Collectorate Peshawar	2004-2005	17	15	02
2		2005-2006	82	66	16
3		2006-2007	53	36	17
4		2007-2008	138	111	27
5		2008-2009	89	65	24
6		2009-2010	91	59	32
7		2010-2011	117	18	99
8		2011-2012	104	16	88
Sub Total (2)			691	386	305

S.No.	Collectorate/ Directorate	Audit Year	No of Paras	Paras Settled	Pendin g Paras.
1	Directorate of Intelligence & Investigation, Islamabad.	2006-2007	02	1	1
2		2007-2008	17	16	1
3		2009-2010	11	10	1
4		2010-2011	11	-	11
5		2011-2012	10	-	10
Sub Total (3)			51	27	24

S.No.	Collectorate/ Directorate	Audit Year	No of Paras	Paras Settled	Pendin g Paras.
1	Directorate of Intelligence & Investigation, Peshawar.	2010-2011	8	-	8
2		2011-2012	5	1	4
3		2012-2013	3	-	3
Sub Total (4)			16	01	15
			1,411	815	596

These meetings discussed all contentious audit observations and Collectorates were given necessary instructions to implement the decisions made during the Pre-MAC. Through these meetings, the Directorate General was able to provide timely and critical feedback to field formations as to how effectively they are accomplishing their objectives.

5.2 RECOVERIES:

As a result of above Pre-MAC meetings an amount of **Rs. 448.685 million** was reported by the Collectorates/ Directorates as recovered, against the audit observations made by the Regional Directorate of Internal Audit (Customs), Karachi, Lahore and Islamabad.

5.3 CORRESPONDENCE / COORDINATION WITH THE FIELD FORMATIONS.

The Directorate General besides conducting pre-MAC meetings also remains in constant coordination with the field formations for pursuance of audit reports and other issues regarding the recovery, settlement or logical conclusion of audit paras.

Unfortunately, the role of Internal Audit does not receive the same degree of seriousness and response in the field formations as is granted to DRRA. The nature and extent of compliance that is desirable could not be achieved due to the above reason. Field formations do not pay proper attention to the observations of the Internal Audit. The audited Collectorates/Directorates do not respond seriously/quickly, contest, reconcile or take timely action on the observations raised by Internal Audit.

CHAPTER – 6

6.1 CONSTRAINTS

a) INSUFFICIENT OFFICE ACCOMMODATION.

The Directorate General is facing shortage of office accommodation at Directorate General office, Karachi as well as Directorate of Internal Audit (Customs), Karachi. The existing space in which Karachi Directorate is housed consists of half floor of Sales Tax house, old Sabzi Mandi (which is to be vacated), and one room at 4th Floor and 2 rooms at 11th floor of Customs House (rooms and rest of the area allocated at both floors requiring repair and maintenance).

Except the two rooms rest of pre-allocated space not ready to be transferred to this Directorate as the same is occupied by the Directorate General of Afghan Transit Trade, Karachi. Before renovation of Customs House, Karachi, the offices of Directorate General of Internal Audit was allocated at 8th floor exclusively but now the same is housed by the Chief Collectors' secretariat. This Directorate is operating with insufficient office space of 2 rooms at 11th floor and one room at 4th floor.

For smooth and orderly working of Directorate General, it is necessary that it should have independent and separate space to plan, monitor and execute audit activities throughout the country. It would be more appropriate as well as imperative to hire a separate and exclusive accommodation for the officers and staff of the Directorate General and the Directorate of Internal Audit, Karachi. Keeping in view the work responsibility, the directorate general tookup matter with board vide C.No.1(1)Cash/Rec/2014-15/730, dated 14th October 2014 for provision of funds for hiring of building. The Board vide C.No.7(6)FBR/Estste/14, dated 10th November 2014 informed that directorate general of internal audit (Customs), Karachi may make efforts to accommodate in the customs house instead to hire a separate building.

b) SHORTAGE OF FUNDS

There is absence of exclusive budget allocated for the office of the Director General which is currently being met from the budgetary allocations of one Directorate or the other, wherever the Director General is placed. It is therefore requested that the exclusive budget may be allocated for the Directorate of the Directorate General.

