

# Revenue Audit Manual

## Direct Taxes



2025

Office of the Comptroller and Auditor General of India  
New Delhi



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# Preface



**T**he Revenue Audit Manual on Direct Taxes in use at present was last updated in August 2015. After issue of the said manual, various provisions of the Income Tax Act have been revised, amended or rescinded over the period of time. During the last decade there has been a focus on tax reforms with emphasis on reduction in transaction cost, major changes in tax administration and extensive use of technology. The Income Tax Department has introduced automation in the tax function with electronic filing of tax and income tax returns, paperless correspondence, and faceless assessments, amongst others, creating a structured income-tax portal. In order to ensure that audit procedures and practices keep pace with the changes, it has become necessary to revise and bring out a new edition of Revenue Audit Manual on Direct Taxes.

In recent past, Regulation of Audit and Accounts has been amended, and office of the Comptroller and Auditor General of India (C&AG) has introduced Compliance Audit Guidelines 2016 which is to be followed by all Field Audit Offices of Indian Audit & Accounts Department (IA&AD). Further with the introduction of One Indian Audit & Accounts Department One System (OIOS) from April 1, 2023 the audit process was completely digitalised. In this background, the present Revenue Audit Manual (RAM) on Direct Taxes has been updated.

This edition of the Manual has replaced the earlier edition of RAM 2015. It incorporates the latest structure and functions of Income Tax Department (ITD), procedures regarding Audit of ITD and reporting including instructions relating to Direct Tax Audit. The audit checks on important areas of Direct Taxes to be exercised during field audit have also been updated. The Manual consists of eight Chapters and 22 Appendices.

This manual is intended to provide guidance and detailed instructions for efficient performance of audit 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.

**(SIVASUBRAMANIAN RAMANN)**  
**Deputy Comptroller and Auditor General (CRA)**

June 2025  
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**



## Chapter-1 : Introduction

### 1.1 History of Receipt Audit

The Government of India's resources include all revenues received by the Union Government, all loans raised through the 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, GST<sup>1</sup> etc.).

The history of the Receipt audit goes back to 1913 when the 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 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. Parliament passed the C&AG's DPC Act in 1971, which came into force with effect from 15 December 1971<sup>2</sup>. Section 16 of the C&AG's DPC Act authorizes 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.

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

### 1.3 Audit Regulations

The "Regulations on Audit and Accounts (Amendments) 2020", issued in pursuance to Section 23 of the C&AG's DPC Act, 1971' apply to the officers and staff of the Indian Audit and Accounts Department (IA&AD), all Ministries and Departments of the Governments of the Union, States and Union Territories, as well as bodies, authorities and enterprises, to which the audit or accounts jurisdictions of the C&AG extend.

<sup>1</sup> GST was introduced w.e.f. 1st July 2017, through the 101st Amendment of the Constitution of India

<sup>2</sup> Amended in the years 1976, 1984, 1987 and 1994

**1.3.1 Compliance Audit**

- i) Audit Regulation 44 provides that Compliance auditing is concerned with:
  - (a) regularity (adherence to formal criteria such as the provisions of the Constitution of India, relevant laws, rules, regulations, orders, instructions and agreements, etc.)
  - (b) Propriety (observance of the general principles governing sound financial management and the conduct of public officials).

It also involves examining the rules, regulations, orders, transactions, and instructions for their legality, adequacy, transparency, propriety, prudence, and effectiveness.

- ii) Para 1.9 of the Compliance Audit Guidelines, 2016, provides that compliance with rules, regulations, and applicable authorities is the primary and most important requirement for ensuring the accountability of the public executive, which primarily relates to the safeguarding and use of resources – financial, natural, human, and other material resources. Compliance audit also performs the function of deterrence, especially in situations where internal controls are not as effective. The objective of public-sector compliance auditing, therefore, is to enable the CAG to assess whether the activities of public-sector entities are in accordance with the authorities governing those entities. Compliance audits are carried out by assessing whether activities, financial transactions and information comply, in all material respects, with the authorities that govern the auditable entity. It is concerned with regularity and propriety audit.

**1.3.2 Performance Audit**

- i) As per Audit Regulation 45, a Performance Audit is concerned with the audit of economy, efficiency, and effectiveness in the receipt and application of public funds. Performance Audit focuses on inputs, processes, including planning and preparedness, outputs, outcomes and results.

Audit Regulation 47 provides that 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 the 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).

- ii) Para 1.15 of the Performance Audit Guidelines 2014 provides that the main objective of performance auditing is to constructively promote economical, effective, and efficient governance. It also contributes to accountability and transparency. Performance auditing promotes accountability by assisting those charged with governance and oversight responsibilities to improve performance. It does this by examining whether decisions by the legislature or the executive are efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money. It does not question the intentions and decisions of the legislature but examines whether any shortcomings in the laws and regulations or their way of implementation have prevented the specified objectives from being achieved. Performance auditing focuses on areas where it can add value for citizens and those that have the greatest potential for improvement. It provides constructive incentives for the parties responsible to take appropriate action. Performance auditing promotes transparency by affording parliament, taxpayers, those targeted by government policies, the media, and other stakeholders insight into the management and outcomes of various government activities. It thereby contributes directly to providing useful information to citizens, while also serving as a basis for learning and improvement.

**1.3.3** Audit Regulation 32 describes that the audit of receipts is an examination of the systems and procedures and their efficacy in regard to the following:

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

- k. Achievement of targets, accounting and reporting of receipts, and their cross-verification and reconciliation with the accounts records.
- l. Amounts of refunds, rebates, drawbacks, remissions and abatements, to see that these are correctly assessed and accounted for.
- m. Use of an information-driven approach for improving tax compliance and effective utilisation of information in tax administration.
- n. The grievance redressal machinery/mechanism in place within the department for the resolution of taxpayer grievances and complaints.
- o. Requisite checks on assessment, realisation, collection, recovery, etc. in regard to non-tax revenue.
- p. Any other matter, as may be determined by the C&AG.

#### **1.3.4 Financial Audit:**

Article 279 of the Constitution of India, read with Article 270, requires the C&AG to ascertain and certify the net proceeds of taxes and duties, levied and collected by the Union Government.

Audit Regulation 5 provides that Financial Audit deals with determining whether an entity's financial statements and information is properly prepared, complete in all respects and is presented with adequate disclosures in accordance with the prescribed financial reporting and regulatory framework; and, is accomplished by obtaining sufficient and appropriate evidence to enable the auditor to express an opinion as to whether the financial statements and information represents a true and fair view of the entity's financial situation and is free from material misstatement due to fraud or error.

### **1.4 Code of Ethics**

A Code of Ethics is a comprehensive statement of the values and principles that should guide the daily work of the Auditors. The Compliance Audit Guidelines stipulate that auditors must adhere to the code of ethics at all times. The auditor promotes trust, confidence, and credibility by adopting and applying the ethical requirements embodied in the key principles of the code: Integrity, Independence, Objectivity, Confidentiality, and Competence. The conduct of auditors should be beyond reproach at all times and in all circumstances.

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 in accordance with the C&AG's Auditing Standards (3rd Edition), 2017, which provides the framework for conducting high-quality audits with competence,

integrity, objectivity, and independence. These Auditing Standards prescribe the norms of principles and practices, which Auditors are expected to follow in the conduct of an audit. They provide guidance to Auditors, which helps to determine the extent of auditing steps and procedures that should be applied in the audit and constitutes the criteria or yardstick against which the quality of audit results is evaluated.

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

The Audit Quality Management Framework (AQMF) issued by C&AG in 2014 has been designed to ensure compliance with Auditing Standards, in particular with the International Organisation of Supreme Audit Institutions (INTOSAI) Auditing Standards, Asian Organisation of Supreme Audit Institutions (ASOSAI) guidelines and applicable legislative requirements. It ensures that the C&AG of India and IA&AD maintain and follow quality standards rigorously.



## **Chapter-2**

## **Auditee Entity**

**Organisational structure of the Central Board of Direct Taxes**

**Organisational structure of field formation**



## Chapter-2 : Auditee Entity

### 2.1 Organisational Structure of the Central Board of Direct Taxes

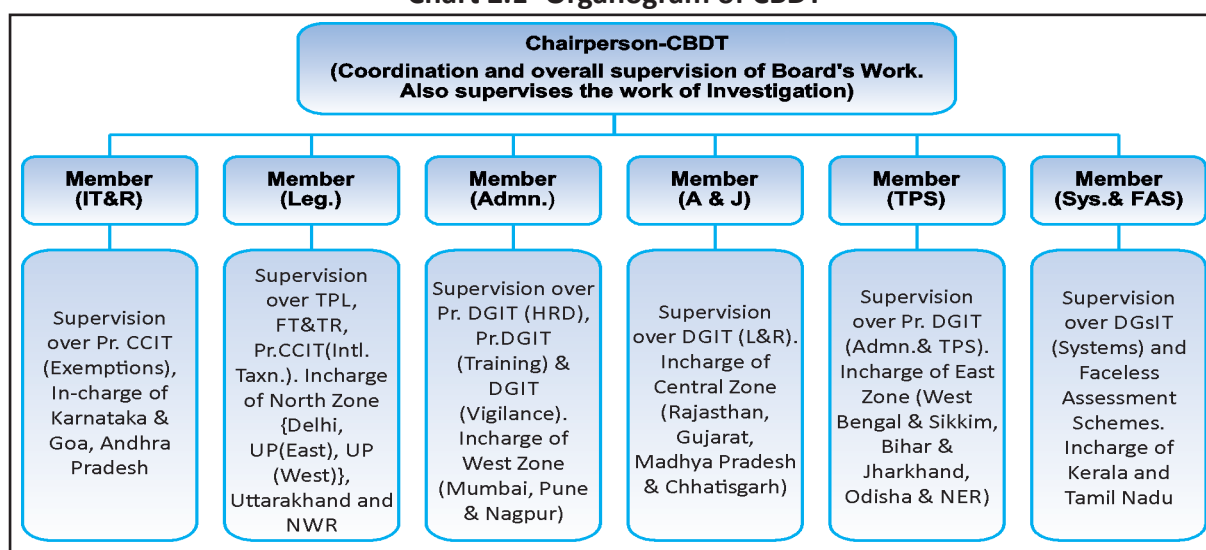
The Central Board of Direct Taxes (CBDT), under the Department of Revenue (DOR) in the Ministry of Finance (MoF), is a statutory authority, functioning under the Central Board of Revenue Act, 1963. It provides essential inputs for policy and planning of Direct Taxes in India. It is also responsible for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

CBDT consists of the Chairman and six members, who are responsible for specified functional areas. The Chairman and these six members, in their *ex-officio* capacity, also function as a Division of the Ministry of Finance, for dealing with matters relating to the levy and collection of direct taxes. The following are the six members of the Board:

- (i) Member (Income Tax and Revenue)
- (ii) Member (Legislation)
- (iii) Member (Administration)
- (iv) Member (Audit and Judicial)
- (v) Member (Taxpayer Services)
- (vi) Member (Systems and Faceless Assessment Scheme)

Details of the Jurisdiction (Zonal Charge), allocation of work and functions of the Chairman and members of the CBDT, are given in **Appendix-1**. The organogram of CBDT is shown in **Chart 2.1**, which also shows the linkages with the zonal offices and field formations of the CBDT.

**Chart 2.1- Organogram of CBDT**



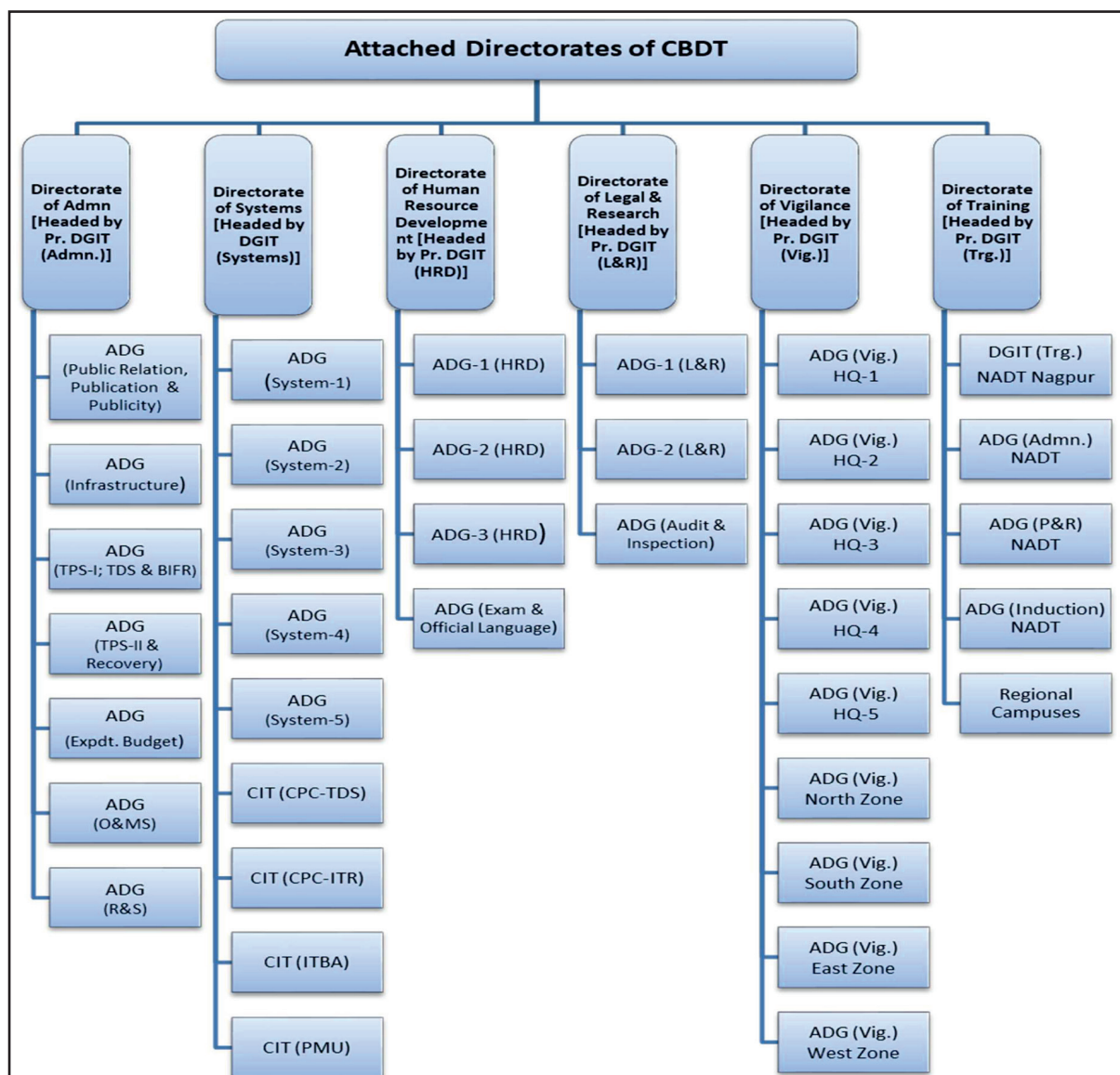
## 2.2 Attached Directorates of CBDT

CBDT has six attached Directorates as mentioned below:

- i. Directorate of Admn. and TPS
- ii. Directorate of System
- iii. Directorate of Human Resource Development
- iv. Directorate of Legal and Research
- v. Directorate of Vigilance
- vi. Directorate of Training

The details of the functioning of these six Directorates, in assisting the functioning of CBDT, are given in **Appendix-2**. The organogram of the attached Directorates is in **Chart 2.2**.

**Chart 2.2: Organogram of the Attached Directorates of CBDT**



## 2.3 Restructuring in the Income Tax Department

**2.3.1 Faceless Assessment Scheme:** From AY 2018-19 onwards, all Regular Assessments under Section 143(3), Best Judgment Assessments under Section 144 and w.e.f 13/08/2020 all pending re-assessment or income escaping assessments under Section 147, are conducted in a Faceless manner. However, cases falling under Central Charges, i.e., search and survey cases and Transfer Pricing Charges, are outside the purview of Faceless Assessment.

Faceless assessments are jurisdiction-less assessments which are conducted by teams at multiple levels, such as National Faceless Assessment Centre (NaFAC), Assessment Unit (AU), Verification Unit (VU), Technical Unit (TU) and Review Unit (RU). The assessee is not required to have any physical/personal interface or interaction with the assessing authority. All the notices, requisition, orders or any other communications issued to the assessee shall be made by the NaFAC, and there shall be no interaction between the assessee and the AU, which is actually conducting the assessment with the help of VU, RU and TU. Further, all the communication between the NaFAC and the assessee shall be by electronic mode only. Similarly, all communication between the NaFAC and different units involved in the assessment procedure shall be by electronic mode only.

Restructuring of the assessment charges and other functional wings of the ITD was carried out in FY 2020-21, consequent to the introduction of “Faceless Assessment”, adopted by CBDT under the “Faceless Assessment Scheme, 2019”. The Faceless Assessment Scheme functions under the direct supervision of the Member (Admn. and Faceless Scheme). The functional architecture of assessment proceedings has been changed for the implementation of the scheme. Due to the introduction of the Faceless Scheme, a **National Faceless Assessment Centre (NaFAC)**, headed by Pr. CCIT (NaFAC), has been set up at Delhi.

**2.3.2** For the purposes of the Faceless Assessment Scheme 2019, the setting up<sup>3</sup> of various units (further amended as the Faceless Assessment (1<sup>st</sup> Amendment) Scheme, 2021) and their functions are enumerated hereunder:

- (i) **National Faceless Assessment Centre<sup>4</sup> (NaFAC):** NaFAC has been set up to facilitate the conduct of e-assessment proceedings in a centralised manner. It serves the notices on the concerned assessee and assigns the cases, selected for the purposes of e-assessment, under this Scheme, to specific Assessment Units (AUs), in any one of the Regional e-Assessment Centres through an automated allocation system. Thereafter, upon receipt of the draft assessment orders from the concerned assessment units, it is expected to finalise the assessment within the prescribed timeframe. After completion of the assessment, it transfers all the electronic records of the case to the Assessing Officer having jurisdiction over the said case, for such action as may be required under the Act.

<sup>3</sup> As notified in the principal Faceless Assessment Scheme, vide Notification No. 61/2019/F.No. 370149/154/2019-TPL dated 12 Sep 2019

<sup>4</sup> CBDT, vide Notification No. 27/2021/F. No. 370142/33/2020-TPL dated 31/03/2021, substituted the term “National e-Assessment Centre”, by the term “National Faceless Assessment Centre”.

- (ii) **Regional Faceless Assessment Centres (ReFACs):** ReFACs, headed by Chief Commissioners, are established to facilitate efficient management of Faceless Assessment proceedings. The various units created under ReFACs are required to make assessments and provide support to NaFAC in the finalisation of the assessment in a faceless manner.
- (iii) **Assessment Units (AUs) :** AUs are expected to facilitate the conduct of e-assessment, by performing the function of making assessments, which includes identification of points or issues material for the determination of any liability (including refund) under the Act, seeking information or clarification on points or issues so identified, analysis of the material furnished by the assessee or any other person, and such other functions as may be required for the purposes of making assessment. Upon being assigned a case, the concerned AU may make a request to the NaFAC for: (i) obtaining further information, documents or evidence from the assessee or any other person (ii) conduct certain enquiries or verification by the verification units; and (iii) seeking technical assistance from the technical units. After taking into account the relevant material, as available on records, the AU makes, in writing, a draft assessment order, to the best of its judgment, either accepting the income or sum payable by, or sum refundable to, the assessee, as per his return, or making variation to such income or sum, and sends a copy of such order to the NaFAC.
- (iv) **Verification Units (VUs):** VUs are expected to perform the function of verification, which includes enquiry, cross-verification, examination of books of accounts, examination of witnesses and recording of statements, and such other functions as may be required for the purposes of verification.
- (v) **Technical Units (TUs):** TUs are required to perform the function of providing technical assistance, which includes any assistance or advice on legal, accounting, forensic, information technology, valuation, transfer pricing, data analytics, management or any other technical matter, which may be required in a particular case or a class of cases, under this Scheme; and
- (vi) **Review Units (RUs):** RUs are expected to perform the function of reviewing the draft assessment orders, which includes checking whether the relevant and material evidence has been brought on record, whether the relevant points of fact and law have been duly incorporated in the draft orders, whether the issues on which addition or disallowance should be made have been discussed in the draft orders, whether the applicable judicial decisions have been considered and dealt with in the draft orders, checking for arithmetical correctness of the modifications proposed, if any, and such other functions as may be required for the purposes of review, and specify their respective jurisdiction.

All communication, among the assessment unit, review unit, verification unit, or technical units, or with the assessee, or any other persons, with respect to the information or documents or evidence or any other details, as may be necessary for the purposes of making an assessment under this Scheme, is required to be made through the NaFAC.

**2.3.3 Faceless Appeal Scheme:** CBDT, vide notification issued in December 2021, notified the 'Faceless Appeal Scheme' and, for the purpose of this Scheme, it set up: (i) a National Faceless Appeal Centre (NFAC), to facilitate the conduct of e-appeal proceedings in a centralized and faceless manner; and (ii) Appeal units, to facilitate the conduct of e-appeal proceedings, by the Commissioner (Appeals). The National Faceless Appeal Centre (NFAC) has been established in Delhi and is headed by Pr. CCIT (NFAC). Further, CIT (NFAC) at Delhi and various CsIT (AU) at 18 locations across the country have been set up. The organogram of the NaFAC and NFACs is given in **Chart 2.3**.

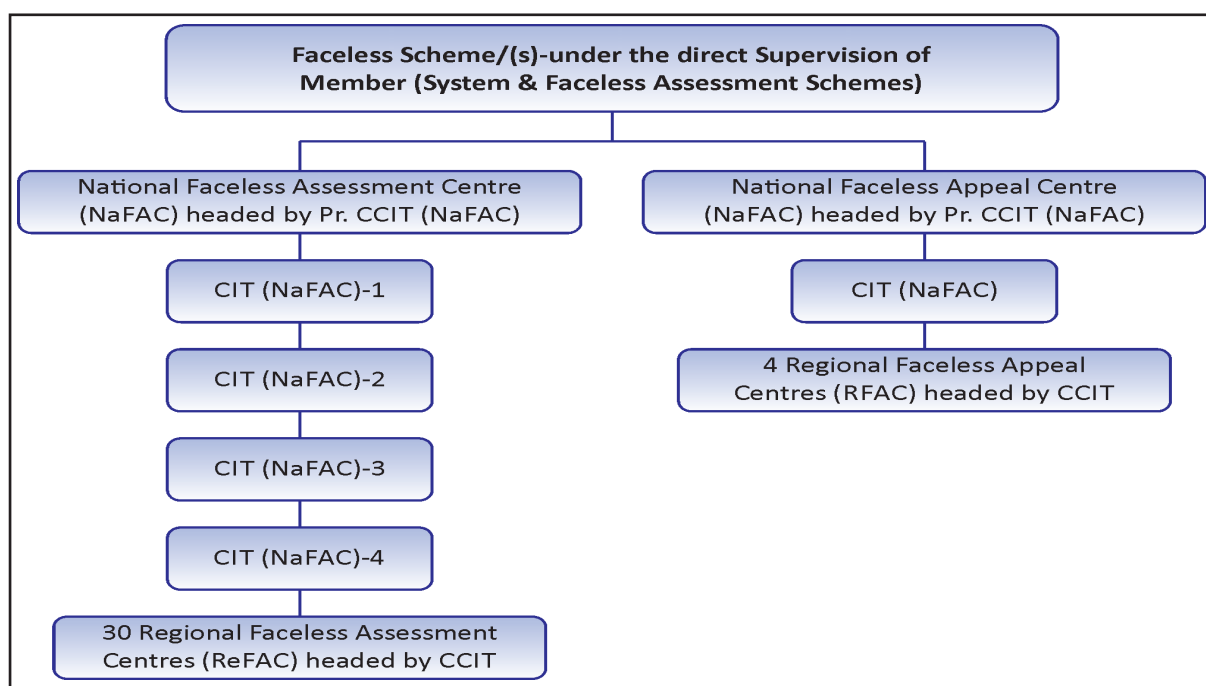
**2.3.4 National Faceless Penalty Scheme (NFPS):** The NFPS was notified by the CBDT, vide notification No. 3/2021 dated 12 January 2021, specifying the procedures to be followed for the imposition of penalties. The scheme mandated the setting up of National Faceless Penalty Centres, Regional Penalty Centres, Penalty Units and Penalty Review Units, for the execution of penalty proceedings. The National Faceless Penalty Centre has been established in Delhi and is headed by Pr. CCIT (NFPC). In addition, there are CsIT (NFPC) at Delhi and other locations in the country. The Penalty Units and Penalty Review Units are headed by the Additional CITs, followed by DCITs.

**2.3.5 Jurisdictional Assessment Offices (JAO):** The functions of JAOs include the filing of appeals or special litigation petitions, making rectifications, issuance of demands, disposal of old standing paras of revenue audit, as well as internal audit objections, etc.

However, the assessment proceedings in the Central Charges and International Taxation charges are outside the purview of the Faceless Assessment Scheme vide CBDT Notification No. F No. 187/3/2020-ITA-I dated 06/09/2021.

The procedure of Faceless Assessment under Section 144B is given at **Appendix-3**.

**Chart 2.3: Organogram of NaFAC and NFACs**



## 2.4 Organisational structure of field formations is as under:

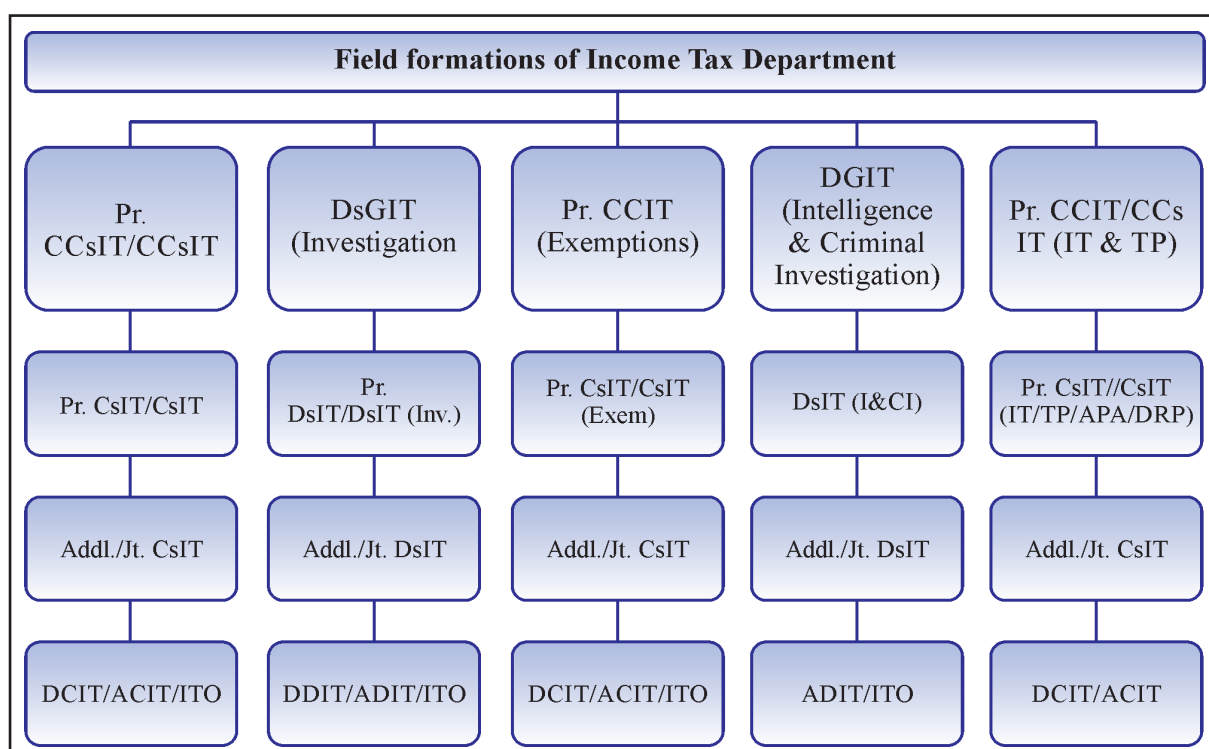
The field formations of the CBDT comprise of the following:

- Pr. CCsIT/CCsIT,
- DsGIT (Investigation),
- Pr. CCIT (Exemptions),
- DGIT (Intelligence and Criminal Investigation) and
- Pr. CCIT/CCsIT (IT and TP)

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.

The organogram of the field formations of CBDT is given in **Chart 2.4**. The duties and functions of these field formations are given in **Appendix-4**.

**Chart 2.4: Organogram of field formations of CBDT**



## 2.5 Core functions of IT System in ITD

The Income Tax Business Application (ITBA) of the ITD, which supersedes the Assessment Information System (AST) has been put in place to facilitate a simple means of communication between the ITD and the taxpayer, through a single window electronic means of communication, without the necessity of the taxpayer having to visit the department. Letters,

Notices, Questionnaires and Orders issued by any Officer/Assessing Officer, through various ITBA modules, are visible in the Taxpayer's account, in the E-filing website, under the head 'e-Proceedings'. The responses submitted by the Taxpayers, in the E-filing Portal, are visible to the concerned Assessing Officers, in the 'Case History/Noting' screen of the respective proceedings, in the ITBA module. The core functions of the ITBA are detailed in **Appendix-3**.



## **Chapter-3**

## **Structure of Direct Tax Audit**

**Introduction**

**Restructuring of the Indian Audit and Accounts  
Department**

**Retention of experienced Personnel/Human Resource**



## Chapter-3 : Structure of Direct Tax Audit

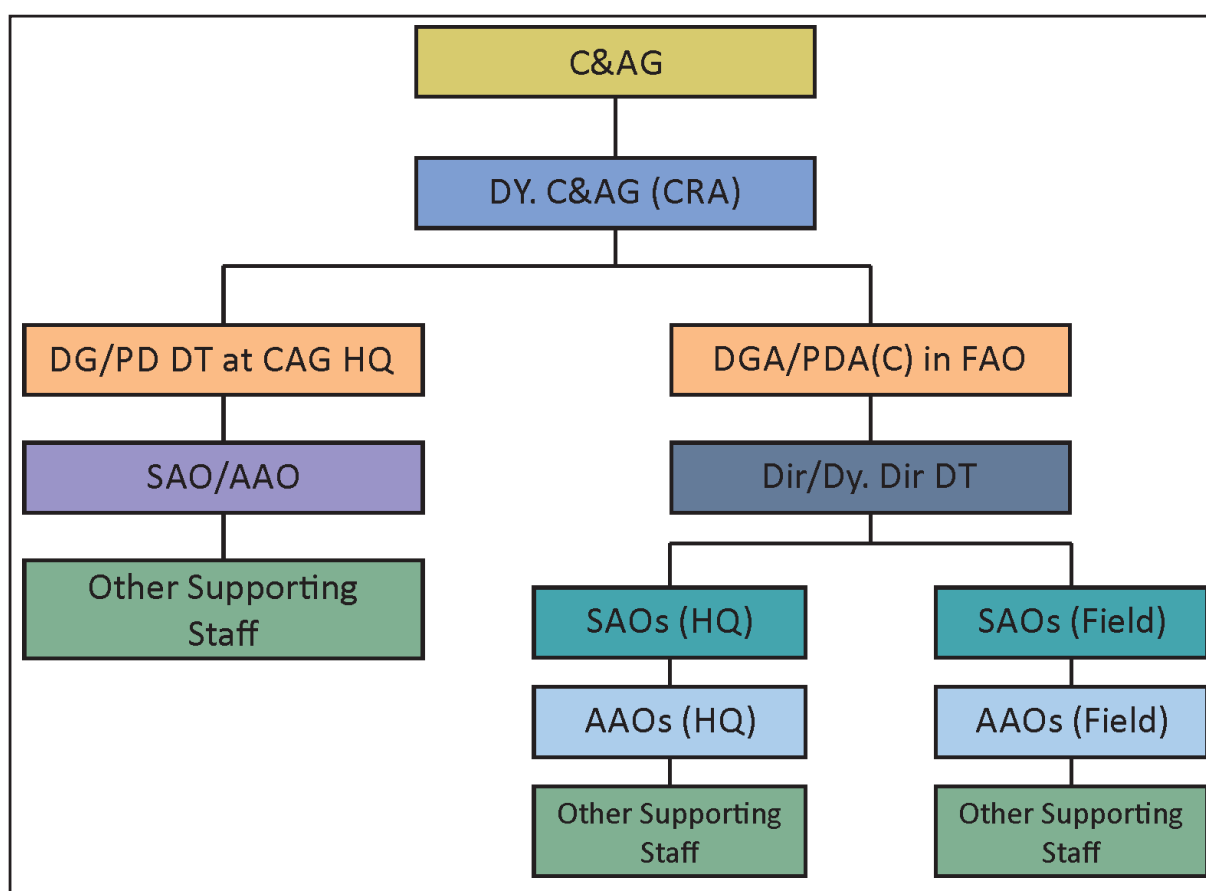
### 3.1 Introduction

The audit of receipts and refunds of income tax is conducted by nine Central Audit Offices, headed by Directors General/Principal Directors of Audit (Central), with their eight branch offices (BOs). Audits are conducted in different field formations of the CBDT, under the charge of Pr. CCsIT/CCsIT, Pr. DsGIT/DsGIT viz. CITs Assessment/Appeal/Audit and Pr. DsGIT Investigation/Exemption/International Taxation/Intelligence and Criminal Investigation and other attached offices.

In the DT Wing of C&AG Hqrs., the Directors General (Direct Taxes)/Principal Directors (Direct Taxes), under the supervision of the Dy. Comptroller and Auditor General (Central Revenue Audit) oversee the audit output and coordinates with the CBDT and the Public Accounts Committee (PAC), in regard to the audit of Direct Taxes.

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

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



### 3.2 Restructuring of the Indian Audit and Accounts Department

The restructuring of Audit Offices in the IA&AD took place in April 2012, with the prime objectives being horizontal and vertical integration, as well as separation of central and state audit. As part of the restructuring, the Principal Accountants General/Accountants General (Audit), in charge of the audit of State Government Offices, were relieved of the task of auditing Central Government Offices. Consequently, six new Central Audit Offices (Ahmedabad, Bengaluru, Chandigarh, Chennai, Hyderabad and Lucknow), apart from the existing three Central Audit Offices (Delhi, Mumbai and Kolkata) and their eight Branch Offices (BOs), were opened.

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

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

| Sl. No. | Central Audit Office             | Audit Jurisdiction  | Branch office (with jurisdiction)                                  |
|---------|----------------------------------|---|--|
| 1.      | DGA, Central Receipts, New Delhi | Delhi, Madhya Pradesh and Chhattisgarh  | Gwalior (MP and Chattisgarh)                                       |
| 2.      | DGA(C), Kolkata                  | West Bengal, Assam, Manipur, Meghalaya, Nagaland, Mizoram, Arunachal Pradesh, Tripura, Sikkim and UT of Andaman and Nicobar Islands | Guwahati (North East Region)                                       |
| 3.      | PDA(C), Mumbai                   | Maharashtra   |  |
| 4.      | PDA(C), Lucknow                  | Uttar Pradesh, Uttarakhand, Bihar, and Jharkhand  | Allahabad (UP, Uttarakhand)<br>Patna (Bihar)<br>Ranchi (Jharkhand) |
| 5.      | PDA(C), Bengaluru                | Karnataka and Goa   |  |
| 6.      | DGA(C), Chennai                  | Tamil Nadu, Kerala and UT of Puducherry   | Kochi (Kerala)   |
| 7.      | PDA(C), Chandigarh               | Punjab, Haryana, Himachal Pradesh, Jammu and Kashmir and UT Chandigarh  |  |
| 8.      | DGA (C), Hyderabad               | Andhra Pradesh, Telangana and Odisha  | Bhubaneswar (Odisha)   |
| 9.      | PDA(C), Ahmedabad                | Gujarat, Rajasthan and UT of Daman and Diu  | Jaipur (Rajasthan)   |

Audit of Direct Taxes, in Chhattisgarh, Himachal Pradesh, Jammu and Kashmir and Uttarakhand, is conducted by the Audit personnel of the 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 the Central Governments Departments in their jurisdiction.

Post restructuring of the audit offices of the IA&AD in April 2012 and the ITD in May 2013, the mapping of jurisdictions of DsG/PDs of FAOs and Regional Pr. CCITs of ITD, is indicated in **Appendix-5**.

The sanctioned strength of SAOs, AAOs/Supervisors, and Sr. Auditors/Auditors, in the Direct Taxes Wing of C&AG Hqrs. and all nine FAOs (including BOs), is indicated in **Appendix-6**.

### **3.3 Retention of experienced Personnel/Human Resource**

Considering the technical nature of audits in the Direct Tax Wing, the C&AG Hqrs. has approved a policy of retaining personnel (SAOs/AAOs) in the audit of Direct Taxes for eight years at a stretch. This has to be kept in view while effecting the 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>5</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 Hqrs. views in this regard. It is necessary to undertake comprehensive training for inexperienced personnel<sup>6</sup> in the Direct Tax Audit.

<sup>5</sup> C&AG Hqrs. D.O. letter No. 108-RADT/8-2009 dated 29 January 2010

<sup>6</sup> C&AG Hqrs. 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**

**Financial Attest Audit**

**Function of Direct Tax Wing**



## Chapter-4 : Functions of Direct Tax Audit

### 4.1 Introduction

Direct Tax Audit is conducted with a view to overseeing the extent of efficiency and effectiveness in the mobilisation of tax revenue by the Income Tax Department (ITD), as well as the adequacy of internal controls in the ITD for ensuring compliance with the extant provisions of the Income Tax Act, 1961, Income Tax Rules, 1962, Judicial decisions and Notifications/Instructions/Circulars issued by the CBDT.

The following types of audits are conducted:

- a. Compliance Audit
- b. Performance Audit
- c. Financial Attest Audit

### 4.2 Compliance Audit

Compliance audit is an assessment as to whether the provisions of the applicable laws, rules and regulations made there under and various orders and instructions issued by the competent authority are being complied with. This audit, by its very nature, promotes accountability, good governance and transparency as it is concerned with reporting deviations, identifying weaknesses and assessing propriety.

At the field level of the CBDT: (i) the assessment charges in case of Central Charges and International Taxation charges are involved in the tax assessment of the assessee (ii) the Jurisdictional Assessment charges (other than Central Charges and International Taxation charges) are primarily involved in residuary functions (i.e. functions arising after NaFAC has carried out the tax assessment, under the Faceless Assessment Scheme) and (iii) the Non-assessment charges carry out functions ranging from normal administration to the ancillary functions of tax collection etc. (non-assessment functions include Appeals, Tax recovery, Investigation, management of IT systems etc.)

The Assessment records of assessee, selected as per norms, from the selected Circles/Wards etc., are to be checked with regard to compliance with relevant provisions in the Income Tax Act/Rules. Further, audit of non-assessment functions (including expenditure aspects, wherever applicable), is also covered, to review the level of internal controls and ITD's adherence to such controls.

Subject Specific Compliance Audits (SSCAs) are also undertaken on selected subjects and conducted as per the guidelines and audit checklists prepared. SSCAs are horizontal studies, across similar entities/units, or sub-sets of activities/projects/entities, within the ITD, prepared in the form of Draft Paragraphs, covering all issues relating to a specific theme in audit.

### 4.3 Performance Audit

Performance auditing is an independent, objective and reliable examination of whether government undertakings, programs, systems, activities or organisations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Performance audits deliver new information, knowledge or value by:

- providing new analytical insights (broader or deeper analysis or new perspectives);
- making existing information more accessible to various stakeholders;
- providing an independent and authoritative view or conclusion based on audit evidence;
- providing recommendations based on an analysis of audit findings.

### 4.4 Financial Attest Audit

Financial attest audit is primarily concerned with the expression of an audit opinion on a set of financial statements. Financial attest audits are designed to reduce the possibility of a material misstatement in a financial statement and, therefore, assure credibility to such statements. It includes:

- a) Examination and evaluation of financial records and expression of opinions on financial statements; and
- b) Audit of financial systems and transactions, including an evaluation of compliance with applicable status and regulations, which affects the accuracy and completeness of accounting records.

Article 279 of the Constitution of India, read with Article 270, requires the C&AG to ascertain and certify the net proceeds of taxes and duties, levied and collected by the Union Government. In accordance with the provisions of the Constitution, the Office of the Director General of Audit (Central Receipts), New Delhi, conducts audit of the Demands for Grants of the Central Government (including both Direct and Indirect Taxes), relating to the Department of Revenue, in coordination with the FAOs. The audit findings are included in the C&AG's Report on the Accounts of the Union Government (Financial Audit). For certifying the net proceeds of taxes and duties, the financial attest audit of accounts of the Zonal Accounts Offices (ZAOs) of the CBDT needs to be carried out before finalisation of the Finance Accounts and certification of the Net Proceeds. This involves the conduct of financial attest audit of the jurisdictional ZAOs, by the FAOs.

### 4.5 Functions of the Direct Taxes Wing

#### 4.5.1 In C&AG Hqrs.

- a. The DT wing selects the topics for Performance Audits (PAs) and SSCA in each Annual Audit Plan (AAP) on the basis of inputs received from each Field Audit Offices (FAOs).

