

Chapter II: Audit Mandate, Products and Impact

2.1 Authority of the CAG for audit of receipts

Article 149 of the Constitution of India provides that the Comptroller and Auditor General of India (CAG) shall exercise such powers and perform such duties in relation to the accounts of the Union and of the states and of any other authority or body as may be prescribed by or under any law made by the Parliament. The Parliament passed the Comptroller and Auditor General's DPC Act (CAG's DPC Act) in 1971. Section 16 of the CAG's DPC Act authorises CAG 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. Regulations on Audit & Accounts, 2007 (Regulations) lay down the principles for Receipt Audit.

2.2 Examination of systems and procedures and their efficacy

2.2.1 Audit of receipts includes an examination of the systems and procedures and their efficacy mainly in respect of:

- a. identification of potential tax assessees, ensuring compliance with laws as well as detection and prevention of tax evasion;
- b. exercise of discretionary powers in an appropriate manner including levy of penalties and initiation of prosecution;
- c. appropriate action to safeguard the interests of the Government on the orders passed by departmental appellate authorities;
- d. any measures introduced to strengthen or improve revenue administration;
- e. amounts that may have fallen into arrears, maintenance of records of arrears and action taken for the recovery of the amounts in arrears;
- f. pursuit of claims with due diligence and to ensure that these are not abandoned or reduced except with adequate justification and proper authority.

To achieve the above, we examined the assessments completed by the Income Tax Department in the financial year 2015-16. In addition, some assessments which were completed in earlier years were also taken up for examination.

2.2.2 The ITD undertakes scrutiny assessments in respect of a sample of returns filed by the assessee as per the Income Tax Act, 1961. The scrutiny assessment cases are selected on the basis of parameters identified and

pre-defined by the ITD. These cases are then closely examined in respect of claims of deductions, losses, exemptions etc. to arrive at the correct assessments to ensure that there is no evasion of taxes. The assessee is given the opportunity to substantiate his claim with evidence failing which the AO makes the assessment as deemed appropriate.

On the basis of examination of scrutiny assessment cases, Audit noticed that despite irregularities of certain types being pointed out repeatedly in the audit reports, there are continued occurrences of these irregularities in following the tax laws and instructions and directives of CBDT during scrutiny assessments completed by the AOs, raising questions about the efficiency of tax administration. Some of these cases are discussed in the subsequent paragraphs.

2.2.3 ITD completed 2,56,814 scrutiny assessments²² in FY 2015-16 in those units which were audited during audit plan of FY 2016-17, of which we checked 2,39,046 cases. Apart from this, we have also audited 29,652 cases (out of 65,028 cases) completed in previous financial years, during FY 2016-17. The incidence of errors in assessment checked in audit during FY 2016-17 was 19,289 cases (7.2 per cent) which was less than the previous year (7.3 per cent). Out of these, Internal Audit of ITD had checked 14,520 cases.

2.2.4 State-wise incidence of errors in assessment is given in *Appendix-2.1*. Table 2.1 below shows details of top 10 States where more than 10,000 assessments were checked in audit during FY 2016-17.

Table 2.1: Details of top ten states where more than 10,000 assessments were checked					(₹ in crore)
State	Assessments			Total revenue effect of the audit observations	Percentage of assessments with errors
	completed during 2015-16#	checked in audit during 2016-17	with errors		
a. Andhra Pradesh	23,194	20,448	1,319	3,916.24	6.45
b. Delhi	41,347	33,656	1,455	7,697.44	4.32
c. Gujarat	21,689	16,227	984	1,052.29	6.06
d. Karnataka	18,189	13,762	1,248	1,117.56	9.07
e. Madhya Pradesh	11,806	11,604	764	293.85	6.58
f. Maharashtra	67,861	50,980	3,178	5,438.18	6.23
g. Rajasthan	15,841	14,567	723	92.55	4.96
h. Tamil Nadu	28,725	24,076	2,299	10,181.46	9.55
i. Uttar Pradesh	24,419	23,692	1,207	1,653.78	5.09
j. West Bengal	19,759	18,226	2,667	2,368.91	14.63

including those completed in earlier years

This indicates that West Bengal has the highest percentage of assessments with errors (14.63 per cent) followed by Tamil Nadu (9.55 per cent). It has also been

²² Total scrutiny assessment completed in the ITD during FY 2015-16 were 3,38,898.

seen that in the last five years both these states were having the highest percentage of assessments with errors. The ITD needs to take corrective action in respect of errors noticed in the assessments.

