

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 Metros² 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	✓	✓	✓	✓

² 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) charges³ 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

³ 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) charges⁴ 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

⁴ 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) charges⁵ 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) charges⁶ 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
Total		7,00,398	5,73,457	

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
Total		4,659	3,025	1,634

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 nine⁷ CsIT⁸ 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 assesseees 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/dropped 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
Total	1,847	127	6.88

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.