- b. The Wing approves the AAPs received from FAOs and monitors their implementation.
- c. The DT Wing prescribes/revises the: (i) monetary limits for Part IIA and Part IIB paras of LAR and DPs, (ii) powers of settlement of Audit Observations by BOs/GOs/HODs, (iii) timelines for processing DPs and sending material for Audit Reports by FAOs.
- d. The Wing accords approval of the guidelines for PAs/SSCAs, as well as the mid-term PA/SSCA reports and finalises the draft PA/SSCA Reports, received from the FAOs/Lead Offices, for issuance to the Ministry. The Wing also conducts the Entry and Exit conferences with the Ministry and finalises the Bond copy(s) of the Audit Report(s).
- e. The Wing conducts workshops for the mid-term appraisal of ongoing PAs/SSCAs and identifies topics for future Audit Reports. In addition, it conducts seminars on important issues.
- f. The wing processes Draft Paragraphs (DPs) received from FAOs and their BOs online, using the OIOS Application, for issue to the Ministry. Notes on Draft Paragraphs, with tax effect higher than ₹ 50 crore; audit objections on debatable/sensitive issues; and technical issues referred for guidance (including those received from FAOs), are submitted to DAI (CRA), for discussion by the 'Technical Board of the Direct Taxes Wing'<sup>7</sup>.
- g. Approved DPs are issued to the Ministry for their views/comments. These are incorporated in Chapters III and IV of the Compliance Audit Report. Information for Chapter I (Direct Tax Administration) is called for from the CBDT and its attached offices, while material for Chapter II (Audit Impact) is called for from the FAOs. On receipt of this information, the Wing finalises Chapters I and II.
- h. The bond copy of the Compliance Audit (CA) Report is submitted for approval of the C&AG, after consolidation.
- i. The CA and PA/SSCA Reports (both English and Hindi versions) have been printed through the selected printer, empaneled by the Director (P) of C&AG Hqrs. Printed copies of the Audit Reports, duly countersigned by the C&AG, are placed in Parliament.
- j. Hindi translation of the PAs/SSCAs and CAs, carried out by the Rajbhasha Anubhag, is checked and corrected.
- k. The Wing processes the Action Taken Notes (ATNs) and monitors the pending ATNs, along with the CBDT/Monitoring Cell and PAC wing of C&AG Hqrs.
- l. Memoranda of Important Points (MIPs) are prepared in regard to the PA/SSCA reports and DPs which have been selected by the PAC, for detailed examination.
- m. The power to settle Audit Observations, included in the Audit Reports, rests with PAC, which normally takes the advice of the DT Wing.

<sup>7</sup> SoP forwarded by Hqrs. office vide Lr. No.143-RADT/Tech. Board-19-20/64-2021 dt.23/09/2021

- n. The Wing conducts a technical inspection of the FAOs.
- o. The Wing provides technical advice to officers of other wings of C&AG Hqrs./Field Offices, on matters relating to Direct taxes; and
- p. The Wing accords approval to the annual training programmes of field offices, pertaining to Direct Taxes, being conducted in different RTIs/RTCs. In addition, it liaises with the National Academy of Direct Taxes and Regional Training Institutes of the Income Tax Department, for conducting various training programmes.

#### 4.5.2 In Field Audit Offices

The functions of FAOs are categorised as Hqrs. functions and Field Audit functions.

**Hqrs. Functions:** The items of work are summarised in **Table 4.1**.

**Table 4.1 Headquarters functions of Field Audit Offices**

| Planning  |
|---|
| <ul style="list-style-type: none"> <li>• Preparation of audit universe by defining Apex Auditable Entity and Audit Units in terms of Compliance Audit Guidelines 2016.</li> <li>• Collection and compilation of information for risk profiling audit units.</li> <li>• Risk profiling of the Audit Units as per the methodology described in <b>Appendix 7</b> for selecting units in the annual compliance audit plan.</li> <li>• Yearly updating of data in respect of the Audit Universe to ensure coverage of all units in the audit universe.</li> <li>• Preparation of AAP.</li> <li>• Planning for PA and SSCA, as per C&amp;AG Hqrs. instructions; and</li> <li>• Uploading the approved AAP in OIOS on a quarterly basis.</li> </ul> |
| Programming   |
| <ul style="list-style-type: none"> <li>• Drawing up the quarterly audit programme for Compliance and Performance Audits, as per the AAP.</li> <li>• Allocation of audit resources for the audits to be undertaken.</li> <li>• Issue of letters of intimation, for the conduct of audit, to the ITD, which should indicate the composition of audit team(s), duration and schedule of audit;</li> <li>• Monitoring the progress of the audit, as per schedule; and</li> <li>• Linking of toolkits with each of the field audit programme.</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 Hqrs. for technical issues, wherever clarity or directions are required.</li> <li>• Holding Monthly Meetings, in-house Trainings and Workshops/Seminars.</li> <li>• Circulation of C&amp;AG Hqrs. instructions to Field Audit Parties.</li> </ul>   |

- Compilation and submission of different reports and returns. A list of reports and returns to be submitted to the DT wing of C&AG Hqrs. is given in **Appendix-8**. The respective FAOs may decide the prescription and submission of other returns to DG/PD/GO/BO; and
- All communication to C&AG Hqrs., to be made with the approval of HODs.
- Co-ordination with C&AG Hqrs., lead office and Audit Team(s), in the conduct of PAs/SSCAs.
- Compiling the data from all toolkits in respect of all the units audited and reviewing the data in the toolkits for gaps, errors, etc., so that the data can be corrected and field audit parties can be suitably sensitised.
- Transmission of the compiled data of all audited units to CEDAR in the Office of the Principal Director of Audit, Central Bengaluru, at the end of each AAP.

#### Reporting

- Compilation of statistical information collected during the field audit
- Vetting of Local Audit Reports (LARs) received from Field Audit Parties; and
- Issue of LARs to concerned CIT/audited units.

#### Follow up

- Maintenance of Objection Books;
- Processing replies to LAR paras;
- Follow up of LARs/LARs para till their final closure/settlement;
- Maintenance of Recovery Register in the prescribed format;
- Holding of Audit Committee Meetings; and
- Processing of Omnibus paras of time-barred cases, annually.

#### Processing of material for Audit Report

- Maintenance of 'PDP Register';
- Issuing of Statement of Facts (SOFs) to CITs, for comments;
- Maintenance of 'SOFs' register;
- Periodic review of outstanding SOFs and PDPs;
- Processing replies of the ITD to SOFs;
- Processing of DPs through OIOS and obtaining approval of HOD;
- Forwarding of Draft Paragraphs with TE higher than ₹ 50 crore/audit objections/findings on debatable or sensible issues and technical issues, for guidance, to members of the 'Technical Board of Direct Taxes Wing', for consideration of the Board;
- Uploading of approved DPs to C&AG Hqrs.;
- Processing of queries of C&AG Hqrs., relating to DPs;
- Verification and vetting of replies/Action Taken Notes (ATNs) received from the Ministry;
- Settlement of DPs, on receipt of C&AG Hqrs. communication; and
- Processing of Performance Audits and SSCA Reports.

FAOs may arrange the above functions through different sections/groups. FAOs need to submit Quarterly Performance Reports (QPRs), for each quarter, in three parts: (a) Reporting part (b) Appreciation Note and (c) Corrective action taken/proposed to be taken. These reports need to be sent to C&AG Hqrs. before 10<sup>th</sup> of the following month<sup>8</sup>. The format of the QPRs is given in **Appendix-9**.

#### 4.5.3 Local Audit Party

Direct Tax audit involves thorough application and interpretation of the Income tax statutes, 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 supported by two Assistant Audit Officer(s)/Supervisor(s) and one Assistant Supervisor/Senior Auditor/Auditor.

As per the Compliance Audit Guidelines 2016, conduct of compliance audit is about gathering evidence, evaluating evidence, forming conclusions, documenting the audit process and communicating with the auditable entities.

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

- i) Conduct of Entry meeting(s) with Jurisdictional AO, at the commencement of audit.
- ii) Data capture in Toolkit: The compliance audit in the Direct Taxes Wing has been shifted to the OIOS platform with effect from 1st April 2023 by adopting an assurance-based model. In order to make the audit process consistent and obtain an assurance of the audit conducted, generic Toolkit for desk review and detailed audit have been prescribed for capturing data during field audit through OIOS. The steps involved in gathering evidence by performing appropriate audit procedure through OIOS is summarised below:
  - a) Obtaining ITBA/System-generated lists of scrutiny assessments, rectifications, refunds, penalties, and consequential orders, and preparation of a list of selected cases therefrom. In assessment units, where system-generated lists are not available (for instance, central circles, wards which are not on ITBA, if any), the list of cases may be obtained under the signature of the JAO.
  - b) Collection of records and statistical information and scrutiny thereof.
  - c) Filling up of data in the Toolkit for all the scrutiny assessment cases, consequential orders, revision and rectification, penalties, refund (>10 lakh) and non-production cases of earlier years' audit.
  - d) Sampling of scrutiny assessment cases in the assessment charges for selection of cases for detailed audit based on the prescribed parameters. However, in Corporate Circles, Central Circles, International Taxation and Transfer pricing charges 100 *per cent* of scrutiny assessment cases are to be taken up for detailed audit.

<sup>8</sup> C&AG Hqrs. letter No. 928-936/RADT/84-2014 dated 11 July 2014

For consequential orders, revision and rectification, penalties and refund cases, selection of cases for detailed audit should be as per the norms prescribed in **Appendix-10**.

- e) Capturing of data in Toolkit in respect of all cases that are selected for detailed audit as per the norms prescribed in (d) above. Data should also be captured in Toolkit for all the non-production cases that have now been produced to audit by the department.
- f) Uploading of Key Documents (KDs) like Assessment order, ITR, Balance Sheet, 3CD/3CEB report, Computation Statement of the Assessee as well as the Department for all detailed audit cases irrespective of whether an audit observation is raised or not.
- iii) Evaluation of evidence i.e. key documents with respect to IT Act, Rules, Circulars etc. to bring out the nature and extent of non-compliance.
- iv) Instances of non-compliance i.e. audit objections should be issued through OIOS. Follow up of pending audit objections should also be made.
- v) The draft LAR should be prepared for reporting the deviations from the IT Act, Rules, Circulars etc. There must be appropriate documentation relating to audit procedures, evidence that were gathered, evaluation of evidence, audit findings and supporting key documents. Written response from the ITD should also be a part of the draft LAR.
- vi) At the close of audit, the team leader should hold an exit meeting with the officer in charge of the audit unit to discuss the audit findings and request responses. The minutes of the exit meeting should be prepared and shared with the audit unit.
- vii) The field audit parties must ensure submission of Toolkits before generating the draft LAR and closing their field visits on OIOS.

The main items of work undertaken during the **Subject Specific Compliance Audits (SSCAs)** are:

- i) Preparation of audit guidelines, determining Audit criteria and Audit approach, developing the Audit Design Matrix, delineating timelines, and allocating resources. Appropriate toolkits as per the Audit Design Matrix (ADM) should also be prepared to capture data in order to standardise the audit checks.
- ii) Conduct of Entry meeting(s) with CIT/Jurisdictional AO, before the commencement of audit. During these meetings, the audit team should explain the purpose, objectives of audit, timelines and cooperation expected from the head of the audit unit.
- iii) Gathering of evidence on the subject matter, which includes calling for data/records and other information from the ITD essential for the accomplishment of audit objectives, examination of data/records and capturing of data in the prescribed toolkits.

- iv) Evaluation of the evidence collected, which includes analysis of data according to the Audit Design Matrix to arrive at the audit conclusions. Audit conclusion should clearly bring out the nature and extent of non-compliance with applicable IT Act, Rules, Circulars etc.
- v) Instances of non-compliance with IT Act, Rules, Circulars, etc., i.e. audit objections should be issued through OIOS.
- vi) Documentation relating to sample selection, audit procedures, evidences that were gathered, evaluation of evidences, written responses of the ITD, audit findings and supporting key documents.
- vii) Holding exit meeting with the audited unit at the close of the audit to seek its observations on the audit conclusions, if not already received in response to the audit memos. The minutes of the exit meeting should be prepared and shared with the audited entity, and an acknowledgement requested.
- vi) Preparation of draft SSCA report containing the audit findings.

The main items of work undertaken during **Performance Audits** are:

- i) Preparation of Performance Audit plan, which consists of developing guidelines and assessing resources. The audit guidelines should be detailed, including information on the audited entity's environment, determining audit criteria, deciding audit approach, developing audit questions, preparing the Audit Design Matrix and establishing a timetable and resources.
- ii) Conduct of Entry conference to inform the entity about the areas to be audited, along with audit objectives, the audit approach and the time frame within which the audit is expected to be carried out. Audit criteria/parameters/norms against which performance audit will be benchmarked should be also discussed.
- iii) Issuance of engagement letter to the CCIT/PCIT, communicating the launch of the audit along with details of the entity units tentatively selected for audit, and requesting him/her to issue necessary directions to the functional officers and field units to provide documents and information to the audit team.
- iv) Data Collection and Analysis, which includes calling for data/records from the audited entity and other information essential for accomplishment of audit objectives, examination of data/records and compilation of data in the prescribed checklists/toolkits and analysis of the data as per the Audit Design Matrix.
- vi) Developing audit findings by comparing the evidence to the criteria and developing audit conclusions to see whether the entity's performance, with reference to the criteria laid down, was satisfactory or not.
- vii) Documentation of the evidence that supports the audit conclusions and maintenance of working papers, which should provide a clear trail of the audit.

- viii) Developing recommendations that should be clear and presented in a logical and rational fashion.
- ix) Holding exit meeting with the audited unit at the close of the audit to seek their observations on the audit conclusions and recommendations, if not already received in response to the audit memos. The minutes of such an exit meeting should be prepared and shared with the audited entity, and an acknowledgement requested.
- x) Preparation of draft Performance Audit report containing the audit findings and recommendations.

The main items of work, undertaken<sup>9</sup> during the **Financial Attest Audit** of the accounts of ZAOs of CBDT, are:

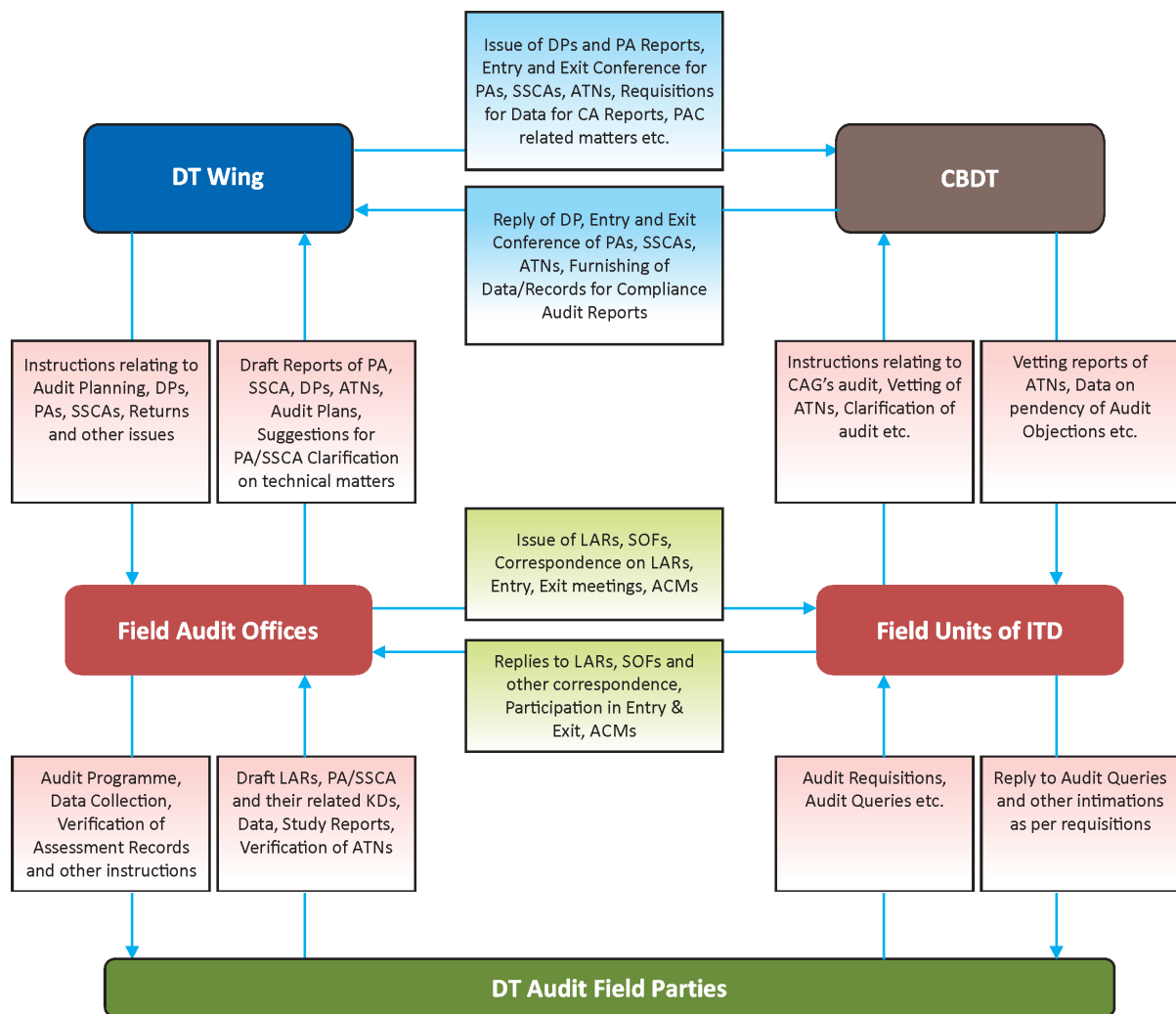
- (a) Checking figures, provided by the CBDT, with the ZAO figures and identification of discrepancies;
- (b) Verification of figures, reported by the ZAOs, with the underlying challans;
- (c) Verification of the expenditure amounts, reported in the accounts, for each head, with the expenditure vouchers; and
- (d) Verification of the correct classification of tax receipts, in the respective heads of account.

LAPs, conducting Compliance Audits, may also take up Performance Audits/SSCAs, of their concerned auditee units, in line with the approved guidelines of the C&AG Hqrs.

#### **4.5.4 Functional relationship of DT Audit and ITD**

The functional relationship between the Direct Taxes Wing (C&AG Hqrs.), CBDT, FAO (Hqrs., LAPs) and ITD, is shown in **Chart 4.1**.

<sup>9</sup> Detailed checklist forwarded vide Hqrs. Office letter No.624/RADT/8-2012/Vol.II dated 24/05/2016

**Chart 4.1: Functional relationship of DT Audit and ITD**

## **Chapter-5**

## **Audit Planning and Programming**

**Data Resource Management**

**Strategic Audit Plan**

**Integrated Audit Plan**

**Annual Audit Plan**

**Audit Advisory Board**

**Department Centric Audit**

**Planning for Performance Audit/Subject Specific  
Compliance Audit**

**Audit Programming**



## Chapter-5 : Audit Planning and Programming

### 5.1 Data Resource Management

The Central Government introduced the Faceless Assessment Scheme in August 2020, to provide greater transparency, efficiency and accountability in Income Tax assessments, through: (i) Eliminating the interface between the Assessing Officer and the Assessee, during the course of proceedings, to the extent that is technologically feasible (ii) Optimising the utilization of resources through economies of scale and functional specialization and (iii) Introducing a team-based determination of arm's length price, with dynamic jurisdiction.

Under this Scheme, an Apex Authority, i.e., the National e-Assessment Centre (NeAC), has been set up to conduct e-assessment proceedings in a centralised manner. The entire assessment proceedings are exercised by the NeAC, through the functionalities of the Assessment Unit, Verification Unit, Technical Unit and Review Unit. All communication among the Units, or with the assessee, or with any other person, for the purposes of making an assessment, as well as the finalisation of assessment, is done through the NeAC. On completion of this procedure, the NeAC forwards the case to the jurisdiction-based Residual Charges for further compliance or monitoring.

In this centralised approach, the focal resource centre, relating to scrutiny assessment and other information, would be the NeAC/DG(Systems).

The approach of audit, accordingly, has to be risk-based review, supplemented by regularity/compliance audits and SSCAs/PAs, within the CAG mandate, for ensuring achievements of the specified objectives, seeking assurance on the efficiency and effectiveness of operations and activities, safeguarding of data and compliance with laws, regulations, policies, procedures, contracts and accountability.

### 5.2 Strategic Audit Plan

C&AG's audit planning activity is primarily at two levels—the strategic level and the functional level. The Strategic Audit planning involves determining the long-term goals for the Department and the best approach for achieving them. It consists of strategic goals (mission statement), strategic objectives (more specific and detailed statements) and strategic measures to attain them. At the functional level, the audit plans translate audit priorities into annual/quarterly plans.

### 5.3 Integrated Audit Plan

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

## 5.4 Annual Audit Plan

At the field level, the Income Tax Receipt Audit (ITRA) Hqrs. of each office prepares the Annual Audit Plan (AAP) for the conduct of CAs, SSCAs, and PAs to be undertaken during the ensuing financial year, based on the available Personnel/Human Resources in the field. The AAP, duly approved by the HODs of the concerned FAOs, is sent to the DT Wing of C&AG Hqrs. for final approval. HODs are expected to personally monitor the implementation of the Audit Plan monthly and take remedial action<sup>10</sup>. The AAP is split up into quarterly programmes, for various LAPs.

### 5.4.1 Risk Analysis

Risk analysis is an important tool for audit planning. Risk analysis should be carried out, with reference to the various parameters of the entity, programme or subject, after 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 the selection of appropriate sampling techniques for the units to be audited. The procedure to be adopted for the selection of audit units is given in para 5.6.1 and **Appendix-7**.

### 5.4.2 Time schedule for the Annual Audit Plan

The Audit Plan, for a year, is to be sent to the DT wing at C&AG Hqrs., in or before August of the immediately preceding year<sup>11</sup>, or the date prescribed by C&AG Hqrs. Half-yearly information, in regard to the:

Number of units actually audited, as against the planned units and arrear/excess of units, if any, with reasons.

Status of Performance Audits being undertaken is to be submitted to the DT wing in the first week of October and April, respectively<sup>12</sup>. Information received from all FAOs is consolidated at the DT Wing for onward transmission to the SMU Wing of C&AG Hqrs.

## 5.5 Audit Advisory Board

The Audit Advisory Board is to be constituted<sup>13</sup> in each of the Central Audit Offices. The Board is to consist of a maximum of 10 and a minimum of five honorary external members, nominated by the HOD. The HOD is the Chairperson of the Board, and all GOs in the FAOs are to be *ex-officio* members. The objective behind constitution of the Board is to enhance the effectiveness of Audit, by providing a forum for professional discussion, between the Senior Management of the FAOs and knowledgeable/experienced professionals from varied fields. The Board is expected to advise on the coverage, scope and prioritization of audits, together with suggestions regarding appropriate audit approaches and techniques. At least two meetings of the Board are to be held every year, one before finalization of the audit plan

<sup>10</sup> C&AG Hqrs. letter No.928-936/RADT/84-2014 dated 11 July 2014

<sup>11</sup> C&AG Hqrs. letter No.385/RADT/29-2014 dated 3 June 2014

<sup>12</sup> C&AG Hqrs. letter No.311/RADT/99-2013 dated 9 May 2014

<sup>13</sup> C&AG Hqrs. D.O. letter No.264/RADT/59-2015 dated 11 June 2015

and another when the findings of two quarterly audit plans are available. Guidelines for the constitution of the Board are given in **Appendix-11**.

## 5.6 Department Centric Audit

A compliance audit requires a top-down, risk-based, department-centric mechanism for macro-level planning, which involves defining and risk-profiling the apex auditable entities, audit units, and implementing units. This exercise provides a holistic view of the functioning of the auditable entities without the risk of dismissing audit findings as a random view and statistically insignificant.

In case of Direct Tax audit, the CBDT is the Apex Auditable Entity, in addition to the Department of Revenue (DoR), since policy formulation and oversight flow from their end to the lower formations of the ITD. All assessment and non-assessment charges are to be classified as Audit Units<sup>14</sup>, since they have functional autonomy and operational significance with reference to the achievement of objectives of the apex auditable entity, and LARs are issued individually to these units.

Since the top-down and risk-based approach to conducting a compliance audit is envisaged to provide a department-centric view of the extent of compliance, formats<sup>15</sup> for seeking information from apex and audit units by Field Audit Parties were finalized in consultation with the CBDT. The CBDT issued instructions 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 the Audit Teams<sup>16</sup>. Audit findings, in respect to all units, including Pr.CIT/CIT offices, are to be incorporated in the LARs being issued to all units.

### 5.6.1 Selection of CITs for Audit Plan

Based on DCA approach, selection of Commissionerates and Offices under them is to be made on the basis of risk analysis of all units, details of which are shown in **Appendix-7**. The Party days, prescribed for conducting audit of assessment and non-assessment units<sup>17</sup>, are shown in **Appendix-12**.

The selection of CITs, for the AAP is to be carried out as follows:

The first 25 *per cent* of Commissionerates are to be categorised as 'High-Risk' and to be audited annually.

25 *per cent* of the balance Commissionerates are to be treated as 'biennial' and are to be audited once in two years.

<sup>14</sup> In case of direct tax audit, all assessment and non-assessment units are to be categorised as audit units since they have substantial devolution of powers as per the IT Act and Rules; functional autonomy; and operational significance with reference to achievement of objectives of the Apex auditable entity. No auditable units can be categorised as implementing units as per criteria laid down in Compliance Audit guidelines according to which implementing units are those which have very limited delegation powers of contingent nature and for managing establishment.

<sup>15</sup> C&AG Hqrs. letter No.1396/RADT/78-2011/Vol-II dated 14 November 2013

<sup>16</sup> CBDT's letter F.No.246/223/2011-A&PAC-I dated 14 November 2013

<sup>17</sup> C&AG Hqrs. D.O letter No.263/RADT/78-2011/Vol-III dated 25/05/2012

All residuary units are to be classified as 'Low Risk' Commissionerates. These units are to be audited triennially, i.e. 33.33 *per cent* of the total low-risk Commissionerates falling under the jurisdiction of the office are to be selected (without replacement), for audit, in a particular year; and

If no assessment function is being carried out in such low-risk Commissionerates, they may be audited once in five years, with 20 *per cent* of such units being selected in a random manner (without replacement), for audit, in a particular year.

If any field office has difficulty rationalising the Personnel/Human Resource, 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.

### **5.6.2 Data for risk profiling individual assessment cases at Field Offices**

Audit is to be planned based on the data collected to frame the risk factors, regarding both the audit units and the assessment cases.

Risk profiling of the assessment cases (except for Corporate Circles, Central Circles, International Taxation and Transfer pricing charges, where 100 *per cent* of scrutiny assessment cases are to be taken up for detailed audit) is to be made as per the risk parameters prescribed in **Appendix-10**.

### **5.6.3 Revision of the Risk Parameters and Risk profiling**

The risk parameters need to be updated periodically based on the amendments in the IT Act/ Rules, restructuring in the ITD, new intervening developments, changes and increase/decrease in irregularities noticed by various stakeholders, etc. Similarly, the risk profile of the audit units would need to be reviewed and updated periodically to assess continued maintenance or to consider revisions to the risk profile assigned to the apex auditable entities and audit units based on risk parameters.

## **5.7 Planning for Performance Audits/Subject Specific Compliance Audits**

At the planning stage, background papers on the areas/topics selected for PAs/SSCAs, are prepared at C&AG Hqrs., in consultation with FAOs. The practical feasibility of undertaking such PAs/SSCAs, in specific areas, is to be ascertained through the conduct of pilot studies by selected FAOs. The background papers are expected to provide: (i) an overview of the areas selected for the PAs/SSCAs (ii) rationale for selection of topic (iii) objectives of the pilot study (iv) thrust areas of the PAs/SSCAs (v) scope of the pilot study and (vi) the suggested course of action, for Hqrs./FAOs. The pilot study reports are examined at C&AG Hqrs. to determine the feasibility of conducting the PAs/SSCAs and to address the constraints, if any, faced during an audit.

The Planning stage also includes the preparation of draft guidelines, by selected FAOs, on the topics of the PAs/SSCAs, 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 Design Matrix
- g. Audit Checklists
- h. Follow up action, in case the same topic has been undertaken earlier
- i. Formats for data collection for compilation
- j. Timelines for FAOs

The guidelines should contain the structure of the Audit Report, for compilation of audit findings at the field level, to enable uniformity in reporting, across all FAOs.

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

## **5.8 Audit Programming**

After approval of the AAP by C&AG Hqrs., FAOs need to prepare the Quarterly Audit programme, for field audit, for covering the 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 GOs in charge may convene meetings with the Field Audit Parties, before commencement of the audits, for issuing necessary instructions and guidance to them.



## **Chapter-6**

## **Procedure of 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**



## Chapter-6 : Procedure of Direct Tax Audit

### 6.1 Assessment and Non-Assessment Charges

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

- a. Company circles/wards (more than 80 *per cent* of the assessments relate to Corporate assessees)
- b. Salary circles/wards (more than 80 *per cent* of the assessments relate to Individual assessees)
- c. Mixed circles/wards (all types of assessees-‘corporate’ and ‘non-corporate’)
- d. Central Circles (search and seizure cases) and
- e. International Taxation

The non-assessment charges are Pr. CCIT Offices, CIT Offices, Range Offices, Office of Accounts Officer/Drawing and Disbursing Officer (DDO) attached with different CsIT, Tax Recovery Officer (TRO), Valuation Cell, Transfer Pricing Office (TPO), TDS Units, CIT (Appeal), CIT (Audit), Regional Training Institutes, Expenditure Budget, Expenditure on Infrastructure, Zonal Accounts Office/ Pay and Accounts Office, Investigation, Intelligence and Criminal Investigation and all offices under the Jurisdiction of CBDT.

### 6.2 Conduct of Audit

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

- a. Entry conference is to be conducted, by the LAP, with the head of the auditee unit and minutes of the meeting is to be recorded, for keeping in the LAR folder. The minutes of the entry conference is to be shared with ITD.
- b. In the case of Performance Audits/SSCAs, entry conferences are to be held between the Officers of the C&AG and CBDT. The purpose of these conferences is to inform the ITD about areas to be audited, along with the audit objectives, audit criteria, audit approach and the timeframe within which these audits are expected to be carried out. During the entry conference, the protocol for conduct of audit is to be set up, including the nomination of liaison officers, production of records and other logistic arrangements. Further, CBDT is requested to intimate its field formations about the Performance Audit and issue necessary instructions, for giving full cooperation to audit. Minutes of the proceedings have to be prepared and shared with the ITD.
- c. Similarly, at the field level, the DG/PD/GO concerned should hold an entry conference with the jurisdiction Head of the ITD, informing him/her about the Performance Audit to be undertaken and other significant details. Minutes of the Conference should be prepared and shared with the ITD, at the field level.

- d. Compliance audits, SSCA and Performance audit should be conducted, through the OIOS web portal of the O/o CAG, wherein every item, viz. uploading audit plan and audit programming by field headquarters, conducting field audit, filling up Toolkits, issuing audit observations, submission of draft LARs by field audit parties, vetting of draft LARs by field headquarters and generation of final LAR for issuance to the Department, are to be conducted on OIOS.
- e. The audit requisitions, calling for the assessment records/statistical information required for conducting the audit, as well as the LAR, are to be issued, as detailed in **Appendix-13**. Other information/data<sup>18</sup>, required to be called for/collected during audit, are detailed in **Appendix-14**.
- f. The norms for the selection of different types of orders passed by the assessment unit for the Desk Review and Detailed audit part of the Toolkit are established. The sampling parameters to be adopted for the selection of scrutiny assessment cases in the assessment charges (except for Corporate Circles, Central Circles, International Taxation, and Transfer pricing charges) for detailed audit are given in **Appendix-10**. In Corporate Circles, Central Circles, International Taxation, and Transfer pricing charges, 100 *per cent* of scrutiny assessment cases are to be taken up for detailed audit. The 'selection list' should be approved by the Team Leader.
- g. The norms for selecting assessment cases may be varied in exceptional circumstances, with proper justification and the prior approval of the Headquarters' Office.

In addition, prior to the commencement of the audit, all members of the audit team, including the Team Leader, are required to give individual undertakings, each stating, inter alia, that they will uphold and abide by the Code of Ethics and that they do not have any personal or professional interests in the audited entity, etc. The format of the undertaking is given in **Appendix-15**. A copy of the declaration is required to be given to the head of the auditee entity as soon as the audit commences.

### 6.3 Work distribution amongst members of the audit team

The Team Leader will allocate the work to the members of the audit team. The desk review for selecting assessment cases for a detailed audit, in accordance with the methodology of sample selection, should then be undertaken by the team members: Senior Audit Officer (SAO), Assistant Audit Officer (AAO)/Supervisor, and Assistant Supervisor/Sr. Auditor/Auditor, based on the allocation of work. However, in Corporate Circles, Central Circles, International Taxation and Transfer pricing charges, 100 *per cent* of scrutiny assessment cases are to be taken up for Desk review and detailed audit. In Assessment-related units, the Team Leader will allocate the PANs amongst the members of the Local Audit Party in OIOS. It should, however, be ensured that all high-income cases are checked by SAO and AAO. Further, five *per cent* of cases, checked by the AAO/Supervisor, should be reviewed by the SAO. Assessment cases may also be entrusted to the Assistant Supervisor/Sr.Auditor/Auditor, if needed. However, all such cases need to be reviewed by the SAO and AAO.

<sup>18</sup> C&AG Hqrs. letter No. 666/RADT/78-2011/Vol.II dated 21/11/2013

## 6.4 Audit scrutiny of assessment records

Audit scrutiny of the assessment records needs to be done to find out:

- a. Whether the assessment made is in accordance with the provisions of the Income Tax Act, 1961; the Finance Act of the respective year; and the Rules framed under the Income Tax Rules, 1962;
- b. Whether the instructions/procedures, prescribed by the CBDT, have been followed by the CIT/AO or the concerned in-charge; and
- c. Whether the instructions/circulars/notifications/orders, issued by the higher authorities, viz. CBDT, DGIT/DIT, Pr. CIT/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 vest a good deal of discretion in the Assessing Officer (AO), in the matter of completion of an assessment. The issue of a notice, under Section 142, calling for accounts and documents, is an example of the discretionary powers of the Assessing Officer (AO). Audit should not question the discretionary powers statutorily vested in the AO, unless there is clear evidence of misuse.
- b. 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. Audit should see that the mandatory provisions of the Act are properly and correctly observed.
- c. Audit should not substitute itself for the revenue officials and attempt to suggest additions to the total income based on 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.
- d. Audit should point out the inconsistencies, if any, revealed during the audit.
- e. Audit should see that no irregularities, with reference to the law and the rules, are found to have been committed.
- f. Audit should not involve itself in legal controversies regarding whether a particular item of expenditure is '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, if the cost of machinery has been debited and allowed as revenue expenditure), Audit should point it out.
- g. 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 is situated, or by the Supreme Court. Audit may make observations in regard to this issue. The Audit personnel will have access to the relevant records and papers of ITD, but they should observe the same level of secrecy as the Officers of the ITD.

A list of commonly applied audit checks for assessment units is given in **Appendix-16**.

## **6.5 Audit scrutiny of records of non-assessment units**

The Audit scrutiny of records of non-assessment units needs to be done, to find out:

- a. Whether the respective units had followed the provisions of the Income Tax Act, 1961; the Finance Act of the respective year; and the rules framed under the Income Tax Rules, 1962
- b. Whether the instructions/procedures prescribed by the CBDT have been followed by the concerned in-charge
- c. Whether the instructions/circulars/notifications/orders, issued by the higher authorities *viz.* Ministry of Finance, CBDT, DGIT/DIT, Pr.CIT/CIT, etc., have been complied with
- d. Whether the DDO/Director of Infrastructure/Zonal Accounts Office and similar units have followed the provisions of the General Financial Rules (GFRs), 2017, instructions of the Department of Expenditure, etc.

A list of commonly applied audit checks for non-assessment units is given in **Appendix-16**.

## **6.6 Issue of Audit Memo**

When any irregularity or mistake is noticed, the same should be immediately brought to the notice of the competent authority (Jurisdictional Assessing Officer/Head of the Units), by issuing an 'Audit Memo'. The Audit Memo (AM) should indicate relevant 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, any incorrect/incomplete reporting by the Tax Auditor, along with name and membership number, whether or not the case has been seen by internal audit, dates of rectification/revision under various sections of the Act, Demand and Collection number, date of becoming time barred etc.

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

- a. The Audit Memos, duly generated electronically through the OIOS portal, may be issued to the competent authority, with instructions to furnish their replies within three days of receiving the respective Audit Memos.
- b. In cases where the objections relate to facts and figures available in the records, but such facts or figures have not been considered, or have been wrongly considered

- (such as, omission of income from a particular source, arithmetical mistake in the computation of income/depreciation/tax), it may have to be ensured that the competent authority replies to the Audit Memos promptly, accepting the said mistakes/omissions. It may, therefore, have to be invariably mentioned, in the Audit Memos, that if no such specific reply is forthcoming, it shall be presumed that the facts, as stated by Audit, are correct.
- c. In cases where the objections involve interpretation of the provisions of the Income Tax Act and the AOs do not agree with the audit view, the AOs may give their final views later, but, in reply to the audit memos, they should confirm or deny the facts and figures referred to by Audit, upon which the audit view is based. Where the AOs find that they should call for the assessee's books and records, they should specifically mention this in their replies to the concerned Audit Memos.
  - d. Where the Income Tax authorities refuse to show any records, claiming confidentiality of such records, Audit may draw their attention to:
    - i. Section 18 of the 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. Regulation 19 (Chapter 4) of the Regulations on Audit and Accounts (Amendments), 2020, which provides that the Officer in charge of the auditee unit shall comply with requests of Audit for information and records as completely as possible and within the specified time;
    - iii. CBDT's instruction No. 09 of 2006 (para 3.1), stating that C.Cs./DsGIT, through concerned CsIT, shall ensure that relevant records, as requisitioned, are given to Audit;
    - iv. Ministry of Finance, Department of Economic Affairs' O.M. No. F. 1(43)-B/78 dated 23 September 1978, addressed to all Ministries/Departments of the Government of India and Chief Secretaries of States/Territories, regarding production of records to Audit;
    - v. CBDT's D.O. letter to Principal Director (DT) dated 24 September 1998, which states that the assessing officers have been directed to allow inspection of appraisal reports, forming part of the records of the assessing officers, to the Revenue Audit Parties; and
    - vi. Para 3.24 of the Code of Ethics, whereby audit team members have to give a declaration, before the commencement of the audit, to maintain strict confidentiality of the information gathered during the course of the audit.
  - e. In order to prevent the competent authorities from setting up pleas, that the mistake pointed out by Audit has already come to their notice, a certificate may be taken from them, along-with records of each case, *'that all the records and folders or files, relating to the case, have been provided to Audit and none have been withheld'*.

Further, wherever any records are withheld, the description of such records and the reasons for withholding them should be obtained.

- f. The issue of audit memos on the last two days of the local audit is to be avoided, as far as possible. However, where the issue of Audit Memos cannot be altogether avoided on the concluding day, the Supervising Officer/AAO may contact the AO with a view to obtaining 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 they are issued to the AO and the replies to all Audit Memos are to be watched properly; and
- h. If any assessment record, called for, is not supplied sufficiently in time, the reasons for the same should be enquired into and mentioned in the LAR, so that the next LAP may scrutinise such records.
- i. The auditor shall document, in the form of working papers, comprising of all documents collected during the field audit process. They include assessment order, income tax computation form, Tax Audit Report (TAR), Return of Income (ITR), Annual Accounts, MIS report of scrutiny cases, notices issued by the ITD, submission of the assessee, etc.
- j. In order to reduce audit risk to an acceptably low level and enhance the level of audit assurance, the auditors shall document assessment order, income tax computation form, Tax Audit Report and Return of Income for all test-checked cases during compliance audit, not just the cases where "audit observations" have been issued.

#### 6.6.1 Structure of Audit Memo

Audit Memos should be issued only with the approval and under the signature of the Team Leader, through OIOS.

The Audit Memos, as generated through the OIOS portal, 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 Hqrs., given in **Appendix-17**;
- 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:** The Audit Memo number, along with the date of its issue, generated through the OIOS portal, the date of acknowledgement and the number of the Local Audit Party, with the name of the Supervisory Officer conducting the audit; and

Copies of all supporting documents, which constitute the Key Documents (KDs), may be kept on record to facilitate examination of the merit of the objections from the right perspective.

## 6.7 Records to be checked

Since the basic method applied in an audit is correlating relevant information, an exhaustive listing of all the documents to be consulted during the audit is not feasible. However, in the case of a Compliance Audit, the basic documents to be consulted are detailed below:

- a. Assessment Orders, passed under different Sections of the Act;
- b. Computation of income, submitted by the assessee during the assessment proceedings, and the income computation sheet generated by the ITD through ITBA after the completion of the assessment proceedings;
- c. Return of income;
- d. Annual Accounts, including Schedules, Notes on accounts and cash flow statement thereto (including Ledgers and Journals, if available);
- e. Details of information, in regard to the assets, liabilities, income and expenditure, as furnished by the assessee;
- f. All mandatory Audit Reports given by the Chartered Accountant, viz. Form No 3CD, Form No 3CEB, etc.
- g. Any other reports given by the Chartered Accountant under Section 10(23C)(iv), 10(23C)(v), 10(23C)(vi), 10(23C)(via), 10A, 10AA, 12A(1)(b), 44DA, 50B, 80-IA, 80-IB, 80-IC, 80-ID, 80JJAA, 80LA, 115JB or 115VW;
- h. CFL<sup>19</sup> and the MAT credit Schedule generated from ITBA;
- i. Earlier years' Assessment Records, if necessary;
- j. Documents relating to TDS, advance tax and self-assessment tax;
- k. Agreements, e.g., Sale Deed, Purchase Deed, Partnership Deed, Lease Deed, Deed for Amalgamation etc.;
- l. Depreciation Schedules (as per the Income Tax Act, as well as the Company's Act); and
- m. 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 Audits, FAOs are required to complete the audit within the period prescribed by the C&AG Hqrs.

FAOs may prepare detailed Audit Checklists on other issues, if considered necessary. LAPs are required to update their skills in view of changes made to the Income Tax Act and Rules from time to time.

<sup>19</sup> Schedule CFL captures AY wise details of losses to be carried forward to future years.



## **Chapter-7**

## **Reporting of Direct Tax Audit**

**One IA&AD One System (OIOS)**

**Common Practices for Reporting of Direct Taxes Audits**

**Reporting for Compliance Audits**

**Reporting for Performance Audits**



## Chapter-7 : Reporting of Direct Tax Audit

Reporting is an essential part of any audit, as, through this process, the results of an audit, in regard to the responsible party's compliance with the stated criteria, are presented to the intended users. Compliance audits involve reporting deviations from the applicable criteria, as well as violations of the applicable rules, regulations, etc., so that corrective actions may be taken, and those responsible for such deviations or violations could be held accountable for their actions.

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

### Section A: OIOS

#### 7.1 One Indian Audit and Accounts Department One System (OIOS)

One Indian Audit and Accounts Department One System (OIOS) is an enterprise-wide end-to-end IT application. It is a web-enabled solution that supports multiple languages, with offline functionality, and a mobile app. All new audit work in offices will be conducted through the OIOS workflow system in the audit offices, effective April 1, 2023.

