

Executive Summary

The Service Tax collection was ₹ 2,11,145 crore during financial year 2015-16 (FY16) and accounted for 29.77 per cent of Indirect Tax revenue in FY16. Indirect tax collection have risen as a per cent of GDP in FY16 after registering a slight decline during the preceding two years. The share of Indirect Taxes in Gross Tax revenue increased in FY16 vis-à-vis FY15. Service Tax revenue as a percentage of GDP has been increasing every year during last five years, though it declined marginally during FY15.

This Report has 162 audit observations on Service Tax, having financial implication of ₹ 256.88 crore. The Ministry/department had accepted (up to December 2016) 158 audit observations involving revenue of ₹ 252.65 crore and reported recovery of ₹ 78.47 crore. Significant audit findings are as follows:

Chapter I: Service Tax Administration

- Manpower Recruitment Service, which was in third position in FY15, has become top Service Tax revenue paying service in FY16 followed by Telecommunication and General Insurance Premium services.
(Paragraph 1.7)
- Of the returns marked by ACES for review and correction, 79 per cent were pending corrective action.
(Paragraph 1.12.1)
- Adjudication cases involving Service Tax implication of over ₹ 76,124 crore were pending finalisation as on 31 March 2016.
(Paragraph 1.13)
- Success ratio of department's appeal against adjudication order has decreased to 25.53 per cent in FY16 from 32.69 per cent in FY14.
(Paragraph 1.15)
- There was a huge shortfall in the Internal audits conducted, as compared with audits due, across all categories of units.
(Paragraph 1.17)
- The Ministry could not provide complete data related to detailed scrutiny of returns, Internal Audit and disposal of refund cases for FY16 and data furnished in respect of registered assessees and preliminary scrutiny of returns, did not tally with information furnished for last Audit Report No. 1 of 2016.
(Paragraph 1.19)

- In the last five audit reports (including current year's report) we had included 810 audit paragraphs having financial implication of ₹ 2,181.44 crore against which the Ministry accepted 795 audit paragraphs having financial implication of ₹ 1,866.26 crore and had recovered ₹ 449.59 crore.

(Paragraph 1.23)

Chapter II: Recovery of arrears

- Arrears of Service Tax, which was ₹ 22,014 crore in 2012-13, tripled to ₹ 71,257 crore in 2014-15. However, recovery during the year as a percentage of unrestrained recoverable arrears registered a steep fall from 42 *per cent* during 2013-14 to 10 *per cent* during 2014-15.

(Paragraph 2.7)

- No time limit was prescribed for communication of Order-in-Originals (OIOs) to Range Offices. We noticed that time taken to communicate OIOs to Range Offices ranged from one day to 2,949 days in 11 Commissionerates.

(Paragraph 2.8.1)

- In 49 test checked cases in eight Commissionerates, action for recovery under section 73 and 87 of the Finance Act 1994, was not initiated, which resulted in non-recovery of ₹ 14.86 crore.

(Paragraph 2.8.2)

- In 51 test checked cases in nine Commissionerates, pending from two to 10 years involving revenue of ₹ 613.07 crore, applications for early hearing were not filed.

(Paragraph 2.8.3)

- In 23 Commissionerates, no cases were transferred to Recovery Cell during the last three years, though there were arrears of ₹ 16,857 crore at the beginning of 2014-15 in these Commissionerates. This not only resulted into Recovery Cell being redundant but has also led to piling of arrears.

(Paragraph 2.8.5)

- CBEC constituted a Centralised Task Force (CTF) in 2004 to co-ordinate, facilitate, monitor and oversee the efforts of field formations in recovery of arrears. But it failed to make effective strategies for realisation of arrears.

(Paragraph 2.11.1)

Chapter III: Effectiveness of Internal Audit

- This audit was carried out in 15 selected Audit Commissionerates covering the period from 2012-13 to 2014-15.
- During audit, we requisitioned 750 Assessee Master Files and 1,125 Internal Audit Files against which we received 396 Assessee Master Files and 886 Internal Audit Files. Further we did not receive full records relating to audit planning register, audit follow up register etc. ***In the absence of these records, we are not in a position to comment on the extent of compliance by the Internal Audit Commissionerates with the laid down procedures.***

(Paragraph 3.6)

- In nine commissionerates, where required data was made available, the Assessee Master Files (AMFs) were created in respect of only 0.58 per cent of the assesses instead of 100 per cent as prescribed. In view of practical constraints expressed by almost all the commissionerates in maintaining AMFs for all the assesses, the Ministry needs to devise proper risk assessment at Commissionerate level keeping in view centralised risk scoring of assesseees being done by DG Audit currently.

(Paragraph 3.8.1)

- There were inadequacies in Internal Audit Files, Audit Planning Register and Audit Follow Up Registers.

(Paragraphs 3.8.3, 3.9.1 and 3.9.2)

- There was delay in submission of draft audit reports by the Internal Audit Parties in more than fifty per cent of the cases in 10 Commissionerates.

(Paragraph 3.9.3)

- Monitoring Committee Meeting (MCMs) are to be held on monthly basis to examine the Internal Audit objections for sustainability. In six Audit Commissionerates, only 209 MCMs were held as against 306 MCMs due to be conducted.

(Paragraph 3.9.5)

- Poor maintenance of records by a wing which is the backbone of the compliance verification mechanism reflects poorly on the functioning of the department.

(Paragraph 3.10)

Chapter IV: Non-compliance with rules and regulations

- Audit observed instances of non-payment/short-payment of Service Tax, incorrect availing/utilisation of CENVAT credit and non-payment of interest on delayed payments having financial implication of ₹ 138.22 crore.

(Paragraph 4.1)

Chapter V: Effectiveness of internal controls

- Audit observed deficiencies in scrutiny and internal audit carried out by departmental officers, delayed issue of show cause notice etc., having financial implication of ₹ 118.66 crore.

(Paragraph 5.2)