

For Departmental use only

**SERVICE TAX**  
**AUDIT MANUAL**  
**2011**  
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DIRECTORATE GENERAL OF AUDIT  
CUSTOMS, CENTRAL EXCISE AND SERVICE TAX  
C.R.BUILDING, I.P.ESTATE  
NEW DELHI

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**CHAPTER 1**  
**INTRODUCTION**

- 1.1 The Service Tax Audit Manual outlines procedures to be adopted for conduct of Audit of Service Tax Assessee under Chapter V of the Finance Act, 1994 (as amended from time to time) and the rules framed there under. This ensures that the Audit is carried out in a uniform, efficient and comprehensive manner in accordance with audit standards. In order to make best use of the Manual, the Auditor must study Assessee Master File, previous Audit Reports including Cost Audit Reports, if any, Final Accounts of the Assessee including Trial Balance, Contracts entered into by taxpayers, changes in the Service Tax Law and Procedures, Board's instructions and Circulars, relevant case laws etc.
- 1.2 If during the audit, it is seen that the guidelines in this manual are in conflict or are inconsistent with the provisions of the Chapter V of Finance Act, 1994 (as amended) and / or the Rules framed under Section 94 thereof or any of the Notifications / Circulars / Instructions issued by the Board, because of any changes in the law and policy subsequent to the issue of this manual or otherwise, the provisions of the Act / Rules / Notifications / Circulars / Instructions of the Board will obviously prevail over the contents of this manual.
- 1.3 Any suggestions for amendment / improvement in the Service Tax Audit Manual may be sent through the jurisdictional Commissioners to the Directorate General of Audit, New Delhi.

**CHAPTER 2**  
**MANAGEMENT OF SERVICE TAX AUDIT**

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

**2.2 MANAGEMENT AT APEX LEVEL**

2.2.1 The Directorate General of Audit, Customs & Central Excise, New Delhi (headed by Director General) with its 7 Zonal Units at Ahmedabad, Bangalore, Chennai, Delhi, Hyderabad, Kolkata and Mumbai (all headed by an Additional Director General) is required to ensure the effective and efficient implementation of the audit system (based on EA 2000 methodology) as well as to evolve and improve audit techniques and procedures through periodic review. With the help of its Zonal units, the Directorate General of Audit regularly monitors Service Tax audits conducted by the Commissionerates to see that the coverage of taxpayers is adequate in number and reflective of their risk profile as well as to ensure that these audits are conducted in accordance with the letter and spirit of EA 2000 methodology. For this purpose, it needs to interact closely with Chief Commissionerates and Commissionerates for eliminating the deficiencies and improving the Audit performance.

2.2.2 In its advisory role to the Board, Directorate General of Audit is required to suggest measures to enhance tax compliance, to gauge the level of audit standards and the taxpayers' views on the prevalent audit system. It should also interact with select taxpayers for taking a holistic view of the internal audit to formulate proposals which remove irritants and obviate the scope for irregularities.

## **2.3 ROLE OF ZONAL CHIEF COMMISSIONERS**

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

- i) Collection, compilation and analysis of the data received from Commissionerates and communication of the same to the respective Zonal Additional Director General (Audit) and to Director General (Audit) wherever specifically asked for.
- ii) Review of the performance of the Commissionerates vis-à-vis audit targets fixed.
- iii) Dissemination of information pertaining to audit to the Commissionerates.
- iv) Resolving local level problems in implementation of audit system and providing feedback to Directorate General of Audit.
- v) Implementation of guidelines pertaining to the zonal Commissionerates issued by Directorate General of Audit.
- vi) Monitoring the training for auditors and the officers of the zone in techniques of service tax audit and accountancy.
- vii) Arranging assistance and information to officers of Directorate General (Audit) in regularly examining the conduct of audit and results.

## **2.4 MANAGEMENT AT LOCAL LEVEL**

2.4.1 For management of audit at local level, the Commissioner should constitute audit parties comprising officers with requisite experience and expertise to conduct Service Tax audits. Planning, Monitoring and Evaluation of Audits should be done by the existing Audit Cell within the Internal Audit Section of the Commissionerate as is the case with the Central Excise audits. All the other steps involved in the conduct of audit would be the responsibility of respective audit parties.

## **2.4.2 Functions of Audit Cell**

### **2.4.2.1 Planning of Audit:**

- (i) To maintain a database of available manpower resources for effective deployment.
- (ii) To maintain data of taxpayer to be audited mandatorily and others to be audited on the basis of risk analysis.
- (iii) Selection of taxpayers on the basis of Risk parameters, Board's guidelines and available manpower.
- (iv) Maintenance of Assessee Master File
- (v) Planning the audit schedule in such a way so as to make optimum use of available resources.
- (vi) Ensuring proper desk review before commencement of audit.
- (vii) Ensuring audit follow-up.
- (viii) Preparation and submission of reports prescribed by the Directorate General of Audit.
- (ix) Evaluation and scrutiny of working papers.

### **2.4.2.2 Monitoring of Audits.**

For monitoring of audits, the Commissioner should convene a Monitoring Committee Meeting (MCM) at least once a month headed by the Commissioner which should be attended by the Additional / Joint Commissioners, officers of the Audit Cell, Supervisory Officers of the Audit Teams, the concerned Divisional Deputy/ Assistant Commissioners. Prior intimation of the meeting is also required to be given to the Zonal ADG (Audit) to enable his representative to be present during the MCM.

The MCM should examine the sustainability of each draft audit objection and set out the future action points in the circulated minutes, which would be drawn and forwarded to the concerned field-officer along with the copy of relevant

audit report. It should also examine the overall working of the audit system and identify the areas requiring special attention including training requirement.

#### 2.4.2.3 Performance Appraisal and Quality Assurance

The Audit cell should put up the Working Papers and Audit Report on each audit for monthly evaluation and scoring. The emphasis of the scoring system would be on conduct of audit in accordance with the norms laid down in this manual and the Working Papers, and also the results achieved. The Scoring system divides the entire process of audit into six parts:

- (i) preparation of the Audit Plan;
- (ii) conduct of audit;
- (iii) revenue points detected (major objections and their quality);
- (iv) realisation of revenue;
- (v) issues relating to future compliance by the taxpayer; and
- (vi) timely completion of audit.

A greater responsibility, therefore, rests on the senior officers to duly assess the audit reports and bring out the strength and weaknesses. Such regular appraisal would help in steering the audit into areas, which are the core of the new audit system, by making good the deficiencies noticed. The scores of each team in different areas of audit should be reviewed every quarter. If the quarterly average in a specific field is found to be below 60 per cent marks, immediate re-training of the concerned auditor for the subject should be organised. The cell should discreetly gather views from the trade/ industry regarding the system of audit. Standard feedback format should be designed by the cell for this purpose. The conclusions and report of the cell should be an input for taking responsive measures.

## 2.5 **ROLE OF SENIOR OFFICERS**

### 2.5.1 **Commissioner**

- (i) Holding Monitoring Committee Meeting (MCM), once a month.
- (ii) Taking a decision about the acceptability of all audit objections.
- (iii) Ensuring that requisite follow-up action (e.g. issue of show cause notice, recovery) is taken (on objections that are accepted) by the Division or other sections of the Commissionerate.
- (iv) Reviewing audit performance at local level and taking steps for improvement.
- (v) Scoring and evaluation of working papers and Audit Reports.
- (vi) Taking remedial measures on the report of Audit Cell on Performance Appraisal and Quality Assurance.
- (vii) Reviewing the performance and participation of the Additional/ Joint Commissioner and Deputy/ Assistant Commissioner of Audit wing.
- (viii) Interacting with the major taxpayers in order to obtain feedback on the audit system.
- (ix) Coordination with AGCR's office.
- (x) Assess the training needs of the auditors and organize training programmes.
- (xi) Submission of periodical reports to various formations including Zonal ADG (Audit) or Director General (Audit) as prescribed from time to time.

#### 2.5.2 **Additional / Joint Commissioner (Audit)**

- (i) Co-ordination, planning and overall management of the audit branch.
- (ii) Interacting with taxpayers paying annual revenue of Rupees five crore or above at the time of audit in order to share major audit findings and compliance issues.
- (iii) Final selection of non-mandatory taxpayers on the basis of risk assessment to be audited during the year.
- (iv) Approving the Desk Review and Audit Plan after ensuring that all the steps have been completed.
- (v) Scoring and evaluation of audit reports.



- (vi) Organizing training programmes for auditors.
- (vii) Review the follow-up actions.

**2.5.3 Deputy / Assistant Commissioner (Audit)**

- (i) Co-ordination, planning and day-to-day management of Audit section.
- (ii) Preparing the list of required minimum number of taxpayers to be audited as per Board's instructions, rupee risk and availability of manpower etc.
- (iii) Preparation of audit schedule with dates for each unit.
- (iv) Supervision and approval of each of the steps leading to preparation of audit plan.
- (v) In select cases, interviewing the officers of the taxpayer during visit for preparing audit plan.
- (vi) Visiting the units and suitably participating in the conduct of audit as frequently as possible especially in sensitive service categories.
- (vii) Scrutinising the draft audit report.
- (viii) Ensuring preparation/ updating of Assessee Master file.
- (ix) Discussion with the taxpayer regarding audit objections in select cases.

**2.5.4 Divisional Officers i.e. Deputy / Assistant Commissioners**

- (i) Provide data to audit branch to build up data base including build up of Assessee master file.
- (ii) Provide the copies of ST-3 returns along with challans and other relevant details.
- (iii) Suggestions regarding selection of units for audit.
- (iv) Discussions with auditors on audit findings prior to preparation of Audit Report by the audit parties.
- (v) Taking follow-up actions on audit objections.
- (vi) Participation in monitoring committee meetings.

#### **2.5.5 Deputy / Assistant Commissioners in-charge of other Sections**

- (i) The Adjudication, Appeal & Review (AA&R) section may provide the details of Orders-in-Original passed by Deputy / Assistant Commissioners, whether accepted or appealed against, once in a month to the Audit Cell for their information.
- (ii) The Legal branch (or AA&R branch) must intimate important Court / CESTAT decisions especially on appeals filed by the department to the audit cell on regular basis.
- (iii) The Technical branch would ensure that copies of general circulars are sent to audit cell and important notifications, which have a bearing on the department's work, are highlighted.
- (iv) The Anti Evasion branch would give the details of all important detections to Audit Cell. In cases where investigations are completed, a copy of the investigation report show cause notice may be provided to Audit Cell.

#### **2.6 AUDIT CELL IN HEADQUARTERS**

The Audit Section in the Commissionerate should have some stationary Audit Parties for attending to office work in the Audit Section. Out of these stationary teams, a few teams may constitute the Audit Cell for providing support to the non-stationary Audit parties as envisaged in this manual.

**CHAPTER 3**  
**AUDITOR'S RESPONSIBILITY AND AUTHORITY**

**3.1 DEFINITION OF AUDITOR**

Service Tax is an indirect tax administered by the Service Tax and Central Excise Department. Accordingly, an 'Auditor' means a Central Excise/ Service Tax officer entrusted with the duty of conducting audit. Normally it will mean an Inspector or Superintendent of Central Excise/ Service Tax.

**3.2 ROLE OF THE AUDITOR**

3.2.1 While conducting audit, the Auditor is required to carry out his duties with utmost sincerity, integrity and diligence. The Auditor has to aim at detection of non-compliance, procedural irregularities and leakage of revenue due to deliberate action or ignorance on the part of the taxpayer. The Auditor should keep in view the prevalent transactional and professional practices, as also the practical difficulties faced by a taxpayer. Therefore, the Auditor should take a balanced, fair and rational approach while conducting the audit. During the course of the audit, if any purely technical infractions, without any revenue implications, are noticed, the Auditor is expected to exercise sense of proportion and should guide the taxpayer in correcting the procedures.

3.2.2. The audit process should be transparent so that the findings are discussed with the taxpayers i.e. service providers / recipients (in case of specified services or under reverse charge mechanism) and an opportunity is accorded to them to give their view-point before an objection is finalised and recovery measures are initiated.

3.2.3 The Auditor should consider the view-point of the taxpayer regarding all points of dispute before taking any definitive stand. Whenever in doubt, the Auditor should contact his supervisor or Assistant / Deputy

Commissioner to ensure that the view taken by him is consistent with established law and procedure.

3.2.4 An Auditor should endeavour to conclude all issues raised by him during a particular audit. He should document all his findings in the working papers so that a record of steps leading to an audit point is available. The working papers for each of the step should be written as soon as that step is completed before proceeding to the next step.

### **3.3 DEALING WITH THE PUBLIC**

3.3.1 The Government's objective is to collect correct amount of tax levied under the Service Tax law in a cost-effective, responsive, fair and transparent manner and also to maintain public confidence in the integrity of the tax system. The audit should be participative and a fact finding mission, as against a fault finding exercise, with the objective of guiding the taxpayer while at the same time guarding against any leakage of revenue.

3.3.2 The Auditor is expected to maintain a good professional relationship with the taxpayer. The Auditor should recognise the rights of the taxpayers, such as the right to impartial and uniform application of law; the right to be treated with courtesy and fairness, the right to information permitted by law and the right to confidentiality of information disclosed only for Departmental audit. Normally the taxpayers have the following advantages from such Audit:-

- (i) They will be better equipped to comply with the Service Tax Law and Procedures;
- (ii) The preparation of ST-3 Return and self-assessment of Service Tax will be better focused and complete;
- (iii) The scrutiny of business accounts and reports/ returns submitted to various agencies, in the course of audit, will help them in removing any deficiencies in their accounting, documentation and internal controls;

(iv) The disputes and proceedings against them would be minimised or even eliminated.

3.3.3 Auditor should use a constructive and tactful approach to gain the goodwill and confidence of the taxpayer. In return, the Auditor can expect the taxpayer to be co-operative and to provide the necessary documents and information. In cases of non-cooperation, deliberate failure to provide information by the taxpayer or any other exigency, the Auditor should inform his superiors and follow it up by a written report, if necessary.