OIOS is envisaged as the primary system of record (Single Source of Truth) for the entire chain of audit activities (from audit planning and design through audit execution to issue and follow-up of Inspection Reports to processing and finalisation of the C&AG's Audit Reports and follow-up). All activities and workflows will be performed in real-time through the IT system.

This single IT system will ensure consistent, reliable data in a uniform format across all Audit Offices, covering all types of audits – Compliance, Financial, and Performance. The process to be followed in OIOS, has been explained in **Appendix-18**

### Section B: Common Practices for Reporting of Direct Taxes Audits

#### 7.2 Common Practices

##### 7.2.1 Style guide

The Style Guide of the IA&AD<sup>20</sup>, developed for Audit Reports, is equally relevant to other reports and communications, including LARs. The provisions in the Style Guide are designed to ensure corporate consistency in reports and eliminate the need for repeated redrafting, often influenced by individual styles. Therefore, the Style Guide should be followed in all communications, including drafting of LARs/PDPs/SOFs/DPs.

<sup>20</sup> The Style Guide of the IA&AD was last reprinted in June 2013, by C&AG Hqrs.

### 7.2.2 Desk Review

The Guidance Note of August 2017 emphasises four specific procedures that determine the efficiency and effectiveness of compliance audits, namely:

(i) Planning, (ii) Conduct, (iii) Reporting, and (iv) Grading of Inspection Reports.

Planning involves Data analysis, maintenance of Guard files, Desk Review and Planning audit procedures.

Grading Inspection Reports is necessary to ensure that their quality can be benchmarked.

Due to shifting the compliance audit in the Direct Taxes wing to an assurance-based model w.e.f. 01<sup>st</sup> April 2023, the Toolkit has been designed for capturing data relating to the assessment cases during field audit through OIOS. The desk review part of the Toolkit has to be filled up for all the cases in the assessment charges. The selection of samples for detailed audit (except for Corporate Circles, Central Circles, International Taxation and Transfer Pricing charges, where 100 *per cent* assessment cases are taken up for detailed audit) is to be made based on the outcome of the desk review and the risk-based method of sampling. During the desk review of the assessment cases, the Audit Teams should consider the thrust areas/areas of focus identified for a detailed audit.

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

The LAP should document audit evidence to support the audit findings and conclusions, as also to confirm that the audit was carried out in accordance with the relevant auditing standards adopted by the C&AG. For an assurance-based audit, all cases examined should have adequate documentation, regardless of whether the case was compliant or whether an audit observation was raised. Necessary key documents, e.g. Assessment Order, ITR, Balance Sheet, 3CD/3CEB report, Computation Statement of assessee, as well as the Department, should be uploaded in OIOS for all detailed audit cases. The documentation provides a link/hyperlink through OIOS, 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 should reflect the degree of proficiency, experience and knowledge.

### 7.2.4 Audit findings involving higher tax effects

Hqrs. office, vide letter No. 143-RADT/Tech. Board-19-20/64-2021, dated 23/09/2021, constituted the Technical Board of the Direct Taxes wing. As per the terms of reference, the following issues would be referred to the Board:

1. All DPs with a tax effect of ₹ 50 crore or more and
2. Any audit objection/finding that the FAOs would like to discuss with the Board, including cases where the issue of an audit objection is debatable.

Similarly, at the FAO level, audit findings, involving significant tax effect or debatable issues, should be carefully examined, prior to the issuance of half margins. Audit observations,

involving monetary value of more than ₹ 100 crore, should be promptly and digitally consulted with the respective DP Cell/Director for guidance, so that a proper case can be made out at the half margin stage itself. DP Cell/Director may, where necessary, consult the Head of Office for guidance.

### 7.2.5 Implementation of PAC Recommendations

C&AG Hqrs. issued instructions, vide letter No. 554/RADT/68-2018 dated 17 December 2018, to examine the follow-up action taken on PAC recommendations, as part of the routine audit process and to consider the following in this regard:

- a) During the annual/periodic audit of Ministries and other apex units, examination of the status of implementation of PAC and ATR recommendations and assurances given to PAC, are to be made part of the check lists for these units.
- b) All PAs/SSCAs should cover an examination of the action taken on audit paras, recommendations contained in the PAC Reports and ATRs and Assurances given by the Ministries to PAC.

## Section C: Reporting for Compliance Audit

### 7.3 Local Audit Report

The Draft LAR should be ready on the last day of the local audit. The SAO or the AAO, as the case may be, prepares the draft LAR, through the OIOS, from the collected material (AMs, replies to AMs etc.). In case the Assessing Officer accepts the audit observations, rectifies the mistakes and recovers the amount involved, the AM needs to be treated as settled, after recording the facts thereon. In case the reply given by the Assessing Officer is not acceptable, the reply of the Assessing Officer, as well as the rebuttal, have to be incorporated in the LAR. Only one LAR, for each Unit/Office, containing all the observations, relating to all types of taxes<sup>21</sup>, needs to be issued.

Consequent to the introduction of Compliance Audit guidelines in IA&AD w.e.f 2016 and C&AG Hqrs. (PPG) Guidance Note of August 2017, LARs are to be divided in the following manner:

|                  |   |
|------------------|---|
| <b>PART – I</b>  | Introductory :<br>(i) Scope of Audit<br>(ii) Objective of the present audit<br>(iii) Personnel<br>(iv) Entry conference |
| <b>PART – II</b> | Audit findings :<br>Part IIA observations<br>Part IIB observations  |

<sup>21</sup> C&AG Hqrs. letter No. 462-Rec.A.(DT)/84-2009 dated 16/09/2009

|                        |   |
|------------------------|---|
| <b>PART- III</b>       | (A) Follow-up on findings outstanding from previous audit reports<br>(B) Records not produced to Audit<br>Exit Conference |
| <b>PART-IV</b>         | Best Practices  |
| <b>PART-V</b>          | Disclaimer Certificate  |
| <b>Acknowledgement</b> |   |

The detailed format for the LAR and parts thereof is shown in **Appendix-19**. The concerned Pr.CIT/CIT may be apprised of important audit findings and relevant information of jurisdictional units, at the time of forwarding the LAR to Pr. CIT/CIT.

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

- The reply of the ITD should be incorporated, with proper rebuttal in case of non-acceptance of the audit observations. Omission on the part of the Assessing Officer to observe the CBDT's instructions (Nos. 09 of 2006 dated 08/11/2006 and 16 of 2013 dated 31/10/2013) may be pointed out in the LAR paras.
- Cross-references are to be provided for all facts and figures mentioned in the audit memo, indicating the corresponding page numbers. Highlighters (pen) are not to be used in the relevant text of the Key Documents.
- Key to the audit objection may be given in the OIOS, before each para. This may include the name of the Assessee, PAN, status, assessment year, date of filing of return, returned income, section of the Act under which assessed, assessed income, whether checked by IAP, classification of the para, section under which observation made, tax effect, etc.
- 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 the prescribed format and complete in all respects etc.) needs to be mentioned in the LAR para<sup>22</sup>;
- The LAR paras should be captioned properly. The caption is to be based on the categories specified by the C&AG Hqrs. **Appendix-17**;
- The proposal for the Potential Draft Paras should be prepared by the Supervising Officer.

### 7.3.1 Monetary limits for categorisation of LAR Paras

The DT Wing of C&AG Hqrs. revises the monetary limits for categorisation of LAR paras from time to time. With effect from 01 April 2025, the monetary limits 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>23</sup>, Delhi, Gujarat, Karnataka, Maharashtra, Tamil Nadu, West Bengal and Uttar

<sup>22</sup> C&AG Hqrs. letter no. 699/RADT/97-2014/Coordn. dated 24 September 2014

<sup>23</sup> Includes Telangana

Pradesh) and Category 'B' (Assam, Bihar, Chhattisgarh, Goa, Haryana, Himachal Pradesh, Jammu and 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 II-A           |                     | Part II-B                    |                              |
|-----|---------------------|---------------------|------------------------------|------------------------------|
|     | Category 'A' States | Category 'B' States | Category 'A' States          | Category 'B' States          |
| CT  | Above ₹ 30 lakh     | Above ₹ 15 lakh     | Upto ₹ 30 lakh               | Upto ₹ 15 lakh               |
| IT  | Above ₹ 15 lakh     | Above ₹ 8 lakh      | Upto ₹ 15 lakh               | Upto ₹ 8 lakh                |
| ODT | Above ₹ 75,000      | Above ₹ 40,000      | Between ₹ 75,000 to ₹ 10,001 | Between ₹ 40,000 to ₹ 10,001 |

Audit findings of a serious nature may be included in Part IIA, irrespective of the prescribed tax limits involved, but in exceptional cases only.

### 7.3.2 Exit Conference

The Audit Team Leader should hold an exit meeting with the officer-in-charge of the audited entity at the close of the audit to seek his comments on the audit observations. Any point of disagreement may be brought out and discussed by the Supervisory Officer during the meeting, with the aim of resolving it. The officer-in-charge shall also provide their comments, if not already done in response to the audit memos, and the Supervisory Officer shall reflect these observations in the draft LAR. Wherever necessary and appropriate, the draft LAR may make recommendations for addressing systemic deficiencies and enhancing control. Minutes of the proceedings have to be prepared and shared with the audited entity, and an acknowledgement requested.

### 7.3.3 Audit Assurance Memo

An Audit Assurance Memo is to be submitted, along with the LAR, by the audit team, certifying that:

- Sufficient and appropriate evidence (key documents), for the audit observations included in the draft Inspection Report, and appropriate documentation for all cases test checked irrespective of whether objections were raised, have been obtained and have been submitted along with the draft Inspection Report.
- That the audit was conducted in accordance with C&AG Auditing Standards 2017
- The Local Audit Party complied with the Audit Quality Framework and Code of Ethics.

### 7.3.4 Submission of Draft Local Audit Report

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

### 7.3.5 Grading of the Inspection Report

With the issue of C&AG Hqrs. (PPG) Guidance Note of August 2017, one of the specific procedures to determine the efficiency and effectiveness of Compliance audit guidelines is the grading of Inspection Reports (IRs), as per the grading matrix provided in the guidance note. A scoring methodology has been defined, to measure the efficiency and effectiveness of critical audit processes against a maximum score of 100, which would consequently be translated into a grade, to evaluate the quality of IRs on a scale of 10. Hence, all LARs should be graded as per the guidance note.

### 7.3.6 Issuing of Local Audit Report and reply from the ITD

The LAR, duly vetted by the Hqrs. of the respective FAOs and approved by the concerned GO, should be generated through OIOS and issued to the concerned Jurisdictional Assessing Officer (JAO)/unit head within one month from the date of completion of the local audit, with copies to the Pr.CIT/CIT (Audit) and concerned Pr.CIT/CIT, as applicable.

The JAO/Unit head should send their report on the objections in respect of individual cases included in the respective Audit paragraphs of Part I (Introductory) and Part II (major/minor irregularities and important points) of the LAR to the Pr.CIT/CIT, through the Additional CIT Range, within 30 days from the receipt of the LAR.

On receipt of AO's report, the Jt./Addl. CIT Range is to examine the audit objections in the light of the AO's comments and send a reply to the Pr. CIT/CIT, within a fortnight<sup>24</sup>. The CIT is expected to send a reply, to the DGA/PDA within a fortnight thereafter.

### 7.3.7 'Nil' Inspection Reports

The C&AG Hqrs. (PPG) Guidance Note of August 2017 emphasises the vetting of Inspection Reports. To maintain the deterrent value of audits, some low-risk entities may need to be audited, and in such cases, 'nil' reports may be issued. However, it has to be ensured that the requisite process has been adhered to, and appropriate documentation exists for all cases test checked. All 'nil' reports should be well documented, logically borne out and should be issued only after prior approval of the HOD of the field office.

## 7.4 Potential Draft Paragraphs

**7.4.1** Important LAR paras, which exceed the amount fixed as benchmark for DPs, are proposed as Potential Draft Paragraphs (PDPs) by the Team Leader of LAP. With effect from 01 April 2025 the monetary limits for DPs for the Audit Report, are given in Table 7.2.

<sup>24</sup> Board instructions No. 9/2006 dated 07/11/2006 and modification vide Circular 8/2016 dated 17/03/2016

**Table 7.2 Monetary limit of Draft Paragraphs**

| Types of Draft paras   | Category 'A' States | Category 'B' States |
|--|---------------------|---------------------|
|  | Amount (₹)          |                     |
| 1. Corporation Tax:  | 1,00,00,000         | 50,00,000           |
| 2. Income Tax:   | 40,00,000           | 20,00,000           |
| Note: States under Categories 'A' and 'B' are given in paragraph 7.3.1 |                     |                     |

**7.4.2** The limits of short/excess adjustment, done by the Transfer Pricing Officer, for Compliance Audit Reports, are given in Table 7.3.

**Table 7.3: Monetary limits of Draft Paragraphs (TP cases)**

| Types of Draft paras      | Category 'A' States | Category 'B' States |
|---------------------------|---------------------|---------------------|
|                           | Amount (in ₹)       |                     |
| 1. Corporate Assessee     | 4,00,00,000         | 2,00,00,000         |
| 2. Non-Corporate Assessee | 2,00,00,000         | 1,00,00,000         |

## **7.5 Statement of Facts**

Paragraphs marked as PDPs need to be examined with reference to the available documents and replies received, if any. 'Statements of Facts' (SOFs) are to be issued in respect of all cases proposed to be processed as DPs. Furthermore, the facts stated in the LAR may be verified again with the assessment records for factual accuracy or any further developments at the time of issuing the SOFs. Where cases are not accepted by the ITD, they need to be communicated to the concerned Pr. CIT/CIT, with a suitable rebuttal, for his/her comments. The Pr. CIT/CIT is expected to furnish a reply, within a fortnight of the receipt of the SOF<sup>25</sup>.

## **7.6 Draft Paragraphs for the Compliance Audit Report**

The Draft Paras (DPs) should be drafted in simple and active voice. The preamble of the DP should be concise/precise and strictly confined to the point made out in the DP, without unduly long narration.

- In the beginning, the DP should indicate the 'Preamble', stating the law and procedure, in brief, with the relevant section, relevant judicial pronouncements or CBDT's instructions.
- Thereafter, the DP should give the full facts of the case and the 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.

<sup>25</sup> CBDT's Instruction No. 9 of 2006

- c. Whether the internal audit wing of ITD has checked the case or not, needs to be mentioned in the DP.
- d. The date of communication of the audit observation, LAR para and SOF to ITD, need to be mentioned, along with the reply of ITD, if received, with rebuttal, if any. The action taken in this regard may also be mentioned.
- e. The instructions of the CAG Hqrs., issued in May 2018, in regard to draft paras, addressing the issue of interest under Section 234A/B/C and 244A, should be followed and ambiguity in the computation of interest by the AO/ITBA system should be brought out therein.

### 7.6.1 Targets of DPs for field offices

The DT Wing of C&AG Hqrs. prescribes/revises targets for different states, under each FAO, from time to time. The targets for DPs, for different states, under each FAO, were revised and are enclosed in **Appendix-20**

### 7.6.2 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 that are more than two years old may not be processed as DPs. For example, in the case of the Compliance Audit Report for the year 2021-22, only those cases where the field audit was completed from 1st April 2020 to 31st March 2022 may be floated as DPs<sup>26</sup>.

Audit observations resulting from the audit conducted during the 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>27</sup>.

- b. The period of two years, in conducting an audit, will automatically change with the period of the succeeding Audit Report. For example, for the Compliance Audit Report 2022-23, the field audit conducted from 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2023 would be considered for processing the paras as DPs.
- c. Only those observations should be floated as DPs that involve tax effect equal to or more than the floor limits for DPs prescribed by the C&AG Hqrs.;
- d. Clubbing of DPs/mistakes, only for meeting the floor limits of DPs, may not be done;
- e. In case there is more than one observation on the same issue, in regard to the 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 may be defended strongly against the Ministry, at later stages;

<sup>26</sup> C&AG Hqrs. letter No 108/RADT/84-2021 dated 05 August 2022

<sup>27</sup> C&AG Hqrs. DO letter No. 75-76/RADT/13-2015/Co-ordn dated 20 February 2015

- g. DPs 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 the final demand has been raised and collected by ITD, but the interest chargeable under Section 220(2) has not been levied;
- j. DPs involving short/excess adjustment by Transfer Pricing Officer (TPO) may be floated only after referring to the Dispute Redressal Panel (DRP)/assessment orders, from the respective assessment charges, to check the sustainability of adjustments made by the TPO;
- k. Before forwarding DPs to CA&G Hqrs., FAOs need to ensure that the LAR para and SOF, on the said observations, have been issued;
- l. Proper linking of relevant Key Documents (KDs), including the assessment order; computation of income; Profit and Loss Account; Balance Sheet, with relevant schedule; Auditor's report; Reply of ITD; Calculation sheet, etc. may be attached along with the DP;
- m. 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;
- n. Each KD, in PDF format, should be uploaded in only one file, irrespective of the number of pages;
- o. Often, ITD's reply, especially when the audit observation is not accepted by ITD, is attached without any accompanying comments. FAOs must offer their comments on the non-acceptance of the ITD. Non-acceptance is not a bar to processing a para as DP;
- p. The FAOs need to treat the observation as 'accepted', only when the same has been categorically "Accepted" by ITD. Replies of the ITD, stating that the observation is "Acceptable" or "Seems to be acceptable", should not be considered as acceptance;
- q. It may be ensured that the cases which are being proposed as DPs, have not already been printed in the Audit Report and/or the related observation has not already been settled locally, after discussion with ITD (before proposing as DPs);
- r. In case there is an observation dealing with a totally different issue/new issue or which is noteworthy, as it involves a system flaw or a matter of interpretation of law, the same may also be forwarded to C&AG Hqrs., through a DO letter addressed to the Director General/Principal Director (Direct Taxes), even if it has money value below the benchmark;

- s. DPs may be sent to C&AG Hqrs. completely by 30 June of every year or within the due date as prescribed by the C&AG Hqrs.;
- t. In case the assessment is under appeal and the issue pertaining to the audit observation is different from the issue pending under appeal, DPs may be proposed. However, it may be ensured that the issue highlighted in the related observations is not directly or indirectly related to the issue pending under appeal; and
- u. After issuance to the Ministry, a copy of the DP is also forwarded to the FAOs for verification of facts and figures. The correctness of facts and figures needs to be re-checked from the KDs and changes, if any, need to be communicated to C&AG Hqrs., on a top priority basis.

### 7.6.3 Time schedule for forwarding DPs to C&AG Hqrs.

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. FAOs need to send the DPs as per the following timelines<sup>28</sup>.

**Table 7.4: Time schedule for forwarding DPs to C&AG Hqrs.**

| Sl. No. | Month    | Target Percentage |
|---------|----------|-------------------|
| 1.      | December | 5                 |
| 2.      | January  | 10                |
| 3.      | February | 10                |
| 4.      | March    | 20                |
| 5.      | April    | 20                |
| 6.      | May      | 20                |
| 7.      | June     | 15                |

## Section D: Reporting for Performance Audits

### 7.7 Performance Audits

#### 7.7.1 Planning stage

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

Background papers on the selected areas/topics for the PAs are prepared in consultation with FAOs. The background papers include an overview of the area selected for PA, the rationale for selecting the topic, the objectives of the pilot study, the thrust areas, the scope of the pilot study, and the course of action suggested for the FAOs. The selected FAOs conduct pilot studies and submit their reports, along with draft guidelines for the selected topic, to C&AG Hqrs.. The pilot study reports are examined at C&AG Hqrs. to determine the feasibility of conducting the

<sup>28</sup> C&AG Hqrs. letter No.87/RADT/10-2011/Co-ordn. dated 24 January 2011

PA and to address constraints, if any, likely to be faced during an audit. The C&AG Hqrs. may entrust the work of examining the pilot study reports and consolidating the draft guidelines to a designated Lead Office. In such cases, the Lead Office is required to submit the draft consolidated guidelines to C&AG Hqrs., along with a feasibility report, indicating the feasibility of conducting the PA.

C&AG Hqrs. issues final guidelines to the FAOs, containing the structure of the Audit Report, for compilation of audit findings at the field level, in order to enable uniformity in the reporting structure, across all FAOs. The guidelines also contain various timelines of the audit cycle, which are to be followed. At the time of issue of guidelines to FAOs, the Lead Office for compilation of the 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 the prescribed timeline.

### **7.7.2 Receipt of draft reports from the field offices**

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

### **7.7.3 Consolidation of Draft Performance Audit Reports**

The Performance Audit Report is compiled based on the structure outlined in the guidelines for the PA. All audit findings may be categorised and grouped under different audit objectives/sub-objectives/audit questions. This will provide the consolidated status of audit findings under each audit objective, sub-objective, or audit question, which will be reflected accordingly in the corresponding chapters of the draft performance audit report. While consolidating the audit findings and conclusions under each audit objective/sub-objective/audit question, reference is made not only to the number of deviations but also to the total number of cases test-checked and the population size. The Designated Lead Office is to consider the representation of all FAOs when highlighting audit findings, to the extent possible, based on the topicality and importance of the audit findings, rather than merely highlighting cases based on their high monetary value. The 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 the Ministry/CBDT/PAC later on. Low-money value cases do not need to be incorporated in the PA report.

The Standard Operating Procedure for Reporting of Performance Audits, issued by the C&AG Hqrs. in October 2014, as given in **Appendix-21**, may be followed.

## **7.8 Confidentiality of materials for Audit Reports**

In order to maintain confidentiality/secretcy of the material for draft Audit Reports, whether it is in the form of DP/subject specific paragraph/performance topic, for probable inclusion in the Audit Reports, information about an auditable entity acquired in the course of audit shall not be used for purposes other than the discharge of C&AG's audit mandate as per Audit Regulation 2020.



## **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 Meetings**



## Chapter-8 : Pursuance and Settlement of Audit Observations

### 8.1 Pursuance of Audit Observations

#### A. Audit observations need to be pursued by the FAOs, in the following manner:

- i. On receipt of an LAR from a field party, the vetting section, in the Hqrs. of the FAO, would examine whether the LAR is in the prescribed format; all required statistical information has been collected; and the audit observations have been correctly raised (including tax calculation) and will put up the proposal accordingly, to the Branch Officer (BO), for his/her approval;
- ii. The BO would examine all the observations, with reference to the proposals of the vetting section and submit the LAR, along with proposal, to the Group Officer (GO);
- iii. After approval of the LAR, all audit observations of the LAR (Parts IIA and IIB) need to be incorporated in the Objection Book Register. Further, all statistical information needs to be stored, for compilation, by the vetting section;
- iv. Proposals for Potential Draft Paras (PDPs) should be examined and entered into the PDP register by the respective sections of the FAO. Thereafter, SOFs need to be issued, in such cases, to the concerned Commissioner/(s) of Income Tax, under the signature of the GO;
- v. SOF cases, fulfilling the criterion laid down by C&AG Hqrs., need to be processed as DP;
- vi. After receiving replies from the Department, the concerned section of the 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, or as the case may be;
- vii. If additional documents/information are required for the verification of any audit observation, the Local Audit Party may be deployed
- viii. Where replies to audit observations have not been received, the concerned CITs/AOs may be vigorously pursued for furnishing the same.

#### B. Monitoring of outstanding Audit paragraphs of LARs through SAI/OIOS

The pursuance of pending outstanding paras may be continued in the SAI application as per the existing practice till migration of legacy data and documents from the SAI-DT Workflow application to OIOS is completed. However, paras raised on OIOS platform are required to be pursued through OIOS only<sup>29</sup>.

<sup>29</sup> C&AG Hqrs. letter 39/RADT-16/2023 and SOP dated 06 April 2023

## **8.2 Settlement of Audit Observations**

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

The settlement of audit observations included in the Audit Report would be watched by C&AG Hqrs. 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 the recovery register. FAOs should inform the concerned CITs that the audit observation has been included in the Audit Report, and further follow-up will be between the CBDT/Ministry and C&AG Hqrs.. 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 C&AG Hqrs., who would in turn intimate to CBDT/Ministry.

After the placement of the 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 concerned ATNs duly vetted by Audit, submits them to the PAC, which takes the final decision in this regard. C&AG Hqrs. is to pursue the ATNs until both the Ministry and Audit agree on the stated position. Once Audit is satisfied with the stated position, which could be due to acceptance of the audit observations/remedial action having been taken/remedial action having been taken but the relevant issue being under appeal/other clarifications given by the Ministry, C&AG Hqrs. issues "no further comments" to the CBDT/Ministry, with a copy to the concerned FAO. Thereafter, audit observations/ATNs are not to be pursued further by Audit. However, the final decision, to settle the audit observation or otherwise, rests with the PAC. Further, FAOs need to watch the recovery through their recovery registers, wherever required.

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

The audit observations, upon acceptance by the ITD, may be treated as settled and removed from the OB upon receipt of information regarding the remedial action taken. However, recovery in cases where demands have been raised needs to be watched through the recovery register. The settlement need not 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 may be removed from the OB.

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

Where the ITD has accepted the audit observations but intimated that no remedial action is possible due to time-barring, it needs to be verified whether time for rectification or revision was available at the time the audit observations were issued. If the omission to initiate necessary action in time, as per the audit observation, has resulted in a loss of revenue, FAOs need to inform such cases to the C&AG Hqrs. for inclusion in the Compliance Audit Report.

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

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

On receipt of replies from the ITD, in cases where the audit observations have not been accepted, a 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 verified, ITD's viewpoint may be accepted. However, this may be done only after making conscious efforts to verify the facts and duly recording the reasons in this regard.

Where the audit observations have 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 needs to be watched, in cases where demands have been raised.

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

Cases<sup>30</sup> where the ITD does not accept the observation on grounds of Law/Interpretation of statutes may not be settled, irrespective of the remedial action taken. A necessary rebuttal may be issued in such cases for the acceptance of the audit observations. However, such cases need to be followed up in inter-departmental meetings, to come up with possible solutions. Lists of such cases, wherein there is persistent disagreement, may be referred to C&AG Hqrs., after detailed examination and justification for taking up the issue with CBDT.

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

The DT Wing of C&AG Hqrs. prescribes/revises the limit for settlement/closure of audit observations, applicable to GOs and BOs, from time to time. The monetary limits for the settlement of Audit Observations are as under:

<sup>30</sup> C&AG Hqrs. letter No. 665RA(DT)/140-2008/Coord, Revenue Audit Circular No.3 of 2010, dated 26 November 2010

(Amount in ₹)

|                    | Category 'A' States |                 | Category 'B' States |                 |
|--------------------|---------------------|-----------------|---------------------|-----------------|
|                    | Group Officers      | Branch Officers | Group Officers      | Branch Officers |
| Corporation Tax    | 20,00,000           | 1,50,000        | 12,00,000           | 1,50,000        |
| Income Tax         | 8,00,000            | 1,50,000        | 4,00,000            | 1,50,000        |
| Other Direct taxes | 1,80,000            | 60,000          | 1,20,000            | 60,000          |

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

#### 8.4 Audit Committee Meetings

Audit Committees<sup>31</sup> have been constituted in all offices for the settlement of outstanding audit observations related to the Revenue Audit Wing. The Committees have been constituted at the level of Pr. CCIT(CCA) and HODs of FAOs. Nodal Officers are nominated from the ITD, and an equal number of observers are nominated from the FAO to assist the Committee. These meetings are to be conducted periodically. The details are mentioned in **Appendix-22**. At the beginning of each year, the HOD of the FAO is required to 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 Hqrs.

<sup>31</sup> C&AG Hqrs. Circular No. 1 of 2010 issued vide letter no.267-RecA(DT)/98-2010 dated 19/07/2010

## Appendix-1

### Jurisdiction (Zonal Charges) and functioning of the Chairman and Members of the CBDT

(Reference: Paragraph 2.1)

| ZONAL CHARGE                                    |   |
|---|---|
| Chairperson                                     | Coordination and overall supervision of Board's Work. The Chairperson also supervises the work of Investigation                 |
| Member (Income Tax and Revenue)                 | Supervision over Pr. CCIT (Exemptions), In-charge of Karnataka and Goa, Andhra Pradesh and Telangana                            |
| Member (Legislation)                            | Supervision over TPL, FT&TR, Pr.CCIT (Intl. Taxn.). In-charge of North Zone {Delhi, UP (East), UP (West)}, Uttarakhand and NWR  |
| Member (Administration)                         | Supervision over Pr. DGIT (HRD), Pr.DGIT (Training) and DGIT (Vigilance). In-charge of West Zone (Mumbai, Pune and Nagpur)      |
| Member (Audit and Judicial)                     | Supervision over DGIT (L&R). In-charge of Central Zone (Rajasthan, Gujarat, Madhya Pradesh and Chhatisgarh)                     |
| Member (Tax Payer Services)                     | Supervision over Pr. DGIT (Admn. and TPS). In-charge of East Zone (West Bengal and Sikkim, Bihar and Jharkhand, Odisha and NER) |
| Member (Systems and Faceless Assessment Scheme) | Supervision over DGsIT (Systems) and Faceless Schemes<br>In-charge of Kerala and Tamil Nadu                                     |

#### Allocation of Work

##### I. Cases or classes of cases, which shall be considered jointly by the Board

Policy regarding discharge of statutory functions of the Board and of the Union Govt. under the various laws relating to direct taxes.

1. General Policy relating to:—
  - a. Organization of the set-up and structure of Income-tax Department.
  - b. Methods and procedures of work of the Board.
  - c. Measures for disposal of assessments, collection of taxes, prevention and detection of tax evasion and tax avoidance.
  - d. Recruitment, training and all other matters relating to service conditions and career prospects of the personnel of the Income Tax Department
2. Laying down of targets and fixing of priorities for disposal of assessments and collection of taxes and other related matters.

3. Write off of tax demands exceeding ₹ 25 lakhs in each case.
4. Policy regarding grant of rewards and appreciation certificates.
5. Any other matter which the Chairman or any Member of the Board, with the approval of the Chairman, may refer for joint consideration of the Board.

## II. **Cases or classes of cases which shall be considered by Chairman, CBDT**

1. Administrative planning.
2. Transfers and postings of officers in the cadre of Chief Commissioner of Income-Tax and Commissioner of Income-tax.
3. All matters relating to foreign training.
4. Work relating to Grievance Cell and Inspection Division.
5. All matters relating to tax planning and legislation relating to direct taxes referred to Chairman by Member (Legislation).
6. All matters relating to Central and Regional Direct Taxes Advisory Committees and Consultative Committee of the Parliament.
7. Any other matter which the Chairman or any other Member of the Board may consider necessary to be referred to the Chairman.
8. Coordination and overall supervision of the Board's work.
9. Technical and administrative matters relating to prevention and detection of tax evasion particularly those falling under Chapter XIIB in so far as they are relevant to the functioning of Directors General of Income-tax (Inv.) and Chief Commissioners of Income-tax (Central), all matters falling under Chapter XIIC, Chapter XIXA, Chapter XXB, Chapter XXI, Chapter XXII, Sections 285B, 287, 291, 292 and 292 A of Chapter XXIII of the Income-tax Act, 1961 and corresponding provision of other Direct Tax Acts.
10. Processing of complaints regarding evasion of tax.
11. All matters relating to administrative approval for dropping or withdrawing of prosecution cases in respect of offences mentioned in Chapter XXII of the Income-tax Act and corresponding provisions in other Acts relating to Direct Taxes.
12. All technical and administrative matters relating to provisions of Sections 147 to 153 (both inclusive) of the Income-tax Act, 1961.
13. Searches, seizures and rewards to informants.
14. Survey.
15. Voluntary disclosures.

16. Matters relating to the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976.
  17. Work connected with High Denomination Bank Notes (Demonetizations) Act, 1978.
  18. Supervision and control over the work of all DGIT (Investigation), all Chief Commissioners of Income-tax (Central) and DGIT (I&CI).
  19. All matters relating to Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.
  20. All matter and cases or classes of cases relating to the Benami Transactions (Prohibition) Act, 1988 and/or the Prohibition of Benami Property Transactions Act 1988, other than those considered by Member (Legislation), CBDT and by Member (A&J), CBDT.
  21. Verification of Global Entry Program (GEP) applications.
- III. Cases or classes of cases, which shall be considered by Member (Income-tax and Revenue)**
1. All matters relating to Income-tax Act, Super Profit-tax Act, Companies Profit (Sur-tax) Act, and Hotel Receipts Tax Act, except matters which have been specifically allotted to the Chairman or to any other Member.
  2. All matters relating to the Interest Tax Act, 1974, Compulsory Deposit Act, 1974.
  3. All Matters relating to Revenue budget including assigning of Revenue Budgetary targets amongst Pr. Chief Commissioners of Income-tax throughout the country.
  4. Recovery of taxes (Chapter XVII of Income Tax), Sections 179, 281, 281B, 289, Second Schedule and Third Schedule of the Income-tax Act, 1961.
  5. Supervision and control over the work of Pr. CCIT (Exemptions) and all policy matters related to Exemption [Section 10, 11, 12 and 13]
- IV. Cases or classes of cases which shall be considered by Member (Legislation)**
1. All work connected with the reports of various commissions and committees relating to the Direct Taxes Administration.
  2. All matters of tax policy and legislation relating to direct taxes and the Benami Transactions (Prohibition) Act, 1988 and/or the Prohibition of Benami Property Transactions Act, 1988.
  3. Monitoring tax avoidance devices suggesting legislative remedial action.
  4. Supervision over TPL, FT&TR, DGIT (Systems) and Pr.CCIT (International Taxation).

**V. Cases or classes of cases, which shall be considered by Member (TPS)**

1. All matters relating to taxpayer services.
2. All matters concerning the Wealth-tax Act, Expenditure-tax Act, Estate Duty Act and Gift Tax Act, excluding those relating to the prevention and detection of tax avoidance.
3. All matters falling under Chapter XXA and XXC of the Income-tax Act, 1961.
4. General Co-ordination of the work in the Board.
5. Supervision and control over the work of the Chief Commissioners of Income-tax situated in Eastern Zone-Bihar, Odisha, Northeast, Jharkhand, West Bengal.
6. Work relating to Pr. DGIT (Admin. and TPS).
7. Supervision and control over the work of Chief Engineers (Valuation Cell).
8. All matters relating to widening of tax base.
9. All matters relating to expenditure budget.
10. Office and residential accommodation for the Income-tax Department.
11. Office equipment.

**VI. Cases or classes of cases which shall be considered by Member (Administration)**

1. All Administrative matters relating to Income-tax establishments. Transfers and posting at the level of Assistant/Deputy Commissioners, Joint/Addl. Commissioners, Commissioners and Chief Commissioners will be routed through Member (Admn.) and shall be made with the approval of the Competent Authority as per Transfer and Posting guidelines, 2010.
2. All matters relating to deputation of officers of the Department to ex-cadre posts.
3. All matters relating to training except foreign training.
4. All matters relating to implementation of official language policy.
5. Supervision and control over work of Pr. DGIT (HRD), Pr. DGIT (Trg.), Pr. DGIT (Vig.), Faceless Scheme(s).
6. Vigilance, Disciplinary proceedings and complaints against all officers and members of staff (both gazetted and non-gazetted)

**VII. Cases or Classes of Cases, which shall be considered by Member (Audit and Judicial)**

1. All judicial matters under Chapter XX and Section 288 of the Income-tax Act, 1961.
2. All matters relating to writ and appeals to the High Courts and Supreme Court and all matters relating to civil suits under the code of Civil Procedure, 1908.

3. Matters relating to appointment of Standing Counsels, Prosecution Counsels and Special Counsels for the Income-tax Department before the High Courts and Supreme Court.
4. All matters relating to Audit and Public Accounts Committee.
5. All matters falling under Section 72A and 80-O of the Income-tax Act, 1961.
6. Supervision and control over the work of Pr. DGIT (L&R).
7. All matters and cases or classes of cases relating to the Audit and Public Account Committee, Court Cases before High Courts and Supreme Court and appointment of counsels in respect of the Benami Transactions (Prohibition) Act, 1988 and/or the Prohibition of Benami Property Transactions Act, 1988.

## Appendix-2

### Functions of the attached Directorates of the CBDT

(Reference: Paragraph 2.2)

#### 1. Directorate of HRD

The Principal Director General of Income Tax (Administration) supervises and has control over the functioning of the following Directorates which are headed by the Additional Directors General of Income Tax (ADG) and report through the Pr. DGIT (Admn.) to the Central Board of Direct Taxes and read as under:

- I. Directorate of Income Tax (Public Relations, Printing Publications and Official Language)
- II. Directorate of Income Tax (Income Tax) – (Inspection and Examination)
- III. Directorate of Income Tax (Audit)
- IV. Directorate of Income Tax (Recovery)
- V. Directorate of Income Tax (TDS)

#### i. Functions of ADG (PR, P&P)

- a. To carry out the advertisement campaign for the Income Tax Department in print, electronic media, internet, social media and outdoor publicity for bring awareness amongst taxpayers about Income tax provisions and statutory timeline campaigns.
- b. Set up and operate Tax Payer Lounge at the Indian International Trade Fair, New Delhi and also in other fair/exhibitions in India.
- c. Setting up of Taxpayer's Hubs for spreading tax awareness.
- d. Running of Social Media handles of the Department on Facebook, YouTube, LinkedIn and Instagram through a social media agency and posting of creatives, GIFs and videos on different campaigns.
- e. Broadcast of programmes from 'Samvaad', sound proof communication center of Department at Mayur Bhawan for taxpayer outreach and communication both within and outside the Department.
- f. Running the Mobile App 'Aaykar Kutumb'.
- g. Bring out publications for the internal use of the Income Tax Department.
- h. Updation and uploading of e-Administrative Hand Book (AHB) containing information in respect of the CBDT and the Income tax Department, and contact details of Senior Officers.

- i. Design, print and distribution of New Year Calendar and table Calendar of Income Tax Department.
- j. Creating, designing and Printing of Tax Payer Information Series in the form of booklets, brochures/pamphlets pertaining to various tax related issues.
- k. Manufacturing of Board Games for distribution in Schools to spread tax literacy amongst future taxpayers (Kids).
- l. Providing technical support in terms of infographics, design etc. to the Office of PCIT (M&TP) and CIT(Co-ordination) and other verticals of the Department for running campaign as desired by them from time to time.
- m. Providing paper-based Income Tax Refund Orders with the help of India Security Press, Nashik.
- n. Making available education material in the form of manuals, Books to field formations.

**ii. Functions of ADG (TPS-I; TDS and BIFR)**

- a. All the matters relating to Taxpayers Services including grievances and e-Nivaran.
- b. Review and monitor the implementation of the Taxpayers' Charter.
- c. Oversee and coordinate the: (a) certification and audit of Aaykar Seva Kendra; (b) training of officers/officials posted at these Kendras.
- d. Monitor the Tax Returns Preparer (TRP) Scheme.
- e. Oversee the Aaykar Setu App.
- f. Collate and furnish the monthly statistical report of the functions of the Directorate and put up a consolidated report to Member (Tax Payer Services and Systems) through Pr. DGIT(Admn. and TPS).
- g. Monitoring of TDS Collections, Consolidation of Statistical data from field formations relating to prosecution and compounding. TDS Survey/spot verification and outreach/awareness programme.
- h. Holding of TDS Annual Conference, preparation of Booklet for the Conference.
- i. To look after all the TDS related grievance/complaints. Work related to TDS AO Manual.
- j. Providing inputs for seamless transition of matters of erstwhile BIFR to field formations subsequent to notification of IBC, 2016 as per territorial jurisdiction of NCLT/NCLAT.

**iii. Functions of ADG (TPS-II)**

Monitoring of Public Grievances on CPGRAMS, PG Portal.

**iv. Functions of ADG (Organization and Management Services)**

- a. Carry out functions of an internal management consultant to the CBDT.
- b. Conduct of organization and management studies.
- c. Setting up of Aayakar Seva Kendras as a part of Single Window System for public service delivery.
- d. Collation and compilation of CAP-I and CAP-II statements related to field offices of the Income Tax Department, along with a detailed analysis of CAP-I and CAP-II statements.

**v. Functions of the Directorate of Expenditure Budget (EB)**

- a. Circulation of Budget Circular (issued by Budget Division).
- b. Obtain and Examine the fund requirement from Budget Controlling Authorities (BCAs).
- c. Consolidate/moderate the requirement of funds to BCAs and submit to the Budget Division.
- d. Preparation of Budget Estimate (BE), Revised Estimate (RE), BE for next Financial Year and Final Requirement (FR).
- e. Allocation of approved funds to BCAs as per their requirement.
- f. Allocation of advances such as HBA and Computer Advance.
- g. Allocation of Capital Projects under Major Head 4059, 4216 and 4075 approved by Budget Division of CBDT.
- h. Monitoring and periodic review of expenditure incurred vis-à-vis the allocation.
- i. Propose Re-appropriation, Supplementary Grant and Surrender of savings.
- j. The Nodal Authority for monitoring expenditure in GeM by BCAs and furnishing report to FA.

**vi. Functions of Directorate of Infrastructure**

- a. To function as a nodal authority for receiving, examining and processing of Infrastructure proposals of the department and to work as the coordinator and facilitator helping the field formations in getting the approval of the IFU and competent authorities for various infrastructural proposals of the field formations of the department

regarding acquisition/purchase, minor works including repairs, renovations of departmental buildings, disposal of surplus lands and buildings etc.

- b. Framing and interpretation of rules regarding allotment of residential accommodation in departmental pool.
- c. Processing proposals of purchase, replacement and hiring of vehicles for CBDT's attached and subordinate offices.
- d. Framing SOPs and policies related to pan India infrastructural matters of the department like Operational Vehicles, Laptops, mobile handsets, telephone facilities etc.

#### **vii. Functions of ADG (Research and Statistics)**

Responsible for collection, compilation and dissemination of statistics on various aspects of Direct Taxes. Statistics are being collected from the field establishments i.e. from the offices of Chief Commissioners of Income Tax/ Director General of Income Tax and Commissioners of Income Tax (Appeals). Based on the statistics collected from the field establishments, this directorate prepares various periodical reports, (as below) which are used by the Central Board of Direct Taxes for monitoring and evaluation of existing policies and for formulation of new policies.

