Performance Audit Report

on

Determination of Input Output Ratios by Input Output Co-efficient Organization Federal Board of Revenue (Customs)

(February 2018)

AUDITOR-GENERAL OF PAKISTAN

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Abbreviations & Acronyms

AGP	:	Auditor General of Pakistan
IOCO	:	Input Output Co-efficient Organisation
DTRE	:	Duty and Tax Remission for Exports
WHT	:	Withholding Tax
CD	:	Customs Duty
CGO	:	Customs General Order
HS Code	:	Harmonized System of coding
EOU	:	Export Oriented Unit
DG	:	Director General
FBR	:	Federal Board of Revenue
GD	:	Goods Declaration
IGM	:	Import General Manifest
I&I	:	Intelligence and Investigation
MCC	:	Model Customs Collectorate
MCD	:	Manifest Clearance Department
MT	:	Metric Ton
N.T.N.	:	National Tax Number
OGRA	:	Oil & Gas Regulatory Authority
OIO	:	Order-In-Original
PCSIR	:	Pakistan Council of Scientific and Industrial Research
IORs	:	Input Output Ratios
SBP	:	State Bank of Pakistan
SOPs	:	Standard Operating Procedures
SRO	:	Statutory Regulatory Order
WeBOC	:	Web Based One Customs

PREFACE

The Auditor-General conducts audit subject to Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973 read with sections 8 and 12 of the Auditor- General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. The audit of "Determination of Input Output Ratios by Input Output Co-efficient Organization and its implementation/monitoring by Regulatory Collectors", Federal Board of Revenue (Customs) was carried out accordingly.

The Directorate General of Audit, Customs and Petroleum, Lahore conducted performance audit of "Determination of Input Output Ratios by Input Output Co-efficient Organization and its implementation/monitoring by Regulatory Collectors" during the months of March to June, 2017 with a view to report significant findings to stakeholders. Audit examined the economy, efficiency, and effectiveness aspects of "Determination of Input Output Ratios by Input Output
Co-efficient Organization and its implementation/monitoring by Regulatory Collectors". The Audit Report indicates specific actions that, if taken, will help the management realize the objectives of the Determination of Input Output Ratios by Input Output Co-efficient Organization and its implementation / monitoring by regulatory Collectors.

Audit observations included in this report have been finalized in the light of discussion in DAC meeting held on 29.11.2017

The Audit Report is submitted to the President of Pakistan in pursuance of the Article 171 of the Constitution of Islamic Republic of Pakistan, 1973.

Dated: 01 March, 2018

(Javaid Jehangir)
Auditor-General of Pakistan

EXECUTIVE SUMMARY

Determination of Input Output Ratios by Input Output Co-efficient Organisation

The Director General Audit, Customs and Petroleum, Lahore conducted a performance audit of “determination of input output ratios by input output co-efficient organisation and its implementation/monitoring by regulatory Collectors” during March to June, 2017. The main objectives of the audit were to examine and to evaluate the performance of Input Output Co-efficient Organisation for determination of input output ratios to analyse the economy, efficiency and effectiveness of the entire process. However, portrayal of performance could not be reflected in this report in true letter and spirit due to incomplete provision of record which resulted in the constraint of covering all the aspects of performance. The audit was conducted in accordance with Performance Audit Manual. Performance audit of “determination of input output ratios by input output co-efficient organisation and its implementation/ monitoring by regulatory Collectors” was conducted by utilizing 100 man-days and incurring expenditure of Rs. 0.50 million.

Key audit findings of the Report

The key findings are:

i. Non-Production of Record;[1]
ii. Non revision of duty drawback SROs;[2]
iii. Non-determination of input output ratios and wastages by IOCO;[3]
iv. Late issuance of input output ratio certificate;[4]
v. Excess wastages determined by IOCO;[5]
vi. Determination of different ratio of wastage in respect of same goods;[6]

[1] Para 4.1.1
[2] Para 4.1.2
[3] Para 4.1.3
[4] Para 4.1.4
[5] Para 4.1.7, 4.1.9
[6] Para 4.1.8

vii. Non-realization of government revenue due to non-accounting of weight gains during sizing process for manufacturing of grey cloth - Rs. 109.60 million;[7]

viii. Misuse of DTRE facility – Rs 0.54 million;[8]

ix. Irregular import under SRO 327(I)/2008 - Rs. 176.47 million;[9]

x. Non disposal of wastage;[10]

xi. Short realization of government revenue - Rs. 34.23 million;[11]

xii. Loss of revenue due to unauthorized purchase of cotton - Rs. 55.37 million;[12]

xiii. Loss of revenue on unaccounted input goods - Rs. 76.65 million;[13] and

xiv. Grant of irregular benefit under DTRE scheme - Rs 14.63 million.[14]

Recommendations

The FBR should:

(i) hold inquiry to probe the circumstances which led to non-production of record despite clear instructions of FBR and record of the IOCO be scrutinized by special teams comprising representatives from FBR and Audit to evaluate the performance of this organization.

(ii) review all duty draw back notifications immediately.

(iii) take the person(s) responsible for non/delayed issuance of input output ratios to task.

(iv) issue sector-wise guidelines for determination of Input Output Ratios to avoid issuing of different ratios for same goods.

(v) issue guidelines for accounting the element of weight gains during sizing process for manufacturing of grey cloth.

(vi) recover amount pointed out by Audit promptly along-with leviable penalty and default surcharge.

(vii) hold close monitoring of all cases of DTRE facilities to avoid misuse.

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[7]Para 4.2.1, 4.2.11
[8]Para 4.2.2, 4.1.10
[9]Para 4.2.4
[10]Para 4.2.5
[11]Para 4.2.6
[12]Para 4.2.7
[13]Para 4.2.8
[14]Para 4.2.9

1. INTRODUCTION

The Director General Audit, Customs & Petroleum, Lahore conducted Performance Audit of determination of input output ratios by IOCO and its implementation/monitoring by regulatory Collectors during March to June, 2017 in terms of Article 170 (2) of the Constitution of Islamic Republic of Pakistan 1973.

The Directorate General of Input Output Co-efficient Organization (IOCO) was established by the Board vide SRO 811(I)/2013 dated 20th September, 2013 having two field offices at Karachi and Lahore. Function of the organization is to authorize, duty or tax remission under survey-based concessionary notifications, determination of input-output ratios, wastages and fixation of rates for repayment or remission or duty drawback and/or any other assignment relating thereto. The IOCO is issuing analysis certificates / authorization certificates under following SROs / Rules:

i. SRO 450(I)/2001 dated 18.06.2001 (DTRE);
ii. SRO 565(I)/2006 dated 05.06.2006 (Concessionary imports for manufacturers);
iii. SRO 326(I)/2008 dated 29.03.2008 (Exempt imports for Export Oriented Units);
iv. SRO 327(I)/2008 dated 29.03.2008 (Exempt imports for Export Oriented Units) & Analysis Certificates;
v. Fifth Schedule to the Customs Act, 1969; and
vi. SRO 450(I)/2001 (Duty Draw Back).

The input output ratios / analysis certificates are issued by IOCO and their implementation is monitored by concerned regulatory Collectors.

2. AUDIT OBJECTIVES

2.1 The objectives of the performance audit were to see that:

i. efficiency, effectiveness, economy, completeness is achieved
ii. the compliance of provisions of Customs Act, Rules etc. is made
iii. the basis for fixation of Input Output Ratios are proper
iv. the implementation and monitoring of IORs determined by IOCO under SRO450(I)/2001, SRO 326(I)/2008, SRO 327 (I)/2008, SRO 565(I)/2006 and Fifth Schedule to the Customs Act, 1969 are ensured by respective field offices of Customs
v. input goods are imported and used by DTRE users, manufacturing bonds and export oriented units according to the approved Input Output Ratios and manufactured goods are duly exported.
vi. proper internal control exist to monitor performance
vii. applications for determination of IORs are disposed timely
viii. pendency of cases in respect of IORs is monitored
ix. immediate measures are taken for recovery of government dues if any difference exist between provisional and final ratios as fixed later after proper survey

3. AUDIT SCOPE AND METHODOLOGY

3.1 For the purpose of this performance audit, Offices of the Director Input Output Co-efficient Organization (North), Lahore, Director Input Output Co-efficient Organization (South) Karachi, MCCs Appraisement Lahore, Multan, Sialkot, Faisalabad were visited during March, 2017 to June, 2017 for Performance audit of three years i.e. financial year 2012-13 to 2015-16 for maximum coverage.

3.2 Performance Audit teams of the Directorate General of Audit, Customs & Petroleum conducted audit of determination of input output ratios by IOCO and its implementation/monitoring by regulatory Collectors on test check basis in accordance with audit methodology as envisaged in Performance Audit Manual. Audit activity started with detailed planning, development of audit programs, establishing resource requirements and timing. The planned activities were executed as per audit programs. Besides selection of samples on test check basis, high-value and high-risk items were also selected on the basis of professional judgment for substantive testing.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Organization and Management

Performance audit of “Determination of Input Output Ratios by Input Output Co-efficient Organization” was carried out in line with the Annual Audit Plan 2016-17. The area was selected to determine the economy, efficiency and effectiveness in the determination of Input Output Ratios and its monitoring by the Customs authorities. The general attitude of management was cooperative. However, Directorate General of Input Output Co-efficient Organization, Karachi and its Regional Office at Lahore did not produce auditable record related to determination of Input Output Ratios. Resultantly, Audit could not verify the accuracy of record.

The key audit findings pertaining to management are narrated in succeeding paragraphs;

4.1.1 Non-production of record

The Provisions of Auditor General’s (Functions, Powers, Terms and Conditions of Services) Ordinance, 2001 read with Article 169 and 171 of the Constitutions of Islamic Republic of Pakistan provide the Auditor General of Pakistan with mandate to audit the receipts and expenditure of the Federal Government.

According to section 14(I) of The Auditor General’s (Function, Powers and Terms and conditions of Service) Ordinance, 2001, The Auditor-General shall, in connection with the performance of his duties under this Ordinance, have authority—

i. to inspect any office of accounts, under the control of the Federation or of a Province or of a district, including treasuries, and such offices responsible for the keeping of initial or subsidiary accounts;

ii. to require that any accounts, books, papers and other documents which deal with, or form, the basis of or otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may direct for his inspection; and

iii. to enquire or make such observations as he may consider necessary, and to call for such information as he may require for the purpose of the audit.

Any person or authority hindering the auditorial functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Disciplines Rules applicable to such person.

Further under section 223 of the Customs Act, 1969, all officers of customs and other persons employed in the execution of this Act, shall observe and follow the orders, instructions and directions of the Board.

(a) A performance audit of Input Output Co-efficient Organization (IOCO) was planned during 2nd phase of financial year 2016-17. In this regard, two audit teams were deputed for the execution of this assignment. For the purpose audit teams visited the office of the Director, IOCO (N), Lahore and Director, IOCO (S), Karachi and requested for production of data/record for performance audit. The requisite record/data was not provided despite repeated verbal and written requests. The Director IOCO (N), Lahore denied the production of auditable record on the plea that the type of requisition by Audit was not available with them vide IOCO (N) Audit/55/2017/687 dated 02.03.2017. The issue of non-production of record by field formations of FBR was taken up with Member Customs, FBR, Islamabad vide letter No. 1240-IR/DGAC&P/14-2016 dated 08.03.2017.

In response, FBR issued directions/instruction to DG(IOCO), Karachi for production of record vide letter No C.No.7(I)S.Val/2017 dated 14.03.2017.

In disregard to FBR's instructions for production of record, the Directorate of IOCO Karachi and Lahore did not produce record to audit teams despite several visits/requests. By this way, the Directorate of IOCO (S) & (N) did not honor the above referred codal provisions and also failed to obey directives of the FBR.

As the matter is likely to be discussed in the meeting of Public Accounts Committee of National Assembly, the department was requested to intimate reasons for non-production of data/record.

The matter was pointed out to the department in March, 2017. The formation informed that the record is available and shall be made available to Audit as and when desired.

The DAC directed the formation on 29-11-2017 to provide the record to Audit as and when desired.

Audit was of view that the record was not produced intentionally to conceal the irregularities and non-compliance of rules and procedures. Audit recommends early resolution of the issue along-with fixing of responsibility against responsible persons.

(A.O. No. 01/IOCO)

(b) The FBR issued direction/instruction to the Collectorates of Customs, for production of record vide letter No C.No.7(I)Val&Audit/2017 dated 15.02.2017. In this regard, audit team was deputed for the execution of this assignment. For the purpose audit team arrived the office of the Deputy Collector Customs (EOU), Dry Port Mughalpura, Lahore on 30.05.2017 and requested for production of data/record for the period 2013-14 to 2015-16 for performance audit. The requisite record/data in respect of Export Oriented Units under SRO 326 (I)/2008 & SRO 327 (I)/2008 was not provided despite of repeated verbal and written requests vide this office memos dated 24.05.2017, 09.06.2017 and 14.06.2017. However, out of 15 licensees under SRO 326 (I)/2008 & SRO 327 (I)/2008, record of only 08 units (Only FY 2015-16) was provided for audit which was also incomplete. The Copy of License and Analysis Certificates was provided on closing day whereas record of import and export was not produced. Therefore factual position regarding implementation of Input Output Ratios and Wastage determined by the IOCO/Collectorate could not be verified.

By this way, the Deputy Collector Customs (EOU), Dry Port Mughalpura, Lahore did not honor the above referred codal provisions and also failed to obey directives of the FBR.

As the matter is likely to be discussed in the meeting of Public Accounts Committee of National Assembly, the department was requested to intimate reasons for non-production of data/record at the earliest.

The lapse was pointed out in June, 2017. The department reported that the record is available and will be produced to the audit team as and when demanded.

The DAC directed the MCC and Audit on 29-11-2017 to arrange for audit within next 45 days.

(A.O. No. 01/MCC LHR)

4.1.2 Non revision of duty drawback SROs

The procedure for fixation of standard rate of duty drawback has been provided in sub chapter 8 of chapter XII of the Customs Rules, 2001. According to rule 312(2) of the said rules, the IOCO shall generally review all the rates notified under this sub chapter in the last month of each calendar year and complete the exercise by thirtieth day of January in the following year.

SROs 209(I)/2009, 210(I)/2009, 211(I)/2009 and 212(I)/2009 were issued in 2009 in which standard rate of duty drawback in respect of Sports, Leather, Textile and other manufactured goods were notified. These notifications required annual revision. It was however observed that none of the SRO was revised despite the lapse of a period of 8 years. Audit observed that rates of duty of some major input goods were reduced to large extent during the last 8 years as detailed in the table which warranted immediate revision of duty drawback rates. Due to non-revision of duty drawback notifications, the government was paying excess duty drawback against that actually due.

SROs	**Goods produced/manufactured**	**Raw material Imported**	**HS Code**	**Rate of Duty in 2009-10**	**Rate of Duty in 2016-17**
209(I)/2009	i. Dyed or Printed Fabrics	Dyes	3204.1400	15	3%
	ii. Grey Bleached Garments	PV Alcohol	3823.1990	15	11%
	iii. Ready-made garments	Viscose Staple Fiber	5504.1000	5	3%
210(I)/2009	i. Gloves	Sewing Thread	5401.2000	10	3%
	ii. Hockey Stick	Wood	4408.9090	15	3%
	iii. Leather Foot Wear	Tow	5501.9000	10	3%
211(I)/2009	i. Hand Tools	Carbon Steel	7203.1000	5	3%
	ii. Hand Tools	Stainless steel	7218.1000	5	3%
	iii. Fans	Electric steel sheet	7219.9090	5	3%
	iv. Deep Freezer	Accumulator	8507.2090	20	11%
	v. Surgical & Veterinary Instruments	Stainless steel	7208.1000	5	3%
	vi. Kitchen wares	Aluminum	7601.9190	20	3%
	vii. Pipes and Tubes	Hot and Cold Rolled Coils Zinc Ingot	7211.1310 7905.0000	20 10	11% 3%
	viii. Sanitary Fittings	Zinc Ingot	7095.0000	10	3%
212(I)/2009	i. Poly propylene woven Fabric	Poly Propylene granules	3903.1000	15	11%

The department reported that the revision of rates of duty leviable is to be conducted under certain protocols, the first and foremost being issuance of duty drawback rates at the inception after consultation with the concerned association.

