



CHAPTER V - EFFECTIVENESS OF THE INTERNAL AUDIT PROCESS

5.1 Introduction

Internal audit is one of the main compliance verification mechanism in the department, which involves selection of assessee units on the basis of risk parameters and scrutiny of records of the assessee to ascertain the level of compliance with the prescribed rules and regulations. Internal Audit is empowered, under Central Excise and Service Tax Rules, to access the records of the assessees at their registered premises. Every commissionerate has an Audit cell, manned by an Assistant/Deputy Commissioner and auditors and headed by an Additional/Joint Commissioner and this cell prepares co-ordinates and monitors the audit plan. The audit is done by a set of internal audit parties (IAP) consisting of Superintendents and Inspectors.

The Board has laid down detailed guidelines in the form of Audit manuals for audit of central excise and service tax units, which prescribe detailed processes for conduct of audit. We evaluated five main processes prescribed in the manuals.

5.2 Maintenance of Assessee Master File

Risk-based audit requires a comprehensive data base for profiling each taxpayer, so that risk factors relevant to a taxpayer may be identified in a scientific manner and audit planned and executed accordingly. A comprehensive data base of assessees is an essential pre-requisite for selection of units as well as for undertaking preliminary Desk Review, for effective conduct of audit. As per the audit manuals, this information has to be collected and kept in a separate file for each assessee called Assessee Master File. As per chapter 9 of Central Excise Audit Manual, 2008 and para 6.1 of the Service Tax Manual, 2003, the Assessee Master File is to be prepared and updated by the Audit cell in the commissionerate. A list of documents as indicated in Annexure A (Registration application, copies of past three years returns, copy of past three years audits, cost audit/tax audit report and financial statements of past three years) & Annexure B (Details of goods manufactured and exempted, production details, duty payment and issue of SCN of past three years and details of litigation) of the manual is to be kept in each assessee master file.

We observed that this work had not been completed by most of the commissionerates and the information related to Assessee Master Files was not reflected in the monthly reports submitted by the Audit Cell to the Commissioner. The details are given below:-

5.2.1 Central Excise

Fifteen²⁵ out of 39 test checked commissionerates reported that the master files were created for all assessees. We test checked 20 assessee master files in each of the 15 commissionerates (300 files) and found that in eight commissionerates²⁶, the test checked files were kept according to manual. In the remaining seven commissionerates²⁷, 117 out of 140 files were found incomplete as items such as organisational chart of the unit, copy of declaration of the latest list of the records furnished by assessee, cost audit/tax audit reports etc. were missing. The absence of these records hamper the selection process of the units for audit and the desk review processes where the units have already been selected for audit.

Coimbatore, Pondicherry, Bhubaneswar II, Cochin and Lucknow Commissionerates reported that they had created master files for all the mandatory units (to be audited every year) and some of the non-mandatory units. We test checked 20 assessee master files each in four commissionerates and seven files that were produced by Bhubaneswar II Commissionerate. We found that in Coimbatore Commissionerate, the test checked files were kept according to manual. In the other four commissionerates, 48 out of 67 files were found incomplete.

Fourteen commissionerates²⁸ reported that the assessee master files were not created even for all mandatory units. We requisitioned, for test check, 20 assessee master files, from each commissionerate from amongst the files that were created. We found that in three commissionerates (Indore, Pune III & Thane II), the test checked files were prepared according to manual. However in nine commissionerates 145 out of 180 files were found incomplete. Bhubaneswar I Commissionerate produced only 5 files instead of 20 and all of them were incomplete. Bhopal Commissionerate did not produce any files for scrutiny so we were unable to verify quality of maintenance of files. Patna and Goa Commissionerates reported that assessee master files had not been created. Kolkata III, IV and V Commissionerates reported that a register was maintained for recording the names of assessees and revenue paid by each of them. This register was considered as 'assessee master file/profile' and used for selecting units to be audited and also for conducting preliminary desk review. Separate files were not maintained for each assessee.