#### **viii. Functions of ADG (Recovery)**

- a. Monitoring of dossiers above 500 Crores, recovery matters thereto, follow up of directions provided by the directorate, processing of matters relating to publication of names of Tax defaulters, collecting and collating information pan India. Analysis of confidential matters relating to recovery, processing for FIU data mining as nodal agency, dissemination of information thereto etc.
- b. Write off, Processing of matters relating to write off, analysis thereto.
- c. PAC matters relating to recovery above ₹ 500 Crores, recovery matters, DO matters pertaining to Member (TPS).
- d. Strategizing for augmenting revenue collections, recovery matters, arrear demand recovery etc. and providing data
- e. Analysis to CBDT for policy decision making and other matters as desired by CBDT.

## **2. Directorate of Legal and Research**

The Director General of Income Tax (L&R) reports to the Member (A&J), CBDT. The Directorate of Income-Tax (L&R) is responsible for processing of the proposals received from field offices in respect of filing of Special Leave Petitions (SLPs)/Appeals before the Hon'ble Supreme Court.

It is the nodal agency of the Department for processing of proposals and for coordinating with the Ministry of Law in this respect. The Directorate scrutinizes the proposal received from the field offices with respect to the involvement of question of law and status of such issue already pending before the Hon'ble Court. The Directorate also handles the appeal of the assessee filed before the Hon'ble Supreme Court and files the affidavit/counter affidavit in such appeals.

The Central Technical Committee and Circular Committee constitute the Research wing of L&R Directorate.

Apart from legal and research work, ADG (Audit and Inspection) also functions under the Directorate.

**i. Functions of ADG (L&R)-1**

- a. Administration of the Directorate.
- b. SLP work of West Zone-I (Mumbai), West Zone-II, South Zone-II and East Zone.
- c. Nodal authority for LIMBS, which is co-ordinated and anchored by the Ministry of Law.
- d. Management of the various ICT initiatives of the Directorate.
- e. Other administrative work assigned from time to time.

**ii. Functions of ADG (L&R)-2**

- a. Administration of the Supreme Court Cell.
- b. SLP work of North Zone-I, North Zone-II and South Zone-I.
- c. Coordination of the Central Technical Committee (CTC), a measure towards better litigation management and to provide clarity and consistency on contentious legal issues and to formulate a Departmental view.

**iii. Functions of ADG (Audit and Inspection)**

- a. Compiling monthly and quarterly report of Internal and Revenue Audit Objections for reviewing performance and taking necessary course correction measures.
- b. Providing Draft Action Taken Notes (ATN) on draft para and inputs on queries raised by C&AG w.r.t Performance/Compliance Audit.
- c. Review of Inspection Reports received from the field formation.
- d. Publishing of 'Compendium of Audit' with Quality/Unique Audit Objections (both of Internal and Revenue Audit) and common errors in scrutiny assessments.
- e. Publishing 'Taxalogue' the in-house E-journal of Dept., comprising of Articles on varied aspects of Taxation (both theory and practice).

### 3. Directorate of Training

The Directorate of Training in the Income Tax Department is responsible for providing Induction Training as well as In-Service Training to the employees of the Income Tax Department. The Directorate of Training is headed by a Pr. Director General of Income Tax Training and has its Head Quarters at New Delhi.

National Academy of Direct Taxes [NADT], Nagpur is the Apex Training Institute which functions under the Directorate of Training. The NADT, Nagpur is headed by the Director General of Income Tax Training and by three Additional Director Generals in imparting training and its related activities.

#### i. Functions of ADG (Induction)

- a. Planning and conduct of courses for the officer trainees of IRS.
- b. All matters relating to the Newsletter and journal of NADT.
- c. Conducting examination of OTs.
- d. Personal and establishment matters including leave and Service matters of OTs.

#### ii. Functions of ADG (Administration)

All establishment, administrative and infrastructural matters of NADT and Regional Campuses.

#### iii. Functions of ADG (P&R)

- a. Planning and Conduct of In-service courses mounted by all the nine assigned DTRTI centers.
- b. Planning and conduct of Orientation Courses for the newly promoted ACsIT.
- c. All matters relating to the NADT Library and Archives in NADT.
- d. Planning and conduct of courses for other organisations including domestic and international courses.
- e. All matters relating to Rajbhasha Hindi.
- f. All matters relating to Computerization of NADT including development and maintenance of website of NADT.

#### iv. Regional Campuses

- a. ADGs head the Regional Campuses and supervise the overall functioning and administration of training for the officers and officials posted in respective Pr. CCsIT (CCA Regions).
- b. Training at Regional Campuses is imparted through mandatory and In-Service programmes as well as national and regional course which include special and request courses.

- c. Similar programmes are conducted at the level of the MSTUs for the officials below the cadre of Inspectors of Income-tax.

#### **4. Directorate of Systems**

The Directorate of Income-tax (Systems) carries out the work of conceptualization, planning, procurement, installation and maintenance of various projects and related hardware, procurement of software packages, development and maintenance of application software, technical support, Management of National Databases, monitoring of all-India network, recruitment of technical personnel, training of non-technical and technical Officers and staff etc. as part of modernization of the Department through comprehensive computerisation. There are five ADsG and four CsIT under the administrative control of the Director General of Income Tax (Systems).

##### **i. Functions of ADG (System)-1**

- a. All work related to Permanent Account Number (PAN).
- b. Managing PAN Service Providers agreements with Protean e-Gov Technologies Ltd. and M/s UTI Infrastructure Technology and Services Limited (UTIITSL).
- c. Work related to Monitoring and Implementation of ITBA-PAN module and technical matters related to same.
- d. Management of extension of online PAN Verification Validation services extended through Protean e-Gov Technologies and UTIITSL.
- e. Integration of PAN with other Departments such as MCA, DIPP (e-Biz), PFMS, SEBI, NSWS (National Single Window System), SSWS (State Single Window System) etc.
- f. Seeding of Aadhaar into PAN database.
- g. Monitoring of grievances related to PAN with Protean e-Gov Technologies and UTIITSL received on CPGRAM, e-Nivaran and other modes.
- h. Handling right to information (RTI) matters relating to PAN ATTACHED DIRECTORATES OF CBDT 333 CONTENT S.No. MODULE Project/Assignments/ Functions/Work Allocation.
- i. Handling Court matters relating to PAN.
- j. Furnishing of information relating to PAN under Section 138 of Income Tax Act, 1961 to various Law Enforcement Agencies/Authorities.
- k. Handling Parliamentary questions relating to PAN.
- l. Technical support to RCCs in respect of ITBA-PAN.
- m. Technical support to RCCs in matters of PAN Updation and Correction etc.

- n. Management of Data Centre Service Providers Contracts for PDC, BCP and DR Site.

## ii. Functions of ADG (System)-2

- a. **Project Insight** — Implementation of an integrated data warehousing and analytical platform to strengthen the non-intrusive information driven approach for improving compliance and effective utilization of information. The project also operationalizes two new centres i.e. Income Tax Transaction Analysis Centre (INTRAC) and Compliance Management Centralized Processing Centre (CMCPC).
- b. **Non-filers Monitoring System (NMS)** — Pilot project to prioritise action on non-filers with potential tax liabilities. This will merge with Insight platform.
- c. **Computer Aided Scrutiny Selection (CASS) System** — Selection of scrutiny cases by a centralised rule-based selection system. This will merge with Insight platform.
- d. **OLTAS** — System for reporting, monitoring and reconciliation of tax collection.
- e. **Refund banker** — System-driven process for dispatch and credit of tax refunds.
- f. **TIN Facilitation Centres (TIN FCs)** — Collection of electronic TDS/TCS quarterly statements and SFT (from specified reporting persons) on CD.
- g. **i-taxnet** — Intranet of the Income Tax Department, which is used for electronic compilation and transmission of statistical reports.
- h. **Sevottam** — Application for centralized receipt of returns and other documents at Aayakar Sewa Kendras (ASKs)

## iii. Functions of ADG (System)-3

- a. Project Director of IEC 2.0.
- b. Matters relating to contract management, steering committee meetings, and certification.
- c. Coordination: Board level, other agencies and Systems Directorate for IEC Project.
- d. Coordination and Operations of TIN 2.0
- e. Vernacular website, Taxpayer Outreach on the relevant aspects, legal assistance module.
- f. E-proceedings: Coordination and operations.
- g. Grievance management, coordination with ORM.

- h. Taxpayer outreach.
- i. Reply to parliamentary questions.
- j. Any other work assigned from time to time.

**iv. Functions of ADG (System)-4**

- a. **Taxnet Project:** Connecting more than 22000 departmental users across 780 plus Income Tax sites spread over 500 cities in India, including several special sites such as Primary Data Centre (PDC), Business Continuity Plan (BCP) site and Disaster Recovery (DR) Centers, NSDL, UTI, CPC-TDS Data Centers, etc. Besides ensuring secure connectivity, the module also facilitates augmentation, installation and relocation of nodes/sites etc.
- b. **Video Conference:** Facilitate secure Video Conferencing (VC) at over 57 locations pan India (including 7 locations at North Block) over Taxnet connectivity. The VC facility is also being used for imparting training/ conducting workshops apart from holding routine conferences.
- c. **Departmental Website:** The National website of the Income Tax Department ([www.incometaxindia.gov.in](http://www.incometaxindia.gov.in)) is the primary vehicle for delivery of Income Tax related services to the Taxpayers, and contain features such as “Taxpayers Services Module”, and “Aayakar Setu” (Mobile application on Android phone) which further contain AI based Chat Bot, Tax tools like tax and deduction, calculation etc. to facilitate tax payers to compute taxes for filling of their ITR’s. This website is bilingual and has a mega menu for content, with new features, and functionality. Other features include comparing different Acts, Sections, Rules and Tax treaties. The website adheres to latest Guidelines of India Government Website (GIGW) 3.0.
- d. **FMS Services:** Facility Management Services (FMS) extended to all Income Tax offices across all over India. The support services include:
  - (i) Helpdesk services,
  - (ii) Technical support,
  - (iii) Asset Management,
  - (iv) Vendor Management,
  - (v) Distribution of Remote Secure Authentication (RSA) token
- e. **Technical Support for Information Technology and other Advisory Services:** Finalizing specifications requirements of hardware, related software, nodes etc. Recommend specifications for ITBA Compliant Desktop and Laptops for the Income Tax Department.

**v. Functions of ADG (System)-5**

- a. All Technical Matters.
- b. All Administration Matters.
- c. All EDP related Matters.
- d. H.O.D. Functions.
- e. Rajbhasha
- f. Aayakar Sampark Kendra (ASK) Grievances received from
  - (i) PMO.
  - (ii) FM, RS and CBDT.
  - (iii) DGIT (Systems).
  - (iv) CPGRAMS.
  - (v) E-Nivaran.
  - (vi) Others including Paper Grievances and e-mails/twitter
- g. Submission of MIS for e-Nivaran and CPGRAMS
- h. Compilation of MIS for Directorate.

**vi. Functions of CIT(PMU)**

- a. PMU shall be acting in advisory capacity to various IT projects and future initiatives to be taken by DG IT system.
- b. PMU shall be acting in advisory capacity to various IT projects and future initiatives to be taken by DG IT system.
- c. PMU shall assist the department in identifying the red flags in a project under execution which may act as a roadblock in timely completion of the project.
- d. PMU will review the progress reports of the different projects and record suggestions for improvement to ensure that the project is on track with its intended objectives and timeline.
- e. Keep track of technical and functional problems being faced by each project.
- f. Organize coordination among stakeholders for resolving issues, if any.
- g. PMU shall extend its expertise in narrowing down the problem statement.
- h. Inter-Project synergy development.
- i. Recommend change in milestones or redirection of efforts, if required.

- j. Advise the project owner on identifying suitable panel of technical experts for necessary consultations.
- k. Advise the module owner on additional requirements and additional sub projects required and its technical framework.
- l. Validating the Change request raised by SIs/Service Provider.
- m. Assistance in resolving the disputes with SIs/Service Provider.
- n. Monitoring the performance of the existing project.

**vii. Functions of CIT (CPCTDS)**

- a. Undertake end-to-end processing of TDS Statements through a rule-based Technology enabled system, for seamless flow of data for tax credits.
- b. Online display of information and provide an integrated platform for tax deductors, taxpayers and the officers of the Department.
- c. Automated processing of TDS Statements to generate “Annual Tax Credit” statements for taxpayers in Form 26AS, for reconciliation with the TDS Certificates.
- d. TDS Defaults of Short Payment, Short Deduction, Interest etc. in the TDS Statements are intimated to ensure tax enforcement and compliance.
- e. Raising awareness among the deductors and taxpayers by organizing trainings and contact programmes

**viii. Functions of CPC (Bengaluru)**

- a. Managing routine tax administration functions such as verification/validation, processing, issue of refunds and storage of IT returns in a centralised manner. The scope covers all IT returns furnished in electronic form as also the returns furnished in paper form in the State of Karnataka and Goa.
- b. Providing a comprehensive range of allied services relating to processing such as handling of rectification requests, taxpayer services through Helpdesk/Call Centre, Online hosting of Processing related information on E-filing website, and Grievance management.

**ix. Functions of CIT (ITBA)**

- a. Work relating to ITBA 2.0; Extension of ITBA 1.0; Hardware Refresh; FAIU/CRS related work; FT&TR Modules; APA Module; ITD retirement related matters; etc.
- b. Work relating to ITBA 2.0; Integration between ITBA and other stakeholders; Handling of various requests/communications from C&AG; IT Audit of ITBA; etc.

- c. 263/264 (Revision) Module; TIN 2.0 related matters; Investigation Module; Administrative Functions Module and development of Various Administrative Forms in conjunction with e-Filing; I&CI Module; Exemption Module
- d. Development of BMA and PBPT Act modules; etc.
- e. TCS-RSA, Bharti Airtel, NICS, TRAI, STQC etc. related technical, administrative and payment matters; ISO certification related matters; Budgeted Expenditure; CAG Audit of ITBA; Webmail related matters; Data Centre related matters; etc.
- f. ITBA 1.0 related contractual and payment matters (except RSA) incl. all Change Orders; Integration matters of ITBA with IEC 2.0; etc.
- g. Penalty including Faceless Penalty; all matters relating to 148A proceedings; Internal and Revenue Audit Modules; OLTAS module; NADT Training Environment; PAN; TAN; TDS; ASK/Dak and Prosecution modules; CPIO(ITBA) and CPIO(ITD) of O/o CIT(ITBA) charge.
- h. Development matters relating to ITR Processing, Rectification and Order Giving Effect
- i. Any work pertaining to Assessment and related aspects as assigned by JDIT (ITBA)-3
- j. Assessment in Central Charges; All matters relating to implementation and functioning of Faceless Appeals; CIT(A) and e-Appeal Scheme, 2023 related work; etc.
- k. All matters relating to Section 119; All administrative matters like Physical Infrastructure, Leaves, Vehicles, Transfer-Posting, Telephone Directory, e-Nivaran, Hindi-Rajbhasha; etc.
- l. Overall supervision of CPGRAMS and disposal of CPGRAM Grievances; CPGRAM Appeals; Development and implementation of Augmented Helpdesk of ITBA; Nodal officer for handling grievance escalations from field formations; etc.
- m. Managing ITBA Helpdesk; Development and implementation of Augmented Helpdesk of ITBA; etc
- n. All functions relating to Assessment - including International Taxation; Court related matters pertaining to Faceless (and International Taxation) assessments; Coordination with NaFAC; Amalgamation and Demerger related matters; etc.
- o. All matters relating to implementation and functioning of Faceless Assessment; Transfer of cases; Coordination with NaFAC; Equalisation Levy related matters; etc.

- p. TPO module; DRP module; Common Functions module; VsV Give Effect related matters; Start-ups data updation; Recovery module; etc.
- q. Production related matters relating to Rectification; Give Effect and ITR Processing; etc.
- r. Webmail related matters; Work relating to discharge of duty as PISO of the ITBA project, Handling IPSec VPN related issues; e-Office account (creation/management) related matters of officers/staff of ITBA, All work relating to 40-40 team; ITBA 2.0 Consultant related administrative, monitoring and payment matters; DSR, WSR, RoDs, etc. maintenance related matters of ITBA 2.0; etc.
- s. i-Taxnet related matters; HRMS; PAN and TAN modules; HRD related work including APAR and IPR; DSC related contractual, technical and administrative matters; etc.
- t. Design, development, testing, UAT and retirement related technical work w.r.t. Legacy ITD application; e-Nivaran, CPGRAMS and Grievances related technical matters; Integration matter of ITBA with e-filing 2.0; Other Integration matter of ITBA with IEC 2.0; PAN related complex issues; etc.

## 5. Directorate of Vigilance

Directorate of Vigilance is headed by the Pr. DGIT (Vigilance), who is the Chief Vigilance Officer of the organization. Pr.DGIT (Vigilance) is responsible for:

- a. Taking the initial decision on complaints against Group-A officers,
- b. Maintaining up-to-date records of such complaints with latest status through prescribed registers for submission of quarterly reports to the CVC, DOP&T, etc. All complaints against Group-A officers are required to be forwarded to CVO for registration in register and also for further necessary action.
- c. Examination and comment on all proposals where reference to the CVC needs to be made.
- d. Making all vigilance related references to CBDT, CVC, DOPT, UPSC etc. All such references are sent to CVO through the Zonal ADGs (Vigilance) at New Delhi, Mumbai, Kolkata and Chennai.

### Zonal Directorates

Four Zonal Vigilance Directorates with jurisdiction over regions and headquarters as noted below are headed by Addl. Director General (Vigilance) under the control and supervision of DGIT (Vig.)/CVO, CBDT. Zonal ADsG (Vig.) are CVOs in respect of Group-B and Group-C officers and officials in their jurisdictions. Zonal Directorates process complaints against Group-B officers and also conduct preliminary verification and investigation of both Group-A and Group-B officers

| Designation       | Headquarters | Jurisdiction CCIT (CCA) wise                       |
|-------------------|--------------|--|
| ADG (Vig.), North | Delhi        | Delhi, NWR, Lucknow and Kanpur                     |
| ADG (Vig.), South | Chennai      | Chennai, Bengaluru, Hyderabad and Kochi            |
| ADG (Vig.), East  | Kolkata      | Kolkata, Bhubaneswar, Guwahati and Patna           |
| ADG (Vig.), West  | Mumbai       | Mumbai, Pune, Jaipur, Ahmedabad, Bhopal and Nagpur |

## 6. Directorate of Human Resource Development (HRD)

The functions of the Directorate of Income Tax (HRD) is to develop and design strategic human resource plans, policies and processes aligned with the goal and vision of the Income Tax Department for ensuring optimal resource mobilization and delivery of tax payer services. The Directorate of HRD is headed by a Pr. Director General of Income Tax Human Resource Development and has its Head Quarters at New Delhi.

### i. Functions of ADG (HRD)-1

- a. All matters related to general Administration excluding transfer and posting of Group 'A' and 'B' of the Directorate of HRD.
- b. All preparatory work for IRS DPCs, NFU Matters, Selection Committee meetings for promotions to the grade of DCIT/DDIT(STS). Selection Committee meetings for promotions to the grade of NFSG(Addl.CIT) and coordination with AD V.
- c. Process of Empanelment as Joint Secretary/Addl. Secretary/Secretary for officer
- d. Vigilance and Service Litigation matters of Group A officers.
- e. Exercise of financial powers as needed.
- f. Building in-charge including allocation of rooms, maintenance of conference rooms and their equipment
- g. E-Office implementation and coordination with NIC and other agencies/ Deptts
- h. Policy matters relating to transfer.
- i. RS Recruitment Rules
- j. HRMS Division including E- HRMS of DoPT
- k. Custody of Service Book
- l. Civil List matters
- m. Organizing Annual HRD Conference

- n. Custodian of APARs of Group A Officers and ITOs. SPARROW for Group A, B and C including data security and related issues
- o. IPR on SPARROW
- p. All policy matters related to APAR including development of Management Information System (MIS) and Performance Management System (PMS) for capturing individual performances
- q. Technical team of SPARROW
- r. Any other work assigned by higher authorities
- s. All NRC matters

**ii. Functions of ADG (HRD)-2**

- a. Recruitment of staff in the Income Tax Department (CGLE)/Stenographer Grade-II/Multi-Tasking (Non-Technical) Staff and their allocation to Pr. CCsIT and related issues.
- b. Inter Region transfers (ICT) issues and issues related to NR Parmar.
- c. DPC/Promotion related matters of Group B and C
- d. Matters relating to Litigation of Group B and C, Parliamentary Committees/ Questions, VIP references, Grievances and other matters relating to Group B and Group C
- e. Coordination with AD IX for all pay commission matters, Pay fixation, clarification and pay anomaly matters and any other related correspondence.
- f. Coordination of work for identification and action against officers (Gr.B)/ officials who are either on un-authorized leave or are absconding in the Income tax Department in all cadres.
- g. EDP Cadre management
- h. Quarterly meeting of ITEF and related issues.
- i. Implementation of Cadre Restructuring of the Income Tax Department and Coordination with Pr.CCsIT(CCAs) on matters relating to implementation Cadre Restructuring.
- j. Creation of new posts and diversion of Posts.
- k. Recruitment Rules for Group A Non-IRS Officers, Group B and Group C Cadres.
- l. Issues related to differently abled and their training and coordination with other Departments
- m. Regional language classes at MSTU

- n. Sports and Cultural Committee and Guidelines for recruitment of Sportspersons in the Department.
- o. Issues related to casual Labour

### iii. Functions of ADG (HRD)-3

The O/o ADG-3, HRD consists of the Training and Capacity Building Division and the Cadre Management Division-3. The Training and Capacity Building Division (TCB) looks after the following areas of work:

- a. All matters related to training policy, including Co-ordination with DoP&T.
- b. All matters related to training include Induction Training, Orientation Programme and Co-ordination with NADT.
- c. Finalization of Annual Training Calendar
- d. Mid-Career Training for IRS officers, including design of course curriculum, nomination of participants and conduct of training
- e. All Training Programmes with overseas component, such as LKY, Singapore; GRIPS, Tokyo; etc.
- f. All Long-Term Domestic Training Programmes such as NDC, APPPA, TERI, etc.
- g. All matters related to the Capacity Building of IRS officers
- h. Capacity building of IRS officers in collaboration with international organisations/institutions, including IMFSARTTAC, World Bank, IBFD, etc.
- i. National Programme for Civil Services Capacity Building (Mission Karmayogi)
- j. Collaboration with OECD Forum on Tax Administration (FTA) Capacity Building Network
- k. HR matters and policies related to Information Security within CBDT

### iv. Functions of ADG (Exam and Official Language)

- a. Conducting Departmental Examinations for the post of Assistant Commissioner of Income Tax (Probationers) and other Gazetted and Non-Gazetted cadres of Income Tax Department and dealing with all matters relating to these exams.
- b. Coordination of work for identification and action against officers/officials who are on either on unauthorized leave or are absconding in the Income Tax Organization.
- c. All work related to official language (OL) in the Income Tax Organization, including management of the official language cadre.

## Appendix-3

### Core functions of IT systems in ITD

(Reference: Paragraph 2.3.5 & 2.5)

#### 1. Tax Administration Process through IT

The tax administration Process in the Income Tax Department *inter alia* involves (a) Processing of income tax returns (ITRs) through Centralized Processing Centre –Income Tax Returns (CPC-ITR) and (b) Scrutiny and review of ITRs by Income Tax authorities through Income Tax Business Application (ITBA)

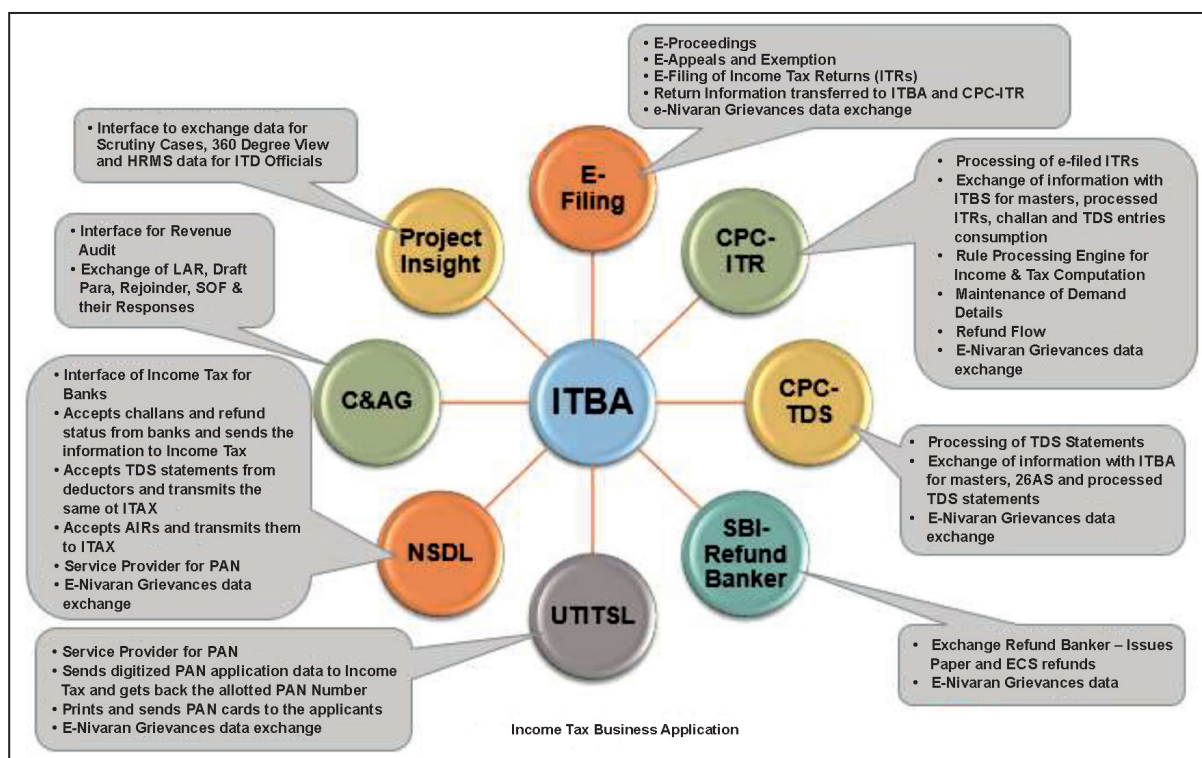
- a) **Processing of Return of Income through CPC-ITR:** All the income tax returns (ITRs) filed by the taxpayers through e-filing portal are first processed online at the Centralized Processing Centre–Income Tax Returns (CPC-ITR), Bengaluru determining the tax payable by or refund due to the assessee. After processing the return, the income tax department issues intimation under Section 143(1) to the taxpayers informing them about the results. Processing of returns by CPC-ITR is completely automated, and the intimation Section 143(1) is also a computer-generated record. CPC-ITR validates data provided in each ITR with details available with income tax department's own record (such as Form 26AS generated through details provided by collecting banks, TDS returns, etc.) and Section 143(1) Intimation usually points out apparent mistakes identified by the system.
- b) **Scrutiny and review of ITRs through Income Tax Business Application (ITBA):** The Income Tax Department has developed an integrated platform i.e. Income Tax Business Application (ITBA) for conduct of various functions/proceedings including assessments electronically. This is integrated with the e-filing portal which is used by the taxpayer to communicate online with the Income Tax Department. During assessment proceeding, the assessing officer directly sends communications like letters, notices, questionnaires etc. through the 'Assessment Module' of ITBA which is delivered in e-filing account of the concerned taxpayer. Upon receipt of ITD's communication, the taxpayer submits the response along with the attachments by uploading the same through his account on the e-filing portal. The response submitted by the taxpayer is viewed by the assessing officer electronically in ITBA and accordingly, the assessing officer pass the assessment order electronically through the 'Assessment Module' of ITBA

#### 2. Income Tax Business Application:

The Income Tax Business Application (ITBA) is an IT portal aimed at creating a paperless electronic process within the ITD and providing a single user interface for accessing various functionalities of the ITD. It is intended to comprehensively assist the internal working of the ITD, by automating all the business processes of ITD. The application is based on an intranet portal and is not available to the public. It has provision for the creation of interface with other external agencies, like UTITSL/NSDL (PAN Card Management) and SBI (Refund Banker).

ITBA enhances the capability of the existing system, by bringing in latest technology, enhanced security, and easy dissemination of information, ease of usability and better use of interface. It provides efficiency in record management, generation of reports, easy updation of assessee information, widening of tax base etc., among others. It enables ease of work of the users (departmental employees), provides for an improved MIS and also permits efficient communication, such as alerts through e-mail and SMS.

**Chart 1: ITBA Interfaces**



- a) **E-filing portal:** This portal provides a single window access to the income tax related services for taxpayers and other stakeholders. The taxpayers use the e-filing portal to file their Income Tax Returns (ITR). Apart from filing the ITR, the portal can also be used by the taxpayer to seek refunds and raise complaints. All communication between the Income Tax Department and the taxpayers regarding processing of ITRs, assessment, penalties, appeals etc. is done through this portal.
- b) **CPC-ITR:** It manages the tax administration functions such as verification/validation, processing, issue of refunds and storage of IT returns in a centralized manner. It also provides a comprehensive range of allied services relating to processing of ITRs such as handling of rectification requests, taxpayer services through Helpdesk/Call centre, online hosting of processing-related information on e-filing website, and grievance management.
- c) **CPC-TDS:** It undertakes end-to-end processing of TDS Statements through the system, for seamless flow of data for tax credits. It displays information and provides an integrated platform for tax deductors, taxpayers and ITD. It processes

the TDS statement in an automated environment to generate “Annual Tax Credit” statements for taxpayers in Form 26AS, for reconciliation with the TDS Certificates. TDS defaults of short payment, short deduction etc. in the TDS statement are intimated to ensure tax enforcement and compliance.

- d) **SBI-Refund Banker:** It is a system driven process for dispatch and credit of tax refunds. The ‘Refund Banker scheme’ facilitates transmission of refunds generated on processing of Income tax Returns by CPC-Bangalore/AO to State Bank of India, CMP branch (Refund Banker) for further distribution to taxpayers.
- e) **UTIITSL:** The income tax department has outsourced the services relating to Permanent Account Number (PAN) to UTI Infrastructure Technology and Services Ltd. (UTIITSL), a Government company, which includes applying for PAN card, making correction/changes in the PAN card, tracking PAN card status etc. It sends the digitalized PAN card data to the ITD and gets back the PAN allotted by the ITD.
- f) **NSDL:** Tax Information Network (TIN) is an initiative by Income Tax Department of India (ITD) for the modernization of the current system for collection, processing, monitoring and accounting of direct taxes using information technology. TIN is a repository of Tax related information from across the country. The ITD maintains and handles TIN with the help of National Securities Depository Limited e-Governance Infrastructure Limited (now known as Protean eGov Technologies Limited). TIN has two key sub-systems: Electronic Return Acceptance and Consolidation System (ERACS) which consists of an infrastructure for interface with the taxpayers (a nation- wide network of TIN-Facilitation Centres i.e. TIN-FC) and a web-based utility for uploading electronic returns of Tax Deduction at Source (TDS) and Tax Collection at Source (TCS) and Annual Information Return (AIR)/Statement of Financial Transactions (SFT) to the central system of TIN. TIN also provides online Services like Facility for deductors to verify status of e-TDS/TCS statements, processing of new PAN/TAN and PAN/TAN change request applications and facility to register as an e-Return Intermediary (e-RI).

### 3. Salient features of the ITBA

ITBA aims to achieve automation of all the business processes of the ITD and their integration, through the intranet. The key features and intended benefits of the ITBA include:

- (a) **Unified ITBA portal:** All services are provided to the end-users through the application delivered through a Single Window Interface/departmental portal.
- (b) **Workflow based: Near paperless system:**

The workflow is divided in two parts:

- i) Processing of returns: Income Computation, Online Tax Accounting System (OLTAS) and TDS matching, Interest and tax calculation.

- ii) Post-processing of returns: 1. Rectification 2. Assessment 3. Search case 4. Appeals 5. Exemption 6. Investigation 7. International Taxation 8. TRO and Recovery 9. Transfer Pricing.
- (c) **E-filing Integration**: It ensures capability for digitization of returns, along with the ability to validate their correctness and completeness etc.
- (d) **E-Proceedings**: it provides an 'e-Proceeding' facility, for conducting proceedings electronically. It enables seamless flow of Letter(s)/Notice(s)/Communication, Questionnaire(s), Order(s) etc., between the ITD and the taxpayer, without the taxpayer having to visit the Income Tax Office.
- (e) **Digitally Signed Notices/Orders**: It ensures that any message/letter/notice or order can be composed in the module, converted to the PDF format, digitally signed by the concerned officer and, thereafter, sent directly to the taxpayer, through e-mail.
- (f) **Electronic communication to Assessee**: It ensures that physical movement of paper is avoided and all exchange of information between officers and with taxpayer is only in the electronic format.
- (g) **Interactive Dashboards**: It tracks, analyses, monitors and visually displays key business metrics, while allowing users to interact with data, enabling them to make well-informed, data-driven and sound business decisions.
- (h) **System Generated MIS**: It provides a browser base interface for viewing reports. It has drill-down capabilities. It also has integration capabilities.
- (i) **360° View**: It allows the Assessing Officer to view the information, related to a case selected under scrutiny, in 360-degree format. Details so available include PAN details, ITD details, Processing details, Tax payment details corresponding to OLTAS of ITD, Details of orders/Letters/Notices, E-filed Non ITR forms (such as Form 3CD etc.), Information received from Third Parties (SFT, FIU, CBEC, Penny Stock information etc.) and details of Internal and Revenue Audit Objections.
- (j) **State Bank of India and NSDL**: In the 'Refund Banker' Module, the refunds, generated on processing of ITRs by the Assessing Officer, are transmitted to the State Bank of India (SBI), on the next day of processing. SBI sends the daily status of Paper/Electronic Clearance Service (ECS) refunds to NSDL. NSDL displays the status on the TIN (Tax Information Network) website and sends the details, in a file, to ITD.
- (k) **UTITSL**: the Service Provider for PAN, sends digitized PAN application data to the ITD and gets back the allotted PAN Number, prints and sends PAN cards to the applicants.

ITBA has 37 Modules (Details in Table 1), with two main areas:

- (i) **ITBA core functionality Modules**: covering the core business functions of the department, such as Assessment Module, Post Assessment Module, Appeals

Module, Recovery Module, Refund Module, Penalty Module, Prosecution Module, TDS Module, PAN Module, TAN Module, CASS Module etc. and

- (ii) **HRMS:** covering people/role related functions.

**Table 1: ITBA Modules**

|                        |               |                                  |  |                             |
|------------------------|---------------|----------------------------------|--|-----------------------------|
| PAN                    | OLTAS         | Appeal                           | MIS and Dashboards                       | PR, PP and OL <sup>32</sup> |
| TAN                    | Refund Banker | Income Tax Appellate Tribunal    | Annual Information Return                | TDS                         |
| ITR Processing         | Penalty       | DIT (L&R)                        | Central Information Branch               | Record Management System    |
| CASS                   | Prosecution   | Administrative functions         | Actionable Information Monitoring System | Collaboration (Mail)        |
| Assessment             | Recovery      | Exemption                        | Headquarter Jobs                         | User administration/SSO     |
| International Taxation | ASK           | Inspection                       | Hindi Quarterly Report                   | COMMON                      |
| Post Assessment        | Grievance     | Investigation, Search and Survey | Right to Information                     | e-Proceedings/Assessment    |
| Audit                  | Portal        |                                  |  |                             |

#### 4. Faceless Assessment Procedure in ITBA

The procedure of Faceless Assessment under Section 144B is summarized below:

- i) The National Faceless Assessment Centre (NaFAC) shall assign the cases selected for Faceless Assessment to a specific Assessment Unit (AU) using the Automated Allocation System and intimate the assessee that the assessment shall be completed in a faceless manner.
- ii) The NaFAC shall serve a notice under Section 143(2) or 142(1) to the assessee. The assessee may file his/her response through electronic means to the said notice within the date specified in the notice. The NaFAC shall forward the response to the AU.
- iii) The AU may make a request through NaFAC for further information/document/evidence from the assessee or any other person, and the NaFAC shall serve notice or requisition to the assessee or any other person for obtaining such information/document/evidence.
- iv) The AU may also:

<sup>32</sup> PR, PP & OL (Public Relations, Printing & Official Language)

- A) Request through NaFAC for conducting an enquiry or verification by a Verification Unit (VU), and NaFAC shall assign the request to a VU using the Automated Allocation System.
  - B) Request through NaFAC seeking technical assistance by a Technical Unit (TU) and the NaFAC shall assign the request to a TU using Automated Allocation System.
- v) Upon receipt of report for VU or TU, the NaFAC shall send the same to the AU.
- vi) Similarly, upon receipt of response from the assessee or any other person in compliance to the notice as mentioned in point (c) above, the NaFAC shall forward the response to the AU. If the assessee fails to respond within the date specified in such notice, the NaFAC shall intimate the same to the AU.
- vii) If the assessee fails to file response, the AU shall serve upon the assessee through NaFAC, a show cause notice under Section 144 giving him the opportunity to explain as to why the assessment should not be completed under best judgment manner. If the assessee files any response, the NaFAC shall forward the same to the AU.
- viii) The AU, after taking into account all the relevant material shall prepare:
  - A) An Income or Loss Determination Proposal (ILDLP) where no variation prejudicial to the interest of the assessee is proposed and send the same to the NaFAC.
  - B) In other cases, the AU shall serve a notice to the assessee through NaFAC stating the variations proposed to be made to the income/loss of the assessee and request him/her to submit response within a specified time. The NaFAC shall forward the response of the assessee to the AU. If the assessee failed to file the response, the NaFAC shall intimate the same to AU.

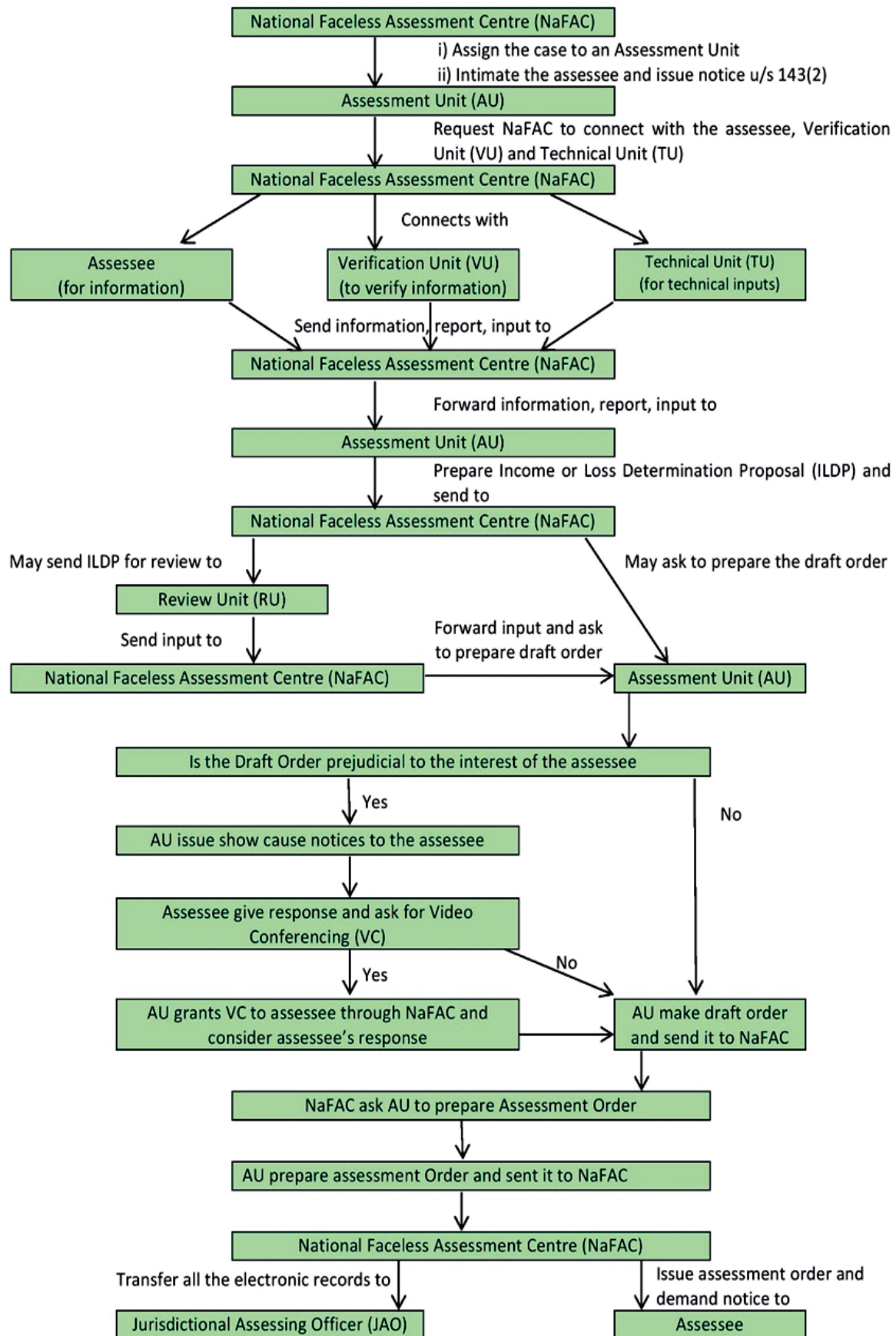
After considering the response of the assessee or intimation regarding failure to file response of the assessee, the AU shall prepare an income or loss determination proposal after taking into account all the relevant material and send the same to the NaFAC.

- ix) Upon receipt of the income and loss determination proposal, the NaFAC may
  - A) Ask the AU to prepare the draft order and send the same to NaFAC or
  - B) Assign the Income and Loss Determination Proposal (ILDLP) to a RU through automated allocation system for review of such proposal. The RU will prepare a review report and send the same to NaFAC which shall forward the same to the AU that has prepared the income and loss determination proposal. The AU after considering the review report shall prepare a draft order and send the same to NaFAC.

