

Foreword

It gives me immense pleasure to present this new integrated Central Excise and Service Tax Audit Manual (CESTAM, 2015), which has been approved by Board.

2. As you are aware, the existing Central Excise Audit Manual and Service Tax Audit Manual were last updated in 2008 and 2011 respectively. Over the years the Central Excise and Service Tax statutes have undergone many changes and there have been regular feedback from field formation on the shortcomings in the existing audit manuals. Meanwhile, with the implementation of cadre-restructuring in October 2014, Audit Commissionerates have started functioning with powers to conduct integrated audits. Both Central Excise and Service Tax audit manuals are based on EA 2000 audit methodology. Overall principles in these manuals are exactly same, the distinction between the two being the verification steps for compliance verification of each statute.
3. After the Audit Commissionerates started functioning, this Directorate General undertook the task of bringing out a new integrated Audit Manual in order to meet the challenges of audit in the changed scenario. Feedback on the proposed manual was sought from the field formations. During discussions / interaction, a consensus emerged that, since the department was conducting integrated audits, two separate manuals will defeat the concept of such integrated audits. Therefore, it was decided that both the Central Excise and Service Tax Manuals should be merged together and for the purpose of separate statute-wise compliance verification, separate set of Annexures should be provided respectively for Central Excise and Service Tax.

4. Suggestions received from field formations and Zonal units were deliberated upon and have been considered and taken into account. Some of the highlights of CESTAM, 2015 are as under:-

- i. Formation of Audit Commissionerates and Cadre Restructuring has brought new designations and roles of officers. Hence necessary changes have been carried out with regard to the designations like Principal Chief Commissioner and Principal Commissioner. (Circular No. 985/09/2014-CX in F. No. 206/03/2014-CX.6 dated 22/09/2014) and the new roles and responsibilities of the officers of Executive Commissionerate and Audit Commissionerate. These have been suitably incorporated.
- ii. The norms for selection of units for conducting audit were revised (vide Circular No. 995/2/ 2015-CX dated 27/02/2015) effecting a paradigm shift in the existing criterion for selection of units based on amount of duty paid. The new norms include, selection of units based on risk parameters, days for audits and formation of audit parties. These have been incorporated in this manual.
- iii. The audit process beginning from the Assessee Master File, desk review, revenue risk analysis, trend analysis, gathering of information, evaluation of internal controls, scrutiny of annual financial statement, audit plan, audit verification, working papers, apprising the assessee about irregularities noticed and ending with suggestions for future compliance have been streamlined and brought under one chapter. The repetitions in the earlier manuals have been removed.
- iv. Separate Annexures have been prepared containing detailed verification checks for Central Excise and Service Tax. The annexures have been developed in consultation with field formations and also include capturing the results of Desk Review. The annexures containing lengthy information to be filled in by assessees have been discontinued.
- v. Reports/Registers required to be maintained by the Audit Commissionerates have been prescribed in Part - III.

5. As you are aware, the Department is at the threshold of implementing the most revolutionary reform in the history of taxation since independence i.e. GST. In the current regime of self-assessment of taxable value by the assessees and increased reliance on the taxpayers, the importance of audit can hardly be over emphasized.

6. It is, therefore, all the more important and necessary that a robust audit mechanism is put in place by the Department and the officers deployed to conduct audit are well trained. The introduction of CESTAM, 2015 is, therefore, a tiny but significant steps in this direction.

7. Due care has been taken in drafting of CESTAM, 2015 and suggestions and feedbacks received from field formations, Zonal Units of this Directorate General and C & AG were extensively deliberated and suitably incorporated. However, the possibility of minor inaccuracies and errors creeping in the Manual cannot be ruled out, especially in view of the fact that a very small team of officers in the Headquarters and Hyderabad zonal unit of this Directorate General under the stewardship of Shri L. Satya Srinivas, then Additional Director General was entrusted with this humungous task. Your pro-active participation, valuable feedback and constructive criticism will, therefore, go a long way in enabling us to undertake improvements wherever required. I earnestly request you for the same as also your continued and whole-hearted support in our endeavour.

(MAHENDER SINGH)
Director General

New Delhi
October 2015

CENTRAL BOARD OF EXCISE AND CUSTOMS

CENTRAL EXCISE AND
SERVICE TAX AUDIT
MANUAL 2015

CESTAM-2015

Directorate General of Audit

TABLE OF CONTENTS

S. No.	Chapter No.	Item	Pages	
			from	to
1	1	Introduction	2	2
2	2	Management of central excise audit	3	12
3	3	Auditor's responsibility and authority	13	18
4	4	Principles of audit	19	21
5	5	Selection of assessee/taxpayer	22	28
6	6	Preparation for audit	29	43
7	7	Export Oriented Units	44	51
8	8	Preparation of audit report & follow up	52	55
9	9	Guidelines for audit of multi location units	56	59
10	Annexure - CE - I	Assessee Master file	60	64
12	Annexure - CE - II	Intimation for conducting Central Excise audit	65	65
13	Annexure - CE - III	Documents required for desk review	66	71
14	Annexure - CE - IV	Ratio analysis of data base	72	73
15	Annexure - CE - V	Comparative chart of items from financial statement.	74	77
16	Annexure - CE - VI	Questionnaire for review of internal control systems and walkthrough	78	84
17	Annexure - CE - VII	Audit plan	85	85
18	Annexure - CE - VIII	Working papers	86	96
19	Annexure - CE - IX	Records to be verified	97	105

20	Annexure - CE - X	Draft of the letter to be written by the assessee under Section 11 A(2) of the Central Excise Act	106	106
21	Annexure - CE - XI	Letter to the assessee/taxpayer about preparatory visit	107	107
22	Annexure - ST - I	Assessee Master file	108	117
23	Annexure - ST - II	Intimation for conducting Service Tax audit	118	118
24	Annexure - ST - III	Documents required for desk review	119	123
25	Annexure - ST - IV	Ratio analysis of data base	124	125
26	Annexure - ST - V	Comparative chart of items from financial statement.	126	126
27	Annexure - ST - VI	Questionnaire for review of internal control systems and walkthrough	127	134
28	Annexure - ST - VII	Audit plan	135	135
29	Annexure - ST - VIII	Working papers	136	146
30	Annexure - ST - IX	Records to be verified	147	151
31	Annexure - ST - X	Draft of the letter to be written by the assessee under section 73(3) of the Chapter V of the Finance Act 1994.	152	152
32	Annexure - ST - XI	Letter to the assessee/taxpayer about preparatory visit	153	155
33	Annexure XII	Registers and records	156	162

CHAPTER 1

INTRODUCTION

1.1 Purpose:

1.1.1 The purpose of this manual is to outline the principles and policies of audits conducted under the Central Excise Act, 1944, the Finance Act, 1994 and the Rules made there under. Guidelines provided herein are intended to ensure that the audits of Central Excise and Service Tax assesseees and taxpayers are carried out in a uniform, efficient and comprehensive manner, adhering to the stipulated principles and policies.

1.2 Scope:

1.2.1 The manual covers subjects that are related to principles, policies and special issues pertaining to conduct audit of Central Excise and Service Tax assesseees and taxpayers. The manual does not deal with legal interpretations and rulings on Central Excise and Service Tax matters.

1.2.2 The manual does not contain answers to all the problems that may arise in the day-to-day audit work. In such cases, the auditor has to apply his mind, keeping in view the spirit of the principles and policies outlined in the manual. If needed, he may seek guidance from the supervisory officer.

1.3 Amendments

1.3.1 Future changes in the Central Excise Act, 1944 and the Finance Act, 1994 and the Rules made there under, administrative policies and procedures may require changes to this Manual. Experience gained during the conduct of audit would also necessitate periodic updating of the manual to maintain its utility.

1.3.2 The users are welcome to provide suggestions for the improvement of this Manual and to make its scheme and contents more useful. Suggestions may be forwarded to the Directorate General of Audit through the jurisdictional Principal Chief Commissioners/ Chief Commissioners.

1.3.3 Removal of difficulty

Past guidelines and instructions on the subject stand modified to the extent they are in conflict with these guidelines. Difficulties faced, if any, in the implementation of above instructions may be brought to the notice of DG (Audit) at an early date. The Principal Chief Commissioners and Chief Commissioners are authorized to issue appropriate instructions, to be valid for temporary periods, to remove any difficulty in conduct of audits, which are important from the perspective of augmentation of revenue.

1.4 The Central Excise and Service Tax Audit Manual issues with the approval of the Board.

CHAPTER 2

MANAGEMENT OF CENTRAL EXCISE AND SERVICE TAX AUDIT

2.1 Audit management requires planning and effective execution of the audit process. Structurally and functionally, this is to be undertaken at two levels – apex level and local level. In order to monitor, co-ordinate and guide the effective implementation of the audit system, the Board has set up the Directorate General of Audit as the nodal agency. At the local level, management of audit is entrusted to Audit Commissionerates, which are supervised by Principal Chief Commissioners/Chief Commissioners.

2.2 Management at Apex level

The Directorate General of Audit, Customs, Central Excise and Service Tax, New Delhi (headed by Director General) with its Seven Zonal Units at Ahmedabad, Bangalore, Chennai, Delhi, Hyderabad, Kolkata and Mumbai (each headed by an Additional Director General) is required to ensure the efficient and effective implementation of the audit system (based on EA 2000 methodology) and also to evolve and improve audit techniques and procedures through a periodic review. With the help of its Zonal units, the Directorate General of Audit regularly monitors Central Excise and Service Tax audits conducted by the Commissionerates to ensure that the coverage of Assessee/Taxpayers is adequate in number and is reflective of their risk profile and to ensure that these audits are conducted in accordance with the letter and spirit of EA 2000 methodology. To achieve this, the Directorate needs to interact closely with Principal Chief Commissionerates/ Chief Commissionerates to eliminate the deficiencies and to improve the Audit performance of the Commissionerates.

2.2.1 As an advisor to the Board, the Directorate General of Audit is required to suggest measures for enhanced tax compliance, to gauge the level of audit standards and to ascertain the views of the Assessee/Taxpayers on the existing audit system. It should also interact with select Assessee/Taxpayers to take a holistic view of the internal audit and to formulate proposals to remove bottlenecks and obviate the scope of irregularities.

2.2.2 The selection of assessee and taxpayers would be done based on the risk evaluation method prescribed by the Directorate General of Audit. The risk

evaluation method would be separately communicated to the Audit Commissionerates during the month of May / June of every year. The risk assessment function will be jointly handled by National Risk Managers (NRM) situated in the Directorate General of Audit and Local Risk Managers (LRM) heading the Risk Management section of Audit Commissionerates. It helps the Audit Commissionerates in selection of units for audit during the audit year.

2.3 Role of Zonal Principal Chief Commissioner/Chief Commissioner:

2.3.1 The office of the Principal Chief Commissioner/Chief Commissioner is not an operational formation for the actual conduct of audit, but it provides an important link between the Directorate General of Audit and the Audit Commissionerates of the zone. The role of this office in the overall management of audit is as follows:

- i. Collection, compilation and analysis of the data received from Audit Commissionerates and communication of the same to the respective Zonal Additional Director General (Audit) and to the Director General (Audit) wherever specifically asked for.
- ii. Review of performance of the Audit Commissionerates.
- iii. Dissemination of information pertaining to audit to the Audit Commissionerates.
- iv. Resolving problems in implementation of audit system at local level and providing feedback to the Directorate General of Audit.
- v. Ensuring implementation of guidelines, issued by the Directorate General of Audit, as pertaining to the Audit Commissionerates.
- vi. Monitoring the training for auditors and the officers of the zone, in techniques of Central Excise and Service Tax audit and accountancy.
- vii. Arranging assistance and information to officers of the Directorate General (Audit) in regularly examining the conduct of audits and results thereof.
- viii. Posting/allocating the officers with requisite experience and expertise in conducting audits/analysing financial statements, to the Audit Commissionerates, ensuring equitable distribution of officers for improving coverage.
- ix. To take a final decision in cases, other than finalisation of audit objection, where there is difference of opinion between Audit Commissioner and Executive Commissioner.

- x. Also, to resolve issues that may arise between Executive and Audit Commissionerates
- xi. Also, to provide facility of Appraisers for conducting of OSPCA
- xii. Assigning the audit of an assessee / taxpayer, in case of integrated audit, to a particular Audit Commissionerate, within the Zonal jurisdiction, based on payment of Central Excise duty or Service tax whichever is higher.
- xiii. Selection of the me, planning and execution of The me based Audit.
- xiv. Ensuring that the services of a Computer Assisted Audit Programme Centre are available to all Audit Commissionerates in the zone and the officers trained in CAAP techniques are retained for a sufficiently long tenure.

2.4 Functions of an Audit Commissionerate:

The Audit Commissionerate comprises of the following sections:

i. Planning and coordination section:

To schedule and to provide support in conduct of Monitoring Committee Meetings (MCM); to maintain and to keep a copy of assessee master file and update it in coordination with the audit groups of circles; to maintain records/registers; to submit reports; to look after formation/constitution of audit groups; deployment of officers, matching skills with audit requirement; to maintain database of officers' profile; to monitor training needs of officers; to plan the audit schedule in such a way as to make optimum use of available resources and ensuring proper desk review before commencement of audit etc.,

ii. Administration, Personnel & Vigilance section:

To look after administrative matters, transfer, leave, allowances, budgetary grants, vigilance matters etc.

iii. Technical section:

To attend to draft show cause notices, audit follow up, court cases, and maintain Board's circulars, instructions etc.

iv. Risk Management and Quality Assurance section:

To attend to risk based selection of units, use of third party source of information, to maintain Audit database of units to be audited, to identify themes/issues for audit, to evaluate and scrutinize working papers and to look after the work related to performance appraisal

and quality assurance etc., and to implement the risk based selection advisory received from DG (Audit) and carrying out selection of units after applying local risk parameters.

v. **Circles:** Actual conduct of audit and subsequent follow up till the logical conclusions of the audit objections approved in MCM by issuance of SCN up to AC/DC level, forwarding of draft SCN of the competency level of above AC/DC along with relied upon documents or by recovery. In case of non-metro cities and in cases where Circles are situated at a distance from Headquarters, one stationary MIS group will look after the work relating to Planning and Co-ordination.

2.5 Role of senior officers of Audit Commissionerate

2.5.1 Commissioner

- i. To ensure selection of assessees/taxpayers, to be audited during the year, on the basis of risk assessment in consultation with the Directorate of Audit, after applying local risk factors.
- ii. To approve the Desk Review and Audit Plan, in respect of top 5 assessees/taxpayers of each audit circle mentioned in the Annual Plan for audit coverage, after ensuring that all the steps have been completed and review of a few draft plans approved by the ADC/JC to ensure quality of audit.
- iii. To hold either circle-wise (or any number of circles together as deemed necessary), Monitoring Committee Meeting (MCM), once a month to take decision about the acceptability of all audit objections and to determine as to whether larger period is invokable in respect of the accepted objections.
- iv. To ensure that MCM is held by using the offline Audit Report Utility and no paper based audit report is prepared. Also to ensure that after the MCM, each Audit Report Utility is uploaded in ACES
- v. To liaise with DG (Systems) to ensure that EDW data and ACES data is available to the auditors
- vi. To ensure that requisite follow-up action i.e. recovery, issue of show cause notice is taken.
- vii. To review audit performance and to take steps for improvement.
- viii. To take remedial measures based on the report of audit group on performance appraisal and quality assurance.

- ix. To review the performance and participation of the Additional/ Joint Commissioner and Deputy/ Assistant Commissioner of audit circles.
- x. To interact with the major assessees/trade associations, to obtain feedback on the audit system.
- xi. To assess the training needs of the auditors and organize training programmes.
- xii. To submit periodical reports to various formations including Zonal ADG (Audit) or Director General (Audit) as prescribed from time to time.
- xiii. To order special audit in terms of Section 14AA of the Central Excise Act, 1944, and Section 72A of the Finance Act, 1994, on his own or on the basis of a reference received from the Executive Commissioner.
- xiv. To send a list containing details of show cause notices issued by the Audit Commissionerate (including Circles), during the month, to each of the Executive Commissionerates, on monthly basis.
- xv. To ensure CAAP audits are conducted in respect of assessees/taxpayers maintaining records in electronic formats.
- xvi. In cases where further investigation is required, the matter may be forwarded to the Executive Commissionerates with a self-contained note for further investigation and necessary action like recording statements under summons etc.,

2.5.2 Additional / Joint Commissioner

- i. Co-ordination, planning and overall management of the audit sections and circles including supervision of work relating to theme based audit, audit of MLUs/MLSPs etc.
- ii. To approve the desk review and audit plan, in respect of all the large and medium units, other than the top 5 units that are to be approved by the Commissioner, after ensuring that all the steps have been completed.
- iii. To review audit plans approved by the Deputy/Assistant Commissioners of circles, in respect of small units.
- iv. To interact with large assessees/taxpayers at the time of audit in order to share major audit findings and compliance issues.
- v. To organize training programmes for auditors.
- vi. To review the follow-up action.

- vii. To make correspondence with Executive Commissionerate for follow up of pending audit paras admitted in writing.
- viii. To ensure selection of units for audit as per the risk based list received from DG (Audit) and to provide justification for tweaking the lists.
- ix. To ensure that the Audit Report Utility is used in MCM and the reports are uploaded in ACES and no paper based audit reports are prepared.
- x. To ensure scrutiny of NIL DARs in the audit circle

2.5.3 Deputy/Assistant Commissioners in-charge of Sections of Audit Commissionerate Headquarters

To supervise the work relating to the respective sections of Headquarters viz., Planning and Co-ordination Section, Administration, Personnel and Vigilance Section, Technical Section and Risk Management and Quality Assurance Section and theme audit. To ensure that the Audit Report Utility is used in MCM and the reports are uploaded in ACES and no paper based audit reports are prepared

2.5.4 Deputy/Assistant Commissioners in-charge of Circles:

- i. Co-ordination, planning and overall management of the audit circle.
- ii. To monitor maintenance of assessee master files and registers.
- iii. To approve the desk review and audit plan, in respect of all the small units, after ensuring that all the steps have been completed.
- iv. To interact with assessees/taxpayers at the time of audit in order to share major audit findings and compliance issues.
- v. To issue show cause notices answerable to Deputy/ Assistant Commissioner of the Executive Commissionerate under intimation to Audit Commissionerate Hqrs.
- vi. To prepare and forward draft show cause notices, answerable to Joint/Additional Commissioner and Commissioner, to Audit Commissionerate Headquarters.
- vii. To approve and issue draft audit reports before attending the MCM meeting.
- viii. To issue final audit reports after approval in the MCM meeting.

2.6 Role of Executive Commissionerate:

- i. To represent in MCM;
- ii. To respond to the audit objections, within 15 days of receipt of the minutes of the MCM;
- iii. To provide detailed comments with a justification on the disputed audit paras including the details of Board's Circulars, case laws (if any) or any point of law;
- iv. To attend to the litigation after adjudication proceedings and to defend the order before the appellate fora – viz., Commissioner (Appeals)/ Tribunals/ Courts, with the help of inputs from Audit Commissionerates, wherever required;
- v. To attend to the work related to pre-audit, post audit of refunds, rebates and brand rate fixation of drawback;
- vi. To attend to the work related to CERA;
- vii. To send proposal to the Audit Commissioner, for special audit of an assessee, in terms of Section 14AA of the Central Excise Act, 1944 and Section 72A of the Finance Act, 1994 in deserving cases;
- viii. To pursue recovery of amounts in respect of pending paras admitted by the party (in writing), basing on the reference received from the Audit Commissionerate.
- ix. To carry out investigation and necessary action like recording statements under summons etc in respect of cases forwarded by Audit Commissionerates.
- x. To ensure immediate intimation to the jurisdictional Audit Commissionerates regarding any cases booked/investigation carried out by Anti-Evasion wing of the Executive Commissionerate or by DGCEI and any audit conducted by CERA. A copy of the CERA objection shall also be sent.
- xi. To ensure timely adjudication of show cause notices issued by the Audit Commissionerates.

2.7 Staffing norms for Audit Commissionerate:

- i. Headquarters shall be headed by one Commissioner with the assistance of two Additional or Joint Commissioners and three or four Deputy Commissioners.

- ii. Normally, officers selected and posted to the Audit Commissionerate should be allowed to continue to function in the Commissionerate for a minimum period of two years and maximum of four years.
- iii. The supervising officer of the rank of Assistant Commissioner / Deputy Commissioner must frequently (especially in important and sensitive units) associate with the actual audit and attend to the areas of risks identified during desk-review.
- iv. Each audit circle shall be headed by a Deputy or an Assistant Commissioner
- v. Deputy/Asst. Commissioner of the circles should be associated with all major audits. Senior Officers of the cadre of Joint/Additional Commissioners should interact with the senior management staff of large units before conducting audit. In case of LTUs, the Principal Commissioner/ Commissioner should interact with the management of the unit.
- vi. Audit circle comprises of one stationary audit group (MIS) to look after the work relating to planning and co-ordination section of Hqrs Office, such as MCM, maintenance of Assessee Master Files, processing of draft show cause notices, attending to follow up work etc. and deployment of audit groups for conduct of audit.
- vii. The Audit Groups deployed for audit of large units may comprise of 2-3 Superintendents and 3-5 Inspectors. For medium units, the audit group may include 1 - 2 Superintendents and 2 - 3 Inspectors. For small units, the Audit Group may include 1 Superintendent and 1 - 2 Inspectors.
- viii. Groups for large units, medium units and small units should be in such numbers that the following distribution of manpower deployment in audit groups is achieved.
 - a. 40% of manpower for large units including audits of MLUs, MLSPs and theme based audits
 - b. 25% of manpower for medium units
 - c. 15 % of manpower for small units
 - d. 20% of manpower for planning, coordination and follow up.

2.8 Auditors' Profile:

Profile of each of the auditor posted in the groups should be available in the Audit Planning and Coordination Cell of Circle, in the following proforma.

- i. Name of the officer.
- ii. Designation.
- iii. Experience in the department.
- iv. Professional qualification, if any.
- v. Experience in Central Excise Range / Service Tax formation or Divisional office (in years).
- vi. Whether undergone training in audit.
- vii. Experience in audit wing.
- viii. Number of major audit points raised by him on his own (to be taken from working papers) in his career. Amounts involved in such cases.
- ix. Any commendation/awards, rewards, etc. received.

2.8.1 Each auditor should furnish a self-appraising resume containing the above information immediately upon joining the audit section, which should be upgraded on yearly basis so long as the officer continues to be posted in the Audit Groups. Auditors profile facilitates effective deployment of auditors to units by taking into account appropriate skill levels, training, educational background of the auditor etc.

2.8.2 The formation of audit groups is a critical component of audit management. The cadre controlling authority in-charge of the Audit Commissionerate shall ensure that the officers with the requisite skill and experience are posted to Audit Commissionrates depending on the availability and other administrative constraints. Audit Commissioners should ensure that the skill and experience available is evenly distributed across the audit groups. As far as possible there should be at least one officer with commerce or accounts background in each party. It is also useful to assign officers with computer skills to each party to deal with units that keep computerized accounts. For efficient functioning of the MIS section of Audit Commissionerate/Circle, officers with computer skills and some prior audit experience are required. Similarly, the skill sets and experience available with an audit group should govern the size and complexity of audits that it handles. For optimal results, there should be matching of these two factors.

2.8.3 While forming the groups in Service Tax audits, posting of the officers with specialised skills will help achieve better results. For the above purpose, the

services may be divided into groups by aggregating similar services. A suggested list of such groups is provided in **ANNEXURE - ST - XI**. This grouping would facilitate cultivating specialization amongst the Audit Officers and would also lead to uniformity in the type of objections that are raised to particular service providers. Basing on the said grouping, the audit of services pertaining to particular group can be allocated to the specific team(s), depending upon the requirement so that the services of the team which has specialised skills can be optimally utilised. However, Audit teams can be reconstituted in accordance with the local needs.

2.8.4 Officers, when posted to the Audit Commissionerate for the first time, should invariably be sent for training in EA 2000 and financial accounting so that they have the basic skills to handle audit work. Compulsory in-house training programmes could also be organized in the Audit Commissionerates for the benefit of new entrants soon after the annual transfers. The Audit Commissioner should also ensure to organise special training programmes for major industrial sectors in the jurisdiction of an Audit Commissionerate so that auditors have the necessary specialization and sufficient number of auditors specializing in major industries are available. Officers, who have worked in audit sections earlier, should also be imparted with refresher course on the latest techniques of audit and changes in the statutory provisions, if any.

Chapter 3

AUDITOR'S RESPONSIBILITY AND AUTHORITY

3.1 Definition of 'Auditor':

Auditor means 'a Central Excise officer entrusted with the responsibility of conducting an audit'.

3.2 Role of the auditor:

3.2.1 While conducting audit, the auditor is required to carry out his duties with utmost sincerity, integrity and diligence. The auditor has immense responsibility in detection of non-compliance, procedural irregularities and leakage of revenue due to deliberate action or ignorance on the part of the assessee /taxpayer. At the same time, the auditor should keep in view, the prevalent trade practices, the economic realities as also the industry and business environment in which the assessee /taxpayer operates. Therefore, the auditor should take a balanced and rational approach while conducting the audit. Besides, the auditor is expected to play a key role in promoting voluntary compliance by the assessee /taxpayers. During the course of the audit, if certain technical infractions, without any revenue implications, arising due to *bona fide* oversight or ignorance of the assessee /taxpayer, are noticed, the assessee /taxpayer should be guided for immediate correction. Such cases should also be mentioned in working papers. The auditor should also apprise the assessee /taxpayer of the provisions of the Central Excise Act, 1944 and Finance Act 1994 relating to applicability of interest and encourage him to take advantage of those provisions in order to avoid disputes and litigation. The auditor should apprise the assessee /tax payer of the provisions of Section 11A (1) (b) [Section 11 AC (1) (c)] of the Central Excise Act, 1944/Section 73(3) (Section 78(1)) of the Finance Act, 1994 and encourage the assessee /taxpayer to make payment of the duty /tax dues before issue of show cause notice.

3.2.2 The audit process should be transparent and all the findings should be intimated to the assessee /taxpayer in writing and an opportunity be given to the assessee /taxpayer to give his explanation before an objection is finalised and consequential action is initiated.

3.2.3 The auditor should take into account the explanation from the assessee /taxpayer regarding all points of dispute, before taking the final view. If necessary, the auditor should contact his supervising Assistant/Deputy

Commissioner to ensure that the views taken by him are consistent with the law and the latest instructions.

3.2.4 An auditor is responsible for conduct of audit and should endeavour to take a final view on all issues raised by him during that audit. The auditor should document all of his audit findings in the working papers so that a record of steps leading to an audit point is available. **The working papers for each of the step of audit should be filled in as soon as that step is completed.** They should be 'speaking documents' that clearly explain why a particular area was included in the audit plan as well as the basis for arriving at every objection that goes into the draft audit report after audit verification. The documentary evidence which has been relied upon in arriving at certain conclusion should invariably be cited and included.

3.3 Dealing with the public:

3.3.1 The objective of the Central Excise Department is to collect correct amount of duties/taxes levied under the Central Excise /Service Tax Law in a cost effective, responsive, fair and transparent manner and also to maintain public confidence in the system of tax collection. This should be reflected in the auditor's conduct and attitude. The auditor should bear in mind that he is one of the critical channels of communication between the department and the assessee/taxpayer after the liberalisation of procedural controls.

3.3.2 The auditor should establish and maintain a good professional relationship with the assessee/taxpayer. The auditor should recognise the rights of the assessee/taxpayer, such as, the right to impartial, uniform and transparent application of law and the right to be treated with courtesy and consideration. The auditor should explain that the tax compliant assessees/taxpayers stand to gain from such an audit in as much as: -

- i. they will be better equipped to comply with the Laws and the relevant Procedures;
- ii. the preparation of prescribed returns and self-assessment of Central Excise duties and Service Tax will be focussed better, correct and complete;
- iii. the scrutiny of business accounts and returns submitted to various agencies, made in the course of audit will remove any deficiencies in their accounting and internal control systems;

- iv. disputes and proceedings against them would be substantially reduced or even eliminated.

3.3.3 The auditor should be tactful to gain the goodwill and confidence of the assessee/taxpayer. Where there is lack of co-operation or deliberate failure to provide information and records by the assessee/taxpayer or in case of other exigency, the auditor should inform his superiors and follow it up by a written report, if necessary.

3.3.4 Confidentiality should be maintained in respect of sensitive and confidential information furnished to an auditor during the course of audit. All records submitted to the audit parties in an electronic or manual format, should be used only for verification of levy of excise duty/service tax or for verification of the tax compliance. These shall not be used for any other purposes without the written consent of the assessee. Maintaining the confidentiality is necessary to secure the trust and co-operation of the assessee/taxpayer.

3.4 Authority for an auditor:

3.4.1 There is no separate cadre known as 'Auditor' either under the Central Excise Law or under the Service Tax law. The departmental audit is conducted by the Central Excise officers and all the powers vested in the Central Excise Officers under the Central Excise Act, 1944, the Finance Act, 1994 and the Rules made there under are available to the officers conducting the audit. Thus, the auditor is also a 'proper officer'.

3.4.2 The auditor, for conducting audit, has to mainly rely on the records maintained by the assessee/taxpayer in the ordinary course of business.

3.4.3 CENTRAL EXCISE: Under sub rule (2) of rule 22 of Central Excise Rules, 2002 the assessee is required to furnish a list in duplicate of the following:

- i. all the records prepared and maintained for accounting of transactions in regard to receipt, purchase, manufacture, storage, sales or delivery of the goods including inputs and capital goods, as the case may be;
- ii. all the records prepared and maintained for accounting of transactions in regard to the payment for input services and their receipt or procurement
- iii. all the financial records and statements including trial balance or its equivalent.

3.4.3.1 Sub rule (3) of rule 22 of Central Excise Rules, 2002 further provides that the assessee, on demand shall make available the following documents for scrutiny to the audit parties:

- i. the records maintained or prepared by him in terms of subrule (2);
- ii. the cost audit reports, if any, in terms of Section 148 of Companies Act, 2013.

3.4.3.2 As any other officer of Central Excise, the auditor is empowered to access any registered premises for carrying out verifications and checks for conduct of audit when authorised by the Commissioner under rule 22 of the Central Excise Rules

3.4.3.3 Rule 22 of the Central Excise Rules, 2002 provides that the Commissioner may empower an Officer or depute an audit party for carrying out scrutiny or verification of records of the assessee. The rule also obliges an assessee to make available records for such scrutiny. The statutory backing for rule 22 flows from clause (x) of section 37(2) and the general rule making powers under section 37(1) of the Central Excise Act, 1944. Clause (x) of section 37(2) empowers the Central Government to make rules for verification of records and returns to check the correctness of levy and collection of duty, which, in the present regime of self-assessment would mean verification of correctness of self-assessment and payment of duty by the assessee. It may be noted that the expression "verification" used in the section is of wide import and would include within its scope, audit by the departmental officers, as the procedure prescribed for audit is essentially a procedure for verification mandated in the statute.

3.4.4 SERVICE TAX

3.4.4.1 Service providers of taxable services in the entire country are required to be audited. The relevant enabling provisions for this are,-

- i. Section 65(121) of the Finance Act, 1994 provides that words and expressions used but not defined in Chapter V of the said Finance Act and defined in the Central Excise Act, 1944 or the rules made there under, shall apply, so far as may be in relation to Service Tax as they apply in relation to a duty of excise.

- ii. Rule 2(2) of the Service Tax Rules, 1994 lays down that all words and expressions used but not defined in Service Tax Rules but defined in the Central Excise Act, 1944 and the rules made there under shall have the meanings assigned to them in that Act and Rules. [Notification No.2/94-ST, dated 28.06.1994]
- iii. The definition of “Central Excise Officer” as contained in the Section 2(b) of the Central Excise Act, 1944 will also apply to the Central Excise officers conducting Service Tax audit and shall also include Service Tax officers. Thus, a Central Excise officer, who is assigned the duties of audit in Service Tax, is the proper officer for conduct of Service Tax audit.