Since, no duty drawback rates has been issued by the Directorate of IOCO (North) Lahore yet, therefore, revision of the same is not responsibility of this Directorate.

The DAC directed the formation on 29-11-2017 to refer contents of audit para to FBR for revision of rates of duty draw back/rebate. Audit recommends early resolution of the issue.

(A.O. No.06 /IOCO-Multan)

4.1.3 Non-determination of input output ratios and wastages by IOCO

According to Rule 299(4) of the Customs Rules, 2001, IOCO or, as the case may be, EDB upon receipt of a reference from the regulatory Collector, shall determine input-output ratios and wastages, as may be deemed appropriate, and forward their findings to the regulatory Collector within a period of thirty days, or such shorter period as may be specified by the regulatory Collector in any specific case. Provided that the regulatory Collector may grant provisional DTRE approval pending receipt of response from IOCO or, as the case may be, EDB in this behalf. Such provisional approval shall in any case not be delayed beyond three days after expiry of the due date of receipt of response from IOCO or, as the case may be, EDB, provided further that quantity approved provisionally by the regulatory Collector shall not exceed twenty–five per cent of the quantity applied by the exporter or twenty–five per cent of the capacity of the producing or manufacturing unit, whichever is less.

(a) M/s Al-Haram Enterprises Multan was granted DTRE approval No. KCUS/288/21082013 by the Collector Customs Multan. The DTRE approval was allowed provisionally for import of 25% raw material. Their case was referred to Director IOCO (N), Lahore vide letter No. C.No. MDP/DTRE/AL-HARAM/65/2013/3868 dated 17.07.2013 for determination of input output ratios and wastages. However, no response was received from IOCO (N) Lahore despite the lapse of period of more than 3 years. Even the user has submitted reconciliation statement Appendix-III since long. This shows that working of IOCO is not upto mark. Non issuance of input output ratios and wastages despite the period of more than 3 years needed to be justified.

The lapse was pointed out to the department in June, 2017. The formation informed that they will submit a comprehensive reply wherein stating that reconciliation of the subject unit has already been finalized within thirty days.

The DAC directed the formation on 29-11-2017 to submit comprehensive reply on above lines within the committed time line.

(A.O. No.02/IOCO-Multan)

(b) M/s Sadaqat Corporation (Pvt.) Ltd Faisalabad was granted DTRE approval No.KCUS/212/29062015 by the Collector Customs, Faisalabad. The DTRE approval was allowed provisionally for import of 25% raw material. Their case was referred to Director IOCO (N), Lahore vide letter No.V-CUS/DTRE/07/2015/2426 dated 08.07.2015 for determination of input output ratios and wastages. However, no response was received from IOCO (N) Lahore despite the lapse of period of more than 2 years. Neither Reconciliation Statement was available in record nor audit was completed. Therefore government revenue of Rs. 27,723,680 was at stake.

Non issuance of input output ratios and wastages and non-completion of audit despite the period of more than 2 years is a sign of question mark on the working of both IOCO and Collectorate. This needed justification along-with immediate remedial steps.

The lapse was pointed out to the department in June, 2017. The department reported that the letter referred by MCC, Faisalabad as denoted by DRRA has never been received in the Directorate of IOCO (North), Lahore.

The DAC directed the formation on 29-11-2017 to submit comprehensive reply on above lines within the committed time line.

(A.O. No.12/IOCO-FSD)

(c) M/s Shakarganj Mill Ltd, Jhang was granted DTRE approval No. KCUS/60/13022015 by the Collector Customs Faisalabad. The DTRE approval was allowed provisionally for local procurement of 25% raw material. Their case was referred to Director IOCO (N), Lahore vide letter No.V-CUS/DTRE/32/2014/975 dated 13.03.2015 for determination of input output ratios and wastages. However, no response was received from IOCO (N) Lahore despite the lapse of period of more than 2 years. This showed that working of IOCO was not upto the mark. Non issuance of input output ratios and wastages despite the period of more than 2 years needed to be justified.

Further, according to FBR letter No. CNo.3(14)/DRD/2010-154981 dated 10.11.2010, the remaining 75% may also be allowed/released against relevant security as mentioned in sub-rule (2)(a), (b) and (c) of Rule 300 of DTRE Rules, before the receipt of report from IOCO/EDB. However, the benefit of provisional approval of DTRE shall remain restricted to 25% and the use of remaining 75% quantity shall be made only after the proper approval by the regulatory collector subsequent to the receipt of IOCO/EDB report.

It was however observed that further 50% local procurement was allowed despite the fact that the same was not admissible under the above letter. The recommendations of IOCO were not received till date. Hence grant/utilization of 50% DTRE goods involving revenue of Rs. 231,947,008 (Value of 50% quantity of Molasses Rs. 1364,394,166/- Sales Tax @17%) was irregular which needed justification and immediate remedial action.

The lapse was pointed out to the department in June, 2017. The department reported that in certain cases keeping in view of the previous determination of consumption and wastage, quantity beyond 25% are allowed by Collector under DTRE rule.

The DAC directed the MCC on 29-11-2017 to seek clarification from Board on letter C.No.3(14)DRD/2010-128570 dated 08.09.2010 regarding requirement of IOCO / EDB report before release of 75% of the provisionally determined quantity.

The DAC further directed the IOCO on 29-11-2017 to finalize the subject cases within next 30 days.

(A.O. No.04/MCC FSD)

(d) M/s Kalash Textile (Pvt) Ltd Faisalabad were granted DTRE approval No. KCUS/282/11092015 by the Collector Customs Faisalabad. The DTRE approval was allowed provisionally for import of 25% raw material. Their case was referred to Director IOCO (N), Lahore vide letter C.No.V-Cus/DTRE/12/2015/3398 dated 02.10.2015 for determination of input output ratios and wastages. However, no response was received from IOCO (N) Lahore despite the lapse of period of about 2 years. This showed that working of IOCO is not upto the mark. Non issuance of input output ratios and wastages despite the period of about 2 years needed to be justified.

Further, according to FBR letter No. CNo.3(14)/DRD/2010-154981 dated 10.11.2010, the remaining 75% may also be allowed/released against relevant security as mentioned in sub-rule (2)(a), (b) and (c) of Rule 300 of DTRE Rules, before the receipt of report from IOCO/EDB. However, the benefit of provisional approval of DTRE shall remain restricted to 25% and the use of remaining 75% quantity shall be made only after the proper approval by the regulatory Collector subsequent to the receipt of IOCO/EDB report.

It was however observed that further 75% import was allowed despite the fact that the same was not admissible under the above letter. The recommendations of IOCO were not received till date. Hence grant/utilization of 75% DTRE goods involving revenue of Rs. 20,093,810 was irregular which needed justification and immediate remedial action.

The lapse was pointed out to the department in June, 2017. The department reported that in certain cases keeping in view of the previous determination of consumption and wastage, quantity beyond 25% are allowed by Collector under DTRE rule.

The DAC directed the MCC on 29-11-2017 to seek clarification from Board on letter C.No.3(14)DRD/2010-128570 dated 08.09.2010 regarding requirement of IOCO / EDB report before release of 75% of the provisionally determined quantity. The DAC further directed the IOCO on 29-11-2017 to finalize the subject cases within next 30 days.

(A.O. No.05/MCC FSD)

(e) M/s Five Stars Packages Faisalabad were granted DTRE approval No. KCUS/278/09092015 by the Collector Customs Faisalabad. The DTRE approval was allowed provisionally for import of 25% raw material. Their case was referred to Director IOCO (N), Lahore vide letter No.V-Cus/DTRE/09/2015/4733 dated 29.12.2015 followed by reminder No. V-Cus/DTRE/09/2015/6424 dated 20.05.2016 for determination of input output ratios and wastages. However, no response was received from IOCO (N) Lahore despite the lapse of period of more than 18 months. This showed that working of IOCO is not upto the mark. Non issuance of input output ratios and wastages despite the period of more than 18 months needed to be justified.

The lapse was pointed out to the department in June, 2017. The department reported that the letters referred by MCC, Faisalabad as denoted by DRRA has never been received in the Directorate of IOCO (North), Lahore.

The DAC directed the formation on 29-11-2017 to submit comprehensive reply on above lines within the committed time line.

(A.O. No.13/IOCO-FSD)

(f) M/s Hira Tahir Printers Sargodha were granted DTRE approval No. KCUS/235/31072015 by the Collector Customs Faisalabad. The DTRE approval was allowed provisionally for import of 25% raw material. Their case was referred to Director IOCO (N), Lahore vide letter No.V-Cus/DTRE/05/2015/2666 dated 05.08.2015 for determination of input output ratios and wastages. However, no response was received from IOCO

(N) Lahore despite the lapse of period of about 2 years. This showed that working of IOCO is not upto mark. Non issuance of input output ratios and wastages despite the period of about 2 years needed to be justified.

Further, according to FBR letter No. CNo.3(14)/DRD/2010-154981 dated 10.11.2010, the remaining 75% may also be allowed/released against relevant security as mentioned in sub-rule (2)(a), (b) and (c) of Rule 300 of DTRE Rules, before the receipt of report from IOCO/EDB. However, the benefit of provisional approval of DTRE shall remain restricted to 25% and the use of remaining 75% quantity shall be made only after the proper approval by the regulatory Collector subsequent to the receipt of IOCO/EDB report.

It was however observed that further 75% import was allowed despite the fact that the same was not admissible under the above letter. The recommendations of IOCO were not received till date. Hence grant/utilization of 75% DTRE goods involving revenue of Rs. 11,439,463 (as per Reconciliation Statement) was irregular which needs justification and immediate remedial action.

The lapse was pointed out to the department in June, 2017. The department reported that the observation does not relate to MCC Faisalabad.

The DAC directed the MCC on 29-11-2017 to seek clarification from Board on letter C No.3(14)DRD/2010-128570 dated 08.09.2010 regarding requirement of IOCO / EDB report before release of 75% of the provisionally determined quantity. The DAC further directed the IOCO on 29-11-2017 to finalize the subject cases within next 30 days.

(A.O. No. 07/MCC FSD)

(g) M/s Praxon Trading Establishment were granted DTRE approval No. KCUS/244/06082015 by the Collector Customs Faisalabad. The DTRE approval was allowed provisionally for import of 25% raw material. The Collector vide his orders dated 05.08.2015 directed to refer their case to

IOCO for determination of input output ratios and wastage. However, the matter was not referred to IOCO. As per record available in file neither remaining 75% raw material was allowed nor the DTRE user submitted Reconciliation Statement in respect of 25% imported raw material. Therefore government revenue of Rs. 1,618,461 was at stake. Non-referring of the case to IOCO and nor completion of audit despite the lapse of a period of about 2 years needed justification.

The lapse was pointed out to the department in June, 2017. The department reported that being same state goods, no wastage was involved. input output ratios was same. Soon after issuance of DTRE approval, user switched to Manufacturing Bonds. THE DTRE user did not avail remaining 75% input quantities. Final Audit of the unit is pending.

The DAC directed the Audit on 29-11-2017 to complete the verification process within 15 days of the submission of documents by MCC.

(A.O. No.08/MCC FSD)

(h) M/s Al-Aziz Packages and Printers Faisalabad were granted DTRE approval No. KCUS/238/22072014 by the Collector Customs, Faisalabad. The DTRE approval was allowed provisionally for import of 25% raw material. Their case was referred to Director IOCO (N), Lahore vide letter No.V-CUS/DTRE/12/2014/2889 dated 24.07.2014 for determination of input output ratios and wastages. However, no response was received from IOCO (N) Lahore despite the lapse of period of 3 years.

Further, reference was made to Chief Manager State Bank of Pakistan vide letter No.V-Cus/DTRE/12/2014/2837 dated 06.08.2014 for verification of advance payment of US $1164002.81. The SBP Faisalabad vide letter No. FEOD/ FSB/10731/Adv.2014 dated 02.07.2014 intimated that mater has been referred to Head office Karachi. State Bank of Pakistan vide No. FEOD/FSB/11975/Adv.2014 dated 06.08.2014 requested to provide Advance Payment voucher on prescribed format i.e. Appendix V-18 as per Chapter XII para 23 of Foreign Exchange Manual 2002 as the copies of stated advance payment voucher sent earlier did not serve the purpose for verification.

Neither IOCO had determined input output ratios and wastages nor the SBP had verified the advance receipt of foreign exchange which needed to be justified. Immediate remedial steps were required. It was therefore requested that either advance payment of US $1164002.81 be got verified from the SBP or the government revenue involved be recovered from the unit concerned.

The lapse was pointed out to the department in June, 2017. The department replied that observation does not relate to MCC Faisalabad.

The DAC directed to provide verification from the concerned commercial bank regarding the authenticity of BCA produced in this regard. The DAC further directed the IOCO on 29-11-2017 to finalize the case already forwarded to them within next 30 days.

(A.O. No.09/MCC FSD)

(i) M/s Hunza Sugar Mills Faisalabad were granted DTRE approval No. KCUS/282/19092014 issued vide C.No. 3451 dated 19.09.2014 by the Collector Customs Faisalabad. The DTRE approval was allowed provisionally for import of 25% raw material. Their case was referred to Director IOCO (N), Lahore vide letter No.V-Cus/DTRE/22062014/3480 dated 29.09.2014 for determination of input output ratios and wastages. However, no response was received from IOCO (N) Lahore despite the lapse of period of about 3 years. This showed that working of IOCO is not upto mark. Non issuance of input output ratios and wastages despite the period of about 3 years needed to be justified.

Further, according to FBR letter No. CNo.3(14)/DRD/2010-154981 dated 10.11.2010, the remaining 75% may also be allowed/released against relevant security as mentioned in sub-rule (2)(a), (b) and (c) of Rule 300 of DTRE Rules, before the receipt of report from IOCO/EDB. However, the benefit of provisional approval of DTRE shall remain restricted to 25% and the use of remaining 75% quantity shall be made only after the proper approval by the regulatory Collector subsequent to the receipt of IOCO/EDB report.

It was however observed that further 25% and 50% import was allowed vide C.No. 5017 dated 13.11.2014 and C.No. 627 dated 25.02.2015 despite the fact that the same was not admissible under the above letter of FBR. The recommendations of IOCO were not received till date. Hence grant/utilization of remaining 75% DTRE goods involving revenue of Rs. 143,437,500 (Value Rs. 843,750,000/- Sales Tax@17%) was irregular which needs justification and immediate remedial steps are required.

The lapse was pointed out to the department in June, 2017. The department reported that the observation does not relate to MCC Faisalabad.

The DAC directed the MCC on 29-11-2017 to seek clarification from Board on letter C No.3(14)DRD/2010-128570 dated 08.09.2010 regarding requirement of IOCO / EDB report before release of 75% of the provisionally determined quantity. The DAC further directed the IOCO on 29-11-2017 to finalize the subject cases within next 30 days.

(A.O. No.06/MCC FSD)

(j) M/s Power Chemicals Industries Ltd Faisalabad was issued DTRE approval No. KCUS/224/10072015 and their case was referred to the Director IOCO(N) Lahore vide V-CUS/DTRE/24/2015/6489 dated 27.05.2016. The IOCO Lahore has approved the wastage i.e. 6% after the period of eight months vide letter No. IOCO(N)/DTRE/117/2015/221 dated 16.02.2017. However, the DTRE user claimed excess wastage i.e. 9.09% as per Reconciliation Statement submitted on 09.06.2016. This resulted in non-realization of government revenue of Rs.743,277 due to excess wastage claimed which needs to be recovered.

