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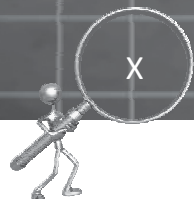
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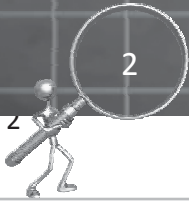
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SECTION-I

INTERNAL AUDIT





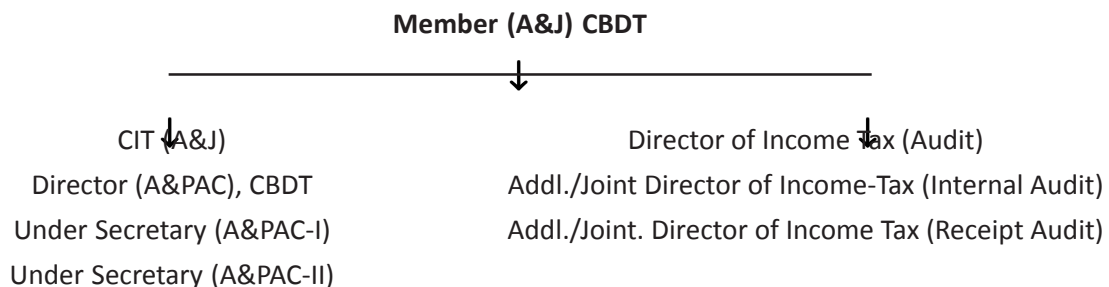
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Chapter-1 Introduction

1.1 INTRODUCTION

Internal Audit was introduced in the Income-tax Department in the year 1954 with the objective of providing a second check over the arithmetical accuracy in the computation of income and determination of tax. Since 1960, the scope of internal audit became co-extensive with Revenue Audit (renamed Receipt Audit in 1973). In the year 2001, a new system known as Chain Audit System was put in place wherein the task of auditing the work of assessing officer was allotted to another assessing officer. This system, however, did not perform to the expectation of the department and invited adverse comments from both C&AG and from Public Accounts Committee of the Parliament. Based on these observations and on the recommendations of a committee set up under the Chairmanship of the DGIT (Admn.), as approved by the CBDT, a new Internal Audit System was introduced with effect from 1st June, 2007. The new system provides for separate audit structure in the department to perform the audit work, with no overlapping between assessment and audit functions.

1.2 The Headquarters of the internal audit set-up of the Income tax Department is as under:-



1.3 Till 31.05.2007, there was no separate field organization for audit work. The assessment machinery was also entrusted the work of audit in the chain-audit system. Since 01.06.2007, however, there is full-

fledged audit set-up directly under the cadre-controlling CCIT, who can not delegate the administrative control and supervision over CsIT to any other CCIT. The internal audit set-up is made up of the following:

CIT (AUDIT)

The audit structure is headed by a CIT (Audit) in each CCIT (CCA) charge. In the metro charges of Delhi, Mumbai, Kolkata and Chennai, there are two CsIT (Audit) each, There are thus 22 CsIT in the internal audit set-up in the country. The office of CIT (Audit) includes two Income Tax Officers.

- ITO (Hqrs.) will take care of administrative matters. He will also co-ordinate and monitor the functioning of IAPs and SAPs. He will be assisted by one ITI and two Sr. TAs/TAs.
- ITO (Receipt Audit) will look after the work of receipt audit. He will also be supported by one ITI and two Sr. TAs/TAs.

ADDL. CIT (AUDIT)

There is an Additional CIT under each CIT(Audit). There are thus 22 Addl. CsIT (Audit) in all. The Addl. CIT will be responsible for audit of the bigger cases as per stipulated norms and for the supervision of the audit work of Internal Audit Parties (IAPs) and Special Audit Parties (SAPs). He will have one ITO with two ITIs and two Sr. TAs/TAs. In addition, there will be one IAP (HQ) under him.

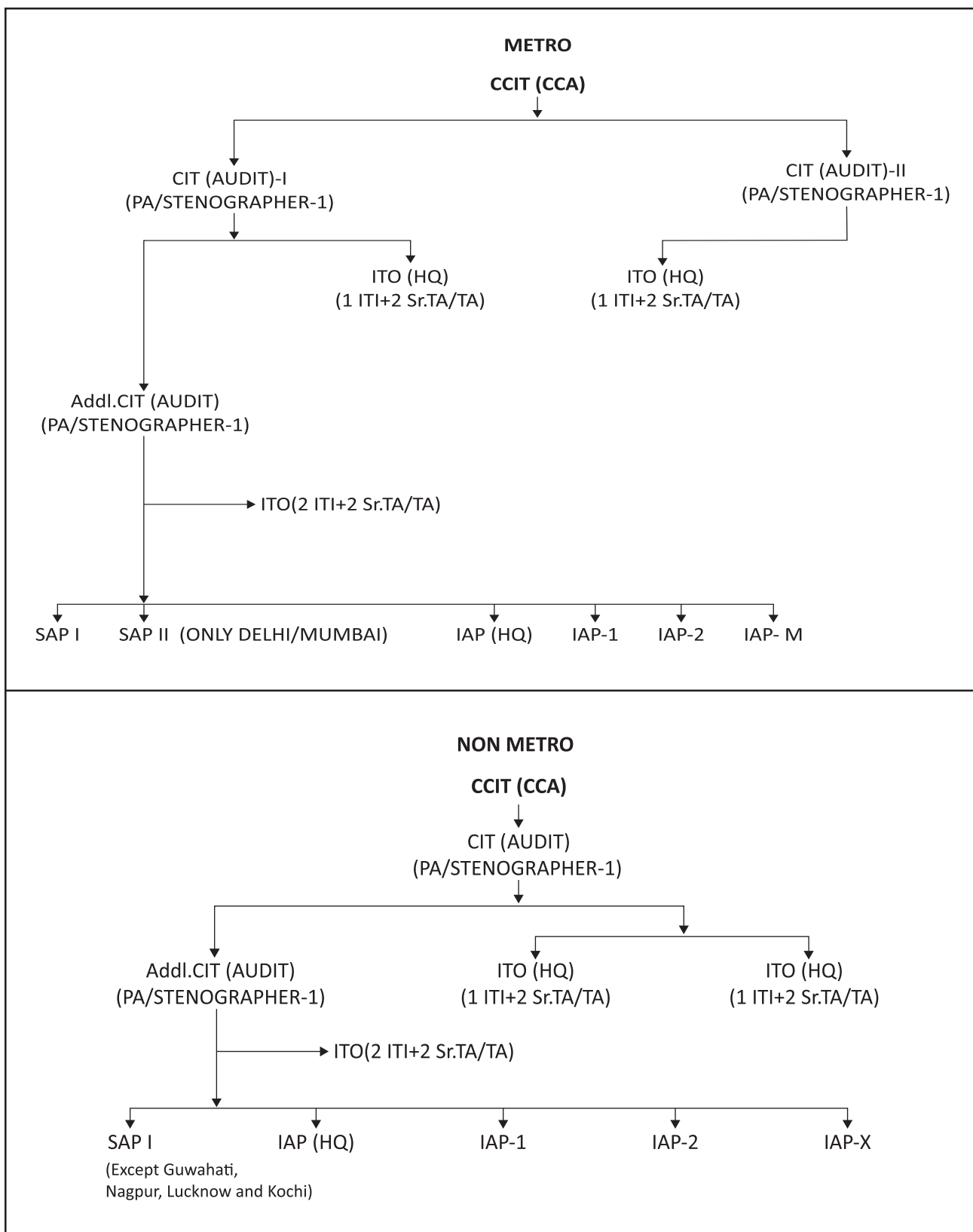
SPECIAL AUDIT PARTIES

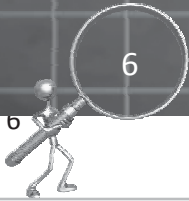
There shall be one Special Audit Party under each Addl. CIT (Audit), except at Nagpur, Kochi, Lucknow and Guwahati. There will be two SAPs under each Addl. CIT at Delhi and Mumbai. In all, there will be 22 SAPs all over the country. The SAPs will be headed by a DCIT/ACIT and will comprise two ITIs and one Sr. TA/TA. They will be responsible for audit of cases as per norms.

INTERNAL AUDIT PARTIES

There will also be 272 Internal Audit Parties headed by ITOs and having two ITIs and one Sr. TA/TA each. There will be one IAP for each administrative CIT stationed at headquarter of that CIT. One IAP each will also be formed for International Taxation (including Transfer Pricing) and Exemptions at stations where Directorates of International Taxation, Transfer Pricing and Exemptions are situated. The deployment of officers and staff for the IAPs for CIT charges will be made from the exiting strength of the concerned CIT. All IAPs shall, however, work under the administrative control of CIT (Audit).

- 1.4 The detailed organizational structure of the Internal Audit Wing has been given in Instruction No. 03 of 2007 given in this manual. The field organization is summarised as under:





1.5 ROLE OF VARIOUS INCOME TAX AUTHORITIES

Under the new Internal Audit System, various authorities have been assigned well defined roles for effective functioning and management of Internal Audit in the department. The roles of different authorities are indicated below:

Chief Commissioner of Income Tax (CCA)

- i) The CCIT (CCA) is primarily responsible and accountable for effective functioning and performance of the Internal Audit Wing and has direct administrative control and supervision over the CIT (Audit) posted under him. He has to ensure that the norms for Internal Audit are followed/implemented, and targets thereof, as well as the target for Receipt Audit, are achieved;
- ii) The CCIT (CCA) is expected to ensure the following for the Internal Audit Wing:
 - a) requisite infrastructure (adequate office space & furniture/ fittings, PCs, telephone & fax, etc.) ;
 - b) posting of competent officers & staff under the CsIT (Audit). The normal stay in Audit Wing shall be two years;
 - c) provision of CDs and Journals on Case Laws, Circulars, Notifications Instructions, and the Commentaries on the Tax Laws to CsIT (Audit) on a regular basis;
 - d) appropriate training to the officers and staff posted in the Internal Audit Wing every year after the AGT; in co-ordination with the NADT/RTIs and MSTUs.
- iii) The CCIT (CCA) shall review the performance of Internal Audit Wing, at least quarterly;
- iv) The CCIT (CCA) is also to ensure that the necessary reports and statistics are sent to the Board/ Directorates and the AGs.

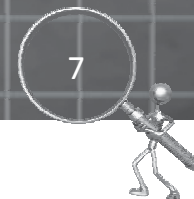
Jurisdictional CCIT / DGIT

In case there is a difference of opinion between concerned CIT (Admn.) and CIT (Audit), the CCIT/DGIT having administrative control over the CIT/DIT in whose charge an audit objection has been raised shall be the authority to decide whether the audit objection raised by a IAP is to be accepted or not.

DIT (Audit)

The Director of Income Tax (Audit), through the DGIT (L&R) acts as the field arm of the Board in respect of the Internal Audit functions of the Department. The functions of the DIT (Audit) are:

- i) To prepare the National Action plan Targets for Internal Audit Wing, both for Internal and Receipt Audit, for consideration of the Board for its inclusion in the Annual Central Action Plan;
- ii) To prescribe the norms for Internal Audit, keeping in view the increase in the tax base, focus area of the Department and other relevant factors as may be prescribed by the Board;
- iii) To monitor the functioning of the Internal Audit Wing;
- iv) To monitor the settlement of major internal audit objections in accordance with the criteria and the time schedule;
- v) To carry out inspection of the functioning of the Internal Audit Wing under the respective CCs (CCA),



- with the approval of the DGIT(L&R), and submit report to the DGIT (L&R) within a fortnight thereafter;
- vi) To coordinate with CIT (Audit) and Administrative CIT regarding maintenance of Ledger Cards, and Registers in respect of both Internal Audit and Receipt Audit;
- vii) Preparation of updated 'Check Sheet' for Internal Audit, to be incorporated in the software subsequently and to be revised/ updated every 3 years, and its circulation to the CCs (CCA)/CsIT (Audit);
- viii) Conduct of Seminars/Workshops for the officers/staff posted in the Internal Audit Wing in co-ordination with the CCs(CCA)/CsIT(Audit) and ensuring that similar training programmes are organized by the CCs(CCA)/CsIT (Audit) every year;
- ix) Preparation of Annual Report of Internal Audit functions of the Department, incorporating the highlights gathered through Inspections and Performance Audit, and submission of the Annual Report to the Board by 30th June every year;
- x) Devising necessary reporting mechanism, and prescribing the forms and registers in consultation with DIT (Systems) and DOMS.

CIT (Audit)

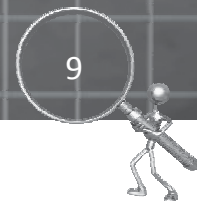
- i) The CIT (Audit) has jurisdiction for internal audit in respect of cases assessed under the CsIT assigned to him and is responsible and accountable for effective functioning and performance of the Internal Audit Wing. He has to ensure that the norms for Internal Audit are followed/implemented, and targets thereof, as well as the targets for Receipt Audit, are achieved;
- ii) The CIT (Audit) has administrative control over Additional CsIT (Audit), SAPs and IAPs. He should regularly review the work of IAPs and SAPs;
- iii) He has to co-ordinate with the administrative CCsIT/DGsIT and CsIT/DsIT for preparation of the lists of auditable cases, timely production of records/registers to the Internal/Receipt Audit teams within the scheduled time frame, smooth conduct of audit and settlement of Internal, as well as Receipt Audit objections and action to be taken against officers/staff in respect of Internal Audit;
- iv) The CIT (Audit) is to maintain the Ledger Cards and the Registers in respect of Internal /Receipt Audit and ensure that these are maintained by the administrative CsIT;
- v) He shall draw action plan for Internal Audit for the year in consultation with CCIT/DGIT concerned with the approval of the CCIT (CCA);
- vi) The CIT (Audit) shall ensure that the Internal Audit of the auditable cases of a particular month is completed within 30 days, and the record / registers received with the list of auditable cases are handed over to the Addl. / Jt. CIT Range/the Assessing Officers; and the audit objection memos are sent to the administrative CsIT, with copies to the Addl. / Jt. CIT Range and AOs, within a week of Audit;
- vii) The CIT (Audit) shall settle, with the administrative CIT concerned, the major Internal audit objections having tax effect above Rs. 1,00,000/- in IT / CT and Rs. 30,000/- in Other Taxes, and ensure that the Addl. / Jt. CIT Range settles the internal audit objections involving tax effect below these limits with the Additional/Joint CIT Range concerned, within 4 months of sending audit memos to the CsIT concerned;
- viii) The CIT (Audit) shall take measures to the effect that a uniform stand is taken by the officers in the Region on a issue / fact of law; and
- ix) The CIT (Audit) shall prepare and send the necessary reports and statistics to the Board / Directorate and the AGs.

Administrative CIT / DIT

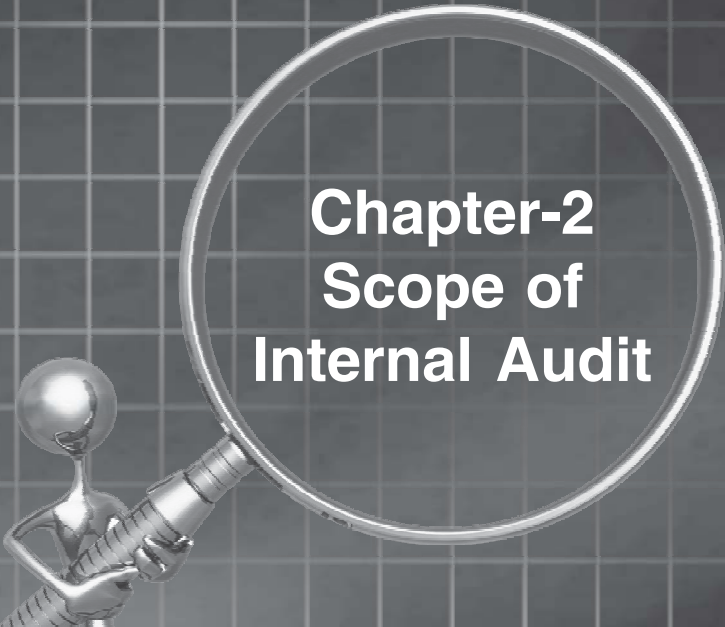
- i) The administrative CIT / DIT is to extend all cooperation to the CIT (Audit) in the conduct of audit, settlement of Internal, as well as Receipt Audit objections and action to be taken against the officers / staff in respect of internal audit. He shall ensure that the lists of auditable cases (category wise) of a particular month are sent to the CIT (Audit) concerned by the 10th of the following month. He has to also ensure that the relevant records / registers are produced before the Internal Audit alongwith the list of auditable cases within the scheduled time-frame, and wherever records / staff concerned under intimation to the CIT (Audit).
- ii) He shall ensure maintenance of the Ledger Cards and the Registers, manual as well as in electronic media;
- iii) The administrative CIT/DIT shall prepare and send the necessary reports and statistics to the CIT (Audit);
- iv) The administrative CIT / DIT shall ensure that the internal audit objections are examined in accordance with parameters laid down, and that remedial action in accepted cases is initiated accordingly within a month of the receipt of the internal audit memos. He has to ensure that acceptance / non-acceptance of the internal audit objection is done with appropriate reasons and the details of remedial action initiated in accepted cases, is communicated to the CIT (Audit) within 3 months of receipt of the internal audit memos;
- v) The administrative CsIT/DsIT shall settle, with CIT (Audit) concerned, the major internal audit objections having tax effect above Rs. 1,00,000/- in IT/CT and Rs. 30,000/- in Other Taxes, and ensure that the Addl./Jt.CIT Range settles the internal audit objections involving tax effect below these limits with the Addl. CIT (Audit), within 4 months of the receipt of the Internal Audit memos;
- vi) The administrative CsIT/DsIT shall, in a case where there is dispute between the administrative CIT and the CIT (Audit) with regard to the settlement of the internal audit objection, and / or the remedial action to be taken, report the matter, with full facts and reasons, to his / her jurisdictional CCIT, who shall take up the matter with the CIT (Audit), and the decision of the CCIT shall be final.

Additional CIT (Audit)

- i) The Addl./Jt. CIT (Audit) shall have audit jurisdiction over cases pertaining to jurisdiction of CsIT assigned to him;
- ii) He will also have administrative control and supervision over the working of IAPs and SAPs. He shall ensure the effective functioning of the IAPs and SAPs and submit monthly report to CIT (Audit) with regard to the work done by the IAPs and SAPs;
- iii) The Addl./ Jt. CsIT (Audit) shall assist the CIT (Audit) in maintenance of Ledger Cards and Registers with regard to Internal / Receipt Audit objections. He will also assist the CIT (Audit) in ensuring proper maintenance of prescribed registers and timely submission of reports and statistics;
- iv) He shall coordinate with the concerned Addl. CIT / JCIT Range with regard to expeditious settlement of Internal Audit Objections involving tax effect below Rs. 1,00,000/- in IT/CT and Rs. 30,000/- in Other Taxes, within prescribed time limit;
- v) The Addl./Jt. CsIT (Audit) shall ensure that the norms of Internal Audit are followed/implemented and that the targets of Internal Audit are achieved.

**Addl. CIT/JCIT (Assessment Range):**

- (i) The Addl. CsIT / JCsIT shall ensure that remedial action is taken within the prescribed time limits, and shall facilitate prompt recovery of tax;
- (ii) The Addl. CsIT/JCsIT shall ensure that records requisitioned by the IAP/SAP are made available expeditiously;
- (iii) He shall ensure that the AOs maintain the relevant records and register with regard to Internal / Receipt audit objections;
- (iv) The Addl. CsIT / JCsIT will also ensure timely submission of reports relevant to the Audit set up;
- (v) He will ensure that cases selected for internal audit are audited by Internal Audit before relevant case records are given to Receipt Audit.



Chapter-2 Scope of Internal Audit

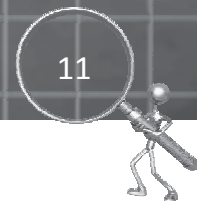
2.1 OBJECTIVE OF INTERNAL AUDIT

The main objective of Internal audit is to detect the mistakes and errors committed during the work of assessment, recovery and maintenance of records by the Assessing Officers, TROs and Administrative Officers, so that a appropriate remedial action can be taken to retrieve the loss caused to the revenue or to allow relief to the assessee in case of overcharge/over assessment. The other objective of internal audit is to find out whether the procedures and laws laid down are properly followed or not and whether there is any violation of CBDT Guidelines, Instructions and Circulars. Internal audit also exercises vigilance for prevention of mistakes having both deterrent as well as reformative effect. The ultimate aim is to improve quality of assessments by reducing the errors and omissions which are subsequently detected by receipt audit.

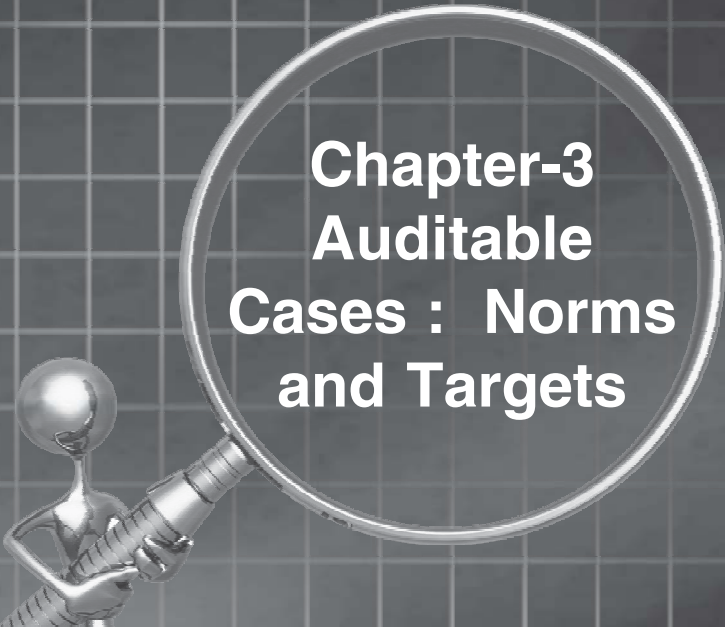
2.2 SCOPE OF INTERNAL AUDIT

The scope of scrutiny by Internal Audit has been continuously enlarged and in 1969 it was made coterminous with that of Receipt Audit. The scope of scrutiny by the Receipt Audit is discussed in Chapter 9. The Auditing Officers are advised to read the relevant paras in that Chapter. However, the scope of checking by internal audit is broadly laid down as under:-

- i) Whether the return has been filed in time, and whether the assessee is liable for payment of interest for late filing of return and has the assessing officer charged interest correctly and initiated the relevant penal provisions.
- ii) Whether the return is correctly signed and verified by the authorised person.
- iii) Whether there are any arithmetical mistakes in the computation of income/tax in the return of income filled by the assessee and also in the processing/ assessment order passed by the Assessing Officer.
- iv) Whether the rate of Tax and surcharge, if any has been applied correctly. Also whether the credit of advance tax paid, TDS deducted and self assessment tax paid is properly allowed.



- v) Whether the interest under different provisions of the Act for the defaults committed by the assessee has been properly charged and correctly calculated.
- vi) Checking of correct dates of payment of advance tax and tax deducted at source and whether any defaults committed by the assessee remained undetected by the assessing officer.
- vii) Verifying that all the additions discussed in the body of the assessment order are included in the final computation of income.
- viii) Whether there is any incorrect computation of depreciation, investment allowance or export allowance, incorrect allowance of provisions of bad and doubtful debts, incorrect computation and deduction of other allowances, incorrect carry forward and set off of unabsorbed depreciation, investment allowance, business losses and any other allowances.
- ix) That the claims of tax payers are perused with due diligence and are not abandoned or reduced except with adequate justification or proper authority.
- x) To point out apparent mistakes of law including the mistakes of law arising as a result of subsequent ruling by the Supreme Court. Other example of apparent mistake of law would be a case where mandatory provisions of Act have not been applied or where deduction is allowed for an item which is patently chargeable to tax, or where the interpretation of law in the assessment order is contrary to the decision of the Jurisdictional High Court or the Supreme Court.
- xi) To bring out cases of general departure from the orders of, or procedures prescribed by CBDT/Directorates/CCsIT/CsIT
- xii) To check whether the AOs have recorded in the body of the assessment order the fact of having waived or reduced the interest chargeable under various sections of the Act.
- xiii) To check whether the procedures and terms prescribed by the Income - Tax Department are adequate, the instructions issued and procedures prescribed by the Board are being duly implemented.
- xiv) Linking the records of past years and also the records of assessment under the other Acts necessary (CBDT Inst. No. 1355 dated 20-9-2001)
- xv) The Auditing Officer should further check the points as mentioned in the check sheet given in Section V of the manual. The checksheet is not exhaustive and the scope of scrutiny/enquiry can go beyond points mentioned in the checksheet and the Auditing Officer is free to comment on any law and interesting point that come to light during their scrutiny. However, the Auditing Officer should not raise vague and ambiguous objections. Cogent reasons should be given by the Auditing Officer while expressing his views or pointing out mistakes in the Audit Memo. There must be quantification of under assessment/over assessment amount and tax effect should also be indicated in the Audit Memo.



Chapter-3 Auditable Cases : Norms and Targets

3.1 TARGETS

- i. The minimum number of cases to be audited by each Additional CIT, SAP or IAP in a year shall be as under:

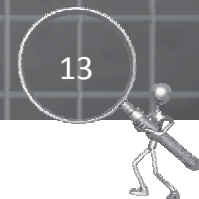
Additional CIT: 50

SAP: 300

IAP: 600 (Corporate Cases); & 700 (Non-Corporate Cases)

- ii. The work load of auditable cases for internal audit shall be the number of cases selected by CCIT during the year keeping in view above norms and depending upon the manpower. While preparing the basket of auditable cases, it should be ensured however, that at least the top 100 cases of the charge are included in the basket. The remaining cases may be a representative mix of cases selected for scrutiny.
- (a) Under CASS,
 - (b) Based on AIR inputs,
 - (c) By approval of CCIT, and
 - (d) Cases of delayed refunds including defaults in granting interest.

The CCIT (CCA) and CsIT (Audit) shall draw an Action Plan for the year accordingly.



3.2 NORMS

The norms of auditable cases for Internal Audit shall be as laid down hereunder:

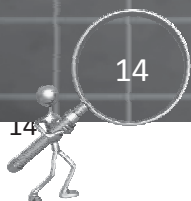
(A) For Additional CIT/Joint CIT (Audit)

Sl. No.	Types of Cases	Corporate			Non- Corporate		
		Assessed Income/Loss, Amount of deduction/ Refund /TDS (In Rs. Crore)			Assessed Income/Loss, Amount deduction/ Refund /TDS (In Rs. Crore)		
		Delhi & Mumbai	Other Metros	Non- Metro	Delhi & Mumbai	Other Metros	Non- Metro
1	Asst. of Search & Seizure Cases	-	-	-	-	-	-
2	Asst. of Foreign Co. Cases	Above 25	Above 10	Above 5	Above 10	Above 5	Above 1
3	Asst. of non-S&S Cases	Above 25	Above 10	Above 5	Above 10	Above 5	Above 1
4	Scrutiny Asst. with claim of deduction u/s. 10A, 10B, 10C, 10(23C), 11, 32, 54 & Chapter VIA	Above 25	Above 10	Above 5	Above 10	Above 5	Above 1
5	Asst. of Cases of Other Taxes	Above 25	Above 10	Above 5	Above 10	Above 5	Above 1
6	TDS Cases	-	-	-	-	-	-

The cases to be audited by Additional CIT shall not be audited by SAP or IAP.

(B) For Dy./Asstt.CIT (Audit) - SAP

Sl. No.	Types of Cases	Corporate			Non- Corporate		
		Assessed Income/Loss, Amount of deduction/ Refund /TDS (In Rs. Crore)			Assessed Income/Loss, Amount deduction/ Refund /TDS (In Rs. Crore)		
		Delhi & Mumbai	Other Metros	Non- Metro	Delhi & Mumbai	Other Metros	Non- Metro
1	Asst. of Search & Seizure Cases	Above 25	Above 10	Above 1	Above 10	Above 1	Above 0.5
2	Asst. of Foreign Co. Cases	Above 10	Above 1	Above 1	Above 1	Above 1	Above 0.5
3	Asst. of non-S&S Cases	Above 10	Above 5	Above 1	Above 1	Above 1	Above 0.5
4	Scrutiny Asst. with claim of deduction u/s. 10A, 10B, 10C, 10(23C), 11, 32, 54 & Chapter VIA	Above 1	Above 1	Above 0.5	Above 1	Above 1	Above 0.25
5	Asst. of Cases of Other Taxes	Above 10	Above 5	Above 0.5	Above 1	Above 1	Above 0.5
6	Refunds (IT/CT)	Above 10	Above 5	Above 1	Above 1	Above 1	Above 0.5
7	TDS Cases	Above 25	Above 25	Above 10	Above 10	Above 10	Above 1



(C) For IAP (CENTRAL) :

The norms shall be the same as for other ITO (IAPs) . IAP Central will audit the cases in Central charges not taken up by Additional CIT (Audit) and SAP.

(D) For ITO (IAP)

Sl. No.	Types of Cases	Corporate			Non- Corporate		
		Assessed Income/Loss, Amount of deduction/ Refund /TDS (In Rs. Crore)			Assessed Income/Loss, Amount deduction/ Refund /TDS (In Rs. Crore)		
		Delhi & Mumbai	Other Metros	Non-Metro	Delhi & Mumbai	Other Metros	Non-Metro
1	Asst. of Search & Seizure Cases	-	-	-	-	-	-
2	Asst. of Foreign Co. Cases	Below 10	Below 1	Below 1	Below 1	Below 1	Below 0.5
3	Asst. of non-S&S Cases	Below 10	Below 5	Below 1	Below 1	Below 1	Below 0.5
4	Scrutiny Asst. with claim of deduction u/s. 10A, 10B, 10C, 10(23C), 11, 32, 54 & Chapter VIA	Below 1	Below 1	Below 0.5	Below 1	Below 1	Below 0.25
5	Asst. of Cases of Other Taxes	Below 10	Below 5	Below 0.5	Below 1	Below 1	Below 0.5
6	Refunds (IT/CT)	Below 10	Below 5	Below 1	Below 1	Below 1	Below 0.5
7	TDS Cases	Below 25	Below 25	Below 10	Below 10	Below 10	Below 1

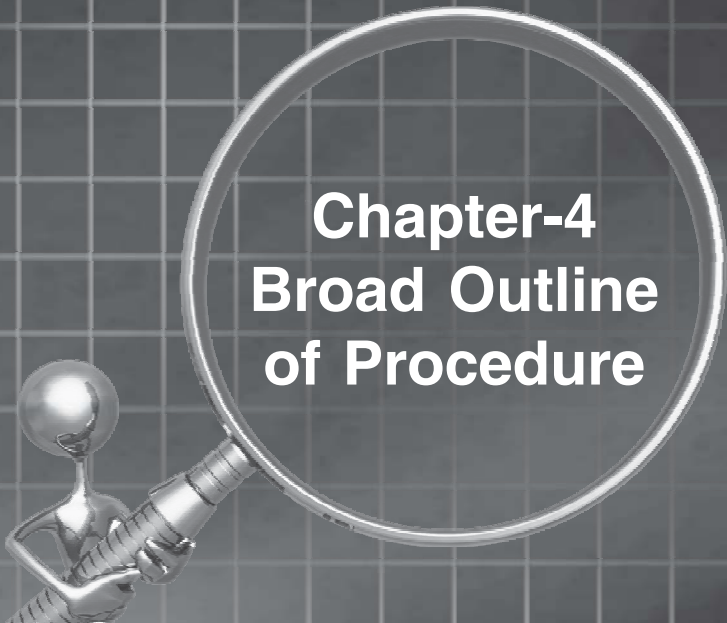
Note : The other Metros include Chennai, Kolkata, Bangalore, Ahmedabad, Pune and Hyderabad.

3.3 The audit of returns processed u/s 143 (1) of the I.T. Act, 1961 may not be required.

3.4 In respect of search and seizure cases, audit of the core search assessments shall be made. The core assessment for this purpose means the cases where Warrant of Authorization for Search & Seizure operation is executed. For the audit of non core search and seizure cases, the criteria for non search assessments shall apply. For the purpose of audit of search & seizure assessments, the Appraisal reports shall be shown to SAP or IAP if so requisitioned.

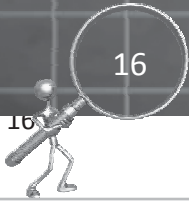
3.5 In some charges, the above norms may give an output of cases which is insufficient for meeting the target stipulated in para 3.1. In such a situation, the CCIT (CCA) may relax the norms for audit by Additional CIT, SAP and / or IAP so as to ensure that the number of auditable cases is not less than the number of cases to be audited by each as per the said target.