3.4.4.2 The Service Tax Law through the Finance Act, 1994 and Service Tax Rules, 1994 do not prescribe any specific records to be maintained by the assessee/taxpayer. However, Rule 5 of the said Rules deals with records. In this regard the following provisions are relevant:

- i. In exercise of the rule making powers under clause (k) of sub-section (2) of section 94 of the Finance Act, 1994, the Central Government has inserted a new rule 5(A)(2) in the Service Tax Rules, 1994 vide notification no. 23/2014-Service Tax dated 5th December, 2014. This rule, *inter alia*, provides for scrutiny of records by the audit party deputed by the Commissioner. Such scrutiny essentially constitutes audit by the audit party consisting of departmental officers - Refers Circular No. 181/7/2014-ST dated 10.12.2014.
- ii. Verification of records mandated by the statute is necessary to check the correctness of assessment and payment of tax by the assessee/taxpayer in the present era of self-assessment. It may be noted that the expression “verified” used in section 94(2)(k) of the said Act is of wide import and would include within its scope, audit by the departmental officers, as the procedure prescribed for audit is essentially a procedure for verification mandated in the statute - Refers Circular No. 181/7/2014-ST dated 10.12.2014.
- iii. For carrying out integrated audits in exclusive Service Tax Commissionerates, necessary legal enablement has been made in the Jurisdictional Notifications No. 20/2014-ST and 21/2014-ST, both dated 16.09.2014.
- iv. Besides, Rules 9(5) and 9(6) of the CENVAT Credit Rules, 2004 provides for maintenance of records by a provider of output service with respect to receipt and consumption of inputs, capital goods and input services, in addition to

submission of periodical returns prescribed under rule 9(9) to rule 9(11) *ibid*, in respect of credit availed.

3.4.5 SUMMONS: The auditor may issue summons with the approval of Deputy/Assistant Commissioner of Circle, only for the purpose of obtaining records/documents which are necessary for conducting audit, where the assessee/taxpayer is not volunteering to submit the same on the basis of letter issued by the auditor. However, where it is felt necessary that recording of the statement of the taxpayer/assessee is necessary, the Audit Commissioner may forward such cases to the jurisdictional Executive Commissioner, with a self-contained note for taking appropriate/necessary action like carrying out further investigation, issue of show cause notice etc., as deemed fit. In this regard, in case of difference of opinion between the Audit Commissioner and the Executive Commissioner the Principal Chief Commissioner/Chief Commissioner may decide the issue.

Chapter 4

PRINCIPLES OF AUDIT

4.1 The objective of audit of assessee/taxpayers is to measure the level of compliance of the assessee/taxpayer in the light of the provisions of the Central Excise Act, 1944 and the Finance Act, 1994 and the rules made thereunder. It should be consistent with departmental instructions and should make use of professional audit methodology and procedures. The basic principles are:

- i. The audit should be conducted in a systematic and penetrative manner.
- ii. Emphasis should be on the identified risk areas and on scrutiny of records maintained in the normal course of business.
- iii. Audit efforts should be based on materiality i.e. degree of scrutiny will depend on the nature of risk factors identified.
- iv. Recording of all checks and findings.
- v. Audit should normally be distinct from anti-evasion operation in as much as it can detect irregularities only to the extent of their reflection in the books of accounts.

4.2 Standards for conduct of audit:

4.2.1 In keeping with the principles of audit outlined above, audit has to be conducted in a transparent and systematic manner with focus on business records of the assessee and taxpayer and according to the audit plan for each assessee and taxpayer. The assessee and taxpayer participation in the course of audit is also envisaged so that instead of raising purely technical objections (without any revenue implications), substantive issues are also focussed upon.

4.2.2 The auditor should ensure that audit is conducted in a focused manner with optimum utilisation of time and resources available at hand. The auditor must use his judgement and experience to determine the materiality of any discrepancies and/or irregularities observed and decide what action is necessary under the circumstance, for example,

- i. Cumulative effect of small items: An error of one isolated item might be insignificant but the cumulative effect of many individually unimportant items would signify systemic failure. In fact, the relative materiality of an individual item has to be viewed against the net effect on over-all compliance and interest of revenue.

- ii. General or Particular Items: An error made in a particular transaction may be an aberration if it is a stray, single instance but the effect may be material, if it is of recurring nature. Thus frequency of error is of importance.
- iii. Effect in relation to scale of a assessee /taxpayer operation: An error may appear to be small in itself, but may have sizable implication due to the huge scale of operations of an assessee/taxpayer.

4.2.3 Integrated audits:

Coordinated and integrated audit covering two or more duties/taxes for assessee /taxpayer i.e. Central Excise, Service Tax and Customs (OSPCA) having common PAN shall be carried out instead of individual audit for each tax separately, operation of which is detailed in subsequent paras/chapters.

For carrying out integrated audits in exclusive Service Tax Commissionerates, necessary legal enablement has been made in the jurisdictional Notifications No. 20/2014-ST and 21/2014-ST, both dated 16.09.2014.

4.2.4 Period to be covered during audit

Every audit should invariably cover the retrospective period upto the previous audit by the departmental audit group or of the last 5 years, whichever is less and should extend up to the last completed Financial Year preceding the date of commencement of the audit.

4.3 Duration of audit

4.3.1 Efforts should be made to complete each audit within the following general time limits:-

The indicative duration for conduct of Audit that is inclusive of desk review, preparation and approval of audit plan, actual audit and preparation of audit report wherever necessary, for each category would be as under:

- i. LTUs – 8 to 10 working days
- ii. Large taxpayers – 6 to 8 working days
- iii. Medium taxpayers – 4 to 6 working days.
- iv. Small taxpayers – 2 to 4 working days

The above mentioned working days are indicative and applicable for conduct of Central Excise/Service Tax audit covering one year period. In case the audit coverage is for five years, the number of days may be increased to maximum of

16/12/8 days for Large, Medium and Small taxpayers respectively. In other words the number of days for conduct of audit may be increased proportionately, with an increase of 25% of working days for every additional year of coverage. If an integrated audit is to be conducted covering both Central Excise, Service Tax and OSPC audits, especially in case of large units, more number of working days are to be allocated for effective conduct of audit.

4.3.2 The duration, as above, covers the effective number of working days spent by the audit group for the audit of a particular assessee and taxpayer from desk review to preparation of audit report (i.e. days spent in office as well as at the assessee and taxpayer premises). In exceptional cases, the aforesaid period may be extended with the approval of Deputy/Assistant Commissioner (Audit). Further, in accordance with the requirements of the audit of a particular assessee and taxpayer such duration can suitably be reduced with the express, prior concurrence of the Deputy/Assistant Commissioner (Audit), provided the verification as per the audit plan has been completed in the prescribed manner.

4.4 Stage wise action for audit

- i. Preparation/updating of assessee master file containing comprehensive assessee/taxpayer profile.
- ii. Selection of assessees/taxpayers for audit.
- iii. Collection of all relevant documents, data reconciliation statement and reply to questionnaire.
- iv. Desk review on the basis of relevant documents and interview of the assessee/taxpayer.
- v. Formulation and approval of audit plan based on desk review.
- vi. Conducting audit verification on the basis of the approved audit plan.
- vii. Suggestions on correction/improvements to assessee/taxpayer for future guidance.
- viii. Preparation of draft audit report and its submission, along with working papers, to the senior officers.
- ix. Discussion on the draft audit report during MCM and approval of the objections raised therein.
- x. Issue of final audit report with the help of Audit Report Utility (ARU).
- xi. Preparation of Modus Operandi circular to be submitted to the Zonal Additional Director General (Audit) and the Directorate General of Central Excise Intelligence.
- xii. Follow up action, for monitoring the compliance of various points.
- xiii. Ensuring timely issuance of SCNs, wherever warranted.
- xiv. Recovery of revenue detected.

CHAPTER 5

SELECTION OF ASSESSSEE/TAXPAYERS FOR AUDIT

5.1 Objective:

Selection of assessees/taxpayers for audit means selection of assessees and taxpayers to be audited during a specified period, taking the available resources into account. Given the large number of registered assessees and taxpayers under Central Excise and Service Tax, it is impossible to subject every assessee/taxpayer to audit each year with the available resources. Further, emphasis placed merely on coverage of more number of assessees and taxpayers would dilute the quality of Audit. Selection of units for audit in a scientific manner is extremely important as it permits the efficient use of audit resources viz. manpower and skills for achieving effective audit results. Selection of units for audit based on revenue risk leads to deployment of audit resources where they are most needed, i.e., in the audit of less compliant units. Such selection is finally subject to the availability of administrative resources. These assessees and taxpayers should be selected on the basis of assessment of the risk to revenue. This process, which is an essential feature of audit selection, is known as 'Risk Assessment'. It involves the ranking of assessees and taxpayers according to a quantitative indicator of risk known as a 'risk parameter'.

5.2 Method of selection based on risk assessment:

The selection of assessees and taxpayers would be done based on the risk evaluation method prescribed by the Directorate General of Audit. The risk evaluation method would be separately communicated to the Audit Commissionerates during the month of May/ June of every year. The risk assessment function will be jointly handled by National Risk Managers (NRM) situated in the Directorate General of Audit and Local Risk Managers (LRM) heading the Risk Management section of Audit Commissionerates. The Risk Management section of Audit Commissionerate would ensure availability of assessee/taxpayer-wise data for a period of last three years, which would facilitate risk assessment and preparation of the list of assessees/taxpayers to be audited in the current year.

5.2.1 Basing on the risk methodology, a list of units will be communicated to the Audit Commissionerates by the NRM, for the purpose of conducting audit for the audit year. The Audit Commissionerates may select the units to be audited in a particular year after reviewing the list forwarded to them by the DG(A), in the

context of local risk perceptions and parameters. The Audit Commissionerate may also select an assessee with low risk score compared to an assessee with relatively high risk score. However, the reasons for such selection should be indicated which would be used as a feedback by the Directorate of Audit for further improvisation of risk factors in future.

5.2.2 The Audit Commissionerates may also select a few units at random or based on local risk perception in each category of large, medium and small units. Feedback on such random selection and results of audit thereof would help in evaluation of parameters used for the process of selection.

5.2.3 After preparation of the annual plan of audit coverage as indicated above, the Audit Commissionerates would also prepare a list of units, in whose cases the risk can be mitigated through a detailed scrutiny of returns and convey the details to the Executive Commissioners for taking necessary action. Selection of such units can be carried out at the Zonal level so that the Audit and detailed scrutiny of returns complement each other. The list of such units and reason for selection should be shared with the Directorate General of Audit.

5.3 Preparation of audit schedule:

5.3.1 Annual plan for Audit Coverage (Audit year being -1st July to 30th June):

- i. The Audit Commissionerate would release an Annual plan by 31st May, indicating the names of assessees/taxpayers proposed to be audited during the course of the year (period from 1st July to 30th June of the next year) and the month in which the Audit officers would visit the units for verification of records. The Audit coverage (i.e. number of units selected for Audit in a year) may be calibrated with the manpower availability in a Commissionerate. The working strength of officers in Audit Commissionerate would be taken as the basis for calibration.
- ii. In order to ensure adequate coverage, the assessees/taxpayers shall be categorized into three categories namely large, medium and small units. Given the past experience in detection of non-compliance and recovery of duty through audits, it is suggested that Audit Groups may be deployed to cover large, medium and small units as discussed in Para 2.6.

While deploying officers due care should be taken, so that the staff is proportionately allocated to attend the audit work related to Central Excise Units and Service Tax assessees/taxpayers based on revenue profile of the Commissionerate.

- iii. The composition of Audit Groups to cover large, medium and small units would be as discussed in chapter 2
- iv. The indicative duration for conduct of Audit that is inclusive of desk review, preparation and approval of Audit plan, actual Audit and preparation of Audit report wherever necessary, for each category would be as discussed in chapter 4
- v. Given that there are around 249 working days in a year, the number of Audits that can be conducted approximately in a year are as follows:
 - a. 31 large units (calculated at 8 days per unit) by one Audit Group
 - c. 42 medium units (calculated at 6 days per unit) by one Audit Group and
 - d. 62 small units (calculated at 4 days per unit) by one Audit GroupThe number of working days for audit are for the purpose of calculations and may vary as per the size of the assessee and the workload involved. The Commissioner can as per the jurisdictional requirement make calculations as per the local requirements and deploy officers accordingly.
- vi. The aforementioned number of Audits could be then multiplied by the number of Audit Groups earmarked for each category to arrive at the total number of Audits that can be conducted by each Audit Commissionerate during the year.
- vii. The manner of deployment of officers as mentioned above and calculation of number of units that can be audited during the year are illustrated below:
 - a) Suppose the working strength of an Audit Commissionerates is 60 Superintendents and 80 Inspectors. The deployment of officers would be: 24 Superintendents and 32 Inspectors would be for large units, 15 Superintendents and 20 Inspectors for medium units and 9 Superintendents and 12 Inspectors for small units and 12 Superintendents and 16 Inspectors in Headquarters, as envisaged at (ii) above. To the extent possible, the manpower distribution amongst the Circles within an Audit Commissionerate

should be proportional to the large, medium and small assessee/taxpayer base in the Circle. In other words, the 24 Superintendents and 32 Inspectors designated for large assessees/taxpayers would be divided amongst the Circles proportional to the number of large assessees/taxpayers under each circle. The deployment has to be done in similar manner for medium and small units.

- b) Using the manpower as above, there would be around 10 groups for large units, 12 groups for medium units and 6 groups for small units. The total number of units that could be audited in a year works out to around 310 large units, 504 medium units and 372 small units i.e. 1186 units in all. The Audit Commissioners may exercise necessary reallocation of officers to medium units, if the audit of large units is completed. Thus each Commissionerate can carry out the calculations based on the working strength.
- viii. The criteria for categorizing an assessee /taxpayer as large, medium or small would be (a) annual value of clearances and total duty paid in case of Central Excise and/or (b) value of services rendered and services received (which are dutiable on reverse charge basis) and total Service Tax paid in the case of Service Tax. The threshold limits of value of clearances / value of services for categorizing the units into large, medium and small would be dependent upon (i) the available manpower in the Audit Commissionerate and (ii) the assessee/taxpayer base, turnover and duty paid by each assessee/taxpayer in the jurisdiction of the Audit Commissionerate. It may be noted that threshold limits may vary from one Audit Commissionerate to another Audit Commissionerate in view of varying number of assessees/taxpayers and quantum of value of clearances / services and duty paid by each assessee/taxpayer. The Audit Commissionerates would obtain the requisite data from EDW / ACES / EASIEST for categorization of assessees/taxpayers into large / medium / small within their Commissionerate. The categorization would be done based on the methodology prescribed by the Directorate General of Audit. The methodology for categorization would be communicated to the Audit Commissionerates by

DIRECTORATE GENERAL OF AUDIT DURING THE MONTH OF MARCH / APRIL EVERY YEAR.

- ix. The Audit Commissionerates shall consult Zonal units of Directorate General of Audit while finalizing the Annual plan of Audit coverage with the available manpower at the beginning of the financial year. The scheduling can be reviewed half yearly for necessary adjustments, if any. The Directorate General of Audit will also periodically review and revise, wherever necessary, the criteria for categorizing the units into large, medium and small within each Zone / Commissionerate, manpower deployment in each category, composition of Audit Group and number of days required for audit in each category. The review/revision would be done in consultation with the Audit Commissionerates so as to ensure that Audit coverage by officers is made optimal.
- x. Principal Chief Commissioner/Chief Commissioner may allow temporary reallocation / diversion of officers amongst the Audit Commissionerates to ensure adequate Audit coverage of all categories of assessee/taxpayers falling under the jurisdiction of the zone.

5.4 Integrated audits:

5.4.1 Wherever, the assessee/taxpayer is registered both under Central Excise and Service Tax, integrated audit of both Central Excise and Service Tax may be taken up. Currently, audit is undertaken for each tax separately even though the business and financial records verified during the audit are common for all the three taxes administered by the Board. In order to improve the efficiency of audit process, it has been decided that coordinated and integrated audit covering two or more taxes for assessee/taxpayers having common PAN shall be carried out. Necessary legal enablement has been provided in the notifications No 20/2014-ST and 21/2014-ST dated 16.09.2014, conferring territorial jurisdiction to the Commissionerates such that Service Tax Audit Commissionerates can audit Central Excise assessee/taxpayers within a zone and vice-versa. An assessee/taxpayer who is registered under Central Excise, Service Tax and Customs (OSPCA) need not be subjected to three separate audits. The information about various registrations being available, such assessee/taxpayers would be subjected to a comprehensive audit by the designated Audit Commissionerate. For this purpose the Principal Chief Commissioner / Chief Commissioner will assign the audit of such an assessee/taxpayer to a particular Audit Commissionerate, within the Zonal

jurisdiction, based on payment of Central Excise duty or Service tax whichever is higher. Following the same principle, Customs OSPCA would be also be carried out by the designated Central Excise or Service Tax Audit Commissionerate, in an integrated manner. In case of ACP importers, comprehensive audit is required to be conducted **only** when the said assessee is also selected for audit, based on the risk evaluation method.

5.4.2 Co-ordination of audit of an assessee and tax payer having multiple registrations in the same premises: There may be a special situation, where there are multiple registrations of an assessee / tax payer in the same premises, i.e., if a tax payer having a service tax registration falling in the jurisdiction of an exclusive service tax Commissionerate under a Service Tax CC Zone, is also having a Central Excise registration in the same premises, registered with a Central Excise Commissionerate of a different Central Excise CC Zone, both such registrants should be audited simultaneously, coordinated by the CC Zone, in whose jurisdiction, the highest duty/taxpaying assessee/taxpayer falls, irrespective of whether the assessee/taxpayer is covered under risk based selection or not (by exchanging information from desk review to MCM). The auditors from both the PCC/CC Zones may be advised to be involved in the co-ordinated audit.

5.5 Audit of Multi Locational Units (MLUs)/ Multi Locational Service Providers (MLSP)/ACP importers (OSPCA):

- i. While preparing the Annual plan for audit coverage, instructions contained in **Chapter 9** may be referred to.
- ii. Audit of ACP importers may be conducted as contemplated in the Manual on OSPCA. However, if such an ACP importer is selected for audit under the risk evaluation method in a particular year, a comprehensive audit of Central Excise, Service Tax and Customs OSPCA Audit may be conducted.

5.6 Theme based coordinated audits

5.6.1 Theme based co-ordinated audits at all India level would be conducted by the concerned Audit Commissionerates in a coordinated manner. The theme would be selected by the Directorate General of Audit, based on a systematic and methodical risk analysis of internal data of assessee/taxpayer (from ACES and EDW), economic indicators, third party information from tax and other regulatory

authorities and other relevant sources of data. The DGA would also consult trade, industry and manufacturers from time to time, wherever necessary. The theme would be intimated well in advance, say four to six months, to the field formations. Detailed questionnaires would be prepared to serve as guidance to the Audit parties. The dates for such audits would be fixed in advance, say, sometime in December every year, so that they can be blocked by the Commissionates. The number of such audits will be one or at best two in a year. The selection of theme/issue, coordination and dissemination would be done by DGA in consultation with the field formations.

5.6.2 The theme based coordinated Audits would also be carried out at the Zonal level. The theme for the audit, which could be a sensitive commodity, would be selected at the zonal level and simultaneous and coordinated audit would be carried out within the zone. The number of such audits will again be one or two in a year. The theme for the Audit would be selected based on analysis of data provided by ACES, EDW and relevant third party information identified from time to time. The Principal Chief Commissioner/Chief Commissioner may involve the zonal units of Directorate General of Audit in selection of theme, planning and execution of theme based Audit.

5.7 Selection and Audit of LTUs

In case of LTUs, 80% of the manpower may be used for conducting audits and 20% of the manpower may be used for headquarters functions. The audit group would comprise 2-4 Superintendents and 3-6 Inspectors. The indicative duration for conduct of audit that is inclusive of desk review, preparation and approval of Audit plan, actual audit and preparation of audit report is 8 to 10 working days. Based on the recommended duration, the number of units that could be audited in a year would be 25 LTUs (calculated at 10 days per Audit) by one audit group. The audit groups from LTU Audit Commissionate's Circles would necessarily conduct the audit of LTUs and wherever additional manpower assistance is required the same can be sought from other LTUs or the jurisdictional Central Excise / Service Tax Audit Commissionate. Further, audit of the LTU should be conducted in a coordinated manner i.e., the audit of Head Office and group units should be conducted simultaneously. To enable this, the audit dates should be decided in consultation with the LTU. The total number of assessees/taxpayers to be audited and selection of individual assessees/taxpayers for audit would be done as per the risk evaluation method recommended by the Directorate General of Audit.

5.8 Accredited status for deferring frequency of audit

A segment of assessees/taxpayers, could be given an “accredited” status, similar to the one given in Customs, based on their proven track record of compliance with tax laws and procedures. Such identified assessees/taxpayers need not be subjected to Audit in every cycle. It has been decided that such units should normally be audited only after 3 years from the date of last audit. The procedure and criteria for accreditation would be communicated separately.

CHAPTER 6

AUDIT - PREPARATION AND VERIFICATION

6.1 Profiling of assessee/taxpayer:

6.1.1 Audit requires a strong database for profiling each assessee/taxpayer so that risk-factors relevant to an assessee/taxpayer may be identified in a scientific manner and audit is planned and executed accordingly. Some of the relevant data has to be collected from the assessee/taxpayer during the course of audit, while the rest is to be extracted from the registration documents and returns filed by the assessee/taxpayer as well as from his annual report, reports/returns submitted to regulatory authorities or other agencies, Income Tax returns, contracts with his clients, audit reports of earlier periods as well as audits conducted by other agencies, (like office of C&AG), etc.

6.1.2 A comprehensive data base about an assessee/taxpayer to be audited is an essential pre-requisite for selection of units as well as for undertaking preliminary desk review and effective conduct of audit. A substantial amount of data is already available in ACES and EDW. Some of the data like those contained in annual financial statements keeps changing every year.

6.2 Assessee Master File (AMF): The first step towards an effective audit is to collect all relevant information about the assessee/taxpayer from various sources, arrange it in a systematic manner so that the audit can be planned in a result-oriented manner. The AMF should contain all the useful information about an assessee/taxpayer, in the form of statistical data as well as in narrative form as required in **Annexure CE-I/ST-I** of this manual. This file should be useful not only for the future audits, but also as a ready reckoner for other purposes, such as for reply to the Parliament Questions and generating Management Information System (MIS) reports.

6.2.1 The Planning and Co-ordination section of Audit Commissionerate Hqrs/ MIS section of the audit circle should collect all relevant information and documents about the assessee/taxpayer from various sources (including the assessee/taxpayer himself), arrange it methodically in the assessee master file and regularly update it.

6.2.2 The hard copies of the documents as listed in **Annexure CE-I/ST-I** should be maintained for a period of 5 years. Documents pertaining to period older than 5 years, should be removed unless relevant to any current proceedings. Disposal of

the documents removed from a master file should be done with the approval of Deputy Commissioner/Assistant Commissioner (Audit).

6.2.3 The Planning and Co-ordination section of an Audit Commissionerate Hqrs/ MIS section of the audit circle should also maintain a separate electronic folder for each assessee/taxpayer and make all entries for that particular assessee/taxpayer in that folder only. The folder should be updated after every subsequent audit. Initially, most of the information would be available in the form of hard copies and the updating has to be done manually. Progressively, the information would be maintained in electronic format with automated data transfer through networking system and could be automatically updated.

6.2.4 The electronic data should be kept in a properly secured format so that it can be altered or modified only by an authorised officer of the audit group. This folder should be protected by a password and should be made available to the officers of audit only with the prior approval of the Assistant/Deputy Commissioner (Audit) in writing. The data should, however, be accessible to all the concerned officers working in Audit Commissionerate.

6.2.5 The AMF of the assessee/taxpayer selected for audit should be handed over to the respective group under an acknowledgement for the purpose of conducting desk review. On completion of the entire process of audit, the audit group should update and return the AMF to the Planning and Co-ordination Section/ MIS Section.

6.2.6 It should be ensured that the AMFs are maintained under the direct control of the Dy./Asst. Commissioner in-charge of the circle. On being transferred, the Dy./Asst. Commissioner should handover all the master files to the new incumbent.

6.2.7 The master file should be updated periodically or after completion of each audit. The audit working papers, audit report, duly approved during the audit monitoring meeting, along with the latest documents should be filed properly in a file and the same shall be attached to the Master file folder of the assessee/taxpayer. Scanned/soft copies of the relevant documents should also be kept in the AMF folder.

6.2.8 Keeping in view the security of the information, the hard copies should be made available only if the information contained therein is not available in the electronic format. In any case, the file containing the hard copy should not be taken out of the MIS unless permitted by the Assistant/Deputy Commissioner of the MIS

and after due entry in the file movement register. The information contained in these files would, however, be available to all the officers for any legitimate official purpose.

6.3 Allocation of audits amongst the audit parties:

The audit schedule should also mention the Group No. of the audit group to conduct audit of a particular unit. It must be ensured that the group members of the audit party are fully trained for conducting audit in accordance with the guidelines in this manual.

6.4 Action to be taken by the Audit Group:

Once the audit schedule, with Group allocation, is finalised, the action shifts to audit groups. The group should have adequate time to complete the preparation for audits to be conducted as per the audit schedule. All units listed to be audited should be intimated at least 15 days before the commencement of audit verification in their premises. A format of the letter intimating the assessee/taxpayer about the audit and the records/documents to be provided to the auditors has been provided in **Annexure-CE-II/ST-II** of this manual.

6.5 Working Papers (Annexure – CE-VIII/ST-VIII):

1. The working papers form the basis of audit objection. They also show the detailed steps undertaken by the auditor during the preparation for and conduct of the audit. Therefore they should be filled carefully, giving observations and conclusions of the auditor duly supported by evidences/documents, wherever required.
2. Each part of the working paper should be filled up on completion of the relevant audit step. The date on which such part is completed and working paper filled in should be mentioned. The working papers should be filled in by the auditors themselves and in no case should be handed over to the assessee/taxpayer for filling them up.
3. The completed working papers must be submitted by the Audit Group with the draft audit report made with the help of audit report utility (ARU).
4. Copies of supporting documents/records/evidences referred to in the working papers must be annexed at the end. Each copy should have a cross-reference to the relevant entry in the working paper.
5. Before the conduct of audit verification, the audit plan should be approved and signed by senior officer not below the rank of

6.6 Desk Review

6.6.1 Objective:

The desk review lays emphasis on gathering data about the assessee/taxpayer, his operations, business practices and an understanding of the potential audit issues, understanding his financial and accounting system, studying the flow of materials, cash and documentation and run tests to evaluate the vulnerable areas. The preliminary review assists in development of a logical audit plan and focus on potential issues.

6.6.2 This is the first phase of the audit programme done in the office. The idea is to gather as much relevant information about the assessee/taxpayer and its operations, as much as possible, before visiting the unit. A good desk review under the supervision of senior officers is critical to the drawing up of good audit plan. The services of Assistant Director (Costs) allocated to CC Zone may be utilised effectively wherever required.

6.6.3 The auditor should immediately refer to the AMF (**Annexure-CE-I/ST-I refers**). Study of the AMF could throw up important points, which may merit inclusion in the audit plan. In addition, the auditor should also obtain the latest Trial Balance Sheet, Tax Audit Report, Annual Financial Statement, Cost Audit Report or any such document prepared or published after the last updating of AMF. From the scrutiny of these documents, certain points may further emerge for inclusion in the audit plan. The auditor should also incorporate the result of any parameters brought to light by risk analysis into the desk review for pin pointing specific issues for scrutiny during audit. An illustrative list of important documents required to be scrutinized from the audit angle is given at **Annexure -CE-III/ST-III).**

6.6.4 All receipts of the taxpayer need to be tested for Service Tax liability. Analysis of exports turnover, turnover of non-taxable and exempted services gives a clear picture of the amounts which were not considered for Tax payment. It also helps to conclude whether such exemptions claimed are proper or not. (Part III (I) of Working papers in Annexure ST -VIII refers).

6.6.5 Cost Accounting Records/Cost Audit:

- 1.** Cost Accounting records are required to be maintained by certain companies *inter alia* by i) whose turnover exceeds Rs. 20 Crores ii) who are listed in any stock exchange as per Companies (Cost Accounting Record) Rules, 2011
- 2.** Cost Audit is required/mandated for applicable companies of CAR Rules and;
 - i) whose turnover exceeds Rs. 20 Crores, which are specified in Table I of order F. No. 52/26/CAB-2010 dated 06.11.2012 of Ministry of Corporate Affairs;
 - ii) whose turnover exceeds Rs. 100 Crores and which are specified in Table II of Order of Ministry of Corporate Affairs, mentioned above and
 - iii) listed companies (For details please refer the website of Ministry of Corporate Affairs at www.mca.gov.in)

For latest amendments and existing norms the Companies (Cost Records and Audit) Rules 2014 may be referred to.

6.6.6 From the AMF, Trial Balance and Annual Financial Statements (Profit & Loss Account and Balance Sheet) it is possible to work out important financial ratios. The said ratios should be compared with the ratios of earlier year and wherever significant variation is noticed, these areas may be selected for audit verification. It may be kept in mind that any adverse ratio is only an indicator for verification of such an area and there may be valid reasons for the same. Therefore, only on the basis of such an adverse ratio, a point for verification can be selected. An illustrative list of important ratios is given at **Annexure-CE-IV/ST-IV**.

6.6.7 Reconciliation of data with third party information: Duty/tax payment shown in the CE/ST returns can be reconciled with that shown in the financial accounts. Further, from the reconciled figure of duty/tax payment, assessable value of the sales can be worked out. This can then be compared with the sales figure shown in financial records. The difference, if any, must be analysed. The unit assessable value of the assessee/taxpayer can be compared with that of another assessee/taxpayer manufacturing the same item. This method would give an idea whether the valuation and duty calculation system of the assessee/taxpayer is a high/low risk area. A comparative chart of items from financial statement to be

drawn for reconciling the data is annexed as **Annexure-CE- V/ST-V**. The auditor should check the data available in ST-3 returns with other documents such as gross trial balance, Income Tax Returns, Annual Audited accounts, Income Tax Audit report etc. and to carry out a preliminary reconciliation for the purpose of identifying any amount that might have escaped Service Tax.

6.6.8 Revenue Risk Analysis:

Risk Analysis is a method of identifying potential revenue risk areas by employing modern techniques. It can be carried out by (i) reconciling various specific financial data, comparing it with different business accounts/documents, (ii) deriving certain data and comparing with the actual figures of the financial documents & (iii) comparing the key data figures of the unit with the average of all industry figure of similar kind (if available) or past figures of the same assessee/taxpayer. The result of Revenue Risk Analysis should be filled in the relevant column of working papers.

6.6.9 Trend Analysis:

Trend analysis is a type of computational support needed for the analysis preparatory to planning, by analysing historical data and working out future projections. Historical data is analysed to discover patterns or relations that would be useful in projecting the future production, clearances and values etc.

6.6.10 For audit purposes, either absolute values or certain ratios are studied over a period of time to see the trend and the extent of deviation from the average values during any particular period. The analysis of trends as mentioned in the relevant table of working papers may be carried out. (refer III 9 of Annexure –CE-VIII/III C of Annexure-ST-VIII)

6.7 Gathering of information of the assessee/taxpayer

6.7.1 Tour of premises/plant:

CENTRAL EXCISE: Before start of audit verification, the auditor should know about the functioning of various areas, like marketing, production, purchase, stores and accounts. Such information can be gathered from the heads of various sections of the assessee/taxpayer during the visit to the unit. This is used to gather information about the systems. A physical tour of the unit/premises provides confirmation of much of the information gathered during previous steps and it also helps resolve issues noted earlier. Often, the tour brings out operations and technical details about inputs used and products/by-products/wastes

manufactured, some of which may not have been considered during the discussions. It provides clues about important aspects of the operations of the unit. If necessary the auditor should speak to the plant manager or supervisor/foreman during the tour. The auditors should also go through the working papers prepared in the last audit in order to acquaint themselves with the broad procedures followed by various sections of the assessees/taxpayers as part of the desk review. The auditors may fix appointment with various section heads and during discussions the overall functioning of the unit can be found out and at the same time officers of the company can also explain various procedures adopted by them. Various types of records maintained for internal control purpose and reports generated by the units can also be found out by the auditors during discussions. Any important happenings like fire or natural calamity, introduction of new products, overall scenario of industry, new marketing techniques, new discounts, action of competitors etc. can also be found out by the auditors.

Points noticed during desk review can also be enquired at this stage. For this purpose, a sample questionnaire has been prepared for discussion in the areas like purchase, sales, stores, tax accounting, job work given in **Annexure-CE-VI/ST-VI**. However auditors may add more questions depending upon the nature of the industry. The following guidelines should be kept in mind at the time of interview.

- i. Stay in control of the interview.
- ii. Follow a prearranged path of questioning, but be flexible.
- iii. Explain questions clearly and ensure that the question has been understood.
- iv. Listen carefully and observe reactions.
- v. Do not interrupt unless the interviewee appears to be deliberately changing the subject.
- vi. Avoid ambiguous and leading questions.
- vii. Display confidence and put the auditee at ease.
- viii. Summarize the interview at the end and seek clarification if necessary

6.7.1.1 The purpose of the tour is to gather information from the assessee/taxpayer about the various systems followed by him in the areas of purchase, stores, sales, job work, tax reporting etc. This information can be test-checked by conducting walk through.

