

Chapter II: Audit Mandate, Products and Impact

2.1 Authority of the C & AG for audit of receipts

2.1.1 Section 16 of the C & AG's DPC Act, 1971 authorises the Comptroller and Auditor General 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. Audit & Accounts Regulations, 2007 lay down the following 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 in respect of:

- a. identification of potential tax assessees, ensuring compliance with laws as well as detection and prevention of tax evasion;
- b. prompt investigation of losses of revenue through fraud, default or mistake including, if required, through the review of other similar cases;
- c. exercise of discretionary powers in an appropriate manner including levy of penalties and initiation of prosecution;
- d. appropriate action to safeguard the interests of the Government on the orders passed by departmental appellate authorities;
- e. any scheme as may be introduced by the Government from time to time;
- f. any measures introduced to strengthen or improve revenue administration;
- g. amounts that may have fallen into arrears, maintenance of records of arrears and action taken for the recovery of the amounts in arrears;
- h. pursuit of claims with due diligence and that these are not abandoned or reduced except with adequate justification and proper authority;
- i. other ancillary and non-assessment functions including expenditure incurred by the departments;
- j. achievement of targets, accounting and reporting of receipts and their cross verification and reconciliation with the accounts records; amounts of refunds, rebates, drawbacks, remissions and abatements to see that these are correctly assessed and accounted for; and
- k. any other matter, as may be determined by the Comptroller and Auditor General.

2.3 Audit products

2.3.1 In pursuance of audit mandate and provision in Regulation 205 of Audit & Accounts Regulations, 2007, we prepare annual compliance audit reports and periodical performance audit reports for submission to President under Article 151 of the Constitution. C&AG of India has the authority to decide the form, content and time of submission of Audit Reports under Regulation 205 of the Audit & Accounts Regulations, 2007.

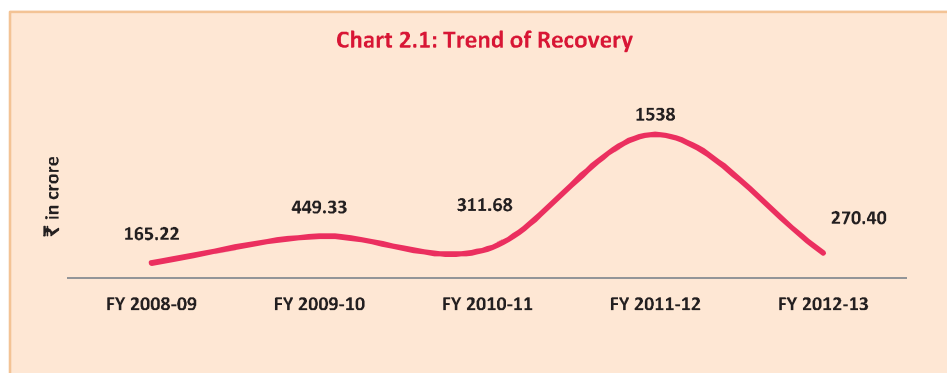
2.3.2 This Compliance Audit Report discusses 459 high value and important cases issued to the Ministry²³. *Appendix 5* gives the details of such cases. Table 2.1 shows category wise details of these cases²⁴. We discuss some important cases in Chapters III and IV.

Category	CT		IT		Total	
	No.	TE	No.	TE	No.	TE
a. Quality of assessments	122	774.41	38	50.78	160	825.19
b. Administration of tax concessions/ exemptions/deductions	146	1,005.48	35	80.06	181	1,085.54
c. Income escaping assessments due to omissions	36	251.80	47*	29.10	83	280.90
d. Overcharge of tax/ interest	28	162.06	7	13.81	35	175.87
Total	332	2,193.75	127*	173.75	459	2,367.50

*includes 17 cases of under assessment of wealth involving TE of ₹ 1.88 crore.

2.4 Recovery at the instance of audit

2.4.1 ITD recovered ₹ 2,734.63 crore in the last five years from demands raised to rectify the errors in assessments that we pointed out. This includes ₹ 270.4 crore recovered in FY 2012-13. Chart 2.1 below shows a sudden jump in recovery in FY 2011-12 which declined in FY 2012-13.



²³ Ministry of Finance, Central Board of Direct Taxes

²⁴ Sub-categories-wise details are in *Appendix-6*

2.5 Incidence of errors

2.5.1 ITD completed 2,32,610 scrutiny assessments in FY 2011-12, of which we checked 2,15,224 cases. The incidence of errors in assessment checked in audit was 17,028 which averaged to 7.9 per cent (*Appendix-7*) which was more than the previous year's average (6.1 per cent).

2.5.2 Table 2.2 below shows the details of errors in assessments during FY 2012-13.

Table 2.2: Tax wise details of errors in assessments		(₹ in crore)	
Category	Cases	Tax effect	
a. Corporation tax & Income tax	16,865	12,599	
b. Wealth tax	1,072	28	
c. Other Direct taxes	372	47	
Total	18,309²⁵	12,674	

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

2.5.3 Out of 17,028 cases with tax effect of ₹ 23,663 crore, 2,462 cases with tax effect of ₹ 1,106 crore related to over assessments.