Moreover the funds allocated in the heads other than salary are very inadequate to meet the requirements of the Directorate General. Therefore, sufficient funds in the heads of stationery, purchase of machinery, purchase of furniture and fixture, POL, repair and maintenance of vehicles may be provided to the Directorate General and its sub offices for smooth functioning.

c) LACK OF MOBILITY / TRANSPORTATION

The Staff of the Directorate visits different offices for conducting audit which are situated in remote places being the vast jurisdiction across Pakistan. However, the position of existing vehicles for operational use in the Directorates is very dismal. The existing tampered vehicles allocated less in number their condition is also deteriorating to Directorates are very old and require heavy expenditure for maintenance. Therefore, Directorates may be allowed to purchase at least 10 new vehicles for smooth working of the official function, for this permission / funds may be granted.

d) SHORTAGE OF HUMAN RESOURCES

There is acute shortage of appropriate, skilled/motivated staff in the Directorate General. Presently the staff working strength is 142 against the sanction strength of 231 which comes to the 39% short of the total sanctioned strength.

e) IN ACCESSIBILITY TO WEBOC SYSTEM/ ONE CUSTOM DATA

In accessibility to data hampers efficient functioning. Moreover, procurement of data facility is nonexistent. Directorate General initiated Computer Based Assisted Audits (CAA) with good result and provision of electronic data will enhance detection ratio.

f) INTERNAL AUDIT MODULE

The Directorate of Automation and Reforms has already been approached by the Directorate General for preparation of Internal Audit Module and this office has been informed verbally that Directorate of Automation and Reforms is pre occupied and cannot spare time till July 2015. Though on our repeated approach we have been connected with PCA Module but it does not fulfill all requirements as per our assigned duties.

6.2 ISSUES.

The Directorate General is facing lukewarm response from Field Formations in respect of the Audit Reports issued by the Directorates, slow progress and delayed action hampers in recovery of the government revenue highlighted by the Directorates. Moreover, the latest progress is not being shared with the Directorates and to say that directorates are not kept in the loop of enforcement steps taken by the field formations which create feeling of non cooperation and non coordination which is harmful for the national interest.

The Federal Board of Revenue has already directed in 2006 vide letter C.No.6(26) PAC/DAC/IDT/2006 dated 21.11.2006 that **in future all the Audit & Inspection Reports received from the Directorate General of Inspection and Internal Audit (Customs, Sales Tax & Federal Excise), Indirect Taxes shall be treated at par with the Audit & Inspection Reports issued by the Revenue Receipts Audit** and the audit and the audit observations shall

be properly responded in annotated form and in stipulated period. Any lapse in this regard will be viewed seriously by the Board if any negative reports are received from the Director General, Inspection and Internal Audit.

Still the response and attitude of the Field Formations is not upto the mark, therefore, Board may again refresh its directions to the field formations for proper compliance of audit reports issued by the Directorate General of Internal Audit.

6.3. INCENTIVES

There is an impression that officers/ officials are transferred to Internal Audit without any career planning. Therefore, Rotation and Tenure based posting system to and from Customs Collectrates/Field Formations to the Directorate be implemented for improving the quality of audit as well as morale of staff. Some staff members at the level of Superintendents are serving in the Directorate General since last five years and feel demotivated/frustrated/dejected as no proper career planning is being followed by the concerned wing of the FBR on rotation basis.

Moreover, there is need to allocate proper funds under “REWARDS” as an incentive for the staff and officials who work wholeheartedly towards conduct of meaningful audit. The reward policy of this Financial Year demotivated the officers posted at the Directorate General as only two (02) officers from the three Directorates were nominated for reward which impede the fruitful output of this organization.