Further, advance payment was not verified by SBP Faisalabad vide letter No. FSB/FEOD/13532/2015 dated 28.10.2015 which needs to be got verified from SBP. If the receipt of the foreign exchange in advance is not verified by the SBP then the government taxes involved be recovered from the unit concerned along-with penal action under the law.

The lapse was pointed out to the department in June, 2017. The department reported that the DTRE user was granted extension upto 30.06.2017. Verification of advance payment for the month of May, 2016 issued by the State Bank of Pakistan.

The DAC directed the MCC on 29-11-2017 to ensure recovery within the assure time line.

(A.O. No.10/MCC FSD)

(k) M/s Helicon Enterprises, Sialkot was granted DTRE approval No. KCUS/65/20022014 by the Collector Customs Sialkot. The DTRE approval was allowed provisionally for import of 25% raw material. Their case was referred to Director IOCO (N), Lahore vide letter No. C.NO. V-Cus/SMB/DTRE/APP/06/2014/1659 dated 27.03.2014 for determination of input output ratios and wastages. However, no response was received from IOCO (N) Lahore despite the lapse of period of more than 3 years. Even the user has submitted reconciliation statement Appendix-III since long. This showed that working of IOCO is not upto the mark. Non issuance of input output ratios and wastages despite the period of more than 3 years needed to be justified.

The lapse was pointed out to the department in June, 2017. The department reported that the letters referred by MCC, Sialkot as denoted by DRRA has never been received in the Directorate of IOCO (North), Lahore.

The DAC directed the formation on 29-11-2017 to submit comprehensive reply on above lines within the committed time line.

(A.O. No.10/IOCO-Sialkot)

(l) M/s Qaiser LG Petroleum (Pvt) Ltd Lahore were granted DTRE approval No. KCUS/205/18062015 by the Collector Customs Lahore. The DTRE approval was allowed provisionally for import of 25% raw material. Their case was referred to Director IOCO (N), Lahore vide letter No.V-CUS/DTRE/195/2015/616 dated 18.06.2015 for determination of Input output ratios and wastages. However, no response was received from IOCO (N) Lahore despite the lapse of period of 2 years.

Moreover, Collectorate Customs Lahore made reference vide CNo. V-CUS/DTRE/105/201/251 dated 09.01.2017 to the DC Customs Station Torkham for verification of export amounting to US$ 513,378 as detailed below under DTRE to Afghanistan. No reply was received from DC Customs Torkham.

GD No. & Date	Qty (Kg)	Value US$
60527/26.6.2015	32000	49,690
333/3.7.2015	-do-	47,313
5249/20.08.2015	-do-	42,238
5700/24.08.2015	-do-	43,157
6699/01.09.2015	-do-	43,238
6700/01.09.2015	-do-	43,308
7682/02.09.2015	-do-	43,558
7686/02.09.2015	-do-	43,405
7681/04.09.2015	-do-	43,157
44476/24.6.2016	-do-	37,078
44513/24.6.2016	-do-	38,693
64/1.7.2016	-do-	38,543
Total		**US$ 513,378**

Further, reference was made to Chief Manager State Bank of Pakistan, Lahore for verification of advance payment of US $513,378 but no reply was received. Neither IOCO has determined Input output ratios and wastages nor did the DC Customs Torkham confirm the Export and SBP has also not verified the advance receipt of foreign exchange which needs to be justified. Immediate remedial steps were required. It was therefore requested that either advance payment of US $513,378 be got verified from the SBP or the government revenue of Rs. 19,051,335(as per calculation sheet) be recovered from the unit concerned under intimation to Audit.

The lapse was pointed out to the department in June, 2017. The department reported that the letter referred by MCC, Lahore as denoted by DRRA has never been received in the Directorate of IOCO (North), Lahore.

The DAC directed the formation on 29-11-2017 to submit comprehensive reply on above lines within the committed time line.

(A.O. No.14/IOCO-LHR)

(m) M/s Brighto Paints (Pvt) Ltd Lahore was granted DTRE approval No. KCUS/49/18042015 by the Collector Customs (Appraisement), Lahore. The DTRE approval was allowed provisionally for import of 25% raw material. Their case was referred to Director IOCO (N), Lahore vide C.NO. V-CUS/DTRE/199/2015/509 dated 14.03.2015 for determination of Input output ratios and wastages. However, no response was received from IOCO (N) Lahore despite the lapse of period of more than 2 years. Even the user has submitted reconciliation statement Appendix-III since long. This showed that working of IOCO was not upto the mark. Non issuance of Input output ratios and wastages despite the period of more than 2 years needed to be justified.

The lapse was pointed out to the department in June, 2017. The department reported that the letter referred by MCC, Lahore as denoted by DRRA has never been received in the Directorate of IOCO (North), Lahore.

The DAC directed the formation on 29-11-2017 to submit comprehensive reply on above lines within the committed time line.

(A.O. No.18/IOCO-LHR)

(n) M/s Body Media International (Pvt) Ltd Lahore were granted DTRE approval No. KCUS/207/22062015 by the Collector Customs, Lahore. The DTRE approval was allowed provisionally for local procurement of 25% raw material. Their case was referred to Director IOCO (N), Lahore vide letter No.V-CUS/DTRE/216/2015/615 dated 18.06.2015 for determination of Input output ratios and wastages. However, no response was received from

IOCO (N) Lahore despite the lapse of period of more than 2 years. This showed that working of IOCO is not upto the mark. Non issuance of Input output ratios and wastages despite the period of more than 2 years needed to be justified.

Further, according to FBR letter No. CNo.3(14)/DRD/2010-154981 dated 10.11.2010, the remaining 75% may also be allowed/released against relevant security as mentioned in sub-rule (2)(a), (b) and (c) of Rule 300 of DTRE Rules, before the receipt of report from IOCO/EDB. However, the benefit of provisional approval of DTRE shall remain restricted to 25% and the use of remaining 75% quantity shall be made only after the proper approval by the regulatory collector subsequent to the receipt of IOCO/EDB report.

It was however observed that total 100% quantity of goods was imported vide GD No. LPAF/HC/52806 dated 22.06.2015 and consumed despite the fact that the same was not admissible under the above letter. The recommendations of IOCO were not received till date. Hence grant/utilization of 75% DTRE goods involving revenue of Rs. 570,846 was irregular which needs justification and immediate remedial action.

The lapse was pointed out to the department in June, 2017. The department reported that in instant case, quantity of goods was allowed as per instructions laid down in the Board's letter dated 10.11.2010. However, import and export of goods cannot be held for an indefinite period for any illogical technically or non-availability of IOCO report.

The DAC directed the MCC on 29-11-2017 to submit a report to Audit in this regard with requisite documents within next 15 days.

(A.O. No.14/MCC LHR)

(o) M/s Zulfiqar Knitting & Processing Mills (Pvt) Ltd Lahore was granted DTRE approval No. KCUS/242/08072013 by the Collector Customs Lahore. The DTRE approval was allowed provisionally for local procurement of

25% raw material. Input output ratios declared by the said DTRE user was accepted by the IOCO(N)/Lahore vide C.No. IOCO 3(333) IOCO/Zulfiqar/2012/131 dated 11.06.2013 with remarks "It may also be mentioned that in the absence of any measurable framework for dyes and chemicals, the ratio of input output and wastage declared by the applicant have been accepted as such. However, if the Collectorate has any industrial standard on the basis of which Input output ratios of the unit were finalized in the past without referring the case to IOCO, the same may be applied after analyzing on merit as per law". This shows that IOCO is working without following any industrial standard and measuring formulas. This is because the organization have not employed any sector specialist and work was being managed with staff called from Customs Collectorate on loan basis. This needed justification and immediate remedial steps.

The lapse was pointed out to the department in June, 2017. The department reported that the Directorate of IOCO (North) Lahore is working to be best capability and where industrial averages are not available mere reliance is placed on physical survey and information provided by the Executive Collectorate/unit. To presume that IOCO (North) is working without any measuring formula and industrial standard is not acceptable. The IOCO however, did not provide any industrial standard or guidelines which are made basis for issuance of input output ratios.

Audit recommends that provisions of rules be followed in letter and spirit and FBR should issue clear guidelines in this regard.

(A.O. No.15/IOCO-LHR)

4.1.4 Late Issuance of Input output ratios Certificate

According to Rule 299(4) of the Customs Rules, 2001, IOCO or, as the case may be, EDB upon receipt of a reference from the regulatory Collector, shall determine input-output ratios and wastages, as may be deemed appropriate, and forward their findings to the regulatory Collector within a period of thirty days, or such shorter period as may be specified by the regulatory Collector in any specific case.

(a) M/s Fazal Weaving Mills Ltd Multan was granted DTRE approval No. KCUS/333/31102014 by Collector Customs Multan and were allowed provisionally 25% import of raw material. The case was referred to Director IOCO (N), Lahore vide letter C.No. MDP/DTRE/Fazal Weaving/ 236/2014/2498 dated 13.11.2014 for determination of Input output ratios and wastages. However, IOCO issued Input output ratios and Wastages vide letter C.No. IOCO(N)/DTRE/08/2015/2001 dated 08.11.2015 which was issued with a delay of eleven months. The DTRE user had already submitted Reconciliation Statement on 12.10.2015. This showed that working of IOCO were not up to mark. Late issuance of Input output ratios and wastages beyond the period of thirty days needed to be justified.

The lapse was pointed out to the department in June, 2017. The department reported that the DTRE user was required to submit certain information and documents which is preliminary requirement to precede the matter for determination of IOR and wastages. The unit was contacted to provide the same and requested time and again but the same was provided late. However, as and when the said unit provided the requisite information/documents, the case was duly processed and IOR issued without any further delay.

The DAC directed the formation 29-11-2017 to take up the matter with the Board regarding increase in duration of time frame presently limited to thirty days for determination of Input output ratios . The rules may be amended to the effect that the concerned Director IOCO may extend time period beyond thirty days not exceeding the period of six months.

(A.O. No.03/IOCO-Multan)

(b) M/s NAN & F Enterprises, Sialkot was granted DTRE approval No. KCUS/77/26022013 by Collector Customs Sialkot and were allowed provisionally 25% import of raw material. The case was referred to Director

IOCO (N), Lahore vide letter C.No. V-Cus/MCC-SMB/DTRE/ APP/08/2013/994 dated 27.02.2013 for determination of Input output ratios and wastages. However, IOCO determined Input Output Ratios and Wastages vide letter C.No. IOCO(N)/DTRE/53/2014/427 dated 10.05.2014 after one year and three months. This showed that working of IOCO are not up to mark. Late issuance of Input Output Ratios and wastages beyond the period of thirty days needed to be justified.

The lapse was pointed out to the department in June, 2017. The department reported that The DTRE user was required to submit certain information and documents which is preliminary requirement to proceed the matter for determination of IOR and wastages. The unit was contacted to provide the same and requested time and again but the same was provided late. However, as and when the said unit provided the requisite information/documents, the case was duly processed and IOR issued without any further delay.

The DAC directed the formation 29-11-2017 to take up the matter with the Board regarding increase in duration of time frame presently limited to thirty days for determination of Input Output Ratios. The rules may be amended to the effect that the concerned Director IOCO may extend time period beyond thirty days not exceeding the period of six months. Audit recommends early corrective steps.

(A.O. No. 11/IOCO-Sialkot)

4.1.5 Excess Wastages determined by IOCO

According to Rule 299(4) of the Customs Rules, 2001, IOCO or, as the case may be, EDB upon receipt of a reference from the regulatory Collector, shall determine input-output ratios and wastages, as may be deemed appropriate, and forward their findings to the regulatory Collector within a period of thirty days, or such shorter period as may be specified by the regulatory Collector in any specific case.

(a) DTRE approval No. KCUS/76/27022015 was issued in favor of Monnowal Textile Mills Ltd Multan for manufacturing of 100% cotton carded yarn and 100% cotton combed yarn. Their case was referred to IOCO Lahore for determination of Input Output Ratios. The IOCO vide CNO. IOCO(N)/DTRE/57/2015/232 dated 13.03.2015 had determined the wastage as given below:

Description	Extent of Wastage of Cotton
Cotton Carded Yarn	6%
Cotton Combed Yarn	20%

Audit observed that in a similar case of M/s Umar Spinning Mills (Pvt) Ltd Raiwind Road Lahore in respect of DTRE No. KCUS/323/25102014, the IOCO Lahore vide CNO. IOCO(N)/DTRE/422/2014/1211 dated 28.11.2014 has approved the wastage at following ratio.

Description	Extent of Wastage of Cotton
Cotton Carded Yarn	6%
Cotton Combed Yarn	10%

The above comparison shows that M/s Monowal Textile Mills were allowed double wastage on cotton combed yarn as compare to ratio allowed to Umar Spinning Mills (Pvt) Ltd Raiwind Road Lahore. Resultantly, the Monowal Textile Mills Ltd were allowed 10% excess wastage which resulted in misuse of DTRE goods involving duty & taxes of Rs. 3,159,912.

In another case of DTRE approval No. KCUS/199/10062015 in respect of Reliance Weaving Mills Multan, the IOCO (N) Lahore vide their CNO. IOCO(N)/DTRE/462/2014/768 dated 26.06.2015 has approved 5% wastage on Raw Cotton for manufacturing of grey fabric. In this case wastage on both process i.e spinning plus weaving was restricted to 5% only whereas in the case of M/s Monowal Textile, 6% wastage was allowed for spinning process only.

This shows that the staff of IOCO was working without keeping in view any industrial standard and Input Output Ratios declared by the applicant were being accepted with closed eyes. This is question mark on working of IOCO. The grant of different ratio of wastage on same product required justification and loss of revenue be made good.

The lapse was pointed out to the department in June, 2017. The department reported that In case of M/s. Manowal Textile Mills wastages to the extent of 6% & 20% were allowed in the light of physical observation and keeping in view the parallel industries/textile industry notes. However, M/s Umar Spinning Mills, Lahore claimed wastages 6% and 10% to the extent of Cotton Carded Yarn and Cotton Combed Yarn respectively. Therefore, determination of wastages to the extent of 10% of cotton combed yarn in the instant case is on lesser side. The study reveals that variation in wastage occurred due to quality of raw cotton, origin of the raw material, system/procedure adopted by the unit and skill of the persons. Superior quality of raw material and import origin, latest system and state of the art machinery, and use of skilled persons reduces the wastage and enhance efficiency. Moreover the determination of rate of wastage in a case does not restrict conducting Physical survey even if the raw material and finished goods is the same because of the aforesaid factors.

The Audit demanded that the rational of difference of 10% and 20% wastages allowed for cotton yam in two different cases be provided.

The DAC directed the formation on 29-11-2017 to submit record/working papers to Audit within next 30 days.

(A.O. No.07/IOCO-Multan)

(b) DTRE approval No. KCUS/245/25072015 and KCUS/104/16032015 were issued in favor of M/s Fazal Cloth Mills Ltd Multan for manufacturing of 100% cotton carded yarn and 100% cotton combed yarn. Their case was referred to IOCO Lahore for determination of Input Output Ratios. The IOCO vide CNO. IOCO(N)/DTRE/397/2014/1138 dated 31.10.2014 had determined the wastage as given below:

Description	Extent of Wastage of Cotton
Cotton Carded Yarn	6%
Cotton Combed Yarn	20%

Audit observed that in a similar case of M/s Umar Spinning Mills (Pvt) Ltd Raiwind Road Lahore in respect of DTRE No. KCUS/323/25102014, the IOCO Lahore vide CNO. IOCO(N)/DTRE/422/2014/1211 dated 28.11.2014 has approved the wastage at following ratio.

