



# Report of the Comptroller and Auditor General of India



## Functioning of Internal Audit in Income Tax Department

Union Government  
Department of Revenue - Direct Taxes  
Report No. 25 of 2015

**Report of the  
Comptroller and Auditor General of India**

**for the year ended March 2015**

**Performance Audit on  
Functioning of Internal Audit  
in Income Tax Department**

**Union Government  
Department of Revenue - Direct Taxes  
Report no. 25 of 2015**

**Laid on the table of Lok Sabha / Rajya Sabha on .....**

## Table of Contents

Contents	Pages
<b>A. Preface</b>	i
<b>B. Executive Summary</b>	iii-v
<b>C. Summary of Recommendations</b>	vi-viii
<b>D. Chapter I: Overview of Internal Audit in Income Tax Department</b>	<b>1-6</b>
D.1 Introduction	1-2
D.2 Organizational set up	2-3
D.3 Why we chose the topic	3-4
D.4 Objectives of the Performance Audit	4
D.5 Legal framework	5
D.6 Audit scope and coverage	5
D.7 Constraints	5
D.8 Acknowledgement	6
<b>E. Chapter II: Audit Planning and Execution</b>	<b>7-22</b>
E.1 Planning for Internal Audit	7-9
E.2 Preparation of Action Plan	9-10
E.3 Information on auditable cases	10-11
E.4 Selection of auditable cases as per prescribed norms	12-14
E.5 Coverage of auditable cases and units	16-18
E.6 Audit of cases as per norms	18-19
E.7 Quality of Internal Audit	19-20
<b>F. Chapter III: Audit Communication, Reporting and Follow up</b>	<b>23-34</b>
F.1 Issue of Internal Audit Memos	23-24
F.2 Non-issue of Internal Audit Report	24-25
F.3 Initiation of remedial action by Assessing Officers	25-27
F.4 Settlement of Internal Audit Objections	27-28
F.5 Time Barred cases	29-30
F.6 Maintenance of Control Registers	30-31
F.7 Pursuance of Audit Objections for settlement through monthly meetings	32-33
<b>G. Chapter IV: Performance Assessment in Internal Audit</b>	<b>35-48</b>
G.1 Achievement of targets by Additional CsIT (Audit), SAPs and IAPs	35-37
G.2 Monitoring of objections raised in Internal Audit	39-41
G.3 Settlement of pending audit objections	41-42
G.4 Manpower deployment in Internal Audit	42-43
G.5 Training of personnel engaged in Internal Audit	44
G.6 Use of Information Technology tools in Internal Audit process	45-46
G.7 Maintenance of Ledger Cards and Compliance Cards	46-47
<b>H. Chapter V: Internal Audit by Pr. CCA, CBDT</b>	<b>49-59</b>
H.1 Audit coverage of functional divisions	50-51
H.2 Audit coverage of units planned by Internal Audit	52
H.3 Issue and Follow up of Inspection Reports	53-54
H.4 Settlement of Internal Audit paras	54-55
H.5 Manpower deployed for Internal Audit	56
H.6 Performance of Internal Audit wing of Pr. CCA, CBDT	56-58
<b>I. Abbreviations</b>	<b>61</b>

## **Preface**

This Report for the year ended March 2015 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 Functioning of Internal Audit in Income Tax Department- Department of Revenue – Direct Taxes of the Union Government.

The instances mentioned in this Report are those, which came to notice in the course of test audit for the period 2010 to 2014 (upto December 2014) conducted during September 2014 to December 2014.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

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

## **Executive Summary**

Income Tax Department (ITD) is subjected to Internal Audit of assessment and accounting functions. Internal audit of assessment work in ITD is undertaken by the Additional Commissioners of Income Tax (Addl. CsIT), Special Audit Parties (SAPs) and Internal Audit Parties (IAPs) of ITD and internal audit of accounting and financial matters is undertaken by Internal Audit wing of Principal Chief Controller of Accounts (Pr. CCA) of Central Board of Direct Taxes (CBDT).

Internal Audit of assessment functions in ITD has evolved over the years and has assumed significance as an independent function with no overlapping between assessment and audit functions. A new Internal Audit System was introduced in ITD with effect from 1 June 2007 providing for a separate audit structure in the ITD to perform the audit work assigning well defined roles to various authorities for effective functioning and management of Internal Audit. The roles of Supervisory Authorities have been defined in Central Board of Direct Taxes (CBDT) Instruction Number 3 of 2007 and Number 15 of 2013.

We conducted Performance Audit on “Functioning of Internal Audit in Income Tax Department” with the objective to derive the following assurance (a) whether Internal Audit is effective in providing reasonable assurance to the CBDT and Senior Management regarding achievement of objectives relating to compliance, assessment and other inter-related activities, as determined by CBDT; (b) whether internal audit is playing an effective role in enhancing the quality of assessments and (c) whether there is effective and efficient follow-up mechanism of internal audit findings and recommendations.

We covered the work done by the Internal Audit wing of ITD and of Pr. CCA, CBDT during the financial years 2010-11 to 2013-14 and up to the date of audit (December 2014). We also examined the control issues relevant to CIT (Audit) charges and monitoring mechanism at the level of DIT (Audit) as well as Regional Supervisory Authorities administering the CIT (Audit) charges. We held Entry Conference with CBDT in September 2014 wherein we explained audit objectives, scope of audit and main areas of audit examination. We also held Exit Conference with CBDT in June 2015 to discuss the audit findings and recommendations vis-à-vis the Ministry’s reply.

Present report outlines audit planning and execution; audit communication, reporting and follow up of Internal Audit objections and performance assessment of Internal Audit of ITD in Chapters II, III and IV respectively. The Internal Audit by Pr. CCA, CBDT covering issues related to planning, reporting,

follow up and settlement of Internal Audit objections and its performance have been brought out in Chapter V of this report.

Audit findings have been summarised in the succeeding paragraphs. We have also summarised Audit Recommendations at the end of Executive Summary besides giving at the end of each Chapter.

**a.** We found that Action Plan was not prepared in 17 CIT (Audit) charges. The Audit Manual, 2011 has not prescribed a standard format for drawing up of Action Plan at field level. We found that the planning is constrained as information of auditable cases is not being received from administrative CsIT on monthly basis. We noticed that list of auditable cases were not received on a regular basis in 19 CsIT (Audit) charges from administrative CsIT under Pr. CCsIT/CCsIT of 12 regions. The Register of Auditable Cases is not being maintained in 12 CsIT (Audit) charges. As database relating to selection of auditable cases based on prescribed norms is not being maintained, the coverage of high risk cases in Internal Audit could not be ascertained (*Paragraphs 2.2 to 2.6*).

**b.** We noticed that out of 7,00,398 cases assigned, Internal Audit examined only 5,73,457 cases resulting in shortfall in coverage of 1,26,941 cases. The practice of selection of high risk units is not in place. We could not ascertain whether there is any quality control mechanism in place to prevent raising of prima-facie incorrect or repetitive objections (*Paragraphs 2.9, 2.10 and 2.12*).

**c.** We observed that the internal audit memos were not issued timely in seven CsIT (Audit) charges. Internal Audit Reports are not being drawn up for issue to administrative CsIT in timely manner in 15 regions. We found that there were delays in initiation of remedial action in 6,172 cases (13 regions) and delays in completion of remedial action in 1,640 cases (10 regions). We noticed 73 cases involving tax effect of ₹ 134.10 crore in six regions where Internal Audit objections were settled without proper reply or completion of remedial action (*Paragraphs 3.2 to 3.7*).

**d.** Inadequate follow up of Internal Audit objections resulted in time barring of 1,553 cases involving tax effect of ₹ 392.65 crore in 11 CsIT (Audit) charges. Intra-Departmental Meetings were not held for follow-up and settlement of internal audit objections (*Paragraphs 3.8, 3.11*)

**e.** The annual target of audit of minimum number of cases, as prescribed by the CBDT, was not met by Additional CsIT (Audit), Special Audit Parties (SAPs) and Internal Audit Parties (IAPs) in certain jurisdictions during 2010-11 to 2013-14. Although the Central Action Plan of CBDT sets target at 100 *per cent* for settlement of pending audit objections within a timeframe of

four months, the Internal Audit objections pertaining to earlier years were still pending. As on 31 March 2014, 10,960 major audit objections and 13,353 minor audit objections were still pending. There were significant shortages in deployment of IAPs for Internal Audit and staff deployed under Addl. CIT, SAPs and IAPs in different charges during 2010-11 to 2013-14. The Officers engaged in Internal Audit were frequently transferred within a year (*Paragraphs 4.2 to 4.4, 4.6 to 4.11*).

f. We noticed that the IAPs of Pr. CCA (CBDT) did not conduct audit of RTI, Systems Audit, e-payment Audit and Refund Audit as per the scope outlined by the CBDT. The shortfalls in audit coverage ranged from 10 to 774 units during FYs 2010-11 to 2013-14 on account of acute shortage of manpower. We noticed instances of delays in issue of IRs and in receipt of replies post issue of IRs (*Paragraphs 5.3 to 5.5*)

g. During FYs 2010-11 to 2013-14, out of 4,921 units to be audited, only 1,213 units (24.65 per cent) were audited leaving 3,708 units (75.35 per cent) unaudited. The rate of settlement of paras was very low. During FYs 2012-13 and 2013-14, only 902 paras and 1,320 paras respectively were settled. As on 31 March 2014, there were 13,184 audit paras pending for settlement (*Paragraph 5.10*).

*During the course of audit and after issue of draft Report, CBDT has undertaken initiatives to further streamline the monitoring and control of Internal Audit. CBDT has added functionality in the AST module to generate MIS on auditable cases for dissemination to the respective CIT (Audit)/ DIT (Audit) by CsIT (CO) across the country in November 2014. The annual target of cases to be audited by Addl. CsIT has been reviewed and revised from 50 cases to 150 cases in order to ensure selection of top 100 cases of administrative CIT charge in May 2015. The Central Action Plan for the first quarter of 2015-16 has outlined timeframe for key result areas of CsIT(Audit) charges viz., formulation of Internal Audit Plan, number of cases to be audited by Internal Audit, frequency of meetings for settlement of Internal Audit objections, organisation of Training/Seminar by Pr. CCIT/CCIT, maintenance of Ledger Cards by Pr. CsIT/CIT and review of performance as per Interim Action Plan for 2015-16. Further Pr.CIT/DIT(Audit) has issued (June 2015) detailed instructions to all Pr. CCsIT and CsIT(Audit) outlining action to be taken in view of the findings brought out in this Performance Audit Report.*

## Summary of Recommendations

### With reference to Internal Audit Planning and Execution

1. CBDT may consider reviewing the monetary norms fixed for IAPs to ensure mandatory scrutiny of top 100 cases in each administrative CIT as present prescribed norms make the 100 cases fall under the purview of Addl. CsIT and SAPs.

*The Ministry stated (June 2015) that targets and monetary norms now have been re-examined and target of auditable cases by Addl. CIT has been enhanced from 50 to 150 to cover internal audit of top 100 cases by experienced officer in May 2015.*

*(Paragraph 2.6)*

2. CBDT may consider revising the scope of functioning of Internal Audit in consonance with changes in scope of assessment in recent years in order to ensure Internal Audit of high risk assessment units such as Large Taxpayers Units, International Taxation Units including Transfer Pricing Offices etc.

*The Ministry stated (June 2015) that high risk assessment units such as Large Taxpayer Unit and International Taxation Unit are subject to Internal Audit. It was further stated that the decision to audit transfer pricing assessment by the C&AG has been taken accordingly and these cases would also be subject to Internal Audit shortly.*

Audit is of the view that Para 1.4 of the Audit Manual 2011 has already prescribed for internal audit of transfer pricing assessments in international taxation cases and the same should be implemented. Besides, the Audit Manual 2011 may be updated to indicate mandatory coverage of Large Taxpayer Units by Internal Audit to avoid instances of non-compliance noticed in audit.

*(Paragraph 2.11)*

### With reference to Internal Audit Communication, Reporting and Follow up

3. CBDT may consider introducing centralised monitoring mechanism to watch timely issue of Internal Audit objections and Internal Audit Reports to ensure effective control.

*The Ministry stated (June 2015) that systems to monitor and effective control are already in place. Pr. CCsIT (CCA) and DIT (Audit) periodically monitor performance at state and central level.*



Audit recommended introducing centralised monitoring mechanism to watch issue of Internal Audit Objections and Internal Audit Reports prescribed to be issued in Audit Manual 2011. Delayed issue of Internal Audit Objections and non-issue of Internal Audit Reports are a matter of concern which affects the effectiveness of Internal Audit.

*(Paragraphs 3.2, 3.3)*

4. CBDT may consider making intra-departmental meeting for settlement of objections and follow up as part of Annual Action Plan and monitor it on regular basis.

*The Ministry stated (June 2015) that the intra-departmental meeting for settlement of objections and follow up has been made part of Central Action Plan of first quarter of 2015-16.*

*(Paragraphs 3.6 to 3.7, 3.11)*

#### **With reference to Performance Assessment of Internal Audit of ITD**

5. CBDT may consider finding out the reasons for delay in settlement of audit objections and where necessary instruct the AOs to expedite the measures for settlement of audit objection.

*The Ministry stated (June 2015) that delay in settlement is due to lack of requisite manpower both in internal audit division and assessment charges.*

*(Paragraph 4.9)*

6. CBDT may consider monitoring actual deployment of human resources positioned under Addl. CIT, SAPs and IAPs in order to determine the overall shortages and effective utilisation of available manpower.

*The Ministry stated (June 2015) that the issue of additional manpower for internal audit is under consideration of CBDT.*

*(Paragraph 4.10)*

7. CBDT may consider utilising the Information Technology to aid functioning of the CsIT (Audit) and DIT (Audit) for effective planning, programming, monitoring and control of Internal Audit.

*The Ministry stated (June 2015) that the functionality to the ITD module has been rolled out. Initiatives have already been taken by the DGIT(Systems) in November 2014 to use information technology in the internal audit mechanism followed in the ITD. A functionality has been provided to respective CsIT (CO) across the country to generate*

*MIS of auditable cases (under sections 143(3), 144 and 147) for dissemination to the respective CIT (Audit) / DIT(Audit). Further efforts are being made to fully integrate the internal audit mechanism from the stage of effective planning and programming to monitoring and control into the new forthcoming ITBA project which is slated to be rolled out shortly.*

*(Paragraph 4.14)*

**With reference to Internal Audit by Pr. CCA, CBDT**

8. Pr. CCA, CBDT may consider monitoring the coverage of functional units falling within the scope of Internal Audit on a centralized basis and reporting the results of the same in Annual Review of Performance of Internal Audit.
9. Pr. CCA, CBDT may report zone-wise results of Internal Audit under Pr. CCA in its Annual Review of Performance of Internal Audit (viz. audit coverage of units planned, details of audit objections raised and settled) published every financial year.

*On above recommendations, the Ministry stated (June 2015) that Annual Review is prepared in the prescribed format issued by the Office of Controller General of Accounts.*

Audit is of the view that for better appreciation of work of Internal Audit, Pr. CCA (CBDT) should consider centralised monitoring of audit of functional units and reporting zone-wise results in the Annual Review of Performance of Internal Audit.

*(Paragraphs 5.3, 5.10)*

## **Chapter I: Overview of Internal Audit in Income Tax Department**

### **1.1 Introduction**

Internal audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system. Internal Audit, being an integral part of the internal control system, has an important role to play in ensuring compliance to prescribed rules, regulations and guidelines.

### **1.2 Internal Audit in Income Tax Department**

Income Tax Department (ITD) is subjected to Internal Audit of assessment and accounting functions. Internal audit of assessment work in ITD is undertaken by the Additional Commissioners of Income Tax (Addl. CsIT), Special Audit Parties (SAPs) and Internal Audit Parties (IAPs) of ITD and internal audit of accounting and financial matters is undertaken by Internal Audit wing of Principal Chief Controller of Accounts (Pr. CCA) of Central Board of Direct Taxes (CBDT).

#### *a. Internal Audit of Assessment Function*

Internal audit was introduced in ITD in the year 1954 with the objective of providing a second check over the arithmetical accuracy of assessment made by the Assessing Officers (AOs). With the entrustment of audit of Direct Taxes to the Comptroller and Auditor General of India (C&AG) in 1960, the scope of duties of Internal Audit was made co-extensive with that of statutory audit in pointing out errors, omissions and mistakes, if any, in the assessments and ensuring remedial action in respect of the same.