6.7.1.2 Before undertaking the tour to the factory, the auditor should also prepare a Questionnaire to gather information for evaluation of internal controls of the assessee/taxpayer. An illustrative Questionnaire is placed as **Annexure-CE-VI/ST-VI** for guidance of the auditor though he can modify the same according to the need.

6.7.2 SERVICE TAX: There should be no tour of premises in respect of a service tax assessee. It is only a walkthrough of systems that should be performed.

6.7.3 Evaluation of the Internal Controls.

The objective of review of internal controls is to assess whether the assessee/taxpayer has reliable systems and controls in place that would produce reliable accounting/business records. Most medium to large companies have ERP systems in place, which account for all transactions from entry of raw material to clearance of final products. Auditors must have a look at these systems and more relevantly determine whether software being used exclusively for the transactions related to excise/service tax matters is integrated to the main ERP system or is running parallel to the main ERP. This assessment would be used by the auditor to decide on the extent of verification required and to focus on areas with unreliable or missing controls. It should be noted that this review must be commensurate with the size of operations. A small assessee/taxpayer might have little in terms of internal controls whereas a large assessee/taxpayer would have sophisticated internal controls in place. If the internal controls are well designed and working properly, then it is possible to rely on the books maintained by the assessee/taxpayer. The scope and the extent of the audit can be reduced in such a case. The reverse would be true if the internal controls are not reliable. Audit should evaluate the soundness of internal control of sub-systems/areas like sales, purchase tax, accounting etc., and grade them as good, acceptable and poor (refer Part D of working papers)

6.7.3.1 In this regard, an auditor should normally examine the following:

- i. Characteristics of the company's business and its activities.
- ii. System of maintenance of records and accounts.
- iii. Identifying the persons handling records for accounting purposes.
- iv. Allocation of responsibilities at different levels.
- v. System of internal checks.

- vi. System of movement of documents having relation to duty/tax assessment.
- vii. Inter-departmental linkages of documents and information.
- viii. System of own internal audit.

6.7.4 Techniques for evaluation of the Internal Controls.

(a) **Walk-through:** This is a process by which the auditor selects any transaction by sampling method and traces its movement from the beginning through various sub systems to the end. The auditor verifies this transaction in the same sequence as it had moved. By this method the auditor can get a feel of the various processes and their inter linkages. It is also a useful method to evaluate the internal control system of an assessee/taxpayer. The auditor can undertake walkthrough process of sales, purchase, excise, account adjustment systems etc., certain model 'Walk-through' routes are given in **Annexure-CE-VI/ST-VI**. Similarly, key controls may be examined for recording of all cash transactions: these controls may include scrutiny of numbered cash transaction invoices, daily reconciliation of cash invoices, separation of taxes etc. Undertaking a 'walk-through' and conducting ABC analysis during this process would help the auditor in evaluating the system of internal controls in a scientific manner.

(b) **ABC Analysis:** It is a known fact that in any field of activity an enormous data is generated and all data is not equally important. In order to filter out the irrelevant or relatively insignificant data, various techniques are applied. The ABC Analysis is one of such data management techniques. This technique is particularly useful when auditors are required to scrutinise and examine a large volume of data/documents within a limited time. In ABC analysis the whole data population is classified into three categories (i.e. A, B and C categories) based on the importance, as given below:

- A-category is the class of data that is the most important from the point of view of managing and controlling the same.
- B-category is the class of data, which should invariably be controlled, but the degree of control is not as intense as for A-category.
- C-category is the class of data, which has far less revenue-implications and can be controlled by suitable test-checks.

The auditor can apply ABC Analysis especially where the quantum of data/information to be analysed is voluminous. In such a case, the auditor can classify them according to their tendency towards potential risk into A, B and C categories.

To give an example, transactions with top five customers/clients of an assessee/taxpayer may alone be taken up for detailed examination by auditors. Similarly while verifying credit utilization by the assessee/taxpayer, documents relating to the receipt/procurement of major inputs may be examined. The technique of ABC analysis can also be suitably applied for evaluating the systems of internal controls while carrying out verification.

6.8 Preparatory Visit:

The above steps viz., tour/study or evaluation of internal controls/walk through etc., are required to be completed by making a preparatory visit during the Desk Review stage itself, in respect of audit of **Large Units of Central Excise**, by giving advance intimation to the assessee/taxpayer (**Annexure - CE - XI**).

6.8.1 In respect of audit of Medium and Small units of Central Excise and **all units of Service Tax**, these steps can be carried out during the stage of actual audit verification.

6.8.2 The auditor should invariably record the findings, which are to be kept in the AMF in the format as mentioned at Part D of Working Paper (**Annexure -CE- VIII**).

6.8.3 During the subsequent audit of large units, the preparatory visit for desk review need not be made. During the verification, the auditor should verify and comment as to whether the system is in place or not.

6.9 Audit Plan

6.9.1 The objective of preparing an audit plan is to outline a logical series of review and examination steps that would meet the goals and standards of an audit in an efficient and effective manner.

6.9.2 Audit Plan is the most important stage before conduct of audit. All the previous steps are actually aimed at preparation of a purposeful Audit Plan. Therefore, it is important that all previous steps are completed and the relevant Working Paper of each of the steps is filled up before commencing preparation of an audit plan. By now, the auditor is in a position to take a reasonable view regarding the vulnerable areas, the weak points in the systems, abnormal trends and unusual occurrences that warrant detailed verification. Certain unanswered or inadequately answered queries about the affairs of the assessee/taxpayer may also be added to this list.

6.9.3 Audit plan should be a detailed plan of action, preferably in a standard format. The audit plan should be consistent with the complexity of the audits (Annexure –CE-VII/ST-VII).

6.9.4 The summary results of desk review, along with the completed Working Papers, should be submitted to the Deputy/Assistant Commissioner for approval and guidance, if any.

6.9.5 The audit plan must be discussed with the Deputy Commissioner / Assistant Commissioner of the Circle and should be finalised after approval by the Commissioner/Additional/Joint Commissioner/Deputy/Assistant Commissioner as the case may be .

6.9.6 The audit group should put up documents received, along with filled in Questionnaire and working papers in the prescribed proforma, related to top 5 units of each audit circle mentioned in the Annual Plan for audit coverage to the Commissioner and the rest to the Additional / Joint Commissioner (Audit) through Deputy / Assistant Commissioner (Audit), for approval of the audit plan, after carrying out preliminary reconciliation, identifying discrepancies, if any, and carrying out detailed examination of the records and information (including that already captured in the Master File on assessee/taxpayer).

6.9.7 In the case of mofussil circles where ADC/JC is not available:

- i. In respect of large and medium units, the audit parties should forward the draft audit plans to the Additional/Joint Commissioner, through the DC/AC of the circle, by e-mail, for approval. The audit of the respective units should not be conducted till receipt of the approval of the ADC/JC, through e-mail. While sending the desk review and the draft audit plan, the information that is available in electronic format in the assessee/tax payer's profile should also be sent.
- ii. In respect of small units, the Deputy/Assistant Commissioner of the Circle is competent to approve the audit plan. However, the approved audit plan should be forwarded to the Additional/Joint Commissioner, through e-mail, at least 10 days before the conduct of actual audit so as to enable the ADC/JC to communicate additions, if any, before the actual audit takes place.

6.10 Audit Verification

6.10.1 The objective of audit verification is to perform verification activities and document them in order to obtain and record audit evidence. The verification techniques must be appropriate for audit objectives identified in the audit plan. It is important that in an audit, the objections that are raised are technically correct and stand up against scrutiny or challenge. Law being open to interpretation, it may be difficult to test the technical correctness of all objections. However, it should be correct to the extent that any professional auditor, working with and having access to the same research material would likely to come to the same conclusion. It also means that the auditor must demonstrate, in writing, the research and reasoning used to base his/her application of legislation, policies and jurisprudence.

6.10.2 Audit verification involves verification of data and actual verification of documents submitted at the time of desk review, verification of points mentioned in the audit plan.

6.10.3 Verification of points mentioned in the audit plan:

The auditor should conduct the verification in a systematic manner, following the sequence of steps envisaged in the working papers. While conducting audit verification, special care should be taken to examine all those issues pointed out in the audit plan. The auditor should try to determine whether the apparent weaknesses in the internal control system of the manufacturer/service provider have led to any loss of revenue. He should also identify the procedural infractions on part of the assessee/taxpayer, which are recurrent in nature and which may obscure a significant fact. During the process, he must cross check the entries made by the assessee/taxpayer in various records and note discrepancies, if any. In all cases involving discrepancies, the auditor should make detailed enquiries regarding the cause of the discrepancies and their revenue implication.

6.10.4 The auditor should also examine the documents submitted to various Government departments/ Regulatory Authorities such as Customs, Income Tax, Commercial Tax/ VAT, Banks, etc. by the assessee/taxpayer. This should be used in cross verification of the information filed by the assessee/taxpayer for the Central Excise/Service Tax assessment. **Annexure-CE-IX/ST-IX** gives utility of some of the documents/ registers of the assessee/taxpayer that can be made use of by the auditor during the course of verification. Extensive use of information available with

open sources such as electronic and print media, internet etc should also be resorted to for verification of information filed by the assessee/taxpayer.

6.10.5 The audit verification gives maximum opportunity to the auditor to go through the assessee/taxpayer's records in his unit. Therefore, auditor may come across a new set of information or documents, not earlier known, during any of the earlier stages. Further, while examining an issue, the auditor may come across a fresh issue also requiring detailed examination. In such a situation, the auditor should, after obtaining the approval of his Dy. Commissioner/Asst. Commissioner, go beyond the scrutiny envisaged under the Audit Plan and record the reasons for doing so. Despite audit verification being a structured process, it is flexible enough to accommodate needs on the spot. At the end of each entry in working papers, auditor must indicate the findings. If any of the planned verifications is not conducted, the reasons for the same must also be recorded. While the process of verification for each audit would be unique in terms of Audit Plan, it should involve some general steps as discussed below:

6.11 Physical Verification of Documents: All important documents are already verified at the time of desk review. However, in case of any discrepancy noticed and pointed out in the Audit Plan, a detailed scrutiny of the financial records of the assessee/taxpayer becomes imperative. The documents to be examined include Annual Financial Accounts containing Director's Report, Statutory Auditor's Report, Balance Sheet and Profit & Loss Account. If necessary, the auditor must go into details of the figures mentioned in the Annual Financial Statements and for that he must examine Trial Balance, Ledgers, Journal Vouchers and Invoices. He may also examine Cash Flow Statement, Groupings, Cost Audit Report and Tax Audit Report. He should also check whether the assessee/taxpayer is maintaining the statutory records as required under various statutes especially under the Companies Act, 2013.

6.11.1 Audit objections raised must be fully supported by documentary and legal evidence. This will greatly help in explaining and discussing the objections with the assessee/taxpayer and other follow up action. It needs to be ensured that all audit documentation is complete, accurate and of professional quality. Working Papers are a synopsis of audit operations conducted by the Audit Group. Entry of all items mentioned in the audit plan must be made in the working papers, during Audit Verification.

6.11.2 In case of Central Excise audits, as well as Service Tax audits, if the auditors notice that the assessee has availed or utilised taxable services from service providers, they may attempt to ascertain from the assessee as to whether such service providers are registered with the department or not. In case such information is not available, the auditors should prepare a list of all such service providers who had provided total taxable services valued at more than Rs. Ten lakhs in a financial year from the documents available with the assessee and gather details of their location. Such information should be forwarded to the jurisdictional Service Tax authorities to verify proper discharge of service tax liability and for taking necessary action in case of any defaults.

6.12 Working papers should support the audit effort and results. They should:

- i. Be clear, concise, legible, organized, indexed, and cross-referenced;
- ii. Disclose the audit trail and techniques used in the examination of each significant item;
- iii. Support the conclusions reached and cover all queries raised;
- iv. Include audit evidence (e.g., copy of a financial statement, an invoice, a contract, a bank statement, etc.) to support the assessment;
- v. Link results to supporting working papers e.g. the objections identified in the working papers must agree with the summary of audit results or statement of audit objections and the audit report;
- vi. See that audit reports are clear and disclose all material and relevant information; and
- vii. Take follow up action.

6.13 Apparently, the financial and other documents maintained by the assessee/taxpayer for his private use and in compliance of other statutes are of great importance which may reveal substantial short/non-payments of duty.

Annexure-CE-IX/ST-IX provides an illustrative list of such records/ documents, as also the relevant information that can be gathered from them. The auditor may take note of the same during 'Gathering information about the assessee/taxpayer and the system followed by him', and go through them during 'Audit Verification'.

6.14 Checking of cross utilization of credit on inputs and input-services:

Manufacturers who are also providing taxable services, are required to file ER-1 Return and ST-3 Return separately. It is possible that the assessee/taxpayer may misuse the CENVAT credit facility by declaring different amounts of credit taken or utilized in ER-1 and ST-3 returns especially when the periodicity of filing both the

returns are different. Therefore, while carrying out audit of Central Excise cases, the Service Tax return filed by the assessee/taxpayer should also be scrutinized in order to ensure that CENVAT credit claimed in both the returns does not vary and vice versa. Further, where both the returns are filed in the same Commissionerate, audit of both the activities should be undertaken simultaneously. If these returns are being filed separately (one with the Excise Commissionerate and the other with the Service Tax Commissionerate, then this can be tackled by undertaking integrated audit for Central Excise and Service Tax. While undertaking the combined audit, both the Central Excise and Service Tax returns should be scrutinized in order to verify whether CENVAT credit claimed in both the returns is different.

6.15 Apprising the assessee/taxpayer of irregularities noticed and ascertaining his view point

It is important that the auditor discusses all the objections with the assessee/taxpayer before preparing draft audit report. The assessee/taxpayer should have the opportunity to know the objections and to offer clarifications with supporting documents. This process will resolve potential disputes at an early stage and avoid unnecessary litigation.

6.16 The ultimate aim of conducting an audit is to increase the level of tax compliance of assessee/taxpayer. Therefore, no audit can be considered to be complete unless the auditor has made all efforts to ensure maximum recovery of short levy before leaving the premises of the assessee/taxpayer. As the Audit system adopts a transparent methodology, it is necessary that all the audit objections noticed by the Audit Group are conveyed to the assessee/taxpayer with a view to ascertain his point of view before preparing the Draft Audit Report. Accordingly, the audit objections should be intimated in writing to the assessee/taxpayer, clearly stating that the same is not in the nature of any show cause notice and is only a part of participative and fact-finding audit scheme under which even the preliminary and tentative audit observations are being shared with the assessee/taxpayer for ascertaining his point of view. Where satisfactory explanation or evidence is submitted to the auditor, the findings should be revised as necessary after approval of Deputy/ Assistant Commissioner. However, if a response from the assessee/taxpayer is not forthcoming, draft audit paras should be prepared on the basis of available records after citing the lack of cooperation on part of the tax payer, in the Audit Report.

6.17 It is the auditor's responsibility to explain all the objections to the assessee/taxpayer and to make all attempts to resolve any disagreements before those are finalised. It is also the auditor's responsibility to make sure that the senior officers are aware of potential disagreement and the position taken by the assessee/taxpayer.

6.18 Suggestions to Tax Payer/Assessee for future compliance

6.18.1 Before leaving the assessee/taxpayer's premises, the auditor must discuss future compliance issues with the senior management of the assessee/taxpayer. The auditor should also discuss the steps that management can take to reduce specific errors detected during the audit and to improve compliance by suggesting improvements in the accounting systems etc. Written or verbal assurances as given by assessee/taxpayer should be recorded in the Audit Report.

6.19 If, in any way, the department can assist the assessee/taxpayer to reduce errors and improve compliance, such offer of assistance should be made.

CHAPTER 7

EXPORT ORIENTED UNITS

7.1 SERVICE TAX: There is no general exemption to EOU / EHTP / STP / BTP units from payment of service tax. There are no special provisions governing payment of service tax by these units either.

7.2 CENTRAL EXCISE: Section 3 of the Central Excise Act makes a special dispensation for EOU s and provides that goods manufactured in such units are liable to excise duty equivalent to the aggregate of all customs duties, when cleared into domestic tariff area (DTA). They are also eligible for a number of exemptions both from customs and excise duties. These exemptions apply to goods procured by such units such as capital goods, raw materials, intermediates and inputs. In order to avail of these exemptions, however, these units need to fulfil the conditions prescribed in the relevant notifications. Auditors need to be mindful of these conditions and to clearly distinguish between violations calling for issuance of demands of customs duty and those that involve recovery of central excise duty.

7.3 Owing to options available to such units under the Foreign Trade Policy and the nature of goods manufactured, each unit is likely to have a unique pattern of inflow (of duty free or exempted goods) and outflow (of exempted or dutiable goods). To give an example, some units may procure capital goods indigenously claiming excise duty exemption while others may import them free of customs duty. In addition, EOU s are also permitted to send goods out for job work as well as to receive goods from units in the DTA for job work. As a general principle, it may be useful to begin audit of a unit by creating a flow chart that would clearly show these movements so that the nature and extent of duty liability for each movement is clearly identifiable.

7.3.1 Evaluation of Internal Controls would be particularly useful in identifying potential risks to revenue for each of these movements. Such evaluation would also throw up risks owing to substitution of imported raw materials, their diversion into DTA and inflation of wastages and rejects – factors unique to EOU s. Depending on the nature of goods being manufactured, auditors may have to use suitable indicators of risk on account of such factors.

7.4 The auditor has to lay special emphasis on verification of documents, registers and returns that are mentioned or filed either to the Customs authorities or to the any other authority. Sales to DTA also constitute a sensitive area. The auditor should scrutinise the records and returns pertaining to these schemes for verification of fulfilment of such conditions.

7.5 The auditors should examine the following issues in addition to the usual checks:

- i. Whether approval of Board of Approval/Development Commissioner /prescribed authority has been obtained; whether the unit has become operational during validity of the letter of the approval; whether the items of manufacture and rejects conform to such approval;
- ii. Whether the unit has the capacity to achieve the volume of production indicated in the LOP or whether a LOP has been obtained for quantities far in excess.
- iii. Whether benefits of Customs/ Central Excise exemptions have been availed only on admissible items as listed in the notifications; whether the goods imported/ indigenously procured duty free are required and conform to the declaration submitted to the Development Commissioner and are actually used for the manufacture /processing of export goods; whether such goods are available in the factory or otherwise accounted for;
- iv. Whether goods covered under all the CT-3 forms issued during the period of Audit have been received and duly accounted for; whether such duty free goods are properly declared in terms of description, value and quantity; and whether the capital goods, raw materials, components, etc. have been used within the prescribed period;
- v. Whether any goods are imported in violation of the Foreign Trade Policy;
- vi. Whether any goods, procured free of duty, are removed unauthorisedly, i.e., they are transferred/ sold/sent for job-work/ supplied to other units without permission of the Assistant Commissioner/Deputy Commissioner or wherever necessary the Development Commissioner.

- vii. Whether permission for DTA sales has been obtained and if so whether the details of foreign exchange earnings and utilisation, furnished to the Development Commissioner tally with the records of the unit; and whether the conditions of exemption notification are satisfied;
- viii. Whether, the goods under DTA sales have been valued correctly in terms of the Customs Act read with Customs Valuation Rules and instructions issued by the Board; whether the DTA sale is within the prescribed limit and made on the basis of actual physical exports (and not deemed exports);
- ix. Whether excess DTA sales are effected at concessional duty by inflating the FOB value of exports.
- x. Whether duty on DTA sales is short-paid by under-invoicing the value or mis-classification.
- xi. Whether the facility of partial conversion of DTA unit into EOU is being misused. Such misuse is possible, firstly, when the duty free capital goods or raw materials etc. are used by a non-entitled unit i.e. the DTA unit. Secondly, duty free imported goods may be diverted to the DTA unit and also the production of the DTA is shown as the production of EOU for obtaining concession which can easily be done especially, when two units share common facilities and where they may not be under continuous Customs or Excise supervision.
- xii. Whether any imported goods/inputs/consumables attracting anti-dumping duty have been used in the manufacture of goods cleared into DTA. If so, whether proportionate anti-dumping duty leviable thereon has been paid or not.
- xiii. Whether there is any fudging and concealing of non-fulfilment of conditions by resorting to large scale inter-unit transfer; whether goods are removed against proper advance release orders and the material has reached the actual destination (Sometimes, EOU furnishes copies of only Shipping Bills as filed, as proof of export even though the goods are not exported under such shipping bills. Careful scrutiny of shipping bills will indicate that no goods have been exported and only shipping bill has been filed {and later withdrawn in some cases}). It is advised to verify as to whether

mate's receipts are available in respect of each of the exports made by the unit;

- xiv. Whether export obligation as prescribed is shown as fulfilled under both EOU scheme and duty exemption scheme by accounting for the same exports twice.
- xv. Whether values of exports are being mis-declared for showing the fulfilment of export obligation incorrectly.
- xvi. Whether re-warehousing certificate has been obtained in case of goods sent for inter-unit transfer or else duty due has been demanded; and whether goods claimed to have been exported have actually been exported.
- xvii. Whether the CENVAT credit has been availed in accordance with the CENVAT Credit Rules, 2004.

7.6 Tips for conduct of verification:

Certain useful tips to conduct audit verification in case of duty free imports, indigenous procurements, sub-contracting etc. are discussed below. These guidelines are only for the general convenience of the officers. For actual application, the relevant notifications and Paras of Foreign Trade policy in vogue should be strictly referred to.

7.6.1 Duty free Imports

EOUs can import goods required by them, under Notification No. 52/2003-Customs dated 31.3.2003, as amended. The list of goods permitted for import would depend on the sector (such as aquaculture, agriculture, horticulture, granite production, gems and jewellery or others) in which the unit operates. These goods can also be procured free of duty from a customs bonded warehouse. It is critical for auditors to check that the unit maintains proper account of the receipt, storage and utilisation of these goods and has put adequate internal systems in place, for this purpose.

In the event of violation of any of the conditions of exemption, customs duty is recoverable on the goods in question. The value of such goods should be ascertained under Section 14 of the Customs Act, 1962. It is important to note that the exemption would continue to apply to goods imported or procured under this exemption, even when they are used for the manufacture of goods that are cleared

into the DTA as per the permission of the Competent Authority (and not exported), as long as the appropriate excise duty is paid on the finished products.

- i. Examine the Bond register with that of Import documents so as to ensure that the goods obtained duty free are covered in the relevant Annexure of the notification.
- ii. Check whether the capital goods are installed or otherwise used within one year from the date of importation or procurement or extended period allowed by the Assistant/ Deputy Commissioner, failing which duty together with interest should be demanded.
- iii. Similarly, in case of other goods check whether they have been used for intended purposes or re-exported within three years or extended period.
- iv. Check whether the goods produced or packaged have been exported within a period of one year or extended period from the date of import/ procurement.
- v. Check whether unused goods (including empty cones, bobbins or containers suitable for repeated use) have been exported or cleared for home consumption within a period of one year or extended period. If not, duty together with the applicable interest at the applicable rate should be demanded.
- vi. Check whether the unit has achieved positive Net Foreign Exchange Earning. If it has not been achieved, compute the ratio of unachieved portion of NFEE to positive NFEE. Apply this ratio to the differential duty (duty payable on the goods but for the exemption) to arrive at the duty that would have to be recovered.
- vii. Check whether the quality of raw materials or components used in the manufacture of the finished (export) product is broadly the same as that imported or procured free of duty.
- viii. Check whether the goods taken out of the unit for test, repairs, replacement, calibration, job-work etc., as well as the waste, scrap or remnants are either returned or duly accounted for.
- ix. Check whether appropriate customs duty has been recovered on such capital goods and other goods (except used packaging materials) that have been allowed to be taken outside the unit, to any other place in India, under paragraph 4 of the notification. In these

cases, check whether the value of and rate of duty applicable on the relevant dates have been correctly applied. In case of capital goods, check whether the depreciated value has been properly worked out.

7.6.2 Procurement of indigenous goods

Exemption from excise duty is also available to goods procured from indigenous sources under Notification No. 22/2003 CE dated 31.03.2003. This exemption is similar to notification no.52/2003-Customs in terms of the conditions prescribed. Thus, the same checks, with suitable changes, should be applied in respect of capital goods, raw materials and other goods on which excise duty exemption is claimed.

7.6.3 Subcontracting, Job-work:

There are two situations, i.e. i) Sub contract part of their production process and ii) Sub contract part of the product. In both the cases, check whether the procedure prescribed by Board from time to time is being followed by the unit.

7.6.4 Inter unit transfer (From EOU to EOU):

- a) Check whether the goods supplied are re-warehoused and the range officer of the receiving unit has issued the re-warehousing certificate.
- b) Verify whether the receiving unit is an EOU and whether its license/LOP is in force.
- c) Check whether duty liability in respect of goods short received or not received has been demanded.

7.6.5 Exports:

- a) Check whether the proof of export has been received within six months of export. In case of non-receipt, check whether show cause notice has been issued demanding duty.
- b) Check whether the third party exports as per Para 6.10 of Foreign Trade Policy read with Para 6.19 of Hand Book of Procedures, Appendix 14I of Handbook of procedures are in order.

7.6.6 DTA sales:

Notification No.24/2003-CE exempts all excisable goods manufactured in a 100% EOU from the whole of excise duty [basic, additional (in lieu of sales tax) & additional (textiles and textile articles)]. This exemption is applicable so long as the goods are not brought to any other place in India. In other words, DTA clearances

of such goods would be liable to excise duty, unless they are exempt under some other notification. The highest rate of duty applicable to such clearances is that specified in section 3 of the Central Excise Act, viz., the aggregate of all customs duties. The **effective rate of duty** in case of DTA sales, may however, be lower – as prescribed in notification **No.23/2003-CE**. This rate depends on whether the goods under clearance are manufactured out of imported raw materials or exclusively out of indigenous raw materials. Concerned S.No. in the Table annexed to the relevant notification should invariably be referred to while verifying the applicability of these rates.

- a) Check whether DTA entitlement is in force and is adequate to cover the DTA sales. Also check whether these clearances are in accordance with the provisions of sub-paragraph (a), (b), (d) and (h) of paragraph 6.8 of EXIM Policy.
- b) Check whether DTA sales of rejects are within the limit of 5% of Free on Board value (FOB value) of the goods actually exported.
- c) If the unit has manufactured/ produced any non-excisable goods that have been cleared into the DTA, check whether the duty foregone on inputs (customs duty if inputs were imported and excise duty if they were procured free of excise duty) that have gone into the production of such goods, has been recovered.

7.6.7 Destruction of rejected goods/scrap/waste/packing material:

- a) Verify whether all rejected goods/scrap/waste/packing material have been cleared on payment of appropriate duty.
- b) If the unit declares that these items do not have commercial value and opts for destruction, verify whether the same have been destroyed under the supervision of appropriate Departmental officer.

7.6.8 B-17 bond:

- a) Check whether the bond is in force and the Bank guarantee is given in terms of Board's guidelines.
- b) Check the balance of bond amount considering 25% of the duty foregone and ensure that the balance is adequate and within limit.

7.6.9 De-bonding of goods procured duty free:

- a) Check whether depreciation allowed in respect of capital goods is as per the norms stipulated by the Board from time to time.

- b) Check whether the goods intended to be de-bonded were within the bonding period or within the extended period as permitted by the Chief Commissioner/ Commissioner.
- c) Check whether the duty at appropriate rates, prevailing on the day of clearance, at the depreciated value in respect of capital goods has been paid and interest at stipulated rates is considered from the date of expiry of the bonding period.
- d) Check whether the designated officer/Development Commissioner has given approval for the de-bonding of capital goods / raw material etc.
- e) Check whether the duty is paid within the prescribed time limit after approval of the Green Bill of entry and if not, interest is calculated at the specified rates as required under sub section 2 of section 47.

7.6.10 Payment of cost recovery/supervision charges:

- a) Check whether the unit has paid the charges for cost recovery/supervision charges.

7.6.11 Others :

- a) Check whether the unit is operating from a hired premises or has obtained capital goods on lease. If yes, greater alertness will have to be exercised while evaluating internal controls and for recoverability of dues, if any.
- b) Verify whether the procedure adopted for conversion of a DTA unit to EOU is in accordance with the provisions.

CHAPTER 8

PREPARATION OF AUDIT REPORT AND FOLLOW UP

8.1 Preparation of Draft Audit Report and submission to senior officers

8.1.1 After completion of audit verification, the auditor should prepare the verification report in the prescribed Proforma as mentioned in Part VI of Annexure-CE-VIII/ Part IVC of Annexure ST- VIII for each issue of the approved Audit Plan. This document should record the results of verification conducted as per the audit plan. Any additional issue (not mentioned in the original plan) verified/ point noticed should also be mentioned. The auditor would then discuss each of such issues with the assessee/taxpayer pointing out either non payment or procedural infractions. The initial views of assessee/taxpayer must be recorded in the verification document. The auditor should also apprise the assessee of the provisions relating to applicability of interest and encourage him to take advantage of those provisions in order to avoid disputes and litigation.

8.1.2 Where the assessee/taxpayer is in agreement with the short levy, as noticed, the auditor should explain the benefit available under Section 11A(2) of the Central Excise Act, 1944/Section 73(3) of the Finance Act, 1994 as the case may be and use persuasion as a measure of recovery of dues along with interest, if any, promptly. Details of spot recoveries and willingness of the assessee / taxpayer to pay short levy should also be recorded. This document would then become the basis for preparation of the draft audit report.

8.1.3 The Draft Audit Report shall be prepared in consultation with the Deputy/Assistant Commissioner of Audit Circle. The audit Circles shall bring the NIL DARs to the notice of concerned Addl. / Jt. Commissioner for review.

8.1.4 The narrative of the objections in the audit report should be concise, to the point and self-contained and should convey the gist of objection raised. Telegraphic narration should be avoided. Where the objections are based on any circulars or clarifications issued by the Board, they should be quoted. Cases, in which certain specified conditions are not fulfilled, giving rise to objections, should be clearly brought out. Similarly, where objections are backed by interpretations as decided by the court judgments, decisions of Appellate authorities or supported by technical literature, those should be cited.

8.1.5 The draft audit report should be finalised within the shortest time span possible i.e. within 20-25 days of the commencement of the audit in the assessee/taxpayer's place and placed before the MCM for decision.

8.2 Monitoring Committee Meetings

8.2.1 The auditor should submit the draft audit report, to the Deputy / Assistant Commissioner of the Audit Circle for consideration in the Monthly Monitoring Cell Meeting, preferably in soft form and hard copies should be avoided.

8.2.2 Monitoring Committee Meeting (MCM) should be convened by the Audit Commissionerate, to which the Executive Commissioner or his representative shall be invited to attend. The decision taken by the Audit Commissioner, with regard to settlement of audit objections after recovery of all dues or dropping of the unsustainable audit objections, shall be final. Approved audit objections, including those in which show cause notices are proposed to be issued, should be conveyed to the Executive Commissioner in the form of Minutes of the MCMs, who shall respond to these objections conveying his agreement/disagreement within 15 days of the receipt of the minutes of the MCM.

8.2.3 On points of difference, further consultations may be held for a period of 15 days. If the difference persists, the final decision rests with the Audit Commissioner.

8.2.4 The Planning and Co-ordination section of the Audit Commissionerate should organise, /Executive Commissionerate-wise / Circle-wise Monitoring Committee Meetings (MCM), at least at a monthly interval under the chairmanship of the Audit Commissioner, under intimation to the Executive Commissioner and the ADG (Audit) of the Zone concerned. The DD/AD (Costs) if available may also be invited for the said meeting. During the MCM each of the audit objections/ observations would be examined for its sustainability. The Committee (MCM) should also decide as to whether the extended period of limitation can be invoked or not and also on the applicability of the provisions relating to waiver of show cause notice in respect of each para (refer Section 11A(1)(b) of the CEA, 1944/Section 73(3) of the FA, 1994). To facilitate prompt decision, the Additional/Joint Commissioners and all the DC/ACs of Headquarters and all circles of the Audit Commissionerate should attend these meetings to offer their views on the spot, to ensure that uniformity in raising objections is maintained. The minutes of each such meeting should be drawn, pointing out the decision on each audit objection

regarding its sustainability and directions for future action. The objections rejected by the meeting will be treated as closed.

8.2.5 The Planning and Co-ordination Sections of Audit Commissionerate and the MIS of the Audit Circles should make prompt entries in the Registers of Audit Planning and Audit Follow-up in prescribed format (details as in Annexure XII), at every stage, until the closure of the audit point either by issue of a show cause notice or by recovery of amounts due or by closure on merits/reconsideration.

