



## CHAPTER IV - SCRUTINY OF RETURNS

### 4.1 Introduction

The CBEC introduced self assessment in respect of central excise in 1996 and in respect of service tax in 2001. With the introduction of self assessment, the department also provided for a strong compliance verification mechanism with three important prongs—Scrutiny of Returns/ Assessments, Audit and Anti-Evasion. The crucial role of scrutiny of assessments was highlighted in the Report of the Task force on Indirect Taxes, 2002, which stated that "It is the view that assessment should be the primary function of the Central Excise Officers. Self assessment on the part of the taxpayer is only a facility and cannot and must not be treated as a dilution of the statutory responsibility of the Central Excise Officers in ensuring correctness of duty payment. No doubt audit and anti-evasion have their roles to play, but assessment or confirmation of assessment should remain the primary responsibility of the Central Excise Officers".

In the exercise of powers conferred under Rule 12(3) of Central Excise Rules, 2002 and Rule 5A of the Service Tax Rules, 1994, the Board has laid down detailed guidelines for scrutiny of returns as contained in the two return scrutiny manuals both for Central Excise returns (ER1 and ER3) and Service Tax returns (ST3). The scrutiny of returns is in two stages: The purpose of preliminary scrutiny of returns is to ensure arithmetic accuracy of the duty computation, completeness (permanent account number, description of the item, registration details of the unit etc) timeliness (timely submission of the return and timely payment of duty) and identification of stop filers and non filers. The detailed scrutiny of assessment is done for selected returns on the basis of risk parameters to ensure the correctness of assessment (correctness of classification, valuation and Cenvat credit). The preliminary scrutiny has been largely automated through the Automation in Central Excise and Service Tax (ACES) system and according to the Manual for Scrutiny of Service Tax Returns, 2009 (Para 1.2B), this would release manpower for detailed manual scrutiny which then would become the core function of the range.

### 4.2 Preliminary scrutiny

Before implementation of ACES system, all the returns received by the Superintendent are to be scrutinized within three months of the date of receipt of returns. Under ACES, filing of returns and preliminary scrutiny is done by the system and discrepancies are marked for review and correction on an observation sheet generated by the system. The returns marked for review are to be validated in consultation with the assessee and re-entered into the system.

#### **4.2.1 Implementation and functioning of ACES**

We ascertained the degree of implementation of ACES in the commissionerates so as to ascertain whether automated preliminary scrutiny through ACES would free up time for the ranges to attend to other important items of work, as envisaged. The test checked 46 commissionerates intimated that ACES had been implemented in all their subordinate ranges except for six ranges under Dibrugarh Commissionerate, one range (Kamptee) under Nagpur Commissionerate and one range (Begusarai) under Patna Commissionerate where implementation is being delayed due to non-receipt of Broadband from BSNL and other technical problems.

We found that out of the 196 test checked ranges where ACES was implemented, there were functional problems in 112 ranges. The problems cited by various ranges included interruption in connection (Bankipur-I range and Darbhanga range in Patna Commissionerate, 10 ranges under Jaipur I & II commissionerates and 3 ranges of Raipur Commissionerate), lack of infrastructure including absence of power backup (3 ranges in Raipur Commissionerate), non-allotment of user-id and password (Service Tax Cell Nagpur), frequent link failure (12 ranges in Kolkata III, IV and V and 4 ranges in Kolkata ST Commissionerate), slow system response time (8 ranges in Delhi II Commissionerate), power supply of insufficient capacity (four ranges in Bangalore ST commissionerate), non-installation of hardware (four ranges in Bangalore III & Mysore Commissionerates), etc.

The Deputy Commissioner, ST Cell, Nagpur stated (October 2011), that user-id and password had been allotted to the concerned group superintendent and operations would start shortly.

The Kolkata IV, V and ST commissionerate accepted that there were frequent link failures.

The Range Superintendent (Begusarai) stated (May 2011) that persuasive effort was being made to ensure Broadband connectivity at the earliest.

#### **4.2.2 Preliminary scrutiny using ACES**

The ACES system has to carry out the checks prescribed for preliminary scrutiny and to prepare an observation sheet in which all the returns having errors are listed, with details of errors and are marked for further review and correction by the range superintendents.

We found that the ACES was not generating MIS Reports of returns submitted with delay and statement of assessees who had delayed the payment of duty. These two shortcomings were also not being indicated in the observation sheets being generated for review and correction.