Kolkata V commissionerate intimated (June 2011) that on being pointed out by us, it had initiated action in this regard. However Kolkata III and Kolkata IV Commissionerate stated (June 2011) that it was not practically possible to maintain the master files. This was not consistent with our findings. Many of the test checked commissionerates had already created a large bank of master files which showed that the task was practically feasible.

²⁵ Hyderabad II & III, Visakhapatnam I, Dibrugarh, Delhi II, Jamshedpur, Bangalore III, Mysore, Ahmedabad III, Vadodara II, Vapi, Chandigarh I, Ludhiana, Jaipur I & II

²⁶ Hyderabad II & III, Visakhapatnam I, Delhi II, Mysore, Ahmedabad III, Vadodara II and Vapi

²⁷ Dibrugarh, Jamshedpur, Bangalore III, Jaipur I & II, Chandigarh I and Ludhiana

²⁸ Indore, Pune III, Thane II, Raipur, Nagpur, J & K, Belapur, Meerut I, Noida, Faridabad, Gurgaon, Bhubaneswar I, Bhopal and Guwahati

5.2.2 Service Tax

Twelve commissionerates out of 35 test checked reported that the master files were created for each assessee. We test checked 20 assessee master files in each commissionerate (240 assessee files) and found that in eight commissionerates²⁹ the test checked files were kept according to manual. In four commissionerates³⁰, 79 out of 80 assessee files were found incomplete as items such as copy of the list of accounts maintained by the taxpayer, copy of service specific profile, cost audit/tax audit reports etc. were missing.

Seven commissionerates³¹ reported that they had created master files for all the mandatory units and some of the non-mandatory units. We did a test check of 20 assessee master files in each commissionerate (140 assessee files) and found that in Coimbatore Commissionerate the test checked files were prepared according to manual. In Cochin and Panchkula Commissionerate all 40 files were found incomplete. In Bhubaneswar II Commissionerate three files were found incomplete and another 17 files requisitioned by us had actually not been created. Lucknow, Indore and Bhopal Commissionerates did not produce any files so we were unable to verify the maintenance of files.

Ten commissionerates³², reported that the assessee master files were not created even for all mandatory units. We requisitioned, for test check, 20 assessee master files, from each commissionerate from amongst the files that were created. We found that in Pune III commissionerate, the test checked files were kept according to manual. In Delhi ST Commissionerate, four out of 20 files were found incomplete. Bhubaneswar I Commissionerate and Bangalore ST Commissionerate produced three and five files respectively instead of 20 files and all the files produced were found incomplete. In Pondicherry Commissionerate 19 out of 20 requisitioned files were not created. In remaining five commissionerates, all 100 files were found incomplete. Mumbai ST Commissionerate did not produce any file for examination.

In Patna, Nagpur, Chandigarh I, Kolkata ST and Goa Commissionerates, no assessee master files were created.

The Kolkata ST Commissionerate stated (June 2011) that henceforth assessee master files would be maintained for top 100 assessees.

Our findings showed that 463 (59 per cent) out of 780 files of Central Excise and 442 (66 per cent) out of 665 test checked files of Service Tax were either not created or were maintained in an incomplete manner. We also observed that the status of creation of assessee master files was not included in the MTR (Monthly Technical Report) or any other reports submitted to the commissioner. Therefore, this activity was not being properly monitored. Consequently, the selection of units for internal audit was not being done on various risk parameters as prescribed in the manuals.

²⁹ Hyderabad II & III, Visakhapatnam I, Ahmedabad ST, Ahmedabad III, Vadodara II, Ludhiana and Mysore

³⁰ Dibrugarh, Chennai ST and Jaipur I & II

³¹ Coimbatore, Bhubaneswar-II, Cochin, Lucknow, Bhopal, Panchkula and Indore

³² Bangalore ST, Jamshedpur, Delhi ST, Pune III, Mumbai ST, Pondicherry, Meerut I, Noida, Bhubaneswar I and Guwahati

5.3 Selection of units for audit

As per para 10.1.1 and 10.1.2 of Central Excise Audit Manual, 2008 and as per para 5.1.4 of Service Tax Audit Manual, 2003, the audit cell of each commissionerate is to maintain an updated list of all registered assessees. The list is segregated into two categories - mandatory units and non-mandatory units. The units in the non-mandatory category are to be selected for audit on the basis of risk assessment using prescribed criteria.