3.6 With regard to e-TDS Returns, after the returns are processed, the Internal Audit Party will check all actions taken by the assessing officers. This would include checking of interest charged as well as penalty notices issued and penalty levied under various provisions of the Income-tax Act, 1961.

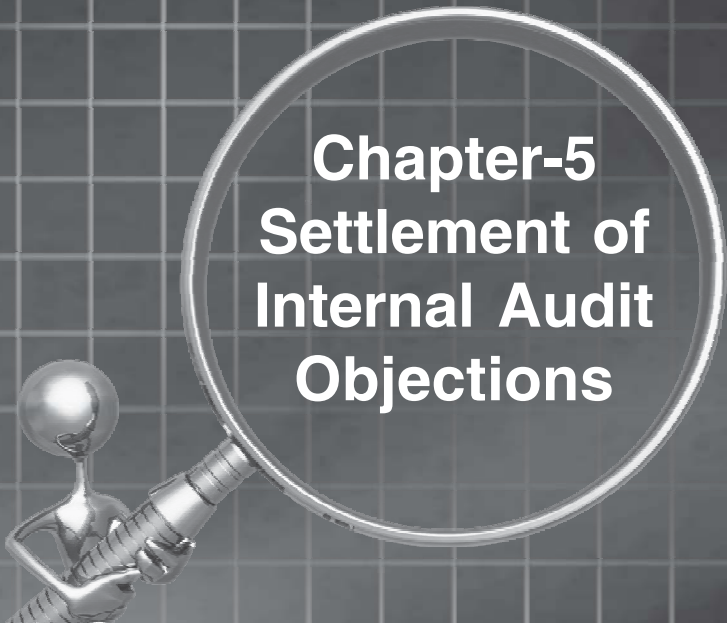


Chapter-4 Broad Outline of Procedure

- 4.1** The list of auditable cases (category wise) of a particular month should be sent to the CIT (Audit) concerned by 10th of the following month. This should be ensured by the administrative CIT.
- 4.2** The Internal Audit of auditable cases of a particular month should be completed within 30 days. CsIT should ensure that the relevant records/registers are produced before the Internal Audit on requisition. Whenever records are not given to Internal Audit without adequate reasons, suitable action should be taken against the officer/staff concerned.
- 4.3** IAPs shall issue objection memos in duplicate, for each individual case as and when a mistake is detected by them. On conclusion of audit of cases of a particular month, an Internal Audit Report (IAR) in the same form as Receipt Audit's Local Audit Report shall be drawn up.
- 4.4** The IAP's report should also indicate and comment with respect to:
- a. Proper maintenance of the registers relating to Internal Audit.
 - b. Verification of disposal and pendency of audit objections with reference to AO's register.
 - c. Timely submission of periodical statements.
- 4.5** The Internal Audit Report should be sent to the administrative CsIT with copies to the Addl. /Jt. Range and the AOs within a week of audit. Objections raised in respect of each AO in a particular month should be categorized into the following four categories, according to the quantification of tax effect involved in the objection:
- | | | | |
|-------|--------------------|---|----------------------|
| (i) | Income Tax | - | above Rs. 1,00,000/- |
| (ii) | Income Tax | - | below Rs. 1,00,000/- |
| (iii) | Other Direct Taxes | - | above Rs. 30,000/- |
| (iv) | Other Direct Taxes | - | below Rs. 30,000/- |



- 4.6** The records and registers received with the list of auditable cases should be handed over to the Addl./JCIT Range / AO within one week of audit.
- 4.7** On receipt of the Audit Objection Memos, the A.O. will proceed to take action for settlement of the objections as per guidelines in Chapter Five.
- 4.8** The CIT (Audit) should send to the Directorate of Income-Tax (Audit) at the end of every quarter, a report giving details of important objections raised by IAPs and SAPs.
- 4.9** Physical verification of all audit objections (Receipt and Internal) should be undertaken as part of house keeping jobs. A reconciliation of the audit objections pending with the AOs with the Registers maintained in the office of the CIT (Audit) as well as in the office of the AG should be carried out in order to delete unnecessary pendency.

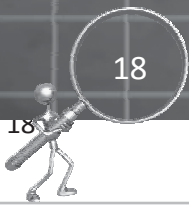


Chapter-5 Settlement of Internal Audit Objections

5.1 It has been noticed that despite existing instructions making it mandatory for taking remedial action in cases of Internal and Revenue Audit Objections, steps are some times not taken on time by the Assessing Officers to rectify the mistakes pointed out by the Audit. Remedial action on accepted audit objections has to be initiated within one month of receipt of the audit memos. The rectification of mistake is to be made by the Assessing Officer within 3 months from the date of receipt of audit objection. Of course the statutory time limit for remedial action should be adhered to if it falls before three months.

5.2 PROCEDURE TO BE FOLLOWED IN THE FIELD OFFICES ON RECEIPT OF INTERNAL AUDIT OBJECTIONS

- (i) Collect Internal Audit objections raised by Auditing Officer and place each report in a separate folder. All relevant correspondence to be issued from this folder, make entry in internal audit / receipt registers.
- (ii) Serially number all items of objections which require reply or action;
- (iii) Divide the objections into the following three categories;
 - (a) Objections involving tax effect exceeding Rs. 1,00,000/- in I.T. and C.T. cases and 30,000/- in other Direct Tax cases.
 - (b) Objections involving tax effect between Rs. 5,000/- and Rs. 1,00,000/- in I.T. and C.T. cases and below Rs. 30,000/- in other Direct Tax cases.
 - (c) Objections involving tax effect below Rs. 5,000/-
- (iv) Mark the period of limitation for action, if any against each item;
- (v) The objections will be disposed of on the basis of the following priorities.
 - (a) Items getting time barred by the end of the financial year;



- (b) Other items in (iii)(a)
- (c) Other items in (iii)(b)
- (d) Other items in (iii)(c)
- (vi) Take decision on acceptance/non-acceptance of audit objections as per guidelines in Para 5.2 above.
- vii) Take appropriate remedial actions as per guidelines in para 5.4 below:

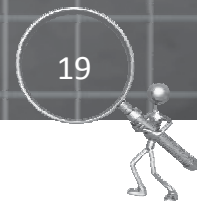
5.3 ACCEPTANCES/NON-ACCEPTANCE OF AUDIT OBJECTIONS

- i) An audit objection should be accepted in a case where the audit objection relating to an error of facts or an issue of law is found to be correct.
- ii) Even if objection is not accepted by the CIT, remedial action should be initiated as a precautionary measure, pending final settlement with CIT (Audit)/ decision of CCIT concerned.
- iii) Only in the following situations, the CIT can decide not to initiate remedial action:
 - (a) If he is of the view that the interpretation of fact or law by the Internal Audit is in conflict with a decision of the Supreme Court and the decision squarely applies to the facts of the case;
 - (b) If he is of the view that the interpretation of fact or law by the Internal Audit is in conflict with a decision of the jurisdictional High Court, which is squarely applicable to the facts of the case, and the operation of which has not been stayed by the Supreme Court;
 - (c) If he is of the view that the Assessing Officer has acted in conformity with Board's Instruction/Circular; or
 - (d) The audit objection raised is on facts, and the CIT, after necessary verification, is of the opinion that the audit objection is factually incorrect.

5.4 APPROPRIATE REMEDIAL ACTION

The choice of remedial action, whether u/s 154 or 147 or 263 has to be carefully considered in the light of existing legal provisions and its sustainability in appeal. Incorrect decision regarding the appropriate remedial action to be taken can seriously jeopardize the probability of the action surviving that test of judicial scrutiny. The tendency to choose the simple course of rectification under section 154 needs to be curbed. Where the applicability of that section is doubtful, recourse to the other provisions of the Act should be taken, so as to avoid the possibility of losing the appeal on the basis of issue of applicability of section 154. Recourse to rectification u/s 154 can be taken only where the mistake is apparent from records and does not need any elaboration or clarifications from the assessee. Instances have come to notice where AOs have just disposed off audit objection by taking an easy recourse to action under section 154 which is not upheld by the appellate authorities and results in loss of revenue which could have been otherwise retrieved through proper remedial action.

In view of the importance of taking the correct decision regarding the most appropriate remedial action to be taken, the Commissioner and Addl./Jt. CIT Range have now been made responsible for issue of instructions to



the Assessing Officers regarding the remedial action to be taken. Where the tax-effect in respect of an audit objection is Rs. 1,00,000 or more in case of Income-Tax and Rs. 30,000 or more in Other Direct Tax cases, the Commissioner concerned shall be personally responsible for careful examination of the objection and issue of instruction to the Assessing Officer on the appropriate remedial action to be taken.

In the case of audit objections involving tax effect less than the above amounts, the Addl./Jt. CIT Range has to examine the matter and issue instruction to the Assessing Officer on the appropriate remedial action to be taken.

Instruction regarding the appropriate remedial action to be taken should be issued to the Assessing Officer by the CIT/Addl. CIT within a month of the receipt of internal audit objection memo.

5.5 TIME LIMIT FOR REMEDIAL ACTION

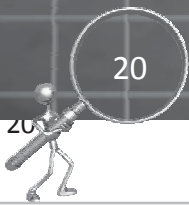
Initiation

Remedial action has to be invariably initiated within one month of receipt of the Internal Audit objection memo.


Completion

A time limit of three months has been laid down for taking remedial action in respect of objections raised by Internal Audit. This time limit has been accepted by the Public Accounts Committee and the need for prompt remedial action cannot be over emphasized. CBDT have repeatedly laid emphasis on this aspect of work of the Internal Audit Organization and the field officers. While taking remedial action, however, priority has to be given to cases of Income Tax with tax effect over Rs. 1,00,000/- and to other Direct Tax cases with tax effect over Rs. 30,000/-. Addl. CIT/JCIT Range are expected to ensure that the objections raised by audit are followed by prompt remedial action in the field offices.

- 5.6 AOs and CsIT should segregate the cases for remedial action under section 147 and 263 and as far as possible pass the order within three months.
- 5.7 Provision has been made vide CBDT's instruction No. 429 dated 14.6.72 to enable A.O.s to rectify mistakes pointed out by Internal and Receipt Audit, even beyond the time limit prescribed u/s 154(7), if the mistake pointed out is in assessee's favour and if the objection raised is acceptable. While considering whether or not relief is due to the assessee, the Deptt. has to go by merits, without taking into consideration the question of limitation. That being so, all mistakes whether in favour or against the assessee, have to be considered. It is only when the net result is in favour of the assessee that the Board's Instruction No. 429 dated 14.6.72 can be invoked to waive the time limit.
- 5.8 In the case of Internal Audit Objection involving tax effect of less than Rs. 100 or in the case of depreciation where the revenue effect is not over Rs. 1000/-, no rectification need be done.
- 5.9 To watch the progress of remedial action, particularly in important cases where tax effect is over Rs. 10,000/- Assessing Officer will maintain a Compliance Card for each assessee which will serve as a ready record to show if any remedial action is pending. He will also maintain such other record as may be prescribed by CIT for keeping a watch in respect of objections involving tax effect below Rs. 10,000/-.



- 5.10** It was noticed during inspections in various CsIT charges conducted by Directorate of Income Tax (Audit) that the pace of settlement of objections is slow because Assessing Officers do not send report in spite of repeated reminders. Even cases where remedial action was finalized, are sometimes shown as pending in CIT's Statistical Report. In a number of cases, remedial action has been found to have become time barred. In many cases, audit objections have been shown as pending for want of report from Assessing Officers even though, prima facie, no remedial action is feasible because of expiry of period of limitation. In order to streamline the process of settlement of objections, the following procedure is laid down for strict compliance:
- i) In case of audit objections having tax-effect above Rs. 1,00,000 in Income-tax/Corporate Tax, the CIT concerned will settle the objection with the CIT (Audit) within four months of receipt of internal audit memo;
 - ii) In case of objections with tax-effect below the amounts mentioned in i) above, the Addl./Jt. CIT Range has to settle the objection with the Addl. CIT (Audit) within four months of receipt of the audit memo.
- 5.11** In case where there is dispute between the administrative CIT and CIT (Audit) with regard to the settlement of internal audit objection, and/ or the remedial action taken, the administrative CIT shall report the matter, with full facts and reasons, to his jurisdictional CCIT, who shall take up the matter with the CIT (Audit), and the decision of the CCIT shall be final.
- 5.12** Mistakes occurring frequently call for permanent remedial measures. Accordingly, as soon a mistake is detected which is likely to recur elsewhere, Audit must immediately bring the same to the notice of higher authorities for general remedial action.
- 5.13** In order to keep the CIT informed about the timely action needed on objections, the Addl.CIT/JCIT Range should send a list of audit objection cases to the CsIT preferable once a month where replies have not been received from the A.O.s. They should also send a list of objections once a month where remedial action has to be taken indicating the Asstt. Year and the limitation date to the CIT concerned.



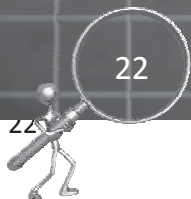
Chapter-6 Maintenance of Ledger Card

- 6.1** The proper maintenance of Ledger Card is an essential step to enforce accountability. It is also necessary in order to reverse the existing trend of increase in the detection of major irregularities by the C&AG from year to year.
- 6.2** Ledger cards are to be maintained both for Internal Audit and Receipt Audit Objections where audit objections are accepted and the tax effect is more than Rs. 1,00,000 for Income tax and more than Rs. 30,000 for other Direct Taxes. The ledger-card is to be maintained for each Assessing Officer regarding the mistakes made by him. Entries will be made in this card when mistakes pointed out by Audit involving tax-effect of more than the above-stated amount are accepted by the Department. The entries would enable the CIT to watch the frequency of mistakes and whether the Assessing Officer's work is improving. This card will be kept in view by the CIT while countersigning the Annual Report of the Officer concerned. When the Assessing Officer moves to another charge on transfer or promotion, the ledger-card shall be transferred to the CIT in whose jurisdiction he would be working.
- 6.3** The Ledger Card will be maintained in the office of the administrative CIT as well as CIT (Audit) in the format given below:

RECORD OF MISTAKES / MAINTENANCE OF LEDGER CARD

Applicable to all Assessing Officers

- | | | |
|----|---------------------------------------|---|
| 1. | Name of the Official/Officer | : |
| 2. | Designation | : |
| 3. | CIT Charge | : |
| 4. | CCIT Region | : |
| 5. | S.No. of the AO in the Seniority list | : |
| 6. | Date of Birth of the AO | : |

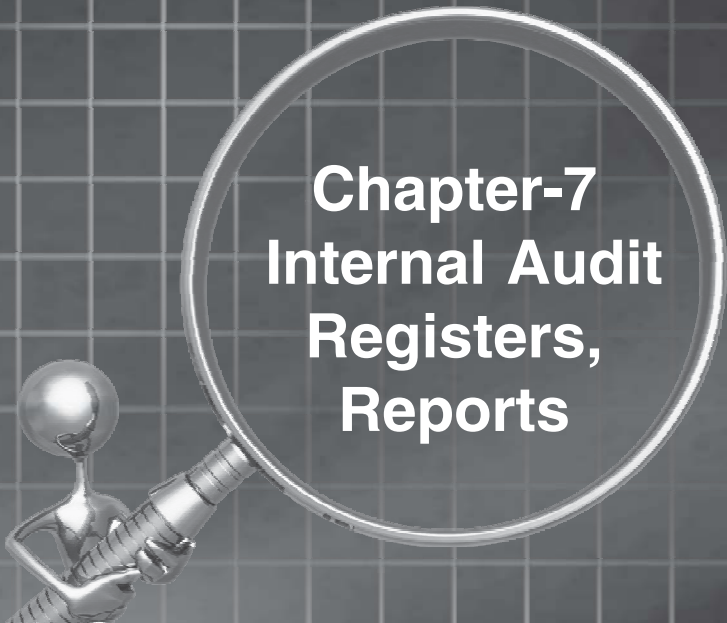


Sl.No.	LAR No.& Date	Para No.	Internal Audit Obj. No. & Date	Gist of Objection	Tax effect (in Rs). lakhs	Remedial action taken u/s 147/ 154/263	Official's explanation if called for	Remarks
1	2	3	4	5	6	7	8	9

Note:

1. Ledger Card will be maintained in respect of both Internal as well as Receipt audit where objections have been accepted by the Department.
2. CBDT has fixed the monetary limit for maintenance of Ledger Cards at Rs. one lac in Income-tax cases and Rs. 30,000/- in other Direct taxes.

6.4 The procedure regarding calling for the explanation of officers and staff responsible for mistake is detailed in Chapter 13.



Chapter-7 Internal Audit Registers, Reports

- 7.1** The proper maintenance of records of internal audit objections and related activities is essential for correct and timely submission of periodical reports and statistical statements which are required to be furnished to the higher authorities i.e. CBDT, PAC, Parliament etc. It also forms basis for taking remedial actions and their follow up by the Income-tax authorities.

7.2 Format of list of Auditable cases:

The format for preparing the list of Auditable cases for internal Audit shall be in the form of Internal Audit Statement (IAS). The Internal Audit Statement is a monthly statement of Auditable Cases, which is to be furnished by the assessing officer to his Addl./JCIT (Audit). The Additional CIT/JCIT will then consolidate the statements received from the Circles and Ward and forward the same to the CIT (Audit) and to his jurisdictional CIT and will retain a copy in his office for record. The list should reach CIT (Audit) by the 10th of each month.

Format of Internal Audit Statement (IAS) of Auditable cases:

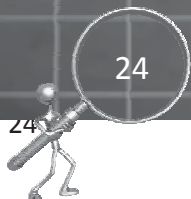
CIT Charge / Addl. CIT / JCIT

Income Tax Circle / Ward

Statement of the month of

Name of the AO

S.No.	Name of the Assessee	PAN	Status	Assessment Year	Date of Assessment/ rectification /Appeal effect/ revision	Total Income/Loss



The Norms of Auditable cases for Internal Audit shall be as per Instruction No. 3 of 2007 dated 16.04.2007. The Internal Audit Statement is required to be prepared separately in the following categories:

- Category-A Search and Seizure cases
- Category-B Foreign Cases
- Category-C Non Search and Seizure Cases (Scrutiny Cases)
- Category-D Cases with claim of deduction u/s 10, 10A, 10B, 10C, 10(23C), 11, 32, 54 and Chapter – VI-A.
- Category-E Other Taxes cases,
- Category-F TDS Cases

7.3 Registers to be maintained by Range Addl./JCIT and Assessing Officers

The following register is to be maintained by the Range Addl. CIT/JCIT office

Addl./JCIT's Register of Internal Audit Objections.

Sr. No.	Name of the assessee / PAN	IT Circle/ ward	Date of Audit Memo	Assessment year / date of Assessment	Gist of Objection	Accepted or not accepted	Tax effect as per audit objection	Last date for action u/s 263/ 147/ 154 etc	Date of rectification/ Reassessment	Actual Tax	D & C R entry	Date of Collection
1	2	3	4	5	6	7	8	9	10	11	12	13

The following register is to be maintained by the Assessing Officer

AO's Register of Internal Audit Objections.

Sr No. in the register of Addl/JCIT	Name of the assessee / PAN	IT Circle/ ward	Date of Audit Memo	Assessment year / date of Assessment	Gist of Objection	Accepted or not accepted	Tax effect as per audit objection	Last date for action u/s 263/ 147/ 154 etc	Date of rectification/ Reassessment	Actual Tax	D & C R entry	Date of Collection
1	2	3	4	5	6	7	8	9	10	11	12	13

7.4 A separate movement register should be maintained by the assessing officers to record details of the files of the auditable cases dispatched to the IAPs to enable verification at a later stage whether



a particular file had been sent to the IAPs or not. The Range Addl./JCIT should verify maintenance of the register from time to time.

7.5 Registers to be maintained by the Audit Wing

The following registers are to be maintained by the Audit wing.

- a Format of Register of auditable cases

COMMISSIONER OF INCOME TAX (AUDIT) REGISTER OF AUDITABLE CASES

AUDIT PARTY:

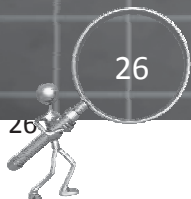
Sr. No.	CIT Charge	Name of the assessee	Ward/ Circle	PAN	A. Y.	Date of assessment order/ order granting refund	Section under which order passed	Re-turned In-come /loss (Rs.)	Total in-come/ loss determined in the assessment order	Re-fund amount (if applicable)	Type of scrutiny selection: CASS/AIR INPUTS/ CCIT APPROVED / REFUND CASE/ OTHERS	Whether the case is one of Top 100 of CIT Charge (Yes/ No)
1	2	3	4	5	6	7	8	9	10	11	12	13

- b Format of Register of audit objections raised and settled

COMMISSIONER OF INCOME TAX (AUDIT) REGISTER OF AUDIT OBJECTIONS RAISED & SETTLED

AUDIT PARTY:

Sr. No.	Name of the Asses-see	A.Y.	CIT Charge	AO Charge	Au-dit Ob-jection No.	Date of Audit Memo	Date of Audit Memo Received in CIT's office	Gist of Audit Ob-jection	Tax effect of audit objection		Status of settlement of objection		
									Major	Minor	Date of settle-ment	Tax effect (Major)	Tax effect (Minor)
1	2	3	4	5	6	7	8	9	10	11	12	13	14



7.6 PERIODICAL AUDIT REPORTS

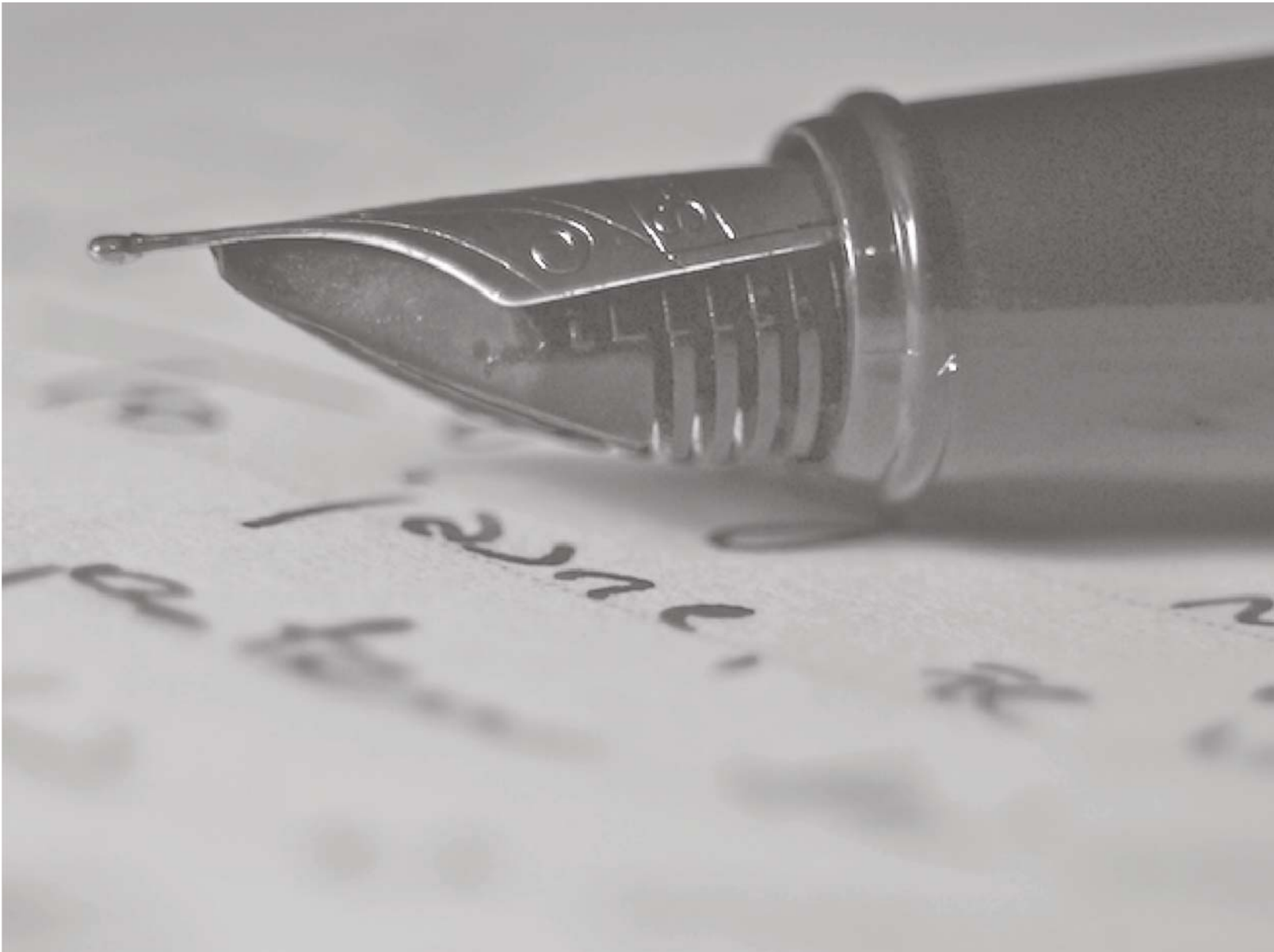
Under the new Internal Audit System, following reports are required to be furnished by the Commissioner of Income-Tax (Audit) to the Directorate of Income-tax (Audit), New Delhi

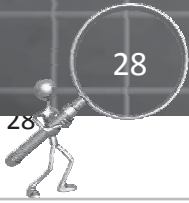
- a) **QUARTERLY PROGRESS REPORT:** The purpose of this Quarterly Progress Report is to know the total workload of auditable cases, number of objection raised, tax effect and settlement of audit objections. The workload of auditable cases is to be worked out by applying the norms for checking of cases of audit as per Chapter 3 of this manual. This statement is to be sent by each CIT (Audit) to the DIT (Audit) by the 20th of month following the quarter. This quarterly report is to be prepared in Proforma "Audit Statement No. 1" given in section IV of this Manual.
- b) **ANNUAL INTERNAL AUDIT REPORT:** An annual report in respect to the performance of the audit wing is also required to be furnished by the CIT (Audit) to the DIT (Audit) by the 30th April of the following year. This annual report is to be prepared in Proforma "Audit Statement No. 3" given in section IV of this manual.



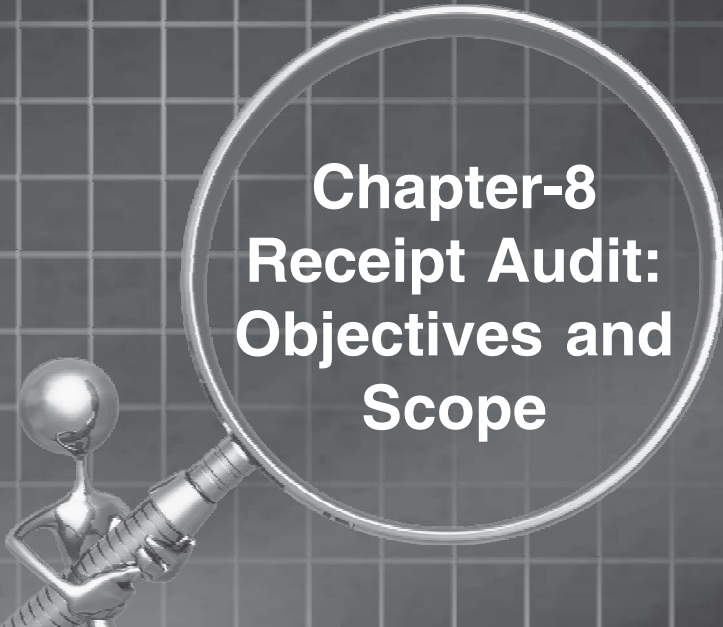
SECTION-II

RECEIPT AUDIT



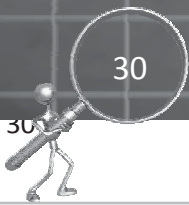


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Chapter-8 Receipt Audit: Objectives and Scope

- 8.1** Under article 149 of the Constitution and under the Comptroller & Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971, the Comptroller & Auditor General of India (C&AG) audits receipts from various direct taxes. Public accountability is fundamental to every democratic set-up and the performance of every Department administering tax laws or spending public money is constantly under the vigilant eyes of C&AG. The report of C&AG is laid before the Parliament and discussed by the Public Accounts Committee.
- 8.2** The main object of Receipt Audit is to satisfy itself that the Income Tax Department has provided sufficient checks and safeguards against errors and fraud, and that the procedures prescribed are calculated to give effect to the requirements of law.
- 8.3** An important function of Receipt Audit is to see that adequate regulations and procedures have been framed by the Department to secure an effective check on the assessment, collection and proper allocation of taxes and to satisfy itself that such regulations and procedures are, in fact, being observed.
- 8.4** Consistent with these objectives, and to judge the effectiveness of assessment procedures Receipt Audit would, inter-alia scrutinize individual cases and satisfy itself that our procedures adequately provide for, and secure:
- (i) The collection and utilisation of data necessary for the computation of the demand or refunds under the law;
 - (ii) The prompt raising of the demands on tax-payers in the manner required by law;
 - (iii) The regular accounting of demands, collections and refunds;
 - (iv) The correct accounting and allocation of collections and their credit to the Consolidated Fund;
 - (v) That proper safeguards exist to ensure that there is no willful omission or negligence to levy or collect taxes, or issue refunds;
 - (vi) That claims on taxpayers are pursued with due diligence and are not abandoned or reduced



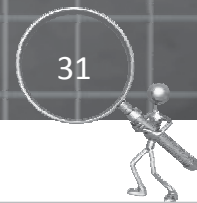
except with adequate justification and proper authority;

- (vii) That double refunds, fraudulent or forged refund orders, or other losses of revenue through fraud, default, or mistakes are promptly brought to light and investigated.

8.5 Besides these, Receipt Audit scrutiny would cover the following aspects of the working of the Income Tax Department:-

- (i) The general circulars or instructions of CBDT, or its orders in specific cases, may be seen as to whether such orders are in accordance with the plain meaning of law. Similarly, notifications issued by the CBDT may be scrutinised to check if they are issued under proper authority of law.
- (ii) The quasi-judicial orders of the CsIT under Section 263 and 264 of the Income Tax Act and corresponding provisions of other direct tax laws, may be seen to check any patent misinterpretation of law or any general departure from the plain meaning of law. Similarly, orders passed under Section 273A of the Income Tax Act and Section 18-B of the Wealth Tax Act may, in addition, be seen to ensure that they are in conformity with Law and the CBDT's Instructions.
- (iii) Penalty orders passed by Additional/Joint Commissioners and A.O.s and other instructions issued by them to A.O.s may also be seen to check if they are in conformity with the provisions of law and Departmental Instructions.
- (iv) CIT (A)'s orders may be brought into questions only if they raise a general issue wherein CIT (A)'s view is against the plain meaning of law or against the procedure that has been followed on the basis of authoritative decision of the Government or a Court of Law.
- (v) In regard to assessment work, Receipt Audit would see:-
 - (a) Whether the assessment made is in accordance with the provisions of law, the Finance Act and the Rules framed under the Act.
 - (b) Whether the procedure prescribed by the CBDT/CCIT/DGIT/ DIT/CIT have been followed; and
 - (c) Whether the instructions or orders issued by the higher authorities i.e. the CBDT, CCIT, DGIT, the DIT, the CIT, the Addl./JCIT have been complied with.

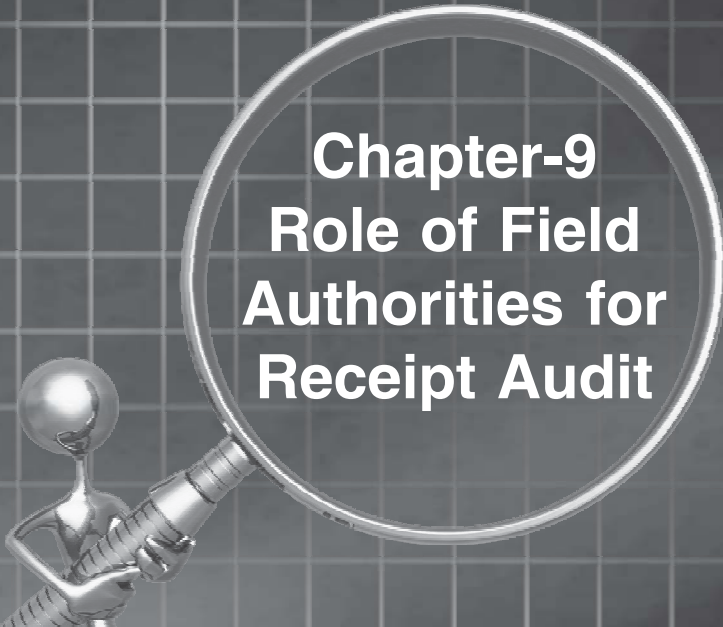
Receipt Audit would, for example, see if mandatory provisions of law have been properly applied. The discretionary powers statutorily vested in A.O.s would not be called in question unless Audit is able to show that such power is consistently used in a way which prima-facie, appears to be inappropriate or improper. Receipt Audit would, nevertheless, satisfy itself that a decision taken by an officer purporting to be in pursuance of a discretionary power is in fact so. They would also point out omissions on the part of an officer to tax items disclosed by an assessee or decided upon by the officer to be taxed but not actually included in the computation. Similarly, if deduction is allowed for an item which is patently includible for tax purposes, Receipt Audit will point this out. Audit would also see that the interpretation of law is not contrary to any binding decision of a High Court or the Supreme Court. The rate of gross profit charged may be questioned only if it is absurdly low; and valuation of closing stock challenged only if the method of valuation is changed and the change is accepted by the A.O. without adequate reasons being brought on record. Checking the arithmetical accuracy of assessment orders and tax computations would always be open to Audit.