3.3.4 Confidentiality should be maintained in respect of sensitive and confidential information furnished to an Auditor during the course of audit. All records submitted by the service provider to the audit parties, in electronic or manual format, should be used only for verification of levy of service tax and tax compliance. These shall not be used for any other purposes without the express written consent of the taxpayer. Further, the officers should not disclose to outsiders any particulars learnt by them in their official capacity.

#### 3.4 AUDITOR'S AUTHORITY UNDER SERVICE TAX LAW

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

- (i) Section 65(121) of the Finance Act, 1994 provides that words and expressions used but not defined in Chapter V of the said Finance Act and defined in the Central Excise Act, 1944 or the rules made there under, shall apply, so far as may be in relation to Service Tax as they apply in relation to a duty of excise.
- (ii) Rule 2(2) of the Service Tax Rules, 1994 lays down that all words and expressions used but not defined in Service Tax Rules but defined in the Central Excise Act, 1944 and the rules made thereunder shall have

the meanings assigned to them in that Act and Rules. [Notification No.2/94-ST, dated 28.06.1994]

- (iii) The definition of "Central Excise Officer" as contained in the Section 2(b) of the Central Excise Act, 1944 will also apply to the Central Excise officers conducting Service Tax audit and shall also include Service Tax officers. Thus, a Central Excise officer assigned the duties of Audit in Service Tax is a proper officer for conduct of Service Tax audit.

3.4.2 Vide Service Tax Circular No.775/8/2004-CX, dated 17.02.2004 (F.No.206/03/2003-CX), the Board directed the audit of all services subjected to levy of service tax. Subsequently, vide Service Tax Circular No.97/8/2007-ST, dated 23.08.2007 [F.No.135/85/2007-CX4], at S.No.11, the Board issued instructions for selective audit of Service taxpayers and other assesses like input service distributors etc.

3.4.3 The Service Tax Law through the Finance Act, 1994 and Service Tax Rules, 1994 do not prescribe any specific records to be maintained by the taxpayer. However, Rule 5 of the said Rules deals with Records. In this regard,-

- (i) Rule 5(1) of the Service Tax Rules, 1994 mentions that the records (including computerised data) as maintained by a taxpayer in accordance with various laws in force from time to time shall be acceptable.
- (ii) Rule 5(2) of the Service Tax Rules, 1994 requires every taxpayer to furnish to the Superintendent of Central Excise, at the time of filing his return for the first time or the 31<sup>st</sup> day of January 2008, whichever is later, a list of all the records prepared or maintained by the taxpayer for accounting of transactions specified therein relating to Service Tax including all other financial records maintained in the normal course of business.

- (iii) Rule 5A(1) of the Service Tax Rules, 1994 empowers an officer authorised by Commissioner to have access to any premises registered under the rules for the purpose of carrying out any scrutiny, verification and checks as may be necessary to safeguard the interest of revenue

Further, under Rule 5A(2) the assessee shall on demand make available to the officer or audit party deputed by the Commissioner, within 15 days, (i) the records mentioned in Rule 5(2), (ii) the trial balance or its equivalent and (iii) the income tax audit report under section 44AB of the Income tax Act, 1961.

- (iv) Besides, Rules 9(5) and 9(6) of the Cenvat Credit Rules, 2004 provides for maintenance of records by a provider of output service with respect to receipt and consumption of inputs, capital goods and input services in addition to submission of periodical returns prescribed under rule 9(9) to rule 9(11) *ibid* in respect of credit availed.

3.4.4 In view of the above, all records and documents pertaining to the business of rendering taxable service and records relating to availment of credit, including computerised accounts, can be appropriately examined by the officers while conducting audit.

## **CHAPTER 4**

### **PRINCIPLES OF AUDIT**

4.1 The objective of audit of service providers is to measure the level of compliance of the taxpayer in the light of the provisions of Chapter V of the Finance Act, 1994 and the rules framed thereunder in terms of Section 94 of the Act *ibid*. It should be consistent with departmental instructions and make use of professional audit methodology and procedures. The basic principles are:

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

#### **4.2 STANDARDS FOR CONDUCT OF AUDIT**

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

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



- (i) Cumulative effect of small items: An error of one isolated item might be insignificant but the cumulative effect of many individually unimportant items would signify systematic failure. In fact, the relative materiality of an individual item has to be viewed against the net total effect on over-all compliance and revenue interest.
- (ii) General or Particular Items: An error made in a particular transaction may be an aberration if it is a stray single instance but the effect may be material, if it is of recurring nature. Thus frequency of error is of importance.
- (iii) Effect in relation to scale of a taxpayer's operation: An error by itself may appear small but may have sizable implications due to the huge scale of an taxpayer's operations.

#### 4.3 PERIOD TO BE COVERED DURING AUDIT

Every audit should invariably cover the retrospective period up to the previous audit by the Departmental Audit Party or the last 5 years (limited to the commencement of levy on a particular service) whichever is less and should extend up to the last completed Financial Year preceding the date of commencement of the audit.

#### 4.4 DURATION OF AUDIT

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

- (i) Taxpayers with Service Tax payment above Rs.3 Crores (Cash + CENVAT) **(mandatory taxpayers) – upto maximum 10 working days.**
- (ii) Taxpayers with Service Tax payment between Rs.1 Crore and Rs.3 Crores (Cash + CENVAT) – upto **maximum 7 working days.**
- (iii) Taxpayers with Service Tax payment between Rs.25 Lakhs and Rs.1 Crore (Cash + CENVAT) – upto **maximum 5 working days.**
- (iv) Taxpayers with Service Tax payment upto Rs.25 lakhs (Cash + CENVAT) – upto **maximum 3 working days.**

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

#### 4.5 STAGE WISE ACTION FOR AUDIT

Preparation and updating of Assessee Master file containing comprehensive taxpayer profile.

- (i) Preparation and updating of Assessee Master file containing comprehensive taxpayer profile.
- (ii) Selection of taxpayers for audit.
- (iii) Collection of all relevant documents, data reconciliation statement and reply to questionnaire.
- (iv) Interview of the taxpayer.
- (v) Desk review on the basis of relevant documents and interview of the taxpayer.
- (vi) Formulation and approval of audit plan based on desk review.
- (vii) Conducting Audit Verification on the basis of the approved Audit Plan.
- (viii) Apprising the taxpayer of the irregularities noticed, and ascertaining his view point and advising him to deposit the amount detected during audit so as to avail the facility available under Section 73(3) of the Finance Act, 1994.
- (ix) Suggestions to taxpayer for future correction/ improvements.

- (x) Preparation of draft audit report and its submission to the senior officers.
- (xi) Monitoring of the draft audit report during MCM and approval of the objections raised.
- (xii) Scoring of Audit Report.
- (xiii) Issue of final audit report.
- (xiv) Preparation of Modus Operandi Circular to be submitted to the Zonal Additional Director General (Audit) and the Directorate General of Service Tax.
- (xv) Follow up action, for monitoring the compliance of various points.
- (xvi) Ensure timely issuance of SCNs wherever warranted.
- (xvii) Recovery of revenue detected.

**CHAPTER 5**  
**SELECTION OF TAXPAYERS FOR AUDIT**

5.1.1 Selection of taxpayers for audit means selection of taxpayers to be audited during a specified period taking into account available resources. Given the large number of registered taxpayers under Service Tax, it is impossible to subject every taxpayer to audit each year with the available resources. Also mere emphasis on coverage of more number of taxpayers would also dilute the quality of Audit. Proper selection of units based on scientific techniques and experience will help in effective deployment of available resources for achieving optimum results.

5.1.2. Notwithstanding the above principle, there are certain types of taxpayers (depending on the quantum of annual Service Tax payment) which are to be audited mandatorily within a given span of time. Thus, taxpayers whose annual service tax payment (including cash and CENVAT) was Rs.3 crore or more in the preceding financial year may be subjected to mandatory audit each year. It is preferable that Audit of all such taxpayers is done by using Computer Assisted Audit Program (CAAP) techniques. The frequency of audit for taxpayers, categorized as Type A, B, C & D, would be as per following norms:-

- (i) Type A - Taxpayers with Service Tax payment above Rs.3 Crores (Cash + CENVAT) (**mandatory taxpayers**) – to be audited every year.
- (ii) Type B - Taxpayers with service Tax payment between Rs. 1 Crores to Rs. 3 Crores (Cash+CENVAT) - to be audited once every two years.
- (iii) Type C - Taxpayers with Service Tax payment between Rs.25 Lakhs and Rs.1 Crore (Cash + CENVAT) – to be audited once every five years.

- (iv) Type D - Taxpayers with Service Tax payment upto Rs.25 lakhs (Cash + CENVAT) – 2% of taxpayers to be audited every year.

Vide para 13.1 of JS (TRU-II)'s DO letter F.No. 334/3/2011-TRU, dated 28.02.2011, the Hon'ble Finance Minister has announced in his Budget speech (2011) in respect of Service Tax that, - individual and sole proprietor assesseees with a turnover up to Rs. 60 lakhs shall not be subject to audit

5.1.3. The Audit selection guidelines, therefore, would apply to the non-mandatory taxpayers, forming part of the discretionary workload. These taxpayers should be selected on the basis of assessment of the risk potential to revenue. This process, which is an essential feature of audit selection, is known as Risk Assessment. It involves the ranking of taxpayers according to a quantitative indicator of risk known as a 'risk parameter'. It is also suggested that the taxpayers whose returns were selected for detailed scrutiny, may not be taken up for Audit that year, to avoid duplication of work. Similarly the taxpayers who have been selected for Audit, the detailed scrutiny of their ST-3 Returns need not be taken up during that year.

**5.1.4 Method of selection of taxpayers based on risk assessment**

The selection of taxpayers for audit should be carried out for the entire year at the beginning of the financial year. For this, the following steps may be followed in sequence:

- Preparation of updated list of all registered taxpayers of the Commissionerate falling under different tax slabs (Cash + CENVAT) i.e. above Rs.3 crores, between Rs.1 crore and Rs.3 crores, between Rs.25 lakh and Rs.1 crore and below Rs.25 lakh.
- Deciding upon the maximum number of audits that can be carried out in different tax slabs in non-mandatory categories taking into account:
  - 1) the instructions of the Board,
  - 2) the available man power in audit section, and
  - 3) available audit man-hours after conducting the mandatory audits.
- It is desirable that the risk parameters calculations are done on a segmented basis for each duty segment covering the non-mandatory taxpayers. The duty segments could be as per above four segments, and then a list of taxpayers in descending order of rupee risk should be arranged within each duty segment.

- Working out of Rupee Risk ( $S_1$ ) as prescribed in paragraph 5.1.5 below. In absence of proper database and lack of details in the Assessee Master File, selection could be made on the basis of risk parameter  $S_2$  as prescribed in paragraph 5.1.6. Local risk parameters as discussed below can also be combined with  $S_1$  or  $S_2$  to select taxpayers having high risk perception in the opinion of the Commissioner.
- Working out local risk parameters may also be done by the respective Commissionerate on the basis of various parameters. An illustrative list of the same is as below:
  - a) Taxpayers paying high proportion of service tax through CENVAT.
  - b) Taxpayers having Centralised registration
  - c) Taxpayers providing both exempted as well as taxable services.
  - d) Taxpayers providing services of personal nature which are being consumed directly and therefore there being no use of CENVAT to the consumer.
  - e) Taxpayers which are registered for multiple services.
  - f) Taxpayers referred to by the Division/ Range on the basis of Scrutiny.
  - g) Taxpayers whose earlier audit resulted into substantial demand.
  - h) Taxpayers referred to audit as a result of the scrutiny of their half yearly returns.
  - i) Taxpayers providing services to Associated concerns.
  - j) Tax payers receiving inputs, input services, capital goods etc., free of cost from service receivers or on their behalf.
  - k) Taxpayers having bad track record with the Department.
  - l) Taxpayers taking credit on the basis of documents issued by input service distributor.
  - m) Taxpayers whose value of taxable service exhibits a downward trend.
  - n) Taxpayers engaged in export of services.
  - o) Services where service tax is payable under reverse charge mechanism.

- Preparation of final annual lists of taxpayers selected for audit by applying the prescribed risk parameters together with local risk parameters. In doing so, tax payers should be selected in descending order of their risk perception keeping in mind the availability of manpower.

#### 5.1.5 Computation of risk parameter $S_1$ :

The Rupee Risk  $S_1$  can be calculated for all non-mandatory taxpayers using the following formula:

$$S_1 = (V_1 - V_2) \times r / (100 + r)$$

Where

$V_1$  = Gross receivable including ST as per ledger or gross income including ST as per P&L A/c but excluding value of excisable goods sold.

$V_2$  = Taxable value including ST as per ST-3 Return.

$r$  = Rate of Service tax in percentage.

Note: If ledger details are not available, then only data from Annual Report (P & L A/c) or Trial Balance can be taken for calculation of  $V_1$ .

All the non-mandatory taxpayers should be arranged in the descending order of rupee risk and included in the audit schedule in that sequence.

#### 5.1.6 Computation of risk parameter $S_2$

If due to some unavoidable reason, it is not possible to compute the risk parameter  $S_1$ , only then  $S_2$  should be used for selection of non-mandatory tax payers.  $S_2$  can be arrived at in the following manner:

$$S_2 = (0.25 \times R_1) + (0.15 \times R_2 \times V) + (0.15 \times R_3 \times V) + (0.10 \times R_4 \times V) + (0.10 \times R_5 \times V) + (0.10 \times R_6 \times V) + (0.10 \times R_7 \times V)$$

Where

$R_1$  = Total recoverable amount as per the Table for determination of Short Payment of Revenue on the basis of ST-3 [ see ANNEXURE – I ]

$R_2$  = Change in (total credit taken / total value of taxable service charged).

$R_3$  = Change in (ST paid by CENVAT / total service tax paid).