While an elaborate selection procedure was prescribed in the manual, we found that in actual practice, the non-mandatory units were selected, by and large, only on the basis of revenue collected. Details are furnished below:

5.3.1 Central Excise

As per para 10.1.2 of Central Excise Audit Manual, 2008, DG (Audit) is to compute the risk for all the non-mandatory units in a centralised manner, called rupee risk, every year and circulate the list of assessees in each slab of non-mandatory category by 15th April. On the basis of this list, the Audit Cell is to prepare an annual list of assessees to be audited during the year.

It was reported by 39 test checked commissionerates of central excise, that none of them received the list of assessees from DG (Audit).

As per para 10.1.3 of Central Excise Audit Manual, 2008, while selecting the units, local risk parameters provided as per para 3.1.7 of the Central Excise Audit Manual are to be applied and the units rearranged accordingly. The reasons for such rearrangement are to be recorded. The selection of units for audit is done by Deputy/Assistant Commissioner (Audit), which is approved by Additional/Joint Commissioner (Audit).

In nine commissionerates,³³ the data/information for local risk parameters was maintained as per the manual and also applied in arranging the audit priority of the units. Cochin Commissionerate did not furnish any information in this regard. In remaining 29 commissionerates the selection was done primarily on the basis of revenue with one or two additional criteria and not in the detailed manner as envisaged in para 3.1.7 of the Central Excise Audit Manual.

5.3.2 Service Tax

As per para 5.1.3 of the Service Tax Audit Manual, 2003, the units in the non-mandatory category are to be selected for audit on the basis of risk assessment taking into account local risk parameters prescribed in para 5.1.5 and 5.1.4 of the manual, *ibid*.

In 13 commissionerates³⁴ the data/information for local risk parameters was maintained as per the manual and also applied in arranging the audit priority of the units. The Cochin and Kolkata ST Commissionerates did not maintain/furnish any information in this regard. Mumbai ST and Bangalore ST Commissionerates reported that they could not audit all mandatory units, hence no non-mandatory units were audited and the need to apply these risk

³³ Guwahati, Dibrugarh, Nagpur, Indore, Jaipur I, Meerut-I, Ahmedabad III, Coimbatore and Pondicherry

³⁴ Guwahati, Dibrugarh, Nagpur, Mysore, Meerut I, Bhubaneswar II, Ahmedabad ST, Vadodara II, Ahmedabad III, Chandigarh I, Ludhiana, Jaipur I and Pondicherry

factors did not arise. In remaining 18 commissionerates³⁵ the selection was done primarily on the basis of revenue with one or two additional criteria and not in the detailed manner as envisaged in para 5.1.4 of the Service Tax Audit Manual.

5.4 Audit Planning

As per para 10.1.5 of Central Excise Audit Manual, 2008 and 5.2.1 of Service Tax Audit Manual, 2003, the quarterly schedule of allocation of units to each audit party is done with the approval of Additional Commissioner/Joint Commissioner (Audit).

5.4.1 We found that in central excise as well as service tax, majority of the commissionerates prepared quarterly schedules with the approval of proper authority. In some cases the schedules were approved with different periodicity.

5.4.2 Prior to actual conduct of audit, the IAPs are required to

- gather as much information about the assessee as possible and analyse this information which is called “Desk-Review” and the same should be submitted to the Deputy/Assistant Commissioner (Audit) for approval. This is provided in para 10.4.1 of Central Excise Audit Manual, 2008 and 6.2 of Service Tax Audit Manual, 2003,
- prepare an “Audit Plan” approved by Additional Commissioner/Joint Commissioner, containing the exact formulation of issues selected for detailed examination in respect of every assessee. This is to be prepared in the form of Annexure H & F as per para 10.4.14 of Central Excise Audit Manual, 2008 and 6.4 of Service Tax Audit Manual, 2003
- prepare a “Verification Paper”, as prescribed in Annexure I & E of the respective manuals, outlining the audit checks in the Audit Plan, verification done on each check and auditor’s observations in brief.