- x) The NaFAC, after receipt of the draft order from the AU, shall:
  - A) Ask the AU to pass the final assessment order where no variation prejudicial to the interest of the assessee is proposed. The AU shall prepare the final assessment order in accordance with the draft order and send the same to the NaFAC. The NaFAC shall serve the copy of the assessment order, demand notice and notice for initiation of penalty proceeding (if any) to the assessee.
  - B) Serve the draft assessment order to the assessee where there is a proposal to make any variation which is prejudicial to the interest of the assessee.
- xi) The assessee after receipt of the draft order may:
  - A) File his acceptance of the variation proposed or
  - B) File his objections to such variations with
    - a) the Dispute Resolution Panel (DRP) or
    - b) the NaFAC
- xii) Where the assessee has filed his acceptance or no objection is received from the assessee regarding the variation proposed, the NaFAC shall ask the AU to complete the assessment on the basis of the draft order. Accordingly, the AU shall prepare the assessment order and forward the same to the NaFAC which shall serve the copy of the assessment order, demand notice and notice for initiation of penalty proceeding (if any) to the assessee.
- xiii) Where the assessee has files his objection with the DRP, the NaFAC shall intimate the same to the AU. After receipt of the direction from the DRP, it will be forwarded to the AU by the NaFAC. The AU shall prepare the assessment order as per the direction of DRP and forward the same to the NaFAC, which shall serve a copy of the assessment order, demand notice and notice for initiation of penalty proceeding (if any) to the assessee.
- xiv) In case where a variation is proposed in the Income or Loss Determination Proposal or the draft order, an opportunity is provided to the assessee by serving a show cause notice and the assessee may request for personal hearing, On receipt of such request, the AU shall allow such hearing through NaFAC and such personal hearing shall be conducted exclusively through video conferencing or video telephony.
- xvi) After completion of assessment, the NaFAC shall transfer all the electronic records of the case to the Assessing Officer having jurisdiction of the assessee.

The procedure of faceless assessment is depicted in Chart 4.2 below:

Chart 4.2 Procedure for Faceless Assessment



## Appendix-4

### Functions of field formations of the ITD

(Reference: Paragraph 2.4)

#### 1. DGIT (Investigation)

DGIT (Investigation) deals with investigations for curbing tax evasion and unearthing unaccounted money. There are 14 DsGIT (investigation) at Ahmedabad, Bengaluru, Bhopal, Chandigarh, Chennai, Hyderabad, Jaipur, Kochi, West Bengal-Sikkim and NER, Lucknow, Mumbai, New Delhi, Patna and Pune.

#### 2. Pr. CCIT (NaFAC/NFAC/NFPC)

The National Faceless Assessment Centre (NaFAC), the National Faceless Appeal Centre (NFAC) and the National Faceless Penalty Centre (NFPC), headed by Pr. CCsIT, have been set up to facilitate the conduct of e-assessment proceedings, e-appeal proceedings and e-penalty proceedings, respectively, in a centralized manner.

#### 3. Principal CCIT (Exemptions)

Pr. CCIT (Exemptions) is located at New Delhi. There are 14 CsIT(E) at Ahmedabad, Bengaluru, Bhopal, Chandigarh, Chennai, Delhi, Hyderabad, Jaipur, Kochi, Kolkata, Lucknow, Mumbai, Patna and Pune. Various kind of approvals, relating to exemptions under the Income Tax Act, 1961, are granted by them and they are responsible for administration of the tax returns of the exempted entities.

#### 4. DsGIT (Intelligence and Criminal Investigation)

Their key function areas are: (i) widening of the tax base, through identification of stop filers and non-filers (ii) deepening of the tax base, by providing information for proper selection of cases for scrutiny assessments, through collection and collation of information, from internal as well as external sources, and its dissemination to Assessing officers (AOs) and other users in the ITD. Their 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. In regard to Intelligence and Criminal investigation, there are 18 field formations, each of which is headed by DIT (I&CI) (Ahmedabad, Bengaluru, Bhopal Bhubaneswar, Chandigarh, Chennai, Delhi, Guwahati, Hyderabad, Jaipur, Kanpur, Kochi Kolkata, Lucknow, Mumbai, Nagpur, Patna and Pune) and functions directly under the DsGIT (I&CI), New Delhi.

#### 5. Principal CCIT (International Taxation and Transfer Pricing)

Pr. CCIT (IT & TP) is located at Delhi. CCsIT (IT & TP) are located at Delhi, Mumbai and Bengaluru.

The work of International Taxation is divided in three broad categories viz. (i) International Taxation (ii) Transfer Pricing and (iii) Advance Pricing Agreements. In addition, the Dispute Resolution Panel (DRP) has been introduced, as an alternative means for resolving disputes relating to transfer pricing adjustments.

**(i) International Taxation:**

Caters to the assessment and taxation of income of non-residents, which accrues or arises in India. There are 10 CsIT (IT), at Bengaluru, Chennai, Delhi and Mumbai. In addition, there are 4 CsIT (IT&TP), at four places (Pune, Ahmadabad, Hyderabad and Kolkata).

**(ii) Transfer Pricing:**

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 10 CsIT (TP), at Bengaluru, Chennai, Delhi and Mumbai.

**(iii) Advance Pricing Agreements:**

This scheme is an agreement between the CBDT and the taxpayer, for determination of Arm's Length Price, or manner for determination of ALP, in relation to an international transaction between the associated enterprises (AEs), in advance. There are four CsIT (APA) at Bengaluru, Delhi and Mumbai.

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

The DRP is a collegium 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 the assessee's acceptance or objections to the same, the 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. There are 21 CsIT (DRP), at Bengaluru, Delhi and Mumbai.

**6. Regional Valuation Cell**

Regional Valuation Cells are headed by Regional Valuation Officers, of the rank of CIT. they are manned by Chief Engineers (Civil Engineer), CPWD. There are two Regional Valuation Cells, located at Delhi (North Region) and Chennai (South Region). Other personnel in these cells include the District Valuation Officer (DVO), Valuation Officer (VO) and Assistant Valuation Officer (AVO).

**7. Functions of Pr. CCsIT/CCsIT**

They are responsible for the administration, supervision and assessment functions, for their respective jurisdictions.

The field formations of international taxation are given in **Table 1**:

**Table 1: Field formations of various CCsIT/CsIT**

| CsIT                            | Under Jurisdictional Charge of Pr. CCIT (IT), New Delhi | Under Jurisdictional Charge of CCIT (IT and TP) WZ, Mumbai |          |           | Under Jurisdictional Charge of CCIT (IT) SZ, Bengaluru |          |           |          |
|---------------------------------|---|--|----------|-----------|--|----------|-----------|----------|
|                                 | Delhi   | Mumbai   | Pune     | Ahmedabad | Bengaluru  | Chennai  | Hyderabad | Kolkata  |
| CIT (IT)                        | 4   | 4  | -        | -         | 1  | 1        | -         | -        |
| CIT (TP)                        | 3   | 4  | -        | -         | 2  | 1        | -         | -        |
| CIT (APA)                       | 2   | 1  | -        | -         | 1  | -        | -         | -        |
| CIT (DRP)                       | 6   | 9  | -        | -         | 6  | -        | -         | -        |
| CIT (IT and TP)                 | -   | -  | 1        | 1         | -  | -        | 1         | 1        |
| CIT(DR) (AAR)                   | 2   | 1  |          |           |  |          |           |          |
| <b>Total</b>                    | <b>17</b>   | <b>19</b>  | <b>1</b> | <b>1</b>  | <b>10</b>  | <b>2</b> | <b>1</b>  | <b>1</b> |
| <b>GRAND TOTAL:<br/>52 CsIT</b> |   |  |          |           |  |          |           |          |

## Appendix-5

### Mapping of jurisdictions of Field Audit Offices and the Income Tax Department

(Reference: Paragraph 3.2)

| C&AG Office, Direct Taxes Wing             |   |  | Income Tax Department   |   |
|--|---|--|---|---|
| Central Audit Office                       | Audit Jurisdiction (States)   | Branch Office with jurisdiction  | Pr. CCIT Region   | States  |
| 1. DGA, Central Receipts, <b>New Delhi</b> | Delhi, Madhya Pradesh and Chhattisgarh  | <b>Gwalior:</b> MP and Chhattisgarh  | 1. Pr. CCIT (Delhi)<br>2. Pr. CCIT (Madhya Pradesh and Chhattisgarh)  | Delhi<br>Madhya Pradesh and Chhattisgarh  |
| 2. DGA(C), <b>Kolkata</b>                  | West Bengal, Assam, Manipur, Meghalaya, Nagaland, Mizoram, Arunachal Pradesh, Tripura, Sikkim and UT of Andaman and Nicobar Islands | <b>Guwahati:</b> Northeast region  | 3. Pr. CCIT (West Bengal and Sikkim)<br>4. Pr. CCIT (North East)  | West Bengal, Sikkim, UT of Andaman and Nicobar Islands<br>Assam, Manipur, Meghalaya, Nagaland, Mizoram, Arunachal Pradesh and Tripura |
| 3. PDA(C), <b>Mumbai</b>                   | Maharashtra   |  | 5. Pr. CCIT (Mumbai)<br>6. Pr. CCIT (Nagpur)<br>7. Pr. CCIT (Pune)  | Maharashtra   |
| 4. PDA(C), <b>Lucknow</b>                  | Uttar Pradesh, Uttarakhand, Bihar, and Jharkhand  | <b>Allahabad:</b> Uttar Pradesh and Uttarakhand<br><b>Patna:</b> Bihar<br><b>Ranchi:</b> Jharkhand | 8. Pr. CCIT (Uttar Pradesh-East)<br>9. Pr. CCIT (Uttar Pradesh- West)<br>10. Pr. CCIT (Bihar and Jharkhand) | Uttar Pradesh<br>Uttarakhand<br>Bihar and Jharkhand   |
| 5. PDA(C), <b>Bengaluru</b>                | Karnataka and Goa   |  | 11. Pr.CCIT (Karnataka and 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)<br>13. Pr. CCIT (Kerala)  | Tamil Nadu and UT of Puducherry<br>Kerala   |
| 7. PDA(C), <b>Chandigarh</b>               | Punjab, Haryana, Himachal Pradesh, Jammu and Kashmir and UT Chandigarh  |  | 14. CCIT (North West)   | Punjab, Haryana, Himachal Pradesh, Jammu and Kashmir and UT Chandigarh  |
| 8. DGA(C), <b>Hyderabad</b>                | Andhra Pradesh and Telangana and Odisha   | <b>Bhubaneswar:</b> Odisha   | 15. Pr. CCIT (Andhra Pradesh and Telangana)<br>16. Pr. CCIT (Odisha)  | Andhra Pradesh and Telangana<br>Odisha  |
| 9. PDA(C), <b>Ahmedabad</b>                | Gujarat, UT of Daman and Diu and Rajasthan  | <b>Jaipur:</b> Rajasthan   | 18. Pr. CCIT (Gujarat)<br>19. Pr.CCIT (Rajasthan)   | Gujarat and UT of Daman and Diu<br>Rajasthan  |

## Appendix-6

### Details of sanctioned strength in various cadres

(Reference: Paragraph 3.2)

| Direct Taxes Wing                       | SAO        | AAO/Supervisor | Sr. Auditor/Auditor/<br>Asst. Supervisor |
|---|------------|----------------|--|
| C&AG Hqrs.                              | 6          | 3              | 5  |
| <b>Field Audit Offices</b>              |            |                |  |
| DGA(CR), Delhi                          | 43         | 88             | 93                                       |
| PDA(C), Mumbai                          | 38         | 83             | 110                                      |
| DGA(C), Chennai                         | 42         | 84             | 97                                       |
| PDA(C), Chandigarh                      | 22         | 44             | 52                                       |
| DGA(C), Hyderabad                       | 28         | 57             | 57                                       |
| PDA(C), Bengaluru                       | 13         | 27             | 28                                       |
| PDA(C), Ahmedabad                       | 34         | 70             | 77                                       |
| PDA(C), Lucknow                         | 30         | 60             | 72                                       |
| DGA(C), Kolkata                         | 46         | 92             | 74                                       |
| <b>Total of 9 offices<br/>under CRA</b> | <b>296</b> | <b>605</b>     | <b>660</b>                               |

## Appendix-7

### Selection of Commissionerates

(Reference: Paragraph 4.5.2; 5.4.1 and 5.6.1)

#### I. Issues considered

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

- a. Revenue generation of a unit mostly depends on the type of assessees in its 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 the CASS system. In recent times, this number has been on the 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 the production of records, thereby affecting the audit schedule.
- e. Revenue risk is directly proportional to the existence of banking companies, insurance companies, assessees claiming exemptions/deductions under various sections of the Income Tax Act, falling under the jurisdiction of the unit.
- f. Most of the assessees 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 needs to be kept on the refunds issued.
- g. Huge tax demands are 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 a number of scrutiny assessments completed and degree of complexity, which are discussed below:

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

As all States will neither have the same number of Commissionerates, nor the same number of units, FAOs are categorized based upon the number of assessing charges

and the tax revenue of the States under their respective audit jurisdictions. In heavy charges, such as in Metro charges and in a few other States, like Andhra Pradesh, Karnataka, Uttar 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 assessees, 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, field offices are categorized based on the number of assessing charges and the tax revenue of the States under their respective audit jurisdictions, on the following lines (Tables 1, 2 & 3).

**Table 1: Classification of Field Offices**

| Category | Criteria   |
|----------|--|
| A        | Field offices having 200 or more assessing charges or tax revenue of ₹ 10,000 crore or more under their audit jurisdiction |
| 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 (Weight)     |
|--|-------------------|
| a. Assessing charge having more than 75 scrutiny assessments | High (6 points)   |
| b. Assessing charge having 26-75 scrutiny assessments        | Medium (4 points) |
| c. Assessing charge 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 assessees, among various assessing charges, is made on the basis of various

criteria, such as their tax status (i.e. Companies, Trusts etc.), their 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 assesseees and the associated complexities. In case of assesseees with high taxable incomes also, the range of activities and 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, with 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 assesseees with annual turnover of at least ₹ 100 crore.
- b. Presence of any Banks, Financial Institutions, Insurance Companies, Stockbrokers or Builders having an annual turnover of more than ₹ 10 crore among the assesseees.
- c. Presence of cases involving exemptions under Section 10AA, 10BA, 11 and deductions under Chapter-VIA, as well as 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 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: Score for Degree of Complexity**

| Sl. No. | Parameter  | >15 cases | 1-15 cases | No Cases |
|---------|--|-----------|------------|----------|
| a.      | Presence of assesseees with annual turnover of at least ₹ 100 crore                    | 2         | 1          | 0        |
| b.      | Presence of any Banks, Financial Institutions, Share Brokers, Insurance Companies etc. | 2         | 1          | 0        |

| Sl. No. | Parameter  | >15 cases | 1-15 cases | No Cases |
|---------|--|-----------|------------|----------|
| c.      | Presence of cases involving exemptions under Section 10AA, 10BA, 11 and deductions under Chapter-VIA | 2         | 1          | 0        |
| d.      | Necessity for linking past records i.e. cases Involving Sections 32, 115JAA, and Chapter VI          | 2         | 1          | 0        |
| e.      | 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        |
| 1. Number of PDP paras noticed during the last three years |                        |                   |
| For category A offices                                     | For category B offices |                   |
| 10 or > 10   | 6 or > 6               | 3                 |
| 4-9  | 3-5                    | 2                 |
| < 4  | < 3                    | 1                 |
| 2. Whether Internal audit conducted                        |                        |                   |
| No   |                        | 3                 |
| Yes, but not regularly                                     |                        | 2                 |
| Yes  |                        | 1                 |
| 3. Extent of non-production of records in previous audits  |                        |                   |
| 10 per cent or more  |                        | 3                 |
| 5-9 per cent   |                        | 2                 |
| < 5 per cent   |                        | 1                 |
| Nil  |                        | 0                 |

| Classification Criteria  | Risk (Weight) |
|--|---------------|
| <b>4. Whether persistent Irregularity noticed during the last three audits (Paras on MAT credit, Set off/Carry forward of losses, Depreciation, Excess Refund, Interest computation under Section 234A/234B/234C etc.)</b> |               |
| Yes  | 2             |
| No   | 0             |
| <b>5. Number of Search/Survey action done in last three years</b>  |               |
| 10 or > 10   | 3             |
| 5-9  | 2             |
| 4-1  | 1             |
| Nil  | 0             |

The scheme is summarized in Table 6

**Table 6: Risk factors for all the units and assessments units within Commissionerate**

**Inherent Risk Factors**

| (a) Risk Factor  | Risk Score |
|--|------------|
| <b>1. Type of unit and Category of assesses</b>  |            |
| ACIT/DCIT with assessment functions (including Central Circles & International Taxation)                                 | 12         |
| ACIT/DCIT (Company) with Faceless Assessment   | 10         |
| ITO(Company) with Faceless Assessment  | 8          |
| ACIT/DCIT (Non-company) with Faceless Assessment or TDS Assessment   | 9          |
| ITO (Non-company) with Faceless Assessment or TDS Assessment   | 7          |
| ACIT/DCIT without assessment functions (viz. Administrative Officer, Transfer Pricing Officer and Tax Recovery Officer)  | 4          |
| ITO/others without assessment functions (viz. Administrative Officer, Transfer Pricing Officer and Tax Recovery Officer) | 2          |
| * Risk Indicator of 'Category of Assessee' clubbed with 'Type of Unit'   |            |
| <b>2. Demand in Arrears as on 31st March of the year</b>   |            |
| 10 <i>per cent</i> or more of the total Arrear Demand in CIT   | 6          |
| 5 <i>per cent</i> and <10 <i>per cent</i> of the total Arrear Demand in CIT  | 4          |
| <5 <i>per cent</i> of the total Arrear Demand in CIT   | 2          |

| (a) Risk Factor  |                                |                                | Risk Score |
|--|--------------------------------|--------------------------------|------------|
| <b>(B) Overall score of the Assessment Units within the Commissionerates</b>   |                                |                                |            |
| <b>I. Number of Scrutiny Assessments (Maximum Risk Weight=6)</b>   |                                |                                |            |
|  | <b>For Category 'A' Office</b> | <b>For Category 'B' Office</b> |            |
| <b>a.</b>  | > 100                          | 75-100                         | 6          |
| <b>b.</b>  | 51 to 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 assesses 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 cases of exemptions under Section 10A, 10B, 11 and deductions under Chapter-VIA & IV |                                |                                | 2          |
| <b>d.</b> Necessity of linking past records, i.e. cases involving Section 32, 115JAA and Chapter-VI                        |                                |                                | 2          |
| <b>e.</b> Number of appellate decisions/references in the Scrutiny Assess 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) **Categorization of CITs:**
  - a. First 25 *per cent* Commissionerates are to be categorized as high-risk Commissioners and to be audited annually.
  - b. 25 *per cent* of the balance Commissionerates are to be treated as Biennial and to be audited once in two years.
  - c. All residual units may be classified as Low-risk Commissionerates. These units are to be audited triennially, i.e., 33.33 *per cent* of the 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 rationalizing 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

To cover a larger number of Commissioners and screen out less potential units within the Commissionerates, intra-commissioner sampling is to be conducted. 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 the 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: 100 *per cent*
2. ITO(Hqrs.): 100 *per cent*
3. DDO: One 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 Hqrs. DO letter No. 263/RADT/78-2011/Vol-III dated 12/05/2012]

## Appendix-8

### List of Reports and Returns to be sent to DT Wing of C&AG Hqrs. (Reference: Paragraph 4.5.2)

| 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. 06/06/2012 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       | <p>Material for Chapter II of Compliance Audit Report (Audit Impact) in the following Annexures:</p> <p>a) Details of observations raised during local audit conducted during the year under different taxes</p> <p>b) Details of observations raised during the local audit conducted on underassessment and overassessment and departmental response thereof</p> <p>c) Details of DPs floated from observations on underassessment raised during local audit conducted during the year and earlier audit observations.</p> <p>d) Details of observations in case of over assessment and DPs floated</p> <p>e) Details of recovery at the instance of Audit</p> <p>f) Details of records not produced to audit in local audit conducted during the year</p> <p>g) CIT-wise details of same top assesses whose records are not produced to audit in three or more audit cycles</p> <p>h) Details of observations raised where remedial action became time-barred</p> <p>i) Details of observations raised where remedial action is likely to become time-barred</p> <p>j) Year-wise consolidated statement, showing outstanding observations (tax-wise)</p> <p>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</p> <p>l) Status -wise details of audit observations (over assessment &amp; under assessments) raised during the year</p> | CAG's Circular No. 360/RADT/76-2014 dated 29/05/2014   | C&AG         | 14 August or as prescribed by C&AG Hqrs. |

| Sl. No. | Particulars   | Authority  | To whom sent | Due date   |
|---------|---|--|--------------|--|
|         | m) Details in respect of audit of scrutiny assessments completed during the previous year and audited in the current year; and<br>n) Cases selected under CASS/Manual parameters but not scrutinized 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 the preceding year, or as prescribed by C&AG Hqrs. |
| 6.      | Monitoring Half-yearly progress of Integrated Annual Audit Plan (AAP)   | CAG's Letter No. 311/RADT/99-2013 dated 09/05/2014 |              | 7 October/<br>6 April  |
| 7.      | Quarterly Performance Report CAG's letter No. 655   | RADT/59/2013/Co-ordn. dated 12/11/2013             | C&AG         | 10th of April/July/October/January                           |

## Appendix-9

### Format of Quarterly Performance Report

(Reference: Paragraph 4.5.2)

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/<br>Supervisor | Asst. Sup/<br>Sr.Ar./Ar. | Others | Average No.<br>of parties in<br>operation in<br>the quarter |
|---------------------|--------|--------------------|--------------------------|--------|---|
| 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 Shortfall | Reasons for shortfall |
|                           | Assessment Charge                | Non-Assessment Charge | Total | Assessment Charge          | Non-Assessment Charge | Total |  |  |                            |                          |                      |                       |
|                           |                                  |                       |       |                            |                       |       |  |  |                            |                          |                      |                       |

| 3. Local Audit Reports |  |   |                                   |                              |                             |                  |         |
|------------------------|--|---|-----------------------------------|------------------------------|-----------------------------|------------------|---------|
| State                  | Total LARs<br>issued<br>during the<br>quarter<br>(including<br>'NIL' LARs) | No. of<br>'NIL' LARs<br>issued<br>during the<br>quarter | Issued<br>within the<br>due dates | No. of LARs issued belatedly |                             |                  |         |
|                        |  |   |                                   | Less than a<br>month         | Between<br>1 to 2<br>months | Over 2<br>months | Remarks |
|                        |  |   |                                   |                              |                             |                  |         |

**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 quarters | Percentage of total outstanding observations at the end of the quarters | Cleared during the quarter | Remarks |
|-------------------|--|---|----------------------------|---------|
| More than 5 years |  |   |                            |         |
| 3-5 years         |  |   |                            |         |
| 1-3 years         |  |   |                            |         |
| Less than 1 year  |  |   |                            |         |

**4. Position of PDPs**

| State | Opening Balance | Addition during the quarter | Conversion into SoFs/ DPs | Dropped during the quarter | Closing Balance | Remarks |
|-------|-----------------|-----------------------------|---------------------------|----------------------------|-----------------|---------|
|       |                 |                             |                           |                            |                 |         |

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

| State | Opening Balance | Issued during the quarter | Cleared during the quarter |                  | Closing Balance | Remarks |
|-------|-----------------|---------------------------|----------------------------|------------------|-----------------|---------|
|       |                 |                           | Converted into DPs         | Dropped/ Settled |                 |         |
|       |                 |                           |                            |                  |                 |         |

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

| State | Target of DPs | Sent upto the quarter |                |                 |                |                          |                |       |                |
|-------|---------------|-----------------------|----------------|-----------------|----------------|--------------------------|----------------|-------|----------------|
|       |               | Corporate Tax         |                | Income Tax (IT) |                | Other Direct Taxes (ODT) |                | Total |                |
|       |               | No.                   | TE (₹ in lakh) | No.             | TE (₹ in lakh) | No.                      | TE (₹ in lakh) | No.   | TE (₹ in lakh) |
|       |               |                       |                |                 |                |                          |                |       |                |

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

| State | Opening Balance | Received from C&AG Hqrs. during the quarters | Total number of verifications sent to the C&AG Hqrs. during the quarter | Replies pending for verification at the end of the 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 |                 | Held during the quarter | Held up to this quarter | Shortfall, if any, with reason |
|-------|---|-----------------|-------------------------|-------------------------|--------------------------------|
|       | During the quarter                            | During the year |                         |                         |                                |
|       |   |                 |                         |                         |                                |

**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 end of this quarter |                    |
|-------|--|--------------------|------------------------------|--------------------|-------------------------------------|--------------------|---|--------------------|
|       | No. of cases                                 | Amount (₹ in lakh) | No. of cases                 | Amount (₹ in lakh) | No. of cases                        | Amount (₹ in lakh) | No. of cases                              | Amount (₹ in lakh) |
|       |  |                    |                              |                    |                                     |                    |   |                    |

**10. PA/SSCA**

| Name of the PA/SSCA | 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/SSCA to CIT/ sending mid-term/final report to C&AG Hqrs./ Lead office |
|---------------------|-----------------|-----------------------------|-------------------------------------|----------------------------|---|
|                     |                 |                             |                                     |                            |   |

**11. Position of pendency of replies**

| State | No. of written replies pending at 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  |  |                              |  |         |
| <b>Total:</b>      |  |                              |  |         |

## Appendix-10

### Parameters for sampling of Scrutiny Assessment cases including Reassessment and Revision cases

{Reference: Paragraphs 4.5.3, 5.6.2 and 6.2(f)}

#### 1. Scrutiny Assessment Cases:

All scrutiny cases of Central Circle, Corporate Circles and IT&TP units are to be selected for detailed audit without going into any sampling procedure. However, the Field Audit Office, at its discretion, may not audit 100% of scrutiny cases in IT&TP units.

In other assessment units (except Central Circle, Corporate Circles and IT&TP units), sampling parameters as prescribed below are to be followed for selection of cases for Detailed Audit.

**1.1 Determination of Audit Population:** For the current purpose, this would be the basket of assessment files (including Reassessment files) from which cases are to be selected for detailed audit based on a pre-defined sampling methodology. In case of Annual Units, the audit population would consist of 100 *per cent* of assessment cases pertaining to the audit year. In respect of Biennial units, this would be 100 *per cent* of cases from the latest year, and 50 *per cent* of cases from the year before. For Triennial Units, such a percentage would be 100 *per cent* of cases from the latest year and 25 *per cent* each from the earlier years.

**Illustration 1:** If a triennial unit has 125, 110, 140 assessment cases during the latest audit year, the year before and the earliest audit year respectively, then the audit population would consist of  $(100\% \text{ of } 125 + 25\% \text{ of } 110 + 25\% \text{ of } 140) = 188$  files (rounding off to nearest unit place).

While selecting cases for audit population from earlier years in respect of Biennial and Triennial Audit, the following procedure is to be followed sequentially:

- i) Select cases where multiple numbers of assessments (either same or different AY) have been made during the audit years in respect of the same assessee.
- ii) If, after applying point (i) above, the number of cases falls short of 50 *per cent* or 25 *per cent*, as the case may be, of the population, then such shortfall is to be made good by selecting cases on the basis of descending order of assessed income/loss.

**1.2 Filling up Desk Review and Detailed Audit Part of Toolkit:** The Desk Review part of Toolkit is to be filled up only for assessment cases included in the Audit Population. Detailed Audit part of the Toolkit is to be filled up for assessment cases selected for detailed audit through sampling.

**1.3 What if Audit Population is small:** If the audit population determined as per paragraph 1.1 above comprises of 100 cases or less then all cases of the unit are to be selected for detailed audit without going into any sampling procedure (Desk Review and Detailed Audit part of Toolkit is to be filled up for all cases). However, the Field Office may decide to finally take up Detailed Audit of any number of cases at its discretion based on the audit resources.

## 1.4 Sampling Procedure for selection of cases for detailed audit

### 1.4.1 Mandatory Selection: All cases of Audit Population, where:

- i) Returned income/loss under a particular Head of Income, or
- ii) Addition made during assessment under a particular Head of Income, or
- iii) Returned income under MAT/AMT

is ₹ 50 Cr. (for Companies)/₹ 10 Cr. (for other than Company) or more, those cases are to be mandatorily selected for detailed audit. However, the Field Office may enhance or reduce the monetary threshold prescribed above based on the local circumstances.

**1.4.2 Sampling:** After identification of mandatory cases as per paragraph 1.4.1 above, the following ten sampling parameters are to be applied on the remaining cases of Audit Population and marked as either 'Y', if the given parameter equals or more than the threshold amount, or 'N' otherwise. Cases having two or more parameters marked as 'Y' are to be selected for Detailed Audit. However, for Charitable Trust, one parameter marked as 'Y' would be sufficient for selection.

| Table 1: Selection methodology |  |   |   |     |
|--------------------------------|--|---|---|-----|
| Sl. No.                        | Parameter  | Threshold Amount (in ₹)                     | Source of information                               | Y/N |
| 1                              | Returned income/loss under a particular Head of Income or assessed addition (except under Section 68 to 69D) under a particular Head of Income   | 1 Cr. (for Company)<br>20 Lakh (for others) | Schedule S, HP, BP, CG, OS of ITR, Assessment Order |     |
| 2                              | Depreciation as per IT Act/ Amount added to profit or loss after adjustment of depreciation as per IT Act/Amount deducted from profit or loss after adjustment of depreciation as per IT Act | 50 Lakh (for Company)/10 Lakh (for others)  | Schedule BP of Return                               |     |
| 3                              | Deduction against Capital Gain under Section 54 to 54GB  | 50 Lakh (for Company)/10 Lakh (for others)  | Schedule CG of Return                               |     |
| 4                              | Whether the case has been assessed under Section 147 or under Section 143(3) r.w.s. 144 (Best judgement manner)  | -   | -   |     |

| Sl. No.  | Parameter   | Threshold Amount (in ₹)                                       | Source of information                                | Y/N |
|--|---|---|--|-----|
| 5  | Addition under Section 68 to 69D r.w.s 115BBE                             | 50 Lakh (for Company)/10 Lakh (for others)                    | Assessment Order/ Computation Sheet                  |     |
| 6  | Deduction under chapter VIA   | 20 Lakh (for Company)/5 Lakh (for others)                     | Schedule VIA of Return                               |     |
| 7  | Tax relief in respect of taxes paid outside India/MAT/AMT credit utilized | 20 Lakh (for Company)/5 Lakh (for others)                     | Part B-TTI/Schedule TR/Schedule MATC of Return       |     |
| 8  | Set off or Carry forward of loss  | 20 Lakh (for Company)/5 Lakh (for others)                     | Schedule BFL, CFL, CYLA of Return, Computation Sheet |     |
| 9  | Exempt income including Public Charitable Trust                           | 50 Lakh (for Trust)/20 Lakh (for Company)/5 Lakh (for others) | Part B-TI or Schedule EI of Return                   |     |
| 10   | Refund (Cumulative of refund already issued and refund determined)        | 50 Lakh (for Company)/10 Lakh (for others)                    | Computation sheet                                    |     |
| <b>Note: The Field Office may enhance or reduce the monetary threshold prescribed above based on the local circumstances</b> |   |   |  |     |

**Illustration 2:** If a Unit has 175 assessment cases in the audit population out of which 30 cases satisfy the criteria for Mandatory Selection as per paragraph 1.4.1 above, then at first these 30 cases will be selected for Detailed Audit. Then, the sampling methodology as per paragraph 1.4.2 above will be applied to the remaining 145 cases.

**1.5 Lower floor limit:** For an Assessment unit (other than Central Circles, Corporate Circles and IT&TP unit where 100 *per cent* cases are to be selected for detailed audit), if the number of cases selected for detailed audit falls short of 100 cases or 50 *per cent* of the number of cases in the Audit Population, whichever is higher, then the shortfall is to be made up by the following procedure in sequence:

- i) Select cases having one 'Y'
- ii) Discretion of the Field Audit Office.

However, the Field Office may set the lower floor limit for a Detailed Audit of any number of cases at its discretion, based on available audit resources.

**Illustration 3:** If in a 'Mixed Circle', having 250 assessment files in the Audit Population, total 95 files have been selected for detailed audit after completing Mandatory Selection as per paragraph 1.4.1 and selection procedure as per paragraph 1.4.2, then  $(125 - 95) = 30$  more files are to be selected by applying procedure i) and ii) above in sequence.

**Illustration 4:** If in a Ward having 125 assessment files in the Audit Population, a total of 75 files have been selected for detailed audit after completing Mandatory Selection as per paragraph 1.4.1 and selection procedure as per paragraph 1.4.2, then  $(100 - 75) = 25$  more files are to be selected by applying procedure i) and ii) above in sequence.

On the other hand, if the number of cases selected for detailed audit is much more than the capacity of reasonable audit resources at hand, then the Field Office may decide to finally take up Detailed Audit of any number of cases at its discretion but the lower floor limit set by the FAO as mentioned above should be maintained.

## 2. Other than Scrutiny Assessment cases

**2.1 Selection of cases:** Files are to be selected from i) Consequential Orders, ii) Revision and Rectifications, iii) Penalties, iv) Refunds (>10 lakh) issued by the auditee unit during the period under audit as per the following norms:

**Table 2: Selection Process for Revisions, Rectifications, Penalties and Refund**

*(Figures in per cent)*

| Particulars                  | Annual Unit | Biennial Unit |              | Triennial Unit       |                      |              |
|------------------------------|-------------|---------------|--------------|----------------------|----------------------|--------------|
|                              |             | Earlier Year  | Current Year | 1 <sup>st</sup> Year | 2 <sup>nd</sup> Year | Current Year |
| Consequential Orders         | 100         | 100           | 100          | 100                  | 100                  | 100          |
| Revisions and Rectifications | 10          | 10            | 10           | 10                   | 10                   | 10           |
| Penalties                    | 10          | 10            | 10           | 10                   | 10                   | 10           |
| Refunds >10 lakh             | 100         | 100           | 100          | 100                  | 100                  | 100          |

Revision and Rectification cases as well as Penalty cases are to be selected for detailed audit on the basis of Tax/Penalty amount involved in decreasing order until the required quantum as per the above norms is fulfilled. On the other hand, all cases pertaining to Consequential Orders and Refund (>10 lakhs) are to be selected for detailed audit.

## 2.2 Filling up Desk Review and Detailed Audit Part of Toolkit:

In case of i) Consequential Orders, ii) Revision and Rectifications, iii) Penalties, iv) Refunds (>10 lakh), the Desk Review and Detailed Audit part of toolkit are to be filled up only in respect of cases which are selected for Detailed audit.

## Appendix-11

### 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/PDs 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) and 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), an intimation thereof will be sent to the DG/PD(DT) at C&AG Hqrs., 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 finalising audit plans and another when the findings of the 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 a 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 with 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-12

### 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. However, the FAOs may enhance/reduce the number of man-days, based on the number of assessment records to be audited and the availability of resources.

| 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                                |             | 12                                 |

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

**Note:** The HoD may prescribe the minimum number of records to be checked per day by each member of the audit team.

### Appendix-13

#### Audit Requisition for Information/Records of the Auditee Units

{Reference: Paragraph 6.2(e)}

(Refer C&AG Hqrs. letter No. 187-RADT/Work norms/1-2008, dated 22/06/2010, Annexure-II)

Important Information/records need to be called for:

| Sl. No. | Information/Records |  | Remarks            |
|---------|---------------------|--|--------------------|
| 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 applied?   | ITBA e-TDS<br>CASS |
| 2.      |                     | The name of concerned PCIT/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 assessed cases under various sections.   |                    |
|         | (c)                 | List of cases seen by Internal Audit Party and audit observation raised with tax effect.   |                    |
|         | (d)                 | 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 01/04/20__ (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 pertaining to the following category during the period 01/04/20__ (Year) to 31/03/20__ (Year):  |                    |
|         |                     | FY                      Summary                      Scrutiny                      Appeal effect   |                    |
|         |                     |  |                    |

| Sl. No. | Information/Records |   |                        |                        |                        | Remarks                          |
|---------|---------------------|---|------------------------|------------------------|------------------------|----------------------------------|
|         | (d)                 | Total assessed income in respect of all the assesseees in the assessment charge.  |                        |                        |                        |                                  |
|         |                     | FY  | Summary                | Scrutiny               | Appeal effect          | Rectification/<br>Revision cases |
|         |                     |   |                        |                        |                        |                                  |
|         | (e)                 | Total tax paid (including interest) in respect of all the assesseees in the assessment charge.  |                        |                        |                        |                                  |
|         |                     | FY  | Summary                | Scrutiny               | Appeal effect          | Rectification/<br>Revision cases |
|         |                     |   |                        |                        |                        |                                  |
| 6.      | (a)                 | Demand outstanding as on (up to previous year)  | 01/04/.....<br>₹ _____ | 01/04/.....<br>₹ _____ | 01/04/.....<br>₹ _____ |                                  |
|         | (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/.....<br>₹ _____ | 31/03/.....<br>₹ _____ | 31/03/.....<br>₹ _____ |                                  |
| 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 in come during the year.   |                        |                        |                        |                                  |
| 12.     |                     | Total assessed in come during the year.   |                        |                        |                        |                                  |
| 13.     |                     | Name and PAN of Top 20 companies/Assesseees on the basis of Taxable Income.   |                        |                        |                        |                                  |

| Sl. No. | Information/Records  | Remarks |
|---------|--|---------|
| 14.     | Name and PAN of Top 20 Companies/Assessees on the basis of Advance Tax payment.  |         |
| 15.     | Name and PAN of Top 20 Companies/Assessees returning a loss.   |         |
| 16.     | Name and PAN of Top 20 Companies/Assessees against whom penalty/prosecution cases are going on.  |         |
| 17.     | Name and PAN of Top 20 Companies/Assessees in respect of turn over during the period covered under audit.  |         |
| 18.     | Name and PAN of Top 20 Companies/Assessees against whom appeal cases are going on, where tax demand is in excess of ₹ 1 crore for Category 'A' states/₹ 50 lakh for Category 'B' States. |         |
| 19.     | Name and PAN of Top 20 Companies/Assessees against whom Search and Seizures were conducted during the last two/three years.  |         |
| 20.     | Name and PAN of Top 20 Companies/Assessees where survey was conducted during the last two/three years.   |         |
| 21.     | Name and PAN of Top 20 Companies/Assessees where Review Petitions under Section 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.   |         |

Note: Information in respect of Sl. Nos. 8 to 10, 13 to 23 may be furnished in a separate sheet.

## Appendix-14

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

{Reference: Paragraph 6.2(e)}

| Table 1: No. of stop filers and non-filers identified |                      |           |                       |                                       |            |                 |              |                     |                     |                |         |
|---|----------------------|-----------|-----------------------|---------------------------------------|------------|-----------------|--------------|---------------------|---------------------|----------------|---------|
| (₹ in lakh)   |                      |           |                       |                                       |            |                 |              |                     |                     |                |         |
| Status  | 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 | Total tax paid |         |
| Company   |                      |           |                       |                                       |            |                 |              |                     |                     |                |         |
| Firm  |                      |           |                       |                                       |            |                 |              |                     |                     |                |         |
| Trust   |                      |           |                       |                                       |            |                 |              |                     |                     |                |         |
| Co-op. Society  |                      |           |                       |                                       |            |                 |              |                     |                     |                |         |
| Others  |                      |           |                       |                                       |            |                 |              |                     |                     |                |         |

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

Audit Requisition to All Assessing Officers under the CIT charge and ITO (Hqrs.) under the concerned CIT charge

| Table 2: No. of new assesseees (PAN) identified |   |                                 |                           |         |
|---|---|---------------------------------|---------------------------|---------|
| Particulars                                     | No. of information received during the Financial Year | No. of cases where action taken | New assesseees Identified | Remarks |
| AIR   |   |                                 |                           |         |
| CIB   |   |                                 |                           |         |
| Search (if any)                                 |   |                                 |                           |         |
| Survey (if any)                                 |   |                                 |                           |         |
| Others (Tax evasion petition etc.)              |   |                                 |                           |         |
| <b>Total</b>                                    |   |                                 |                           |         |

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

Audit Requisition to All Assessing Officers under the CIT charge.

| Table 3: Effectiveness of surveys |                          |                              |                     |                     |         |
|-----------------------------------|--------------------------|------------------------------|---------------------|---------------------|---------|
| (₹ 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 |   |                              |                     |                   |         |
|---|---|------------------------------|---------------------|-------------------|---------|
| (₹ 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 1  |   |                              |                     |                   |         |
| Year 1  |   |                              |                     |                   |         |

(Sources: Survey Register, DCR, departmental database)

Audit Requisition to All Assessing Officer under the CIT charge.

| Table 5: Information on cases referred to TPO |                       |                                     |                              |                    |         |
|---|-----------------------|-------------------------------------|------------------------------|--------------------|---------|
| (₹ 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) |                    |          |                                       |  |                         |                     |                |         |
| (₹ 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 |  |                                      |         |                  |                     |                     |               |                  |                   |         |
|--|--|--------------------------------------|---------|------------------|---------------------|---------------------|---------------|------------------|-------------------|---------|
| (₹ 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 |         |
|  |  |                                      |         |                  |                     |                     |               |                  |                   |         |

(Sources: CAP I & II/DCR/Records available with AO)

Audit Requisition to All Assessing Officer under the CIT charge.

**Table 8: Information on Refunds**

| (₹ in lakh)          |                              |        |                          |        |                        |        |                              |        |
|----------------------|------------------------------|--------|--------------------------|--------|------------------------|--------|------------------------------|--------|
| 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 |
|                      |                              |        |                          |        |                        |        |                              |        |

(Sources: Refund Register)

Audit Requisition to All Assessing Officer under the CIT charge.

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

| (₹ in lakh)          |                        |                                    |                |                             |                |
|----------------------|------------------------|------------------------------------|----------------|-----------------------------|----------------|
| Financial year ended | Brought forward demand | Current years Collection of Demand |                | Carry forward of the demand |                |
|                      |                        | Arrear demand                      | Current demand | Arrear Demand               | Current demand |
|                      |                        |                                    |                |                             |                |

(Sources: CAP Report)

Audit Requisition to All Assessing Officer under the CIT charge.

