



CHAPTER I - INTRODUCTION

1.1 Introduction

The levy, assessment and collection of central excise duties and service tax are administered by the Central Board of Excise & Customs (CBEC), which is a part of Department of Revenue, under Ministry of Finance, Govt. of India. The total central excise and service tax collections in the last three years (2007-08 to 2009-10) were ₹ 3,35,215 crore and ₹ 1,70,663 crore respectively.

The Central Excise Department has 98 central excise commissionerates and seven¹ exclusive service tax commissionerates which report to Chief Commissioners heading 23 zones. Most of the central excise commissionerates also deal with work relating to service tax in their jurisdiction.

Each commissionerate is headed by a Commissioner, who is assisted by Additional /Joint commissioners and Deputy/Assistant commissioners, whose duties and functions include internal audit of the assessee units through the internal audit parties, adjudication of cases corresponding to their monetary limit and monitoring the collection and assessment functions of the divisions and ranges. The Divisional officers of the rank of AC/DC perform the function of granting registration, adjudication upto their monetary limit and supervision and control of assessment done by ranges. The function of the lowest level office, headed by Range Officer (Superintendent) are scrutiny of assessments, taking steps towards broadening of tax base in co-ordination with divisions, drafting show cause notices, registration functions etc. The range officers are assisted by inspectors. In this performance audit, we have examined the control mechanisms in ranges, divisions and commissionerates, pertaining to five critical areas of functioning.

1.2 Audit objectives

The performance audit was conducted to seek assurance that:

- (i) the prescribed mechanism to broaden the tax base, by identifying service tax providers and bringing them under the tax net, was being complied with
- (ii) the registration certificates were being issued in a timely manner and prescribed verification checks were being carried out
- (iii) control over assessments was being exercised by conducting prescribed scrutiny of returns

¹ One Mumbai ST commissionerate was bifurcated into two commissionerates Mumbai ST-I and Mumbai ST-II with effect from 1 March 2010 taking the total of exclusive service tax commissionerate to seven.

- (iv) the Internal Audit process was in conformity with the prescribed norms/guidelines
- (v) issue of show cause notices and review of call book cases were being done in a timely manner

1.3 Scope and Coverage

For conducting the performance audit, we selected 46 commissionerates, 95 divisions functioning under the selected commissionerates and 204 ranges functioning under the selected divisions. Our selection included 28 commissionerates where both central excise and service tax records were examined, 11 commissionerates where only central excise records were examined and seven Commissionerates where only service tax records were examined. In effect, we covered 39 commissionerates while auditing central excise records and 35 commissionerates while auditing service tax records.

Similarly, out of 95 divisions, we examined both central excise and service tax records in 35 divisions, only central excise records in 36 divisions and only service tax records in 24 divisions. In effect we covered 71 divisions while auditing central excise records and 59 divisions while auditing service tax records.

In the similar manner, out of 204 ranges, we examined both central excise and service tax records in 39 ranges, only central excise records in 97 ranges and only service tax records in 68 ranges. In effect we covered 136 ranges while auditing central excise records and 107 ranges while auditing service tax records.

1.4 Acknowledgement

We had an entry conference with the officers of Ministry of Finance and CBEC on 29 December 2010 where the audit objectives and scope of the performance audit were discussed. The audit recommendations and some of the audit findings were discussed in an exit conference held on 25 November 2011 with the officers of the Ministry. We acknowledge the cooperation extended by the Ministry of Finance and the field formations in providing the necessary information and records during the conduct of this audit.

1.5 Areas covered in the review

In this review, we had covered five areas of examination and the review was conducted to seek assurance on the adequacy of and adherence to the internal control system in the selected five areas. Accordingly the review has been structured giving a separate chapter for each of these five areas.