- (vi) Receipt Audit would also scrutinise orders passed by A.O.s in other ancillary proceedings regarding advance tax, re-assessment, rectification, appeal effect, penalty, refund, deduction under Chapter VIA of Income Tax act, rebates, etc. Audit would presumably see:-
 - (a) If necessary action was taken, wherever due, on the basis of available records.
 - (b) Whether the orders passed are in conformity with law and have been passed after following the prescribed procedure and complying with the standing instructions; and
 - (c) If the computation of tax/penalty/refund/relief is in order.
- (vii) In regard to collection of taxes, Receipt Audit would verify that the same are duly recovered and are shown as such against corresponding demands, and are credited to the proper head of Account. Audit may also point out cases of undue delay in recovery to pin point faults in procedure or willful neglect.

Orders of write off will be scrutinised to see if they are passed by Competent Authority after satisfying himself about the irrecoverability of the amount and seeing that the write off was not occasioned by any serious or willful neglect, or by any defect in the procedure or by default in following the prescribed Rules or statutory provisions. Receipt Audit would also check whether arrears of tax are correctly carried forward from year to year.

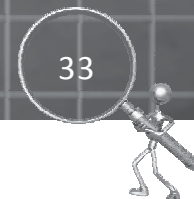
- (viii) Receipt Audit will also test check entries in the Registers maintained by the Income Tax Department with a view to see that no irregularities occurred in assessment, collection and adjustment of taxes due to improper maintenance or failure to keep the prescribed Registers, and that statistical returns of the Department truly reflect the figures shown in these Registers.
- (ix) Receipt Audit will also see cases earlier checked by the Internal Audit to verify the effectiveness of Department's Internal Audit.
- (x) Receipt Audit will also point out cases of over assessment as readily as cases of under assessment since over-assessments also constitute an irregularity and departure from the plain provisions of law.
- (xi) Receipt Audit would especially check the classification of Revenue Receipts and Refunds into various Heads of Accounts. Consistent with their objectives, Receipt Audit Parties are free to enlarge the area of their scrutiny even beyond the points listed above and to report uncommon issues to the C&AG.



Chapter-9 Role of Field Authorities for Receipt Audit

9.1 Assessing Officer

- (i) Receipt Audit intimate their audit programme at least one month in advance. This period should be utilised to make the Internal Audit check up-to-date.
- (ii) Assessment records would be requisitioned by Receipt Audit Parties in writing and should be supplied the same day. Reasons for not supplying any records should also be reported in writing to the Party and all records issued to the Party should bear a rubber stamp on the top of the miscellaneous cover "Issued to Receipt Audit on"
- (iii) A.O.s should keep sufficient time free towards the end of the Receipt Audit Party camp so as to be able to discuss the draft Local Audit Report with the Gazetted Officer-in-charge of the Receipt Audit Party personally.
- (iv) The assessing officer should furnish reply to the Audit Memo within three days of its receipt.
- (v) A.O's should send report on the Local Audit Report (LAR) sent by the Dy. Accountant General to the CIT through Addl. CIT within 30 days of the receipt of the LAR.
- (vi) All important objections involving mistakes likely to arise elsewhere should be promptly brought to the notice of higher authorities for early general remedial action.
- (vii) A.O.s will also be responsible for:
 - (a) Keeping a proper record of Receipt Audit Objections.
 - (b) Prompt rectification of mistakes within the prescribed time limits.
 - (c) Maintenance of proper records and registers to ensure accurate and timely submission of statistics.
- (viii) The AOs should record the basis of their judgment /decision in all cases where they exercise discretionary power. This is necessary since Receipt Audit would satisfy itself that a decision

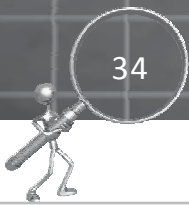


taken by an officer, purporting to be in pursuance of a discretionary power, is in fact so. Such a record is also necessary for proper administrative evaluation and judicial scrutiny.

- (ix) They are responsible for settling with Receipt Audit staff, disputes relating to objections raised by Receipt Audit and pursue such objections till they are settled/rectified.
- (x) In respect of important Receipt Audit Objections with tax effect of over Rs. 50,000, maintaining separate, objection-wise, self contained files with copies of all relevant orders etc., so that all data pertaining to such objections likely to be considered at the highest level, is readily available.
- (xi) They are responsible for supervision and maintenance of statistical records and submission of reports and returns to DIT (Audit) in respect of Receipt Audit.

9.2 Range Additional/Joint Commissioners of Income Tax

- (i) Range Additional/Joint Commissioners in the field are primarily responsible for ensuring that the audit objections are attended to and disposed of quickly and the prescribed registers are properly maintained. They will also see that compliance reports in all cases where objections have been settled by taking appropriate remedial action are sent to CIT promptly. The Range Additional /Joint CsIT should exercise adequate supervisory control to ensure that the records required by the Revenue Audit Parties are made available to them in time.
- (ii) The Range Addl./Joint CIT will examine the audit objection in the Local Audit Report in the light of AO's comment and send reply to the CIT within a fortnight of receipt of the AOs report.
- (iii) Issuing instructions to the AOs regarding appropriate remedial action to be taken in respect of audit objection involving revenue effect below Rs. 1,00,000 in Income-tax cases and Rs. 30,000 in other Tax cases within a month of receipt of LAR.
- (iv) Conferring with the Audit Officers of the rank of Senior DAG/AG, regarding major disputes relating to objections raised by Receipt Audit.
- (v) Maintaining liaison with the Accountant General.
- (vi) Conferring with the Standing Counsel, Solicitor and officers of DIT (A) and CBDT on important questions of law and accounts in respect of Receipt Audit.
- (vii) Assisting CIT in matters relating to Receipt Audit and Internal Audit.
- (viii) Examining cases of mistakes of a serious nature from vigilance angle, maintaining record of such cases, and putting up such cases to CIT for review and action.
- (ix) Ensuring completion of remedial action in respect of objections raised by Receipt Audit, within the prescribed time limit.
- (x) On detecting mistakes of general and / or repetitive nature, taking immediate action for rectification of such, and similar mistakes in all cases and ensuring by issue of circulars etc., that such mistakes are not repeated.
- (xi) Personally verifying the correctness and completeness of data supplied to DIT (A)/CBDT regarding Draft Audit Paras.

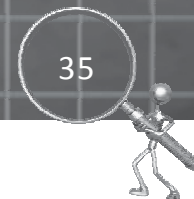


- (xii) Test checking the Registers maintained in field offices to ensure that statistics furnished are correct and complete and that the prescribed Registers are properly kept. Deficiencies noticed, if any, will be brought to the notice of the CIT.
- (xiii) Overall supervision, collation and maintenance of statistical data for:
 - (a) Submission to PAC and C&AG.
 - (b) Planning performance targets.
 - (c) Submission of statements and monthly/quarterly reports to CIT.

9.3 Commissioners of Income-Tax

Commissioners of Income Tax are ultimately responsible for all work arising out of Receipt Audit. Some specific functions to be performed in respect of Receipt Audit are:

- (i) Maintaining, in the prescribed form, a Ledger Card for each A.O. recording mistakes involving a revenue of Rs. 1 lakh for Income Tax cases and Rs. 30,000 for other Tax cases in respect of Receipt Audit and Internal Audit Objections accepted by the CBDT/CIT.
- (ii) Sending reply to the AG/DAG on the LAR within fortnight of receipt of report from Range Addl./Joint CIT.
- (iii) Sending appropriate reply to the AG within a fortnight of receipt of statement of facts.
- (iv) Issuing instructions to the AOs regarding appropriate remedial actions to be taken in respect of audit objections involving revenue exceeding Rs. 1,00,000 in Income-tax cases and Rs. 30,000 in other Tax cases, within a month of receipt of LAR.
- (v) Ensuring prompt remedial action in respect of Receipt Audit Objections, keeping time limits in view.
- (vi) Bringing to the notice of CBDT, all objections involving important points of law to enable consideration and formulation of Department's views at the highest level.
- (vii) Ensuring that full data is compiled accurately in respect of Draft Audit Paras proposed by AG or by C&AG.
- (viii) To co-ordinate with C&AG at the level of AG and above regarding the schedule of Receipt Audit, settling Receipt Audit objections and discussion on important issues arising from receipt audit needing clarifications.
- (ix) Ensuring that reports of the CIT in respect of Draft Audit Paras in Proforma 'A' & 'B' go to the AG/CBDT and DIT (A) within the stipulated time.
- (x) Ensuring that full data in the Reports mentioned at item (VI) above is correct and complete and is verified personally at senior levels viz., Additional/Joint CIT and or CIT.
- (xi) In cases where Receipt Audit Objections are accepted by CsIT/ CBDT but CIT (Appeal) takes a contrary view, CsIT should consider filing of a second appeal to the Income Tax Appellate Tribunal.



9.4 Director of Income-Tax (Audit)

In respect of Draft Audit Paras proposed by the C&AG for inclusion in the Audit Report, necessary follow-up action has been entrusted to the DIT (A), after the initial decision regarding the acceptance or non-acceptance of the audit objection has been taken by the Board. The DIT (A), will keep a direct liaison with the C&AG for this purpose. For each Audit Para finally included in the C&AG's Report, the DIT (A) will prepare a complete "Action Taken Note" (4 typed copies) to be sent to the Board within the time limit stipulated in the Action Plan each year.

DIT (Audit) also collect material and prepare briefs for the Board in respect of such included paras which are selected for oral evidence to be discussed at the PAC meeting and also assist the Board otherwise on PAC matters.

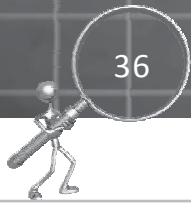
DIT (Audit) has also been entrusted by the Board with the responsibility of collection and preparation of consolidated information in respect of statistical data to be included in the Annual Reports of the C&AG.

9.5 Assistance to Receipt Audit

It is essential that our approach to Receipt Audit is reasonable and objective. Necessary facility should be rendered to the Accountant General, and to the Receipt Audit Parties, for the conduct of Audit and relevant records and the Registers made available for the purpose. Receipt Audit parties will also be provided with records of Summary Assessment Scheme Cases which they are entitled to see. Even a mistake already detected by the Audit Reports of IAPs, or by the field A.O.s is pointed out by Receipt Audit, the latter should be promptly informed of the fact in reply to the preliminary Audit Memo (Half Margin Note) that the mistake is already within our knowledge. Receipt Audit is also entitled to get files from the office of the CsIT pertaining to recovery and to action taken under section 273 of the Income Tax Act and corresponding provisions of the Wealth Tax Act. These files, however, will be requisitioned by and supplied to an officer not below the rank of Sr. DAG/AG.

9.6 Production of Appraisal Reports and seized material to Audit.

The Appraisal Reports forming part of the records of the Assessing Officers need not be withheld from the Revenue Audit. In case any of the records, including the appraisal report, maintained in the office of the Assessing Officer is believed to contain confidential information, which may prejudice the enquiry if it is allowed to be scrutinised by the audit party, the same may be produced before the Accountant General/Director in charge of Revenue Audit (Direct Taxes)/Deputy Accountant General depending on the nature of secrecy that is required to be maintained [F.No. 246/148/92-A&PAC-I dated 29.11.1994 - Text of letter reproduced as under].



F.No. 246/148/92-A&PAC.I
Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes

New Delhi, the 29th November 1994

To

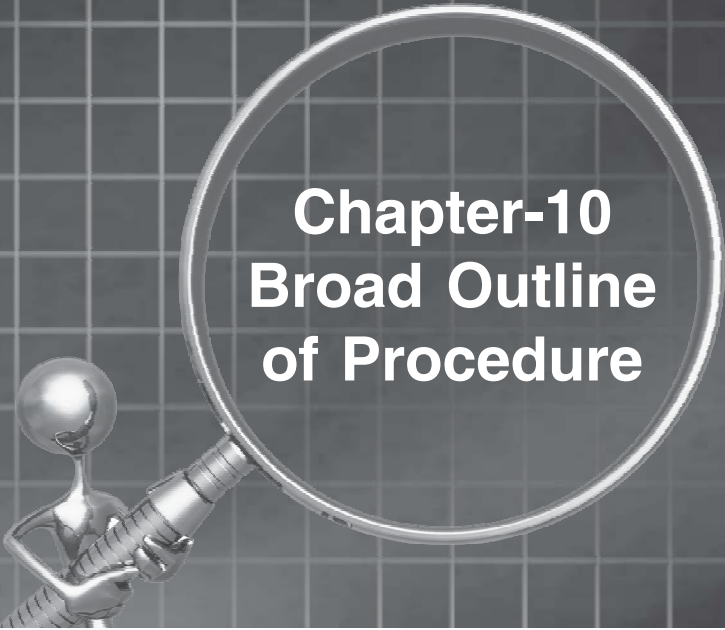
All Chief Commissioners of Income Tax/
All Directors General of Income Tax.

Sir,

Kindly refer to the letter of CBDT D.O.F.No. 246/148/92-A&PAC.I dated 17th March, 1993 conveying the Board's decision not to make available confidential folders and the Appraisal Reports maintained by the Assessing Officers to the Audit Parties. All other assessment records relating to the completed assessment orders which is the subject matter of the Audit, were to be made available without delay after getting them audited by the Internal Audit as per existing instructions.

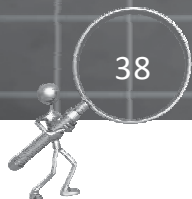
2. Consequent to an assurance given to Public Accounts Committee by the Secretary (Revenue) during the course of hearing on Systems Review on the "Functioning of Investigation Circles" (para 2.1 of the C&AG Report 1992-93), it has been decided that the Appraisal Reports forming part of the records of the Assessing Officers need not be withheld from the Revenue Audit. In case any of the records, including the Appraisal report, maintained in the office of the Assessing Officer, is believed to contain confidential information, which may prejudice the enquiry if it is allowed to be scrutinised by the Audit Party, the same may be produced before the Accountant General/Principal Director In-charge of Revenue Audit (Direct Taxes)/Deputy Accountant General depending upon the nature of the secrecy that is required to be maintained. It has been assured by the C&AG that confidentiality of such records shall be maintained.
3. The above decision of the Board comes into force with immediate effect and may be brought to the notice of all officers working in your charge.

Position in respect of production of seized records before the Audit Parties has been clarified in Instruction No. 1954 issued from File No. 414/41/95-IT (Inv.-I) dated 27.11.1998. According to this instruction, the seized records would be scrutinised in the presence of the Assessing Officer by a representative of the C&AG's Officer and it has been further clarified that the seniority of the representative will be that of a Deputy Accountant General and above. In all such cases, prior approval from the office of the C&AG is required.



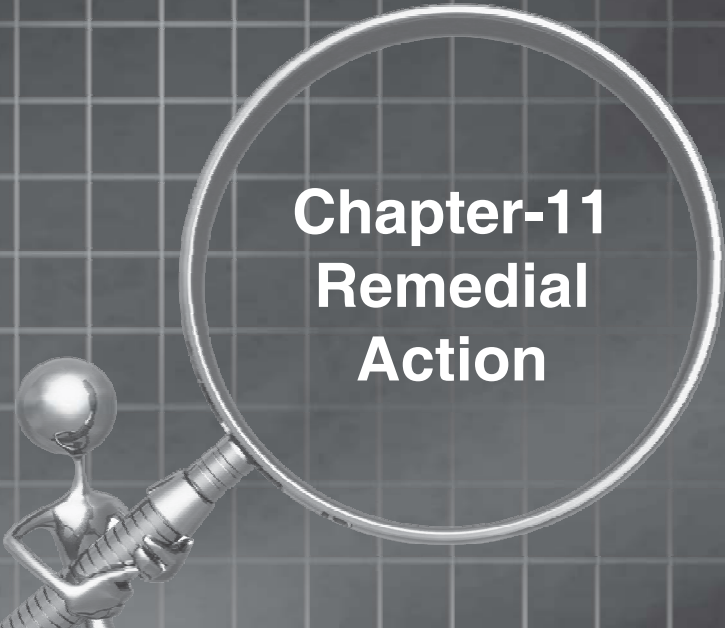
Chapter-10 Broad Outline of Procedure

- 10.1** The programme of Local Audit is communicated by the Revenue Audit at least one month before the Local Audit. All co-operation & assistance should be extended to the Revenue Audit Party (RAP) during the audit process. The records requisitioned by the RAP should be entered in the 'Register' maintained for this purpose and complete records should be made available. If it is not possible to make available any particular record required by the RAP, the reasons for the same should be communicated to the RAP, in writing. The record should on no account be withheld on flimsy grounds. It shall be the responsibility of the CCsIT/DGsIT, through the CsIT concerned, to ensure that the relevant records are given to the C&AG officials on requisition and wherever the record are not given, without adequate reasons, explanation of the officers/staff concerned is called and suitable action taken against the defaulting officers/staff.
- 10.2** Rubber Stamp should be affixed on the outer cover of the Miscellaneous and also the Permanent Record of files supplied to the Receipt Audit Party indicating: "Issued to Receipt Audit on _____".
- 10.3** The CsIT should ensure that complete and accurate record of revenue audit objections are maintained in the 'Registers' prescribed in this manual. The CsIT should also ensure that the pendency of objections are reconciled within a month of receipt of the annual statements furnished by the AGs to CsIT.
- 10.4** In a footnote below the order of assessment, A.O. should record a gist of the objection raised in the Audit Memo and also record his own comments on its validity.
- 10.5** The Revenue Audit party issues an Audit Memo (Half Margin Note) on any irregularity or mistake observed in regard to individual cases. The AO should furnish a reply to the Audit Memo, in all cases, including cases where the validity of the objection needs further consideration, stating clearly whether he agrees with the Audit Memo, within three days of the date of its receipt. The original Memo or copy thereof should be retained on the Permanent Record.
- 10.6** The Dy. Accountant General (DAG) forwards the Local Audit Report (LAR) to the AO with a copy to the CIT. The AO should send his report on the objections in respect of the individual cases included



in the respective audit 'paras' of Part-I (Introductory and Outstanding Objections of the previous report) and Part-II (Major Irregularities and Important Points) of the LAR to the CIT through the Addl. CIT Range within 30 days of the receipt of LAR. No reply is required to be sent regarding Part-III, but appropriate remedial action must be taken by the AO within three months.

- 10.7** On receipt of the AO's report, the Jt./Addl.CIT Range will examine the audit objections in the light of the AO's comments and send a reply to the CIT within a fortnight. The CIT should take a decision and send an appropriate reply to the AG / DAG within a fortnight thereafter.
- 10.8** Where the AG does not accept the views of the Commissioner and / or is not prepared to drop the audit objection, he conveys this to the CIT through a 'Statement of Fact' (SOF). The CIT should send appropriate reply to the AG within a fortnight of the receipt of 'SOF'.
- 10.9** In a case where the AG does not accept the views of the Commissioner and / or is not prepared to drop the audit objection, the audit objections is converted into a 'Draft Para' proposed to be included in the Audit Report of the C&AG of India. On receipt of the Draft Para, the CIT, through the CCIT, should send a report immediately to the Board so as to enable the Board to submit reply to the C&AG of India within the scheduled six weeks. If the objections had been carefully gone into at the earlier stages of processing the required information should already be on the CIT's file.
- 10.10** In respect of the 'Draft Paras', the Proforma Report in Part-A should be sent to the Board strictly within four weeks of the receipt of the Draft Para Key by the CCIT(CCA) with a copy to DIT (Audit). On receipt of Proforma Report Part-A from the CCIT/CIT, the Board will inform the C&AG *inter alia* about the acceptance or non-acceptance of the audit objection, endorsing a copy to the CCIT/CIT/DIT (Audit).
- 10.11** In respect of Draft Audit proposed by the C&AG for inclusion in the Audit Report, necessary follow-up action has been entrusted to the DIT (Audit), after the decision regarding the acceptance or non-acceptance of the Audit Objections has been taken by the Board. Further reports on necessary follow-up action should, therefore, be sent to the DIT (Audit), who will keep direct liaison with the C&AG for this purpose. The Proforma Report in Part B should be sent to DIT (Audit) within two months of receipt of the Draft Para Key by the CCIT(CCA) with a copy to the Board, to facilitate preparation of the Action Taken Notes. The format of Proforma Report Part A and B are available at Section III of this Manual.
- 10.12** After the receipt of the Audit Report presented to the Parliament, the DIT (Audit) will give concluding shape to the ATNs on Audit Paras, and send these to the Board, through the DGIT (Admn.), for submission to the C&AG of India after necessary vetting and consideration in the Board.



Chapter-11 Remedial Action

11.1 The following procedure has been laid down in order to exercise an effective control with regard to timely and appropriate remedial action on audit objections:

- a) in respect of audit objection involving revenue of Rs. 1,00,000/- or more in Income Tax / Corporate Tax cases and Rs. 30,000/- or more in other Direct Taxes cases, the Commissioners concerned shall be personally responsible for careful examination of such objections and issue of Instructions to the A.Os on the appropriate remedial action to be taken within a month of the receipt of the Local Audit Report ;
- b) in respect of audit objections involving revenue below the limits prescribed in (a) above, the Commissioner should ensure that the Addl./Jt. Cs.I.T. Range issue similar Instructions to the AOs within the said period of one month; and,
- c) the choice of such remedial action, whether under section 154 or 147 or 263, should be carefully considered in the light of existing legal provisions and its sustainability in appeal.

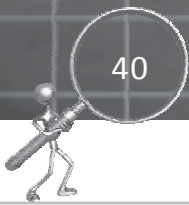
AOs will maintain self contained files for all important objections involving tax of Rs. 1,00,000 in respect of Income Tax & Corporate Tax and Rs. 30,000 in respect of other taxes. Such files will include copies of all relevant orders of the A.O. or other authorities.

11.2 An audit objection should be accepted and remedial action should be taken in a case where the audit objection relating to an error of facts or an issue of law is found to be correct. Even if objection is not accepted by the C.I.T. remedial action should be initiated, as a precautionary measure.

11.3 Appropriate remedial action should be initiated within two month of the receipt of the Local Audit Report, and necessary orders should be passed within six months thereafter.

11.4 Remedial action should invariably be initiated in respect of the following circumstances,

- a) Where an assessment u/s 143(1) was made and the objection pointed out by Audit could not have been considered under the provisions of section 143(1);



- b) Where the interpretation of fact or law by the audit is in conflict with any decision of a squarely applicable to the facts of the case; or
- c) Where there are conflicting decisions of different High Courts (not being the jurisdictional High Court), or
- d) Where the matter involves interpretation of statute and there is no decision of any High Court on the matter.

However, in cases falling under (b), (c), and (d) above, the remedial action can be dropped only with the prior approval of the Board. For this purpose, the CIT should immediately send a reference to the Board for decision, not later than three months from receipt of LAR by the CIT concerned, stating cogently therein the detailed reasons for consideration of the proposal for dropping of the remedial action initiated.

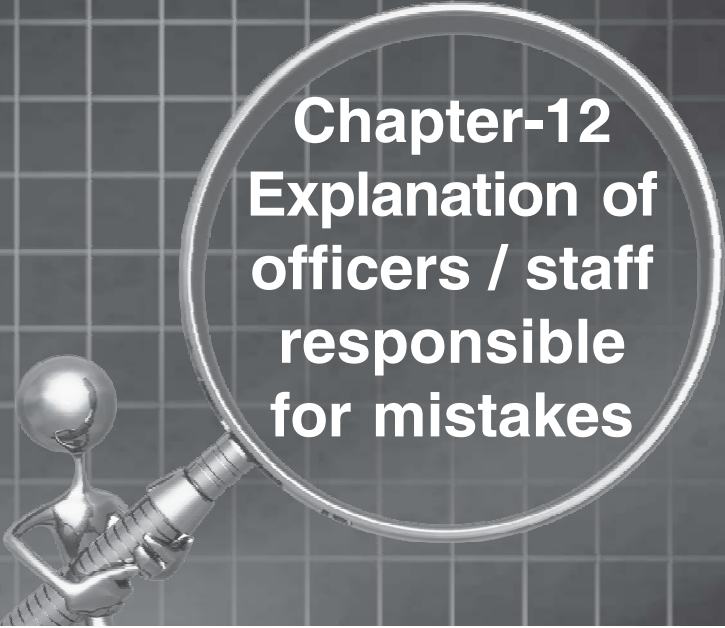
11.5 Remedial action need not be initiated in a case where,

- a) the CIT is of the view that the interpretation of fact or law by the audit is in conflict with a decision of the Supreme Court and the decision squarely applies to the facts of the case, or
- b) the CIT is of the view that the interpretation of fact or law by the audit is in conflict with a decision of the jurisdictional High Court, which is squarely applicable to the facts of the case and the operation of which has not been stayed by the Supreme Court, or
- c) the CIT is of the view that the Assessing officer has acted in conformity with Board's Instruction/ Circular, or
- d) the audit objection raised is on facts, and the CIT, after necessary verification, is of the opinion that the audit objection is factually incorrect.

However, considering that C.Cs / Ds G.I.T. are the competent authority for accepting or contesting adverse judgments of High Courts, in respect of (a) and (b) above prior approval of the C.Cs / Ds. G.I.T. concerned should be obtained for taking a decision for not initiating remedial action, and in respect of (c) above the matter should be referred to the relevant Divisions of the Board for examination and decision. The CsIT should ensure that necessary reply / reference is sent to the AG (Audit) concerned / the Board within a month of the receipt of the Local Audit Report.

11.6 Second Appeal in Cases involving Revenue Audit Objections:

- i) Where a Revenue Audit objection has been accepted by the CIT or by the Ministry and an assessment has been framed in pursuance thereof, and the first appellate authority passes an order taking a view contrary to that of Audit, the adverse appellate order should be carefully scrutinised and appeal should be preferred if the order is not justified either in law or on facts;
- ii) Where a Revenue Audit objection has not been accepted by the CIT or by the Ministry but an assessment has been framed in pursuance of the audit objection, an adverse appellate order by the first Appellate authority should be dealt with in the same manner as in the case of an objection accepted by the CIT and / or the Ministry till the AG / C&AG agrees with the views of the Department / Ministry:
- iii) However, if it is proposed not to file second appeal, the CIT should record reasons as to why an appeal is not considered necessary despite the audit objection.



Chapter-12

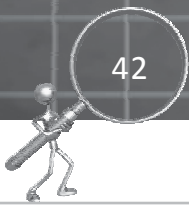
Explanation of officers / staff responsible for mistakes

12.1 Underassessment of tax of substantial amounts on account of avoidable mistakes attributable to negligence on the part of Assessing Officers have been mentioned year after year in the Report of Comptroller and Auditor General of India. Despite this, and issue of instructions by Government from time to time, such mistakes continue to occur suggesting the need for close supervision and control. The various types of mistakes noticed included inter alia, incorrect adoption of figures, non levy of surcharge, mistakes in computation etc. The Board would like to emphasize that mistakes such as disallowances discussed in the body of the order but omitted for determination of total income or mistakes in transporting figure or in total or omissions to disallow obvious items such as Reserves, etc. cannot be allowed to recur. The officers should exercise the utmost care in regard to arithmetical accuracy of the computation of income and taxes. Negligence has no justifiable defense. The procedure for action against defaulting officers with a view to enforcing accountability is detailed in the succeeding paragraphs. The CCsIT/DGsIT concerned should ensure that it is strictly followed.

12.2 Calling of Explanation & Action thereon:

Explanation of the officer and staff concerned should invariably be obtained in the following cases:

- i) Where the Audit Objection, involving revenue of Rs 1,00,000/- or more in Income-tax / Corporate Tax and Rs. 30,000/- or more in other Direct Taxes, have been accepted,
- ii) Where the mistakes arise from any one or more of the following reasons:-
 - i. Failure to follow departmental instructions / circulars;
 - ii. Failure to follow binding judicial decisions; and
 - iii. Palpable mistakes on fact or law, or mistakes arising from gross negligence or malafide action.
- iii) Where failure to take timely and appropriate remedial action on the audit objection leads to irretrievable loss of revenue;



- iv) In a case of default in adhering to the time limits prescribed in para 1.5 of Chapter 1 and Chapter 10 and 11.

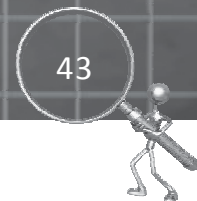
12.3 Further, in cases of objections involving arithmetical inaccuracy in calculation or computation, the accountability of the dealing staff, besides that of the assessing officer, cannot be over-emphasized. Hence, if the mistake is, inter alia, on account of any one or more of the following reasons, the explanation of the staff responsible for the mistake should also be obtained,

- a) Where an issue is considered / discussed in the body of assessment order, and necessary addition on the issue is directed to be made, or where a deduction is directed to be allowed by the assessing officer, but such directions are not taken into account at the time of calculation of tax, interest and surcharge;
- b) Where there is totaling mistake in the computation of Income;
- c) Where an income disclosed in the return is not included in the computation in the assessment order, except where the assessing officer has discussed in the body of assessment order and directed not to include it;
- d) Where there is wrong calculation of tax including application of wrong rate of tax;
- e) Where there is wrong calculation of interest including application of wrong rate of interest or wrong calculation of period for which interest is leviable;
- f) Where any income is added in the computation of income more than once;
- g) Where wrong set off of brought forward losses, unabsorbed depreciation, loss on long / short term capital gain etc. in the scrutiny / search assessments, not commented by the assessing officer in the assessment order, has been allowed;
- h) Where wrong verification of, failure to verify, the arrear demand before the issue of refund results in wrongful issue of refund;
- i) Where credit of pre-paid taxes is wrongly allowed.

12.4 However, where receipt audit objections is against summary assessment u/s 143(1) and the objection pointed out by Audit could not have been considered at the time of summary assessment u/s 143(1), the explanation of the AO & staff should not be called for.

12.5 Procedure for Appropriate Action against the erring officer / staff:

- a) The CIT in whose charge the mistake has occurred should call for the explanation of the officer / staff responsible for the mistake, and indicate whether the explanation is acceptable or not and as to whether the mistake was bonafide or otherwise;
- b) After considering the explanation of the officer / staff concerned, where it is proposed that a simple warning should be issued, the final decision to give simple warning should be taken by the CIT in whose charge the mistake occurred but he should communicate his decision along with the facts of the case to the Commissioner under whom the officer / staff is working and the latter should administer the warning;
- e) Where the mistake pointed out in the audit objection is of a serious nature, which may call for penal action against the officer / staff concerned, the CIT in whose charge the mistake occurred



(hereinafter referred as first CIT) shall, after considering the explanation of the officer / staff concerned, form a view in this regard in consultation with the CIT under whom the official is presently working. The first CIT shall accordingly recommend appropriate action in the case to the Member (A&J), through CCIT (CCA) for necessary examination in the Board. In a case where the Member decides that disciplinary proceeding needs to be initiated, the CCIT (CCA) concerned would then refer the case to the appropriate Disciplinary Authority alongwith all material evidence relevant to the case.

THE PROCEDURE INDICATED ABOVE IS RELEVANT FOR BOTH INTERNAL AUDIT AND RECEIPT AUDIT OBJECTIONS.

- 12.6** Lapses on the part of internal audit for failure to detect mistakes which are subsequently detected by Receipt Audit should be dealt with strictly and action taken against the erring official. CsIT should ensure that explanation of the officials responsible for omission to audit the cases and/or omission to detect the mistakes in respect of audit objection which are made into draft paras are called for and suitable action taken thereon. Action taken against the officials should be recorded and placed on the personal file of the officials.
- 12.7** In pursuance of the recommendation contained in the 21st Report of the Standing Committee on Finance on Demand for Grants (1999-2000) by Ministry of Finance (Department of Revenue), it has been laid down vide DIT (Audit)'s letter F.No. RA-9/Gen./1999-2000/DIT/ dated 20.05.1999 that the CCsIT/DGsIT should ensure following measures in respect of the mistakes committed by the A.O. involving under / over assessment.
1. Each Commissioner Charge should maintain statistics separately for over assessments as well as under assessments done by the Assessing Officers.
 2. In the event of an officer found repeatedly committing the mistakes and there by causing loss to the revenue, comments should be incorporated in his Annual Confidential Report and Departmental action should also be initiated against him or proposed to DGIT (Vig.) in the case of Gr. 'A' officer.
 3. The Committee further decided that to begin with all such cases which had been pointed out either by the Internal Audit or the C&AG should be put to scrutiny by constituting a Department Committee of senior officers and action should be taken against the defaulting officers.