2.5.4 Table 2.3 below shows the category-wise details of underassessment in respect of Corporation tax and Income Tax. *Appendix-8* 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	4,527	2,407	
b. Administration of tax concessions/exemptions/deductions	6,906	7,299	
c. Income escaping assessments due to omissions	2,620	2,148	
d. Others	2,812	745	
Total	16,865	12,599	

2.6 Response to audit

2.6.1 We elicit response from the audited entities at different stages of audit. On completion of field audit, we issue the local audit report (LAR) to ITD for comments. Further, we issue important and high value cases out of these to the Ministry for comments before inclusion in the Audit Report.

2.6.2 CBDT issued instructions (2006) that replies to LARs should be provided within six weeks. Assessing officers (AOs) are required to initiate remedial action within two months to correct errors in demands lest they become time barred leading to loss of revenue.

²⁵ Number of assessments with errors as shown in paragraph 2.5.1 relates to scrutiny assessments completed during FY 2011-12 and audited during FY 2012-13. 18,309 cases shown in Table 2.2 relates to all cases audited during FY 2012-13 including assessments completed earlier also.

2.7 Response to Local audit

2.7.1 Table 2.4 below depicts the position of replies received and observations accepted in respect of cases issued during FY 2008-09 to 2012-13.

Table 2.4: Response to local audit						
FY	Observations raised	Reply received		Reply not received	% of cases accepted	% of reply not received
		Cases Accepted	Cases not accepted			
2008-09	19,631	4,898	5,892	8,841	25.0	45.0
2009-10	19,227	2,927	3,919	12,381	15.2	64.4
2010-11	20,130	4,354	3,568	12,208	21.6	60.7
2011-12	19,624	3,945	2,971	12,708	20.1	64.8
2012-13	18,548	3,343 ²⁶	4,124	11,081	18.0	59.7

2.8 Response to high value cases

2.8.1 We give six weeks to Ministry to offer their comments on high value cases before their inclusion in the Audit Report. Out of 459 high value cases included in the current Audit Report, the Ministry accepted 226 cases (49 per cent) while did not accept 12 cases and did not reply in 221 cases as of February 2014.

2.8.2 Table 2.5 shows details of remedial action taken in 390 cases.

Table 2.5: Details of action taken						(₹ in crore)	
Categories	Action completed and amount recovered		Action completed but amount to be recovered		Action initiated only		
	No.	TE	No.	TE	No.	TE	
a. Corporation Tax	2	2.12	251	1,338.88	14	85.92	
b. Income Tax	3	2.60	96	155.51	8	6.29	
c. Wealth Tax	1	0.01	13	1.74	2	0.11	
Total	6	4.73	360	1,496.13	24	92.32	

2.8.3 Chapters III and IV bring out details of errors in assessments in respect of Corporation Tax, Income Tax and Wealth Tax respectively.

2.9 Pendency of audit observations

2.9.1 The accretion in pendency in replies to audit findings each year has resulted in pile-up of 55,072 cases involving revenue effect of ₹ 55,202.1 crore as of 31 March 2013. Table 2.6 below shows the increasing trend of pendency of observations.

²⁶ 1,453 - Cases accepted and remedial action taken; 1,890 - Cases accepted but remedial action not taken

Table 2.6: Details of outstanding audit observations								(₹ in crore)
Period	CT		IT		ODT		Total	
	No.	TE	No.	TE	No.	TE	No.	TE
Upto Mar 2009	3,253	5,687	4,554	1,220	822	32.7	8,629	6,939.7
2009-10	2,983	4,643	3,612	4,249	653	21.8	7,248	8,913.8
2010-11	4,161	7,600	5,405	2,410	843	185.3	10,409	10,195.3
2011-12	4,495	15,036	7,337	2,070	740	44.0	12,572	17,150.0
2012-13	5,350	8,824	9,584	3,074	1,280	105.3	16,214	12,003.3
Total	20,242	41,790	30,492	13,023	4,338	389.1	55,072	55,202.1

2.10 Remedial action time barred

2.10.1 Table 2.7 below shows the details of time-barred cases during FY 2008-09 to 2012-13.

Table 2.7: Details of time-barred cases			(₹ in crore)
Year of Report	Cases	Tax effect	
2008-09	16,557	5,613	
2009-10	5,644	2,869	
2010-11	7,942	5,335	
2011-12	3,907	1,083	
2012-13	2,207	899.87	

2.10.2 During FY 2012-13, 2,207 cases with tax effect of ₹ 899.87 crore became time-barred for remedial action. *Appendix-9* indicates the details of such cases.

2.11 Non-production of records

2.11.1 We scrutinize assessment records under section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 with a view to securing an effective check on the assessment, collection and proper allocation of taxes and examining that regulations and procedures are being observed. It is also incumbent on ITD to expeditiously produce records and furnish relevant information to audit.

2.11.2 ITD did not produce 47,600 records out of 3,23,628 records requisitioned during FY 2012-13, (14.7 per cent). Out of these, 486 records pertaining to six states were not produced to audit in last three or more consecutive audit cycles. Table 2.8 shows state-wise details.

Table 2.8: Records not produced to audit in three or more audit cycles	
State	Records not produced
a. Andhra Pradesh	87
b. Karnataka	239
c. Madhya Pradesh	48
d. Maharashtra	8
e. Odisha	101
f. Tamil Nadu	3
Total	486