

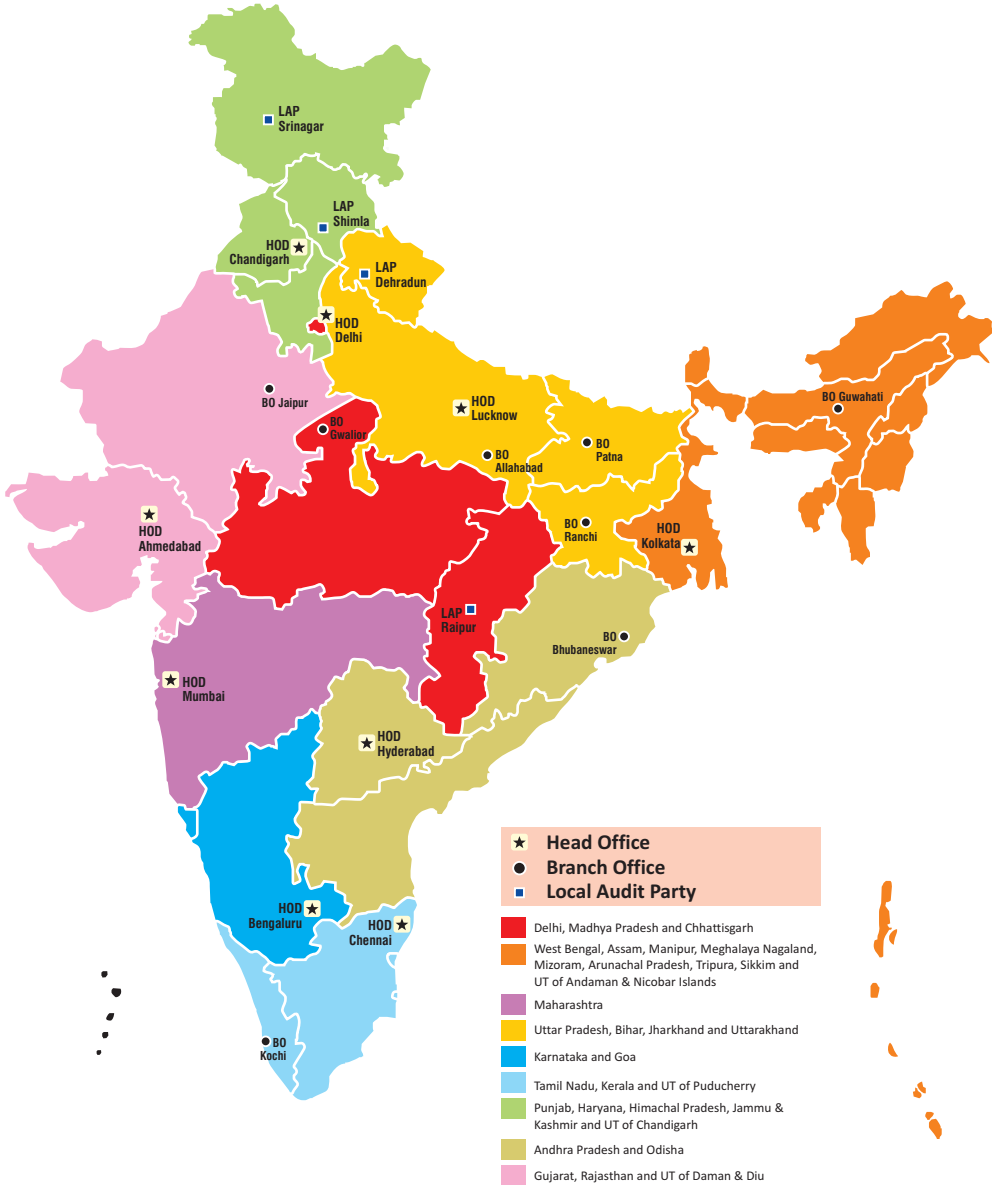
# Revenue Audit Manual Direct Taxes



**2015**

**Office of the Comptroller and Auditor General of India  
New Delhi**

## Location of Central Audit Offices Direct Tax Audit



## Table of Contents

Chapter/Para	Contents	Pages
	<b>Preface</b>	<b>i-ii</b>
<b>1</b>	<b>Introduction</b>	<b>1-4</b>
	1.1 History of Receipt Audit	1
	1.2 Authority of the Comptroller and Auditor General of India	1-2
	1.3 Audit Regulations	2-3
	1.4 Code of Ethics	3-4
	1.5 Control of Audit Quality	4
<b>2</b>	<b>Auditee Entity</b>	<b>5-7</b>
	2.1 Organisation structure of Central Board of Direct Taxes	5-6
	2.2 Organisation structure of field formations	6-7
<b>3</b>	<b>Structure of Direct Tax Audit</b>	<b>9-11</b>
	3.1 Introduction	9
	3.2 Restructuring of Indian Audit & Accounts Department	10-11
	3.3 Retention of experienced men power	11
<b>4</b>	<b>Functions of Direct Tax Audit</b>	<b>13-18</b>
	4.1 Introduction	13
	4.2 Compliance Audit	13-14
	4.3 Performance Audit	14
	4.4 Functions of Direct Tax Wing	14-18
	4.5 Financial Attest Audit	18
<b>5</b>	<b>Audit Planning and Programming</b>	<b>19-24</b>
	5.1 Strategic Audit Plan	19
	5.2 Integrated Audit Plan	19-20
	5.3 Annual Audit Plan	20
	5.4 Time schedule for Annual Audit Plan	20
	5.5 Audit Advisory Board	20-21
	5.6 Department Centric Audit	21-22

5.7	Planning for Performance Audit/Theme based Audit	23
5.8	Audit Programming	24
<b>6</b>	<b>Procedure for Direct Tax Audit</b>	<b>25-31</b>
6.1	Assessment and Non-Assessment Charges	25
6.2	Conduct of Audit	25-26
6.3	Work distribution amongst members of audit team	26-27
6.4	Audit scrutiny of assessment records	27-28
6.5	Issue of Audit memo	28-30
6.6	Records to be checked	31
<b>7</b>	<b>Reporting of Direct Tax Audit</b>	<b>33-44</b>
7.1	Local Audit Reports	33-37
7.2	Potential Draft Paragraphs	37
7.3	Statement of Facts	37
7.4	Draft Paragraphs for Compliance Audit Report	38-41
7.5	OmniDocs System	41-42
7.6	Performance Audit	43-44
7.7	Confidentiality of materials for Audit Reports	44
7.8	Style Guide	44
<b>8</b>	<b>Pursuance and Settlement of Audit Observations</b>	<b>45-49</b>
8.1	Pursuance of Audit Observations	45-46
8.2	Settlement of Audit Observations	46-48
8.3	Monetary limits for settlement of Audit Observations	48-49
8.4	Audit Committee Meeting	49
	<b>Appendices</b>	<b>51-139</b>
	<b>Abbreviations</b>	<b>141-142</b>

## List of Appendices

Appendix	Description	Pages
1	Details of functioning of different attached offices of CBDT	51-53
2	Duties and functions of various field formations of ITD	54-55
3	Core functions of the IT system in ITD	56-61
4	Mapping of jurisdiction of Field Audit Offices and Income Tax Department	62-63
5	Details of sanctioned strength in various cadre	64
6	List of Reports and Returns to be sent to DT wing of C&AG HQ	65-66
7	Format of Quarterly Performance Report	67-69
8	Guidelines for constitution of Audit Advisory Board	70-71
9	Selection of Commissionerates	72-77
10	Allotment of Working days for Audit	78
11	Audit requisition for information/records of auditee units	79-81
12	Other information/data required to be called for/ collected	82-88
13	Norms for Selection of Assessment Records	89
14	Declaration to be given by audit party before commencement of audit	90
15	Category-wise details of observations	91
16	Commonly applied audit checks	92-115
17	Format of Local Audit Report	116-119
18	Target of Draft Paragraphs for each state	120
19	OmniDocs System for uploading of Draft Paragraphs to the C&AG HQ	121-127
20	Standard Operating Procedure for Reporting of Performance Audits	128-136
21	Procedure for Audit Committee Meetings	137-139



## Preface

The Revenue Audit Manual on Direct Taxes in use at present was last updated in March 1990. This Manual contained two parts: Part I - Income Tax Laws (Vol. I, II and III) and Part II - Departmental Procedures and Extent of Audit Scrutiny.

The Part I of the Manual included Laws from Wealth Tax Act, 1957 and Gift Tax Act, 1958 also. During last decade there has been focus on tax reforms, major changes in Tax Administration and Information Technology initiatives in the Income Tax Department. Various provisions of the Income Tax Act, 1961 and Income Tax Rules, 1962 have been revised/amended or rescinded during last two and half decades. Even the Wealth Tax Act, 1957 and Gift Tax Act, 1958 have been abolished. Therefore, it is not feasible to incorporate such changes in the Revenue Audit Manual, as it is an ongoing process. It has now been decided that the Income Tax Laws need not be incorporated in the present Revenue Audit Manual on Direct Taxes. For Income Tax Laws, Rules and procedure governing the Direct Taxes, online resources/relevant books may be referred to.

In recent past, Office of the Comptroller and Auditor General of India has introduced second edition of Style Guide in 2005 for drafting Audit Reports. Office of the Comptroller and Auditor General of India has revised Performance Audit Guidelines in 2014 which is to be followed by all Field Audit Offices of Indian Audit & Accounts Department. In order to get holistic picture of Income Tax Department, the focus of Direct Tax Audit has also moved from Assessing Officer based to Department Centric Audit. We have also introduced Theme Based Audit in Direct Tax Wing in recent years. With the restructuring of audit offices of Indian Audit and Accounts Department in April 2012, the audit of Direct Taxes stands entrusted to nine Central Audit offices including their eight Branch offices. We have also introduced Work Flow Automation for processing the Draft Paragraphs in Field Audit Offices as well as in Direct Tax Wing at C&AG HQ. In this background, the present Revenue Audit Manual on Direct Taxes has been updated.

This edition of the Manual has replaced the earlier edition of the Revenue Audit Manual (Part I and II). It incorporates structure and functions of Revenue Audit Direct Taxes, procedures regarding Audit of Income Tax Department

and reporting including instructions relating to Direct Tax Audit. We have also incorporated audit checks on important areas of Direct Taxes to be exercised during field audit. The Manual consists of eight Chapters and 21 Appendices.

The Revenue Audit Manual on Direct Taxes will provide guidelines to ensure conduct of audit and preparation of Audit Report relating to Direct Taxes. For Expenditure Audit of Central Board of Direct Taxes/ Income Tax Department, Civil Audit Manual may be referred to.

Readers of this manual need to update themselves with the latest instructions/ circulars issued by Office of Comptroller and Auditor General of India and Central Board of Direct Taxes, post introduction of this manual.



**(BALVINDER SINGH)**  
**Deputy Comptroller and Auditor General (CRA)**

August 2015  
New Delhi



## **Chapter 1**

## **Introduction**

**History of Receipt Audit**

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

**Audit Regulations**

**Code of Ethics**

**Control of Audit Quality**



# 1

## Chapter Introduction

---

### 1.1 History of Receipt Audit

The Government of India's resources include all revenues received by the Union Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans. Tax revenue resources of the Union Government consist of revenue receipts from Direct Taxes (Corporation Tax, Income Tax and other direct taxes) and Indirect Taxes (Customs, Central Excise and Service Tax etc.).

History of Receipt audit goes back to 1913 when audit of Customs commenced. Audit of Central Excise started in 1959. Regular audit of Income Tax Receipts and Refunds commenced from 1 April 1961. The audit of Receipts (Direct Taxes and Indirect Taxes) was entrusted to the Comptroller and Auditor General of India (C&AG), prior to the enactment of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 {C&AG's (DPC) Act, 1971}.

### 1.2 Authority of the Comptroller and Auditor General of India

The C&AG derives his authority and functions mainly from the provisions of Articles 149 to 151 of the Constitution of India. Article 149 provides that the C&AG shall exercise such powers and perform such duties in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by the Parliament. The Parliament passed the C&AG's DPC Act in 1971, which came into force with effect from 15 December 1971<sup>1</sup>. Section 16 of the C&AG's DPC Act authorises C&AG to audit all receipts (both revenue and capital) of the Government of India and of Governments of each State and of each Union Territory having a legislative assembly and to satisfy himself that the rules and procedures are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed.

---

<sup>1</sup> Amended in the years 1976, 1984, 1987 and 1994

Section 13 of the C&AG's DPC Act authorises C&AG to audit all the expenditure of Consolidated Fund of India and of each States/Union Territory having legislative assembly; all transactions of the Union and of the States related to Contingency Fund and Public Accounts etc.

### **1.3 Audit Regulations**

The C&AG in 2007 passed the "Regulations on Audit and Accounts, 2007<sup>2</sup>", in pursuance to Section 23 of the C&AG's DPC Act. These Regulations shall apply to the officers and staff of the Indian Audit and Accounts Department (IA&AD) and all Ministries and Departments of the Government of Union, States and Union Territories as well as bodies, authorities and enterprises, to which the audit or accounts jurisdictions of the C&AG extend.

#### **1.3.1 Compliance Audit**

Audit Regulation 54 describes that audit of receipts is an examination of the systems and procedures and their efficacy in respect of the followings:

- a. Identification of potential tax assesseees, ensuring compliance with laws as well as detection and prevention of tax evasion;
- b. Pursuit of claims with due diligence and that these are not abandoned or reduced except with adequate justification and proper authority;
- c. Prompt investigation of losses of revenue through fraud, default or mistake including, if required, through the review of other similar cases;
- d. Exercise of discretionary powers in an appropriate manner including levy of penalties and initiation of prosecution;
- e. Appropriate action to safeguard the interests of the Government on the orders passed by the Departmental Appellate Authorities;
- f. Any scheme as may be introduced by the Government from time to time;
- g. Any measures introduced to strengthen or improve revenue administration;
- h. Amounts that may have fallen into arrears, maintenance of records of arrears and action taken for the recovery of the amounts in arrears;
- i. Other ancillary and non-assessment functions including expenditure incurred by the Departments;

---

2 As amended in the year 2010 and 2013

- j. Achievement of targets, accounting and reporting of receipts and their cross-verification and reconciliation with the accounts records;
- k. Amounts of refunds, rebates and exemptions to see that these are correctly assessed and accounted for; and
- l. Any other matter, as may be determined by the C&AG.

Audit Regulation 55 provides that the scope of Audit of receipts includes examination of integrity of data, information and documents which form the basis of a policy. As per Audit Regulation 56(1), the Audit Officer shall have access to individual assessment files as may be necessary subject to provisions of applicable laws and rules. Auditee concerned shall provide access to the assessment records and also any computerised systems including the databases maintained by it in hard copy or/and electronic form.

### **1.3.2 Performance Audit**

Audit Regulation 68 provides that Performance Audit is an independent assessment or examination to the extent to which an organisation, programme or scheme operates economically, efficiently and effectively.

As per Audit Regulation 71, Audit may critically review the measurable objectives and performance indicators for their reasonableness and soundness in reviewing performance against the outputs and outcomes. Audit may also set criteria for reviewing programme performance based on best practices.

Performance Audit envisages a high degree of interaction with auditable entities right from the selection of subject(s) for review to all subsequent stages like definition of Audit objectives and criteria, preparation of detailed Audit programmes, development of Audit findings, formulation of recommendations and other related matters. Before commencing detailed work of Performance Audit, the Director General/Principal Director (Audit) shall hold an Entry conference and after the draft Performance Audit report is ready, shall hold an Exit conference with the Income Tax Department (ITD).

## **1.4 Code of Ethics**

A Code of Ethics is a comprehensive statement of the values and principles which should guide the daily work of the Auditors. The independence,

powers and responsibilities of the public sector Auditor place high ethical demands on the C&AG and the staff he employs or engages for auditing and accounting work. The Code of Ethics for C&AG comprises the general ethical requirements prescribed for civil servants in India as enunciated in the Central Civil Services (Classification, Control and Appeal) Rules, 1965 and the particular requirements of Auditors, including the latter's professional obligations.

## **1.5 Control of Audit Quality**

### **1.5.1 Auditing Standards**

The IA&AD performs its functions as per C&AG's Auditing Standards 2002 which provide the framework for performing high quality audits with competence, integrity, objectivity and independence. Auditing Standards prescribe the norms of principles and practices, which the Auditors are expected to follow in the conduct of audit. They provide guidance to the Auditor that helps to determine the extent of auditing steps and procedures that should be applied in the audit and constitute the criteria or yardstick against which the quality of audit results are evaluated.

### **1.5.2 Audit Quality Management Framework**

The C&AG has introduced Audit Quality Management Framework (AQMF) in 2014 which has been designed for ensuring compliance with Auditing Standards, in particular with International Organisation of Supreme Audit Institutions (INTOSAI) Auditing Standards and Asian Organisation of Supreme Audit Institutions (ASOSAI) guidelines and applicable legislative requirements. It ensures that C&AG of India and IA&AD maintains and follows quality standards rigorously.

## **Chapter 2**

## **Auditee Entity**

**Organisation structure of Central Board of Direct Taxes**

**Organisation structure of field formations**





# 2

## Chapter Auditee Entity

### 2.1 Organisation structure of Central Board of Direct Taxes

The Central Board of Direct Taxes (CBDT) under Department of Revenue (DOR) in the Ministry of Finance is a statutory authority functioning under the Central Board of Revenue Act, 1963. It provides essential inputs for policy and planning of Direct Taxes in India. It is also responsible for administration of Direct Tax Laws through ITD. The ITD deals with matters relating to levy and collection of direct taxes and *inter alia* the issues of tax evasion, revenue intelligence, widening of tax-base, providing tax payers services, grievance redressal mechanism.

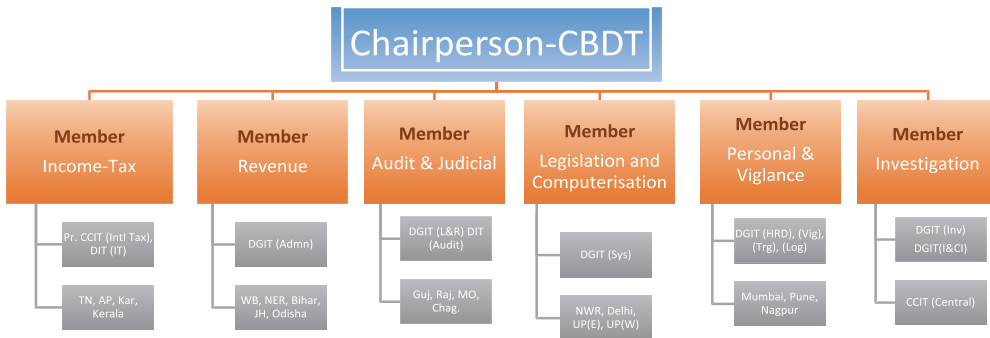
The CBDT consists of Chairman and six members who are responsible for specified functional areas (Legislation and Computerisation; Revenue; Income-Tax; Personnel and Vigilance; Audit and Judicial; and Investigation) and supervision/monitoring of specified zonal field formations.

The CBDT has seven attached offices (Administration, System, Vigilance, Training, Legal and Research, Logistics and Human Resources Development) under Principal Directors General of Income Tax. Details of functioning of different Directorates in assisting the functioning of CBDT are given in **Appendix 1**.

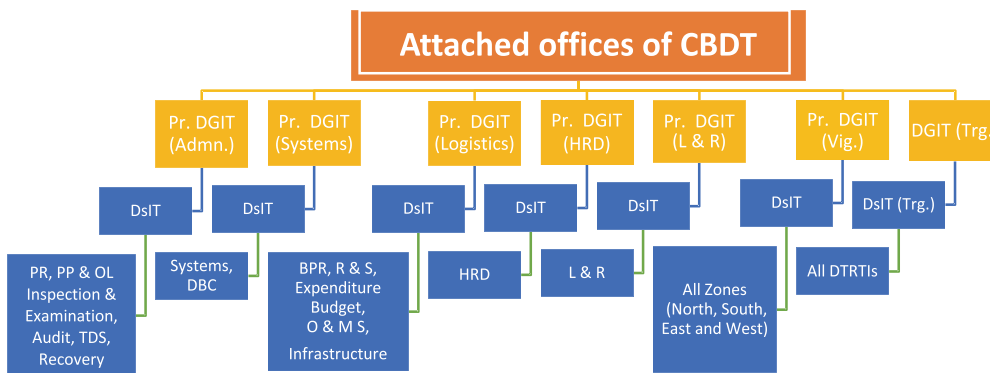
The cadre restructuring of ITD was approved by the Government in May 2013. The CBDT asked to all cadres controlling CCsIT in July 2013<sup>3</sup> to implement the approved re-structuring of ITD. The organogram of CBDT and its attached offices are shown in **Chart 2.1** and **Chart 2.2** respectively. **Chart 2.1** also shows the linkages with attached offices and field formations of CBDT.

3 CBDT's D.O. F. No. HRD/CM/102/3/2009-10/(Pt)/1102 dated 2.7.2013

**Chart 2.1: Organogram of CBDT**



**Chart 2.2: Organogram of Attached Offices of CBDT**



## 2.2 Organisational structure of field formations

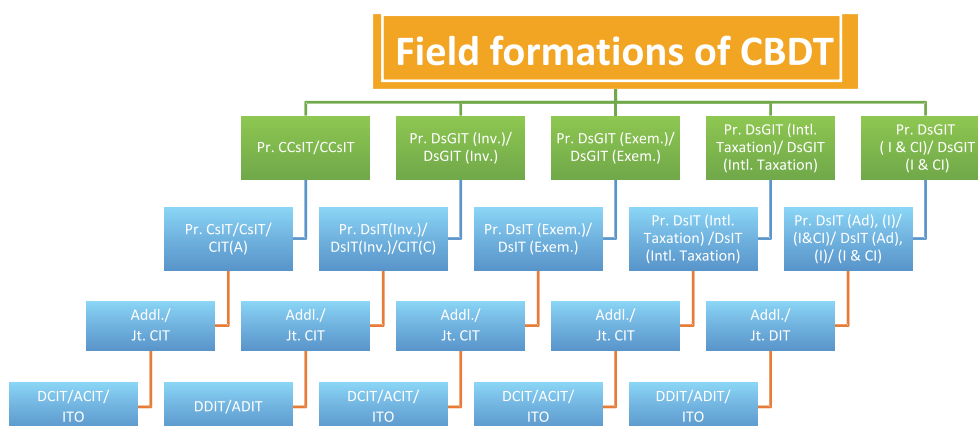
Field formation of the CBDT comprises of Pr. CCsIT/CCsIT and Pr. DsGIT/ DsGIT (Investigation/Exemption/International Taxation/Intelligence & Criminal Investigation). The Principal Chief/Chief Commissioners of Income-tax, Pr. Directors General/Directors General of Income-tax are in-charge of supervision, control and administration of their respective Regions/Charges. They are assisted by Pr. Commissioners/ Commissioners of Income-tax, Pr. Director/Directors of Income-tax in their respective jurisdictions. There is also a first appellate machinery comprising of Commissioners of Income-tax (Appeals) who perform the work of disposal of appeals against the orders of the Assessing Officers.

Duties and functions of these field formations are given in **Appendix 2**.

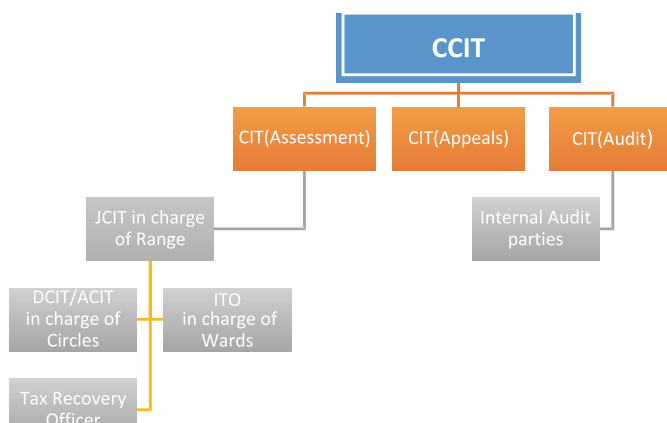
The assessments, collections, refunds and all other functions have become automated. IT Systems developed for these purposes are being changed continuously according to the needs and purposes. Core functions of the IT systems so developed are as detailed in **Appendix 3**.

The organogram of field formations of CBDT and of CscIT are given in **Chart 2.3** and **Chart 2.4**.

**Chart 2.3: Organogram of field formations of CBDT**



**Chart 2.4: Organogram of CscIT**





## **Chapter 3**

# **Structure of Direct Tax Audit**

**Introduction**

**Restructuring of Indian Audit & Accounts  
Department**

**Retention of experienced men power**



# 3

## Chapter Structure of Direct Tax Audit

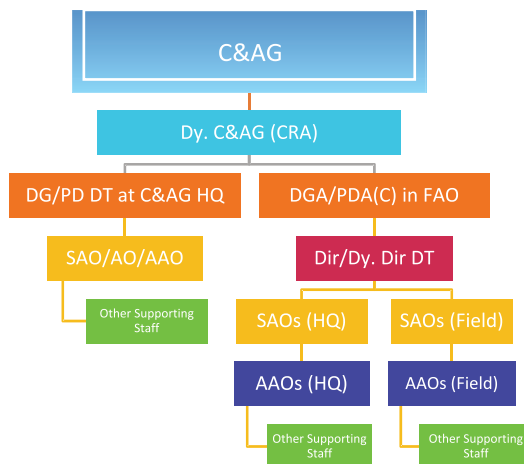
### 3.1 Introduction

The audit of receipts and refunds of income tax is conducted by nine Central Audit Offices headed by Director General/Principal Director of Audit (Central) with their eight branch offices (BOs). The audit is conducted in different field formations of CBDT under the charge of Pr. CCsIT/CCsIT, Pr. DsGIT/ DsGIT viz. CIT Assessment/Appeal/Audit; and Pr. DsGIT Investigation/ Exemption/ International Taxation/Intelligence & Criminal Investigation and other attached offices. Besides, audit of Income Tax Settlement Commission is also covered by the Direct Tax Wing.

In DT Wing of C&AG HQ, the Director General (Direct Taxes)/Principal Director (Direct Taxes) under the supervision of Dy. Comptroller & Auditor General (Central Revenue Audit) looks after audit output and coordinates with CBDT and Public Accounts Committee (PAC) relating to audit of Direct Taxes.

The organisational structure of the Direct Tax Wing at C&AG HQ including Field Audit Offices (FAOs) is given in **Chart 3.1** below:

**Chart 3.1: Organisational structure of DT Wing**



### 3.2 Restructuring of Indian Audit & Accounts Department

Restructuring of Audit Offices in IA&AD took place in April 2012, with a prime objective of horizontal and vertical integration, separation of central and state audit. Principal Accountants General/Accountants General (Audit) in charge of audit of State Government Offices were relieved of audit responsibilities of Central Government Offices and consequently six new Central Audit Offices (Ahmedabad, Bengaluru, Chandigarh, Chennai, Hyderabad and Lucknow) apart from existing three Central Audit Offices (Delhi, Mumbai and Kolkata) and their eight BOs were opened.

**Table 3.1** below shows the list of the nine Central Audit Offices which are responsible for the Audit of income tax receipts and refunds, expenditure as well as non-assessment functions of units under the DT Wing:

**Table 3.1: Central Audit Offices with their jurisdictions**

Central Audit Office	Audit Jurisdiction	Branch Office with jurisdiction
1. DGA, Central Receipt, <b>New Delhi</b>	Delhi, Madhya Pradesh and Chhattisgarh	<b>Gwalior:</b> MP and Chhattisgarh
2. DGA(C), <b>Kolkata</b>	West Bengal, Assam, Manipur, Meghalaya, Nagaland, Mizoram, Arunachal Pradesh, Tripura, Sikkim and UT of Andaman & Nicobar Islands	<b>Guwahati:</b> North East region
3. PDA(C), <b>Mumbai</b>	Maharashtra	
4. PDA(C), <b>Lucknow</b>	Uttar Pradesh, Bihar, Jharkhand and Uttarakhand	<b>Allahabad:</b> Uttar Pradesh and Uttarakhand <b>Patna:</b> Bihar <b>Ranchi:</b> Jharkhand
5. PDA(C), <b>Bengaluru</b>	Karnataka and Goa	
6. DGA(C), <b>Chennai</b>	Tamil Nadu, Kerala and UT of Puducherry	<b>Kochi:</b> Kerala
7. PDA(C), <b>Chandigarh</b>	Punjab, Haryana, Himachal Pradesh, Jammu & Kashmir and UT Chandigarh	
8. PDA(C), <b>Hyderabad</b>	Andhra Pradesh & Telengana and Odisha	<b>Bhubaneswar:</b> Odisha
9. PDA(C), <b>Ahmedabad</b>	Gujarat, Rajasthan and UT of Daman & Diu	<b>Jaipur:</b> Rajasthan



Audit of Direct Taxes in Chhattisgarh, Himachal Pradesh, Jammu & Kashmir and Uttarakhand are conducted by the Audit personnel of respective state Pr. AG/AG's offices, which have been placed under the functional control of respective Central Audit Offices.

The Central Audit Offices are also responsible for audit of Indirect Taxes and expenditure units of Central Governments Departments in their jurisdiction.

Post restructuring of audit offices of IA&AD in April 2012 and ITD in May 2013, mapping of jurisdictions of DsG/PDs of FAOs and Regional Pr. CCIT of ITD is indicated in **Appendix 4**.

The sanctioned strength of SAOs/AOs, AAOs/Supervisors, and Sr. Auditors/Auditors in Direct Tax Wing of C&AG HQ and all nine FAOs including BOs are indicated in **Appendix 5**.

### **3.3 Retention of experienced men power**

Considering the technical nature of audit in Direct Tax Wing, the C&AG HQ has approved the policy of retention of personnel (SAOs/AOs/AAOs) in the audit of Direct Taxes for eight years at a stretch. This has to be kept in view while effecting rotation of staff to different wings. Efforts need to be made to ensure that the same audit personnel do not visit the same auditable unit in the next audit cycle<sup>4</sup>. All FAOs [except DGA(C), Kolkata] need to take up the issue of posting/retention of audit personnel regularly with the cadre controlling offices expressing C&AG HQ views in this regard. It is necessary to undertake a comprehensive training for inexperienced personnel<sup>5</sup> in Direct Tax Audit.

4 C&AG HQ D.O. letter no. 108-RADT/8-2009 dated 29 January 2010

5 C&AG HQ letter no. 3074-Rec.A.II/46-89/G. VI dated 16 August 1989



## **Chapter 4**

# **Functions of Direct Tax Audit**

**Introduction**

**Compliance Audit**

**Performance Audit**

**Functions of Direct Tax Wing**

**Financial Attest Audit**



# 4

## Chapter Functions of Direct Tax Audit

### 4.1 Introduction

Direct Tax Audit is conducted with a view that there is fair, equitable and progressive tax policy of the Government; there is efficiency and effectiveness in mobilisation of tax revenue. There are adequate internal controls in the ITD. Audit is conducted keeping in view the provisions of the Income Tax Act, 1961, Income Tax Rules, 1962, Wealth Tax Act, 1957<sup>6</sup>, Wealth Tax Rules, 1957<sup>6</sup>, Judicial decisions, Notifications/Instructions/Circulars issued by CBDT.

The following types of audit are conducted:

- a. Compliance Audit/Regularity audit
- b. Performance Audit
- c. Financial Attest Audit

### 4.2 Compliance Audit

At the field level of CBDT, the assessment charges are primarily involved in the tax assessments of different assessees and the non-assessment charges span from the normal administration to ancillary functions of tax collection etc. These non-assessment functions are Appeals, Tax recovery, Investigation, IT systems etc.

Assessment records of assessees selected as per norm from the selected Circles/Wards etc. are to be checked with reference to compliance to relevant provisions in Income/Wealth Tax Act/Rules. Further, audit of non-assessment functions are also covered in audit including expenditure aspects, wherever applicable to review the level of internal controls and ITD's adherence to them.

Theme Based Audit (TBA) is also undertaken on a selected theme. It is the horizontal study across similar entities/units or sub-set of activities/ projects/

---

<sup>6</sup> Abolished with effect from 1 April 2015

entity within ITD. It is a long Draft Paragraph covering all issues relating to a theme in audit.

### **4.3 Performance Audit**

In Performance Audit, the primary endeavour is to examine the systems and controls thereon in the ITD. Audit of compliance to relevant provisions of the Income Tax Act, 1961, Income Tax Rules, 1962, Wealth Tax Act, 1957, Wealth Tax Rules 1957, Judicial decisions, Notifications/Instructions/ Circulars issued by CBDT and review of systemic issues and internal control mechanism are the basic premises of Performance Audit.

### **4.4 Functions of Direct Tax Wing**

#### **4.4.1 In C&AG HQ**

- a. DT Wing prepares strategic plan for five years and identifies key areas of topics/issues to be covered each year. On the basis of strategic plan topics of Performance Audit(PA) are taken up for audit in each Annual Audit Plan (AAP);
- b. The Wing approves the AAPs received from FAOs and monitors their implementation;
- c. DT Wing prescribes/revises the monetary limits for paras of LAR and DPs; powers of settlement of Audit Observations by BO/GO/HOD; targets of DPs for FAOs;
- d. The Wing accords approval to the guidelines of PA, mid-term PA's report and finalises the draft PA's Reports received from FAOs/Lead Office for issuing to the Ministry. The Wing conducts Entry and Exit conference with the Ministry, finalises the Bond copy of the Audit Report(s);
- e. The Wing conducts workshops for mid-term appraisal of the ongoing PA and topics for future Audit Reports. Besides, it conducts seminars on important issues;
- f. The wing processes Draft Paragraphs (DPs) received from FAOs and their BOs through automated system using software "OmniDocs" for issue to the Ministry;
- g. Approved DPs are issued to the Ministry for their views/comments. These are incorporated in Chapter III and IV of Compliance Audit Report. Information for Chapter I (Direct Tax Administration) is called for from

CBDT and its attached offices and Chapter II (Audit Impact) from FAOs. On receipt of information the Wing finalises Chapter I and II. A separate Chapter on selected theme is also being incorporated in the Compliance Audit Report;

- h. Bond copy of the Compliance Audit (CA) Report is submitted for approval of C&AG after consolidation;
- i. The CA and each PA Report (both English and Hindi versions) are got printed through the selected printer empanelled by the Report Central wing of C&AG HQ. Printed copies of Audit Reports duly countersigned by the C&AG are placed in the Parliament;
- j. Hindi translation of the PAs and CA done by Rajbhasha Anubhag is checked and corrected;
- k. The Wing processes the Action Taken Notes (ATNs) and monitors pending ATNs with CBDT/Monitoring Cell and PAC wing of C&AG HQ;
- l. Memorandums of Important Points (MIPs) are prepared in respect of PA report and DPs selected by PAC for detailed examination;
- m. The power to settle Audit Observations included in the Audit Reports rests with PAC which normally takes advice of DT Wing;
- n. The Wing conducts technical inspection of FAOs;
- o. The Wing provides the technical advice to officers, other wings of C&AG HQ/Field Offices on the matters relating to Direct taxes; and
- p. The Wing accords approval to annual training programmes of field offices pertaining to Direct Taxes, being conducted in different RTIs/ RTCs. In addition, the Wing liaisons with National Academy of Direct Taxes and Regional Training Institutes of Income Tax Department for conducting various training programmes.