2.2.5 Table 2.2 below shows the details of errors noticed in local audit during FY 2016-17.

Table 2.2: Tax wise details of errors in assessments			(₹ in crore)
Category	Cases	Tax effect (TE)	
a. Corporation tax (CT) and Income tax (IT)	20,582	35,745.12 ²³	
b. Other Direct taxes (ODT)	652	77.13	
Total	21,234	35,822.25	

Note: The above findings and all subsequent findings are based exclusively on audit of selected assessments.

2.2.6 Table 2.3 below shows the category-wise details of underassessment in respect of Corporation tax and Income Tax. *Appendix-2.2* indicates details in respect of sub-categories under them.

Table 2.3: Category-wise details of errors			(₹ in crore)
Category	Cases	Tax effect	
a. Quality of assessments	5,373	2,899.68	
b. Administration of tax concessions/exemptions/deductions	8,055	9,550.71	
c. Income escaping assessments due to omissions	2,864	4,803.92	
d. Others	3,718	11,589.61	
Total	20,010	28,843.92	

2.3 Persistent and pervasive irregularities in respect of Corporation Tax and Income Tax assessments cases

The instances of non-compliance and irregularities noticed during audit examination of assessment cases completed by the Assessing Officers (AOs) are brought out in our Compliance Audit Report – Department of Revenue -Direct Taxes every year. An irregularity may be considered persistent if it occurs year after year. It becomes pervasive, when it affects the entire system and is dispersed over many assessment jurisdictions. We have been pointing out various irregularities including those relating to (i) arithmetical errors in computation of income and tax, (ii) mistakes in levy of interest and (iii) instances of incorrect allowance of business expenditure with respect to assessment of corporation and income tax cases in the Compliance Audit Reports year after year, and some of these irregularities seem to be both persistent and pervasive. Recurrence of such irregularities, despite being pointed out repeatedly in earlier audit reports, is not only indicative of non-seriousness on the part of the Department in instituting appropriate systems to prevent recurrence of such repetitive mistakes, but is also points the lack of effective monitoring and absence of an institutional mechanism to respond to

²³ Includes 572 cases of over assessment with tax effect of ₹ 6,901.20 crore.

the systematic and structural weaknesses leading to leakages of revenue. Cases of such irregularities reported in the above mentioned categories are discussed below.

Though the irregularities observed in different states showed no distinctive pattern of occurrences among the states, they were occurring more frequently in some states than others; their occurrences were seen to be consistently high in Maharashtra and Delhi. Uttar Pradesh and Andhra Pradesh also showed higher occurrences of errors than the other states under the above categories. The instances where the errors constituted more than 25 per cent of the total tax effect under each of the above categories have been highlighted in the following analysis.

2.3.1 Quality of assessments – arithmetical errors in computation of income and tax

A large number of irregularities noticed by us reflect arithmetical or computational errors which are the easiest to address. We noticed irregularities emanating from arithmetical errors in computation of income and tax caused by computing errors, like adoption of incorrect figures while computing assessed income and tax demand, disallowances made in the assessments not added back, allowance of double deductions, omission to disallow claims allowed earlier due to non-correlation of assessment records, etc. AOs had committed such errors in the assessments ignoring clear provisions in the Act which obviously reflect weaknesses in internal controls on the part of ITD which need to be addressed. Mistakes noticed in this category during 2013-14 to 2015-16 as brought out in the Compliance Audit Reports of past three years along with findings of the current year audit report (2016-17) are summarised in the Table 2.4 below:

Assessment	Audit Report for the year ended							
	March 2014		March 2015		March 2016		March 2017	
	No. of cases	Tax Effect	No. of cases	Tax Effect	No. of cases	Tax Effect	No. of cases	Tax Effect
CT	46 ²⁴	268.09	43 ²⁵	164.63	45 ²⁶	922.95	36	310.04
IT	09 ²⁷	199.66	16 ²⁸	83.40	19 ²⁹	33.44	26	75.89

24 States involved: Andhra Pradesh, Assam, Delhi, Gujarat, Haryana, Karnataka, Kerala, Maharashtra, Punjab, Rajasthan, Tamil Nadu and West Bengal.

25 Bihar, Delhi, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.

26 Andhra Pradesh, Bihar, Delhi, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Tamil Nadu and West Bengal.

27 Delhi, Kerala, Maharashtra, Punjab, West Bengal

28 Delhi, Gujarat, Kerala, Maharashtra, Punjab, Rajasthan, Uttar Pradesh, West Bengal

29 Bihar, Delhi, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Uttar Pradesh

During 2013-14, such irregularities were significant in Maharashtra (accounting for 36 *per cent* of the total tax effect). During 2014-15 the tax effect on this account was found significant in Maharashtra (44 *per cent*) and Madhya Pradesh (24 *per cent*), whereas in 2015-16, it was found significant in Delhi (41 *per cent*) and Maharashtra (28 *per cent*).

During 2016-17, we noticed 36 cases relating to Corporation Tax assessments where AOs had committed arithmetical errors in computation of income and tax involving tax effect of ₹ 310.04 crore in nine states³⁰. These were significant³¹ in Delhi (33 *per cent* of the total tax effect) and Maharashtra (25 *per cent*). All these cases have been issued as separate draft paragraphs (DPs) for Audit Reports 2016-17.

In respect of Income Tax, such irregularities were found to be significant in Delhi (94 *per cent* of the total tax effect) during 2013-14. During 2014-15 the tax effect on this account was found significant in Uttar Pradesh (63 *per cent*) whereas in 2015-16, it was found significant in Maharashtra (39 *per cent*) and Delhi (29 *per cent*).

During 2016-17, we noticed 26 cases relating to Income tax assessments where AOs had committed arithmetical errors in computation of income and tax involving tax effect of ₹ 75.89 crore in nine states³². These were significant in Maharashtra (66 *per cent* of the total tax effect).

2.3.2 Quality of assessments – mistakes in levying of interest

We noticed irregularities related to mistakes in levying of interest on account of non-furnishing or delay in furnishing of returns of income, default in payment of advance tax, default in payment of instalments of advance tax, default in payment of tax demand raised by ITD, etc. Mistakes noticed in levy of interest during 2013-14 to 2015-16 as brought out in the Compliance Audit Reports of past three years along with findings of the current year audit report (2016-17) are summarised in the Table 2.5 below:

30 Delhi, Goa, Gujarat, Haryana, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh and West Bengal

31 Wherever significance is mentioned, it is only with reference to the total tax effect and not in relation to the number of cases.

32 Andhra Pradesh, Delhi, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Odisha, Punjab and Tamil Nadu

Table 2.5: Mistakes noticed in levying of interest								(₹ in crore)	
Assessment	Audit Report for the year ended								
	March 2014		March 2015		March 2016		March 2017		
	No. of cases	Tax Effect	No. of cases	Tax Effect	No. of cases	Tax Effect	No. of cases	Tax Effect	
CT	21 ³³	122.39	22 ³⁴	150.10	39 ³⁵	163.84	40	157.46	
IT	20 ³⁶	30.77	29 ³⁷	54.65	36 ³⁸	61.97	37	130.12	

During 2013-14, the non-compliance on this account was found significant in Maharashtra (86 per cent of the total tax effect). In 2014-15 the non-compliance was significant in Maharashtra (53 per cent) and Delhi (37 per cent) whereas in 2015-16 such non-compliance was significant in Maharashtra (37 per cent) and Uttar Pradesh (30 per cent).