Chapter-13

Receipt Audit Registers, Reports and Records

13.1 The accuracy and timely submission of reports and returns has assumed great importance in view of the fact that correct statistics are required to be furnished to the PAC from time to time. This, in turn, depends on the proper maintenance of the prescribed records and registers, which essentially forms the basis of the various reports and returns sent by the field formations. Due care must, therefore, be exercised to ensure that the prescribed records and registers are properly maintained and accurate reports and register are properly maintained and accurate reports and returns are submitted in time.

13.2 REGISTER TO BE MAINTAINED IN THE INTERNAL AUDIT WING

(i) **Register Audit Register-1** – This is the Register recording Receipt Audit Major Objections. Apart from particulars regarding the objections and remedial action thereon, Column 16 of this Register also maintains information whether the case was seen by Internal Audit, and if not, the reasons therefore.

Sr. No.	PAN	Name of the assessee/ circle	LAR no & date, Para No.	Gist of Objection	Assessment Year/date of order under objection	Tax effect as per LAR	Accepted or not
1	2	3	4	5	6	7	8

Date of issue of instruction by CIT/Addl CIT/ JCIT reg appropriate remedial action	Last date for action u/s 263/ 247 / 154 etc	Date of remedial order	Tax effect as per remedial order	DCR No.	Date of collection / refund	Whether not accepted, date of communication from AG or Board on the basis of which treated as settled	Whether the case was seen by the Internal Audit. If not reasons there of
9	10	11	12	13	14	15	16



(b) **Receipt Audit Register-2** - This is the Register of Receipt Audit Minor Objections.

Sr. No.	PAN	Name of the assessee/ circle	LAR no & date, Para No.	Gist of Objection	Assessment Year/date of order under objection	Tax effect as per LAR	Accepted or not
1	2	3	4	5	6	7	8

Last date for action u/s 263/ 247 / 154 etc	Date of remedial order	Tax effect as per remedial order	DCR No.	Date of collection / refund	Whether not accepted, date of communication from AG or Board on the basis of which treated as settled	Whether the case was seen by the Internal Audit. If not reasons there of
9	10	11	12	13	14	15

(c) **Receipt Audit Register-3** - This Register record details of Receipt Audit Objections (both Major & Minor) settled during the month.

			Revenue as per Audit Objection				Revenue as per the AO, if any			
Sr. No.	Sr. No. in Receipt Audit ½ above	Name of the assessee/ circle/ ward	Arrear	Current	Arrear	Current	Arrear	Current	Arrear	Current
1	2	3	4 (a)	4 (b)	4 (c)	4 (d)	5 (a)	5 (b)	5 (c)	5 (d)

(d) **Receipt Audit Register-4** - This is the Register regarding Draft Paras.

Sr. No.	DP No. of Board	Date of receipt	Date of sending proforma report to Board Pt I Pt II	Name of the assessee	AO to whom it relates	Assessment year/tax effect	Whether accepted or not accepted by the CIT	Board's final decision regarding
1	2	3	4	5	6	7	8	9



Last date of remedial action	Date of initiation of remedial action/ section under which initiated	Date of completion of remedial action	Date of collection	Whether explanation of person responsible for mistake called for	Date of receipt of explanation	Date of disposal of explanation	Date of final report to Directorate
10	11	12	13	14	15	16	17

13.3 REGISTER TO BE MAINTAINED BY A.O.s

- (a) **Register of Requisitions** - A register should be maintained by the A.O.s to keep particulars of all case records requisitioned by Receipt Audit, the date of supplying such records, reasons for not supplying, if any, gist of objections raised in Audit Memos in all cases and also the date when the Audit Memo was received and replied to.

(a) AO's Register No. 1 dealing with Receipt Audit Major Objections.

Sr. No.	PAN	Name of the assessee	LAR no date	Assessment year / Date of assessment	Tax effect as per LAR	Date of issue of instruction by the CIT/Addl./JCIT reg appropriate remedial action
1	2	3	4	5	6	7

Whether accepted or not accepted	Last date for action u/s 263/ 147/154 etc	Date of rectification revision	Tax effect	DCR No.	Date of collection / refund	Where not accepted, date of communication by Addl. CIT/JCIT dropping the objection
8	9	10	11	12	13	14

(b) AO's Register No. 2 dealing with Receipt Audit Major Objections.

Sr. No.	PAN	Name of the assessee	LAR no date	Assessment year / Date of assessment	Tax effect as per LAR	Whether accepted or not accepted
1	2	3	4	5	6	7



Last date for action u/s 263/ 147/ 154/ etc	Date of rectification / revision	Tax effect	DCR No.	Date of collection / refund	Where not accepted, date of communication by Addl. CIT / JCIT dropping the objection
8	9	10	11	12	13

- 13.4** During the course of Audit, the IAPs and SAPs should verify the maintenance of these registers with the A.O. and see to it that these are properly maintained. In case of any lapse on the part of the A.O.s in this regard, the matter should be reported to the CIT (Audit) through the Addl. CIT (Audit) who will take up the matter with the concerned CIT for taking action against the erring officer. The Range Addl./JCIT are requested to give information about these Registers in the Inspection Proforma, when the Inspection of audit work is taken up by the DIT (Audit).

13.5 REGISTER DRAFT AUDIT PARAS

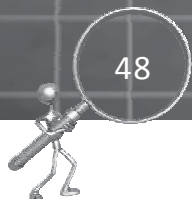
This is to be maintained separately for each Audit Report in the office of the CIT.

Sr. No.	DP No. of Board	Date of receipt	Date of sending proforma report to Board Pt I Pt II	Name of the assessee	AO to whom it relates	Assessment year/tax effect	Whether accepted or not accepted by the CIT	Board's final decision regarding
1	2	3	4	5	6	7	8	9

Last date of remedial action	Date of initiation of remedial action/ section under which initiated	Date of completion of remedial action	Date of collection	Whether explanation of person responsible for mistake called for	Date of receipt of explanation	Date of disposal of explanation	Date of final report to Directorate
10	11	12	13	14	15	16	17

13.6 RECORD & RETURNS AFTER SETTLEMENT OF RECEIPT AUDIT OBJECTIONS.

- Report on recovery in settled Receipt Audit Objections - Vide DIT (A)'s Circular dated 22.3.1996, Receipt Audit Objections were to be treated as settled on raising of demand. Hence, it was decided that a quarterly statement be sent to the AG by the CIT, with a copy to the DIT(A), in respect of recovery in such cases.
- Statistical Report to the AG of objections settled by the CIT - For objections settled at the level of the CIT and AG (viz. Having a tax effect above Rs. 1,00,000 under Income Tax & Corporation Tax and above Rs. 30,000 under other direct taxes), statistical data will be sent by the CIT to the AG in the prescribed form, with a copy to the CBDT for information.



13.7 QUARTERLY RECEIPT AUDIT REPORT

As for the Internal Audit, a quarterly report in respect to Receipt Audit is also required to be furnished by the Commissioner of Income-tax (Audit) to the Directorate of Income –tax (Audit), New Delhi. The purpose of this Quarterly Progress Report is to know the total workload of Receipt Audit Paras, number of objections raised, tax effect and settlement of audit Paras. The CIT (Audit) are required to collect and reconcile the data from all charges under their jurisdiction and sent a consolidated statement to the DIT (Audit) by the 20th of month following the quarter. This quarterly report is to be prepared in Proforma “Audit Statement No. 2” given in section IV of this manual.

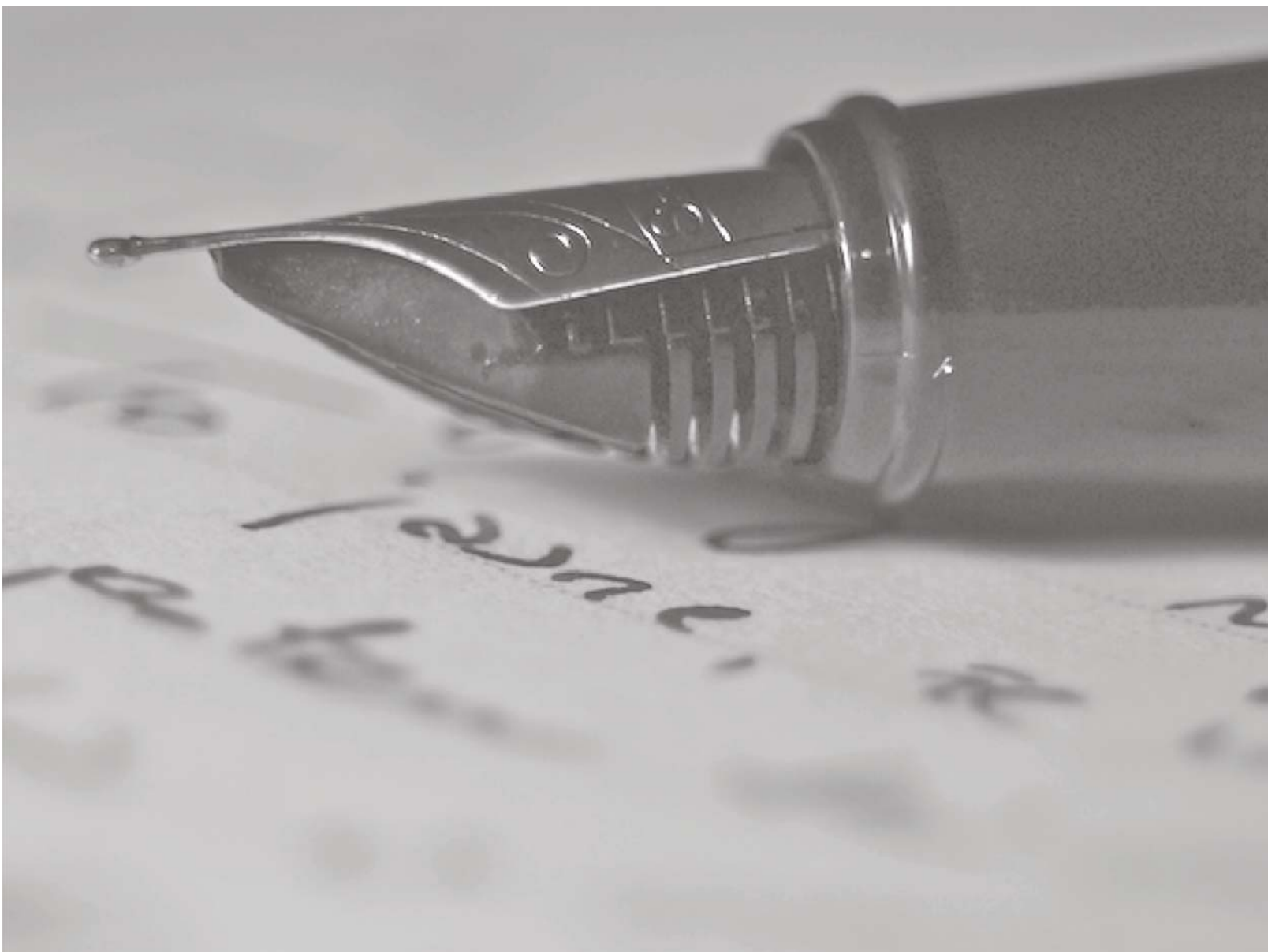
13.8 PROFORMA REPORTS

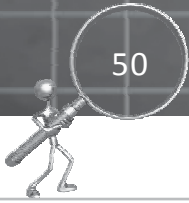
The need for maintenance and furnishing of correct statistics in time has been repeatedly emphasis both by the CBDT & by the DIT (Audit). The factual data in the report referred to above should be correct and complete and personally verified by the CsIT who are ultimately responsible for their accuracy and completeness. The correctness thereof can be ensured by cross verification of all the figures with those of the AG. The CsIT should ensure that their comments regarding acceptance or non-acceptance of the objection under column 3 (b) of part-A of the Proforma Report prescribed are invariably given.



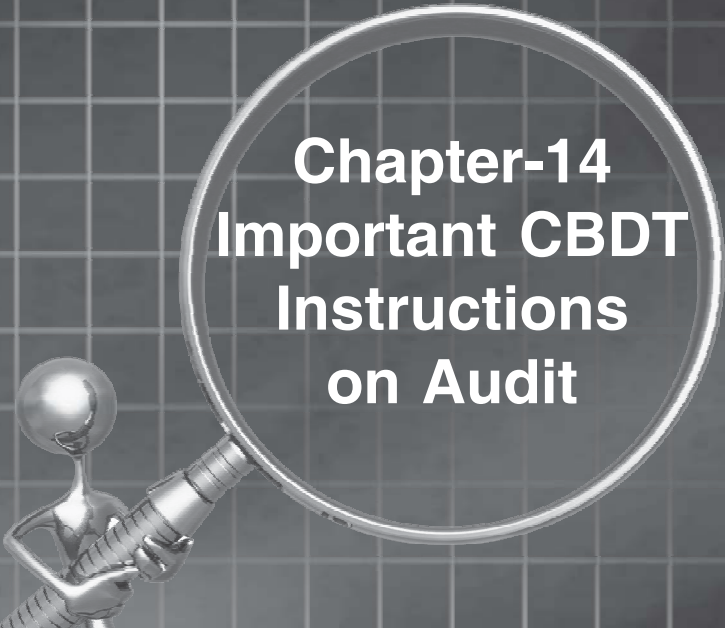
SECTION-III

IMPORTANT CBDT INSTRUCTIONS ON AUDIT





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Chapter-14 Important CBDT Instructions on Audit

- 14.1** The functioning of the Internal Audit setup is now governed by the Instruction No. 03/2007 and No. 09/2006 both of which have been made a part of this compilation. However, there are some other instructions which still remain relevant and their text is given in this chapter.
- 14.2** The CBDT and DIT (Audit) constantly review mistakes commonly noticed by Audit (Receipt and Internal) and issue instructions/letters to ensure that such mistakes do not recur. Instructions are also issued to clarify the provision of law and procedure prescribed for the benefit of Assessing Officers and to implement the suggestions and directions given by PAC from time to time
- 14.3** These instructions need to be read and applied in the current context having regard to the laws now prevailing.

FULL TEXT OF IMPORTANT CBDT INSTRUCTIONS

Instruction No: 119

Section(s) referred: 143

Statute: Income-Tax Act, 1961

Date of Issue: 24.10.1969

It has been brought to the notice of the Board, by the Audit that an Income-tax Officer erred in treating a debit item which, is inadmissible for I.T. purposes as an item of credit in the Profit and Loss Account. This resulted in underassessment of tax. The Board are of the view that the nature of the error is such that it cannot but be due to gross negligence on the part to the Income Tax Officer. There can be absolutely no justification for such lapses and The Public Accounts Committee have rightly commented upon adversely in their 73rd Report for 1968-69. The Board would like to emphasize that mistakes such as disallowances discussed in the body of the order but omitted from determination of total income or mistakes in transporting figure or in totals or omissions to disallow obvious items such as Reserves. etc. cannot be allowed to recur. They would therefore once again like to impress upon the Officers that they should exercise the utmost care in regard to arithmetical accuracy of the computation of income and taxes. Negligence has no justifiable defence.

Instruction No: 194

Date of Issue: 29/7/1970



The Revenue Audit parties sometimes may have doubts as to whether any departmental instructions or judicial decisions are available on a particular subject. In such cases, they may ask for the necessary information from the Commissioners of Income-tax. Occasionally, the Audit may also seek the Commissioner's views on a general interpretation of any particular provision of the law. The Board notice that there is some confusion about the correct action to be taken in such cases. They accordingly desire that the procedure outlined below should be followed in respect of the queries made by the Revenue Audit parties:

- 1) Queries about whether any departmental instructions or judicial decisions covering any specific problems exist should be answered clearly.
- 2) If the Commissioner's views on any general interpretation of law are sought, he may do so after consulting the Board. (In such cases, the Board themselves may have to refer the question to the Ministry of Law for advice.)

Instruction No: 232

Section(s) Referred: 143(3)

Statute: Income - Tax Act, 1961

Date of Issue: 23/10/1970

The PAC have noticed in some cases a substantial time-lag between the final hearing of a case and the passing of an assessment order. Such delays often lead to errors resulting from forgetfulness. Besides there is a risk of the assessment order not presenting the cases of the assessee and the department in the proper perspective. Accordingly, the Board desire that the assessment orders are passed immediately after the hearing is over. In complicated cases or those involving the handling of voluminous materials, it may not be possible to pass an order immediately after the hearing. Even in such cases the order should be passed within 14 working days after the date of last hearing.

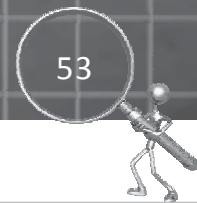
2. The board will look with disfavor to any deviation without adequate justification, from the prescribed time-limit. Where any deviations occur, the ITO shall send a written report to the concerned IAC and the latter will have to satisfy himself about the adequacy of the reasons for the delay. If he is not satisfied, it should be brought to the notice of the CIT for suitable action.

Instruction No: 233

Date of Issue: 23/10/1970

Reference is invited to the boards instructions contained in their letter of even number dated 3-9-69 regarding the checking of tax calculations by ITOs in cases where the income assessed is Rs.1 lakh or more.

2. The PAC were surprised to see the large number of cases with total income exceeding Rs.1 lakh commented on in the Audit report 1969 in which the ITOs had failed to check tax calculations. At para 1.34 of their 117th report they have desired that the board should take a serious view of such lapses.
3. In an earlier letter F.NO.36/40/67-IT(Audit) dated 31-12-68 the board have already instructed the CsIT that a serious notice should be taken of any ITOs failure to personally check tax calculations of Income tax in the cases where the total income is Rs.1 lakh or over. They believe that the lapses noticed in past years will not be repeated and that the responsibility of checking tax calculations will not be sought to be avoided on the untenable plea that it is the job of the Tax calculation cell in a functional range. The D.I.(I.T. & Audit) is being asked to suggest what credit in terms of units of disposal should be given to the ITO checking tax calculation in such cases.



4. The board feel that the Head clerks and supervisors also have not been exercising proper check on tax calculations as required under the Boards instructions contained in chapter XII para 22 (xvii) of the office manual section II. They desire that any lapses on their part also should be suitably dealt with.

Instruction No: 483
Section(s) Referred: 143(1)
Statute: Income - Tax Act, 1961
Date of Issue: 4/12/1972

Reference is invited to Board's Circular letter No.385/78/71.IT(B) dated 21st October,1971 forwarding a copy of the minutes of the Commissioners Conference held from 17th to 20th August 1971.

2. It will be recalled that in relation to the scheme for the disposal of Small Income Cases, it was indicated in the Board's Circular No.22-D(V-69) of 1968 in F.NO.81/114/68-IT(B) dated 25th November, 1968 that if the Revenue Audit raised any objections in principle regarding the individual cases disposed of under the Scheme, the matter was to be brought to the notice of the Board, who were to take up the question of answering such audit objections with the Director of Revenue Audit. As regards the 'Summary Assessment Scheme' introduced w.e.f.1-4-71 the Board's final view is that as summary assessments are being completed according to the provisions of amended Section 143(1) and in accordance with the instructions issued by the Board on the subject, it would not be appropriate to expect the Revenue Audit not to take up the audit of such cases at all in the exercise of their statutory duties. The scope of summary assessments is confined to returned income subject to prescribed routine adjustments and as long as such assessments conform to the legal requirements and the instructions issued by the Board, no criticism need be apprehended from the Revenue Audit. The extent and depth of audit of such cases to be conducted by the Revenue Audit will be decided by the C & AG shortly. Even in regard to the cases completed under the 'Small Income Cases Scheme' the Revenue Audit subjected only a small percentage thereof to scrutiny. To the extent however, the Revenue Audit want to scrutinise 'summary assessments' there should be no objection and records etc. should be made available to them.

Instruction No: 1145
Section(s) Referred: 17(2)(iii) ,40A(5)
Statute: Income - Tax Act, 1961
Date of Issue: 27/1/1978

The Comptroller & Auditor General of India in the report for the year 1975-76 has pointed out that instances have come to his notice that companies sell their vehicles to their employees at a nominal prices and the benefit derived by the employees are not taxed as perquisites in their hands.

2. The above observation of the Comptroller & Auditor General has been considered by the Board. Section 17(2)(iii) of the Income-tax Act, 1961 lays down that the value of any benefit or amenity granted or provided free of cost or at a concessional rate in any of the following cases will be perquisite:-
 - (i) by a company to an employee who is a director thereof
 - (ii) by a company to an employee being a person who has a substantial interest in the company.
 - (iii) by any employer (including a company) to an employee to whom the provisions of (i) and (ii) above do not apply and whose income under the head "Salaries" exclusive of all value of benefits or amenity not provided for by way of monetary payment exceeds 18,000 rupees.



The sale of transport vehicles/furniture etc. to the employees enumerated above has to be examined in the light of section 17(2)(iii) of the Income-tax Act, 1961. It has been decided by the Board that in such cases the difference between the market price and the sale price is taxable as a perquisite within the meaning of section 17(2)(iii) of the Income-tax Act, 1961.

3. The Income-tax Officers assessing the employer should specially enquire at the time of their assessment whether any assets have been sold to their directors or employees falling in the categories mentioned in para 1 above. If such a sale has been effected an examination should be made whether the sale was at market price or at less than the market price. If such a sale is for a price which is less than the market price the difference between the market price and the sale price should be taxed as a perquisite.
4. The amount of such perquisites will also have to be taken into consideration while determining the disallowance under section 40A(5) of the Income-tax Act, 1961.

Instruction No: 1187

Date of Issue: 20/6/1978

It has been pointed out by the Receipt Audit that in one of the cases the Tribunal quashed the assessment order passed by the ITO on the ground that one of the crucial documents could not be furnished by the Department before the Tribunal as the same was found missing from the file.

The loss of important documents can adversely affect the interests of revenue. It should therefore be ensured that the instructions regarding page numbering and safe custody of assessment records are strictly complied with. If any instances of loss of records/documents come to notice, enquiries should be made to fix the responsibility and, in appropriate cases, the help of the other investigating agencies like the local police or C.B.I. may also be sought for.

Instruction No: 1267

Date of Issue: 6/5/1979

The Public Accounts Committee in para 3.101 of their 7th Report (1977-78) have pointed out the essential details like area of land, built up area, specifications of construction site and building plans, copies of purchase deeds etc. were not obtained by Income Tax Officers during assessment proceedings. Consequently, the values returned by the assesseees had to be accepted without necessary enquiries.

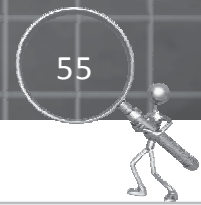
2. The lapses as pointed out by the PAC are very serious. The Board desire that essential details like area of land, build up area, specification of construction sites and building plans, copies of purchase deeds etc. in respect of immovable properties are obtained during assessment proceedings and utilised to determine the correct value of such properties.

Instruction No: 1316

Date of Issue: 5/3/1980

Attention is invited to the Board's Instruction No.483 (F.No.244/7/72-A&PAC) dated 4.12.1972 wherein it was stated that the records of assessments completed under Summary Assessment Scheme may be made available to Receipt Audit when called for.

2. After discussions between the Board and the Receipt Audit, it has been agreed that audit of the assessments completed under Summary Assessment Scheme will be conducted in the following manner:-



- (i) To see whether the case was one that has been rightly disposed of under the Summary Assessment Scheme in the light of Board's Instruction No. 966 dated 6.7.76 and Instruction No.1072 dated 1.7.77, as long as these instructions are in operation;
- (ii) To see whether statutory adjustments, as provided under section 143(1), have been made. Cases where there are clear mistakes in making such requisite adjustments, objections will be raised by Audit and may be included in the Audit Report. Remedial action should be taken in such cases and reported to Audit.
- (iii) There may be cases where there are no mistakes as such in the assessments completed under section 143(1). However, some extraneous material has been furnished by Audit indicating under-assessment. In such cases if the Department replies that the assessment has been reopened to assess the escaped income, Audit will be satisfied and the case will not be included in the Audit Report. Remedial action should be taken in such cases and reported to Audit.
- (iv) Where according to Audit, a systematic abuse of a concession by a group of assessees is involved in the assessments completed under the Summary Assessment Scheme, Audit will bring this to the notice of the Board. It may involve debatable issues. It is for Board to consider whether there is such an abuse or lacuna.

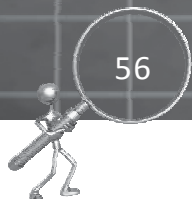
Instruction No: 1337

Date of Issue: 4/6/1980

Attention is invited to para 3 of chapter XII of office manual vol.II containing instructions regarding the maintenance of order sheets.

1. A case came to the notice of the board wherein the Wealth-tax officer computed the net wealth of the assessee as agreed to by him and recorded in order sheet prepared by A.O. This was done on 15th September 1971. The signature of the assessee was also obtained in the order sheet on that date. Actually however the assessment order in respect of the relevant assessment was signed and issued only in January 1972 and there was a direction in the assessment order that penalty proceedings should be initiated. The ITAT on appeal against the penalty imposed, held that in fact the assessment was completed in September 1971 when the officer recorded in the order sheet that the assessment order was issued and the penalty proceedings initiated in January 1972 when the order was signed, could not be held to have been initiated before the completion of the assessment proceedings and were therefore without jurisdiction. Since the order of the Tribunal was based on a question of fact as to when the assessment was completed the department's attempts to have a case stated to the High court also failed.
2. The board have taken serious notice of the careless manner in which the wealth tax officer made the entries in the relevant order sheet which led to the loss of revenue. The board want to reiterate the need for strict observance of the existing instructions regarding maintenance of order sheets. The order sheet being contemporaneous record of the proceedings assumes evidentiary value. Accordingly, an ITO should be very careful in writing up an order sheet. Over-writings are to be avoided and so also interpolations. The ITO should see that the order sheet contains date wise record of events relating to particular assessment. Each entry bears a consecutive serial number to ensure completeness and continuity of the proceedings.

Every order which has a bearing on the proceeding before the ITO should be dated and the entry should be made in the order sheet. The order passed must be complied with by the office as expeditiously as



possible. The officers are, therefore required to maintain the order sheets chronologically, correctly and completely.

3. The above instructions apply mutatis mutandis to proceedings under other direct taxes as well.
4. IACs and CsIT during their periodical and surprise inspections should make it a point to verify how the order sheets are maintained and pull up officers who fail to carry out instructions contained in this circular.

Instruction No: 1415
Section(s) Referred: 142(2A)
Statute: Income - Tax Act, 1961
Date of Issue: 23/9/1981

1. Reference is invited to Boards letter F.No.246/66/76-A & PAC.II dated the 12th July 1977 by which guidelines for selection of cases for audit u/s.142(2A) were given. Further reference is invited to boards letter no. 246/66/76-A & PAC.II dated 23rd July 1977 by which criteria for preparation of panel of chartered accountants was laid down to enable the officers to refer expeditiously cases requiring audit u/s.142(2A).
2. The board had occasion to review the working of provisions of section 142(2A) and it was found that during the last three years only 16 cases were referred for compulsory audit under this section. Even in these 16 cases the maximum contribution was only from Nagpur charge referring 6 cases. The estimates committee took adverse note of the same in para 4.19 of their 9th report for the year 1980-81 and recommended as under:-

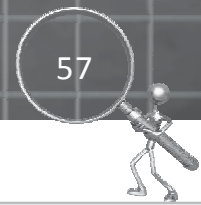
The committee regret to note that a wholesome provision made for referring certain accounts for compulsory audit by auditors to be nominated by commissioners u/s.142(2A) of the I.T.Act w.e.f. 1-4-76 has not been utilised to the extent to which it should have been utilised. During the last 3 years only, 16 cases were referred for compulsory audit under this power. The committee recommend that all preparatory work to give effect to this provision should be completed without any further delay and the power of compulsory audit used in all cases where it is necessary to do so in the interest of revenue.

3. The board desire that you should impress upon your officers to refer more cases for compulsory audit requiring deeper investigation and it should not be difficult as now the preparatory work in this behalf already stands done.
4. Necessary instructions may be issued to all the officers working in your charge.

Instruction No: 1496
Date of Issue: 21/12/1982

In a case appearing at para 51(a) of the Audit Report 1970, while examining the AAC's order, in C.I.T.'s office the advice of the Ministry of Law sent to the C.I.T. in connection with the audit objection in the same case was not considered and the AAC's order which was against the advice given by the MOL was accepted. There was thus a lack of co-ordination between the Audit Section and Judicial section of the C.I.T.'s Office. The Board therefore is of the view that co-ordination can be better achieved if the ITO while sending his scrutiny report on the adverse appellate orders also reports the fact of the audit objection which gave rise to the order appealed against. Similarly, while examining the AAC/CIT (Appeals) Tribunal's order, judicials section of the CIT's office should find out from the IAC (Audit), if the order in appeal was passed in pursuance of any audit objection and whether it was proposed as a Draft para and or appeared in the printed Audit Report.

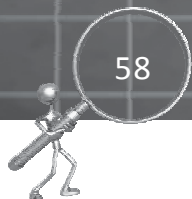
2. These instructions may be brought to the notice of the officers working under your charge.



Instruction No: 1552
Date of Issue: 8/2/1984

The growing pendency of Major Audit Objections raised by Receipt Audit Parties has been causing concern to the Board for some time now. The number of Major Receipt Audit Objections awaiting settlement as on 1.4.83 was 23,197; till September, 83, the additions are 2,890; as against the total number of 26,037. 2504 only have been settled till Sept.83, leaving a balance of 23,533. Out of the Major Audit Objections, pending on 30.9.83, 9,459 are stated to be pending with the A.Gs. for settlement. From the Draft Paras received in the Board's Office, it is found that a large number of objections involving substantial revenue are pending for settlement for want of remedial action in the field. It is also noticed that a number of contentious points which could be sorted out are pending due to lack of communication between the Department and the Receipt Audit. As seen from the above figures even though the Department has sent final replies in a substantial number of objections these have not been finally settled by the Receipt Audit. Efforts have apparently not been made by the field formations to ascertain the reasons for the same so that clarifications required, if any, could be sent to enable the settlement of the objections.

2. P.A.C. in its 75th Report, 1981-82 (Seventh Lok Sabha), has recommended that the Board should undertake a study of the average time taken in the disposal of Major Audit Objections. Pursuant to this recommendation, the DOMS has after a study of the settlement of such objections, suggested a closer co-ordination between the counterparts in the Revenue Department and the Audit Department (C&AG's Office), namely between the IAC (Audit) and Sr. DAG/Jt. Director, CIT and AG/D.S., CBDT and the Receipt Audit Wing of the C&AG for expeditious settlement of the Audit Objections.
3. Even though the IACs (Audit) and the CsIT have been meeting their counterparts of the Receipt Audit with a view to the settlement of audit objections, it is considered necessary in the light of the above recommendation to put it on an organisational basis. Accordingly, a meeting was recently held with the officials of the C&AG's office. During the meeting it was brought to our notice that the present practice generally adopted by the Income Tax Officers was to give a reply to the Audit Memos stating this would be looked into and a reply sent in due course. This, it was pointed out, results in causing avoidable delay in the settlement of the audit objections, leading to accumulation of arrears of objections, on the one hand, and making the settlement of the objections difficult, due to time-bar etc., in due course, on the other. In this connection, reference is invited to Para 6 of the Board's Instruction No.159 F.No.5/6/69-IT(Audit) dated 16.4.1970 and Instruction No.612 F.No.236/392/72-A&PAC dated 7.9.1973. Timely and proper answers to the audit memos at the time of local audit cannot therefore, be over-emphasised and should be ensured. On their part, the C.A.G.'s Office have issued necessary instructions to their field offices that the audit memos should be issued to the Income-tax Officers, as and when they are written up and not at the fag end of the local audit, so that the Income-tax Officers have sufficient time to provide categorical replies to the audit Memos confirming the facts therein. In this connection a copy of C.A.G.'s Circular No.41-IT/1983, to their field offices is enclosed. It was decided at the meeting that an interdepartmental machinery should be set up to expedite settlement of audit objections and to sort out contentious issues. The machinery to be set up would be at three levels as suggested by the DOMS.
4. A monthly meeting of the IAC(Audit) and the DAG/Senior DAG/Joint Director should be held to discuss the various issues in their charges. They would inter alia, reconcile statistics of pending objections, discuss with a view to settle objections having large revenue effect and attempt to eliminate or atleast reduce the areas of dispute involving common points. They could also discuss administrative problems like production of records by the ITO accommodation for audit parties, the order in which the ITO,



charges are to be audited by Receipt Audit, etc.