8.3 Final Audit Report

Based on the decision of the MCM, the draft audit report should be finalised within thirty days from the date of the meeting. The Planning and Co-ordination Sections of Audit Commissionerate shall upload the FAR using Audit Report Utility in ACES and issue FAR. A copy of the FAR, even if it is a NIL report, should be sent to the assessee/taxpayer, by e-mail and letter, and necessary records confirming such action should be kept in Assessee Master File.

8.4 Follow up action and issue of show cause notice

8.4.1 An audit objection should be closed after requisite action i.e., either recovery of amounts due or issuance of show cause notice, has been taken on it. After the issuance of Final Audit Report, wherever further action such as issue of Show Cause Notice is required, the Audit Group should prepare the Draft Show Cause Notice. In cases where the Show Cause Notice is answerable to the Superintendent, in-charge of the Range of Executive Commissionerate, the Superintendent in-charge of the audit group should issue the same, under intimation to Circle MIS section/Headquarters MIS section. In cases where the Show Cause Notice is answerable to the Deputy/ Assistant Commissioner, in-charge of the Division of Executive Commissionerate, the Assistant Commissioner in-charge of the Audit Circle should issue the same, under intimation to Headquarters MIS section. The cases where the Show Cause Notice is answerable to the Commissioner /Joint/Additional Commissioner of the Executive Commissionerate, Deputy/ Assistant Commissioner, in-charge of Audit Circle should submit the Draft Show Cause Notice to the Planning and Co-ordination Section/MIS Section of Headquarters along with the concerned file, which in turn shall be forwarded to the technical section of Headquarters which is in charge of issuing the show cause notice. In some cases, show cause notices are answerable to Superintendents, then the concerned Superintendent of Audit Circle shall take necessary action for preparing and issuing such show cause notice under

intimation to the Planning and Co-ordination Section / MIS Section of Headquarters. It is the responsibility of the Audit Commissionerate to pursue/persuade the assessee/taxpayer for payment of tax dues, especially on the paras admitted by the assessee/taxpayer. However, for any pending action i.e., recovery, especially on paras admitted **in writing** by the assessee/taxpayer, can be taken up with the jurisdictional Executive Commissionerate, for follow up. The issues relating to paras orally admitted should not be referred to the Executive Commissionerates. In case, new facts, necessitating reconsideration of findings in an audit report, come to the knowledge of officers who are required to take action on an objection, they should send their report along with supporting material to the Planning and Co-ordination Section for reconsideration. But this action must be taken most expeditiously, say within one month of receipt of the Audit Report. In exceptional cases involving cogent grounds, the views taken in the Monitoring Meetings shall be taken up for review/re-consideration by the MCM only. The Audit Commissioner should send a list containing details of Show Cause Notices issued during the month, by the Headquarters and Circles, to each of the Executive Commissionerates, on monthly basis.

8.4.2 The results of action arising after preparation of final audit report should be filled up in the follow up report utility and uploaded in the ACES database, as per the instructions in the Audit Report Utility Manual.

8.4.3 Each audit report should be examined by the Planning and Co-ordination Section/MIS Section of the Circle. Any objection with major revenue implication, objection specific to a particular issue or any objection describing a novel modus operandi, should be selected for (i) issue of Modus operandi circular within the Commissionerate, (ii) for communicating the same to the Principal Chief Commissioner/Chief Commissioner's office for circulation within the Zone, (iii) communication to the Directorate General of Audit for issue of audit circulars and (iv) communication of all important modus operandi to the DGCEI.

8.4.4 On completion of the above procedure the planning section shall place the documents in the Assessee Master file and also update the electronic file of the assessee/taxpayer.

RECORDS TO BE MAINTAINED IN HQRS AUDIT SECTION AND MIS SECTION OF CIRCLES ARE DETAILED IN ANNEXURE XII

CHAPTER 9

GUIDELINES FOR CONDUCTING AUDIT OF MULTI LOCATION UNITS (MLU) AND MULTI LOCATION SERVICE PROVIDERS (MLSP)

9.1 **Definition:**

9.2 CENTRAL EXCISE: A single manufacturer having more than one unit on the same PAN number is called a Multi Location Unit (MLU).

9.3 SERVICE TAX: A single service provider having more than one Service Tax Registration falling under different Commissionerates for providing services is called a Multi Location Service Provider (MLSP).

9.3.1 There may be three different situations in which the co-ordination of audit has to be done as detailed below:

i. **in case there is only one Audit Commissionerate in the PCC/CC Zone—**

identify all the assessees/tax payers, with a common PAN , in the jurisdiction of the Audit Commissionerate and audit of all the units should be covered simultaneously even though the assessees/tax payers are falling under different Audit Circles.

ii. **in case there are multiple Audit Commissionerates in the PCC/CC Zone—**

Audit of such assessees/tax payers should be covered/scheduled simultaneously by the coordinating Audit Commissionerate (to be decided by the PCC/CC based on the jurisdiction of the highest Duty/Tax Paying Unit).

iii. **In case of Registrants falling in multiple PCC/CC Zones –**

The Zonal ADG, under whose jurisdiction, the highest duty paying unit/service provider falls, will be the nodal agency for co-ordinated audit.

9.3.2 Identification of MLUs/MLSPs: For identifying Multi Location Units/Service Providers, the Audit Commissioners/Principal Chief Commissioners /Chief Commissioners/ Additional Directors General (Audit), of Zonal Units may

use the Automation of Central Excise & Service Tax (ACES) Registration database. This could be done by identifying the assessees/taxpayers having the same PAN but more than one Central Excise / Service Tax Registration falling under different jurisdictions for manufacture of goods/provision of service.

9.3.3 Selection of Units for MLU/MLSP:

- (a) In respect of MLU/MSLP categories (i) and (ii) mentioned above, the details of such units/service providers will be finalised by the DG (Audit)/Zonal ADG (A), while drawing up the Annual schedule in consultation with the Audit Commissionerate.
- (b) The preliminary list of MLUs/MLSPs of category (iii) above i.e assessees/tax payers falling in multiple PCC/CC Zones would be generated by the 30th of April in each financial year and circulated by the DGA on a CD or any other electronic media to the Zonal ADGs.

9.3.4 Procedure for selection of MLUs/MLSPs:

- (i) **Five MLUs and five MLSPs per annum will be selected by each Zonal Unit for coordinated audit.** The selection would be based either on MLUs manufacturing sensitive or evasion prone goods showing adverse revenue trend and service providers providing evasion prone services and showing adverse revenue trend or selected randomly.
- (ii) The Zonal ADG (Audit) would send short listed assessees/taxpayers for coordinated/simultaneous audit to the Audit Commissionerate.
- (iii) On receipt of such a list from the Zonal ADG , the Audit Commissioner should send the information maintained in electronic/ 'soft-form' from the Assessee/Tax Payer's Master File in respect of those MLUs/MLSPs to the Zonal ADG.
- (iv) The Zonal ADG should finalise the list of such MLUs/MLSPs selected for co-ordinated audit by 31st May every year so that such assessees/taxpayers are not covered in the annual Audit schedule prepared by the Audit Commissionerate. Actual audit verification may generally be planned during November/December of that year and this period should be

blocked by the Audit Commissionerate for conducting these audits.

9.3.5 Guidelines for conduct of audit of MLUs/MLSPs:

- A.** In respect of category (i), the procedure laid down for standalone audit should be followed. However, those units of such MLUs/MLSPs, which are selected for audit based on revenue risk and figured in the annual schedule, should **only** be covered and audited simultaneously.
- B.** Similarly, in respect of category (ii) units/service providers (only those units/service providers, selected based on revenue risk and figured in annual plan), audit should be completed as far as possible simultaneously, in coordination with the nodal Audit Commissionerate, by exchanging information from desk review to MCM.
- C.** In respect of category (iii) units/service providers, the Audit Commissioners concerned should ensure that the Audit Group, to whom the audit of Assessee/tax payer in their jurisdiction is assigned, completes the Desk Review and prepares the draft Audit Plan. A copy of the draft Audit Plan duly approved by the Additional/ Joint Commissioner (Audit) along with the Working Papers, reconciliation and extracts of the note-sheet portion of the audit file should then be sent to the co-ordinating ADG. It should be ensured that calculations done as part of the ratio analysis, trend analysis or revenue risk analysis are also sent.

9.4 On their part, the Zonal unit should obtain the consolidated balance sheet, Profit & Loss Statement and other financial documents of the company from the Head Office/ Corporate Office for scrutiny. Once the audit plans for all the Assessee/Taxpayers forming part of the MLU/MLSPs group are received, the ADG, if necessary, may convene a meeting with representatives (one per Group) of each Audit Group for finalization of audit plans. This would also be an opportunity for the ADG to explain the nature of relationship between the constituent Assessee/tax payers and common issues to be verified during the audit. Similarly, the Audit Groups of the Commissionerates may have identified certain issues that would need to be verified from the records / documents maintained at other units. The final audit plan for each assessee/taxpayer would be approved by the ADG after the meeting (if convened) and returned to the Audit Group. In case the selected MLU/MLSP also have different Service Tax registrations/Central Excise registration

respectively, simultaneous audit of both Central Excise / Service Tax is to be taken up.

9.5 Role of Zonal ADG (Audit)

- i. Zonal ADG would ask the jurisdictional Audit Commissionerates to conduct a Desk Review in respect of each manufacturing unit as well as on the accounts of the Regd. Office, if registered under the Service Tax Law.
- ii. Zonal ADG would finalise the Audit plans of the Assessee /taxpayer registrant-wise.
- iii. Zonal ADG would convene a meeting of the auditors, if needed.
- iv. The actual verification of the accounts at the Corporate / Regd. Office is to be done by the respective Audit Commissionerate under whose jurisdiction, the Regd. Office is located, if the premises is registered for the purpose of S.T.

NOTE : No visit should be made to the Regd /Corporate office of the Assessee /Tax payer for verification of books of accounts, if it is not registered under S.T law.

9.6 Audit Verification and Preparation of Draft Audit Report

- i. The Audit Groups should remain in contact with the Zonal ADG while conducting the verification so that new issues detected at the time of verification can be quickly conveyed to other Audit Groups. It should be the responsibility of the respective Additional/ Joint Commissioner of the Commissionerate that each issue of the audit plan is verified by the Audit Group and findings are recorded.
- ii. Whenever any assessee /tax payer is selected for Audit under the category of MLU/MLSPs, the audit of all units of such MLU/MLSPs is to be conducted in the coordinated manner as discussed above. In respect of **category (iii) units/service providers alone**, the Draft Audit Reports along with Verification Reports are required to be sent to the Zonal Co-ordinating ADG (Audit) for comments/ vetting. After receipt of comments of the Zonal ADG, respective Audit Commissionerates would place the objection before the MCM for decision.

S.No.	Name	PAN	Address	Type of relationship	Details of transaction, if any

9) Method of Accounting ;

a. Method of Accounting employed during the year (*Cash or mercantile*)

b. Whether there has been any change in the method of accounting employed during the year.

10) Whether any intimation filed under Rule 6(3A) of CENVAT Credit Rules, 2004.

If yes, mention date of filing.

11) Details of pending litigation with departmental authorities and Appellate Authorities

12) Type of Accounting Software used
(*Including version*)
(*Like Tally/FAS/SRP/Other version*)

13) Whether required to be Audited under Section 44(AB) of the Income Tax Act, 1961?
If yes, date of filing Audit Report.

14) Whether also required to be audited under Section 148 of the Companies Act, 2013? (*Cost Audit Report*).
If yes, date of Submission of Cost Audit Report.

15) Whether also required to be audited under State VAT law?
If yes, date of filing report.

16) CETH-wise details of value of products and Cenvat paid (for 3 years).

Period	Name & Description of product	Assessable Value of the goods	CETH code	Cenvat payable/paid	Total credit utilized	Net Cenvat paid in cash (GAR-7)
Year 1						
	H ₁					
Year 2						
	H ₁					
Year 3						
	H ₂					

Name of the branch

7) Details of the Bank accounts used for business transaction with name of the bank, its specific branch and account number.

(a) Account 1

(i) Name of the bank

$$\text{(ii) } N = 6+1 \quad 1 \quad 1$$

(ii) Name of the branch

ANSWER

(iii) Account No.

Details of more Accounts used for business transactions yes no

If yes,-

(b) Account 2

1. Name of the bank

2. Name of the branch

2. Account No. _____

3. Account No.

Note: In case of more than two bank accounts, two major bank accounts may be entered above.

11. List of units belonging to the manufacturer that are located at other places

Sl. No	Address	Central Excise Registration No	Service Tax Registration No

Part III- List of hard copies to be kept in Master File.

The other part of the master file should consist of hard copy of certain documents as illustrated below:-

- (i) A copy of the latest declaration furnished by the assessees to the department regarding the list of all records maintained by them in terms of Rule 22 of CER 2002.
- (ii) Copies of Balance Sheets, Profit & Loss Statement, Trial Balance, Annual Reports for the preceding three years.
- (iii) Copies of Tax Audit reports (under Income Tax Act) for 3 years.
- (iv) Copies of Cost Audit Reports, if any for 3 years.
- (v) A copy of the previous audit reports (if taxpayer was audited previously) – whether by Internal Audit or CAG.
- (vi) A copy of any other return / declaration sent to any other department / agency or to designated regulatory authority.
- (vii) ER-4, ER-5 and ER-6 for the preceding three years
- (viii) Working Papers.
- (ix) Minutes of MCM.
- (x) Any other documents relevant for audit for assessment.
- (xi) Copy of Form 3 CD submitted to Income Tax Department (in terms of Section 44 AB of Income Tax Act)

(ANNEXURE – CE - III)

I. Documents required during Desk Review -

1. Annual report and Director's report
2. Profit and Loss Account
3. Balance Sheet
4. Cash flow statement
5. Notes to the Accounts
6. Trial Balance
7. Cost Audit Report
8. Manufacturing process chart
9. ER-4, ER-5 and ER-6 Returns
10. Tax audit report

I. Documents required during Desk Review -

Sr.N o.	Name of the Record/Document	Relevance of the documents and checks to be done
1.	Annual Report & Director's Report	
	<p>The Annual Report prepared by a company <i>inter alia</i> contains the following:</p> <p>i) Director's Report (ii) Statutory Auditor's Report (iii) Balance sheet and Profit & Loss Account (iv) Financial statements of subsidiary companies, if any.</p> <p><u>Director's Report:</u> This gives information like overall financial results of the company, important happenings during the year and future plans of the company. Some of the important happenings like fire and loss of material in the company, details of new products launched, change in the marketing pattern etc. reported in the report may be useful to the auditor.</p> <p><u>Auditor's Report:</u> These may be reports of Statutory auditor or Internal auditor or C & AG Audit. In the case of statutory audit, a separate report under CARO (Companies Auditor's Report Order, 2003/2015) is required to be given.</p> <p><u>Nature of verification:</u> (i) The Auditor's Report should be studied to find out any qualified/adverse opinion given by the auditors which may have impact on Central Excise liability. For example, Auditor may report that finished goods stock were not reconciled between stock records and Central Excise records or provision for obsolete items have not been made during the year. Tax auditor may like to examine such opinion in detail.</p> <p>ii) CARO Report may be studied to find out whether the fixed assets records have been maintained properly or whether physical verification of raw material and finished goods was undertaken and whether any discrepancies were noticed on such verification or whether the company has maintained proper records for unserviceable or damaged goods or not.</p> <p>iii) CARO Report also shows disputed tax liabilities separately for Sales Tax, Customs, Central Excise and Income Tax. Cases booked under Sales Tax or Income Tax may be examined to find out any implication on Central Excise.</p> <p>iv) In the case of Public Sector unit, C & AG report and comment of the company available in the Annual Report should be examined.</p>	
2.	Profit & Loss Account	
	<p><u>Nature of the Account:</u> The Profit and Loss Account shows major items of expenditure and income. This is one of the important documents used during desk review to find out the overall working of the unit. In the main body of the Profit & Loss Account, only major heads of expenditure and income are given and the constituents of these headings are given in a separate annexure. The said annexure should be studied in detail.</p> <p><u>Types of verification:</u></p> <p>(i) Scrutiny of sales: Sales may include sale of manufacturing goods, trading goods, parts and accessories, scrap and export. The trading sales may be verified in detail in order to find out whether CENVAT credit has been availed on such trading goods or whether these are similar to the goods manufactured and sold by the unit or whether these are essential parts of components or accessories of goods manufactured by the unit. Purchase and sales price of such trading goods may also be inquired into in order to rule out the possibility of overvaluing the trading goods in order to undervalue the manufactured goods, if these are supplied to same customers.</p>	

	<p>(ii) Other incomes like sale of scrap, insurance claims receipt, profit on sale of fixed assets, commission received, erection and commissioning income, freight and insurance recovered etc. may be examined in detail to find out the exact nature of such incomes and whether these have any bearing on the valuation of the manufacturing goods or whether these are liable for Service tax.</p> <p>(iii) In the expenditure side, the account of raw material purchased or cost of material consumed should be examined in detail. For this purpose, the relevant ledger account may be scrutinized as discussed under the head General Ledger. Ratio of raw material consumption to sales may be worked.</p> <p>(iv) Along-with the Profit & Loss Account, quantitative details of the consumption of major raw materials is also required to be given as per the requirements of the Companies Act. Such quantitative details show the quantity of major raw material consumed and value thereof. Such information may be helpful in working out the input-out ratio. Notes given along with the said schedule should be studied carefully to find out cases of use of material for non-production activities.</p> <p>(v) The expenditure or income of the major heads should be compared with the previous year's amount in order to find out cases of major variations.</p>
3.	Balance Sheet
	<p><u>Nature of document :</u></p> <p>Balance sheet is a statement of assets and liabilities of a unit on a particular day. The overall financial health of a company can be determined from the study of a Balance sheet.</p> <p><u>Types of verification</u></p> <p>(i) Study of schedule of Share Capital may reveal if the company is subsidiary company and in case the company is holding company, in that case, the name of subsidiary company will be disclosed in the Schedule of Investment. If there are sale/purchase transactions with the holding/subsidiary company, in that case, the valuation of such products needs to be examined in the light of Valuation Rules.</p> <p>(ii) Study of fixed assets schedule may show additions and deductions to the fixed assets during the year. For the deductions made during the year, verification may be made as to whether appropriate excise duty have bee paid, if the Cenvat credit was availed in the past.</p>
4.	Notes to the Accounts
	<p>These notes are part of the Profit & Loss Account and Balance Sheet. These notes may be inserted by the company as per the requirement of the Companies Act or may be added at the instance of Statutory auditor. These notes are very important to a Tax auditor as these reveal important transactions or the important accounting policies followed by the unit.</p> <p><u>Nature of verification:</u></p> <p>(i) Notes of Significant Accounting Policies may be studied to find out the accounting policy in the areas like revenue recognition or determination of obsolete stock.</p> <p>(ii) Notes on quantitative information on consumption of major raw material, production of the finished goods and purchase and sale of trading goods may reveal number of interesting aspects and the input output ratio may also be studied. Cases of use of raw material for non production purposes may also be noticed from the study of such information. Adjustment for shortages, losses etc. may also be reported in the said information.</p> <p>(iii) Any important transaction/happening during the year like non-reconciliation of accounts of material lying with job worker, major expenditure on research and development, destruction of record and reconstruction of duplicate records may also be noticed from the study of such notes.</p> <p>(iv) As per the Accounting Standard issued by the Institute of Chartered Accountant of India, the specified companies are required to disclose transactions with the related parties under the Companies Act as part of the Notes to the Accounts. The said information gives all types of transactions like purchase, sales, payment made or payment received from various related parties by the Company. Such information is very useful to find out the details of the related parties and the type of transactions made by them. If necessary these transactions may be examined in detail. However, the related parties as per the Companies Act may not be considered as 'related person' under the Central Excise Law.</p>

5.	Trial Balance																																																																					
	<p><u>Nature of Document :-</u></p> <p>Trial Balance is a statement showing balances of all accounts in the ledgers as on a particular date. In other words, it is a summary of the ledger account maintained by an assessee. The final accounts, namely, Profit & Loss account and Balance Sheet are prepared from the Trial Balance only. From the Trial Balance, similar accounts are grouped together and these are transferred to the Profit & Loss Account and Balance Sheet.</p> <p><u>Types of verification :-</u></p> <p>i) Familiarization with account coding system and understanding the grouping of sub account under main accounts for the purpose of summarization into Profit & Loss Accounts and Balance Sheet.</p> <p>ii) Main purpose is to select the accounts for further scrutiny as a part of audit plan. Accounts which have a <i>prima facie</i> relevance for Excise duty payment or availment of CENVAT credit or payment of Service Tax need to be identified during Desk review. There might be some of the ledger accounts whose exact nature may not be clear on reading of Trial Balance and these accounts may also be identified for further inquiry during the further course of audit.</p> <p>iii) Unusual ledger accounts like Raw Material Loss Account or unusual income accounts may also be noticed in the Trial Balance. However, such accounts will not be reflected in the Profit & Loss Accounts as these accounts are adjusted against other accounts. Such account may be selected for finding of exact nature and detailed scrutiny.</p> <p>iv) Various income accounts (credit balances) available in the Trial Balance like Job Work Income Account, Erection and Commissioning Income Account, Commission Account, Recovery of Freight/Advertisement Charges Account Technical Consultation Income Account etc. should be selected to verify whether these income can be added to the assessable value for payment of Excise duty or whether these are liable for payment of Service Tax.</p> <p>v) Some of the expenditure accounts like Security Service Expenditure Account, Sales Commission Account, Advertisement Expenditure Account, Repairs and Maintenance Account, Royalty Account etc. should also be selected to find out whether Assessee has paid Service Tax or not.</p>																																																																					
	<p style="margin: 0;">GROSS TRIAL BALANCE PREPARED ON TOTAL METHOD</p> <p style="margin: 0;">AS AT MARCH, 31,</p>																																																																					
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 2px;">Heads of Account</th> <th style="text-align: center; padding: 2px;">Dr. Total Rs.</th> <th style="text-align: center; padding: 2px;">Cr. Total Rs.</th> </tr> </thead> <tbody> <tr><td style="text-align: left; padding: 2px;">Purchases</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Stock (April, 1, 2007)</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Sales</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Sundry debtors</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Discount Received</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Carriage Outwards</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Cash in hand</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Machinery</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Provision for depreciation</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Drawings</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Return inwards</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Premises</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Sundry Creditors</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Discount allowed</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Carriage inwards</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Cash at Bank</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">General Expenses</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Packing Expenses</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Bad debts written off</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Provision for Doubtful debts</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Capital</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> <tr><td style="text-align: left; padding: 2px;">Total</td><td style="text-align: center; padding: 2px;"></td><td style="text-align: center; padding: 2px;"></td></tr> </tbody> </table>	Heads of Account	Dr. Total Rs.	Cr. Total Rs.	Purchases			Stock (April, 1, 2007)			Sales			Sundry debtors			Discount Received			Carriage Outwards			Cash in hand			Machinery			Provision for depreciation			Drawings			Return inwards			Premises			Sundry Creditors			Discount allowed			Carriage inwards			Cash at Bank			General Expenses			Packing Expenses			Bad debts written off			Provision for Doubtful debts			Capital			Total		
Heads of Account	Dr. Total Rs.	Cr. Total Rs.																																																																				
Purchases																																																																						
Stock (April, 1, 2007)																																																																						
Sales																																																																						
Sundry debtors																																																																						
Discount Received																																																																						
Carriage Outwards																																																																						
Cash in hand																																																																						
Machinery																																																																						
Provision for depreciation																																																																						
Drawings																																																																						
Return inwards																																																																						
Premises																																																																						
Sundry Creditors																																																																						
Discount allowed																																																																						
Carriage inwards																																																																						
Cash at Bank																																																																						
General Expenses																																																																						
Packing Expenses																																																																						
Bad debts written off																																																																						
Provision for Doubtful debts																																																																						
Capital																																																																						
Total																																																																						
6.	Cost Audit Report																																																																					
	<p>Cost Audit Report provides quantitative and financial details regarding production,</p>																																																																					

	<p>clearance, capacity utilization, input-output ratio, related party transaction, valuation of production along with reconciliation of annual turnover with assessable value of excise product as per excise return.</p> <p>The Cost Auditor in his report gives the information/details on the cost data for the company as whole as well as in the respect of each plant/unit of the company located at different locations, thus study of the report helps the audit officer in comparison of various information/details across the plants and units. The details of relevant paras useful for Central Excise Audit are given in the table below:</p> <p>In case an assessee is not covered under the cost audit, the Audit Officer may examine the Cost Accounting records maintained by them on the lines of Cost Audit Report.</p> <p>The auditor may examine the following aspects from the Cost Audit report.</p> <table border="1"> <thead> <tr> <th>S. No. in Annexure to the Cost Audit Report and subject</th><th>What is to be seen</th></tr> </thead> <tbody> <tr> <td>1 & 3 - General Information</td><td>Auditors may use this information at time of Desk Review.</td></tr> <tr> <td>4 - Quantitative details</td><td> <p>It contains details of :</p> <ul style="list-style-type: none"> • Installed Capacity • Capacity enhanced during the period • Total production for self, under lease, on loan licence, by third parties on job-work. • Total available quantity • Samples/ Quantity Captively consumed. • Quantity sold with break-up of Export & domestic clearance <p>Auditors should reconcile this data with Excise Return and major variation (if noticed) should be looked into.</p> </td></tr> <tr> <td>5 - Cost Statements/ Cost of production statement</td><td>Separate cost statements would be available in respect of each product/ activity group. Auditors may utilise the same for valuation aspects. It also helps to compute assessable value under cost Construction method in terms of Cost Accounting Standard-4, for determining assessable value under captive consumption, related party transaction (Rule 9 provision) etc.</td></tr> <tr> <td>5 - Royalty & Technical Know-how Charges</td><td>As the information contain is product wise, the auditor may find it useful in determining the tax liability of the assessee under reverse charge mechanism if any in case the same was paid to foreign entities. Moreover, auditor may go through the source documents about the scope of work and terms of payment to assess the tax-compliance aspect of service tax on Royalty & Technical Know-how.</td></tr> <tr> <td>6 - Operating ratio analysis.</td><td>Auditors may use the same for comparison of operating costs of each product/ group, over a period of time.</td></tr> <tr> <td>10 - Related party transactions.</td><td>Auditors may use this information with regard to valuation of related party transactions.</td></tr> </tbody> </table> <p>7. Manufacturing process chart</p> <p><u>Types of Verification :-</u></p> <ol style="list-style-type: none"> i) Study the process chart to find out whether intermediate/by-product arises attracting Excise duty, specifically in case where final product is exempted. ii) It is useful in determination of classification and availment of exemption. 	S. No. in Annexure to the Cost Audit Report and subject	What is to be seen	1 & 3 - General Information	Auditors may use this information at time of Desk Review.	4 - Quantitative details	<p>It contains details of :</p> <ul style="list-style-type: none"> • Installed Capacity • Capacity enhanced during the period • Total production for self, under lease, on loan licence, by third parties on job-work. • Total available quantity • Samples/ Quantity Captively consumed. • Quantity sold with break-up of Export & domestic clearance <p>Auditors should reconcile this data with Excise Return and major variation (if noticed) should be looked into.</p>	5 - Cost Statements/ Cost of production statement	Separate cost statements would be available in respect of each product/ activity group. Auditors may utilise the same for valuation aspects. It also helps to compute assessable value under cost Construction method in terms of Cost Accounting Standard-4, for determining assessable value under captive consumption, related party transaction (Rule 9 provision) etc.	5 - Royalty & Technical Know-how Charges	As the information contain is product wise, the auditor may find it useful in determining the tax liability of the assessee under reverse charge mechanism if any in case the same was paid to foreign entities. Moreover, auditor may go through the source documents about the scope of work and terms of payment to assess the tax-compliance aspect of service tax on Royalty & Technical Know-how.	6 - Operating ratio analysis.	Auditors may use the same for comparison of operating costs of each product/ group, over a period of time.	10 - Related party transactions.	Auditors may use this information with regard to valuation of related party transactions.
S. No. in Annexure to the Cost Audit Report and subject	What is to be seen														
1 & 3 - General Information	Auditors may use this information at time of Desk Review.														
4 - Quantitative details	<p>It contains details of :</p> <ul style="list-style-type: none"> • Installed Capacity • Capacity enhanced during the period • Total production for self, under lease, on loan licence, by third parties on job-work. • Total available quantity • Samples/ Quantity Captively consumed. • Quantity sold with break-up of Export & domestic clearance <p>Auditors should reconcile this data with Excise Return and major variation (if noticed) should be looked into.</p>														
5 - Cost Statements/ Cost of production statement	Separate cost statements would be available in respect of each product/ activity group. Auditors may utilise the same for valuation aspects. It also helps to compute assessable value under cost Construction method in terms of Cost Accounting Standard-4, for determining assessable value under captive consumption, related party transaction (Rule 9 provision) etc.														
5 - Royalty & Technical Know-how Charges	As the information contain is product wise, the auditor may find it useful in determining the tax liability of the assessee under reverse charge mechanism if any in case the same was paid to foreign entities. Moreover, auditor may go through the source documents about the scope of work and terms of payment to assess the tax-compliance aspect of service tax on Royalty & Technical Know-how.														
6 - Operating ratio analysis.	Auditors may use the same for comparison of operating costs of each product/ group, over a period of time.														
10 - Related party transactions.	Auditors may use this information with regard to valuation of related party transactions.														

8	ER-4, ER-5 & ER-6 Return							
<p>Nature of Documents</p> <p>Compare the figures with Profit & Loss A/c. to ensure that information provided in the ER-5 Return matches with financial records.</p> <p>ER-5 return and ER-6 returns are filed by the assessee paying annual revenue of Rs.1 Crore and above and manufacturing specified commodities. ER-5 is an Annual Return in which assessee is required to provide input-output norms for the major finished goods manufactured by them. ER-6 return is filed on monthly basis providing details like opening balance, quantity consumed, cleared as such and quantity of finished goods manufactured. Details of waste and scrap arising during manufacture and cleared/destroyed is also given in the said return.</p> <p>Types of Verification</p> <ol style="list-style-type: none"> 1) Compare the norms of consumption of inputs as mentioned in the ER-5 with the norms given in the Standard Input-Output Norms (SION) published by the DGFT for different Export Product group as part of the Foreign Trade Policy. 2) Compare the input-output ratio as provided in ER-5 with the input-output ratio worked out as per ER-6. If the consumption of input as per ER-6 is more, as compared to the quantity determined as per ER-5, same needs to be examined during verification. 3) The Notes to the Account annexed to the Balance Sheet and Profit & Loss Account provides quantitative details of consumption of principal raw materials, quantity of major finished goods produced, quantity of input sold as such etc. The auditor should compare the said figure with figures available in ER-5. 4) Compare the Input-Output Norms of the Assessee as given in ER-5 with the other assessees, if any in the Commissionerate manufacturing same products. 5) Study quantity of waste and scrap cleared as percentage of total production with the other units manufacturing similar goods. <p>ER-4 returns are filed by all the assessees excepting those units who had paid less than Rs. One Crore during the previous year, ordinance factory and Biri units. (Refer Notification No. 17/2006-CE (NT) dated 01.08.2006 as amended and Notification No. 26/2009-CE (NT) dated 18.11.2009. The information contained in ER-4 return is to be verified in detail.</p> <p>List of items to be examined in the ER-4 return filed by the assessee with the details available in Profit & Loss Account, Balance Sheet and ER-1 returns filed by the assessee.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 5px;">Ref. No. and particulars sought for</th> <th style="text-align: left; padding: 5px;">Purpose</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">3(i)(a) to (c) [ER-4] - Details of expenditure</td> <td style="padding: 5px;">To compute the ratio of value of Cenvatable purchase to Gross sales of excisable goods and to match it with the ratio of CENVAT to Cash duty.</td> </tr> <tr> <td style="padding: 5px;">3(ii)(a) & (b) [ER-4] - Item-wise value and quantity of major raw material consumed</td> <td style="padding: 5px;">(i) Computation of physical input-output ratio. (ii) Co-relation with CENVAT availment. (iii) Computation of unit value of raw material for checking value addition.</td> </tr> <tr> <td style="padding: 5px;">3(iii)(a) to (h) [ER-4] - Details of other expenditure Total Freight/Advertisement/ Sales Promotion Commission paid for sales of manufactured goods/R & D Expenditure/ Wages/Power & Fuel and other expenses (other than (a) to (g) above</td> <td style="padding: 5px;">To calculate ratio of individual items of expenditure to Gross sales Value to find out possibility of unaccounted sales (e.g. where electricity charges are accounted for in the books but goods produced are removed without accounting for, on comparing the ratio of similar units, variation in ratio may show such cases. The said ratio coupled with trend of freight outward to sale value ratio may also indicate same trend). Also it indicates whether any taxable service received for taking action against service provider.</td> </tr> </tbody> </table>	Ref. No. and particulars sought for	Purpose	3(i)(a) to (c) [ER-4] - Details of expenditure	To compute the ratio of value of Cenvatable purchase to Gross sales of excisable goods and to match it with the ratio of CENVAT to Cash duty.	3(ii)(a) & (b) [ER-4] - Item-wise value and quantity of major raw material consumed	(i) Computation of physical input-output ratio. (ii) Co-relation with CENVAT availment. (iii) Computation of unit value of raw material for checking value addition.	3(iii)(a) to (h) [ER-4] - Details of other expenditure Total Freight/Advertisement/ Sales Promotion Commission paid for sales of manufactured goods/R & D Expenditure/ Wages/Power & Fuel and other expenses (other than (a) to (g) above	To calculate ratio of individual items of expenditure to Gross sales Value to find out possibility of unaccounted sales (e.g. where electricity charges are accounted for in the books but goods produced are removed without accounting for, on comparing the ratio of similar units, variation in ratio may show such cases. The said ratio coupled with trend of freight outward to sale value ratio may also indicate same trend). Also it indicates whether any taxable service received for taking action against service provider.
Ref. No. and particulars sought for	Purpose							
3(i)(a) to (c) [ER-4] - Details of expenditure	To compute the ratio of value of Cenvatable purchase to Gross sales of excisable goods and to match it with the ratio of CENVAT to Cash duty.							
3(ii)(a) & (b) [ER-4] - Item-wise value and quantity of major raw material consumed	(i) Computation of physical input-output ratio. (ii) Co-relation with CENVAT availment. (iii) Computation of unit value of raw material for checking value addition.							
3(iii)(a) to (h) [ER-4] - Details of other expenditure Total Freight/Advertisement/ Sales Promotion Commission paid for sales of manufactured goods/R & D Expenditure/ Wages/Power & Fuel and other expenses (other than (a) to (g) above	To calculate ratio of individual items of expenditure to Gross sales Value to find out possibility of unaccounted sales (e.g. where electricity charges are accounted for in the books but goods produced are removed without accounting for, on comparing the ratio of similar units, variation in ratio may show such cases. The said ratio coupled with trend of freight outward to sale value ratio may also indicate same trend). Also it indicates whether any taxable service received for taking action against service provider.							