During 2016-17, we noticed 40 cases of mistakes in levying of interest involving tax effect of ₹ 157.46 crore in 10 states³⁹ in respect of Corporation tax assessments. The non-compliance was found to be significant in Maharashtra (67 per cent). These cases have been reported as draft paragraph for Audit Report 2016-17.

In respect of Income Tax, such irregularities were found to be significant in Delhi (31 per cent of the total tax effect) and Maharashtra (25 per cent) during 2013-14. During 2014-15 the tax effect on this account was found significant in Maharashtra (43 per cent) and Uttar Pradesh (28 per cent) whereas in 2015-16, it was found significant in Delhi (27 per cent) and Andhra Pradesh (27 per cent).

During 2016-17, we noticed 37 cases of mistakes in levying of interest involving tax effect of ₹ 130.12 crore in 17 states⁴⁰. These were significant in Delhi (82 per cent)⁴¹.

Despite there being clear provisions on the levying of interest in the Act, such mistakes were found to be continuing unabated.

33 Delhi, Gujarat, Haryana, Karnataka, Maharashtra, Odisha, West Bengal

34 Delhi, Gujarat, Kerala, Madhya Pradesh, Maharashtra, Odisha, Tamil Nadu, West Bengal

35 Andhra Pradesh, Delhi, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Odisha, Tamil Nadu, Uttar Pradesh and West Bengal.

36 Andhra Pradesh, Bihar, Delhi, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh

37 Andhra Pradesh, Delhi, Karnataka, Madhya Pradesh, Maharashtra, Tamil Nadu, UT Chandigarh, West Bengal

38 Andhra Pradesh, Delhi, Goa, Gujarat, Haryana, Kerala, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, West Bengal

39 Andhra Pradesh, Delhi, Karnataka, Madhya Pradesh, Maharashtra, Odisha, Punjab, Tamil Nadu, UT Chandigarh and West Bengal

40 Andhra Pradesh, Assam, Bihar, Delhi, Goa, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Rajasthan, Tamil Nadu, UT Chandigarh, Uttar Pradesh and West Bengal

41 Wherever significance is mentioned, it is only with reference to the total tax effect and not the number of cases.

2.3.3 Administration of tax concessions/exemptions/deductions-incorrect allowance of business expenditure

We noticed irregularities related to incorrect allowance of ineligible claims of business expenditure viz. capital expenditure, unpaid claims and provisions deemed as unascertained liability, etc. Mistakes noticed in incorrect allowance of business expenditure during 2013-14 to 2015-16 as brought out in the Compliance Audit Reports of past three years along with findings of the current year audit report (2016-17) are summarised in the Table 2.6 below:

Table 2.6: Mistakes noticed in incorrect allowance of business expenditure								(₹ in crore)	
Assessment	Audit Report for the year ended								
	March 2014		March 2015		March 2016		March 2017		
	No. of cases	Tax Effect	No. of cases	Tax Effect	No. of cases	Tax Effect	No. of cases	Tax Effect	
CT	40 ⁴²	281.36	56 ⁴³	299.64	47 ⁴⁴	514.09	50	478.67	

During 2013-14 the non-compliance on this account was found significant in Maharashtra (52 per cent of the total tax effect) whereas in 2015-16 such non-compliance was significant in Maharashtra (45 per cent) and Andhra Pradesh (30 per cent).

During 2016-17, we noticed 50 cases of incorrect allowance of business expenditure involving tax effect of ₹ 478.67 crore in 10 states⁴⁵. Irregularities on this account was found significant in Maharashtra (64 per cent of total tax effect).