#### 4.4.2 In Field Audit Offices

The functions of FAOs are categorised as HQ function and Field Audit function.

**HQ Function:** The items of work are summarised in **Chart 4.1**.

### Chart 4.1: Headquarters' function of Field Audit Offices

Planning
<ul style="list-style-type: none"> <li>• Collection and compilation of information for various risk parameters;</li> <li>• Analysis of risks for auditable units based on risk parameters;</li> <li>• Yearly updating of data for assessing and non-assessing charges;</li> <li>• Selection of auditable units;</li> <li>• Preparation of AAP; and</li> <li>• Planning for PA and Thematic issues, as per C&amp;AG HQ's instruction.</li> </ul>
Programming
<ul style="list-style-type: none"> <li>• Drawing up the quarterly audit programme for Compliance Audit as well as for Performance Audit as per AAP;</li> <li>• Issue of letters of intimation of conducting audit to the ITD; and</li> <li>• Monitoring the progress of audit as per schedule.</li> </ul>
Audit Support
<ul style="list-style-type: none"> <li>• Providing logistical and technical support to Field Audit Parties;</li> <li>• Advice from C&amp;AG HQ for technical issues wherever clarity or directions are required;</li> <li>• Holding of Monthly Meeting, in-house Training, Workshop/Seminar;</li> <li>• Circulation of C&amp;AG HQ's instruction to Field Audit Parties;</li> <li>• Compilation and submission of different reports and returns. List of reports and returns to be submitted to DT wing of C&amp;AG HQ is given in <b>Appendix 6</b>. The respective FAOs may decide prescription and submission of other returns to DG/PD/GO/BO; and</li> <li>• All communication to C&amp;AG HQ to be made with the approval of HODs.</li> </ul>
Reporting
<ul style="list-style-type: none"> <li>• Compilation of statistical information collected during field audit;</li> <li>• Vetting of Local Audit Reports (LARs) received from Field Audit Parties; and</li> <li>• Issue of LARs to concerned CIT/audited units.</li> </ul>
Follow up
<ul style="list-style-type: none"> <li>• Maintenance of Objection Books;</li> <li>• Processing of replies to LAR paras;</li> <li>• Follow up of LARs/LARs paras till their final closure/settlement;</li> <li>• Maintenance of Recovery Register in the prescribed format;</li> <li>• Holding of Audit Committee Meetings; and</li> <li>• Processing of Omnibus paras of Time Barred cases annually.</li> </ul>
Processing of material for Audit Report
<ul style="list-style-type: none"> <li>• Maintenance of 'PDP Register';</li> <li>• Issuing of Statement of Facts (SOFs) to CIT for comments;</li> <li>• Maintenance of 'SOFs' register;</li> <li>• Periodic review of outstanding SOFs and PDPs;</li> <li>• Processing replies of the ITD to SOFs;</li> <li>• Processing of DPs through OmniDocs and getting approval of HOD;</li> <li>• Uploading of approved DPs to C&amp;AG HQ;</li> <li>• Processing of queries of C&amp;AG HQ relating to DPs;</li> <li>• Verification and vetting of replies/Action Taken Notes (ATNs) received from the Ministry;</li> <li>• Settlement of DPs on receipt of C&amp;AG HQ communication; and</li> <li>• Processing of Performance Audit and Thematic Based Report.</li> </ul>



FAOs may arrange the above functions through different sections/groups. FAOs need to submit Quarterly Performance Report (QPR) for each quarter in three parts (a) Reporting part; (b) Appreciation note; and (c) Corrective action taken/proposed to be taken. This report need to be sent to C&AG HQ before 10<sup>th</sup> of the following month<sup>7</sup>. The format of QPR is given in **Appendix 7**.

#### **4.4.3 Income Tax Receipt Audit Party**

Direct Tax audit involves thorough application and interpretation of the Income tax statues as well as up-to-date knowledge of relevant judicial pronouncements.

The Local Audit Party (LAP) of Income-tax receipts is headed by one Sr. Audit Officer/Audit Officer supported by two Assistant Audit Officer/Supervisor and one Senior Auditor/Auditor.

The main items of work undertaken during the Compliance Audit are:

- a. Entry meeting with CIT/Jurisdictional AO;
- b. Getting Demand and Collection (DCR) Register and preparation of list of selected cases there from;
- c. Collection of records and scrutiny thereof;
- d. Collection of statistical information;
- e. Issue of audit objections;
- f. Follow up of pending audit objections
- g. Preparation of draft LAR; and
- h. Exit meeting.

The main items of work undertaken during the Performance Audit/Theme Based Audit are:

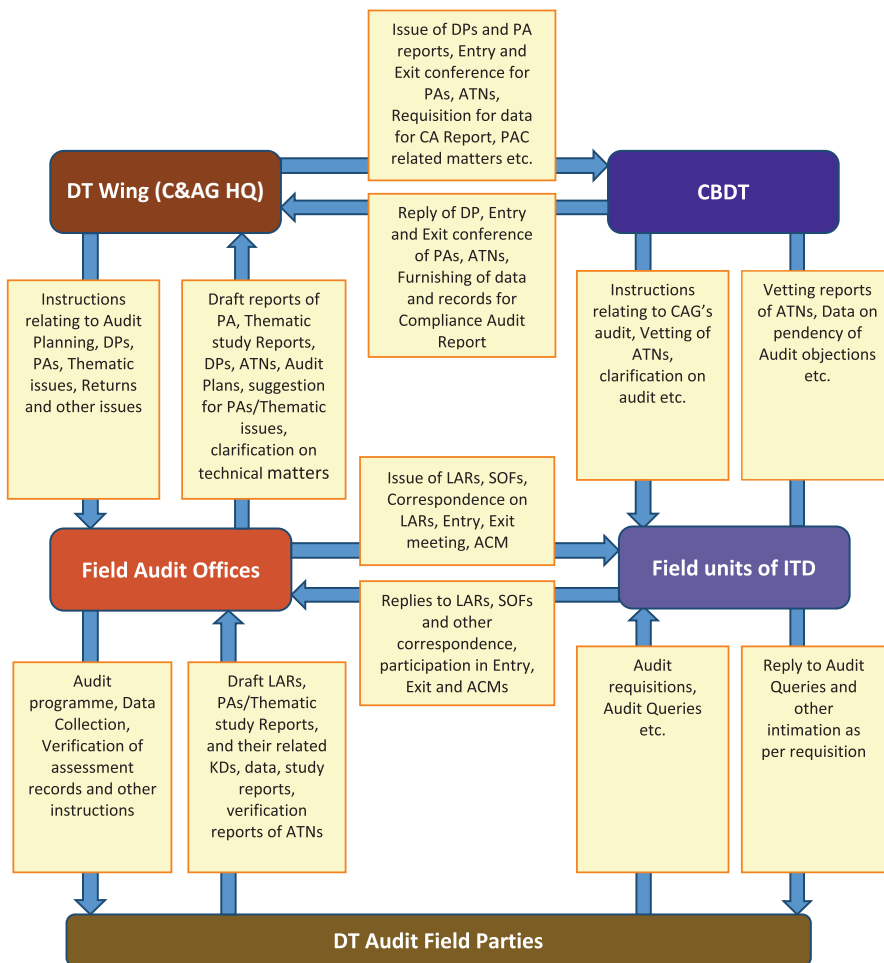
- a. Conducting of pilot study/preparation of guidelines;
- b. Identification and selection of cases,
- c. Entry conference,
- d. Collection of statistical data,
- e. Examination of cases,
- f. Preparation of mid-term draft Audit Report;
- g. Follow up of C&AG HQ's observations etc.;
- h. Preparation of draft report; and
- i. Exit conference

<sup>7</sup> C&AG HQ letter no. 928-936/RADT/84-2014 dated 11 July 2014

LAPs conducting the Compliance Audit may also take up the Performance/ Theme Based Audit of their concerned auditee unit in line with the approved guidelines of the C&AG HQ.

The functional relationship among Direct Tax Wing (C&AG HQ), CBDT, FAO (HQ, LAPs) and ITD is shown in **Chart 4.2**.

**Chart 4.2: Functional relationships of DT Audit and ITD**



#### 4.5 Financial Attest Audit

Office of Director General of Audit (Central Receipt), New Delhi conducts Audit of Demand for Grants of Central Government relating to Department of Revenue, Direct Taxes and Indirect Taxes. The audit findings are included in C&AG's Report on the Accounts of the Union Government (Financial Audit).

## **Chapter 5**

# **Audit Planning and Programming**

**Strategic Audit Plan**

**Integrated Audit Plan**

**Annual Audit Plan**

**Time schedule for Annual Audit Plan**

**Audit Advisory Board**

**Department Centric Audit**

**Planning for Performance Audit/Theme based  
Audit**

**Audit Programming**



# 5

## Chapter **Audit Planning and Programming**

### **5.1 Strategic Audit Plan**

C&AG's audit planning activity is primarily at two level - strategic level and functional level. At the strategic level, the audit plan states the audit priorities and focus areas in the mid-term based on risk assessments of the macro environment and stated commitments for the Government for the mid-term. It reviews audit methodologies and identifies resource/capacity gaps and states the goals/paths to ensure that these match audit priorities. At the functional level, the audit plans translate the audit priorities into annual/quarterly plans.

The Strategic Audit Plan 2012-17 of the IA&AD sets forth the strategic prospective for conducting its core function of auditing over the next five years. It identifies the following focus areas of audit and strategic performance goals of audit and concerns of key stakeholders.

- a. Fiscal Management;
- b. Human Development;
- c. Infrastructure Development;
- d. Rural and Urban Development;
- e. National security; and
- f. Environment

The key areas relating to Direct Taxes were included under Fiscal Management performance goals in the Strategic Audit Plan.

### **5.2 Integrated Audit Plan**

The Strategic Management Unit (SMU) Wing at C&AG HQ prepares an Integrated Audit Plan for the IA&AD as a whole covering both Union and States, on the basis of proposed AAP of functional wings in coordination with the respective field offices. DT Wing at C&AG HQ approves the AAP of each Central Audit Office and sends the consolidated information/data to SMU

Wing in the prescribed format for inclusion in the Integrated Audit Plan of IA&AD.

### **5.3 Annual Audit Plan**

The HQ of ITRA at field level prepares AAP for conducting Compliance including Theme Based and Performance Audit to be undertaken during the ensuing financial year based on the available men power in the field. The AAP duly approved by HOD of concerned FAOs is sent to DT Wing of C&AG HQ for final approval. The HOD should personally monitor the implementation of Audit Plan monthly and take remedial action<sup>8</sup>. The AAP is split up into quarterly programme for various LAPs.

### **5.4 Time schedule for Annual Audit Plan**

Audit Plan for a year is to be sent to the DT wing at C&AG HQ in or before August of the immediately preceding year<sup>9</sup> or the date prescribed by C&AG HQ. The half yearly information in respect of (i) number of units actually audited as against planned units and arrear/excess of units, if any, with reasons, (ii) status of Performance Audit being undertaken; are to be submitted to DT wing in the first week of October and April, respectively<sup>10</sup>. The information received from all FAOs is consolidated at DT Wing for onward transmission to SMU Wing of C&AG HQ.

### **5.5 Audit Advisory Board**

Audit Advisory Board in Central Audit Offices is to be constituted for CRA<sup>11</sup>. The Board will consist of a maximum of 10 and minimum of five honorary external members nominated by the HODs. The HOD will be the chairperson of the Board and all GOs in FAOs will be ex-officio members. The objective of constitution of the Board is to enhance the effectiveness of Audit by providing a forum for professional discussion between the Sr. management of FAOs and knowledgeable/experienced professionals from varied fields. The Board will advise on the coverage, scope and prioritisation of audits together with suggestions regarding appropriate audit approaches and techniques. There shall be at least two meetings held every year, one before finalising audit plan

8 C&AG HQ letter no. 928-936/RADT/84-2014 dated 11 July 2014

9 C&AG HQ letter no. 385/RADT/29-2014 dated 3 June 2014

10 C&AG HQ letter no 311/RADT/99-2013 dated 9 May 2014

11 C&AG HQ D.O. letter no. 264/RADT/59-2015 dated 11 June 2015

and another when the findings of two quarterly audit plans are available. The meeting shall be attended by one observer of the C&AG HQ. The guidelines for the constitution of the Board are given in **Appendix 8**.

## 5.6 Department Centric Audit

The approach of Revenue Audit Direct Taxes (RADT) was primarily centered on the scrutiny assessments completed by ITD. Each assessment was checked towards its regularity vis-a-vis the existing tax statutes. The internal controls that are prescribed for functioning of ITD, supervision and control exercised by CBDT/CCITs/CITs/DGITs over the AOs was not being examined. Thus, complete picture regarding functioning of ITD was not emerging. Hence, Department Centric Audit (DCA) was introduced from 2011-12, which was akin to Chief Controlling Officer (CCO) Based Audit being followed in Civil audit. For DCA in DT Audit, the Pr. CIT/CIT has been considered as CCO as he/she exercises administrative and technical control over the assessment and non-assessment functions in ITD. The transition to the DCA is basically a change in the manner in which we look at the audit planning, execution and reporting. The basic purpose of DCA is to focus on the functioning of ITD in a holistic manner and to review the levels of internal controls and the ITD's adherence to them.

The prescribed formats for seeking information on DCA<sup>12</sup> by Field Audit Parties was finalised in consultation with CBDT in November 2013. CBDT issued instruction to all (CCsIT)/(DGsIT) that the Offices concerned may extend all cooperation to Audit Teams and keep the required data ready before the arrival of Audit team<sup>13</sup>. Audit findings in respect of all units including Pr. CIT/CIT offices are to be incorporated in the LAR being issued to all units.

### 5.6.1 Selection of CsIT for Audit Plan

Based on the DCA approach, the selection of CIT for AAP is to be carried out as follows:

- a. First 25 *per cent* Commissioners are to be categorised as High Risk Commissioners and to be audited annually;
- b. 25 *per cent* of balance Commissioners is to be treated as biennial and to be audited once in two years;

12 C&AG HQ letter no. 1396/RADT/78-2011/Vol-II dated 14 November 2013

13 CBDT's letter F. no. 246/223/2011-A & PAC-I dated 14 November 2013

- c. All residuary units may be classified as Low Risk Commissioners. These units are to be audited triennially, i.e. 33.33 *per cent* of Commissioners are to be selected (without replacement) for audit in a particular year; and
- d. If no assessment function is being carried out in such Low Risk Commissioners, they may be audited once in five years, with 20 *per cent* of such units selected in a random manner (without replacement) for audit in one particular year.
- e. If any field office has any difficulty in rationalising the manpower, they may reduce the periodicity of the bottom 75 *per cent* of the CsIT. Justification in this regard needs to be indicated in the AAP.

Selection of Commissionerate and Offices under it will be done on the basis of risk analysis of all units, details of which are shown in **Appendix 9**. The Party days prescribed for conducting audit of assessment and non-assessment units<sup>14</sup> are shown in **Appendix 10**.

### 5.6.2 Risk analysis

Risk analysis is an important tool for audit planning. A risk analysis should be carried out with reference to the various parameters of the entity programme or the subject after a careful study of all relevant documents. A good risk perception of the programme or entity's performance will facilitate determining the audit thrust areas, audit objectives and setting the most appropriate audit criteria. It will also assist in selection of appropriate sampling techniques for the units to be audited.

### 5.6.3 Data Management in field offices

Audit shall be planned based on the data collected for framing the risk factors in respect of Commissionerates.

### 5.6.4 Revision of Database on Risk Parameters

Audit may be planned based on the data collected for framing the risk factors in respect of Commissioners. Data should be updated according to the significant changes in the ITD. Without affecting the initial categorisation, audit is to be planned in respect of newly created/closed units in the immediate subsequent year.

<sup>14</sup> C&AG HQ DO letter no. 263/RADT/78-2011/Vol-III dated 25.05.2012



## 5.7 Planning for Performance Audit/Theme Based Audit

At the planning stage, background paper on the area/topic selected for Performance/Theme Based Audit is prepared at C&AG HQ, in consultation with FAOs. The practical feasibility of undertaking Performance/Theme Based Audit in the specific area is ascertained through conduct of pilot study by selected FAOs. The background paper outlines overview of area selected for Performance/Theme Based Audit, rationale for selection of topic, objective of pilot study, thrust areas of Performance/Theme Based Audit, scope of pilot study and suggested course of action for the FAOs. The pilot study reports are examined at C&AG HQ to determine the feasibility of conducting Performance/Theme Based Audit and to address constraints, if any, faced during audit.

Planning stage also includes preparation of draft guidelines by selected FAOs on the topic of Performance/Theme Based Audit for issue to all FAOs. The approved guidelines cover the following areas:

- a. Objectives;
- b. Organisational set-up;
- c. Legal Provisions;
- d. Audit scope and sample size;
- e. Audit methodology;
- f. Audit Checklists (indicative only);
- g. Follow up action, in case the same topic had been undertaken earlier;
- h. Formats for data collection for compilation; and
- i. Timelines for FAOs.

The guidelines contain structure of Audit Report for compilation of audit findings at field level which enables uniformity in reporting structure across all FAOs.

At the time of issue of guidelines to FAOs, one of the FAOs is designated as Lead Office for compilation/consolidation of Draft Audit Reports. All FAOs are instructed to send their draft Audit Reports to the designated Lead Office.

## **5.8 Audit Programming**

After approval of AAP by C&AG HQ, FAOs need to prepare the Quarterly Audit programme for field audit for covering planned units in four quarters. In view of time barring of scrutiny assessments in ITD in the month of March, FAOs may plan audit of non-assessment functions in the last quarter of AAP.

Before taking up the Audit, FAOs may intimate the auditee unit well in advance (at least three weeks before start of the audit) about the expected date of start of audit.

The GO incharge may convene meeting with Field Audit Parties before commencement of audit for issuing necessary instructions and guidance to them.

## **Chapter 6**

# **Procedure for Direct Tax Audit**

**Assessment and Non-Assessment Charges**

**Conduct of Audit**

**Work distribution amongst members of audit team**

**Audit scrutiny of assessment records**

**Issue of Audit memo**

**Records to be checked**



# 6

## Chapter Procedure for Direct Tax Audit

### 6.1 Assessment and Non-Assessment Charges

The audit of Direct Taxes is conducted for both assessment and non-assessment charges. The assessment charges can be generally categorised as follows:

- a. Company circle/wards (more than 80 *per cent* of the assessments relate to Corporate assessees);
- b. Salary circle/wards (more than 80 *per cent* of the assessments relate to individual assessees);
- c. Mixed circle/wards (all types of assessees 'corporate' and 'non-corporate');
- d. Central Circle (search and seizure cases);
- e. International Taxation Units; and
- f. Large Tax Payer Units (LTU)<sup>15</sup>.

The non-assessment charges are CIT Offices, Range Offices, Accounts Officer/Drawing and Disbursing Officer (DDO) attached with different CsIT, Tax Recovery Office (TRO), Valuation Cell, Transfer Pricing Office (TPO), CIT(Appeal), CIT(Audit), Regional Training Institutes, Expenditure Budget, Infrastructure, Zonal Accounts Office/Pay and Accounts Office, Income Tax Settlement Commission, Investigation, Intelligence & Criminal Investigation etc.

### 6.2 Conduct of Audit

On the first day of local audit, following works are to be completed:

- a. Entry conference is to be conducted by the LAP with the head of auditee unit and minutes of meeting is to be recorded for keeping in the LAR folder;

---

<sup>15</sup> A self-contained tax office under the Department of Revenue acting as a single window clearance point for all matters relating to Central Excise, Income Tax/ Corporate Tax and Service Tax. Eligible Tax Payers who opt for assessment in LTU shall be able to file their excise return, direct taxes returns and service tax return at such LTUs and for all practical purposes will be assessed to all these taxes there under

- b. In case of Performance Audit, entry conference is to be held between the Officers of the C&AG and the CBDT. The purpose of the conference is to inform the ITD about areas to be audited along with audit objectives, audit criteria, the audit approach and the time-frame within which audit is expected to be carried out. During entry conference protocol for conduct of audit is to be set up including nomination of liaison officers, production of records and other logistic arrangements. Minutes of the proceedings have to be prepared and shared with the ITD. The CBDT is requested to intimate their field formations about the Performance Audit and issue necessary instructions for giving full co-operation to audit. Likewise, at field level, DG/PD/GO concerned should hold an entry conference with the jurisdiction Head of the ITD informing them about the Performance Audit to be undertaken and other significant details. Minutes of the Conference have to be prepared and shared with the ITD;
- c. Audit requisition calling for the assessment records and statistical information required for conducting audit and preparation of the LAR are to be issued as detailed in **Appendix 11**. Other information/data<sup>16</sup> required to be called for/collected during audit are detailed in **Appendix 12**;
- d. The norms for selection of assessment cases for audit are given in **Appendix 13**. The 'selection list' should be approved by the Supervising Officer.

Besides, prior to commencement of audit, all members of audit team, including the Supervising Officer, are required to give individual undertaking stating *inter alia* that he/she will uphold and abide by the Code of Ethics and that he/she does not have any personal or professional interest in the audited entity etc. The format of the undertaking is given in **Appendix 14**. A copy of the declaration is required to be given to the head of the auditee entity as soon as audit commences.

### 6.3 Work distribution amongst members of audit team

The Supervising Officer will allocate the works to the members of audit team. A detailed scrutiny of assessment cases should then be undertaken by the team members viz. Senior Audit Officer (SAO)/Audit Officer (AO), Assistant Audit Officer (AAO) and Sr. Auditor/Auditor according to the allocation of work. It should, however, be ensured that all high income cases are checked

<sup>16</sup> C&AG HQ letter no. 666/RADT/78-2011/ Vol. II dated 21.11.2013

by SAO/AO and AAO; five *per cent* of cases checked by the AAO should be reviewed by the SAO/AO. Assessment cases may also be entrusted to the Sr. Auditor/Auditor, if needed. However, all such cases need to be reviewed by the SAO/AO and AAO.

#### 6.4 Audit scrutiny of assessment records

The Audit scrutiny of assessment records need to be done to find out:

- a. Whether the assessment made is in accordance with the provisions of the Income-tax Act, 1961; Wealth Tax Act, 1957; the Finance Act of the respective year; and the Rules framed under the Income-tax Rules, 1962 and Wealth Tax Rules, 1957;
- b. Whether the instructions/procedures prescribed by the CBDT have been followed by the CIT/AO; and
- c. Whether the instructions/circulars/notifications/orders issued by the higher authorities viz. CBDT, DIT, CIT, Addl. CIT/Jt. CIT etc. have been complied with.

The following points may also be followed by the audit team during the course of audit scrutiny of assessment records:

- a. The Acts and Rules vests a good deal of discretion in the Assessing Officer (AO) in the matter of completion of an assessment. Issue of a notice under Section 142 calling for accounts and documents is an example of the discretionary powers of AO. The law also contains several mandatory provisions in respect of which the AO has no discretion whatsoever. The interest chargeable under Section 234B is an example of a mandatory provision. While Audit should see that the mandatory provisions of the Act are properly and correctly observed, it should not question the discretionary powers statutorily vested in the AO unless there is clear evidence of misuse.
- b. Audit should not substitute itself for the revenue officials and try to suggest additions to the total income on the basis of estimates. However, where the assessee himself discloses an item of income or the AO has in the course of his assessment proceedings decided to add a particular amount as the income of the assessee but fails to add it, it is Audit's duty to point out the omission. Once the AO has decided upon a particular method of computing the income but fails to implement the decision, Audit can certainly point out the discrepancy. For example, in the case of motor cars used in business, the AO may have decided to disallow 50 *per cent* of the claim made under 'Depreciation' as for personal use

of the assessee. He must stick to the same percentage of disallowance in regard to the expenses debited to maintenance of the car, if the percentage varies here, Audit should point out the inconsistency.

- c. While it is the duty of Audit to see that no irregularities with reference to the law and the rules are found to have been committed, Audit should not involve itself in legal controversies regarding the interpretation of a particular provision of expenditure is of a revenue or capital in nature. However, if there is evidence on record that a clear mistake has been committed in classifying the item, for example, the cost of machinery debited and allowed as revenue expenditure, Audit should point out that. Any interpretation given by the revenue authorities in respect of a particular provision of the Act must be in accordance with the authoritative interpretations given either by the High Court having jurisdiction over the area in which the AO situated or by the Supreme court. If the interpretation is against such authoritative judicial decision, Audit may point out this.
- d. The Audit personnel will have access to the relevant records and papers of ITD, but they should observe secrecy in the same way as the Officers of the ITD.

## 6.5 Issue of Audit Memo

When any irregularity or mistake is noticed, the same should be immediately brought to the notice of the AO by issuing 'Audit Memo'. Audit Memo (AM) should indicate details viz. Name of the assessee, PAN, Assessment Year, Status, nature of business, Returned income/loss, Date of filing of return/revised return, Assessed income/loss under summary and scrutiny, tax effect, Date of assessment order(s), Amount of TDS/Advance tax and self assessment tax paid, amount and date of refund (if any), nature of audit objection in brief, case seen by internal audit or not and the dates of rectification/revision under various sections of the Act, Demand and Collection number, date of becoming time barred.

The Audit Party should also observe the following instructions in regard to audit:

- a. Audit Memo duly typed may be issued to the AO with the instruction to furnish reply within three days from the receipt of the Audit Memo;
- b. In cases where the objection relates to facts and figures available in the records but omitted to be considered or wrongly considered, such as, omission of income from a particular source, arithmetical mistake in



the computation of income or of depreciation or in the calculation of tax, it may have to be ensured that the AO replies to the 'Audit Memos' promptly accepting the mistakes/omissions. It may, therefore, have invariably to be mentioned in the 'Audit Memos' that if no such specific reply is forthcoming, it shall be presumed that the facts stated by Audit are correct;

- c. In cases where objection involves interpretation of the provisions of the Income Tax Act and the AO does not agree with the audit view, the AO may give his/her final views later but in reply to the audit memos, he/she should confirm or deny the facts and figures referred to by Audit on which the audit view is based. Where the AO finds that he/she should call for the assessee's books and records, he/she should say specifically in reply to the audit memos;
- d. Where the income-tax authorities refuse' to show any files claiming to be confidential, Audit should politely draw their attention to:
  - i. Section 18 of C&AG's (DPC) Act, 1971 under which Audit has a right to call for any record or document to which its duty extends;
  - ii. Para 185 (Chapter 13) of Audit and Accounts Regulations 2007 provides that the Officer in charge of the auditee unit shall comply with requests of Audit for information and records as complete as possible and within the specified time; and
  - iii. CBDT's instruction no. 09 of 2006 (para 3.1) states that C.Cs./DsGIT through concerned CsIT shall ensure that relevant records requisitioned are given to the audit.
  - iv. Ministry of Finance (Department of Economic Affairs)'s O.M. No. F.1(43)-B/78 dated 23rd September 1978 addressed to all Ministries/Departments of Government of India and Chief Secretaries of State/Territories regarding production of records to audit.
  - v. LAPs should also draw the attention to the Para 3.24 of the Code of Ethics whereby Audit Members have to give declaration before commencement of audit to maintain strict confidentiality of the information gathered during the course of audit.
- e. In order to prevent the AO from setting up a plea, that the mistake pointed out by Audit has already come to his notice, a certificate may be taken from him along with records of each case *'that all the records and folders or files relating to the case have been sent to Audit and none is withheld,'* and that wherever any record is withheld its description and reasons for the withholding should be obtained;

- f. Issue of 'Audit Memo' on the last two days of the local audit is to be avoided as far as possible. But, where issue of 'Audit Memo' on the concluding day cannot altogether be avoided, the Supervising Officer/ AAO may contact the AO and get his reply before the last day of the local audit;
- g. The details of the 'Audit Memos' (namely 'PAN', 'Name of assessee', 'Assessment year', 'Nature of audit objection in brief and tax effect') are to be noted in a Register before issuing them to the AO and the replies to all 'Audit Memos' is to be watched properly; and
- h. If any assessment file called for is not supplied sufficiently in time, the reasons for the same should be enquired into and mentioned in the LAR so that next LAP may scrutinize such files.

### 6.5.1 Structure of Audit Memo

The Supervising Officer may permit individual members of the party to issue Audit Memos themselves and review them in due course after issue. In cases, where it is considered appropriate, he should stipulate that the memos be issued only with his approval.

The Audit Memo should also bring out the following essential particulars:

- a. **Subject:** The exact nature of the mistake/objection as per the various categories prescribed by C&AG HQ given in **Appendix 15**;
- b. **Preamble:** Indicating the exact provisions of the Act, which have not been properly applied, the instructions of the CBDT and judicial decisions, if any, on the law;
- c. **Objection:** Full particulars of the audit objection pointing out the exact mistake that led to under/over-assessment of income and the tax attributable thereto;
- d. **Audit Memo number and date:** Each Audit Memo should contain Audit Memo number with date of issue, date of acknowledgement; and number of the audit party with the name of the Supervisory Officer conducting the audit; and
- e. Pages of each audit memo are also to be separately numbered.

Copies of all supporting documents which form the Key Documents (KDs) may be kept on record, which will facilitate the examination of the merit of the objection in the right perspective.

## 6.6 Records to be checked

The basic method applied for Audit is to correlate the information. It cannot be enlisted exhaustively, all the documents to be consulted in course of audit. However, in case of the Compliance Audit the basic documents to be consulted are as detailed below:

- a. Assessment Orders under different Sections of the Act;
- b. Computation of Income by assessee and ITD;
- c. Return of income;
- d. Accounts including schedules thereto (including Ledgers and Journals, if available);
- e. Tax Audit Report (TAR) given by the Accountant (Form No. 3CD);
- f. Any other reports given by the Accountant as per the provisions of the Act;
- g. Details of information as to the Income and expenditure furnished by assessee;
- h. Past years Assessment Records, if necessary;
- i. Documents relating to TDS, advance tax and self assessment tax;
- j. Agreements e.g., Sale Deed, Purchase Deed, Partnership Deed, Lease Deed, Deed for Amalgamation etc.;
- k. Depreciation schedules (as per the Income Tax Act as well as the Company's Act); and
- l. Any other information furnished by the assessee during the assessment proceedings.

Field audit parties are to complete the audit within the allotted period. In Performance Audit, FAOs are to complete the audit within the period prescribed by C&AG HQ.

Audit checks on common issues relating to Direct Taxes are placed in **Appendix 16**. These audit checks are indicative only. The FAOs may prepare detailed Audit Checklist on other issues, if considered necessary. The LAPs are required to update their skills in view of changes made in the Income Tax Act and Rules from time to time.



## **Chapter 7**

# **Reporting of Direct Tax Audit**

**Local Audit Reports**

**Potential Draft Paragraphs**

**Statement of Facts**

**Draft Paragraphs for Compliance Audit Report**

**OmniDocs System**

**Performance Audit**

**Confidentiality of materials for Audit Reports**

**Style Guide**



# 7

## Chapter Reporting of Direct Tax Audit

This Chapter deals with reporting issues of audit process in DT Wing which consist Compliance and Performance Audit. Reporting primarily involves drafting, documentation and issue of reports to various functionaries of ITD. Material contribution emanating from LARs for C&AG's Compliance Audit Report and issues involved in dealing with it, has been specially emphasised in this Chapter.

### Section A: Reporting for Compliance Audit

#### 7.1 Local Audit Report

Draft of the LAR should be ready on the last day of the local audit. The SAO/AO or the AAO, as the case may be, prepare the draft LAR from the collected material (AMs, replies to AMs etc.). In case the Assessing Officer accepts the audit observations, rectifies the mistakes and recovered the amount involved, the AM needs to be treated as settled after recording the facts thereon. Such cases should not form part of the LAR. In case reply given by the Assessing Officer is not acceptable, the reply of the Assessing Officer as well as rebuttal has to be incorporated in the LAR. Only one LAR for each Unit/Office needs to be issued containing all the observations of all types of taxes<sup>17</sup>. However, LARs may be divided into various parts for each type of tax.

The LAR should be drafted in the following parts:

Part-IA	Introduction;
Part-IB	List of outstanding paragraphs;
Part-IC	Settlement of outstanding paragraphs;
Part-II	Current audit observations;
Part-IIA	Major audit observations;
Part-IIB	Minor audit observations;
Part-III	Other audit observations (Test Audit Note);
Part-IV	Cases not produced to audit;
Part-V	Disclaimer certificate

<sup>17</sup> C&AG HQ letter no. 462-Rec.A.(DT)/84-2009 dated 16.09.2009

The detailed format for LAR is shown in **Appendix 17**. The concerned CIT may be apprised about important audit findings and relevant information of jurisdictional units at the time of forwarding LAR to CIT.