	3(iv)(a) to (c) [ER-4] – Details of goods manufactured from Job worker	To co-relate with valuation and verify whether CENVAT credit provisions are complied with	
	4(i) - Total Sales value (Gross)	Used in determining all the ratios and derive the value of excise duty payable and match with duty payment in the tax return	
	4(ii) - Item-wise value and quantity of major finished goods sold	(i) Computation of unit value of finished products for checking value addition. (ii) Computation of physical input output ratio	
	4(iii) - Details of trading activity (other than trading of inputs on CENVAT Credit availed and removed as such)	(i) To calculate ratio of Trading Sales Value to gross sales value (chances of clearance of manufactured goods in the guise of trading goods & clearances of credit availed goods as Trading goods) (ii) To ascertain the trend in profit margin of trading goods vis-à-vis goods manufactured by the assessee.	
	4(iv) - Sales value of Non excisable / exempted goods	To calculate ratio of value of exempted goods to gross sales value.	
	4(v) & (vi) - Value of goods exported under Bond and/or under rebate	To derive value of dutiable sales and compare with value shown in tax return.	
	4(vii) - Total value of scrap sales	To calculate ratio of scrap sales value to gross sales value.	
	4(viii) - Value of inputs on which CENVAT credit availed and cleared as such.	To facilitate scrutiny of CENVAT availment during audit i.e. whether appropriate duty payment made.	
	4(ix) - Total Sales Tax paid	To calculate ratio of Sales Tax to Excise duty.	
	4(x) - Details of other incomes as per Profit & Loss A/c	Whether individual elements of other income form part of valuation of goods. Whether appropriate ST has been discharged on each of the elements under specified service tax category.	
	4(xi) - Total "Other income" as per Profit & Loss A/c.	To calculate ratio of other income to total sales value. To validate the information Given in 4(x)	
	4(xii) (a) to (d) - The information on Job Work carried out Whether own raw material/inputs used in manufacture of job work goods. Job Work goods cleared on payment of duty. Total amount of job work received during the financial year.	To ascertain whether Job Work is relevant as a source of risk. To co-relate with valuation and availment of CENVAT credit on inputs. To co-relate with valuation and to study trends in job work income vis-à-vis total sales value.	
	5 - CENVAT Credit details	To co-relate with actual availment of CENVAT credit and to calculate ratio of CENVAT credit availment to total duty payment. The availment and utilization of taxable input service credit would indicate cross sectoral service tax credit trend.	
9	Scrutiny of the Tax Audit Report		
	i. Clause 18 of the Tax Audit Report provides information about amount of depreciation under Section 32 of the Income Tax Act, 1961 and that of CENVAT credit availed by the service providers on capital goods. ii. Clause 27(a) of the Tax Audit report gives the details of CENVAT Credit claimed by the service provider. It also provides the details of credit available and carried forward to the next year. Hence, the Auditor can authenticate the amount of credit carried forward in the service tax returns with the information provided in terms of this clause. iii. Clause 21(b) of the Tax Audit Report also gives information regarding prior period incomes and expenses booked in the year under Tax audit. The Auditor shall ensure that service tax is paid on these amounts in case they are subject to service tax. iv. Clause 38 of the Tax Audit Report provides the information relating to Cost Audit. If such an audit has been carried out, the Auditor should examine the Cost Audit Report. v. Clause 40 of the Tax Audit Report provides the important accounting ratios.		

ANNEXURE - CE - IV

RATIO ANALYSIS OF DATABASE

S. No.	Nature of Ratio / Method of calculation	Utility of the Ratios in Excise Audit-2000	Source Document
1.	Input CENVAT Credit (A) : Total duty payment (Account Current + Cenvat Credit) (B) = (A)/(B)	<ul style="list-style-type: none"> i) To identify wrong availment of CENVAT credit ii) To identify under valuation of goods as value-addition should involve adequate difference between the two. iii) To identify removal of goods without payment of duty. iv) To identify claiming of CENVAT credit on inputs used in exempted products. 	Assessee Master File.
2.	Raw Material Consumption Cost : Sales Value	<ul style="list-style-type: none"> i) This ratio shows the part of sales value represented by raw material cost. The balance sales value represents the value addition on account of non-CENVAT elements like wages, overheads, depreciation, interest. ii) Theoretically, this ratio should have a bearing on the ratio of Input CENVAT credit: Total Duty payment (Sl.No.1). iii) If this ratio is lower than ratio at Sl.No.1 or more than previous year's ratio, it may be on account of the following: <ul style="list-style-type: none"> a) Wrong availment of credit like cases of availing value of goods as credit or availment of credit of basic custom duties in case of import or double credit on same document. b) Fraudulent availment of credit like availment of credit without receipt/actual use of input. c) Rejection/return/clearances of input without reversal of credit d) Receipt of inputs and availment of credit but clearances of finished goods without payment of duty. e) Under valuation of finished goods. <p><u>Important points to be considered:</u></p> <ul style="list-style-type: none"> i) Only manufactured goods sales value should be considered. ii) Export value to be excluded from sales value, if export is under bond (if export was on payment of duty, in that case, export value should be included). iii) Exclude the Excise duty + Sales Tax from sales value, if details are available. 	Profit & Loss Account and Notes to the Accounts.
3.	CENVAT availed on Capital Goods purchased during the year : Addition to Plant & Machinery	<ul style="list-style-type: none"> i) Addition to the Plant & Machinery is available from the Fixed Assets Schedule enclosed to the Balance sheet. ii) If this ratio is significantly higher than the ratio of 50% of the rate of duty on Capital Goods (Presently 12.5%):100, it may indicate wrong availment of credit. (This ratio needs to be verified at the time of audit because at the Desk Review stage the amount of CENVAT credit on Capital Goods purchased during the year may not be available as total credit availed will be inclusive of balance 50% credit of capital goods purchased in the previous year). 	Balance Sheet & ER-1 Return.
4.	Other Income: Sales	<ul style="list-style-type: none"> i) If this ratio is higher than previous period, it may be on account of the following: 	Profit & Loss Account.

		<p>a) Under valuation of finished goods by non-inclusion of other incomes like recovery of Advertisement expenses, Packing and Forwarding Expenses in the assessable value.</p> <p>b) Non payment of duty on scrap/rejects/job work.</p> <p>ii) Service Tax liability on Other Income may also be examined.</p>	
5.	Sales Tax: Sales (including trading Sales).	To compare the abatement of Sales Tax claimed by assessee in case of Cum-Sales Tax prices.	Trial Balance / Profit & Loss Account
6.	Scrap Sales: Sales	<p>If ratio in the current year is lower, it may be on account of the following:</p> <p>i) clearance of scrap without payment of duty</p> <p>ii) Non receipt of scrap from job worker.</p>	Profit & Loss Account/Trial Balance.
7.	Power Consumption/Fuel consumption(Qty): Production Quantity	To identify suppression of production.	Director's Report in Annual Report and Quantitative details of production from Profit & Loss Account.
8.	Sales Value of Trading Goods: Sales value of manufactured goods.	<p>i) To identify clearances of manufactured goods in the guise of trading goods.</p> <p>ii) To identify clearances of essential parts of manufactured goods as trading goods.</p> <p>iii) To identify under valuation of manufactured goods by overvaluing trading goods.</p>	Profit & Loss Account.
9.	CENVAT availed on inputs: Purchase price of Raw material.	<p>i) To identify cases of wrong availment of credit like availment of credit of value.</p> <p>ii) Non reversal of credit/payment of duty on inputs rejected/short received/cleared to other units/cleared as spare during warranty period.</p>	Assessee Master File and Profit & Loss Account/Trial Balance.
10.	Quantity of actual production (Nos./Kgs./Lt) : installed capacity	<p>i) To detect suppression of production and clearances</p>	Annual Report and documents pertaining to installed machinery.

ANNEXURE - CE - V

COMPARATIVE CHART OF ITEMS FROM FINANCIAL STATEMENTS/ RETURNS [CENTRAL EXCISE]

	of duty on Services											
	III) Removal of Inputs & Capital Goods as such	8	6	6	4(V III)							
e)	Closing balance	8	6	6								
6	Consumption of major Raw material in manufacture											
	a) Quantity				3(ii)(a)			28(b)(A)(i ii)		Schedule to Balance Sheet	Part A - QD (b) (4)	
	b) Value				3(ii)(a)			Add S.N o.6 to 10		Schedule to Balance Sheet Schedules to P & L Account		6B(4)
7	Sale of Waste & Scrap											
a)	Quantity	3(5)	3(5)	3(5)			5(4 A)					
b)	Value	3(6)	3(6)	3(6)	4(V II)			28(b)(A)V III 28(b)(B) VI		Under Head "Other Income"		
8	Power & Fuel					3(ii i)(g)				Under Expenditure Power & Fuel	Annexe to Director's Report Schedules to P & L Account	6(B)(6)
9	Written off stocks							28(b)(A)V III 28(b)(B)		Expenses for write off	Obsolete	

								VI				
10	Quantit y of principa l input required for use in the manufa cture of Unit quantit y of finished goods				4(8)	S.N o.6 divi ded by S.N o.1 1						

Note: Numbers mentioned in the blocks above denote S.No. of respective return/
financial statement

* 100%
EOUs

\$ Units claiming exemption under notification based on value of
clearances in a Financial Year, units manufacturing ready made
garments etc

** Units paying more than Rs. 1 Crore in the account current (PLA) as per Rule 12(2)(a) of Central
Excise Rules, 2002 & Notfn. 17/2006-CE(NT) dated 01.08.2006

** Units paying more than Rs. 1 Crore in the account current (PLA) and manufacturing products falling
under the specified chapters vide notfn.39/2004-CE(NT) dated 25.11.2004.

- Specified assessees among the notified industries under Cost Accounting
Record Rules, under Section 233B of Companies Act, 1956.

- Units whose turnover is more than Rs.40 Lakhs,
return under Section 44AB of the Income Tax Act. 1961

- Assessee whose turnover is more than Rs.40
Lakhs under the APVAT Act, 2005

@ - Under Section 211 of the Companies Act,
1956.

@@ - Companies other than the companies claiming exemption
under Section 11 of the IT Act, 1961

@@@ - Units manufacturing Bulk Drugs &
Formulations under Drugs (Prices Control) Order 2013

ANNEXURE - CE - VI

QUESTIONNARE FOR REVIEW OF INTERNAL CONTROL SYSTEM AND WALK THROUGH.

PURCHASES

1. Whether all purchases are centralised or de-centralised. If all purchases are authorised by few key persons like owner or Managing Director etc, it may require in-depth study of purchases.
2. Whether all the purchases are made only by issue of purchase order and whether different series of purchase order are issued. Also, the issuance of series of purchase order is centralised in the purchase section. Are there any cases where purchases have been made without issue of purchase order?
3. Whether there is a system of authorised Vendor List. If not, what is the system of approving particular vendor? Are there instances where substantial purchases have been made through unauthorised vendors?
4. Whether all goods entering into the factory premises have been entered at the gate and what details are mentioned at the gate Register.
5. Whether Goods Received Note (GRN) is prepared for each goods entered in the factory. Whether separate series of GRN is prepared for goods meant for different section like raw material, capital goods, stationery etc.
6. Whether a separate code number is available for each type of goods and whether the same is entered on the GRN.
7. Whether inspection for physical quantity or technical specification is carried out before the preparation of GRN or after preparation of the goods receipt note and what is the composition of inspection Group. Whether report of inspection is documented and whether a separate record is maintained by Inspection Department.
8. Whether rejected goods are stored separately. What is the system of entering the rejected goods/short quantity on the GRN?
9. Whether for purchase returns, debit notes are issued.
10. Whether for rejected goods any set procedure is followed.
11. What is the ratio of purchases made from dealers and manufacturers
12. How and at what stage excise and accounts department is informed about goods short received and rejected. What document is prepared in this connection.
13. Is there any mechanism to reconcile the quantity and value of goods entered in the stores department and as per the purchase register.
14. Whether CENVAT is availed before preparing the GRN or after preparing the GRN. On the goods rejected or short quantity received, whether the CENVAT reversal is done on each invoice basis or on the monthly basis. If on monthly basis whether it is done on the basis of any statement issued by GR Section.
15. Whether any item supplied free of cost by customer.

SALES

1. What is marketing pattern - is it through depot, stockist, C&F agent related person or directly by assessee.
2. Whether any bought out item also sold by company?
3. How many series of sales invoices are generated in the company? For example there can be different series for excisable goods, export goods, scrap, other items and job work.
4. Whether sales of all different series of invoices is entered in one sales account or in different sales account.
5. Whether different delivery challan/packing slips is prepared for goods cleared from different sections or there is a common series of delivery challan for all type of goods removed from the factory.
6. What is the control mechanism by which security person at the gate ensures that any goods going out of the factory is cleared under a document.

7. Whether removal of all type of goods from the factory is routed through excise section or there are particular types of goods cleared from some other sections. Who authorises for despatch of goods from the factory.
8. Whether any charges for erection/commissioning charged.
9. Whether any materials supplied to customer free of cost.
10. Any amount for marketing expenses, Advertisement, Royalty, Handling Charges, Packing Charges, Warranty, after sales service and Insurance received from customer on invoice or debit notes.
11. Whether sales tax return and excise return are prepared by same person. If different whether any reconciliation is made for the difference in both the returns.
12. Whether excise invoices and sales invoices are same or different. If it is different whether the excise department is informed of variation in both the invoices.
13. Who is authorised to fix the sales price and whether any printed price circulars are issued.
14. Who is authorised to make supplementary sales invoices or debit note for price variation/additional recoveries (advertisement, after sales service, additional packing, insurance, freight, depot charges) and how excise section is informed.
15. Whether clearance figure of ER 1/ER 2 is tallied with sales register on monthly basis and in case of any variation what action is being taken.
16. Whether any goods received for repair etc.
17. Types of discounts given and how are they accounted for in relevant records.
18. Whether customer's account is debited with net amount of sales invoice or gross amount of sales.
19. Is the company engaged in trading activity also? What is the storage place? Whether CENVAT is availed on such trading goods. Are the bought-out items supplied directly to the customer without bringing into the factory? If so whether separate invoice are issued or the value of the same is added in the excise invoice.

STORES

1. Whether receipt in the stores record are shown only after inspection of goods or before inspection.
2. Whether all receipt in the stores is entered only on receipt of GRN or there are some goods where receipt is shown without preparing the GRN.
3. Whether issues are made only on the basis of requisition by production department or any other department.
4. Whether code number of receiving section are entered in the store record. Whether it is possible to verify the issues made to section other than production department like for construction, R&D, sale of input as such and inputs for repairing and reprocessing work.
5. What is the frequency of physical inventory for high value and frequently used items (A category in ABC analysis) whether a report is prepared for stock verification and put-up to management and what is the frequency of reporting?
6. For goods covered by insurance claim what is the procedure for filing the claim. Whether such goods are entered in the store register or these are shown in separate account. Whether any register or report is prepared for all such claims.
7. Inputs sent out for Job Work, what records maintained. Whether scrap is received back or job work price is adjusted.
8. What is the frequency of stock taking of all the items? How difference is accounted for and what reports are prepared.
9. When any goods are found defective in the stores section or it gets damaged in production department, how it is reflected in the stores, whether any separate account or report is prepared for the same.

TAX ACCOUNTING

1. Whether excise duty paid on raw material is shown separately in purchase account at the time of entering purchase invoice or it is shown only at the end of the month.

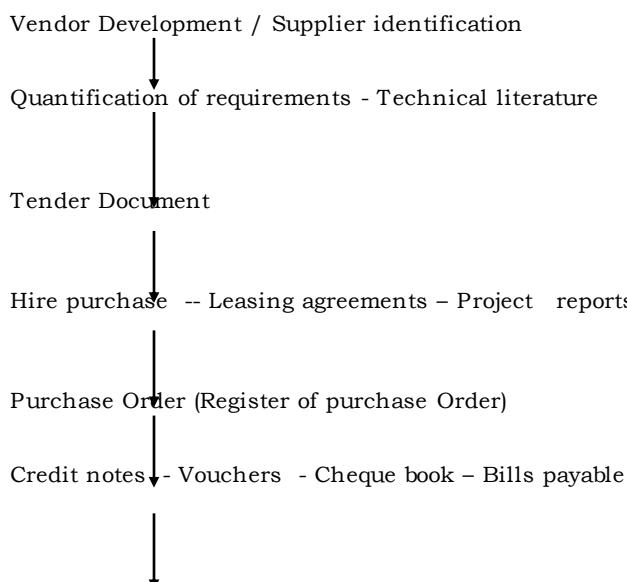
2. Whether all purchase bills are entered for full value and thereafter for rejected/stock quantity, credit note or sales return invoice is prepared.
3. Whether excise duty, payable on goods cleared, is shown separately in sales account and whether reconciliation is made with the amount of excise duty payable as per ER 1/ER 2 or other returns.
4. For capital goods whether full value including excise duty is debited in the books or net value is shown in the capital goods account.
5. For capital goods which are fully written off like spares for repair etc. whether excise duties deducted from such expenditure account or not?
6. What is the system to check excise duty liability (CENVAT and PLA) as shown in the financial records with the excise records. Whether any reconciliation is made for the differences.

JOB WORK

1. Whether any input/output ratio has been determined for sending the input for job work.
2. What records are maintained for sending the goods for job work and whether the records shows quantity of input sent, quantity of final product to be received, actually received and variation.
3. Whether any monthly or periodic statements are prepared for each job work and at what level the statements are verified for taking corrective action.
4. What is the system of treatment of scrap generated at the job work stage? Whether it is brought back to the factory or it is allowed to be disposed off by the job worker.
5. Whether the finished goods after job-work are being cleared from job-worker's premises.
6. When the goods are not received from the job worker in time what action is taken by the company and what accounting treatment is done for the same.
7. Are there some items, which are directly sent to the job worker without bringing them into the factory and how the same are accounted for in the records of the company.
8. Whether the finished goods are sold by the principal manufacturer directly from the premises of Jobworker?
9. Whether the finished goods are sold after transferring the same to any other place from the jobworker's premises? If yes, whether the normal transaction value is adopted for such sales in case the buyer is not related to the principal manufacturer?

WALK THROUGH: Flow chart showing movement of transactions; same route can be followed for walk through process.

I. Purchases



Debit notes (for purchase return)

Purchase book -- Gate register

Purchase Return Book

Gate Register

Material receipt note - Latest report -- Material rejection slip - Bad bin Register

II CENVAT

Gate register

Weightment register/slips

Material receipt note - CENVAT Account --- Loss in Transit - Rejects (CENVAT account)

Lab tests ---- Rejects/ return / debit note

Material transfer -rejected/returned/debit note

Inputs/Capital goods sold/Leased.

Input/Capital goods written off -

Capital goods --- fixed Asset register - Depreciation
Plant register /
I.T. return

Annual report --- Fixed Asset schedules / Depreciation schedules

Credit notes from suppliers

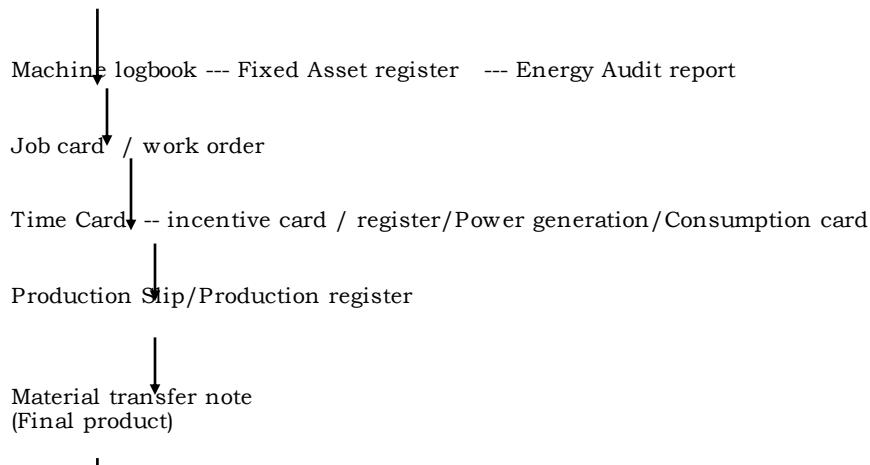
Bill of Material ---- To verify the utility of material / Input in the
Manufacture of final Product.

Invoices ---- Input sale / transfer 'assets'
Documents relating to Input / IP transfer to job workers/ Bin cards / stores ledger.

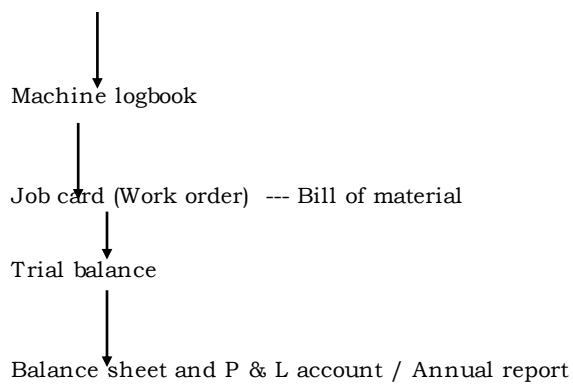
III Production - Process Chart

Material Requisition Note - Bill of material - Hire purchase agreements,
Lease agreement, Cost Audit report- Cost Register Bin card

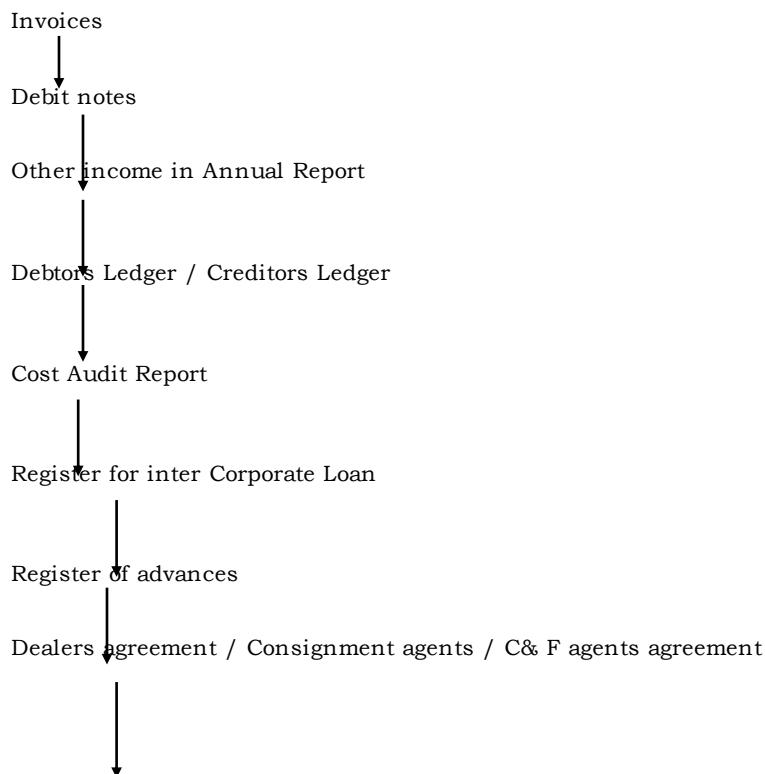
Material transfer note / issue slip

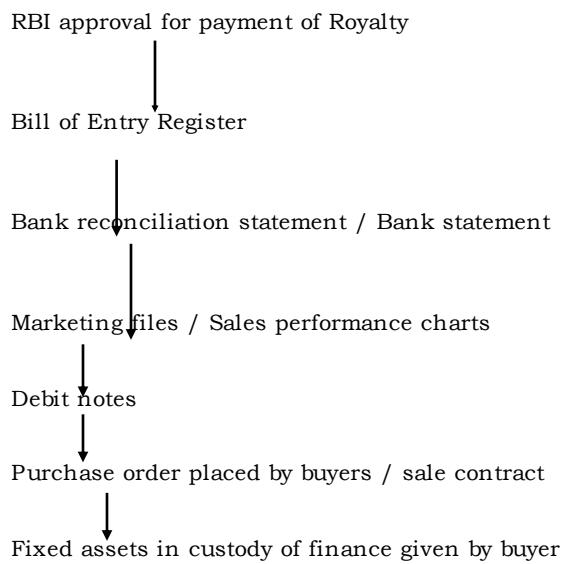


Bill of material - cost audit report - cost register - Process chart



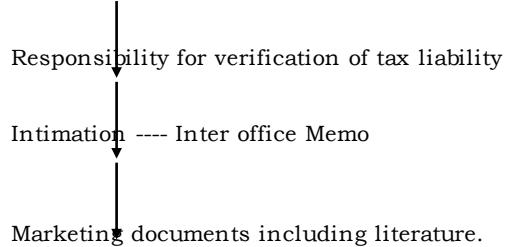
IV Price determination (Transaction Value)





V. Classification

Research Development --- Product Development – Product lab



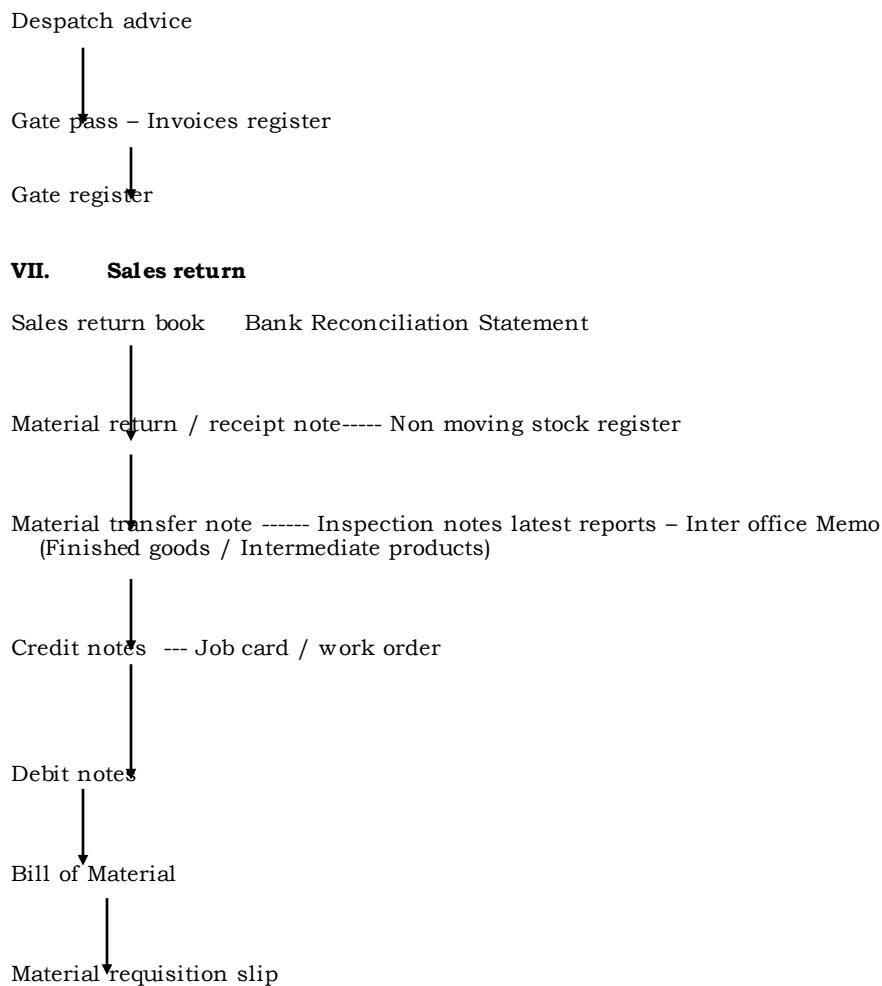
VI. Sales / Removal of goods

Tender files



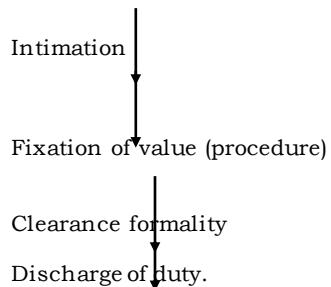
Weighment slip – Bin Card – Stores Ledger – Non moving stock register
 (For finished goods) (For finished goods)

Delivery note – Invoices



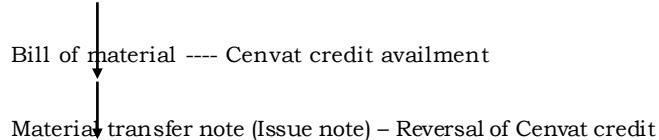
VIII. New items produced. Discharge of duty and samples

New items produced.



IX Non dutiable items

Name of the Non dutiable item



ANNEXURE – CE - VII

AUDIT PLAN

Note: This is only an illustrative Audit Plan for M/s ABC Paper Mills. Plan for each unit should be prepared based on the specific requirement.

Guidelines for filling in the Audit Plan:

1. Subject: - For example classification, valuation, CENVAT etc.

Sl. No.	Subject	Specific Issue	Source Document	Back-up Document	Coverage Period	Selection Criteria
1	Classification	Availing exemption by claiming a specific heading/ conditional exemption	Invoice/ER-1/ER-2/ER-3	1. R M Procurement Register 2. Digester Control sheets/ register 3. Lab reports.	For the months:	All documents
2	Valuation	Turnover Discounts	CE Invoice	1. Commercial invoice 2. General ledger 3. Credit/ Debit notes	Entire Audit period	All invoice serial numbers ending with 5.
3	Valuation	Sale to related person	(In case goods are subsequently sold by related party) 1. CE Invoices issued by manufacturer to related persons 2. Invoices issued by the related person to the customers.	1. Agreements relating to sales 2. Party ledgers	Second quarter audit year(s)	All invoices pertaining to related buyer
4	CENVAT Credit	Receipt of actual quantity vis-à-vis quantity on which credit taken	1 Input invoices 2 Credit availment register	1. Material receipt note/ register 2. Insurance claim documents for transit losses 3. Stores ledger	Entire Audit period	All invoice
5	Credit on Capital goods	Availment of credit in 2 nd year	1 Capital Goods invoices 2 Credit availment register	1. Physical verification of possession and use.	All capital goods on which 2 nd instalment of credit is availed during the audit period.	All invoices

2. Specific Issue to be verified. Under this column, the auditor should mention the precise issue pertaining to the subject. For Example Discounts passed on to the buyer, Utilisation of inputs for repair/re-processing, etc.
3. Source Document/ Information to be verified: - documents/information reflecting or having a bearing on payment of CE duty, to be verified. For example CE Invoice showing a particular discount.
4. Back-up Document: The documents to be examined to check the correctness of the information contained in the source document. The method of examination may also be specified under this column. For example Commercial invoice, party ledger, discount policy documents, price circulars, etc. reflecting the said discount.
5. Period of coverage: - Normally, the coverage will be for the whole of the audit period. However, the auditor may conduct test verification for specific periods each extending over a short duration.