##### **4.2.2.1 Identification of delayed Returns and delayed payment of duty**

We observed, through manual scrutiny, that in three ranges under Pondicherry Commissionerate, 41 per cent of 435 returns had been filed belatedly. We also found substantive delays (extending up to 303 days) in returns filing in three ranges in Goa Commissionerate, three ranges in Nagpur Commissionerate and one range in Bhubaneswar II Commissionerate.

In three ranges in Nagpur Commissionerate, in Vadodara-II Commissionerate-Group VIII and in Ahmedabad-ST Commissionerate-Range XII, we found delayed payment of duty in 17 returns on which interest was due. Ranges at Nagpur intimated that it had recovered the interest in two cases. After introduction of online filing, the cases of belated filing can be identified by ACES through a suitable MIS report, so that the ranges could take suitable action on these cases.

#### **4.2.2.2 Non-filers**

In response to our recommendations in earlier Audit Reports, the Ministry had stated that identification of non-filers and stop filers of returns would be implemented through the ACES project.

We found that any report showing list of non-filers was not being generated by ACES (September 2011). We did not find evidence that detection of stop filers by investigating the non-filers was taken up as a concerted effort.

#### **4.2.3 Preliminary scrutiny of returns done manually**

In 45 ranges although ACES was implemented, preliminary scrutiny was done manually and we found the following shortcomings:

**4.2.3.1** Three Central Excise ranges in Meerut I, three ranges in Lucknow, three ranges in Nagpur, three ranges in Noida Commissionerates, four service tax Ranges in Guwahati and Dibrugarh Commissionerate, four ranges in Meerut I and Noida Commissionerate and four groups in Chennai ST Commissionerate intimated that the preliminary scrutiny of returns had been done. However, we found that the check list prescribed<sup>19</sup> were either not attached with the scrutinized returns or were not signed by range officers. The unsigned checklists did not have any observations. Thus, we were unable to get adequate assurance that the returns had actually been checked. Lucknow and Nagpur Commissionerates intimated (March and April 2011) that returns were scrutinized but not signed due to oversight. This implied that nobody could be held accountable if any errors were found in the process of scrutiny.

**4.2.3.2** We found that Panchkula Commissionerate had not conducted manual scrutiny of returns according to the Manual for Scrutiny of Service Tax Returns, 2009 and similarly Delhi III Gurgaon and Delhi IV Faridabad Commissionerates had not done the scrutiny according to Manual for Scrutiny of Central Excise Returns, 2008.

The Panchkula Commissionerate admitted (June 2011) the audit observation and stated that on receipt of Manual in October 2010 proforma of monthly reports have been changed as per the manual.

The Faridabad Commissionerate stated (June 2011) that manual scrutiny was carried out before implementation of ACES.

The Gurgaon Commissionerate stated (January 2011) that preliminary scrutiny was being carried out as per conventional method. It further stated (June 2011) that the erstwhile instructions applicable to scrutiny of Manual Returns are not applicable in respect of returns filed under ACES. The replies were not correct as revised method of preliminary scrutiny was introduced by the

---

<sup>19</sup> in Annexure 2.1 of the Manual for the scrutiny of Central Excise returns 2008

Manual for Scrutiny of Central Excise Returns, 2008 and was operational during the period covered under review. The scrutiny under ACES has also been derived from this manual. Therefore, the commissionerates were required to do the scrutiny either manually as per revised manual or under ACES. However, they were doing neither and following the manual scrutiny that was operational before introduction of the revised Manual for Scrutiny of Central Excise Returns, 2008.

**4.2.3.3** In four ranges in Bangalore ST Commissionerate, although ACES was functional, preliminary scrutiny was being done manually. The returns were being filed online but the observation sheets generated by ACES were not being reviewed and action was not being taken.

**4.2.3.4** In four ranges in Patna Commissionerate, only about 19 per cent ST-3 returns were scrutinized against the norm of 100 per cent.

**4.2.3.5** In four ranges in Jamshedpur Commissionerate, two ranges in Raipur Commissionerate and two ranges in Chandigarh I Commissionerate, preliminary scrutiny of ST returns was not done at all.

#### **4.2.4 Monthly report on returns received and scrutinised**

As per the manuals for the scrutiny of central excise and service tax returns, a monthly report has to be submitted by the Range Officer to the jurisdictional Assistant/Deputy Commissioner of the Division regarding the number of returns received and scrutinized.