While drafting the LAR, the following should be kept in view:

- a. Paras are to be arranged tax effect wise (descending order);
- b. The reply of the ITD should be incorporated with proper rebuttal in case of not acceptance of the audit observations. Omission on the part of the Assessing Officer to observe the CBDT's instructions (Nos. 09 of 2006 dated 8.11.2006 and 16 of 2013 dated 31.10.2013) may be pointed out in the LAR paras;
- c. All pages of LAR are to be serially numbered;
- d. Cross reference is to be given for all facts and figures mentioned in the audit memo indicating page numbers. High lighters (pen) are not to be used on the relevant text of Key Documents;
- e. Key to audit objection may be given before each para. This may include AM number, name of the assessee, PAN, status, assessment year, date of filing of return, returned income, section of the Act under which assessed, assessed income, D & CR no., whether checked by IAP, classification of the para, section under which observation made, tax effect, name of contributor (not for the auditee);
- f. Where Tax Audit is compulsory or exemptions/deductions are to be allowed on the basis of certificates from Chartered Accountants (CAs), the additional information (Name of CAs, their membership numbers and whether the report is in prescribed format and complete in all respect, etc.) need to be mentioned in the LAR para<sup>18</sup>;
- g. The LAR paras should be captioned properly. The caption shall be based on the categories specified by the C&AG HQ (**Appendix 15**);
- h. The proposal for Potential Draft Paras should be prepared by Supervising Officer.

### 7.1.1 Documentation in support of audit findings and conclusions

The LAP should document audit evidence to support the audit findings and conclusions and to confirm that the audit was carried out in accordance with relevant auditing standards adopted by the C&AG. The documentation may be in the form of data stored on paper, film, electronic and other media

18 C&AG HQ letter no. 699/RADT/97-2014/Coordn. dated 24 September 2014



and provides the link between the audit work and its resultant outputs. The documentation should cover the basis and extent of audit planning, audit methodology, audit performance and audit findings. The content and arrangement of the working papers reflect the degree of proficiency, experience and knowledge.

### 7.1.2 Monetary limits for categorisation of LAR Para

DT Wing of C&AG HQ revises the monetary limits for categorization of LAR para. With effect from 01 April 2014, the monetary limits<sup>19</sup> of LAR paras, applicable for all cases of Corporate Tax (CT), Income Tax (IT) and Other Direct Taxes (ODT) for Category 'A' (Andhra Pradesh<sup>20</sup>, Delhi, Gujarat, Karnataka, Maharashtra, Tami Nadu, West Bengal and Uttar Pradesh) and Category 'B' (Assam, Bihar, Chhattisgarh, Goa, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Kerala, Madhya Pradesh, Odisha, Punjab, Rajasthan, Uttarakhand and UT Chandigarh) states are given in Table 7.1.

**Table 7.1: Monetary limits of LAR paras**

Tax	Part IIA		Part IIB		Part III
	Category 'A' States	Category 'B' States	Category 'A' States	Category 'B' States	Common for both categories
CT	Above ₹ 15 lakh	Above ₹ 8 lakh	Between ₹ 15 lakh to ₹ 30,001	Between ₹ 8 lakh to ₹ 30,001	Upto ₹ 30,000
IT	Above ₹ 8 lakh	Above ₹ 4 lakh	Between ₹ 8 lakh to ₹ 20,001	Between ₹ 4 lakh to ₹ 20,001	Upto ₹ 20,000
ODT	Above ₹ 75,000	Above ₹ 40,000	Between ₹ 75,000 to ₹ 10,001	Between ₹ 40,000 to ₹ 10,001	Upto ₹ 10,000

Audit findings of serious nature may be included in Part IIA irrespective of prescribed tax limit involved but in exceptional case only.

### 7.1.3 Exit Conference

Audit Team Leader should hold an exit meeting with the officer-in-charge of audited entity at the close of audit to seek his comments on audit observations. Any point of disagreement may be brought out and discussed by the Supervisory Officer during the meeting with a view to resolve the same. The officer-in-charge shall also offer his comments, if not already done

<sup>19</sup> C&AG HQ letter no. 518-526/RADT/86-2013/Coordn. dated 2 April 2014

<sup>20</sup> Includes Telengana

in response to the audit memos, and the Supervisory Officer shall reflect such observations in the draft LAR. Wherever necessary and appropriate, the draft LAR may make recommendations for remedying systemic deficiencies and improving control. Minutes of the proceedings have to be prepared and shared with audited entity and acknowledgement requested.

#### **7.1.4 Audit Assurance Memo**

An Audit Assurance Memo is to be submitted along with the LAR by the audit team. The Memo in the prescribed format should be certified by the Supervising Officer to the effect that

- a. audit has been conducted of the concerned assessing charge;
- b. selection of cases has been made in the manner prescribed in the guidelines on risk analysis and statistical sampling issued by C&AG HQ;
- c. all prescribed audit checks have been exercised;
- d. facts stated in the audit observations issued have been verified before issue and replies to the audit observations have been examined; and
- e. prescribed statistical details have been compiled and submitted with draft LAR.

#### **7.1.5 Submission of Draft Local Audit Report**

The detailed account of the work done by each member of the LAP should be attached with the draft LAR. The draft LAR duly signed by the Supervisory Officer should reach the HQ of respective FAOs within five days from the last date of audit.

#### **7.1.6 Issuing of Local Audit Report and reply from the ITD**

The LAR duly vetted by the HQ of the respective FAOs and approved by the concerned GO should be issued to the concerned Assessing Officer(AO)/ unit head within a month from the date of completion of local audit, with copies to CIT(Audit) and concerned CIT, as applicable.

The AO/Unit head should send his report on the objections in respect of individual cases included in the respective Audit paragraphs of Part-I (Introductory and outstanding objections of the previous LARs) and Part-II (major irregularities and important points) of the LAR to the CIT through Additional CIT Range within 30 days from receipt of the LAR. No reply is

required to be sent regarding Part-III, but appropriate remedial action must be taken by the AO within three months.

On receipt of the AO's report, the Jt./Addl. CIT Range will examine the audit objections in the light of the AO's comments and send a reply to the CIT within a fortnight. The CIT would send reply to the DGA/PDA within a fortnight thereafter.

## 7.2 Potential Draft Paragraphs

The important LAR paras, which exceed the amount fixed as benchmark for DP are proposed as Potential Draft Paragraphs (PDPs) by the Supervisory Officer of LAP. DT Wing of C&AG HQ revises the monetary limits for proposing the DPs for the Audit Report. The monetary limits revised<sup>21</sup> in May 2012 are given in Table 7.2.

**Table 7.2: Monetary limit of Draft Paragraphs**

Types of Draft paras	Category 'A' States	Category 'B' States
	Amount (₹)	
1. Corporation Tax	50,00 000	25,00,000
2. Income Tax	20,00,000	10,00,000
3. Others viz. WT	2,00 000	1,00,000

Note: States under Category 'A' and 'B' are given in paragraph 7.1.2

## 7.3 Statement of Facts

Paragraphs marked as PDPs need to be examined with reference to the available documents and reply received, if any. 'Statement of Facts' (SOFs) are to be issued in respect of all cases to be processed as DPs. Further, the facts stated in the LAR may again be verified with the assessment records for the factual accuracy or any further developments at the time of issue of the SOFs. Where the cases are not being accepted by the ITD, such cases need to be communicated to the concerned CIT with a suitable rebuttal for his comments. The CIT would furnish reply within a fortnight to the receipt of the SOF<sup>22</sup>.

21 C&AG HQ letter no. 560/RADT/122-2008/Coordn. dated 18 May 2012

22 CBDT's Instruction No. 9 of 2006

## 7.4 Draft Paragraphs for Compliance Audit Report

The Draft Paras (DPs) should be drafted in simple and active voice. The preamble of DP should be concise/precise and strictly confined to the point made out in the DP with no unduly long narration.

- a. In the beginning, DP should indicate 'Preamble' stating the law and procedure in brief with relevant section, relevant judicial pronouncements or CBDT's instructions;
- b. Thereafter DP should give full facts of the case, audit point involved with the amount of under-assessment/over-assessment involving tax effect (including potential tax effect) at the prevailing rates. Further, the facts stated in the LAR may again be verified with the assessment records for the factual accuracy or any further developments at the time of processing of DPs;
- c. Whether the internal audit wing of ITD has checked the case or not need to be mentioned in the DP; and
- d. The date of communication of the audit observation, LAR para and SOF to ITD need to be mentioned alongwith reply of ITD, if received with rebuttal, if any. The action taken in this regard may also be mentioned.

### 7.4.1 Criteria for processing a para as DP

The criteria for processing a LAR para as DP for C&AG's Compliance Audit Report are as follows:

- a. Audit Observations for more than five years old (the assessment on which the observation was raised) may not be processed as DP. For example, in case of Compliance Audit Report for the year ending 31 March 2015, only those cases where assessment/revision has been completed on, or after 01 April 2010 may be floated as DPs. Audit observations resulting from the audit conducted during last two years should be floated unless the situation otherwise warrants owing to the presence of some novel issue or some additional fact coming to notice<sup>23</sup>;
- b. The period of five years in completion of assessment/revision and two years in conducting audit will automatically change with the period of succeeding Audit Report e.g. for AR 2015-16, the cases assessed/ revised after 1 April 2011 and audit conducted on or after 1 April 2013 would be considered;

<sup>23</sup> C&AG HQ DO letter no. 75-76/RADT/13-2015/Co-ordn, dated 20 February 2015

- c. Only those observations should be floated as DPs which involve tax effect equal to or more than the floor limits for DPs prescribed by the C&AG HQ;
- d. Clubbing of DPs/mistakes, only for meeting the floor limits of DPs may not be done;
- e. In case, there are more than one observation on the same issue in respect of same assessee for different AYs, only one consolidated DP needs to be proposed;
- f. Only sustainable DPs need to be uploaded. Every effort needs to be made to raise such observations where the observations are defended strongly with the Ministry at later stages;
- g. DP on overcharge of tax/interest may be carefully proposed only on factual inaccuracy after considering other facts in the assessment order;
- h. Proposing DPs involving levy of penalty may be avoided as penalty is a matter of discretion by an Assessing Officer;
- i. DPs involving non-levy of interest under Section 220(2) of the Income Tax Act may be floated only where final demand has been raised and collected by ITD but interest chargeable under section 220(2) has not been levied;
- j. Before forwarding DPs to CA&G HQ, FAOs need to ensure that LAR para and SOF on the said observations have been issued;
- k. Proper linking of relevant Key Documents (KDs) whether assessment order, computation of income, Profit & Loss Account and Balance Sheet with relevant schedule, Auditor's report, Reply of ITD, Calculation sheet etc. may be attached with DP;
- l. The relevant portion of the KD which corroborates the audit point may be marked in the margin so that the mistake is easily identified. The DP forwarded should also be marked with KDs;
- m. Each KD in PDF format should be uploaded in only one file irrespective of numbers of pages;
- n. Many times, ITD's reply, especially when the audit observation is not accepted by ITD, is attached without offering any comments thereon. The FAOs must offer their comments on non-acceptance of the ITD;
- o. The FAOs need to treat the observation accepted only when the same has been categorically "Accepted" by ITD. The reply of ITD stating the observation as "Acceptable" and "Seems to be acceptable" should not be considered as acceptance.

- p. It may be ensured that the cases, which were proposed as DPs are not already printed in the Audit Report or observation has not already been settled locally after discussion with ITD (before proposing as DPs);
- q. In case, there is an observation dealing with a totally different issue/new issue or noteworthy as it involves a system flaw or a matter of interpretation of law, even if having money value below the benchmark, the same may also be forwarded to C&AG HQ through a DO letter addressed to Director General/Principal Director (Direct Taxes);
- r. It may be ensured that DPs in excess of 10 *per cent* of targets are not forwarded to C&AG HQ; DPs may be sent to C&AG HQ completely by 30 June of every year.
- s. In case the assessment is under appeal and the issue pertaining to audit observation is different from the issue pending under appeal, DPs may be proposed. However, it may be ensured that issue of our observation is not directly or indirectly related to the issue pending under appeal and decision need to be taken on case to case basis;
- t. After issuance to the Ministry, copy of DP is also forwarded to FAOs for verification of facts and figures. The correctness of facts and figures need to be re-checked from the KDs and changes be communicated to C&AG HQ on top priority basis.

#### 7.4.2 Time schedule for forwarding DPs to C&AG HQ

FAOs are required to ensure an even flow of DPs every month starting from December every year so that sufficient time is available for processing the cases for issue to the Ministry. The FAOs need to send the DPs as per the following time lines<sup>24</sup>:

	Month	Target Percentage
1.	December	5
2.	January	10
3.	February	10
4.	March	20
5.	April	20
6.	May	20
7.	June	15

<sup>24</sup> C&AG HQ letter no. 87/RADT/10-2011/Co-ordn. dated 24 January 2011

### 7.4.3 Target of DPs for field offices

DT Wing of C&AG HQ prescribes/revises the targets for different states under each FAO from time to time. The targets for DPs for different states under each FAO were revised in May 2008/March 2015 and are enclosed in **Appendix 18**.

## 7.5 OmniDocs System

The processing of DPs for Compliance Audit Report on Direct Taxes is being done through the web based documents management software OmniDocs. This was upgraded to three-tier structure from 2014-15 with enhancement of security features, report generation facility and extension from DP processing to ATN verification. Now, the approval at field level has also been automated and Direct Tax section at field level shall upload the proposed DP to BO online. The BO after checking the DP submits to GO, who would then, sends it to the DG/PD (HOD) for approval. On approval by HOD, the DP would automatically be uploaded to C&AG HQ.

### 7.5.1 OmniDocs Process Summary

DP form will be generated online by the Initiator of FAO and filled in by the Initiator. After which it will go to BO, GO and HOD as per the approved route defined by the Initiator. DP Form will be approved and verified and sent to C&AG HQ by HOD. The User Manual of OmniDocs explains:

- a. The OmniDocs system allows the creation of the DP online by using the public domain of <http://cag1.delhi.nic.in:8080/webdesktop>;
- b. The field unit can upload and process the DPs online through user specific password and the DP can be linked with the documents and can be approved online by HOD;
- c. The DPs are being processed online and are routed from Auditor/AAO to HOD for approval and submission to the C&AG HQ;
- d. Accessing Referred Cases from C&AG HQ;
- e. Adding Notes against every DP Form at every level of defined approved route at FAOs and;
- f. Generating reports on DPs sent to C&AG HQ by FAOs.

### 7.5.2 Working of OmniDocs System

- a. The DPs are being created on the public domain of <http://cag1.delhi.nic.in:8080/webdesktop> by the Initiator of the DP. The initiator of DP is AAO/Auditor;
- b. The DPs are then submitted by the Initiator to BO with a unique file number of DP. The BO after examination may send it to GO or may refer back to the Initiator, if required;
- c. The GO after examining and approving DP sends it to HOD for final approval and submission to the C&AG HQ.
- d. There is a provision of linking and uploading of KDs along with DP. The user can see KDs through the OmniDocs online and can delete or add document at each level.
- e. The DP once sent to the C&AG HQ may be assessable on another public domain namely <http://cag1.delhi.nic.in:8080/egov>. The query from the C&AG HQ on any DP may be replied through the domain.

The various types of report can also be generated through <http://cag1.delhi.nic.in:8080/egov> by the C&AG HQ as well as FAOs. Detailed procedures for initiation of DP from Initiator's level to higher levels upto HOD and uploading of the same through OmniDocs to the C&AG HQ are mentioned in the FAO's User Manual. Important aspects, screen shots and forms are detailed in **Appendix 19**.



## Section B: Reporting for Performance Audit

### 7.6 Performance Audit

#### 7.6.1 Planning stage

Prior to preparation of AAP every year, C&AG HQ selects topics for Performance Audit in pursuance of Strategic Audit Plan of the Wing. These topics are selected on the basis of inputs from FAOs and further discussion in the Workshops/Seminars/Meetings held from time to time.

Background paper on the area/topic selected for PA is prepared in consultation with FAOs. The background paper outlines overview of area selected for PA, rationale for selection of topic, objective of pilot study, thrust areas, scope of pilot study and suggested course of action for the FAOs. The selected FAOs conduct pilot study and submit the report alongwith draft guidelines for the selected topic to C&AG HQ. The pilot study reports are examined at C&AG HQ to determine the feasibility of conducting PA and to address constraints, if any, faced during audit. C&AG HQ may entrust the work of examining the pilot study reports and consolidation of draft guidelines to designated Lead Office. The Lead Office will submit the draft consolidated guidelines to C&AG HQ alongwith feasibility report of conducting PA in such case.

C&AG HQ issue final guidelines to the FAOs containing structure of Audit Report for compilation of audit findings at field level which enables uniformity in reporting structure across all FAOs. It also contains various timelines of audit cycle which are to be followed. At the time of issue of guidelines to FAOs, the Lead Office for compilation of Draft Audit Reports is to be designated and communicated. All FAOs are instructed to send their Draft Audit Reports to the designated Lead Office by prescribed time line.

#### 7.6.2 Receipt of the draft reports from the field offices

The Draft Performance Audit Report is prepared by the FAOs and forwarded to the designated Lead Office as per the format given in para 4(e) of Standard Operating Procedure for Reporting of Performance Audit, issued by C&AG HQ in October 2014 along with KDs, relevant annexure (in excel format) and assurance memo (signed by HOD) for compilation and preparation of final Performance Audit Report.

### 7.6.3 Consolidation of Draft Performance Audit Reports

The Performance Audit Report is compiled based on structure outlined in the guidelines for the PA. All audit findings may be categorised and grouped category-wise (in excel database) to obtain consolidated status which will accordingly be reflected in Chapters. Designated Lead Office is to keep in mind the representation of all FAOs in highlighting audit findings to the extent possible on the basis of topicality importance of the audit findings instead merely highlighting the case on the basis of high money value. Lead FAO needs to ensure that only sustainable issues/findings are incorporated in the Audit Report to avoid any embarrassment at the time of discussion with Ministry/CBDT/PAC later on. Low money value cases need not be incorporated in the PA report.

The Standard Operating Procedure for Reporting of Performance Audit, issued by C&AG HQ in October 2014 as given in the **Appendix 20** may be followed.

### 7.7 Confidentiality of materials for Audit Reports

In order to maintain confidentiality/secretcy of the material for draft Audit Reports, instructions issued by C&AG HQ<sup>25</sup> need to be followed for any audit observation whether in the form of DP/thematic paragraph/performance topic for probable inclusion in the Audit Reports. HOD needs to place further controls as deemed fit to ensure confidentiality of material for Audit Reports.

### 7.8 Style guide

Style guide IA&AD<sup>26</sup> developed for Audit Report is equally relevant to other reports and communication including LARs. The Provisions in the Style Guide are aimed at securing corporate consistency in the reports and obviating the need for repeated redrafting, often guided by individual styles. Therefore, Style guide should be followed in all communication including drafting of LAR/PDP/SOF/DP.

25 C&AG HQ letter no. III/S/5/258-PPG/24-2012 dated 27 July 2012

26 Style Guide IA&AD was issued in November 2005 (2<sup>nd</sup> Edition) and was reprinted in June 2013 by the C&AG HQ

## **Chapter 8**

# **Pursuance and Settlement of Audit Observations**

**Pursuance of Audit Observations**

**Settlement of Audit Observations**

**Monetary limits for settlement of Audit Observations**

**Audit Committee Meeting**



# 8

## Chapter

# Pursuance and Settlement of Audit Observations

## 8.1 Pursuance of Audit Observations

- A. The audit observations need to be pursued by the FAOs in the following manner:
- i. On receipt of LAR from field party, the vetting section in the HQ of FAO would examine, whether the LAR is in prescribed format; all the statistical information have been collected; and audit observations have been correctly raised including tax calculation and will put up proposal accordingly to the Branch Officer (BO) for approval;
  - ii. The BO would examine all the observations with reference to the proposals of the vetting section and submit the LAR alongwith proposal to the Group Officer (GO);
  - iii. After approval of the LAR, all audit observations of LAR (Part IIA and IIB) need to be incorporated in the Objection Book Register and all statistical information be stored for compilation by the vetting section;
  - iv. The proposal for Potential Draft Paras (PDPs) should be examined and entered in the PDP register by respective section of FAO; thereafter SOFs need to be issued in such cases to the concerned Commissioner of Income Tax under the signature of the GO.
  - v. The SOF cases fulfilling the criterion laid down by C&AG HQ need to be processed as DP;
  - vi. After receiving replies from the Department, concerned section of FAO will keep note against the para in the Objection Book (OB) and will examine the para with reference to the reply for submission to BO/GO/HOD for approval as the case may be;
  - vii. If additional documents/information are required for verification of any audit observation, the Field Audit Party may be deployed;
  - viii. Where replies to audit observations have not been received, concerned CIT/AO may be vigorously pursued for furnishing the replies.

## **B. Web portal for monitoring outstanding Audit Paragraphs of LARs**

A web based application on 'Audit Para Observations System (APOS)' has been developed and implemented for interaction with audited entities to monitor settlement of pending audit observations. This application has been hosted on the local website of each FAO and assigned user id with login password. The application contains CIT-wise details of audit paragraphs, both settled and pending. The ITD has been given access for uploading the scanned copies of their replies in pdf format. This will enable each FAO to know the status of each LAR paragraph. APOS also generates MIS reports to enable FAOs in pursuance of outstanding audit paragraphs with ITD.

### **8.2 Settlement of Audit Observations**

#### **8.2.1 Settlement of Audit Observations included in the Audit Reports**

Settlement of audit observations included in the Audit Report would be watched by C&AG HQ. FAOs need to remove these audit observations from the objection book after their inclusion in the Audit Reports by mentioning the Audit Report's para number and watch their recovery through recovery register as the case may be. FAOs should inform to the concerned CIT that audit observation has been included in the Audit Report and further follow up will be between the CBDT/Ministry and C&AG HQ. In case, any correspondence on any such audit observation is received by the FAOs from the ITD, they may be requested to forward the same to CBDT/Ministry, who would in turn intimate to C&AG HQ.

After placement of Audit Report in the Parliament, audit observations are pursued through the mechanism of Action Taken Notes (ATNs) of the Ministry. The Ministry, after getting the ATN duly vetted by Audit, submits them to the PAC which takes final decision. C&AG HQ is to pursue the ATN until both the Ministry and the Audit agree on the stated position. Once, the Audit is satisfied with this stated position which could be due to acceptance of audit observations/remedial action taken/remedial action taken but the relevant issue is under appeal/other clarifications given by the Ministry, C&AG HQ issue "no further comments" to CBDT/Ministry with a copy to FAO. Thereafter audit observations/ATNs would not be pursued further by the Audit. However, final decision to settle the audit observation

or otherwise rest with the PAC. Further, FAOs need to watch the recovery through recovery register, wherever required.

### **8.2.2 Settlement of other Audit Observations accepted by the ITD**

The audit observations on acceptance by ITD may be treated as settled and removed from the OB on receipt of information about the remedial action taken. However, recovery in cases where demand has been raised needs to be watched through recovery register. The settlement need not to be kept in abeyance on account of further appeal etc.

Where the audit observations are accepted by ITD but the assessments on which they are raised, are set aside in appeal for different reasons, the audit observations may be treated as settled and removed from OB.

Where the audit observations are accepted by ITD and remedial action taken but after appeal effect, the tax effect becomes “nil”, the audit observations may be treated as settled and removed from OB.

Where the ITD has accepted the audit observations but intimated that no remedial action is possible due to time-bar, it needs to be verified whether time for rectification/revision was available at the time of audit observations. If omission to initiate necessary action in time on the audit observation had resulted in loss of revenue, FAOs need to intimate such cases to C&AG HQ for inclusion in the Compliance Audit Report.

Where the ITD has accepted the audit observations but intimated that no remedial action is possible due to time-bar itself at the time of audit, such situation should not normally arise. However, such situation may arise because of persistent non-production of records. In such cases, FAOs need to intimate to C&AG HQ regarding loss of revenue for inclusion in the Compliance Audit Report.

### **8.2.3 Settlement of other Audit Observations not accepted by the ITD**

On receipt of reply from the ITD where the audit observation has not been accepted, necessary rebuttal may be issued to the ITD after detailed examination of the facts.

Cases where remedial action has been taken but ITD does not accept the para on the grounds of fact may be settled after detailed verification of facts.

If facts cannot be verifiable then ITD's view point may be accepted, only after putting conscious efforts and reasons are recorded in this regard.

Where the audit observations has not been accepted by ITD but the assessments on which they are raised, are set aside in appeal for different reasons, the audit observations may be treated as settled.

Partially rectified assessments may also be settled in case there is due justification in the reassessment proceedings after recording the reasons. However, recovery in cases where demand has been raised needs to be watched.

Cases where remedial action has been taken without conveying acceptance/non-acceptance may be settled. However, recovery in cases where demand has been raised needs to be watched.

Cases<sup>27</sup> where the ITD does not accept on the grounds of Law/Interpretation of statues may not be settled irrespective of the remedial action taken. Necessary rebuttal may be issued in such cases for acceptance of the audit observations. However, such cases need to be followed up in inter-departmental meetings towards possible solutions. List of such cases where there is persistent disagreement may be referred to C&AG HQ after detailed examination and justification for taking up the issue with CBDT.

Regarding Part-III paras, no reply from the ITD is necessary, but appropriate remedial action taken by the Assessing Officer need to be watched during next audit.

### **8.3 Monetary limits for settlement of Audit Observations**

DT Wing of C&AG HQ prescribes/revises the limit for settlement/closure of audit observations applicable to GOs and BOs from time to time. The monetary

---

<sup>27</sup> C&AG HQ letter no. 665 RA(DT)/140-2008/Coord, Revenue Audit Circular No. 3 of 2010, dated 26 November 2010



limits for settlement of Audit Observations were revised in May 2012 which is as under:

(Amount in ₹)

	Category 'A' States		Category 'B' States	
	Group Officers	Branch Officers	Group Officers	Branch Officers
Corporation Tax	10,00,000	50,000	6,00,000	50,000
Income Tax	4,00,000	50,000	2,00,000	50,000
Other Direct taxes	60,000	20,000	40,000	20,000

(Authority: C&AG HQ letter no. 560/RADT/122-2008/Coordn. dated 18.05.2012)

After settlement of the para, recovery needs to be watched, wherever necessary, through Recovery Register by the concerned group. HOD's approval will be necessary for settlement /closure of paragraphs, having money value greater than the above limits prescribed for the GOs.

#### 8.4 Audit Committee Meeting

Audit Committees<sup>28</sup> have been formed in all offices for the settlement of outstanding audit observations relating to Revenue Audit Wings. The Committees are formed at the level of CCIT(CCA) now Pr. CCIT(CCA) and HODs of FAOs. Nodal Officers are nominated from the ITD and an equal number of observers are nominated from FAO to assist the Committee. These meetings are to be conducted periodically. The details are mentioned in **Appendix 21**. At the beginning of each year, the HOD of FAO would decide the number of meetings to be held. The outcome of such meetings needs to be reflected in the Quarterly Performance Report to be sent to C&AG HQ.



(MANISH KUMAR)

Principal Director (Direct Tax)

<sup>28</sup> C&AG HQ circular no. 1 of 2010 issued vide letter no. 267-RecA (DT)/98-2010 dated 19.7.2010



# Appendices



# Appendix 1

## Details of functioning of different attached offices of CBDT

(Reference: Paragraph 2.1)

### (1) Principal Directorate General of Income Tax (Administration)

The Principal Director General of Income Tax (Pr. DGIT) (Administration) supervises and has control over the functioning of the following Directorates, which are headed by the Directors of Income Tax (DIT) and report through the Pr. DGIT(Admn.) to the CBDT:

#### i. DIT (Public Relations, Printing Publications & Official Language)

It carries out the work relating to the advertisement campaign for the department and awareness amongst taxpayers. It updates, prints, publishes and distributes the publications for the use of ITD. It also looks after the work of implementation of Official Language Policy. It is also Resource Centre for Tax Return Preparer Scheme.

#### ii. DIT (Income Tax) – (Inspection & Examination)

It carries out examination work relating to department and inspection work of all jurisdictions of India. It also carries out administrative work relating to Pr. DGIT (Admn.), DIT (IT), DIT (Audit) and DIT (TDS).

#### iii. Directorate of Income Tax (Audit)

It monitors and carries out inspection of the functioning of the Internal Audit wing under the respective Pr. CCsIT. It monitors the audit objections raised and settled. It provides materials and inputs to CBDT, Member (A & J) on any matter regarding Audit.

#### iv. Directorate of Income Tax (Recovery)

It monitors collection/reduction of arrear demand, compiles and collate data of recovery of tax arrears primarily with reference to dossiers cases of demand of ₹ 10 crore and above. It analyses position regarding 'Demand not under dispute'. It processes write off proposals and BIFR/AAIFR cases under the Income Tax Act.

#### v. Directorate of Income Tax (TDS)

DIT(TDS) established in 2007 co-ordinates and monitors the administration of field offices of the CIT(TDS) with regard to all matters relating to TDS. It assists the Board in efficient and effective administration of the field offices of TDS. It also provides policy inputs relating to TDS provisions and analyses the TDS collection.

**(2) Principal Directorate General of Income Tax (Systems)**

There are five Directors (I to V) and two CsIT viz. CPC Bengaluru and CPC-TDS under Pr. DGIT (Systems).

The DGIT(Systems) carries out the work of conceptualisation, planning, procurement, installation and maintenance of various projects relating to hardware and software. It also provides technical support, maintains national databases, monitors all-India network. It has also been assigned the work relating to recruitment of technical personnel, training of non-technical and technical Officers/staff. However, respective Pr. CCsIT/CCsIT and Pr. CsIT/CsIT are responsible for implementation of application systems.

**(3) Principal Directorate General of Income Tax (Logistics)**

There are five Directorates (Business Process Re-engineering; Expenditure Budget; Infrastructure–I; Infrastructure–II and Organization & Management Services) and one Research & Statistics Wing under the Pr. DGIT (Logistics).

These Directorates and the Research and Statistics Wing provide vital policy input to the CBDT in the areas of tax Administration, Infrastructure and Expenditure.

**(4) Principal Directorate General of Income Tax (Legal & Research)**

It has two DsIT {DIT(L&R)-I and DIT(L&R)-II}. It deals with SLP/ Civil Appeal/Caveat proposals and National Judicial Reference System (NJRS). It co-ordinates between field offices and Ministry of Law and Justice /Central Agency Section (CAS). It formulates Departmental views on contentious legal issue through CTC.

**(5) Principal Directorate General of Income Tax (Training)**

The Directorate of Training comprises of National Academy of Direct Taxes (NADT) at Nagpur, seven Direct Tax Regional Training Institutes (DTRTIs) (Ahmedabad, Bengaluru, Chandigarh, Chennai, Kolkata, Lucknow and Mumbai) and 27 Ministerial Staff Training Units (MSU). It performs the critical and overarching goal of developing, enhancing, monitoring and modelling the human capital, fortunes of the nation's Direct Taxes strategies and administration. The Academy imparts proficiency in core competency areas, disseminates information about the best of academics and practices and provides an international perspective, high quality professional capabilities and cultural sensitivities to officers.

**(6) Principal Directorate General of Income Tax (HRD)**

The Directorate of Income Tax (HRD) have three divisions of Cadre Management, Performance Management and Training and capacity. The main functions are to develop and design strategic human resource plans, policies and processes for ensuring optimal resource mobilization and

delivery of tax payer services. It assists the Board in implementing proper human resource development policies. It identifies training needs, formulate training policies and facilitate skill enhancement, and to coordinate with other educational/training institutions/agencies in India and abroad for training of officers of the Department.

**(7) Principal Directorate General of Income Tax (Vigilance)**

The Vigilance set-up of the ITD is headed by the Pr. DGIT (Vigilance). He is also the Chief Vigilance Officer of the organization. He is responsible for taking the initial decision on complaints against Group 'A' officers. He maintains up to date record of complaints for submission of quarterly reports to the CVC, Department of Personnel and Training etc. Four Directorates of Income Tax (Vigilance) assist him in the handling of vigilance matters pertaining to their respective regional jurisdictions. These Directorates process complaints against Group 'B' officers and also conduct preliminary verifications and investigations in respect of both Group-'A' and Group 'B' officers.

## Appendix 2

### Duties and functions of various field formations of ITD

(Reference: Paragraph 2.2)

#### 1. Principal DGIT (Investigation)

The Directorate deals with investigation for curbing tax evasion and unearthing un-accounting money.

#### 2. Principal DGIT (Exemption)

There are seven DsIT(E) (Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Mumbai). The Directorate is involved in various kind of approvals relating to exemptions in the Income Tax Act, 1961 and responsible for administration of Tax returns of exempted entities.

#### 3. Principal DsGIT (Intelligence and Criminal Investigation)

Its key function areas are (i) widening of tax base through identification of stop filers and non-filers (ii) deepening of tax base by providing information for proper selection of cases for scrutiny assessments through collection, collation of information from internal as well as external sources and its dissemination to Assessing officers (AOs) and other users in ITD. The mandate also provides for identification and investigation of cases of tax evasion arising out of criminal matters, having any financial implication punishable as an offence under any Direct Tax Law.

#### 4. Principal CIT (International Taxation), New Delhi

The work of International Taxation is divided in three broad categories viz. (i) International Taxation, (ii) Transfer Pricing and (iii) Advance Pricing Agreements. Besides, there is concept of Dispute Resolution Panel (DRP) introduced as an alternative to resolve disputes relating to transfer pricing adjustments.

##### (i) International Taxation

This area of operation caters to assessment and taxation of income of non-residents which accrue or arises in India.

##### (ii) Transfer Pricing

This area of operation caters to determination of arm's length price of international transactions pertaining to transfer of goods, services, intangibles, etc between two or more



Associate Enterprises (AE) under Chapter - X of the Income Tax Act, 1961. There are 14 Commissioners of Income Tax (International Taxation and Transfer Pricing) based in Delhi (3), Kolkata (1), Mumbai (4), Pune (1), Ahmedabad (1), Bengaluru (2), Chennai(1) and Hyderabad (1) and 106 Transfer Pricing Officers under their jurisdiction.

**(iii) Advance Pricing Agreements**

This scheme is an agreement between the CBDT and the taxpayer for determination of Arm's Length Price (ALP) or manner for determination of ALP, in relation to an international transaction between the associated enterprises (AEs), in advance.

**(iv) Dispute Resolution Panel (DRP)**

The DRP is a collegiums comprising of three Commissioners of Income Tax constituted by the CBDT. When the AO proposes by way of draft assessment order made under section 144C to make any variation in the income or loss stated in the return filed by the assessee on the basis of Transfer Pricing adjustment and invites assessee' acceptance or objections to the same. Assessee may communicate his acceptance to the order or may file objection before the DRP against the proposed assessment order. The DRP after giving opportunity of hearing to the assessee, passes suitable order in the case within nine months.

**5. Functions of Pr. CCsIT/CCsIT**

They are responsible for administration, supervision and assessment functions for respective jurisdiction.