In the year 2001, Chain Audit System was introduced wherein the task of auditing the work of an Assessing Officer (AO) was allotted to another AO. However the quality of internal audit under this system was affected due to overlapping of assessment and audit functions and owing to low priority accorded to the Internal Audit work. CBDT decided to abolish the Chain Audit System and introduced Quality Audit System in 2005 and substituted it with a new Internal Audit System with effect from 1 June 2007 in order to ensure an effective and objective set up of Internal Audit with no overlapping between assessment and audit functions. In January 2011, a new Audit Manual was brought out providing guidance for Internal Audit in the new set up. Subsequently in October 2013, CBDT issued instructions outlining the roles of Supervisory Authorities in order to further streamline the functioning of

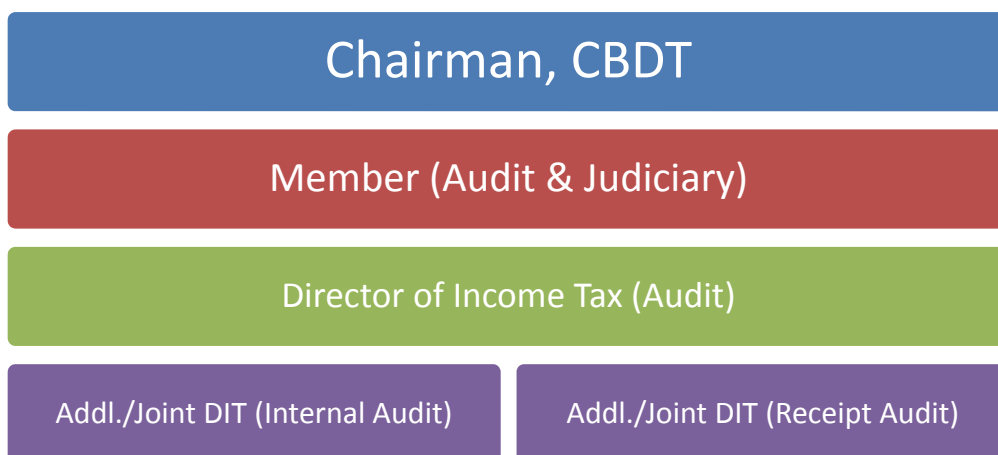
Internal Audit. Internal Audit in ITD has evolved over the years and has assumed significance as an independent function with no overlapping between assessment and audit functions.

*b. Internal Audit of Accounting Function*

The Principal Chief Controller of Accounts (Pr. CCA), CBDT heads the accounting organization of the CBDT with Revenue Secretary as the Chief Accounting Authority. The Internal Audit Unit is working under the control of Pr. CCA, CBDT with the assistance of Chief Controller of Accounts (CCA), Controller of Accounts (CA), Deputy Controller of Accounts (DCA) and Assistant Controller of Accounts (ACA) and is responsible for ensuring correctness of payments, accounts, records and other subsidiary registers. Internal Audit under the Pr. CCA, CBDT also checks initial accounts maintained in the executive offices to ascertain how far the rules and regulations, systems and procedures in accounting and financial matters have been followed.

**1.3 Organizational Set-Up of Internal Audit of ITD**

Central Board of Direct Taxes (CBDT), as a part of Department of Revenue, Ministry of Finance, is the apex body charged with the administration of Direct Taxes. CBDT is headed by the Chairperson and comprises of six Members. In addition to the functions and responsibilities outlined by the CBDT, the Chairperson and Members are responsible for exercising supervisory control over field offices of the CBDT, known as Zones. In scheme of reorganization Principal Chief Commissioner of Income Tax (Pr. CCIT) is the Cadre Controlling Authority of each zone whose jurisdiction is generally co-terminus with state. Member (Audit & Judicial) heads the Audit functions in CBDT and is supported by DIT (Audit). Organogram of CBDT showing the Audit formations is shown in Graph 1.1

**Graph 1.1 Organogram of CBDT**

Internal Audit in ITD at the field level is headed by the CIT (Audit) who functions under the direct administrative control and supervision of cadre-controlling Chief Commissioner of Income Tax (CCIT). The Internal Audit set up consisted of CIT (Audit), Additional CIT (Audit), Special Audit Parties and Internal Audit Parties. In the metro charges of Mumbai, Delhi, Chennai and Kolkata, there are two CsIT (Audit) each whereas in the other charges there is one CIT (Audit) each. There are 22 CsIT (Audit) in the Internal Audit set-up of ITD. CIT (Audit) is responsible for audit work pertaining to all the cases in their jurisdiction.

Each CIT (Audit) is assisted by an Additional CIT who is responsible for audit of bigger cases<sup>1</sup> as per stipulated norms and for supervision of the work of Special Audit Parties (SAPs) and Internal Audit Parties (IAPs). SAPs are headed by Deputy Commissioners of Income Tax (DCsIT) and comprise two Income Tax Inspectors (ITIs) and one Senior Tax Assistant (Sr. TA)/TA. IAPs are headed by Income Tax Officers (ITOs) and comprise two ITIs and one Sr. TA/TA. The Office of CIT (Audit) includes one ITO (HQ) who is responsible for coordinating and monitoring the functioning of Internal Audit. ITO (HQ) is assisted by one ITI and two Sr. TAs/TAs.

#### **1.4 Why we chose the topic**

Internal Audit is an integral function within the ITD which has undergone significant evolution over the years as brought out in para 1.2 of this Chapter. A new Internal Audit System was introduced in ITD in June 2007 with no overlapping of assessment and audit functions besides outlining well defined roles for effective functioning and management of Internal Audit.

<sup>1</sup> Assessed Income above ₹ 25 /10/1 crore for corporate cases and above ₹ 10/ 5/1 crore for non-corporate cases specified for metro/non metro area

We had earlier reviewed the functioning of Internal Audit in ITD in 1991 (Para 2.01 of C&AG Audit Report No. 5 of 1991) and 1998 (Para 3.1 of C&AG Audit Report No. 12 of 1998). We also conducted Review of Chain System of Internal Audit (Para 1.29 of C&AG Audit Report 13 of 2005) which was a part of the Review on “Status of improvement of efficiency through the ‘Restructuring’ of the Income Tax Department”. Besides, the issue of ‘Effectiveness of Internal Audit’ is brought out under Chapter 1 on Tax Administration of C&AG’s Compliance Audit Report placed in Parliament every year. However, we never evaluated functioning of new Internal Audit introduced in 2007.

The issues pertaining to Tax Administration of Ministry of Finance were discussed in the Public Accounts Committee (PAC) meeting held in June 2013, as detailed in 87<sup>th</sup> Report of the PAC (2013-14) of August 2013. The performance of Internal Audit viz. achievement of targets in terms of auditable cases, settlement of audit observations raised by Internal Audit within specified timeframe were discussed in detail by the Committee. The Ministry had stated in its response that time frame of 4 months has been fixed for disposal of internal audit objection to be settled as per the Action Plan for Financial Year 2012-13.

In this backdrop, we undertook this Performance Audit to ascertain the efficiency and effectiveness of functioning of Internal Audit wing in the ITD.

### **1.5 Objectives of the Performance Audit**

The audit objectives of the “Functioning of Internal Audit Wing in Income Tax Department” were to derive an assurance whether:

- a.** Internal audit is effective in providing reasonable assurance to the CBDT and Senior Management regarding achievement of objectives relating to compliance, assessment and other inter-related activities, as determined by CBDT.
- b.** Internal audit is playing an effective role in enhancing the quality of assessments.
- c.** There is an effective and efficient follow-up mechanism of internal audit findings and recommendations.

## **1.6 Legal framework**

The Audit Manual, 2011 of the ITD regulates the functioning of Internal Audit of ITD. The activities of Internal Audit are also governed by CBDT Instruction Number 3 of April 2007 on 'New Internal Audit System' and Instruction Number 15 of October 2013 on 'Strengthening the role of Supervisory Authorities under the New Internal Audit System introduced in 2007'. The Manual of Internal Inspection of CBDT also outlines the practice and procedure for functioning of Internal Audit under Pr. CCA, CBDT.

## **1.7 Audit scope and coverage**

We examined the areas of planning for Internal Audit, targets and achievements of Internal Audit as per Action Plan, reporting of significant audit findings and recommendations to the Senior Management in ITD and follow up mechanism in place to ensure remedial action in case of errors, omissions and mistakes pointed out by Internal Audit. We covered the work done by the Internal Audit by examining the compliance in up to 50 *per cent* of cases identified on the basis of monetary limit of objection raised by Internal Audit Wing of ITD and Internal Audit done by the Internal Audit Wing of the Pr. CCA during the financial years 2010-11 to 2013-14 and up to the date of audit. We requisitioned 31,275 assessment records containing internal audit objections from the Assessments units located all over India. However, ITD provided and we examined 17,656 files from Circles and Wards in different regions.

We also examined the control issues relevant to CIT (Audit) charges and monitoring mechanism at the level of DIT (Audit) as well as Regional Supervisory Authorities administering the CIT (Audit) charges.

## **1.8 Constraints**

The restructuring of ITD in 2013 led to significant changes in jurisdiction of Assessing Officers and their Supervisory Authorities. The jurisdictional overhaul affected the collection of information from field formations of ITD considerably as the records were not readily available for audit. Non production of records pertaining to internal audit was a major constraint while undertaking the review specifically in Chennai charge.

## **1.9 Acknowledgement**

We acknowledge the co-operation of ITD in facilitating the audit by providing records and information in connection with the conduct of this performance audit. An entry conference with CBDT was held on 24 September 2014 wherein audit objectives, scope of audit and main areas of audit examination were explained.

We issued draft Performance Audit report to the Ministry on 1 May 2015 for their comments. Post receipt of the Ministry's response in June 2015, we held Exit Conference with CBDT on 17 June 2015 to discuss audit findings and audit recommendations vis-à-vis their comments. We have duly incorporated the Ministry's comments together with the audit comments in the report.



## Chapter II: Audit Planning and Execution

### 2.1 Introduction

The scope of scrutiny by Internal Audit, as outlined in paras 2.1 and 2.2 of Audit Manual 2011 of ITD, includes detection of mistakes and errors committed during assessment, recovery and maintenance of records by the Assessing Officers, TROs and Administrative Officers in order to ensure appropriate remedial action in cases of loss of revenue or relief to the assessee in case of overcharge/ over assessment. The Internal Audit also examines compliance to laws and procedures and the Guidelines, Instructions and Circulars issued by the CBDT.

### 2.2 Planning for Internal Audit

The planning for Internal Audit is governed by targets and norms prescribed by CBDT in the Central Action Plan (CAP) every year. The CAP of CBDT prescribes targets for conduct of Internal Audit in terms of number of cases to be audited by Internal Audit, frequency of meetings to be conducted by CIT (Audit) with Pr. CCsIT/ CCsIT of regional jurisdictions for reconciliation of pending objections and settlement of audit objections raised by Internal Audit along with instructions regarding submission of periodical reports and returns relating to Internal Audit.

The CIT (Audit) shall draw an Action Plan for Internal Audit for the year according to the norms and targets fixed by the CBDT, in consultation with CCIT/DGIT concerned with the approval of CCIT (CCA) as prescribed under para III(ii) of CBDT Instruction Number 3 of 2007 of April 2007 and para 2.1(i) of CBDT Instruction Number 15 of 2013 of October 2013.

The Pr. CCsIT/ CCsIT of respective regions are responsible for assigning the workload of auditable cases for Internal Audit by Additional CsIT, Special Audit Party (SAP) and Internal Audit Party (IAP) in a year. The criteria adopted while preparing the basket of auditable cases *inter alia* includes selection of *at least* top 100 cases of the charge and a mix of cases selected for scrutiny under Computer Assisted Scrutiny Selection (CASS) system, based on Annual Information Return (AIR) inputs, by approval of Pr. CCIT/CCIT and cases of delayed refunds including defaults in granting interest. The monetary limits are also prescribed for selection of auditable cases by Addl. CIT (Audit), Dy. CIT (Audit)/Asstt. CIT (Audit) – SAP, ITO (IAP), separately for corporate and non-corporate cases, in terms of Assessed Income for Delhi & Mumbai,

Other Metros<sup>2</sup> and Non-Metro charges. The types of cases for which monetary limits have been prescribed are Assessment of Search & Seizure cases, Assessment of Foreign Company cases, Assessment of non-Search & Seizure cases, Scrutiny Assessment cases involving claims of specific exemptions and deductions, Assessment of cases of Other Taxes, Refunds and TDS cases.

We examined the planning being undertaken for Internal Audit by CsIT (Audit) in co-ordination with Pr. CCIT/CCIT in the regional jurisdictions. This entailed examination of preparation of Action Plan by CIT (Audit), availability of information on auditable cases, maintenance of Register of Auditable Cases and adoption of norms outlined by the CBDT for selection of cases for Internal Audit viz. selection of top 100 cases and selection of cases as per norms prescribed in the Audit Manual. The region-wise status of planning being undertaken by the CIT (Audit) for Internal Audit is shown in Table 2.1 and discussed in the subsequent paragraphs of this Chapter.

**Table 2.1: Availability of CIT (Audit)-wise Action plan and related information**

Pr. CCIT/ CCIT-Region	CIT (Audit)	Preparation of Action Plan	Information on Auditable Cases	Register of Auditable Cases	Selection of top 100 cases	Selection of cases for audit on scientific basis
1. Gujarat	Ahmedabad	x	x	✓	x	x
2. Karnataka & Goa	Bengaluru	x	x	✓	x	NA
3. Madhya Pradesh & Chhattisgarh	Bhopal	x	x	x	x	NA
4. Odisha	Bhubaneswar	x	x	x	x	x
5. Punjab, Haryana & UT-Chandigarh	Chandigarh	NA	x	✓	x	x
6. Tamil Nadu	Chennai-I	x	x	✓	✓	NA
	Chennai-II	x	x	✓	✓	NA
7. Delhi	Delhi-I	x	x	x	x	x
	Delhi-II	x	x	x	x	x
8. NER (Assam)	Guwahati	x	✓	✓	✓	✓
9. Andhra Pradesh & Telangana	Hyderabad	NA	x	x	x	NA
10. Rajasthan	Jaipur	x	x	✓	x	x
11. Uttar Pradesh & Uttarakhand	Kanpur	x	x	x	x	x
	Lucknow	x	x	x	x	x
12. West Bengal	Kolkata-I	x	✓	✓	✓	✓
	Kolkata-II	x	✓	✓	✓	✓

<sup>2</sup> As per Note under para 3.2(D) of Audit Manual 2011 of ITD the other Metros include Chennai, Kolkata, Bengaluru, Ahmedabad, Pune and Hyderabad.

13. Kerala	Kochi	✓	✗	✓	✓	NA
14. Maharashtra	Mumbai-I	✗	✗	✗	✗	✗
	Mumbai-II	✗	✗	✗	✗	✗
	Nagpur	✓	✗	✗	✗	✗
	Pune	✗	✗	✗	✗	✗
15. Bihar & Jharkhand	Patna	NA	✗	✗	✗	✗

Legend: ✓ =Yes ; ✗ = No ; NA = Not Available

Source: Inputs collected from field formations of ITD

**The Audit Manual, 2011 has not prescribed a standard format for drawing up of Action Plan at the level of field formations. The practice of selection of high risk units for Internal Audit was not found in place.**

### 2.3 Preparation of Action Plan

As per para 3(vi) of CBDT Instruction Number 3 of 2007 dated 16 April 2007, CIT (Audit) shall draw an Action Plan for the year according to norms prescribed for selection of auditable cases in consultation with the Pr. CCIT/CCIT/DGIT concerned with the approval of the CCIT(CCA). Action Plan provides strategy, guidance and focused approach to the audit. It helps in optimizing the resources and improving the efficiency of the audit. The details of quarterly as well as annual targets fixed for Addl. CsIT, SAPs and IAPs have to be furnished under 'Performance of Audit wing vis-à-vis Action Plan Target' (Part B) of quarterly progress report prescribed in Audit Manual, 2011. Further the details of prescribed workload as per Action Plan and their disposal in respect of Addl. CsIT, SAPs and IAPs have to be provided on an annual basis to the DIT (Audit) as part of Annual Internal Audit Report.

We noticed that Action Plan was not prepared during FYs 2010-11 and 2013-14 in 17 CIT (Audit) charges<sup>3</sup> under Pr. CCsIT/CCsIT of Bihar & Jharkhand, Delhi, Gujarat, Karnataka & Goa, Maharashtra, Madhya Pradesh & Chhattisgarh, North Eastern Region, Odisha, Rajasthan, Tamil Nadu, Uttar Pradesh & Uttarakhand and West Bengal regions as depicted in Table 2.1 as per instructions of the Board.

The Central Action Plan of CBDT outlining targets in respect of Internal Audit was used as Action plan. We found that the Audit Manual, 2011 does not prescribe a uniform format or guidance for preparation of Annual Action Plan at the field level. In absence of Annual Action Plan, we could not ascertain the extent of utilisation of available resources, allocation of mandays to each

<sup>3</sup> CIT (Audit) charges at Ahmedabad, Bengaluru, Bhopal, Bhubaneswar, Chennai-I, Chennai-II, Delhi-I, Delhi-II, Guwahati, Jaipur, Kanpur, Lucknow, Kolkata-I, Kolkata-II, Mumbai-I, Mumbai-II and Pune.

party, unit-wise earmarking of mandays, criteria adopted for risk analysis, risk based selection of units and cases, mandays reserved for capacity building etc.