Non-compliance to tax laws and instructions and directives of CBDT is always one of the major risk areas affecting the efficiency of tax administration, to improve which the departmental systems and procedures have significantly been computerised over the years for efficient processing and improved compliance at all stages of assessment. ITD selects cases through Computer Assisted Scrutiny Selection (CASS) on the basis of pre-defined parameters for detailed scrutiny to be done by AO. For the scrutiny, AO calls for required information from the assessee and examines them in the light of applicable provisions of the Act. However, as seen from the above analysis, the risks seem to have remained unchanged in the above areas as indicated by the continued occurrence of the similar types of irregularities over time, despite these being pointed out by Audit from year to

42 Andhra Pradesh, Assam, Delhi, Gujarat, Haryana, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, West Bengal

43 Andhra Pradesh, Bihar, Delhi, Gujarat, Haryana, Karnataka, Maharashtra, Odisha, Rajasthan, Tamil Nadu, West Bengal

44 Andhra Pradesh, Assam, Delhi, Gujarat, Haryana, Karnataka, Maharashtra, Odisha, Punjab, Tamil Nadu and West Bengal.

45 Andhra Pradesh, Delhi, Gujarat, Karnataka, Kerala, Maharashtra, Odisha, Rajasthan, Tamil Nadu and West Bengal

year and there seems to be no system to make the AOs more accountable for minimising, if not eliminating, repetition of similar or identical mistakes.

2.3.4 Conclusion and Recommendation

From the above analysis and also from our past experiences, it is clear that the required systems and processes to minimise the risk of recurrence and repetition of similar types errors in computation of taxable income, once they are pointed out in audit, is absent in the Department. Once such an irregularity emanating from an assessment made by the AO has been pointed out in audit, it is expected that appropriate checks should be instituted by the Department so that those types of irregularities and errors in assessment are reduced in future, which is not seen to be the case. As pointed out above, the situation in respect of the three types of errors discussed in fact indicate that the incidence of such errors are on the rise.

It is recommended that the IT Department should emphasise on accountability on the part of the AOs to ensure that the risk of recurrences of similar types of irregularities are minimised, besides instituting systems and procedural checks to ensure this.

2.4 Audit products and response to audit

2.4.1 We elicit response from the audited entities at different stages of audit. As per provision of Regulations 193 on completion of field audit, we issue the local audit report (LAR) to ITD for comments.

2.4.2 Table 2.7 below depicts the position of number of observations included in the LAR issued during FY 2012-13 to FY 2016-17 and replies received thereto and observations accepted.

Financial Year	Observations raised	Reply received		Reply not received	Percentage of cases accepted	Percentage of reply not received
		Cases Accepted	Cases not accepted			
2012-13	18,548	3,343	4,124	11,081	18.0	59.7
2013-14	19,312	3,642	3,131	12,534	18.9	64.9
2014-15	17,626	3,631	3,535	10,450	20.6	59.3
2015-16	20,737	3,281	5,196	12,260	15.8	59.1
2016-17	22,579	4,074 ⁴⁶	3,546	15,060	18.4	66.7

⁴⁶ 1,868 - Cases accepted and remedial action taken; 2,206 - Cases accepted but remedial action not taken

2.4.3 Table 2.8 below shows the increasing trend of pendency of observations.

Table 2.8: Details of outstanding audit observations								(₹ in crore)	
Period	CT		IT		ODT		Total		
	No.	TE	No.	TE	No.	TE	No.	TE	
Upto Mar 2013	6,396	16,438.50	4,722	2,316.16	1,840	174.48	12,958	18,929.14	
2013-14	2,399	6,479.66	3,512	1,523.25	628	12.26	6,539	8,015.16	
2014-15	3,633	18,576.35	4,088	3,582.07	551	79.13	8,272	22,237.55	
2015-16	5,761	12,527.52	6,107	1,783.70	676	63.72	12,544	14,374.94	
2016-17	3,798	21,511.37	4,785	1,682.53	540	8.28	9,123	23,202.19	
Total	21,987	75,533.40	23,214	10,887.71	4,235	337.87	49,436	86,758.98	

The accretion in pendency in replies to audit findings each year has resulted in accumulation of 49,436 cases involving revenue effect of ₹ 86,758.98 crore as of 31 March 2017.