We ascertained that in 42 ranges under 12 commissionerates no monthly reports were submitted by range officers of central excise and in 49 ranges in 16 commissionerates no monthly reports were submitted by range officers, in service tax. The information on returns scrutinized was also not being submitted in any other form. Therefore, this work was not being monitored through this prescribed report in these ranges.

In 35 central excise ranges in 12 commissionerates and 21 service tax ranges in nine commissionerates, while the prescribed report was not prepared, the information relating to preliminary scrutiny was submitted through MTR.

Under ACES, the range Superintendents have to fill up observation sheets depicting the action taken on the returns, marked by the system for review and correction. An appropriate MIS report was required to be generated by ACES to enable the monitoring of the action taken by the Superintendents. Such a report would serve the same purpose as the monthly reports being submitted manually at present.

#### **4.2.5 Scrutiny of returns for which preliminary scrutiny was done by department**

##### **4.2.5.1 Central Excise**

Out of 22601 returns scrutinised by the department, we test checked 1421 returns and found errors in 88 returns (6 per cent). These errors were not detected by the department. They included returns with incomplete challan numbers, date and BSR (code indicating bank branch) codes not mentioned, abstract of current account not filled or wrongly filled, invoices issued during the month not mentioned, wrong accounting code on challan for duty and cess,

challan not enclosed, column of cenvat credit availed & utilised not filled properly, non-payment of interest on differential duty, non-reversal of Cenvat credit etc. Illustrative examples are given below:

i) In Begusarai range, we observed that an assessee (M/s Carbon Resources Pvt. Ltd.) had submitted two manual returns for the month of October 2009 signed by two different persons/authorities. Figures of productions and closing balance of final product in those returns did not match. The two returns did not carry any comments to explain the reasons for submission of two returns.

ii) In one range under Bhubaneswar I Commissionerate, M/s Tata Steel Ltd., Chrome ore beneficiation Plant, Sukinda Chromite Mines deposited ₹ 4.35 crore as duty towards short shipment of goods cleared for export. The interest leviable on delay in payment was neither paid by the assessee nor demanded by the Department. In reply, the Range Superintendent reiterated that duty of ₹ 4.35 crore was paid due to short shipment but did not explain why interest was not paid.

#### **4.2.5.2 Service Tax**

We test checked 938 service tax returns already scrutinized and found 44 errors (5 per cent) undetected by the department. The errors included use of incorrect accounting heads on challans, non imposition of penalty for delayed filing of returns and challans not available with ST-3 returns. Two illustrative examples are given below:

i) M/s Orbit Motors (P) Ltd, an authorised service station in Rourkela service tax Range availed and utilised cenvat credit of ₹ 1.73 lakh during October 2009 to March 2010 on service tax paid on transportation charges during the relevant period. Since the input service credit was not in relation to providing output service, credit so availed and utilised was irregular. Range Superintendent stated that action would be taken after verification.

ii) Test check of 20 ST-3 returns already checked by range II of Panchkula Division revealed that challans amounting to ₹ 6.69 lakh were not found attached with ST-3 returns of 11 assesseees.

### **4.3 Detailed scrutiny**

#### **4.3.1 Detailed scrutiny by Ranges**

As per Board's circular dated 11 May 2009, once ACES is implemented, returns would be automatically listed in descending order of risk and submitted to Commissioner for selection.

This function was not found operational and the system was not selecting any returns for detailed scrutiny as per Board's circular. To a query raised by us, only 12 ranges<sup>20</sup> out of 136 reported that detailed scrutiny of central excise

<sup>20</sup> Mallapur and Nacharam – II in Hyderabad III Commissionerate, Range-II, Bilaspur in Raipur Commissionerate, Division III, AR-I of Vapi Commissionerate, Rajgangpur in Bhubaneswar II Commissionerate, CE R-II, LDH-I and CE R-III, JLD in Ludhiana Commissionerate, IA, IB and IIIA in Pondicherry Commissionerate, Chinhat II and Aliganj in Lucknow Commissionerate.

returns was being done. Similarly, only nine ranges<sup>21</sup> out of 107 reported that the detailed scrutiny of service tax returns was being done.