$R_4$  = Change in (cumulative value charged / cumulative value received for Taxable Service).

$R_5$  = Change in (Value of exempted service / value of taxable service).

$R_6$  = Change in (amount of abatement claimed / total value of taxable service).

$R_7$  = Change in (amount received against export of service / amount received against taxable service).

$V$  = Total Value of Taxable Service.

Risk Parameter  $S_2$  in conjunction with local Risk Parameters can be used for selection of non-mandatory taxpayers in absence of  $S_1$ . The change (absolute value of change) in various parameters listed above should be taken from the two ST-3 Returns of the last completed financial year under audit. The worksheet [ see ANNEXURE – I ] also contains a sheet for checking of CENVAT Credit utilized by the taxpayer. It may be noted that selection of taxpayers on the basis of  $S_2$  should be resorted to only whom  $S_1$  can not be ascertained.

## 5.2 PREPARATION OF AUDIT SCHEDULE

5.2.1 The selection of taxpayers for audit should be done at the beginning of the financial year for the whole year. The list of taxpayers so chosen shall form the basis for preparation of audit schedule. While preparing the schedule, care should be taken to ensure that all taxpayers to be audited mandatorily during the year are covered. As regards remaining taxpayers, it is suggested that a schedule of taxpayers to be audited should be prepared in such a manner that high-risk taxpayers are placed



at the top. This will ensure that in the event of time overrun in conducting some of the audits, only the low risk taxpayers are left unaudited. Normally, the final audit schedule is prepared on a quarterly basis. However, it is desired that the list of

taxpayers to be audited in the whole financial year should be identified in the beginning of the financial year itself. Keeping a target of audit of at least 3 Taxpayers each month (consisting of taxpayers of various categories), by each Audit Group, a list of Taxpayers to be audited by each Audit Group in a whole year could be given to each Audit Group. This would give them sufficient time to obtain the information from the Taxpayers, which is otherwise one of the causes of delay in conduct of audit.

In the Service Tax Commissionerates where assessee is also a manufacturer, there will be coordination between the Service Tax Commissionerate and the Central Excise Commissionerate. As regards to the audit of manufacturer who is also the service provider, as far as possible, simultaneous audit for Central Excise and Service Tax (in composite Commissionerates) should be undertaken. The Service Tax audit team should collect all the relevant documents required for desk review and reconciliation and complete all the steps required for audit prior to Audit Verification. However, the Audit Verification at the premises of the taxpayer should be done by the Central Excise Audit Party and the Service Tax Audit Party simultaneously.

#### **5.2.2 Service Tax Audit Cell in the Audit Sections**

The audit section in each Commissionerate should have a separate Service Tax Audit Cell. The said Cell should comprise of officers with proven track record and knowledge of Service Tax Law and procedures together with current audit techniques. Educational qualifications of an officer should also be factored in for such selection. Efforts should be made to arrange special training programmes with regard to Service Tax audit techniques, peculiarities of major taxable services and risk factors unique to important service categories so that auditors have the necessary knowledge and insight. Allotment of service providers for audit should be done for the whole Financial Year well in advance so as to give enough time for auditors to prepare background material and familiarise themselves with the relevant service.

### **5.3 ALLOCATION OF AUDIT**

It is desirable that the total number of officers available for Audit is divided into Audit Parties. There after the Services may be divided into groups by aggregating similar services. A suggested list of such groups is provided in **ANNEXURE - II**. This grouping would facilitate specialization amongst the Audit Officers and would also lead to uniformity in the type of objections that are raised to particular service providers. However, Audit groups can be reconstituted in accordance with the local needs.

### **5.4 DEPLOYMENT OF AUDITORS**

5.4.1 Normally, officers selected and posted to Service Tax Audit should be allowed to continue for a minimum period of 3 years.

5.4.2 Generally, each audit party may consist of two Superintendents, one Inspector and suitable ministerial assistance. The senior most Superintendent should lead the audit party. In cases of heavy workload (in view of number of transactions, their complexity and connected matters) the number of officers in an audit party may suitably be increased by temporarily merging two or more Audit Parties. The supervisory officer of the rank of Deputy / Assistant Commissioner must frequently associate with the audit verification by attending to select risk areas as identified in the desk review, especially in case of important and sensitive taxpayers. In addition to a minimum advance-notice of 15 days to the taxpayer, every audit party should inform the supervising Deputy / Assistant Commissioner (Audit) (as also the jurisdictional Divisional Deputy / Assistant Commissioner) of the dates of their visit to a service-provider so as to enable them to contact the audit party whenever necessary.

## **CHAPTER 6**

### **PREPARATION FOR AUDIT**

#### **6.1 MASTER FILE ON EACH TAX-PAYER**

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

6.1.2 The Audit Cell should collect all relevant information and documents about the taxpayer from various sources (including the taxpayer himself), arrange it methodically and regularly update it. For this, it is necessary to maintain separate Master Files for each Taxpayer registered with the department. The master file should contain all relevant information about a taxpayer in three parts. The first part is the Taxpayer's profile, the second part contains information about the business particulars of the taxpayer and the third part contains the copies of documents such as application for registration, registration certificates, balance sheets, annual reports, previous Audit Report, LAR etc., pertaining to the taxpayer. The information should be in the form of statistical data as well as in narrative form. The format of Master file is given in **ANNEXURE - III** to this manual.

6.1.3 The hard copies of the documents should be maintained for a period of 5 years. Documents pertaining to period older than 5 years should be removed unless relevant to any current proceedings. The disposal of the documents removed from the master file should be done with the approval of Deputy Commissioner / Assistant Commissioner (Audit).

6.1.4 The Audit Cell should maintain a separate electronic folder of each taxpayer and make all entries for that particular taxpayer in that folder only. The folder should be updated after every subsequent audit. However, the Audit Cell shall update the changes, if any, on a half yearly basis. Initially, most of the information would be available in the form of hard copies and the updating has to be done manually. Progressively, the information would be maintained in electronic format with automated data transfer through networking system and could be automatically updated.

6.1.5 The electronic data should be kept in properly secured format so that it can be altered or modified only by the authorised officer of the Audit Cell. The data should, however, be accessible to all the concerned officers. This file would be useful not only for audit but also for other purposes such as generating Management Information System (MIS) reports and replying to Parliament Questions, etc.

6.1.6 The Audit Cell is responsible for the upkeep and update of the master files on each taxpayer. If not already opened, such files should be created immediately. If the same are not available, the same shall be created before the next audit is taken up.

## **6.2 DESK REVIEW**

6.2.1 This is the first stage of the audit exercise done in the office. As soon as the Auditor receives the list of Taxpayers that has to be audited by him, he should immediately write a letter to all of them in the format [see ANNEXURE – IV]. This letter seeks information in the format given in ANNEXURE - XV. A list of documents required for carrying out Desk Review is also included in the said Annexure. This exhaustive list has been prepared so as to assimilate maximum possible relevant information about the taxpayer and his business before visiting his premises.

6.2.2 On receiving the documents along with filled up Questionnaire and reconciliation data sheet in the prescribed proforma, the Audit Group should put them up to Additional / Joint Commissioner (Audit) through Deputy / Assistant

.Commissioner (Audit) after carrying out preliminary reconciliation identifying discrepancies, if any, and carrying out detailed examination of the records and information (including that already captured in the Master File on taxpayer).

6.2.3 For carrying out the detailed analysis, the following points should be kept in mind:-

- a) Check whether the description of the service has been changed during the past three to four years, without affecting the nature of the service provided. To illustrate, a Management Consultant attracting tax under Section 65 (105)(r) of the Finance Act, 1994 may declare himself as a law practitioner attracting tax under Section 65 (105)(zzzzm) of the Finance Act, 1994 without essentially altering the nature of service provided.
- b) The Auditor should check the data provided by the taxpayer for reconciliation with other documents such as gross trial balance, Annual Accounts, Ledgers etc. collected by them and carry out a preliminary reconciliation for the purpose of identifying any amount that might have escaped Service Tax.
- c) Auditor has to be careful when the services are for personal consumption because in such cases, there is a possibility of non-availment of CENVAT by the service recipient or he is not likely to claim expenses as deductions under Income tax. To illustrate, if the individual consumer is not eligible to get CENVAT credit of input tax received because he is not a provider of any taxable output service, he may like to make payment to the service provider in cash. The service provider may also oblige such individual by accepting the consideration in cash without charging service tax, though it will not result in any saving to him so far as service tax is concerned. It may because of any of the following reasons:-
  - i) Savings of Direct Taxes (Income Tax)
  - ii) Making its business more competitive vis-à-vis other competitors.

6.2.4 While looking into the books of Account of the taxpayer, the following points should also be looked into by the Auditor:

- a) In case consideration is received by way of account payee cheques, the Auditor must ensure that the consideration is properly recorded in the books of accounts. Auditor should verify that the name of the bank in which payment has been received is recorded in the account books and is appearing in the balance sheet. Auditor should also verify the Bank Reconciliation Statement prepared by the taxpayer.
- b) In case consideration is received in cash, generally there is no check available for verification of such payment. However, few checks as under may be carried out when amount for services provided or to be provided is received in cash-
  - (i) In case of long outstanding balances appearing in the books of account of the assessee, reason for the same must be ascertained from the taxpayer. In other words, ageing of amount receivable must be examined particularly when services are not in relation to business or commerce.
  - (ii) In case of taxable services where material is transferred during the provision of services like construction, outdoor caterer and similar like services, the **ratio of value of material consumed to gross receipts** may be calculated to have a fair estimate of the service tax liability of the taxpayer. **Industry's trend or past record of the taxpayer** in this respect may also prove to be a useful tool in the hands of Auditor.
  - (iii) Auditor should ask for receipts, billing etc. especially if payment is not received at all or in case of bad debts or discounts claimed by the service provider.
- c) Auditor should analyse both debit and credit side of the profit & loss a/c, trial balance, ledgers etc. because it is a myth that while ascertaining the service tax liability of the taxpayer, one has to look only at the credit side of P&L A/c. Debit side is equally important or rather more prone to frauds and errors. Therefore, the auditor needs to pay attention towards debit side also. Debit side is important because of–

(i) Reverse charge mechanism- under this mechanism, the recipient of services is liable to pay service tax (e.g. GTA Services, services received from abroad, etc.). Therefore nothing appears on the credit side of the P&L a/c. However, service tax has to be calculated on the amount paid towards taxable services received.

(ii) Reimbursement- unless the concept of pure agent is applicable, reimbursements are includible in the value of Taxable Service. Reconciliation should cover all receivables including reimbursements, sale of goods etc.

- d) Auditor should check as to whether there is any netting of income with amount payable; e.g. a person is acting as a commission agent and receives commission amounting to Rs.5000/- taxable under the category of Business Auxiliary Services (BAS). He is also engaged in trading of goods wherein he is required to pay a commission of Rs. 3000. It may be possible that the amount of commission appearing in the P&L A/c is only Rs. 2000/-, the detail of which is given in Notes on Accounts or is available from the Gross Trial Balance. In this case, if notes to accounts are not studied properly or the Gross Trial balance is not studied, then the Auditor may not be able to determine the correct value of taxable service rendered by the taxpayer.

#### 6.2.5 Scrutiny of VAT Returns

The VAT Returns should be scrutinized for ensuring that the value of services which attract both service tax & VAT are consistently reported. Some of such services which attract both Service Tax & VAT are:-

- ( i ) Commercial or Industrial Construction Services
- (ii) Complex Construction Services
- (iii) Works Contract Services
- (iv) Annual Maintenance Services
- (v) Outdoor Caterer Services
- (vi) Mandap Keeper Services

(vii) Pandal or Shamiana Contractor Services

(viii) Rent – a - Cab Services

#### **6.2.6 Scrutiny of the Tax Audit Report in Form 3CD** **[ see ANNEXURE – V ]**

6.2.6.1 Clause 14 of the Tax Audit Report (Form 3CD) provides information about amount of depreciation under Section 32 of the Income Tax Act, 1961 and that of CENVAT credit availed by the service providers on capital goods.

6.2.6.2 Clause 22 of the Tax Audit report (Form 3CD) gives the details of CENVAT Credit claimed by the service provider. It also provides the details of credit available and carried forward to the next year. Hence, the Auditor can authenticate the amount of credit carried forward in the service tax returns with the information provided in terms of this clause.

6.2.6.3 Clause 22 of the Tax Audit Report (Form 3CD) also gives information regarding prior period incomes and expenses booked in the year under Tax audit. The Auditor shall ensure that service tax is paid on these amounts in case they are subject to service tax.

6.2.6.4 Clause 30 of the Tax Audit Report (Form 3CD) provides the information relating to Cost Audit. If such an audit has been carried out, the Auditor should examine the Cost Audit Report.

6.2.6.5 Clause 32 of the Tax Audit Report (Form 3CD) provides the important accounting ratios.

#### **6.2.7 Scrutiny of Tax Deducted at Source (TDS) Certificates**

The total receipts for services can be verified from TDS certificates in the following manner:-



- i. By deducting the amount of service tax from the value on which tax has been deducted at source, the receipts appearing in the books of accounts can be reconciled.
- ii. The nature of services can also be confirmed from these certificates and in case of any discrepancy in the categorization of services under proper head, elaborate checks need to be carried out by the Auditor.
- iii. Details of TDS credit claimed in the Income Tax Return may also be examined.

#### **6.2.8 Study of various financial records**

##### **6.2.8.1 Notes on Accounts**

In case of debtors, notes indicate debtors which are outstanding for a period exceeding 6 months. Foreign Exchange related transactions are also given in the notes on accounts. Management can use these figures to show book profit to suit their requirements. Netting of amounts of revenue or expenditure can also be resorted to by the management although as per accounting standards it is mandatory to specify the figures separately.