*The Ministry stated (June 2015) that the action plan as per CBDT Instruction Number 3/2007 dated 16 April 2007 is limited to norms and targets of auditable cases by Addl. CIT, SAP, IAP keeping in view availability of manpower. It was further stated that the Central Action Plan for first quarter of 2015-16 has considered internal audit work in the beginning of each financial year to be followed by all charges and as the norms and targets are prescribed by the above instruction later modified by CBDT Instruction Number 4/2015 dated 14 May 2015, preparation of a separate action plan may not be required. However, CsIT (Audit) prepare annual schedule for audit of different assessment units.*

Audit is of the view that planning specific to a particular CIT(Audit) charge should consider targets and norms and provide for allocation of resources while indicating region-wise constraints. The Central Action Plan for first quarter of 2015-16 has specified formulation of Internal Audit Plan by CsIT (Audit), number of cases to be audited, frequency of meetings by CIT(Audit) and conduct of training, seminars etc. by Pr. CCIT/CCIT. Further, the DIT(Audit) has issued instructions to all Pr. CCsIT and CsIT(Audit) in June 2015 seeking compliance report on preparation of Annual Action Plan by 15 July 2015.

**The planning for Internal Audit in the field formations is constrained as complete information on auditable cases is not received from administrative CsIT.**

#### **2.4 Information on Auditable Cases**

As per Para 4.1 of Audit Manual, 2011 the list of auditable cases (category wise) of a particular month should be sent by concerned administrative CIT to the CIT (Audit) by 10th of the following month. As per the prescribed procedure, the AOs are required to furnish monthly statement of Auditable Cases to their Addl.CIT/JCIT (Audit). The Addl. CIT/JCIT shall then consolidate the statements received from the Circles and Wards and forward the same to the CIT (Audit) and their jurisdictional CIT besides retaining a copy of the same for record. The CIT (Audit) shall then forward the list of auditable cases to each IAP in the specified format.

We noticed that the list of auditable cases were not received by 19 CsIT (Audit) charges<sup>4</sup> from the administrative CsIT under Pr. CCsIT/ CCsIT of Gujarat, Karnataka & Goa, Odisha, Punjab, Haryana & UT Chandigarh; Delhi, Andhra Pradesh & Telangana, Rajasthan, Uttar Pradesh & Uttarakhand, Madhya Pradesh & Chhattisgarh, Maharashtra, Tamil Nadu, Kerala and Bihar & Jharkhand regions as per the provisions of Audit Manual, 2011. Non receipt of information on auditable cases from administrative CsIT affected the selection of cases for Internal Audit as per prescribed procedure. We found that in West Bengal and North East regions, list of auditable cases were received from the respective AOs once in a year or for a part of the year.

*The ITO (IAP-HQ) Delhi-I charge replied (November 2014) that the list of auditable cases are generally not received from administrative CsIT. In such instances the IAP scrutinizes Demand & Collection Register (D&CR) to identify auditable cases and assessment folders of AOs.*

We noticed that the system of communication of information on auditable cases was partially in place in four regions viz. Andhra Pradesh & Telangana, Kerala, Tamil Nadu and Maharashtra. In Chennai, out of 25 administrative CsIT, only 10 CsIT furnished the list of auditable cases but not in the prescribed format. In Kerala region, 9 out of 26 assessments units had not furnished the list of auditable cases. In Maharashtra, the list of auditable cases was not sent on a monthly basis but in the next financial year.

*The Ministry stated (June 2015) that in order to avoid delay in selection and communication of list of auditable cases to CIT (Audit) a new functionality has been recently provided in the existing ITD application of the department to generate MIS of auditable cases vide AST Instruction Number 132 dated 27 November 2014.*

**The documented method of monitoring and control for selection of auditable cases for Internal Audit as per prescribed norms was not in place.**

## 2.5 Maintenance of Register of Auditable Cases

The Audit wing of ITD has to maintain the Register of Auditable Cases in the format prescribed under para 7.5 of the Audit Manual, 2011. The inputs in the Register have to be maintained audit party-wise and contain information on assessment case viz. CIT charge, name of the assessee, Ward/Circle, PAN, AY, Date of assessment, Returned Income, Assessed Income, Refund (if any), type of scrutiny selection and whether the case is one of the top 100 cases of

<sup>4</sup> CIT (Audit) charges at Ahmedabad, Bengaluru, Bhopal, Bhubaneswar, Chandigarh, Chennai-I, Chennai-II, Delhi-I, Delhi-II, Hyderabad, Jaipur, Kanpur, Kochi, Lucknow, Mumbai-I, Mumbai-II, Nagpur, Pune and Patna.

administrative CIT charge. The information captured in the Register of Auditable Cases ensures documented method of monitoring and selection of auditable cases as per prescribed norms.

We noticed that the Register of Auditable Cases was not being maintained in 12 CsIT (Audit) charges<sup>5</sup> under Pr. CsCIT/CCsIT of Andhra Pradesh and Telangana, Bihar & Jharkhand, Delhi, Madhya Pradesh & Chhattisgarh, Maharashtra, Odisha and Uttar Pradesh & Uttarakhand regions.

In the absence of control register it could not be ascertained in audit whether the monitoring mechanism was in place to ensure selection of auditable cases as per prescribed norms.

*The Ministry stated (June 2015) that the new functionality provided in the existing ITD application of the department to generate MIS of auditable cases vide AST Instruction Number 132 dated 27 November 2014 would ensure proper maintenance of information related to auditable cases as prescribed under manual system.*

**In absence of database related to auditable cases the coverage of high risk cases in Internal Audit could not be ensured. Thus there was a possibility of high value errors or mistakes remained undetected.**

## **2.6 Selection of Auditable Cases as per prescribed norms**

The selection of auditable cases for Internal Audit is based on prescribed norms outlined in Para 3.1(ii) of the Audit Manual, 2011. The basket of auditable cases should include at least top 100 cases and a representative mix of cases selected for scrutiny keeping in view the available manpower. To ensure such a selection, the administrative CIT should invariably provide information on auditable cases for every month to CIT (Audit) concerned by 10th of following month.

We noticed that the prescribed procedure for selection of top 100 cases in the basket of auditable cases was not followed in 16 CIT (Audit) charges<sup>6</sup> under Pr. CCIT/CCIT of Andhra Pradesh and Telangana, Bihar, Jharkhand, Delhi, Gujarat, Haryana and Punjab & UT, Chandigarh, Karnataka, Madhya Pradesh & Chhattisgarh, Maharashtra, Odisha, Rajasthan, and Uttar Pradesh regions. The non-compliance was partly caused by non-furnishing of information on auditable cases by administrative CsIT to the CIT (Audit). The administrative CsIT forwarded the list of auditable cases to concerned CIT

---

5 CIT (Audit) charges at Bhopal, Bhubaneswar, Delhi-I, Delhi-II, Hyderabad, Kanpur, Lucknow, Mumbai-I, Mumbai-II, Nagpur, Pune and Patna.

6 CIT (Audit) charges at Ahmedabad, Bengaluru, Bhopal, Bhubaneswar, Chandigarh, Delhi-I, Delhi-II, Hyderabad, Jaipur, Kanpur, Lucknow, Mumbai-I, Mumbai-II, Nagpur, Pune and Patna.

(Audit) according to their discretion. In such a backdrop the IAPs were heavily dependent upon information furnished by the AOs and cases were being audited on random basis. As a result, Internal Audit was undertaken on 'as and when received' basis. Thus selection of basket of auditable cases based on prescribed norms was not feasible.

While examining compliance to above norms, we noticed that there was no specific criterion for determining the top 100 cases. In Hyderabad charge list of top 100 cases of administrative CIT charge is being prepared on the basis of assessed income.

As such, the adequacy of sample selection and coverage of auditable files during the FY 2010-14 could not be ensured in audit. Selection of cases was not based on risk assessment or risk criteria based on computer assisted techniques. There was no standard or scientific method of selection of top hundred cases. This increased the risk of top cases escaping audit by IAPs. In CIT (Audit) Bhopal, Madhya Pradesh, there was no planning for selection of units for audit, the top 100 cases were not selected and the cases selected were not as per norms prescribed in the Audit Manual, 2011.

*ITO (HQ), Hyderabad replied (December 2014) that majority of top 100 cases fall in the norms of Addl. CIT and SAP and as such selection of top 100 cases of all administrative charges is not feasible as the Action Plan Target for number of cases to be audited by Addl. CIT and SAP is fixed at only 50 and 300 respectively. It was further stated that as all scrutiny cases are subject to Internal Audit, there is no requirement of selection of cases.*

*ITO (IAP-HQ) Delhi-I charge stated that as Internal Audit is conducted simultaneously with scrutiny assessment by AOs the compliance of instruction regarding audit of top 100 cases is not feasible as target is achieved with many assessment cases remaining unaudited. Likewise in Bengaluru charge it was stated that the high value cases the scrutiny assessment of which is not completed during the month do not come under the purview of Internal Audit.*

*ITO (HQ) Bhubaneswar stated that top 100 cases could not be selected for Internal Audit as AOs were not providing information on auditable cases on regular basis.*

It is not clear to audit whether top 100 cases would be determined after the Assessment Year or on proportionate concurrent monthly basis. Moreover, the norms for selection of top 100 cases of all administrative CsIT in a region may be reviewed vis-à-vis monetary norms for Addl. CsIT, SAPs and IAPs to ensure comprehensive coverage.

*The Ministry stated (June 2015) that the new functionality provided in the existing ITD application of the department to generate MIS of auditable cases vide AST Instruction Number 132 dated 27 November 2014 would ensure selection of top 100 cases. It was further stated that the prescribed norms ensure internal audit of top 100 cases. As Internal Audit is conducted concurrently, the assessments cases finalized in months of February and March are taken up for audit in next financial year.*

Audit is of the view that the fact of non-selection of top 100 cases was a practical concern amongst most of the CIT (Audit) charges as is evident from their responses brought out above. Further, the DIT (Audit) has issued instructions to all Pr. CCsIT and CsIT(Audit) in June 2015 for reviewing the procedure followed for selection of auditable cases in their region to ensure mandatory audit of top 100 cases of each administrative Pr. CsIT/CsIT.

**The timelines for completion of Internal Audit were not programmed as per provisions in the Audit Manual, 2011.**

## **2.7 Programming of Internal Audit**

Internal Audit has to be programmed in such a manner that audit of selected records of units have to be completed and kept ready for audit by Receipt Audit Party as per para 1.5 of the Audit Manual, 2011 and para 6(v) of part IV of CBDT Instruction Number 03 of 2007. We noticed that due to non-receipt of information on auditable cases the IAPs were unable to complete the audit before Receipt Audit. Consequently, audit by Receipt Audit preceded or overlapped with IAP.

In Andhra Pradesh & Telangana region, in CIT (Audit), Hyderabad charge, we noticed that while programming Internal Audit of assessment units in moffusil areas, the IAPs were scheduling their audits quoting Receipt Audit schedules and IAPs in Hyderabad were simply being endorsed the schedule of Receipt Audit with instructions to complete the internal audit before commencement of Receipt Audit. The tour plans of IAPs did not contain any information regarding allocation of man-days for audit of particular units. Absence of proper scheduling and non-forwarding of auditable cases every month by the Range Heads resulted in overlapping of Internal Audit with Receipt Audit in 39 units out of 72 and Receipt Audit preceded the Internal Audit in respect of six units.



In Karnataka (Bengaluru) region as the concept of advance planning as per the norms was absent, on many occasions, the Internal Audit of various units was running concurrently with Receipt Audit. The assessment records were made available to Receipt Audit first without being seen by IAP.

There was thus inadequate effort in scheduling of Internal Audits by the Internal Audit Wing and no guidance is available in the Manual or elsewhere regarding allotment of mandays for particular units.

*The Ministry while reiterating the reply to para 2.6 above further stated (June 2015) that such delay in conducting audit is beyond control. It also stated that each CIT (Audit) draws a programme of audit of each assessment unit.*

**The Internal Audit Party did not complete the audit and return the records within the prescribed time limit.**

## **2.8 Delay in audit after receipt of auditable cases**

The Internal Audit of auditable cases of a particular month should be completed within 30 days (Para 4.2 of the Audit Manual, 2011) so that the ITD would know the mistakes/errors committed in those assessment records before they are being audited by the Receipt Audit. This would also help AOs not to repeat similar error in ongoing assessment cases.

The CIT should ensure that the relevant records/ registers are produced before the Internal Audit on requisition. Whenever records are not given to Internal Audit without adequate reasons, suitable action should be taken against the officer/staff concerned. Instances of delays in completion of audit are illustrated below:

- a. In Karnataka charge, there was delay ranging from 7 to 11 months in audit of cases after receipt of auditable cases by the IAP/SAP.
- b. In Uttar Pradesh region the Internal Audit retained the assessment records even after the completion of audit and were returned to respective AOs after significant delays ranging upto 563 days.
- c. In Madhya Pradesh, we noticed that during the FYs 2010-11 and 2011-12, though the basket of auditable cases was received by DCIT (SAP) from CIT (Audit) for Internal Audit, the Internal Audit was not completed within 30 days.
- d. In Punjab & UT Chandigarh charge, we noticed delay ranging between 12 and 382 days in handing over the records beyond the prescribed days.

The Ministry stated (June 2015) that overlapping of Internal Audit with Receipt Audit was due to non-receipt of timely information on auditable cases by Internal Audit. It was further stated that the issue of delay in receipt of auditable cases has now been addressed with modification in the ITD functionality.

## 2.9 Coverage of Auditable Cases

As per Para 3.1 (i) of Audit Manual, 2011 read with CBDT instruction Number 03/2007, the minimum number of cases to be audited by Internal Audit in a year for Additional CIT and SAP are 50 and 300 respectively. For IAP, it is 600 corporate and 700 non-corporate cases in a year. The work load of auditable cases for Internal Audit shall be the number of cases selected by CCIT during the year keeping in view the above norms and available manpower.

As per the existing practice the cases are being assigned to IAP by CIT (Audit) based on prescribed targets, information on auditable cases and availability of manpower. We examined the extent of coverage of cases by Internal Audit vis-à-vis the number of cases assigned for audit. We noticed that during FYs 2010-11 to 2013-14 in nine regions there was a shortfall in achievement of target of auditable cases as given in the Table 2.2 below.

**Table 2.2: Coverage of Auditable Cases**

Pr.CCIT/ CCIT-Region	CIT(Audit)	Target fixed/ Cases Assigned	Cases Audited	Achievement in per cent
1. Andhra Pradesh &Telangana	Hyderabad	38,500	51,218	133
2. Bihar & Jharkhand	Patna	48,200	26,730	55
3. Delhi	Delhi I and II	29,000	28,005	97
4. Gujarat	Ahmedabad	48,200	56,481	117
5. Karnataka & Goa	Bengaluru	40,600	46,613	115
6. Kerala	Kochi	26,947	19,553	73
7. Madhya Pradesh & Chhattisgarh	Bhopal	26,600	28,234	106
8. Maharashtra	Mumbai I, Mumbai II, Nagpur, Pune	1,39,864	1,45,916	104
9. NER (Assam)	Guwahati	15,101	14,707	97
10. Odisha	Bhubaneswar	17,000	7,493	44
11. Punjab, Haryana & UT-Chandigarh	Chandigarh	7,800	6,308	81
12. Rajasthan	Jaipur	32,200	27,205	84
13. Tamil Nadu	Chennai	65,000	38,774	60
14. Uttar Pradesh & Uttarakhand	Lucknow, Kanpur	1,03,000	47,884	46
15. West Bengal	Kolkata I and II	62,386	28,336	45
<b>Total</b>		<b>7,00,398</b>	<b>5,73,457</b>	

Source: Inputs provided by field formations of ITD

## 2.10 Extent of coverage of Assessment Units

We examined the extent of coverage of auditable units by Internal Audit wing of ITD. As per the extant practice the Internal Audit is case-centric. There is no mechanism to ascertain whether Internal Audit of high risk units is being considered or undertaken. The number of units covered by Internal Audit during FYs 2010-11 to 2013-14 in eight regions is depicted in Table 2.3 below:

**Table 2.3 Extent of Coverage of auditable Units**

Pr. CCIT/ CCIT-Region	CIT (Audit)	Auditable units	Units audited	Units not audited
1. Andhra Pradesh & Telangana	Hyderabad	288	137	151
2. Bihar& Jharkhand	Patna	462	325	137
3. Punjab, Haryana, & UT-Chandigarh (NWR)	Chandigarh	455	397	58
4. Karnataka & Goa	Bengaluru	856	240	616
5. Kerala	Kochi	368	321	47
6. Madhya Pradesh & Chhattisgarh	Bhopal	132	132	Nil
7. Maharashtra	Pune, Nagpur*	1,048	1,048	Nil
8. Uttar Pradesh & Uttarakhand	Kanpur, Lucknow	1,050	425	625
<b>Total</b>		<b>4,659</b>	<b>3,025</b>	<b>1,634</b>

Source: Inputs provided by field formations of ITD

[\* Details of Mumbai-I and Mumbai-II charges are not available.]

