

## 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.*