Selection Criteria: - In case, the volume of documents for verification is large, the auditor may adopt sample verification. In such a case, the sample selection techniques should be spelt out. The sample should be chosen in such a way that it represents the whole, uniformly.

ANNEXURE - CE - VIII**WORKING PAPERS**

Date of Preparation _____ W/P No. _____

I. DETAILS OF AUDIT

1. Name of the Unit : _____
2. Address : _____
3. CE Registration No. _____
4. Period covered in Present Audit _____
5. DATE OF AUDIT : _____
6. DATE OF SUBMISSION OF AUDIT REPORT : _____
7. DRAFT AUDIT REPORT NO. : _____
8. DETAILS OF THE AUDIT GROUP : _____

S. No.	Name of the officer	Designation

9. Major audit objections in earlier IAD reports : _____
10. Major CERA Observations in the past : _____

II. NATURE OF BUSINESS OPERATION OF THE ASSESSEE

1. Brief description of the main products manufactured in the proforma given below:

Sl. No.	Description of goods manufactured	Tariff Sub-heading	Exemption Notification availed	Rate of duty

2. Details of principal inputs and capital goods used by the assessee.

Details of Principal Inputs/Capital Goods				
Sl. No.	Input Materials/ Capital Goods	Tariff Sub Heading	Exemption Notification	Rate of Duty

3. Brief details of the revenue for the last three financial years in the proforma given below:-

Year	Total CENVAT credit availed (in Rs.)			Total duty payment (in Rs.)	
	Inputs	Capital Goods	Inputs (services)	Cash	CENVAT credit

III. DESK REVIEW AND AUDIT PLAN:

Date of Preparation _____

1. Give reasons for selection of the unit for audit.

2. The auditor should check whether the Assessee Master File is available in MIS Section and whether the same is complete. If not the auditor should complete the same as far as possible from the information available in the office.

Go through the information available in Assessee Master File. Identify and mention (with justifications), the areas or issues which merit inclusion in the Audit Plan.

3. Obtain and study other documents mentioned in **Annexure-CE-III** and conduct examinations as illustrated therein. List out the documents studied.

Sl No.	Name of the document/report *	Period *		Remarks
		From	To	

4. RATIO ANALYSIS OF DATA BASE:

Work out some of the important financial ratios as mentioned in **Para 6.6.6** and **Annexure IV**. Mention the important indicators, which require to be included in the Audit Plan.

The results of Ratio analysis may be summarised in the following table.

	RATIO	2012-13	2013-14	2014-15
(a)	Input CENVAT credit : Total Duty payment			
(b)	Raw material cost : sales value as per P & L account			
(c)	CENVAT availed on capital goods purchased during the years : addition to plant & machinery			
(d)	Other income : sales as per P & L account			
(e)	Power consumption/fuel consumption (Qty) : production quantity as per P & L account			
(f)	Gross profit : Gross sales as per P & L account			
(g)	Production of Finished Goods : Scrap			
(h)	Input-output ratio as per ER-5			
(i)	Ratio of Cenvatable purchase to gross value of finished gross value of Finished Goods as per ER-4			
(j)	Trading sales vale to gross sales value of finished goods as per ER-4			
(k)	Sales Tax to Sales			
(l)	Cenvat Credit on inputs to Purchase of raw materials			
(m)	Quantity of Actual production to installed capacity			

IMPORTANT OBSERVATIONS OF THE AUDITOR (LEADING TO INCLUSION IN AUDIT PLAN)

S. No.	Analysis Description	Results of Analysis Performed	Auditor's Remarks

Mention changes in the law and rates of duty pertaining to the products manufactured and inputs since previous audit.

5. _____

6. Mention details of Anti-evasion cases booked in recent past or are in progress and past audit objections, which have not been settled so far, by way of assessee acceptance, adjudication, appeals etc.

7. Give details of important areas (pertaining to the goods manufactured, rate of duty, exemption notification and CENVAT credit availment on inputs/Capital Goods) to be included in the Audit Plan with reasons thereof.

8. REVENUE RISK ANALYSIS:

Date of Preparation _____

a. Perform the Revenue risk analysis, covering a period of at least one year or a minimum of one return, for Excise duties payable and paid. The excise duty payable may be derived from the Income Statement in the Profit and Loss Account by excluding non-manufacturing income and the income from exempted manufactured items and applying the excise duty rate. This may be compared with total excise duty paid as per monthly return. Mention results indicating possible problem areas and mention issues to be included in the Audit Plan.

b. Perform the revenue risk analysis, covering a period of atleast one year for CENVAT Credits utilization and availment and record your conclusions as to the potential revenue loss. Value of input purchased as per the expenditure statement in the Profit and Loss account may be used for working out CENVAT credit available and compare it with CENVAT credit availment given in the CENVAT return. Mention results indicating possible problem areas and mention issues to be included in the Audit Plan.

9. TREND ANALYSIS:

Undertake analysis of trends as illustrated in **Para 6.6.10** or other trends as deemed relevant. Mention issues to be included in the Audit Plan.

The results of Trend analysis may be summarised in the following table.

	Sale value of Finished Goods			
	Difference in Cenvat taken & Cenvat available on purchase of raw materials			
	Job work income as per P&L Account of Trial balance			
	Inter unit transfers/sales to related party as per Balance Sheet			
	Gross operating profit Vis-a-vis sales			
	Cenvat as a percentage of either cash or total duty paid			
	Production of finished goods			
	Production of scrap			
	Production of dutiable goods vis-a-vis exempted goods			
	Clearance of excisable goods for home consumption vs export goods			
	Value of sales to related person vis-a-vis total sales.			
	Movement of goods on job-work vis-a-vis total production			
	Input output ratio as reflected in ER-5 returns			

IMPORTANT OBSERVATIONS OF THE AUDITOR (LEADING TO INCLUSION IN AUDIT PLAN)

S. No.	Analysis Description	Results of Analysis Performed	Auditor's Remarks

10. FINANCIAL AND TAX ACCOUNTING INFORMATION:

Date of Preparation _____

a. Obtain audited Balance sheet and Profit and Loss Account and trial balance. Review any notes in the Balance sheet / profit and loss account. If unit is a division of a company, check if internal financial statements are prepared for the unit before consolidation with other related units. Work out purchase of raw materials value to sales value of manufactured goods ratio and compare with CENVAT ratio. Obtain a copy of last two reports. Mention issues to be included in the Audit Plan.

b. Identify all business activities like sale of manufactured goods, sale of trading goods, non-manufacturing activity like repair, service activities and major source of 'Other Income'. Mention issues to be included in the Audit Plan.

c. Compare total turnover as per profit and loss account with the corresponding figures submitted to the department in the returns for three years. Mention discrepancies to be included in the Audit Plan.

IV. TOUR OF THE PLANT / PREMISES:

(to be completed during the preparatory visit, if any, made and also during the stage of audit verification at the unit)

Date of Preparation_____

Tour the plant, accompanied by the appropriate officer of the assessee. Include receipt, storage and other relevant areas of the unit in your tour. Observe operations to confirm information received to date and to note areas that may be vulnerable to non-compliance.

Ask about the number of workers in the plant and number of shift worked. Inquire how many electricity meters are used and obtain meter numbers? If electricity is partly or fully self-generated, full particulars including various uses and sale/diversion outside must be ascertained and examined. Ask if unit resells some of the inputs for which CENVAT is availed. Ask about emergence of any intermediate goods/bye-products and storage and disposal of scrap. Ask about goods either sent out for job work or received for job work.

A. Information gathered during the tour of plant

- i. No. of workers employed _____.
- ii. No. of shifts running _____.
- iii. No. of places for dispatch of goods outside the factory _____.
- iv. Whether any input is exclusively used in the manufacture of exempted goods _____.
- v. Whether any input is used in the manufacture of exempted as well as dutiable goods _____.
- vi. Whether any Capital Goods on which CENVAT credit was availed, are exclusively used in the manufacture of exempted goods _____.
- vii. Whether any discrepancy of facts noticed between what was made known to the Audit Group earlier and what was observed during the visit. Details thereof _____.
- viii. Mention if there are new facts not disclosed earlier, noticed during the tour, which may have relevance to revenue or to the level of assessee tax compliance _____.
- ix. Observe movement of goods from the stage of raw material to the stage of clearance of finished goods along with movement of accompanying documents. Mention issues to be verified during conduct of audit _____.
- x. Gather information about the Internal Control System as illustrated in **Annexure VII** by interviewing the section in-charges. Mention issues to be verified during conduct of audit.

B. Any other relevant information gathered by the auditor during the course of Tour of the premises.
Mention issues to be included in the Audit Plan and verified during conduct of audit (in case a preparatory visit is made

C. GATHERING INFORMATION ABOUT ASSESSEE AND THE SYSTEM FOLLOWED BY HIM (Please refer to para 6.7)

Date of Preparation_____

i. INTERVIEWS

i. Person(s) Interviewed, their designation and dates of interview.

ii. Give the gist of interviews specially in respect of

- i. related ventures, business with these ventures and annual volume of such transactions,
- ii. relationships with the unit and its owners / shareholders,
- iii. the head office / registered office of the unit, location of its operations and location of its accounting records
- iv. whether Company is an ancillary unit or independent unit of production:
- v. internal controls in the unit.
- vi. any organizational or systemic changes that has occurred since last audit.

Mention issues to be included in the Audit Plan

D. EVALUATION OF INTERNAL CONTROLS
(Please refer Para 6.7.3 and 6.7.6 and Annexure VII).

Date of Preparation_____

- i. Perform a walkthrough for the Sales / Records maintained for Central Excise. Trace a sample of transactions (all types, including those on Credit) from source documents through to Excise Duty account. Mention any new area need to be included in the Audit Plan or whether the extent of verification of the issue already identified in the Audit Plan needs to be modified.

- ii. Perform a walkthrough of the purchase system (including capital assets). Trace a sample of transactions, of all types, including Credits, from source documents through the Excise duty account. Examine specifically system for purchase, rejection, short supply etc. Mention any new area need to be included in the Audit Plan or whether the extent of verification of the issue already identified in the Audit Plan needs to be modified

- iii. Perform a walkthrough of any other system (eg. Stores Journal Entries, CENVAT accounting etc.) Trace a sample of transactions of all types from source documents through to the Excise Duty Account. Mention any new area need to be included in the Audit Plan or whether the extent of verification of the issue already identified in the Audit Plan needs to be modified.

- iv. Perform a walkthrough of the process of compiling Central Excise monthly return for one month, tracing from the tax return amounts backwards through to their sources. Check sales as per Sales Account in ledger with value shown in monthly return. Mention any new area need to be included in the Audit Plan or whether the extent of verification of the issue already identified in the Audit Plan needs to be modified.

v. Evaluate the soundness of level of Internal Control of each of the following areas / sub-systems and grade them **as good, acceptable or poor** in the following format:

In case quantum of data/information to be analyzed is **voluminous**, apply **ABC** analysis (**please refer para 6.7.6 (b)**)

Name of area/ sub system	Grade (good/ acceptable/poor)	Problem areas if any
Sales.		
Purchase.		
Tax Accounting.		
Posting to General Ledger and Journals (specially of high value transactions).		
Recording of invoice.		
Recording of cash sales and purchases.		
Credit/debit and their documentation.		
Other expenditures.		
Recording of and availment of CENVAT credit.		
Accounting of scrap/wastes.		
Account adjustments.		
Others		

vi. Any other relevant information gathered by the auditor during the course of Evaluation of Internal Control. Mention any new area need to be included in the Audit Plan or whether the extent of verification of the issue already identified in the Audit Plan needs to be modified.

E. AUDIT PLAN:
(Please see para 6.10 and Annexure VIII).

Date of Preparation _____

Audit Plan approved by _____

i. The Audit Plan must be based on the issues identified in the previous steps as to be verified during the conduct of audit and must be specific in the following format (also given in **Annexure VIII**):

V. AUDIT VERIFICATION AT THE UNIT:**A. SALES INFORMATION:**

Date of Preparation_____

i. Indicate marketing / clearance pattern in the following proforma: -

Sr. No.	Nature of Sale/Transfer etc	Yes	No	If yes, description of product (s)	*Practice of valuation followed by the assessee.
1.	Sale at the factory gate				
2.	Sale through the depot/distributors / consignment agents / Marketing intermediaries.				
3.	Sale in retail				
4.	Retail Sale Price (Maximum) – Section 4A				
5.	Inter Plant transfer				
6.	Captive consumption				
7.	Clearance to U.N. and other aided projects				
8.	Inputs received and job work done				
9.	Inputs/semi-processed material sent for job work outside.				
10	Sale from Job-worker's premises directly to the customers				

* Whether provisions of Section 4 or Valuation Rules, 2000 now has been applied by the assessee who has made the self-assessment. The Valuation section or the specific Valuation Rule invoked may be indicated.

ii. Examine selected debtor account (customer) to find out any recovery other than shown in sales invoice (Check Debit Note and Journal Vouchers also).

iii. Identify any special situations such as sales to related units, trading activities, commissions, volume discounts, exchanges or trade-ins and imposition of MRP based value for duty.

iv. Identify other revenues as reported in the financial statements (Incomes other than from sales). Mention such other revenues which may form part of the assessable value

B. PURCHASE INFORMATION:

Date of Preparation_____

a. Goods

i. List major suppliers, goods purchased and indicate annual volume in Rupees. Whether there are purchases from related units?

ii. Examine selected creditor's account (supplier) for each major input to find out any purchase returns, short supply, rejection of goods etc. and its impact on CENVAT credit availment.

iii. Whether the assessee avails any end use based Customs duty exemptions on imported purchases.

iv. Study the purchase details of major capital goods acquired and put to use since last audit.

b. Services

i. List major input services on which credit has been availed

ii. Examine selected 'credit accounts' for each major input service to verify whether payment has been made prior to availment of credit.

iii. Examine whether any input service may have been used in the manufacture of exempted final products.

iv. Examine whether any taxable services have been received from a service provider located outside India and verify whether service tax due on such transactions if any, has been paid.

C. OTHER INFORMATION:

Date of Preparation_____

i. Study the whether any goods are manufactured and captively consumed. Mention issues to be included in the Audit Plan.

ii. Study whether any manufactured goods are cleared for inter unit transfer, intermediates sent for job work or received for job work. Study the valuation and CENVAT credit availment in such cases Mention issues to be included in the Audit Plan.

iii. Any other relevant information gathered by the auditor during the course of Gathering information about assessee, and systems followed by him and study of financial documents. Mention issues to be included in the Audit Plan.

VI. VERIFICATION AS PER AUDIT PLAN:
(Please see Chapter 6.11)

A. Carry out verification as per Audit Plan. The result of verification of each of the issues should be mentioned in the format below, whether or not there is any detection of discrepancy/audit point. The verification reports in respect of issues verified which was not part of original Audit Plan but verified later should also be mentioned at the end.

Proforma of a Verification Report

V.P. NO _____ **DATE** _____

- i. Name of the auditor verifying the issue:
- ii. Issue involved in brief:
- iii. Ref. No. of the Audit Plan:
- iv. Documents verified:
- v. Brief account of the process and extent of verification:
- vi. Auditor's observation and conclusion in brief:
- vii. Quantification of revenue involved, if any (also give the calculation sheet):
- viii. Documents relied upon to support the conclusion:
- ix. Party's agreement : Yes/No
- x. If yes : In writing/Oral
- xi. Amount of recovery, if any :

Signature of the auditor

Supervisor's remarks and signature.

VII. POST VERIFICATION
(to be filled up before leaving the assessee's unit)

Date of Preparation _____

A. Indicate information provided and specific actions suggested to the assessee to improve future compliance. Where the assessee is in agreement with the suggestions, request a commitment in writing and include it in the Audit Report. If the assessee is unwilling to give a written undertaking, obtain a verbal commitment. Mention results.

B. SUMMARY OF AUDIT RESULTS

Provide an outline of all objections, which involve short/non levy of duty, amounts (say under Sec. 11D), irregular availment/utilization of credit and non-payment of interest due. Details of objections of technical/procedural in nature without involving revenue/credit/interests/amounts should also be mentioned. Indicate whether the assessee has agreed to the objections and if so, has made spot payment (if so details thereof). The summarised objections are to be uploaded in the audit utility and a draft audit report is to be generated for discussion during the Monitoring Committee Meeting.

(Auditor)
Name/Designation
Group No:

Place: _____

Date: _____

ANNEXURE - CE- X

DRAFT OF THE LETTER TO BE WRITTEN BY THE ASSESSEE UNDER SECTION 11A(2) OF THE CENTRAL EXCISE ACT, 1944,

To,
The Commissioner
Customs, Central Excise and Service Tax,
Audit Commissionerate

Sir,

Subject: Letter given for waiver of show cause notice in terms of Section 11A(2) of the Central Excise Act, 1944- reg.

I / We M/s _____, address _____
falling under the jurisdiction of Range _____ and Division _____
do hereby state and request as under:-

a) As per the provisions of Section 11A(1)(b) of the Central Excise Act, 1944, where any Central Excise duty has not been levied or paid or has been short levied or short paid or erroneously refunded, the person, chargeable with the Central Excise duty, may pay the amount of such duty before service of notice on him under sub section (1) of Section 11 A and inform the central excise officer in writing in terms of sub section (2) of section 11 A, who, on receipt of such information shall not serve any notice in respect of the amount so paid;

b) During the course of verification of our records / returns, by the Audit team from the office of Audit Commissionerate _____, it is observed that there is a short payment / non levy / non - payment of duty / wrong availment of CENVAT credit on account of reasons mentioned as per the Annexure enclosed hereto. We have agreed to the points raised during verification / scrutiny and have paid the said amounts of duty and / or reversed the CENVAT credit of Rs. _____ vide GAR-7 Challan No. _____ / CENVAT Register Entry No. _____ dated _____. We have also discharged the applicable interest liability.

4. In terms of the provisions of Section 11A(2) of the Central Excise Act, 1944, we request that the demand show cause notice may not be issued to us in this case and no penalty may be imposed on us as the above short levy / short payment / non levy / non payment / wrong availment of Cenvat credit are not intentional on our part.

5. We request that the above issues may be treated as closed with this letter since we have complied with the provisions of the Central Excise law. It is hereby confirmed that this amount is paid voluntarily and no appeal will be filed against such payment or we will not claim any refund in future.

Yours faithfully

Date: _____

Place: _____

Signature CEO / Director / Authorised Signatory
(Name & Designation)

M/s _____

ANNEXURE - CE- XI

OFFICE OF THE COMMISSIONER OF CENTRAL EXCISE
AUDIT COMMISSIONERATE
(OFFICE ADDRESS/ PHONE NUMBER/EMAILETC.

C. No.

Date:

To

Gentlemen,

Sub: Intimation for conducting Central Excise audit under EA 2000 – Preparatory visit - reg.

Please refer to this office letter C.No. _____ dated _____, where in it was intimated that the Internal Audit Group headed by Shri _____ Superintendent of Central Excise (Audit) (Contact Phone No. _____), Audit Group No. _____ will take up the audit of the accounts/records of your unit on _____ for the year **(s) w e f _____ upto _____**

2. The officers will be making a preparatory visit to your unit on _____, in order to know the functioning of various areas like marketing, production, purchases, stores and accounts.

3. It is, therefore, requested that one the concerned personnel may make themselves available on the said day in order to brief the officers.

4. It is also requested to designate a person (employee of the company/ registered concern) for coordinating with the Audit team and communicate the name, designation and contact numbers and e-mail id of the person so designated.

5. In case of any difficulty, you can get in touch with the undersigned through the telephone number/fax/email mentioned above.

The receipt of this letter may please be acknowledged.

Yours faithfully

Additional Commissioner /Joint Commissioner

ANNEXURE - CE - II

OFFICE OF THE COMMISSIONER OF CENTRAL EXCISE
(OFFICE ADDRESS/ PHONE NUMBER/EMAILETC.

C. No.

Date:

To,

Gentlemen,

Sub: Intimation for conducting Central Excise audit under EA 2000 – reg.

The Internal Audit Group headed by Shri _____ Superintendent of Central Excise (Audit) (Contact Phone No. _____ and email id _____), Audit Group No. _____ will take up the audit of the accounts/records of your unit on _____ for the year(s) **w e f** _____ **upto** _____ (**Last completed financial year before the date of issue of this letter**). It is requested that the following documents may be furnished immediately to this office:

- 1) Copies of Balance Sheet, Trial Balance and Annual Financial Statement for the years_____
- 2) Annual returns submitted to the Registrar of Companies, Sales Tax, Income Tax Returns along with Annexures for the financial years _____
- 3) Returns if any submitted to Banks/Financial Institutions for the period _____.
- 4) Cost Audit, Tax Audit and Internal Audit Reports, wherever applicable for the period _____.

2. It is also requested to designate a person (employee of the company/ registered concern) for coordinating with the Audit team and communicate the name, designation and contact numbers and e-mail id of the person so designated.

3. It is further requested that full co-operation may be extended to the Audit party in carrying out the audit and keep all the relevant records ready so that the audit can be conducted smoothly.

4. In case of any difficulty, you can get in touch with the undersigned through the telephone number/fax/email mentioned above.

The receipt of this letter may please be acknowledged.

Yours faithfully

Assistant/Deputy Commissioner (Audit)

Copy submitted to:
The Commissioner, Customs, Central Excise and Service Tax,
Commissionerate, _____ for information.

Copy to:
The Deputy/Assistant Commissioner of Central Excise, _____ Division
The Superintendent of Central Excise, _____ Range.

ANNEXURE – ST-I

(Assessee/Taxpayer master file to be updated on regular intervals)

The information contained in Part I and II should also be kept in Computerised form and the hard copy of the information contained in Part III should be made available in the master file.

Part I - Taxpayer Profile

1) Name of the Service Provider.

Service Tax Registration No

2) Address of the Service Provider.

(i) Name of Premises/Building

(ii) Flat/Door/Block No.

(iii) Road/Street/Lane

(i) $\mathbb{X}^{\ast 11}$ (A) (T) 11

(iv) Village/Area/Locality

(a) $P_{1,1}/T_{1,1}/S_{1,1}$ Division

(v) Block/Taluka/Sub-Division

(vi) Town/City/District (vii) State /Union Territory (*Please see instruction No. 6(a)*)

(viii) PIN Post office

1. Telephone Nos.: 2.

(x) Fax Nos.

(xi) E-mail Address

3) Name and address of the Corporate/Registered Office of the Service Provider

4) Web address of the company:

5) Permanent Account Number

6) Description of the services provided.

7) Details of Related party/ Associate Enterprise.

i	Does the assessee have an Related party as defined in Section 4(3)(b)of the Central Excise Act,1994				
ii	If yes, then provide details				
iii	Does the assessee have an associated Enterprise as defined in Section 65B(13) of Chapter V of the Finance Act,1994				
iv	If yes, then provide details				
S.No.	Name	PAN	Address	Type relationship	Details of transaction, if any

8) Method of Accounting ;

a. Method of Accounting

employed

employed during the year (Cash or mercantile)

1. **What is the primary purpose of the study?**

b. Whether there has been any change

in the method of accounting employed during the year

1. **What is the primary purpose of the study?**

c. Whether centralized billing or accounting system is employed?

9) Whether any intimation filed under Rule 6(3A) of CENVAT Credit Rules, 2004.
 If yes, mention date of filing.

10) Details of pending litigation with departmental authorities and Appellate Authorities

11) Type of Accounting Software used
(Including version)
(Like Tally/FAS/SRP/Other version)

12) Whether required to be Audited under Section 44(AB) of the Income Tax Act, 1961?
 If yes, date of filing Audit Report.

13) Whether also required to be audited under Section 148 of the Companies Act, 2013? *(Cost Audit Report)*.
 If yes, date of Submission of Cost Audit Report.

14) Whether also required to be audited under State VAT law?
 If yes, date of filing report.

15) Service-wise details of value of service and tax paid (for 3 years).

Period	Name & Description of Service	Value of taxable services	Service Tax payable/paid	Total input credit utilized	Net Service Tax paid in cash (GAR-7)
Year 1 H ₁					
Year 2					

H ₁					
H ₂					
Year 3					
H ₁					
H ₂					

16) Details of show cause notices issued along with brief facts and issue involved - Last 3 years.

17) Details of cases pending with CESTAT/High Court/Supreme Court.

Part II - Other information

1) Whether package of services is standardized (an example could be tour operators, Rent-A-Cab, Mandap Keepers, etc.) or customized. Yes No

2) Form of Organisation (i.e. whether individual/partnership/Limited Liability Partnership or private or public limited company etc.) (tick only one box)

Proprietorship Partnership LLP Registered Co. Unregistered Co. others

3) Details of proprietor / partner / CEO / Chairman / Managing Director (as applicable).

Details of Proprietor/Partners/CEO/Chairman /Managing Director/Member etc.

(a) Name

(b) Designation

(c) Residential address

(i) Name of Premises/Building

(i) $E^1_{\infty} / (E^1_{\infty} \cap N)$

(ii) Flat/Door/Block No.

(iii) $P = 1/C_{\text{eff}} \approx 1/T$

(iii) Road/Street/Lane

(-->) Village/Area/Locality

(iv) Village/Area/Locality

(a) $P_{1-1}/T_{1-1}/S_{1-1}$ Division

(v) Block/Taluka/Sub-Division

(viii) PIN Post office

(ix) Telephone Nos.:

(ix) Telephone Nos.:

(a) office

(b) residence

(x) Fax Nos.

(xi) E-mail Address

In case of more names, please provide the information in the above format.

6) Details of sub contractors in case any service or part thereof is got done through subcontractors.

Name, designation and address of sub contractor(s):

(a) Name

(b) Address

(i) Name of Premises/Building

(ii) Flat/Door/Block No.

(iii) Road/Street/Lane

(iii) Road/Street/Lane

(iv) Village/Area/Locality

(v) Block/Taluka/Sub-Division

(vi) Town /City /District (vii) State /Union Territory

(viii) PIN

Post office

(ix) Telephone Nos.:

(a) office

A horizontal bar divided into 20 equal segments. The first 10 segments are white, followed by a black segment, and then the last 9 segments are white.

(x) Fax Nos.

(xi) E-mail Address

In case of more names, please provide the information in the above format.

7) Name of the designated bank where the Service Tax is deposited.

Name of the bank

Name of the branch

NAME OF VARIOUS SIGHTS

8) Details of the Bank accounts used for business transaction with name of the bank, its specific branch and account number.

(a) Account 1

(i) Name of the bank

(ii) Name of the branch

(iii) Account No.

Details of more Accounts used for business transactions yes no

If yes,-

(b) Account 2

1. Name of the bank

2. Name of the branch

3. Account No.

Note: In case of more than two bank accounts, two major bank accounts may be entered above.

9) Accounting system- whether centralized or not. Yes No

10) Billing pattern - (a) whether centralized or decentralized, Yes No

(b) billing stages whether the payments is made

- i) in parts
- ii) in one lump sum
- c) time of payment of consideration, whether
 - i) prior to completion of service
 - ii) during the provision of service
 - iii) after completion of service.

11. List of branch offices, along with their respective value of taxable services.

Part III - List of hard copies to be kept in Master File.

The other part of the master file should consist of hard copy of certain documents as illustrated below:-

- (i) A copy of the taxpayer's application for registration (ST-1).
- (ii) A copy of STC (ST-2)
- (iii) A copy of the list of all records maintained by the taxpayer in relation to Service Tax including memoranda received from branch office as submitted under Rule 5 (2) of the Service Tax Rules, 1994.
- (iv) Copies of Balance Sheets, Profit & Loss Statement, Trial Balance, Annual Reports for the preceding three years.
- (v) Copies of Tax Audit reports (under Income Tax Act) for 2 years.
- (vi) Copies of Cost Audit Reports, if any for 2 years.
- (vii) A copy of the previous audit reports (if taxpayer was audited previously) – whether by Internal Audit or CAG.
- (viii) Copy of Service specific Profiles, if any, prepared in the department.
- (ix) A copy of any other return / declaration sent to any other department / agency or to designated regulatory authority.

- (x) Working Papers.
- (xi) Minutes of Service Tax Monitoring Cell.
- (xii) Any other documents relevant for audit for service tax assessment.

Copy of Form 3 CD submitted to Income Tax Department (in terms of Section 44 AB of Income Tax Act)

ANNEXURE - ST-II



OFFICE OF THE COMMISSIONER OF CUSTOMS, CENTRAL EXCISE
AND SERVICE TAX

AUDIT COMMISSIONERATE

www.....gov.in

Tel: xxxxxxxx, Fax : xxxxxxxx
(e-mail id: @nic.in)

C.NO.

Dated: . .2015.

To

M/s _____
(STC : _____)

Sir/Madam

Sub: Intimation for conducting Service Tax Audit – reg.

The Internal Audit Group headed by Shri _____ Superintendent of Central Excise (Audit) (Contact Phone No. _____ and email id _____), Audit Group No. _____ will take up the audit of the accounts/records of your unit on _____ for the year(s) **wef _____ upto _____ (Last completed financial year before the date of issue of this letter)**. It is requested that the following documents may be furnished immediately to this office:

- 1) Copies of Balance Sheet, Trial Balance and Annual Financial Statement for the years_____
- 2) Annual returns submitted to the Registrar of Companies, Sales Tax, Income Tax Returns along with Annexures for the financial years _____
- 3) Returns if any submitted to Banks/Financial Institutions for the period _____.
- 4) Cost Audit, Tax Audit and Internal Audit Reports, wherever applicable for the period _____.

2. It may please be noted that non-furnishing of information/documents within the stipulated time may attract penal action under Section 77 of the Finance Act, 1994.

3. It is also requested to designate a person (employee of the company/ registered concern) for coordinating with the Audit team and communicate the name, designation and contact numbers and e-mail id of the person so designated.

4. It is further requested that full co-operation may be extended to the Audit party in carrying out the audit and keep all the relevant records ready so that the audit can be conducted smoothly.

5. In case of any difficulty, you can get in touch with the undersigned through the telephone number/fax/email mentioned above.

Yours faithfully,

(NAME)
Additional/Joint Commissioner

Details of the Group:

Group No.