The Department's efforts to ensure that replies to audit are sent in the prescribed period have not been satisfactory. The provisions of Regulations 202 and 203 which require establishment of system and procedures to ensure adequate, constructive and timely action on audit observations included in Inspection Reports/Audit Notes and establishment of audit committees for monitoring and ensuring compliance and settlement of pending audit observations, need to be observed in letter and spirit.

2.4.4 We issue significant and high value cases noticed in audit to the Ministry for comments before inclusion in the Audit Report as per provision of Regulations 205 to 209. We give six weeks to the Ministry to offer their comments on cases issued to them before their inclusion in the Audit Report. Four hundred fifty seven cases⁴⁷ are included in the current Audit Report, of which replies were received for 269 cases. The Ministry/ITD accepted 243 cases⁴⁸ (90.3 per cent) having tax effect of ₹ 2,691.8 crore (93.1 per cent) while it did not accept 26 cases⁴⁹ having tax effect of ₹ 200.7 crore as of 31 October 2017. Replies to remaining cases were not received. Table 2.9 shows category wise details of these cases⁵⁰.

47 Appendix 2.3 gives the details of 457 cases issued to the Ministry.

48 Ministry - 175 cases; ITD - 68 cases

49 Ministry - 7 cases; ITD - 19 cases

50 Sub-categories-wise details are given in Appendix-2.4

Table 2.9 Category-wise details of errors of high value cases						(₹ in crore)	
Category	CT		IT		Total		
	No.	TE	No.	TE	No.	TE	
a. Quality of assessments	99	625.73	69	217.93	168	843.66	
b. Administration of tax concessions/exemptions/ deductions	150	1,789.22	35	78.19	185	1,867.41	
c. Income escaping assessments due to omissions	31	989.83	17*	18.61	48	1,008.44	
d. Overcharge of tax/ interest	40	446.08	16	21.26	56	467.34	
Total	320	3,850.86	137	335.99	457	4,186.85	

*includes 6 cases of under assessment of wealth involving TE of ₹ 0.46 crore.

2.4.5 Chapters III and IV bring out details of errors in assessments in respect of Corporation Tax; Income Tax and Wealth Tax respectively. In addition, two long draft paras viz. 'Fictitious demand during scrutiny assessments' and 'Bogus transactions by assesseees' were issued to the Ministry which have been separately included in the present Report in Chapters V and VI respectively, as they point out to some systemic flaws. Chapter V brings out the instances noticed by audit where the ITD had raised exaggerated demands to achieve its revenue collection targets by resorting to unwarranted methods; among these, we noticed five cases where credits for full pre-paid taxes were not given while raising additional demands and 13 more cases where refunds due to the assesseees were not paid; instead the refund amounts were adjusted against interests which were levied incorrectly. Both these led to loss of revenue as the excess demands as well as the amount adjusted against interest not due had to be refunded subsequently, with avoidable payment of huge amount of interest.