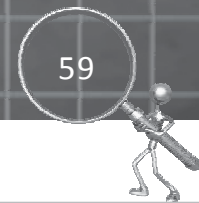
5. A quarterly meeting of CsIT and AGs/Directors of Audit will be held to discuss the issues not resolved at the meetings of the IACs (Audit) and Senior DAGs/Joint Directors. Other related points for expediting settlement of objections could also be taken up at this meeting. In Multi-Commissioners charges efforts should invariably be made to involve the concerned Commissioners for a quicker settlement of objections in all the charges.
6. It was also decided that bi-monthly meeting would be held between DS(PAC), CBDT, and Joint Director (Receipt) of the C&AG to discuss subject-wise issues, agreement on which could result in settlement of all such issues. Matters requiring reference to the Ministry of Law could also be pursued at these meetings.
7. The outcome of the meetings at the first and second level will be communicated to the CBDT in quarterly reports. General issues which require the attention of the CBDT and which have to be taken up with the C&AG should also be included in the quarterly reports which should be furnished in triplicate in the enclosed proforma.
8. CsIT and IACs (Audit) are requested to take necessary steps to implement the above decision. The first quarterly report will be sent so as to reach Member (R&A) by 15th April, 1984, with a copy to the Director of Inspection (Audit).

Instruction No: 1825

Date of Issue: 28/8/1989

In order to effectively monitor the recovery of arrears in bigger cases, quarterly dossier reports in cases of arrears of more than Rs.10 lakhs have been prescribed. These reports are to be sent by Assessing Officers to their Commissioners/Chief Commissioners. A copy of this report is to be sent to the Director of Income-tax(Recovery) by the end of the month following the quarter. The progress of recovery work is to be reviewed by the commissioner/Chief Commissioner on the basis of the information furnished in the dossier reports.

2. The C & AG of India in his report for the period 1986-87 has pointed out that dossier reports on cases with arrears of tax exceeding Rs.10 lakhs are not being sent by the assessing officers promptly. The audit has noticed that reports were not sent in some cases even for 2-3 years after the demands were raised. In some cases where reports were sent discrepancies were noticed between the amount of arrears in the reports and the amount of arrears as per record.
3. The irregularities noticed by the Audit are of serious nature and are obviously due to laxity on the part of the officers concerned. Such an attitude will defeat the very purpose of the dossier system of review. Besides these reports are relied upon even for the purposes of replying to Parliament questions. Therefore the importance of dossier reports cannot be over emphasized. All concerned should ensure that there are no factual errors in the reports. Despite this if errors are noticed the Chief Commissioners should fix responsibility and take suitable action.
4. The Director of Income-tax (Recovery) has reported that there is inordinate delay in the receipt of dossier reports. This indicates that there is similar delay in receipt of these reports by CIT/CCIT. Such delays will affect the timely review which is so important for achieving arrear reduction/collection. Further while sending reports it should be ensured that no column of the report is left blank. If a particular column is not applicable, it should be clearly indicated so. It is once again emphasised that quarterly dossier reports should be sent in every case and within the stipulated time.



Instruction No: 1855
Date of Issue: 5/9/1990

The Board has received a reference seeking instructions as to whether files regarding cases where payments of rewards were made to informants, should be made available to Receipt Audit parties for the purpose of audit. It has been pointed out that if the rewards files are subjected to audit, the informants may be dissuaded from furnishing information regarding tax evasion, as their security would be endangered.

2. The Board has been informed that in addition to the information file, which contains the name and address of the informants and the details of the information furnished by him, a reward file is opened for each case. This reward file contains a gist of the information provided by the informants and also a note regarding the further assistance rendered by him. This file also contains the evaluation of information with reference to the amount added in the assessments and the taxes realised, for which purpose a report is obtained from the Assessing Officer, and the order of the Competent Authority on payment of rewards. This file does not contain the name and address of the informants.
3. The Board has, therefore, decided that the purpose of the Receipt Audit would be served if only the reward files are made available to the Receipt Audit. In addition, statistical data maintained vide Reward Register prescribed at para 8.02 (iii) of Chapter VIII of the Search Manual.
4. This may be brought to the notice of all officers in your region.

Instruction No. 1965
Dated 23.3.99

Subject : Delay in implementation of appellate orders passed by CsIT(A)'s and ITAT - Instructions - Reg.

The Citizens Charter of the Income Tax Department has stated that the Department should give effect to appellate orders within 30 days of the receipt of such orders. The Board, therefore, desires that henceforth the orders of the CIT (A) and ITAT should be given effect to within 30 days for the receipt of the order by the Assessing Officer.

These instructions may be brought to the notice of all officers in your region.

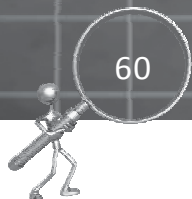
Instruction No: 1974
Date of Issue: 8/07/1999

Subject :- Need for prompt and careful attention to references from Directorate of Audit -reg.

It has been noticed that references and requisitions addressed by the Directorate of Audit to the field offices are not receiving due and prompt attention. The Board has taken a serious view of the matter.

In this connection, it is stated that Directorate of Income-Tax (Audit) handles all matters pertaining to Public Accounts Committee and Comptroller & Auditor General and requires comments/data/information from the field formations for furnishing replies to these authorities on time bound basis. In the event, these comments/data/information are delayed or not received in the appropriate form, then the Department faces embarrassment and adverse criticism.

It is, therefore reiterated that all Chief Commissioners and Directors General must ensure that prompt and due attention is given in their respective regions to the references and requisitions received from the Directorate of Audit and that the replies are sent in appropriate form expeditiously.



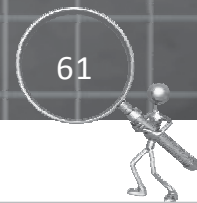
INSTRUCTION No. 09 OF 2006 INSTRUCTION ON RECEIPT/REVENUE AUDIT OBJECTIONS

Board has issued a number of Instructions from time to time on various aspects of the work relating to Revenue Audit. These Instructions, inter alia, addressed to the procedure to be followed at different stages of Audit Objections, appropriate remedial action thereon, Schedule of replies, monitoring and accountability measures, and quite a few of these continue to be applicable simultaneously. A need is therefore felt to consolidate all such instruction into one all encompassing instruction so that management and processes relating to audit objection are streamlined with a greater sense of accountability. The present instruction is accordingly issued in super session of instruction Nos. 159,484,499,612,828,854,1046,1057,]071, 1]76,]205,]473,1598,1609,1928 and 197] for strict compliance by all concerned.

2. Broad Outline of Procedure

- 2.1 The programme of Local Audit is communicated by the Revenue Audit at least one month before the Local Audit. All co-operation & assistance should be extended to the Revenue Audit Party (RAP) during the audit process. The records requisitioned by the RAP should be made available. If it is not possible to make available any particular record required by the RAP, the reasons for the same should be communicated to the RAP, in writing. The record should on no account be withheld on flimsy grounds.
- 2.2 The CsIT should ensure that complete and accurate record of revenue audit objections are maintained in the 'Registers' prescribed in Chapter – 12 of the Internal Audit Manual, 2003 [ref pages 156 – 157], and in the Revenue Audit Module of AST. The CsIT should also ensure that the pendency of objections are reconciled within a month of receipt of the annual statements furnished by the AGs to CsIT.
- 2.3 The Revenue Audit party issues an Audit Memo (Half Margin Note) on any irregularity or mistake observed in regard to individual cases. The AO should furnish a reply to the Audit Memo, in all cases, including cases where the validity of the objection needs further consideration, stating clearly whether he agrees with the Audit Memo, within three days of the date of its receipt.
- 2.4 The Dy. Accountant General (DAG) forwards the Local Audit Report (LAR) to the AO with a copy to the CIT. The AO should send his report on the objections in respect of the individual cases included in the respective audit 'paras' of Part-I (Introductory and Outstanding Objections of the previous report) and Part-II (Major Irregularities and Important Points) of the LAR to the CIT through the Addl. CIT Range within 30 days of the receipt of LAR. No reply is required to be sent regarding Part-III, but appropriate remedial action must be taken by the AO within three months.
- 2.5 On receipt of the AO's report, the Jt./Addl.CIT Range will examine the audit objections in the light of the AO's comments and send a reply to the CIT within a fortnight. The CIT should take a decision and send an appropriate reply to the AG / DAG within a fortnight thereafter.
- 2.6 Where the AG does not accept the views of the Commissioner and / or is not prepared to drop the audit objection, he conveys this to the CIT through a 'Statement of Fact' (SOF).

The CIT should send appropriate reply to the AG within a fortnight of the receipt of 'SOF'.



- 2.7 In a case where the AG does not accept the views of the Commissioner and is not prepared to drop the audit objection, the audit objections is converted into a 'Draft Para' proposed to be included in the Audit Report of the C&AG of India. On receipt of the Draft Para, the CIT, through the CCIT, should send a report immediately to the Board so as to enable the Board to submit reply to the C&AG of India within the scheduled six weeks. Indeed, if the earlier stages of processing of the objections had been carefully gone into, the required information should already be on the CIT's file.
- 2.8 In respect of the 'Draft Paras', a copy of the Proforma report is to be sent to the DIT (Audit) so as to enable him to prepare comprehensive Action Taken Notes (ATNs) on the Audit Paras [Performance Audit] included in the Audit report No. 12 [now renumbered as 8 from 2006] of the C&AG to be submitted to the C&AG of India through the Board.
- 2.9 On receipt of the above mentioned report from the CCIT / CIT, the Board will inform the C&AG inter alia about the acceptance or non-acceptance of the audit objection, endorsing a copy to the CCIT/CIT/DIT (Audit). On receipt of the above endorsement, the DIT (Audit) will move ahead with the preparation of the comprehensive ATNs after securing such further information and particulars from the field formations as may be required.
- 2.10 After the receipt of the Audit Report presented to the Parliament, the DIT (Audit) will give concluding shape to the ATNs on Audit Paras, and send these to the Board, through the DGIT (Admn.), for submission to the C&AG of India after necessary vetting and consideration in the Board.

3. Accountability

- 3.1 Furnishing of records to Revenue Audit: It has been noticed that, in spite of the existing Instruction Number 1071 dated 28/8/1977, records and the relevant registers are not being made available to RAP without adequate reasons, which,
 - (a) invites adverse comments from the Hon'ble Public Accounts Committee and the C&AG of India, and
 - (b) Results in loss of substantial revenue which could be collected on account of audit objection had the records been produced to the Audit in time. Henceforth, the CCs/ DGITs, through the CsIT concerned, shall ensure that,
 - (i) The relevant records are given to the officials of the C&AG on requisition, and that,
 - (ii) Wherever records are not given, without adequate reasons, explanation of the Officers /staff concerned is called and suitable action taken against the defaulting officers / staff.
- 3.2 Role of Supervisory Officers : In order to exercise an effective control with regard to timely and appropriate remedial action on audit objections, it has been decided that,
 - (a) In respect of audit objections involving revenue of Rs, 1,00,000/- or more in Income Tax / Corporate Tax cases and Rs. 30,000/- or more in other Direct Taxes cases, the Commissioners concerned shall be personally responsible for careful examination of



such objections and issue of Instructions to the A.Os on the appropriate remedial action to be taken within a month of the receipt of the Local Audit Report;

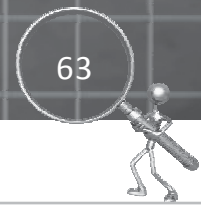
- (b) In respect of audit objections involving revenue below the limits prescribed in (a) above, the Commissioners should ensure that the Addl./ Jt. CIT Ranges issue similar Instructions to the AOs within the said period one month and,
- (c) The choice of such remedial action, whether under section 154 or 147 or 263, should be carefully considered in the light of existing legal provisions and its sustainability in appeal.

4. Remedial Action

- (i) An audit objection should be accepted and remedial action should be taken in a case where the audit objection relating to an error of facts or an issue of law is found to be correct.
- (ii) Even if objection is not accepted by the CIT remedial action should be initiated, as a precautionary measure, in respect of such audit objections, save as provided in para (v) below:
- (iii) Appropriate remedial action should be invariably be initiated within two month of the receipt of the Local Audit Report, and necessary orders should be passed within six months thereafter.
- (iv) Remedial action should invariably be initiated in respect of the following circumstances,
 - a) where an assessment u/s 143(1) was made and the objection pointed out by Audit could not have been considered under the provisions of section 143(1);
 - b) where the interpretation of fact or law by the audit is in conflict with any decision of a High Court (not being the jurisdictional High Court) which is squarely applicable to the facts of the case, or
 - c) where there are conflicting decisions of different High Courts (not being the jurisdictional High Court), or
 - d) where the matter involves interpretation of statute and there is no decision of any High Court on the matter.

However, in cases falling under (b), (c) & (d) above, the remedial action initiated can be dropped only with the prior approval of the Board. For this purpose, the CIT should immediately send a reference to the Board for decision, not later than three months from receipt of LAR by the CIT concerned, stating cogently therein the detailed reasons for consideration of the proposal for dropping of the remedial action initiated.

- (v) Remedial action need not be initiated in a case where,
 - (a) the CIT is of the view that the interpretation of fact or law by the audit is in conflict with a decision of the Supreme Court and the decision squarely applies to the facts of the case, or
 - (b) the CIT is of the view that the interpretation of fact or law by the audit is in conflict with a decision of the jurisdictional High Court, which is squarely applicable to the facts of the case and the operation of which has not been stayed by the Supreme Court, or



- (c) the CIT is of the view that the Assessing Officer has acted in conformity with Board's Instruction/Circular, or
- (d) the audit objection raised is on facts, and the CIT, after necessary verification, is of the opinion that the audit objection is factually incorrect.

However, considering that CCs / DGITs are the competent authority for accepting or contesting adverse judgments of High Courts, In respect of (a) and (b) above prior approval of the CCs/DGITs. concerned should be obtained for taking a decision for not initiating remedial action, and in respect of (c) above the matter should be referred to the relevant Divisions of the Board for examination and decision.

The CsIT should ensure that necessary reply/reference is sent to the AG (Audit) concerned/the Board within 8 month of the receipt of the Local Audit Report.

5. Second Appeal in Cases involving: Revenue Audit Objections:

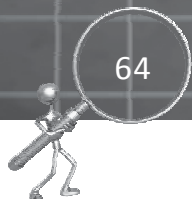
- I) Where a Revenue Audit objection has been accepted by the CIT or by the Ministry and an assessment has been framed in pursuance thereof, and the first appellate authority passes an order taking a view contrary to that of Audit, the adverse appellate order should be carefully scrutinized and appeal should be preferred if the order is not justified either in law or on facts;
- II) Where a Revenue Audit objection has not been accepted by the CIT or by the Ministry but an assessment has been framed in pursuance of the audit objection, an adverse appellate order by the first Appellate authority should be dealt with in the same manner as in the case of an objection accepted by the CIT and / or the Ministry till the AG/C&AG agrees with the views of the Department / Ministry:
- III) However, if it is proposed not to file second appeal, the CIT should record reasons as to why an appeal is not considered necessary despite the audit objection.

6. Draft Paras on Audit Objections – Proforma Report and Follow-up Action: In order to make the Proforma report more meaningful and effective with regard to control and accountability, the same has been modified and is enclosed as Annexure-I. Henceforth, all replied should be sent to Board in this modify format, with all column duly filled up & complete in all respects.

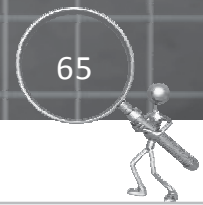
- I) The Proforma in Part A should be sent to the Board strictly within four weeks of the receipt of the Draft Para Key by the CCs (CCA), with a copy to the DIT (Audit); and
- II) The Proforma report in Part A should be sent to the DIT (Audit) within two months of the receipt of the Draft Para Key by the CCs (CCA), with a copy to the Board, to facilitate preparation of the Action Taken Notes (ATN).

7. **Explanation of Officers / staff concerned and disciplinary action:-** With a view to enforcing accountability, the CCIT/ DGIT concerned should ensure that the following procedure is strictly followed:

- 7.1 Ledger Card: The present system of maintaining Ledger Cards, as detailed in Chapter 5 of the Internal Audit manual, 2003 should be followed meticulously.



- (a) the ledger cards should be maintained by the CsIT concerned, and
 - (b) a quarterly report thereof should be sent to the CCs (CCA) [the CIT (Audit) in metropolitan charges], and,
 - (c) the CCs (CCA) [the CIT (Audit) in metropolitan charges] should maintain “ centralized data of the ledger Cards of his region;
- 7.2 Calling of Explanation & Action thereon: Explanation of the officer and staff concerned should invariably be obtained where the Revenue Audit objection, involving revenue of Rs 1,00,000/- or more in Income-tax / Corporate Tax and Rs. 30,000/- or more in other Direct Taxes, have been accepted, or the mistakes, inter alia, arise from any one or more of the following reasons:-
 - a) Failure to follow departmental instructions/circulars;
 - b) Failure to follow binding judicial decisions; and
 - c) Palpable mistakes on fact or law, or mistakes arising from gross negligence or malafide action.
- 7.3 Besides, explanation of the officer and staff concerned should be obtained,
 - a) in a case of default in adhering to the time limit prescribed for various actions mentioned in paras 2.3, 2.4, 2.5, 2.6, 3.2, 4(iii), 4(iv), 6(i) & 6 (ii) herein above, and,
 - b) where failure to take timely and appropriate remedial action in respect of objections raised by Revenue Audit leads to irretrievable loss of revenue.
- 7.4 Further, in cases of objections involving arithmetical inaccuracy in calculation or computation, the accountability of the dealing staff, besides that of the assessing officer, cannot be over-emphasized. Hence, if the mistake is, inter alia, on account of any one or more of the following reasons, the explanation of the staff responsible for the mistake should also be obtained,
 - (a) where an issue is considered / discussed in the body of assessment order, and necessary addition on the issue is directed to be made, or where a deduction is directed to be allowed by the assessing officer, but such directions are not taken into account at the time of calculation of tax, interest and surcharge;
 - (b) where there is totaling mistake in the computation of Income;
 - (c) where an income disclosed in the return is not included in the computation in the assessment order, except where the assessing officer has discussed in the body of assessment order and directed not to include it;
 - (d) where there is wrong calculation of tax including application of wrong rate of tax;
 - (e) where there is wrong calculation of interest including application of wrong rate of interest or wrong calculation of period for which interest is leviable;
 - (f) where any income is added in the computation of income more than once;
 - (g) where wrong set off of brought forward losses, unabsorbed depreciation, loss on long / short term capital gain etc. in the scrutiny/search assessments, not commented by the assessing officer in the assessment order, has been allowed;



- (h) where wrong verification of, failure to verify, the arrear demand before the issue of refund results in wrongful issue of refund;
 - (i) where credit of pre-paid taxes is wrongly allowed.
 - 7.5 However, where objections is against summary assessment u/s 143(1) and the objection pointed out by Audit could not have been considered at the time of summary assessment u/s 143(1), the explanation of the AO & staff should not be called for.
 - 7.6 Procedure for Appropriate Action against the erring officer / staff:
 - a) The CIT in whose charge the mistake has occurred [the CCIT concerned where the default in terms of 7.3 above is on part of the CIT] should call for the explanation of the officer / staff responsible for the mistake, and indicate whether the explanation is acceptable or not and as to whether the mistake was bonafide or otherwise:
 - b) After considering the explanation of the officer / staff concerned, where it is proposed that a simple warning should be issued, the final decision to give simple warning should be taken by the CIT in whose charge the mistake occurred but he should communicate his decision along with the facts of the case to the Commissioner under whom the officer / staff is working and the latter should administer the warning;
 - c) Where the mistake pointed out in the Revenue Audit Report objection is of a serious nature, which may call for penal action against the officer / staff concerned, the CIT in whose charge the mistake occurred (hereinafter referred as first CIT) shall, after considering the explanation of the officer / staff concerned, form a view in this regard in consultation with the CIT under whom the official is presently working. The first CIT shall accordingly recommend appropriate action in the case to the Member (A&J), through CCIT (CCA), for necessary examination in the Board. In case where the Member (A&J) decides that disciplinary proceedings needs to be initiated, the CCIT (CCA) concerned would then refer this to the appropriate Disciplinary Authority along with all material evidence relevant to the case.
 - 7.7 The DIT (Audit) would act as the field arm of the Board and monitor strict compliance with the above instructions, except that at para 7.6 above, and ensure that the action is taken to a logical conclusion.
 - 8. The above instructions would apply mutatis mutandis to the Revenue Audit's observations in cases covered in Systems Review so far as taking of remedial action, accountability measures and necessary action against the officer/staff responsible for the mistake is concerned.
 - 9. These instructions may be brought to the knowledge of all concerned for strict compliance.
- This issues with approval of the Board.



**INSTRUCTION NO.03 OF 2007
ON
NEW INTERNAL AUDIT SYSTEM**

Date of Issue: 16/4/2007

As a result of the mounting backlog of the auditable cases, the Chain Audit System for internal Audit introduced in F.Y. 2001-02 has come in for considerable criticism from the Public Accounts Committee and the C & AG of India, and the Central Vigilance Commission. With a view to have an effective and objective set up of Internal Audit wherein the assessment functions and audit functions are assigned to separate specialized wings, the Board have decided to abolish the Chain Audit System, as well as the Quality Audit System introduced in 2005, and substitute it with a new Internal Audit System. Accordingly, the following instruction is issued in supersession of all existing instructions on the subject.

- II. Structure of the Internal Audit Wing :** The organizational structure of the Internal Audit Wing shall be as under:
- i there shall be two CsIT(Audit) each in Mumbai, Delhi, Chennai & Kolkata under the direct administrative control & supervision of CCIT (CCA). They will be designated as CIT (Audit)-I and CIT (Audit)-II. The CCIT (CCA) shall make equal distribution of the audit work in respect of cases assessed under the Corporate and non-Corporate Charges, Central Charges, DGIT (Int. Taxation) and DGIT (Exemption) to the two CsIT(Audit);
 - ii there shall be one CIT(Audit) in the non-metro charges under the direct administrative control & supervision of CCIT(CCA), who shall be responsible for audit work pertaining to all the cases in that jurisdiction;
 - iii the CCIT(CCA) would not delegate the administrative control & supervision over the CsIT(Audit) to any other CCIT;
 - iv the CsIT(Audit) would have their headquarters at the same station as that of the CCIT(CCA);
 - v under each CIT(Audit) there shall be one Addl. CIT, who would be responsible for Internal Audit of bigger cases as per the norms laid down herein below, and for the supervision of the audit work of the Special Audit Parties (SAPs) headed by Dy./Asst/CsIT and the Internal Audit parties (IAPs) headed by the ITOs:
 - vi there shall be one SAP headed by Dy./Asst. CIT under each Addl. CIT (Audit), except at Guwahati, Lucknow, Nagpur and Kochi CCA charges where the IAPs will look after the functions of SAP;
 - vii there shall be one additional SAP headed by Dy./Asst.CIT under each Addl.CIT(Audit) at Delhi and Mumbai;
 - viii for each administrative CIT, there shall be one IAP headed by an ITO stationed at the headquarter of that CIT as per station wise list below. All IAPs thus constituted in CCIT (CCA) charge shall function under the administrative control of CIT(Audit);
 - ix there shall be one ITO(Hq.) assisted by one ITI and two Sr. TAs/TAs under each CIT(Audit) to take care of the Administrative matters and to co-ordinate and monitor the functioning of the SAPs and the IAPs. The CsIT (Audit) shall not delegate the administrative functions, including the HOO/DDO functions to the Addl. CIT (Audit):



- x there shall be one ITO(receipt Audit), with one ITI and two Sr. TAs/TAs, directly under each CIT(Audit) to look after the work of the Receipt/Revenue Audit;
- xi there shall be one ITO(IAP) each for International Taxation (including, Transfer Pricing) and Exemptions at stations where the Directorates of International Taxation, Transfer Pricing & Exemption are situated;
- xii there shall be one ITO, with two ITIs and two Sr. TAs/TAs, under each Addl. CIT(Audit);
- xiii there shall be two ITIs and one Sr. TA/TA in each SAP;
- xiv there shall be two ITIs and one Sr. TA/TA under each IAP;
- xv the deployment of officers and staff for each such IAP as in (viii) and (xiv) above shall be made from the existing strength of concerned CIT. If more than one TRO is posted in a CIT charge presently, one TRO along with supporting staff may be surrendered to be deployed for the IAP.
- xvi The CCIT (CCA), in consultation with the CCIT (Central) and/or other CCsIT/DGsIT concerned and the CIT (Audit), may deploy additional IAPs at the headquarter of CCIT(CCA) for the audit of cases assessed under the Central/ International Taxation / Exemption Charges depending upon the workload and norms/targets of audit.

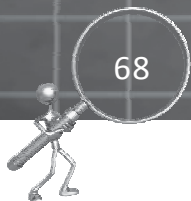
The distribution of newly sanctioned ITOs, ITIs and Sr. TAs/TAs at the headquarters of CIT (Audit) shall be as under:

Sl. No.	Designation	ITOs	ITIs	PA/Steno	Sr.TAs/TAs
1	CIT(Audit)	2	2	1	4
2	Addl.CIT(Audit)	1	2	1	2
3	Dy./Asst.CIT(SAP)	Nil	2	1	1
4	ITO(IAP)	1	2	--	1

This will deploy evenly the newly sanctioned posts of 22 CsIT (Audit), 22 Additional CsIT (Audit), 22 Dy./ACIT (SAP), 88 ITOs, 176 ITIs, 66 PAs/Stenographers, 176 Sr.TAs/TAs for the Internal Audit Wing. The hierarchy chart of Internal Audit set-up for metros and non-metros are given at Annexure-I and II.

The Station-wise Special Audit Parties / Internal Audit Parties are shown below:

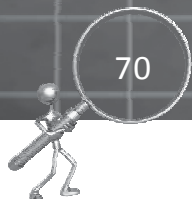
Sl. No.	Station	At CCIT (CCA) Hqrs.		At Field	Total	
		SAP	IAP		SAP	IAP
1.	Delhi	2+2	2	20	2+2	22
2.	Mumbai	2+2	2	34	2+2	36
3.	Kolkata	2	2	24	2	26
4.	Siliguri			1		1
5.	Durgapur			1		1
6.	Burdwan			1		1
7.	Asansol			1		1



8.	Jalpaiguri			1		1
9.	Chennai	2	2	12	2	14
10.	Coimbatore			3		3
11.	Salem			1		1
12.	Madurai			2		2
13.	Pondichery			1		1
14.	Trichy			2		2
15.	Hyderabad	1	1	7	1	8
16.	Vishakhapatnam			2		2
17.	Vijaywada			1		1
18.	Guntur			1		1
19.	Rajamundry			1		1
20.	Tirupati			1		1
21.	Patna	1	1	3	1	4
22.	Ranchi			1		1
23.	Dhanbad			1		1
24.	Muzaffarpur			1		1
25.	Bhagalpur			1		1
26.	Jamshedpur			1		1
27.	Hazaribagh			1		1
28.	Ahmedabad	1	1	9	1	10
29.	Surat			3		3
30.	Vadodara			4		4
31.	Rajkot			3		3
32.	Jamnagar			1		1
33.	Valsad			1		1
34.	Bangalore	1	1	6	1	7
35.	Mysore			1		1
36.	Hubli			1		1
37.	Panaji			1		1
38.	Belgaum			1		1
39.	Gulbarga			1		1
40.	Devangiri			1		1
41.	Mangalore			1		1
42.	Kochi		1	2	1	3
43.	Trivendrum			1		1
44.	Khozikode			1		1



45.	Kottayam			1		1
46.	Trichur			1		1
47.	Kannur			1		1
48.	Bhopal	1	1	1	1	2
49.	Raipur			1		1
50.	Bilaspur			1		1
51.	Jabalpur			2		2
52.	Ujjain			1		1
53.	Indore			2		2
54.	Gwalior			1		1
55.	Pune	1	1	6	1	7
56.	Thane			4		4
57.	Nasik			2		2
58.	Aurnagabad			1		1
59.	Kolhapur			2		2
60.	Nagpur		1	5	1	6
61.	Guwahati		1	2	1	3
62.	Shillong			1		1
63.	Dibrugarh			1		1
64.	Jorhat			1		1
65.	Chandigarh	1	1	2	1	3
66.	Patiala			1		1
67.	Shimla			1		1
68.	Panchkula			1		1
69.	Bhatinda			1		1
70.	Amritsar			2		2
71.	Jalandhar			2		2
72.	Jammu			1		1
73.	Karnal			1		1
74.	Hissar			1		1
75.	Rohtak			1		1
76.	Faridabad			1		1
77.	Ludhiana			1		1
78.	Bhubaneswar	1	1	1	1	2
79.	Kuttack			1		1
80.	Sambalpur			1		1
81.	Jaipur	1	1	4	1	5



82.	Kota			1		1
83.	Alwar			1		1
84.	Jodhpur			2		2
85.	Bikaner			1		1
86.	Udaipur			1		1
87.	Ajmer			1		1
88.	Lucknow		1	2	1	3
89.	Bareilly			1		1
90.	Moradabad			1		1
91.	Varanasi			1		1
92.	Gorakhpur			1		1
93.	Allahabad			1		1
94.	Faizabad			1		1
95.	Haldwani			1		1
96.	Kanpur	1	1	3	1	4
97.	Aligarh			1		1
98.	Dehradun			1		1
99.	Muzaffarnagar			1		1
100.	Meerut			1		1
101.	Ghaziabad			1		1
102.	Agra			2		2
	Total	22	22	250	22	272

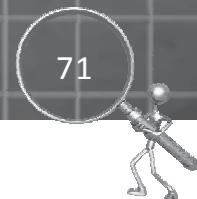
III Internal Audit – Auditable Cases : Norms and Targets

- i. The minimum number of cases to be audited by each Additional CIT, SAP or IAP in a year shall be as under:

Additional CIT : 50

SAP : 300

IAP : 600 (Corporate Cases); & 700 (Non-Corporate Cases)
- ii. The work load of auditable cases for internal audit shall be the number of cases selected by CCIT during the year keeping in view above norms and depending upon the manpower. The CCIT (CCA) and CsIT (Audit) shall draw an Action Plan for the year accordingly.
- iii. The norms of auditable cases for Internal Audit are as under:

**(A) For Additional CIT/Joint CIT (Audit)**

Sl. No.	Types of Cases	Corporate			Non- Corporate		
		Assessed Income/Loss, Amount of deduction/ Refund /TDS (In Rs. Crore)			Assessed Income/Loss, Amount deduction/ Refund /TDS (In Rs. Crore)		
		Delhi & Mumbai	Other Metros	Non-Metro	Delhi & Mumbai	Other Metros	Non-Metro
1	Asst. of Search & Seizure Cases	-	-	-	-	-	-
2	Asst. of Foreign Co. Cases	Above 25	Above 10	Above 5	Above 10	Above 5	Above 1
3	Asst. of non-S&S Cases	Above 25	Above 10	Above 5	Above 10	Above 5	Above 1
4	Scrutiny Asst. with claim of deduction u/s. 10A, 10B, 10C, 10(23C), 11, 32, 54 & Chapter VIA	Above 25	Above 10	Above 5	Above 10	Above 5	Above 1
5	Asst. of Cases of Other Taxes	Above 25	Above 10	Above 5	Above 10	Above 5	Above 1
6	TDS Cases	-	-	-	-	-	-

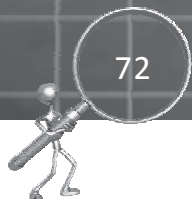
The cases to be audited by Additional CIT shall not be audited by SAP or IAP.

(B) For Dy./Asstt.CIT (Audit) - SAP

Sl. No.	Types of Cases	Corporate			Non- Corporate		
		Assessed Income/Loss, Amount of deduction/ Refund /TDS (In Rs. Crore)			Assessed Income/Loss, Amount deduction/ Refund /TDS (In Rs. Crore)		
		Delhi & Mumbai	Other Metros	Non-Metro	Delhi & Mumbai	Other Metros	Non-Metro
1	Asst. of Search & Seizure Cases	Above 25	Above 10	Above 1	Above 10	Above 1	Above 0.5
2	Asst. of Foreign Co. Cases	Above 10	Above 1	Above 1	Above 1	Above 1	Above 0.5
3	Asst. of non-S&S Cases	Above 10	Above 5	Above 1	Above 1	Above 1	Above 0.5
4	Scrutiny Asst. with claim of deduction u/s. 10A, 10B, 10C, 10(23C), 11, 32, 54 & Chapter VIA	Above 1	Above 1	Above 0.5	Above 1	Above 1	Above 0.25
5	Asst. of Cases of Other Taxes	Above 10	Above 5	Above 0.5	Above 1	Above 1	Above 0.5
6	Refunds (IT/CT)	Above 10	Above 5	Above 1	Above 1	Above 1	Above 0.5
7	TDS Cases	Above 25	Above 25	Above 10	Above 10	Above 10	Above 1

(C) For IAP (CENTRAL) : The norms shall be the same as for other (IAPs)

IAP Central will audit the cases in Central charges not taken up by Addl. CIT(Audit) and SAP.