## Appendix 3

### Core functions of IT System in ITD

(Reference: Paragraph 2.2)

#### A. Assessment Information System

Assessment Information System (AST) is the core module of the ITD application. It is primarily used to process returns and rectify errors. It supports tax calculations, interest calculations, selection of cases for scrutiny, validation of due dates, and so on.

It was designed and developed for:

- a. Assisting in the processing of returns and subsequent proceedings for a case.
- b. Automatic management and processing of the assessment information.
- c. Consolidation and easy retrieval of information.
- d. Easy monitoring and tracking.

AST also monitors progress and results of a case at various stages, such as:

- a. Assessment
- b. Reassessment
- c. Appeal
- d. Revision
- e. Rectification
- f. Penalty waiver
- g. Settlement commission
- h. Penalty proceedings
- i. Prosecution
- j. Audit objections

#### Features of AST

- a. **It is an online application.** Data is stored on the production and backup servers. An AST user can access this data over the network.
- b. **It is a Secure System.** Security is inbuilt in the system and only valid users with proper role are allowed to work in this module. Access to AST is enabled after proper authentication. A user needs to access the system with a username and a password. Any modifications to the database can be tracked back to the user through an audit log.
- c. **It is a menu-driven and Window-based software.** AST uses Graphical User Interface (GUI) elements such as toolbars, push buttons, checkboxes, list items, radio groups, and combo boxes. These features simplify the task of performing screen-based functions and navigating across screens. The screens are self-explanatory and supported by messages.

- d. **It is mainly a parameter-driven system.** A parameter is the value entered in a field. AST queries the database and displays all records according to the values entered. These parameters support the calculation of tax and interest under various sections, selection of cases for scrutiny, time-barring checks, deduction-limit validations, and due-date checks.
- e. **It assists in selection of cases for scrutiny.** AST allows you to specify the parameters for selection of cases for scrutiny based on the guidelines from the Department. The specified parameters can then be used to generate the list of cases that should be scrutinized. After selection, AST allows you to enter the details of the appeals made, the proceedings carried out and the notices issued.
- f. **It allows the execution of multiple types of queries.** AST provides multiple options to query the database. You can enter a PAN to view the details of the returns, orders, and proceeding related to that PAN. Similarly, you can query on an assessment year or a form type to view all the returns submitted for that year or form type.
- g. **It provides various options for generating reports.** AST provides scheduled and online reports in the 3-Tier version. You can schedule a report for a later date. AST supports various type of reports such as the mismatch report, list of cases selected for scrutiny, challan, demand notice, refund voucher, assessment-related portion, notices u/s 142(1), 148, 143(2) and list of non-filers.

### Functions of AST

The functions that can be performed in AST are controlled by the role assigned to user. An AO can perform the following functions in AST.

- a. Receipt of returns
- b. Processing of returns u/s 143(1)
- c. Issue of refund/demand through Electronic Clearing Service (ECS)/paper refund
- d. Rectification
- e. Scrutiny and regular assessment
- f. Maintenance of appeals and its effects
- g. Maintenance of penalties and audit objections

### Linkages with Other Modules

AST gathers data by interacting with the other modules. This ensures consistency of data within the ITD application.

AST is linked with the following modules in the ITD application:

- a. AIS provides the PAN information.
- b. OLTAS provides information related to the online payment of direct taxes.
- c. TDS provides AS26 information. AST is designed to automatically extract details of the prepaid taxes from OLTAS and TDS.
- d. CIB provides Annual Income Return information.
- e. IRLA reflects the results of processing done in AST.
- f. Global Databases are used for authentication.

### Return Receipt Register (RRR)

The RRR in AST is a replica of the manual RRR of the 'Dak Register' that provides details of all the returns received on a particular date in the manual system, the IT official used to receive Returns from the assessee and enter the relevant details in the register. In AST, the same process is being replicated by adding records into the RRR maintained within the system.

Adding records into the RRR is the second step for processing returns in AST. This step is performed for acknowledging the receipt of the return from the assessee. It is important to add records in the RRR as soon as the returns are received from the assessee. This ensures that the department has information of the number of returns received at all times, whether they are processed or not. The process of adding RRR records in AST can be done only if all the information in the manual RRR is completely filled at the time of receiving the returns.

### B. Assessee Information System

Assessee Information System (AIS) maintains the records of each taxpayer in the country by allotting a unique number to each taxpayer. This number is known as PAN. PAN is used to identify a taxpayer across various ITD modules. AIS is also referred to as the hub around which all the other ITD modules operate. AIS allows online PAN allotment, PAN data maintenance, assessee events maintenance, and Income Tax jurisdiction hierarchy maintenance.

#### Features of AIS

AIS has the following features:

- a. **It is an online application.** Data is stored on the back-end servers. An AIS user can access the application by specifying a valid username and password.
- b. **It is a menu-driven and Window-based application.** AIS has a Graphical User Interface (GUI) with various elements, such as menu bar, toolbar, radio buttons, checkboxes, list boxes, task of performing various tasks and navigation across screens.
- c. **It is a parameter-driven system.** A parameter is the value entered in a field. AIS enables user to specify parameters for querying the database. Based on the specified parameters, AIS retrieves data from the database.
- d. **It is a secure system.** Security is inbuilt in the system and only valid users with assigned roles can access the application after authentication. To maintain security in the system, AIS has six classes of users, Class A to Class F, depending upon their access or update rights. In addition, the application captures the user identification details along with the timestamp for all users accessing the application. Any modifications to the database are tracked for each user in an audit log.

#### Functions of AIS

AIS enables user to perform various functions. Some of the important functions are:

- a. **Allotting PAN:** AIS enables users with the role of Batch Administrator to allot PANs based on the details specified by the applicants in form 49A. The initial steps for

PAN allotment are performed through service providers, such as UTI Infrastructure Technology and Services Limited (UTITSL) and National Securities Depository Limited (NSDL).

- b. Maintaining jurisdiction hierarchy:** AIS enables the RCC officials to set up and define jurisdiction hierarchy. This helps in maintaining the details of all AOs, ACITs, DCs, CITs and CCITs and the links between them.
- c. Maintaining PAN holder data:** AIS allows changes to be made to the assessee database. An AO can make modifications to reflect any changes in PAN holder details, such as change in address or office name. However, an AO cannot change certain details such as name, father's name and date of birth of the PAN holder.
- d. Maintaining PAN holder events:** You can also record events such as death, liquidation, dissolution, partition, merger and split related to PAN holder.
- e. Maintaining PAN:** AIS enables you to maintain PAN. User can delete or deactivate duplicate PANs, restore wrongly deleted PANs, and restore original PAN details.
- f. Generating reports:** AIS allows generating a report to a file, printer, or screen. The reports are generated as lis or pdf files. User can generate various reports to view the statistics for PAN allotment, PAN card, assessee details, and transfer orders.
- g. Transferring PAN:** An AO can transfer the PANs from one jurisdiction to the other. However, an AO can only transfer PANs that are under his or her jurisdiction.

### C. Online Tax Accounting System

Online Tax Accounting System (OLTAS) is one of the key sub-systems of ITD. OLTAS helps ITD transfer and maintain records of direct taxes paid by taxpayers through banks. The purpose of OLTAS is to speed up the transmission of challan details, tax collections, and refunds between the authorized bank branches, ITD, and RBI for settlement of funds.

OLTAS is primarily a back-end system. OLTAS also interact with other ITD modules. OLTAS uses PAN data from AIS and TAN data from TDS module to map the collections to jurisdiction. OLTAS data is used by AST and TDS module to give credit for taxes paid against individual income tax returns and TDS returns.

In addition to the back-end activities, officers can view the collections for their jurisdictions on OLTAS. OLTAS also allows both the taxpayers and banks to check the challan status through the Tax Information Network (TIN) Web site ([www.tin-nsdl.com](http://www.tin-nsdl.com)).

#### Workflow

The OLTAS workflow begins when taxpayers make tax payments to the designated bank. The taxpayer will use a single-copy challan, which has a main portion at the top and a taxpayer counterfoil at the bottom.

## Features

OLTAS provides the following features:

- a. Officers can view the reports/details of collections and refunds for their jurisdiction, including outstanding payments, based on PAN/TAN.
- b. AOs can make required changes in the challan details, in case of any error in the challan data.
- c. A single-copy challan is used for making tax payments instead of the previously used four-copy challan.
- d. A unique CIN is assigned to each challan throughout the country and is used to identify the challan in OLTAS.
- e. Taxpayers and banks can check the challan status from the TIN Web site.

## D. Individual Running Ledger Account

Individual Running Ledger Account (IRLA) is a module in the ITD application. It helps to generate a comprehensive IRL for each assessee. Other modules in the application, such as Tax Accounting System (TAS), AIS, and TDS, support IRLA in gathering information about the assessee.

### Purpose of IRLA

IRLA provides up-to-date listings of all demands, collections, and refunds for an assessee. The IRLA ledger maintains the details of all transactions that have happened since the date of computerization of the jurisdiction.

### Uses of IRLA

One can use IRLA for carrying out various functions such as granting stay on demands, granting installments, and writing-off demands in the cases of the existing assessees. One can also perform administrative functions, such as entering and updating IRLA parameters, IRLA codes, holidays, rates of interest u/s 220(2), and viewing the audit log.

### Functions of IRLA

The following functions can be performed using IRLA:

- a. **Maintenance of assessee ledger:** IRLA maintains record of all transactions since the date of computerization of the jurisdiction. For transactions that took place before the date of computerization, IRLA provides the facility to import the net demands pending as on the date of computerization.
- b. **Linking of arrears to a PAN:** IRLA provides the facility to import old arrears and link them with the new PANs that have been allotted to the concerned assessees.
- c. **Maintenance of demands, collections and refunds:** IRLA maintains the current status of demands, collections, and refunds.

- d. **Granting and vacating or rejecting of stay and installments on a demand:** IRLA allows you to grant stay or installments, as the case may be, on full or part of a demand that is not due. In addition, IRLA allows you to vacate or reject a stay that was previously granted.
- e. **Writing off unrecoverable demands:** IRLA allows you to write off an arrear demand amount that becomes irrecoverable. However, if a collection is made from the concerned assessee, the write-off can be marked as non-active.
- f. **Maintenance of interest u/s 220(2):** IRLA allows you to maintain and compute the interest u/s 220(2) applicable on delayed payment.
- g. **Generation of reports:** IRLA allows the users to generate the Central Action Plan 1 (CAP 1) report, defaulters list, advance tax defaulters list, PAN link report, and ledger statement. In addition, it allows generation of various letters and notices for stay, installment and penalty u/s 221.
- h. **Provide online queries on assessee data:** IRLA allows generation of queries by specifying one or a combination of parameters.

## Appendix 4

## Mapping of jurisdiction of Field Audit Offices and Income Tax Department

(Reference: Paragraph 3.2)

C&AG Office, Direct Tax Wing			Income Tax Department	
Central Audit Office	Audit Jurisdiction (States)	Branch Office with jurisdiction	Pr. CCIT Region	States
1. DGA, Central Receipt, New Delhi	Delhi, Madhya Pradesh and Chhattisgarh	<b>Gwalior:</b> MP and Chhattisgarh	1. Pr. CCIT (Delhi) 2. Pr. CCIT (Madhya Pradesh and Chhattisgarh)	Delhi Madhya Pradesh and Chhattisgarh
2. DGA(C), Kolkata	West Bengal, Assam, Manipur, Meghalaya, Nagaland, Mizoram, Arunachal Pradesh, Tripura, Sikkim and UT of Andaman & Nicobar Islands	<b>Guwahati:</b> North East region	3. Pr. CCIT (West Bengal & Sikkim) 4. Pr. CCIT (North East)	West Bengal, Sikkim, UT of Andaman and Nicobar Islands Assam, Manipur, Meghalaya, Nagaland, Mizoram, Arunachal Pradesh and Tripura
3. PDA(C), Mumbai	Maharashtra		5. Pr. CCIT (Mumbai) 6. Pr. CCIT (Nagpur) 7. Pr. CCIT (Pune)	Maharashtra
4. PDA(C), Lucknow	Uttar Pradesh, Bihar, Jharkhand, and Uttarakhand	<b>Allahabad:</b> Uttar Pradesh and Uttarakhand <b>Patna:</b> Bihar <b>Ranchi:</b> Jharkhand	8. Pr. CCIT (Uttar Pradesh-East) 9. Pr. CCIT (Uttar Pradesh-West) 10. Pr. CCIT (Bihar & Jharkhand)	Uttar Pradesh Uttarakhand Bihar and Jharkhand



5. PDA(C), <b>Bengaluru</b>	Karnataka and Goa				11. Pr. CCIT (Karnataka & Goa)	Karnataka and Goa
6. DGA(C), <b>Chennai</b>	Tamil Nadu, Kerala and UT of Puducherry	<b>Kochi:</b> Kerala			12. Pr. CCIT (Tamil Nadu)	Tamil Nadu & UT of Puducherry
7. PDA(C), <b>Chandigarh</b>	Punjab, Haryana, Himachal Pradesh, Jammu & Kashmir and UT Chandigarh				13. Pr. CCIT (Kerala)	Kerala
8. PDA(C), <b>Hyderabad</b>	Andhra Pradesh & Telangana and Odisha	<b>Bhubaneswar:</b> Odisha			14. Pr. CCIT (North West)	Punjab, Haryana, Himachal Pradesh, Jammu & Kashmir and UT Chandigarh
9. PDA(C), <b>Ahmedabad</b>	Gujarat, Rajasthan and UT of Daman & Diu	<b>Jaipur:</b> Rajasthan			15. Pr. CCIT (Andhra Pradesh)	Andhra Pradesh & Telangana
					16. Pr. CCIT (Odisha)	Odisha
					17. Pr. CCIT (Gujarat)	Gujarat and UT of Daman & Diu
					18. Pr. CCIT (Rajasthan)	Rajasthan

## Appendix 5

### Details of sanctioned strength in various cadre

(Reference: Paragraph 3.2)

Direct Tax Wing	SAO/AO	AAO	Sr. Auditor/ Auditor
C&AG HQ	6	3	5
<b>Field Audit Offices</b>			
DGACR, Delhi	43	88	93
PDAC, Mumbai	38	83	110
DGAC, Chennai	42	84	97
PDAC, Chandigarh	22	44	52
PDAC ,Hyderabad	28	56	69
PDAC, Bengaluru	13	27	28
PDAC, Ahmedabad	34	70	77
PDAC, Lucknow	30	60	72
DGAC, Kolkata	46	92	74
<b>Total of 9 offices under CRA</b>	<b>296</b>	<b>604</b>	<b>672</b>

## Appendix 6

### List of Reports and Returns to be sent to DT Wing of C&AG HQ

(Reference: Paragraph 4.4.2)

Sl. No.	Particulars	Authority	To whom sent	Due date
1.	Assurance Memo (Internal control mechanism to assess the quality of audit work - furnishing of assurance memo by the field offices)	CAG's circular no. 6/2003 and letter no. 820 Rec.A (DT)/119-2003 Co-ordn., dated 07.10.2003.	C&AG	31 October
2.	Performance assessment of field Audit Offices	CAG's Circular no. V/Z /19/170-PPG/II/17-2012 dated 06.06.2012	C&AG	31 July
3.	Performance indicators for receipt audit-assignment of monetary value targets	CAG's letter no 496/RA(DT)/115-2009 dated 06.10.2009.	C&AG	31 July
4.	Material for Chapter II of Compliance Audit Report (Audit Impact) in the following Annexures: a) Details of observations raised during local audit conducted during the year under different taxes; b) Details of observations raised during the local audit conducted on underassessment and over assessment and departmental response thereof; c) Details of DPs floated from observations on under assessment raised during local audit conducted during the year and earlier audit observations; d) Details of observations in case of over assessment and DPs floated; e) Details of recovery at the instance of Audit; f) Details of records not produced to audit in local audit conducted during the year;	CAG's circular no. 360/RADT/76-2014 dated 29.05.2014	C&AG	14 August or as prescribed by C&AG HQ

- g) CIT wise details of same top assessee whose records were not produced to audit in three or more audit cycles;
- h) Details of observations raised where remedial action became time barred during the year;
- i) Details of observations raised where remedial action is likely to become time barred;
- j) Year wise consolidated statement showing outstanding observations (tax wise);
- k) Consolidated tax wise abstract of outstanding high value items from all charges i.e. income tax and corporation tax over ₹ 10 lakh and other direct taxes over ₹ 5 lakh;
- l) Status wise details of audit observations (over assessment & under assessments) raised during the year;
- m) Details in respect of audit of scrutiny assessments completed during the previous year and audited in the current year; and
- n) Cases selected under CASS/ Manual parameters but not scrutinised and hence not audited.

5.	Audit Plan of Direct Tax	CAG's letter no. 385/RADT/29-2014 dated 03.06.2014	C&AG	August of preceding year or as prescribed by C&AG HQ
6.	Monitoring Half yearly progress of Integrated Annual Audit Plan (AAP)	CAG's letter no. 311/RADT/99-2013 dt. 09.05.2014	C&AG	7 October/ 6 April
7.	Quarterly Performance Report	CAG's letter no. 655/RADT/59/2013/Co-ordn. dated 12.11.2013	C&AG	10 <sup>th</sup> of April/ July/ October/ January

Note: Respective FAO may decide the continuance of various returns prescribed from time to time at their level keeping in view the importance thereof.

## Appendix 7

### Format of Quarterly Performance Report

(Reference: Paragraph 4.4.2)

Quarterly Performance Report for the Quarter ending 20.... (Year) .., Direct Taxes

Work done during the I / II / III /IV Quarter of 20...(year)

1. Staff position	SAO/AO	AAO/Supervisor	Sr. Ar./ Ar.	Others	Average no. of parties in operation in the quarter	no. of
-------------------	--------	----------------	--------------	--------	--	--------

Sanctioned Strength

Men in Position

Shortages, if any

#### 2. Audit Plan - Local Audit

State-wise	No. of auditable units available			Units planned for the year			Arrears, if any, from previous year/ quarter	No. of units planned during the quarter (Q1, Q2, Q3, Q4)	Covered during the quarter	Covered upto the quarter	Cumulative short fall	Reasons for short fall
	Assessment Charge	Non-Assessment Charge	Total	Assessment Charge	Non-Assessment Charge	Total						

#### 3. Local Audit Reports

State	Total LARs issued during the quarter (including 'NIL' LARs)	No. of 'NIL' LARs issued during the quarter	Issued within the due dates	No. of LARs issued belatedly			Remarks
				Less than a month	Between 1 to 2 months	over 2 months	

#### 3(A). Position of outstanding observations

State	No. of observations outstanding at the beginning of the quarter	Observations issued during the quarter	Settled/ Dropped	No. of observations outstanding at the end of the quarter	Percentage of clearance	Remarks
-------	---	--	------------------	---	-------------------------	---------

**3(B). Age wise pendency of outstanding observations**

Age	No. of Outstanding observations at the end of the quarter	Percentage of total outstanding observations at the end of the quarter	Cleared during the quarter	Remarks
More than 5 years				
3-5 years				
1-3 years				
Less than 1 year				

**4. Position of PDPs**

State	OB	Addition during the quarter	Conversion into SOFs/DPs	Dropped during the quarter	CB	Remarks

**4(A). Position of SOFs issued**

State	OB	Issued during the quarter	Cleared during the quarter Converted into DPs	Dropped / Settled	CB	Remarks

**4(B). Position of DPs forwarded to HQ**

State	Target of DPs	Sent upto the quarter							
		Corporate Tax		IT		ODT		Total	
		No.	TE	No.	TE	No.	TE	No.	TE

**5. Position of verification of CBDT's replies (sent by C&AG HQ for verification)**

State	OB	Received from C&AG HQ during the quarter	Total No. of verification sent to C&AG HQ during the quarter	Replies pending for verification at the end of quarter	Reasons for pendency

**6. Position of inter-departmental meetings (at DG/PD/GO level)**

State	No. of meetings proposed / planned for the year	No. of meetings held during the quarter	No. of observations discussed in the meetings held during the quarter	No. of observations settled during the quarter as a result of meetings	Total No. of observations settled during the year as a result of meetings	Shortfall, if any, and reasons thereof

**7. Capacity Building**

State	No. of In-house trainings/ workshops proposed during the quarter	during the year	Held during the quarter	Held upto this quarter	Shortfall, if any, with reasons
-------	---	--------------------	----------------------------	---------------------------	---------------------------------------

**8. Supervision by Group Officer**

Name of the GO	Total supervision proposed during the year ( In days)	Supervision completed during the quarter (In days)	Cumulative supervision at the end of the quarter (In days)	Shortfall, if any, and reasons thereof
-------------------	---	---	---	--

**9. Recoveries at the instance of audit**

State	Against observations made during the quarter		Against pending observations		Total recoveries during the quarter		Total recoveries upto the end of this quarter	
	No. of cases	₹ (in lakh)	No. of cases	₹ (in lakh)	No. of cases	₹ (in lakh)	No. of cases	₹ (in lakh)

**10. Performance Audit**

Name of the PA	Period of Audit	Date(s) of Entry Conference	Due dates for Mid-term/ Final Report	Date(s) of Exit Conference	Date of issue of PA to CIT/ sending mid- term/ final report to C&AG HQ/Lead office
-------------------	--------------------	--------------------------------	--	-------------------------------	--

**11 Position of pendency of replies**

State	No. of written replies pending in the beginning of the quarter	No. of written replies received during the quarter	Action taken on the replies during the quarter	No. of written replies pending at the end of the quarter	Percentage of clearance
-------	---	--	--	---	----------------------------

**11(A). Age-wise pendency of replies**

Age-wise	No. of written replies pending at the end of the quarter	Percentage of total pendency	Action taken on the replies during the quarter	Remarks
More than 3 months				
2-3 months				
1-2 months				
Less than 1 month				
Total				

## Appendix 8

### Guidelines for constitution of Audit Advisory Board

(Reference: Paragraph 5.5)

1. **Objective:** To enhance the effectiveness of audits by providing a forum for professional discussion between the senior management of FAOs and knowledgeable and experienced professionals from varied fields.
2. **Function:** To advise the DsG/PsD of Audit (Central) on the coverage, scope and prioritization of audits together with suggestions regarding appropriate audit approaches and techniques.
3. **Constitution of the Audit Advisory Board (AAB):** AAB will consist of a maximum of 10 and minimum five honorary external members nominated by the DsG/PDs (C). DsG/PDs (C) will be the Chairperson of the Board. All GOs in FAOs will be ex-officio members. DsG/PDs (C) will nominate a GO to act as ex-officio Secretary of the AAB.
4. **Eligibility for nomination of External members:**
  - a. Persons above 70 years of age shall not ordinarily be nominated.
  - b. Nominated members may be drawn from amongst eminent academicians, professionals (CA/ICWA, Economists, Professors, Experts in Taxation, Law, NGOs, Media persons, retired Civil servants etc), Heads of Institutions etc. Retired IA&AS officers living in the jurisdiction of DsG/PDs (C) may also be considered. However, not more than one such person should be nominated.
  - c. As soon as the AAB is constituted by the DsG/PDs (C), intimation thereof will be sent to DG/PD (DT) at C&AG HQ with a copy endorsed to the DAI (CRA) concerned.
  - d. Institutional nominees and persons possessing specialized knowledge of the Central Receipt matters may be accorded preference.
5. **Tenure of external members:** Ordinarily the tenure of each member will be two years, re-nomination may be allowed for another term of two years in exceptional cases with the approval of DAI (CRA).
6. **Meetings of the Board:** At least two meetings would be held every year, one before the finalizing audit plans and another when the findings of two quarterly audit plans are available.
7. **Agenda:** Agenda for meetings will be decided by the DsG/PDs (C).
8. **Expenditure:** Expenditure in connection with the Board shall be met out of the allocations to the office of DsG/PDs (C). External members may be reimbursed the cost of



their boarding/lodging, travel to and fro from their residence/office to venue/office and back. Their travel and other entitlements may be at par with that of DsG/PDs (C).

**9. Remuneration:** ₹ 2,000 as sitting fee to external members.

**10. Functioning of the AABs:** Once the AAB is constituted and each time it is re-constituted the AAB members will be provided necessary literature that will help them understand the role and working of the DsG/PDs (C)'s office as well as copies of latest Audit Reports of C&AG relating to Direct and Indirect Taxes.

Before holding the meetings of the AABs, proper agenda will be drawn and agenda notes circulated. After the meetings are held, the minutes of the discussion will be prepared and circulated to all the members.

A copy of the minutes of the AAB meetings will be sent to the DAI (CRA).

Recommendations of the Board will be duly considered in planning audits and bringing out systemic improvements in the audit process.

## Appendix 9

### Selection of Commissionerates

(Reference: Paragraph 5.6.1)

#### I. Issues considered

To define such parameters unit wise, following points are taken into consideration:

- a. Revenue generation of a unit mostly depends on type of assesseees in it's jurisdiction.
- b. Most of the revenue (> 80 *per cent*) in a unit is generated through TDS and Advance Tax i.e. at the volition of the assessee.
- c. The returns are being selected for scrutiny in CASS system. Recently, this number is on a rise.
- d. Even after intimating the commencement of audit in advance, Internal Audit is not being taken up in most of the units which leads to procrastination in production of records thereby affecting audit schedule.
- e. Revenue risk is directly proportional to the existence of Banking companies, insurance companies, assesseees claiming exemptions/deductions under various sections of Income Tax Act, fall under a jurisdiction of the unit.
- f. Most of the assesseees pay the taxes by 31 March of every year. However, huge refunds are also being issued by the assessing officers from April onwards. Hence 100 *per cent* vigil and evaluation to be kept on refunds.
- g. Huge tax demands were locked up in appeals as revealed by the reviews on "TROs" and "Appellate orders".

#### II. Selection of Commissionerates

The selection of Commissionerates is to be done by calculating their cumulative risk factors for all the units i.e. for all DCsIT/ACsIT/ITOs in a Commissionerate having both assessment and non-assessment charges.

##### Unit-wise Risk Factors

Apart from the general parameters, the other parameters for selection of units are number of scrutiny assessments completed and degree of complexity which are discussed below:

##### (i) Number of Scrutiny Assessments

As all the States will neither have same number of Commissionerates nor same number of units, the FAOs are categorized based on the number of assessing charges and the tax revenue of the State under their respective audit jurisdictions. In heavy charges such as in Metro charges and in a few other States like Andhra Pradesh, Karnataka, Uttra Pradesh and Gujarat which either hold an audit jurisdiction of 200 or more assessing units or where the tax revenue of the State is ₹ 10,000 crore or more, it is seen that the number of assesseees assessed in an

assessing unit is very large compared to other charges. Accordingly, the number of scrutiny assessments per unit in these places also tends to be much higher compared to the other charges. Thus, to factor this risk into our calculation of inherent risks, the field offices are categorized based on the number of assessing charges and the tax revenue of the State under their respective audit jurisdictions on the following lines (Tables 1, 2 & 3).

**Table 1. Classification of Field Offices**

Category	Criteria
<b>A</b>	Field offices having 200 or more assessing charges or tax revenue of ₹ 10,000 crore or more under their audit jurisdiction.
<b>B</b>	Other offices

In the case of field offices falling under Category-A, the risk of the respective assessing unit would be determined as under.

**Table 2 - Classification criteria for Category-A Offices**

Classification Criteria	Risk (Weight)
a. Assessing charges having more than 100 scrutiny assessments	High (6 points)
b. Assessing charges having 51-100 scrutiny assessments	Medium (4 points)
c. Assessing charges having 50 or less scrutiny assessments	Low (2 points)

In the case of field offices falling under Category-B, the risk of the assessing unit would be determined as under.

**Table 3 - Classification criteria for Category-B Offices**

Classification Criteria	Risk (Weights)
a. Assessing charges having more than 75 scrutiny assessments	High (6 points)
b. Assessing charges having 26-75 scrutiny assessments	Medium (4 points)
c. Assessing charges having 25 or less scrutiny assessments	Low (2 points)

## (ii) Degree of Complexity Involved

Degree of complexity involved in the audit of scrutiny assessments in an assessing charge is an important inherent risk parameter. In many states, the distribution of assessee among various assessing charges is made on the basis of various criteria such as their tax status (i.e. Companies, Trusts etc.), the residential status, the nature of business (i.e. share brokers, shipping companies, film circle, professional circle etc.) in view of the peculiarities involved in the assessment of each such case. Further, deductions claimed under various Sections of the Income Tax Act involve compliance with conditions and adherence to detailed procedures

by the assessee and the associated complexities. In case of assessee with high taxable incomes also, the range of activities and the volume of transactions add to the complexity. Further, in case of certain provisions of the Income Tax Act, such as allowance of depreciation, set off of unabsorbed losses, allowance of MAT credit etc., linking of records of earlier years to current assessments becomes necessary. Presence of even a few of these cases in an assessment charge poses a risk of inadvertent errors and omissions in the assessments. The cases assessed in various circles and wards vary in terms of complexity, the charges with higher complexities requiring greater in-depth examination. It is therefore necessary to make an objective assessment of the degree of complexity involved in the assessment records of an assessing charge. This factor of complexity is to be evaluated on a scale of 10 under five broad parameters carrying a maximum of 2 points each as mentioned below:

- a. Presence of assessee with annual turnover of at least ₹ 100 crore;
- b. Presence of any Banks, Financial Institutions, Insurance Companies, Stock Brokers or Builders having an annual turnover of more than ₹ 10 crore among the assessee;
- c. Presence of cases involving exemptions u/s 10A, 10B, 11 and deductions under Chapter-VIA as well as and business-specific deductions under chapter IV of the Income Tax Act. These provide for a maximum 100% deduction/exemption of the profit from the respective sources of income as specified in these sections/chapters.
- d. Necessity for linking of past records, i.e cases involving sections 32, 115JAA, and chapter VI of the Income Tax Act;
- e. Number of appellate decisions exceeding 15 of the scrutiny assessments.

The scoring is to be done as per the following Table 4.

**Table 4 - Scoring for Degree of Complexity**

Parameter		> 15 cases	1-15 cases	No Case
<b>a</b>	Presence of assessee with annual turnover of at least ₹ 100 crore	2	1	0
<b>b</b>	Presence of any Banks, Financial Institutions, Share Brokers, Insurance Companies etc.	2	1	0
<b>c</b>	Presence of cases involving exemptions u/s 10A, 10AA, 10B, 11 and deductions under Chapter-VIA	2	1	0
<b>d</b>	Necessity for linking of past records, i.e cases involving sections 32, 115JAA, and Chapter VI	2	1	0
<b>e</b>	Number of appellate references in the scrutiny assessments	2	1	0

The total score of each assessing unit on the basis of the above criteria would determine the overall degree of complexity associated with the assessments of that assessing unit. The assignment of risk would be as follows (Table 5).

**Table 5 - Total Score for Degree of Complexity**

Classification Criteria	Risk (Weight)
Assessing charges with a score of more than 6	High (6 points)
Assessing charges with a score between 4 and 6	Medium (4 points)
Assessing charges with a score below 4	Low (2 points)

**Control Risk Factors**

Risk Factor		Risk score
<b>1. Number of SOFs issued during the last three years</b>		
<b>For category A offices</b>	<b>For Category B offices</b>	
10 or > 10	6 or > 6	3
4 – 9	3 - 5	2
< 4	< 3	1
<b>2. Whether Internal audit conducted</b>		
No		3
Yes, but not regularly		2
Yes		1
<b>3. Extent of non-production of records in previous audits</b>		
30 per cent or more		3
20 - 29 per cent		2
< 20 per cent		1

The scheme is summarized in Table 6.

**Table 6: Risk factors for all the units and assessments units within Commissioners****Inherent Risk Factor**

(a) Risk Factor	Risk score
<b>1. Type of unit and Category of assessees*</b>	
DCIT/ACIT (Company) with assessing functions	12
ITO (Company) with assessment functions	10
DCIT/ACIT (non-company) with assessment functions	9
ITO (non-company) with assessment functions	7
DCIT/ACIT without assessment functions	4
ITO/Others without assessment functions	2
* Risk indicator of "Category of Assesseees" clubbed with "Type of unit"	
<b>2. Refunds (New risk indicator proposed)</b>	
10 per cent or more of the total refund in CIT	6
5 per cent and < 10 per cent of the total refund in CIT	4

< 5 per cent of the total refund in CIT	2		
<b>3. Demand in Arrears as on 31 March of the year</b>			
10 per cent or more of the total Arrear demand in CIT	6		
5 per cent and < 10 per cent of the total Arrear Demand in CIT	4		
< 5 per cent of the total Arrear Demand in CIT	2		
<b>(b) Overall Score of the Assessment Units within Commissionerates</b>			
<b>I. Number of Scrutiny Assessments (Maximum risk weight = 6)</b>			
	<b>For category A Offices</b>	<b>For category B Offices</b>	
<b>a</b>	> 100	75-100	6
<b>b</b>	51-100	26-75	4
<b>c</b>	50 or < 50	25 or < 25	2
<b>II. Degree of complexity involved in audit of assessments (Maximum risk weight = 10)</b>			
<b>a</b>	Presence of assessees with annual turnover of at least ₹ 100 crore		2
<b>b</b>	Presence of any Banks, Financial Institutions, Insurance Companies, Share Brokers etc.		2
<b>c</b>	Presence of cases involving exemptions u/s 10A, 10B, 11 and deductions under Chapter-VIA and IV		2
<b>d</b>	Necessity for linking of past records, i.e. cases involving sections 32, 115JAA, and chapter VI		2
<b>e</b>	Number of appellate decisions/references in the scrutiny assessments exceeding 15		2
<b>Total Maximum Risk Weight</b>			<b>16</b>

**Note:**

- (1) Field offices may draw the risk scores for mixed units keeping in view the local peculiarities.
- (2) **Average score of CIT:** As the CsIT are not having equal number of units, after arriving total risk score of CIT – by summing up the risk scores of all the units to be audited including non-assessment charges – average score of CIT is to be arrived by dividing the total risk score of CIT by the number of units to be audited.
- (3) **Categorisation of CITs:**
  - a. first 25 per cent Commissioners are to be categorized as high risk Commissioners and to be audited annually.
  - b. 25 per cent of balance Commissioners are to be treated as Biennial and to be audited once in two years.
  - c. All residuary units may be classified as Low risk Commissioners. These units are to be audited triennially, i.e. 33.33 per cent of Commissioners are to be selected (without replacement) for audit in a particular year.