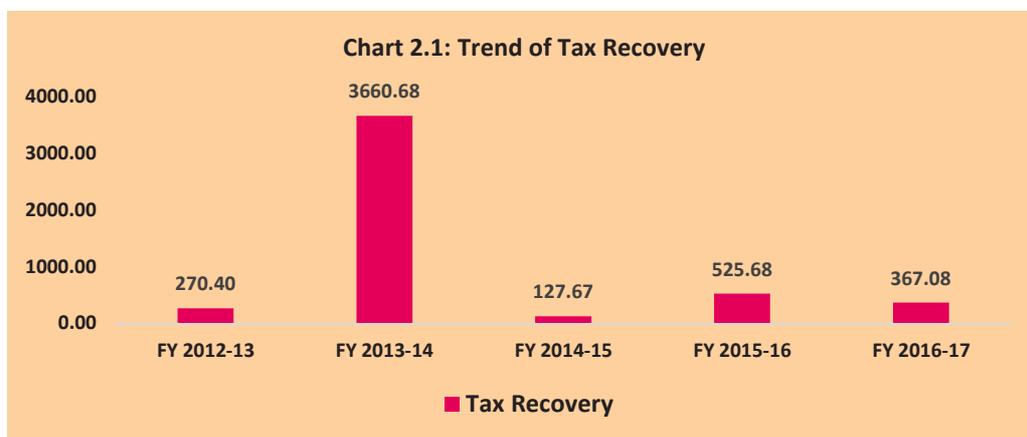
Chapter VI brings out the cases where the the AOs had failed to follow up the reports of their Investigation Wing relating to fictitious donations and bogus purchases and did not adopt a uniform approach to deal with such cases. These cases are included separately as they point to weaknesses in the internal control system of the ITD. We noticed seven cases where bogus donations or purchases were allowed in full and 18 cases where these were allowed partially, where the provisions of the Act demanded complete disallowance of such bogus donations or purchases. In 31 cases, the AOs had failed to initiate any action against assesseees who had availed of entries related to bogus donations or purchases.

2.4.6 Besides, Chapter VII brings out our report on a subject specific compliance audit on 'The Appeal Process in Income Tax Department'. We audited 17,097 appeal cases produced by the ITD and found various irregularities in 2,203 cases involving tax effect of ₹ 549.56 crore. Such irregularities accounted for more than 12 *per cent* of total cases audited.

2.5 Audit impact

2.5.1 Recovery at the instance of audit

ITD recovered ₹ 4,951.51 crore in the last five years (Chart 2.1) from demands raised to rectify the errors in assessments that we pointed out. This includes ₹ 367.08 crore recovered in FY 2016-17.



2.6 Time barred cases

2.6.1 Table 2.10 below shows the details of time-barred cases during FY 2012-13 to 2016-17.

Year of Report	Cases	Tax effect
2012-13	2,207	899.9
2013-14	2,427	1,121.2
2014-15	3,881	2,490.8
2015-16	2,074	1,230.72
2016-17	2,243	1,637.81

2.6.2 During FY 2016-17, 2,243 cases with tax effect of ₹ 1,637.81 crore became time-barred for remedial action, of which Maharashtra alone account for 25.58 *per cent* followed by Tamil Nadu at 25.54 *per cent*. *Appendix-2.5* indicates state-wise details of such cases for FY 2016-17. Responsibility may be fixed for not taking remedial action in time in such cases. The Department should ensure that remedial action is taken in time so that such incidences do not recur in future.

2.7 Non-production of records

2.7.1 We scrutinize assessment records under Section 16 of the C&AG's (DPC) Act, 1971 with a view to securing an effective check on the assessment and collection of taxes and examining that regulations and procedures are being duly observed. It is also incumbent on ITD to expeditiously produce records and furnish relevant information to Audit.

2.7.2 Non-production of records has increased in Goa, Gujarat, Rajasthan Tamil Nadu and West Bengal significantly over previous years during FY 2016-17. ITD did not produce 26,823 records out of 3,23,532 records requisitioned during FY 2016-17, (8.29 *per cent*) which is an improvement over FY 2015-16 (10.74 *per cent*).

Appendix 2.6 shows the details of non-production of records during FY 2014-15 to FY 2016-17. Table 2.11 shows details of records not produced to audit pertaining to same assessee in three or more consecutive audit cycles.

Table 2.11: Records not produced to Audit in three or more audit cycles	
States	Records not produced
a. Maharashtra	73
b. Odisha	28
c. Gujarat	1
Total	102

In FY 2016-17, 102 records pertaining to same assessees in three states were not produced to audit in last three or more consecutive audit cycles.