Scrutiny of Notes will also reveal whether there was any change in the system of accounting. For example- a taxpayer changes from cash system of accounting to mercantile accrual system. The notes also indicate the impact of accounting policies on various liabilities including the tax liability of the taxpayer. Therefore, the auditor must read the notes carefully

##### **6.2.8.2 Director's Report**

Director's report may, inter alia, contain information about-

- a) Foreign Exchange earned during the year.

- b) Foreign Exchange paid during the year, e.g.- may be on account of taxable services availed by the taxpayer where he is liable to pay service tax under reverse charge mechanism.
- c) Information on the operations carried out by the taxpayer during the year under report. This may help in finding the exact nature of services provided by the taxpayer.
- d) The facts stated in Director's Report should be reconciled with the ST-3 Returns.

#### 6.2.8.3 Statutory Auditor's Report

It is the most important report contained in the Annual Accounts of a Company. The Statutory Auditor Certifies as to whether the books of account of the company are properly maintained or not and also whether there exist internal control mechanism commensurate with the size and extent of business of the company. Any adverse noting of the Statutory Auditor has to be replied by the management of the Company.

#### 6.2.8.4 The Trial Balance

The most important use of Gross Trial Balance is that it contains balances of individual accounts whereas in Balance Sheet and P&L A/c many accounts are grouped together, e.g.,

- a. In the P&L A/c, all the incomes are clubbed together under the head 'Gross Receipts', 'Sales' as the case may be. However, Trial Balance shows income earned under each category of revenue separately.
- b. Not only Trial Balance is important in relation to income side, but it is very important in relation to expenditure side also. For instance- Payment made towards **Sponsorship services** may be clubbed in the category of Advertisement and Sales Promotion Expenses which can be identified only from the Trial Balance.
- c. Similarly, **freight paid** may be clubbed with Purchases or Fixed Assets.

**6.2.8.5**      Indicative list of items to be examined in the Trial Balance / Profit & Loss Account / Balance Sheet / Tax Audit Report.

The perusal of the Trial Balance could achieve the following:

- i. Familiarization with chart of accounts/account code and understand as to what extent the information is detailed and integrated with other subsystems; few sample Journal Vouchers may also be seen to understand the information mentioned therein.
- ii. Understand the grouping of sub accounts under main accounts for the purposes of summarization into Profit and Loss account and the Balance Sheet.
- iii. Identification of accounts, which have a prima facie relevance for service tax payment (may be direct or indirect). These accounts may have to be seen in detail at later stage of audit depending upon the result of subsequent audit processes;
- iv. Understand the tax accounting system in so far as it pertains to Service Tax payment and treatment of credit of service tax on input services;

During the study of the Trial Balance/ Profit and Loss Account all income accounts could be studied in detail. Normally, the Profit and Loss Account would show a consolidated entry for business income from all sources. According to accounting standards, non-business income such as interest income or dividend income is required to be shown separately.

To begin with, auditors should call for the groupings of business income shown in the Profit and Loss Account. The said groupings would show the different heads under which the incomes have been accounted for. They should carefully study the nature of business income – some of which may have accrued from the sale of taxable services and the balance from the

sale of non-taxable services. The exact nature of these services may be determined from the supporting documents such as Vouchers, bills or

contracts. In doing so, auditors need to be guided by the nomenclature (used for each of these services) in the Trial Balance or Annexures to the Profit & Loss Account. It is possible that the true nature of the service is obscured or disguised by using a nomenclature that is either non-taxable or exempted.

Through the study of Trial Balance, the Auditor should familiarize himself with chart of accounts/ account codes and understand as to what extent the information is detailed and integrated with other subsystems and a few sample Journal Vouchers may also be seen to understand the information mentioned therein. The Auditor should also understand the grouping of sub accounts under main accounts for the purposes of summarization into Profit and Loss account and the Balance Sheet and understand the identification of accounts, which have a prima facie relevance for service tax payment (may be direct or indirect). These accounts may have to be seen in detail at later stage of audit depending upon the result of subsequent audit processes. He should understand the tax accounting system in so far as it pertains to Service Tax payment and treatment of credit of service tax on input services.

#### **6.2.8.5      Profit and Loss Account**

The auditor is required to examine income and expenditure accounts in the Profit and Loss Account:

**a) Income Accounts:** Normally, the Profit and Loss Account would show a consolidated entry for business income from all sources. According to accounting standards, non-business income such as interest income or dividend income is required to be shown separately. To begin with, auditors should call for the groupings of business income shown in the Profit and Loss Account. The said groupings

would show the different heads under which the incomes have been accounted for. They should carefully study the nature of business income – some of which may have accrued from the sale of taxable services and the balance from the sale of non-taxable services. The exact nature of these services may be determined from the supporting documents such as vouchers, bills or contracts. In doing so, auditors need to be guided by the nomenclature (used for each of these services) in the Trial Balance or Annexures to the Profit and Loss Account. It is possible that the true nature of the service may be obscured or disguised by using a nomenclature that is either non-taxable or exempted.

**b) Expense Accounts:** Scrutiny of expense accounts would enable the Auditor to identify major expenditure heads. In specific terms, such scrutiny may be useful in the following manner:

- i) Useful for verification of out of pocket expenses where deductions for these have been claimed from the value of taxable services.
- ii) Correlation between expenditure head and value of taxable service e.g. fuel expenses and the value of taxable service in the case of tour operators.
- iii) Analysis of trend in total expenses vis-à-vis the previous year to check whether income grew proportionately or not.

6.2.9 The Reconciliation Data Sheet given by the Taxpayer [ see ANNEXURE – VI ] should be analysed along with the Questionnaire [ see ANNEXURE – XV ] submitted by him. These should be compared with the Financial Documents like Balance Sheet, Profit & Loss A/c, Ledger etc. to find out whether there exist any discrepancies and whether there are some areas which have escaped payment of tax. For the benefits of the Auditors, the reconciliation format is provided at ANNEXURE – VII to this Manual. During this stage, a discussion with the Taxpayer should also be held, at the Office premises to gather information about the taxpayer and documenting the business systems or processes in use at his unit. The discussion with the taxpayer is intended to settle issues which can be cleared by simple discussion. This will help avoid

inclusion of non-issues in Audit Plan and expedite the audit process. Discussions with the Senior Management of the taxpayer are critical for developing a

meaningful audit plan. Keeping in mind the objective of gathering accurate and complete information, it may be useful not to conduct a formal interview, but to engage the taxpayer in informal discussions. At the same time, it is important to prepare points/ questions beforehand on which information is required. Important non-compliance issues derived from the profiles should also be discussed during the discussions and while gathering information from the taxpayer. Special emphasis should be placed on any organization or systemic changes that may have occurred since the last audit. Finally, an Audit plan for the Taxpayer should be prepared. The objective of desk review is to devise a focused audit plan. The proper desk review, preferably, under the supervision of a senior officer is vital for drawing up a meaningful audit plan.

The desk review is the most important step in the Audit and needs to be given more attention so that Audit Plan is a result of a more informed Desk Review. In order to achieve this, in addition to data already collected from the assessee, a questionnaire and certain data relating to reconciliation will also be obtained. On the basis of data received for reconciliation, a preliminary reconciliation will be done and the same will be available to the Auditors along with the questionnaire. After examining the data and the documents, an interview of the Authorized Representative of the assessee will be conducted so that doubts in the data and questionnaire are clarified and only those issues which cannot be clarified on the basis of reconciliation, questionnaire and interview with the assessee are referred in the Audit Plan. The interview could cover areas like the systems of purchase and purchase invoicing, the system of sale and sales invoicing, issues relating to registration (centralized registration, if any), the Information Technology (IT) systems used to process data, various returns submitted to third party regulatory organizations and also matters relating to Indian Standards Institute (ISI) quality certifications which would mean availability of certain important audit reports. In addition the following benefits would arise from this:

- i) Major issues will be discussed and examined at the level of Joint Commissioner/ Additional Commissioner conducting Desk Review.

ii) The period of visit by the Audit Party can be considerably shortened as there will be fewer and more precise Audit Points to verify.

iii) The Desk Review will pinpoint the important issues in Audit Plan

iv) No frivolous issues will be raised in Audit Plan.

v) The officer doing the Desk Review will be better aware of the facts

vi) After interview with the assessee no issues will be raised because of communication gap between the Department and the assessee.

vii) It will give incentive to assessee to come clean at Desk Review stage so that physical intervention of Audit Party at his premises is minimized.

There are three major areas which require attention during the Audit :-

i) The risk based on revenue earned on services provided by the assessee.

ii) The risk based on expenditure made on services received by the assessee.

iii) The risk based on CENVAT taken by the assessee.

The issues at S.Nos. i) & ii) would be identified by Revenue Reconciliation between the Books of Accounts and the Returns filed by the assessee. For this, the data is being called at the time of Desk Review itself. In order to streamline the reconciliation, a proforma for Reconciliation is being prescribed for both income and expenditure [ see ANNEXURE – VII ]. To standardize the Revenue Reconciliation, a detailed format is prescribed. There cannot be exhaustive format for Revenue Reconciliation. However, most commonly accruing entries have been taken care of. It is felt that all the receipts whether income or others needs to be tested for Service Tax liability. Therefore, reliance is being placed not only on the Balance Sheet but also on the gross Trial Balance of the assessee. In the Service Tax Law, the assessable value is based on various factors and care has been taken to incorporate most common factors in the format for Revenue Reconciliation. Similarly, on the expenditure side, there are certain expenditures which needs to be tested / checked. Therefore, the

corresponding entries in Trial Balance or Balance Sheet need to be reconciled with the figures given in the ST-3 Returns. These expenditures are Transportation

expenditure, Sponsorship expenditure in foreign currency other than these involved in purchase of goods etc.

#### **Guidelines for preparation of working papers**

1. After completion of each audit process, corresponding entries in the working papers should be made simultaneously. This would ensure that whatever is noticed is immediately documented instead of waiting for the completion of the entire audit to prepare the working papers.
2. Every step in the audit process must conclude with the remark on whether any point merits inclusion in the audit plan. The points in the audit plan would therefore represent the aggregation of all the important points identified in the various steps of the audit process.
3. The details of discussion with Joint/Additional Commissioner must be mentioned in the portion on desk review.
4. The details of the walk through done with respect to sample documents must be specifically stated in the portion on evaluation of internal control.
5. Training programmes should be conducted in-house by the Commissionerates and the Zonal units of the ADG (Audit) in coordination with NACEN for preparation of working papers.

**Trend Analysis:** Trend analysis is a type of computational support needed for the analysis preparatory to planning, by analysing historical data and working



out future projections. Historical data is analysed to discover patterns or relations that would be useful in projecting the future delivery and values etc.

For audit purposes either absolute values or certain ratios are studied over a period of time to see the trend and the extent of deviation from the average values during any particular period.

The auditor can study the following trends:-

1. Trends in service tax collection over the last two years.
2. Trends in service tax of a particular service industry compared to overall growth of that industry.
3. Trends in proportion of value of exempted services to the total value of services.

### 6.3 AUDIT PLAN

Audit Plan is the most important stage before taking up actual audit verification. At this stage, the auditor is in a position to take a reasonable view regarding potential risk areas, abnormal trends and unusual developments, which need detailed verification. Audit Plan is not a routine list of checks which can generally be exercised, but is an exact formulation of issues selected for detailed scrutiny in respect of a particular service provider based on the aforesaid desk review and risk analysis. Audit Plan should be a clear plan of action in a standard Format as given below:

Sl. No.	Subject	Issue to be Examined	Records to be seen	Period involved	Reasons for selection

It should be consistent with the scale of operation of a service provider as also the reasons for selection of a taxpayer in the Audit Schedule. How the issues are pin-pointed for an audit plan is illustrated below:-

- (i) Under-valuation of taxable service by excluding any specific component of gross amount charged for the service.
  - (ii) Suspect discounts.
  - (iii) Service Tax nomenclature involving non payment of tax on a service that may actually be taxable but is mis-declared or concealed as non taxable.
- 
- (iv) Apportioning of value in favour of non-taxable or exempt services when composite, or multiple services are provided.
  - (v) Possible leakage of revenue because of sub-contracting of a service or part thereof.
  - (vi) Long pendency of provisional assessment.
  - (vii) Disproportionate/ illegal availment of credit of duty/tax on input goods or services.

#### **6.4 EVALUATION OF INTERNAL CONTROLS**

6.4.1 Internal Controls form a basis for reliability of the company's own accounting records. The evaluation of Internal Control is necessary for determination of the scope and extent of audit checks required for the taxpayer. If the internal controls are well designed and working properly, then it is possible to rely on the books maintained by him. The scope and the extent of the audit can be reduced in such a case. The reverse would be true if the internal controls are not reliable. In this regard, an auditor should normally examine the following:

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

- (vi) System of movement of documents having relation to Service Tax assessment.
- (vii) Inter-departmental linkages of documents and information.
- (viii) System of Service Provider's own internal audit.

#### 6.4.2 Techniques of evaluating the Internal Controls.

(a) **Walk-through:** One of the ways of evaluating internal control is to do a 'walk through'. This is done by selecting a few representative samples from different categories of transactions and examining them in depth, especially with regard to the procedural and control aspects. This can be done by reviewing key controls that prevent or detect the providing of services that are not invoiced. The system can be examined to ascertain whether it is possible for services to be invoiced but not recorded in the books of accounts. Similarly, key controls may be examined for recording of all cash transactions: these controls may include scrutiny of numbered cash transaction invoices, daily reconciliation of cash invoices, separation of taxes etc. Key controls may also be examined to detect the possibility of misclassification of services for the purpose of availing exemptions. The above steps may have to be undertaken by the auditor in the unit of the taxpayer. Undertaking a 'walk-through' and conducting ABC analysis during this process would help the auditor to evaluate the system of internal control in a scientific manner. In 'Walk-through' the auditor traces the movements of the selected transactions from the beginning through various sub systems. The auditor verifies this transaction in the same sequence as it had moved. By this method the auditor can get a feel of the various processes and their inter linkages. It is also useful method to evaluate the internal control system of a Service provider. The auditor for example can undertake a walk through of the business processes of a service provider so as to identify the points of collection of service tax and the points of billing of service charges. Similarly a walk through may be conducted on the process of compiling service tax returns in terms of its postings to the various financial documents.