Description	Extent of Wastage of Cotton
Cotton Carded Yarn	6%
Cotton Combed Yarn	10%

The above comparison shows that M/s Fazal Cloth Mills were allowed double wastage on cotton combed yarn as compare to ratio allowed to Umar Spinning Mills (Pvt) Ltd Raiwind Road Lahore. Resultantly, the Fazal Cloth Mills Ltd were allowed 10% excess wastage which resulted in misuse of DTRE goods involving duty & taxes of Rs. 32,490,078.

In another case of DTRE approval No. KCUS/199/10062015 in respect of Reliance Weaving Mills Multan, the IOCO (N) Lahore vide their CNO. IOCO(N)/DTRE/462/2014/768 dated 26.06.2015 has approved 5% wastage on Raw Cotton for manufacturing of grey fabric. In this case wastage on both process spinning plus weaving was restricted to 5% only whereas in the case of M/s Monowal Textile, 6% wastage was allowed for spinning process only.

This shows that the staff of IOCO was working without keeping in view any industrial standard and Input Output Ratios declared by the applicant were being accepted with closed eyes. This is question mark on working of IOCO. The grant of different ratio of wastage on same product required justification and loss of revenue be made good.

The lapse was pointed out to the department in June, 2017. The department reported that In case of M/s. Afzal Cloth Mills & M/s Fazal Cloth Mills Ltd., the wastages to the extent of 6% & 20% were allowed in the light of physical observation and keeping in view the parallel industries/textile industry notes. However, M/s Umar Spinning Mills, Lahore claimed wastages 6% and 10% to the extent of Cotton Carded Yarn and Cotton Combed Yarn respectively. Therefore, determination of wastages to the extent of 10% of cotton combed yarn in the instant case is on lesser side. The study reveals that variation in wastage occurred due to quality of raw cotton, origin of the raw material, system/procedure adopted by the unit and skill of the persons. Superior quality of raw material and import origin, latest system and state of the art machinery, and use of skilled persons reduces the wastage and enhance efficiency. Moreover the determination of rate of wastage in a case does not restrict conducting Physical survey even if the raw material and finished goods is the same because of the aforesaid factors.

The Audit demanded that the rational of difference of 10% and 20% wastages allowed for cotton yam in two different cases be provided.

The DAC directed the formation on 29-11-2017 to submit record/working papers to Audit within next 30 days.

(A.O. No.08/IOCO-Multan)

c) DTRE approval No. KCUS/304/03102014 was issued in favor of M/s Saphire Fibers Ltd Lahore for manufacturing of 100% cotton carded yarn and 100% cotton combed yarn. Their case was referred to IOCO Lahore for determination of Input Output Ratios and wastage. The IOCO vide CNO. IOCO(N)/DTRE/419/2014/1244 dated 10.12.2014 had determined the wastage as given below:

Description	Extent of Wastage of Cotton
Cotton Combed Yarn	20%

Audit observed that in a similar case of M/s Umar Spinning Mills (Pvt) Ltd Raiwind Road Lahore in respect of DTRE No. KCUS/323/25102014, the IOCO Lahore vide CNO. IOCO(N)/DTRE/422/2014/1211 dated 28.11.2014 has approved the wastage at following ratio.

Description	Extent of Wastage of Cotton
Cotton Carded Yarn	6%
Cotton Combed Yarn	10%

The above comparison shows that M/s Saphire Fibers Ltd Lahore were allowed double wastage on cotton combed yarn as compare to ratio allowed to Umar Spinning Mills (Pvt) Ltd Raiwind Road Lahore. Resultantly, the M/s Saphire Fibers Ltd Lahore were allowed 100% excess wastage which resulted in misuse of DTRE goods involving duty & taxes of Rs. 3,707,351.

The above consumption shows that the staff of IOCO was working without keeping in view any industrial standard and Input Output Ratios declared by the applicant were being accepted with closed eyes. The grant of different ratio of wastage on same product required justification and loss of revenue be made good.

The lapse was pointed out in June, 2017. The department reported that In case of M/s Saphire Fibers Ltd. Lahore wastages to the extent of 20% were allowed in the light of physical observation and keeping in view the parallel industries/textile industry notes. However, M/s Umar Spinning Mills, Lahore claimed wastages 6% and 10% to the extent of Cotton Carded Yarn and Cotton Combed Yarn respectively. Therefore, determination of wastages to the extent of 10% of cotton combed yarn in the instant case is on lesser side. The study reveals that variation in wastage occurred due to quality of raw cotton, origin of the raw material, system/procedure adopted by the unit and skill of the persons. Superior quality of raw material and import origin, latest system and state of the art machinery, and use of skilled persons reduces the wastage and enhance efficiency. Moreover the determination of rate of wastage in a case does not restrict conducting Physical survey even if the raw material and finished goods is the same because of the aforesaid factors.

The DAC directed the formation on 29-11-2017 to submit record/working papers to Audit within next 30 days.

(AO. No. 16/IOCO-LHR)

d) DTRE approval No. KCUS/305/03102014 was issued in favor of M/s Reliance Cotton Spinning Mills Lahore for manufacturing of 100% cotton carded yarn and 100% cotton combed yarn. Their case was referred to IOCO Lahore vide CNO. V/CUS/DTRE/162/2014/291 dated 09.09.2014 for determination of Input Output Ratios. The IOCO vide CNO. IOCO(N)/DTRE/420/2014/05 dated 02.01.2015 had determined the wastage as given below:

Description	Extent of Wastage of Cotton
Cotton Carded Yarn	6%
Cotton Combed Yarn	20% to 24%

Audit observed that in a similar case of M/s Umar Spinning Mills (Pvt) Ltd Raiwind Road Lahore in respect of DTRE No. KCUS/323/25102014, the IOCO Lahore vide CNO. IOCO(N)/DTRE/422/2014/1211 dated 28.11.2014 has approved the wastage at following ratio.

Description	Extent of Wastage of Cotton
Cotton Carded Yarn	6%
Cotton Combed Yarn	10%

The above comparison shows that M/s Reliance Cotton Spinning Mills Lahore were allowed 1.4 times excess wastage on cotton combed yarn as compare to ratio allowed to Umar Spinning Mills (Pvt) Ltd Raiwind Road Lahore. Resultantly, the M/s Reliance Cotton Spinning Mills Lahore were allowed 140% excess wastage which resulted in misuse of DTRE goods involving duty & taxes of Rs. 385,040.

The above consumption shows that the staff of IOCO was working without keeping in view any industrial standard and Input Output Ratios declared by the applicant were being accepted with closed eyes. The grant of different ratio of wastage on same product required justification and loss of revenue be made good.

The department reported that in case of M/s Reliance Cotton Spinning Mills Ltd Lahore wastages to the extent of 20% were allowed in the light of physical observation and keeping in view the parallel industries/textile industry notes. However, M/s Umar Spinning Mills, Lahore claimed wastages 6% and 10% to the extent of Cotton Carded Yarn and Cotton Combed Yarn respectively. Therefore, determination of wastages to the extent of 10% of cotton combed yarn in the instant case is on lesser side. The study reveals that variation in wastage occurred due to quality of raw cotton, origin of the raw material, system/procedure adopted by the unit and skill of the persons. Superior quality of raw material and import origin, latest system and state of the art machinery, and use of skilled persons reduces the wastage and enhance efficiency. Moreover the determination of rate of wastage in a case does not restrict conducting Physical survey even if the raw material and finished goods is the same because of the aforesaid factors.

The Audit demanded that the rational of difference of 10% and 20% wastages allowed for cotton yam in two different cases be provided. The DAC directed the formation on 29-11-2017 to submit record/ working papers to Audit within next 30 days.

Audit recommends that FBR should issue clear guidelines in this regard keeping in view the latest industrial standards.

(A.O .No. 17/IOCO-LHR)

4.1.6 Determination of different ratio of wastage in respect of same goods

According to Rule 299(4) of the Customs Rules, 2001, IOCO or, as the case may be, EDB upon receipt of a reference from the regulatory Collector, shall determine input-output ratios and wastages, as may be deemed appropriate, and *forward* their findings to the regulatory Collector within a period of thirty days, or such shorter period as may be specified by the regulatory Collector in any specific case. Provided that the regulatory Collector may grant provisional DTRE approval pending receipt of response from IOCO or, as the case may be, EDB in this behalf. Such provisional approval shall in any case not be delayed beyond three days after expiry of the due date of receipt of response from IOCO or, as the case may be, EDB, provided further that quantity approved provisionally by the regulatory

Collector shall not exceed twenty–five per cent of the quantity applied by the exporter or twenty–five per cent of the capacity of the producing or manufacturing unit, whichever is less.

(a) In certain cases in MCC Appraisement Lahore, different Input Output Ratios and wastage was determined by the IOCO and by the Collectorate in respect of same manufactured goods. For example, the IOCO(N) Lahore issued Input Output Ratios and wastage vide IOCO(N)/MBCO/13/2015/1003 dated 22.09.2015 in favor of M/s Jeans Company (Pvt) Ltd had allowed total 3% wastage on Denim Fabrics for manufacturing of Denim Jeans.

On the other hand, IOCO (N) Lahore issued Analysis Certificate vide IOCO(N)/MBCO/462/2014/225 dated 15.04.2016 in favor of M/s Cotton Web (Pvt) Ltd Lahore in which 5% wastage of Denim Fabrics was allowed for manufacturing of Denim Jeans. This wastage was about 67% excess against that allowed by IOCO (N) Lahore vide letter cited above in respect of same goods in favor of M/s Jeans Company.

This shows that IOCO had issued Input Output Ratios without keeping in view any industrial standards and in most of the cases, the Input Output Ratios declared by the licensees were being accepted without any further scrutiny or investigation.

Audit holds that FBR should issue clear guideline based on industrial standard to its field offices for determination of uniform Input Output Ratios and wastage.

The lapse was pointed out to the department in June, 2017. The department reported that the variation in wastage occurred due to quality of fabric its GSM, article and design also varies with each other. raw cotton, origin of the raw material, system/procedure adopted by the unit and skill of the persons. Quality of raw material, latest system and state of the art machinery, and use of skilled persons reduces the wastage and enhance efficiency. Moreover the determination of rate of wastage in a case does not restrict conducting

Physical survey even if the raw material and finished goods is the same because of the aforesaid factors.

The DAC directed the formation on 29-11-2017 to submit record/working papers to Audit within next 30 days.

(A.O. No.20/IOCO- LHR)

(b) Model Customs Collectorate (Appraisement) Lahore had issued Analysis Certificate in favor of M/s Intermarket Knit (Pvt) Ltd Lahore a manufacturer of socks and licensee under SRO 327(I)/2008. The certificate was issued vide C.No. V-CUS/MBCO/MFG/Analysis/59/2014/98 dated 26.07.2016, 59 dated 27.01.2016, 505 dated 13.08.2016, 327 dated 02.06.2016 and 1241 dated 13.06.2017. In these certificates wastage on all type of yarns used for manufacture of Socks were allowed @7%. On the other hand, in the case of M/s Dynamic Sportswear (Pvt) Ltd Lahore a licensee under SRO 327(I)/2008, the MCC (Appraisement) Lahore had issued Analysis Certificate vide C.No. V-CUS/MBCO/Analysis/138/2014/701 dated 07.01.2015 in which wastage on all kind of yarn used for manufacture of socks had been allowed @15% which is 114% excess against that allowed to M/s Intermarket Knit. This shows that the field offices of the FBR were fixing Input Output Ratios and wastage without following any industrial standard. In most of the cases Input Output Ratios and wastage claimed by the applicant were admitted without any investigation.

The grant of excess wastage is required either to be justified with evidence or the loss of revenue occurred due to excessive wastage be worked out and recovered under intimation to Audit.

The lapse was pointed out to the department in June, 2017. The department reported that Director General of IOCO is a competent Authority which issues Input output ratios and percentage of wastage. Therefore wastages are allowed on recommendations of competent Authority.

The DAC directed the MCC on 29-11-2017 to submit a comprehensive reply to Audit within next 15 days.

(A.O. No.09/MCC LHR)

(c) EDB had issued Input Output Ratios for manufacturing of different kind of spoons made from stainless steel coils in favor of M/s Kot Steel (Pvt) Ltd, Sialkot. The EDB had allowed maximum 25% wastage of stainless steel coils on all kind of spoons. On other hand, the MCC (Appraisement) Lahore had allowed 43.86% to 44.64% wastage of stainless steel coils for manufacture of different kind of Spoons by M/s Steel Craft Kotlakhpat Lahore vide Analysis Certificate issued vide C.No. V-CUS/Analysis/ MBCO/192/15/1125 dated 22.05.2017. This was issued on the basis of recommendation of IOCO Lahore received vide C.No. IOCO(N)/ MBCO/Analysis/88/2016/882 dated 13.12.2016. This was irregular as the case was to be referred to EDB and not to IOCO. The grant of excess wastage is causing recurring loss of government revenue. Referring of the case to IOCO instead of EDB needed justification and their case be sent to EDB for determination of rational Input Output Ratios and wastage. Loss occurred to government revenue due to grant of excessive wastage either be justified or worked out and recovered.

The lapse was pointed out to the department in June, 2017. The department reported that Director General of IOCO is a competent Authority which issues Input output ratios and percentage of wastage. Therefore wastages are allowed on recommendations of competent Authority.

Audit holds that this case was to be referred to EDB and not to IOCO. Immediate corrective action is required.

(A.O. No.10/MCC LHR)

(d) In certain cases of MCC Appraisement Lahore, different Input Output Ratios and wastage was determined by the IOCO and by the Collectorate in respect of same manufactured goods. For example, the Collectorate of Customs Faisalabad vide certificate No. 14 dated 17.02.2016 in favor of J.K. Spinning

Mills Ltd, Faisalabad had allowed total 2% wastage on Polyester Staple Fiber for manufacturing of PC Grey Bleached Fabric as detailed below:

SF to Yarn	2%
Yarn to Fabric	0%
Processing	0%
Total wastage	2%

On the other hand, the MCC Lahore issued Analysis Certificate vide C.No. V-CUS/MBCO/MFG/03/09/145 dated 14.08.2011 in favor of M/s Nishat Mills Ltd Lahore in which 6% wastage of Polyester Staple Fiber was allowed for manufacturing of Grey Cloth. This wastage was three times excess against that allowed by MCC Faisalabad in respect of same goods.

This shows that Field Offices of FBR were issuing Input Output Ratios without keeping in view any industrial standards and in most of the cases, the Input Output Ratios declared by the licensees were being accepted without any further scrutiny or investigation.

The lapse was pointed out to the department in June, 2017. The department reported that the letters referred by MCC, Faisalabad in case of M/s. J.K Spinning Mills Ltd, Faisalabad and Analysis Certificate issued by M/s Nishat Mills Ltd Lahore as denoted by DRRA has never been received in the Directorate of IOCO (North), Lahore. Therefore, both cases do not relate to the IOCO (North) Lahore and the lapse is not on part of the Directorate.

The DAC directed the formation on 29-11-2017 to submit comprehensive reply on above lines within the committed time line.

Audit recommends that FBR should issue clear guideline based on industrial standard to its field offices for determination of uniform Input Output Ratios and wastage.

(A.O. No.19/IOCO- LHR)

4.1.7 Excess Grant of Wastage

Under DTRE Rules and SRO 327(I)/2008, the Input Output Ratios and wastage is determined by the IOCO on reference by regulatory Collector. However, in respect of Manufacturing Bond, the regulatory Collector is empowered to issue analysis certificate under rule 351 of the Customs Rules, 2001.

