

dated the 27th Feb., 2015

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Government of India

Ministry of Finance

Department of Revenue

Central Board of Excise and Customs

To

The Principal Chief Commissioners/Chief Commissioners of Central Excise and Service Tax (All),

The Director General of Service Tax,

The Director General of Central Excise Intelligence,

The Commissioners of Service Tax (Audit) (All)

The Commissioners of Central Excise (Audit) (All)

Madam/Sir,

Subject: Central Excise and Service Tax Audit norms to be followed by the Audit Commissionerates- reg

1. Audit Commissionerates have been created with an objective to improve the functional efficiency of audit in the field formations. An effective taxpayer audit plays a key role in improving compliance and augmenting tax revenues. It is one of the important compliance verification tools available to the tax administration to verify the correctness of the taxes self-assessed and reported in the tax returns besides complying with other legal obligations.

2. In the past, norms / guidelines were issued by the Board for conduct of audit by the Commissionerates. The existing norms / guidelines for selection of units for audit are based on a single criterion, namely, the threshold limit of taxes paid in the previous Financial Year. Taxpayers are categorized into mandatory and non-mandatory units based on taxes paid and the units are required to be audited as per the frequency norms stipulated for each category. The criteria adopted do not take into account the risk factors and the resources available for undertaking audit. The uniform norms and frequency prescribed for conducting audits across the Commissionerates also do not factor in crucial inputs such as the assessee base, availability of manpower and the risk indicators for selection of units for conducting audit. The audit coverage in Service Tax has been below the satisfactory levels on account of huge taxpayer base and limited availability of manpower in major cities such as Mumbai, Delhi, Bengaluru, etc.

3. In the background of creation of exclusive Commissionerates to deal with audit and having regard to the difficulties faced, and also the experience gained with regard to audit coverage in the past, it has been decided to revise the existing norms for conduct of audit and issue fresh norms / guidelines taking into account the availability of manpower in the Audit Commissionerate. The new norms move away from the concept of mandatory and non-mandatory audits and do not prescribe any frequency for conducting audits. The new norms introduce risk based selection of assessees for audit based on identified/quantified risk parameters and also introduce jurisdictional specific criteria (as opposed to uniform norm across the country) for segmenting the taxpayer into large, medium & small categories.

4. In this regard, the following guidelines are issued in supersession of the earlier guidelines:

Annual plan for Audit Coverage:

5.0 The Audit Commissionerate would release an Annual plan by 31st May, indicating the names of Assesseees that are proposed to be audited during the course of the year (period between 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. numbers 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.

5.1 In order to ensure adequate coverage, the Assesseees/Taxpayer shall be grouped in 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 follows:

- a) 40 % of manpower to Large units
- b) 25 % of manpower to Medium units

- c) 15 % of manpower to Small units
- d) 20 % of manpower for planning, coordination and follow up.

5.2 The composition of Audit Groupsto cover Large, Medium and Small units may be done as follows:

- a) 2 - 3 Superintendents and 3 - 5 Inspectors for the conduct of audit of Large assessees / taxpayers.
- b) 1 - 2 Superintendent and 2 - 3 Inspectors for conduct of audit of Medium assessees / taxpayers.
- c) 1 Superintendent and 1 - 2 Inspectors for Small assessees / taxpayers.

Assistant / Deputy Commissioners may lead the Audit Groups in select cases.

5.3 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:

- a) Large assessees / taxpayers - 6 to 8 working days
- b) Medium assessees / taxpayers - 4 to 6 working days.
- c) Small assessees / taxpayers - 2 to 4 working days

5.4 Given that there are around 249 working days in a year, the number of Audits that can be approximately conducted in a year are as follows:

- a) 31 Large units (calculated at 8 days per unit) by one Audit party
- b) 42 Medium units (calculated at 6 days per unit) by one Audit party and
- c) 62 Small units (calculated at 4 days per Audit) by one Audit party

5.5 The aforementioned number of Audits could be then multiplied by the number of Audit teams prepared for each category to arrive at the total number of Audits that can be conducted by each Commissionerate during the year.