(b) **ABC Analysis:** It is a known fact that in any field of activity an enormous data is generated and all data is not equally important. In order to filter out the irrelevant or relatively insignificant data, various techniques are applied. The ABC Analysis is one of such data management techniques. This technique is particularly useful when auditors are required to scrutinise and examine a large volume of

data/documents within a limited time period. In ABC analysis the whole data population is classified into three categories (i.e. A, B and C categories) based on the importance, as below

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

The auditor can apply ABC Analysis especially in case the quantum of data/ information to be analysed is voluminous. In such a case auditor can classify them according to their utility towards potential risk into A, B and C categories. To give an example, transactions with top five customers/clients of a taxpayer may alone be taken up for detailed examination by auditors. Similarly while verifying credit utilization by the taxpayer, documents relating to the receipt/procurement of major input services may be examined. The technique of ABC analysis can also be suitably applied for evaluating the systems of internal controls while carrying out verification.

Some of the important ratios for auditor's use to analyze database are as below :

<u>Nature of Ratio / Method of calculation</u>	<u>Utility of the Ratios in Service Tax Audit and manner of use</u>	<u>Source Documents</u>
<p>Major inputs service cost : Value of Taxable Service (say A)</p> <p><i>Credit availed: Total Service Tax payable</i> (say B)</p>	<p>Compare the ratio over a period of 3-4 years. If the ratio is increasing there is possibility of the following irregularities:-</p> <p>i) Rendering of unaccounted output services. ii) Undervaluation of output services. iii) Diversion of output service income into non-taxable services income.</p> <p>Compare this ratio (A) with (B)</p> <p>If the ratio B is more than the ratio A, then there is possibility of wrong availment of credit either due to calculation mistake or the availment of credit on input services not being properly used in output services.</p>	<p>1. Profit &amp; Loss Account;</p> <p>2. Income &amp; Expenditure Account (in case of non profit organisations like clubs); and</p> <p>3. ST-3 return</p>
<p>Other incomes not charged to Service Tax : Value of taxable services</p>	<p>Compare the ratio over a period of 3-4 years or with the taxpayers rendering the same services.</p> <p>If the ratio is increasing over a period of time or it is more compared to other service providers, then there is a possibility of under valuation by splitting of output service income into non taxable / exempted service income.</p>	<p>1. Profit &amp; Loss Account;</p> <p>2. Income &amp; Expenditure Account (in case of non profit organisations like clubs); and</p> <p>3. ST-3 return</p>

<p>Additions to plant and machinery / fixed assets during the year : Total value of assets at the beginning of the year</p>	<p>A comparison of this ratio with the rate of growth of the value of taxable service during the year may be useful in verifying whether the value of taxable service has been correctly declared.</p> <p>It is particularly to be checked in cases where the additions to plant &amp; machinery / fixed assets directly impact the volume of sales.</p>	<p>Balance Sheet</p>
<p>Amount of credit availed on input services : Total Service Tax liability</p>	<p>Compare the ratio over a period of 3-4 years.</p> <p>If the ratio is increasing there is the possibility of the following irregularities:-</p> <p>(a) Rendering of unaccounted output services;</p> <p>(b) Under valuation of output services;</p> <p>(c) Splitting of output service income into non taxable services income.</p> <p>(d) Inflation of input service credit.</p>	<p>Tax Payer Profile; ST 3 return</p>
<p>Consumables / Fuel value : Value of taxable services</p>	<p>Compare this ratio over a period of 3-4 years or with the taxpayers rendering similar services.</p> <p>If the ratio is increasing over a period of time or if the ratio of the taxpayer is more than other service providers in the same industry, then there is a possibility of rendering of unaccounted output service or undervaluation of all the services.</p> <p>This ratio may be useful where consumables, fuel or power consumption are having relationship with the rendering of output services.</p> <p>This ratio may be used along with the ratio A, namely, Major input service cost : Value of taxable services, as discussed in first case above.</p>	<p>1. Profit &amp; Loss Account; and</p> <p>2. Income &amp; Expenditure Account (in case of non profit organisations like clubs)</p>

## **CHAPTER 7**

### **AUDIT VERIFICATION**

7.1 As discussed in earlier Chapters of this Manual, the focus of Audit has now shifted from visits to the premises of the Tax Payer to proper selection of taxpayers to be audited on the basis of some predefined criteria/ risk parameters, conduct of detailed Desk Review after collecting documents and information from the Tax Payer and preparation of detailed Audit Plan. The information available till the preparation of the Audit plan is analysed and entries are made in the Working Papers.

7.2 Audit Verification involves verification of data and actual verification of documents submitted at the time of Desk Review, verification of points mentioned in the Audit Plan, Walkthrough, evaluation of internal control, verification of CENVAT documents etc. While conducting Audit Verification, special care should be taken to examine all those issues pointed out in the Audit Plan. It needs to be ensured that all audit documentation are complete, accurate and of professional quality. Working Papers are a synopsis of audit operations conducted by the audit party. Format of the working papers is given in **ANNEXURE – VIII**. Entry in the working papers must be made during Audit Verification including all items mentioned in the audit plan. The auditor should conduct the verification in a systematic manner, following the sequence of steps envisaged in the Working Papers. While conducting Audit Verification, all the points mentioned in the Audit Plan must be checked thoroughly. If there is any additional point in the Audit Plan which is not there in the Working Papers, the same should be incorporated in the Working Papers. At the end of each entry in working papers, auditor must indicate the findings. If any of the planned verifications is not conducted, the reasons for the same must be recorded. Audit objections raised must be fully supported by documentary and legal evidence. This will greatly help in explaining and discussing the objections with the taxpayer and other follow up action.

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

- Be clear, concise, legible, organized, indexed, and cross-referenced;
- Disclose the audit trail and techniques used in the examination of each significant item;
- Support the conclusions reached and cover all queries raised; and
- Include audit evidence (e g., copy of a financial statement, an. invoice, a contract, a bank statement, a job-work agreement, etc.) to support the assessment.
- Link results to supporting working papers,e.g. the objections identified in the working papers must agree with the summary of audit results or statement of audit objections and the audit report.
- Audit reports need to be clear and disclose all material and relevant information.
- Follow up Action.

7.3 While conducting verification, the auditor should try to determine whether the apparent weaknesses in the internal control system of the service provider have led to any loss of revenue. He should also identify the procedural infractions on part of the taxpayer, which are recurrent in nature and which may obscure a significant fact. During the process, he must cross check the entries made by the taxpayer in various records and note discrepancies, if any. In all cases involving discrepancies, the auditor should make detailed enquiries regarding the cause of the discrepancies and their revenue implication.

7.4 The auditor should examine the documents submitted to various Government departments/ Regulatory Authorities such as Income Tax, Commercial Tax/ VAT, Banks, etc. by the taxpayer. This should be used in cross verification of the information filed by the taxpayer for the Service Tax assessment. Extensive use of information available with open sources such as electronic and print media, internet etc should also be resorted to for verification of information filed by the taxpayer.



7.5 The audit verification gives maximum opportunity to the auditor to go through the taxpayer's records in detail. During Audit verification, the auditor may come across a new set of information or documents, not known during any of the earlier stages. Further, while examining an issue, the auditor may come across a fresh issue also requiring detailed examination. In such a situation, the auditor should go beyond the audit plan after obtaining the approval of Deputy / Assistant Commissioner (Audit) and record reasons for the same in detail. Though audit verification is a structured process, it is flexible enough to accommodate the spot-needs.

7.6 While the process of verification for each audit would be unique in terms of Audit Plan, it should involve some general steps as discussed below:

7.6.1 **Physical Verification of Documents:** All important documents are already verified at the time of Desk Review. However, in case of any discrepancy noticed and pointed out in the Audit Plan, a detailed scrutiny of the financial records of the tax payer becomes imperative. The documents to be examined include Annual Financial Accounts containing Director's Report, Statutory Auditor's Report, Balance Sheet and Profit & Loss Account, Income & Expenditure Account in case of non profit organisations like clubs. If necessary, the Auditor must go into details of the figures mentioned in the Annual Financial Statements and for that he must examine Trial Balance, Ledgers, Journal Vouchers and Invoices. He may also examine Cash Flow Statement, Groupings, Cost Audit Report and Tax Audit Report. He should also check whether the Service Provider has submitted the list of records as required under Rule 5(2) of Service Tax Rules, 1994 and also check whether the taxpayer is maintaining the statutory records as required under various statutes especially under the Companies Act, 1956.

7.6.2 **Verification of points in the Audit Plan:**

The main objective of Audit Verification is to check the points mentioned in the Audit Plan. Entry in the Working Papers must be made for each item of the Audit Plan. At the end of each entry in the Working Papers, auditor must indicate objections and findings. If any of the planned verifications is not conducted,

the same must be communicated to the Deputy/ Assistant Commissioner (Audit) and the reasons must be recorded.

#### **Evaluation of Internal Control:**

7.6.3 The reliability of the tax payer's accounts and records depends on the quality of their internal controls. If the internal controls are in place and effective, then scope and extent of audit can be reduced. However, if internal controls are deficient, then in depth audit verification is needed. In order to evaluate internal control, the auditor must go through the following:

- i. In case of manual records- persons handling the records, allocation of responsibilities at different levels, serial numbering of records, scope for alteration/ replacement of records.
- ii. In case of computerized records- the accounting software used, stages of data entry, data security and scope for human intervention and audit trail of the transactions.
- iii. Independence of internal auditor, reporting mechanism for internal auditors and action taken on the basis of findings of the internal auditor.
- iv. Whether any system audit is done from time to time to check the reliability of accounting systems.
- v. Whether external auditors are performing their duty properly and the management is taking prompt action on the findings of the Statutory Auditors.
- vi. Whether Cost Audit is being conducted in cases where it is required to be done and prompt action is taken on such reports.
- vii. The number, extent and frequency of violations noticed by various regulatory agencies.

#### **7.6.4 Walkthrough:**

As explained earlier, walkthrough is one of the most effective methods of understanding the accounting procedure adopted by the Service Provider and also for evaluating their internal control system. In this, the auditor selects any transaction by

sampling method and traces its movement from the beginning to the end through various sub-systems. It is advisable that during the Walkthrough, the auditor should move in the same sequence as the transaction is recorded by the tax payer so as to feel various processes and their linkages. While undertaking the Walkthrough, the auditor should also examine any loopholes or system deficiencies in the accounting process which may lead to misrepresentation of financial accounts and leakage of revenue.

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

**I. Verification of Sales of Services and Income:**

- File of correspondences with the client/customer
- Quotation/Tender files
- Cost sheet to work out approximate cost of service (eg. cost of A.M.C. , Advertisement cost)
- Price List (in cases where price of services are fixed like in case of Insurance Premiums, Cable Operators, Coaching centers).
- Booking Register (eg. in case of Mandap keeper, Convention Centre, tour operators) Service Agreement/Contract like Agreement for Technical consultancy
- Job cards/work statements (eg. in case of AMC or repair of vehicle, job card may show value of services and material used)
- Advance Receipts (eg. in case Mandap keeper, tour operator, event management services)
- Invoices/Receipts
- Income Register (like Sales Register)
- Debit Notes
- Customers ledger Account (to verify total amount billed, by way of invoice, debit note, payment received, credit note issued)
- Returns filed with other Departments (like returns filed with Sales tax department for Works Contract Tax (Installation & Commissioning Services); with State Government for Luxury Tax (in case of Mandap keeper, Convention Centre), SEBI (Stock broker), IRDA (Insurance services)
- S.T.3 Return

## II. Purchase of Input services and Availment of Credit

- Vendor/Supplier list
- Correspondence with vendor/supplier
- Tender/Quotation documents
- Purchase Order
- Purchase invoices/bills
- Debit Notes (for return of input services)
- Purchase Register
- Ledger Accounts of suppliers of services (to verify date of payment of services)
- Bank Account/Cash Account (to verify random cases for payment of services)
- Verify use of input services (eg. use of telephone for output services or for non-taxable work, insurance for property used for output services)
- Input Credit register
- Service Tax Credit Return.

## III. Financial Record Scrutiny

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

## IV. Use of Input Services in Exempted Services:

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

#### **7.6.5 Verification of CENVAT documents**

During audit verification it is necessary to conduct verification of CENVAT Documents on which the taxpayer has taken credit to ensure that the documents are in order and the credit taken is admissible under the CENVAT Credit Rules, 2004. In case the number of such documents is high, proper selection of documents is to be made by classifying them into A, B and C categories. If necessary, the auditors may record that some of the documents in respect of which credit was taken is selected by the concerned Range at random, and verify their authenticity by contacting the jurisdictional officer.

**7.6.6 Checking of cross utilization of credit on inputs and input-services:** Manufacturers who are also providing taxable services, are required to file ER-1 Return and ST-3 Return separately. It is possible that the assessee may misuse the CENVAT credit facility by declaring different amounts of credit taken or utilized in ER-1 and ST-3 returns especially when the periodicity of filing both the returns are different. Therefore, while carrying out audit of Central Excise cases, the Service Tax return filed by the assessee should be scrutinized, in order to verify that CENVAT credit claimed in both the returns is same. Further, where both the returns are filed in the same Commissionerate, then audit of both the activities should be undertaken at the same time. If these returns are being filed separately (one with the Excise Commissionerate

and the other with the Service Tax Commissionerate, then this can be tackled by undertaking simultaneous audit for Central Excise and Service Tax as suggested in para 5.2.1 *ibid*. While undertaking the combined audit both the Central Excise and Service Tax returns should be scrutinized in order to verify that CENVAT credit claimed in both the returns is same.