**Note:** If no assessment function is being carried out in such Low Risk Commissioners, they may be audited once in five years, with 20 per cent of such units selected in a random manner (without replacement) for audit in one particular year. If any field office has any difficulty in rationalising the manpower, they may reduce the periodicity of the bottom 75 per cent of the CsIT. Justification in this regard may be indicated in the Audit Plan.

### III. Selection of Offices in the Commissionerate

In order to cover a larger number of Commissioners, as also to screen out the less potential units in the Commissionerates, Intra Commissioner sampling is to be done. Within the assessment Commissionerates selected, 100 *per cent* of the assessment charges may be selected for audit.

Further, non-assessment units such as TRO, Valuation Cell, if any, Range Heads, ITO (Technical/ Admn.), AO(DDO) in office of the CIT are to be taken up for audit in each Commissionerate as systemic issues are to be highlighted compulsorily. Non-assessment charges within the assessment commissionerates may be selected as per the following:

1. TROs: 33 *per cent*
2. ITO(HQ): 100 *per cent*
3. DDO: 1 unit only each year (to be sampled without replacement each year)
4. Range Officer:100 *per cent*

[Authority: Guidelines for Department Centric Audit issued vide C&AG HQ DO letter no. 263/RADT/78-2011/Vol-III dated 12.05.2012].

## Appendix 10

### Allotment of Working days for Audit

(Reference: Paragraph 5.6.1)

The following norms are prescribed for allotment of working days for audit of different assessment/non-assessment charges for subsequent years:

Sl. no.	Category of Office	Periodicity	Days allotted
<b>Assessment charges in CIT with Assessment units</b>			
1	DCIT/ACIT – Company	Annual	35
2	DCIT/ACIT – Central	Annual	35
3	DCIT/ACIT - Mixed	Annual	30
4	DCIT/ACIT – Non-company/Salary etc.	Annual	20
5	DCIT/ACIT (Company/non-company)	Biennial	30 (2 years records to be checked)
6	DCIT/ACIT (Company/non-company)	Triennial	30 (3 Years records to be checked)
7	ITO – Company	Annual	20
8	ITO – Company	Biennial	20
9	ITO –non-company	Biennial	12
10	ITO – Company/Non-company	Triennial	12
<b>Non assessment charges in CIT with Assessment charges</b>			
11	CIT		03
12	AO(DDO)		02
13	TRO		02
14	One Range Officer		02
15	Assessing Officer acting as DDO		02
16	Valuation Cell		03
<b>CITs exclusively non-assessment charges</b>			
17	Each CIT with all Non-assessment units		30*
18	PAO/ZAO	Annual	12

\* as the nature of work is different from supervising officers in CsIT with assessment units, 30 days were allotted

Note: Based on number of assessment records to be audited, field offices may enhance/reduce the number of mandays.



## Appendix 11

### Audit requisition for information/records of auditee units

**(Reference: Paragraph 6.2.c )**

(Refer C&AG HQ letter no. 187-RADT/Work norms/1-2008, dated 22.06.2010, Annexure-II)

Important Information/records need to be called for:

1. (a) Name and Designation of the Officer(s) who held the charge of the ward/circle during the period from .....to .....
- (b) AO Code
- (c) Date of creation of charge:
- (d) Whether computerized, if so, which software      CASS      AST      OLTAS      ETDS applied.
2. The name of concerned CIT under whose jurisdiction this ward/circle is covered.
3. The name of concerned DC(Audit) Range under whose jurisdiction this ward/circle is covered.
4. (a) Return receipt register
- (b) Hard and soft copies of Demand & Collection Register (D&CR) in respect of assessed cases under various sections
- (c) List of summary cases selected for scrutiny assessment during Financial Year. If the selection process has not been completed then the reason thereof may be given to audit
- (d) List of cases seen by Internal Audit Party and audit observation raised with tax effect
- (e) List of cases from the D&C register assigned to other assessing charges, if any
- (f) List of cases in which arrears of demand of ₹ 10 lakh and above is outstanding for three years and more as on 31<sup>st</sup> March..... with relevant dossier, recovery folder etc.
5. (a) Total no. of returns received during the period 1.04.20\_\_ (Year) to 31.03.20\_\_ (Year):

FY	Corporate	Non Corporate
- (b) Total income as per return

FY	Assessment cases	Appeal effect
- (c) Total no. of cases assessed during the period 1.04.20\_\_ (Year) to 31.03.20\_\_ (Year):

FY	Summary	Scrutiny	Appeal effect
- (d) Total assessed income in respect of all the assesseees in the assessment charge

FY	Summary	Scrutiny	Appeal effect	Rectification/revision cases
----	---------	----------	---------------	------------------------------

(e) Total tax paid (including interest) in respect of all the assessees in the assessment charge

FY	Summary	Scrutiny	Appeal effect	Rectification/revision cases
----	---------	----------	---------------	------------------------------

6 (a) Demand outstanding as on (upto previous year) 01/04/..... ₹ \_\_\_\_\_ 01/04/..... ₹ \_\_\_\_\_ 01/04/..... ₹ \_\_\_\_\_

(b) Demand raised during the year 20\_\_ - \_\_ (Year) ₹ \_\_\_\_\_ ₹ \_\_\_\_\_ ₹ \_\_\_\_\_

(c) Collection made during the year 20\_\_ - \_\_ (Year) ₹ \_\_\_\_\_ ₹ \_\_\_\_\_ ₹ \_\_\_\_\_

(d) Demand outstanding as on (end of the current year) 31/03/..... ₹ \_\_\_\_\_ 31/03/..... ₹ \_\_\_\_\_ 31/03/..... ₹ \_\_\_\_\_

7. Please state if there was any case of misappropriation during the period from 1/4/..... to 31/03/.....

8. Please state whether any demand was written-off during the period from 1/4/..... to 31/3/..... If so, the relevant records may please be produced to audit

9. A list showing the Name/PAN/AY of the assessee(s) transferred to this unit from other units during the period of audit may please be given

10. A list showing the Name/PAN/AY of the assessee(s) transferred from this unit during the period of audit may please be given

11. Total returned income during the year

12. Total assessed income during the year

13. Name & PAN of Top 20 companies/Assessees on the basis of Taxable Income

14. Name & PAN of Top 20 companies/Assessees on the basis of Advance Tax payment

15. Name & PAN of Top 20 companies/Assessees returning a loss

16. Name & PAN of Top 20 companies/Assessees against whom penalty/prosecution cases are going on

17. Name & PAN of Top 20 companies/Assessees in respect of turnover during the period covered under audit

18. Name & PAN of Top 20 companies/Assessees against whom appeal cases are going on, where tax demand is in excess of ₹ 50 lakh

19. Name & PAN of Top 20 companies/Assessees against whom Search and Seizures were conducted during the last two/three years

20. Name & PAN of Top 20 companies/Assessees where survey was conducted during the last two/ three years
21. Name & PAN of Top 20 companies/Assessees where Review Petitions u/s 263 and 264 decided in the period of audit (Assessment year wise)
22. List of cases of refund exceeding ₹ 50 lakh in each case
23. If trust cases are assessed, list of cases where receipts are more than ₹ 1 crore
24. Registers as given below for the financial year.
  - a. Registers of Penalties;
  - b. Register of Demands and collection of Advance Tax;
  - c. Register of Refunds application;
  - d. Register of Irrecoverable Demands;
  - e. Control Register of Cases (Blue Book);
  - f. Register of Appeal Cases; and
  - g. Register of issue of Notice u/s 154/148 along with list of order passed u/s 154/148 till the commencements of audit.

Note: Information in respect of sl. No. 8 to 10, 13 to 23 may please be furnished in a separate sheet.

## Appendix 12

### Other information/data required to be called for/collected

(Reference: Paragraph 6.2.c)

**Table-1: No. of stop filers and non-filers identified**

₹ in lakh

Financial year ended	Total PAN	Total return received	No. of cases where no return received			Action taken			Remarks
			Stop-filers	Non-filers	PAN Deactivated	No. of cases	No. of return filed	Total demand raised	
Company									
Firm									
Trust									
Co-op. Society									
Others									

(Source: Information in departmental database and action taken thereon)

Audit Requisition to All Assessing Officer under the CIT charge and ITO(HQrs) under the concerned CIT charge.

**Table-2: No. of new assessee (PAN) identified**

No. of information received during the Financial Year	Nos. of cases where action taken	New assessee identified	Remarks
AIR			
CIB			
Search (if any)			
Survey (if any)			
Others (Tax evasion petition etc.)			
Total			

(Sources: Action taken on actionable NSDL data and internal information)

Audit Requisition to All Assessing Officer under the CIT charge.

**Table-3: Effectiveness of surveys**

Amount in ₹ lakh

Section/Financial year	No. of surveys Conducted	Amount of undisclosed income	Total demand raised	Total tax collected	Remarks
Survey under section 133A(1)					
Year 1					
Year 2					
Year 3					
Survey under section 133A(5)					
Year 1					
Year 2					
Year 3					
Survey under section 133B					
Year 1					
Year 2					
Year 3					

(Sources: Survey register, DCR, departmental database)

Audit Requisition to All Assessing Officer under the CIT charge.

**Table-4: Effectiveness of searches and seizure operations**

Amount in ₹ lakh

Financial year	No. of appraisal/ survey reports received from investigation wing	Amount of undisclosed income	Total demand raised	Total amount paid	Remarks
Year 1					
Year 2					
Year 3					

(Sources: Survey register, DCR, departmental database)

Audit Requisition to All Assessing Officer under the CIT charge.

**Table-5: information on cases referred to TPO**

Amount in ₹ lakh

Financial year ended	Cases referred to TPO		Cases received back from TPO		Remarks
	Nos.	Amount of International transaction	Nos.	Amount of addition	

(Sources: Survey register, DCR, departmental database)

Audit Requisition to All Assessing Officer under the CIT charge.

**Table-6: Identification of New Assesseees in International Taxation**

(This information may be collected from International Taxation only)

Amount in ₹ lakh

Financial year ended	No. of Information		Total No. of Information disseminated	Total Nos. of cases where action taken	New assessee identified			Remarks
	Sought	Received			No.	Total demand raised	Total tax paid	

(Sources: International Taxation Wing)

**Table-7: Scrutiny completed, demand raised and demand in dispute**

Amount in ₹ lakh

Financial year ended	No. of scrutiny assessment to be completed	No. of scrutiny Assessment completed								Remarks
		u/s 153A&C	u/s 147	u/s 143(3) & 144	Returned income (A)	Assessed income (B)	Demand raised	Demand recovered	Demand in dispute	

(Source: CAP I &amp; II/DCR/Records available with AO)

Audit requisition to all AOs under the CIT charges.

**Table-8: Information on Refunds**

Amount in ₹ crores

Financial year ended	Brought forward refund cases		Addition during the year		Issued during the year		Carried forward refund cases	
	Nos.	Amount	Nos.	Amount	Nos.	Amount	Nos.	Amount

(Source: Refund Register)

Audit requisition to all A.Os under the CIT charges.

**Table-9: Information on collection of demand and trend of collection**

Amount in ₹ crores

Financial year ended	Brought forward demand	Current years Collection demand		Carry forward of the demand	
		Arrear demand	Current demand	Arrear demand	Current demand

(Source : CAP Report)

Audit requisition to all AOs under the CIT charges.

**Table-10: Collection of Tax in arrears by TROs**

(May be obtained from TROs only)

Amount in ₹ crores

FY ended	Brought forward demand		Current years' demand		Disposal				Carried forward			
					Arrear		current		Arrear		Current	
	No. of certificates	Amount	No. of certificates	Amount	No. of certificates	Amount	No. of certificates	Amount	No. of certificates	Amount	No. of certificates	Amount

(Source: Quarterly progress Report of TRO)

**Table-11: Pre assessment and post assessment collection**

Amount in ₹ crores

Financial year ended	Target of collection	Pre assessment collection			Post assessment collection		Total collection	Total refunds	Net collection
		TDS/TCS	Advance tax	Self assessment tax	Regular tax	others			
Company									
Non-company									

(Source: Departmental database)

Audit requisition to all A.Os under the CIT charges.

**Table-12: Position of Suspense accounts**

{May be taken from ZAO/CIT(CO)}

Amount in ₹ lakh

Financial year ended	Opening balance		Addition during the year		Cleared during the year		Closing balance	
	No. of transactions	Amount	No. of transactions	Amount	No. of transactions	Amount	No. of transactions	Amount
Company								
Non-company								

{Source : Departmental database of ZAO/CIT(Computer operation)}

**Table-13: Information on Capacity building**

Cadre	Sanctioned strength	Working strength	No. of officials imparted IT related trainings during the year	No. of officials imparted other training during the year	Remarks

{Source: ITO(HQrs) of the CIT Charge}

**Table-14: Details of orders passed during the year**

No. of cases due for revision/reduction of waiver	No. of cases in which orders passed/ allowed	No. of cases pending	Remarks, if any

U/s 263

U/s 264

U/s 273A

{Source: Records available with ITO(HQrs) of the CIT Charges}

Audit requisition to all AOs under the CIT charges.

**Table-15: Approval of various funds from Competent Authorities during the Financial Year**

Competent authority	No. of applications received	No. of cases in which approval accorded	No. of cases pending	Remarks, if any
Provident fund				
Superannuation fund				
Gratuity fund				
For donations u/s 80G				
Registration of trusts u/s 12AA				

Note : Competent authorities :

Provident fund, Superannuation fund and Gratuity fund- jurisdictional Commissioner.

Exemption under section 80G and Registration of Trusts under section-12AA – Jurisdictional CIT charges or DIT (Exemption) in case metro charges.

{Source: Records maintained by the ITO (HQrs) at the jurisdictional CIT charge or DIT(Exemption) charges.}

Audit requisition to the ITO(HQrs) under the CIT/DIT(E) charges.



**Table-16: Internal Audit**

Amount in ₹ lakh

Name of assessment unit under the CIT charges	Total no. of records	Records requisitioned by IAP	Records produced to IAP	Objections raised by IAP	Tax effect of objections	Cases where remedial action taken		Cases Pending	
						Number	Amount	Number	Amount

{Source: Internal Audit register and other records maintained in jurisdictional CIT(Audit) charge and Assessing Officers under the Assessment CIT charges}

Audit requisition to the Jurisdictional CIT(Audit) charges/Assessing officers under the Assessment CIT charges.

**Table-17: Pursuance of outstanding objections of Internal audit**

Amount in ₹ lakh

Name of the assessment unit under the CIT charges	Paras outstanding as at beginning of the year		Paras settled during the year		Paras outstanding at the end of the year	
	No.	Amount	No.	Amount	No.	Amount

{Source: Internal Audit Register and other records maintained in jurisdictional CIT(Audit) charges and Assessing officers under the Assessment CIT charge}

Audit Requisition to the jurisdictional CIT(Audit) charges and Assessing officers under the Assessment CIT charge.

**Table-18: Follow up on Receipt Audit objection**

Amount in ₹ lakh

Name of the assessment unit under the CIT charges	Paras outstanding as on 1 April of the year		Paras settled		Paras outstanding as on date	
	No.	Amount	No.	Amount	No.	Amount

{Source: Revenue Audit register and other records maintained in jurisdictional CIT(Audit) charge and Assessing officers under the Assessment CIT Charges}

**Table-19: Information on registers/records maintained**

Sl. No.	Number of register/document	Whether maintained (Yes/No)	If yes then audit may call it for examination and prepare any information it may deem relevant
1	Retention of books & documents		
2	Audit Register (Internal & Revenue)		
3	Register of Tax Evasion Petitions		
4	Survey Register		
5	Register of Grievance Petitions		
6	Register of Penalty		
7	Stay of Demand Register		
8	Appeal Registers {CIT(A), ITAT, HC, SC}		
9	Register/Records of Prosecution cases		
10	Folder of CAP-I, II & III (WT)		
11	Folder of speedy processing of returns		
12	Folder of Quarterly Progress Reports		

## Appendix 13

### Norms for Selection of Assessment Records

(Reference: Paragraph 6.2.d)

(C&AG HQ DO letter nos. 263/RADT/78-2011/Vol-III dated 24.05.2012 and 275/RADT/78-2011/dated 07.06.2012)

#### A. Revenue Audit:

The existing norms for selection of records in assessment charges are as under:

##### For Annual Units

Scrutiny assessments	100 per cent
Consequential orders	100 per cent
Revisions and Rectifications	10 per cent
Penalties	10 per cent
Refunds > ₹ 5 lakh	100 per cent

##### For Biennial Units

	Earlier year	Current year
Scrutiny assessments	50 per cent	100 per cent
Consequential orders	100 per cent	100 per cent
Revisions and Rectifications	10 per cent	10 per cent
Penalties	10 per cent	10 per cent
Refunds > ₹ 5 lakh	100 per cent	100 per cent

##### For Triennial units

	1 <sup>st</sup> year	2 <sup>nd</sup> year	Current year
Scrutiny assessments	25 per cent	25 per cent	100 per cent
Consequential orders	100 per cent	100 per cent	100 per cent
Revisions and Rectifications	10 per cent	10 per cent	10 per cent
Penalties	10 per cent	10 per cent	10 per cent
Refunds > ₹ 5 lakh	100 per cent	100 per cent	100 per cent

#### B. Expenditure Audit

As prescribed in Expenditure Audit Manual, two months in current year and one month in respect of earlier years need to be selected.

## Appendix 14

### Declaration to be given by audit party before commencement of audit

(Reference: Paragraph 6.2)

(This declaration is required to be signed separately by each member of the audit team prior to the commencement of the audit. A copy of the declaration should be given to the head of the audited entity as soon as the audit commences. Each declaration should be enclosed in original with the Inspection Report.)

I,

Shri/Smt./Ms. \_\_\_\_\_ (name), \_\_\_\_\_

(Designation) hereby declare that:

- I have read and understood the SAI India's Code of Ethics.
- I will uphold and abide by the SAI India's Code of Ethics and the CSS (Conduct) Rules.
- I do not have any personal or professional interest in the audited entity. As a representative of the SAI India, I undertake to adhere to the following:
  - i. I will conduct the audit assigned to me in a fair, honest, timely and competent manner.
  - ii. I will maintain strict confidentiality of all information gathered in the course of audit.
  - iii. I will not behave or conduct myself in an inappropriate manner with any official of the audited entity.
  - iv. I will not accept any kind of inducement prohibited under the Central Civil Services (Conduct) Rules, 1964, directly or indirectly from the audited entity.

Signed: \_\_\_\_\_ Dated: \_\_\_\_\_

(Authority: Paragraph no. 3.24 of the Code of Ethics)

## Appendix 15

### Category-wise details of observations

(Reference: Paragraph 6.5.1.a and 7.1)

#### Category-wise details of observations

##### A. Quality of assessments

- a. Arithmetical errors in computation of income and tax
- b. Incorrect application of rate of tax, surcharge etc.
- c. Non/short levy of interest/penalty for delay in submission of returns, delay in payment of tax etc.
- d. Excess or irregular refunds/interest on refunds
- e. Mistake in assessment while giving effect to appellate orders

##### B. Administration of tax concessions/exemptions/deductions

- a. Irregular exemptions/deductions/reliefs given to Corporate
- b. Irregular exemptions/deductions/reliefs given to Trusts/Firms/Societies
- c. Irregular exemptions/deductions/reliefs given to individuals
- d. Incorrect allowance of Business Expenditure
- e. Irregularities in allowing depreciation/business losses/Capital losses

##### C. Income escaping assessment due to omissions

- a. Under special provisions including MAT/Tonnage Tax etc.
- b. Incorrect classification and Computation of Capital Gains
- c. Incorrect Computation of Income
- d. Omission in implementing provisions of TDS/TCS
- e. Non/short levy of wealth tax
- f. Unexplained investment/cash credit

##### D. Others

Over charge of tax/interest

## Appendix 16

### Commonly applied audit checks

(Reference: Paragraph 6.6)

#### General Audit Checks

1. Whether there are any arithmetical inaccuracies and transcription errors?
2. Whether the rate of tax has been applied correctly?
3. Whether surcharge/education cess and penalty, if leviable, has been added to the tax on the total income determined on assessment (including a case of Block assessment)?
4. Has mandatory interest under sections 234A, 234B, 234C and 234D been charged correctly with reference to a period of default?
5. Whether all the disallowances discussed in the body of the assessment order have been taken into account in the computation of total income?
6. Whether total amounts proposed to be considered separately in the body of the assessment order have been added back to the returned income in the computation of total income?
7. Whether incomes earned from all sources have been considered and incomes under all heads e.g. Salary, Business Income, Capital Gain, House Property & Other Sources have been computed correctly with reference to the provisions of the Act?
8. Whether, in a case of reassessment or re-computation of income u/s 147/153A, interest u/s 234A and 234B has been calculated up to the date of reassessment or re-computation?
9. Whether residential status of the assessee has been correctly determined and the total income of the assessee has been computed correctly having regard to residential status?
10. Whether brought forward losses u/s 70 to 80 of the Act have been correctly assessed and allowed and whether any record of losses to be allowed to set off in future has been maintained?
11. Whether Refunds including interest has been correctly assessed and allowed and whether it has been issued promptly?
12. Whether interest on refund, if any, received in the previous year is shown in the taxable income?
13. While computing taxable income whether disallowance of unascertained liabilities was taken care of?

14. Whether the amortized expenditures (e.g. u/s 35DD, 35D etc.) have been correctly allowed?

In the case of claim u/s 35D whether the total expenses is restricted to 5 *per cent* of cost of the project or 5 *per cent* of the capital employed, whichever is more, in the case of corporate assessee and 5 *per cent* of cost of project in the case of non-corporate assessee.

15. Whether the admissible expenditure claimed in the computation of taxable income is actually forming part of the profit and loss account?

- a. Expenditure incurred for strengthening the capital structure of a company is capital in nature.
- b. Whether share issue expenses, not eligible for amortization u/s 35D, have been allowed as revenue.

16. Whether the exemptions/deductions under various sections have been correctly computed and allowed?

17. Whether all expenditure including the Capital or Revenue Expenditures have been correctly classified and allowed?

18. Whether payments otherwise than through crossed cheque have been verified for disallowance u/s 40A(3)?

19. Whether disallowances, deductions under various provisions of the Act, brought forward losses and its set-off against current taxable income and claim of statutory expenditure u/s 43B etc., as qualified in the Auditor Report [Form 3CD] was taken care of?

20. Whether the incomes of other persons have been considered as per section 60 to 61 of the Act?

21. Whether the provisions relating to Tax Deducted at Source have been followed and the expenditures have been correctly regulated where TDS has not been deducted or after deduction, not paid to the Govt. account in due time (there should be effective correlation between TAN & PAN and the AO should obtain required information from TDS certificates)?

22. Whether the gross receipts as shown in the TDS certificates were considered for taxable purposes and the correct claim of tax credit was allowed?

23. Whether the MAT has been correctly calculated and rightly set off in future years (wherever applicable) and whether any records of MAT allowed to be set off in future has been maintained?

24. Whether the accounts have been audited, wherever necessary, and actions have been taken for any non-compliance there to?

25. Whether the information contained in the Auditors Certificates/ Tax Audit Reports required for claiming different deductions has been duly considered?

26. Whether the return of income/loss has been signed by the authorized person as per section 140?
27. Whether the orders of the Appellate Authorities and Settlement Commission have been correctly effected to?
28. Whether the remuneration to the partners and interest on capital employed have been correctly allowed with reference to the provisions of the Act as well as the partnership deed (In case of AOP and BOI, the same are not allowable deductions)?
29. Whether in respect of Co-operative Societies, apart from the points mentioned above as applicable, the deductions allowed u/s 80P was examined?
30. In respect of Trust, apart from the points mentioned above as applicable, it is to be examined whether the exemptions allowable with reference to its activities have been allowed correctly and the accumulated funds have been utilized rightly within the time frame in subsequent years and whether any record of utilization of the fund in future has been maintained?
31. Whether the assessment has been seen by IAP/SAP of the Department?
32. Whether any disallowance offered by the assessee in the computation sheet while filling his return of income/loss has been omitted by the Assessing Officer (AO) in the computation sheet of the assessment order?
33. Whether the return of loss is filed within the time limit permitted u/s 139(1).
34. Whether income from undisclosed sources has been brought to tax u/s 68 and 69?
35. Whether the Residential Status of the assessee has been correctly assessed?
36. To link up past records and see if any addition/disallowance is required to be made on account of any of the following situation:
  - a. Addition made in the past requiring similar action in the current year;
  - b. Method of valuation not accepted in the past requiring adjustment of values of opening stock and closing stock;
  - c. Brought forward losses, allowances and depreciation not correctly shown in the return;
  - d. Admissibility of deductions u/s 80 HH, 80 I, 80 IA on the basis of past records.
37. To compute the capital gain, benefit of cost of indexation is to be given only in cases of Long Term Capital Assets.
38. As per the provisions of the section 50 of the Act, if depreciation has been allowed on any fixed asset than the capital gain/loss arising on the disposal of this asset is always treated as short term capital gain/loss irrespective of the period of holding of this capital asset by the assessee.
39. If the return of income/loss has been revised by the assessee under section 139(5), then it is permissible only if the assessee has filed original return of income within the time limit as stipulated under section 139(1). Belated return can't be revised.



40. Whether any deductions are allowed on actual payment basis in accordance with relaxation u/s 43(B), vide amendments from 01.04.2006.
41. If return is submitted belated, deduction under Section 10A and 10B will not be allowed.
42. Whether deductions under chapter VIA were restricted to gross total income after setting-off brought forward losses etc?
43. Whether claims under various sections of chapter VI are in accordance with section 80AB viz. that deductions are claimed on net income (after expenses) and not on gross income?
44. Whether the TDS has been deducted at the prescribed rate from all the payments as per the provisions of the Act and after deduction of the same has been deposited into Government account within due date?

---

### Specific Audit Checks

---

#### Depreciation

1. Whether claim of depreciation is in accordance with the prescribed rate as enshrined in the Income Tax Rules, 1962?
2. Whether the assets are actually owned by the assessee and whether assets were put to use for the purpose of business of the assessee during the Previous Year?
3. The AO should ensure the following:
  - a. In case of a company, whether the entire amount of depreciation as per Companies Act debited to the P&L A/c has been added back to taxable income?
  - b. Whether admissible depreciation has been claimed as deduction?
  - c. Whether depreciation is claimed in the P&L A/c as well as in the computation statement?
4. In case of non-companies, whether depreciation at the prescribed rates has been debited to P&L A/c?
5. Whether the depreciation on additions made to the assets are clearly bifurcated as less than 180 days and more than 180 days and whether depreciation has been restricted to 50 *per cent* of prescribed percentage for assets used for less than 180 days?
6. Whether the additional depreciation is claimed at the prescribed rates of 20 *per cent* or 10 *per cent* as the case may be?
7. In case where additional depreciation is claimed, whether it is ascertained that it is claimed only on the 'New' plant & machinery? For granting additional depreciation, the assessee should be engaged in manufacturing activity. Whether this was ascertained from the annual report?
8. Whether depreciation is being claimed on 'Goodwill' which is not an entitled asset?
9. Whether depreciation on foreign car is allowed subject to the conditions prescribed?

10. Whether the depreciation has not been claimed in cases
  - where WDV of the block of assets is reduced to zero?
  - where block of assets is empty or ceased to exist on the last day of the previous year?
11. In case of Trusts whether depreciation is being claimed on assets whose cost has already been claimed as application of income? Application of income can be allowed but not depreciation.
12. In case of power generating units depreciation cannot be claimed under WDV method without exercising the mandatory option. By default they are entitled to claim under Straight Line Method (SLM) only?
13. Whether it is checked that the correct closing WDV's only are being adopted as next year's opening WDV?
14. Whether any disposed assets are still being shown in the schedule of assets and depreciation claimed thereon?
15. Whether information of brought forward depreciation/loss furnished in 3CD Report is correctly claimed as set-off against the current taxable income?
16. In case of Amalgamation & Demerger etc., whether depreciation is being regulated in accordance with section 72A?
17. In the case of building taken on lease, whether depreciation is allowed only on the capital expenditure incurred on it by the assessee?
18. Assets brought into business of the firm by partners, only the firm is entitled to depreciation and not the partner. Whether this aspect has been examined?
19. As per section 38(2), assets used partly for business purpose, allowance of depreciation to be restricted proportionately. Whether this aspect has been examined?

#### Deduction under section 10A

1. Whether the deduction claimed was in r/o profits derived by an undertaking from export of articles or things or computer software (verify break-up of export sales. Domestic turnover need to be excluded)?
2. Whether the deduction was claimed beyond 10<sup>th</sup> year relevant to PY in which the undertaking had commenced manufacture of articles/software and opted for the claim of deduction?
3. Check whether 'Profits derived from Exports' was = Profits of the business x ETO/TTO,  
 where ETO = Export turnover excluding expenses incurred in foreign exchange towards (i) freight, telecommunication charges and insurance attributable to export of the articles, etc outside India, and (ii) provision of technical services outside India. Income from other heads, like interest income, capital gains, house property should be excluded. Whether these aspects have been examined?
4. In case of deduction u/s 10A (1), whether deduction allowed is equal to 100 % of profits from business derived from exports?

5. Where the deduction was claimed under the provisions of this section before the PY 2000-01, whether the deduction is claimed only for the unexpired period of ten AYs?
6. Where the undertaking initially located in a Free Trade Zone or Export Processing Zone, was subsequently converted into a Special Economic Zone (SEZ). Check whether the period of 10 AYs is reckoned from the PY during which the undertaking originally commenced manufacture in the Free Trade Zone/ Export Processing Zone but not from PY in which it was converted into a SEZ?
7. Whether deduction claimed beyond specified assessment year?
8. Check whether the 'Special Reserve Account' was used for the purposes permitted under sub-clauses (i) and (ii) to section 10A(1B)(a) and whether deduction was brought to tax in the AY relevant to the PY in which the said conditions were contravened, or where the amount remained unutilized in the AY relevant to PY in which the said 3 year period expired?
9. Whether the export proceeds are received in India within 6 months from the end of the PY, or within the period extended by the competent authority?
10. Whether the assessee has furnished Report of an Accountant in Form 56F certifying that the deduction has been correctly claimed?
11. (i) Whether the undertaking had begun manufacture, production of articles, things, computer software, after 01/04/2003, in any SEZ?  
(ii) Has the undertaking begun manufacture/ production of the articles, software, after the PY relevant to the following AYs, in the following cases :
 

Free Trade zone	01/04/ 1981 or after
Hardware Technology Park/Software Technology Park	01/04/1994 or after
Special Economic Zone	01/04/2001 or after
12. Whether deduction claimed is higher than:  
deduction in r/o profits derived from exports business to the extent of:
  - a. 5 consecutive AY beginning with AY relevant to PY in which the production begins– 100%,
  - b. next 2 AYs -50%
  - c. Last 3 AYs –eligible profits to be debited to the P&L Account and transfer the same as 'SEZ Re-investment Allowance Reserve Account' in the Balance Sheet not exceeding 50% of the profits?
13. Whether the undertaking was formed by splitting up or reconstruction of an existing business or by transfer of used plant or machinery, to a new business?
14. Whether the assessee has claimed set-off of carry forward of losses under the head 'business' or 'capital gains' relating to the business of the undertaking pertaining to AY 2000-01 or an earlier AY, against income of any AY subsequent to the last AY for which the assessee was eligible for deduction under this section?
15. Whether the assessee has claimed deduction u/s 80IA or 80IB against the profits in respect of which the assessee has claimed deduction under this section?

16. Where the undertaking of an Indian company entitled to deduction u/s 10A, has been transferred, before expiry of the period specified in this section, to another Indian Company in a scheme of amalgamation or demerger, deduction under this section shall not be admissible to the amalgamating or demerged company for the PY during which the demerger took place. However, the resulting company would be eligible for the deduction in the subsequent AYs?

#### Charitable Trusts and Institutions

1. Whether the Trust is registered u/s 12 AA of the Act?
2. Whether approval for exemptions was granted by the appropriate authority?
3. Whether exemption was allowed for the period for which approval/registration was granted?
4. When income exceeds the maximum amount which is not chargeable to income tax whether audit report in Form 10B is filed or not?
5. Applying the proviso to section 2(15) if the objects of the trust are not found to be charitable, whether computation of total income has been made as per the normal provisions of the Act.
6. Whether any contribution received without any specific direction from donors and held under corpus have been treated as income of trust/institution?
7. Whether at least 85% of the income from property held under trust for charitable or religious purposes has been applied for the purposes of the trust? If not, whether Form 10 has been filed.
8. Whether the income from business activity has been applied on charitable purpose to claim exemption? If not, whether the short fall of such application has been made taxable income?
9. In cases, where income or part thereof has been accumulated or set apart,
  - a. Whether the amount so accumulated or set apart has been invested/ deposited in any one or more modes or forms specified in sub section (5) of Section 11?
  - b. Whether the amount so accumulated or set apart has been utilized for the specified purpose in the stipulated time frame? If not, whether the amount not so utilized has been brought to tax?
  - c. Whether the amount so accumulated or set apart has not been utilized for making any payment to any trust or institution registered/s 12AA or notified in clause (iv), (v), (via) of section 10 (23C)?
10. Whether the property from which income is derived, is held by the trust and whether it is held wholly for charitable purposes only?
11. Whether any income not received in the previous year in which it was derived was taken as income in the following year or not?
12. Whether income set apart is accumulated beyond 5 years. In case of accumulation beyond 5 years, the amount so set apart has to be taxed as per section 11(2)(a) and (2)(c)?