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

(May be obtained from TROs only)

| (₹ in lakh) |                        |        |                       |        |                     |        |                     |        |                     |        |                     |        |
|-------------|------------------------|--------|-----------------------|--------|---------------------|--------|---------------------|--------|---------------------|--------|---------------------|--------|
| 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 |
|             |                        |        |                       |        |                     |        |                     |        |                     |        |                     |        |

(Sources: Quarterly progress Report of TRO)

| Table 11: Pre-assessment and Post-assessment collection |                      |                           |             |                     |                            |        |                  |               |                |
|---|----------------------|---------------------------|-------------|---------------------|----------------------------|--------|------------------|---------------|----------------|
| (₹ in lakh)   |                      |                           |             |                     |                            |        |                  |               |                |
| 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   |                      |                           |             |                     |                            |        |                  |               |                |

(Sources: Departmental Database)

Audit Requisition to All Assessing Officer under the CIT charge.

| Table 12: Position of Suspense accounts |                     |        |                          |        |                         |        |                     |        |
|---|---------------------|--------|--------------------------|--------|-------------------------|--------|---------------------|--------|
| {May be taken from ZAO/CIT(CO)}         |                     |        |                          |        |                         |        |                     |        |
| (₹ 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 |   |   |                      |                 |
|--|---|---|----------------------|-----------------|
| Section  | 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 Charge}

Audit Requisition to All Assessing Officer under the CIT charge.

| Table 15: Approval of various funds from Competent Authorities during the Financial Year |                     |                              |   |                      |                 |
|--|---------------------|------------------------------|---|----------------------|-----------------|
| Particulars  | 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/12AB — 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                      |                      |                              |                         |                          |                          |                                   |        |               |        |
|---|----------------------|------------------------------|-------------------------|--------------------------|--------------------------|-----------------------------------|--------|---------------|--------|
| (₹ in lakh)                                   |                      |                              |                         |                          |                          |                                   |        |               |        |
| Name of assessment unit under the CIT charges | Total no. of records | Records requisitioned by LAP | Records produced to LAP | Objections raised by LAP | 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 |   |        |                               |        |  |        |
|---|---|--------|-------------------------------|--------|--|--------|
| (₹ 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) charge and Assessing officers under the Assessment CIT Charges}

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

| Table 18: Follow up on Receipt Audit objection    |  |        |               |        |                              |        |
|---|--|--------|---------------|--------|------------------------------|--------|
| (₹ in lakh)                                       |  |        |               |        |                              |        |
| Name of the assessment unit under the CIT charges | Paras outstanding as 1 <sup>st</sup> 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**

| <b>Sl. No.</b> | <b>Number of register/document</b>      | <b>Whether maintained (Yes/No)</b> | <b>If yes, then audit may call it for examination and prepare any information it may deem relevant</b> |
|----------------|---|------------------------------------|--|
| 1              | Retention of books and documents        |                                    |  |
| 2              | Audit Register (Internal and 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 and III (WT)        |                                    |  |
| 11             | Folder of speedy processing of returns  |                                    |  |
| 12             | Folder of Quarterly Progress Reports    |                                    |  |

## Appendix-15

### Declaration to be given by the 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.)

---

Shri/Smt./Ms. \_\_\_\_\_ (Name), \_\_\_\_\_ (Designation) hereby declares 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 Central Civil Services (Conduct) Rules, 1964.

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 be having 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-16

### Commonly applied audit checks

(Reference: Paragraph 6.4 and 6.5)

| 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 and 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 under Section 147/153A, interest under Section 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 under Section 70 to 80 of the Act have been correctly computed and allowed and whether any record of losses to be allowed to set off in future has been maintained?   |
| 11.                  | Whether refunds, including interest, have been correctly computed and allowed and have been issued promptly? Whether interest on refund under Section 244 is granted to the assessee only when (a) the refund is more than 10% of tax payable, and (b) the delay in grant of refund is not attributable to the assessee? |
| 12.                  | Whether interest on refund, if any, received in the previous year is shown in the taxable income under the head 'Income from other sources'?   |
| 13.                  | While computing taxable income, whether disallowance of unascertained liabilities was taken care of?   |
| 14.                  | Whether disallowance under Section 14A has been made as per Rule 8D of the IT Rules?   |

|     |   |
|-----|---|
| 15. | Whether the amortized expenditures (e.g. under Section 35DD, 35D etc.) have been correctly allowed?<br><br>For the purpose of claim Under Section 35D in the case of corporate assessee, the total expenses are restricted to 5 <i>per cent</i> of cost of the project or 5 <i>per cent</i> of the cost of the capital employed, whichever is opted by the assessee and, in the case of non-corporate assessee, 5 <i>per cent</i> of the cost of the project. Further, one-fifth of such qualifying expenditure is allowable as deduction in each of the five successive years. |
| 16. | Whether the admissible expenditure claimed in the computation of taxable income is actually forming part of the profit and loss account?<br><br>a. Expenditure incurred for strengthening the capital structure of a company is capital in nature.<br><br>b. Whether share issue expenses, not eligible for amortization under Section 35D, have been allowed as revenue.   |
| 17. | Whether the exemptions/deductions under various Sections have been correctly computed and allowed?  |
| 18. | Whether all expenditure including the Capital or Revenue Expenditures have been correctly classified and allowed/disallowed accordingly?  |
| 19. | Whether payments otherwise than through crossed cheque have been verified for disallowance under Section 40A(3)?  |
| 20. | 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 under Section 43B etc., as qualified in the Auditor Report [Form 3CD] were taken care of?   |
| 21. | Whether the incomes of other persons have been considered, as per Sections 60 to 64 of the Act?   |
| 22. | Whether the provisions relating to Tax Deducted at Source including the prescribed rate of deduction, have been followed and the expenditures have been correctly disallowed where TDS has not been deducted or after deduction, not paid to the Govt. account within due date (there should be effective correlation between TAN and PAN and the AO should obtain required information from TDS certificates)?   |
| 23. | Whether the gross receipts as shown in the TDS certificates were considered for taxable purposes and the correct claim of tax credit was allowed?   |
| 24. | Whether the MAT has been correctly calculated and rightly set off in future years (wherever applicable)?  |
| 25. | Whether the accounts have been audited, wherever necessary and actions have been taken for any non-compliance thereto?  |
| 26. | Whether the information contained in the Auditors Certificates/Tax Audit Reports required for claiming different deductions has been duly considered?   |

|     |  |
|-----|--|
| 27. | Whether the return of income/loss has been signed by the authorized person as per Section 140?   |
| 28. | Whether the orders of the Appellate Authorities have been correctly effected to?   |
| 29. | 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)?   |
| 30. | Whether in respect of Co-Operative Societies, apart from the points mentioned above as applicable, the deductions allowed under Section 80P was examined?  |
| 31. | 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?   |
| 32. | Whether assessment has been seen by IAP/SAP of the department?   |
| 33. | 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?   |
| 34. | Whether the return of loss is filed within the time limit permitted under Section 139(1)?  |
| 35. | Whether income and expenditure from undisclosed sources has been brought to tax under Section 68 and 69 respectively and the tax has been computed under Section 115BBE? Attention should be given that no loss has been allowed to be set against such income w.e.f. AY 2017-18.  |
| 36. | <p>To link up past records and see if any addition/disallowance is required to be made on account of any of the following situations:</p> <ol style="list-style-type: none"> <li>Addition made in the past requiring similar action in the current year.</li> <li>Method of valuation not accepted in the past, requiring adjustment of values of opening stock and closing stock.</li> <li>Brought forward losses, allowances and depreciation not correctly shown in the return.</li> <li>Admissibility of deductions under Section 80HH, 80I, 80IA on the basis of past.</li> </ol> |
| 37. | To compute capital gain, the benefit of cost of indexation is to be given only in cases of Long Term Capital Assets.   |
| 38. | Whether in case of disposal of depreciable assets, capital gains arising out of the same, have been treated as Short Term Capital Gains only, under Section 50, irrespective of period of holding of the 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 the 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 an actual payment basis in accordance with relaxation under Section 43(B), vide amendments from 01/04/2006?                                     |
| 41. | If a return is submitted belatedly, deduction under Section 10A/10AA and 10B/10BA 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 the claims under various sections of Chapter-VIA are in accordance with Section 80AB viz. that deductions are claimed on net income (after expenses) and not on gross income? |

| Specific Audit Checks |   |
|-----------------------|---|
| Depreciation          |   |
| 1.                    | Whether the 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:<br>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?<br>b. Whether admissible depreciation has been claimed as deduction? |
| 4.                    | 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 <i>per cent</i> of prescribed percentage for assets used for less than 180 days?  |
| 5.                    | Whether the additional depreciation is claimed at the prescribed rates of 35 <i>per cent</i> or 20 <i>per cent</i> or 10 <i>per cent</i> as the case may be?  |
| 6.                    | In case where additional depreciation is claimed, whether it is ascertained that it is claimed only on the 'New' plant and machinery (excluding ship and aircraft)?   |
| 7.                    | Whether additional depreciation has been claimed by the assessee engaged in manufacturing activity, generation and distribution of power (w.e.f. AY 2013-14) and business of transmission of power (w.e.f. AY 2017-18)?   |
| 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:<br>a. Where WDV of the block of assets is reduced to zero?<br>b. Where block of assets is empty or ceased to exist on the last day of 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 correctly claimed asset-off against the current taxable income?  |
| 16. | In case of Amalgamation and 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 10AA

|    |   |
|----|---|
| 1. | Whether the assessee has a newly established unit in SEZs and began manufacture or production or articles in A.Y. 2006-07 onwards and before 01/04/2021?  |
| 2. | It is to ensure that the unit has not been formed by splitting or re-construction of an already existing business and old machineries must not be used.   |
| 3. | Whether the assessee has filed audit report in form 56F along with the Income-tax return?   |
| 4. | Whether deduction has been claimed in respect of profit from export at a rate of (a) 100% for the first 5 years from the beginning and 50% for next 5 years and (b) 50% for further 5 Years subject to creation of "Special Economic Zone Reinvestment Allowance Reserve Account".  |
| 5. | Whether SEZ Reinvestment Reserve Account has been created to claim benefit for 6th year onwards?  |
| 6. | If the amount credited to the reserve account has not been utilized before the expiry of the specified period or utilized for some other purpose, then whether the deduction availed has been treated as deemed income in the year immediately following the period of three years in the former case and in the year in which it has been utilized in the latter case? |
| 7. | Whether profit has been computed as per the following formula:<br>Profit from the business of the undertaking × Export Turnover ÷ Total Turnover of Undertaking   |

|     |  |
|-----|--|
| 8.  | Whether amount of deduction under this section has been allowed from the total income of the assessee computed in accordance with the provisions of this Act, before giving effect to the provisions of this section and the deduction under this section has been restricted to the total income of the assessee? |
| 9.  | It is to ensure that the assessee has not claimed deduction under Sections 80HH, 80HHA, 80I, 80IA, 80IB with respect to the same undertaking.  |
| 10. | Whether the unit/undertaking has already claimed benefit under Section 10A and if so, whether the benefit has been availed subsequently only for unexpired period?   |
| 11. | It is to ensure that the export turnover does not include freight, telecommunication charges or insurance attributable to the goods outside India or any expenses incurred in foreign exchange in rendering of services outside India.   |
| 12. | The deduction is not available on other income like interest etc.  |

#### **Special Tax Regime under Section 115BAC/115BA/115BAA/115BAB/115BAD**

|    |  |
|----|--|
| 1. | In case where the option is exercised for the special tax regime by an individual/HUF (Section 115BAC), a domestic company (115BA/115BAA/115BAB) or a resident co-operative society (Sec. 115BAD), the claim of exemptions/deductions should be regulated as per the provisions therein. |
|----|--|

#### **Charitable Trusts and Institutions**

|    |   |
|----|---|
| 1. | Whether the Trust is registered under Section 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 the audit report, in Form 10B, has been filed or not?   |
| 5. | Applying the proviso to Section 2(15), if the objects of the trust are not found to be charitable, whether the 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 has been treated as income of the 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 to a charitable purpose to claim exemption? If not, whether the shortfall of such application has been made taxable income?            |

|     |  |
|-----|--|
| 9.  | In cases, where income or part thereof has been accumulated or set apart, <ol style="list-style-type: none"> <li>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?</li> <li>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?</li> </ol>   |
| 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 Sections 11(2)(a) and (2)(c)}   |
| 13. | As per proviso to Section 11(1)(c), the assessee has to take prior approval of the Board, 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: <ol style="list-style-type: none"> <li>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.</li> <li>If the trust carries out business not for its objectives.</li> <li>If the income or property is applied or used for the benefit of the persons specified in Section 13(3) of the Act.</li> </ol>   |
| 16. | Whether tax has been levied at the maximum marginal rate in the following circumstances: <ol style="list-style-type: none"> <li>Where the trust has been created after March 31, 1962, (i.e. after commencement of the Act) and any part of the income of the trust, ensures, under the terms of the trust deed, directly or indirectly, the benefit of specified categories of persons such as, the authors of the trustee or manager etc.?</li> <li>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?</li> <li>Where trust funds have been invested in contravention of Section 11(5)?</li> </ol> |
| 17. | Whether the department is verifying the nature of donations?   |

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| 18. | Whether the department is charging tax on anonymous donations as per the provisions of Section 115BBC?   |
| 19. | Whether all assessees, who have been granted approval/registration for becoming eligible for claiming exemptions, have been filing their returns of income?  |
| 20. | Whether any benefit has been drawn, directly or indirectly, by interested persons?   |
| 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 has been allowed depreciation on assets, despite claiming the whole amount of expense, under application of income, in the year of expense?   |
| 23. | Whether dual benefit has been taken in regard of borrowed funds: one by including them under 'application of income', under the head 'addition to fixed assets' and another at the time of repayment of loan?  |
| 24. | Whether the trust had made an application for registration in the prescribed Form 10A, to the appropriate authority, before 1/7/1973, or expiry of a period of one year from the date of creation of trust, whichever is later?  |
| 25. | In a case where the 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 account?  |
| 26. | Whether the return of income of the trust or institution has been submitted within the time allowed under Section 139(1), if the total income of the trust/institution (before giving exemptions under Sections 11 and 12) exceeds the maximum amount which is not chargeable to tax?                    |
| 27. | Whether as per the provisions of Section 12AB as inserted by the Finance Act, 2020 w.e.f. October 1, 2020 all charitable institutions which are currently registered under Section 12A/12AA have applied electronically for the fresh registration under Section 12AB within the prescribed time limits? |

| 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 remuneration and interest was authorized by the partnership deed?  |
| 4.   | Whether the rate of interest, paid to the partners, on the amount standing in the capital account is within the prescribed limit of 12 <i>per cent</i> and is as per partnership deed, in terms of Section 40(b)(iv)? |
| 5.   | Whether interest on debit balances due to drawings has been charged for interest, as per the partnership deed?  |

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| 6.  | Whether, in case of changes in the constitution of the firm, carry forward and set-off of losses was allowed, as per the provisions of Section 78?   |
| 7.  | Whether exemption under Section 10(2A) has been claimed on the share of profits, received by the partners? If so, whether the expenditure, claimed by the partners, has been disallowed under Section 14(A), read with Rule 8D of the 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 the Annual Information Report (AIR), available to them in the Individual Transaction Statement (ITS) and Annual Information Statement (AIS)?               |
| 10. | Whether the assessment has been made correctly, in regard to cases of surveys conducted under Section 133A of Act, tax demand raised and collection thereof?   |
| 11. | Whether there are any lacunae 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 have been complied with by the Firms in computing their Income?  |
| 13. | Whether the department has developed any mechanism or system wherein cross-verification/check of assessment of firms, with the assessment of their partners, may be carried out?   |
| 14. | Whether all assets and liabilities, relating to the business of the firm immediately before succession, became the assets and liabilities of the company?  |
| 15. | Whether the 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 <i>per cent</i> of the 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?   |
| 18. | Whether the Assessing Officer (AO) had adhered to CBDT's Circular No. 12/2019 dated 19/6/2019 (This Circular is applicable to limited scrutiny as well)?   |
| 19. | Whether the AO had called for a copy of partnership deed during the course of the assessment proceedings?  |
| 20. | Whether remuneration was paid only to the working partners?  |
| 21. | While computing the remuneration payable to working partners, the remuneration should not exceed a particular aggregate amount which is based on the figure of "book profit". Whether the book profit has been arrived as per Explanation-3 to Section 40(b) of the Act? |

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| 22. | While computing book profit for the purposes of Section 40(b)(v), whether incomes such as capital gain, interest, income from house property, income from other sources etc. have been excluded? |
| 23. | Whether, while framing assessment of firms, a cross-verification of the remuneration and interest paid to the partners, with the income-tax return of firm's partners, has been made?            |

| <b>MAT/AMT or Tax under Special provisions</b> |   |
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| 1.   | Whether Minimum Alternate Tax (MAT) has been levied on book profits calculated under Section 115JB?   |
| 2.   | Whether interest has been paid in respect of MAT credit?  |
| 3.   | Whether the Chartered Accountant has furnished a report (in Form 29B), certifying that the book profit has been computed in accordance with the provisions of Section 115JB?  |
| 4.   | Whether the Chartered Accountant has furnished a report (in Form 29C), certifying that the book profit has been computed in accordance with the provisions of Section 115JC?  |
| 5.   | Whether the Alternate Minimum Tax (AMT) has been levied in case of assesses, other than companies, under Section 115JC, applicable w.e.f. AY 2013-14 (AY 2012-13, in case of Limited Liability Partnership Firms)?            |
| 6.   | MAT credit is available under Section 115 JAA from the assessment year 2007-08. Whether it has been ensured that the tax payable, after availing MAT credit, is not less than the tax payable under MAT for the current year? |

| <b>Income from Business and Profession</b>  |  |
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| Under the Act, expenditure not being capital expenditure or personal expenses of the 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 a non-business purpose. It should be wholly and exclusively for the purposes of business or profession.                      |
| 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 Sections 36 (1)(vii) and (viii)], advances and claims etc., have not been allowed. |

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| 5.  | Whether deduction under Section 36(1)(va) of the Income Tax Act has been allowed for amounts paid within the due date to the relevant fund? If the said amounts have not been paid within the prescribed due date then the same should be treated as the income of the assessee, as per the provisions of Section 2(24)(x).  |
| 6.  | Under the Act, assessee following the mercantile system of accounting work 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. The 'Tax Audit Report in Form-3CD' and 'Notes on accounts' need to be checked for compliance in this regard. |
| 7.  | Whether:<br>a. Credit for all receipts that have become due during the relevant previous year has been taken.<br>b. Expenses debited to the account pertain to relevant previous year only.  |
| 8.  | Whether revenue recognized is in accordance with the Income Computation and Disclosure Standards (ICDS) IV?  |
| 9.  | Whether inadmissible expenses/accrued income, reported in the Tax Audit Report, have been considered, while computing the profit and gains from business or profession income?   |
| 10. | Whether Notes on accounts have been verified properly?   |

| <b>Deductions allowable to Long term Finance Institutions under Section 36(i)(viii)</b> |   |
|---|---|
| 1.  | Whether the institution has been carrying on the business of specified long term finance?   |
| 2.  | Whether the assessee has created and maintained special reserve?  |
| 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.  | In case the aggregate of reserve created under exceeds 200% of the paid up share capital and general reserve, no deduction is allowable on such excess.   |
| 5.  | Whether the deduction allowed is equivalent to:<br>a. the amount transferred during the previous year to the special reserve account created for the purpose of Section 36(1)(viii); or<br>b. 20% of the profits derived from the business of providing long-term finance before claiming deduction under Section 36(1)(viii); or<br>c. 200% of (paid-up share capital and general reserve as on the last day of the previous year) minus the balance of the special reserve account on the first day of the previous year, whichever is lower. |

| Carry forward of losses/unabsorbed depreciation |   |
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| 1.  | No loss, under the heads 'income from business or profession', 'capital gains' and 'house property', is allowed to be carried forward, for more than 8 assessment years (AY) immediately succeeding (the AY for which the loss was first computed. In case of speculation loss the period is restricted to 4 AYs. Compliance in this regard, needs to be checked. |
| 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. Compliance in this regard, needs to be checked.  |
| 3.  | Whether the loss, set off during the year was actually allowed to be carried forward during the previous assessment?  |
| 4.  | The carried forward business loss, of the previous year, is not to be set-off against income under other Heads. Compliance in this regard, needs to be checked.   |
| 5.  | Deductions under Chapter VI A 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 VI A is admissible. Compliance in this regard, needs to be checked.   |
| 6.  | Whether unabsorbed depreciation has been set off with all income, except salary?  |
| 7.  | Whether long term capital loss has been set off with only long-term capital gains?  |
| 8.  | Whether short term capital loss has been set off with only capital gains (short term or long term)?   |
| 9.  | Whether house property loss has been set off with income under house property only?   |
| 10.   | Whether loss from the activity of owning and maintaining racehorses, winning from lotteries and crosswords puzzles, etc., has been set off with the respective income, until 4 years?   |

| Transfer Pricing |  |
|------------------|--|
| 1.               | Whether the assessee has filed Form 3CEB in respect of international transactions?   |
| 2.               | Whether International transactions, valued at more than ₹ 15 crore, have been referred to the Transfer Pricing Officer (TPO)?  |
| 3.               | If any additions were made by the TPO, whether the same have been considered by the AO?  |
| 4.               | Whether Deduction under Section 10AA or under Chapter VI A has been disallowed in respect of transfer pricing adjustments by the AO?<br><br>Whether addition made by the TPO has been excluded while giving deductions under Section 10A and 10B and Chapter VI A? |
| 5.               | Whether a permanent establishment exists, as per DTAA?   |

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| 6.  | Whether all the conditions prescribed for determining a place of business as a 'permanent establishment' are fulfilled?  |
| 7.  | Whether Head Office expenses, in case of non-residents, have been correctly allowed under Section 44C, by restricting the deduction to five <i>per cent</i> of the 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 (as revised by instruction 3 of 2016)?  |
| 9.  | Whether all the transactions between different AEs have been reported by the assessee, in 3CEB audit report? If no, whether unreported transactions, if any, were taken up by the TPO, for detailed scrutiny?                              |
| 10. | Whether adjustments have been made by the TPO on unreported transactions?  |
| 11. | Whether the aggregate value of specified domestic transactions, as per Section 92BA, exceeds ₹ 5 crore (₹ 20 crore w.e.f 01/04/2016 vide Finance Act 2015) . If yes, whether the 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 were initiated, as per Sections 271AA and 271G?   |
| 13. | Whether the assessee has opted for safe Harbour Rule under Section 92CB by filing Form 3 CEFA with the AO, on or before the due date of filing the return of income?   |
| 14. | Whether the assessee has opted for safe Harbour Rule under Section 92CB by filing Form 3CEFA with the AO, on or before the due date of filing the return of income?  |
| 15. | Whether the reference has been made within two months from the end of the month in which Form 3CEFA was received by the AO?  |
| 16. | Whether the order Under Section 92CA(3) for determination of arm's length price of international/specified domestic transactions was passed by the TPO within the prescribed time limits as laid down Under Section 92CA(3A)?              |
| 17. | Whether the transfer price, declared by the assessee, in respect of international transaction, has been accepted by the TPO, if it is in accordance with the circumstances specified sub-rule 10TD(2)?                                     |
| 18. | Whether the Operating Cost (OC), Operating Revenue (OR) and percentage Operating Margin (OM) i.e. operating profit/loss of the Tested Party, were correctly computed?  |

| International Taxation |   |
|------------------------|---|
| 1.                     | For the purpose of taxation of income in India, whether income has been determined correctly, as per the provisions of Section 5(2), and the resident status of the assessee has been determined correctly, as per the provisions of Section 6(1) of the Act? |
| 2.                     | In case of an assessee, being a company resident in India and having a subsidiary outside India, whose place of effective management is in India, whether the income of the subsidiary was considered for taxation in India?                                  |

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| 3. | Whether all the income, deemed to have accrued or arisen in India, as per the provisions of Section 9 of the Act, has been duly considered for taxation?   |
| 4. | Whether the dividend of foreign subsidiaries, if declared, is included in the worldwide income of the resident company and taxed as per the provisions of Section 115BBD?  |
| 5. | Whether from AY 2017-18, royalty and fees for technical service, rendered by a foreign company or a non-resident non-corporate assessee, from government or an Indian concern, has been taxed at the rate of 10%, if an agreement has been made at any time after 31 March 1976? |
| 6. | Whether the provision of taxation on Gross Basis, as per Sections 44B, 44BB, 44BBA, 44BBB, 44C, 44D and 44DA, are applicable to non-residents?   |
| 7. | Whether the benefit of increased basic exemption limit, for women and senior citizens, has not been given to non-residents?  |
| 8. | Whether relief under Section 90/91 has been calculated accurately, taking into consideration DTAA?   |

#### Procedures relating to Refunds

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| 1. | Whether interest on refund is being calculated correctly at the rate of one and half <i>per cent</i> per month or part thereof? |
| 2. | Whether the period for which the assessee is entitled to interest is being arrived at correctly?                                |
| 3. | If any delay is attributable to the assessee, whether such period is being excluded while calculating interest?                 |

#### Procedures relating to giving Appeal Effect

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| 1. | On receipt of the CIT(A) order, whether the consequential order was passed promptly and correctly, within the stipulated time?   |
| 2. | Whether the CIT has obtained an 'Appeal Scrutiny Report' from the AO, giving details of the assessee, assessment order, AO's remarks on the points allowed by the CIT(A), as well as the suggestions and recommendations of the Range Officer, regarding preferring appeal to the ITAT?  |
| 3. | Whether the PCIT/CCIT/CIT directed the AO to file an appeal to the ITAT or High Court within 60 days from the receipt of the CIT(A) order and 120 days from the receipt of the ITAT order, respectively?   |
| 4. | <p>A departmental appeal, before the ITAT, requires the tax effect involved in appeal to exceed ₹ 50 lakh (CBDT Circular No. 17 of 2019). It, however, needs to be verified whether the following cases of adverse judgement have been appealed against before ITAT, even though the tax effect is less than ₹ 50 lakh:</p> <p>a. Where the Constitutional validity of the provisions of an Act or Rule is under challenge, or</p> |

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|    | <ul style="list-style-type: none"> <li>b. Where the Board's order, Notification, Instruction or Circular has been held to be illegal or <i>ultravires</i>, or</li> <li>c. Where Revenue Audit's objection in the case has been accepted by the Department.</li> <li>d. Writ matters.</li> <li>e. Matters pertaining to other direct taxes, i.e. other than Income-Tax (as amended by the Finance Act, 2022).</li> <li>f. Where the tax effect is not quantifiable or is not involved, such as case of registration of trusts or institutions under Section 12A.</li> <li>g. Where the addition relates to undisclosed foreign assets/bank accounts.</li> </ul> |
| 5. | 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)]?   |
| 6. | In case of adverse judgement, whether the PCIT or CIT directed the AO to make an appeal before the ITAT, in cases where the tax effect is more than ₹ 50 lakhs, before the High Court, where the tax effect is more than ₹ 100 lakhs or before the Supreme Court, where the tax effect is more than 200 lakhs?   |
| 7. | As per CBDT instruction No. 05/2008, where appeal was not preferred due to the tax effect being lower than the specified limit, 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. Compliance in this regard, needs to be checked.   |
| 8. | <ul style="list-style-type: none"> <li>a. While computing the tax effect, the tax effect, in regard to each AY, should be considered separately, and an 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.</li> <li>b. However, in case the 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.</li> </ul>  |

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

#### Procedures relating to Revision and Rectification

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| 1. | <p>For the period up to 31/03/2021, whether notices, under Section 148, were issued after the expiry of 4 years, or 6 years in case of escapement of tax of ₹ 1 lakh or more, or 16 years in case of escapement of tax in respect of an asset located outside India, from the end of the relevant AY in which assessment under Section 143(3) or 147 has been made?</p> <p>For the period commencing on 01/04/2021, notice under Section 148 would be required to be issued prior to the lapse of 3 years, or ten years from the end of the relevant AY, unless the AO is in possession of books of accounts revealing escapement of tax of ₹ 50 lakh or more in form of (i) an asset, (ii) expenditure in respect of a transaction or an event or occasion or (iii) an entry/(ies) in the books of accounts. Compliance in this regard, needs to be checked.</p> |
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| 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? Whether the order was found to have been erroneous in the sense that AO had misapplied the law, drawn a wrong inference from the facts, or had 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 an appeal against the assessment was pending/decided?   |
| 6.  | Was a notice issued to the assessee, indicating the reasons for the proposed modification of the order? Was the assessee given the opportunity to be 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 prejudicial to revenue under Section 263, made within two years from the end of the FY in which the assessment order was passed?<br>(The time limit does not apply to a Revision Order passed to give effect to any finding or direction of an order of the Appellate Tribunal/National Tax Tribunal/High Court/Supreme Court)  |
| 9.  | Did the Commissioner <i>suo moto</i> revise any order that was passed more than one year ago?  |
| 10. | Was the application by the assessee, in case of revision of order (under Section 264), not prejudicial to revenue?<br>a. made within one year from the date on which the order in question was communicated to him or he otherwise came to know of it, whichever is earlier.<br>b. In case the period of one year had expired, was the petition seeking condonation filed by the assessee and the Commissioner was satisfied that there were justified reasons which had prevented the assessee from applying within one year. |
| 11. | Has the Commissioner ensured before admitting revision petition:<br>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.<br>b. the order sought to be revised has not been made subject of appeal to CIT(A) or to the ITAT.  |
| 12. | Was the revision order passed within the time limit?<br>a. <u>in case of <i>suo moto</i> revision</u> : within one year from the date of order sought to be revised.   |

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| 12. | b. <u>in case of revision petition by assessee</u> : within one year from the end of the FY in which the application was made by the assessee.   |
| 13. | Did the CIT call for a report from the Assessing Officer?<br>a. Did the AO discuss, in the report, the issues involved, his contentions and the reasons why the relief claimed should be allowed or not?<br>b. Whether the assessee had co-operated in the assessment proceedings and paid taxes for the three earlier AYs? Whether a similar issue was involved in any earlier year and how it was dealt with?  |
| 14. | Where relief was decided not to be allowed, or allowed partly, whether the assessee was given the opportunity of being heard?  |
| 15. | Has the Revision Order enhanced the tax liability of the assessee?   |
| 16. | Whether the Range Officer has completed the prescribed number of assessments?  |
| 17. | 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 is to be determined by the AO. For this purpose, it needs to be verified whether the AO had obtained prior approval of the Range Officer (explanation 3 to Section 43)?   |
| 18. | For issuance of notice under Section 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?   |
| 19. | Notice under Section 148, for re-assessment under Section 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. Was this condition fulfilled?   |
| 20. | Whether the conditions prescribed for notice under Section 148 have been fulfilled?  |
| 21. | Where an order of assessment/re-assessment, in respect of each AY referred to under Section 153A(1)(b) or under Section 153B (1)(b), was passed by an AO below the rank of JCIT, whether prior approval of the JCIT was obtained?  |
| 22. | a. The Range Officer (JCIT) can issue directions under Section 144A. In this regard, the following needs to be verified:<br>i. Whether the Range officer (RO) has maintained a separate file for each case and noted the reasons for initiating proceedings under Section 144A, in case of suo moto action (these files are subject to appellate scrutiny)? In case of suo moto action under Section 144A, whether the RO has intimated the AO and forwarded a copy of the reasons recorded and called for his report and case records?<br>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)? |

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|     | <p>b. Whether the RO has given the assessee an opportunity of being heard, before issuing directions which are prejudicial to his interests?</p> <p>c. Directions on the lines of investigation are confidential in nature and should not form part of other directions under Section 144A. For this purpose, whether separate folders were maintained?</p> <p>d. Whether the Range Officer issued directions which are outside the jurisdiction of AO?</p> <p>e. Whether the Range Officer's directions were ignored by the AO?</p> <p>f. Whether a copy of the directions issued was endorsed to the CIT?</p> <p>g. After issue of directions, whether the RO monitored the development in the assessment proceedings.</p> <p>h. After completion of assessments, whether the AO sent copies of the Assessment Order to the RO and the CIT.</p> |
| 23. | 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)?  |
| 24. | Whether the cases selected include cases taken up for scrutiny with the permission of the CCIT?   |
| 25. | Whether the assessment cases of 'PSUs' and 'loss making concerns' were excluded for issue of directions?  |

| Procedures relating to Search and Seizure |  |
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| 26.                                       | Once the notification under Section 127 is passed, whether all the relevant case records were immediately transferred to the Assessing Officer to whom the case is assigned?   |
| 27.                                       | Whether the procedure relating to custody and release of seized material is being adhered to?  |
| 28.                                       | Whether the cash seized was deposited in the Jurisdictional Commissioner's personal deposit account?   |
| 29.                                       | 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?   |
| 30.                                       | 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 the search (Section 132B)? |
| 31.                                       | Whether the cash seized was adjusted against existing liability, in the manner provided under Section 132B?  |
| 32.                                       | Whether seized assets, other than cash, were applied for discharge of any liability, in accordance with Section 132B (iii), read with the third Schedule?  |

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| 33. | Whether simple interest, at the rate of one half <i>per cent</i> for every month or part thereof, on the excess amount, is being correctly calculated and paid?   |
| 34. | Whether the seized records were handed over to the AO by the authorized officer within two and half months from the date of search?   |
| 35. | 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?   |
| 36. | Whether a register of seized books and documents is being maintained?   |
| 37. | 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?  |
| 38. | Whether the assessee is being allowed to inspect the seized records and copies of statements given to them, within 15 days from the date of receipt of their applications?  |
| 39. | While making assessment, whether the Assessing Officers have maintained uniformity in making additions (i.e. whether a lump sum amount was added or whether addition was made on percentage basis)?   |
| 40. | Whether the AO has assessed or reassessed the total income of a person where search is initiated or books of accounts/other documents/any assets are requisitioned, for six Assessment Years (AYs) immediately preceding the Assessment Year (AY) relevant to the Previous Year (PY) in which search is conducted or requisition is made?   |
| 41. | Whether the amounts of undisclosed income, found during search operations, indicated by the investigating officer, in the appraisal report, have been included in the assessment order? Whether the reasons for non-inclusion of any amount of undisclosed income, found during search operations, indicated by the investigating officer, in the appraisal report, are recorded in the assessment order and whether the same have been cross-verified with corroborative evidence? |
| 42. | Whether the searched assessee, who was allowed to file an application for settlement, had offered additional income-tax, payable on the income disclosed in the application exceeding fifty lakh rupees and entities related to the searched person had offered additional income-tax, payable in their application exceeding ten lakh rupees, under Section 245C of the Act (The provision of this Section will not apply w.e.f. 01/02/2021 vide the Finance Act, 2021)?           |

#### Procedures relating to Recovery of Tax

|     |  |
|-----|--|
| 43. | 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)? |
| 44. | Whether the TRO drew up a statement, in the prescribed form (recovery certificate), whenever an assessee was in default, or was deemed to be in default in making a payment of tax?      |

|     |   |
|-----|---|
| 45. | Whether the AO had sent the details to TRO, for drawing up of tax recovery certificates?  |
| 46. | Whether the assessing officer had sent the statement in Form No. 57, accompanied by details of both-movable and immovable-assets of defaulters?   |
| 47. | Whether the AO had drawn up the recovery certificate at the end of financial year, after permission of JCIT/Addl. CIT?  |
| 48. | Whether the AO had conducted quarterly reviews, to decide which cases shall require drawing up of statement, under Section 222 of the Act?  |
| 49. | Whether the AO had made entries in the demand and collection register, in cases where tax recovery certificates had been drawn?   |
| 50. | Whether, after drawing the 'tax recovery certificate', the TRO had exercised powers Under Section 226 of the Act?   |
| 51. | Whether variations in demand, on account of rectification, revisions, appeals etc., had been properly intimated to the TRO?   |
| 52. | <p>Whether the procedure prescribed in the third Schedule to the Income Tax Act was followed?</p> <p>The following important audit checks may be exercised in this regard:</p> <ol style="list-style-type: none"> <li>Whether a warrant was issued in the name of the defaulter and notice was served (Rule 20)?</li> <li>Whether the property was attached, despite payment of the amount due by the defaulter, upon receipt of notice (Rule 22)?</li> <li>Whether a proclamation was made and whether the sale was made by public auction (Rules 39 and 44)?</li> <li>Whether the sale was made within 15 days of affixture of proclamation in the office of the TRO? Whether the consent of the defaulter was 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)?</li> <li>Whether the value of the property attached was far higher than the amount due from the defaulter (Rule 34)?</li> <li>Whether the sale was stopped upon realization of the amount due, after sale of one or more lots (Rule 43)?</li> </ol> |
| 53. | Whether the sale of the property was postponed for want of bidders at or above the Reserve Price specified?   |
| 54. | Whether the AO was authorized by the CCIT/CIT to accept the property?   |
| 55. | Whether the price of the property was as agreed between the AO and the defaulter?   |
| 56. | Whether possession of the property was delivered to the AO?   |

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|-----|--|
| 57. | 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 instalment scheme granted. The CIT should be satisfied that: <ol style="list-style-type: none"> <li>The payment of the interest would cause genuine hardship to the assessee,</li> <li>The default in payment of which the interest is payable, was due to circumstances beyond the control of the assessee, and</li> <li>The assessee had co-operated in any inquiry relating to the assessment or any proceeding for recovery of amount due from him.</li> </ol> |
| 58. | Whether the TRO is maintaining all requisite registers, namely cash book, register of movable and immovable property attached and sold, execution register, stay register, register of daily reduction/collection of certified demand, installments register, disposal register, closed certificate register, custody register, register of recovery (in case of companies in liquidation, BIFR and sick companies), remission register and transfer memo?   |

| Procedures relating to Write off/Scale down of Demand |  |
|---|--|
| 59.   | Whether there is any case of write-off of demands in the CIT charge? If yes, whether such write-off is in compliance with the procedures prescribed under the Rules, as well as the Delegation of Financial Powers Rules. The following detailed audit checks may be exercised in this regard: <ol style="list-style-type: none"> <li>Whether the arrears are outstanding for more than 3 years?</li> <li>Whether the assessee has died/is not traceable/has left India?</li> <li>Whether the firm has been dissolved and its business has been discontinued?</li> <li>Whether the company has gone into liquidation and has no attachable assets?</li> <li>Whether all the efforts for recovery, as per the Rules laid down in Schedule-II, including recourse to civil imprisonment of the defaulter, have been exhausted and the arrear demand still remains unpaid?</li> <li>Whether the prescribed limits for write-off were followed?</li> </ol> |
| 60.   | Whether the AO made a self-explanatory note, indicating the steps taken for recovery and justifying the need for write-off, before forwarding the write-off proposal? Whether the AO had obtained a certificate of recoverability from the TRO?  |
| 61.   | 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? <ol style="list-style-type: none"> <li>Original minutes of the Zonal Committee, self-explanatory brief of the AO/TRO, recommendations of the CIT, Range Officer in brief.</li> <li>Complete details of the demand outstanding, nature of demand raised, date of notice of demand, copies of assessment order, appeal orders etc., recoverability certificate by the TRO.</li> </ol>  |

|     |  |
|-----|--|
|     | <p>c. Copies of the report of the Inspector/AO/TRO, regarding availability of assets with assessee, if any.</p> <p>d. Form B, giving complete replies to all questions indicated therein.</p>  |
| 62. | <p>Whether it was ascertained, by the authority writing-off arrears of tax, that:</p> <p>a. 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</p> <p>b. there has not been any serious negligence on the part of any government servant, which may call for disciplinary action by higher authority?</p> |
| 63. | Whether there are any instances, wherein the CIT had authorized scaling down of arrears, even though the arrears exceeded ₹ 1 lakh?  |
| 64. | Whether the amount settled was paid by the assessee immediately upon settlement, and, in case installments are sought, whether adequate security was furnished?  |
| 65. | Whether the demand, written off fully or partially or scaled down, was entered in the 'Register of irrecoverable demands', maintained by the AO?   |

| <b>Procedures relating to the production of evidence, information and survey</b> |   |
|--|---|
| 66.  | Whether the Assessing Officer had obtained prior approval of the Chief Commissioner or Commissioner for the retention of impounded books or documents for a period exceeding 15 days (excluding holidays)?  |
| 67.  | In cases 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 under Section 133, whether prior approval of the CIT was obtained?   |
| 68.  | <p>Whether prior approval of the Chief Commissioner/Commissioner was obtained, where books of account or other documents, impounded by an Income Tax Authority, under Section 133A(3), were retained for a period exceeding 10 days?</p> <p>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</p> <p>b. Where the survey is conducted by 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.).</p> |
| 69.  | Prior approval of the Range Officer needs to be obtained by the AOs/TROs for conduct of survey operations.  |
| 70.  | The main objective of Survey under Section 133B (door to door survey) is to identify and detect new taxpayers. 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., is gathered in the prescribed form (Form 45D). In cases where it is found that the assessee has underreported income, and there is need for action under Section 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 are to conduct random checks on the action taken by the Assessing Officers.   |
| 71. | Whether a survey, under Section 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?   |
| 72. | Whether prior approval of Range officer was obtained to raise a demand under Section 156, with a stipulation that it shall be paid within less than 30 days of the demand?  |
| 73. | 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.   |
| 74. | Whether an Assessing Officer had obtained approval of the Range Officer, before certifying a demand to the Tax Recovery Officer? Before according approval, whether the Range Officer had satisfied himself that the AO had taken all steps to recover the demand, by completing proceedings under Section 221 and 226?   |
| 75. | <p>a. Proviso to Section 131(3) stipulates that an AO shall not (i) impound any books of account or other documents, without recording the reasons therefore and (ii) the books cannot be retained for a period exceeding fifteen days, without obtaining prior approval of the CCIT/CIT.</p> <p>b. For this purpose, whether a proposal was made, through the Range Officer, to the CIT?</p> |

| <b>Procedures relating to Compulsory Audit of Accounts {Section 142(2A)}</b> |  |
|--|--|
| 76.  | 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? |
| 77.  | Whether the order, by the CIT, was passed in writing, allowing the AO to appoint an Auditor and fixing the remuneration payable?   |

| <b>Procedures relating to References made to Valuation Cell</b> |  |
|---|--|
| 78.   | <p>Where the reference to the 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:</p> <p>a. in case the value, as per the Return of Income, is based on estimate by a registered valuer, and the AO is of the opinion that the valuation is below value so claimed is at variance with its Fair Market value (FMV).</p> <p>b. in case the value returned is not on the basis of an estimate by a registered valuer and the AO is of the opinion that the value returned is below the FMV by more than 20 <i>per cent</i>, by more than 15 <i>per cent</i>, or ₹ 25,000, whichever is less.</p> <p>c. The AO is of the opinion that such a reference is necessary, in view of the nature of the asset and other relevant circumstances.</p> |

|     |   |
|-----|---|
| 79. | Whether the Range Officer was satisfied with the reasons cited by the AO?   |
| 80. | Whether the AO has maintained a Register of References made to the Valuation Cell? Whether the same was periodically checked by the Range Officer and a certificate sent to the CIT, by the Range Officer?  |
| 81. | Whether the RO has ensured that references to the 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

|     |   |
|-----|---|
| 82. | 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? |
| 83. | Whether the reasons for such transfer were recorded in writing?   |
| 84. | Whether a reasonable opportunity of being heard was given to the assessee before such transfer?   |