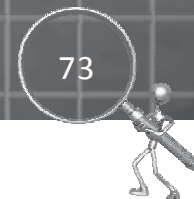


(D) For ITO (IAP)

Sl. No.	Types of Cases	Corporate			Non- Corporate		
		Assessed Income/Loss, Amount of deduction/ Refund /TDS (In Rs. Crore)			Assessed Income/Loss, Amount deduction/ Refund /TDS (In Rs. Crore)		
		Delhi & Mumbai	Other Metros	Non- Metro	Delhi & Mumbai	Other Metros	Non- Metro
1	Asst. of Search & Seizure Cases	-	-	-	-	-	-
2	Asst. of Foreign Co. Cases	Below 10	Below 1	Below 1	Below 1	Below 1	Below 0.5
3	Asst. of non-S&S Cases	Below 10	Below 5	Below 1	Below 1	Below 1	Below 0.5
4	Scrutiny Asst. with claim of deduction u/s. 10A, 10B, 10C, 10(23C), 11, 32, 54 & Chapter VIA	Below 1	Below 1	Below 0.5	Below 1	Below 1	Below 0.25
5	Asst. of Cases of Other Taxes	Below 10	Below 5	Below 0.5	Below 1	Below 1	Below 0.5
6	Refunds (IT/CT)	Below 10	Below 5	Below 1	Below 1	Below 1	Below 0.5
7	TDS Cases	Below 25	Below 25	Below 10	Below 10	Below 10	Below 1

Note : The other Metros include Chennai, Kolkata, Bangalore, Ahmedabad, Pune and Hyderabad.

- iv. The audit of returns processed summarily on AST may not be required.
- v. In respect of search and seizure cases, audit of the core search assessments shall be made.
- vi. In respect of the audit of non-core search and seizure cases, the criteria for non-search assessments shall apply.
- vii. For the purpose of audit of search & seizure assessments, the Appraisal reports shall be shown to SAP or IAP if so requisitioned.
- viii. While preparing the basket of auditable cases for SAP or IAP, it shall be ensured that at least top 100 cases of the charge are included in the basket. The remaining cases may be a representative mix of cases selected for scrutiny.
 - (a) under CASS,
 - (b) based on AIR inputs,
 - (c) by approval of CCIT, and
 - (d) cases of delayed refunds including defaults in granting interest.
- ix. CCIT (CCA) may relax the norms for audit by Additional CIT, SAP and / or IAP so as to ensure that number of auditable cases is not less than the number of cases to be audited by each as per target laid down in sub-para (i) above.
- x. With regard to e-TDS Returns, after the returns are processed, the Internal Audit Party will check all actions taken by the assessing officers. This would include checking of Interest charged as well as penalty notices issued and penalty levied under various provisions of the Income-tax Act, 1961.



IV. Role of Various Authorities:

1. Role of CCIT (CCA) : The CCIT (CCA) shall

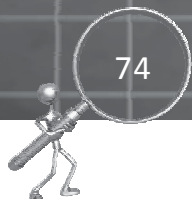
- (i) review the performance of Internal Audit Wing, at least quarterly;
- (ii) be responsible and accountable for effective functioning and performance of the Internal Audit Wing under CsIT (Audit);
- (iii) provide requisite infrastructure (adequate office space & furniture/fittings, PCs, telephone & fax, etc.) for Internal Audit Wing;
- (iv) ensure postings of competent officers & staff under the CsIT(Audit). The normal stay in Audit Wing shall be two years;
- (v) ensure, in co-ordination with the NADT / RTIs and MSTUs, that appropriate training is imparted to the officers and staff posted in the Internal Audit Wing, every year after the AGT;
- (vi) ensure that CDs and Journals on Case Laws, Circulars, Notifications and Instructions, and the Commentaries on the Tax Laws, are provided to the Addl./ Jt. CsIT Ranges and the Assessing Officers, as also the CsIT (Audit), and are regularly updated;
- (vii) ensure that the norms for Internal Audit are followed/implemented, and targets thereof, as well as the targets for Receipt Audit, are achieved;
- (viii) ensure that the necessary reports and statistics are sent to the Board / Directorates and the AGs;

2. Role of jurisdictional CCIT / DGIT :

In case there is a difference of opinion between concerned CIT(Admn.) and CIT (Audit), the CCIT/DGIT having administrative control over the CIT/DIT in whose charge an audit objection has been raised shall be the authority to decide whether an audit objection raised by an IAP is to be accepted or not.

3. Role of CsIT (Audit) : The CsIT (Audit) shall

- (i) have jurisdiction for Internal Audit in respect of cases assessed under CsIT assigned to him;
- (ii) Have administrative control over Additional CsIT (Audit), SAPs and IAPs;
- (iii) be responsible and accountable for effective functioning and performance of the Internal Audit Wing and, for this purpose, shall regularly review the work of IAP and SAPs;
- (iv) co-ordinate with the administrative CCsIT/DGsIT and CsIT/DsIT for preparation of the lists of auditable cases, timely production of records / registers to the Internal / Receipt Audit teams within the scheduled time frame, smooth conduct of audit and settlement of Internal, as well as Receipt Audit, objections and action to be taken against officers/ staff in respect of Internal Audit;
- (v) Maintain the Ledger Cards and the Registers in respect of Internal / Receipt Audit as

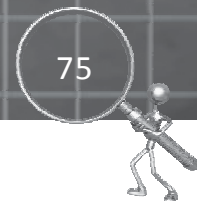


per guidelines given in this Internal Audit Manual, 2003, as amended from time to time, and ensure that these are maintained by the administrative CsIT;

- (vi) Draw action plan for Internal Audit for the year in consultation with CCIT/DGIT concerned with the approval of the CCIT(CCA);
- (vii) ensure that the norms for Internal Audit are followed / implemented, and targets thereof, as well as the targets for Receipt Audit, are achieved;
- (viii) ensure that the Internal audit of the auditable cases of a particular month are completed within 30 days, and the records / registers received with the list of auditable cases are handed over to the Addl. / Jt.CIT Range/the Assessing Officers within one week thereafter;
- (ix) ensure that the audit objection memos are sent to the administrative CsIT, with copies to the Addl. / Jt.CIT Range and AOs, within a week of Audit;
- (x) settle, with the administrative CIT concerned, the major Internal audit objections having tax effect above Rs. 1,00,000/- in IT / CT and Rs.30,000/- in Other Taxes, and ensure that the Addl.CIT (Audit) settles the internal audit objections involving tax effect below these limits with the Addl. / Jt.CIT Ranges concerned, with 4 months of sending audit memos to the CsIT;
- (xi) take measures to the effect that a uniform stand is taken by the officers in the Region on a issue / fact of law; and
- (xii) prepare and send the necessary reports and statistics to the Board / Directorates and the AGs.

4. Role of administrative CsIT / DsIT : The administrative CsIT/DsIT shall :

- (i) extend all cooperation to the CIT (Audit) for preparation of the list of auditable cases, production of records / registers to the Internal Audit within the scheduled time frame, conduct of audit by the Internal Audit and settlement of Internal, as well as Receipt Audit, objections and action to be taken against the officers / staff in respect of internal audit;
- (ii) Ensure maintenance of the Ledger Cards and the Registers, manual as well as in electronic media, as per guidelines given in the Internal Audit Manual, 2003, as amended from time to time;
- (iii) prepare and send the necessary reports and statistics to the CIT (Audit);
- (iv) ensure that the list of auditable cases (category wise) of a particular month are sent to the CIT (Audit) concerned by the 10th of the following month;
- (v) ensure that the relevant records / registers are produced before the Internal Audit along with the list of auditable cases, and wherever records etc. are not given to Internal Audit without adequate reasons, take suitable action against the officer / staff concerned under intimation to the CIT (Audit);
- (vi) ensure that the internal audit objections are examined in accordance with parameters laid down in paras V and VI below, and that remedial action in accepted cases are



initiated accordingly within a month of the receipt of the internal audit memos;

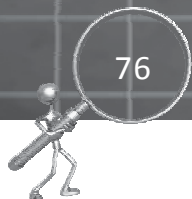
- (vii) Ensure that acceptance/non-acceptance of the internal audit objection is done with appropriate reasons and the details of remedial action initiated in accepted cases, is communicated to the CIT (Audit) within 3 months of receipt of the internal audit memos;
- (viii) settle, with CIT (Audit) concerned, the major internal audit objections having tax effect above Rs. 1,00,000/- in IT/CT and Rs. 30,000/- in Other Taxes, and ensure that the Addl./Jt.CIT Range settles the internal audit objections involving tax effect below these limits with the Addl.CIT (Audit), within 4 months of the receipt of the Internal Audit memos;
- (ix) In a case where there is dispute between the administrative CIT and the CIT (Audit) with regard to the settlement of the internal audit objection, and / or the remedial action taken, the administrative CIT shall report the matter, with full facts and reasons, to his / her jurisdictional CCIT, who shall take up the matter with the CIT (Audit), and the decision of the CCIT shall be final.

5. Role of Additional CsIT (Audit) : The Addl./Jt.CsIT (Audit) shall :-

- (i) have audit jurisdiction over cases pertaining to jurisdiction of CsIT assigned to him;
- (ii) have administrative control and supervision over the working of IAPs and SAPs;
- (iii) ensure the effective functioning of the IAPs and SAPs;
- (iv) submit monthly report to CIT (Audit) with regard to the work done by the IAPs and SAPs;
- (v) assist the CIT (Audit) in maintenance of Ledger Cards and Registers with regard to Internal/ Receipt Audit objections;
- (vi) coordinate with the concerned Addl.CIT/JCIT Range with regard to expeditious settlement of Internal Audit Objections involving tax effect below Rs. 1,00,000/- in IT/CT and Rs. 30,000/- in Other Taxes, within prescribed time limit;
- (vii) ensure that the norms of Internal Audit are followed/implemented and that the targets of Internal Audit are achieved; and ,
- (viii) assist the CIT (Audit) in ensuring proper maintenance of prescribed registers and timely submission of reports and statistics.

6. Role of Addl.CsIT/JCsIT (Assessment Range) :The Addl./Jt.CsIT (Audit) shall,

- (i) ensure that remedial action is taken within the prescribed time limits, and shall facilitate prompt recovery of tax;
- (ii) ensure that records requisitioned by the IAP/SAP are made available expeditiously;
- (iii) ensure that the AOs maintain the relevant records and registers with regard to Internal/ Receipt audit objections;
- (iv) ensure timely submission of reports relevant to the Audit set up;
- (v) ensure that cases selected for internal audit are audited by Internal audit before relevant case records are given to Receipt Audit.



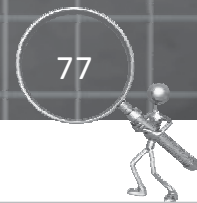
7. Role of DIT (Audit) :

The Director of Income Tax (Audit), through the DGIT (Admn.), shall continue to act as the field arm of the Board in respect of the Internal Audit functions of the Department. The functions of the DIT (Audit) shall, inter alia, include,

- (i) preparation of the National Action Plan Targets for Internal Audit Wing, both for Internal and Receipt Audit, for consideration of the Board for its inclusion in the Annual Central Action Plan,
- (ii) prescription of the norms for Internal Audit, keeping in view the increase in the tax base, focus area of the Department and other relevant factors as may be prescribed by the Board;
- (iii) monitor the functioning of the Internal Audit Wing;
- (iv) monitoring the settlement of major internal audit objections in accordance with the criteria and the time schedule;
- (v) carry out Inspection of the functioning of the Internal Audit Wing under the respective CCs(CCA), with the approval of the DGIT (Admn.), and submit report to the DGIT (Admn.) within a fortnight thereafter;
- (vi) collection and collation of information regarding critical areas where mistakes have been detected by Revenue Audit and Internal Audit;
- (vii) coordination with CIT (Audit) and Administrative CIT regarding maintenance of Ledger Cards, and Registers in respect of both the Internal Audit and Receipt Audit;
- (viii) preparation of updated 'Check Sheet' for Internal Audit, to be incorporated in the software subsequently and to be revised / updated every 3 years, and its circulation to the CCs(CCA)/CsIT(Audit);
- (ix) conduct Seminars/Workshops every year for the officers / staff posted in the Internal Audit Wing in co-ordination with the CCs(CCA)/CsIT(Audit) and ensure that similar training programmes are organized by the CCs(CCA)/CsIT (Audit) every year;
- (x) devise necessary reporting mechanism, and to prescribe the forms and registers in consultation with DIT (Systems) and DOMS;
- (xi) prepare Annual Report of Internal Audit Functions of the Department, incorporating the highlights gathered through Inspections and Performance Audit, and submit the Annual Report to the Board by 30th June every year.

V. Timely and appropriate action: With regard to remedial action on the internal audit objections,

- (i) in respect of audit objections involving revenue of Rs. 1,00,000/- or more in Income Tax / Corporate Tax cases and Rs. 30,000/- or more in other Direct Taxes cases, the Commissioners concerned shall be personally responsible for careful examination of such objections and issue of instructions to the A.O.s on the appropriate remedial action to be taken within a month of the receipt of the Internal audit objections memo;



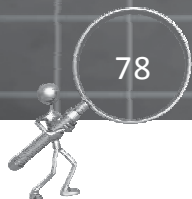
- (ii) in respect of audit objections involving revenue below the limits prescribed in (a) above, the Commissioners should ensure that the Addl. / Jt.CsIT Ranges issue similar instructions to the AOs within the said period of one month; and,
- (iii) the choice of such remedial action, whether under section 154 or 147 or 263, should be carefully considered in the light of existing legal provisions and its sustainability in appeal.

VI. Remedial Action:

- (i) An Audit objection should be accepted and remedial action should be taken in a case where the audit objection relating to an error of facts or an issue of law is found to be correct;
- (ii) Even if objection is not accepted by the CIT, remedial action should be initiated, as a precautionary measure, in respect of such audit objections pending final settlement with the CIT (Audit) / the decision of the CCIT concerned, except where
 - (a) the CIT is of the view that the interpretation of fact or law by the Internal Audit is in conflict with a decision of the Supreme Court and the decision squarely applies to the facts of the case, or
 - (b) the CIT is of the view that the interpretation of fact or law by the Internal Audit is in conflict with a decision of the jurisdictional High Court, which is squarely applicable to the facts of the case and the operation of which has not been stayed by the Supreme Court, or
 - (c) the CIT is of the view that the Assessing Officer has acted in conformity with Board's Instruction/Circular, or
 - (d) the audit objection raised is on facts, and the CIT, after necessary verification, is of the opinion that the audit objection is factually incorrect.
- (iv) Appropriate remedial action should invariably be initiated within one month of the receipt of the internal audit objection memos, except for in circumstances mentioned in sub-paras (ii) a,b,c & d above.

VII. Calling of Explanation & Action thereon:

- (i) Explanation of the officer and staff concerned should invariably be obtained where the Internal Audit objection, involving revenue of Rs. 1,00,000/- or more in Income-Tax / Corporate Tax and Rs. 30,000/- or more in other Direct Taxes, have been accepted, or the mistakes, inter alia, arise from any one or more of the following reasons :-
 - (a) failure to follow departmental instructions/circulars;
 - (b) failure to follow binding judicial decisions; and;
 - (c) palpable mistakes on fact or law, or mistakes arising from gross negligence or malafide action.
- (ii) Besides, explanation of the officer and staff concerned should be obtained,

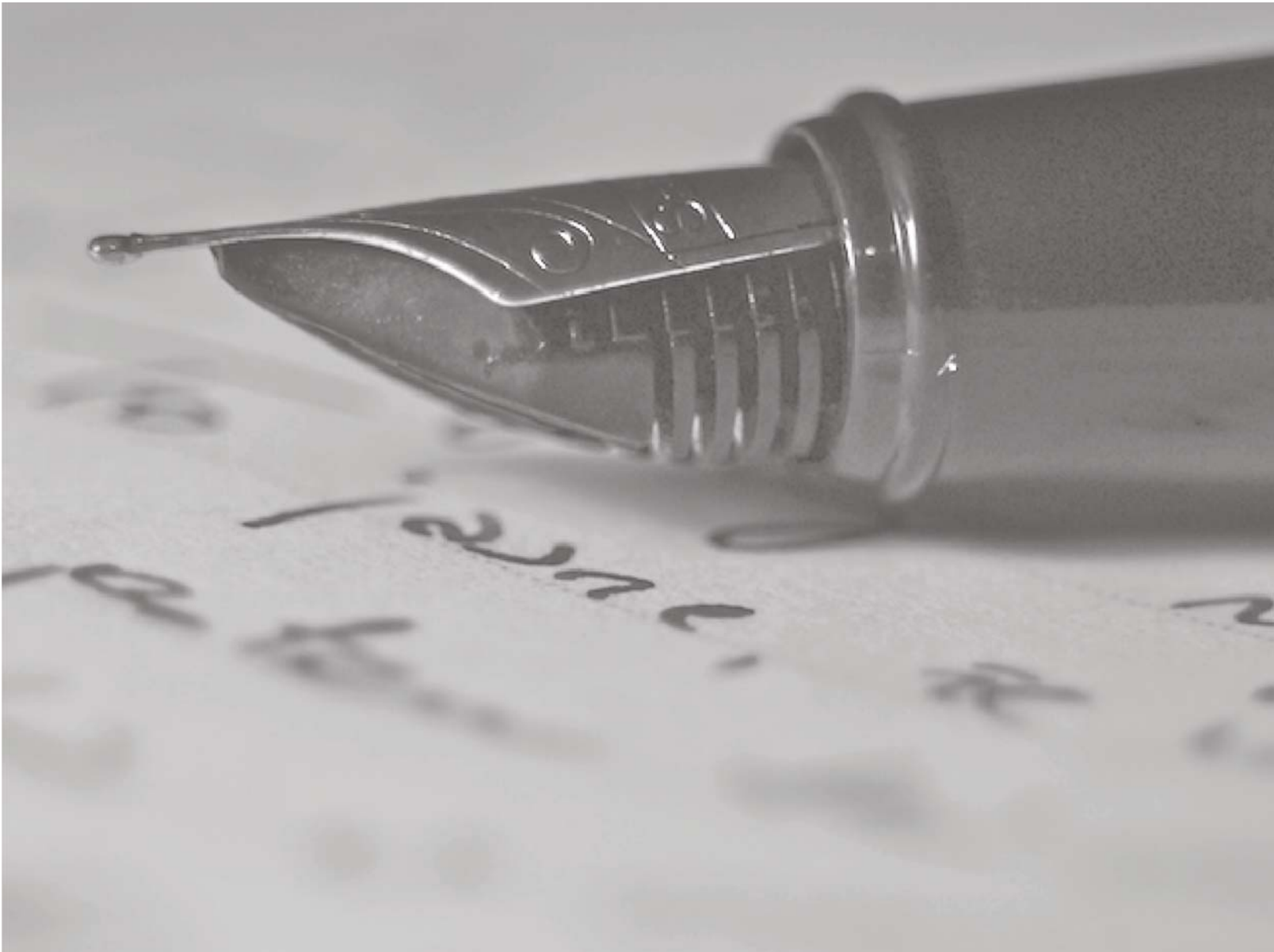


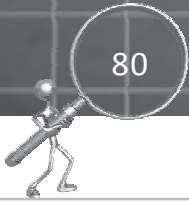
- (a) in a case of default in adhering to the time limit prescribed or other defaults in complying with requirements mentioned in para IV,
 - (b) where failure to take timely and appropriate remedial action in respect of objections raised by Internal Audit leads to irretrievable loss of revenue.
 - (iii) Further, in cases of objections involving arithmetical inaccuracy in calculation or computation, the accountability of the dealing staff, besides that of the assessing officer, cannot be over-emphasized. Hence, if the mistake is, inter alia, on account of any one or more of the following reasons, the explanation of the staff responsible for the mistake should invariably be obtained,
 - (a) where an issue is considered/discussed in the body of assessment order, and necessary addition on the issue is directed to be made, or where a deduction is directed to be allowed by the assessing officer, but such directions are not taken into account at the time of calculation of tax, interest and surcharge;
 - (b) where there is totaling mistake in the computation of income;
 - (c) where an income disclosed in the return is not included in the computation in the assessment order, except where the assessing officer has discussed in the body of assessment order and directed not to include it;
 - (d) where there is wrong calculation of tax including application or wrong rate of tax;
 - (e) where there is wrong calculation of interest including application of wrong rate of interest or wrong calculation of period for which interest is leviable;
 - (f) where any income is added in the computation of income more than once;
 - (g) where wrong set off of brought forward losses, unabsorbed depreciation, loss on long/short term capital gain etc. in the scrutiny/search assessments, not commented by the assessing officer in the assessment order, has been allowed;
 - (h) where wrong verification of, or failure to verify, the arrear demand before the issue of refund results in wrongful issue of refund;
 - (i) where credit of pre-paid taxes is wrongly allowed.
 - (v) The procedure outlined at para 7.6 of the Instruction No. 09 of 2006 shall apply mutatis mutandis to the major objections raised by the Internal Audit.
- VIII. **Scope of Internal Audit :** Besides the parameters mentioned above, the scope of Internal Audit would continue to be guided by para 2.2 Chapter - 2 of the Internal Audit Manual, 2003 as amended time to time.



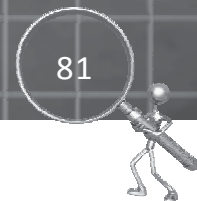
SECTION-IV

PROFORMAE OF STATEMENTS AND REPORTS





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PROFORMAE OF STATEMENTS AND REPORTS

AUDIT STATEMENT NO. 1

Due date in Directorate of Income – tax (Audit), New Delhi's office
20th of month of the following quarter.

CIT (Audit) Charge

INTERNAL AUDIT – QUARTERLY PROGRESS REPORT FOR THE QUARTER ENDING

Part-A Administrative

S. No.	Particulars	No. sanctioned	No. working
1	Addl./JCIT (Audit)		
2	SAPs		
3	IAPs		

Part-B Performance of audit wing vis-à-vis Action Plan Target

S. No.	Particulars	Addl./JCIT (Audit)	Special Audit Parties (SAPs)	Internal Audit Parties (IAPs)
1	Action Plan target for the year			
2	Action Plan target for the quarter if any			
3	No. of cases audited during the quarter by IAPs			
4.	No. of cases audited upto the quarter end			

Part-C Addl. CIT (Audit)/JCIT (Audit)

1. Audit Objection (above Rs 1 Lakh in Income-tax and above Rs. 30,000 in other taxes)
raised by Addl./JCIT (Audit) and their settlement (all taxes)

S.No.	Particulars	Arrear Audit Objection		Current Audit Objection		Total	
		No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)
1	Pending as on 1 st April						
2	Objection raised in the quarter						
3.	Objection raised in current year upto quarter end						
4	Total for disposal upto quarter end (1+3)						
5	Objection settled during the qtr						



6	Objection settled upto qtr end.						
7	Balance (4-6)						

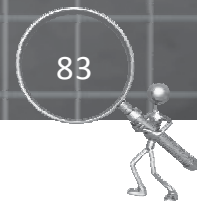
**II. Audit Objection (Below Rs 1 Lakh in Income-tax and above Rs. 30,000 in other taxes)
raised by Add./JCIT (Audit) and their settlement (all taxes)**

S.No.	Particulars	Arrear Audit Objection		Current Audit Objection		Total	
		No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)
1	Pending as on 1 st April						
2	Objection raised in the quarter						
3.	Objection raised in current year upto quarter end						
4	Total for disposal upto quarter end (1+3)						
5	Objection settled during the qtr						
6	Objection settled upto qtr end.						
7	Balance (4-6)						

Part-D Special Audit Parties (SAP)

**I. Audit Objection (above Rs 1 Lakh in Income-tax and above Rs. 30,000 in other taxes)
raised by SAP and their settlement (all taxes)**

S.No.	Particulars	Arrear Audit Objection		Current Audit Objection		Total	
		No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)
1	Pending as on 1 st April						
2	Objection raised in the quarter						
3.	Objection raised in current year upto quarter end						
4	Total for disposal upto quarter end (1+3)						
5	Objection settled during the qtr						
6	Objection settled upto qtr end.						
7	Balance (4-6)						



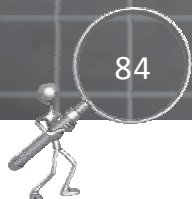
**II. Audit Objection (Below Rs 1 Lakh in Income-tax and above Rs. 30,000 in other taxes)
raised by SAP and their settlement (all taxes)**

S.No.	Particulars	Arrear Audit Objection		Current Audit Objection		Total	
		No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)
1	Pending as on 1 st April						
2	Objection raised in the quarter						
3.	Objection raised in current year upto quarter end						
4	Total for disposal upto quarter end (1+3)						
5	Objection settled during the qtr						
6	Objection settled upto qtr end.						
7	Balance (4-6)						

Part-E Internal Audit Parties (IAP)

**I. Audit Objection (above Rs 1 Lakh in Income-tax and above Rs. 30,000 in other taxes)
raised by IAP and their settlement (all taxes)**

S.No.	Particulars	Arrear Audit Objection		Current Audit Objection		Total	
		No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)
1	Pending as on 1 st April						
2	Objection raised in the quarter						
3.	Objection raised in current year upto quarter end						
4	Total for disposal upto quarter end (1+3)						
5	Objection settled during the qtr						
6	Objection settled upto qtr end.						
7	Balance (4-6)						



**II. Audit Objection (Below Rs 1 Lakh in Income-tax and above Rs. 30,000 in other taxes)
raised by IAP and their settlement (all taxes)**

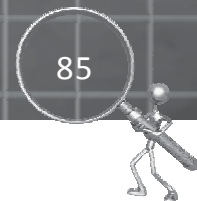
S.No.	Particulars	Arrear Audit Objection		Current Audit Objection		Total	
		No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)
1	Pending as on 1 st April						
2	Objection raised in the quarter						
3.	Objection raised in current year upto quarter end						
4	Total for disposal upto quarter end (1+3)						
5	Objection settled during the qtr						
6	Objection settled upto qtr end.						
7	Balance (4-6)						

Part-F Audit Objection of previous year

S.No.	Audit objection of previous year pending for settlement	No. of objection (Rs. In lakhs)	Revenue effect
1	2010-2011		
2	2009-2010		
3	2008-2009 and earlier year		

.....
CIT (Audit)

Note: The financial year mentioned in various columns may be changed accordingly as per the year of reporting.



AUDIT STATEMENT NO. II

Due date in Directorate of Income – tax (Audit), New Delhi's office
20th of month of the following quarter.

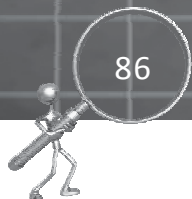
CIT (Audit) Charge

QUARTERLY RECEIPT AUDIT REPORT FOR THE QUARTER ENDING

Part –A Revenue Audit Objection Rs. 1 Lakh in Income-tax and above Rs. 30,000 in other taxes

S.No.	Particulars	Arrear Audit Objection		Current Audit Objection		Total	
		No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)
1	Pending as on 1 st April						
2	Additional during the quarter						
3.	Additional upto quarter end						
4	Total for disposal upto quarter end (1+3)						
5	Objection settled during the qtr						
6	Objection settled upto qtr end.						
7	Balance (4-6)						

8. Year-wise analysis of Pendency of audit objection No. of objection Revenue effect (Rs. In lakhs)
 - (a) 2010-2011
 - (b) 2009-2010
 - (c) 2008-2009 and earlier year
9. Analysis of pending arrear objections.
 - a) Not accepted but yet to be dropped by AG
 - b) Pending with CBDT
 - c) Accepted but remedial action pending
 - d) Pending for other reasons.



Part –B Revenue Audit Objection Rs. 1 Lakh in Income-tax and below Rs. 30,000 in other taxes

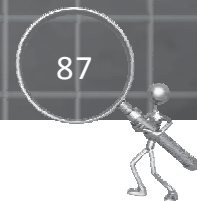
S.No.	Particulars	Arrear Audit Objection		Current Audit Objection		Total	
		No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)	No. of Mistakes	Revenue effect (Rs. In lakh)
1	Pending as on 1 st April						
2	Additional during the quarter						
3.	Additional upto quarter end						
4	Total for disposal upto quarter end (1+3)						
5	Objection settled during the qtr						
6	Objection settled upto qtr end.						
7	Balance (4-6)						

8. Year-wise analysis of Pendency of audit objection No. of objection Revenue effect (Rs. In lakhs)
- (a) 2010-2011
- (b) 2009-2010
- (c) 2008-2009 and earlier year
9. Analysis of pending arrear objections.
- a) Not accepted but yet to be dropped by AG
- b) Pending with CBDT
- c) Accepted but remedial action pending
- d) Pending for other reasons.

.....

CIT (Audit)

Note: The financial year mentioned in various columns may be changed accordingly as per the year of reporting.

**AUDIT STATEMENT NO. III**

Due date in Directorate of Income – tax (Audit), New Delhi's office
20th of month of the following quarter.

CIT (Audit) Charge

INTERNAL AUDIT – ANNUAL INTERNAL AUDIT REPORT FOR THE YEAR ENDING**Part –A Internal Audit Personal**

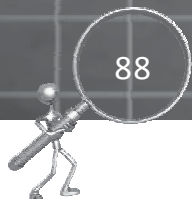
S.No.	Particulars	Sanctioned Strength	Working Strength
1	Addl.CIT/JCIT (Audit)		
2	DCIT /ACIT (Audit-SAP)		
3	ITO (Audit-IAP)		
4	ITO (Audit – Hqrs)		
5	ITI		
6	PAs / Stenographer		
7	Sr TAs/TAs		

Part –B Workload of auditable cases and their disposal by Addl. CIT /JCIT (Audit), SAPs and IAPs**I Output of Addl. CIT/JCIT (Audit)**

S.No.	Particulars	No. of cases
1	Prescribed Workload as per Action Plan	
2	Actual output	
3	Reasons for shortfall in output if any	
4	Comments of CIT (Audit)	

II Output of SAP

S.No.	Particulars	No. of cases
1	Prescribed Workload as per Action Plan	
2	Actual output	
3	Reasons for shortfall in output if any	
4	Comments of CIT (Audit)	



III Output of IAP

S.No.	Particulars	No. of cases
1	Prescribed Workload as per Action Plan	
2	Actual output	
3	Reasons for shortfall in output if any	
4	Comments of CIT (Audit)	

Part-C Quality Audit Objection raised during the year which can be included in the “Annual Internal Audit Review Manual” (Minimum 10 cases are required to be sent the following proforma)

S.No	Auditing CIT (A)	Jurisdiction CIT	Name of the Assessee /cases	A.Y.	Returned Income/ Assessed Income (Amt. in lakh)	Gist of Objection	Income /loss detected by Audit in Rs. Lakh	Tax effect Approx. in Rs. lakh
1	2	3	4	5	6	7	8	9

.....
CIT (Audit)

Annexure-I

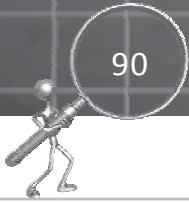
PROFORMA REPORT ON THE DRAFT AUDIT PARA No. _____
PROPOSED TO BE INCLUDED IN THE AUDIT REPORT BY THE C&AG FOR THE YEAR

Board's reference calling for the report No. _____

Dated _____

PART 'A'

1. (a) Name of the assessee :
- (b) CIT's Charge :
2. (a) Assessment year(s) to which the audit objection relates :
- (b) Accounting year of the assessee :
- (c) Date of filing of return (where relevant) :
- (d) Date of assessment/ other order (if any) and section under which the assessment/ other order was made :
- (e) Total Income/Net Wealth Returned(where applicable)
- (f) Total Income/Net Wealth Assessed (where applicable)
- (g) Demand raised on original assessment or Demand as per any other order which is subjected to audit (Both gross demand and net demand after adjustment of pre-paid taxes may be indicated) :
- (h) Amount of revenue mentioned in the draft audit para :
3. (a) Gist of the audit objection :
- (b) C.I.T.'s comments :
- (i) If the facts stated by Audit are not correct, full & correct facts must be stated :
- (ii) Reasons for acceptance or non-acceptance must invariably be given :
- (iii) If the objection is acceptable, the circumstances in which the mistake occurred must be stated :
4. (a) Was the issue raised by Audit in the knowledge of AO or was it brought to the notice of the AO by the assessee in any rectification/revision/appeal proceedings ?
If so, was the Audit informed at the Half margin stage ?