13. The assessee has to take prior approval of the Board as per proviso to section 11(1) (c) for application of income derived by the Trust for any charitable purpose outside India, which tends to promote international welfare in which India is interested. Whether necessary prior approval was taken in such cases?
14. Whether separate books of accounts have been maintained in respect of income from business activity to claim exemption? In a case where assessed income of such business undertaking exceeds the income reflected in the books of accounts, whether the exemption has been limited to the extent of income reflected in the books of accounts?
15. The exemption of income is not available in the following cases:
  - a. If the income is applied for the benefit of a particular religious community or caste and income is not applied for the benefit of the Public.
  - b. If the trust carries out business not for its objectives.
  - c. If the income or property is applied or used for the benefit of the persons specified in section 13(3) of the Act.
16. Whether the tax has been levied at maximum marginal rate in following circumstances-
  - a. Where the trust is created after March 31, 1962, (i.e. after commencement of the Act) any part of the income of the trust ensures, under the terms of the trust deed, directly or indirectly, for the benefit of specified categories of persons such as, the authors of the trust, trustee or manager etc.?
  - b. Where any part of the income or any property of the trust is used or applied during the relevant year, directly or indirectly, for the benefit of specified categories of persons?
  - c. Where trust funds are invested in contravention of section 11(5)?
17. Whether the department is verifying the nature of donations?
18. Whether the department is charging tax on anonymous donations as per provision of section 115BBC?
19. Whether all the assesseees who have been granted approval/registration to become eligible for claiming the exemptions have been filing the returns of income?
20. Whether any benefit is drawn directly or indirectly by the interested person?
21. Whether any donation received by the organization notified under Section 80G(2) (d) has been utilized for the purposes other than providing relief to the victims?
22. Whether the assessee is allowed depreciation on assets in spite of claiming the whole amount of expense under application of income in the year of expense?
23. Whether the dual benefit has been taken of borrowed fund; one by including it in application of income under the head of addition to fixed assets and another at the time or repayment of loan?

---

**Firm**

1. Whether remuneration has been authorized by the partnership deed?
2. Whether remuneration paid to the partner has exceeded the permissible limit in terms of section 40(b)(v).
3. Whether payment of interest was authorized by the partnership deed?
4. Whether rate of interest paid to the partners on amount standing in capital account was within prescribed limit of 12 *per cent* and is as per partnership deed?
5. Whether interest on debit balances due to drawings is charged for interest as per partnership deed?
6. Whether in the case of changes in the constitution of firm, carry forward and set-off of losses was allowed as per provisions of section 78?
7. Whether the share of profit received by the partners from the firm and claimed exemption u/s 10(2A), then the expenditure claimed by the partners has been disallowed u/s 14(A) read with Rule 8D of Income Tax Rules, 1962?
8. Whether the tax liability including penalty as per provisions has been shown properly in case of dissolution of Firms?
9. Whether during the scrutiny assessment, the AOs of selected CsIT have examined the transactions relating to Annual Information Report (AIR), available to them in the Individual Transaction Statement (ITS)?
10. Whether the assessment is made correctly in respect of cases of surveys under section 133A of Act conducted, tax demand raised and collection thereof?
11. Whether there is any lacuna or ambiguities in the provisions of the Act and deficiencies, if any, in the administration or policy relating to the assessment of firm?
12. Whether all other provisions of the Act are complied with by the Firms for computing the Income?
13. Whether the department has developed any mechanism or system where cross verification/check of assessment of firms with the assessment of their partners may be done?
14. Whether all assets & liabilities relating to the business of the firm immediately before succession become the assets & liabilities of the company?
15. Whether partners of the firm receive any consideration or benefit directly or indirectly in any form or manner other than by way of allotment of shares in the company?
16. Whether the aggregate of the shareholding of the partners in the company is not less than 50 *per cent* of total voting power in the company?
17. Whether the partners' shareholding continues to be as such for a period of 5 years from the date of the succession?

---

### MAT or Tax under Special provisions

1. Whether minimum alternate tax has been levied on book profits calculated under section 115JB?
  2. Whether interest paid in respect of MAT credit?
  3. Whether Chartered Accountant furnished a report (in Form 29B) certifying that book profit has been computed in accordance with the provisions of section 115JB?
  4. Whether Chartered Accountant furnished a report (in Form 29C) certifying that that book profit has been computed in accordance with the provisions of section 115JC?
  5. MAT is also applicable for Limited Liability Partnership firms (Section 115JC) from AY 2012-13 onwards and for other than corporate assessee from AY 2013-14 onwards.
  6. MAT credit is available u/s 115 JAA from assessment year 2007-08. Tax payable after availing MAT credit should not be less than the tax payable under MAT for the current year.
- 

### Income from Business

Under the Act, expenditure not being capital expenditure or personal expenses of assessee laid out for business purposes is allowable expenditure. In the case of income from business or profession it should be seen that:

1. Expenditure has not been incurred for non-business purpose.
2. Expenditure incurred was not capital expenditure on which benefit was to accrue over a number of years.
3. In the case of investment companies, whether sale of shares is offered as business income or claimed wrongly as capital gains.
4. Provisions made for unascertained liabilities such as doubtful debts [read with section 36 (1)(vii) & (viii)], advances and claims etc. have not been allowed.
5. Whether deduction u/s 36(1)(va) of Income Tax Act has been allowed for the amounts paid within the due date to the relevant fund?
6. Under the Act, the assessee following mercantile system of accounting works out annual profits on due or accrual basis i.e. after providing all expenses for which a legal liability has arisen and taking into account for all receipts that have become due regardless of their actual receipt or payment. 'Tax Audit Report in Form-3CD' and 'Notes on accounts' need to be checked.
7. Whether
  - a. Credit for all receipts that have become due during the relevant previous year has been taken.
  - b. Expenses debited to the account pertain to relevant previous year only.

---

**Provision for Bad and Doubtful Debts under section 36(i)(viiia)**

1. Whether provision for bad and doubtful debts reserve has been created to the extent of claim allowable?
2. Whether deduction for provision for bad and doubtful debts has been restricted to the extent of reserve created or deduction allowable as quantified under section 36(i)(viiia), whichever is less?
3. Whether the claim has been correctly quantified at 7.5 *per cent* of the total income computed before making any deduction under this clause and Chapter VIA and 10 *per cent* of aggregate average advances made by the rural branches of such bank computed in the prescribed manner?
4. In respect of banks incorporated outside India, whether the claim has been restricted to five *per cent* of the total income computed before making any deduction under this clause and Chapter VIA?
5. In respect of public financial institutions, whether the claim has been restricted to five *per cent* of the total income computed before making any deduction under this clause and Chapter VIA?
6. Whether bad debt has actually been written off in the books of accounts?
7. Whether the debt written off has been treated as income and offered for taxation in any of the previous assessment years?
8. In respect of banking companies, finance institutions etc., which are eligible for deduction under section 36(i)(viiia), whether the bad debts written off exceeds the deduction allowed under section 36(i)(viiia);
9. In case the bad debt written off does not exceed the deduction allowed under section 36(i)(viiia), then, no deduction is allowable;
10. In case the bad debt written off exceeds the deduction allowed under section 36(i)(viiia), the claim of bad debt should be restricted to the extent of bad debt claim that exceed the deduction allowed as provision for bad and doubtful debt allowed under section 36(i)(viiia) in earlier assessment years.

---

**Deduction allowable to Long term Finance Institutions u/s 36(i)(viii)**

1. Whether the institution has been carrying on the business of specified long term finance?
2. Whether the assessee has created reserve to the extent of the claim?
3. Whether the claim was restricted to 20% (40% upto AY: 2007-08) of the profits computed under section 28 before allowing this deduction) derived from the specified business or the amount of reserve created whichever is less?
4. The aggregate of reserve created under this section should not exceed 200% of the paid up share capital and general reserve as on the last day of the previous year. In case the reserve created exceeds 200% of the paid up share capital and general reserve on the first day of the previous year, no deduction is allowable;
5. In case, the reserve created on first day of the previous year is less than 200% of the paid up share capital and general reserve then the deduction should be restricted to difference of 200% of the said reserve as on the last day of the previous year and the amount of reserve on the first day of the previous year or reserve created during previous year, whichever is less;



### Carry forward of losses/unabsorbed depreciation

1. The loss has not been carried forward for more than 8 assessment years immediately succeeding assessment year for which loss was first determined?
2. No loss is allowed to be carried forward unless the assessee has filed the return of loss voluntarily within due date or within such further time as may be allowed by the department?
3. Loss set off during the year was actually allowed to be carried forward during previous assessment?
4. Carried forward business loss of previous year is not to be set-off against income under other Heads?
5. Deductions under chapter VIA are admissible only to the extent of income available after set-off of unabsorbed loss, depreciation, investment allowance etc. of earlier years. When business income is nil or loss, no deduction under chapter VIA is admissible.

### International Taxation

1. Whether assessee has filed Form 3CEB in respect of international transactions?
2. Whether International transactions valued at more than ₹ 15 crore referred to Transfer Pricing Officer (TPO)?
3. If any additions were made by TPO whether the same has been considered by the AO?
4. Whether addition made by TPO has been excluded while giving deduction u/s 10A and 10B and Chapter VIA?
5. Whether a permanent establishment exists as per DTAA?
6. Whether all the conditions prescribed for determining place of business as permanent establishment are fulfilled?
7. Whether Head Office expenses in the case of non-resident are correctly allowed u/s 44C by restricting the deduction to five *per cent* of actual amount attributable to Indian P.E.?
8. Whether Register of all the TP references has been maintained as per the format prescribed under CBDT instruction No. 3 of 2003?
9. Whether all the transactions between different AEs are reported by the assessee in 3CEB audit report? If no, whether unreported transaction, if any, were taken up by the TPO for detailed scrutiny?
10. Adjustments made by the TPO on unreported transactions?
11. Whether aggregate value of specified domestic transactions as per section 92BA exceeds ₹ 5 crore. If yes, whether Tax Auditor reported this transaction in its 3CEB report?
12. If there is a failure to meet the compliance requirements as per Rule 10D, whether penalty proceedings are initiated as per Section 271AA and 271G?
13. Whether assessee has opted safe Harbour Rule under section 92CB by filling Form 3CEFA with the AO on or before the due date of filling the return of income?

14. Whether assessee satisfies the eligibility criteria provided in the rule 10TA to rule 10TG of Income Tax Rules, 1962 for safe Harbour from AY 2013-14.
15. Whether the reference has been made within two months from the end of the month in which Form 3CEFA is received by the AO?
16. Whether TPO passed the order within two months from the end of the month in which reference is made by the AO to the TPO?
17. Whether transfer price declared by the assessee in respect of international transaction has been accepted by TPO, if it is in accordance with the circumstances specified sub-rule 10TD(2).

#### **Audit Checks specific to non-assessment units**

##### **Procedures relating to Revision and Rectification**

1. Whether there are any cases where notice under section 148 were issued after the expiry of 4 years from the end of the relevant AY in which assessment u/s 143(3) or 147 has been made?
2. Whether the approval of the Chief Commissioner/ Commissioner was obtained for this purpose?
3. Whether the request for approval was forwarded to the CIT through the Range Officer?
4. Whether the Assessment Order was revised due to the fact that the earlier order was erroneous and prejudicial to the interests of Revenue? Erroneous in the sense that AO had misapplied the law, drawn a wrong inference from the facts, or has failed to enquire into a material issue (Section 263).
5. Where the proposal was made by the AO through the Range Officer, was the relevant information regarding the assessee and the assessment given in the prescribed format, indicating, *inter alia* whether appeal against the assessment was pending/decided?
6. Was notice issued to the assessee indicating the reasons for the proposed modification of the order? Was the assessee given opportunity of being heard?
7. In case the assessment order has been found to be proper and not erroneous, were the revision proceedings dropped?
8. Was the revision order made within expiry of two years from the end of the FY in which assessment order passed?  
(The time limit does not apply to a Revision Order passed to give effect to any finding or direction of an order of Appellate Tribunal/ National Tax Tribunal/ High Court/ Supreme Court)
9. Was the order revised due to the fact that the earlier order was prejudicial to the assessee?
10. Did the Commissioner *suo moto* revised any order that was passed more than one year ago?

11. Was the application by the assessee
  - a. made within one year from the date on which the order in question was communicated to him or otherwise he came to know.
  - b. in case the period of one year had expired, was the petition seeking condonation was filed by the assessee and the Commissioner was satisfied that there were justified reasons which prevented the assessee from applying within one year.
12. Has the Commissioner ensured before admitting revision petition?
  - a. that the application was made only after the time allowed to the assessee for appeal to the CIT(A) OR to ITAT has expired, or the assessee has waived his right of appeal, or has withdrawn his appeal.
  - b. the order sought to be revised has not been made subject of appeal to CIT(A) or to the ITAT.
13. Was the revision order passed within time limit?
  - a. in case of suo-moto revision – within one year from the date of order sought to be revised.
  - b. in case of revision petition by assessee: within one year from end of the FY in which the application made by the assessee.
14. Did the CIT call for a report from the Assessing Officer?
  - a. Did the AO discuss in the report, the issues involved, his contentions and reasons why relief claimed should be allowed or not?
  - b. Whether the assessee had co-operated in the assessment proceedings and paid taxes for the three earlier AYs? Whether similar issue was involved in any earlier year and how it was dealt with?
15. Where relief was decided not to be allowed, or allowed partly, whether the assessee was given opportunity of being heard?
16. Has the Revision Order enhanced the tax liability of the assessee?
17. Whether the Range Officer has completed the prescribed no. of assessments?
18. Where an assessee acquires any assets, used by any other person for business or profession and the Assessing Officer is satisfied that the main purpose of transfer of such assets was to reduce the liability of tax (by claiming depreciation with reference to an enhanced cost), the actual cost shall be determined by the AO. For this purpose whether the AO has obtained prior approval of the Range Officer (explanation 3 to section 43)?
19. For issuance of notice u/s 142(1)(a), calling for 'a statement of assets and liabilities not included in the accounts' whether the AO took prior approval of the Range Officer?
20. Notice u/s 148 for re-assessment u/s 147, shall not be issued by an AO below the rank of JCIT, unless the JCIT is satisfied on the reasons recorded by the AO that it is a fit case for issue of such notice.  
Whether this condition was fulfilled?
21. In cases other than above, notice u/s 148 after expiry of four years from the end of the relevant AY shall not be issued by an AO below the rank of JCIT, unless the JCIT is satisfied on the reasons recorded that it is a fit case for issue of such notice.  
Whether this condition was fulfilled?

22. Where an order of assessment/re-assessment in respect of each AY referred to u/s 153A(1)(b) or u/s 153B (1)(b) was passed by an AO below the rank of JCIT, whether prior approval of the JCIT was obtained?
23. a. Range Officer (JCIT) can issue directions u/s 144A
- i. Whether Range officer (RO) has maintained a separate file for each case and noted the reasons for initiating proceeding u/s 144A in case of *suo motu* action (these files are subject to appellate scrutiny)? In case of *suo motu* action u/s 144A, whether the RO has intimate the AO and forwarded a copy of the reasons recorded and called for his report and case records?
  - ii. On a reference by AO, whether the RO has forwarded a copy of the reference to the AO and called for his report detailing the facts of the case and complete case records? In all cases, the AO should make suitable entries in the file and await Range Officer directions.
- b. Whether the RO has given the assessee an opportunity of being heard before issuing directions which are prejudicial to his interests?
- c. Directions on the lines of investigation are confidential in nature and should not form part of other directions u/s 144A. For this purpose whether separate folders were maintained?
- d. Whether Range Officer issued directions which are outside the jurisdiction of AO?
- e. Whether Range Officer directions ignored by the AO?
- f. Whether copy of the directions issued was endorsed to the CIT?
- g. After issue of directions, whether the RO monitored the development in the assessment proceedings;
- h. After completion of assessments, whether the AO sent copies of the Assessment Order to the RO and the CIT.
24. At the beginning of each calendar year, i.e. in January, whether the Range Officer has, in consultation with the AO, identified five pending time-barring assessment cases in respect of each AO of his range for monitoring (CBDT's instruction no. 6 of 2009)?
25. Whether the cases selected have included cases taken up for scrutiny with the permission of the CCIT?
26. Whether the assessment cases of 'PSUs' and 'loss making concerns' were excluded for issue of directions?

---

#### Procedures relating to Refunds

---

27. Whether interest on refund is being calculated correctly at the rate of one half *per cent* per month or part thereof?
28. Whether the period for which the assessee is entitled to interest is being arrived at correctly?
29. If any delay is attributable to the assessee, whether such period is being excluded while calculating interest?

---

**Procedures relating to giving Appeal Effect**


---

30. On receipt of the CIT(A) order, whether the consequential order was passed promptly and correctly?
31. Whether the CIT has obtained 'Appeal Scrutiny Report' from the AO giving details of the assessee, assessment order, AO's remarks on the points allowed by the CIT(A), suggestions and recommendations of the Range Officer, regarding preferring appeal to the ITAT?
32. Where the CIT based on the 'Appeal Scrutiny Report' has authorized the AO to file an appeal and whether the appeal was filed within 60 days from the receipt of the CIT(A) order [section 253(3)].
33. Where the CIT has decided not to prefer an appeal against order of the CIT(A) due to the tax effect being lower than the monetary limit specified, i.e. ₹ 3,00,000 (w.e.f. 09/02/2011), whether any recording was made to the effect that although the decision was not acceptable, appeal is not preferred because tax effect is less than the monetary limit specified (CBDT's instruction no. 05/2008)?
34. Whether the Department preferred appeal to ITAT, although the tax effect was lower than the specified limit, in the following cases:
  - a. Where Revenue objection on the issue involved was accepted by the Department?
  - b. Where Board's order/ notification/circular is subject matter of adverse decision?
  - c. Where the constitutional validity of the provisions of the Act are questioned?
35. As per CBDT instruction No. 05/2008, where appeal was not preferred due to tax effect being lower than the specified limit and, in any case, the department shall not be precluded from filing an appeal on the same issue in the case of the same assessee for any other AY; or in the case of any other assessee for the same or any other AY.
36.
  - a. While computing tax effect, the tax effect in respect of each AY should be considered separately, and appeal should be filed only in the case of AYs where the tax effect is higher than the specified limit, leaving the AYs where the tax effect is lower.
  - b. However, in case, order of the CIT(A) is a composite order in respect of more than one AY, then if the total tax effect of all the AYs is higher than the specified limit, appeal should be preferred in respect of all the AYs.

---

**Procedures relating to Search and Seizure**


---

37. Once the notification u/s 127 is passed, whether all the relevant case records were immediately transferred to the Assessing Officer to whom the case is assigned?
38. Whether the procedure relating to custody and release of seized material is being adhered to?
39. Whether cash seized is deposited in the Jurisdictional Commissioner's personal deposit account?
40. Whether valuables such as bullion or jewellery etc. are retained in the custody of the department and kept in safe deposit lockers or the strong room?
41. Whether the explained assets except those required to meet any existing liabilities were released with the prior approval of the prescribed authority within 120 days from the date of search (Section 132B)?

42. Whether cash seized was adjusted against existing liability in the manner provided u/s 132B?
43. Whether seized assets other than cash was applied for discharge of any liability, in accordance with Section 132B (iii) read with the third schedule?
44. Whether simple interest at the rate of one half *per cent* for every month or part thereof on the excess amount is being correctly calculated and paid?
45. Whether the seized records are handed over to the AO by the authorized officer within two and half months from the date of search?
46. In cases where the seized books etc were retained for a period beyond 30 days from the date of the assessment order, whether the permission of CIT was obtained?
47. Whether a register of seized books & documents is being maintained?
48. Whether the expiry dates of fixed receipts, promissory notes, bank guarantees etc are being noted in the register of seized books so that necessary action can be taken?
49. Whether the assessee is being allowed to inspect seized records and copies of statements given to him within 15 days from the date of receipt of application?

#### Procedures relating to Recovery of Tax

50. Whether there were written orders given by the Commissioner authorizing the TRO/AO to recover arrears of tax by distraint and sale of movable property, in the case of any assessee(s)?
51. Whether the procedure prescribed in the third schedule to the Income Tax Act followed?  
Following important audit checks to be exercised:
  - a. Whether warrant was issued in the name of the defaulter and notice was served (Rule 20) ?
  - b. Whether the property was attached despite payment of the amount due by the defaulter upon receipt of notice (Rule 22) ?
  - c. Whether a proclamation was made and whether the sale was made by public auction (Rule 39 & 44) ?
  - d. Where the sale was made within 15 days of affixture of proclamation in the office of the TRO? Whether the consent of the defaulter obtained? (not applicable to property subject to speedy and natural decay or where the cost of custody is likely to exceed its value) (Rule 40)?
  - e. Whether value of the property attached was far higher than the amount due from the defaulter (Rule 34) ?
  - f. Whether the sale was stopped upon realization of the amount due, after sale of one or more lots (Rule 43) ?
52. Whether the sale of the property was postponed for want of bidders at or above the Reserve Price specified?
53. Whether the AO was authorized by the CCIT/CIT to accept the property?
54. Whether the price of the property was as agreed between the AO and the defaulter?

55. Whether possession of the property was delivered to the AO?
56. On receipt of the petition for waiver, the report of the A.O. should be called for through the JCIT containing all particulars, if applicable viz., details of status of appeal, details of stay granted details of installment scheme granted. The CIT should be satisfied that :
- the payment of the interest would cause genuine hardship to the assessee,
  - the default in payment of which the interest is payable, was due to circumstances beyond the control of the assessee, and
  - the assessee had co-operated in any inquiry relating to the assessment or any proceeding for recovery of amount due from him.

#### **Procedures relating to Write off/Scale down of Demand**

57. Whether there is any case of write-off of demands in the CIT charge? If yes, whether such write-off compliance with the procedures prescribed in Rule and in compliance of Delegation of financial powers rules. The following detailed audit checks may be exercised:
- Whether the arrears are outstanding for more than 3 years?
  - Whether the assessee has died, not traceable, left India?
  - Whether the firm has been dissolved and its business has discontinued?
  - Whether the company had gone into liquidation and has no attachable assets?
  - Whether all the efforts for recovery as per Rules laid down in Schedule-II including recourse to civil imprisonment of the defaulter has exhaust and the arrear demand still remains unpaid?
  - Were the prescribed limits for write-off were followed?
58. Whether the AO made a self-explanatory note indicating the steps taken for recovery and justifying the need for write-off before forwarding write-off proposal. Whether AO obtained certificate of recoverability from TRO?
59. Where a proposal for write-off is forwarded to the Board, whether the CIT has ensured that along with the proposal the following are furnished?
- Original minutes of the Zonal Committee, self-explanatory brief of the AO/TRO, recommendations of the CIT, Range Officer in brief;
  - complete details of demand outstanding, nature of demand raised, date of notice of demand, copies of assessment order, appeal orders, etc., recoverability certificate by the TRO;
  - copies of report of the Inspector/AO/TRO regarding availability of assets with assessee, if any;
  - Form B giving complete replies to all questions indicated therein.
60. Whether it was ascertained by the authority writing-off arrears of tax that
- the loss due to write-off does not disclose a defect in the rules or procedure, or in their actual implementation resulting in non-recovery of arrears and
  - there has not been any serious negligence on the part of any government servant which may call for disciplinary action by higher authority?
61. Whether any instances wherein the CIT had authorized scaling down of arrears, although the arrears exceeded ₹ 1 lakh?

62. Whether the amount settled was paid by assessee immediately upon settlement, and in case installments are sought, whether adequate security was furnished?
63. Whether the demand written-off fully or partially or scaled down is entered in the 'Register of irrecoverable demands' maintained by the AO?

**Procedures relating to production of evidence, information and survey**

64. Whether prior approval of the Chief Commissioner or Commissioner, was obtained by the Assessing Officer, for retention of impounded books or documents, for a period exceeding 15 days (excluding holidays)?
65. Where no proceedings are pending against an assessee and any information was called for by an Income Tax Authority below the rank of the Commissioner in exercise of power u/s 133, whether prior approval of the CIT was obtained?
66. Whether prior approval of the Chief Commissioner/Commissioner was obtained, where books of account or other documents impounded by an Income Tax Authority, under the section 133A(3) were retained for a period exceeding 10 days?
  - a. Where a survey is conducted by the officers working in charge of a CIT, copies of the Survey Report should be sent to the CIT and the Range JCIT.; and
  - b. Where survey is conducted by the DIT(Inv.), copies of the Survey Report should be forwarded by the authority making the survey to the Jurisdictional CIT, and Range JCIT, under intimation to the DIT(Inv.)
67. Prior approval of the Range Officer needs to be obtained by the AOs/TROs for conduct of survey operations.
68. Main objective of Survey u/s 133B (door to door survey) is to identify and detect new tax payers. In this survey, a particular area/street is covered, and survey is conducted in respect of all the premises in the area and information relating to business/profession, bank account details, estimate of income, etc., are gathered in the prescribed form (Form 45D). In cases where it is found that the assessee has under reported income, and there is need for action u/s 142(1)/147, the forms along with recommendations are forwarded to the concerned Range Officer. The Range Officer should send the forms received to the concerned AOs for appropriate action. The CIT and Range Officer shall conduct random checks on the action taken by the Assessing Officers.
69. Whether a survey u/s 133A(1) was conducted by an Assessing Officer/ or a Tax Recovery Officer, or an Inspector of Income Tax with the approval of the Range Officer?
70. Whether prior approval of Range officer was obtained to entrust any of his functions as TRO to any other officer lower than him in rank.
71. Whether prior approval of Range officer was obtained to raise a demand u/s 156 with a stipulation that it shall be paid within less than 30 days of the demand?
72. Whether an Assessing Officer has obtained approval of the Range Officer before certifying a demand to the Tax Recovery Officer? Before according approval, whether the Range Officer has satisfied himself that the AO had taken all steps to recover demand by completing proceedings u/s 221 and 226?



73. a. Proviso to section 131(3) stipulates that an AO shall not (a) impound any books of account or other documents without recording the reasons therefore, and (b) the books cannot be retained for a period exceeding fifteen days, without obtaining prior approval of the CCIT/ CIT.
- b. For this purpose, whether proposal was made through the Range Officer to the CIT?

---

**Procedures relating to Compulsory Audit of Accounts {Section 142(2A)}**

---

74. Whether the CIT was satisfied with the proposal of the Assessing Officer submitted through the Range Officer that the Audit is required in view of the nature and complexity of the accounts?
75. Whether the order by the CIT passed in writing allowing the AO to appoint Auditor, and fixing remuneration payable?

---

**Procedures relating to References made to Valuation Cell**

---

76. Where the reference to Valuation Cell was made as per section 55A of the Income Tax Act, whether the AO has furnished a note to the Range Officer indicating satisfaction regarding fulfillment of statutory conditions?
- a. in case the value as per Return of Income is based on estimate by a registered valuer, and AO is of the opinion that the valuation is below the fair market value (FMV);
- b. in case the value returned is not on the basis of estimate by a registered valuer, and the AO is of the opinion that the value returned is below the FMV by more than 20 *per cent*;
- c. The AO is of the opinion that such reference is necessary in view of the nature of the asset and other relevant circumstances.
77. Whether the Range Officer was satisfied with the reasons cited by the AO?
78. Whether the AO has maintained a Register of References to Valuation Cell? And whether the same was periodically checked by the Range Officer and a certificate sent to the CIT by the Range Officer?
79. Whether the RO has ensured that references to valuation cell are sent well before the limitation dates and that the references are well spread out throughout the year and that bulk references are not made in the last quarter of the financial year?

---

**Transfer of cases from one AO to another AO**

---

80. Whether there are instances wherein the CCIT/CIT transferred cases from one Assessing Officer subordinate to him to another Assessing Officer who is also subordinate to him?
81. Whether the reasons for such transfer were recorded in writing?
82. Whether reasonable opportunity of being heard was given to the assessee before such transfer?

---

**Procedures relating to Approval of certain Funds**

---

83. Whether objective of fund for the welfare of the employees for notified purpose was taken care while granting approval of the fund?

84. Whether the welfare fund invests its funds and contributions and other sums received, in the forms and modes specified in some of the allowed investments mentioned hereunder:
  - a. deposit with Post Office Savings Bank;
  - b. deposit in any scheduled bank, co-operative Bank,
  - c. Units of UTI;
  - d. investment in any security issued by Central or State Governments, investment in debentures issued by any company or corporation, where principal and interest are guaranteed by the Central or State Government, deposits/investments in any bonds issued by a financial corporation engaged in long term financing for industrial development in India which is eligible for deduction u/s 36(1)(viii);
  - e. Investment in immovable property deposits with IDBI.
85. Whether the fund applies its income or accumulates it for application wholly and exclusively for the objects for which it was established?
86. Whether the fund was formed under a trust and evidenced by a trust deed?
87. Whether periodical contribution into the fund by member employees is taken care?
88. Whether the enclosures furnished with the application in the prescribed form (copy of instrument of trust evidencing the formation of fund, notes on activities of the fund & copies of accounts of the fund since inception or during last 3 years).
89. Whether the approval was accorded specifying the Assessment Years (not exceeding 3 AYS), for which the approval is valid?
90. In case the application was rejected, were the reasons recorded and whether the applicant was given opportunity to be heard?
91. Whether the fulfillment of the following conditions as per Rule 3 were ensured before grant of approval:
  - a. The fund was established under an irrevocable trust in connection with a trade or undertaking carried on in India and not less than 90 *per cent* of the employees will be employed in India.
  - b. The sole purpose is to provide for annuities for employees in the trade or undertaking on their retirement at or after a specified age or on their becoming incapacitated prior to such retirement, or for the widows or children or dependents of persons who are or have been such employees on the death of those persons.
  - c. The employer in the trade or undertaking shall be a member to such fund.
  - d. All annuities, pensions and other benefits granted from the fund shall be payable only in India.
  - e. As per clause (ea) of Rule 4, the provisions of section 1(3) of the Employee's PF and Miscellaneous Provisions Act, 1951 (19 of 1952) should apply or the establishment should have been notified by the Central Provident Fund Commissioner under Section 1(4) of the said Act and must have obtained exemption under section 17 of the Act from the operation of all or any of the provisions of any scheme referred to in that section.  
(Recognised Provident Fund Part A of Schedule IV)

92. Whether the documents required to be furnished under Rule 4, with the application, viz. copy of the instrument under which the Fund was established, rules, accounts, etc, and further information called for by the CCIT/CIT was furnished by the applicant? (Superannuation Fund Part B of Schedule IV)
93. Whether grant of approval was withdrawn by the CCIT/CIT in any cases for the reason that the circumstances of the Fund cease to warrant continuance of approval? (Superannuation Fund Part B of Schedule IV)
94. Whether there were cases of deemed withdrawal of approval granted upon 'non communication of alterations after the date of application, in the rules, constitution, objects, conditions of the fund?
95. Where approval was refused or withdrawn, whether the applicant was given opportunity to be heard?  
Note: Audit of Superannuation Fund is to be conducted in the assessment charge as per the provisions of sections under reference
96. Whether the following conditions as per Rule 3 were ensured before grant of approval :
- that the fund was established under an irrevocable trust in connection with a trade or undertaking carried on in India, and not less than 90% of the employees will be employed in India.
  - the employer in trade or undertaking will be a contributor to the fund;
  - The sole purpose is to provide for gratuity to employees on their retirement or after a specified age or on their becoming incapacitated, after a minimum period of service or to widows or children or dependents of such employees on their death.
  - All benefits granted by the fund shall be payable only in India.  
(Gratuity Fund Part C of Schedule IV)
97. Whether the documents required to be furnished under Rule 4, with the application viz., copy of the instrument under which the fund was established, rules , accounts, etc, and the further information called for by the CCIT/CIT was furnished by the applicant? (Gratuity Fund Part C of Schedule IV)
98. Whether grant of approval was withdrawn by the CCIT/CIT, in cases for the reason that the circumstances of the fund cease to warrant continuance of approval? (Gratuity Fund Part C of Schedule IV)
99. Whether there were any cases of deemed withdrawal of approval granted upon 'non communication of alterations after the date of application, in the rules, constitution, objects, conditions of the fund'? (Gratuity Fund Part C of Schedule IV)
100. Whether approval was refused or withdrawn without according an opportunity to be heard to the applicant?  
Note: Audit of Gratuity Fund is to be conducted in the assessment charge as per the provisions of sections mentioned above [namely section 2(5), 10(25)(iv), 17(1)(iii), 36(1)(v)].

**DIT (Exemption)**

101. Section 12A stipulates that the provisions of section 11 and 12, regarding exemption of income, would not be applicable to a Trust or Institution unless an application for registration is made to the CIT/DIT concerned within a period of one year from the date of creation in Form 10A.
102. Whether the person concerned had applied within the prescribed time limit?
103. Whether the application is accompanied by the prescribed documents?
  - a. Copy of instrument of creation of Trust.
  - b. Accounts of 3 previous years (Rule 17A).
104. Whether the accounts were maintained in the prescribed manner and were audited?
105. If applications for registration were accepted after the expiry of stipulated time, whether there were sufficient reasons for delay and they were recorded?
106. Whether the CIT/DIT has satisfied himself with regard to objects of the trust/ institution and genuineness of its activities as per the points laid down in Para 2.7 of Manual of Office Procedure Vol-II before grant of registration?
  - a. Is it a legally existent entity which can be registered?
  - b. Is there a written instrument for its creation?
  - c. Whether all its objects are charitable and religious in nature?
  - d. Are its income and assets applicable towards its objects only, as indicated in the object clauses and in the other rules and regulations that govern its conduct?
  - e. Whether it was ensured that no part of its income ought to be distributable or distributed, directly or indirectly, to its members, directors, founders etc?
  - f. Whether it was ensured that in case of its dissolution, its net assets after meeting all its liabilities should not revert to its founder, members, directors, donors etc. but used for its objects?
107. The applications for registration received in the office of CIT/DIT (E) should be entered in the register mentioned in Para 2.5 of the MOP Vol-II. It should be ensured that the following checks prescribed in Para 2.8 of the manual are being exercised or not?
  - a. Whether the application has been properly filled in and is accompanied by requisite documents and accounts etc?
  - b. Whether the instrument of creation was perused to find out violation of any conditions mentioned in point 'e' above?
  - c. Whether verification of actual existence of the Trust was made?
  - d. Whether the Trust or Institution was asked to cure defects, if any?
  - e. On getting complete information, whether a self-contained note was put up to CIT/DIT(E) suggesting that the entity may be registered or its application rejected?
108. Whether the income of the entity is applicable wholly for 'charitable purposes'?
109. Whether the Fund or Institution is meant for the benefit of any particular religious community or caste?
110. Whether regular books of its receipts and expenditure are maintained or not?
111. Whether it is approved by the CIT/DIT (E) for the purposes of making its donors eligible for grant of deduction under this provision?
112. Whether application for approval u/s 80G was made in triplicate in Form 10G along with prescribed documents [Rule 11AA]?

113. Whether the CIT/DIT(E) has granted approval to the Trust for a period not exceeding five years. However, the approval u/s 80G is generally granted for three years?