In West Bengal region a number of units were not audited at all during 2010-11 to 2013-14 due to lack of information on auditable cases. We examined records in respect of Addl. CsIT/SAPs/IAPs under nine<sup>7</sup> CsIT<sup>8</sup> including CIT (Audit I & II), and one DIT to ascertain the coverage of Internal Audit. There are 104 assessment units under the purview of eight administrative CsIT and one DIT. Addl. CsIT and SAPs under CIT (Audit) audited the high value cases provided by the administrative CsIT, as per prescribed norms, whereas the IAPs audited the other lower money value cases of units under concerned administrative CIT. We found that the number of units covered by Internal Audit between FYs 2010-11 and 2013-14 varied from 20 (2011-12) to 51 (2013-14). We also found that out of those 104 units, 37 units (36 per cent) were not audited at all during FYs 2010-11 to 2013-14.

7 Nine CsIT- CIT (Audit I & II), CIT-I, II, III & IV, CIT –TDS, CIT-Central-I, II & III and CIT(TDS).

8 CIT-I, II, III & IV, CIT –TDS, CIT-Central-I, II & III and CIT- Siliguri.

*The Ministry stated (June 2015) that the reason for such poor coverage of Internal Audit was non-receipt/ delay in receipt of list of auditable cases by the CIT (Audit) from the administrative CsIT.*

**The scope of functioning of Internal Audit has not been revised corresponding to changes in scope of assessment. This resulted in exclusion of high risk assessment units such as Large Taxpayers Units, International Taxation units including Transfer Pricing assessments.**

### **2.11 Audit of Cases as per norms**

Auditable cases are to be selected and audited for corporate and non-corporate assessees as per norms laid down in Para 3.2 of Audit Manual, 2011. The norms of auditable cases for Internal Audit have been prescribed separately in Audit Manual, 2011 for Additional CIT/Joint CIT (Audit), Dy./Asstt.CIT (Audit) – SAP, ITO (IAP) under Assessment of Search & Seizure cases, Foreign Company cases, non- search and seizure cases, scrutiny Assessment with claim of deduction under Section 10A, 10B, 10C, 10 (23C), 11, 32, 54 and Chapter VI A of the Act, Assessment of cases of Other Taxes, Refunds and TDS cases.

We found that there have been deviations from the norms prescribed in the audit of cases which are summarized below:

- a.** In Rajasthan charge, Addl./JCIT (Audit) and Deputy/ACIT – SAP did not audit cases under Foreign Company and scrutiny Assessment with claim of deduction under Section 10A, 10B, 10C, 10(23C), 11, 32, 54 & Chapter VIA. Further, IAPs did not audit cases pertaining to Assessment of other Taxes and TDS cases.
- b.** In Madhya Pradesh, CIT (Audit) Bhopal charge cases on Search and Seizure, Foreign Company, deductions, exemption, cases of other Taxes and TDS Cases were not selected and audited.
- c.** In Maharashtra region, Mumbai-I, Mumbai-II and Nagpur charges were not applying checks relating to e-TDS returns viz. checking of interest charged, as well as penalty notices issued and penalty levied under various provisions of the Act, as prescribed in para 3.6 of Audit Manual, 2011.
- d.** In Chennai charge, the Internal Audit was not conducted in units viz. Large Taxpayers Unit (LTU) and Tax Recovery Office (TRO). As per Audit Manual, 2011 one IAP each will also be formed for International Taxation (including Transfer Pricing) and Exemptions at stations where Directorates of International Taxation, Transfer

Pricing and Exemptions are situated. In Delhi charge, the Internal Audit of Transfer Pricing was not conducted. *The CIT (Audit)-I, Delhi stated that the Internal Audit of Transfer Pricing has not been directed by the CBDT till now.* As such cases have not been included in the norms and targets as per Para III of the Instruction Number 3 of 2007.

- e. In Gujarat charge, no separate account of cases selected and audited as per the norms of Internal Audit was maintained. In absence of information, we could not ensure whether the norms for selection were complied with.
- f. In Haryana and Punjab & UT Chandigarh charge the category wise (corporate and non-corporate) break up of cases audited by IAP was not maintained. In the absence of the same we could not ascertain how the achievement of targets of Internal Audit Party was watched.

Audit is of the view that assessee of LTUs are under high risk category, therefore, these assessment cases must necessarily be covered in Internal Audit. Moreover, preparation of CIT (Audit) wise Annual Action Plan would ensure the comprehensive coverage under Internal Audit as we have pointed out in Para 2.3 of this Chapter.

*The Ministry stated (June 2015) that high risk assessment units are subject to Internal Audit.*

Audit is of the view that provision for conducting internal audit of transfer pricing assessments as per Para 1.4 of the Audit Manual 2011 may be implemented. Besides, the Manual may be updated to indicate mandatory coverage of Large Taxpayer Units by Internal Audit to avoid instances of non-compliance noticed in audit.

**We could not ascertain whether there is any quality control mechanism in place to prevent raising of objections that are prima-facie incorrect or repetitive.**

## **2.12 Quality of Internal Audit**

Under the CIT (Audit), Kanpur, IAP-Meerut had raised 19 major audit objections including four observations on non-auditable cases, having tax effect of ₹ 3,778.04 crore (each case over ₹ one crore) without ensuring its

potential leading to creation of fictitious demands which were subsequently dropped/disposed off by the CIT (Audit), Kanpur as incorrect.

As per para 2.2 of Audit Manual, 2011 the Internal Audit may peruse claims of taxpayers with due diligence and ensure that they are not abandoned or reduced except with adequate justification or proper authority. In Bihar charge, objections were incorrectly raised though required evidences were available on record and seven other cases were not based on facts. The IAPs had raised incorrect observations involving tax effect of ₹ 5.88 crore on account of non-deduction of tax under section 40 (a)(ia), despite of evidences being available on records in six cases and other seven cases were not based on the facts. Further, in Bihar region, 17 objections with tax effect of ₹ 91.29 lakh were raised during FY 2012-13 to 2013-2014, though these were already pointed out by the Receipt Audit Party.

*The Ministry stated (June 2015) that the issues of quality control of Internal Audit is periodically examined in order to improve quality; for example, recently a review of quality of Internal Audit was conducted and CCIT charges were requested (June 2015) to take follow-up action.*

**We noticed 127 high value cases wherein mistakes were detected by Receipt Audit Party of C&AG in cases seen by the Internal Audit of ITD during FYs 2010-14. This indicates a need for the improvement in quality of Internal Audit.**

### 2.13 Effectiveness of Internal Audit

We detected lacunae in high value assessments previously audited by Internal Audit during FYs 2010-11 to 2013-14. The details of the cases where Internal Audit could not detect the mistakes are brought out in Chapter 1 of Compliance Audit Report (Department of Revenue- Direct Taxes) every year.

**Table 2.4: Mistakes detected by Receipt Audit Party in cases checked by Internal Audit**

Year/ Compliance Audit Report No.	Total no. of DPs issued by Revenue Audit	DPs seen by Internal Audit	Percentage of Revenue Audit objections vis-à-vis DPs seen by Internal Audit (3)/(2)*100
(1)	(2)	(3)	(4)
2011-12 / No. 27	464	29	6.25
2013 / No. 15	455	34	7.50
2014 / No. 10	459	51	11.10
2015 / No. 3	469	13	2.77
<b>Total</b>	<b>1,847</b>	<b>127</b>	<b>6.88</b>

We noticed 127 high value cases wherein mistakes were detected by Receipt Audit Party of C&AG in cases seen by the Internal Audit of ITD during FYs 2010-14. This indicates a need for the improvement in quality of Internal Audit. The remaining 1,720 high value cases were not checked by Internal Audit although the same is prescribed as per para 1.5 of Audit Manual, 2011 wherein it is stated that Addl. CIT/JCIT has to ensure that the cases selected for Internal Audit are audited by Internal Audit before the relevant case records are given to Receipt Audit.

*The Ministry stated (June 2015) that the issue of quality control of Internal Audit is periodically examined in order to improve quality and CCIT charges have been requested (June 2015) to take follow up action.*

#### **2.14 Conclusion**

The planning is constrained as information of auditable cases is not received from administrative CsIT on monthly basis. As database relating to selection of auditable cases based on prescribed norms is not being maintained, the coverage of high risk cases in Internal Audit could not be ascertained. There is inadequate control mechanism to ensure that norms for selection of cases for internal audit are being followed.

#### **2.15 Recommendations**

We recommend that

- a. CBDT may consider reviewing the monetary norms fixed for IAPs to ensure mandatory scrutiny of top 100 cases in each administrative CIT as present prescribed norms make the 100 cases fall under the purview of Addl. CsIT and SAPs.

*The Ministry stated (June 2015) that targets and monetary norms now have been re-examined and target of auditable cases by Addl. CIT has been enhanced from 50 to 150 to cover internal audit of top 100 cases by experienced officer in May 2015.*

- b. CBDT may consider revising the scope of functioning of Internal Audit in consonance with changes in scope of assessment in recent years in order to ensure Internal Audit of high risk assessment units such as Large Taxpayers Units, International Taxation Units including Transfer Pricing Offices etc.

*The Ministry stated (June 2015) that high risk assessment units such as large taxpayer unit and international taxation unit are subject to Internal Audit. It was further stated that the decision to audit transfer pricing assessment by the C&AG has been taken accordingly and these cases would also be subject to Internal Audit shortly.*

Audit is of the view that Para 1.4 of the Audit Manual 2011 has already prescribed for internal audit of transfer pricing assessments in international taxation cases and the same should be implemented. Besides, the Audit Manual 2011 may be updated to indicate mandatory coverage of Large Taxpayer Units by Internal Audit to avoid instances of non-compliance noticed in audit.



## Chapter III: Audit Communication, Reporting and Follow up

### 3.1 Mechanism for Internal Audit Communication and Reporting

As per Para 4.3 of Audit Manual, 2011, the Internal Audit Party (IAP) shall issue objection memos in duplicate for each individual case as and when a mistake is detected. On conclusion of audit of particular month, an Internal Audit Report (IAR) in the same form as Receipt Audit's Local Audit Report (LAR) shall be drawn up. Further, Para 4.5 of the Audit Manual, 2011 provides that the IAR/Copies of Audit Memo should be sent to the administrative CIT with copies to the Additional/Joint Range and the AOs within a week on completion of audit.

We noticed discrepancies in compliance to the reporting procedure as given in succeeding paras of this Chapter.

**The internal audit memos were issued with delays ranging from two to 352 days.**

### 3.2 Issue of Internal Audit Memos

As per Para 4.3 of the Audit Manual, 2011, IAPs shall issue the objection memos in duplicate for each individual case within one week of detection of mistake.

We noticed in 489 cases in six regions, as given in Table 3.1 below where there was delay in issue of objection memos. In Kerala region, the copies of memo were not issued to a Joint CIT office in Kerala.

**Table 3.1: Delay in issue of objection memos**

Pr. CCIT/ CCIT-Region	CIT (Audit)	Cases	Delay
1. Odisha	Bhubaneswar	2	More than 180 days
2. Delhi	Delhi I and II	10	2 days to 352 days
3. Gujarat	Ahmedabad	20	2 to 95 days
4. Punjab, Haryana & UT-Chandigarh	Chandigarh	23	16 to 60 days
5. Karnataka & Goa	Bengaluru	384	5 to 68 days
6. Kerala	Kochi	50	7 to 160 days
<b>Total</b>		<b>489</b>	

Due to delay in issue of Audit memo, the AOs could not take timely action on the audit objections.

*The ITO(HQ) Ahmedabad charge stated (November 2014) in its reply that the delays in Gujarat charge were due to delays in receipt of information on*

*auditable cases from AOs, shortage of staff, delay in receipt of advice solicited from JCIT etc.*

*The Ministry stated (June 2015) that as informed by respective charges, generally there is no delay in issue of Internal Audit Memos.*

However, we noticed instances of non-compliance in some CIT(Audit) charges as pointed out in para 3.2 above.

**Internal Audit Reports are not being drawn up for issue to administrative CsIT as prescribed under Audit Manual 2011.**

### **3.3 Non issue of Internal Audit Report (IAR)**

As per paras 4.3 and 4.4 of Audit Manual 2011, on conclusion of audit the IAP shall draw an Internal Audit Report (IAR) in the same form as Receipt Audit's Local Audit Report (LAR). The IAR should include comments relating to proper maintenance of registers relating to Internal Audit, verification of disposal and pendency of audit objections with reference to AO's register and timely submission of periodical statements.

As per information provided by DIT (Audit), 19,579 major audit objections with tax effect of ₹ 19,61,555.52 lakh and 40,384 minor audit objections with tax effect of ₹ 81,731.48 lakh were issued to AOs during FYs 2010-11 to 2013-14. However no IAR similar to Receipt Audit LAR was drawn up and issued to the concerned administrative CIT for their compliance during the financial years 2010-14 in all CsIT (Audit) of ITD.

Thus provisions of Audit Manual, 2011 in respect of monitoring of internal controls and follow up of Internal Audit findings is not being complied with. As IARs are not being drawn up, it could not be ascertained in audit whether the Internal Audit considers the control issues related to status of registers/ records maintained by the each AO regarding Internal and Receipt Audit objections, timely submission of periodical statements and verification of disposal and pendency of audit objections with reference to AO's register. Moreover, IAR serves as basic tool for higher authorities for monitoring the disposal of objections and strengthening the working of AOs.

*The Ministry stated (June 2015) that concurrent audit by Internal Audit Party results into audit of the same unit at regular intervals depending upon periodic assessment of cases. The assessment orders finalized in month of March are generally audited in the next financial year. Accordingly, it is not practical to issue annual Internal Audit reports. However, reports on common mistakes by AOs are issued which achieve the desired objective.*

Audit is of the view that paras 4.3 and 4.4 of the Audit Manual, 2011 prescribe drawing up of Internal Audit Reports wherein Internal Audit is also required to comment on the control issues. In view of practical difficulties outlined by the ITD, it is suggested that the provisions in the Audit Manual regarding drawing up of IARs may suitably be amended. It is further suggested that reporting mechanism, considered practicable as per CBDT, may be strengthened to get a holistic perspective on the quality of assessments.

### **3.4 Follow up action on internal audit objection**

As per para 4.5 of Audit Manual, 2011, Internal Audit Report is to be issued within a week of audit. On receipt of IAR/Audit memo, AO was to take decision on accepting/non accepting the audit objection as per provisions of the Manual. As per Para 5.5 of Audit Manual, 2011, the remedial action on all the Internal Audit objections should be initiated within one month of receipt of audit objection memo. The action is to be completed in the time limit of 3 months. The outer time limit for settling the audit objection is 4 months from the date of sending the audit memo.

**The Internal Audit did not make efforts to co-ordinate with the administrative CsIT to ensure initiation of remedial action in 6,172 cases within the prescribed time limit. Intra-Departmental meetings are not being held for follow up and settlement of pending internal audit objections.**

### **3.5 Initiation of Remedial Action by Assessing Officers**

As per para 5.5 of the Audit Manual, 2011 remedial action has to be invariably initiated within one month of the receipt of the Internal Audit objection memo. The compliance of the same is to be monitored through Ledger Cards maintained in the office of the administrative CIT as well as CIT (Audit).

We noticed that in 6,172 cases in 13 regions, as indicated in Table 3.2 below, there were delays in initiating remedial action on internal audit objections. Further, we noticed instances in Andhra Pradesh and Telangana (2,328 cases), Delhi (664 cases), Punjab & UT, Chandigarh (55 cases), Rajasthan (181 cases) and Uttar Pradesh (30 cases) regions where even the first reply was not received from the AOs post issue of audit memo.