In eight ranges, we examined 28 ST-3 returns which had already been scrutinised by the department but did not find any deviations. Range III D of Pondicherry Commissionerate intimated that they had done detailed scrutiny of 390 returns but provided only four cases for our scrutiny. While comparing the ST3 returns with the financial statements (as prescribed in the scrutiny manual), we found prima facie evidence of understatement of value of services provided in all the four cases which resulted in short payment of service tax of ₹ 25.79 lakh. The details are tabulated below:

**Table No. 1**

(Amount in lakh of rupees)

Name of Assessee	Taxable Service	Gross receipt as per Financial statements	Gross Receipt as per ST 3 return	Difference in taxable value	Service tax short paid
M/s Magic Hour Films Private Ltd	Photography Service	155	Nil	155	16
M/s Manakular Motors-Service	Authorised Service Station Services	223	205	18	02
M/s Mertho Constructions	Works Contract Services	974	815	159	07
Shri A.Srinivasa Rao	Audit & Consultation Fees Services	153	140	13	01

For the case enumerated at Sl. No. 1 in the above table, the department have intimated (April 2011) recovery of service tax of ₹ 52.41 lakh alongwith interest of ₹ 4.52 lakh for the financial years 2008-09, 2009-10 and 2010-11.

We observed that very few cases were subjected to detailed scrutiny and it was a matter of concern that one range was unable to find all the errors even in these small samples. Appropriate corrective action was required to be taken.

#### **4.3.2 Detailed Scrutiny by AC/DC/JC/Addl. Commissioner**

As per para 2.1A.10 and 2.1A.11 of Manual for the Scrutiny of Central Excise Returns, 2008, every six months, the Deputy/Assistant Commissioner in charge of the Division has to scrutinise the returns of units paying annual PLA revenue between ₹ 1 crore to ₹ 5 crore and the Additional/Joint Commissioner has to scrutinise the returns of units paying annual PLA revenue of over ₹ 5 crore. Wherever necessary, they can requisition the concerned documents from the assessee. The report on the scrutiny shall be sent to the Commissioner latest by the 15th of the next month.

<sup>21</sup> Service Tax Group I, Service Tax Group II and Service Tax Group V in Hyderabad III Commissionerate, Group-VIII in Vadodara II Commissionerate, Group X in Mumbai ST-I Commissionerate, STR I Jalandhar in Ludhiana Commissionerate, Rajgangpur and Rourkela ST in Bhubaneswar II Commissionerates, Range IIID of Pondicherry Commissionerate.

The AC/DC of only seven<sup>22</sup> out of 71 divisions reported that the returns of units paying annual PLA revenue in the range of ₹ 1 crore to ₹ 5 crore were being scrutinised. However, we found<sup>23</sup> that largely it was done only on the basis of the returns without calling for any additional information/records from the concerned assessees. Therefore, it was akin to preliminary scrutiny. The Hyderabad III Commissionerate did not furnish any information in this regard.

The Additional/Joint commissioners in three<sup>24</sup> out of 39 commissionerates reported that the returns of units paying annual PLA revenue above ₹ 5 crore were being scrutinised and only in one case the additional commissioner of Raipur Commissionerate found a discrepancy and took action.

#### 4.4 Test check of returns not scrutinised by the department

We scrutinised 960 returns in central excise and 500 returns in service tax where the department had not done either preliminary or detailed scrutiny and found errors in 208 and 195 returns respectively. The errors included instances of misclassification, wrong adjustment of tax/duty, non-reversal of cenvat on clearances of exempted goods, excess/incorrect availing of cenvat credit, incorrect availing of input service credit, non-payment of interest on reversal of cenvat credit, incorrect accounting of secondary and higher education cess etc. Some illustrative cases are given below:

**4.4.1** M/s Morarjee Textiles Ltd, Butibori under Nagpur Commissionerate was engaged in manufacturing of textiles fabrics falling under chapters 52 and 53 of the Central Excise Tariff. During detailed scrutiny of its return for the period October 2009 to March 2010, the service tax credit details were called for. We found that the assessee had reversed cenvat credit of ₹ 27.68 lakh vide entry No. ST/1239 dated 1 November, 2009 against CERA observation raised in September, 2009 for “Non-payment of amount equivalent to the Cenvat credit attributable to input services used in manufacture of exempted goods”. Thereafter, the assessee availed credit of equivalent amount vide entry No.1833 dated 19 March 2010 under the narration “Amount Credited on A/c of Stock declaration which is debited vide entry No.1239 dated 1 January 2009”. It was evident that the assessee had wilfully quoted a wrong date and given a misleading and factually incorrect narration to hide the fact that it was availing credit which had been reversed against a previous audit objection of CERA. On this being pointed out (March 2011), the Range Superintendent accepted the observation (March 2011) and reported recovery of amount of ₹ 27.68 lakh. However, penal action was awaited (November 2011) for making false entries to avail inadmissible credit.