To assess the compliance to these three procedures, we did a test check of 20 assessee audit files each in 37 commissionerates of central excise and seven and eleven files produced by Bhubaneswar I and Lucknow Commissionerates respectively (total 758 files). Similarly, in service tax, we did a test check of 20 assessee audit files each in 33 commissionerates and five files that were produced by Bhubaneswar I Commissionerate (total 665 files). Lucknow Commissionerate did not furnish any files in respect of service tax.

We observed that

- for 60 central excise audits (eight per cent) and for 78 service tax audits (12 per cent), the desk review papers were not prepared.
- For six central excise audits (0.8 per cent) and for 43 service tax audits (six per cent), the audit plan was not prepared.
- For 115 central excise audits (15 per cent) and for 144 service tax audits (22 per cent), the verification papers were not prepared.

³⁵ Hyderabad II, Hyderabad III, Visakhapatnam I, Lucknow, Noida, Chennai ST, Coimbatore, Patna, Goa, Raipur, Pune III, Bhopal, Indore, Bhubaneswar I, Jamshedpur, Jaipur II, Panchkula and Delhi ST

5.5 Execution of audit plan

5.5.1 Audit Plan Registers

As per para 12.3.1 of Central Excise Manual, 2008, and para 9.5.1 of Service Tax Audit Manual, 2003, a register of units planned for audit in the prescribed format is to be maintained to monitor the different stages of execution of the audit and ensure that all units allotted to an Audit Group have been audited and wherever audit has been completed, the Audit Reports have been issued on time.

We observed that the Audit Plan Registers were not maintained according to manual and did not reflect whether all planned units had been audited and whether audit reports had been issued timely.

In 11 commissionerates,³⁶ the register was maintained according to manual. However, in 28 commissionerates³⁷, it was not maintained according to manual and entries such as date of submission of IAR to audit cell, Audit Report No and date of issue of IAR were not filled up. Consequently, it was not possible to monitor, from these registers, whether the audit reports were issued on time. In Bangalore III, Cochin and Kolkata III, IV & V Commissionerates we observed that APR contained details of only those units which were actually audited. Consequently, it was not possible to monitor, through the register whether all units allotted to a particular group had actually been audited. The APR was not produced for examination by Jamshedpur Commissionerate.

The department admitted the facts in Goa, J & K, Pondicherry, Bangalore III, Lucknow, Meerut I and Noida Commissionerates and stated that it was noted for future compliance. The reply was awaited from the remaining commissionerates (November 2011).

Similarly, in service tax in 12 commissionerates³⁸ the register was maintained according to manual. However, in 21 commissionerates³⁹ it was not maintained according to manual and entries such as date of submission of IAR to audit cell, Audit Report No, date of issue of IAR were not filled up. The APRs were not produced for examination by Jamshedpur and Delhi ST Commissionerates.

The department admitted the facts in Goa, Pune III, Pondicherry, Lucknow, Meerut I and Noida Commissionerates and stated that it was noted for future compliance. Kolkata ST Commissionerate informed that they had taken rectificatory measures. The reply was awaited from the remaining commissionerates (November 2011).