(a) Certain Importers of raw cotton for manufacturing of cotton yarn were doing business either under SRO 327(I)/2008 or Manufacturing Bond Scheme or availing DTRE facility. Input Output Ratios of DTRE Scheme and SRO 327(I)/2008 was determined by the IOCO where in wastage of raw cotton was allowed to the extent of 6% for manufacturing of carded yarn. However, in a case of manufacturing bond in respect of M/s J.K. Spinning Mills, Faisalabad, the analysis certificate was issued by the Collector of Customs in which 8% wastage of cotton was allowed vide analysis certificate No. 75 dated 23.04.2016. This was 33% excessive against that being allowed by IOCO. In another case of Faisalabad Collectorate, Indus Lyallpur Ltd Faisalabad were allowed 10% to 12.98% wastage on raw cotton used for manufacturing of carded yarn vide certificate No. 232 dated 13.07.2015 and certificate No. 05 dated 19.01.2016. This was 67% and 116% excess against that being allowed by the IOCO.

This shows that analysis certificate under Manufacturing Bond Scheme were being issued without observing any industrial standard. The grant of excessive wastage was causing recurring loss to government revenue.

The grant of excess wastage needs justification along-with immediate remedial steps and likelihood of involvement of IOCO in Manufacturing Bond Scheme may also be considered by FBR.

The lapse was pointed out to the department in June, 2017. The department reported that the variation in consumption as well as wastage is based on the mode of manufacturing process and the machinery installed in each unit. The wastage in each case may differ depending upon the factors hence variation in permitted ratio.

The DAC directed the department on 29-11-2017 to issue office order specifying SOP for determination of wastages by the Collectorate wherein it should be stated that in future all such determinations shall be made while taking into consideration the industrial standards and IOCO determination etc. in identical cases and significant variations be justified.

Audit recommends that FBR should issue clear guidelines in this regard keeping in view the latest industrial standards.

(A.O. No.01/MCC FSD)

4.2 Financial Management

4.2.1 Non Realization of Government Revenue

According to clause (ii) of the SRO 565(I)/2006, dated 05.06.2006, the Director or authorized person of the IOCO is authorized to determine the annual requirements of inputs for import on concessionary rate of duty. As per clause (vii) of the said SRO, the importer-cum-manufacturer shall communicate to the concerned Director of IOCO in writing about the consumption of imported items within sixty days of consumption of goods. The post-dated cheque shall be released or cancelled on receipt of clearance certificate issued by Director of IOCO or authorized person. In case of non-consumption of imported goods within one year from the date of import, the importer shall pay the customs-duty and other taxes involved or obtain extension for further period from the concerned Director of IOCO after giving plausible reasons for a reasonable period.

(a) Annual requirements of input goods in respect of M/s S.T. International Multan were determined by IOCO Lahore vide C.NO. IOCO(N)/565-Sur./10/2014/571 dated 27.04.2015 which were imported and cleared on concessionary rate of duty. However, the importer failed to consume the imported raw material within the prescribed period of one year as neither any certificate issued by the IOCO was produced nor the post-dated cheques were released. The department was required to demand and recover the duty and taxes involved in concessionary import but no action was taken. This resulted in non-realization of government revenue of Rs. 246,841.

The lapse was pointed out to the department in June, 2017. The department replied that as and when clearance certificates are received from IOCO(N) Lahore, PDC will be released and Audit will be informed accordingly.

The DAC directed the department on 29-11-2017 to get verification of deposit of amount against GDs dated 02.05.2015, 05.05.2015 and 14.05.2015.

(A.O. No.16/MCC Multan)

(b) Annual requirements of input goods in respect of M/s Success Industries, Multan were determined by IOCO Lahore vide CNO. IOCO(N)/565-Sur./326/2014/39 dated 13.01.2015 which were imported and cleared on concessionary rate of duty. However, the importer failed to consume the imported raw material within the prescribed period of one year as neither any certificate issued by the IOCO was produced nor the post-dated cheques were released. The department was required to demand and recover the duty and taxes involved in concessionary import but no action was taken. This resulted in non-realization of government revenue of Rs. 5,260,417.

The lapse was pointed out to the department in June, 2017. The department reported that importer have already applied for clearance certificate to the Directorate of IOCO(N), Lahore. Further, Progress will be intimated to Audit shortly.

The DAC directed the MCC on 29-11-2017 to finalize the transaction within 30 days in light of the reconciliation report submitted by IOCO and get it verified by Audit.

(A.O. No.11/MCC Multan)

(c) Annual requirement of input goods in respect of M/s Amtex Industries, Faisalabad was determined by IOCO Lahore which were imported and cleared on concessionary rate of duty. However, the importer failed to consume the imported raw material within the prescribed period of one year as neither any certificate issued by the IOCO was produced nor the post-dated cheques were released. The department was required to demand and recover the duty and taxes involved in concessionary import but no action was taken. This resulted in non-realization of government revenue of Rs. 62,050,865.

The lapse was pointed out to the department in June, 2017. The department reported that audit reports to be issued by IOCO are pending. The said directorate has requested to complete the audit of the said cases at the earliest.

The DAC directed the IOCO on 29-11-2017 to complete the reconciliation and finalize the report within next 60 days and MCC to complete further formalities within 15 days thereafter.

Audit recommends that early recovery action in all these cases.

(A.O. No.12/MCC FSD)

4.2.2 Misuse of DTRE facility

According to Rule 299(4) of the Customs Rules, 2001, IOCO or, as the case may be, EDB upon receipt of a reference from the regulatory Collector, shall determine input-output ratios and wastages, as may be deemed appropriate, and forward their findings to the regulatory Collector within a period of thirty days, or such shorter period as may be specified by the regulatory Collector in any specific case. Provided that the regulatory Collector may grant provisional DTRE approval pending receipt of response from IOCO or, as the case may be, EDB in this behalf. Such provisional approval shall in any case not be delayed beyond three days after expiry of the due date of receipt of response from IOCO or, as the case may be, EDB, provided further that quantity approved provisionally by the regulatory Collector shall not exceed twenty–five per cent of the quantity applied by the exporter or twenty–five per cent of the capacity of the producing or manufacturing unit, whichever is less.

(a) The Director IOCO(N), Lahore vide CNO. IOCO(N)/DTRE/459/2014/157 dated 25.02.2015 has determined Input Output Ratios in respect of DTRE approval No. KCUS/352/13112014 in favor of M/s United Ethanol Industries Ltd with the recommendation that the quantity of denatured spirit produced as a byproduct in manufacturing process of Ethyl Alcohol being a taxable supply is liable to be accounted for and is chargeable to Sales Tax and Federal Excise Duty.

The DTRE holder was allowed to purchase a quantity of 115,490,550 kg of cane molasses for manufacture of Ethyl alcohol and other denatured spirit. It was however observed that the DTRE holder failed to produce a quantity of

1512911 kg of Ethyl Alcohol on which DTRE was liable to pay sales tax of Rs. 13,218,955 as detailed below:

Quantity of cane molasses not consumed (KG)	8452017
Value (Rs.)	77,758,556
Sales Tax (Rs.)	13,218,955

The said amount is required to be recovered from the DTRE holder along-with penalty and default surcharge leviable under the law.

Further, the DTRE holder may also be required to submit account of manufacture of by product namely denatured spirit and payment of sales tax thereon.

The lapse was pointed out to the department in June, 2017. The department reported that M/s United Ethanol Industries has deposited an amount of Rs. 11,388,507 as sales tax in case of unconsumed cane molasses weighing 8371.101 M.Ts vide extra duty bill dated 31.12.2016. Sales Tax was paid @ 17% on actual sales tax invoice value. Default Surcharge is also leviable which is requested to be worked out and recovered.

The DAC directed the MCC on 29-11-2017 to pursue the Board regarding extension in utilization period.

(A.O. No.01/MCC Multan)

(b) The IOCO Lahore had determined Input Output Ratios of 100% Cotton Grey Fabric. The input goods were 100% cotton yarn HS Code 5201.0090 Starch HS Code 3505.1090 and Polyvinyl Alcohol (PVA) HS Code 3905.3000. According to the Input Output Ratios, 0.115 kg starch is used to size one kg yarn for 100% cotton fabric with zero percent wastage. Similarly, 0.01136 kg of PVA is used to size on kg yarn for 100% cotton grey fabric with 0.5% wastage. This shows that the used starch and PVA is added in the weight of yarn and becomes a part of the fabric made from such sized yarn. As per Textile Industry Notes issued by the Chief FBR (Textile Sector), the average percentage of sizing chemicals by weight of yarn is 16.44%. This means that in one kg grey fabric, the actual quantity of used yarn is 874 grams. The application of sizing material results into weight gain in the grey cloth overweight of yarn consumed for weaving. It was however observed that the IOCO and the regulatory Collectorate has ignored the aspect of value addition/weight gain during sizing process due to use of starch and PVA and total weight of grey fabric as declared by the DTRE holder was accepted for DTRE purposes for consumption of yarn. Audit was of view that due to non-accounting of sizing material, the DTRE user managed to misuse 12.60% cotton yarn which was not used in exported fabric but remained un-accounted for or have been disposed of in such a manner as is not permitted under DTRE Rules.

Some cases are quoted below, for example.

(i)

Unit Name & Approval No.	Reliance Weaving Mills, KCUS/199/10062015
Total Quantity Imported Raw Cotton (5201.0090)	4000000 kg
Quantity of Grey Fabric Exported	3800000 kg (5% wastage was allowed by IOCO vide CNO. IOCO(N)/DTRE/462/2014/768 dated 26.06.2015
Misuse quantity of Yarn (export qty of grey fabric x 12.60%)	478,800
Value of misuse quantity @ Rs. 152 per kg	Rs. 72,777,600
Duty & Taxes:	
CD@3%	Rs. 2,183,328
ST@17%	Rs. 12,743,358
IT@5.5%	Rs. 4,823,736
Total Duty & Taxes	**Rs. 19,750,422**

The lapse was pointed out to the department in June, 2017. The department contested that DTRE user did not claim Starch and PV Alcohol as input material in Appendix-I. Accordingly inputs of Starch and PVA were not allowed to DTRE user. Further, it is stated that the weight gain due to sizing material is upto 2% which equalize the wastage during this process. A reference has been made to IOCO (N) Lahore for advise/clarification.

The DAC directed the IOCO on 29-11-2017 to complete the report within next 60 days.

(A.O. No.03/MCC Multan)

(ii)

Unit Name & Approval No.	Ahmad Hassan Textile Mills, KCUS/85/04032014
Local Purchase:	
Cotton Yarn	1232068 kg
Raw Cotton	1841833 kg
PVA Chemicals	77672 kg
Starch Chemicals	92250 kg
Qty Exported:	
i. Cotton Yarn	1526459 kg
ii. Grey Cotton Fabric	1333177 kg
Misuse Quantity of Yarn (export qty of Grey Fabric x 12.60%)	167,980
Value of misuse quantity @ Rs. 301 per kg	Rs. 50,562,071
ST@ 17%	Rs. 8,595,552

The lapse was pointed out to the department in June, 2017. The department contested that textile industry notes cannot be reliable whereas IOCO's determination is based on survey. In this case, the ratio was determined by IOCO after physical survey. The output quantity was according to the ratio determined by IOCO. Further, DTRE user claimed Starch and PV Alcohol as input material. Accordingly inputs of Starch and PVA were allowed to DTRE user.

The DAC directed the MCC on 29-11-2017 to resubmit the issue to IOCO with the above observation within next 07 days and IOCO to complete the report within 60 days thereafter.

(A.O. No.04/MCC Multan)

(iii)

Unit Name & Approval No.	Shujabad Weaving Mills KCUS/10/10012014
Total Quantity Imported Raw Cotton (5205.3200)	78300 kg
Quantity of Grey Fabric Exported	71742 kg (No wastage was claimed by the DTRE user and their case was not referred to IOCO for determination of IOR.
Misuse quantity of Yarn (export quantity of grey fabric x 12.60%)	9040
Value of misuse quantity @ Rs. 241 per kg	2,183,382
Duty & Taxes:	
CD@3%	Rs. 65,501
ST@17%	Rs. 382,310
IT@5.5%	Rs. 144,716
Total Duty & Taxes	Rs. 592,527

The lapse was pointed out to the department in June, 2017. The department contested that DTRE user did not claim Starch and PV Alcohol as input material in Appendix-I. Accordingly inputs of Starch and PVA were not allowed to DTRE user. Further, it is stated that percentage of sizing on the weight of yarn and sizing is applied whenever is required for wrap yarn only. Whereas on weft yarn no sizing material is applied.

The DAC directed the IOCO on 29-11-2017 to complete the report within next 60 days.

(A.O. No.05/MCC Multan)

(c) M/s Sunrays Textile Mills Ltd Multan was issued DTRE approval No. KCUS/237/22072014 for duty free import of Raw Cotton for manufacturing of Cotton Carded yarn. The IOCO (N), Lahore had issued Input Output Ratios in respect of said DTRE in which 6% wastage was allowed. As per DTRE approval and Input Output Ratios issued by the IOCO Lahore, the DTRE holder was allowed to export 100% cotton carded yarn 8/s to 16/s (5205.1200) and 100% cotton carded yarn 20/double (5205.3200).

It was however observed that in 4 shipping bills, the DTRE user had exported 100% Cotton Carded Yarn 20/1 and 21/1 which was neither allowed by the Collectorate nor approved by the IOCO. Therefore, the DTRE user had misused the DTRE approval and liable to pay duty and taxes on imported raw material used in unauthorized goods.

Detail is given below:

Raw Cotton Imported	2815089 kg
Value of imported raw cotton	Rs. 484,489,593
Value Per Kg	Rs.172
Un-approved Qty exported	78927 kg
Input qty used in un approved export	83965 kg
Value of input qty used	Rs. 14,441,980
Duty & Taxes:	
CD@ 3%	Rs. 433,259
ST@ 17%	Rs. 2,528,791
WHT@5.5%	Rs. 957,221
Total	Rs. 3,919,271

The amount of Rs. 3,919,271 was required to be recovered along-with penalty and surcharge leviable under the law.

The lapse was pointed out to the department in June, 2017. The department reported that a contravention report is being issued to the Adjudication Collector for Adjudication. However, this only procedural violation.

The DAC directed the MCC on 29-11-2017 to submit the contravention report to adjudication Collectorate within 15 days.

(A.O. No.06/MCC Multan)

(d) The IOCO Lahore had determined Input Output Ratios of 100% Polyester Grey Fabric. The input goods were 100% polyester yarn HS Code 5509.2100 Starch HS Code 3505.1090 and Polyvinyl Alcohol (PVA) HS Code 3905.3000. According to the Input Output Ratios, 0.115 kg starch is used to size one kg yarn for 100% polyester fabric with zero percent wastage. Similarly, 0.01136 kg of PVA is used to size on kg yarn for 100% polyester grey fabric with 0.5% wastage. This shows that the used starch and PVA is added in the weight of yarn and becomes a part of the fabric made from such sized yarn. As per Textile Industry Notes issued by the Chief FBR (Textile Sector), the average percentage of sizing chemicals by weight of yarn is 16.44%. This means that in one kg grey fabric, the actual quantity of used yarn is 874 grams. The application of sizing material results into weight gain in the grey cloth overweight of yarn consumed for weaving. It was however observed that the IOCO and the regulatory Collectorate has ignored the aspect of value addition/weight gain during sizing process due to use of starch and PVA and total weight of grey fabric as declared by the DTRE holder was accepted for DTRE purposes for consumption of yarn. Audit was of view that due to non-accounting of sizing material, the DTRE user managed to misuse 12.60% polyester yarn which was not used in exported fabric but remained un-accounted for or have been disposed of in such a manner as is not permitted under DTRE Rules.

Some cases are quoted below, for example.