The same assessee had received input services and paid the service tax on these input services using cenvat credit account which was not permissible. Thereafter, it availed cenvat credit for the amounts paid out of cenvat credit, which was also irregular. The department had objected to the irregular payment from cenvat credit account and issued SCNs. Demand of ₹ 61.93 lakh had been confirmed and one demand of ₹ 21.19 lakh raised in July 2010

<sup>22</sup> Hyderabad H, Bilaspur, Raipur, Ludhiana I, Jalandhar, Lucknow II and Noida Division V

<sup>23</sup> In Bilaspur & Raipur divisions

<sup>24</sup> Raipur, Ahmedabad III & Ludhiana

was pending adjudication. However, the department had not objected to the irregular availing of credit which was required to be reversed, with interest. Reply of the department was awaited (November 2011).

**4.4.2** In Darbhanga range in Patna Commissionerate, an assessee (M/s Hazi Umal Biri Udyog) had made delayed payment of excise duty for the months of October 2009, November 2009 and March 2010. The accounting codes of duty and cess mentioned in GAR-7 challans were also not correct.

In reply, the department stated that objection was related to a small biri manufacturer who was hardly literate and prone to such mistakes. However, the concerned assessee has been requested for compliance (August 2011).

**4.4.3** In Bettiah range in Patna Commissionerate, M/s Tirpuati Sugar Ltd., cleared 86409 quintal of sugar in November 2009 and paid sugar cess, education cess and secondary and higher education cess of ₹ 13.45 lakh against ₹ 23.20 lakh payable. This resulted in short payment of cess amounting to ₹ 9.75 lakh.

In reply, the department stated that the matter is being looked into and steps for recovery of duty will be taken if objection was found correct (July 2011).

**4.4.4** We scrutinised 120 returns in Pune-III and ST Mumbai-I Commissionerates that had been marked for review and correction by ACES but had not been reviewed by the ranges. We found discrepancies in 26 returns. Nine of these returns involved delayed filing of return and four returns involved delayed payment of duty. We also found short payment of duty in six returns of Pune III involving ₹ 17.36 lakh and seven returns of ST Mumbai I involving ₹ 9.94 crore. In Pune III commissionerate out of short payment of ₹ 17.36 lakhs, department intimated the recovery of ₹ 8.22 lakh. Some illustrative cases are mentioned below:-

**4.4.4.1** Scrutiny of ST3 returns of M/s India Bulls Real Estate Co. P Ltd (for April to September 2010) and M/s Gammon Infrastructure Projects Ltd (for April to September 2010) in Mumbai ST I Commissionerate revealed that they received ₹ 34.73 crore and ₹ 12.21 crore respectively for providing exempted services but had not maintained separate accounts of inputs (as declared in column 5A(c) of their returns). Hence, they were liable to pay amount equal to 6 per cent of the value of exempted services i.e. ₹ 2.08 crore and ₹ 73.23 lakh respectively as per provisions of Rule 6(3) of Cenvat Credit Rules, 2004.

**4.4.4.2** In two returns of M/s Gammon India Ltd and M/s Rediffusion Dentsu Young & Rubicam Pvt. Ltd. (for April to September 2010) in Mumbai ST I Commissionerate, it was observed that there was mismatch of service tax payable of ₹ 30.45 crore and the service tax paid of ₹ 23.35 crore, as per figures shown in the ST 3 returns. The large difference of ₹ 7.10 crore was not examined by the department although the returns had been marked for review and correction. We pointed it out in April 2011. Reply was awaited (November 2011).

**4.4.5** In Patna Commissionerate, under Bankipur-I range, we detected short payment of ₹ 26.25 lakh due to wrong calculation of service tax at the rate of 10 per cent instead of applicable rate of 12 per cent, during the



scrutiny of ST-3 return of M/s Scorpion Express Pvt. Ltd., Patna, for the period October 2009 to March 2010.

**4.4.6** The service tax return for the period from October 2009 to March 2010, of M/s Seeta Sponge Iron Ltd., registered under GTA service in Kalunga –I Range in Bhubaneswar II Commissionerate, did not have any challans enclosed for tax paid and the column for details of service tax was also left blank. It was not possible to know whether service tax of ₹ 4.27 lakh had been paid or not. This omission was not detected by the range. On being pointed out by us, the range superintendent replied that the matter would be investigated.