³⁶ Ahmedabad III, Bhubaneswar II, Coimbatore, Delhi II, Dibrugarh, Guwahati, Jaipur I & II, Mysore, Vadodara II and Vapi

³⁷ Bangalore III, Belapur, Bhopal, Bhubaneswar I, Chandigarh I, Cochin, Faridabad, Goa, Gurgaon, Jamshedpur, Hyderabad II & III, Indore, J & K, Kolkata III, IV & V, Lucknow, Ludhiana, Meerut I, Nagpur, Noida, Patna, Pondicherry, Pune III, Raipur, Thane II & Visakhapatnam I

³⁸ Ahmedabad III, Vadodara II, Ahmedabad ST, Bangalore ST, Mysore, Jaipur I & II, Panchkula, Guwahati, Dibrugarh, Bhubaneswar II & Coimbatore

³⁹ Nagpur, Kolkata ST, Cochin, Lucknow, Noida, Meerut I, Chandigarh I, Bhubaneswar I, Mumbai ST, Pune III, Patna, Chennai ST, Pondicherry, Hyderabad II & III, Visakhapatnam I, Raipur, Bhopal, Indore, Ludhiana and Goa

5.5.2 Audit Coverage

We found that in ten commissionerates, non-mandatory units were audited at the cost of mandatory units. This situation prevailed for both central excise and service tax.

5.5.2.1 Central Excise

Of the 39 test checked commissionerates, 34 commissionerates furnished figures of the units due, planned, audited and the shortfall during 2009-10, as depicted below:-

Table No. 2

Categorisation of unit	Slab of annual duty (PLA + Cenvat)	Total number of units	Number of units due for internal audit as per the frequency prescribed	Number of units planned	Number of units audited	Shortfall	Short fall in per centage
Category A (mandatory) 100 per cent to be audited	More than ₹ 3 Crore	3809	3809	3785	3110	675	17.8
Category B (non-mandatory) 50 per cent to be audited	Between ₹ 1 Crore to 3 Crore	4032	2016	2164	1879	285	13.1
Category C (non-mandatory) 20 per cent to be audited	Between ₹ 50 lakh to ₹ 1 Crore	3846	769	1046	943	103	9.8
Category D (non-mandatory) 10 per cent to be audited	Less than ₹ 50 lakh	25025	2503	2125	1669	456	21.5
Total		36712	9097	9120	7601	1519	16.7

The remaining five commissionerates⁴⁰ did not furnish the details. The foregoing table reveals that the short fall percentage is higher in the case of mandatory units compared to category B & C (non-mandatory) units. Number of non-mandatory units planned was greater than units due in category B & C, whereas for mandatory units it was lower than the requirement.

Instances where greater emphasis placed on the audit of non-mandatory units at the cost of mandatory units are depicted below:-

(a) In Belapur Commissionerate 191 mandatory units were planned and only 83 units (43 per cent) were audited. At the same time the Commissionerate planned 177 non-mandatory units and audited 166 units (93 per cent) thereby giving priority to audit of non-mandatory units.

⁴⁰ Goa, J&K, Thane II, Jamshedpur and Cochin

(b) In Pune III Commissionerate 254 mandatory units were planned and only 65 (26 per cent) were audited whereas against 172 non-mandatory units planned, 120 units (70 per cent) were audited.

(c) In Thane II Commissionerate 111 mandatory units were planned and 90 units audited (81 per cent) whereas 235 units of Category C & D were audited against 199 units due.

(d) In Jamshedpur Commissionerate out of 65 mandatory units, only 31 (48 per cent) were audited whereas 81 non-mandatory units of D category were audited against only 42 units due. Thus, non-mandatory units were audited at the cost of mandatory units. The Commissionerates, in their replies stated that shortfall in audit was due to (i) non-receipt of relevant documents from the assessees for desk review, (ii) request of the units for postponement of audit, (iii) seizure of documents by preventive wing, (iv) closure of units, (v) shortage in man power.

The reasons furnished in the replies could not justify large shortfalls in audit cited above. For items (i) to (iv), the parties can be redeployed for auditing other assessees, which were due but could not be planned because of shortage of man power. Giving shortage of man power as a reason for short fall in audit was against the concept of audit planning, where units would be planned for audit based on man power.