5.6 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:

i. Suppose the working strength of an Audit Commissionerate is 60 Superintendents and 80 Inspectors. The deployment of officers would be: 24 Superintendents and 32 Inspectors 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. To the extent possible, the manpower distribution amongst the Circles within an Audit Commissionerate should be proportional to the large, medium and small Assessee base in the Circle. In other words, the 24 Superintendents and 32 Inspectors designated for large Assessees would be divided amongst the Circles proportional to the number of large Assessees under each Circle. The deployment has to be done in similar manner for medium and small units.

ii. Using the manpower as above, there would be around 10 teams for large units, 12 teams for Medium units and 6 teams for Small units in the Commissionerate. The total number of units that could be audited in a year thus works out to around 310 large units, 504 medium units and 372 small units i.e. 1186 units in all. The Commissioners could 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.

5.7 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 duty 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 base, turnover and duty paid by each Assessee 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 and quantum of value of clearances / services and duty paid in case of each Assessee. The Audit Commissionerates would obtain the requisite data from EDW / ACES / EASIES for categorization of Assessees 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.

5.8 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 team 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.

5.9 The 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.

Selection methodology:

6.0 The selection of Assessee 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 March / April 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 assessee that would be audited in the current year.

6.1 The Audit Commissionerates could also select few units at random or based on local risk perception in each category of large, medium and small tax payers. The results of Audit and the feedback from random selection would help in evaluating parameters used for selection process.

6.2 The Audit Commissionerates after preparing the annual plan of Audit coverage as indicated above, would also prepare a list of units where risk can be mitigated through detailed scrutiny of returns and convey the details to the Executive Commissioners for taking necessary action. The selection of such units can be carried out at zonal level so that the Audit and detailed scrutiny complement each other. The list of such units and reason for selection should be shared with the Directorate General of Audit.

6.3 The above norms would become operative from 1st July 2015. Directorate General of Audit will review the efficacy of the above parameters as well as frequency of audits in consultation with Audit Commissionerates.

Theme based coordinated Audits

7.0 Theme based coordinated Audits at all India level would be conducted by concerned Audit Commissionerates in a synchronized manner. The theme would be selected by the Directorate General of Audit based on systematic and methodical risk analysis of internal taxpayer data (from ACES and EDW), economic indicators, third party information from tax and other regulatory authorities and other relevant sources of data. Directorate General of Audit would also consult trade, industry and service providers 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 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 Commissionerates. 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 DG(Audit) in consultation with the field formations.

7.1 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 or a service, 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 Chief Commissioner may involve the zonal units of Directorate General of Audit in selection of theme, planning and execution of theme based Audit.

Audit of Multi Locational Units

8. In case of multi-locational units and multi-locational Service Providers, as prescribed in the Central Excise Audit Manual and Service Tax Audit Manual respectively, the zonal units of the Directorate General of Audit will continue to coordinate the audit of multi-locational manufacturing units and multi-locational service providers. In case of multi-locational units located within one zone under different Audit Commissionerates, the coordination will be carried out at the zonal level by one of the Audit Commissionerates. For this purpose, wherever there are more than one Audit Commissionerate in a zone, the Principal Chief Commissioner / Chief Commissioner may designate one of the Audit Commissionerates for undertaking such coordination and for identifying units based on common PAN for the purposes of integrated Audit.

Accredited status for deferring frequency of Audit

9. There can be a segment of Assessee, who could be given "accredited" status, similar to the one given in Customs, based on their proven track record of compliance with tax laws and procedures. Such identified assessee need not be subjected to Audit in every cycle. It has been decided that the frequency or periodicity of audit in their case would not be less than 3 years. The procedure and criteria for accreditation are under examination and would be communicated separately.

Audit of LTUs

10. 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 Commissionerate's Circles

would 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 Commissionerate. 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. For this purpose, the audit dates should be decided in consultation with the LTU. The total number and selection of individual assesseees for audit would be done as per the risk evaluation method recommended by the Directorate General of Audit.

Removal of difficulty

11. 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 the Board and Directorate General of 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.

Kindly acknowledge receipt.

(ROHAN)

Under Secretary to the Government of India