**4.4.7** The Bangalore ST Commissionerate had not carried out any detailed scrutiny. We called for records, as specified in the Service Tax Returns scrutiny manual and carried out the detailed scrutiny for 148 returns of 74 assesseees. We detected errors in returns of 30 assesseees amounting to ₹ 4.13 crore. Two illustrative cases are given below.

**4.4.7.1** Rule 3 of the Service Tax (Determination of Value) Rules provides that the value of taxable service shall include non-money consideration where such consideration is received.

M/s Digicomp Complete Solution Ltd, in Bangalore ST Commissionerate, providing services to a foreign firm, M/s Compel Electronics, imports material that is supplied free of cost by M/s Compel. The assessee treats these free imports as inputs and takes cenvat credit of CVD paid. Since they are received free of cost from the service receiver, they are in the nature of additional non-money consideration and their value should be added to the valuation of taxable service as provided in Rule 3 of the Service Tax (Determination of Value) Rules. Non-inclusion of the value of the free imports has resulted in under valuation leading to short payment of service tax of ₹ 17.15 lakh (2008-09 & 2009-10), which is recoverable alongwith interest. Department is also required to assess the short payment in earlier years.

**4.4.7.2** M/s Globe Detective agency under Bangalore ST Commissionerate, is rendering security services in India to foreign clients. The income from providing these is classified as “Educational Testing Income (ETS)” in the financial statements. The assessee has not been paying service tax on ETS, treating it as Export of service. This is irregular as the services are being provided within the country and service tax is payable. The non-payment of service tax works out to ₹ 7.36 lakh for the year 2009-10 which is recoverable with interest. When we pointed this out, the department issued (May 2011) a show cause notice assessing the short payment of ₹ 34.88 lakh for 2009-10 and earlier periods.

The illustrative cases related above involve revenue implication of ₹ 14.92 crore. They underline the importance of carrying out preliminary and detailed scrutiny in the prescribed manner to detect and correct discrepancies and errors in the returns.

#### **4.5 Reconciliation of payment of Central Excise Duty and Service Tax indicated in Returns**

Since the duty/ tax is paid at banks and the returns are submitted to the ranges, the payment details shown in returns are required to be reconciled with the payments received at banks, to guard against the risk of fraudulent declaration of payment of tax and to ensure correct accounting. Upto March 2007, the Chief Accounts Officers (CAO) in the commissionerates did the reconciliation of tax / duty paid. They received assessee-wise payment details from divisions, who in turn compiled them from the details prepared by their subordinate ranges from the returns submitted. The CAO would also receive soft copy of assessee-wise payment details from the Pay and Accounts Officer (PAO). Thereafter, the CAO had to reconcile the payment details submitted by the divisions with the details furnished by the PAO.

CBEC implemented the “Electronic Accounting System in Excise and Service Tax (EASIEST)” from 1 April 2007. Under this system, the assesseees pay central excise / service tax at banks through challans and the banks enter payment details on EASIEST. The payment data generated by the banks is maintained by NSDL (under an MOU with CBEC), who transfer the data to the CBEC servers. EASIEST data is also sent to Pay and Accounts Officers (PAO) for reconciliation of payments. The system is administered by the Director General (System), CBEC, New Delhi, who is assisted by the National Informatics Centre (NIC).

While filing returns, assesseees give details of challan numbers through which they pay tax / duty. As per circulars dated 13 March 2007 and 31 August 2009, the manual reconciliation by the CAO was done away with and the ranges are supposed to reconcile the payments by linking the challan numbers listed in the returns with the challan numbers of the payments actually received in banks and uploaded on the CBEC server.

We ascertained that in 92 ranges, reconciliation was not done either through the ACES and EASIEST i.e. electronically. In 26 ranges it was done manually, as per the earlier practice. Only in 66 ranges the reconciliation was done electronically.

We did a test check of the challans attached to a sample of 20 returns in the ranges where the reconciliation *was done* through EASIEST. We observed that there were no discrepancies except in Pondicherry Commissionerate where 18 out of 20 test checked challans had been accounted wrongly by showing different duties clubbed under a single head and in Jaipur I Commissionerate, where 68 challans could not be found on EASIEST system.