**Table 3.2 Delay in initiating remedial action**

(₹ in lakh)

Pr. CCIT/ CCIT-Region	CIT(Audit)	Cases	Money Value	Period of Delay
1. Andhra Pradesh & Telangana	Hyderabad	2,328	Not available	Not available
2. Bihar & Jharkhand	Patna	38	Not available	2 months to 19 months
3. Madhya Pradesh	Bhopal	384	9,046.62	1 day to 819 days
4. Chhattisgarh	Bhopal	184	Not available	
5. Delhi	Delhi I and II	31	10,596.44	4 days 51 months, 3 days
6. Gujarat	Ahmedabad	59	1,817.06	1 month 9 days to 31 months 15 days
7. Punjab, Haryana & UT-Chandigarh	Chandigarh	653	Not available	10 days to 1,470 days
8. Karnataka & Goa	Bengaluru	401	12,365.78	Not given
9. Kerala	Kochi	87	Not available	Six months to 58 months
10. Uttar Pradesh & Uttarakhand	Lucknow, Kanpur	30	Not available	Not given
11. Rajasthan	Jaipur	539	Not available	Not given
12. Odisha	Bhubaneswar	26	Not available	Two to eleven months
13. Maharashtra	Mumbai-I	1,412	Not available	Not available
<b>Total</b>		<b>6,172</b>		

In CIT (Audit), Hyderabad charge, no records regarding intra-departmental meetings/ discussion between CIT (Audit) and AOs/administrative CITs for settlement of 2,328 audit observations during 2010-11 to 2013-14 were made available to Audit. As mandatory monthly discussions/meetings between CIT (Audit) and administrative CsIT were not held, irregular follow-up contributed towards increasing pendency of Internal Audit objections.

*ITO (HQ) Hyderabad charge stated (December 2014) that meetings/discussions in respect of non-accepted paras and delay in receipt of replies for settlement of objections are generally not being held with administrative CITs as there is regular written communication with them. The reply confirms that the high level meetings mandated in the Instruction cited for speedy settlement of Internal Audit objections were not being held.*

*The Ministry stated (June 2015) that the Central Action Plan for Internal Audit provides a timeline for settlement of pending audit objections and the same is monitored periodically.*

Audit is of the view that although the Central Action Plan provides timeframe and targets for settlement of internal audit objections, we noticed instances of delays in receipt of first response from the AOs, post issue of audit objections which further delayed their settlement as brought out above.

**There was a lack of pursuance by the Internal Audit for settlement of objections within the prescribed time limit.**

### 3.6 Settlement of Internal Audit Objections

We noticed 1,640 cases in 10 regions, as indicated in Table 3.3 below, where the remedial action was not completed within 4 months of receipt of audit memo as prescribed under Audit Manual, 2011.

**Table 3.3 Delays in completion of remedial action**

					(₹ in lakh)
Pr. CCIT/ CCIT-Region	CIT(Audit)	Cases	Money Value	Period of Delay	
1. Andhra Pradesh & Telangana	Hyderabad	23	1,040.07	17 months to 56 months	
2. Bihar & Jharkhand	Patna	105	Not available	Not given	
3. Madhya Pradesh & Chhattisgarh	Bhopal	280	Not available	Not given	
4. Delhi	Delhi I and II	51	1,55,548.25	1 month 10 days to 60 months 5 days	
5. Gujarat	Ahmedabad	30	361.12	1 month 20 days to 43 months 28 days	
6. Punjab, Haryana & UT-Chandigarh	Chandigarh	457	Not available	10 days to 49 months	
7. Kerala	Kochi	120	Not available	6 to 41 months	
8. Odisha	Bhubaneswar	40	Not available	11 months to 37 months	
9. Rajasthan	Jaipur	421	Not available	Not given	
10. Uttar Pradesh & Uttarakhand	Lucknow, Kanpur	113	Not available	Not given	
<b>Total</b>		<b>1,640</b>			

*The Ministry stated (June 2015) that the Central Action Plan for Internal Audit provides a timeline for settlement of pending audit objections and the same is monitored periodically.*

Audit is of the view that although the Central Action Plan provides timeframe and targets for settlement of internal audit objections, we noticed instances of delays in completion of remedial action in respect of internal audit objections. For instance, in CIT (Audit), Ahmedabad charge, a test check of Internal Audit objections revealed that 224 audit objections were pending due to non-initiation of remedial action (88), non-completion of remedial action (82), delay in receipt of response after completion of remedial action (30) and due to assessment set-aside or pending reassessment/ for want of additional information or clarification (24).

**The Internal Audit objections were settled without proper reply or completion of remedial action.**

### 3.7 Settling Internal Audit objections without proper reply or completion of remedial action

Internal Audit objections are required to be closed after receipt of convincing reply or after completion of remedial action by AOs. We noticed 73 cases involving tax effect of ₹ 13,409.83 lakh in six regions, as indicated in Table 3.4 below, where the internal audit objections were settled without proper reply or rectification.

**Table 3.4: Audit Objections settled without proper reply/action**

(₹ in lakh)

Pr.CCIT/ Region	CCIT- CIT (Audit)	Cases	Money Value	Manner in which settled
1. Andhra Pradesh & Telangana	Hyderabad	9	128.67	Without recording details of rectificatory action taken
2. Delhi	Delhi I and II	8	12,056.43	Based on notice under section sec 148; without waiting for rectificatory order under Section 147/154
3. Punjab, Haryana & UT Chandigarh	Chandigarh	22	Not available	Based on proceedings initiated under section 148
4. Karnataka & Goa	Bengaluru	17	818.08	Before receipt of final compliance from Assessing Units
5. Maharashtra	Mumbai II	15	339.35	Before receipt of intimation of completion of remedial action.
6. Tamil Nadu	Chennai	2	67.30	Before receipt of intimation of completion of remedial action.
<b>Total</b>		<b>73</b>	<b>13,409.83</b>	

*The Ministry stated (June 2015) that, as informed by respective CCsIT, settlement of internal audit objection is made on the basis of proper reply and scrutiny.*

Audit is of the view that the details of remedial action taken and the basis for settlement of internal audit objections may clearly be recorded in the Control Registers as few instances were noticed in audit where objections were settled prior to receipt of final compliance from assessing units.

**The Internal Audit did not pursue initiation of remedial action within the prescribed time leading to loss of revenue due to cases becoming time barred.**

### 3.8 Time barred cases

The Act does not provide for reopening of case after expiry of the prescribed period, by virtue of time limitation. We noticed that 1,553 cases involving tax effect of ₹ 39,265.32 lakh in 8 regions, as given in Table 3.5 below, had become time barred due to non-initiation of remedial action within prescribed timeframe resulting in loss of revenue.

*The ITO(HQ)-I Kolkata charge replied (December 2014) that the settlement remained pending due to non-receipt of prescribed Action Taken Report from the AOs by the CIT (Audit). Regarding non-pursuance of audit objections, it was stated that due to manpower shortage the settlement of audit objections could not be monitored.*

**Table 3.5: Time barred Cases**

				(₹ in lakh)
Pr. CCIT/ CCIT-Region	CIT (Audit)	Cases	Amount	
1. Andhra Pradesh & Telangana	Hyderabad	481	10,342.86	
2. NER (Assam)	Guwahati	16	466.80	
3. Punjab, Haryana & UT-Chandigarh	Chandigarh	07	66.98	
4. Karnataka & Goa	Bengaluru	163	5,008.30	
5. Kerala	Kochi	1	14.17	
6. Maharashtra	Mumbai I, II, Pune	804	22,603.00	
7. Odisha	Bhubaneswar	1	Not given	
8. West Bengal	Kolkata I and II	80	763.21	
<b>Total</b>		<b>1,553</b>	<b>39,265.32</b>	

*The Ministry stated (June 2015) that timely settlement of Internal Audit objection is part of Central Action Plan and is monitored periodically. There are instances of delay in taking remedial action. However, as per report no remedial action has been barred by limitation.*

However, we noticed instances where internal audit objections had become time barred. Further the Performance Reports of Internal Audit do not have age-wise analysis of internal audit objections pending for settlement.

**ITD did not either maintain the Control Registers to watch the progress of Internal Audit or in prescribed format.**

### 3.9 Maintenance of Control Registers

A number of control registers have been prescribed to organize, watch, monitor and control the programming of audit, selection of auditable cases, issue and settlement of audit observations.

We found that the CsIT(Audit) charges in Andhra Pradesh and Telangana, Assam, Chhattisgarh, Haryana, Karnataka, Kerala, Madhya Pradesh, Odisha, Punjab & UT Chandigarh, Uttar Pradesh & Uttarakhand and West Bengal regions the prescribed control registers were either not maintained or incompletely maintained. In Maharashtra charge difference of 439 objections was found in the information furnished by the AOs and figures obtained from the Internal Audit Register. As these registers were an important aid for control giving status and details of Internal Audit observations, their non-maintenance or improper maintenance adversely affected the monitoring of Internal Audit process.

In the CIT (Audit), Kochi the Registers/Records maintained were not sufficient to achieve the intended objectives. The Register for Objections raised and Settled was not maintained in the prescribed format for the FYs 2011-12 to 2013-14. *CIT (Audit) stated (October 2014) that the Register of Audit Objections raised was maintained in the system and due to technical problems all the files in the system were lost and could not be retrieved. It was also replied that a separate register for objections settled was physically maintained.* The documented method of monitoring along with back-up mechanism in charges where computerized records are maintained may be ensured to prevent loss of critical data.

The registers maintained in Assessment Units and in the offices of JCIT were not in the prescribed format. The ITD's reply of registers being maintained in the system is not acceptable as Para 1.5 of the Manual and Para IV(4)(ii) of Instruction Number 3 of 2007 provides for maintenance of manual registers. The loss of data in the office of the CIT (Audit) points to the need for maintenance of back-up data.



*The Ministry stated (June 2015) that Control Registers are being maintained which are periodically examined during inspection by officers of DIT (Audit). It was stated that in the last financial year six such inspections were carried out and discrepancies were noticed in maintenance of Control Registers in some charges. It was further stated that necessary instructions in this regard have been issued.*

**The quarterly progress reports and annual statement as prescribed in the Audit Manual were not being regularly/furnished by the CIT (Audit) to the DIT (Audit).**

### **3.10 Furnishing of periodical Reports and Returns related to Internal Audit**

As per Para 7.6 of the Audit Manual, 2011 for effective monitoring a quarterly progress report to know the total workload of auditable cases, number of objection raised, tax effect and settlement of audit objections and an annual internal audit report in respect of the performance of the audit wing is required to be furnished by the CIT(A) to the DIT(A) by the 20<sup>th</sup> of month following the quarter and 30<sup>th</sup> April of the following year in Proforma 'Audit Statement no.1' and 'Audit Statement no.3' respectively. We found shortcomings in the returns/reports maintained by the Internal Audit wing as below:

- a. Under CIT (Audit), Kochi charge, the Audit Statement No III, the annual report in respect of performance of audit wing as per Audit Manual was not furnished.
- b. In CIT (Audit) Kanpur and Lucknow charges of Uttar Pradesh & Uttarakhand regions, 58,016 cases were reported as audited to the DIT (Delhi) as against 47,884 noted in the registers/QPRs. Also, 10 IAPs had not prepared and submitted the Quarterly Progress Reports (QPRs) to the concerned CsIT (Audit) for onward transmission to the Directorate of Income Tax (Audit), Delhi. In absence of QPRs, the actual cases audited, objections raised and their settlement are not monitored.

Further, as per Audit Manual, 2011, Quarterly Progress Report (QPR) is to be sent by each CIT (Audit) to the DIT (Audit) New Delhi by the 20<sup>th</sup> of month following the quarter. We noticed shortcomings in monitoring through reports and returns as given below.

- c. In CIT (Audit) Bhopal charge, the QPRs were not submitted timely to the DIT (Audit) New Delhi and the delays ranged between 04 to

32 days. The figures in the opening and closing balance of the FY 2012-13 did not tally. Also, the pending Receipt Audit Objections reported to DIT (Audit) Delhi for the quarter ending June 2013, December 2013 and March 2014 did not tally. The DO of the Monthly Progress Report required to be submitted to the CCIT (CCA) by 5th of the succeeding month, were also not sent timely and the delay ranged between 6 to 23 days.

- d. In Andhra Pradesh and Telangana charge, the Annual Internal Audit Report in Audit Statement No. III required to be submitted by CIT to DIT as per Rule 7.6(b) of the Audit Manual, 2011 was not submitted during 2010-11 to 2013-14. In Gujarat and Rajasthan no such report was prepared and sent to DIT (Audit).
- e. In Gujarat and Rajasthan charge, the half yearly report on common errors to be sent to DIT (Audit) by 15 October and 15 April was not sent. In Rajasthan charge, quarterly report on important objections by CIT (Audit) to DIT (Audit) was not sent.
- f. In Rajasthan, Andhra Pradesh and Telangana charges, the list of cases regarding instances “where internal audit had failed to point out mistake subsequently pointed out by Receipt Audit” was not being submitted by CIT (Audit) to CCIT (CCA) as per Para 3.1 (v) of CBDT Instruction Number 15 of 2013 and no report on actions taken against the erring officer was sent to CCIT (CCA) in accordance with para 7.6 of Instruction Number 9 of 2006.

*The Ministry stated (June 2015) that issue of delay in quarterly reports and annual statements has already been taken by Directorate of Income Tax (Audit) and Zonal Members with officers concerned.*

**Regular meetings were not being held by CIT (Audit) with the Administrative head for speeding up the settlement of objections**

### **3.11 Pursuance of Audit Objections for settlement through Monthly Meetings**

Meetings and discussions are effective steps to pursue and settle pending Internal Audit objections. As per Instruction Number 15 of 2013, CIT (Audit) shall hold a monthly meeting with each of the Administrative Commissioners to review the progress in settlement of objections.

In Andhra Pradesh and Telangana, Assam, Chhattisgarh, Gujarat, Rajasthan and West Bengal regions, no records regarding any such meeting/discussion by CIT (Audit) with AOs/Administrative CITs for settlement of audit

observations during FYs 2010-11 to 2013-14 were made available. In Chennai, periodic meetings were not held with Administrative CIT for settlement of objection.

Not holding the prescribed monthly discussions/meetings by CIT (Audit) with administrative CITs, adversely contributed towards pendency of Internal Audit objections as detailed in Chapter IV.

*The Ministry stated (June 2015) that the Central Action Plan for Audit provides a timeline for settlement of pending audit objection and the same is monitored periodically. It was further stated that the Central Action Plan for the first quarter of the year 2015 has addressed the issue regarding centralized monitoring of holding of meetings for settlement of internal audit objections.*

However, we noticed that there was no documented proof in respect of meetings held, if any, for settlement of internal audit objections in few CsIT (Audit) charges as brought out above.

### **3.12 Conclusion**

The present Chapter deals with Internal Audit communication, reporting and follow up. These include timely issue of audit memos and Internal Audit Reports and speedy settlement of Internal Audit objections. We observed that the internal audit memos were not issued timely in seven CsIT (Audit) charges. Internal Audit Reports are not being drawn up for issue to administrative CsIT in timely manner in 15 regions. The delays in initiation of remedial action and inadequate follow up resulted in time barring of internal audit objections in 11 CsIT (Audit) charges. Intra-Departmental Meetings were not held for follow-up and settlement of internal audit objections.

### **3.13 Recommendations**

We recommend that

- a. CBDT may consider introducing centralised monitoring mechanism to watch timely issue of Internal Audit objections and Internal Audit Reports to ensure effective control.

*The Ministry stated (June 2015) that systems to monitor and effective control are already in place. Pr. CCsIT (CCA) and DIT (Audit) periodically monitor performance at state and central level.*

Audit recommended introducing centralised monitoring mechanism to watch issue of Internal Audit Objections and Internal Audit Reports prescribed to be issued in Audit Manual 2011. Delayed issue of

Internal Audit Objections and non-issue of Internal Audit Reports are a matter of concern which affects the effectiveness of Internal Audit.

- b.** CBDT may consider making intra-departmental meeting for settlement of objections and follow up as part of Annual Action Plan and monitor it on regular basis.

*The Ministry stated (June 2015) that the intra-departmental meeting for settlement of objections and follow up has been made part of Central Action Plan of first quarter of 2015-16.*

## Chapter IV: Performance Assessment of Internal Audit

### 4.1 Directorate of Income Tax (Audit)

The Directorate of Income Tax (Audit) administers and monitors the functioning of Internal Audit wing of ITD. This entails monitoring of Internal Audit objections raised and settled and co-ordination with Pr. CCsIT /CCsIT and CsIT (Audit). DIT (Audit) conducts inspection of the functioning of Internal Audit wing under the respective Pr. CCsIT/CCsIT. The issues related to Internal Audit are discussed in the Annual Audit Conference. The results of Internal Audit are published as Annual Report of Internal Audit functions. DIT (Audit) reviews performance of Internal Audit on a quarterly basis, the results of which are communicated to all Pr. CsCIT(CCA)/ CCsIT (CCA) and CsIT (Audit) along with instructions for taking administrative actions in case of poor performance. As per DIT (Audit) the overall targets of coverage of auditable cases by Addl.CIT/JCIT, SAPs and IAPs were met during 2010-11 to 2013-14, as indicated in Table 4.1 given below.