5.
 - (a) Date of issue of notice initiating remedial action and the section under which issued ?
 - (b) If remedial action has become time barred, did it get barred by limitation before or after the receipt of the audit objection ?
 - (c) Date of order revising the assessment(s)/ other order(s)
 - (d) Amount of additional demand raised ascribable to Audit objection or amount of refund allowed/adjusted
 - (e) If no remedial action is taken, give reasons
 - (f) Has any appeal been filed against the order revising the assessment or other order giving effect to audit objection ? If so, state the out come thereof.
 - (g) Whether the additional demand has been recovered ?
If so, date of collection.
 - (h) If not recovered, the reasons for non-recovery.
6. If the amount of revenue mentioned by the Audit is not correct, give reasons. (If the Variation is due to Variation of the total income after receipt of audit objection on account of appeal, revision etc., the same should be clearly indicated.)

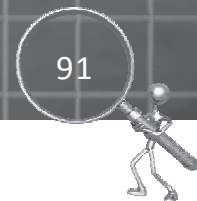
RECEIPT OF DRAFT AUDIT PARA FROM BOARD

DATE

PROFORMA REPORT SENT TO BOARD

DATE

COMMISSIONER OF INCOME-TAX



PROFORMA REPORT ON THE DRAFT AUDIT PARA No. _____
PROPOSED TO BE INCLUDED IN THE AUDIT REPORT BY THE C&AG FOR THE
YEAR _____ Board's reference calling for the report No. _____

Dated _____

PART 'B'

1. (a) Name of the assessee :
- (b) Assessment year(s) to which the audit objection relates :
2. General remedial measure taken to avoid recurrence of such mistakes in future
3. Whether the case was reviewed for similar mistakes in earlier and later years ?
4. Is there any implication under the other Direct Tax Laws ? If so, whether appropriate action has been taken ?
5. (a) Whether the additional demand has been recovered? If so, date of collection.
- (b) If not recovered, the reasons for non-recovery?
- (c) Has any appeal been filed against the order revising the assessment or other order giving effect to audit objection? If so, state the out come thereof.
6. (a) If the objection is accepted, Name of the AO and staff who is responsible for the mistake.
- (b) Name of the Range Addl./ JCIT if he had approved the order, was the case to be otherwise checked by Range Addl./JCIT.
- (c) Date on which explanation of officer / Staff was called for as per Board's Instruction.
- (d) Date of receipt of the explanation of officer / staff
- (e) If the objection has been accepted, the gist of explanation of the assessing officer (a copy of AO's explanation should be enclosed)
- (f) CIT's opinion indicating whether the mistake was bonafide or otherwise.
- (g) Previous history of the officer's / staff's other mistakes and consequential action against the Officer / staff (enclosed copy of ledger card)



- (h) Does the case require further looking into from the vigilance angle? If so, state what action is being taken?
7. If remedial action got barred by limitation, whether responsibility has been fixed and what action has been taken against the officer and / or staff responsible for the mistake.
8. If there has been delay in sending reply, if reply has not been sent, after receipt of LAR, reasons thereof and action taken against the officer / staff concerned.
9. (a) Whether the case was earlier checked by the Auditing Officer?
- (b) If not, the reasons thereof.
- (c) (i) If the mistake was not detected by the Auditing Officer, whether necessary Explanation was called for?
- (ii) CIT's comments thereon.

(Name)

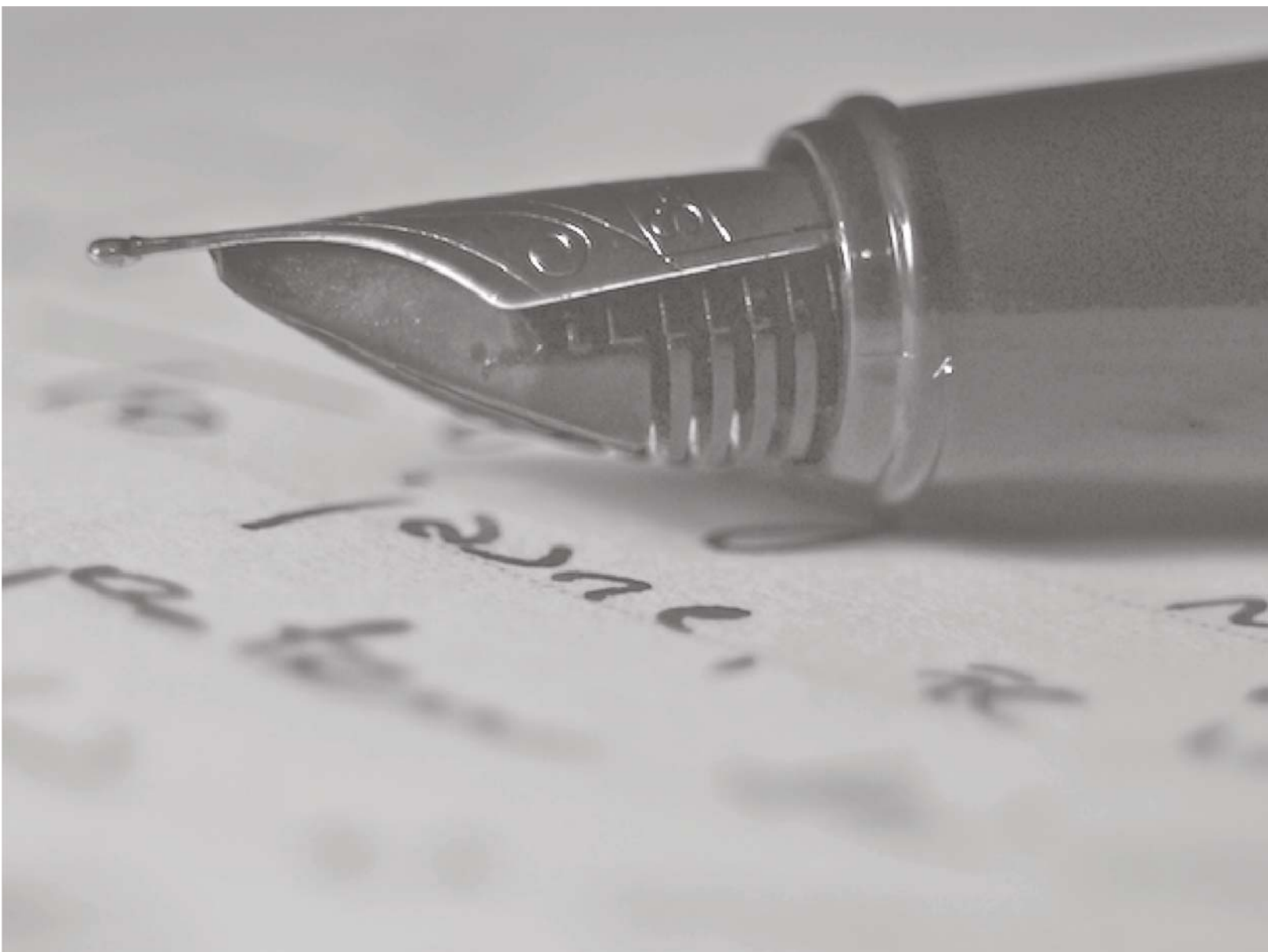
COMMISSIONER OF INCOME-TAX

DATE:

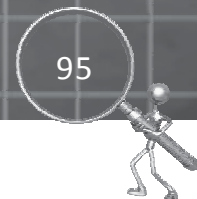


SECTION-V

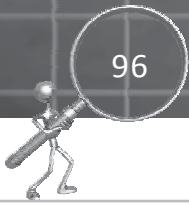
AUDIT CHECK SHEET





**A PRELIMINARY CHECK:**

1. Whether all disallowances discussed in the body of the assessment order have been taken into account in the computation of total income?
2. Whether there are any arithmetical inaccuracies and transcription errors.
3. In loss cases, whether disallowances have been reduced from the loss as per books?
4. Whether total amounts proposed to be considered separately in the body of the assessment order have been added back to the returned income in the computation of total income?
5. Has mandatory interest under sections 234-A, 234-B, 234-C and 234-D been charged correctly with reference to period of default?
6. Whether, in a case of reassessment or recomputation of income under section 147/ section 153A, interest u/s. 234-B has been calculated up to the date of reassessment or recomputation?
7. Whether Residential Status of the assessee has been correctly determined?
8. Whether the total income of the assessee has been computed correctly having regard to his residential status?
9. Whether details of b/f losses have been verified from records?
10. Whether the rate of tax has been applied correctly? Whether surcharge and/ or education cess, if leviable, has been added to the tax on the total income determined on assessment (including a case of Block Assessment)?
11. Whether, in the case of a domestic company, tax on distributed profits has been charged in accordance with the provisions of section 115-O?
12. Whether interest on refund, if any received in the previous year is shown in the taxable income?
13. Whether MAT has been correctly computed and paid, wherever required, to be law?
14. Whether appeal effect has been given on time?
15. Whether interest on refunds has been correctly calculated?
16. Whether the assessee is liable to pay WT/FTT/STT/BCTT? If yes, whether the same has been paid?
17. Whether the return of income/loss has been signed by the authorized person as per section 140?
18. Where a revised return has been filed u/s. 139(5), whether the original return had been furnished within the time prescribed u/s. 139(1) or pursuant of a notice issued u/s. 142(1)? If not, whether the revised return has been treated a valid return and acted upon?
19. (a) Whether the return is a defective return within the meaning of section 139(9)?
(b) Whether an intimation conveying the defects in the Return was issued to the assessee? Whether the assessee has rectified the defects within the specified period of 15 days from the date of the intimation or within such further period as was allowed? If not, whether the Return has been treated as a valid Return?



20. Whether the A.O. has called for and placed on record the documents, copies of accounts or forms or reports of audit required to be attached with the return of income after issuing notice u/s. 143(2) of the Act?

B. CHECK FOR e-FILED RETURNS

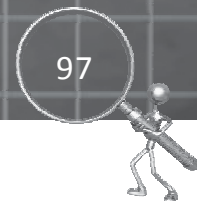
Points to be seen by Audit after introduction of e-filing of annexureless returns:

1. In case of a corporate return, whether the return has been filed electronically from the assessment year 2006-07 onwards?
2. In case of a firm covered by section 44 AB, whether the return has been filed electronically from A.Y. 2007-08 onwards?
3. In case of a non-digitally signed return, whether the assessee has filed the verification in form ITR-V in respect of assessment years 2007-08 onwards?
4. If date of filing of return is taken as date of uploading of data, whether ITR-V was filed within 15 days of uploading of data? If not, the date of filing of ITR-V has to be taken as the date of filing of return.
5. Whether the cheques printed & then cancelled have been retained by the AO? The AO should retain the cancelled cheques for verification by the Audit Party?
6. Whether the TDS credit has been given as per the instructions issued by the CBDT from time to time?
7. Whether the demand notice after processing of return has been served on the assessee?
8. Whether the AO has called for and placed on record the documents, copies of accounts or forms or reports of audit required to be attached with the return of income or the return of fringe benefits under any of the provisions of the Act after issuing notice u/s 143(2) of the Act?
9. Whether credit for TDS given on processing of return matches with the claim made by the assessee?
10. Whether the name of the assessee tallies with the name in the PAN database? Whether PAN database has been updated so as to incorporate the latest address of the assessee?

C. INCOMES WHICH DO NOT FORM PART OF TOTAL INCOME

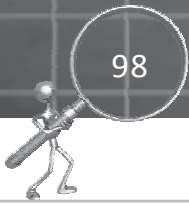
C. 1 SECTION 10

1. In the case of an assessee claiming exemption u/s. 10(5) in respect of leave travel concession received from his employer,
 - (a) Whether exemption has been claimed for more than two journeys in a block of 4 calendar years?
 - (b) Whether exemption has been restricted to the actual expenditure incurred?
 - (c) Whether exemption has been claimed in respect of more than two children?
 - (d) Whether leave travel concession/assistance in respect of parents, brothers and sisters not wholly or mainly dependent on the assessee has been included in the total income? Whether exemption



has been allowed in respect of such concession/assistance?

2. Whether exemption u/s. 10(10D) has been claimed in respect of:
 - (a) any sum referred to in section 80DD(3) or 80DDA(3) or under a keyman insurance policy?
 - (b) a sum received in respect of a policy issued on or after 1.4.03 where premium paid in any year during the term of the policy exceeds 20% of the actual sum assured (except in the case of death of the person covered by the policy)?
3. Whether exemption u/s. 10(20) has been claimed in respect of income of a local authority arising from the business of supply of any commodity or service (other than water and electricity) outside its own jurisdiction?
4. Whether, in the case of a claim for exemption u/s 10(21) in respect of the income of a Scientific Research Association,
 - (a) return of income has been filed under clause (a) of subsection (4C) of section 139 of the I.T. Act?
 - (b) the Association is approved u/s. 35(1) (ii) of the Act?
 - (c) the Association has applied at least 85% of its income for the objects for which the Association has been established or accumulated it for application for such objects in accordance with the prescribed procedure?
 - (d) it has invested or deposited its funds during the previous year otherwise than in any one or more of forms/modes specified in section 11(5) of the Act (subject to the exceptions provided)?
 - (e) exemption is restricted, insofar as it relates to profits and gains of business, to a business which is incidental to the objectives of the Association provided separate books of account are maintained for such business?
5. Whether, in the case of a claim for exemption u/s. 10 (23A) in respect of the income of a Professional Institution,
 - (a) return of income has been filed under clause (c) of subsection (4C) of section 139 of the I.T. Act?
 - (b) the institution is approved by the Central Government by general or special order?
 - (c) the institution has applied or accumulated its income solely for the object of control, supervision, regulation or encouragement of the notified/specified profession?
 - (d) exemption has been claimed in respect of income chargeable under the head "income from house property" or any income received for rendering any specific services or income by way of interest or dividends?
6. Whether, in the case of a claim for exemption u/s. 10 (23C) in respect of the income of an educational/ medical institution,
 - (a) the institution exists solely for educational/medical purpose and not for purpose of profit?
 - (b) the institution is wholly or substantially financed by the Government or its aggregate annual receipt do not exceed the prescribed amount or it is approved by the prescribed authority?



- (c) Its income is applied or accumulated (for not more than 5 years) for the objects for which the institution is established in accordance with the prescribed procedure?
- (d) Its funds are invested (except in specified circumstances) in any one or more of the forms or modes specified in subsection (5) of section 11?
- (e) the accounts of the institutions have been audited, whenever necessary as per the provisions of law?
- (f) the Institution has made any payment, from out of its accumulated funds, to any Trust or Institution registered u/s. 12AA or referred to in sub clauses (iv) to (via) and whether such payments have been treated as application of income for the objects of the Institution?
- (g) in case of any anonymous donations, whether the same have been dealt with in accordance with the provisions of section 115 BBC?

7. Whether exemption u/s. 10 (34) has been claimed in respect of the dividends declared by a company which is not domestic company?

C.2 SECTION 10A:

1. Whether the undertaking is new i.e. not formed by splitting / reconstruction of a business already in existence or by transfer of machinery previously used in India?
2. Whether Auditor's Report in prescribed form has been filed?
3. Whether the transactions of the eligible undertaking with other persons (including any other business of the assessee itself) have been conducted at arm's length price? If not, whether provisions of subsections (8) & (10) of section 801A have been invoked?
4. Whether the assessment year falls within the specified period for which the claim can be made?
5. Where exemption u/s 10A has been claimed for assessment year 2006-07 or a subsequent assessment year, whether the return has been filed on or before the due date as per section 139(I)?
6. Whether the activities of the undertaking amount to manufacture or production of articles or things or computer software (with particular reference to Explanation 2)?
7. Whether the profits and gains in respect of which exemption has been claimed can be said to have been derived from the export of articles or things or computer software?
8. Whether the amount claimed as exempt has been worked out correctly in accordance with the provisions of section 10A?
9. Whether the assessee has exercised an option under sub-section (8) not to claim exemption u/s 10A for any assessment year?
10. Whether the undertaking is located in a free trade zone, electronic hardware / software technology park or special economic zone as defined in Explanation 2?
11. Whether sale proceeds of export have been received in convertible foreign exchange within the specified time and in accordance with the specified procedure?



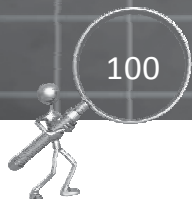
12. Whether, in respect of a claim for an undertaking in a special economics zone which has commenced production on or after 1.4.2003, quantum / admissibility of exemption has been determined in accordance with sub-section (IA) & (IB) of section 10A?
13. Whether amounts credited to Reserve Account in the earlier years for availing of the exemption under clause (ii) of sub-section (IA) of section 10A have been utilized for specified purposes within the stipulated time frame? If not, whether such amounts have been brought to tax?
14. Whether, in any assessment year after the end of the period for which exemption u/s. 10A was admissible, set off has been claimed for unabsorbed depreciation, investment allowance, development rebate or expenditure on scientific research or promotion of family planning brought over from any assessment year comprised in the period of exemption u/s. 10A.
15. Whether, in the assessment years following the period of exemption u/s. 10A, depreciation has been calculated on the WDV of assets as if depreciation had been actually allowed in the years comprising the period of exemption?
16. Whether, in any assessment year following the period of exemption u/s. 10-A, any deduction has been claimed under sections 80HH/80HHA/80-I/80-IA/80-IB?

C.3 SECTION 10AA

1. Whether assessee is an entrepreneur who has been granted approval by Development Commissioner under SEZ Act, 2005, and the Unit in respect of which exemption u/s. 10AA has been claimed has commenced production or manufacture of articles or things or providing services on or after 1.4.2006?
2. Whether the activities of the undertaking amount to manufacture of articles or things as defined under SEZ Act, 2005?
3. Where the undertaking/unit has already availed of exemption u/s. 10A for any assessment year(s)? Whether exemption u/s 10AA has been allowed only for the unexpired period out of the period of 10 consecutive assessment years?
4. Where the undertaking/unit has already availed of exemption u/s 10A for a period of 10 consecutive assessment years, whether exemption u/s 10AA (I)(ii) has been allowed for the next 5 assessment years?
5. Whether the conditions specified in clauses (I) to (4) & (13) to (16) of The Check Sheet C.2 (Section 10A) are satisfied?

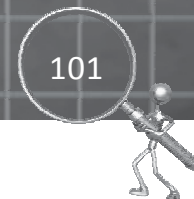
C.4 SECTION 10B

1. Whether the undertaking is approved as 100% EOU by the specified authority?
2. Whether the conditions specified in clauses 1 to 6, 11 and 14 to 16 The Check Sheet C.2 (Section 10A) are satisfied?



D. CHARITABLE TRUSTS AND INSTITUTIONS

1. Whether it is a valid trust. i.e whether it has been registered u/s. 12AA and has been established wholly for charitable / religious purpose?
2. Whether any part of the income in respect of which exemption has been sought or granted is in the nature of:
 - (i) Income of a trust for private religious purposes?
 - (ii) Income of a trust established for the benefit of a particular caste / community?
 - (iii) Income applied, directly or indirectly, for the benefit of specified persons (author, substantial contributor, trustee, manager, etc. of trust or their relatives) including by way of loans advanced, salary etc paid beyond reasonable extent, services rendered to such persons?
3. While deciding whether the trust or institution has been established for a charitable purpose, whether the proviso to section 2(15) introduced with effect from 1.4.2009 has been taken into account?
4. Whether at least 85% of the income from the property held under Trust for charitable or religious purposes has been applied for the purposes of the trust? If not, whether Form 10 has been filed (before the expiry of time allowed u/s. 139(I) intimating the period and purpose for which the income is accumulated or set apart? The purpose stated in Form 10 has to be specific.
5. In cases where income or part thereof has been accumulated or set apart, whether
 - (i) the amount so accumulated or set apart has been invested/ deposited in any one or more modes or forms specified in subsection (5) of Sec. 11?
 - (ii) the amount so accumulated or set apart has been utilized for the specified purpose in the stipulated time frame? If not, whether the amount not so utilized has been brought to tax?
 - (iii) whether the amount so accumulated or set apart has been utilized for making any payment to any Trust or institution registered u/s 12AA or notified in clause (iv), (v) and (via) of section 10 (23C)?
6. In a case where the property held under trust is a business undertaking, whether exemption has been granted in respect of income therefrom only if the business activities are incidental to the objective of the trust? Whether separate books of account have been maintained in respect of such business? In a case where assessed income of such business undertaking exceeds the income reflected in the books of account, whether the exemption has been limited to the extent of income reflected in the books of account?
7. In a case where a property held under trust for charitable or religious purposes has been transferred, whether the consideration arising there from has been utilized for acquiring another capital asset to be so held? If not, whether the whole or the appropriate portion of such consideration has been treated as income of the Trust not utilized for its purposes?
8. In case of anonymous donations, whether the same been dealt with in accordance with the provisions of section 13(7) read with section 115 BBC?

**E. SECTION 14A**

Whether expenditure expended on income exempt from tax has been disallowed or not?

F. SALARY

1. Whether salary has been brought to tax correctly on due as well as paid basis in accordance with section 15 of the Act?
2. Whether income under the head 'Salary' has been computed correctly by including the following, wherever applicable -
 - i Wages
 - ii any annuity or pension;
 - iii any gratuity:
 - iv any fees, commissions, perquisites or profit in lieu of or in addition to any salary or wages:
 - v any advance of salary;
 - vi any payment received by an employee in respect of any period of leave not availed of by him;
 - vii the annual accretion to the balance at the credit of employee participating in a recognized provident fund, to the extent to which it is chargeable to tax under Rule 6 of Part A of the Fourth Schedule; and
 - viii the aggregate of all sums that are comprised in the transferred balance as referred to in sub-rule (2) of Rule 11 of Part A of the Fourth Schedule of an employee participating in a recognized provident fund, to the extent to which it is chargeable to tax under sub-rule (4) thereof;
 - ix the contribution made by the Central Government in the previous year, to the account of an employee under a pension scheme referred to in section 80CCD;
3. Whether perquisite has been computed correctly for value of rent-free accommodation provided by employee?
4. Whether perquisite has been computed correctly for any concession in the matter of rent in respect of any accommodation provided by employee?
5. Whether perquisite has been computed correctly for the value of any benefit or amenity granted or provided free of cost or at concessional rate in the specified situations?
6. Whether perquisite has been computed correctly for any sum paid by the employee in respect of any obligation which, but for such payment, would have been payable by the assessee?
7. Whether relief under section 89 has been computed in accordance with Rule 21A of the Income tax Rules. Whether copy of Form 10-E is obtained in the course of scrutiny?
8. Whether exemption of HRA has been correctly calculated as per Rule 2A?
9. Whether items claimed as exempt under section 10(14) are notified/prescribed as per Rule 2BB and whether such expenses/allowances have actually been incurred by the employee?



10. Whether deduction u/s. 80C has been correctly claimed?
11. Whether deduction in respect of medical insurance premium is allowed as per the provisions of section 80 D?
12. Whether deduction in respect of contribution to pension scheme of the central government allowed in accordance with section 80CCD?
13. Whether receipts from the pension scheme of the central government taxed in accordance with section 80CCD(3)
14. Whether rebate u/s 88 (Upto AY 2005-06) or deduction u/s 80C (From AY 2006-07) disallowed in accordance with section 80CCD(4), if the contribution to pension scheme of the central government is allowed as deduction u/s 80CCD(1)?
15. Whether deduction in respect of maintenance including medical treatment of a dependent who is a person with disability allowed as per the provisions and limits of section 80 DD?
16. Whether deduction in respect of medical treatment for specified disease is allowed in accordance with rule 11DD and as per the provisions of section 80 DDB?
17. Whether deduction in respect of interest on loan taken for higher education of self or relative (from A.Y. 2008-09) allowed as per the provisions of section 80 E?
18. Whether deduction in respect of donations to certain funds, charitable institutions etc allowed as per the provisions of section 80 G?
19. Whether compensation received on VRS or benefits received on account of or in pursuance of retirement have properly been taxed after allowing deductions as specified section 10?

G. PROFITS AND GAINS FROM BUSINESS OR PROFESSION

1. Whether any double deduction / allowance has been claimed or made?
2. Whether any excess / wrong claim for exemption /deduction has been made and allowed?
3. Whether remarks made in the tax audit report have been duly considered for disallowance?
4. Whether notes to account have been examined and considered for disallowance as may be applicable?
5. Whether books of account required to be maintained under the Act (section 44AA) have been maintained? If not, whether proceedings for levy of penalty u/s 271A have been initiated?
6. Whether Tax Audit Report has been filed / obtained as per the provisions of section 44 AAB? Whether Audit Report is filed within time allowed under the Act? In case of delay in obtaining tax audit report, whether penalty u/s 271B has been initiated?
7. Whether Profit and loss Appropriation account has been considered for computing the correct income?
8. Whether the provisions relating to presumptive taxation (i.e. see 44AD, 44AE, 44AF etc) have been correctly applied in case of eligible business? If in such cases, profit offered is lower than the limit prescribed, whether tax audit report has been filed [ref. clause 10 of from 3CD]?

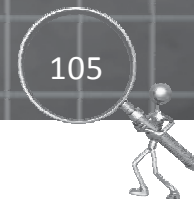


9. Whether various audit report / certificates prescribed under the Act have been obtain and placed on record?
10. Whether the method of accounting followed by the assessee has been kept in view while computing total income? Whether, in case of departure from cash/ mercantile system of accounting, total income has been computed in the manner prescribed in section 144?
11. Whether closing stock has been correctly valued and further adjusted to include the amount of any tax, duty cess or fee (modvat) actually paid or incurred by the assessee to bring the goods to the place of its location and condition on the date of valuation? (Please refer to provisions of sec 145 A applicable w.e.f. 1.4.99).
12. Has the effect of duty drawback and set off of sales tax been considered for the purpose?
13. Whether the closing stock is valued at market value in cases of closure of business?
14. Whether work -in-progress is made part of closing stock and valued properly?
15. Whether details of amounts not credited to Profit and loss Account (Col. 13 of form 3CD) have been examined with regard to taxability?
16. Whether capital received shown in column 13(e) and not credited to profit and loss account have been examined from the angle of taxability?
17. Whether proforma credits, drawbacks, refund of duty of customs or excise or service tax or VAT (Value Added Tax) admitted as due by the concerned authorities have been brought to tax [Col. 13 of form 3 CD]?
18. Whether due adjustments have been made for the following
 - (i) CENVAT/MODVAT
 - (ii) Subsidy / grant
 - (iii) Foreign Exchange fluctuations?
19. Whether block of assets are property categorized for purposes of depreciation?
20. Whether the cost of the building includes cost of land on which no depreciation is allowable?
21. Whether provisions relating to grant of depreciation contained in Explanation 5 below sec. 32(1)(ii) have been given effect to?
22. Whether closing WDV (Written Down Value) of the previous year has been correctly carried forward as opening WDV?
23. Whether the rate of depreciation has been correctly applied?
24. Whether the rate of depreciation has been restricted to $\frac{1}{2}$ of the normal in cases where the asset is used for less than 180 days?
25. Whether the claim of additional depreciation has been examined with reference to the conditions prescribed and computation checked for correctness?
26. Whether disallowance of depreciation u/s 38(2) for personal use of asset has been made?

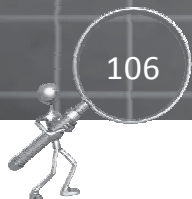


27. Whether tea bushes / live stock have been categorized wrongly as plant?
28. Whether, in a case where depreciation has been claimed in respect of an intangible asset, the asset was acquired on or after 1.4.1998? Whether any depreciation has been claimed on 'goodwill' on the footing that it is an intangible asset? Such claims have to be disallowed.
29. Whether modernization expenses or expenses on replacement of machinery have been wrongly claimed as revenue expenses?
30. In case of assets on which investment allowance have been given, whether withdrawal of investment allowance u/s 32(5) is necessitated?
31. Whether amount of deduction admissible under sections 33AB, 33ABA, 33AC, 35, 35ABB, 35AC, 35CCA, 35CCB, 35D, 35DD, 35DDA, 35E, wherever applicable, has been properly worked out having regard to the conditions laid down for the purpose of allowance thereof?
32. Expenditure incurred for strengthening the capital structure of a company is capital in nature. Whether share issue expenses not eligible for amortization under section 35D have been allowed as revenue expenditure?
33. In case of claim under section 35 whether certificate of approval from the prescribed authority is filed or not?
34. Whether bonus and commission paid to employees in lieu of dividends or profits have been disallowed?
35. Whether portions of employee contribution to PF, ESI Gratuity Fund not credited to employee account in the Fund before the due date have been treated as income u/s 2(24)(x)r.w.s.36(1)(va)?
[refer to clause 16 of Form 3CD]
36. Whether the bad debts claimed in the profit and loss account have been actually written off in the books of account?
37. Whether the bad debts claimed in the profit and loss account were included in the income of the assessee in the earlier years or represented money lent in ordinary course in the business of money lending?
38. Whether the bad debt claimed in respect of banks and financial institutions referred to in section 36(1)(viia) have been examined and allowed in terms of provisions of section 36(1)(viia)?
39. Whether expenditure debited to profit and loss account of the nature listed below has been disallowed?
 - i Penal interest
 - ii Personal expenses
 - iii Capital expenditure
 - iv Expenditure or advertisement in any souvenir etc published by political party
 - v Donation / Charity
 - vi Penalties/ fine for the violation of any law in force?

(Refer to para 17 of Form 3 CD)

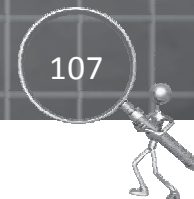


40. Whether amount inadmissible u/s 40(a)(ia) have been worked out properly and added back to the income?
41. Whether remuneration paid to the working partner in the case of a firm is as per the partnership deed and restrictions provided in the Act? Whether the remuneration paid to partners in case where income is computed u/s 44AAD/44AE/44AF has been subjected to limits specified in clause (b) of section 40?
42. Whether payment of interest, in the case of a firm, to the partners on their capital is restricted to 12% per annum and is in accordance with the partnership deed? Whether this has been done in cases where income has been computed u/s 44AD/44AE/44AF?
43. Whether payments made otherwise than through account payee cheque or account payee bank draft have been disallowed under section 40A(3)? Under this section, the amount of disallowance will be as under
 - i) 20% of such expenditure (upto A.Y. 2008 - 09)
 - ii) 100% of such amount (w.e.f. A.Y. 2009- 10)
44. Whether an assessee to which section 36(1)(viia) applies has claimed any deduction for bad debts written off u/s. 36(1)(vii) without setting off the claim against the credit balance in the "provision for bad and doubtful debts" created u/s. 36(1)(viia) including such provisions created in the relevant assessment year, and whether such claim has been allowed?
45. Whether claim for bad debts written off has been allowed in respect of loans or advances if interest income on such loans or advances had been claimed to be exempt under any provisions of the Act?
46. Whether the amount of deduction u/s 36(1)(viia) has been computed with reference to the total income without setting off brought forward losses against it?
47. Whether deduction u/s 36(1)(viia) in respect of provision for bad and doubtful debts of banks has been allowed in respect of unidentified debts of doubtful nature?
48. Whether deduction u/s 36(1)(viia) in respect of provision for bad and doubtful debts of banks has been allowed in cases where no such provision was actually made in the accounts or where the provision so made was inadequate?
49. Whether deduction u/s 36(1)(viia) has been allowed both in respect of the amount computed under the said provision as well as under the first proviso thereof? Only one of the two amounts is to be allowed as deduction at assessee's option.
50. Whether, for the purpose of computing the amount of deduction u/s 36(1)(viia), aggregate average advances made by the rural branches of the bank have been correctly computed keeping in view the definition of "rural branch" given in clause [(ia)] of Explanation below section 36(1)(viia)?
51. Whether, for the purpose of allowing deduction for depreciation of investments made by Banks, depreciation on investments held to maturity (HMT) has been allowed to be deducted? Such deduction is to be allowed only in respect of investments held for trading (HFT) and investments available for sale (AFS).
52. Whether deduction for depreciation of investment made by Banks (HFT and AFS) has been allowed in respect of gross amount of depreciation without setting off against it the appreciation in other scrips? The depreciation / appreciation is to be aggregates scrip wise and only the net depreciation, if any, is to



be provided in the accounts.