Where reconciliation *was not done*, we test checked 20 returns of central excise and 20 returns of service tax by reconciling the challans with the challan details available from EASIEST on the CBEC server at <https://cbec.nsdl.com/EST/>. The errors detected as described below, underlined the requirement of carrying out the reconciliation of challans for proper accounting of revenue.

#### **4.5.1 Central excise**

**4.5.1.1** In Bettiah range under Patna Commissionerate, details of 16 challans for the month of February 2010, amounting to ₹ 74.87 lakh, of M/s M. P. Chini Industries were not found on EASIEST.

In reply, the department intimated (July 2011) that the matter was under examination and in case of fraud or non-payment is detected, action would be initiated to safeguard the Government revenue.

**4.5.1.2** In Faridabad Commissionerate 66 challans were checked and the details of 12 challans amounting to ₹ 47.04 lakh were not found. In five challans involving an amount of ₹ 5.34 lakh, details such as Bank branch code, Challan number and date of deposit etc. were neither recorded in the challan nor in ER-I returns. Therefore, they could not be matched on EASIEST.

**4.5.1.3** In Gurgaon Commissionerate, 53 challans were checked and the details of eight challans amounting to ₹ 15.20 lakh were not found. In another 27 challans amounting to ₹ 39.19 lakh, Bank branch code was not recorded. Therefore, the challans were not traceable on the EASIEST system.

**4.5.1.4** In Jajpur Road I range under Bhubaneswar I Commissionerate, one challan was not found in EASIEST.

**4.5.1.5** In one range in Pondicherry Commissionerate, we observed that in 12 challans, payment was made clubbing different duties under one single head which resulted in wrong accounting.

#### **4.5.2 Service Tax**

**4.5.2.1** In Division I of Mumbai ST I Commissionerate, details of nine challans of two assesseees were not available in EASIEST. When we pointed this out, the department replied that the tax amount has been paid by the assesseees as verified from physical challans.

**4.5.2.2** In Raipur Commissionerate, out of 40 challans, details of four challans were not available in EASIEST.

**4.5.2.3** In three ranges (Jajpur road-I, Dhenkanal-II and Balasore service tax) under Bhubaneswar-I Commissionerate details of 12 challans were not available in EASIEST. Similarly in Kuarmunda range under Bhubaneswar-II Commissionerate, details of six challans were not available in EASIEST. Superintendents, Dhenkanal-II, Jajpur road-I and Kuarmunda replied that reconciliation of challan would be made and intimated to audit.

**4.5.2.4** In Pondicherry Commissionerate, in one Service Tax Group, out of total population of 1199 challans a Sample of 30 cases was taken up and it was noticed that in 20 remittances, payment made was shown in one head instead of exhibiting separately under ST, EC, SHE Cess.

#### **Recommendation No. 6**

➤ *The following MIS reports may be generated by ACES and corrective action taken:*

- *list of non-filers - which may be investigated to detect stop filers*
- *returns submitted with delay – suitable penalty may be imposed*

- *assesseees who had delayed the payment of duty - prescribed interest may be imposed*
- *details of returns marked by the system for review and correction but corrective action not taken.*

The Board stated in the exit conference that the Systems Directorate had informed that in ACES there is a functionality to generate a report called 'assessee-wise detailed report', both in Central Excise and Service Tax, giving information whether assessee is filing return in ACES or not. It also stated that the comprehensive MIS, under development in ACES, would generate reports suggested by us.

***Recommendation No. 7***

- *The function of detailed scrutiny may be implemented in all the ranges. Till such time that ACES does not do the sample selections of returns, the samples may be selected manually, as prescribed in the scrutiny manuals. It may also be ensured that AC/DC/JC/ADC may conduct the detailed scrutiny of high monetary value returns as prescribed in the returns manual.*

The Board stated in the exit conference that it was reiterating extant instructions and directing the Commissioners to monitor implementation of this area of work. The Chief Commissioners were being asked to take stock of the actions taken.

***Recommendation No. 8***

- *The challan details submitted online and manual returns may be reconciled with the challan details captured through EASIEST. Such a process would become fully automated when all returns are submitted through ACES.*

The Board stated in the exit conference that with effect from 1 October 2011, all the CE and ST returns are mandatorily to be filed electronically. It was also stated that even otherwise, the Range Officer had to verify TR-6 challans with data of actual payment as per serial No. 27 of Annex 4.1 of Manual of Scrutiny of Central Excise return.