**Table 4.1 : All India Manpower Position and Total Number of Cases Audited during 2010-11 to 2013-14**

Year	Addl.CIT/ JCIT (Audit)			SAPs			IAPs		
	Working Strength	Target	Actual	Working Strength	Target	Actual	Working Strength	Target	Actual
2010-11	18	900	1,000	21	6,300	6,691	196	1,37,200	1,79,687
2011-12	19	950	1,382	21	6,300	6,720	219	1,53,300	1,72,314
2012-13	19	950	1,302	20	6,000	7,612	204	1,42,800	1,70,958
2013-14	20	1,000	1,171	20.5	6,150	8,595	195	1,36,500	1,56,993

Source: Directorate of Income Tax (Audit)

The information in Table 4.1 shows that DIT (Audit) has computed target for IAPs assigning 700 cases for each IAP. However, as per Audit Manual, 2011 the minimum target for IAPs shall be 600 corporate; & 700 non-corporate cases. It has not been clarified whether the target may be fixed at either 600 corporate cases or 700 non-corporate cases or both specifically in respect of assessment units where both corporate and non-corporate cases are assessed.

*The Ministry stated (June 2015) that it has already issued clarification vide Instruction Number 4 of 2005 dated 14 May 2015 vide which the annual target of auditable cases of Addl. CsIT has been increased from 50 cases to 150 cases per annum. CBDT has clarified that the annual target for auditable cases by IAP is 600 corporate or 700 non-corporate cases. Thus CBDT Instruction Number 3 of 2007 has been amended and supplemented to this*

*effect. It was further stated that in a mixed charge where both corporate and non-corporate cases are assessed it is practically not feasible to set targets separately for corporate and non-corporate cases as the number of auditable cases would depend on actual assessments completed.*

**The annual target of audit of 50 cases, as prescribed by the CBDT, was not met by Addl. CsIT (Audit) in certain jurisdictions.**

#### **4.2 Achievement of targets by Addl. CsIT (Audit)**

During the period 2010-11 to 2013-14 the annual target of audit of 50 cases was consistently achieved by Pune, Delhi-I, Mumbai-II, Hyderabad, Bhopal, Guwahati, Ahmedabad (except in 2012-13), Bengaluru (except in 2012-13), Mumbai –I (except in 2011-12), Delhi-II (except in 2010-11). During 2013-14 all charges met the annual internal audit target except Chandigarh, Jaipur, Kanpur, Chennai-II and Kochi charges.

*The Ministry stated (June 2015) that the annual target could not be met due to shortage of officers. Most of the time one officer held several additional charges.*

**The annual target of audit of 300 cases, as prescribed by the CBDT, was not met by Special Audit Parties in certain jurisdictions.**

#### **4.3 Achievement of targets by Special Audit Parties**

During 2010-11 to 2013-14 the performance in terms of meeting of annual target of 300 cases by SAPs has shown considerable improvement. The SAPs at Kolkata-I and Kolkata-II charges did not meet their target during FYs 2010-11 to 2012-13. The SAPs at Ahmedabad, Bengaluru, Bhopal, Chandigarh, Delhi-I, Delhi-II, Pune and Hyderabad charges consistently met their targets during FYs 2010-11 to 2013-14. During 2013-14 the annual target of audit of 300 cases by SAPs of all CsIT (Audit) charges except Jaipur charge was achieved. There were two SAPs sanctioned each for Delhi-I, Delhi-II, Mumbai-I and Mumbai-II charges. Upto 2013-14 there was no SAP sanctioned at Guwahati, Kochi, Lucknow and Nagpur.

*The Ministry stated (June 2015) that the target of audit of 300 cases by the SAP was achieved in financial years 2010-11, 2011-12 and 2012-13. In 2013-14, the achievement of 275 cases was slightly short of the target due to shortage of manpower.*

**The annual target of audit of 600 (Corporate cases); & 700 (Non-corporate cases), as prescribed by the CBDT, was not met by Internal Audit Parties in certain jurisdictions.**

#### **4.4 Achievement of targets by Internal Audit Parties**

During 2010-11, 1,87,378 cases were audited by 196 IAPs of different charges of CsIT (Audit) across India. In 2011-12, 1,72,314 cases were audited by 219 IAPs. In 2012-13, 1,70,958 cases were audited by 204 IAPs and in 2013-14, 1,56,993 cases were audited by 195 IAPs. The average number of cases<sup>9</sup> audited during 2010-11 to 2013-14 was 956, 787, 838 and 805 respectively. The IAPs at Ahmedabad, Bengaluru, Chandigarh, Delhi-II, Hyderabad, Jaipur, Kanpur, Kochi, Mumbai-I, Mumbai-II, Patna and Pune charges consistently met the targets during FYs 2010-11 to 2013-14. The IAPs at Kolkata-I and Kolkata-II charges could not meet the targets during FYs 2010-11 to 2013-14.

*The Ministry stated (June 2015) that the annual target could not be met due to shortage of officers. Most of the time one officer held several additional charges.*

**We noticed mistakes in 437 cases involving tax effect of ₹ 1,632.33 crore that were already checked by Internal Audit Parties.**

#### **4.5 Detection of mistakes by Receipt Audit Party in cases checked by Internal Audit**

As per para 2.1 of Audit Manual, 2011 one of the objectives for setting up of Internal Audit was to improve the quality of assessments by reducing errors and omissions which are subsequently detected by Revenue Audit. However, during FYs 2010-11 to 2013-14, we noticed mistakes in 437 cases involving tax effect of ₹ 1632.33 crore that were already checked by Internal Audit Parties, as shown in Table 4.2 below.

<sup>9</sup> Average number of cases audited by IAPs = (Total number of cases audited by IAPs/ Working strength of IAPs)

**Table 4.2: Mistakes pointed out by Receipt Audit Party in cases checked by Internal Audit**

(₹ in lakh)

Pr. CCIT/CCIT-Region	CIT (Audit)	Cases	Money Value	Category of Mistakes
1. Andhra Pradesh & Telangana	Hyderabad	28	3,554.63	Incorrect allowance of expenditure, deduction; incorrect set-off of losses, non-levy of MAT etc.
2. Gujarat	Ahmedabad	14	71.82	Incorrect computation of business income, non-levy of interest, incorrect set-off of losses etc.
3. Jharkhand	Patna	39	1,167.23	Avoidable mistakes in computation of income and tax, irregular set-off of losses etc.
4. Karnataka & Goa	Bengaluru	100	1,44,418.12	
5. Kerala	Kochi	10	203.49	Incorrect allowance of expenditure, exemption and non levy of interest
6. Madhya Pradesh & Chhattisgarh	Bhopal	24	1,905.31	Mistake in computation of income, Incorrect allowance of expenditure
7. Odisha	Bhubaneswar	23	4,400.61	Short levy of interest under sections 234A, 234B, 234D and 244A; carry forward and set-off of unabsorbed losses.
8. Punjab, Haryana & UT Chandigarh	Chandigarh	16	228.20	Incorrect allowance of deduction, exemption; short levy of interest etc.
9. Rajasthan	Jaipur	94	1,782.35	Mistakes in computation of income
10. Tamil Nadu	Chennai	15	3,786.16	Incorrect computation of business income, incorrect set-off of losses etc.
11. West Bengal	Kolkata-I Kolkata-II	74	1,715.00	Incorrect computation of business income, incorrect set-off of losses etc.
<b>Total</b>		<b>437</b>	<b>1,63,232.92</b>	

Thus, above information shows that there is a need for improvement in quality of assessments by reducing errors and omissions.

*The Ministry stated (June 2015) that the issue of quality control of Internal Audit is periodically examined in order to improve quality. It was further stated that recently a review of quality of Internal Audit was taken up and CCIT charges have been asked to take follow up action.*



#### 4.6 Monitoring of objections raised in Internal Audit

The Directorate of Income Tax (Audit) monitors CIT (Audit) charge-wise performance with respect to number of objections raised and settlement of objections in respect of internal audit work of Addl. CsIT, SAPs and IAPs on quarterly basis and overall results are brought out in their Annual Report.

Corporate Tax/ Income Tax cases with revenue effect greater than ₹ 2,00,000 will be treated as Major Audit Objections for the purposes of Internal Audit. Other Direct Tax cases with revenue effect greater than ₹ 30,000 will be treated as Major Audit Objections for the purpose of Internal Audit.

During the years 2010-11 to 2013-14, a total of 59,963 major and minor audit objections involving tax effect of ₹ 20,432.87 crore were raised by Internal Audit. During this period 14,17,681 scrutiny assessments were completed by the Assessing Officers. As against which, the Addl. CsIT, SAPs and IAPs checked 7,14,425 cases while raising 19,579 major audit objections and 40,384 minor audit objections. The year-wise status of major and minor internal audit objections raised by the Internal Audit is depicted in Table 4.3 below.

**Table 4.3: Status of Internal Audit objections raised during 2010-11 to 2013-14**

Year	₹ in crore							
	Scrutiny assess-ments completed	Cases checked by Internal Audit	Major objection raised during the year		Minor objection raised during the year		Total objections raised during the year	
	No.	No.	No.	Tax effect	No.	Tax effect	No.	Tax effect
2010-11	4,55,213	1,87,378	4,589	5,248.20	8,905	218.68	13,494	5,466.88
2011-12	3,69,320	1,80,416	4,683	1,804.66	9,088	75.19	13,771	1,879.85
2012-13	3,08,398	1,79,872	6,214	3,970.06	12,061	165.42	18,275	4,135.48
2013-14	2,84,750	1,66,759	4,093	8,592.63	10,330	358.03	14,423	8,950.66
<b>Total</b>	<b>14,17,681</b>	<b>7,14,425</b>	<b>19,579</b>	<b>19,615.55</b>	<b>40,384</b>	<b>817.32</b>	<b>59,963</b>	<b>20,432.87</b>

Source: Directorate General of Income Tax (Logistics, Research & Statistics Wing), New Delhi.

As per Table 4.3, Internal Audit checked 50.39 per cent of Scrutiny Assessment completed by AOs during FYs 2010-11 to 2013-14. During the course of Audit, we found that cases checked by Internal Audit also consisted of Summary Assessments as well as e-TDS returns as pointed out in Chapter 2. As per Audit Manual, 2011, Internal Audit is also required to examine Assessment of Search & Seizure cases, Foreign Company cases, non-search and seizure cases besides Scrutiny Assessment with claim of deduction under Section 10A,10B,10C, 10 (23C),11, 32,54 & Chapter VI A of the Act, Assessment of cases of Other Taxes, Refunds and TDS cases. Therefore, the

number of Scrutiny Assessments examined by Internal Audit is even less than 50.39 per cent.

**Although the Central Action Plan of CBDT sets target at 100 per cent for settlement of pending audit objections within a timeframe of four months, the internal audit objections were still pending.**

#### 4.7 Monitoring of Major Audit Objections by DIT (Audit)

As per data provided by DIT (Audit), there were 10,010 pending paras with tax effect of ₹ 3,812.51 crore of previous years as on 1 April 2010. During FYs 2011-12 to 2013-14, 19,579 major audit objections with tax effect of ₹ 19,615.55 crore were raised, 18,629 major audit objections with tax effect of ₹ 12,851.11 crore were settled. As on 31 March 2014, a total of 10,960 major audit objections with tax effect of ₹ 10,576.95 crore were pending as given in Table 4.4 below:

**Table 4.4: Number of Major objections raised and settled as on 31.03.2014**

Year	OB as on 1 <sup>st</sup> April		Major audit objection raised during the year		Major audit objection settled during the year		Closing Balance	
	No.	Tax effect	No.	Tax effect	No.	Tax effect	No.	Tax effect
	2010-11	10,010	3,812.51	4,589	5,248.20	2,719	884.97	11,880
2011-12	11,880	8,175.74	4,683	1,804.65	4,811	1,073.75	11,752	8,906.64
2012-13	11,752	8,906.64	6,214	3,970.06	5,653	2,626.67	12,313	10,250.03
2013-14	12,313	10,250.03	4,093	8,592.63	5,446	8,265.71	10,960	10,576.95
<b>Total</b>	<b>45,955</b>	<b>31,144.92</b>	<b>19,579</b>	<b>19,615.55</b>	<b>18,629</b>	<b>12,851.11</b>	<b>46,905</b>	<b>37,909.36</b>

Source: Directorate of Income Tax (Audit), New Delhi

The Ministry stated (June 2015) that due to shortage of manpower particularly at the level of Additional/ Joint Commissioner target set by CBDT could not be achieved.

#### 4.8 Monitoring of Minor Audit Objections by DIT (Audit)

During 2011-12 to 2013-14, there were 19,432 arrear pending paras of earlier years with tax effect of ₹ 158.85 crore, 40,384 minor audit objections with tax effect of ₹ 817.31 crore were raised, 46,463 minor audit objections with tax effect of ₹ 535.46 crore were settled and 13,353 paras with tax effect of ₹ 440.70 crore were pending as on 31 March 2014 as given in Table 4.5 below. However, the recovery/collection figures were not provided.

**Table 4.5: Total number of Minor audit objections raised and settled**

Year	(₹ in crore)							
	OB as on 1 <sup>st</sup> April		Minor objection raised during the year		Minor audit objection settled during the year		Closing Balance	
	No.	Tax effect	No.	Tax effect	No.	Tax effect	No.	Tax effect
2010-11	19,432	158.85	8,905	218.67	5,277	36.87	23,060	340.65
2011-12	23,060	340.65	9,088	75.19	9,337	44.73	22,811	371.11
2012-13	22,811	371.11	12,061	165.41	10,973	109.44	23,899	427.08
2013-14	23,899	427.08	10,330	358.02	20,876	344.40	13,353	440.70
	<b>89,202</b>	<b>1,297.69</b>	<b>40,384</b>	<b>817.31</b>	<b>46,463</b>	<b>535.46</b>	<b>83,123</b>	<b>1,579.54</b>

Source: Directorate of Income Tax (Audit), New Delhi

#### 4.9 Settlement of pending Audit Objections

The issues pertaining to Tax Administration including effectiveness of Internal Audit were discussed in the Public Accounts Committee (PAC) meeting held in June 2013 and were detailed in 87th Report of the PAC (2013-14) dated August 2013. The ITD had given an assurance to the PAC viz. (i) to settle the audit objections expeditiously; (ii) to post senior and competent Officers in internal audit and monitor the progress of auditing units on quarterly basis; (iii) to take specific measures to improve capacity of officers and staff by organising workshops and seminars and (iv) to compile and circulate quality audit cases among the field offices to improve capacity of the Officers and Staff.

The ITD had given a time frame of 4 months for disposal of an Internal Audit objection to be settled in the Action Plan for FY 2012-13. The CCIT (CCA) from the entire ITD had given assurance of completing this work expeditiously and this was being monitored by CBDT on a quarterly basis. As per Central Action Plan 2013-14 by CBDT, the Internal Audit Objections have to be disposed off at a rate of 100 *per cent*. As the time frame for settlement is 4 months, audit is of the view that at the end of the year, not more than one third of audit objections raised during the year should be pending.

However, we noticed that as on 31 March 2014, 10,960 major audit objections and 13,353 minor audit objections were still pending.

We examined the efforts made by CIT (Audit) charges to settle pending audit objections, on a test check basis, the results of which are brought out below:

- a. In Chennai charge, no current audit objections were settled during 2010-14.

- b. In Bengaluru charge, 163 cases pertaining to AYs 1995-96, 1996-97 and from AYs 1998-99 to 2007-08 were still pending.
- c. In CIT (Audit)-I Delhi charge, 42 major and 135 minor audit objection arrear cases were pending. Even first replies were pending in 182 Major and 482 minor cases.
- d. In CIT (Audit) Bhopal charge, no information on receipt of replies to the pending internal audit objections, status on pendency, time barred cases, findings acted upon, rectification as on 31 March 2014 was made available.

As per Action Plan 2014-15 issued by CBDT, the target for settlement of pendency of Internal Audit Objection as on 1 April 2014 was up to 30 September 2014. However, as per data given by DIT (Audit) as on 30 September 2014, 6,721 major audit objections and 12,028 minor audit objections were pending for settlement despite of the assurance given by the ITD to the PAC and recommendations of PAC for expeditious settlement.

DIT (Audit) may find out the reasons for delays in settlement and address them expeditiously to clear the outstanding objections.

**There were significant shortages in deployment of IAPs for Internal Audit and staff deployed under Addl.CIT, SAPs and IAPs in different charges during 2010-11 to 2013-14.**

#### **4.10 Manpower Deployment in Internal Audit**

As per para 1.3 of the Audit Manual, the Internal Audit structure is headed by a CIT (Audit) in each CCIT (CCA) charge. There is an Additional CIT under each CIT (Audit) who is *inter alia* responsible for supervision of the Internal Audit Parties (IAPs) and Special Audit Parties (SAPs). Additional CIT is assisted by one ITO with two Income Tax Inspectors (ITIs) and two Sr.Tax Assistants (Sr. TAs)/TAs besides one IAP (HQ). The SAPs are headed by a DCIT/ACIT and will comprise two ITIs and one Sr.TA /TA. Besides, there is one IAP for each administrative CIT stationed at headquarter of that CIT. The IAPs are headed by ITOs and will comprise two ITIs and one Sr.TA /TA. The deployment of Officers and Staff for the IAPs will be made from existing strength of the concerned CIT with administrative control of CIT (Audit). The pan-India status of deployment of parties for Internal Audit during FYs 2010-11 to 2013-14 is indicated in Table 4.6 below.