---

**Drawing and Disbursing Officers**

---

114. a. Whether proper sanction / approval has been obtained for expenditure?  
b. Whether comparative statement of rates is drawn?  
c. Whether the lowest rate has been accepted. If not, reason thereof?  
d. Whether bills have been correctly drawn and paid after proper adjustments of advances, if any?  
e. Whether entries in Service Book e.g. Pay, Leave etc. have been correctly made?  
f. Whether advances/ loans have been adjusted properly before making payments?  
g. Whether Contingent Expenditures are made correctly and rightly with the approval of appropriate authorities?  
h. Whether the expenditure is regular, avoidable, infructuous, excess or leading to blocking of Government money?
-

## Appendix 17

### Format of Local Audit Report

(Reference: Paragraph 7.1.)

#### Draft LAR

Index

**Part-IA**

1. Introduction
2. Administration
3. Selection
4. Jurisdiction

**Part-IB**-List of outstanding paragraphs

**Part-IC**-Review note and settlement of outstanding paragraphs

**Part-II**-Current Audit Observations

**Part-IIA** - Major audit observations

**Part-IIB** - Minor audit observations

**Part-III** - Other audit observations

**Part-IV**- Cases not produced to audit

**Part-V** - Disclaimer certificate should be included at the end of the Report.

In token of discussion with the Assessing Officer, 'Seen & discussed' should be recorded by the Assessing Officer under his dated signature with the impression of his official Stamp on the body of last page of the Draft LAR.

#### Annexure to Draft LAR

The concerned FAO needs to decide the Annexures required to be submitted by the LAP alongwith draft LAR on the basis of instructions issued by C&AG HQ from time to time.

The Proforma for Title sheet is as under.

#### Title Sheet

Inspection Report on the audit of receipts and refunds of Income Tax of Circle/Ward (name of unit) \_\_\_\_\_, under the charge of CIT/DIT .....

Name of the CIT :

Additional CIT Jurisdiction :

Name of the Additional CIT :

Name of Assessing Officer :

Designation of the Assessing Officer :

Date of creation of charge :

Address of the auditee unit :

Telephone No. of the Assessing Officer :

**1** Period of Audit :

**2(a)** Date of Commencement of Audit :

**2(b)** Date of Completion of Audit :

**2(c)** Actual Time taken :

**2(d)** Extension, if any :

**2(e)** Whether time given for audit is sufficient, if not, time needed for future audit with justification thereof :

**2(f)** Date of discussion of LAR with Assessing Officer :

**2(g)** Date of submission of draft copy of the LAR to Headquarter :

**3(a)** Name of Audit Officer /Sr. Audit Officer :

**3(b)** Name of AAOs :

**3(c)** Name of Sr. Auditor/Auditor :

**4** Details of number of assessees under the charge audited :

Category	Companies	Individuals	Firms	AOPs	HUFs	Others
----------	-----------	-------------	-------	------	------	--------

No. of assessees

**5** (To be noted from the Assessment records selected for audit, if not made available through AQ 1)

**(a)** No. of Assesseees with annual turnover of ₹ 100 crores

More than 15                       1 to 15                       zero

**(b)** Banks/financial Institutions and Insurance Companies

More than 15                       1 to 15                       zero

**(c)** Cases involving exemptions u/s 10A, 10AA, 10B and deductions under chapter VIA:

More than 15                       1 to 15                       zero

**(d)** Necessity of linking of past records i.e. cases involving section 32, 115JAA and chapter VI:

More than 15                       1 to 15                       zero

(e) Number of Appellate references in scrutiny assessments

More than 15

1 to 15

zero

**6** Revenue collected during the audit period :  
(Year-wise breakup may be given, if audit period is more than one year)

**7(a)** Months selected for checking of demand and collection register:

**7(b)** Months selected for checking of cash book for TRO audit :

**8** Total money value of objection raised:

Sl. No.	Part of Inspection Report	Number of Paras	Money Value (₹ in lakh)
(a)	Part IIA		
(b)	Part II B		
(c)	Part III		
<b>Total</b>			

**9** Whether any fraud/embezzlement was detected by audit, if so, included in which para :

**10** Important paragraph of the report for inclusion in the register of serious financial irregularities:

**11** Total returns received during the Period :

**12(a)** Total assessment cases made (Number)

a. Summary :

b. Scrutiny :

**12(b)** Total assessment cases selected for audit (Number)

a. Scrutiny :

**12(c)** Number of cases received in audit

a. Scrutiny :

b. No. of cases which were not provided in earlier audit and called for in this audit :

**12(d)** Number of cases not produced for audit:

a. Called for in this audit

b. Called for of earlier audit

**12(e)** Number of cases transferred to other Assessing officers

{Out of sl. no. 12(b)}

a. Summary :

b. Scrutiny :

**12(f)** Total number of assessment cases audited

**12(g)** Total number of mistakes found

**12(h)** Total numbers of cases seen by IAP :

No. of cases	No. of Para	Tax Effect of



**12(i)** Total number of cases not seen by IAP :  
 No. of cases      No. of Para      Tax Effect of

**12(j)** Total number of cases out of (vii) above which were seen by IAP but objection not raised by them:  
 No. of cases      No. of Para      Tax Effect of

**12(k)** Total number of cases out of (vii) above which were not seen by IAP:  
 No. of cases      No. of Para      Tax Effect of

**12(l)** Total demand raised as per demand & collection register:

**13(a)** Total number of refund cases arisen due to revision/rectification or appeal effect :

**13(b)** Total number of refund cases of ₹ 1 lakh or more :

**13(c)** Total number of refund cases selected for audit :

**13(d)** No. of refund cases in which mistakes were found:  
 No. of cases      No. of Para      Tax Effect of

**14** Addition made to income returned in scrutiny cases  
 Normal addition by way of disallowances etc. :  
 No.      addition      Tax Effect (₹ in lakh)  
 .....

Addition made by way of concealment of income  
 No.      addition      Tax Effect (₹ in lakh)  
 .....

**15(a)** Audit objection noticed in Scrutiny cases  
 Under assessment      No.      Tax Effect (₹ in lakh)  
 .....  
 Over assessment      No.      Tax Effect (₹ in lakh)  
 .....

**15(b)** Audit objection noticed in rectification/revision cases  
 Under assessment      No.      Tax Effect (₹ in lakh)  
 .....  
 Over assessment      No.      Tax Effect (₹ in lakh)  
 .....

**16** Total tax recovery at the instance of Audit :  
 (year wise details)

**Dated:**

**Name and Signature of**

**Name and Signature of**

**Assistant Audit Officer**

**Audit Officer/Sr. Audit Officer**

**ITAP No. ....**

## Appendix 18

### Target of Draft Paragraphs for each state

(Reference: paragraph 7.4.3)

#### Category 'A' States

Sl. No.	State	DP targets
1	Andhra Pradesh including Telengana	15
2	Delhi	75
3	Gujarat	32
4	Karnataka	18
5	Maharashtra	110
6	Tamil Nadu	60
7	West Bengal	55
8	Uttar Pradesh	10
<b>Total</b>		<b>375</b>

#### Category 'B' States

Sl. No.	State	DP targets
1	Assam and other NE States	2
2	Bihar	6
3	Chhattisgarh	1
4	Goa	3
5	Haryana	10
6	Himachal Pradesh	3
7	Jammu & Kashmir	1
8	Jharkhand	6
9	Kerala	5
10	Madhya Pradesh	8
11	Odisha	15
12	Punjab	10
13	Rajasthan	12
14	Uttarakhand	2
15	UT, Chandigarh	2
<b>Total</b>		<b>86</b>

(Authority: C&AG HQ DO letter no. 226-248/RADT/122-2008/Coordn. dated 15 May 2008 and letter no. 126/ RADT/122-2008 dated 13 March 2015)

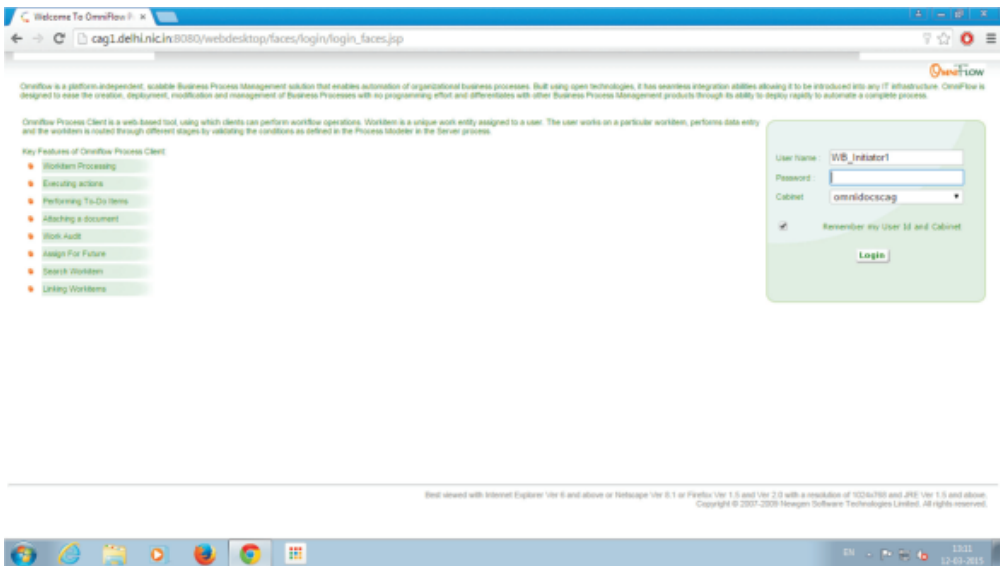
## Appendix 19

### OmniDocs System for uploading of Draft Paragraphs to the C&AG HQ

(Reference: Paragraph 7.5.2)

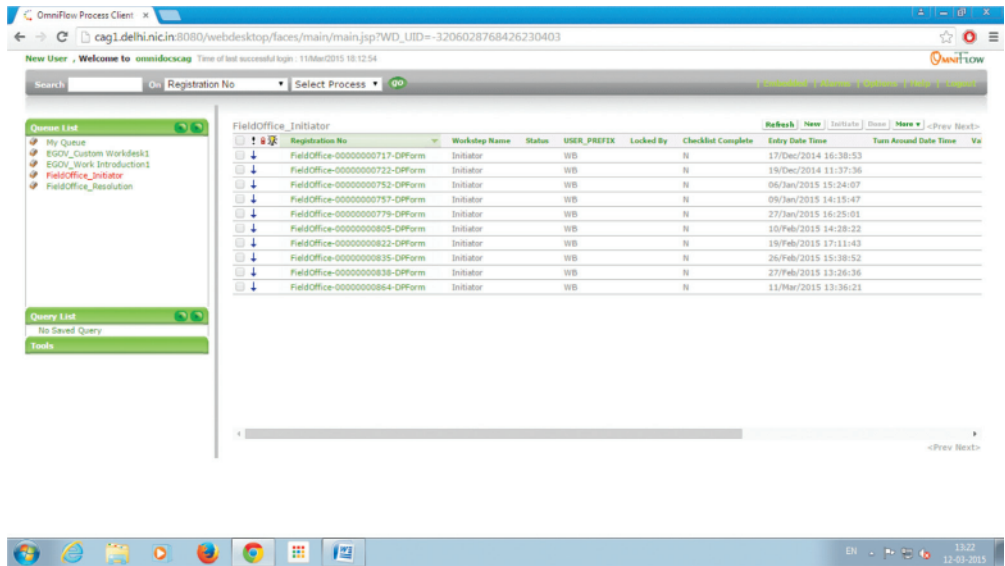
There are two online modules of OmniDocs system for uploading and processing of DPs, one for FAOs (Webdesktop module) and other for C&AG HQ (eGov module):

- A. Webdesktop module:** Log on to <https://cag1.delhi.nic.in:8080/webdesktop> for uploading of DP online from FAOs to the C&AG HQ, the system has the provision for online approval of DP by HOD. The screen-shot for login into system is given below.

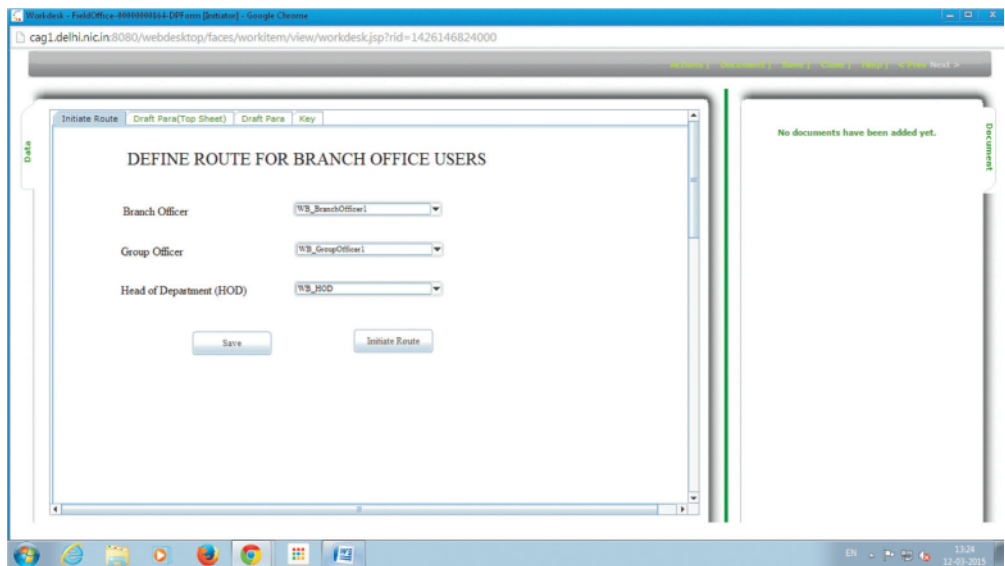


#### Process for working into Webdesktop module

- a. After entering the above URL, you will be prompted for your User Name and Password. The cabinet is by default omnidocscag, no need to change it. The User Name and Password is different for initiator of DP, BO, GO and HOD. The password has been provided for the specific User-wise for each User of OmniDocs which can be changed;
- b. After logging into the system, the initiator is the person designated for initiating the DP;



- c. For initiating the DP, the User is required to click on new. Following will appear. The Registration number of file is generated as it will be used for onward approval of DPs.



- d. The User is then required to initiate the route for onward approval of DP and to fill the three Tabs as per Data available for processing of DPs. The three Tabs are shown below. The User is required to Import documents and relevant KDs in the OmniDocs through the Document Tab in top right corner. After filling the three Tabs user is then required to generate the DP form, through the actions Tab on top right corner. After generating the DP form the User is then required to fill the comments in the last of three Tabs i.e. Key Tabs and then send it to BO for examination/approval.

Workdesk - FieldOffice-800000001-OPForm [betator] - Google Chrome  
 cag1.delhi.nic.in:8080/webdesktop/faces/workitem/view/workdesk.jsp?rid=1426146824000

Home | Document | Home | Close | Help | Print Next >

**Draft Para (Top Sheet)**

\* Mandatory

1. Name of the Assessee\*

2. Status of the Assessee\*

3. PAN Number\*

4. DG/PO Central Office Name\*

5. State Name\*

6. DG/PO DP No.\*

7. Assessing Officer's Charge\*

8. CIT's Charge\*

9. Assessment Year 1 (Format YYYY-YYYY)\*   
 for the Assessment Year(2)   
 for the Assessment Year(3)   
 for the Assessment Year(4)   
 for the Assessment Year(5)

10. (A). Main Category of Objection\*

In case of Others, Please Specify

No documents have been added yet.

13:27 12-03-2015

Workdesk - FieldOffice-800000001-OPForm [betator] - Google Chrome  
 cag1.delhi.nic.in:8080/webdesktop/faces/workitem/view/workdesk.jsp?rid=1426146824000

Home | Document | Home | Close | Help | Print Next >

**Draft Para**

DG/PO DP No.

Draft Paragraph for inclusion in the report of the Comptroller and Auditor General of India for the Year in (yyyy format)  
  Union Government Revenue Receipts - Direct Taxes-

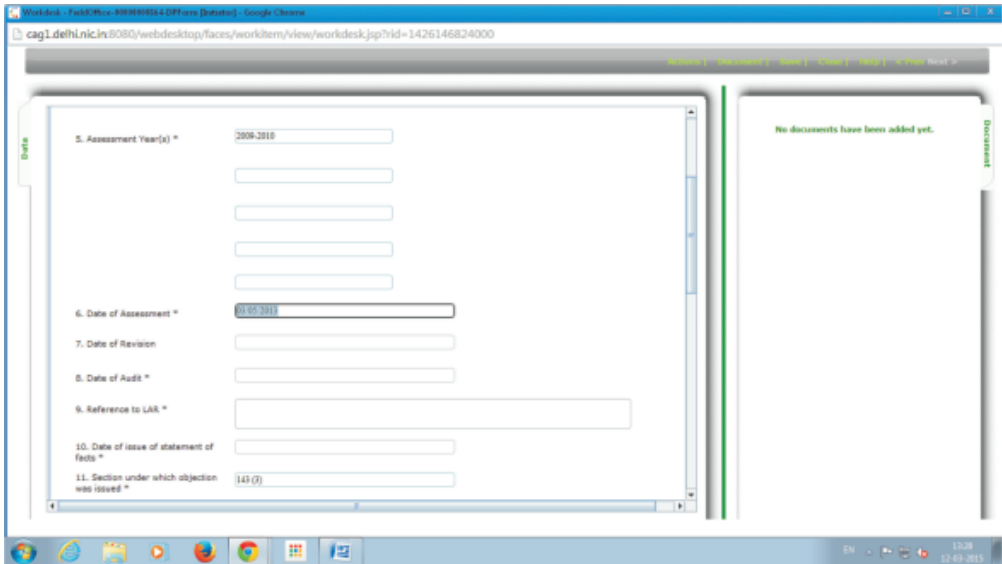
Subject\*

1. Preamble\*  
 According to the provisions Section 143 (3) of the Income Tax Act, 1961 Assessing Officers are to make correct assessment of the total income of the assessee and to determine the tax payable by the assessee. The assessing officer after

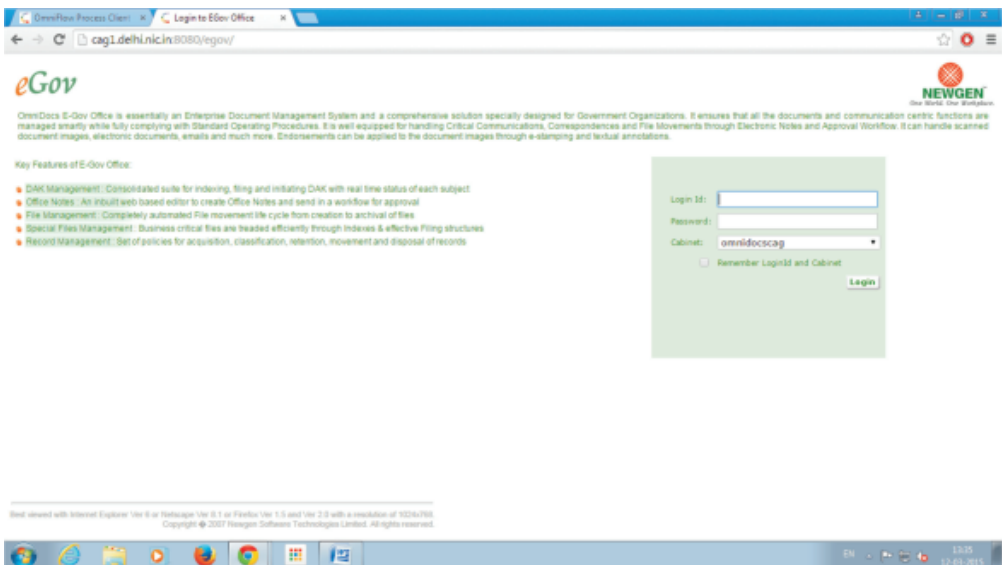
2. Audit Observation\*  
 In West Bengal, Pr. CIT-1, Kolkata charge, the assessment of a Company, Evide Industries Limited was completed after scrutiny for the AY 2009-10 in May 2013 at an income of Rs. 423.75 crore.  
 Audit observed that the assessee claimed a refund of Rs. 98.92 lakh but department issued an order u/s 154 on 24.06.2010 in which refund of Rs. 94.48 lakh.

No documents have been added yet.

13:27 12-03-2015

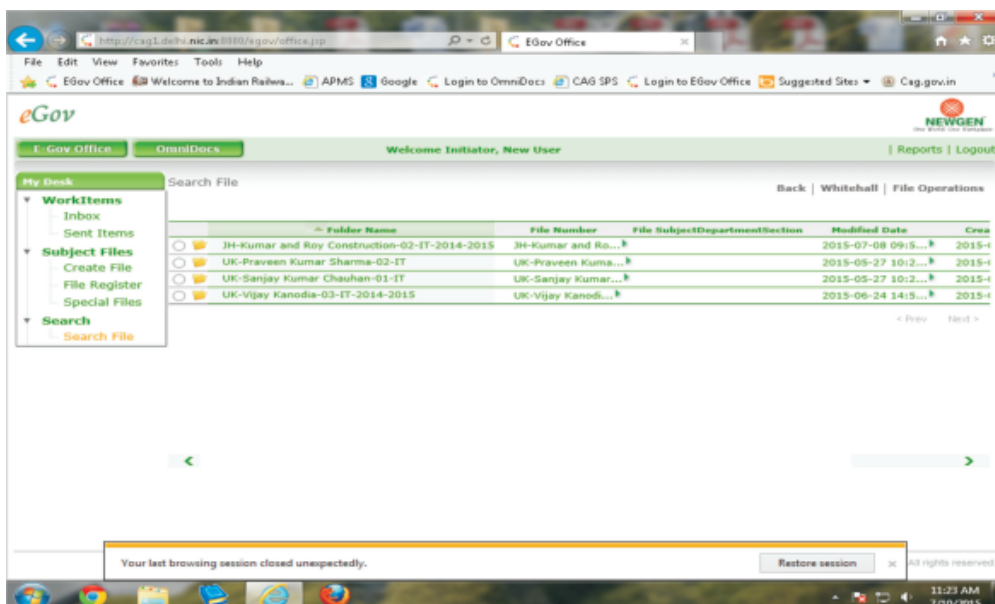


- e. The BO, after examination of form filled and relevant KDs, will give approval to DP and for sending to GO for approval. The GO after examination and approval will send DP to HOD for approval. Once HOD accords its approval to DP, it can be sent to C&AG HQ by HOD.
- B. eGOV module:** Log on to <https://cag1.delhi.nic.in:8080/egov> for uploading of notes and comments forwarded by the C&AG HQ on DPs uploaded. The screen-shot is given below. C&AG HQ will send comments/notes on DP to FAOs. The reply to comments/notes along with relevant KDs duly approved by HOD will be sent to C&AG HQ. The above module is not for processing of new DPs and will be used for only forwarding comments/notes to the C&AG HQ.

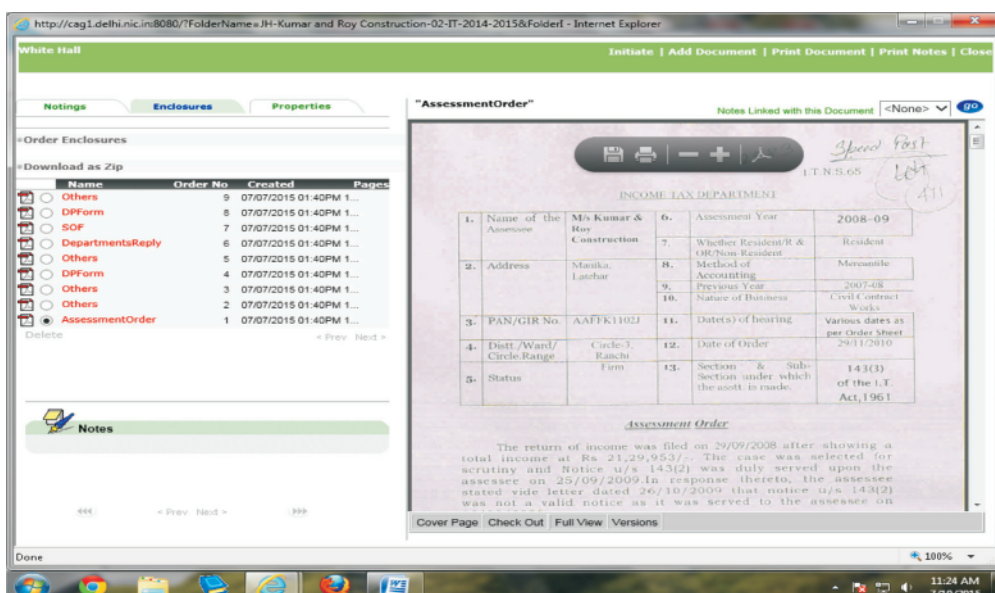


## Process for working into eGov module

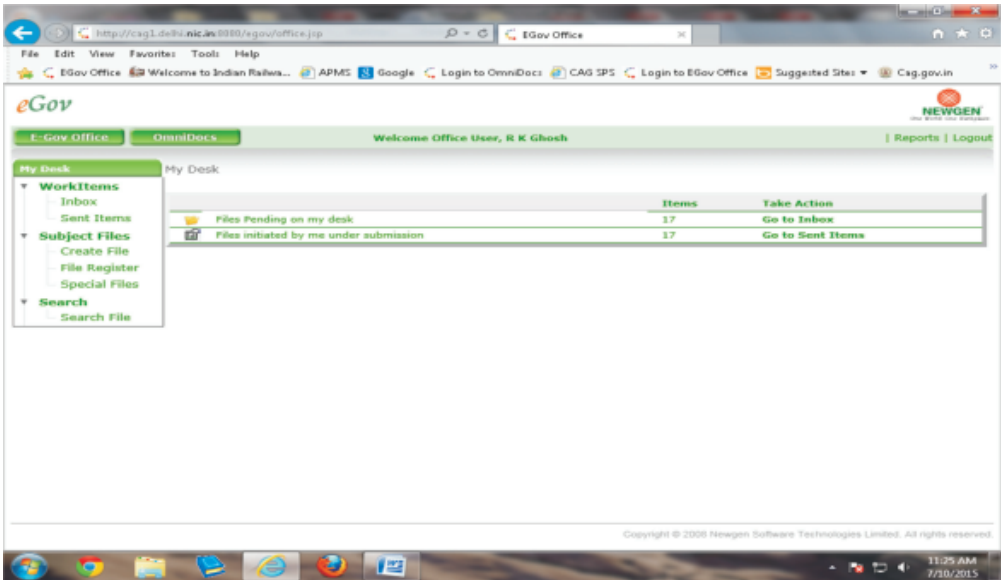
- a. On logging on to the eGov module by C&AG Office Initiator, the screen will appear containing DPs uploaded by respective FAOs.



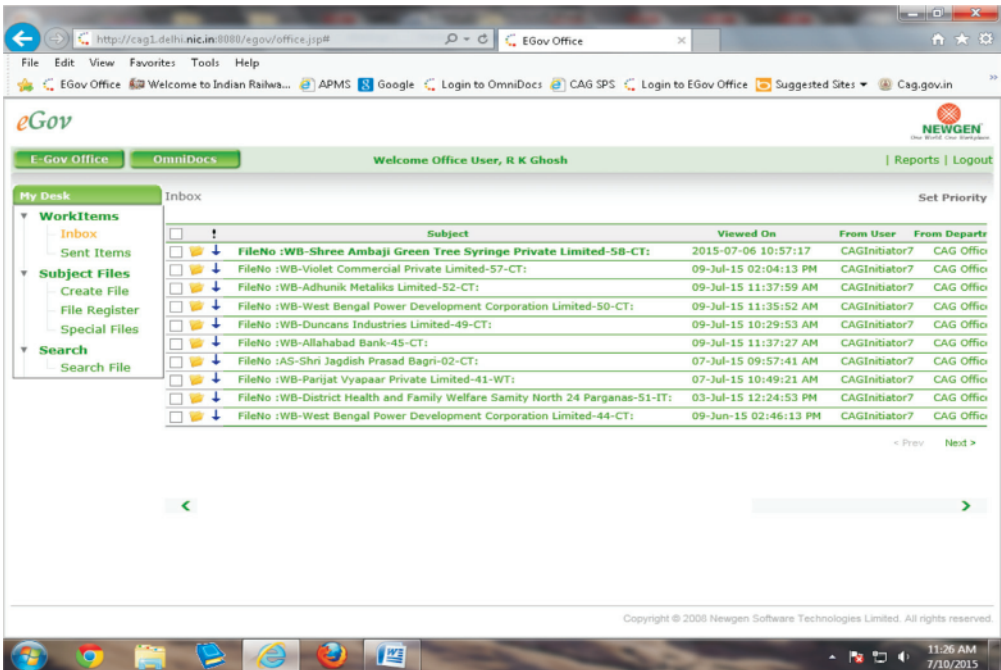
- b. The Initiator, after ensuring that DP has been uploaded along with Key Documents properly, will select predefined rule for processing of DPs and initiate it for further processing.



- c. Once the DP is initiated by C&AG Office Initiator, the C&AG Office User will log on to the system for processing of the DP. C&AG Office User's screen contains information such as how many DPs are pending for processing and how many DPs are under submission to approving authorities or under query to FAOs.

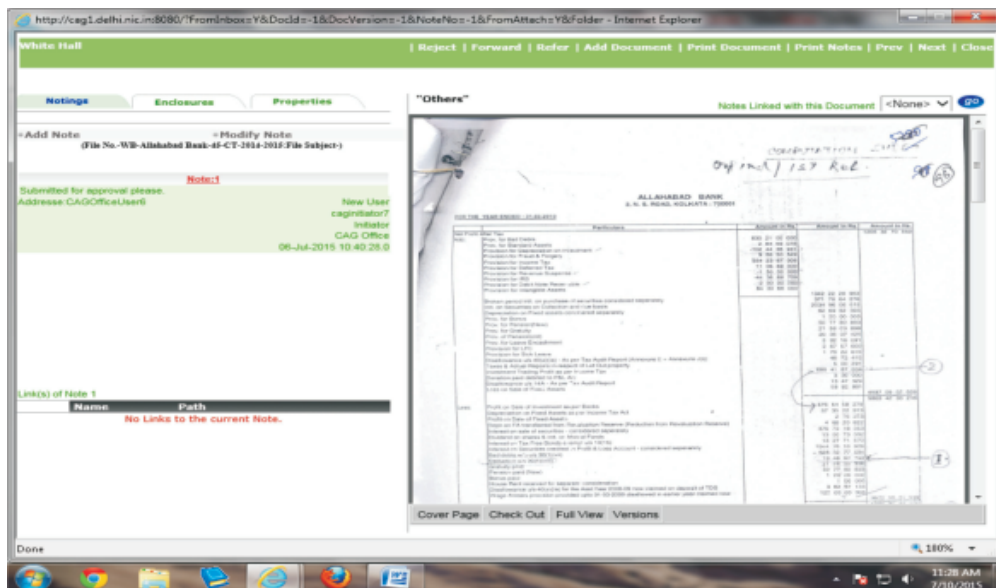


- d. After clicking on to Inbox, the DPs will appear on C&AG office user's screen in sets of 10 numbers.





- e. On clicking on DP folder's name the screen will open in White Hall system which is shown below:



- f. In White Hall system the C&AG Office User will write a note for respective DP. After examination of DP with reference to KDs and modifying the DP form (word document) user will check in the modified version of DP form into the system and forward it to DG/PD of C&AG HQ for approval.

## Appendix 20

### Standard Operating Procedure for Reporting of Performance Audits

(Reference: Paragraph 7.6.3)

#### 1. Introduction

Performance Auditing Guidelines, 2014 notified by the Comptroller & Auditor General of India in June 2014 lays down the procedure and practices to be adopted while conducting performance audits (PAs). They outline principles, objectives, approach, methodology, techniques and procedures. Regulations on Audit and Accounts, 2007 provide the appropriate guidance for audits undertaken by the IA&AD. The IA&AD performs its auditing functions as per C&AG Auditing Standards, 2002.

This document lays down the procedure to be adopted by DsG/PsD of Audit (Central) Offices as well as DT Wing of C&AG Office (C&AG HQ) while reporting on performance audit of the Income Tax Department (ITD).

Style Guide for IA&AD contains guidance for drafting and writing Audit Reports. Beside this, the guidelines issued in respect of Performance Audit by C&AG HQ contain detailed instructions on structure of the report specific to the area.

The Performance Auditing in Direct Taxes wing involves three stages namely planning, execution and reporting.

#### 2. Planning for Performance Audit

- a. At the planning stage, background paper on the area/ topic selected for PA is prepared at C&AG HQ in consultation with FAOs and practical feasibility of undertaking PA in the specific area is ascertained through conduct of pilot study by selected FAOs. The background paper outlines overview of area selected for review, rationale for selection of topic, objective of pilot study, thrust areas of review, scope of pilot study and suggested course of action for the FAOs.
- b. The pilot study reports are examined at C&AG HQ to determine the feasibility of conducting PA and to address constraints, if any, faced during audit.
- c. Planning stage also includes preparation of draft guidelines by selected FAOs on the topic of PA for issue to the FAOs. The guidelines on the selected topic of PA is issued to the FAOs indicating the background of the topic, objectives of PA, organizational set-up, law and procedure governing the area of audit (audit criteria) including significant judicial pronouncements in the related area, audit methodology, audit coverage and sample size, checklists, indicative audit checks

to be exercised, follow up issues in case a review had earlier been undertaken on the same topic, action to be taken, formats for data collection and compilation to enable pan India analysis and timelines for FAOs. The guidelines contain structure of report for compilation of audit findings at field level which enables uniformity in reporting structure across all FAOs. It also contains various timelines of audit cycle which are to be followed by FAOs and C&AG HQ.