7.6.7 If the auditor comes across any new or additional document apart from those already known, which may be useful for future audits, he may report the same through proper channel to the Directorate General of Audit, New Delhi.

#### **7.7 APPRISING THE TAX PAYER OF IRREGULARITIES NOTICED AND ASCERTAINING HIS VIEW POINT**

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

7.7.2 The ultimate aim of conducting audit is to increase the level of tax compliance of taxpayer. Therefore, no audit can be considered to be complete unless the auditor has made all efforts to ensure maximum recovery of short levy before he leaves the premises of the taxpayer.

7.7.3 As the Audit system adopts a transparent methodology, it is necessary that all the audit objections noticed by the audit party are conveyed to the taxpayer with a view to ascertain his view point before preparing the draft Audit Report. Accordingly the audit objections should be intimated in writing to the taxpayer clearly stating that the same is not in the nature of any show cause notice and is only a part of participative and fact-finding audit scheme under which even the preliminary and

tentative audit observations are being shared with the taxpayer to know his view point. Where satisfactory explanation or evidence is submitted to the auditor, the findings should be revised as necessary after approval of Deputy/ Assistant Commissioner (Audit). However, if no proper response is received from the tax payer, draft audit paras should be finalised on the basis of available records after citing the lack of cooperation by the tax payer in the Audit Report.

7.7.4 It is the auditor's responsibility to explain all his objections to the taxpayer and to make all attempts to resolve any disagreements before they are finalised. It is also the auditor's responsibility to make sure that his seniors are aware of potential disagreement and the position taken by the taxpayer.

7.7.5 The taxpayer must be advised of his rights and obligations with respect to items in dispute. However, it should be pointed out that interest would continue to accrue in terms of Section 75, Chapter V of Finance Act, 1994.

7.7.6 Where the taxpayer is in agreement with the short levy, as noticed, the auditor should persuade him to pay the Service Tax along with interest, if any, promptly and also take an undertaking that the amount is paid voluntarily and no appeal will be filed against such payment. It may be noted that for uniformity and certainty in the spot recoveries made by the Audit Groups at the time of Audit, a draft letter in the format **ANNEXURE - IX** should also be sent to the Taxpayer and his signature may be obtained. This way the Taxpayer can formally get the benefit of Section 73(3) of the Chapter V of the Finance Act 1994, subject to it being ratified by the Monitoring Committee Meeting held by the Commissioner every month.

7.7.7 Where a substantial amount remains unpaid, because of taxpayer's disagreement or otherwise, the auditor should attempt to collect any information that will aid in future collection. This will include information relating to bank, ownership of the assets and receivables, financial liquidity, cash flow situation, statements given to financial institutions or any other factor, which may help recovery of Service Tax at a later date.

## **7.8 SUGGESTIONS TO TAX PAYER FOR FUTURE COMPLIANCE**

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

7.8.2 If there is any way the department can assist the taxpayer to reduce errors and improve compliance, attempts must be made to offer such assistance.



**CHAPTER 8**  
**PREPARATION OF AUDIT REPORT AND FOLLOW UP**

**8.1 PREPARATION OF DRAFT AUDIT REPORT AND SUBMISSION TO SENIOR OFFICERS**

8.1.1 After completing audit verifications, the auditor should prepare the verification paper. This document should record the results of verification conducted as per audit plan. Any additional issue (not mentioned in the original plan) verified/ point noticed should also be mentioned. The auditor would then discuss with the taxpayer each of such issues pointing out either non payment or procedural infractions. The initial views of taxpayer must be recorded in the verification document. Details of spot recoveries and willingness of the taxpayer to pay short levy should also be recorded. This document would then become the basis of preparing the draft audit report.

8.1.2 The draft Audit Report [see ANNEXURE – X] must be prepared in consultation with the Deputy / Assistant Commissioner (Audit), in standardised format as given in the Board's circular (ST Circular No.38/1/2002-CX dated 7.2.2002).

8.1.3 The narration of the objections in the audit reports should be concise, to the point and self-contained. Where the objections are based on any circulars or clarifications issued by the Board, these should be quoted. Cases in which certain specified conditions are not fulfilled giving rise to objections should be clearly brought out. Similarly, where objections are backed by interpretations as decided by the court judgments or decisions made by the Appellate authorities or supported by technical literature, these should be cited. All objections should be sequentially numbered. Classification codes of audit objections are now provided in ANNEXURE – XI to this Manual. The auditor should enclose the following documents along with the draft audit report:

- (1) The outcome of the Desk Review mentioning the key areas to be seen during the audit and the duration of audit.
- (ii) Completed Working Papers of all the steps prior to audit plan with a summary report.
- (iii) Copy of audit plan.
- (iv) Copies of verification papers.
- (v) Copies of all the documents/evidences in support of the objections, alongwith calculation sheets of the non payment details.

8.1.4 The draft audit report should be finalised within the shortest time span possible i.e. within 20-25 days of the commencement of the audit in the taxpayer's place. Before submitting the draft audit report it should be given a unique serial number as follows:

A. R. No./ Name of Commissionerate/ Name of Division/ Year.

Even a nil report should be allotted a unique serial number.

A. R. (Audit Report) No. is a running Serial No. to be given for the financial year. This should be obtained from 'Audit Follow-up Register' maintained in the Audit Cell (see para 8.5.6). The information in columns 1 to 8 in the said Register should be filled up at the time of taking A.R. No. from the Register. The same unique Sr. No. will also be the File No. in Audit Section which will obviate the need for a separate file number for the audit file and will facilitate linking any future correspondence from field formations to the concerned file and will also help in computerisation of Audit process.

## **8.2 MONITORING OF WORK DONE BY THE MONITORING COMMITTEE**

8.2.1 The auditor should submit the draft audit report, to the Deputy / Assistant Commissioner (Audit) along with all the enclosures, for examination and vetting. Thereafter the same, along with enclosures, should be submitted to the Audit Cell for consideration in the Monthly Monitoring Cell Meeting.

8.2.2 The Audit cell should organise Monitoring Committee Meetings (MCM) on at least a monthly basis under the chairmanship of the Commissioner during which each of the audit objections / observations would be examined for its sustainability. To facilitate prompt decision, all the Additional / Joint Commissioners, the jurisdictional Divisional/ Range officers and the officers from Technical branch should also attend these meetings to offer their views on the spot. The minutes of each such meeting should be drawn, pointing out the decision on each of the audit objection regarding its sustainability and directions for future action. The objections rejected by the meeting will be treated as closed. Similarly all points of a nil draft audit report are treated as closed after their approval by Additional / Joint Commissioner (Audit). Copies of the minutes should be, - (i) enclosed with the Audit Report, (ii) sent to all officers required to take future action, and (iii) kept in the master file.

8.2.3 The audit section should maintain Registers of Audit Planning and Audit Follow-up in prescribed format (details as given below) until the closure of the audit point either by issue of a show cause notice or by non-acceptance of the audit point in the MCM.

### **8.3 FINAL AUDIT REPORT**

8.3.1 Based on the decision of the MCM, the draft audit report should be finalised by the Audit Cell within fifteen days from the date of the meeting. In case of a NIL draft audit report, the same should be finalised with the approval of Additional / Joint Commissioner (Audit). The Audit Report along with supporting documents should be forwarded to the officer required to take further action. In case the action is required to be taken by the officers of other Commissionerates, the Audit Group will be responsible for sending the communication to the concerned Commissionerate through their Commissioner. This may happen in cases like points relating to Service Tax where service provider may fall within the jurisdiction of other Commissionerate or the Service provider also has similar service in places falling in other Commissionerate.

8.3.2 The Monitoring Committee should also evaluate the working of Audit Groups in respect of each audit. The scoring of Audit Report should be done with a view to evaluate the standard of audit conducted. Greater emphasis should be placed on the quality of audit and recovery of short levy rather than on the quantum of detection. It is to be kept in mind that the evaluation is not meant for reprimanding or fixing responsibility but is aimed at assessing the quality of audit and correcting the shortcomings for future. The scoring can be done as per the following table:

### SCORING SYSTEM

Name of the Service Provider	-
Name of the Division/ Range	-
Names of the members of the Audit Party	-
Audit Report No.	-
Type of Service Providers (A/ B/ C/D)	-
[ Types of service providers as per para 5.1.2]	

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#### **Scoring**

	Areas	Max. Points	Points given
A	Quality of Desk Review and Audit Plan	25	
B	Systematic conduct of Audit	20	
C	Revenue Points flowing from finalization of Audit	10	
D	Spot recovery by the Audit party	25	
E	Suggestions for better compliance including systemic improvements	10	
F	Timely completion of Audit	10	
	<b>Total</b>	<b>100</b>	

#### **8.4 FOLLOW UP ACTION AND ISSUE OF SCN**

8.4.1 Officers required to take action on an objection should forward the copy of the action taken documents (such as copy of SCN) to the Audit Cell. An objection should be closed after requisite action has been taken on it. In case new facts involving reconsideration of findings in Audit Report come to the knowledge of officers required to take action on an objection, they should send their report along with supporting material to the Audit Cell for reconsideration. But this action must be taken most expeditiously, say within one month of receipt of the Audit Report. Only in exceptional cases involving cogent grounds, the views taken in the Monitoring Meetings can be put up for re-consideration.

8.4.2 Each audit report should be examined by the Audit Cell. Any objection with major revenue implication, objection specific to a particular service or those describing a novel modus operandi, should be selected for (i) issue of Modus operandi circular within the Commissionerate, (ii) for communicating the same to the Chief Commissioner's office for circulation within the zone, (iii) communicating to Directorate General of Audit for issue of audit circulars and (iv) communication to Directorate General (Service Tax) of all important modus operandi.

8.4.3 On completion of the above procedure the Audit cell shall place the documents in Master file of taxpayer and update the electronic file of the taxpayer.

#### **8.5 RECORDS TO BE MAINTAINED IN HQRS AUDIT SECTION**

8.5.1 A register of all taxpayers planned for audit namely the **Audit Planning Register** in the format given below should be maintained in Audit Cell. It will facilitate in ensuring:

- (i) all taxpayers allotted to an Audit Group have been audited; and
- (ii) wherever audit has been completed, the Audit Reports are issued in time.

It will also ensure that if audit of any taxpayer could not be taken up, the same can be included in the schedule for the subsequent period.

##### Audit Planning Register

APR No./Sl. No. of the taxpayer	Name of the unit	IAP No. & Name of the Supdt.	Proposed Month of Audit	Actual dates of visit to taxpayer	Date of submission of report to Audit Cell	Audit Report No.	Date of issue	Remarks
1	2	3	4	5	6	7	8	9

The APR No. and Sl. No. of the taxpayer shall be assigned by the Audit Cell while issuing the Audit Schedule. The information in Column Nos. 1 to 3 shall be entered by the Audit Cell at the time of issue of Audit Schedule. Subsequent columns shall also be entered by the Audit Cell on receipt of a monthly Audit Performance Report discussed in ensuing paras.

8.5.2 To enable monitoring of the progress of audit after a taxpayer has been allotted to an Audit Group, it is necessary that all the taxpayers included in the **Audit Schedule (AS)** should be entered in the Audit Planning Register and all further action taken should also be entered in this register. As already mentioned in paras above, the Audit Schedule should be issued in each quarter to enable despatch of the advance audit intimation in time and also to plan the audit of large and small taxpayers by the Audit Group as per overall convenience of the taxpayers. For this purpose, each Audit Schedule should be given a unique Serial No. as follows:

**AS No. / Serial No. of the taxpayer / Year.**

AS No. may be given as AS1, AS2 and so on for each quarterly Audit Schedule. The Serial No. of the taxpayer will be a running Serial No. starting from No. 1 at the start of the financial year. For example, if 25 taxpayers have been planned for audit in the Schedule of the first quarter of the year, the Serial No. of the taxpayers will run from No.1 to 25. If 30 more taxpayers have been planned for audit in the next schedule, the Serial No. of the taxpayers will run from 26 to 55 and so on.

8.5.3 **Monthly Audit Performance Report (Audit Group-wise):** Each Audit Group shall submit a monthly audit performance report by 2<sup>nd</sup> of each month to the Planning Cell in the following format:

**Monthly Audit Performance Report**

Audit schedule No. / Sl. No. of the taxpayer	Name of the taxpayer	Proposed month of Audit	Actual dates of visit to taxpayer	Date of submission of AR to Audit Cell.
1	2	3	4	5

AR No.	Date of issue	Amount involved in Audit Paras	Spot recovery during Audit	Reason for non-completion of audit
6	7	8	9	10

Note: Column Nos. 8 & 9 should be filled up only when Audit Report has been approved by the Monitoring Meeting.

Alongwith the said report, an abstract of important audit objections should also be given to the Audit Cell. The said information would be used for preparing **Quarterly Audit Bulletins**.

8.5.4 The Audit Cell shall update the Audit Planning Register based on the reports received from audit group (Col. No. 4 to 8 of Audit Planning Register). This report will also be used for discussion during monthly meeting of audit officers to evaluate the performance of each Audit Group. In the 1<sup>st</sup> week of every month, an abstract of Monthly Audit Performance Report for all Audit Groups should be put up to Additional / Joint Commissioner in the format given below:

**Abstract of Monthly Audit Performance Report**

Audit Group No.	OB of taxpayers to be audited	No. of new taxpayers planned for audit during the month	No. of audits completed during the month (AR issued)	Balance taxpayers for auditing

1	2	3	4	5

Period of Pendency			Total duty involved in objections raised during the month	Amount of Spot Recovery during the month
0 - 1 months	1 - 2 months	2 - 3 months		
6	7	8	9	10

Note: (i) Amount in Columns 9 and 10 should be entered only for the taxpayers where Audit Reports have been approved in Monitoring Meetings.

(ii) Audit is treated to be completed only when an Audit Report has been issued.

8.5.5 The Commissionerates must have their own mechanism and records for tracking the details of adjudication and further actions like appeals pertaining to the show cause notices issued as a result of the audit objection.