**Table 4.6: All India status of deployment of Addl.CIT, SAPs and IAPs for Internal Audit of ITD**

Year	Addl. CIT/JCIT		Special Audit Parties		Internal Audit Parties	
	Sanctioned Strength	Working Strength	Sanctioned Strength	Working Strength	Sanctioned Strength	Working Strength
2010-11	22	18	22	21	272	196
2011-12	22	19	22	21	272	219
2012-13	22	19	22	20	272	204
2013-14	22	20	22	20.5	272	195
<b>Total</b>	<b>88</b>	<b>76</b>	<b>88</b>	<b>82.5</b>	<b>1,088</b>	<b>814</b>

Source: Inputs from Directorate of Income Tax (Audit), New Delhi

During 2013-14, there were shortages in the deployment of Addl. CsIT, SAPs and IAPs to the extent of 13.63 per cent, 6.25 per cent and 28.31 per cent respectively. The DIT (Audit) monitors the status of deployment of Addl. CsIT, SAPs and IAPs under the respective CIT (Audit) charges, which is reported on quarterly basis to all the Pr. CCsIT/CCsIT and CsIT (Audit). CIT (Audit) wise details are given in Appendix 5.

We found that the details of staff positioned under Addl. CsIT, SAPs and IAPs are not depicted in the quarterly reports. Although, there is shortage of manpower in all cadres of ITD as per replies of field formations of ITD, it could not be ascertained whether centralised monitoring of staff positioned under Addl.CIT, SAPs and IAPs is being undertaken.

We noticed shortages in staff deployed under IAPs in Andhra Pradesh, Odisha, Maharashtra, Punjab and UT Chandigarh, Gujarat, Karnataka, Uttar Pradesh and Uttarakhand and West Bengal regions during 2010-11 to 2013-14.

*The Ministry stated (June 2015) that the CBDT is actively examining shortage of manpower particularly after increase in number of assessment charges.*

**The Officers engaged in Internal Audit of ITD were not being posted for a period of two years as prescribed in the Manual and were frequently transferred within a year.**

#### **4.11 Frequent transfers of Officers and Staff engaged in Internal Audit**

As per para 1.5(ii)(b) of the Audit Manual, 2011, Officers /Staff should be continuously in audit for a tenure of two years. Tenure allowed to Staff posted in the Internal Audit Wing also affects the performance of the Wing. We found there were frequent transfers of Internal Audit personnel in Andhra Pradesh & Telangana, Rajasthan, Kerala, Uttar Pradesh & Uttarakhand and West Bengal regions. ITD has not complied with provisions

of the Manual at the time of posting/ transfer of personnel which adversely affected the working of Internal Audit wing.

*The Ministry stated (June 2015) that several charges were held as additional charges due to shortage of manpower.*

**Specialized training was not provided to Officers and Staff engaged in Internal Audit as per instructions issued by CBDT. Although instructions are issued by DIT (Audit) on quarterly basis efforts made for disseminating training is not being centrally monitored.**

#### **4.12 Training of personnel engaged in Internal Audit**

As per Para 1.5 of the Audit Manual, 2011 and CBDT's instructions issued in 2007 and 2013 on Internal Audit the CCIT(CCA) has to ensure appropriate training to Officers and Staff posted in the Internal Audit wing every year after the Annual General Transfer in coordination with National Academy of Direct Taxes, Nagpur and Regional Training Institutes and Ministerial Staff Training Units. In Karnataka, Madhya Pradesh, Tamil Nadu, Maharashtra, Delhi and West Bengal charges, no specialized training was given.

Audit of the assessment cases completed under scrutiny requires thorough functional knowledge of rules and regulations and judicial pronouncements and warrants continuous updating of the knowledge. The efforts made to train the internal audit personnel were either minimal or lacking.

*The Ministry stated (June 2015) that DTRTIs and Ministerial Staff Training Units are conducting specialized training and DTRTI Kolkata held training programme in last financial year. It was also stated that Central Action Plan of 2015-16 laid down norm for conducting one training per quarter by Pr. CCIT/CCIT.*

**The practice of circulating common or repeated errors on half-yearly basis is not in place as prescribed by the CBDT.**

#### **4.13 Circulation of common or repeated errors**

As per Para No. 2.2 (iii) of CBDT Instruction Number 15 of 2013 the CCIT/DGIT shall strategize to use the input in half yearly report submitted by CIT Audit to the CCIT/DGIT in respect of repeated/common errors noticed in the audit in the preceding two quarters to educate and alert the AOs so that such mistakes do not recur. Hence the quality audit objections, as and when raised needs to be circulated among the Internal Audit Parties under the different administrative CIT to prevent their future occurrence.

In West Bengal charge list of common errors were not circulated. In Delhi charge, the common mistakes noticed were being circulated amongst the CCIT for guidance of officers to prevent future occurrence. In Assam charge, the practice of circulating errors was being followed post October 2013.

Therefore, ITD should make an effort to circulate list of repeated/common errors noticed in Internal Audit to educate and alert the AOs so that such mistakes do not recur.

**Although the operations and processes of ITD are automated, Information Technology tools are not being utilized for extraction of information related to auditable cases and monitoring of Internal Audit.**

#### **4.14 Use of Information Technology tools in Internal Audit Process**

The operations and processes of ITD viz. processing of returns, generation of refunds, selection of scrutiny cases using by Computer Assisted Audit Techniques (CAATs) are automated.

During the course of Audit, we found that the Internal Audit Wing of the ITD was not utilizing any IT tools /application in the planning process and for effective monitoring and control of information related to internal audit objections in Assam, Bihar, Delhi, Jharkhand, Karnataka, Tamil Nadu, Uttar Pradesh & Uttarakhand and West Bengal charges.

In Chapter 2, we commented on gaps in the planning and programming of Internal Audit on account of non-furnishing of information by administrative CsIT to CsIT (Audit) thereby hampering the effectiveness of Internal Audit. ITD uses many IT Applications to assist the AOs in the assessment process. On completion of assessment in IT environment, the information pertaining to assessment cases are already captured in IT system. It can be made available to CsIT (Audit) online instead of awaiting information from respective AOs through administrative CsIT. This will equip CsIT (Audit) in effectively planning and programming the Internal Audit.

CBDT issued AST Instruction Number 132 in November 2014 which provided a functionality to the CIT(CO) in the ITD application to generate MIS of auditable cases (under Section 143(3), 144, and 147 of the Act) from the system. CIT (CO) will be able to generate MIS Report of auditable cases falling under their Region and send such list to CIT (Audit). Further, *ITO (HQ), Hyderabad charge stated (March 2015) that facility in AST has been introduced to generate the list of auditable cases and same is being utilised to obtain list of top 100 cases.*

Audit is of the view that MIS reports on auditable cases should be made directly accessible to DIT (Audit) and CsIT (Audit) to enable planning and selection of cases for audit, maintenance of data related to Internal Audit and monitoring on centralised basis at CBDT level.

*The Ministry stated (June 2015) that the new functionality to ITD module to generate auditable cases has been made available recently. It was further stated that the Income Tax Business Application (ITBA) software module of the ITD would address the issues related to Internal Audit and would enable generation of MIS Reports as well as monitoring of Internal Audit.*

**Ledger Cards and Compliance Cards are not being maintained in CsIT (Audit) charges as prescribed by Audit Manual, 2011.**

#### **4.15 Maintenance of Ledger Cards and Compliance Cards**

Para 6.2 (Chapter 6) of Audit Manual, 2011 envisages that the Ledger Cards, for Internal Audit and Receipt Audit Objections where audit objections are accepted and tax effect is more than ₹ 1 lakh upto 14 November 2013 and ₹ 2 lakh from 15 November 2013, is essential to be maintained for each Assessing Officer regarding mistakes accepted by the ITD. As per Para 5.9 of the Audit Manual, 2011, Compliance Cards are required to be maintained as ready visual record of cases to watch if remedial action is pending to enforce accountability. The entries of the card shall enable the CIT (Audit) to watch the frequency of mistakes and to ensure whether the AOs work is improving. This card will be kept in view while countersigning the Annual Performance Report of the Officers concerned.

We noticed that 18 CsIT (Audit) charges in Andhra Pradesh and Telangana, Bihar & Jharkhand, Delhi, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab & UT Chandigarh, Uttar Pradesh & Uttarakhand and West Bengal regions had not maintained the ledger cards relating to the internal audit objections in the prescribed format for each AO, recording mistakes accepted by the Department, watching remedial action taken and to give his view while countersigning the Annual Report of the officer concerned. Compliance Cards were not maintained in Andhra Pradesh & Telangana, Delhi, Odisha and West Bengal regions.

In absence of Ledger cards, the accountability system to monitor the performance of AO was not in place. Monitoring of the high money value audit objections was not in place. Thus there was control risk of non-initiation of remedial measure in respect of high value internal audit objections. Due to non-maintenance of compliance cards, the monitoring of progress of remedial action could not be achieved.



*The Ministry stated (June 2015) that this area of work is being monitored by including it as a key result area in CBDT's Central Action Plan for the first quarter of the FY 2015-16.*

#### **4.16 Conclusion**

The annual target of audit of minimum number of cases, as prescribed by the CBDT, was not met by Addl. CsIT (Audit), SAPs and IAPs in certain jurisdictions during 2010-11 to 2013-14. Although the Central Action Plan of CBDT sets target at 100 *per cent* for settlement of pending audit objections within a timeframe of four months, the Internal Audit objections pertaining to earlier years were still pending. There were significant shortages in deployment of IAPs for Internal Audit and staff deployed under Addl.CIT, SAPs and IAPs in different charges during 2010-11 to 2013-14. The Officers engaged in Internal Audit of ITD were not being posted for a period of two years as prescribed in the Manual and were frequently transferred within a year. No efforts were made to organize specialized training for Officers and staff engaged in Internal Audit. Information technology tools are not being utilized for extraction of information related to auditable cases and monitoring of Internal Audit.

#### **4.17 Recommendations**

We recommend that

- a. CBDT may consider monitoring actual deployment of human resources positioned under Addl. CIT, SAPs and IAPs in order to determine the overall shortages and effective utilisation of available manpower.

*The Ministry stated (June 2015) that the issue of additional manpower for internal audit is under consideration of CBDT.*

- b. CBDT may consider finding out the reasons for delay in settlement of audit objections and where necessary instruct the AOs to expedite the measures for settlement of audit objection.

*The Ministry stated (June 2015) that delay in settlement is due to lack of requisite manpower both in internal audit division and assessment charges.*

- c. CBDT may consider utilising the Information Technology to aid functioning of the CsIT (Audit) and DIT (Audit) for effective planning, programming, monitoring and control of Internal Audit.

*The Ministry stated (June 2015) that the functionality to the ITD module has been rolled out. Initiatives have already been taken by the DGIT(Systems) in November 2014 to use information technology in the internal audit mechanism followed in the ITD. A functionality has been provided to respective CsIT (CO) across the country to generate MIS of auditable cases (under sections 143(3), 144 and 147) for dissemination to the respective CIT (Audit) / DIT(Audit). Further efforts are being made to fully integrate the internal audit mechanism from the stage of effective planning and programming to monitoring and control into the new forthcoming ITBA project which is slated to be rolled out shortly.*

## Chapter V: Internal Audit by Pr. CCA, CBDT

### 5.1 Introduction

The Principal Chief Controller of Accounts (Pr. CCA) heads the accounting organization of the CBDT with Revenue Secretary as the Chief Accounting Authority. The Pr. CCA administers the accounting functions and Internal Audit of accounts formations under CBDT.

At the field level, there are 52 Zonal Accounts Offices (ZAOs) under the jurisdiction of Pr. CCA, CBDT. However, on account of Restructuring of Accounts Wing of CBDT, 28 new ZAOs and 4 e-PAOs have been created. IAPs in respect of newly created ZAOs are yet to be formed.

The Manual of Internal inspection of CBDT (Manual) issued by the Pr. CCA, New Delhi guides the functions of Internal Audit Party.

We examined the issues of audit planning, reporting and follow up mechanism of audit paras raised by Internal Audit during FYs 2010-11 to 2013-14 to ascertain the efficiency and effectiveness of Internal Audit function of the Office of Pr. CCA, CBDT.

### 5.2 Audit Scope and Coverage

All Offices of CBDT, Authorized Banks for collection of CBDT revenue fall within the jurisdiction of Internal Audit. Internal Audit checks initial accounts maintained in the executive offices to ascertain compliance to the rules and regulations, systems and procedures in accounting and financial matters. In addition to the Chief Controller of Accounts (Internal Audit) at New Delhi, there are Internal Audit parties (IAPs) with their headquarters located at various ZAOs, as per details given in Table 5.1. The IAPs function under the overall guidance of Pr.CCA who is assisted by CCA/CA/DCA/ACAs at Delhi, Mumbai, Kolkata, Chennai and Kanpur.

**Table 5.1: List of Internal Audit Parties**

CA/DCA/ACA	IAP	ZAOs to be Audited by IAP
CA Mumbai	Mumbai, Ahmedabad, Bhopal & Jaipur (4 IAPs)	ZAO-Chennai, Cochin, Kanpur, Agra, Rohtak, Jalandhar & Meerut
DCA/ACA Delhi (HQ)	IAP-I & II, Delhi, and Patiala (3 IAPs)	ZAO-Patna, Shillong, Bengaluru, Lucknow & Ahmedabad
DCA Kanpur	IAP-Allahabad & IAP-Patna (2 IAPs)	ZAO-Patiala & Amritsar

DCA Kolkata	IAP-I & II Kolkata, (2 IAPs); The work of IAP Patna will be routed through AO(IA) Allahabad with overall administrative control with DCA Kolkata	ZAO-Hyderabad, Allahabad, Bhopal & Mumbai
DCA Chennai	IAP- Chennai & Hyderabad (2 IAPs)	ZAO-Bhubaneswar, Kolkata, Nagpur, New Delhi, Jaipur & Pune

*Source: Manual of Internal Inspection, CBDT*

The auditable units are classified as annual, biennial and triennial based on periodicity of audit. All ZAOs, Nodal Banks, DDOs of Pr.CCIT/CCIT at Mumbai, Kolkata, Chennai, Delhi; Drawing and Disbursing Officers (DDOs) of CIT Offices, other HoDs and CIT Field Pay Units at New Delhi, Mumbai, Kolkata, Chennai, Ahmedabad and Hyderabad are annual units and are thus required to be audited every year. CBDT/CIT Field Pay Units in other cities are biennial. DDOs of Pr.CCA/CCA of non-metro cities are triennial.

We found that the ZAO units of Chennai, Durgapur, Jalpaiguri, Mumbai, Trivandrum and New Delhi had not been audited during FYs 2010-11 to 2013-14 by Internal Audit Party till date of Performance audit. There is no Internal Audit wing stationed at ZAO-Durgapur and Jalpaiguri and the units have not been audited by any other IAP.

In Haryana and Punjab & UT Chandigarh charge, 3 ZAOs (Ludhiana, Chandigarh and Panchkula) were created in 2012. However, these ZAOs have not been audited by IAPs.

It is not clear to audit whether Manual of Internal Inspection was updated to indicate new audit jurisdiction. In absence of any updation, there is a risk of newly created units remaining unaudited.

**We noticed that the IAPs did not conduct audit of all functional divisions viz. Audit of RTI, Systems Audit, e-payment Audit, Refund Audit etc. as per the scope outlined by the Board.**

### **5.3 Audit coverage of functional divisions as per scope outlined by Board**

As per Para 2.2 of the Manual of Internal Inspection of CBDT, the scope of Internal Audit by Pr. CCA extends to inspection of accounting records maintained in the Office of the Pr. CCA, ZAOs, Field Pay Units, Drawing and Disbursing Offices and Receipt Accounting Units in the ITD- banks authorized for collection of direct taxes, Personal Deposit Accounts (maintained at CITs office), Regional Training Institutes of ITD (RTI), System Audit of ITD,

e-payment of ITD, refund audit. Following shortfalls were noticed in audit coverage of functional units auditable by Internal Audit of Pr. CCA, CBDT:

- a. We noticed that the Internal Audit Wing of Office of Pr. CCA, New Delhi did not conduct the Internal Audit of RTI, Systems Audit, e-payment Audit and Refund Audit.
- b. In Maharashtra charge, the IAPs assigned with Internal Audit of ZAOs at Mumbai, Nagpur, Pune, Thane and Nasik did not conduct Systems Audit and e-payment audit during FYs 2010-11 to 2013-14. *The Sr.AO, ITA (Co-ordination), Mumbai stated (November 2014) that the ZAOs at Thane and Nasik were newly formed in 2012 and audit of all units under the ZAOs at Nagpur, Pune, Thane and Nasik could not be conducted due to shortage of staff. It was further stated that the RTI audit and Systems Audit has already been completed by ZAO Mumbai for FY 2014-15.*
- c. In ZAO, CBDT, Chennai charge, the IAP had not conducted the Systems Audit and Audit of e-payment.
- d. In ZAO, CBDT, Jaipur charge, the IAP had conducted audit of only the DDOs. In Gujarat charge IAP had conducted audits of DDOs and Personal Deposit Accounts during FYs 2010-14.
- e. In Hyderabad charge, ZAOs, Ministerial Staff Training Unit in Hyderabad, system audit of ITD, e-payment of ITD, Receipt Accounting units in ITD, Tax Information Network, complaints, grievances of assesseees were not taken up for internal audit during FYs 2010-11 to 2013-14.