(i)

Unit Name & Approval No.	Fazal Rehman Fabrics KCUS/18/12012015	Fazal Rehman Fabrics KCUS/283/06082013	Fazal Rehman Fabrics KCUS/35/30012014
Total Quantity Imported Polyester yarn	1000000 kg	1000000 kg	299417 kg

(5509.2100)			
Quantity of Grey Fabric Exported	1000000 kg (No wastage claimed by DTRE user)	998543 kg	299419 kg
Misuse quantity of Yarn (export quantity of grey fabric x 12.60%)	126000 kg	125816 kg	37728 kg
Value of misuse quantity @ Rs. 268 per kg	Rs. 33,768,000(@ Rs. 268 per kg)	Rs.31,831,448 (@ Rs. 253 per kg)	Rs. 8,186,976 (@Rs. 217 per kg)
Duty & Taxes:			
CD@11%	Rs. 3,714,480	Rs. 3,501,459	Rs. 900,567
ST@17%	Rs. 6,372,022	Rs. 6,006,594	Rs. 1,544,882
IT@5.5%	Rs. 2,411,998	Rs. 2,273,672	Rs. 584,783
Total Duty & Taxes	Rs. 12,498,500	Rs. 11,781,725	Rs. 3,030,232

The lapse was pointed out to the department in June, 2017. The department contested that DTRE user did not claim Starch and PV Alcohol as input material in Appendix-I. Accordingly inputs of Starch and PVA were not allowed to DTRE user. Further, it is stated that the weight gain due to sizing material is upto 2% which equalize the wastage during this process.

The DAC directed the IOCO on 29-11-2017 to complete the report within next 60 days.

(A.O. No.08/MCC Multan)

(ii)

Unit Name & approval No.	Fazal cloth Mills, KCUS/220/07072014	Fazal cloth Mills, KCUS/104/17032014
Total Quantity Imported Polyester Staple Fiber (5503.2010)	1000000 kg	500000 kg
Quantity of Grey Fabric Exported (5512.1110)	999571 kg (No wastage was claimed by DTRE user)	500000 kg
Misuse of yarn (export quantity of fabric x 12.60%)	125,946 kg	63000 kg

Value of misuse quantity @ Rs. 131 per kg	Rs. 3,904,324	Rs. 8,253,000
Duty & Taxes:		
CD@11%	Rs. 429,476	Rs. 907,830
ST@17%	Rs. 736,746	Rs. 1,557,341
IT@5.5%	Rs. 278,880	Rs. 589,499
Total Duty & Taxes	Rs. 1,445,102	Rs. 3,054,670

The lapse was pointed out to the department in June, 2017. The department contested that DTRE user did not claim Starch and PV Alcohol as input material in Appendix-I. Accordingly inputs of Starch and PVA were not allowed to DTRE user. Further, it is stated that the weight gain due to sizing material is upto 2% which equalize the wastage during this process. A reference has been made to IOCO (N) Lahore for advise/clarification.

The DAC directed the IOCO on 29-11-2017 to complete the report within next 60 days.

(A.O. No.09/MCC Multan)

(e) M/s Ahmad Oriental Textile Mills Ltd Multan was issued DTRE approval No. KCUS/127/02042015 for duty free import of Raw Cotton for manufacturing of Cotton Carded yarn. The IOCO (N), Lahore had issued Input Output Ratios vide CNO. IOCO(N) DTRE/410/2014/1137 dated 31.10.2014 in respect of said DTRE in which 6% wastage was allowed. As per DTRE approval and Input Output Ratios issued by the IOCO Lahore, the DTRE holder was allowed to export 100% cotton carded yarn 8/s & 10/s (5205.1200).

It was however observed that in 3 shipping bills, the DTRE user had exported 100% Cotton Carded Yarn 12/s & 16/s which was neither allowed by the Collectorate nor approved by the IOCO. Therefore, the DTRE user had misused the DTRE approval and liable to pay duty and taxes on raw material used in unauthorized goods. Detail is given below:

<table>
<tr><td>Raw Cotton Imported</td><td>943264 kg</td></tr>
<tr><td>Value of imported raw cotton</td><td>Rs. 150,073,839</td></tr>
<tr><td>Value Per Kg</td><td>Rs.159</td></tr>
<tr><td>Un-approved Qty exported</td><td>135843 kg<table>
<tr><td>Shipping Bill No.</td><td>Qty (kg)</td><td>Count</td></tr>
<tr><td>3284/01.10.2015</td><td>43545</td><td>12/s</td></tr>
<tr><td>45264/04.11.2015</td><td>65317</td><td>12/s</td></tr>
<tr><td>116568/27.04.2015</td><td>26981</td><td>12/s & 16/s</td></tr>
</table></td></tr>
<tr><td>Input qty used in un approved export</td><td>144513 kg</td></tr>
<tr><td>Value of input qty used</td><td>Rs. 22,977,567</td></tr>
<tr><td colspan="2">Duty & Taxes:</td></tr>
<tr><td>CD@ 3%</td><td>Rs. 689,327</td></tr>
<tr><td>ST@ 17%</td><td>Rs. 4,023,371</td></tr>
<tr><td>WHT@ 5.5%</td><td>Rs. 1,522,964</td></tr>
<tr><td>Total</td><td>6,235,662</td></tr>
</table>

The lapse was pointed out to the department in June, 2017. The department reported that a show cause notice is being issued for Adjudication. However, this only procedural violation.

The DAC directed the MCC on 29-11-2017 to submit the contravention report to adjudication Collectorate within 15 days.

(A.O. No.15/MCC Multan)

(f) The IOCO Lahore had determined Input Output Ratios of 100% Polyester Grey Fabric. The input goods were 100% polyester staple fiber HS Code 5503.2010 Starch HS Code 3505.1090 and Polyvinyl Alcohol (PVA) HS Code 3905.3000. According to the Input Output Ratios, 0.115 kg starch is used to size one kg yarn for 100% polyester fabric with zero percent wastage. Similarly, 0.01136 kg of PVA is used to size on kg yarn for 100% polyester grey fabric with 0.5% wastage. This shows that the used starch and PVA is added in the weight of yarn and becomes a part of the fabric made from such sized yarn. As per Textile Industry Notes issued by the Chief FBR (Textile Sector), the average percentage of sizing chemicals by weight of yarn is 16.44%. This means that in one kg grey fabric, the actual quantity of used yarn is 874 grams. The application of sizing material results into weight gain in the grey cloth overweight of yarn consumed for weaving. It was however observed that the IOCO and the regulatory Collectorate has ignored the aspect of value addition/weight gain during sizing process due to use of starch and PVA and total weight of grey fabric as declared by the DTRE holder was accepted for DTRE purposes for consumption of yarn. Audit was of view that due to non-accounting of sizing material, the DTRE user managed to misuse 12.60% polyester yarn which was not used in exported fabric but remained un-accounted for or have been disposed of in such a manner as is not permitted under DTRE Rules.

It was requested that either the omission be justified or duty and taxes of Rs. 17,535,752 involved in the unaccounted for quantity be recovered along with penalty and default surcharge leviable under law.

The lapse was pointed out to the department in June, 2017. The department reported that the acquired input goods were utilized as recommended/determined by IOCO and same has been exported.

The DAC directed the MCC on 29-11-2017 to immediately approach IOCO and IOCO to complete the report within next 60 days thereafter.

(A.O. No.08/MCC LHR)

(g) The IOCO Lahore had determined Input Output Ratios of 100% Cotton Fabric. The input goods were 100% Cotton Yarn HS Code 5201.0090 Starch HS Code 3505.1090 and Polyvinyl Alcohol (PVA) HS Code 3905.3000. According to the Input Output Ratios, 0.115 kg starch is used to size one kg yarn for 100% polyester fabric with zero percent wastage. Similarly, 0.01136 kg of PVA is used to size on kg yarn for 100% Cotton grey fabric with 0.5% wastage. This shows that the used starch and PVA is added in the weight of yarn and becomes a part of the fabric made from such sized yarn. As per Textile Industry Notes issued by the Chief FBR (Textile Sector), the average percentage of sizing chemicals by weight of yarn is 16.44%. This means that in one kg grey fabric, the actual quantity of used yarn is 874 grams. The application of sizing material results into weight gain in the grey cloth overweight of yarn consumed for weaving. It was however observed that the IOCO and the regulatory Collectorate has ignored the aspect of value addition/weight gain during sizing process due to use of starch and PVA and total weight of grey fabric as declared by the DTRE holder was accepted for DTRE purposes for consumption of yarn. Audit was of view that due to non-accounting of sizing material, the DTRE user managed to misuse 12.60% polyester yarn which was not used in exported fabric but remained un-accounted for or have been disposed of in such a manner as is not permitted under DTRE Rules.

It was requested that either the omission be justified or duty and taxes of Rs. 15,649,411 involved in the unaccounted for quantity be recovered along with penalty and default surcharge leviable under law.

The lapse was pointed out to the department in June, 2017. The department reported that the DTRE user performed and re-exported all their inputs as per standard fixed by IOCO team.

The DAC directed the IOCO on 29-11-2017 to complete the report within next 60 days.

Audit recommends early finalization of these cases.

(A.O. No.19/MCC LHR)

4.2.3 Irregular Import under SRO 327(I)/2008

According to rule 9 of SRO 327(I)/2008 dated 29.03.2008, the licensee shall apply to the Collector, within seven days of import of input goods, for issuance of an analysis certificate as set out in *Appendix-III* showing the input and output ratio of input goods vis-à-vis output goods along with wastages and under rule 10 of the said SRO, the input goods for production of output goods according the specification approved in the analysis certificate shall be procured by the licensee in prescribed manner.

M/s Maqbool Textile Mills Ltd Multan was issued license No. 02/EOU/2015/MN dated 28.12.2015 under SRO 327(I)/2008. The licensee did not apply for any analysis certificate and imported raw material which was cleared without recovery of duty and taxes. On pointation by Audit in 2016, the unit had applied for issuance of analysis certificate on 09.01.2017. Audit holds that clearance of input goods without any approved analysis certificate was irregular and importer was liable to pay duty & taxes of Rs. 176,470,808.

The lapse was pointed out to the department in June, 2017. The department contested on the basis that IOCO(N), Lahore has issued Input Output Ratios and wastage vide letter dated 22.10.2017. Accordingly analysis certificate is under process for issuance.

The DAC directed that the MCC on 29-11-2017 will take immediate cognizance of the procedural violation in that the unit did not apply for analysis certificate at the time of clearance of imports under license. The DAC directed that the matter may be look regarding lapse in non-following of procedure and responsibility may be ascertained for proper action under the law. Audit recommends early finalization of these cases.

(A.O. No.07/MCC Multan)

4.2.4 Non Disposal of Wastage

According to Rule 299(4) of the Customs Rules, 2001, IOCO or, as the case may be, EDB upon receipt of a reference from the regulatory Collector, shall determine input-output ratios and wastages, as may be deemed appropriate, and forward their findings to the regulatory Collector within a period of thirty days, or such shorter period as may be specified by the regulatory Collector in any specific case.

(a) The Director IOCO(N), Lahore had determined Input Output Ratios of cane molasses for manufacturing of Ethyl Alcohol in respect of DTRE approvals issued in favor of M/s United Ethanol Industries Ltd Sadiqabad, by allowing 82.10% wastage as detailed below:

DTRE Approval No	Total Qty of Molasses (KG)	Value (Rs.)	Value of Wastage 82.10% (Rs.)
KCUS/352/13112014	115,490,550	1,062,513,060	872,323,222
KCUS/274/30072013	68,818,680	627,620,781	515,276,661
Total			1,387,599,883

The above figures show that the quantity and vale of wastage is very high. However, the department, the IOCO and DTRE holder were silent about disposal of such a high value wastage. The use or disposal of high value wastage needed to be clarified by all the stake holders.

The lapse was pointed out to the department in June, 2017. The department reported that during the manufacturing of Ethyl alcohol from molasses, the waste is mud which cannot be sold in the local market. No further destruction process is required. In this case wastage is disposed off by way of destruction.

The DAC directed on 29-11-2017 to submit confirmation of the above stated position through verification letter to be placed before the Audit.

(A.O. No.02/MCC Multan)

(b) The Director IOCO(N), Lahore had determined Input Output Ratios of cane molasses for manufacturing of Ethyl Alcohol in respect of DTRE approvals issued in favor of M/s Premier Industrial Chemicals (Pvt) Ltd, Sheikhupura by allowing 82.10% wastage as detailed below:

DTRE Approval No	Total Qty of Molasses	Value (Rs.)	Value of Wastage 82.10% (Rs.)
KCUS/370/27112014	302,500,000	122,4891,210	1,003,100,004
Total			1,003,100,004

The above figures show that the quantity and value of wastage is very high. However, the department, the IOCO and DTRE holder were silent about disposal of such a high value wastage. The use or disposal of high value wastage needed to be clarified by all the stake holders.

The lapse was pointed out to the department in June, 2017. The department reported that DTRE user was requested to provide information and plausible reason along-with supporting document vide letter dated 16.08.2017.

The DAC directed on 29-11-2017 to submit confirmation of the above stated position through verification letter to be placed before the Audit.

Audit recommends early completion of required action.

(A.O. No.05/MCC LHR)

4.2.5 Short Realization of Government Revenue

According to Rule 299(4) of the Customs Rules, 2001, IOCO or, as the case may be, EDB upon receipt of a reference from the regulatory Collector, shall determine input-output ratios and wastages, as may be deemed appropriate, and *forward* their findings to the regulatory Collector within a period of thirty days, or such shorter period as may be specified by the regulatory Collector in any specific case. Provided that the regulatory Collector may grant provisional DTRE approval pending receipt of response from IOCO or, as the case may be, EDB in this behalf. Such provisional approval shall in any case not be delayed beyond three days after expiry of the due date of receipt of response from IOCO or, as the case may be, EDB, provided further that quantity approved provisionally by the regulatory Collector shall not exceed twenty–five per cent of the quantity applied by the exporter or twenty–five per cent of the capacity of the producing or manufacturing unit, whichever is less.

(a) DTRE approval No. KCUS/85/04032014 was issued in favor of Ahmad Hassan Textile Mills Ltd Multan. Input Output Ratios of the said DTRE was determined by IOCO(N), Lahore vide C.No. IOCO(N)DTRE/207/2014/375 dated 09.05.2014.

The DTRE user failed to consume the quantity of imported raw material. The user was liable to pay duty and taxes on unconsumed quantity at statutory rates as clarified by the FBR vide letter C.No. 4(29)DTRE/2010-6766-R dated 07.05.2012. It was however, observed that sales tax was charged and recovered at incorrect lower rates by giving undue benefit of SRO 1125(I)/2011. This resulted in short realization of government revenue of Rs. 13,075,268.

The lapse was pointed out to the department in June, 2017. The department reported that demand notice an amount of Rs. 2,514,497 vide letter dated 02.02.2017 has been issued in the light of order-in-original dated 10.01.2017. Now the case is subjuidice in the appellate tribunal.

The DAC directed the MCC on 29-11-2017 to refer the matter to FBR for clarification from Legal/Custom Wing in the context of contents of audit para.

(A.O. No.10/MCC Multan)

(b) M/s Silver Star Enterprises (Pvt) Ltd was granted DTRE approval No. KCUS/143/21042014 by Collector Customs Sialkot and were allowed provisionally 25% import of raw material. The case was referred to Director IOCO (N), Lahore vide letter C.No. V-Cus/SMB/DTRE/APP/31/2014/2452 dated 15.04.2014 for determination of Input Output Ratios and wastages. The IOCO ascertained Input Output Ratios and Wastages vide letter C.No. V-Cus/SMB/DTRE/APP/31/2014/4376 dated 27.06.2015 after the period of one year and two months.