8.5.6 **Audit Follow Up Register:** The details of audit reports discussed by Monitoring Meeting, the decision taken in the meeting and the further follow up action should be entered in the Audit Follow up Register (maintained in the format given below), as soon as the Audit Report is approved.

#### Audit Follow Up Register

Audit Report No.	Name and address	Range and Division	Registration No. of the taxpayer	Period of Audit	Dates of Audit	IAP No. and	Para No. and	Whether objection
------------------	------------------	--------------------	----------------------------------	-----------------	----------------	-------------	--------------	-------------------



	of the taxpayer	on			(dates of visit to taxpayer)	Name of Supdt.	objecti on in brief for each para	accepted by the Monitoring Meeting (yes or no)
1	2	3	4	5	6	7	8	9

Duty involved in each para	Spot recovery during audit	Duty recovered other than spot recovery before issue of SCN	Divisional file No.	SC N No. & date	Amount demanded in SCN	Reasons for closure of para	Date of closure of para	Remarks
10	11	12	13	14	15	16	17	18

Note: (i) Col. Nos. 1 to 8 shall be entered by Audit Group while obtaining the file number.

(ii) Col. Nos. 9 to 11 shall be entered by the Audit Cell before issue of Audit Report.

(iii) Col. Nos. 12 to 15 shall be entered on receipt of replies from Division.

The following abstract for each month should be put up by Audit Cell to Additional / Joint Commissioner (Audit) by 10<sup>th</sup> of the following month.

#### Monthly Abstract of Audit Follow-up Register

Opening Balance		Total No. of units audited during the month (Audit Note issued)	Paras accepted during the month for action		Total No. of Paras closed during the month		Total recovery during the month		Closing balance	
No. of paras	Total Amount involved		No. of paras	Total Amount involved	No. of paras	Total Amount involved	No. of paras	Total Amount involved	No. of paras	Total Amount involved

1	2	3	4	5	6	7	8	9	10	11

Period wise pending					
0 – 3 Months		3 – 6 months		> 6 months	
No. of paras	Total Amount involved	No. of paras	Total Amount involved	No. of paras	Total Amount involved
12	13	14	15	16	17

Note: The quarterly report has to be sent to zonal Additional Director General (Audit) shall be prepared based on this report.

8.5.7 The **Quarterly Report** in the following format is required to be sent to the zonal Additional Director General (Audit) in terms of DG (Audit)'s letter F.No.381/56/2008 dated 30.09.2009 [ see ANNEXURE – XII ] as modified by letter of even number dated 19.01.2010 [ see ANNEXURE – XIII ].

(A) **Details of IAD audit conducted**

(Rupees in lakhs)

Sl. No	Commissionerate	Revenue realised during corresponding quarter of previous financial year		No. of units scheduled for audit	No. of units audited	No. of revenue paras raised	Total short levy detected	Total Recovery	No. of MCM held
		PLA	CENVAT						
1	2	3	4	5	6	7	8	9	10

(B) QUARTERLY REPORT PRESCRIBED UNDER DG(A)'s letter F.NO.381/56/2009, DATED 30.9.2009

(April-June), (July-September), (October – December) (January-March)

[As applicable]

PART-I

Type of Audit	No. of units audited	Amount detected	[Rs. in lakh] Amount realized
(1)	(2)	(3)	(4)
Service Tax			
Excise Duty			

Part-II (Only for Service Tax Audit)

S. No.	Audit point Code No. as in Annexure X of Audit Manual	No. of objections	[Rs. in lakhs]	
			Amount detected	Amount realised
(1)	(2)	(3)	(4)	(5)

In addition following quarterly report should also be sent to zonal ADG (Audit) :-

Action taken on final audit report paras accepted for action

Opening Balance		Paras accepted during the quarter for action		No. of paras closed during the quarter and reasons					
				SCN issued		Amount recovered and paras closed		Other reasons like closure on merit	
No. of paras	Total Amount involved	No. of paras	Total Amount involved	No. of paras	Total Amount involved	No. of paras	Total Amount involved	No. of paras	Total Amount involved
1	2	3	4	5	6	7	8	9	10

Closing	Period-wise pendency
---------	----------------------

Balance		0-3 months		3-6 months		6-12 months		> 1 year	
No. of paras	Total Amount involved	No. of paras	Total Amount involved	No. of paras	Total Amount involved	No. of paras	Total Amount involved	No. of paras	Total Amount involved
11	12	13	14	15	16	17	18	19	20

8.5.8 All officers (such as Divisions / Range, Headquarter preventive etc.) required to take future actions as per the minutes of the Monitoring Cell Meeting of Audit Cell should send a monthly status report of the action taken on the audit objections latest by the 10<sup>th</sup> of the following month. The same should be used by the Audit cell for updating the “Audit Follow up Register” mentioned above. The Audit cell should prepare monthly report on audit performance and follow up action.

**CHAPTER 9**  
**GUIDELINES FOR AUDIT IN SPECIAL SITUATIONS**

**9.1 MULTI - LOCATION SERVICE PROVIDERS (MLSP)**

9.1.1 **Definition:** A single service provider having more than one Service Tax Registration falling under different Commissionerates for providing similar services. **This does not include a service provider who has got only a centralized service tax registration..**

9.1.2 **Identification of Service Providers :** For identifying Multi-locational Service Providers, the Additional Directors General (Audit), Zonal Units may use the Automation of Central Excise & Service Tax (ACES) Registration database. This could be done by identifying the Service Tax Registrants having same PAN but more than one Service Tax Registration falling under jurisdiction of more than one Commissionerate for providing similar Services. Any group of such registrants located entirely within the jurisdiction of the same Commissionerate (i.e. having the same location code), would not be treated as MLSPs. The preliminary list would be generated by the 15<sup>th</sup> of May in each financial year and circulated on CD or any other electronic media to the Zonal ADGs. It would have the following details:-

- A. Service Tax Registration No.
- B. Name of the Service Provider
- C. Location Code
- D. Name of the Commissionerate.
- E. Address of the premises for which registration has been taken
- F. Total service tax revenue during the preceding financial year.

9.1.3 **Criteria for selection of Service Providers :** In the normal course, the preliminary selection of taxpayers for coordinated/ simultaneous audit

would be done by 31<sup>st</sup> May of each financial year. The MLSPs would be selected by the Zonal units in such a way that **atleast five groups of taxpayers are selected by each Zonal Unit for coordinated audit per annum**. For this purpose, the jurisdiction of each ADG would extend only to those MLSPs whose corporate office or Head Office is located in his jurisdiction. The selection would be based either on MLSPs providing sensitive or evasion prone Services showing adverse revenue trend or selected randomly. Zonal units should obtain information from the selected MLSPs in a standardized questionnaire [see ANNEXURE – XIV ] to conduct Eligibility Test. The Zonal Unit would approach the corporate office or the Head office of the selected service provider for filling up this questionnaire. If needed, the concerned ADG could arrange a meeting between his team and the management of the auditee for this purpose. The advantage of such interaction would be that the evaluating team would clearly understand the issues involved. Based on the feedback given by the team and the responses in the questionnaire, the ADG would reconsider whether or not a simultaneous audit is warranted in a particular case.

9.1.4           **Scheduling of MLSP Audit :**       The audit of Service Providers forming a part of an MLSP should be conducted **simultaneously** and in a coordinated manner under the overall supervision of the office of the DG (Audit). The Zonal ADGs would prepare a quarterly schedule of MLSP audits (for all four quarters of the year simultaneously) latest by 10<sup>th</sup> June for the financial year. In order to minimize the chances of a clash between the normal audit schedules prepared by the Commissionerates and the Audit schedules prepared for MLSPs, each Commissionerate would earmark the last week of every quarter for such audits and should accordingly keep one audit team free for the purpose. As Commissionerates would have the names of the selected service providers in advance, it should be ensured that they are not included in the normal audit schedule of the Commissionerate for that year. In case any of the service providers of the group have already been audited during the current audit cycle, the ADG would have to decide whether there is a need to include it in the MLSP audit.

9.1.5           **Preparation of Audit Plan**

**9.1.5.1** The concerned Commissioners should ensure that the audit team that is assigned the audit of taxpayer(s) in their jurisdiction completes the Desk Review and prepares the draft Audit Plans at least three weeks prior to the verification date. A copy of the draft Audit Plan duly approved by the Additional/ Joint Commissioner (Audit) alongwith the Working Papers, reconciliation and extracts of the note-sheet portion of the audit file should then be sent to the coordinating ADG. It should be ensured that calculations done as part of the ratio analysis, trend analysis or revenue risk analysis are also sent.

**9.1.5.2** On their part, the Zonal unit should obtain the consolidated balance sheet, Profit & Loss Statement and other financial documents of the company from the Head Office/ Corporate Office for scrutiny. They should also use the information contained in the company's response to the questionnaire and that gathered during the interview with their management to understand the role played by the Head Office in the conduct of business by individual Service Tax Registrants, the strength of internal controls and the availability of records in Head Office. On this basis, the Zonal unit should prepare its own draft audit plan for the Head Office/ Corporate Office. Once the audit plans for all the taxpayers forming part of the group are received the ADG should convene a meeting with representatives (one per team) of each audit team for finalization of audit plans. This would also be an opportunity for the ADG to explain the nature of relationship between the constituent taxpayers and common issues to be verified during the audit. Similarly the audit teams of the Commissionerates may have identified certain issues that would need to be verified from the records / documents maintained at the Head/Corporate Office. The final audit plan for each taxpayer would be approved by the ADG after the meeting and returned to the audit team.

**9.1.6 Audit Verification and Preparation of Draft Audit Report**

**9.1.6.1** Any verification in the Head Office/ Corporate Office would be done by an audit team deputed directly from the Zonal unit by the ADG while that of the

individual Service Provider would be covered by audit teams of the respective Commissionerates.

9.1.6.2 The audit teams should remain in contact with the Zonal ADG while conducting verification so that new issues detected at the time of verification can be quickly conveyed to other audit teams. It should be the responsibility of the respective Additional/ Joint Commissioner of the Commissionerate that each issue of the audit plan is verified by the audit team and findings recorded. As objections would eventually have to be raised against the individual Registrant (and not the Head Office), the Zonal ADG should send a copy of the verification report of the Head Office/ Corporate Office to each of the Commissionerates for finalizing their audit report. A copy of the verification report and the draft audit report of each service provider should be sent to the ADG for record.

9.1.6.3 The Draft Audit Report of each service provider would be finalized in the same manner as for other audits i.e. by the Monitoring Committee headed by the Commissioner.

9.1.6.4 It is worth mentioning here that the Audit of Service Tax Assessee as per the prescribed norms is the duty of the respective Commissionerates and they should conduct their Audit as per their Audit Plan. However, whenever any Service Provider is selected for Audit under the category of MLSP, then the audit of all units of such MLSP is to be conducted in the coordinated manner as discussed herein above.

## **9.2 QUARTERLY REPORTS AND MONITORING**

Although the results of audits conducted in a coordinated manner would be included by the Commissionerates in their Quarterly Audit Reports, the Zonal Units of Directorate of Audit, should compile the results of MLSP audits separately for each quarter and send it to headquarters latest by the 15<sup>th</sup> of the month succeeding that quarter.



### **9.3 SERVICE TAX PROFILES**

9.3.1 Service Tax Audit requires a greater understanding of the uniqueness of each service. Unlike in the manufacturing sector where there is a broad degree of uniformity of defining characteristics, services are intangible in nature and each service tax is unique in its business structure, accounting systems and the regulatory authority / association monitoring it. For example, Stock Brokers are broadly regulated by Securities and Exchange Board of India (SEBI), Non-life Insurance would fall within the administrative domain of the Insurance Regulatory Development Authority (IRDA). Such instances can be multiplied. Therefore, for effective Service Tax Audit, it is necessary to prepare Service Tax Profiles for each service on the basis of test audits. Like the commodity supplements in Central Excise, these profiles can be a useful addition to the Service Tax Audit Manual.

9.3.2 The service tax profiles would have to form an important part of the desk review and the scheme for preparation of the audit. Based on the experience gained during the test audits, the Service Tax Profiles of Banking & Other Financial Services and Errection, Commissioning or Installation Services, have been prepared and these service tax profiles are placed on the website of Directorate General of Audit and can be downloaded by visiting the website [www.dgauditces.gov.in](http://www.dgauditces.gov.in).