Names of the Officers and designations:

Phone Nos. Off. _____ Mobile _____
e-mail id of the group is

(ANNEXURE – ST-III)

DOCUMENTS REQUIRED FOR DESK REVIEW

I. Documents required during Desk Review -

1. Annual report and Director's report
2. Profit and Loss Account
3. Balance Sheet
4. Notes to the Accounts
5. Trial Balance
6. Cost Audit Report
7. VAT returns
8. Tax Audit Report
9. TDS

Sr.No.	Name of the Record/Document	Relevance of the documents and checks to be done
1.	Annual Report & Director's Report	<p>The Annual Report prepared by a company <i>inter alia</i> contains the following:</p> <p>i) Director's Report (ii) Statutory Auditor's Report (iii) Balance sheet and Profit & Loss Account (iv) Financial statements of subsidiary companies, if any.</p> <p><u>Director's Report</u>: Director's report may, interalia, contain information about-</p> <ol style="list-style-type: none">a) Foreign Exchange earned during the year.b) Foreign Exchange paid during the year, e.g.- may be on account of taxable services availed by the Assessee/Taxpayer where he is liable to pay service tax under reverse charge mechanism.c) Information on the operations carried out by the Assessee/Taxpayer during the year under report. This may help in finding the exact nature of services provided by the Assessee/Taxpayer.d) The facts stated in Director's Report should be reconciled with the ST -3 Returns. <p><u>Auditor's Report</u>: It is the most important report contained in the Annual Accounts of a Company. The statutory auditor certifies as to whether the books of account of the company are properly maintained or not and also whether internal control mechanism is commensurate with the size and extent of business of the company. Any adverse noting of the Statutory Auditor has to be replied by the management of the Company</p> <p><u>Nature of verification</u>:</p> <ul style="list-style-type: none">(i) The Auditor's Report should be studied to find out any qualified/adverse opinion given by the auditors which may have impact on Service Tax liability.ii) CARO Report may be studied to find out whether the fixed assets records have been maintained properly or whether physical verification of capital goods was undertaken and whether any discrepancies were noticed on such verification or whether the company has maintained proper records for unserviceable or damaged capital goods or not.iii) CARO Report also shows disputed tax liabilities separately for Sales Tax, Customs, Central Excise and Income Tax. Cases booked under Sales Tax or Income Tax may be examined to find out any implication on the Service Tax.iv) In the case of Public Sector unit, C & AG report and comment of the company available in the Annual Report should be examined.
2.	Profit & Loss Account	<p><u>Nature of the Account</u>: The Profit and Loss Account shows major items of expenditure and income. This is one of the important documents used during desk review to find out the overall working of the unit. In the main body of the Profit & Loss Account, only major heads of expenditure and income are given and the constituents of these headings are given in a separate annexure. The said annexure should be studied in detail. The expenditure or income of the major heads should be compared with the previous year's amount in order to find out cases of major variations.</p>

	<p>Nature of Verification: The auditor is required to examine income and expenditure accounts in the Profit and Loss Account:</p> <p>Auditor should analyse both debit and credit side of the profit & loss a/c, trial balance, ledgers etc. because it is a myth that while ascertaining the service tax liability of the Assessee/Taxpayer, one has to look only at the credit side of P&L A/c. Debit side is equally important or rather more prone to frauds and errors. Therefore, the auditor needs to pay attention towards debit side also. Debit side is important because of–</p> <ol style="list-style-type: none"> i. Reverse charge mechanism- under this mechanism, the recipient of services is liable to pay service tax (e.g. GTA Services, services received from abroad, Services notified in terms of Section 68(2) of Finance Act, 1994 etc.). Therefore nothing appears on the credit side of the P&L a/c. However, service tax has to be calculated on the amount paid towards taxable services received. <p>Reimbursement- unless the concept of 'pure agent' is applicable, reimbursements are includable in the value of Taxable Service. Reconciliation should cover all receivables including reimbursements, sale of goods etc</p> <p>a) Income Accounts: Normally, the Profit and Loss Account would show a consolidated entry for business income from all sources. According to accounting standards, non-business income such as interest income or dividend income is required to be shown separately.</p> <p>To begin with, auditors should call for the groupings of business income shown in the Profit and Loss Account. The said groupings would show the different heads under which the incomes have been accounted for. They should carefully study the nature of business income – some of which may have accrued from the sale of taxable services and the balance from the sale of non-taxable services. The exact nature of these services may be determined from the supporting documents such as vouchers, bills or contracts. In doing so, auditors need to be guided by the nomenclature (used for each of these services) in the Trial Balance or Annexures to the Profit and Loss Account. It is possible that the true nature of the service may be obscured or disguised by using a nomenclature that is either non-taxable or exempted.</p> <p>Other incomes like insurance claims receipt, sale of capital goods, commission received, erection and commissioning income, freight and insurance recovered etc. may be examined in detail to find out the exact nature of such incomes and whether these are liable for Service tax and have any bearing on cenvat credit utilisation.</p> <p>b) Expense Accounts: Scrutiny of expense accounts would enable the Auditor to identify major expenditure heads. In specific terms, such scrutiny may be useful in the following manner:</p> <ul style="list-style-type: none"> ➤ Useful for verification of out of pocket expenses where deductions for these have been claimed from the value of taxable services. ii. Correlation between expenditure head and value of taxable service e.g. fuel expenses and the value of taxable service in the case of tour operators.
3.	<p>Balance Sheet</p> <p><u>Nature of document :</u></p> <p>Balance sheet is a statement of assets and liabilities of a unit on a particular day. The overall financial health of a company can be determined from the study of a Balance sheet.</p> <p><u>Types of verification</u></p> <p>(i) Study of schedule of Share Capital may reveal if the company is subsidiary company and in case the company is holding company, in that case, the name of subsidiary company will be disclosed in the Schedule of Investment. If there are sale/purchase transactions with the holding/subsidiary company, in that case, the valuation of such products needs to be examined in the light of Valuation Rules.</p> <p>(ii) Study of fixed assets schedule may show additions and deductions to the fixed assets during the year. For the deductions made during the year, verification may be made as to whether appropriate excise duty have</p>

	bee paid, if the Cenvat credit was availed in the past.
4.	<p>Notes to the Accounts</p> <p>These notes are part of the Profit & Loss Account and Balance Sheet. These notes may be inserted by the company as per the requirement of the Companies Act or may be added at the instance of Statutory auditor. These notes are very important to a Tax auditor as these reveal important transactions or the important accounting policies followed by the unit.</p> <p><u>Nature of verification:</u></p> <p>In case of debtors, notes indicate debtors which are outstanding for a period exceeding 6 months. Foreign Exchange related transactions are also given in the notes on accounts. Management can use these figures to show book profit to suit their requirements. Netting of amounts of revenue or expenditure can also be resorted to by the management although as per accounting standards it is mandatory to specify the figures separately.</p> <p>Scrutiny of Notes will also reveal as to whether there was any change in the system of accounting. For example- an Assessee/Taxpayer changes from cash system of accounting to mercantile system. The notes also indicate the impact of accounting policies on various liabilities including the tax liability of the Assessee/Taxpayer. Therefore, the auditor must read the notes carefully</p>
5.	<p>Trial Balance</p> <p><u>Nature of Document</u> :-</p> <p>Trial Balance is a statement showing balances of all accounts in the ledgers as on a particular date. In other words, it is a summary of the ledger account maintained by an assessee. The final accounts, namely, Profit & Loss account and Balance Sheet are prepared from the Trial Balance only. From the Trial Balance, similar accounts are grouped together and these are transferred to the Profit & Loss Account and Balance Sheet.</p> <p>The perusal of the Trial Balance could achieve the following:</p> <ol style="list-style-type: none"> Familiarization with chart of accounts/account code and understand as to what extent the information is detailed and integrated with other subsystems; few sample Journal Vouchers may also be seen to understand the information mentioned therein. Understand the grouping of sub accounts under main accounts for the purposes of summarization into Profit and Loss account and the Balance Sheet. Identification of accounts, which have a <i>prima facie</i> relevance for service tax payment (may be direct or indirect). These accounts may have to be seen in detail at later stage of audit depending upon the result of subsequent audit processes; Understand the tax accounting system in so far as it pertains to Service Tax payment and treatment of credit of service tax on input services; <p>During the study of the Trial Balance/ Profit and Loss Account all income accounts should be studied in detail. The most important use of Gross Trial Balance is that it contains balances of individual accounts whereas in Balance Sheet and P&L A/c many accounts are grouped together, e.g.,</p> <ol style="list-style-type: none"> In the P&L A/c, all the incomes are clubbed together under the head 'Gross Receipts', 'Sales' as the case may be. However, Trial Balance shows income earned under each category of revenue separately. Not only the Trial Balance is important in relation to income side, but it is very important in relation to expenditure side also. For instance, Payment made towards Sponsorship services may be clubbed in the category of Advertisement and Sales Promotion Expenses which can be identified only from the Trial Balance. Similarly, freight paid may be clubbed with Purchases or Fixed Assets.
6.	Cost Audit Report

	<p>Cost Audit Report provides quantitative and financial details regarding related party transaction, valuation of services rendered as per service tax return.</p> <p>The auditor may examine the following aspects from the Cost Audit report.</p>								
	<table border="1"> <thead> <tr> <th>S. No. in Annexure to the Cost Audit Report and subject</th><th>What is to be seen</th></tr> </thead> <tbody> <tr> <td>1 & 3 - General Information</td><td>Auditors may use this information at time of Desk Review.</td></tr> <tr> <td>5 - Royalty & Technical Know-how Charges</td><td>As the information contain is product wise, the auditor may find it useful in determining the tax liability of the assessee under reverse charge mechanism if any in case the same was paid to foreign entities. Moreover, auditor may go through the source documents about the scope of work and terms of payment to assess the tax-compliance aspect of service tax on Royalty & Technical Know-how.</td></tr> <tr> <td>10 - Related party transactions.</td><td>Auditors may use this information with regard to valuation of related party transactions.</td></tr> </tbody> </table>	S. No. in Annexure to the Cost Audit Report and subject	What is to be seen	1 & 3 - General Information	Auditors may use this information at time of Desk Review.	5 - Royalty & Technical Know-how Charges	As the information contain is product wise, the auditor may find it useful in determining the tax liability of the assessee under reverse charge mechanism if any in case the same was paid to foreign entities. Moreover, auditor may go through the source documents about the scope of work and terms of payment to assess the tax-compliance aspect of service tax on Royalty & Technical Know-how.	10 - Related party transactions.	Auditors may use this information with regard to valuation of related party transactions.
S. No. in Annexure to the Cost Audit Report and subject	What is to be seen								
1 & 3 - General Information	Auditors may use this information at time of Desk Review.								
5 - Royalty & Technical Know-how Charges	As the information contain is product wise, the auditor may find it useful in determining the tax liability of the assessee under reverse charge mechanism if any in case the same was paid to foreign entities. Moreover, auditor may go through the source documents about the scope of work and terms of payment to assess the tax-compliance aspect of service tax on Royalty & Technical Know-how.								
10 - Related party transactions.	Auditors may use this information with regard to valuation of related party transactions.								
7.	Scrutiny of VAT Returns								
	<p>The VAT Returns should be scrutinized for ensuring that the value of services which attract both service tax & VAT are consistently reported. Some of such services which attract both Service Tax & VAT are:-</p> <ul style="list-style-type: none"> i. Commercial or Industrial Construction Services ii. Complex Construction Services iii. Works Contract Services iv. Annual Maintenance Services v. Outdoor Caterer Services vi. Mandap Keeper Services vii. Pandal or Shamiana Contractor Services viii. Rent – a - Cab Services 								
8	Scrutiny of the Tax Audit Report								
	<ul style="list-style-type: none"> i. Clause 18 of the Tax Audit Report provides information about amount of depreciation under Section 32 of the Income Tax Act, 1961 and that of CENVAT credit availed by the service providers on capital goods. ii. Clause 27(a) of the Tax Audit report gives the details of CENVAT Credit claimed by the service provider. It also provides the details of credit available and carried forward to the next year. Hence, the Auditor can authenticate the amount of credit carried forward in the service tax returns with the information provided in terms of this clause. iii. Clause 21(b) of the Tax Audit Report also gives information regarding prior period incomes and expenses booked in the year under Tax audit. The Auditor shall ensure that service tax is paid on these amounts in case they are subject to service tax. iv. Clause 39 of the Tax Audit Report provides the information relating to Cost Audit. If such an audit has been carried out, the Auditor should examine the Cost Audit Report. v. Clause 40 of the Tax Audit Report provides the important accounting ratios. 								
9	Scrutiny of Tax Deducted at Source (TDS) Certificates								
	<p>The total receipts for services can be verified from TDS certificates in the following manner:-</p> <ul style="list-style-type: none"> i. By deducting the amount of service tax from the value on which tax has been deducted at source, 								

	<p>the receipts appearing in the books of accounts can be reconciled.</p> <p>ii. The nature of services can also be confirmed from these certificates and in case of any discrepancy in the categorization of services under proper head, elaborate checks need to be carried out by the Auditor.</p> <p>iii. Details of TDS credit claimed in the Income Tax Return may also be examined.</p>
--	--

ANNEXURE – ST-IV
RATIO ANALYSIS OF DATABASE

Source Documents	Utility of the Ratios in Service Tax Audit and manner of use	Nature of Ratio / Method of calculation
1. Profit & Loss Account; 2. Income & Expenditure Account (in case of non profit organisations like clubs); and 3. ST-3 return	<p>Compare the ratio over a period of 3-4 years. If the ratio is increasing there is possibility of the following irregularities:-</p> <ul style="list-style-type: none"> i) Rendering of unaccounted output services. ii) Undervaluation of output services. iii) Diversion of output service income into non-taxable services income. <p>Compare this ratio (A) with (B)</p> <p>If ratio B is greater than ratio A, then there is a possibility of wrong availment of credit either due to calculation mistake or availment of credit on input services being not used properly in output services.</p>	<p>Major input service cost : Value of Taxable Service (say A)</p> <p><i>Credit availed: Total Service Tax payable</i></p> <p>(say B)</p>
1. Profit & Loss Account; 2. Income & Expenditure Account (in case of non profit organisations like clubs); and 3. ST-3 return	<p>Compare the ratio over a period of 3-4 years or with the Assessee/Taxpayers rendering the same services.</p> <p>If the ratio is increasing over a period of time or it is more when compared to other service providers, then there is a possibility of under valuation by showing output service income as non taxable / exempted service income.</p>	Other incomes not charged to Service Tax : Value of taxable services
Balance Sheet	<p>A comparison of this ratio with the rate of growth of the value of taxable service during the year may be useful in verifying whether the value of taxable service has been correctly declared.</p> <p>It is particularly to be checked in cases where the additions to plant & machinery / fixed assets directly impact the volume of sales.</p>	Additions to plant and machinery / fixed assets during the year : Total value of assets at the beginning of the year
Tax Payer Profile; ST 3 return	<p>Compare the ratio over a period of 3-4 years.</p> <p>If the ratio is increasing there is the possibility of the following irregularities:-</p> <ul style="list-style-type: none"> (a) Rendering of unaccounted output services; (b) Under valuation of output services; (c) Showing output service income as non taxable services income. (d) Inflation of input service credit. 	Amount of credit availed on input services : Total Service Tax liability
1. Profit & Loss Account; and 2. Income & Expenditure Account (in case of non profit organisations like clubs)	<p>Compare this ratio over a period of 3-4 years or with the Assessee/Taxpayers rendering similar services.</p> <p>If the ratio is increasing over a period of time or if the ratio of the Assessee/Taxpayer is more than other service providers in the same industry, then there is a possibility of rendering of unaccounted output service or undervaluation of all the services.</p> <p>This ratio may be useful where consumables, fuel or power consumption are having relationship with the rendering of output services.</p> <p>This ratio may be used along with the ratio A, namely, Major input service cost : Value of taxable services, as discussed in first case above.</p>	Consumables / Fuel value : Value of taxable services
Taxpayer Master File	<ul style="list-style-type: none"> i) To identify wrong availment of CENVAT credit ii) To identify under valuation of services as value-addition should involve adequate difference between the 	Input CENVAT Credit (A) : Total duty payment (Account Current + Cenvat

	<p>two.</p> <p>iii) To identify removal of goods without payment of duty.</p> <p>iv) To identify claiming of CENVAT credit on inputs used in exempted products.</p>	Credit $\frac{(\mathbf{B})}{(\mathbf{A})} = \frac{(\mathbf{A})}{(\mathbf{B})}$
Balance Sheet & ST-3 Return.	<p>i) Addition to the Plant & Machinery is available from the Fixed Assets Schedule enclosed to the Balance sheet.</p> <p>ii) If this ratio is significantly higher than the ratio of 50% of the rate of duty on Capital Goods (Presently 12.5%):100, it may indicate wrong availment of credit. (This ratio needs to be verified at the time of audit because at the Desk Review stage the amount of CENVAT credit on Capital Goods purchased during the year may not be available as total credit availed will be inclusive of balance 50% credit of capital goods purchased in the previous year).</p>	CENVAT availed on Capital Goods purchased during the year : Addition to Plant & Machinery
Profit & Loss Account.	<p>If this ratio is higher than previous period, it may be on account of the following:</p> <p>a) Under valuation of services by non-inclusion of other incomes</p> <p>b) Service Tax liability on Other Income</p>	Other Income: Sales

ANNEXURE - ST - IX

A. RECORDS TO BE VERIFIED

I Marketing and sales department -

1. Purchase Orders/Agreements/MOU
2. Sales book

II. Stores department -

1. Stores Ledger
2. Job work/Sub-contract Register

III. Finance & Accounts related records -

1. Ledgers
2. Debit Note
3. Credit Note
4. Journal Voucher
5. Internal Audit Reports
6. Purchase Book
7. Purchase Return Book
8. Income Tax Audit Report
9. Income Return
10. Sales Tax/VAT Return

B. AREAS TO BE COVERED IN THE TAXPAYERS/UNITS AVAILING EXPORT PROMOTION SCHEMES:

I. Records to be verified in the marketing and sales departments -

Sr.N o.	Name of the Record/Document	Nature of the documents and checks to be done
1.	Purchase order/Agreements/MOU	<p><u>Nature of Document:</u> This document denotes the price and other conditions laid for purchase and sale of goods and services.</p> <p><u>Nature of Verification:</u></p> <p><u>Purchase order placed by Customers, Agreement/MOU with the Customers:</u></p> <ol style="list-style-type: none"> (a) To verify the terms and conditions specially with respect to price revision, supply of any material/component by the customer, erection and commissioning charges. The total price charged in the Purchase Order may be compared with the Service Tax invoice to ensure that no extra flow back is received outside the invoice through commercial invoice/debit note. (b) To verify whether the invoice is raised for full amount as per the Purchase Order/Agreement/MOU (c) Tax & duty structure agreed upon in the purchase order should be checked with invoices raised for provision of services. In case the unit raises a separate commercial invoice, such invoices should be checked for the basic price, taxes, etc. actually collected.
2.	Sales Book	<p><u>Nature of Document:</u> This is used for recording all credit sale of products manufactured/traded and services provided.</p> <p><u>Nature of Verification:</u></p> <ol style="list-style-type: none"> (a) Invoice Numbers mentioned should be sequential and if any number is missing the same has to be examined. (b) Verify how many series of sales invoices are used for provision of services. Whether ST invoice series and commercial invoice no. series are different. (c) Whether Debit Notes/Journal Vouchers are also entered in the sales register. If yes, whether Service Tax is payable on additional considerations received through such Debit Notes/JVs. (d) Sales register normally show Service Tax/Central Excise duty separately. Verify the cases where excise duty/Service Tax has not been paid and find out the reasons thereof.

II. Records to be verified in the stores department -

Sr.N o.	Name of the Record/Document	Nature of the documents and checks to be done
1.	Stores Ledger	<p><u>Nature of Document :-</u> It contains the details about receipt of various input or consumable, its issue for production and closing balance. It also contains details like results of physical verification, obsolete items, slow moving items and its write off etc. Now a days most of the companies maintains stock records on computer.</p> <p><u>Types of Verification :-</u></p> <ul style="list-style-type: none"> i) Verify coding system for receipt, issue, stock verification, valuation, input cleared as such, obsolete item and other found in store records. ii) Compare the purchase as per CENVAT documents with a receipt in the store records. iii) Verify whether any item written off due to obsolescence.
2.	Sub contract Register / Job Work Register	<p><u>Nature of Document :</u> This register indicates activity sub-contracted outside.</p> <p><u>Nature of Verification :</u></p> <ul style="list-style-type: none"> (a) In case the job worker/sub-contractor discharges tax, then valuation of such goods/services should be examined as to inclusion of any freely supplied material in the value.

III. Finance & Accounts related records -

Sr.N o.	Name of the Record/Document	Nature of the documents and checks to be done
1.	Ledger	<p><u>Nature of document:</u> Ledger is a book where transactions of same nature are grouped together in the form of an account. For example, all transactions relating to excise duty payment may be entered in Service Tax/Excise Duty Payment Account. Ledgers are of three types:</p> <p>1. <u>Debtor's Ledger:</u> This contains accounts of all debtors (customers). All transactions made with a customer are entered in the individual account of each customer. Details of sales invoices and debit note issued to a customer and payment received from a customer are entered in the customer's individual account.</p> <p><u>Types of verification:</u></p> <ul style="list-style-type: none"> (i) Ledger account of the major customers should be scrutinized. In the Customer's account it should be verified as to what are the documents used for recording the sales of the goods/services. These documents may be sales invoices or debit notes or Journal Vouchers (JV). If debit note and JVs are also found entered in the customer's account, such documents should be verified to find out the reasons for such recoveries from the customers and whether service tax/excise duty has been paid or not. (ii) If substantial amount of advances are recovered regularly, this may also be verified from customer's account. In such cases, there may be credit balance showing receipt of advance payment. <p>2. <u>Creditor's Ledger:</u> This Ledger contains accounts of all creditors like suppliers and service providers. Like in the case of Debtor's Ledger, in the case of supplier's account, the details like purchase invoice, debit note or JV may be available in a supplier's account. The debit note or JV might have been prepared for rejection of purchase material or for short receipt of purchase material or for _____ of services.</p> <p><u>Types of verification:</u></p> <ul style="list-style-type: none"> (i) If the customer's account shows details of debit note or JV, the reasons thereof may be inquired into and whether CENVAT credit has been reversed or not may be verified. <p>3. <u>General Ledger:</u> This Ledger contains all accounts of assets, liabilities, incomes and expenses. Scrutiny of this ledger is very important to a Tax Auditor as the income and expenditure accounts have direct impact on availment of credit, valuation of finished goods and payment of excise duty/service tax. The General Ledger may contain 100-500 accounts depending upon the size of the company. Therefore, selection of account for scrutiny</p>

	<p>is an important task for an auditor. For this purpose, accounts should be selected from the Trial Balance which gives names of all the accounts maintained by a unit. Some of the general rules which may be kept in mind while selecting the accounts for scrutiny are given below :</p> <ul style="list-style-type: none"> (i) Credit entries in expenses account. (ii) Income accounts. (iii) Unusual account. <p><u>Types of verification:</u></p> <ul style="list-style-type: none"> (i) All the important input purchase accounts may be verified in order to find out whether any rejection of raw material or short receipt of input have taken place and whether CENVAT credit has been reversed or not. (ii) Expenditure accounts where recovery of expenses is possible like Packing and Forwarding Expenses Account, Advertisement Expenses Account, Transportation / Freight Charges Account, Sales Expenses Account etc. may be scrutinized in order to find out any recoveries being made from the customer. (iii) From the Trial Balance, the income accounts (these accounts will have credit balances) should be selected for scrutiny and the exact nature of such incomes accounts should be found out from the study of the documents mentioned in the relevant ledger accounts. Some of these accounts might have direct impact on the valuation of finished goods or it may also affect the Service Tax liability. (iv) Unusual accounts as noticed during the study of Trial Balance may also be scrutinized as to find out the exact nature of such accounts. (v) The tax auditor may verify the Plant and Machinery Account to find out the additions made during the year and the disposal of plant and machinery made during the year. In the case of disposal, whether the appropriate amount of excise duty has been paid or not may be inquired into by the tax auditor. (vi) As far as verification of claiming of depreciation on capital goods is concerned, the verification should be made from the Income tax return filed by the assessee or from the Income Tax Audit Report.
2.	<p>Debit Notes</p> <p><u>Nature of Documents:</u></p> <p>Debit Note is a statement informing the other party that his account has been debited for the reasons given in the Debit Note. The financial impact of a Debit Note is that the addressee is liable to pay the amount mentioned in the said statement to the person who has issued the Debit Note. In other words, the person issuing the Debit Note is eligible to receive the amount from the addressee. Debit Note may be issued for various reasons like return / short receipt of goods purchased, increase in the rate / quantity of the goods sold / services rendered, recovery of packing charges, warranty charges, after-sales service charges etc. from a customer. The job worker may raise a Debit Note for value of own material used by him. The principal manufacturer may issue a Debit Note to a job worker for the value of scrap generated during job work process and retained by a job worker.</p> <p><u>Types of Verification:</u></p> <ul style="list-style-type: none"> (i) Since the number of Debit Notes issued by a unit are generally not very large, therefore all the Debit Notes must be studied by a Tax Auditor. (ii) The Debit Note itself shows the reason for its issue and most of the time the supporting documents are enclosed with the Debit Note. Therefore such documents should be studied in detail. (iii) Cases of additional recoveries from the customer or rejection and short receipt of inputs are generally noticed in the Debit Note.
3.	<p>Credit Note</p> <p>Credit Note is a statement informing the other person that his account has been credited for the reasons mentioned in the Credit Note. The financial impact of issue of a Credit Note is that the addressee is eligible to receive the amount of credit note. Credit Note may be issued for the reasons like return of goods by the customer (sales return).</p>
4.	<p>Journal Voucher (JV)</p> <p><u>Nature of Document :-</u></p> <p>JVs are prepared for all adjustments which may not involve direct financial dealings. For example, accounting of raw materials consumed in a particular month, providing of depreciation or making provision for payment of</p>

	<p>royalty.</p> <p><u>Types of Verification:</u></p> <ul style="list-style-type: none"> (i) As most of the adjustments are made at the end of the half year and at the end of the year, therefore, all the JVs for the half year ending month or year ending month (September and March in the case of units following April to March as accounting year) must be verified. (ii) The narration given in the JVs should be studied in order to find out the exact nature of transaction being entered in the books of accounts. (iii) Study of JVs may reveal accounting system followed by a unit. For example, a company following the system of cost centres may account for consumption of raw material for each centre on a monthly basis. In such cases, the raw material consumption by non-production department like construction department or maintenance department may be found out from the study of JVs which is passed at the end of each month. The said JVs may also be useful in quantifying the amount of wrong availment of CENVAT credit for entire year as only one JV is required to be examined for each month. (iv) Adjustment entries passed for transferring the balance of one account to another related account may also be found out from the study of JVs. For example, Recovery of Packing and Forwarding Charges Account may be transferred to Packing and Forwarding Expenses account and for this purpose a JV is passed. (v) Some times additional consideration may be collected from customer by issuing a simple letter to the customer (without issuing any debit note or sales invoice). In such cases these transactions are accounted for through JVs. (vi) Similarly, for quantities short received or rejected quantity also the supplier may be compensated by way of intimation and the transaction is recorded through a JV.
5.	Internal Audit Report
	<p><u>Nature of Document :-</u></p> <p>This is the report submitted by internal auditors appointed by the company which looks into day-to-day activities and the systems followed by the unit. In the bigger company, it is a mandatory also.</p> <p><u>Types of verification :-</u></p> <ul style="list-style-type: none"> i) Call for sample audit reports and examine with respect to observations on loss of any input, excess availment of CENVAT credit, collection of additional consideration ii) Verify whether any system changes have been advised and followed by the assessee. In that case for the past period any implication on Excise payment due to a weak internal control needs to be examined. iii) Internal Auditor also reports about stock verification and in case of shortages the CENVAT availment needs to be examined.
6.	Purchase Book
	<p><u>Nature of Document:</u></p> <p>This shows credit purchase of raw materials and other inputs.</p> <p><u>Nature of Verification:</u></p> <ul style="list-style-type: none"> (a) To find out major suppliers (b) It may also show excise duty separately. In that case excise duty recorded in the purchase register may be reconciled with credit availed as per CENVAT return.
7.	Purchase Return Book
	<p><u>Nature of Document:</u></p> <p>This book gives details of goods returned to suppliers.</p> <p><u>Nature of Verification:</u></p> <p>Verify whether CENVAT credit has been expunged / such goods cleared on payment of duty.</p>
8.	Tax Audit Report
	<p><u>Nature of document:</u></p> <p>As per the provisions of the Income Tax Act, all assessees having a turnover of above Rs.40 lakhs are required to have their records audited by a Chartered Accountant and the Audit Report known as Tax Audit Report is given by Chartered Accountant. The said report is given in the form 3 CD and it is required to be enclosed along with</p>

	<p>the Income tax return filed by the assessee.</p> <p><u>Nature of verification:</u></p> <p>Depreciation statement as per the provisions of Income Tax Act enclosed with Tax Audit Report may be verified to confirm the correctness of availment of CENVAT credit on capital goods.</p> <ul style="list-style-type: none"> (i) As per Clause 27(a) of the said report, amount of CENVAT credit availed or utilized during the year and its treatment in the Profit & Loss Account and treatment of outstanding CENVAT credit in the account is required to be given. Tax Auditor may compare the said information with the information as per excise records. (ii) As per clause 35(a) to 35(c), details like opening stock, purchases, sales and closing stock of trading activities and in the case of manufacturing unit quantitative details or principal items of raw materials, finished goods and by-products showing opening stock, purchases, consumption, sales, closing stock, yield of finished goods, percentage of yield and shortages/excesses is required to be given. This information may be used by Tax Auditor to verify the input-output ratio. The reasons for excessive shortage/ excesses and whether duty has been paid on the sale of raw material as reported in the tax audit report may be inquired into.
9.	Income Tax Returns
	<p><u>Nature of document:</u></p> <p>This return is filed by the assessee with the Income Tax department showing the calculation of income tax on the profit / loss earned by them. The return is filed in the prescribed format and alongwith the return a statement namely computation of income is enclosed.</p> <p><u>Nature of verification:</u></p> <p>In the computation of income statement, a depreciation statement is also enclosed. The said depreciation statement shows depreciation claimed on various assets as per the provisions of Income Tax Act. The auditors should verify whether the value considered for claiming depreciation is inclusive of CENVAT credit availed by the assessee or not.</p>
10.	Sale Tax/VAT returns
	<p><u>Types of verification:-</u></p> <ul style="list-style-type: none"> i) Reconcile the total sales as per Central Excise returns, Sale Tax/VAT returns and financial records. ii) Verify whether any exemption has been claimed from payment of Excise duty and how the same item is being claimed for payment of Sale Tax / VAT. iii) Verify the credit availment on purchases as per VAT returns and compare with CENVAT Credit as per Excise records. iv) Verify the abatements claim in Sale Tax/VAT return and its implication on Excise payment, if any. v) Verify works contract tax payment as per Sale Tax/VAT return and its implication for payment of Excise duty/ Service Tax.
B	Taxpayers/Units availing Benefits of various Export Promotion Schemes:
	<p>In case of the taxpayers/units availing the benefits of various export promotion schemes require special attention. Further, the quantum of export benefits depends on fulfilment of prescribed conditions and the value of services exported. Service provided in DTA also constitute a sensitive area. The auditor should scrutinise the records and returns pertaining to these schemes for verification of fulfilment of such conditions. The auditor should go through the provisions of relevant FTP, Foreign Trade Procedures and Customs/ Central Excise/Service Tax notifications issued thereon. The auditor should also verify the actual receipt and utilization of capital goods as well as inputs/input services, imported or procured indigenously at concessional rates of duty under these schemes. In this regard the auditor may please go through the relevant check lists and documents required to be verified in case of each export promotion scheme for having an over view.</p>

ANNEXURE - ST-V

Comparative statement of items from audited annual accounts/returns via-a-vis reflected in ST-3 returns

Sl. No.	Item	As per			
		ST-3	Income Tax Audit Report under Section 44AB of the Income Tax Act, 1961	Income tax returns ITR IV/ ITRV/ /ITR VI as applicable	AUDITED ANNUAL ACCOUNTS / TRIAL BALANCE
(1)	(2)	(3)	(4)	(5)	(6)
1	Value of Services provided (including TDS amount deducted, if any)				
2	Service Tax Paid				
	i) Credit Account				
	ii) Account Current				
	Sub-total of 2				
3	Value of Exports				
4	Details of CENVAT Credit availed and utilised				
	a. Opening Balance				
	b. CENVAT Credit availed on				
	i. Manufacturer invoice				
	ii. I & II Stage Dealer				
	iii. Imported Inputs				
	iv. Capital Goods from Manufacturer/ Dealer				
	v. Imported Capital Goods				
	vi. Input Services				
	Sub-Total of (b)				
	C. Total Credit available (a+b)				
	d. Credit utilised				
	i. Payment of duty on Services				
	ii Removal of Inputs & Capital Goods as such				
	Sub Total of (d)				
	e. Closing Balance				
5	Written off stock				

Note:- If the information sought is not applicable in any column, Please mention N.A. against the same.

ANNEXURE - ST - VI

QUESTIONNAIRE FOR REVIEW OF INTERNAL CONTROLS

(Information to be filled in by the Auditor before filling up the information in the working papers)

A. Flow Chart showing manner of verification of transactions and documents during Walk Through and Audit.

1. Verification of Sales of Services and Income:

- File of correspondences with the client/customer
- Quotation/Tender files
- Cost sheet to work out approximate cost of service (eg. cost of A.M.C. , Advertisement cost)
- Price List (in cases where price of services are fixed as in case of Insurance Premiums, Cable Operators, Coaching Centres).
- Booking Register (eg. in case of Mandap keeper, Convention Centre, tour operators)
- Service Agreement/Contract like Agreement for Technical consultancy
- Job cards/work statements (eg. in case of AMC or repair of vehicle, job card may show value of services and material used)
- Advance Receipts (eg. in case Mandap keeper, tour operator, event management services)
- Invoices/Receipts
- Income Register (such as Sales Register)
- Debit Notes
- Customer's ledger Account (to verify total amount billed, by way of invoice, debit note, payment received, credit note issued)
- Returns filed with other Departments (such as returns filed with Commercial Tax department for Works Contract Tax (Installation & Commissioning Services); with State Government for Luxury Tax (in case of Mandap keeper, Convention Centre), SEBI (Stock broker), IRDA (Insurance services))
- S.T.3 Return

2. Purchase of Input services and Availment of Credit

- Vendor/Supplier list
- Correspondence with vendor/supplier
- Tender/Quotation documents
- Purchase Order

- Purchase invoices/bills
- Debit Notes (for return of input services)
- Purchase Register
- Ledger Accounts of suppliers of services (to verify the date of payment of services)
- Bank Account/Cash Account (to verify random cases for payment of services)
- Verify use of input services (eg. use of telephone for output services or for non-taxable work, insurance for property used for output services)
- Input Credit register
- Service Tax Credit Return.