#### Procedures relating to Approval of Certain Funds

|     |  |
|-----|--|
| 85. | Whether the objective of the fund, for the welfare of the employees, for notified purpose, was taken care of, while granting approval of the fund?   |
| 86. | 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: <ul style="list-style-type: none"> <li>a. Deposit with Post Office Savings Bank.</li> <li>b. Deposit in any Scheduled Bank/Co-Operative Bank.</li> <li>c. Units of UTI.</li> <li>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 under Section 36(1)(viii).</li> <li>e. Investment in immovable property deposits with IDBI.</li> </ul> |
| 87. | Whether the fund applies its income or accumulates it for application wholly and exclusively for the objects for which it was established?   |
| 88. | Whether the fund was formed under a trust and evidenced by a trust deed?   |

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| 89. | Whether periodical contribution into the fund, by member employees, is taken care of?  |
| 90. | Whether the requisite enclosures (copy of instrument of trust evidencing the formation of fund, notes on activities of the fund and copies of accounts of the fund since inception or during last 3 years) were furnished with the application, in the prescribed form   |
| 91. | Whether the approval was accorded specifying the Assessment Years (not exceeding 3 AYs), for which the approval is valid?  |
| 92. | In case the application was rejected, were the reasons recorded and whether the applicant was given opportunity to be heard?   |
| 93. | <p>Whether the fulfillment of the following conditions, as per Rule 3, were ensured, before grant of approval:</p> <ol style="list-style-type: none"> <li>The fund was established under an irrevocable trust, in connection with a trade or undertaking carried on in India with not less than 90 <i>per cent</i> of the employees being employed in India.</li> <li>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.</li> <li>The employer in the trade or undertaking being a member to such fund.</li> <li>All annuities, pensions and other benefits granted from the fund shall be payable only in India.</li> <li>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.</li> </ol> <p>(Recognized Provident Fund: Part A of Schedule IV)</p> |
| 94. | 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, were furnished by the applicant? (Superannuation Fund: Part B of Schedule IV)  |
| 95. | Whether grant of approval was withdrawn by the CCIT/CIT, in any cases, for the reason that the circumstances of the Fund had ceased to warrant continuance of the approval? (Superannuation Fund: Part B of Schedule IV)   |
| 96. | 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 or conditions of the fund?  |

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|------|--|
| 97.  | Where approval was refused or withdrawn, whether the applicant was given opportunity to be heard?<br>Note: Audit of a Superannuation Fund is to be conducted in the assessment charge as per the provisions of the Sections under reference.   |
| 98.  | Whether the following conditions, as per Rule 3, were ensured, before grant of approval: <ol style="list-style-type: none"> <li>That the fund was established under an irrevocable trust, in connection with a trade or undertaking carried on in India, with not less than 90% of the employees being employed in India.</li> <li>The employer in trade or undertaking being a contributor to the fund.</li> <li>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.</li> <li>All benefits granted by the fund shall be payable only in India.</li> </ol> (Gratuity Fund: Part C of Schedule IV) |
| 99.  | 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, were furnished by the applicant? (Gratuity Fund: Part C of Schedule IV)   |
| 100. | Whether grant of approval was withdrawn by the CCIT/CIT, in any cases, for the reason that the circumstances of the fund had ceased to warrant continuance of the approval? (Gratuity Fund: Part C of Schedule IV)   |
| 101. | 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 or conditions of the fund? (Gratuity Fund: Part C of Schedule IV)   |
| 102. | Whether approval was refused or withdrawn, without according an opportunity to be heard to the applicant?<br>Note: Audit of Gratuity Fund, is to be conducted, in the assessment charge, as per the provisions of the sections mentioned above [namely, Sections 2(5), 10(25)(iv), 17(1)(iii) and 36(1)(v)]  |

#### DIT (Exemption)

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|------|---|
| 103. | Section 12A stipulates that the provisions of Sections 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. The following, therefore, need to be verified: |
| 104. | Whether the person concerned had applied within the prescribed time limit?  |

|      |  |
|------|--|
| 105. | Whether the application was accompanied by the prescribed documents?<br>a. Copy of instrument of creation of Trust.<br>b. Accounts of 3 previous years (Rule 17A)  |
| 106. | Whether the accounts were maintained in the prescribed manner and were audited?  |
| 107. | If applications for registration were accepted after the expiry of the stipulated time, whether there were sufficient reasons for delay and they were recorded?  |
| 108. | Whether the CIT/DIT had 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 the Manual of Office Procedure Vol-II, before grant of registration?<br>a. Is it a legally existent entity which can be registered?<br>b. Is there a written instrument for its creation?<br>c. Whether all its objects are charitable and religious in nature?<br>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?<br>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.?<br>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? |
| 109. | The applications for registration, received in the office of CIT/DIT (E), should be entered in the register mentioned in Para 2.5 of MOP Vol-II. It should be verified whether the following checks, prescribed in Para 2.8 of the Manual, are being exercised or not:<br>a. Whether the application has been properly filled in and is accompanied by requisite documents and accounts etc.?<br>b. Whether the instrument of creation was perused to find out violation of any conditions mentioned in point 'e' above?<br>c. Whether verification of the actual existence of the Trust was made?<br>d. Whether the Trust or Institution was asked to cure defects, if any?<br>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?  |
| 110. | Whether the income of the entity is applicable wholly for 'charitable purposes'?   |
| 111. | Whether the Fund or Institution is meant for the benefit of any particular religious community or caste?   |
| 112. | Whether regular books, of its receipts and expenditure, are maintained or not?   |
| 113. | Whether it is approved by the CIT/DIT (E) for the purposes of making its donors eligible for grant of deduction under this provision?  |

|      |   |
|------|---|
| 114. | Whether the application for approval under Section 80G was made in triplicate, in Form 10G, along with the prescribed documents [Rule 11AA]?                      |
| 115. | Whether the CIT/DIT(E) has granted approval to the Trust for a period not exceeding five years (approval under Section 80G is generally granted for three years)? |

| Drawing and Disbursing Officers |  |
|---------------------------------|--|
| 116.                            | <ul style="list-style-type: none"> <li>a. Whether the provisions of GFR/orders of the department of expenditure have been properly followed?</li> <li>b. Whether proper sanction/approval has been obtained from the competent authority for every expenditure?</li> <li>c. Whether the provisions of GFR have been followed for the procurement of services/purchase of articles/award of contracts?</li> <li>d. Whether contracts for works or procurements of services had been split to avoid sanction/approval from a higher competent authority?</li> <li>e. Whether funds had been diverted for any other purposes?</li> <li>f. Whether any funds had been lying idle for a long period?</li> <li>g. Whether bills had been correctly drawn and paid after proper adjustments?</li> <li>h. Whether the service book had been maintained in all respects, including periodical attestation of the employee?</li> <li>i. Whether advances/loans had been adjusted properly before making payments?</li> <li>j. Whether Contingent Expenditure had been made correctly and rightly with the approval of the appropriate authorities?</li> <li>k. Whether all government receipts had been accounted for properly and remitted to the Government account within stipulated period.</li> </ul> |

## Appendix-17

### Category-wise details of observations

{Reference: Paragraph 6.6.1(a) and 7.3(e)}

| Category-wise details of observations |  |   |
|---------------------------------------|--|---|
| <b>A.</b>                             | <b>Quality of assessments</b>                                  |   |
|                                       | 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>B.</b>                             | <b>Administration of tax concessions/exemptions/deductions</b> |   |
|                                       | 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.                             |
| <b>C.</b>                             | <b>Income escaping assessment due to omissions</b>             |   |
|                                       | 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.   | Unexplained investment/cash credit.   |
| <b>D.</b>                             | <b>Others : Over charge of tax/interest</b>                    |   |

## Appendix-18

### One IA&AD One system (OIOS)

(Reference: Paragraph 7.1)

The 'One IA&AD One system' (OIOS) project aims at creating a single source of truth regarding audit activities of IA&AD. IA&AD has seen several IT applications that catered to the needs of one or more offices in this regard. OIOS has brought together the best practices of the various IT applications into one single enterprise-wide IT application. This IT application has been designed in such a way that it can be configured and used by any audit office in IA&AD.

Some important administrative features of OIOS include the following:

#### **Auditee Universe**

The Auditee universe module helps in maintaining a master of list of auditable entities under the mandate of C&AG ("who to audit"). It also enables management of allocation of auditable entities to the field audit offices in the organizational structure (office/wing/branch/dealing hand).

The Auditee Universe maintains the basic information about auditee entities, along with hierarchy. The jurisdiction of each field audit office is also maintained, by providing a mapping between auditee entities and the field audit office/wing/branch.

#### **Audit Plan**

The Audit planning module provides a platform for creating, approving, updating and reviewing progress of the annual audit plan. Audit planning includes the detailed planning and creation of audit guidelines for individual audit assignments ("how to audit") and the audit program (short-term, detailed day-by-day audit program, including assignment of specific personnel).

#### **Audit Design**

The Audit design module provides a platform for preparing the micro level or detailed planning, i.e. designing an audit assignment. This design process, for each audit process, includes preparation of audit design matrix/guidelines, sampling approach and linking sampling approach.

The Audit Design Matrix/Audit Guideline is a methodology through which an audit approach can be systematically designed. It helps in scoping of the audit assignment. The approved ADM is published to the central library. Users can search and view published ADMs, using the Audit Guideline Search option, under the Audit Plan menu. User can also download the ADM in PDF and clone the ADM.

#### **Audit Execution**

The Audit execution dashboard facilitates the Head of Office or the Head of Wing to monitor the progress of audit execution. They can access complete information on the audit assignment, from audit planning to execution.

One or more audit teams may be assigned with the responsibility for executing an audit plan/guideline for each audit assignment. One member of the team is assigned as the team leader. There can be more than one team in a single audit assignment.

A single audit team may also involve in multiple audit assignments in parallel.

## Data Collection Toolkit

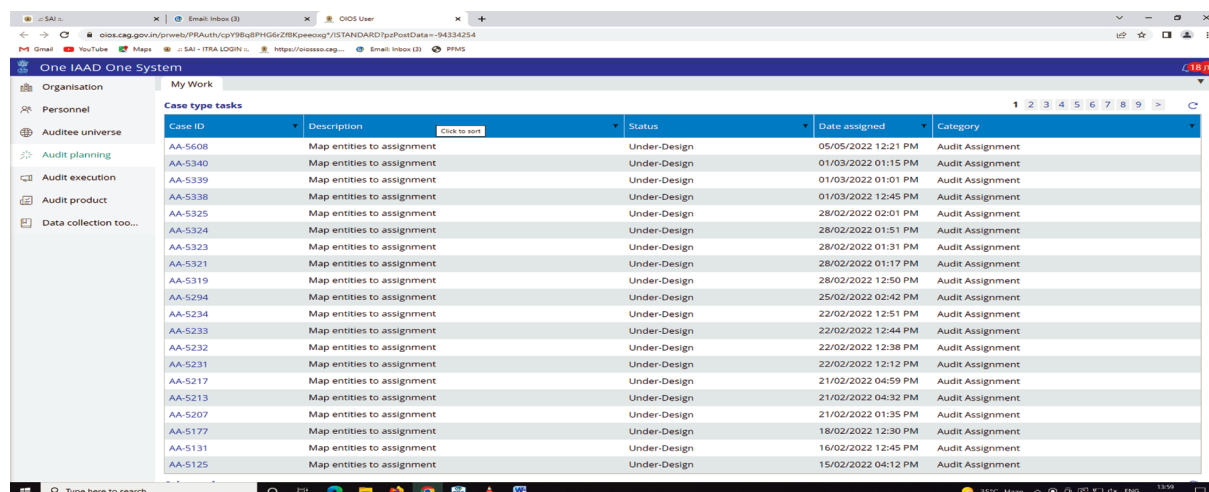
The Data Collection Toolkit module enables users to create toolkits, search toolkits and reuse them using clone functionality. A data collection toolkit typically contains questions and/or data fields, which are referred to as 'elements'. The elements in the data collection kit are mostly filled manually, by the data collectors. However, there may be some elements which can be answered, based on external data.

## Working on the OIOS System at Headquarters level

### (i) Planning level

The user can login to OIOS, on the public domain of <https://oios.cag.gov.in>.

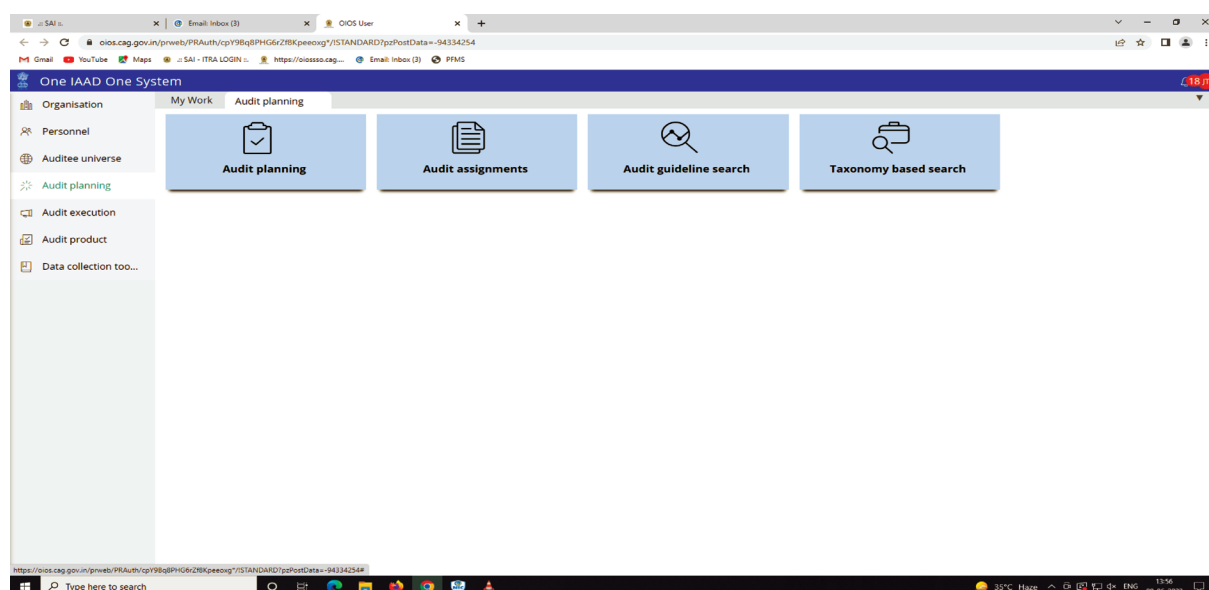
Some important aspects, screen shots of 'making audit assignments for the field parties' at Head quarter level, mentioned in the OIOS system, are detailed below:



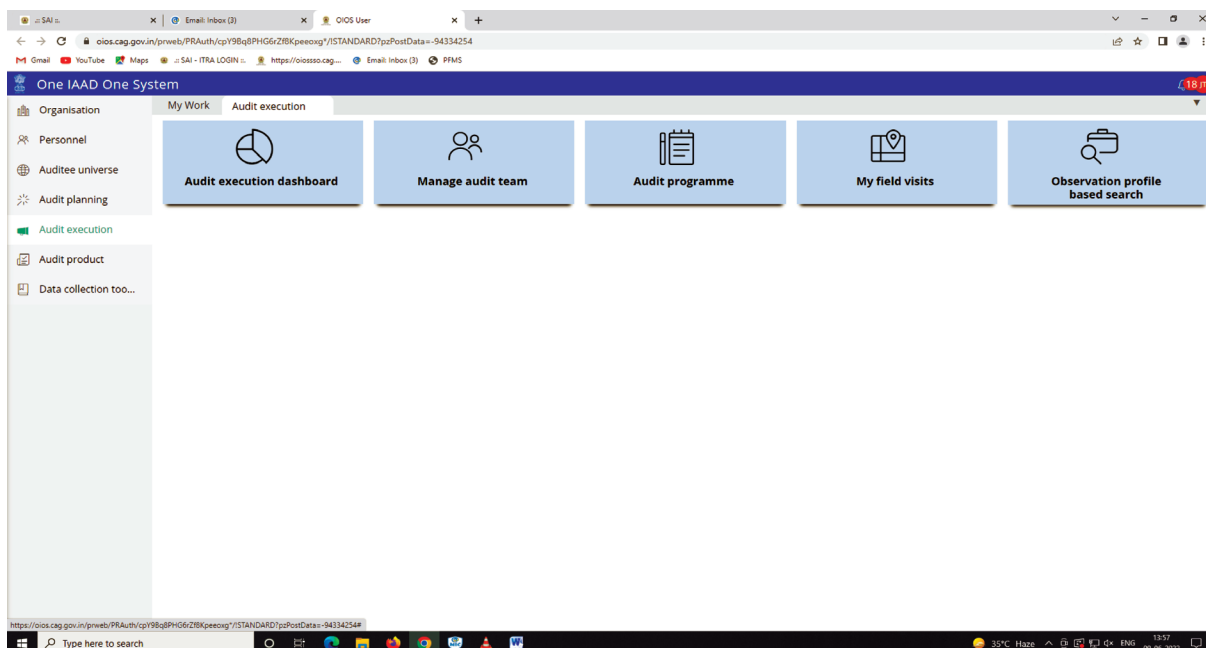
The screenshot shows the 'My Work' section of the OIOS system. It displays a table of audit assignments with the following columns: Case ID, Description, Status, Date assigned, and Category. The table lists 20 assignments, all with a status of 'Under-Design' and a category of 'Audit Assignment'. The descriptions are all 'Map entities to assignment'.

| Case ID | Description                | Status       | Date assigned       | Category         |
|---------|----------------------------|--------------|---------------------|------------------|
| AA-5608 | Map entities to assignment | Under-Design | 05/05/2022 12:21 PM | Audit Assignment |
| AA-5340 | Map entities to assignment | Under-Design | 01/03/2022 01:15 PM | Audit Assignment |
| AA-5339 | Map entities to assignment | Under-Design | 01/03/2022 01:01 PM | Audit Assignment |
| AA-5338 | Map entities to assignment | Under-Design | 01/03/2022 12:45 PM | Audit Assignment |
| AA-5325 | Map entities to assignment | Under-Design | 28/02/2022 02:01 PM | Audit Assignment |
| AA-5324 | Map entities to assignment | Under-Design | 28/02/2022 01:51 PM | Audit Assignment |
| AA-5323 | Map entities to assignment | Under-Design | 28/02/2022 01:31 PM | Audit Assignment |
| AA-5321 | Map entities to assignment | Under-Design | 28/02/2022 01:17 PM | Audit Assignment |
| AA-5319 | Map entities to assignment | Under-Design | 28/02/2022 12:50 PM | Audit Assignment |
| AA-5294 | Map entities to assignment | Under-Design | 25/02/2022 02:42 PM | Audit Assignment |
| AA-5234 | Map entities to assignment | Under-Design | 22/02/2022 12:51 PM | Audit Assignment |
| AA-5233 | Map entities to assignment | Under-Design | 22/02/2022 12:44 PM | Audit Assignment |
| AA-5232 | Map entities to assignment | Under-Design | 22/02/2022 12:38 PM | Audit Assignment |
| AA-5231 | Map entities to assignment | Under-Design | 22/02/2022 12:12 PM | Audit Assignment |
| AA-5217 | Map entities to assignment | Under-Design | 21/02/2022 04:59 PM | Audit Assignment |
| AA-5213 | Map entities to assignment | Under-Design | 21/02/2022 04:32 PM | Audit Assignment |
| AA-5207 | Map entities to assignment | Under-Design | 21/02/2022 01:35 PM | Audit Assignment |
| AA-5177 | Map entities to assignment | Under-Design | 18/02/2022 12:30 PM | Audit Assignment |
| AA-5131 | Map entities to assignment | Under-Design | 16/02/2022 12:45 PM | Audit Assignment |
| AA-5125 | Map entities to assignment | Under-Design | 15/02/2022 04:12 PM | Audit Assignment |

Users can then click on 'Audit Planning', on the left side of the Menu, for making Audit assignments, as shown below:



Thereafter, users can click on 'Manage Audit Team', to create Audit team members and to create audit programme under the Audit Execution.



## (ii) Vetting level:

After login by the user ID, the following screen will appear:

| Task ID    | Task description                                   | Status                | Assigned on         | Assigned by      | Priority | Due Date   |
|------------|--|-----------------------|---------------------|------------------|----------|------------|
| PV-126838  | QA/QC of field visit-Deputy Commissioner of Inc... | QA/QC-In-Progress     | 17/06/2025 03:53 PM | Sayantan Acharya | High     | 07/06/2025 |
| PV-126842  | QA/QC of field visit-Income Tax Officer Ward-40... | QA/QC-In-Progress     | 17/06/2025 02:36 PM | Vishal Kumar     | Medium   | 26/06/2025 |
| FP-245972  | Prepare follow-up                                  | Open-UnderPreparation | 08/04/2025 05:01 PM | PALASH GUIN      |          |            |
| REC-209363 | Received receipt                                   | Initiated             | 21/03/2025 12:47 PM | PALASH GUIN      |          |            |
| FP-201975  | Review follow-up                                   | Pending-UnderReview   | 04/02/2025 01:24 PM | PRABIR KR. GHOSH | Medium   |            |
| FP-198755  | Prepare follow-up                                  | Open-UnderPreparation | 27/01/2025 03:09 PM | PALASH GUIN      |          |            |
| FP-198732  | Prepare follow-up                                  | Open-UnderPreparation | 27/01/2025 03:00 PM | PALASH GUIN      |          |            |

On clicking the respective menu at the right, headquarters can check the Audit Observations, LARs and other attachments submitted by the field parties.

The screenshot shows the OIOS System interface. The left sidebar has 'Personnel' and 'Auditee universe'. The top navigation bar shows 'My Work' with a dropdown for 'FV-11130'. Below this, 'Audit Plan (AP-1975)' and 'Audit Assignment (AA-5608)' are visible. The main content area is titled 'Field Visit (FV-11130)' and contains a table of audit observations. The table has columns for Seq no, Audit observation ref no, Status, Subject, Originator, Date of origin, Reviewed by QA/QC, and Preview. There are three rows of observations, all with a status of 'Issued'. A right sidebar contains a list of menu items, with 'Audit Observations' highlighted.

| Seq no | Audit observation ref no | Status | Subject                                       | Originator    | Date of origin | Reviewed by QA/QC | Preview                     |
|--------|--------------------------|--------|---|---------------|----------------|-------------------|-----------------------------|
| 1      | OBS-260755               | Issued | Excess allowance of MAT credit u/s 115JAA.    | MD AFTAB ALAM | 16/04/2022     | No                | <a href="#">Preview PDF</a> |
| 2      | OBS-260756               | Issued | Incorrect or short levy of surcharge.         | MD AFTAB ALAM | 16/04/2022     | No                | <a href="#">Preview PDF</a> |
| 3      | OBS-260757               | Issued | Incorrect allowance of MAT credit u/s 115JAA. | MD AFTAB ALAM | 16/04/2022     | No                | <a href="#">Preview PDF</a> |

Users may edit or update the Audit Observation, by clicking on 'Audit Observation'.

This screenshot is identical to the one above, showing the OIOS System interface with the 'Field Visit (FV-11130)' page. It displays the same table of audit observations and the right sidebar menu.

### Working on the OIOS System at the Field level

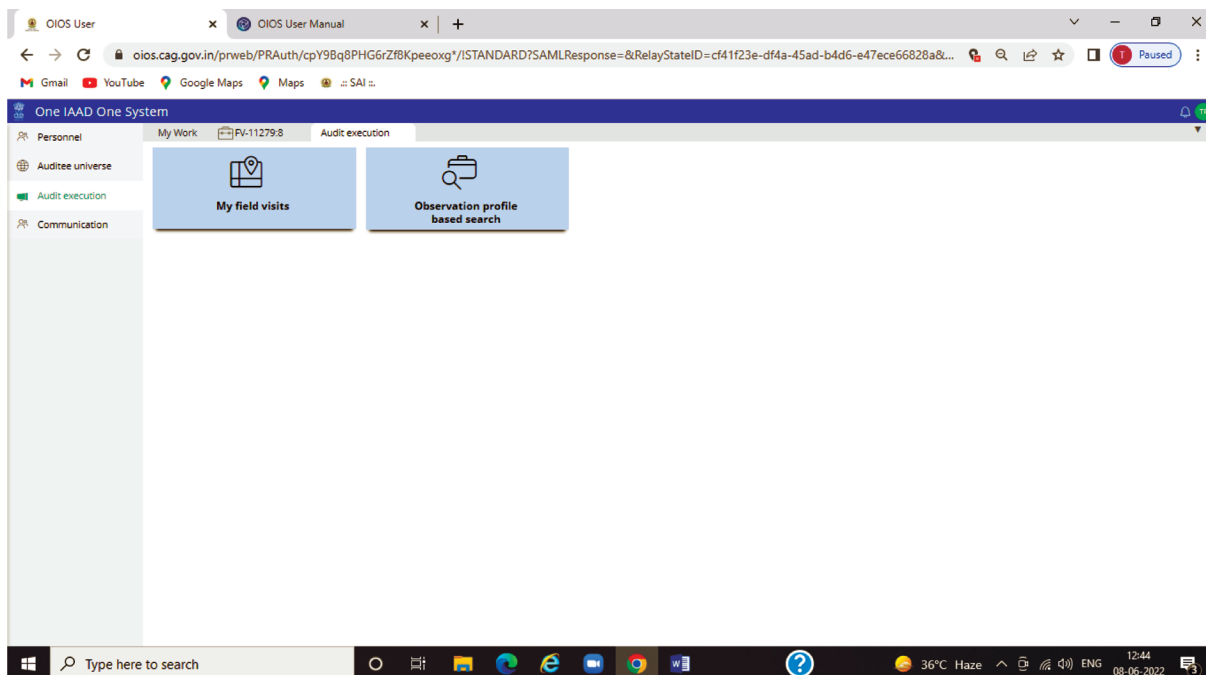
- The user can login to OIOS, on the public domain of <https://oios.cag.gov.in>.

Some important aspects, screen shots of 'Field Visit' under 'Audit Execution', are detailed below:

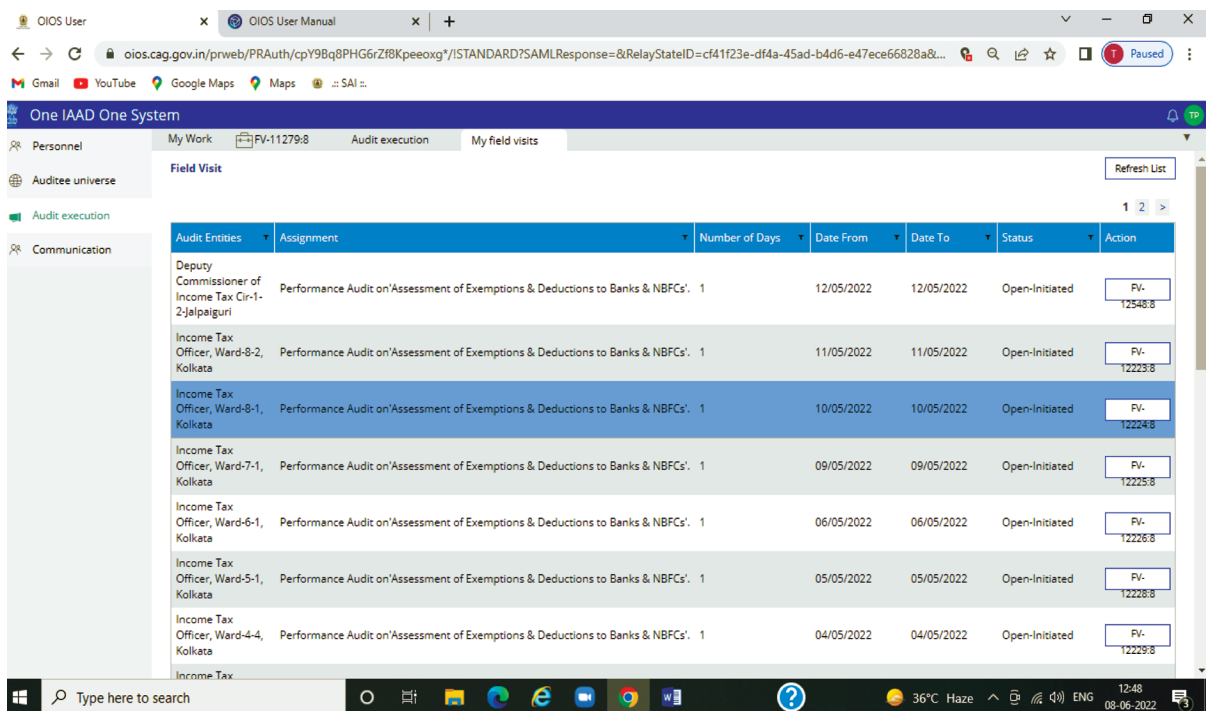
Once an audit programme is approved, a field visit case can be initiated for each auditee. Only an Inspecting Officer can initiate a field visit.

## Steps to contribute to field visit cases:

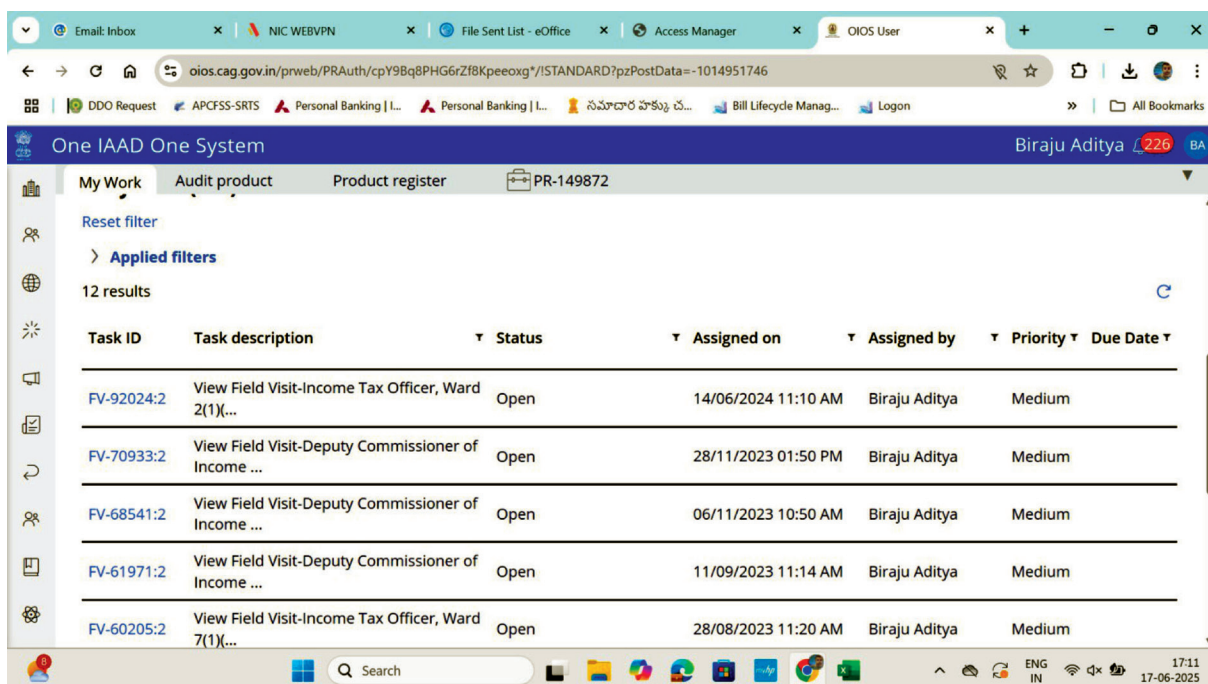
1. To initiate a field visit, the Inspecting Officer can go to Audit Execution > My Field Visits



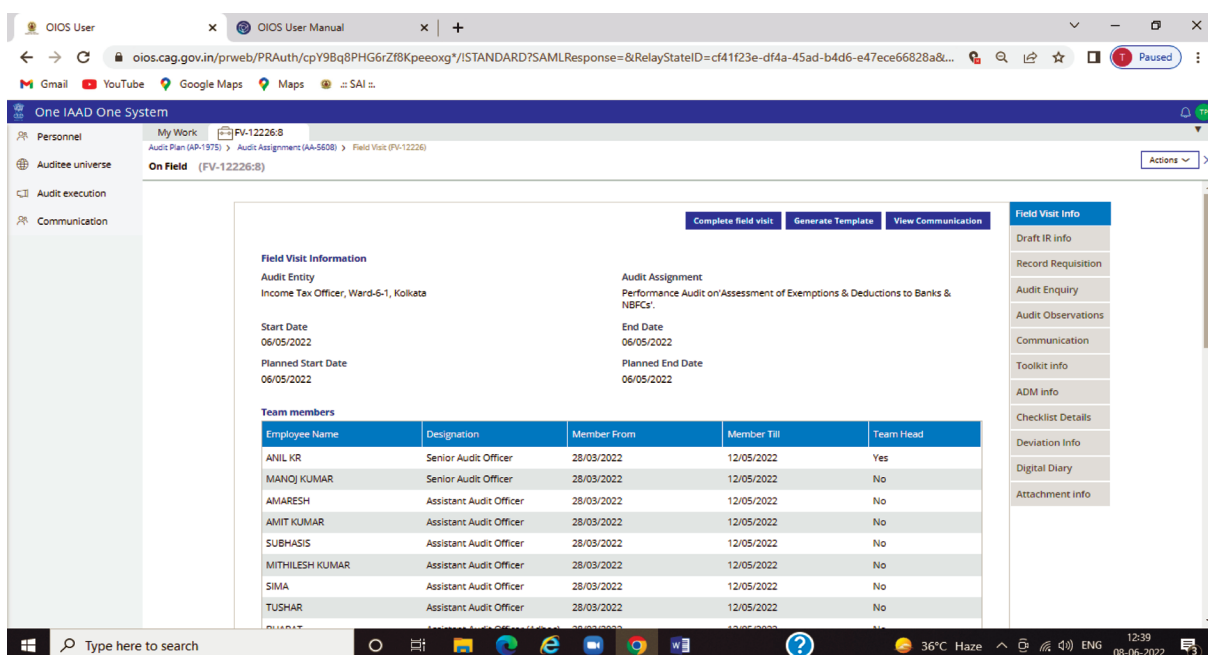
2. By clicking on the “Initiate” button, the field visit may be initiated from the list that appears.
3. Once initiated, the field visit Id is generated for all team members, including the Inspecting Officer, within which team members can record their work. On-field tasks are assigned to all team members, who are part of the team, in their “My work” dashboard.



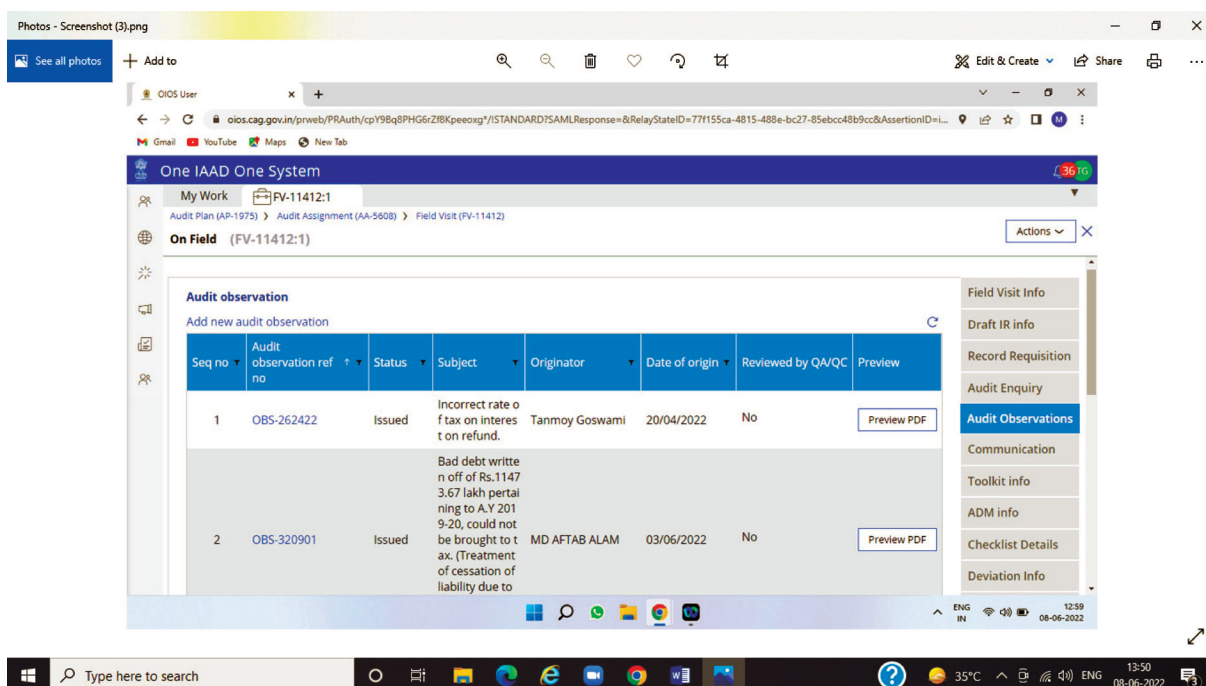
4. Once any team member opens a field visit case, the 'Field Visit Info' page appears.
5. The allotted unit may be initiated by clicking the 'OPEN' button.



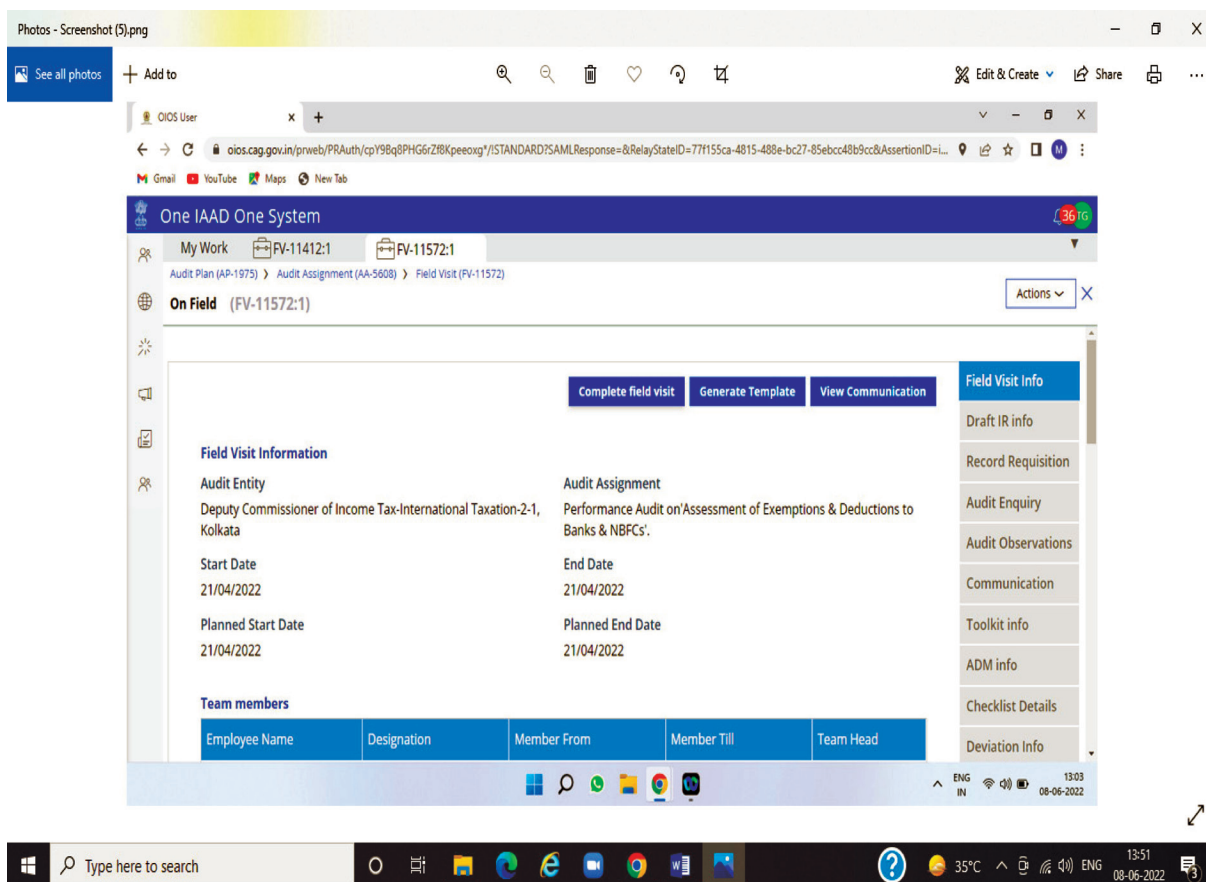
6. All menus will appear on the right side of the screen.
7. Team members, assigned to a particular field visit, can work simultaneously and can issue 'Record Requisition' (request for more records for further audit), 'Audit Enquiry' (Preliminary response before finalizing the audit observation), 'Audit Observations' (Report prepared after analyzing all supporting documents), 'Communication' (Response to the reply of auditable entity), 'Toolkit Info', 'ADM Info', 'Checklist Details', 'Deviation Info', 'Digital Diary' and 'Attachment Info'.