5.5.2.2 Service Tax

Of the 35 test checked commissionerates, 30 Commissionerates furnished figure of units due, planned, audited and shortfall during 2009-10, as depicted below:-

Table No. 3

Categorisation of unit	Slab of annual duty (PLA + Cenvat)	Total number of units	Number of units due for internal audit as per the frequency prescribed	Number of units planned	Number of units audited	Shortfall	Short fall as per percentage of units planned
Category A (mandatory) 100 per cent to be audited	More than ₹ 50 lakh	5148	5148	3441	2589	852	24.7
Category B (non-mandatory) 50 per cent to be audited	Between ₹ 25 lakh to 50 lakh	4434	2217	1158	944	214	18.5
Category C (non-mandatory) 20 per cent to be audited	Between ₹ 10 lakh to ₹ 25 lakh	12260	2452	1453	1210	243	16.7
Category D (non-mandatory) two per cent to be audited	Less than ₹ 10 lakh	306847	6137	2868	2183	685	23.8
Total		328689	15954	8920	6926	1994	22.4

The remaining five commissionerates⁴¹ did not furnish the details. The foregoing table reveals overall shortfall of 22.4 per cent. The short fall percentage was highest in the case of mandatory units. Only 67 per cent of mandatory units were planned out of which 24.7 per cent of units remained unaudited which meant that effectively only 50.3 per cent of mandatory units were audited.

We found that seven Commissionerates⁴² placed greater emphasis on the audit of non-mandatory units at the cost of mandatory units. Three cases are detailed below:-

a) In Jamshedpur Commissionerate, only 10 (20 per cent) mandatory units were audited against 51 due where as 167 units of category D were audited, although only 42 were due.

b) In Chandigarh I Commissionerate, 92 mandatory units were planned and only 59 (63 per cent) were audited whereas in category B & C, 167 units were planned against only 117 units due and 160 were audited.

c) In Nagpur Commissionerate, 39 category A units were planned against 102 units due and only 10 (10 per cent of due) were audited. While only 48 non-mandatory units were due in category B & C, 114 were planned and only 22 units (45.8 per cent of due) were audited. Therefore, both during planning and execution, greater preference was given to coverage of non-mandatory units.

We also observed that there was scope for rationalization in the deployment of personnel. For example, Bangalore ST Commissionerate was not able to conduct audit of all mandatory units while Mysore Commissionerate was auditing even the non-mandatory units much beyond the units due as per frequency norms. Similarly, Chennai ST Commissionerate was not able to include all mandatory units in audit plan whereas Coimbatore and Pondicherry Commissionerates were auditing non-mandatory units beyond frequency norms.

The Commissionerates, stated in reply that shortfall in audit was due to (i) non-receipt of relevant documents from the assesseees for desk review, (ii) request of the units for postponement of audit, (iii) assesseees not available, (iv) closure of units, (v) shortage in man power.

The reasons furnished in the replies could not justify large shortfalls in audit cited above. For items (i) to (iv), the parties can be redeployed for auditing other assesseees, which for due but could not be planned because of shortage of man power. Giving shortage of man power as a reason for short fall in audit goes against the basis concept of audit planning where units should be planned for audit based on man power.

⁴¹ Goa, Kolkata ST, Delhi ST, Jamshedpur & Cochin

⁴² Jamshedpur, Cochin, Bhubaneswar I, Nagpur, Chandigarh I, Chennai ST and Ahmedabad ST

5.6 Reporting

5.6.1 Monitoring Committee Meetings

As per para 12.2.2 and 12.2.3 of Central Excise Manual, 2008, and as per para 9.2.1, 9.2.2 and 9.3.1 of Service Tax Audit Manual, 2003 all draft audit reports are to be discussed and approved by the Monitoring Committee headed by the Commissioner. We found that the monitoring committee meetings were held on a regular basis and all reports had been issued after approval by the committee.

5.6.2 Nil Reports

We observed that in 15 central excise commissionerates and 11 service tax commissionerates, the nil reports were substantially above the average for the test checked commissionerates.