We noticed that the Annual Review on the Performance of Internal Audit brought out every Financial Year does not indicate the extent of coverage of functional units viz. audit of ZAOs, FPU, DDOs, Receipt Accounting Units in ITD, Personal Deposit Accounts etc.

*Pr. CCA (CBDT) stated (June 2015) that audit of functional units are conducted as per administrative convenience and audit of RTI and System audit has been started. Refund audit was not undertaken due to shortage of staff and audit procedure and techniques of audit of E-Payments are to be implemented.*

The IAP did not audit all the units assigned thereby resulting in shortfall ranging from 10 units to 774 units during the period comprising FYs 2010-11 to 2013-14.

#### 5.4 Audit coverage of units planned by Internal Audit

The auditable units are classified as annual, biennial and triennial depending on the periodicity of audit. As per the existing practice units are planned for Internal Audit every year. As per Annual Review of Performance of Internal Audit of Pr. CCA, CBDT, during FYs 2010-11 to 2013-14, out of 4,921 units to be audited, only 1,213 units (24.65 per cent) were audited leaving 3,708 units (75.35 per cent) unaudited, as shown in Table 5.4 of this Chapter.

In order to investigate the reason for shortfall in coverage of units due for internal audit at field level, we ascertained the following:

**Table: 5.2: Shortfall in coverage of units for audit**

Region	Units due for audit	Units audited	Shortfall	Reasons for shortfall
1. Andhra Pradesh & Telangana	369	130	239	Shortage of funds and deviation in programme
2. Gujarat	157	147	10	Not given
3. Karnataka	97	22	75	Shortage of manpower
4. Kerala	76	13	63	Not given
5. Maharashtra	861	87	774	No separate staff sanctioned for Internal Audit
6. Odisha	236	60	176	No staff sanctioned in the cadre of AAOs and Accountants
7. Rajasthan	92	68	24	Not given
8. Tamil Nadu	381	244	137	Shortage of manpower
9. West Bengal	243	100	143	No Reply
<b>Total</b>	<b>2,512</b>	<b>871</b>	<b>1,641</b>	

Source: Inputs from field formations of Pr. CCA, CBDT

Pr. CCA (CBDT) stated (June 2015) that the shortfall occurred due to acute shortage of staff.

**There were instances of delays in issuance of Inspection Reports and delays in receipt of replies after issue of Inspection Reports.**

### **5.5 Issue and follow up of Inspection Reports**

After completion of an inspection, the Internal Audit parties issue an Inspection Report. A progress register is maintained to watch the compliance of Inspection Reports (IRs). First reply to the IRs should be received within one month from the date of issue of the report. The first reminder for reply to an IR should be issued after six weeks from the date of issue of report, and a second reminder, if necessary, sent a month later. Subsequently reminders should be sent by demi-official letters at appropriate level. Normally the report should be settled within 6 months of its issue as per Para 4.16 of the Manual of Internal Inspection of CBDT.

We noticed that above procedure was not followed in Andhra Pradesh and Telangana, Delhi, Karnataka and Kerala charges. IRs were issued after delays, replies to inspection reports were not received within 6 months, reminders were not issued and absence of follow up of inspection reports resulted in pendency of paras.

- a. In Karnataka charge, IAP audited 22 units and 22 IRs with 172 paras were drawn up during November 2013 to February 2014. Out of these, the IAP did not receive approval for issue of 4 IRs sent to Delhi. Further, the IAP neither received any reply to IRs nor took any follow up action.
- b. In Hyderabad charge, there was a delay of 126 to 495 days in issue of the IRs of three banks and there was no evidence of IRs issued for 6 banks. Further, the expenditure IRs were issued between periods ranging from 58 days to 286 days in respect of expenditure units and DDO offices. We also found that during FYs 2010-11 to 2013-14, the IRs sent to DCA (Chennai) for vetting were either not received back immediately or received later. The IAP did not issue any reminders on account of non-receipt of replies to IRs.
- c. In Delhi charge, the IAP did not take any follow up action in two IRs of banks properly, resulting in pendency.

- d. In Kerala charge, there was a delay ranging from 5 to 17 months in issue of Inspection Reports and more than 50 months in issue and settlement of reports respectively. It was replied that due to shortage of staff audit could not be conducted at a stretch and various stages of the report were not done in time.

*Pr. CCA (CBDT) stated (June 2015) that Inspection Reports are now being sent on time but the compliance is not being forwarded by auditee units.*

**No significant efforts were made for settlement of paras as the rate of settlement of paras was very low. Minor objections were not settled on the spot as directed in the Manual thereby resulting in piling up of objections.**

## 5.6 Settlement of Internal Audit Paras

A total of 5,303 Internal Audit paras were raised and 2,222 paras were settled during FYs 2012-13 to 2013-14. As on 31 March 2014, there were 13,184 pending for settlement as detailed in Table 5.6 of this Chapter. As such, the rate of settlement was very low. The year wise breakup of the pendency of these paras was also not available with the Internal Audit Wing. Some illustrations of pendency of paras are as given in Table 5.3 below:

**Table 5.3 Pendency of Paras**

SI No	Region	Pending paras
1	Andhra Pradesh & Telangana	1,412
2	Delhi	772
3	Gujarat	1,255
4	Kerala	360
5	Maharashtra	2,067
6	Rajasthan	652
7	Tamil Nadu	1,073
	<b>Total</b>	<b>7,591</b>

*Source: Inputs from field formations of Principal Chief Controller of Accounts, CBDT*

*The Sr.AO, Internal Audit (Co-ordination) Mumbai charge stated (January 2015) that all ZAOs are making efforts to settle outstanding paras by conducting special drives and sending periodical reminders to the auditee units for settlement of paras. It is proposed to set up a Compliance Cell for settling the outstanding paras on priority basis.*

According to Para 4.7 of the Manual of Internal Inspection of CBDT, minor objections should get settled on the spot by getting replies from the Heads of the Offices audited.



In ZAO, CBDT, Chennai charge, we observed that the minor objections were settled only during subsequent audits and not on the spot. *The Sr.AO (IAP), ZAO CBDT Chennai replied (December 2014) that the Internal Audit had raised the objections which are to be seen in the next audit only and which could not be settled on the spot. Department's reply is not acceptable as no reply was obtained from the auditee units for minor objections.*

*Pr. CCA (CBDT) stated (June 2015) that the reasons for delay in settlement of audit paras are due to acute shortage of staff and trained manpower. It was further stated that the ZAOs and IAPs are being reminded to take early follow up action on audit reports and outstanding paras.*

**The Control registers are either not being maintained or not maintained in prescribed format for monitoring the progress and settlement of Internal Audit objections.**

### 5.7 Maintenance of Control Registers

As per Para 2.5 of the Manual of Internal Inspection of CBDT, Internal Test audit section at Headquarters shall maintain Control Registers, Progress Registers of Internal Inspection Reports, Register showing important irregularities noticed during internal inspections, Register for watching the inspection reports sent by field parties and Register to watch the progress of issued reports. We observed that these registers were either not maintained or not maintained in prescribed format in Andhra Pradesh & Telangana, Gujarat, Karnataka, Kerala, Rajasthan and Tamil Nadu charges.

*Pr. CCA (CBDT) stated (June 2015) that Controls Registers will be maintained in the prescribed format.*

**Training programmes were not held to enhance the skills of the Internal Audit staff.**

### 5.8 Training and Development of Internal Audit Staff

As per para 2.1 of Manual of Internal Inspection of CBDT, the inspection work should be entrusted to trained and competent staff who should be able to examine accounts intelligently. Thus, special attention is necessary in selecting and providing training to staff deputed for inspection work.

We observed that during FYs 2010-11 to 2013-14, no training programmes were organized for Internal Audit staff in Andhra Pradesh & Telangana, Gujarat, Karnataka, Rajasthan and West Bengal charges. The Officers of ZAO, Mumbai were trained in areas of Report Writing, Risk Based Internal Audit and Internal Audit during FYs 2011-12 and 2013-14.

*Pr. CCA (CBDT) while agreeing that no training was provided during the years 2013-14 and 2014-15, stated (June 2015) that efforts are being made to provide proper training to IAP staff.*

**There is acute shortage of manpower deployed for Internal Audit which hindered the functioning of Internal Audit.**

### **5.9 Manpower deployed for Internal Audit**

In Karnataka charge, out of the sanctioned strength of 3 personnel, the IAP was working with one person. In Gujarat charge, there was shortage of one Sr. Accounts Officer during FYs 2010-11 and 2011-12 and one Accountant during FYs 2012-13 and 2013-14. In Odisha only one AO was available for Internal Audit. In Maharashtra charge, no separate staff is sanctioned for Internal Audit work. During FY 2013-14, only three posts of Senior Accountants were sanctioned for Internal Audit work of ZAO Mumbai office. No posts for Sr.AO and AAO were sanctioned.

In Delhi charge there is no specific sanctioned strength in respect of ITA (HQ), however, working strength of ITA HQ) section comprises of 4 Sr. Accounts Officer/ Accounts Officer, 8 Asstt. Accounts Officers, 5 Sr. Accountants/ Accountants, 1 LDC and 1 MTS.

**As per the Annual Review of Pr. CCA, CBDT, there was shortfall of 75.35 per cent in audit coverage during FYs 2010-11 to 2013-14 owing to acute shortage of manpower.**

### **5.10 Performance of Internal Audit wing of Pr. CCA, CBDT**

The performance of Internal Audit is reported as Annual Review of Performance of Internal Audit for every financial year by the Pr. CCA, CBDT. We found that the zone-wise details of audit coverage of units planned for Internal Audit, audit objections raised and settled etc. are not reported in the Annual Review.

We observed that during FYs 2010-11 to 2013-14, out of 4,921 units to be audited, only 1,213 units (24.65 per cent) were audited leaving 3,708 units (75.35 per cent) unaudited. The year-wise status of shortfalls in coverage of units planned for audit is detailed in Table 5.4 given below:

**Table 5.4: Targets and Achievement of units audited by Internal Audit of Pr. CCA, CBDT**

Year	Units planned for Audit	Units audited	Arrears/ Shortfall
2010-11	907	357	550
2011-12	1,507	190	1,317
2012-13	1,889	287	1,602
2013-14	618	379	239
<b>Total</b>	<b>4,921</b>	<b>1,213</b>	<b>3,708</b>

Source: Internal Audit Wing (HQ), Principal Chief Controller of Accounts, CBDT

The reasons cited for shortfall in audit coverage of units was acute shortage of manpower. Although the number of administrative units has increased consequent to restructuring of ITD, the number of IAPs and associated work strength has reduced. In order to clear the arrears the Pr. CCA, CBDT directed 52 ZAOs to form a party on rotational basis for Internal Audit of all the DDOs/Banks/Personal Deposit Accounts under their jurisdiction.

The manpower position of Internal Audit Wing as on 31 March 2014 is given in Table 5.5 below:

**Table 5.5: Manpower Position of ITA wing, Pr. CCA, CBDT**

Cadre	Sanctioned Strength	Working Strength
Group A	Nil	Nil
Group B	31	31
Group C	36	24
<b>Total</b>	<b>67</b>	<b>55</b>

Source: Internal Audit Wing (HQ), Principal Chief Controller of Accounts, CBDT

As on 01 April 2012, the opening balance of Internal Audit paras was 7,772. A total of 5,303 Internal Audit paras were raised and 2,222 paras were settled during FYs 2012-13 to 2013-14. As on 31 March 2014, there were 13,184 pending for settlement as shown in Table 5.6 below. During FYs 2012-13 and 2013-14, only 902 paras and 1,320 paras respectively were settled.

**Table 5.6: Details of paras raised and settled by Internal Audit Wing of Pr. CCA, CBDT**

Financial Year	Paras at the beginning of the year	Paras settled	Paras raised	Paras outstanding
2012-13	7,772	902	2,032	8,902
2013-14	11,233 <sup>10</sup>	1,320	3,271	13,184
<b>Total</b>		<b>2,222</b>	<b>5,303</b>	

Source: Internal Audit Wing (HQ), Principal Chief Controller of Accounts, CBDT

The information on status of Internal Audit paras for the FYs 2010-11 and 2011-12 is not available. We found that although the targets and achievement of auditable units and results of Internal Audit is monitored and reported in Annual Review of Performance of Internal Audit by Pr. CCA, CBDT for every Financial Year, the region-wise/ zone-wise details of audit coverage, audit objections raised and settled are not reported.

*Pr. CCA (CBDT) stated (June 2015) that shortfall in achievement of targets of audit coverage occurred due to acute shortage of manpower.*

### 5.11 Conclusion

We noticed that the IAPs of Pr. CCA, CBDT did not conduct audit of RTI, Systems Audit, e-payment Audit and Refund Audit as per the scope outlined by the CBDT. The shortfalls in audit coverage ranged from 10 to 774 units during FYs 2010-11 to 2013-14 on account of acute shortage of manpower. We noticed instances of delays in issue of IRs and in receipt of replies post issue of IRs. The rate of settlement of paras was very low. We found that the region-wise/ zone-wise details of audit coverage, audit objections raised and settled are not reported in Annual Review of Performance of Internal Audit by Pr. CCA, CBDT for every financial year.

### 5.12 Recommendations

We recommend that

- a. Pr. CCA (CBDT) may consider monitoring the coverage of functional units falling within the scope of Internal Audit on a centralized basis and reporting the results of the same in Annual Review of Performance of Internal Audit.

<sup>10</sup> The difference in opening balance in 2013-14 and closing balance of 2012-13 is due to increase in number of ZAOs from 24 to 52.

- b. Pr. CCA (CBDT) may report zone-wise results of Internal Audit under Pr. CCA in its Annual Review of Performance of Internal Audit (viz. audit coverage of units planned, details of audit objections raised and settled) published every financial year.

*On above recommendations, the Ministry stated (June 2015) that Annual Review is prepared in the prescribed format issued by the Office of Controller General of Accounts.*

Audit is of the view that for better appreciation of work of Internal Audit, Pr. CCA (CBDT) should consider centralised monitoring of audit of functional units and reporting zone-wise results in the Annual Review of Performance of Internal Audit.

New Delhi  
Dated: 20 July 2015



(MANISH KUMAR)  
Principal Director (Direct Taxes)

Countersigned



New Delhi  
Dated: 20 July 2015

(SHASHI KANT SHARMA)  
Comptroller and Auditor General of India

## Abbreviation

---

ACA	Assistant Controller of Accounts
AO	Assessing Officer
AST	Assessment Information Systems
CA	Controller of Accounts
CAP	Central Action Plan
CBDT	Central Board of Direct Taxes
CCA	Chief Controller of Accounts
CCIT	Chief Commissioner of Income Tax
CIT	Commissioners of Income Tax
CIT (Audit)	Commissioner of Income Tax (Internal Audit)
CCIT (CCA)	Chief Commissioner of Income Tax (Cadre Controlling Authority)
CIT (CO)	Commissioner of Income Tax (Computer Operations)
CGA	Controller General of Accounts
C&AG	Comptroller and Auditor General of India
DCA	Deputy Controller of Accounts
DGIT	Director General of Income Tax
DIT (Audit)	Director of Income Tax (Audit)
e-TDS	Electronic Tax Deducted at Source
FY	Financial Year
IAP	Internal Audit Party
IAR	Internal Audit Report
ITBA	Income Tax Business Application
ITD	Income Tax Department
ITO	Income Tax Officer
MIS	Management Information System
PAC	Public Accounts Committee
Pr. CCA	Principal Chief Controller of Accounts
Pr. CCIT	Principal Chief Commissioner of Income Tax
Pr.CIT	Principal Commissioner of Income Tax
SAP	Special Audit Party
ZAO	Zonal Accounts Office

---

© COMPTROLLER AND  
AUDITOR GENERAL OF INDIA  
[www.cag.gov.in](http://www.cag.gov.in)