53. Whether provision made for payment of gratuity to employees on their superannuation has been disallowed (subject to the provisions of section 40A(7)(b)?
(refer to Clause 17(i) of Form 3CD)
54. Whether disallowance called for u/s 40A(9) has been made?
(refer to Clause 17(i) of Form 3CD)
55. Whether any provision for contingent liability has been claimed and allowed?
(refer to Clause 17(i) of Form 3CD)
56. Whether provisions of section 14A have been applied to exempted income and appropriate disallowance made?
(refer to Clause 17(i) of Form 3CD)
57. Whether interest inadmissible under the proviso to section 36(1)(iii) has been correctly computed and disallowed?
58. Whether any part of interest bearing borrowed funds has been diverted for non-business purposes? If so, whether proportionate disallowance has been made out of interest?
59. Whether payments made to specified persons u/s 40(2)(b) are reasonable? If not, whether appropriate disallowance has been made?
60. Whether profit chargeable to tax in terms of sections 41(1)/141(2)/41(3) have been brought to tax?
61. Whether amount recovered out of bad debts in respect of which deduction u/s 36(1)(vii) had been allowed earlier has been brought to tax in terms of provisions of section 41(4)?
62. Whether any amount withdrawn from the special reserve created by specified entity in respect of which deduction has been allowed u/s. 36(1)(viii) has been brought to tax in the year of withdrawal in terms of provisions of section 41(4A)?
63. Whether disallowance u/s. 43B has been correctly made?
64. Whether the sales tax collection by the assessee from its customers has been shown as revenue receipt? Whether, in a case where the discounted value of deferred sales tax liability is paid in accordance with laws relating to sales tax, the deduction in respect of payment of sales tax has been restricted to such discounted value?
65. Whether, in the case of conversion of interest referred to clause (e) of section 43B into loan, such interest has been disallowed in terms of Explanation 3D of section 43B?
66. Whether claim for deduction of interest on loans referred to in clause (d) and (e) of section 43B, which was not paid either during the previous year or before the due date for filling of return has been disallowed?
67. Whether MODVAT / CENVAT credit availed of in respect of capital assets has been given proper treatment?



68. Whether prior period/prepaid expenses have been properly identified and disallowed while computing total income?

[Refer to clause 22 of Form 3 CD]

69. Wherever additions under section 68 have been made for unexplained credits, interest in respect of the said credit is also to be disallowed. Whether this has been done? In case of any unexplained credit which had first appeared in assessee's books in an earlier year, whether assessment(s) for the relevant assessment year(s) have been reopened to bring such credit to tax under sec. 68 and to disallow interest claimed in respect of such credit?
70. In case of investment companies, whether profit on sale has been offered as business income or wrongly claimed as capital gains?
71. In case of an assessee dealing in real estate, whether income from the properties in stock has been brought to tax?
72. Whether penalties under section 271-D or 271-E have been initiated in cases of acceptance/repayment of loans/advances exceeding Rs. 20,000 otherwise through account payee cheque or bank draft?
73. In case of an assessee not maintaining books of account, whether the unexplained credits in bank accounts have been correctly taxed u/s 69?

H. INCOME FROM CAPITAL GAINS

1. Whether taxability has been determined correctly in the previous year in which transfer of property took place?
2. Whether incidence of "transfer" of property had been comprehensively and correctly examined as required under section 2(47) of the Act?
3. Whether capital gain has been charged in cases of conversion of capital asset into stock-in-trade in the year of sale of such stock-in-trade? Whether full value of consideration has been correctly determined in such cases in terms of sec. 45(2)?
4. Whether enhancement of compensation on account of compulsory acquisition of capital asset has been brought to tax correctly in accordance with section 45(5) of the Act?
5. Whether shareholder in receipt of money or other assets from company in Liquidation has been charged to capital gain in respect of the money received/ market value of assets on the date of distribution as reduced by the dividend assessed within the meaning of section 2(22)(e) of the Act?
6. Whether a shareholder has been charged to capital gains in the case of purchase by the company of its own shares/ securities from the shareholder?
7. Whether exemption from capital gains allowed in the situations mentioned in section 47(iv) and 47 (v) has been withdrawn in accordance with subsection (1) of section 47A of the Act?
8. Whether income under the head 'capital gains' has been computed correctly in accordance with section 48 of the Act? Whether indexed cost of acquisition/improvement computed correctly?
9. Whether cost of acquisition in certain specific situations mentioned in section 49 has been computed in accordance with the provisions of that section?



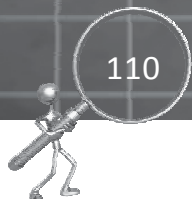
10. Whether capital gain on transfer of depreciable assets has been charged as deemed capital gain in accordance with the provisions of sections 50/50A of the Act?
11. Whether capital gain has been computed correctly in accordance with the provisions of section 50B in case of slump sale? Whether report of the accountant in Form 3 CEA has been brought on record?
12. Whether provision of section 50C have been invoked in cases where consideration received as a result of transfer of land or building or both as shown by an assessee is less than the value adopted or assessed by stamp valuation authority of the State Government?
13. Whether advances received and retained against a capital asset on a previous occasion have been reduced from the cost of acquisition/WDV while calculating capital gain on final transfer of the said capital asset?
14. Whether capital gain in the case of transfer of a long term capital asset being " residential in the case of an individual or HUF has been computed correctly in accordance with the provisions of section 54 and subject to the satisfaction of the conditions mentioned in that section?
15. Whether capital gain has been computed, wherever applicable, in accordance with the proviso to subsection (2) of section 54?
16. Whether capital gain in the case of transfer of a capital asset being land use agricultural purposes at least for two years immediately preceding the date of transfer has been computed correctly in accordance with the provisions of section 54B and subject to the satisfaction of the conditions mentioned in that section?
17. Whether capital gain has been computed applicable, in accordance with the proviso to subsection (2) of section 54B?
18. Whether capital gain in the case of transfer of a long term capital asset has been computed correctly in a case to which section 54EC applies in accordance with the provision of 54EC and subject to the satisfaction of the conditions mentioned in that section?
19. Whether capital gain has been computed, wherever applicable, in accordance with subsection (2) of section 54EC?
20. Whether capital gain on the transfer of a long term capital asset, not being residential house, has been computed correctly, in the case of an individual or HUF to which provisions of section 54F apply, in accordance with the provisions of section 54F and subject to the satisfaction of the conditions mentioned in that section?
21. Whether capital gain has been computed, wherever applicable, in accordance with subsections (2) and (3) of section 54F and the proviso to sub section (4) of section 54F?
22. Whether capital gain in the case of transfer of a capital asset on account of shifting of an industrial undertaking from an urban area to a non-urban area has been computed correctly in accordance with the provisions of section 54G and subject to the satisfaction of the conditions mentioned in that section?
23. Whether capital gain has been computed, whenever applicable, in accordance with the proviso to subsection (2) of section 54G?
24. Whether provisions of section 54GA have been applied correctly in the computation of capital gains on the transfer of assets in the case of shifting of an industrial undertaking from an urban area to any special economic zone?



25. Whether cost of improvement and cost of acquisition have been computed correctly in accordance with the provisions of section 55?
26. Whether short term capital gain tax has been correctly computed in accordance with section 111A in a case to which the said section applies?
27. Whether deduction under chapter VIA have been allowed only from the total income remaining after reduction of short term capital gains therefrom in accordance with the provisions of subsection (2) of section 111A in a case to which section 111A applies?
28. Whether long term capital gains tax has been computed in accordance with the provisions of section 112?
29. Whether deductions under chapter VIA have been allowed only from the gross total income remaining after reduction of long term capital gains therefrom in accordance with the provisions of sub section (2) of section 112?

I. INCOME FROM OTHER SOURCES

1. Whether all the income of the assessee which is not excluded from the total income specifically under the Act other than the income brought to tax under other heads of income like salary, income from house property, business or profession and capital gains brought to tax under the head 'income from other sources'?
2. Whether the following in specific have been brought to tax as income other sources:
 - (i) Dividends including deemed dividend u/s. 2(22) (e);
 - (ii) Income referred to in sub-clauses (ix) and (x) of clause (24) of section 2;
 - (iii) Income by way of interest on securities, if the income is not chargeable to income-tax under the "Profits and gains of business or profession";
 - (iv) Income from machinery, plant or furniture let on hire, if the income is not chargeable to income-tax under the head "Profits and gains of business or profession";
 - (v) Where an assessee lets on hire machinery etc and also buildings, and the letting of the buildings is inseparable from the letting of the said machinery etc, the income from such letting, if it is not chargeable to income-tax under the head "Profits and gains of business or profession";
 - (vi) Any sum on account of Keyman insurance policy, if such income is not chargeable to income-tax under the head "Profits and gains of business or profession" or under the head "Salaries";
 - (vii) Any sum of money exceeding twenty-five thousand rupees received without consideration by an individual or Hindu undivided family from any person on or after the 1st day of September, 2004 but before 1.4.2006, the whole of such sum (except from the specified persons and or in specified situations) (the limit raised to Rs.50,000 from 1.4.2006).
3. Whether deductions prohibited under section 58 have been disallowed correctly in appropriate cases? Whether any of following amount has been claimed as deductible and allowed:
 - Personal Expenses,



- Interest Payable outside India where there was no TDS on the said amount (if such interest is chargeable under the Act)
 - Any salary paid outside India without TDS (if such salary is chargeable under the Act)
 - Any Wealth Tax paid?
4. Whether expenditure claimed in respect of Royalty and Technical Fees received by a Foreign Company is allowed only to the extent mentioned in section 44AD?
 5. Whether any expenditure has been allowed in computing the income from lotteries, crossword puzzles, races, games, betting etc?
 6. Whether amount disallowable in accordance with the provisions of sub clause (a) of section 40 and section 40A in computation of income from business or profession have been similarly disallowed in computing income under section 56?
 7. Whether any profits chargeable to tax under sub section (i) of section 41 in computation of income from business or profession similarly brought to tax in the computation of income from other sources?

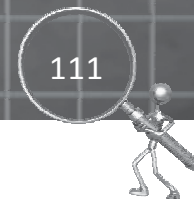
J. CLUBBING OF INCOME

The auditing officer must examine whether there has been a:-

- 1) Transfer of Income without transfer of asset. (Section 60)
- 2) Revocable transfer of asset
- 3) Remuneration to spouse without any technical or professional knowledge and experience (Section 64)
- 4) Income from assets transferred to spouse without adequate consideration
- 5) Income from assets transferred to Son's Wife without adequate consideration (Section 64(1)(vi))
- 6) Generation of any income in the hands of a minor child which needs to be clubbed with that of his parent (Section 64(1A)).
- 7) Conversion of self acquired property with joint family property which may be treated as transfer (Section 64(2))

K. SET OFF OF LOSSES SECTION 70, 71 & 72

1. Whether carry forward of loss has been allowed under section 72(1)/73(2)/74(1)/74(3)A in a case where the return was not filed in accordance with the provisions of section 139(3)?
2. Whether brought forward business loss has been adjusted against income under any head other than 'profit and gains of business or profession'?
3. Whether the prescribed order of set off of loss, investment allowance, depreciation etc. has been followed?
4. In case of rectification /revision /appeal effect, whether consequential effect of increase/decrease has been given in setting off of losses?

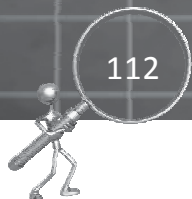


5. Whether loss from speculation business including the loss referred to in Explanation to sec. 73 has been set off against any income other than income from the business of speculation? Whether such loss has been carried forward for more than 4 years?
6. Whether deduction under Chapter- VIA has been allowed before the adjustment of brought forward losses?
7. Whether long term capital loss has been set off against any income other than long term capital gains?
8. Whether short term capital loss has been set off against any income other than income under the head 'capital gains'?
9. Whether loss under the head 'capital gains' or profit or gains of business or profession' has been carried forward for more than 8 years?
10. Whether any loss has been set off against winning from lotteries, crossword puzzles, races, including horse races, card games etc.?
11. Whether loss from sale of securities or units has been subjected to the provisions of section 94(7) & 94(8)?
12. Whether business loss (including unabsorbed depreciation) has been set off against income under the head 'salary'?
13. Whether brought forward loss under the head 'income from house property, has been set off against any income other than 'income from house property'? Whether such loss has been carried forward for more than 8 years?
14. Whether, in the case of a shipping company which has exercised the option u/s. 115 VP, any brought forward loss of the nature referred to in sub section (i) of section 115VM has been set off against any income other than the relevant shipping income?
15. Loss in the case of closely held companies: Sec 79 places restriction on carry forward and set off of losses in cases of companies wherein public are not substantially interested and there is a change in the share holding pattern. In order to avail of set off, at least 51% of the beneficial share holding must be with the same persons in the year of loss as in the year in which loss is sought to be set off.
16. Carry forward and set off of losses in the case of change in the constitution of the firm (sec. 78): If there is change in the constitution on account of death or retirement of a partner, the firm is not entitled to carry forward proportionate loss relatable to such partner.

L. DEDUCTIONS UNDER CHAPTER-VIA:

L. 1 GENERL (SECTION 80A, 80AB,80AC & 80B OF THE ACT)

1. The aggregate deduction under all the section/ provisions of Chapter VIA of the Act can not exceed the gross total income (i.e. the net taxable income before any deduction under this Chapter).
2. Any deduction referred to in Part C of chapter VIA (i.e. deductions in respect of certain incomes) has to be computed only with reference to the income of the nature specified in the particular provision,



computed in accordance with all the provisions of the Act including the provisions relating to setting off of brought forward losses (except the provisions of this Chapter), included in the gross total income.

3. Long term capital gains, short term capital gains, income of the nature referred to in sections 155A, 115AB, 115AC, 115ACA, 115AD & 115D of the Act have to be excluded from the Gross Total income for the purpose of computing deductions allowable under Chapter VIA.
4. In a case where the assessee has claimed deduction under section 80-IA or section 80-IAB or section 80-IB or section 80-IC or section 80-ID or section 80 -IE, whether the return of income has been filed by the assessee on or before the due date specified under section 139(1)? No deduction is to be allowed under any of these sections unless the return of income has been filed on or before the due date specified under section 139(1).
5. Whether the amount of deduction allowed u/s 80-IA/80-IC has been claimed as deduction once again under sections 80HH to 80RRB? If so, the same has to be disallowed.

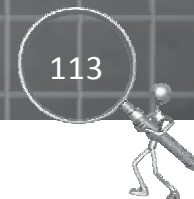
L. 2 SECTION 80G

1. Deduction u/s not to be given to a Trust which is wholly & substantially for religious purposes.
2. Whether deduction u/s 80G has been allowed has been in respect of donations exceeding 10% of the Gross Total Income?

L. 3 SECTION 80IA

Deduction in respect of profits and gains from industrial undertakings or enterprises engaged in infrastructure development (Section 80IA of the Act)

1. Whether the accounts of the undertaking for the year for which deduction has been claimed have been audited and a report in Form No. 10CCB has been obtained? Whether the profit & loss account and the balance sheet of such enterprise had been obtained?
2. In case of an enterprise carrying on the business of developing or operating and maintaining or developing, operating and maintaining an infrastructure facility, whether copy of the agreement with Central/ State Government or Local Authority has been obtained and placed on record?
3. Whether the undertaking carries on the eligible business (development, operation, maintenance of infrastructure facilities; providing of telecommunication services; development, operation and maintenance of industrial park / SEZ; generation or generation, transmission and distribution of power or reconstruction/ revival of power generating plant or laying and operating a cross-country national gas distribution network)? Whether the business amounts merely to the execution of a works contract?
4. Whether all the conditions laid down for allowance of deduction u/s 80-IA are satisfied?
5. Whether the quantum of deduction claimed/ allowed has been restricted to the gross total income after adjusting all brought forward losses and unabsorbed depreciation?
6. In case the assessee also has any business other than the eligible business, whether the expenditure common to the eligible business and the other business (head office expenses, marketing/sales expenses etc.) has been properly allocated to the eligible business and the other business?



7. In case the assessee has credited to the P & L account of the eligible undertaking any item of income / profit which cannot be said to have been derived from the eligible business (i.e. which does not have a direct and proximate relationship with the eligible business), whether such income / profit has been reduced while calculating the admissible deduction?
8. Whether the claim has been made for the first time (i.e. the first year)? If so, whether the undertaking has been formed by splitting up, or reconstruction, of a business already in existence or by the transfer to a new business of plant and machinery previously used for any purpose?
9. If the claim is for an assessment year subsequent to the initial year, whether the said year falls within the overall period for which deduction is admissible?
10. If the claim is for an assessment year subsequent to the initial year, whether the quantum of deduction for the year has been computed as if it were the only source of income of the assessee in the initial year and any subsequent year (prior to the year under consideration) i.e. whether the losses of earlier years of the eligible business (even if actually adjusted in those years against any other income) have been brought forward on presumptive basis and adjusted profit of the eligible business for the year before allowing the deduction?
11. Whether the transactions of the eligible business with other persons (including any other business carried on by the assessee itself) are at arms length? If not, whether the provisions of sub-section (8) and (10) of Sec. 80IA need to be invoked?
12. Whether the profit of the eligible business have been computed in accordance with the provisions of the Income -tax Act and specifically after the grant of depreciation required under Explanation 5 of Sec. 32 of the Act?
13. In case of eligible business being subject to the process of amalgamation / de - merger, whether the deduction has been claimed only by the amalgamated or the de-merged company?
14. In case income has been enhanced on account of Transfer Pricing provisions u/s. 92C of the Act, whether any deduction has been allowed in respect of such enhanced income?
15. Whether deduction u/s 80-IA has been computed keeping in view the provisions of sub-section (5) of section 80-IA?

L. 4 SECTION 80IAB

Deduction in respect of profits and gains of an undertaking developing SEZ. (Section 80IAB)

1. Whether the assessment year for which deduction has been claimed falls within the period of ten consecutive years opted by the assessee out of 15 years from the date the SEZ has been notified by the Central Government?
2. In case of an undertaking for which deduction u/s. 80IA had earlier been claimed, whether the assessment year for which deduction has been claimed falls within the period at (a) above as reduced by the period for which deduction u/s. 80IA had been claimed?
3. In case a developer (on or after 1.4.2005) develops an SEZ and transfers its operation and maintenance to another developer, whether the assessment year for which the transferee developer has claimed



deduction u/s. 80IAB falls within the original period of ten consecutive assessment years as per the option exercised by the original developer?

4. Whether the conditions specified in clauses (5) to (14) of Check Sheet M.3 about (Sec. 80IA) are applicable? If not, whether appropriate action has been taken?

L. 5 SECTION 80IB

Deduction in respect of profits and gains from industrial undertaking other than infrastructure developing undertaking (Sec. 80IB):

1. Whether the assessee is eligible for deduction i.e. it falls in one of the following categories:
 - (i) It is small scale industrial undertaking engaged in the manufacture/ production of articles or things or in operation of cold storage plants and has commenced activities between 01.04.1995 to 31.03.2002,
 - (ii) It is undertaking in an industrially backward State specified in Eighth Schedule and engaged in the manufacture / production of articles or things or in the operation of cold storage plants and has storage plants and has commenced activities between 01.10.1994 to 31.03.2004.
 - (iii) It is an industrial undertaking located in an industrially backward district notified by the Central Government and engaged in the manufacture / production of articles or things or in operation of cold storage plants and has commenced activities between 01.10.1994 to 31.03.2004.
 - (iv) In respect of hotels claiming 50% deduction, it is located in a hilly area or a place of pilgrimage or such other place which Central Government has notified. The hotel should not be located within municipal limits of Kolkata, Delhi, Chennai or Mumbai if it has started functioning between 1.4.97 and 31.3.2001. In respect of other hotels claiming 30% deduction, it should not be located within the Municipal limits of Kolkata, Delhi, Chennai or Mumbai, if it has started functioning between 1.4.97 and 31.3.2001. For both these categories, it should be a new hotel owned by a company registered in India with not less than Rs. 5 lacs of paid up capital and the hotel should be approved by the prescribed authority as specified in Rule 18 BBC for the purpose of this deduction. The hotel should have started functioning during the prescribed period.
 - (v) In respect of multiplex; convention centre; a company carrying on scientific research and development; undertakings engaged in commercial production or refining of mineral oil; setting up and operation of cold chain facility for agricultural product; in the business of processing, preservation and packaging of fruits and vegetables or in the business of handling, storage and transportation of food grains; and operation or maintaining hospital in rural area, the conditions specified in sub-sections 7A, 7B, 8, 8A, 9, 11, 11A and 11B as the case may be read with the definitions in sub section 14 of sec. 80IB, are satisfied.
 - (vi) In respect of undertakings engaged in development and building of housing projects:
 - o It is approved as a housing project before 31.03.2007 by a local authority
 - o Where such approval has been granted before 01.04.2004, it has completed construction by 31.03.2008 and if approval has been granted after 01.04.2004, it has



- completed construction within four years from the end of the F.Y. in which it had been approved
 - o Where there are more than one approvals, the project shall be deemed to have been approved on the date on which the building plan was first approved by the local authority.
 - o Date of completion of project shall be taken to be the date which completion certificate is issued by the local authority.
 - o It has commenced development and construction after 01.10.1998.
 - o The project is on a plot of land having minimum area of one acre.
 - o The residential unit has maximum built up area of 1000sq. ft.(1500 sq. ft. in specified cases).
 - o The built up of shops/commercial establishments does not exceed 5% of the aggregate built up area of the housing project or 2000 sq. ft. whichever is less.
2. The conditions indicated in clauses (5) to (13) of Check Sheet M.3 about (Sec. 80IA) are also applicable to claims made under section 80IB of the Act.
 3. Whether auditor's report in the prescribed form has been obtained and placed on record?

L. 6 SECTION 80LA

1. Whether the off shore banking unit is situated in an SEZ?
2. Check the time-limit for which deduction is available.
3. Whether the business of the unit is referred to in sub-section (1) of section 6 of the Banking Regulation Act, 1949?
4. Whether a report of an accountant in Form No. 10CCF has been obtained?
5. Whether a copy of the permission obtained under clause(a) of sub-section(1) of Section 23 of the Banking Regulation Act, 1949 has been obtained and placed on record?

L. 7 DEDUCTION U/S 80-P

1. Whether deduction u/s. 80P has been claimed by a co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development Bank?
2. Whether provisions of sub-section (3) of section 80P have been taken into account while computing the amount deductible u/s. 80P(2)(a)/80P(2)(b)/80P(2)(c)?



M. ASSESSMENT PROCEDURE

1. Whether penalties imposable have been initiated properly? For each initiation of penalty, whether AO has recorded his satisfaction in the body of order?
2. Whether correct figure of profit or loss from the P & L A/c. has been adopted?
3. In case of rectification and revision, whether corresponding reduction in interest u/s.244-A and allowances under Chapter VIA has been made?
4. Whether losses to be carried forward have been duly notified as required u/s 157?
5. Whether any proceeding have got time barred?
6. In case a particular decision of an appellate authority required reopening of assessment for earlier years, whether this has been done?
7. Whether any addition/disallowance, which was made in an earlier year, also needs to be made in the year under assessment?
8. Whether relevant proceedings under wealth Tax Act have been initiated in eligible cases?
9. Whether interest u/s 220(2) has been charged for delayed payment of demand including in a case where the outstanding demand is adjusted against refund?
10. Whether of tax paid u/s 115JAA(4) has been adjusted after calculation of interest under section 234-A, 234-B and 234-C?
11. Whether surcharge has been levied wherever applicable?
12. Tax credit as per Sec. 115 JAA can be carried forward only for 7 years. Set off of tax credit has to be allowed in the year in which tax becomes payable on the total income computed under provisions of the Act other than section 115JB.

N. SEARCH & SEIZURE CASES:

1. Whether notices u/s 153A and 135C have been issued to all the persons assessable on the basis of warrants issued as well as materials unearthed during the search?
2. Whether notice u/s 143(2) has been issued and duly served on assesses concerned in time and whether the notices have been issued by the Officers having the jurisdiction?
3. Whether all issues listed in the Appraisal Report have been covered in the assessment process?
4. Whether all the seized materials have been properly considered and dealt with in the assessment process?
5. Whether the disclosure made in the course of search have been considered and taken into account in the assessment order?
6. Whether the assessed income has been taxed at the rates applicable to each assessment year?
7. Whether approvals as applicable have been obtained from the competent authority before passing the orders?



8. Whether all penalties attracted have been initiated and whether applicable procedures have been followed?

O. FRINGE BENEFIT TAX:

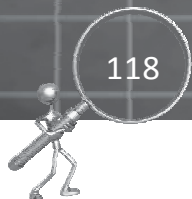
1. Whether return of FBT has been filed as per Section 115WD or not.
2. Whether Advance-tax on taxable Fringe Benefit has been paid in time or not.
3. Whether interest, wherever due, has been charged or not.
4. Whether the correct rate of tax has been applied or not.
5. Whether all the perquisites specified in Section 115WB have been taken into account or not.

P. INTERNATIONAL TAXATION:

1. Whether transaction/income is taxable as per I.T. Act 1961, and taxable, whether the correct rate has been applied as per the I.T. Act?
2. If DTAA benefit is claimed, whether assessee is eligible for DTAA benefit?
 - Whether resident certificate has been given?
 - Whether foreign tax credit has been given as per DTAA?
 - Whether character of income has been examined as per definition given in the applicable DTAA?
3. Whether tax rate has been properly applied?
4. Whether benefit of increased basic exemption limit for women & senior citizens given to non residents also?
5. In case, the income is taxed u/s. 111 or 112, whether benefit of basic exemption has been given to non resident individuals or HUFs?
6. Whether return is signed by the authorized POA holder?
7. Whether existence of Project PE/Service PE as per applicable DTAA has been examined?

Q. TRANSFER PRICING

1. Whether reference has been made to TPO where transaction(s) between assessee and Associated Enterprise exceed Rs. 5 Crores (or whatever is limit prescribed for the years)?
2. Whether 3 CEB report has been filed before due date of filing the return? If not, whether penalty u/s. 271BA has been initiated?
3. Whether CIT's approval has been obtained before sending reference to TPO?
4. Whether deduction u/s. 10A/10AA/10B or under chapter VIA has been disallowed in respect of transfer price adjustment?



5. Whether penalty u/s 271(1)(c) has been initiated for adjustment/addition made in the assessment order on the basis of TPO's order?

R. CHECK SHEET FOR TDS CASES

Under Section 206 of Income Tax Act, all corporates, non-corporate deductions who are required to get their accounts audited under section 44AB and those having fifty or more deductions (w.e.f. 1.09.2007) and government deductions are compulsorily required to file their TDS returns as e-TDS returns for every quarter of the year. However, for other deductors, filing of e-TDS returns is optional. The e-TDS return is a TDS return prepared in form no. 24Q (Quarterly return for salaries), 26Q (quarterly return for all payments other than salaries) and 27EQ (Quarterly return for collection of tax at source) as per prescribed data structure either in a floppy or a CD-ROM accompanied by a signed verification in form no. 27A. These returns can be filed online as per latest guidelines. The processing of e-TDS returns is carried out electronically and the assessing officer has no role to play so far as physical verification & challan is concerned except where challans are verifiable online either because of non-filing or wrong filling of vital particulars like TAN etc. Internal Audit can, however, verify the following:

- (i) Whether necessary follow up action has been taken in cases of stop filers/non-filers?
- (ii) Whether necessary follow up action has been taken in respect of incorrect/invalid PAN of deductee?
- (iii) In case of TDS surveys, whether orders u/s 201(1) and 201(1A) have been correctly passed?
- (iv) Whether order of rectification and effect have been passed correctly?

In other cases where e-TDS returns are not mandatory, paper returns are filed with TIN Facilitation Centers (TFCs) managed by NSDL. The information in the paper returns is digitized by TFCs and uploaded to the System through NSDL. Paper returns are then transferred to the Nodal Officer. In such cases, Assessing Officer has to verify the paper returns with reference to the information uploaded to the System to ensure that the paper return has been properly digitized. The following check list will help Internal Audit in checking TDS returns and cases in which TDS surveys have been carried out:

1. Whether TDS has been made on gross receipts or net receipts?
2. Whether annual/quarterly return of TDS has been filed in time? If not whether penalty proceedings have been initiated?
3. In cases where penalty proceedings have been initiated, whether the penalty proceedings have been completed within the statutory time? Whether proper penalty registers have been maintained?
4. In cases where the tax is deducted at a rate lower than the prescribed rate, whether the relevant certificate from the Assessing Officer has been obtained?
5. Whether TDS has been made uniformly throughout the year or has been made at the fag end of the financial year?
6. Whether the person deducting TDS has issued Form No. 26 to the deductee within the prescribed time? If not, whether due penalty has been levied?

**Specific issues:****TDS on salaries (Section 192):**

1. Whether valuation of perquisites has been correctly made for the purpose of TDS?
2. In cases where the employee has worked for more than one employers, whether the entire annual income was considered for the purpose of TDS in accordance with provisions of sub-section (2) of Section 192?
3. Whether loss under heads other Income from house property was claimed while determining the taxable income of the employee for the purpose of TDS from salary income?

Interest on securities (Section 193):

Whether the aggregate amount paid to an individual exceeds Rs. 2,500/- on debentures issued by a listed company in cases where the individual holds more than one folio?

Winning from lottery or crossword puzzles (Section 194B):

Whether TDS has been made at correct rates on winnings from lottery or crossword puzzles in cases where winnings are wholly in kind or partly in cash and partly in kind?

Commission or Brokerage (Section 194H):

Whether TDS has been deduction in cases where commission or brokerage has been deliberately termed as discount?

Rent (Section 194-I):

Whether TDS has been deducted on rent paid towards a sublet property?

Other sums (Section 195) :

In case of payment to non residents, whether DTAA benefits have been claimed correctly?

S.1 OTHER POINTS RELATED TO TDS:

1. An individual or a HUF whose total sales, gross receipts or turnover exceeds the monetary limit prescribed in section 44AB during the financial year immediately preceding the financial year in which interest, contract payment etc were paid are liable to deduct TDS on such payments. Thus, it is important to verify the total sales, gross receipts or turnover pertaining to the preceding financial year of such persons to determine the liability to deduct TDS.



2. In cases where survey is conducted by the TDS wing and it is found that tax has not been deducted on payments which were liable to TDS, it would be worthwhile to verify other years of the deductor to determine TDS liability for such years.
3. Whether receipts shown in the TDS certificates have been duly included for the purpose of computation of total income?

Issues having bearing on regular assessment of the deductor:

1. After introduction of section 40 (a)(ia), payments made without deduction of tax are not to be allowed as business expenditure. Wherever such instances are found, the audit party should make a note of the same and inform the assessing officer of the deductor.
2. The provisions of section 40(a)(ia) further state that the expenditure can be allowed in the year in which the TDS is paid. In cases where TDS was payable after the end of the financial year and it is paid beyond the due date, expenditure is allowable only in the current year even if the expenditure pertains to the preceding year.
3. As per section 40(a)(i), in respect of payments outside India and payments in India to a non-resident not being a company or a foreign company, business expenditure is not allowable if TDS is not deducted.

In case of income from other sources, if TDS is not deducted on salaries payable outside India, such expenditure is not allowable as per provisions of section 58(1)(iii) and the assessing officer of the deductor should be informed accordingly.

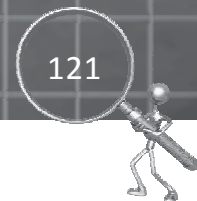
S.2 TAX COLLECTED AT SOURCE:

1. Whether TCS rates are correctly charged or not and whether the amounts were deposited in time to Govt. account.
2. It is observed that where State Nodal Agencies collect forest produce from the tribals, a claim is being made that the produce collected from the tribals is agricultural produce. When such claim is made, it is to be verified whether such claim is correctly made or not.

T. CHECK SHEET FOR REFUND CASES:

T.1 GENERAL ISSUES

1. Whether interest has been paid in cases where refund is less than 10% of the tax determined?
2. Whether interest has been paid in cases where delay in completion of proceedings was attributable to assessee?
3. Whether refund has been paid on the basis of a belated return, which was not regularized u/s 119(2)(b)?
4. Whether interest on refund has been paid on the basis of a belated return regularized u/s 119(2)(b)?
5. Whether interest u/s 234D has been charged where, in a refund case, subsequent regular assessment has resulted in demand?



6. Whether interest has been paid in a case where the refund arose out of self assessment tax paid by the assessee?
7. Whether interest has been paid on refund resulting from MAT credit?
8. Whether there has been any under delay in issuing the refund resulting in excess payment of interest?
9. Whether interest u/s. 220(2) has been charged on the outstanding demand adjusted against refund?

T.2 INCORRECT CREDIT FOR TAXES PAID (The issues may not be relevant where a Return is filled electronically.)

1. Acceptance of un-signed TDS Certificates,
2. Acceptance of TDS Certificates not in the name of the assessee,
3. Issue of refund through TDS certificate is not on record,
4. not obtaining indemnity bond before granting credit on the basis of duplicate TDS certificates,
5. giving credit for TDS through relevant income is not offered for taxation.

T.3 PROCEDURAL IRREGULARITIES

1. Improper credit for TDS certificates while processing the return manually.
2. Non cancellation of TDS Certificates after giving credit.
3. Refunds granted after completion of scrutiny assessment (leading to payment of avoidable interest) and not immediately after processing u/s. 143(1).
4. Non adjustment of refund granted in an earlier order.
5. Set off of refund against pending demand without intimation to the assessee.
6. Set off of refund against the demand of another assessee.
7. Issue of refund without proper administrative approval.
8. Delay in obtaining administrative approval for issue of refund.
9. Irregular withholding of refund.
10. Delay in allowing refund as a result of appellate order.



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