Further, the DTRE user failed to consume the quantity of imported raw material. The user was liable to pay duty and taxes on unconsumed quantity at statutory rates as clarified by the FBR vide letter C.No. 4(29)DTRE/2010-6766-R dated 07.05.2012. It was however, observed that sales tax and withholding tax was charged and recovered at incorrect lower rates by giving undue benefit of SRO 1125(I)/2011. This resulted in short realization of government revenue of Rs. 868,101.

Late issuance of Input Output Ratios and wastages beyond the period of thirty days needs to be justified and taxes involved in the unconsumed quantity be recovered along with penalty and default surcharge leviable under law.

The lapse was pointed out to the department in June, 2017. The department reported that notices for recovery followed by reminder dated 10.11.2017 has been issued. Further progress will be intimated shortly.

The DAC directed the MCC on 29-11-2017 to expedite recovery.

(A.O. No.07/MCC Sialkot)

(c) M/s Silver Star Enterprises (Pvt) Ltd was granted DTRE approval No. KCUS/57/12022015 by Collector Customs Sialkot and were allowed provisionally 25% import of raw material. The case was referred to Director IOCO (N), Lahore vide letter C.No. V-Cus/SMB/DTRE/APP/10/2015/441 dated 20.01.2015 for determination of Input Output Ratios and wastages. However, IOCO determined Input Output Ratios and Wastages vide letter C.No. IOCO(N)DTRE/37/2015/807 dated 22.11.2016 after the period of one year and ten months.

Further, the DTRE user failed to consume the imported raw material within the prescribed period but the leviable duty and taxes on unconsumed quantity were not recovered from the unit concerned. This resulted in non-realization of government revenue of Rs. 357,908.

Late issuance of Input Output Ratios and wastages beyond the period of thirty days needs to be justified by IOCO and taxes involved in the unconsumed quantity be recovered along with penalty and default surcharge leviable under law.

The lapse was pointed out to the department in June, 2017. The department reported that notices for recovery followed by reminder dated 10.11.2017 has been issued. Further progress will be intimated shortly.

The DAC directed the MCC on 29-11-2017 to expedite recovery of Rs.0.358 million.

(A.O. No.10/MCC Sialkot)

(d) DTRE approval No. KCUS/83/03032015 was issued in favor of Saphire Fibers Ltd Sheikhupura by MCC Appraisement Lahore. Input Output Ratios of the said DTRE was determined by IOCO(N), Lahore vide C.No. IOCO(N)DTRE/4191/2014/697 dated 03.06.2015.

The DTRE user failed to consume the quantity of imported raw material. The user was liable to pay duty and taxes on unconsumed quantity at statutory rates as clarified by the FBR vide letter C.No. 4(29)DTRE/2010-6766-R dated 07.05.2012. It was however, observed that sales tax and withholding tax was charged and recovered at incorrect lower rates by giving undue benefit of SRO 1125(I)/2011. This resulted in short realization of government revenue of Rs. 297,247.

The lapse was pointed out to the department in June, 2017. The department reported that in instant case, duty and taxes have been calculated on concessionary SROs as per section 30 of Customs Act, 1969 and in the light of Lahore high court decision.

This para was not discussed in DAC on 29-11-2017. However, in similar cases, MCC Sialkot has raised the demand for recovery and in a case, amount has been recovered. Therefore, recovery be expedited under intimation to Audit.

(A.O. No.20/MCC Lahore)

(e) DTRE approval No. KCUS/305/03102014 was issued in favor of Reliance Cotton Spinning Mills Lahore. Input Output Ratios of the said DTRE was determined by IOCO(N), Lahore vide C.No. IOCO(N)DTRE/420/2014/05 dated 02.01.2015.

The DTRE user failed to consume the quantity of imported raw material. The user was liable to pay duty and taxes on unconsumed quantity at statutory rates as clarified by the FBR vide letter C.No. 4(29)DTRE/2010-6766-R dated 07.05.2012. It was however, observed that sales tax and withholding tax was charged and recovered at incorrect lower rates by giving undue benefit of SRO 1125(I)/2011. This resulted in short realization of government revenue of Rs. 7,325,045.

The lapse was pointed out to the department in June, 2017. The department reported that in instant case, duty and taxes have been calculated on concessionary SROs as per section 30 of Customs Act, 1969 and in the light of Lahore high court decision.

This para was not discussed in DAC on 29-11-2017. However, in similar cases, MCC Sialkot has raised the demand for recovery and in a case, amount has been recovered. Therefore, recovery pointed out by Audit be expedited under intimation to Audit.

(A.O. No.02/MCC Lahore)

(f) DTRE approval No. KCUS/292/29092014 and KCUS/32/28012014 were issued in favor of M/s Saphire Textile Mills Sheikhupura. Input Output Ratios of the said DTRE was determined by IOCO(N), Lahore vide C.No. IOCO(N)DTRE/162/2014/373 dated 08.05.2014.

The DTRE user failed to consume the quantity of imported raw material. The user was liable to pay duty and taxes on unconsumed quantity at statutory rates as clarified by the FBR vide letter C.No. 4(29)DTRE/2010-6766-R dated 07.05.2012. It was however, observed that sales tax and withholding tax was charged and recovered at incorrect lower rates by giving undue benefit of SRO 1125(I)/2011. This resulted in short realization of government revenue of Rs. 680,658.

The lapse was pointed out to the department in June, 2017. The department reported that in instant case, duty and taxes have been calculated on concessionary SROs as per section 30 of Customs Act, 1969 and in the light of Lahore high court decision.

This para was not discussed in DAC on 29-11-2017. However, in similar cases, MCC Sialkot has raised the demand for recovery and in a case, amount has been recovered. Therefore, recovery pointed out by Audit be expedited under intimation to Audit.

(A.O. No.07/MCC Lahore)

(g) DTRE approval No. KCUS/24/23012014, KCUS/293/29092014 and KCUS/141/09042014 was issued in favor of Master Textile Mills Ltd Lahore. Input Output Ratios of the said DTRE was determined by IOCO(N), Lahore vide C.No. 3(313)IOCO/Master/2012 dated 04.12.2012 and IOCO(N)/DTRE/243/2014/1045 dated 15.09.2014.

The DTRE user failed to consume the quantity of imported raw material. The user was liable to pay duty and taxes on unconsumed quantity at statutory rates as clarified by the FBR vide letter C.No. 4(29)DTRE/2010-6766-R dated 07.05.2012. It was however, observed that sales tax and withholding tax was charged and recovered at incorrect lower rates by giving undue benefit of SRO 1125(I)/2011. This resulted in short realization of government revenue of Rs. 1,278,122.

The lapse was pointed out to the department in June, 2017. The department reported that in instant case, duty and taxes have been calculated on concessionary SROs as per section 30 of Customs Act, 1969 and in the light of Lahore high court decision.

This para was not discussed in DAC on 29-11-2017. However, in similar cases, MCC Sialkot has raised the demand for recovery and in a case, amount has been recovered. Therefore, recovery pointed out by Audit be expedited under intimation to Audit.

(A.O. No.06/MCC Lahore)

(h) DTRE approval No. KCUS/91/07032014 was issued in favor of Textile Guild Lahore. Input Output Ratios of the said DTRE was determined by IOCO(N), Lahore vide C.No. IOCO(N)DTRE//2014/ dated.

The DTRE user failed to consume the quantity of imported raw material. The user was liable to pay duty and taxes on unconsumed quantity at statutory rates as clarified by the FBR vide letter C.No. 4(29)DTRE/2010-6766-R dated 07.05.2012. It was however, observed that sales tax and withholding tax was charged and recovered at incorrect lower rates by giving undue benefit of SRO 1125(I)/2011. This resulted in short realization of government revenue of Rs. 14,389.

The lapse was pointed out to the department in June, 2017. The department reported that in instant case, duty and taxes have been calculated on concessionary SROs as per section 30 of Customs Act, 1969.

This para was not discussed in DAC on 29-11-2017. However, in similar cases, MCC Sialkot has raised the demand for recovery and in a case, amount has been recovered. Therefore, recovery pointed out by Audit be expedited under intimation to Audit.

(A.O. NO.04/MCC LAHORE)

(i) DTRE approval No. KCUS/205/03062013 and KCUS/261/26082014 were issued in favor of Prosperity Weaving Mills Lahore. Input output ratios of the said DTRE approvals were determined by IOCO(N), Lahore vide C.No.3(88)/IOCO(N)DTRE/Prosperity Weaving/2013/707 dated 03.10.2013 and C.No. IOCO(N)/DTRE/423/2014/197 dated 06.03.2015 respectively. The Input Output Ratios was issued by the IOCO with a delay of 4 months and 8 months respectively.

The DTRE user failed to consume the quantity of imported raw material. The user was liable to pay duty and taxes on unconsumed quantity at statutory rates as clarified by the FBR vide letter C.No. 4(29)DTRE/2010-6766-R dated 07.05.2012. It was however, observed that sales tax and withholding tax was charged and recovered at incorrect lower rates by giving undue benefit of SRO 1125(I)/2011. This resulted in short realization of government revenue of Rs. 207,623.

The lapse was pointed out to the department in June, 2017. The department reported that in instant case, duty and taxes have been calculated on concessionary SROs as per section 30 of Customs Act, 1969 and in the light of Lahore high court decision.

This para was not discussed in DAC on 29-11-2017. However, in similar cases, MCC Sialkot has raised the demand for recovery and in a case, amount has been recovered. Therefore, recovery pointed out by Audit be expedited under intimation to Audit.

(A.O. No.03/MCC LHR)

(j) DTRE approval No. KCUS/304/29092014 was issued in favor of M/s Saphire Fibers Ltd Lahore. Input Output Ratios of the said DTRE was determined by IOCO(N), Lahore vide C.No. IOCO(N)DTRE/419/2014/1244 dated 10.12.2014.

The DTRE user failed to consume the quantity of imported raw material. The user was liable to pay duty and taxes on unconsumed quantity at statutory rates as clarified by the FBR vide letter C.No. 4(29)DTRE/2010-6766-R dated 07.05.2012. It was however, observed that sales tax and withholding tax was charged and recovered at incorrect lower rates by giving undue benefit of SRO 1125(I)/2011. This resulted in short realization of government revenue of Rs. 7,586,243.

The lapse was pointed out to the department in June, 2017. The department reported that in instant case, duty and taxes have been calculated on concessionary SROs as per section 30 of Customs Act, 1969 and in the light of Lahore high court decision.

This para was not discussed in DAC on 29-11-2017. However, in similar cases, MCC Sialkot has raised the demand for recovery and in a case, amount has been recovered. Therefore, recovery pointed out by Audit be expedited under intimation to Audit.

(A.O. No.18/MCC Lahore)

(k) DTRE approval No. KCUS/61/13022015 was issued in favor of Dynamic Sportsware Lahore. Input Output Ratios of the said DTRE was determined by IOCO(N), Lahore vide C.No. IOCO(N)DTRE/166/2014/347 dated 30.04.2014.

The DTRE user exceeded the Input Output Ratios recommended by the IOCO in respect of Reactive Dyes. The user was liable to pay duty and taxes on excess quantity at statutory rates as clarified by the FBR vide letter C.No. 4(29)DTRE/2010-6766-R dated 07.05.2012. It was however, observed that withholding tax was charged and recovered at incorrect lower rates by giving undue benefit of SRO 1125(I)/2011. This resulted in short realization of government revenue of Rs. 41,401.

The lapse was pointed out to the department in June, 2017. The department reported that in instant case, duty and taxes have been calculated on concessionary SROs as per section 30 of Customs Act, 1969 and in the light of Lahore high court decision.

This para was not discussed in DAC on 29-11-2017. However, in similar cases, MCC Sialkot has raised the demand for recovery and in a case, amount has been recovered. Therefore, recovery pointed out by Audit be expedited under intimation to Audit.

(A.O. No.17/MCC LHR)

(l) DTRE approval No. KCUS/241/05072013 was issued in favor of M/s Shahkam Industries (Pvt) Ltd Lahore. Input Output Ratios of the said DTRE was determined by IOCO(N), Lahore vide C.No. 3(112)IOCO(N)/Shahkam Ind/2013/761 dated 25.10.2013.

The DTRE user failed to consume the quantity of imported raw material. The user was liable to pay duty and taxes on unconsumed quantity at statutory rates as clarified by the FBR vide letter C.No. 4(29)DTRE/2010-6766-R dated 07.05.2012. It was however, observed that sales tax and withholding tax was charged and recovered at incorrect lower rates by giving undue benefit of SRO 1125(I)/2011. This resulted in short realization of government revenue of Rs. 195,482.

The lapse was pointed out to the department in June, 2017. The department reported that in instant case, duty and taxes have been calculated on concessionary SROs as per section 30 of Customs Act, 1969 and in the light of Lahore high court decision.

This para was not discussed in DAC on 29-11-2017. However, in similar cases, MCC Sialkot has raised the demand for recovery and in a case, amount has been recovered. Therefore, recovery pointed out by Audit be expedited under intimation to Audit.

(A.O. No.15/MCC LHR)

(m) DTRE approval No. KCUS/207/22062015 was issued in favor of M/s Body Media International (Pvt) Ltd Lahore. Their case was referred to Director IOCO (N), Lahore vide letter No.V-CUS/DTRE/216/2015/615 dated 18.06.2015 for determination of Input Output Ratios and wastages.

The DTRE user failed to consume the quantity of imported raw material. The user was liable to pay duty and taxes on unconsumed quantity at statutory rates as clarified by the FBR vide letter C.No. 4(29)DTRE/2010-6766-R dated 07.05.2012. It was however, observed that sales tax and withholding tax was charged and recovered at incorrect lower rates by giving undue benefit of SRO 1125(I)/2011. This resulted in short realization of government revenue of Rs. 58,556.

The lapse was pointed out to the department in June, 2017. The department reported that in instant case, duty and taxes have been calculated on concessionary SROs as per section 30 of Customs Act, 1969.

This para was not discussed in DAC on 29-11-2017. However, in similar cases, MCC Sialkot has raised the demand for recovery and in a case, amount has been recovered. Therefore, recovery pointed out by Audit be expedited under intimation to Audit.

(A.O. No.13/MCC LHR)

(n) DTRE approval No. KCUS/242/08072013 was issued in favor of M/s Zulifiqar Knitting & Processing Mills Ltd Lahore. Input Output Ratios of the said DTRE was determined by IOCO(N), Lahore vide C.No. 3(333)IOCO/ Zulifiqar/2012/131 dated 11.06.2013.

The DTRE user failed to consume the quantity of imported raw material. The user was liable to pay duty and taxes on unconsumed quantity at statutory rates as clarified by the FBR vide letter C.No. 4(29)DTRE/2010-6766-R dated 07.05.2012. It was however, observed that sales tax and withholding tax was charged and recovered at incorrect lower rates by giving undue benefit of SRO 1125(I)/2011. This resulted in short realization of government revenue of Rs. 1,564,233.

The lapse was pointed out to the department in June, 2017. The department reported that in instant case, duty and taxes have been calculated on concessionary SROs as per section 30 of Customs Act, 1969 and in the light of Lahore high court decision.

This para was not discussed in DAC on 29-11-2017. However, in similar cases, MCC Sialkot has raised the demand for recovery and in a case, amount has been recovered. Therefore, recovery pointed out by Audit be expedited under intimation to Audit.

Audit recommends early recovery of dues involved in all these cases.

(A.O. No.12/MCC LHR)

4.2.6 Loss of Revenue due to unauthorized purchase of Cotton

According to Rule 299(4) of the Customs Rules, 2001, IOCO or, as the case may be, EDB upon receipt of a reference from the regulatory Collector, shall determine input-output ratios and wastages, as may be deemed appropriate, and forward their findings to the regulatory Collector within a period of thirty days, or such shorter period as may be specified by the regulatory Collector in any specific case. Provided that the regulatory Collector may grant provisional DTRE approval pending receipt of response from IOCO or, as the case may be, EDB in this behalf. Such provisional approval shall in any case not be delayed beyond three days after expiry of the due date of receipt of response from IOCO or, as the case may be, EDB, provided further that quantity approved provisionally by the regulatory Collector shall not exceed twenty–five per cent of the quantity applied by the exporter or twenty–five per cent of the capacity of the producing or manufacturing unit, whichever is less.