5.6.2.1 Central Excise

The test checked commissionerates reported that the total number of reports issued in 2009-10 were 9420 out of which 1280 (14 per cent) were nil reports. Out of these 1280 reports 262 related to mandatory units and 939 related to non-mandatory units. The position in respect of 79 reports could not be ascertained.

In 25 commissionerates, the percentage of Nil report was between 2 and 15 per cent, in four commissionerates⁴³ it was between 16 and 25 per cent and in 10 commissionerates,⁴⁴ it was between 26 and 49 per cent.

5.6.2.2 Service Tax

We ascertained that the total number of reports issued in 2009-10 were 9110 out of which 1241 (14 per cent) were nil reports. Out of these 1098 reports, 233 related to mandatory units and 798 related to non-mandatory units. The position in respect of 67 reports could not be ascertained.

In 21 commissionerates⁴⁵ the nil report percentage was between one and fifteen per cent. In ten commissionerates⁴⁶ it was between 17 and 29 per cent.

The statistics given above showed that the nil reports averaged at 14 per cent in both central excise and service tax. They were above the average in 15 central excise commissionerates and 11 service tax commissionerates. The high variations were required to be analysed by the department.

In paragraph 5.3, we have pointed out that selection of non-mandatory units was being done only on revenue basis and not on other risk parameters as prescribed in paragraph 10.1.3 of Central Excise Audit Manual and paragraph 5.1.3 of Service Tax Audit manual. This could be a contributory factor for the large number of nil reports for non-mandatory units.

⁴³ Raipur, Kolkata IV, Delhi II & Cochin

⁴⁴ Patna, Mysore, Lucknow, Kolkata III, Dibrugarh, Goa, Guwahati, Chandigarh I, J & K and Hyderabad II

⁴⁵ Chennai ST, Jaipur I, Nagpur, Hyderabad II, Hyderabad III, Guwahati, Indore, Ahmedabad III, Visakhapatnam I, Raipur, Noida, Kolkata ST, Delhi ST, Panchkulan, Goa, Pune III, Bhubaneswar I, Bangalore ST, Jaipur II, Cochin and Ahmedabad ST

⁴⁶ Meerut I, Lucknow, Mysore, Vadodara II, Chandigarh I, Bhubaneswar II, Bhopal, Jamshedpur, Dibrugarh and Coimbatore

Recommendation No. 9

- *We recommend that the preparation of Assessee Master Files for each assessee may be completed in a time bound manner. The timelines may be monitored by Commissioners through monthly reports submitted by the Audit Cells*

The Board stated in the exit conference that it agreed with the recommendation and intimated that the Director General (Audit) would examine the matter and prepare a comprehensive report for the Board's consideration.

Recommendation No. 10

- *We recommend that the ACES module for internal audit, which is operational, may be implemented in a time bound manner so that multiple parameters can be used for the risk based selection of non-mandatory units.*

The Board stated in the exit conference that the DG, Systems and DG, Audit would examine the matter and report jointly, by 31 January 2012, on the quantum of work involved and the reasonable time frame by which the operational module can be implemented in central excise and service tax formations. Based on this, and other relevant considerations, Board would issue appropriate instructions.

Recommendation No. 11

- *We recommend that MIS reports may be designed in ACES in the format of the Audit Plan Registers to monitor whether all planned units had been audited and whether audit reports had been issued timely.*

The Board stated in the exit conference that the comprehensive MIS being developed by Systems Directorate would include such information.

Recommendation No. 12

- *We recommend that the reduction in audit coverage due to staff shortages may be distributed evenly across mandatory and non-mandatory units. The practice of auditing larger number of non-mandatory units at the cost of mandatory units may be curtailed.*

The Board stated in the exit conference that the DG, Audit had addressed a letter dated 22 November 2011 to Chief Commissioners drawing their attention to the prescribed norms for audit of mandatory and non-mandatory units as well as to the observations of the Audit and similar findings in the Department's Quality Assurance Review of Commissionerates for the year 2010-11. The Chief Commissioners had been asked to ensure that the audit of such type of units was conducted as prescribed.