Proper Training of staff in the field of audit techniques is also necessary. The staff posted at Internal Audit may be given preference in audit related domestically as well as foreign training. The projection at domestic as well as foreign spectrum broaden their view.

CHAPTER – 7

7.1. RECOMMENDATIONS / SUGGESTIONS FOR IMPROVING PERFORMANCE.

Since the Directorate General is facing ground realities on the basis of their practical problems, certain recommendations are suggested for sympathetic / favorable consideration.

a) ADMINISTRATIVE CHANGES –

In order to transform the Directorate General into a vibrant organization as well to make the field formations give serious priorities to the Audit of this office, it is proposed that:

- Currently, Member Audit & Accounting deals with Customs, Income Tax, Sales Tax and FED paras and that too related to DRRA as well as Internal Audit, leaving little time remained for focused attention on the paras made by Internal Audit.
- Therefore, a separate position of Member Audit & Accounting exclusively for dealing with DRRA and Internal Audit paras relating Customs may be created at FBR.
- Posting of officers/staff well versed in the field of Customs as well as in information technologies may be made in the Directorate for further effective result oriented performance of the Directorate General.
- Principal Appraisers / Appraisers/Examining Officers and a few Auditors may also be posted in this organization to ensure more detailed audits of field formation of Customs.
- Introduction of rotation and tenure based posting system to and from Customs Collectorates to the Directorate may be introduced for improving the quality of audit as well as morale of staff. Some staff members at the level of Superintendents

are serving the Directorate General since last five years and feel dejected as no system is being followed by the Administration Wing of FBR for transfer and posting of the staff.

- Due to huge volume of work and a large of number of field formations to be audited by this Directorate General, it is proposed that:-
 - The Directorate at Karachi may be bifurcated into two Directorates (each headed by a Director) so that meaningful audit of the field formations can be undertaken.
 - A new Directorate may be established at Quetta to cater for the audit of work in the jurisdiction of the province of Balochistan.

b) LEGAL CHANGES

- Pre 2006 era powers may be re-assigned to the Directorate of Internal Audit (Customs) to properly pursue and make out cases in the audit paras.
- The Directorate General is of the opinion that it can become more vibrant and can contribute effectively if powers of Section 26, 26A, 26B, 32, 32A, 32B, 91, 92, 155A, 155B, 155C, 155D, 155L, 155M, 155N, 155O, 155P, 161, 162, 163, 165, 166, 167, 168, 169, 171, 194A and 211A of the Customs Act, 1969 are vested in the office of the Directorate General of Internal Audit (Customs)
 - This will allow the Directorate to take all paras to their logical end with complete focus.
 - Will also enable speedy recovery of stuck up government revenue.
- The Electronic/Online access to Customs modules and data is not available which hinders the performance of this Directorate General. In order to undertake any meaningful analysis/audit, it is suggested that PRAL may be directed to allow access to One Customs, WeBOC, Post Clearance Audit Module as well as Valuation module to all the three Directorates of the Directorate General so that this organization can play its due role.

c) INFORMATION TECHNOLOGY SUPPORT

- As the Customs Operations are now being carried out on the basis of web based online software WeBOC, this Directorate General being main audit organization of the Customs has not still been provided access to the WeBOC system which is necessary for conducting the audit of GDs processed through WeBOC system.
- WeBOC system training of staff in the field of audit techniques especially the aspects of valuation/classification and thorough study regarding scrutiny of import and export documents may be arranged through Directorate General of Training and Research (Customs). This training may include the knowledge of Banking System to investigate the banking transactions, use of data of direct taxes for the purpose of audit and training for One-Custom and WeBOC etc.
- Laptop computers may be provided to the Auditors/ Superintendents posted in the Internal Audit, as it will be helpful during audit especially at places where occurrences of power breakdowns are frequent

CONCLUSION

In the environment of on line web based clearances, it is imperative for Federal Board of Revenue to strengthen the Directorate General of Internal Audit (Customs) so that it can create deterrence for the Customs duty evaders and their colluders