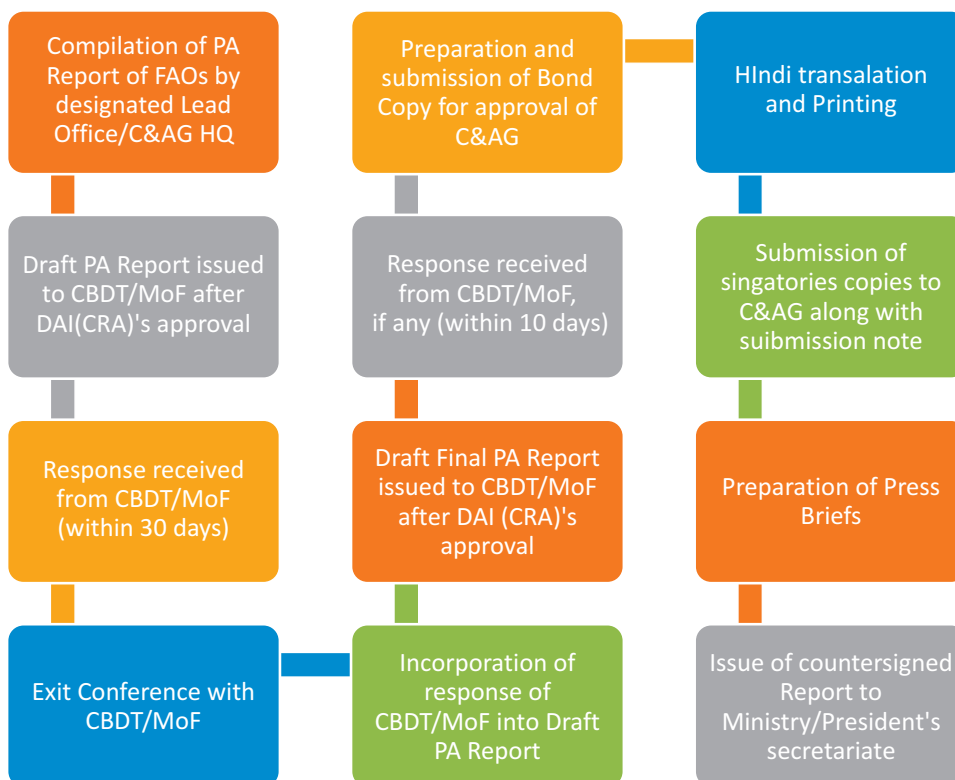
- d. At the time of issue of guidelines to FAOs, lead office for compilation of draft reports is to be designated and communicated. All FAOs are instructed to send their draft audit reports to designated lead office.

### 3. Audit Execution

- a. Entry Conference – At the commencement of PA, Entry Conference is to be held between the DG/PD of DT wing at C&AG HQ and Member (A&J), CBDT/MoF and other Senior Officers of ITD. The purpose of the conference is to inform the ITD about areas to be audited alongwith audit objectives, audit criteria, the audit approach and the time-frame within which audit is expected to be carried out. During entry conference protocol for conduct of audit is to be set up including nomination of liaison officers, production of records and other logistic arrangements. Minutes of the proceedings have to be prepared and shared with ITD and ITD is also requested to intimate their field formations about the PA and issue necessary instructions for giving full co-operation during conduct of audit.
- b. Likewise, at field level, DG/PD or Group Officer (GO) concerned should hold an Entry Conference with the jurisdiction Head of the Department informing them about the PA to be undertaken and other significant details. Minutes of the Conference have to be prepared and shared with ITD.
- c. FAOs are to complete the audit within the period prescribed by C&AG HQ. Audit Team Leader should hold an Exit meeting with the officer-in-charge of audited entity at the close of audit to seek his observations on audit conclusions and recommendations. Minutes of the proceedings have to be prepared and shared with audited entity and acknowledgement requested.
- d. Preparation of Draft Audit Report – The Draft Audit Report may be prepared based on instructions issued by C&AG HQ including those specified in the Guidelines and must be issued to the audited entity at least two weeks before holding the Exit Conference.

### 4. Reporting

The process followed by designated the Lead Office/C&AG HQ for PA reporting is illustrated below:



- a. **Receipt of the draft reports from the FAOs** – The Draft Performance Audit Report is prepared by the FAOs and forwarded to the designated the Lead Office alongwith key documents to the PA Report, relevant annexures (in excel format) and assurance memo (signed by HOD in the format indicated in sub para-m) for compilation and preparation of final performance Audit Report.
- b. **Consolidation of draft reports** – Prior to compilation of reports, the major categories and sub-categories need to be identified and all the audit findings accordingly need to be mapped to the category and sub-category based on nature of audit finding. All findings may be categorized and grouped category-wise (in excel database) to obtain consolidated status which will accordingly be reflected in Chapters. The PA Report is compiled based on structure outlined in the Guidelines for the PA. Designated Lead Office is to keep in mind the representation of all FAOs in highlighting audit findings to the extent possible on the basis of topicality importance of the audit findings instead merely highlighting the case on the basis of high money value. The Lead Office may ensure that only substantiated issues/ findings may be incorporated in the audit report to avoid any embracement at the time of discussion with the Ministry/ CBDT/PAC later on.
- c. **Checking of Key documents and linking to the draft report** – All the facts and figures brought out in the Draft Performance Audit reports have to be carefully examined and verified with respect to key documents. The facts and figures

reflected in the final PA Report have to be carefully linked to the key documents to enable verification and reference.

- d. Preparation of key to the Draft PA Report** – As only significant illustrative cases are highlighted in the Draft PA Report, and consolidated status of irregularities is reflected in report, a key containing list of audit findings indicating name of assessee, CIT charge, tax effect etc. is prepared in a tabular format (given below) for issue to Ministry. The key has to be issued to the Ministry alongwith the Report.

State	CAG Para No.	DG/ PD Para no.	Name of Assessee	AY	CIT Charge	Tax Effect (₹ in lakh)			Nature of mistake/ Category	Systemic / Compliance
						Positive	Potential	Over charge		

- 5. Structure of the Performance Audit** The PA Report should be presented as per the following structure:

- a. Cover Page:** The national emblem should be positioned at top centre of the cover page followed by “Report of the Comptroller and Auditor General of India” below which IA&AD official logo may be depicted. Title of the Report viz. the subject of the Performance Audit should be positioned below IA&AD’s logo.

Bottom Centre: Union Government – Department of Revenue - Direct Taxes - Report No. \_\_\_\_\_ of (Year)

- b. Next to Cover:** Following details may be depicted on the page next to cover page:

Top Centre: Report of the Comptroller and Auditor General of India

Middle Centre: for the year ended (month) (year) followed by Subject of Performance Audit

Bottom Centre: Union Government – Department of Revenue - Direct Taxes - Report No. \_\_\_\_\_ of (Year)

- c. Table of Contents:** Contents of the report including preface, executive summary, summary of recommendations, chapters of performance audit and annexures may be indexed.

- d. Preface:** The Preface may be worded as follows:

“This Report for the year ended March (the relevant year) has been prepared for submission to the President under Article 151 of the Constitution of India.

The Report contains significant results of the performance audit of (subject matter) of the Department of Revenue – Direct Taxes of the Union Government in (period covered in the audit).

The instances mentioned in this Report are those, which came to notice in the course of test audit for the period (relevant period) conducted during the period (relevant period).

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

Audit wishes to acknowledge the cooperation received from the Department of Revenue - Central Board of Direct Taxes at each stage of the audit process.”

- e. *Executive Summary:* The précis of the main report may be depicted here. The summary should not be very long and should contain only essential information. The major audit findings should be placed in the same sequence as the audit objectives.
- f. *Summary of Recommendations:* Chapter-wise recommendations may be depicted in serial order. Chapter Title may be followed by recommendations. Para referencing of each chapter may be done against title of the chapters.
- g. *Introductory Chapter:* The introductory chapter should contain brief description of subject of PA, organizational set-up, rationale for selection of topic, legal provisions specific to area of Performance Audit, audit objectives of the PA, audit scope and coverage, period selected for audit coverage, selection of sample, audit methodology and acknowledgement.
- h. *Chapters containing Audit Findings:* While consolidating the draft review reports received from field formations the audit findings may be classified based on categories/sub-categories identified after examination of the reports. All findings may be categorized and grouped category-wise (in excel database) to obtain consolidated status which will accordingly be reflected in Chapters. While compiling the reports on all India basis, clarifications may be sought from field offices in respect of any discrepancies or variations noticed in their draft PA Reports.
- i. Audit findings and conclusions made during an audit with reference to each objective should be stated. The criteria (legal provisions/ CBDT's circulars, instructions etc.) should be specified before highlighting the pan India status of audit finding (number, tax effect and description of type of irregularity). Illustrative cases in respect of each category may be highlighted in a box. The Ministry's/ Department's reply in respect of each illustrated case may be brought out (in italics). In case of non-acceptance the stand taken by audit (rebuttal) may also be brought out below Ministry's/ Department's reply.
- j. Description of Audit Findings in each category may be followed by audit recommendation.

**6. Formatting of Report:** PA Report should be prepared based on style guide of IA&AD.

*Fonts:* DT Wing uses Calibri size 12 for main text, Calibri 11 for illustrative box texts, Calibri 10 for Header (Performance Audit Report no. of the year in italics)/footer (page no. in Arabic format) and table; and Calibri 8 for footnotes.

*Para Numbers:* Paras and sub paras should be numbered. Avoid using bullets, instead use alphabets or roman numbers.

*Paragraphs:* Use multiple line spacing at 1.15 and leave 6 pt before and after as spacing.

*Graphs/Charts/Tables:* The report may contain illustrative charts, tables and boxes to enhance the preventability and readability of reports. The tables, charts, text boxes may be numbered with respect to Chapter number (e.g. tables appearing in Chapter 2 may be numbered as 2.1, 2.2, 2.3 etc.). Every table and chart should have a clear and concise title/ label. Tables and other graphics containing data sourced from outside (including the audited entity) should have an acknowledgement of the source of such data.

*Page number:* The preface, executive summary and summary of recommendations may be page numbered in roman format (i, ii, iii etc). The chapters may be numbered in arabic format (1, 2, 3, 4 etc.). The cover page, next to cover and table of contents do not have to be numbered.

7. **Issue of Draft Report to CBDT/MoF** – The draft PA Report alongwith key is prepared and submitted for approval to DAI (CRA). The PA Report, duly approved by DAI (CRA) is issued to the Secretary (Revenue) to the Government of India, Ministry of Finance, Department of Revenue and copies are endorsed to Chairman, CBDT and Member (Audit & Judicial), CBDT for their comments. A copy of the same alongwith Key is to be sent to Director (A&PAC), CBDT. Ministry's response on the PA report is sought within four weeks of the receipt of the Report. The Ministry is also requested to hold exit meeting on the specified date.
8. **Issue of Draft PA Report to FAOs for confirmation of facts and figures** - Simultaneously the Draft PA Report issued to the Ministry has to be circulated alongwith the key to all FAOs for confirmation of facts and figures. Any errors or mistakes pointed out by FAOs have to be rectified in the revised PA Report.
9. **Receipt of reply from CBDT/MoF** – The Ministry's response to the audit findings and recommendations is suitably incorporated in the Draft PA Report. The cases where the Ministry has not accepted the audit observations, suitable rebuttal are incorporated.
10. **Exit meeting** – Exit Conference on the PA is organized with senior representatives of CBDT/MoF namely, Member (Audit & Judicial), CBDT; CIT (A&J), Director (A&PAC). During the Exit Conference, the major audit findings and recommendations made in the PA Report are discussed vis-à-vis the response of the Ministry. Minutes of the proceedings of the Exit Conference and decisions taken therein are prepared in co-ordination with CBDT and documented.
11. **Issue of final draft to CBDT/MoF** – PA Report is revised based on response received from the Ministry and decisions taken in Exit Conference. The revised PA Report is issued to the Ministry seeking their response within two weeks. The revised report is sent to the Secretary (Revenue) to the Government of India, Ministry of Finance, Department of Revenue and copies of the revised report are endorsed to Chairman, CBDT and Member (Audit & Judicial), CBDT for their comments before finalization of the report. A copy of the same alongwith revised key (if necessitated) is to be sent to Director (A&PAC), CBDT with endorsement to field offices.
12. **Confidentiality of materials for Audit Report** – Audit Reports are confidential document till they are tabled in the Parliament. In this regard, confidentiality has to be maintained at every level. Instructions on the confidentiality as issued by C&AG HQ vide instruction no. III/S/5/258-PPG/24-2012 dated 27 July 2012 may be followed. Confidentiality statement prescribed therein has to be submitted.

- 13. Preparation of Assurance memo** – Assurance Memo has to be prepared in the following format and submitted alongwith draft report by FAOs.
- i. That the PA has been carried out in consonance with the main and supplementary guidelines issued by C&AG HQ.
  - ii. That all observations pointing out lapses in the implementation of systems and procedures and all weaknesses in the responsibility centres have been discussed with the Heads of Administrative Departments and assurance obtained in regard to corrective measures for arresting potential risks.
  - iii. That all contested evidence has been conclusively handled with reference to the facts at the disposal of audit.
  - iv. That the samples have been selected based on risk analysis and risk perception and that the evidence of such exercise is available on record.
- 14. Preparation of Bond copy after considering the reply** – The response of the Ministry to the second draft of PA Report is incorporated in the final PA Report. On approval of the report by DAI (CRA), the bond copy of the report is sent to the Comptroller and Auditor General of India for approval with appropriate annotations. Proposal for preparation of Noddy book of the performance audit report has to be submitted at the time of submission of bond copy.
- 15. Preparation of Submission Note to C&AG** – Bond copy is submitted to C&AG along with Submission Note. It contains brief about the PA topic, various times lines followed, audit objectives, audit findings etc.
- 16. Linking audit objectives and audit findings:** In order to appreciate the audit work, it is always better to prepare summary of audit findings linking with each audit objectives and mention in the submission note. Following table may be used for illustrative purpose.

Audit objectives	Audit Findings	No. of cases	Tax effect (₹ in crore)
AO 1	AF 1	xx	xxxx.xx
	AF 2	xx	xxxx.xx
	AF 3	xx	xxxx.xx
AO 2	AF 1	xx	xxxx.xx
	AF 2	xx	xxxx.xx
	AF 3	xx	xxxx.xx
AO 3	AF 1	xx	xxxx.xx
	AF 2	xx	xxxx.xx
	AF 3	xx	xxxx.xx
AO 4	AF 1	xx	xxxx.xx
	AF 2	xx	xxxx.xx
	AF 3	xx	xxxx.xx



17. **Office wise contribution to Report:** PA is conducted by FAOs of DT Wings. It is therefore advisable to prepare a gist of office-wise contribution linking with state under its jurisdiction and mention it in the submission note. Following table may be used for illustrative purpose.

Field Office	State jurisdiction	No. of cases	Tax effect (₹ in crore)
PDA(C), Hyderabad	Andhra Pradesh	xx	xxxx.xx
	Odisha	xx	xxxx.xx
	<b>Total</b>	<b>xx</b>	<b>xxxx.xx</b>
DGA(C), Kolkata	West Bengal	xx	xxxx.xx
	Assam and NE states	xx	xxxx.xx
	<b>Total</b>	<b>xx</b>	<b>xxxx.xx</b>
DGA(CR), Delhi	Delhi	xx	xxxx.xx
	Chhattisgarh	xx	xxxx.xx
	Madhya Pradesh	xx	xxxx.xx
	<b>Total</b>	<b>xx</b>	<b>xxxx.xx</b>
PDA(C), Ahmedabad	Gujarat	xx	xxxx.xx
	Rajasthan	xx	xxxx.xx
	<b>Total</b>	<b>xx</b>	<b>xxxx.xx</b>
PDA(C), Chandigarh	Haryana	xx	xxxx.xx
	Himachal Pradesh	xx	xxxx.xx
	Jammu & Kashmir	xx	xxxx.xx
	Punjab including UT Chandigarh	xx	xxxx.xx
	<b>Total</b>	<b>xx</b>	<b>xxxx.xx</b>
DGA(C), Chennai	Tamil Nadu	xx	xxxx.xx
	Kerala	xx	xxxx.xx
	<b>Total</b>	<b>xx</b>	<b>xxxx.xx</b>
PDA(C), Lucknow	Uttar Pradesh	xx	xxxx.xx
	Uttarakhand	xx	xxxx.xx
	Bihar	xx	xxxx.xx
	Jharkhand	xx	xxxx.xx
	<b>Total</b>	<b>xx</b>	<b>xxxx.xx</b>
PDA(C), Bengaluru	Karnataka	xx	xxxx.xx
	Goa	xx	xxxx.xx
	<b>Total</b>	<b>xx</b>	<b>xxxx.xx</b>
PDA(C), Mumbai	Maharashtra	xx	xxxx.xx
<b>Total</b>	<b>xx</b>	<b>xxxx.xx</b>	

18. **Hindi translation and Report printing** – A copy of final PA Report is sent to Principal Director (Rajbhasha Wing) for Hindi translation. The soft copy and hard copy of PA Report is provided to the empanelled printers for printing copies of PA Report for laying in the Parliament and dissemination within IA&AD and to the stakeholders.
19. **Material for Noddy Book** – In case Noddy Book is to be prepared, material thereof duly approved is to be supplied to empanelled printer. A copy of material is also sent to Principal Director (Rajbhasha Wing) for Hindi translation.
20. **Preparation of Press Briefs** – A Press Brief of PA Report is prepared in English as well as Hindi immediately after approval of Bond copy. The Press Brief includes summary of PA Report, important audit findings (with para referencing) and recommendations.
21. **Submission of signatory copies to C&AG** – Eight printed copies each (Hindi and English version) of the Performance Audit Report, are submitted to the Comptroller and Auditor General of India for signature copies.
22. **Issue of countersigned Audit Report to Ministry/President** – DAI (CRA) forwards the signed copies of the report to the Government for placing it on the table of the Parliament. Simultaneously, intimation on forwarding of the report along with a signed copy of the report is to be sent to the Secretary to the President in respect of the reports relating to the Union Government respectively. The remaining copies of the printed reports are forwarded to the Parliament on their request, generally on the day the report is presented. A digital copy (CD) of the performance audit report both in English and Hindi (Reference: D.O. letter no. 9/2/2013(PLB)/LY dated 20 February 2013) is also required to be sent to the Director (Library), Lok Sabha Secretariat, for preparation of digital data base for the members of the Parliament.
23. **For Media and C&AG website** – Press brief of PA Report both in English and Hindi alongwith copies of Audit Report and Noddy book (if prepared) are forwarded to Media Advisor for dissemination amongst the national dailies and media channels after laying of the Report to both Houses of Parliament. Simultaneously, soft copy (in pdf format) of the Audit Report/Press brief/Noddy book both in English and Hindi is also sent to IS wing for uploading in the C&AG website.

## Appendix 21

### Procedure for Audit Committee Meetings

(Reference: Paragraph 8.4)

Audit Committees have been formed in all FAOs for the settlement of outstanding audit observations relating to Revenue Audit Wings. The Committees are formed at the level of CCIT (CCA) and DGA/PDA Nodal officers are nominated from the ITD and an equal number of observers are nominated from IA&AD to assist the Committee. In order to make the ACMs more effective, brief of the guidelines is given below:

1. The number of Audit Committee Meetings (ACMs) to be conducted by each wing would be scaled down. At the beginning of the year, the DGA/PDA would decide the number of meetings to be held by each wing. ACMs will be conducted at the level of DGA/PDA with the concerned Chief Commissioner of IT/Customs/CERA where the concerned Commissioner(s) and the Range/Assessing Officers (of the selected units whose paras are to be taken up for discussion at the ACM) will also be expected to attend (if the Chief Commissioner is unable to attend for some reason, it will be expected that at least the Commissioner(s) would attend otherwise the meeting will be called off); in addition (for IT department) the concerned CIT (Internal Audit) will also be invited.

2. The procedure for holding ACMs would be as follows:

One ACM would be counted against one Chief Commissioner's charge. Each wing immediately on being informed of its annual targets for holding ACMs would put up a note to DGA/PDA, as below, detailing:

The assessing charges/ ranges falling under the administrative jurisdiction of a particular Chief Commissioner for whom the ACM is planned to be conducted. It is not expected that all assessment charges/Ranges under the Chief Commissioner would be selected (for example, only those charges having the largest number of outstanding paras or where response to audit has been very tardy could be taken up at the ACM).

3. The note will indicate the full particulars of the charges whose paras are proposed to be taken for discussion at the ACM, the number of paras outstanding against each charge, the Chief Commissioner and Commissioner(s) under whose administrative jurisdiction the charge falls, the CIT (Audit) who is also to be invited to the ACM (in the case of ITRA), proposed date of holding the ACM, etc. The note should give a justification why the particulars charges/ ranges have been selected.

The note could be in the format as suggested below for each ACM:

ACM	Particulars of charge/ range for whom ACM is to be held	Total no. of outstanding paras against the charge/ range/ date on which last ACM held	Commissioner under whose administrative control the charge/range falls	Total no. of charges/ ranges (auditee) under the administrative control of the Commissioner	Chief Commissioner under whose administrative control the charges/ranges/ Commissioners falls	Tentative date of proposed ACM
-----	---	---	--	---	---	--------------------------------

ACM 1

ACM 2

ACM 3  
and so on

Reasons/ justification for the above selection

4. Once the above selection is approved, the Wing should then compile a list of the outstanding paras against each Charge/Range as is the practice now (but after taking into account/disposing off all pending letters/replies which may have been received from that Charge/Range and first settling whatever paras that can be settled on the basis of the replies/ information received/available in the office. The list should indicate the followings:

- a. IR/para no.
- b. Gist of the para/objection
- c. Whether first reply received or not and if received why objection could not be settled
- d. Details of further correspondence by audit on the para
- e. Specific action/information required from auditee to settle the objection.

5. After the lists are compiled in the above manner, these would be forwarded under a DO letter from DG/PDA to the concerned Chief Commissioner intimating him of our intention of convening an ACM on a prescribed date in respect of the Charges/Ranges (to be listed in the letter) under his administrative control, requesting his presence along with the Commissioners (to be mentioned in the letter, under whose control the charges/ranges fall) as also the heads of the charges/ranges at the ACM, requesting him to direct the concerned officers that before the meeting, to update/ reconcile the outstanding paras as per their records with the list furnished by audit, ascertain the latest position in each case and to furnish replies in advance before the ACM where possible (these if received, would be examined by audit before the meeting); a copy of the above letter would also be endorsed to the concerned Commissioner (Internal Audit) also inviting him to attend the ACM; The letter should be sent at least four months in advance of the ACM to give sufficient time to the auditees to consult their records and furnish replies.

6. To enable effective follow up after every ACM, the Minutes to be drawn up after each ACM would be more tightly drafted. The Minutes would begin with the names/ designations of officers who attended the ACM, date of ACM, the charges/ranges in respect of whom the

ACM was held and thereafter listing Charge/Range-wise, (a) IR/para no. (b) brief particulars of the para (c) action on the para assured by audit/auditee as the case may be, on that para at the meeting and (d) the time by which this action would be taken (to be given/obtained at the meeting). The Wing would then monitor further progress against these timelines and where these are not honored by the auditee, these would be immediately brought to the notice of the Chief Commissioner through a DO letter from DGA/PDA/ (this letter would also simultaneously update the Chief Commissioner about the action since taken by audit with reference to any assurances given by audit at the ACM on any particular paras for which action/feedback is due by that time).

The major audit objections, PDPs and SOFs which were confirmed audit report material which could not be processed for want of a reply/confirmation from the auditee should immediately be individually first taken up through DO letter from the Group Officer to the concerned Deputy/Additional Commissioner. If no response is forthcoming, the issue should then be escalated at the level of DG/PDA with the concerned Chief Commissioner. In cases where this course of action has been taken, he would have no hesitation in floating a DP for the Audit Report even if a reply is not received, provided of course, audit is cent per cent sure of its stand.

In ITRA, DO letters signed by DGA/PDA are sent once a year to Chief Commissioners enclosing lists of outstanding IR paras and time barred cases. In CERA, the practice of sending six monthly letters are issued under the signature of Group Officer. In CRA the practice of sending monthly letters under the signature of Group Officer has been introduced recently. In order that all wings follow a uniform practice, henceforth, all wings should issue these DO letters on a six-monthly basis. These letters will be from DGA/PDA to the Chief Commissioners together with the list of paras outstanding against the assessing Charges/Ranges (Grouped Commissionerate-wise) under the administrative control of that Chief Commissioner – copies of the letters will be endorsed by the Group Officer to the concerned Commissioners (along with the list of paras outstanding against the assessing Charges/Ranges under the administrative control of that particular Commissioner). These letters should give the position of IR paras outstanding as on 30<sup>th</sup> June and 31<sup>st</sup> December each year. These letters should all be issued by 31<sup>st</sup> July and 30<sup>th</sup> January every year. The due dates may be noted in the Calendar of Returns.

[C&AG HQ letter No. 267-RecA (DT)/98-2010 dated 19-7-2010]



## Abbreviations

AAO	Assistant Audit Officer (Field level)/ Assistant Administrative Officer (C&AG HQ)
AAP	Annual Audit Plan
ACM	Audit Committee Meeting
ADIT	Assistant Director of Income Tax
AM	Audit Memo
APOS	Audit Para Observations System
ASOSAI	Asian Organisation of Supreme Audit Institutions
AQMF	Audit Quality Management Framework
BO	Branch Officer
CA	Compliance Audit
C&AG	Comptroller and Auditor General of India
CBDT	Central Board of Direct Taxes
CCIT	Chief Commissioner of Income Tax
CCIT (CCA)	Chief Commissioner of Income Tax (Cadre Controlling Authority)
CCO	Chief Controlling Officer
CIT	Commissioner of Income Tax
CRA	Central Receipt Audit
DCA	Department Centric Audit
DCR	Demand and Collection Register
DDIT	Deputy Director of Income Tax
DDO	Drawing and Disbursing Officer
DG	Director General
DGIT	Director General of Income Tax
DIT	Directorate of Income Tax
DOR	Department of Revenue
DP	Draft Paragraph
DPC	Duties, Powers and Conditions (DPC) Act, 1971
DT	Direct Taxes
Exem.	Exemption

FAO	Field Audit Office
GO	Group Officer
HQ	Headquarters
IA&AD	Indian Audit and Accounts Department
Inv.	Investigation
INTOSAI	International Organisation of Supreme Audit Institution
I&CI	Intelligence and Criminal Investigation
ITD	Income Tax Department
ITO	Income Tax Officer
ITRA	Income Tax Receipt Audit
Jt. CIT	Joint Commissioner of Income Tax
LAP	Local Audit Party
LAR	Local Audit Report
LTU	Large Taxpayers Unit
MIP	Men in position
OB	Objection Book
ODT	Other Direct Taxes
PA	Performance Audit
PAC	Public Accounts Committee
PAN	Permanent Account Number
PD	Principal Director
Pr. DGIT	Principal Director General of Income Tax
PDP	Potential Draft Para
PPG	Professional Practices Group
QPR	Quarterly Performance Report
RADT	Receipt Audit - Direct Taxes
RRR	Return Receipt Register
SOF	Statement of Facts
Sr.AO	Senior Audit Officer (Field level)/ Senior Administrative Officer (C&AG HQ)
SMU	Strategic Management Unit
TAR	Tax Audit Report
TBA	Theme Based Audit
TPO	Transfer Pricing Officer
UTITSL	UTI Infrastructure Technology and Services Limited













## Addresses of Central Receipt Audit Offices

<p><b>Direct Tax Wing</b>  <b>Office of Comptroller &amp; Auditor General of India</b>  <b>10, Bahadur Shah Jafar Marg</b>  <b>New Delhi – 110 124</b>                  Tel: +91-(0)11-23216728 Fax: +91-(0)11-23231654  <a href="http://cag.gov.in">http://cag.gov.in</a></p>	
<p><b>Director General of Audit (Central Receipt)</b>  <b>AGCR Building, Indraprastha Estate</b>  <b>NEW DELHI – 110 002</b>                  Email: <a href="mailto:dgacr@cag.gov.in">dgacr@cag.gov.in</a>                  Tel: +91-11-23702250                  Fax: +91-(0)11-23702271/23702261</p>	<p><b>Dy. Director/Director (RAIT)</b>  <b>AGCR Building, Indraprastha Estate</b>  <b>NEW DELHI – 110 002</b>                  Tel: +91-11-23702249</p>
	<p><b>Dy. Director/Director (CRA)</b>  <b>Audit Bhavan, 4<sup>th</sup> Floor, Jhansi Road</b>  <b>GWALIOR, Madhya Pradesh – 474 002</b>                  Tel: +91-(0)751-2420761                  Fax: +91-(0)751-2636665</p>
<p><b>Director General of Audit (Central)</b>  <b>GOI Press Building, 8, Kiron Sankar Roy</b>  <b>Road</b>  <b>KOLKATA, West Bengal- 700 001</b>                  Email: <a href="mailto:pdcentralkolkata@cag.gov.in">pdcentralkolkata@cag.gov.in</a>                  Tel: +91-(0)33-22133174                  Fax: +91-(0)33-22135377, 22135375</p>	<p><b>Dy. Director/Director (RAIT) I&amp;II</b>  <b>GOI Press Building, 8, Kiron Sankar Roy</b>  <b>Road</b>  <b>KOLKATA, West Bengal- 700 001</b>                  Tel: +91-(0)33-22135425/22135423</p>
	<p><b>Dy. Director/Director (CRA)</b>  <b>Beltola</b>  <b>GUWAHATI, Assam – 781 029</b>                  Tel: +91-(0)361-2301323                  Fax: +91-(0)361-2300817</p>
<p><b>Director General of Audit (Central)</b>  <b>Lekha Bhavan, 361, Anna Salai</b>  <b>CHENNAI, Tamil Nadu – 600 018</b>                  Email: <a href="mailto:dgacchennai@cag.gov.in">dgacchennai@cag.gov.in</a>                  Tel: +91-(0)44-24316699                  Fax: +91-(0)44-24338924</p>	<p><b>Dy. Director/Director (DT-I)</b>  <b>Lekha Bhavan, 361, Anna Salai</b>  <b>CHENNAI, Tamil Nadu – 600 018</b>                  Tel: +91-(0)44-24316571</p>
	<p><b>Dy. Director/Director (DT-II)</b>  <b>AG's Office Building, Golden Jubilee Road</b>  <b>Kaloor, KOCHI, Kerala – 682 017</b>                  Tel: +91-(0)484-2403074                  Fax: +91-(0)484-2401599</p>
<p><b>Principal Director of Audit (Central)</b>  <b>C-25, Audit Bhavan, BKC</b>  <b>Behind Income Tax Building, Bandra</b>  <b>MUMBAI- Maharashtra – 400 051</b>                  Email: <a href="mailto:pdcentralMumbai@cag.gov.in">pdcentralMumbai@cag.gov.in</a>                  Tel: +91-(0)22-26572578                  Fax: +91-(0)-22-26572451</p>	<p><b>Dy. Director/Director- ITRA I &amp; II</b>  <b>C-25, Audit Bhavan, BKC</b>  <b>Behind Income Tax Building, Bandra</b>  <b>MUMBAI- Maharashtra – 400 051</b>                  Tel: +91-(0)22-26572907, 26571772</p>
	<p><b>Dy. Director/Director (CRA)</b>  <b>IIInd Floor, Pr. AG (A&amp;E), Office Building</b>  <b>Park House Road</b>  <b>BENGALURU, Karnataka – 560 001</b>                  Email: <a href="mailto:pdacbangaluru@cag.gov.in">pdacbangaluru@cag.gov.in</a>                  Tel: +91-(0)80-22341995                  Fax: +91-(0)80-22281590</p>

<p><b>Principal Director of Audit (Central)</b>  <b>AG Office, Saifabad</b>  <b>HYDERABAD, Andhra Pradesh – 500 004</b>            Email: pdachyderabad@cag.gov.in            Tel: +91-(0)40-23232069            Fax: +91-(0)40-23232294</p>	<p><b>Dy. Director/Director (DT)</b>  <b>AG Office, Saifabad</b>  <b>HYDERABAD, Andhra Pradesh – 500 004</b>            Tel: +91-(0)40-23234497</p>
	<p><b>Dy. Director/Director (CRA)</b>  <b>AG's Office Complex</b>  <b>Sachivalay Marg</b>  <b>Bhubaneswar, Odisha-751001</b>            Tel: +91-(0)674-2395864            Fax: +91-(0)674-2395864</p>
<p><b>Principal Director of Audit (Central)</b>  <b>Audit Bhavan, Navrangpura</b>  <b>AHMEDABAD, Gujarat – 380 009</b>            Email: pdacahmedabad@cag.gov.in            Tel: +91-(0)79-26560133            Fax: +91-(0)79-26561853</p>	<p><b>Dy. Director/Director (ITRA)</b>  <b>Audit Bhavan, Navrangpura</b>  <b>AHMEDABAD, Gujarat – 380 009</b>            Tel: +91-(0)79-26568020</p>
	<p><b>Dy. Director/Director (CRA-II)</b>  <b>Janpath</b>  <b>JAIPUR, Rajasthan – 302 005</b>            Tel: +91-(0)141-2385038            Fax: +91-(0)141-2385038</p>
<p><b>Principal Director of Audit (Central)</b>  <b>Plot No 21 &amp; 22, Lekha Pariksha Bhawan</b>  <b>Sector – 17-E</b>  <b>CHANDIGARH, PUNJAB- 160 017</b>            Email: pdacchandigarh@cag.gov.in            Tel: +91-(0)172-2782020            Fax: +91-(0)172-2782021</p>	<p><b>Dy. Director/Director (DT)</b>  <b>Plot No 21 &amp; 22, Lekha Pariksha Bhawan</b>  <b>Sector – 17-E</b>  <b>CHANDIGARH, Punjab- 160 017</b>            Tel: +91-(0)172-2706117</p>
	<p><b>Dy. Director/Director (DT)</b>  <b>15-A, Dayanand Marg</b>  <b>4<sup>th</sup> Floor, Satyanistha Bhawan</b>  <b>ALLAHABAD, Uttar Pradesh – 211 001</b>            Tel: +91-(0)532-2420128            Fax: +91-(0)532-2420446</p>
<p><b>Principal Director of Audit (Central)</b>  <b>6<sup>th</sup> Floor, Kendriya Bhawan, Aliganj</b>  <b>LUCKNOW, Uttar Pradesh – 226 024</b>            Email: pdaclucknow@cag.gov.in            Tel: +91-(0)522-2324680            Fax: +91-(0)522-4068777</p>	<p><b>Dy. Director/Director (CRA)</b>  <b>Mahalekhakar Bhawan</b>  <b>Birchand Patel Marg</b>  <b>PATNA, Bihar – 800 001</b>            Tel: +91-(0)612-2223194            Fax: +91-(0)612-2236223</p>
	<p><b>Dy. Director/Director (CRA)</b>  <b>4<sup>th</sup> Floor, O/o Pr. AG (Audit)</b>  <b>Doranda</b>  <b>RANCHI, Jharkhand – 834 002</b>            Tel: +91-(0)651-2412020            Fax: +91-(0)651-2413701</p>