M/s Ahmad Hassan Textile Mills Ltd were granted DTRE approval No. KCUS/85/04032014 dated 26.02.2014 for export of cotton grey fabric and 100% cotton yarn as detailed below:

Goods to be Exported:		
i.	Cotton Grey fabric 5212.1100	1333177 kg
ii.	100% Cotton Yarn	1526459 kg
Goods to be procured locally:		
i.	Cotton Yarn	1232068 kg
ii.	Cotton (spinning)	1841833 kg

The case was referred to IOCO for determination of Input Output Ratios. The IOCO Lahore vide CNO. IOCO(N)/DTRE/207/2014/375 dated 09.05.2014 had determined wastage of 1.50% of cotton yarn for manufacture of 100% Cotton Grey fabric. However, no Input Output Ratios of cotton spinning for manufacture of cotton yarn was determined. In Reconciliation Statement submitted by the DTRE user, no procurement of cotton was declared. However, export of cotton yarn 1526459 kg was declared. Audit of the unit was conducted by the Directorate of Customs PCA Lahore.

According to the Audit Report, the DTRE user exported cotton yarn 1526459 kg. However, local purchase of cotton was neither declared by the DTRE user nor checked by the departmental Audit Team. As the purchase of cotton and export of cotton yarn was not covered by any valid Input Output Ratios certificate, the whole transaction was held irregular/unauthorized.

It was therefore requested that either the omission be justified or dues involved be recovered as detailed below along-with penal action under the law.

Qty of Cotton	1841883 kg
Value	Rs. 325,691,315
Sales Tax @ 17% recoverable	55,367,523

The lapse was pointed out to the department in June, 2017. The department reported that DTRE user was granted approval for procurement of local cotton. Further, it is stated that DTRE user did not procure local cotton in DTRE regime as per reconciliation statement.

The DAC directed the MCC on 29-11-2017 to reconcile the exempt inputs with the exported quantities allowed in the DTRE within next 30 days under intimation to Audit.

Audit recommends early completion of required action.

(A.O. No. 13/MCC Multan)

4.2.7 Loss of Revenue on unaccounted input goods

According to Rule 299(4) of the Customs Rules, 2001, IOCO or, as the case may be, EDB upon receipt of a reference from the regulatory Collector, shall determine input-output ratios and wastages, as may be deemed appropriate, and forward their findings to the regulatory Collector within a period of thirty days, or such shorter period as may be specified by the regulatory Collector in any specific case. Provided that the regulatory Collector may grant provisional DTRE approval pending receipt of response from IOCO or, as the case may be, EDB in this behalf.

Such provisional approval shall in any case not be delayed beyond three days after expiry of the due date of receipt of response from IOCO or, as the case may be, EDB, provided further that quantity approved provisionally by the regulatory Collector shall not exceed twenty–five per cent of the quantity applied by the exporter or twenty–five per cent of the capacity of the producing or manufacturing unit, whichever is less.

(a) Ahmad Fine Textile Mills Ltd Multan were issued DTRE approval No. KCUS/258/22082014 for export of Polyester Cotton Yarn. Their case was referred to IOCO Lahore vide CNO. MDP/DTRE/Ahmad Fine/183/2014/730 dated 11.03.2015 for determination of Input Output Ratios but no reply was received till date. The DTRE user had submitted Reconciliation Statement and audit of the same was completed. The inaction of IOCO needed justification.

It was further noted that the DTRE user failed to account for cotton 256072 kg on which government taxes of Rs 7,651,995 was required to be recovered.

Audit of the DTRE approval was completed by the Department which revealed that DTRE user had exported Polyester Cotton Yarn 2572914 kg in which Polyester Staple fiber of 1299565 was consumed. The departmental Audit Report was however silent about consumption of locally procured cotton. As the DTRE user has declared zero percent wastage on raw material and quantity of 256072 kg cotton remained un-accounted involving revenue of Rs. 7,651,995.

Non issuance of Input Output Ratios by IOCO despite the lapse of a period of more than two years is a sign of poor performance and mismanagement which needed justification. Non-accounted of locally procured cotton by departmental Audit was also a question mark which needed clarification besides recovery of dues involved along-with penal action under the law.

The lapse was pointed out to the department in June, 2017. The department reported that DTRE user was granted approval for procurement of local cotton. Further, it is stated that DTRE user did not procure local cotton in DTRE regime as per reconciliation statement.

The DAC directed the MCC on 29-11-2017 to reconcile the exempt inputs with the exported quantities allowed in the DTRE within next 30 days under intimation to Audit.

Audit recommends early completion of required action.

(A.O. No.14/MCC Multan)

4.2.8 Grant of Irregular Benefit under DTRE Scheme

According to rule 299 (I) & (3) of Customs Rules, 2001, (1) In case of goods other than same-state goods, the input-output ratios and wastages under this sub-chapter shall be declared by the applicant as per Appendix I. The regulatory Collector 53,54 may, within seven days of receipt of an application under this sub-Chapter, refer such application to Input Output Co-efficient Organization (IOCO) for determination of input-output ratios and wastages, except an application in respect of engineering goods, which shall be referred to EDB, before granting DTRE approval. Further according to rule 296(H), engineering goods" includes goods classified under Chapter 72 to Chapter 96 of the First Schedule of Customs Act, 1969 or as approved by the Engineering Development Board (EDB).

a. Recto Sports (Pvt) Ltd Sialkot were allowed DTRE No. KCUS/171/15050215 for export of soft shell jackets (6103.3900). The DTRE user was allowed to import Polyester Textile coated fabric 134694 yards. Audit observed that neither Input Output Ratios and wastage was determined by the Collectorate nor the case was referred to IOCO for this purpose. Copy of an old Input Output Ratios determined by IOCO was available in file in which the DTRE user allowed to import Polyester Textile Fabric of HS Code 5407.6100 which was irrelevant in this case as in this DTRE, the input goods were polyester coated fabric (5903.9000). However, the departmental allowed benefit of DTRE Rules without any valid Input

Output Ratios determined either by the Collectorate or IOCO. This resulted in grant of undue benefit involving government revenue of Rs. 14,626,085.

It was requested that either grant of DTRE benefit without any valid Input Output Ratios certificate be justified or the amount of Rs. 14,626,085 be recovered along-with penal action.

The lapse was pointed out to the department in June, 2017. The department reported that the instant DTRE approval was granted for procurement of 100% polyester Textile Coated Fabric (5903.9000) and the same was approved by the regulatory Collector on the basis of Input output ratios already approved by the IOCO, Karachi. In IOCO, Karachi erroneously mentioned PCT heading 5407.6100 instated of 5903.9000. As per previous practice of MCC, Sialkot, if the input output material/articles are the same, approval was granted on the basis of previous determination being identical one.

The DAC directed the MCC on 29-11-2017 to re-examine the ratio issue afresh and raise recovery if so needed.

Audit recommends early completion of required action.

(A.O. No. 01/MCC Sialkot)

4.2.9 Short-realization of government revenue due to misuse of DTRE facility

According to rule 299 (I) & (3) of Customs Rules, 2001, (1) In case of goods other than same-state goods, the input-output ratios and wastages under this sub-chapter shall be declared by the applicant as per Appendix I. The regulatory Collector 53,54 [may, within seven days of] receipt of an application under this sub-Chapter, refer such application to Input Output Co-efficient Organization (IOCO) for determination of input-output ratios and wastages, except an application in respect of engineering goods, which shall be referred to EDB, before granting DTRE approval. Further according to rule 296(H), engineering goods" includes goods classified under Chapter 72 to Chapter 96 of the First Schedule of Customs Act, 1969 or as approved by the Engineering Development Board (EDB).

During performance Audit, it was observed that M/s Kestral Enterprises, Sialkot were granted DTRE approval No. KCUS/10/06012015 & KCUS/176/26052014 by the Collector Customs Sialkot. Their case was referred to EDB vide C.No. V.CUS/SMB/DTRE/APP/37/2014/3597 dated 17.05.2014 for determination of Input Output Ratios and wastages. However, no reply was received from EDB till date. Earlier, the Collectorate had referred the matter to IOCO in respect of DTRE approval No. RTOs/2339/03062008, RTOs/2680/18122008 and STG/2152/01032008 which had determined Input Output Ratios and wastage vide C.No. 3(309)/IOCO/Kesteral/2009/167/dated 29.09.2010 with a delay of 30 months. The Input Output Ratios and wastage determined by IOCO in earlier cases was also applied to the DTRE approvals Nos mentioned above which was not justified because the case was to be dealt by EDB and not IOCO. It was also observed that the DTRE user manufactured Kettle and same were exported while Input Output Ratios and wastage on kettle was not approved by IOCO. This resulted in misuse of DTRE approval involving duty & taxes of Rs. 503,437.

The DTRE user manufactured the stainless steel product classified under chapter 72 and their case was referred to IOCO. As per law, engineering goods classified under chapter 72 to 96 shall be referred to EDB for determination of Input Output Ratios and wastages but this fact was ignored by the regulatory Collector. This needs justification.

Further, in the DTRE approval No. KCUS/10/06012015, the DTRE user failed to consume the quantity of imported raw material. The user was liable to pay duty and taxes on unconsumed quantity at statutory rates. It was however, observed that Customs duty was not charged and recovered from DTRE user. This resulted in short realization of government revenue of Rs. 40,997.

The lapse was pointed out to the department in June, 2017. An amount of Rs. 40,997 pointed out by Audit has been recovered vide TC No. 100 dated 10.11.2017. Copies of duly verified by CAO challan has been provided. The department reported that DTRE user applied the same Input output ratios as determined by IOCO Karachi in earlier cases for new DTRE approvals. The department referred the case for new approval to the EDB. The EDB determined and approved the same vide its letter EDB-IOR/89(01)/DTRE/Tech II dated 22.01.2016, there was no difference of consumption as well as wastage ratio and determination of Kettle also finalized vide above mentioned letter.

The DAC directed the MCC on 29-11-2017 to re-examine the issue regarding ratio of consumption.

Audit recommends early completion of required action.

(A.O. No. 04/MCC Sialkot)

4.2.10 Non realization of government revenue

According to Rule 299(4) of the Customs Rules, 2001, IOCO or, as the case may be, EDB upon receipt of a reference from the regulatory Collector, shall determine input-output ratios and wastages, as may be deemed appropriate, and forward their findings to the regulatory Collector within a period of thirty days, or such shorter period as may be specified by the regulatory Collector in any specific case. Provided that the regulatory Collector may grant provisional DTRE approval pending receipt of response from IOCO or, as the case may be, EDB in this behalf. Such provisional approval shall in any case not be delayed beyond three days after expiry of the due date of receipt of response from IOCO or, as the case may be, EDB, provided further that quantity approved provisionally by the regulatory Collector shall not exceed twenty–five per cent of the quantity applied by the exporter or twenty–five per cent of the capacity of the producing or manufacturing unit, whichever is less:

(a) Mannowal Textile Mills Khanewal was issued DTRE approval No. KCUS/277/13092014 and their case was referred to the Director IOCO(N)

Lahore vide CNO. MDP/DTRE/Monno/212/2014/372 dated 31.01.2015. The IOCO Lahore determined the Input Output Ratios after the period of seven months vide IOCO(N)/DTRE/57/2015/928 dated 31.08.2015. However, the DTRE user failed to consume the imported raw material within the prescribed period but the leviable duty and taxes on unconsumed quantity were not recovered from the unit concerned. This resulted in non-realization of government revenue of Rs. 19,203,180 .

The amount involved is requested to be recovered under intimation to Audit and issuance of Input Output Ratios by IOCO with a delay of seven months needed to be justified.

The lapse was pointed out to the department in June, 2017. The department reported that M/s Monnowal Textile mills Ltd has imported total PSF from Taiwan while anti-dumping duty is imposed on import of PSF from China not Taiwan. Further it is informed that a show-cause notice dated 10.10.2017 has been issued to the DTRE user for payment of duty & Taxes amounting to Rs. 4,399,941.

In light of the departmental response, the DAC on 29-11-2017 directed the MCC to get the stated position verified from Audit within next 30 days.

(A.O. No.12/MCC Multan)

(b) M/s Matela Kino Factory, Kotmomin was issued DTRE approval No. KCUS/285/20092014 and allowed to procure local Corrugated Cartons valuing to Rs. 134,400,000. The DTRE was allowed without any reference of IOCO. The party requested for extension of one more season 2015-16 upto April 2016 vide letter dated 22.10.2015. No action was taken by the Collectorate. The party once again requested for extension for season 2016-17 upto April 2017. The Chief Collector had forwarded their case to the Collectorate vide letter No. 01.CC(Central)-53/2015/pt/5h dated 12.01.2017. No further action was taken by the department. It was thus evidenced that the DTRE user failed to consume the DTRE goods within the prescribed period but the leviable duty and taxes on unconsumed quantity were not recovered from the unit concerned. This resulted in non-realization of government revenue of Rs. 22,848,000

Non-referring of the case to IOCO and not recovery of government dues needed clarification besides immediate remedial action.

The lapse was pointed out to the department in June, 2017. The department reported that DTRE approvals are allowed for tax free purchase of locally manufactured corrugated cartons involving no wastage.

The DAC directed the MCC on 29-11-2017 to ensure time line committed.

Audit recommends early recovery of government dues involved besides valid justification for non-referring of the cases to IOCO.

(A.O. No. 11/MCC Faisalabad)

4.3 Overall Assessment

Performance Audit of determination of input output ratios by IOCO and its implementation and monitoring by regulatory Collector was carried out with the objective to ascertain the overall performance of the system of IOCO (Determination OF IORs by IOCO) vested with the field Offices of FBR including the human resource keeping in view of the key elements of performance indicators i.e the economy, efficiency and effectiveness For the purpose it was planned to review and analyze the existing system of IOCO and adherence of Internal controls and its adequacy and effectiveness throughout the determination process.

During the activity, major weaknesses were found in the following areas:

Due to non-production of record by the Director IOCO (South) Karachi and Director IOCO (North) Lahore, the existing system of IOCO and adherence of Internal Controls and its adequacy and effectiveness throughout the Determination process could not be analyzed. However, during review of record of regulatory Collectorates, it was observed that system of IOCO was not working adequately. Cases referred to IOCO by the regulatory Collectors were either not responded or responded with un reasonable delay. In most cases, Input Output Ratios declared by the applicant were admitted without keeping in view any industrial standard. Different ratios of wastage was determined for same goods. Further, the aspect of weight gain during "sizing" process in spinning stage was ignored. The rates of duty drawback determined in 2009 were not reviewed / revised despite significant changes in rate of customs duty. In case of regulatory Collectors, in certain cases duty and taxes on unconsumed raw material were either not recovered or recovered by giving undue benefit of reduced rates.

Performance Rating of Area

As the record was not produced to Audit, any conclusive rating cannot be assigned.

Risk Rating of Area

It will be ascertained when complete record is produced to Audit by IOCO.

5. CONCLUSION

5.1 Key issues for future:

A proper and adequate procedure for issuance of Input Output Ratios for different sectors should be devised by FBR and suitable sector specialist be hired for smooth working and timely disposal of cases referred to IOCO by regulatory Collector. The FBR may also consider that issuance of Input Output Ratios of Manufacturing Bonds and Units in Export Processing Zones should also be assigned to IOCO to avoid different Input Output Ratios for same goods.

5.2 Lessons identified:

Effective monitoring is required to watch the working of IOCO. Early disposal of referred cases with strict compliance of customs rules should be made.

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