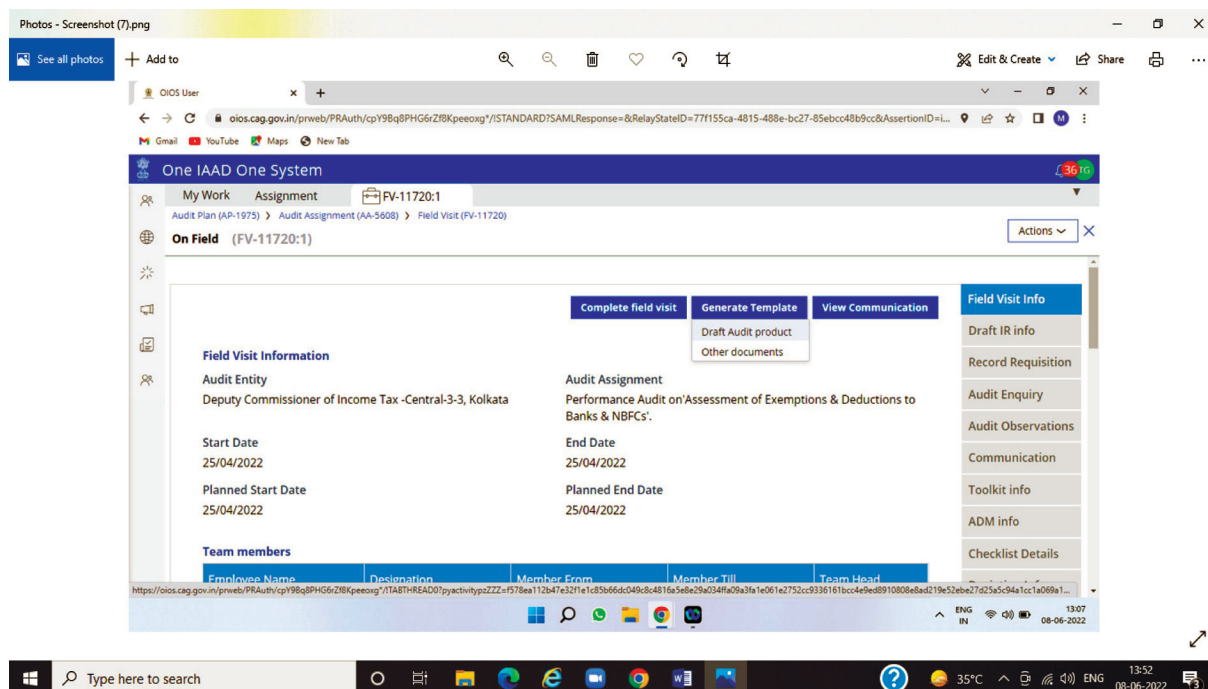
## 8. 'Audit Observation' may be selected for issuing audit observations.



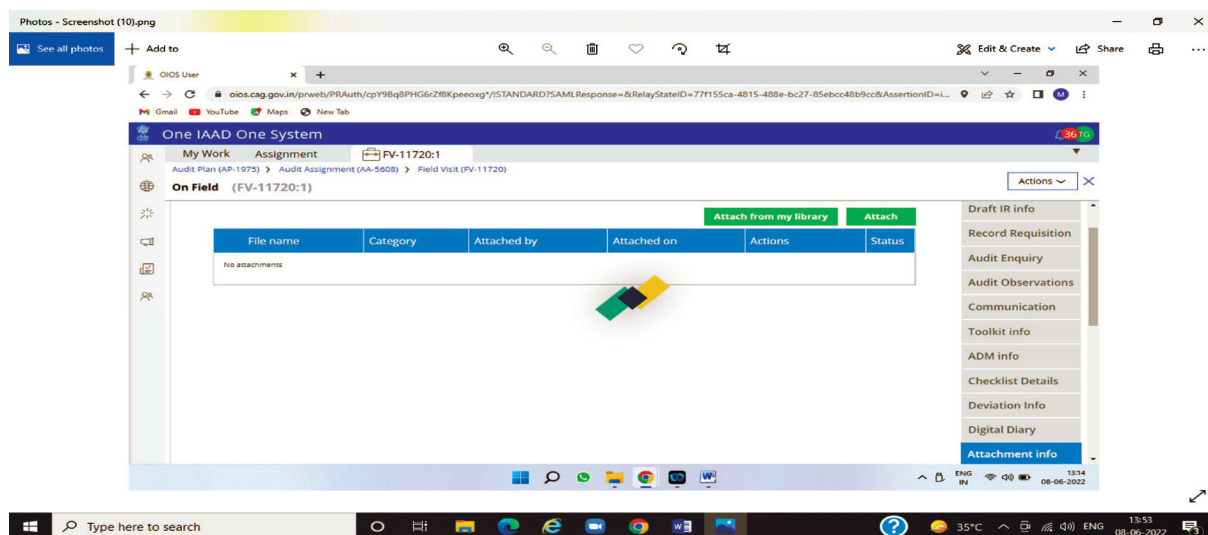
## 9. Every field party member may complete the field visit first, by clicking on the 'complete field visit' button. Thereafter, the Inspecting Officer may complete the field visit, by clicking on 'Generate Template'.



10. A confirmation message will appear on the screen.
11. The Inspecting Officer will first generate the LAR, by clicking on 'Generate Template' (Draft Audit Product), before completion of the field visit.



12. After clicking on 'Generate Template', the LAR will be downloaded.
13. After downloading, the LAR is to be attached to 'Attachment info'.



14. Now, the team head or Inspecting Officer can send this field visit case for Quality Assessment/Quality Control, by clicking on the "Submit for QA/QC" button.

### Toolkit

This option allows team members to capture responses for toolkit. Team members can fill in multiple responses.

To make an entry in an OIOS application, team members, working on a field visit case, can click on the “Toolkit Info” tab. By clicking on the “Begin” link, they can capture responses in the file that opens and save them, by clicking the “Save” button.

The screenshot displays the OIOS User Manual web application. The browser address bar shows the URL: [oios.cag.gov.in/prweb/PRAuth/cpY9Bq8PHG6rZf8Kpeeoxg\\*/ISTANDARD?SAMLResponse=&RelayStateID=cf41f23e-df4a-45ad-b4d6-e47ece66828a&Asser...](https://oios.cag.gov.in/prweb/PRAuth/cpY9Bq8PHG6rZf8Kpeeoxg*/ISTANDARD?SAMLResponse=&RelayStateID=cf41f23e-df4a-45ad-b4d6-e47ece66828a&Asser...). The application header includes "One IAAD One System" and a user profile icon. The main navigation bar shows "My Work" and "FV-12226:8". Below this, the breadcrumb trail is "Audit Plan (AP-1975) > Audit Assignment (AA-5608) > Field Visit (FV-12226)". The "On Field (FV-12226:8)" section is active. The "Toolkit" table lists a toolkit named "PA on Banks and NBFCs" with a "Begin" link to submit the response. A sidebar on the right contains a list of navigation options: Field Visit Info, Draft IR info, Record Requisition, Audit Enquiry, Audit Observations, Communication, Toolkit info (highlighted), ADM info, Checklist Details, and Deviation Info. The Windows taskbar at the bottom shows the search bar, taskbar icons, and system tray information including 35°C Haze, 13:03, and 08-06-2022.

| ToolKit | Toolkit name          | Link to submit response |
|---------|-----------------------|-------------------------|
| DC-72   | PA on Banks and NBFCs | <a href="#">Begin</a>   |

## Appendix-19

### Format of Local Audit Report

(Reference: Paragraph 7.3)

**FORMAT OF LOCAL AUDIT REPORTS AND ANNEXURES TO LOCAL AUDIT REPORTS,  
AS PER THE COMPLIANCE AUDIT GUIDELINES AND GUIDANCE NOTE ON  
IMPROVING THE QUALITY OF LARs**

**LOCAL AUDIT REPORT NO. \_\_\_\_\_ OF RECEIPTS AND REFUNDS, IN REGARD TO  
CORPORATION TAX/INCOME TAX/WEALTH TAX/FRINGE BENEFIT TAX AND OTHER MISCELLANEOUS  
TAXES, RELATING TO THE - ----- , FOR THE YEAR \_\_\_\_\_**

**PART-I**

**Introductory:**

- (i) **Scope of Audit:** This office was last audited in ..... (month and year of audit). During the present audit, all the scrutiny assessments finalized during the financial years .....(years of audit), Consequential orders passed, Rectifications made and Penalties levied during the audit period ..... (years of audit), were also test-checked.

“---(No. of cases)” Scrutiny cases, having assessed income of .....(amount of assessed income converted to crore), were completed by the assessing officer, during the period under audit. Of these, we have audited ..... (no. of cases) assessment cases, of assessed income .....(assessed income converted to crores) and found ..... (no. of audit observations) mistakes of tax effect of .....(total tax effect in crore), in .....( no. of audit observations) assessment cases, of assessed income .....(assessed income in the observations made converted to crore). These mistakes have been discussed in the succeeding paragraphs.”

*(If the period of audit is more than one year, the year-wise break-up of the scrutiny cases, along with assessed income, may be given)*

- (ii) **The Objective of the present audit is to verify:**

- a. Whether the assessment made is in accordance with the provisions of the Income Tax Act, 1961; the Finance Act of the respective year; and the rules framed under the Income-Tax Rules.
- b. Whether the instructions/procedures prescribed by the CBDT have been followed by the Pr. CIT/CIT/AO.
- c. Whether the instructions/circulars/notifications/orders issued by the higher authorities viz. CBDT, DIT, Pr.CIT/CIT, Addl. CIT/Jt. CIT etc., have been complied with.
- d. Whether the instructions/procedures/manuals, prescribed by the CBDT towards Income Tax/Gift Tax, with regard to collection and recovery of taxes, have been complied with.

- e. Whether all the important records, such as Cash books, Receipt books, Vouchers, cheques, Challans and other connected records, Stores and Stock accounts, Tenders and Contracts, Log books etc., have been maintained as per the manual/rule provisions.

(To be ticked as applicable, according to the type of audit namely – audit of assessments, non-assessment audit of TRO, Contingent audit of DDO)

- (iii) **Personnel:** The following officers held the charge of the **audit entity** (names, from the last audit, to till date)

| Sl. No. | Name of the Officer | From | To |
|---------|---------------------|------|----|
| 1       |                     |      |    |
| 2       |                     |      |    |

**Entry conference:** During the entry conference on ....., the ..... was apprised of the method of selection of assessment cases. He/she assured all co-operation in producing the records to the audit party. All relevant documents/papers are filed in the assessment records, before the files are handed over, for audit, to the Local Audit Party. The position of outstanding paras was brought to the notice of the ..... and he/she was requested to furnish replies and latest developments in the old objections, along with the case records, during the course of audit. The code of ethics, signed by each member of LAP- ....., was also handed over to the .....

## **Part – II AUDIT FINDINGS**

### **Part IIA Observations**

### **Part IIB Observations**

## **PART- III (A) FOLLOW-UP ON FINDINGS OUTSTANDING FROM PREVIOUS AUDIT REPORTS:**

| Sl.No. | LAR No and Date | Assessee Details | Para Details | MV (₹) |
|--------|-----------------|------------------|--------------|--------|
|        |                 |                  |              |        |
|        |                 |                  |              |        |

## **PART- III (B) LIST OF DOCUMENTS NOT PRODUCED TO AUDIT**

| Sl. No. | PAN | Name of the assessee | A.Y. | A.I./Amount (₹) |
|---------|-----|----------------------|------|-----------------|
|         |     |                      |      |                 |
|         |     |                      |      |                 |

### **Exit Conference:**

The draft Audit Report was shown to and discussed with the ....., on ..... During discussion, it was confirmed that the points raised and included in the LAR had

neither been pointed out by the IAP/SAP, nor by the Assessee themselves. All relevant documents/papers had been filed, before the files were handed over to the LAP. No notice under Section 154/148 was issued before issue of Audit Queries, in respect of the audit paras included in the LAR and, where such notices were issued, they did not include the points raised in audit. The position of old paras pending for clearances and non-furnishing of replies/records on such paras, were duly discussed with the Assessing Officer. All the files were returned to the Department. .... Case(s) of the current audit cycle and ..... case(s) of the previous audit cycles, have not been produced to audit. Copies of the code of ethics, duly filled in Annexure-I, in respect of the members of the LAP members, have been handed over to the Assessing Officer and the acknowledged copies have been duly received .

#### **PART-IV: BEST PRACTICES**

#### **PART-V**

#### **Disclaimer Certificate**

The local audit report has been prepared on the basis of information furnished by the ..... **(DESIGNATION AND NAME OF THE AUDIT ENTITY)**. The Office of the Principal Director/Director General of Audit (Central), -----, disclaims any responsibility for any misinformation and/or non-information, on the part of the auditee unit.

#### **ACKNOWLEDGEMENT**

निदेशक/उपनिदेशक (प्र.कर)

Director/Dy. Director (Direct Taxes)

#### **Annexure to the Draft LAR**

The concerned FAO needs to decide the Annexures required to be submitted by the LAP, along with draft LARs, on the basis of the instructions issued by C&AG Hqrs., from time to time. The Proforma for the Title sheet, is as under:

#### **Annexure-A**

#### **Proforma Title Sheet**

**Title Sheet to the Inspection Report on the audit of receipts and refunds of Income Tax of (name of unit) \_\_\_\_\_ under the charge of CIT \_\_\_\_\_ Address \_\_\_\_\_**  
**\_\_\_\_\_ Telephone No. \_\_\_\_\_**

**Name of Assessing Officer**

**Date of creation of charge**

- |                                      |   |               |                  |
|--------------------------------------|---|---------------|------------------|
| 1. Period of Audit                   | : | <b>01.04.</b> | <b>to 31.03.</b> |
| 2. (a) Date of Commencement of audit | : |               |                  |
| (b) Date of Completion of audit      | : |               |                  |
| (c) Actual time taken                | : |               |                  |
| (d) Extension, if any                | : |               |                  |

- (e) Whether time given for audit is sufficient :  
If not, time needed for future audit with  
Justification thereof
- (f) Date of discussion of LAR with assessing :  
Officer
- (g) Date of submission of the Draft copy of :  
the LAR to Headquarter
- (h) Reasons for delay in submission of draft :  
LAR etc. to Hqrs. with reference to the  
allotted time period, if any
3. (a) Name of R.A.O./S.A.O :  
(b) Name of A.A.O/Supervisor :  
(c) Name of Assistant Supervisor/  
Sr Auditor/Auditors :
4. Details of number of assessee under the charged audited:
- | Category        | Companies | Individuals | Firms | AOPs | HUFs | Others |
|-----------------|-----------|-------------|-------|------|------|--------|
| No. of assessee |           |             |       |      |      |        |
5. (To be noted from the assessment records selected for audit, If not made available through AQ-I)
- (a) Number of assessees with annual turnover of ₹ 100 crore:  
 **More than 15**     **1 to 15**     **0**
- (b) Banks, financial institutions, insurance companies:  
 **More than 15**     **1 to 15**     **0**
- (c) Cases involving exemptions under Section 10A, 10B and deductions under Chapter VI A:  
 **More than 15**     **1 to 15**     **0**
- (d) Necessity for linking of past records i.e. cases involving sections 32, 115JAA and Chapter VI:  
 **More than 15**     **1 to 15**     **0**
- (e) Number of appellate reference in scrutiny assessments:  
 **More than 15**     **1 to 15**     **0**

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 check of Demand and :  
Collection Register  
(b) Months selected for check of cash book :  
for TRO Audit
8. Whether the allocation of duties amongst :  
each member of the Audit Team  
(SAO/AAO/Supr./Sr.Ar./Ar) was prepared  
  
In line with planned broad assignment plan and :  
acknowledged by the respective party members?  
If no reasons justifications may be provided.  
  
(Allocation of duties as per Annexure B is enclosed)
9. Total Money value of Objection raised : **No.** **Money Value**  
(1) Part II A .....  
(2) Part II B .....
10. Whether any fraud/embezzlement was :  
detected by audit if so, included in  
which para
11. Important paragraph of the report for :  
inclusion in the register of serious  
financial irregularities
- 11(A) Whether the key documents have been :  
referenced in the para and the source of  
evidence has been provided as footnotes
12. Total Return received : **No.**
13. (i) Total assessment cases made : **No.**  
(a) Summary:  
(b) Scrutiny:

|        |   |   |     |            |
|--------|---|---|-----|------------|
| (ii)   | Total assessment cases selected for audit   | : | No. |            |
| (a)    | Summary :   |   |     |            |
| (b)    | Scrutiny :  |   |     |            |
| (c)    | Refunds :   |   |     |            |
| (iii)  | No. of cases received in audit  | : | No. |            |
| (a)    | Summary :   |   |     |            |
| (b)    | Scrutiny :  |   |     |            |
| (c)    | Refunds :   |   |     |            |
| (iv)   | No. of cases not produced for audit   | : | No. |            |
| (a)    | Called for in this audit  |   |     |            |
| (b)    | Called for in earlier audit   |   |     |            |
| (v)    | No. of cases transferred to other Assessing Officer :<br>{Out of Sl.No.12 (ii)}                     |   | No. |            |
| (a)    | Summary :   |   |     |            |
| (b)    | Scrutiny :  |   |     |            |
| (c)    | Refunds   |   |     |            |
| (vi)   | Total No. of assessment cases audit   | : | No. |            |
| (vii)  | Total No. of mistakes found   | : | No. | Tax Effect |
| (viii) | Total No. of cases seen by IAP  | : | No. | Tax Effect |
| (ix)   | Total No. of cases not seen by IAP  | : | No. | Tax Effect |
| (x)    | Total No. of cases out of (vii) above which were seen by IAP but above objection not raised by them | : | No. | Tax Effect |
| (xi)   | Total No. of cases out of (vii) above which were not seen by IAP                                    | : | No. | Tax Effect |
| (xii)  | Total demand raised as per Demand and Collection Register.  | : |     |            |
| 14.    | (a) Total No. of refund cases   | : | No. |            |
|        | (b) Total No. of refund cases of ₹ 1 lakh   | : | No. |            |

- |     |  |   |            |  |                   |
|-----|--|---|------------|--|-------------------|
| (c) | Total No. of refund cases in which mistakes            | : |            |  |                   |
| (d) | Total No. of refund cases in which mistakes were found | : | <b>No.</b> |  | <b>Tax Effect</b> |
15. Addition made to income returned in scrutiny Cases :
- |     |   |  |            |                 |                   |
|-----|---|--|------------|-----------------|-------------------|
| (a) | Normal addition by way of disallowance etc. |  | <b>No.</b> | <b>Addition</b> | <b>Tax Effect</b> |
| (b) | Addition made by way concealment of income  |  | <b>No.</b> | <b>Addition</b> | <b>Tax Effect</b> |
16. (a) Audit objection noticed in Scrutiny cases :
- Under assessment
- Over assessment
- (b) Audit objection raised in rectification/revision cases :
- Under assessment
- Over assessment
17. Total tax recovery at the instance of audit (year-wise details) :
18. Whether soft copy of D&CR obtained and enclosed. : **Yes. / No.**
19. Whether all issued marked for examinations by Group Officer on Supervision/Hqrs. section have Been addressed? :
- (Compliance to Group Officer comments on supervision To be enclosed as per Annexure C)
20. Whether all work assigned as per allocation of duties Were completed? If no, provide whether the reasons and Justifications are provided (Annexure D to be enclosed) :
21. Whether daily dairies indicating the documents/ Records checked by team members of the Audit Team have been prepared, signed and enclosed? (Daily Diary as per Annexure E to be enclosed) :
22. Whether a certificate of obtaining sufficient and appropriate evidence (key documents) for the audit observations included in the Draft Inspection Report has been provided? (Certificate as per Annexure F to be enclosed) :

23. Whether a certificate that the audit was conducted :  
in accordance with the CAG's Auditing Standards  
2017 has been provided?  
(Certificate as per Annexure F to be enclosed)
24. Whether a certificate that the audit party has :  
complied with the Audit Quality Framework and  
Code of Ethics has been provided?  
(Certificate as per Annexure F to be enclosed)

Date: \_\_\_\_\_

Asstt. Audit Officer

R.A.O./ITRA-

### Annexure-B

Annexures as per Compliance Audit Guidelines and PPG guidance note

#### Proforma for Duty List of each member of the Audit Team

| Duties assigned                        | Noted and assigned (Acknowledgement) |
|--|--------------------------------------|
| SAO Name –<br>1.<br>2.                 |                                      |
| AAO/Supervisor Name –<br>1.<br>2.      |                                      |
| Sr. Auditor/Auditor Name –<br>1.<br>2. |                                      |

### Annexure-C

#### Follow up of supervision by the Group Officer

| Name of the audit entity | Date of supervision | Comments/Queries of the Group Officer | Action Taken by the Audit Team on Comments/Queries |
|--------------------------|---------------------|---------------------------------------|--|
|                          |                     |                                       |  |
|                          |                     |                                       |  |

**Annexure-D*****Certification at the conclusion of Audit***

We have examined all the issues as per the duty list (except the following and necessary audit observations based on audit scrutiny have been issued.

| Sl. No. | Brief particulars of the issues which could not be seen in audit | Reasons for the same (non-availability of records, time constraints, shortage of manpower, other constraints/reasons) etc. |
|---------|--|--|
| 1       |  |  |
| 2       |  |  |

**Annexure-E*****DAILY DIARY OF EACH MEMBER OF THE AUDIT TEAM***

| Date | Brief details such as file number, item of work done, records seen and examined etc. |
|------|--|
|      |  |
|      |  |
|      |  |

Name: \_\_\_\_\_

Sr. Audit Officer/Assistant Audit Officer

**Annexure-F****Certificate**

It is certified that

- a) Sufficient and appropriate evidence (key documents) for the audit observations included in the Draft Inspection Report have been obtained and have been submitted along with the Draft Inspection Report.
- b) That the audit was conducted in accordance with the CAG's Auditing Standards 2017.
- c) The audit party has complied with the Audit Quality Framework and Code of Ethics.

Sr. Audit Officer

## Appendix-20

### Target of Draft Paragraphs for each state

(Reference: paragraph 7.6.1)

| Category 'A' States |                                     |            |
|---------------------|-------------------------------------|------------|
| Sl. No.             | State                               | DP targets |
| 1                   | Andhra Pradesh, including Telangana | 25         |
| 2                   | Delhi                               | 95         |
| 3                   | Gujarat                             | 40         |
| 4                   | Karnataka                           | 30         |
| 5                   | Maharashtra                         | 125        |
| 6                   | Tamil Nadu                          | 65         |
| 7                   | West Bengal                         | 60         |
| 8                   | Uttar Pradesh                       | 12         |
| <b>Total</b>        |                                     | <b>452</b> |

| Category 'B' States |                           |            |
|---------------------|---------------------------|------------|
| Sl. No.             | State                     | DP targets |
| 1                   | Assam and other NE States | 3          |
| 2                   | Bihar                     | 6          |
| 3                   | Chhattisgarh              | 2          |
| 4                   | Goa                       | 3          |
| 5                   | Haryana                   | 15         |
| 6                   | Himachal Pradesh          | 5          |
| 7                   | Jammu and Kashmir         | 1          |
| 8                   | Jharkhand                 | 6          |
| 9                   | Kerala                    | 6          |
| 10                  | Madhya Pradesh            | 12         |
| 11                  | Odisha                    | 16         |
| 12                  | Punjab                    | 12         |
| 13                  | Rajasthan                 | 18         |
| 14                  | Uttarakhand               | 4          |
| 15                  | UT, Chandigarh            | 2          |
| <b>Total</b>        |                           | <b>111</b> |

## Appendix-21

### Standard Operating Procedure for Reporting Performance Audits

(Reference: Paragraph 7.7.3)

#### 1. Introduction

The Performance Auditing Guidelines, notified by the C&AG, lay down the procedures and practices to be adopted while conducting Performance Audits (PAs). They outline the principles, objectives, approach, methodology, techniques and procedures. Regulations on Audit and Accounts provide the appropriate guidance for audits undertaken by the IA&AD. The IA&AD performs its auditing functions as per C&AG Auditing Standards.

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

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

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

#### 2. Planning for Performance Audits

- a. At the planning stage, a background paper, on the area/topic selected for the PA, is prepared at C&AG Hqrs., in consultation with FAOs and the practical feasibility of undertaking a PA in the specific area, is ascertained through the conduct of pilot studies by selected FAOs. The background paper is expected to provide an overview of the area selected for review, the rationale for selection of the topic, objectives of the pilot study, thrust areas of the review, scope of the pilot study and the suggested course of action.
- b. The pilot study reports are examined at C&AG Hqrs., to determine the feasibility of conducting the PA and addressing constraints, if any, faced during audit.
- c. The planning stage also includes the preparation of draft guidelines, by selected FAOs, on the topic of the PA, for issue to the FAOs. Guidelines, on the selected topic of the PA, are issued to the FAOs, indicating the background of the topic; objectives of the PA; the organizational set-up; laws and procedures governing the area of audit (audit criteria), including significant judicial pronouncements in the related area; the 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 a pan-India analysis and timelines for FAOs. The guidelines contain the structure of the report, for compilation of the audit findings at the field level, for enabling uniformity in the reporting structure across all FAOs. They also contain various timelines of the audit cycle, which are to be followed by the FAOs and C&AG Hqrs.

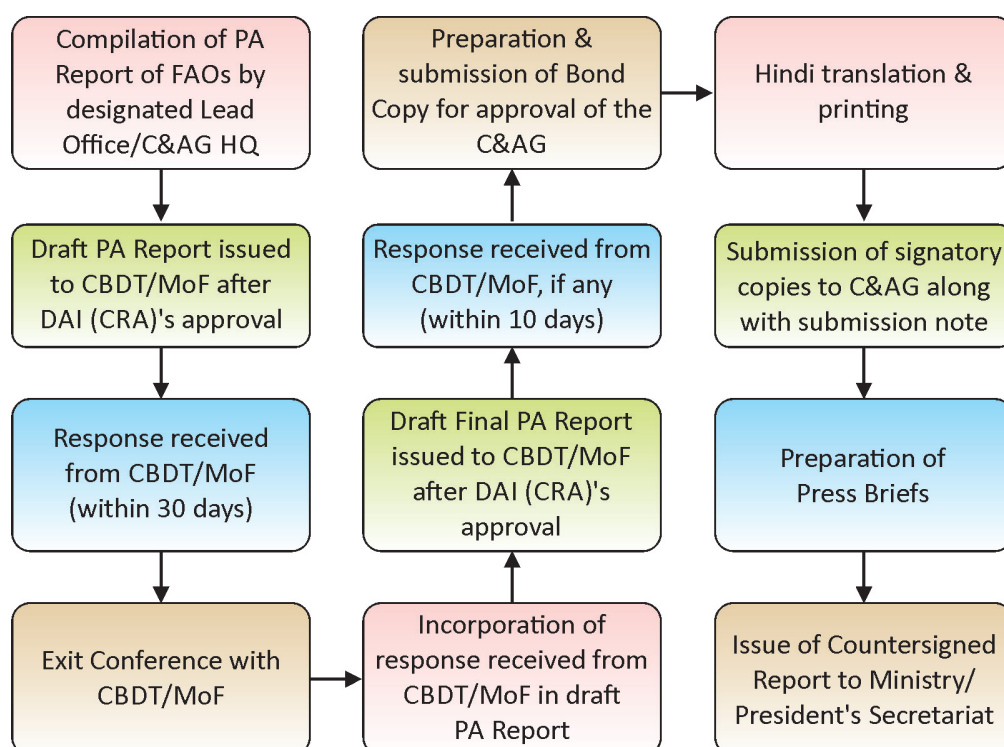
- d. At the time of issue of guidelines to the FAOs, the lead offices, for compilation of the draft reports pertaining to the PAs being carried out, are to be designated and communicated. All FAOs are instructed to send their draft audit reports to the designated lead offices.

### **3. Audit Execution**

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

### **4. Reporting**

The process followed by designated Lead Office/C&AG Hqrs., for PA reporting, is illustrated below:

**Chart 1: Process for PA reporting**

- a. **Receipt of the draft reports from the FAOs:** The Draft Performance Audit Reports are prepared by the FAOs and forwarded to the designated Lead Office, along with key documents, relevant annexures (in excel format) on OIOS and assurance memo (signed by the HOD, in the format indicated in sub para 'm'), for compilation and preparation of the final Performance Audit Report.
- b. **Consolidation of draft reports:** Prior to compilation of the reports, the major categories and sub-categories need to be identified and all the audit findings need to be accordingly mapped with the categories and sub-categories, based on nature of the audit findings. All findings are to be categorized and grouped category-wise (in an excel database), to obtain the consolidated status, which will, accordingly, be reflected in the Chapters. The PA Report is then compiled, based on the structure outlined in the Guidelines for the PA. The 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 and importance of the audit findings, instead of merely highlighting the cases on the basis of high money value. The Lead Office is expected to ensure that only substantiated issues/findings are incorporated in the audit report, to avoid any embarrassment at the time of subsequent discussions with the Ministry/CBDT/PAC.
- c. **Checking of Key documents and linking them 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 regard 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 the consolidated status of the irregularities is reflected in the report, a key, containing the list of audit findings, indicating the names of concerned assessees, the concerned CIT charges, tax effect etc., is prepared in a tabular format (given below), for issue to Ministry. The key has to be issued to the Ministry, along with the Report.

| State | CAG Para No. | DG/PD Para No. | Name of Assessee | AY | CIT Charge | Tax Effect (₹ in lakh) |           |             | Nature of mistake/<br>Category | Systemic/<br>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 C&AG”, below which the IA&AD official logo may be depicted. The 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:** *The following details may be depicted on the page next to the cover page:*

- Top Centre: Report of the C&AG.
- Middle Centre: for the year ended (month) (year) followed by the Subject of the 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 C&AG.

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

It provides the précis of the main report. The summary should not be very long and should contain only essential information. It should be a free flowing narrative that tells the reader the story, keeping the principal message at its core. Hence it need not be in the sequence of audit objectives.

- e. **Introduction:** It consists of a brief description of the subject of study, information on programme, activity, or institution, its objectives, inputs, implementation structure, expected outputs and outcome, etc. The introduction should be brief, yet sufficient to enable the reader to understand the context and the subject of audit.
- f. **Audit objectives:** The entire exercise of Performance Audit is built around the audit objectives. These should, therefore, be stated in simple and clear terms. It is useful to set out the audit objectives and sub-objectives within each audit objective in the form of complete statement/question;
- g. **Scope of audit:** It is defined in terms of the period of the programme covered in audit and segments of the programme/topic audited should be set out precisely;
- h. **Audit methodology:** Methods used for data collection/evidence gathering and testing may be stated in brief. This adds to the acceptability of the audit findings and forms a statement for transparency of the audit procedure;
- i. **Audit criteria:** The audit criteria provide a basis for evaluating the evidence, developing audit findings and reaching conclusions on the audit objectives. The audit criteria should be stated with appropriate explanations, which will be used to arrive at the audit findings and conclusions with reference to each audit objective and sub-objective.
- j. **Audit findings and conclusions:** Audit findings are arrived at by comparing the evidence to the criteria. These are based on the analysis of information collected during the audit. Audit findings and conclusions made during an audit with reference to each objective should be stated. While developing the audit findings

and conclusions, the reference is made not only to number of deviations but also to total number of cases test checked and the population size. The conclusions should be based on objectives, rationality and criteria and it should point out whether the deficiency is an isolated instance or represents a generic or systemic problem.

The Ministry/Department's reply to the audit observation should be stated in the para. In case of non-acceptance, the view of Audit by way of rebuttal, should also be brought out.

The audit teams should link the Audit Findings Matrix with the Audit Design Matrix and highlight the Para number as well as the chapter number of the draft report against each of the audit objectives where the observations are reported. This will help to ensure that the completed audit work aligns with the work planned.

- k. **Recommendations:** They should be presented along with the conclusions wherever applicable in a box or in highlighted print;
  - l. **Acknowledgement:** it may be useful to indicate or acknowledge in brief the co-operation, acceptance of the findings and recommendations by the entity. In case the co-operation or response was not forthcoming at any stage it may be indicated if it has resulted in any limitation along with its implication and the special efforts made to seek cooperation or response;
  - m. **Glossary of terms:** It is helpful to the reader if explanations are provided in a glossary or easy-to-find footnotes. Glossary should be comprehensive, explaining all technical and uncommon terms used in the report.
6. **Formatting of the Report:** PA Reports should be prepared based on the style guide of the 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, along with 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 and Judicial), CBDT for their comments. A copy of the same, along with 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 an 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 along with 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. In cases where the Ministry has not accepted the audit observations, suitable rebuttals are to be incorporated.
10. **Exit meeting** – The Exit Conference on the PA is organized with senior representatives of the CBDT/MoF, namely, Member (Audit and Judicial), CBDT; CIT (A&J) and 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** – The PA Report is revised, based on the response received from the Ministry and decisions taken in the Exit Conference. The revised PA Report is issued to the Ministry, seeking its 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 and Judicial), CBDT, for their comments, before finalization of the report. A copy of the same, along with the revised key (if necessitated), is to be sent to Director (A&PAC), CBDT, with endorsement to the field offices.
12. **Confidentiality of materials for Audit Report** – Audit Reports are confidential documents, till they are tabled in the Parliament. In this regard, confidentiality has to be maintained at every level. The instructions on confidentiality, as issued by C&AG Hqrs., vide instruction no. III/S/5/258-PPG/24-2012 dated 27 July 2012, may be followed. The confidentiality statement, prescribed therein, has to be submitted.

- 13. Preparation of Assurance memo** - The Assurance Memo has to be prepared in the following format and submitted along with the draft report, by FAOs, certifying that:
- The PA has been carried out in consonance with the main and supplementary guidelines issued by C&AG Hqrs.
  - 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.
  - All contested evidence has been conclusively handled, with reference to the facts at the disposal of Audit.
  - The samples have been selected based on risk analysis and risk perception and 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 the 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 C&AG, for approval, with appropriate annotations.
- 15. Preparation of Submission Note to C&AG** – The bond copy is submitted to C&AG, along with a Submission Note, containing a brief about the PA topic, various timelines followed, audit objectives, audit findings etc.
- 16. Linking audit objectives and audit findings** – It is advisable to prepare a summary of audit findings, linking them with each of the audit objectives and to mention the same in the submission note. The following table may be used for illustrative purposes.

| Audit objectives | Audit Findings | No. of cases | Tax effect<br>(₹ in crore) |
|------------------|----------------|--------------|----------------------------|
| AO 1             | AF 1           | XX           | XXXX.XX                    |
|                  | AF 2           | XX           | XXXX.XX                    |
|                  | AF 3           | XX           | XXXX.XX                    |
| AO 1             | AF 1           | XX           | XXXX.XX                    |
|                  | AF 2           | XX           | XXXX.XX                    |
|                  | AF 3           | XX           | XXXX.XX                    |
| AO 1             | AF 1           | XX           | XXXX.XX                    |
|                  | AF 2           | XX           | XXXX.XX                    |
|                  | AF 3           | XX           | XXXX.XX                    |
| AO 1             | AF 1           | XX           | XXXX.XX                    |
|                  | AF 2           | XX           | XXXX.XX                    |
|                  | AF 3           | XX           | XXXX.XX                    |

- 17. Office-wise contribution to Report:** PAs are conducted by the FAOs of the DT Wing. It is, therefore, advisable to prepare a gist of office-wise contributions, linking them with the

states under its jurisdiction and mention the same in the submission note. The following table may be used for illustrative purpose.

| Field Office       | State Jurisdiction             | No. of cases | Tax effect<br>(₹ in crore) |
|--------------------|--------------------------------|--------------|----------------------------|
| DGA(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>                   |              |                            |
| 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 and 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                  | XXXX         | XXXX.XX                    |
|                    | Uttarakhand                    | XX           | XXXX.XX                    |
|                    | Bihar                          | XX           | XXXX.XX                    |
|                    | Jharkhand                      | XX           | XXXX.XX                    |
|                    | <b>Total</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 the final PA Report is sent to Principal Director (Rajbhasha Wing), for Hindi translation. The soft copy and hard copy of the PA Report is provided to the empanelled printers, for printing copies of the PA Report, for laying in the Parliament, as well as for dissemination within the IA&AD and among the stakeholders.

19. **Preparation of Press Briefs** – A Press Brief of the PA Report is prepared in English, as well as Hindi, immediately after approval of the Bond copy. The Press Brief includes a summary of the PA Report, important audit findings (with para referencing) and recommendations.
20. **Submission of signatory copies to C&AG** – Eight printed copies each (Hindi and English version) of the Performance Audit Report, are submitted to the C&AG, for signature.
21. **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. The remaining copies of the printed reports are forwarded to 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 a digital database for the members of Parliament.
22. **For Media and C&AG website** – Press brief of the PA Report, both in English and Hindi, along with copies of Audit Report, are forwarded to Media Advisor, for dissemination amongst the national dailies and media channels, after laying of the Report in both Houses of Parliament. Simultaneously, soft copy (in pdf format) of the Audit Report/ Press brief (both in English and Hindi) are also sent to the IS wing, for uploading in the C&AG website.

## Appendix-22

### 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, with an equal number of observers being nominated from the IA&AD, to assist the Committees. In order to make the ACMs more effective, brief of the guidelines is given below:

1. At the beginning of the year, the DsGA/PDsA are to decide the number of meetings to be held by each wing. ACMs are to be conducted at the level of DGA/PDA, with the concerned Chief Commissioner of IT, 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, on being informed of its annual targets for holding ACMs, would immediately 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 justification for 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/ commissioner falls | Tentative date of proposed ACM |
|-------|--|---|--|--|--|--------------------------------|
| ACM 1 |  |   |  |  |  |                                |

| 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/ commissioner falls | Tentative date of proposed ACM |
|---|--|---|--|--|--|--------------------------------|
| 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, 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 following:
  - 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, they are to be forwarded, under a DO letter, from the 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: (i) the outstanding paras, as per their records, may be updated/reconciled, with the list furnished by Audit (ii) the latest position ascertained in each case and (iii) replies furnished, in advance, before the ACM where possible (these, if received, would be examined by Audit, before the meeting). A copy of the above letter is also to 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.

To enable effective follow-up after every ACM, Minutes may be drawn up after each ACM. 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 should then monitor further progress against these timelines and where these are not honored by the auditee, they may be immediately brought to the notice of the Chief Commissioner, through a DO letter, from the 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).

6. The major audit objections, PDPs and SOFs which were confirmed audit report material, but could not be processed for want of a reply/confirmation from the auditee, should immediately be individually first taken up through a 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 Chief Commissioner concerned. 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 that Audit is absolutely sure of its stand.

DO letters, signed by DGA/PDA, are to be sent, on a six-monthly basis, to Chief Commissioners, enclosing lists of outstanding IR paras and time-barred cases. These letters should enclose the list of paras outstanding against the assessing Charges/Ranges (Grouped Commissionerate-wise) under the administrative control of that Chief Commissioner. Copies of these letters may be endorsed by the Group Officer to the Commissioners concerned (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. All these letters should 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 Hqrs. letter No. 267-RecA (DT)/98-2010 dated 19-7-2010).



## Abbreviations

|            |  |
|------------|--|
| A&J        | Audit and Judicial   |
| AAO        | Assistant Audit Officer (Field level)<br>Assistant Administrative Officer (C&AG Hqrs.) |
| AAP        | Annual Audit Plan  |
| ACIT       | Assistant Commissioner of Income Tax   |
| ACM        | Audit Committee Meeting  |
| Addl. CIT  | Additional Commissioner of Income Tax  |
| ADG        | Additional Director General  |
| ADIT       | Assistant Director of Income Tax   |
| AM         | Audit Memo   |
| AQMF       | Audit Quality Management Framework   |
| ASOSAI     | Asian Organisation of Supreme Audit Institutions                                       |
| ATR        | Action Taken Report  |
| AU         | Assessment Units   |
| BO         | Branch Officer   |
| C&AG       | Comptroller and Auditor General of India   |
| CA         | Compliance Audit   |
| 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  |
| DAI        | Deputy Comptroller and Auditor General of India  |
| DCA        | Department Centric Audit   |
| DCIT       | Deputy Commissioner of Income Tax  |
| 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 of Service (DPC) Act, 1971 |
| DT      | Direct Taxes   |
| Exem.   | Exemption  |
| FAO     | Field Audit Office                                       |
| FAS     | Faceless Appeal Scheme                                   |
| GO      | Group Officer  |
| GST     | Goods and Services Tax                                   |
| HOD     | Head of the Department                                   |
| Hqrs.   | Headquarters   |
| I&CI    | Intelligence and Criminal Investigation                  |
| IA&AD   | Indian Audit and Accounts Department                     |
| INTOSAI | International Organisation of Supreme Audit Institution  |
| Inv.    | Investigation  |
| ITBA    | Income Tax Business Application                          |
| ITD     | Income Tax Department                                    |
| ITO     | Income Tax Officer                                       |
| ITRA    | Income Tax Revenue Audit                                 |
| JAO     | Jurisdictional Assessing Officer                         |
| Jt. CIT | Joint Commissioner of Income Tax                         |
| LAP     | Local Audit Party  |
| LAR     | Local Audit Report                                       |
| LTU     | Large Taxpayers Unit                                     |
| MIP     | Men in position  |
| NaFAC   | National Faceless Assessment Center                      |
| NFPS    | National Faceless Penalty Scheme                         |
| OB      | Objection Book   |
| ODT     | Other Direct Taxes                                       |
| OIOS    | One IAAD One System                                      |
| PA      | Performance Audit  |
| PAC     | Public Accounts Committee                                |

|          |   |
|----------|---|
| PAN      | Permanent Account Number  |
| PD       | Principal Director  |
| PDP      | Potential Draft Para  |
| PPG      | Professional Practices Group  |
| Pr. DGIT | Principal Director General of Income Tax                                      |
| Pr. CCIT | Principal Chief Commissioner of Income Tax                                    |
| Pr. CIT  | Principal Commissioner of Income Tax  |
| QPR      | Quarterly Performance Report  |
| RADT     | Receipt Audit Direct Taxes  |
| ReFACs   | Regional Faceless Assessment Centres  |
| RRR      | Return Receipt Register   |
| RU       | Review Units  |
| r.w.s.   | read with section   |
| SAI      | System Automation Initiative  |
| SMU      | Strategic Management Unit   |
| SO       | Supervising Officer   |
| SOF      | Statement of Facts  |
| Sr. AO   | Senior Audit Officer (Field level)/Senior Administrative Officer (C&AG Hqrs.) |
| SSCA     | Subject Specific Compliance Audit   |
| TAR      | Tax Audit Report  |
| TE       | Tax Effect  |
| TPO      | Transfer Pricing Officer  |
| TPS      | Tax Payer Services  |
| TU       | Technical Units   |
| UTITSL   | UTI Infrastructure Technology and Services Limited                            |
| VU       | Verification Units  |
| ZAO      | Zonal Accounts Office/Officer   |