3. Financial Record Scrutiny

- Trial Balance
- Check all Income Accounts (showing credit balances) in Trial Balance.
- Compare value of Income Accounts with value of taxable services shown in Service Tax return
- Verify invoices/bills/other documents of Income Accounts on which Service tax is not paid.
- Verify major expenses accounts to confirm whether any recoveries made from customer/client are adjusted in the expenditure account.
- Check Journal Vouchers/Debit Notes to verify recoveries from Customer/clients on which service tax is not paid.

4. Use of Input Services in Exempted Services:

- Check details of Input Services on which credit was availed, from Service Tax Credit Return.
- Check, if any, record maintained for quantifying input services used for exempted services or non taxable activity.
- Verify use of input services by tour of premises or by verifying documents
- Check costing of output services (prepared for submitting quotation or prepared for calculation of cost of output services)
- Check job card/work statement to find out exact quantum of use of input services.

B. Questionnaire for gathering information:

1. General:

01.	Name & address of Service Provider	
02.	Name and contact number of the 'Authorised person' for Audit.	
03.	Service tax Registration No. & date	
04.	Whether Service Tax Registration is centralized?	
05.	Whether the assessee is also registered as an Input Service Distributor?	
06.	Whether the assessee is a Proprietary, Partnership firm, Limited liability Partnership firm (LLP), Pvt. Ltd Company, Public Limited Company?	
07.	Details of transactions with Associated Enterprise as defined in Section 65(7b) of Chapter V of the Finance Act, 1994.	
08.	Details of Taxable Services provided.	
09.	Details of Taxable Services received for which tax has to be paid under reverse charge.	
10.	Details of exempted Services provided, if any, & Notification No.	
11.	If both Taxable and Exempted Services are provided, whether separate accounts are maintained in terms of Rule 6 of the CENVAT Credit Rules, 2004.	
12.	Details of Taxable Service Exported	
13.	Whether list of records maintained is filed with the S.T. department? [Rule 5(2) of the Service Tax Rules 1994]	
14.	Whether any periodical report/statement is furnished to any State / Central Government / Authority / Regulatory bodies? If yes, details thereof.	
15.	Whether any trading of goods/ materials carried out? If so details thereof.	
16.	Whether Registered with Central Excise? If so, details thereof.	
17.	Whether any offence case is booked in respect of Service Tax, Central Excise, Income Tax, VAT/ Sales Tax. If so, details thereof.	
18.	Whether any service is sub-contracted partially or wholly? If so, details thereof.	
19.	Is there any case where services provided in the State of Jammu & Kashmir?	

20.	Whether CENVAT Credit on input services availed? If so, details of major input services may be indicated.	
21.	Whether CENVAT Credit on inputs availed? If so, details of major inputs may be indicated.	
22.	Whether CENVAT Credit on Capital Goods availed? If so details of such Capital goods, along with their Central Excise Tariff Heading (CETH).	
23.	Whether CENVAT credit is taken after making payment of the invoice amount (including Service Tax) to the input service provider?	
24.	In case the assessee is also registered as an Input service distributor, whether he is having any unit in which only exempted products are manufactured? If yes, whether he is distributing the credit in respect of services related to that unit also?	
25.	Whether any amount payable/ paid to the Client has been adjusted against the receipt/ receivable and net income shown in the P&L Account.	
26.	Whether any advance payment is received towards providing services? If yes, whether Service Tax is paid on such receipts?	
27.	Is there any expenditure to any entity abroad which has been made but on which assessee is not required to pay service tax under reverse charge mechanism? If yes, details thereof.	
28.	Whether service tax is paid on the gross value received including TDS amount deducted by the service recipients?	
29.	Whether PF/ ESI or any other charges of the personnel of the service provider are being directly paid by the service recipients? If so whether service tax is paid on such amount.	
30.	Details of agreements entered into by the assessee for providing / receiving services	
31.	Details of expenditure in foreign currency on which service tax has neither been charged by the assessee nor it is payable under Sec. 66 A i.e. under reverse charge mechanism	

2. Invoicing pattern

01.	Is invoice issued in all transactions? If not, reasons for not issuing invoice.	
02.	How many series of invoices are being used?	
03.	If more than one series is used, give details of each such series.	
04.	If there are more than one series of invoices, is service tax paid	

	on all the series of invoices?	
05.	If not, then the reasons for not paying service tax on such series of invoices (e.g. exempted / exports / trading / non taxable services). Give details	
06.	Whether the invoice contains the STC number?	
07.	Is invoice issued on the date of provision of service or before or later?	
08.	List the different heads under which amounts are billed in invoices and their corresponding heads in the Trial Balance.	
09.	Name the heads in the invoice on which Service Tax is not paid.	
10.	Is there any sale of goods involved?	
11.	Is sales tax or VAT paid on value of goods sold?	
12.	Is the value of sale of goods included in the Gross amount charged declared in ST-3?	
13.	Are there any reimbursements billed in the invoice?	
13.1	Are there any debit/ credit notes issued for claiming reimbursements?	
14.	If yes, is service tax paid on these reimbursements? If not, reasons thereof.	
15.	Whether invoices are generated on Computer. If yes, then whether the Invoice Numbers are generated automatically or is fed manually. What safe guards are provided in the system for data security? Give the name and designation of the person having the authority to cancel an invoice.	
16.	Whether any amount is recovered by issue of debit note and whether it is included in the gross value of services?	
17.	Give a brief on sale pattern of services liable to service tax	
18.	Are any goods or services provided by the service receiver free of cost or at subsidized price?	

3. Accounts and records

01.	Whether accounts are prepared on mercantile basis or cash basis?	
02.	Whether the Accounts are maintained electronically? If yes, the name of accounting packages / computer software installed for maintaining accounts in the units like Tally, FAS etc :	

03.	Whether accounting software was switched over to some other software during the audit coverage period.	
04.	Whether any changes have been made in the accounting policies affecting ST liability relating to reimbursement of expenses, timing of payment of Service Tax and treatment of payments in foreign currency?	
05.	Whether accounts are audited by Statutory Auditor? If so, name and address of the auditor.	
06.	Whether Cost Accounting records as prescribed under Section 148 of the Companies Act, 2013 are required to be maintained?	
07.	Whether Cost Audit Report is conducted and if yes report thereof is prepared?	
08	Whether there is any system of Internal Auditing?	

4. Making of ST-3 return

01	Whether payment of Service Tax is on Billing basis or receipt basis?	
02	List the ledger/ accounts from where the monthly gross amount received is taken for taxable service.	
03	List the ledger/accounts from where the amount received towards gross monthly amount of Exports is taken.	
04	List the ledger/accounts from where the amount received towards gross monthly amount of exempted service is taken.	
05	List the ledger/accounts from where the gross monthly amount of amount received as pure agent is taken.	
06	List the ledger/ accounts from where the gross monthly amount billed is taken.	

5. Exemption

01	Please list the exemptions being claimed.	
02	Please list the conditions prescribed in each of the exemption claimed. Please specify if the conditions of exemption are fulfilled.	
03	If abatement is being claimed, is the CENVAT of capital goods, inputs or input services claimed?	
04	If abatement is being claimed, is the benefit of notification No.12/03-ST, dated 20/6/2003 also claimed?	

6. Place of provision of Service Rules:

1	Value of services exported if any, on which no service tax has been charged. Under which Rule of Place of Provision of Services Rules, 2012, the exported Service(s) fall? Whether any amount of (a) above should be taxed for not following Place of Provision of Services Rules, 2012?	
2	Is the payment for services exported received by the service provider in convertible foreign currency? If not, list those transactions where amounts are not received in foreign currency.	
3	Is the payment for services exported received by the service provider in convertible foreign currency within the time limit prescribed by RBI? If not, give details.	
4	Whether any services has been exported to "Associated Enterprises". If yes, mention the value thereof.	

7. VALUATION OF SERVICES

01	Is there any sale of goods involved in the course of providing service or otherwise?	
02	Is sales tax or VAT paid on value of goods so sold?	
03	Is the value of goods sold as mentioned in Point (a) and (b) above included in the gross amount charged as declared in ST-3?	
04	"Gross Amount Charged" includes reimbursements billed for the purpose of determining tax liability?	
5	Is there any, Value of reimbursements on which service tax is not charged	
6	Whether any service Tax has been paid under works contract service/restaurant service (special value as prescribed under Rule 2A of Determination of value Rules 2006)	
7	If abatement is claimed under Notification No. 26/2012-S.T. dated 20.06.2012 whether CENVAT Credit is claimed	
8	If yes whether permissible under Notification No. 26/2012?	
9	if answer is negative for the above query, then what is the nature of default of amount involved.	

8. ABATEMENT PROVISIONS:

01	In case of valuation of "Works Contract Service", please quantify the value of 'goods', along with differential Service Tax liability on which VAT/Sales Tax has not been paid and which has also been excluded from the value for payment of Service Tax in terms of Rule 2A(i) of Valuation Rules.	
02	Whether the claim of an amount received as reimbursement or pure agent in terms of Rule 5(2), is correct. If not, please quantify differential value and Service Tax.	
03	If abatement under Notification No. 26/2012 has been claimed on any service, whether the condition of non availment of Cenvat credit has been complied with or not. If not, please quantify the differential amount and Service Tax liability.	
04	If any credit of Service Tax has been availed in terms of Rule 6(3) of STR for non-provision/deficient provision of services, etc., whether the conditions given in the Rule have been fulfilled. If not, please mention amount of wrongly availed credit.	
5	If any adjustment has been made for excess paid Service Tax under Rule 6(4A) of the STR, whether it is legally correct. If not, please mention the differential Service Tax amount	

9. AMOUNTS TO BE INCLUDED IN TAXABLE VALUE

01	Whether any Goods / Services provided free of cost by the service recipient	
02	Whether reimbursements received from service recipient	
03	Whether any other expenditure borne by the service recipient	

10. MIS

01	What is the organization structure?	
02	Who is responsible for billing and sales?	
03	What reports are given to his seniors on the daily, weekly, monthly sales? Give sample copies.	

Note: After obtaining the above information, the auditors may physically examine the concerned ledgers/ documents which may be relevant for verification of the issues mentioned in the audit plan as well as any new additional issues that may be identified during the time of gathering of the information.

ANNEXURE - ST - VII

AUDIT PLAN

Note: This is only an illustrative Audit Plan.

Guidelines for filling in the Audit Plan:

Sl. No.	Subject	Specific Issue	Source Document	Back-up Document	Coverage Period	Selection Criteria
1						
2						
3						
4						
5						

1. Subject: - For example classification, valuation, CENVAT etc.
2. Specific Issue to be verified. Under this column, the auditor should mention the precise issue pertaining to the subject.
3. Source Document/ Information to be verified: - documents/information reflecting or having a bearing on payment of service tax, to be verified. For example ST Invoice showing a particular value.
4. Back-up Document: The documents to be examined to check the correctness of the information contained in the source document. The method of examination may also be specified under this column. For example Commercial invoice, party ledger, discount policy documents, Agreement/MOU etc. Reflecting the value mentioned in the source document.
5. Period of coverage: - Normally, the coverage will be for the whole of the audit period. However, the auditor may conduct test verification for specific periods each extending over a short duration.
6. Selection Criteria: - In case, the volume of documents for verification is large, the auditor may adopt sample verification. In such a case, the sample selection techniques should be spelt out. The sample should be chosen in such a way that it represents the whole, uniformly.

ANNEXURE - ST - VIII**WORKING PAPERS**

Date of Preparation _____

W/P No. _____

I. GENERAL:

- a) Name of the Tax payer : _____
- b) Address : _____
- c) Service Tax Registration No. _____
- d) Whether Audit conducted in integrated manner
(If Yes)

CE Registration No. : _____

Customs registration No. (BIN No.) & IEC for OSPCA : _____

- e) Period covered in Present Audit : _____
- f) DATE OF AUDIT : _____
- g) DATE OF SUBMISSION OF AUDIT REPORT : _____
- h) DRAFT AUDIT REPORT NO. : _____
- i) DETAILS OF THE AUDIT GROUP : _____

S. No.	Name of the officer	Designation

- j) Whether the tax payer is also registered for ISD:
- k) Major audit objections in earlier IAD reports along with their current status

FAR No.	Date of audit		Para No	Issue and compliance
	From	to		

- l) Major CERA Observations in the past along-with their current status:

CERA REF. NO. & DATE	Date of audit		Para No	Issue and compliance
	From	to		

- m) Details of Anti Evasion Cases along with their current status: (as per information available in master file)

Executive Commissionerate Ref. No. and dated	Issue	compliance

II. NATURE OF BUSINESS OPERATION OF THE TAX PAYER

A. Details of Services, their classification and Board Circulars, DGST Circulars, Clarifications or Modus Operandi Circulars.

Sl No	Classification of Service	As Provider or Receiver of Service ?	Date of taking registration	Instruction No. & Date and issued by	Gist of Instruction	Observations

B. Brief details of Service Wise taxes paid for the last five years (For Major Four Services only) [Rs in lakhs]

a) Name of Service :

Year	Taxable Value	Tax Payable

b) Name of Service :

Year	Taxable Value	Tax Payable

c) Name of Service :

Year	Taxable Value	Tax Payable

d) Name of Service :

Year	Taxable Value	Tax Payable

C. Brief details of taxes paid for the last five years and the current year(All taxes)

Year	Value of Taxable Services	Total Service Tax paid	Service Tax Paid-Cash	Service Tax paid -Cenvat	% of Cenvat

III. DESK REVIEW AND AUDIT PLAN:

A. RECORDS EXAMINED:

A standard list of records have been called for from the assessee vide letter dated: _____. The following are the list of records received and examined:

- a)
- b)
- c)

B. RATIO ANALYSIS:

Work out some of the important financial ratios over a period of time. Mention the important indicators, which require to be included in the Audit Plan.

The results of Ratio analysis may be summarised in the following table.

	RATIO	2012-13	2013-14	2014-15
(a)	Major input service cost : Value of service			
(b)	Total Credit availed : Total Service Tax payable			
©	Other incomes charge to Service Tax : Value of taxable services			
(d)	Additions to plant and machinery/ fixed assets during the year : Total value of assets at the beginning of the year			
(e)	Amount of credit availed on input services : Total service Tax liability			
(f)	Consumables/ fuel value: Value of taxable services.			

C. TREND ANALYSIS:

Work out trends of the following over a period of five years.

	TREND	2012-13	2013-14	2014-15
(a)	Service Tax collection			
(b)	Service tax of a particular service vis-a-vis overall growth of that industry.			

(c)	Trend in proportion of value of exempted services to the total value of services.			
(d)	Sales Value Services rendered			
(e)	Gross Operating Profit			
(f)	Export Clearance			
(g)	Value of Services undertaken on sub-contract			
(h)	Total Service Tax paid			

D. CENVAT CREDIT ANALYSIS : (Rs in lakhs) for the last five years

Subject/ Year					
Opening Balance					
Credit availed on Input					
Credit availed on Capital Goods					
Credit availed on Input services					
Total credit availed					
Credit utilised for payment of tax					
Credit utilised for Rule 6(3) CCR					
Closing Balance					

E. ANNUAL TURNOVER VIS-A-VIS SERVICE TAX PAID:

Brief details of the annual turnover and the Service Tax paid for the last five years and the current year (Only Income side to be mentioned, and as regards Value and Taxes, they refer to only output services- Reverse charge taxes not to be mentioned) (Rs in lakhs):

Year	Turnover as per P&L A/c or Trial Balance	Income on interest/FDs etc	Value of Taxable Services	Total Service Tax paid	Service Tax Paid-Cash	Service Tax paid -Cenvat	% of Cenvat

F. ASSOCIATE OF ENTERPRISES:

i	Does the assessee have an associated Enterprise as defined in Section 65B(13) of Chapter V of the Finance Act,1994	
ii	If yes, then provide details	

S.No.	Name	PAN	Address	Type of relationship	Details of transaction, if any

G. ANNUAL EXPENDITURE (IN INDIAN RUPEES) VIS-A-VIS SERVICE TAX PAID UNDERSE REVERSE CHARGE:

Brief details of the annual expenditure and the Service Tax paid for the last five years and the current year (Only Expenditure to be mentioned, and as regards Value and Taxes, they refer to only taxes payable under reverse charge - except in case of import of services) [Rs in lakhs]

Year	Expenditure and per P/L statement pertaining to reverse charge items	Value of Taxable Services	Total Service Tax paid	Service Tax Payable-Cash

H. ANNUAL EXPENDITURE OF FOREIGN CURRENCY VIS-A-VIS SERVICE TAX PAID UNDERSE REVERSE CHARGE:

Brief details of the expenditure in foreign currency and the Service Tax paid for the last five years and the current year(Only Expenditure to be mentioned in relation to import of services) [Rs in lakhs]

Year	Expenditure as per P/L statement and Noes to Accounts(Foreign currency) and connected to Services only	Value of Taxable Services	Total Service Tax payable	Service Tax Payable-Cash

I. Brief details of Service Wise Exports, turnover of non-taxable services and exempted services for the last five years:

Year	Description of Service	Value of Export s	Value of Services provided in non-taxable territory and non-taxable services as per Section 66D.					Exempted services.		
			Provided in J&K	Out of India	Considered as exports as per Rule 6A of ST Rules, 1994	Non-taxable service as per Section 66D	Entry No. in Section 66D	Value	Details of exemption Notification	

J. Brief details of Service Wise Abatements Claimed for the last five years: [Rs in lakhs]

Year	Classification of Service	Taxable Value	Amount claimed as abatement	% of abatement claimed	Auditor's comments on the eligibility.

K. Brief details of Service Wise Pure Agent benefit Claimed for the last five years: [Rs in lakhs]

Year	Classification of Service	Taxable Value	Amount claimed as Pure Agent	% of Pure agent amount claimed	Auditor's comments on the eligibility.

L. In case the unit is registered as ISD also, give the details of credit availed and distributed: [Rs in lakhs]

Year	Credit taken	Credit not eligible for distribution	Credit distributed	Closing Balance of credit

M. Analysis of data of ST-3 Returns filed.

Observations of the group (for each year of the audit period) particularly whether the amount of service tax calculated and paid correctly, Delay in filing of returns, Late payment of tax etc.

(Rs in lakhs)

Year	Total Tax payable	Paid by Cash	Paid using Cenvat	Total Tax paid	Tax short paid	Auditor's observations on delayed filing of returns, late payment of tax etc.

--	--	--	--	--	--

N. RISK LOSS ANALYSIS

1. Service Tax payment validation :
 - a). Service Tax payable as per Service Tax account in the Sales Account of the General Ledger = PLA payment.
 - b). Service Tax paid as per tax returns = PLA
 - c). Difference if any =
2. Sales Income and Service Tax payment :
 - (a). Estimated sales value calculated from service tax payment particulars =
 - (b). Estimated value of sales as per Sales Account =
 - (c) Estimated sales value as per 3CD =
 - (d) Difference if any
3. Purchase of Input Services and Cenvat tax availment :

Estimate taxable input services from purchase account and apply the rate of tax to determine the CENVAT credit that should have been availed on inputs and compare it with CENVAT availment reported in service tax return
4. Expenditure Account : Whether recoveries are made under various expenditure heads. If so, indicate the nature of such recoveries.
5. Whether services has any third party regulator. If so, name the regulator. Enclose copy of return submitted to third party regulator.

O. AUDIT PLAN:

Date of Preparation_____

Audit Plan approved by _____

The Audit Plan must be based on the issues identified in the previous steps as to be verified during the conduct of audit and must be specific and may be in the following format (may be included any other specific issues also that may emerge from Desk Review):

Sr. No.	Subject	Specific Issue	Source document	Field Document	Coverage Period	Selection Criteria
1	Scrutiny of Returns	Timely filing of returns				
		Timely payment of Tax				
		Any short payment of tax as per declaration made in the returns				
2	Classification	Whether classification of the service and use minor code in GAR Challan is appropriate ?	Important contracts, invoices, purchase orders issued by the clients			
		Exempted Services – Check eligibility to Notifications	Relevant notifications, Relevant contracts, invoices, purchase orders issued by the clients			
		Any abatement claimed ?	Relevant notifications, Relevant contracts, invoices, purchase orders issued by the clients			
		Non Taxable services	Relevant notifications, Relevant contracts, invoices, purchase orders issued by the clients			
		Any receipts claimed as not a “Service” at all ?	Relevant invoices, purchase orders placed by the client, JVs			
3	Valuation	Issue relating to Reimbursements, FOC, etc.				
4	PoT	Payment of ST at the time of receipt of Advances				
		Transactions with Associated Enterprises				
5	Reverse Charge	Import of Services				
		Domestice (Partial) Reverse Charge				
6	Cenvat	Eligibility as input service ?				
		CENVAT admissibility and Rule 6(3)				
		Short receipt/removal of inputs				
		Short receipt of input services				
		Rule 4(7) of CCR				
7	Other issues	Admissibility of coverage under Works Contract Services				
		Reconciliation between ST Returns and P&L A/C / TB				
		Any Other issue				

IV. CONDUCT OF AUDIT :

A. Gathering of information about the tax payer:

While visiting the business premises of the tax payer, the auditor shall invariably gather the information as detailed in the Annexure – IV and the results thereof and any fresh/ additional points identified for verification be recorded hereunder:

B. Evaluation of internal controls (Walkthrough and ABC analysis):

a. Perform a walkthrough for the Records maintained. Trace a sample of transactions (all types, including those on Credit) from source documents through to Service Tax account.

b. Perform a walkthrough of the purchase system (including capital assets). Trace a sample of transactions, of all types, including Credits. Examine specifically system for purchase, rejection, short supply etc.

c. Perform a walkthrough of any other system (eg. Stores Journal Entries, CENVAT accounting etc.) Trace a sample of transactions of all types.

d. Perform a walkthrough of the process of compiling service tax return, tracing from the tax return amounts backwards through to their sources. Check services provided as per relevant account in ledger with value shown in the return.

e. Evaluate the soundness of level of Internal Control of each of the following areas/sub-systems and grade them as good, acceptable or poor in the following format:

In case quantum of data/information to be analyzed is voluminous, apply ABC analysis.

Name of area/sub system	Grade (good/acceptable/poor)	Problem areas if any
Services / sales.		
Tax Accounting.		

Posting to General Ledger and Journals (specially of high value transactions).		
Recording of invoice.		
Recording of cash sales and purchases.		
Credit/debit and their documentation.		
Other expenditures.		
Recording of and availment of CENVAT credit.		
Account adjustments.		
Others		

C. Carry out verification as per Audit plan:

The result of verification of each of the issues should be mentioned in the format below, whether or not there is any detection of discrepancy/audit point. The verification reports in respect of issues verified which was not part of original Audit Plan but verified later should also be mentioned at the end.

Proforma of a Verification Report

V.R. NO DATE

1. Name of the auditor verifying the issue:
2. Issue involved in brief:
3. Ref. No. of the Audit Plan:
4. Documents verified:
5. Brief account of the process and extent of verification:
6. Auditor's observation and conclusion in brief:
7. Quantification of revenue involved, if any (also give the calculation sheet):
8. Documents relied upon to support the conclusion:
9. Party's agreement : Yes/No
10. If yes : In writing/Oral
11. Amount of recovery, if any :

Signature of the auditor

Supervisor's remarks and signature.

V. POST VERIFICATION

(to be filled up before leaving the tax payer's premises)

Date of Preparation_____

A. Indicate information provided and specific actions suggested to the assessee to improve future compliance. Where the assessee is in agreement with the suggestions, request a commitment in writing and include it in the Audit Report. If the assessee is unwilling to give a written undertaking, obtain a verbal commitment. Mention results.

B. SUMMARY OF AUDIT RESULTS

Provide an outline of all objections, which involve short/non levy of duty, amounts, irregular availment/utilization of credit and non-payment of interest due. Details of objections of technical/procedural in nature without involving revenue/credit/interests/amounts should also be mentioned. Indicate whether the taxpayer has agreed to the objections and if so, has made spot payment (if so details thereof). The summarised objections are to be uploaded in the audit utility and a draft audit report is to be generated for discussion during the Monitoring Committee Meeting.

Place: (Auditor) Name and designation,
Group No.

Date:

ANNEXURE – ST- X

DRAFT OF THE LETTER TO BE WRITTEN BY THE ASSESSEE/TAXPAYER
UNDER SECTION 73(3) OF THE CHAPTER V OF THE FINANCE ACT 1994.

To,

The Commissioner of Service Tax / Central Excise

Sir,

Subject: Letter given under Section 73(3) of the Chapter V of the Finance Act 1994 for waiver of issue of show cause notice – reg.

I / We M/s _____, address _____ falling under the jurisdiction of Range _____ and Division _____ do hereby state and request as under:-

a) As per the provisions of Section 73(3) of Chapter V of the Finance Act, 1994, where any service tax has not been levied or paid or has been short levied or short paid or erroneously refunded, the person, chargeable with the service tax, may pay the amount of such service tax before service of notice on him under sub section (1) in respect of such service tax and inform the central excise officer in writing who, on receipt of such information shall not serve any notice under the sub section (1) in respect of the amount so paid;

b) During the course of verification of our records / returns, by the Audit team from the office of Audit Commissionerate _____, it is observed that there is a short payment / non levy / non - payment of Service Tax/ wrong availment of CENVAT credit on account of reasons mentioned as per the Annexure enclosed hereto. We have agreed to the points raised during verification / scrutiny and have paid the said amounts of duty and / or reversed the CENVAT credit of Rs. _____ vide GAR-7 Challan No. _____ / CENVAT Register Entry No. _____ dated _____. We have also discharged the applicable interest liability.

4. In terms of the provisions of Section 73(3) of Chapter V of the Finance Act, 1994, we request that the demand show cause notice may not be issued to us in this case and no penalty may be imposed on us as the above short levy / short payment / non levy / non payment / wrong availment of Cenvat credit are not intentional on our part.

5. We request that the above issues may be treated as closed with this letter since we have complied with the provisions of the Service Tax law. It is hereby confirmed that this amount is paid voluntarily and no appeal will be filed against such payment or we will not claim any refund in future.

Yours faithfully

Date: _____

Place: _____

Signature CEO / Director / Authorised Signatory

(Name & Designation)

M/s _____

ANNEXURE – ST- XI

Audit Group Service Allocation: A Sample allocation of Service into six broad groups has been made for work allocation to Audit Teams. This is suggestive in nature and depending on the work load, number of Audit Teams etc groups can be merged or subdivided.

Audit Group -1

- (i) TELECOMMUNICATION SERVICES
- (ii) INFORMATION TECHNOLOGY (IT) SERVICES
- (iii) BROADCASTING SERVICES
- (iv) INTERNET CAFÉ SERVICES
- (v) CABLE OPERATORS SERVICES
- (vi) INTERNET TELEPHONY SERVICES
- (vii) ON-LINE INFO & DATABASE RETRIVSL SERVICES
- (viii) TV OR RADIO PROGRAM PRODUCTION SERVICES
- (ix) VIDEOTAPE PRODUCTION SERVICES
- (x) SOUND RECORDING SERVICES
- (xi) ADVERTISING AGENCY SERVICES
- (xii) SALE OF ADVT. SPACE OR TIME SERVICES
- (xiii) SUPPLY OF CONTENT SERVICES

Audit Group -2

- (i) MEMBERSHIP OF CLUBS/ ASSOCIATION
- (ii) MANDAP KEEPER SERVICES
- (iii) PANDAL & SHAMIANA SERVICE
- (iv) OUTDOOR CATERING SERVICES
- (v) EVENT MANAGEMENT SERVICE
- (vi) BUSINESS EXHI. SERVICES
- (vii) CONVENTION SERVICE
- (viii) PHOTOGRAPHIC SERVICE
- (ix) BEAUTY PARLOURS SERVICES
- (x) FASHION DESIGNERS SERVICES
- (xi) HEALTH CLUB & FIT. CENTRE
- (xii) DRY CLEANING SERVICES
- (xiii) SUPPLY OF TENGIBLE GOODS SERVICES
- (xiv) MAINTENANCE & REPAIR SERVICE
- (xv) MANPOWER RECRUTEMENT SERVICE
- (xvi) SECURITY AGENCY SERVICES

Audit Group -3

- a) COMMERCIAL TRAINING, COACHING SERVICES
- b) MANAGEMENT CONSULTANT SERVICES
- c) PUBLIC RELATIONS SERVICE
- d) TECHNICAL TESTING ANALYSIS
- e) COMM. & INSTALLATION SERVICES
- f) SURVEY & EXPLO. OF MINERALS
- g) CONSULTING ENGINEERING

- h) SCIENTIFIC & TECH. CONSUL
- i) SURVEY & MAP MAKING SERVICES
- j) MINING OF MINERALS AND OIL SERVICES
- k) DESIGN SERVICES
- l) TECHNICAL INSPECTION AND CERTIFICATION SERVICES
- m) COSMETIC AND PLASTIC SURGERY SERVICES
- n) SPONSORSHIP SERVICE
- o) OPINION POLL SERVICES
- p) AUTHORISED SERVICE STATION
- q) WORKS CONTRACT SERVICES

Audit Group -4

- (i) PRACTISING CHARTERED ACCOUNTANTS SERVICE
- (ii) PRACTICING COMPANY SECRETARY SERVICE
- (iii) PRACTICING COST ACCOUNTANT SERVICE
- (iv) CREDIT RATING AGENCY SERVICE
- (v) ADVICE CONSULTANCY OR TECHNICAL ASSISTANCE PROVIDED IN THE FIELD OF LAW
- (vi) STOCK BROKER SERVICE
- (vii) LIFE INSURANCE SERVICE
- (viii) INSURANCE AUXILIARY SERVICE
- (ix) GENERAL INSURANCE
- (x) FORWARD CONTRACT SERV.
- (xi) REGISTRAR TO AN ISSUE
- (xii) SHARE TRANSFER AGENT
- (xiii) ULIP MANAGEMENT SERVICES
- (xiv) STOCK EXCHANGE SERVICES
- (xv) COMMODITY EXCHANGE SERVICE
- (xvi) BANKING & OTHER FIN. SERV.
- (xvii) UNDERWRITER
- (xviii) FRANCHISE SERVICES
- (xix) INTELLECTUAL PROP. SERV.
- (xx) MARKET RESEARCH AGENCY
- (xxi) ATM OPERATIONS, MAINTENANCE OR MGMT.
- (xxii) RECOVERY AGENT
- (xxiii) CREDIT CARD RELATED SER.
- (xxiv) ASSET/ FUND MANAGEMENT

Audit Group -5

1. TRANSPORT OF GOODS BY ROAD
2. TRANSPORT OF GOODS BY AIR
3. TRANSPORT OF GOODS THROUGH PIPELINE
4. TRANSPORT OF GOODS IN CONTAINERS BY RAIL
5. TRANSPORT OF GOODS BY RAIL
6. RENT-A-CAB OPERATOR
7. TOUR OPERATORS
8. AIR TRAVEL AGENT
9. RAIL TRAVEL AGENT
10. TRAVEL AGENT. (OTHER THAN RAIL/AIR)
11. AIR TRANSPORT OF PASSANGERS

12. MAILING LIST COMPILATION
13. C & F AGENTS SERVICE
14. STORAGE & WAREHOUSE SERVICE
15. CARGO HANDLING SERVICE
16. CUSTOM HOUSE AGENT SERVICE
17. CLEARING & FORWARDING AGENTS SERVICES
18. STEAMER AGENT SERVICE
19. PORT SERVICES
20. AIRPORT SERVICES
21. TRANSPORT BY CRUISE SHIPS SERVICE
22. SHIPS MANAGEMENT SERVICE
23. GOODS CARRIED OUT AS COASTAL CARGO OR WATER WAYS SERVICE
24. COURIER SERVICES

Audit Group -6

1. BUSINESS AUXILIARY SERVICE
2. BUSINESS SUPPORT SERVICE
3. PACKAGING SERVICES
4. ARCHITECTS
5. INTERIOR DECORATOR
6. CONSTRUCTION SERVICE
7. REAL ESTATE AGENT
8. SITE PREPARATION & CLEARANCE
9. DREDGING SERVICES OF RIVERS , PORTS
10. CONSTRUCTION OF RESIDENTIAL COMPLEX
11. AUCTIONEERS SERVICE
12. RENTING OF IMMOVABLE PROPERTY