**ANNEXURE - I**  
[see para 5.1.6]

**Table for determination of Short Payment of Revenue on the basis of ST-3**  
**and also for CENVAT Verification (Excel Sheets)**

Month	Billed Amount	Amount Realised	S.T Payable				PAID BY CASH			
			S.T.	Cess	SHE	TOTAL	S.T.	Cess	SHE	Total
	1	2	3	4	5	6	7	8	9	10
April										
May										
June										
July										
Aug										
Sept										
Total-1										
Oct										
Nov										
Dec										
Jan										
Feb										
March										
Total-2										
Grand Total										

ST = Service Tax  
Cess = Education Cess  
SHE = Secondary & Higher Education Cess



## **ANNEXURE – II**

[ see para 5.3 ]

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

### **Audit Group -1**

1. TELECOMMUNICATION SERVICES
2. INFORMATION TECHNOLOGY (IT) SERVICES
3. BROADCASTING SERVICES
4. INTERNET CAFÉ SERVICES
5. CABLE OPERATORS SERVICES
6. INTERNET TELEPHONY SERVICES
7. ON-LINE INFO & DATABASE RETRIVSL SERVICES
8. TV OR RADIO PROGRAM PRODUCTION SERVICES
9. VIDEOTAPE PRODUCTION SERVICES
10. SOUND RECORDING SERVICES
11. ADVERTISING AGENCY SERVICES
12. SALE OF ADVT.SPACE OR TIME SERVICES
13. SUPPLY OF CONTENT SERVICES

### **Audit Group -2**

1. MEMBERSHIP OF CLUBS/ ASSOCIATION
2. MANDAP KEEPER SERVICES
3. PANDAL & SHAMIANA SERVICE
4. OUTDOOR CATERING SERVICES
5. EVENT MANAGEMENT SERVICE
6. BUSINESS EXHI. SERVICES
7. CONVENTION SERVICE
8. PHOTOGRAPHIC SERVICE
9. BEAUTY PARLOURS SERVICES
10. FASHION DESIGNERS SERVICES
11. HEALTH CLUB & FIT. CENTRE
12. DRY CLEANING SERVICES
13. SUPPLY OF TENGIBLE GOODS SERVICES
14. MAINTENANCE & REPAIR SERVICE
15. MANPOWER RECRUTEMENT SERVICE
16. SECURITY AGENCY SERVICES

#### **Audit Group -3**

1. COMMERCIAL TRAINING, COACHING SERVICES
2. MANAGEMENT CONSULTANT SERVICES
3. PUBLIC RELATIONS SERVICE
4. TECHNICAL TESTING ANALYSIS
5. COMM. & INSTALLATION SERVICES
6. SURVEY & EXPLO. OF MINERALS
7. CONSULTING ENGINEERING
8. SCIENTIFIC & TECH. CONSUL
9. SURVEY & MAP MAKING SERVICES
10. MINING OF MINERALS AND OIL SERVICES
11. DESIGN SERVICES
12. TECHNICAL INSPECTION AND CERTIFICATION SERVICES
13. COSMETIC AND PLASTIC SURGERY SERVICES
14. SPONSERSHIP SERVICE
15. OPINION POLL SERVICES
16. AUTHORISED SERVICE STATION
17. WORKS CONTRACT SERVICES

1.1

#### **Audit Group -4**

1. PRACTISING CHARTERED ACCOUNTANTS SERVICE
2. PRACTICING COMPANY SECRETARY SERVICE
3. PRACTICING COST ACCOUNTANT SERVICE
4. CREDIT RATING AGENCY SERVICE
5. ADVICE CONSULTANCY OR TECHNICAL ASSISTANCE PROVIDED IN THE FIELD OF LAW
6. STOCK BROKER SERVICE
7. LIFE INSURANCE SERVICE
8. INSURANCE AUXILIARY SERVICE
9. GENERAL INSURANCE
10. FORWARD CONTRACT SERV.
11. REGISTRAR TO AN ISSUE
12. SHARE TRANSFER AGENT
13. ULIP MANAGEMENT SERVICES
14. STOCK EXCHANGE SERVICES
15. COMMODITY EXCHANGE SERVICE
16. BANKING & OTHER FIN. SERV.
17. UNDERWRITER
18. FRANCHISE SERVICES
19. INTELLECTUAL PROP. SERV.
20. MARKET RESEARCH AGENCY
21. ATM OPERATIONS, MAINTENANCE OR MGMT.
22. RECOVERY AGENT
23. CREDIT CARD RELATED SER.
24. ASSET/ FUND MANAGEMENT

#### **Audit Group -5**

1. TRANSPORT OF GOODS BY ROAD
2. TRANSPORT OF GOODS BY AIR
3. TRANSPORT OF GOODS THROUGH PIPELINE
4. TRANSPORT OF GOODS IN CONTAINERS BY RAIL
5. TRANSPORT OF GOODS BY RAIL
6. RENT-A-CAB OPERATOR
7. TOUR OPERATORS
8. AIR TRAVEL AGENT
9. RAIL TRAVEL AGENT
10. TRAVEL AGENT. (OTHER THAN RAIL/AIR)
11. AIR TRANSPORT OF PASSANGERS
12. MAILING LIST COMPILATION
13. C & F AGENTS SERVICE
14. STORAGE & WAREHOUSE SERVICE
15. CARGO HANDLING SERVICE
16. CUSTOM HOUSE AGENT SERVICE
17. CLEARING & FORWARDING AGENTS SERVICES
18. STEAMER AGENT SERVICE
19. PORT SERVICES
20. AIRPORT SERVICES
21. TRANSPORT BY CRUISE SHIPS SERVICE
22. SHIPS MANAGEMENT SERVICE
23. GOODS CARRIED OUT AS COASTAL CARGO OR WATERWAYS SERVICE
24. COURIER SERVICES

#### **Audit Group -6**

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

[ see para 6.1.2 ]

## Part I - Taxpayer Profile

[illegible][illegible][illegible][illegible][illegible][illegible][illegible][illegible][illegible][illegible]

77

(i) Not applied for PAN ☐ (ii) Applied for PAN but not received number ☐ (iii) Allotted PAN number ☐

(a) PAN

[illegible][illegible]

Period	Name & Description of Service	Value of taxable services	Service Tax payable/paid	Total input credit utilized	Net Service Tax paid in cash (GAR-7)
Year 1					
H <sub>1</sub>					
H <sub>2</sub>					
Year 2					
H <sub>1</sub>					
H <sub>2</sub>					
Year 3					
H <sub>1</sub>					
H <sub>2</sub>					

7. Details of cases pending with CESTAT/High Court/Supreme Court.

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



Proprietorship ☐ Partnership ☐ LLP ☐ Registered Co. ☐ Unregistered Co. ☐ others ☐

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

[illegible][illegible][illegible][illegible][illegible][illegible][illegible][illegible][illegible][illegible]

(x) Fax Nos. (Please see instruction No. 6(a)) (xi) E-mail Address



(a) **Name**

[illegible]

(b)	Designation
-----	-------------

[illegible]

(c)	Residential address
-----	---------------------

(i) **Name of Premises/Building**[illegible]

(ii) Flat/Door/Block No.

[illegible]

(iii)	Road/Street/Lane
-------	------------------

[illegible]

(iv) Village/Area/Locality

[illegible]

(v)	Block/Taluka/Sub-Division
-----	---------------------------

[illegible]

(vi)	Town/City/District
------	--------------------

(vii) State/Union Territory

[illegible]

(viii) PIN

Post office

[illegible]

(ix) Telephone Nos.:

(a) office

(b) residence

[illegible]

(x) Fax Nos.

(xi) E-mail Address

[illegible]

81

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

[illegible][illegible][illegible][illegible][illegible][illegible][illegible][illegible][illegible][illegible]

82

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

Name of the bank

[illegible]

Name of the branch

[illegible]

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

(a) Account 1

(i) **Name of the bank**

[illegible]

(ii) Name of the branch

[illegible]

(ii) Account No.

[illegible]Details of more Accounts used for business transactions yes ☐ no ☐

If yes,-

(b) Account 2

1. Name of the bank

[illegible]

2. Name of the branch

[illegible]

3. Account No.

[illegible]

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

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

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

[illegible]

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

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

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

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

**ANNEXURE – IV**  
[ see para 6.2.1 ]

OFFICE OF THE COMMISSIONER OF SERVICE TAX / CENTRAL  
EXCISE

(OFFICE ADDRESS / TELEPHONE NUMBER / E-MAIL .....ETC.)

C. No.

Date:

To,

Sir / Madam,

Sub: Intimation for conducting Service Tax audit – reg.

The Internal Audit Party headed by Shri / Smt / Ms \_\_\_\_\_, Superintendent of Service Tax (Audit), IAP No. \_\_\_\_\_ will take up the audit of the accounts/records of your unit on \_\_\_\_\_ for the year(s) wef \_\_\_\_\_ upto \_\_\_\_\_ **(Last completed financial year before the date of issue of this letter)**. It is requested that the following documents may be furnished immediately to this office for the period from previous audit by Departmental Audit Party till 31st March of this year/ the last 5 years starting from \_\_\_\_\_ till 31st March of this year, whichever is less -

List of Documents/ Records for Audit for the relevant Audit Period

1. A copy of application for registration (ST-1) and copy of Registration (ST-2).
2. List of Centralized Registration with Branches.
3. A copy of list of all records maintained by your office including Memoranda received from your Branch office, if any.
4. Copy of intimation filed under Rule 5(2) of the Service Tax Rules, 1994, in respect of records being maintained.
5. Copies of Balance Sheet, Profit & Loss Account Statement, Gross Trial Balance, Annual Reports.
6. Copy of Company's Internal Audit Report, if any.
7. List of all Ledger Accounts wherein entries have taken place.
8. List of Ledger Accounts relevant from Service Tax point of view (This would be subset of list at S.No.7 above).
9. Copies of Tax Audit Reports.
10. Copies of Cost Audit Reports, if any, conducted under Section 233B of the Companies Act, 1956.

11. Details of Registration with any other Government Departments / Agency or Regulatory Authority as the case may be. Copy of any other Return/ Declaration sent to any other Departments/ Agency or to the Designated Regulatory Authority.
12. List of Input Service suppliers, if any (including full details).
13. List of input suppliers, if any (including full details).
14. List of the Bank Accounts maintained for the business transactions with name of the Bank, Branch and Account numbers with changes during the Audit Period.
15. Sample copies of Bills/ Invoices/ Debit Notes/ Credit Notes issued from the date of levy of Service Tax till the date of Audit.
16. Income Tax Returns of the Company/ Concern/ unit; Proprietor/ Partners/ Directors as the case may be.
17. Details about maintaining Account System, whether centralized or not.
18. Details about Billing pattern including Billing stages.
19. List of Branch Offices, if any, along with their respective value of taxable services.
20. Particulars of Service Tax paid during the relevant Audit Period including value of taxable service, input credit utilized and net Service Tax paid (Photocopies of ST-3 Returns will suffice).
21. Half yearly CENVAT Credit Returns filed under Rule 9(7) of Cenvat Credit Rules, 2004.
22. List of Show Cause Notice(s) issued, if any and their present status.
23. Contract, MOU, Agreements with principals, clients, other group companies or any other persons to whom any service is provided/ received.
24. Duly filled Questionnaire in the proforma enclosed herewith [ **see ANNEXURE XV** ].
25. Duly filled Reconciliation Datasheet, for each completed financial year, in the proforma [ **see ANNEXURE VI** ] enclosed herewith.

I further request you to extend full co-operation to the Audit party in carrying out the audit. As you are aware the auditors have to mainly rely on the records maintained by the taxpayer in the ordinary course of their business for conducting the audit. You are already aware that as per sub-rule 2 of Rule 5 of the Service Tax Rules, 1994, every assessee is required to furnish a list of all the records prepared or maintained by them for accounting of their transactions, apart from the financial records maintained by them in the normal course of business. The auditors may call for



the above mentioned records and any other relevant records, documents, returns etc, for their scrutiny. You are therefore requested to keep all the relevant records ready so that the audit can be conducted smoothly.

In case of any difficulty, you may contact the undersigned through telephone number / fax / E-mail mentioned above.

For voluntary compliance of the Audit objections raised by the Audit parties, there exists a provision under Section 73(3) of Chapter V of the Finance Act, 1994 wherein only applicable service tax and interest can be paid on the spot and a letter seeking waiver of penalty / show cause notice can be given by the assessee thus leading to better compliance and less litigations (copy of the format enclosed).

The receipt of this letter may please be acknowledged.

Yours faithfully

Encl.:- a/a

Additional / Joint Commissioner (Audit)

Copy for information and necessary action to :

- (i) The Deputy / Assistant Commissioner of Central Excise, Division
- (ii) The Superintendent of Central Excise, Range.

**ANNEXURE V**  
[ see para 6.2.6 ]

**FORM NO. 3CD**

Statement of particulars required to be furnished under section 44AB of the Income  
Tax Act ,1961

**PART - A**

1. Name of the assessee
2. Address
3. Permanent Account Number
4. Status
5. Previous year ended 31st March
  
6. Assessment year

**PART - B**

7. (a) If firm or Association of Persons, indicate names of partners/members and their, profit sharing ratios.

1. If there is any change in the Partners/members or their profit sharing ratios, the particulars of such change.

8. (a) Nature of business or profession.

(b) If there is any change in the nature of business or profession, the particulars of such change.

9. (a) Whether books of account are prescribed under section 44AA, if yes, list of books so prescribed.

(b) Books of account maintained.

(In case books of account are maintained in a computer system, mention the books Account generated by such computer system.)

(c) List of books of account examined.

10. Whether the profit and loss account includes any Profits and gains assessable on presumptive basis, if yes, indicate the amount and the relevant section (44AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB or any other relevant section.)

11 (a) Method of accounting employed in the previous year

(b) Whether there had been any change in the method of accounting employed vis-a-vis the method employed in the preceding previous year.

(c) If answer to (b) above is in the affirmative, give details of such change, and the effect thereof on the profit or loss.

(d) Details of deviation, if any, in the method of accounting employed in the previous year from accounting standards prescribed under section 145 and the effect thereof on the profit or loss.

12 (a) Method of valuation of closing stock employed in the previous year.

(b) Details of deviation, if any, from the method of valuation prescribed under section 145A, and the effect thereof on the profit or loss.

13. Amounts not credited to the profit and Loss account, being, -

(a) the items falling within the scope of section 28;

(b) the proforma credits, drawbacks, refunds of duty of customs or excise, or refunds of sales tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned;

(c) escalation claims accepted during the previous year;

(d) any other item of income;

(e) capital receipt, if any.

14. Particulars of depreciation allowable as per the Income-tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following form :-
- (a) Description of asset/block of assets.
  - (b) Rate of depreciation.
  - (c) Actual cost of written down value, as the case may be.
  - (d) Additions/deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of
    - i) Modified Value Added Tax credit claimed and allowed under the Central Excise rules, 1944, in respect of assets acquired on or after 1st March, 1994,
    - ii) change in rate of exchange of currency, and
    - iii) subsidy or grant or reimbursement, by whatever name called.
  - (e) Depreciation allowable.
  - (f) Written down value at the end of the year

15. Amounts admissible under Sections 33AB, 33ABA, 33AC, 35, 35ABB, 35AC, 35CCA, 35CCB, 35D, 35E :-

- (a) debited to the profit and loss account (showing the amount debited and deduction allowable under each section separately);
  - (b) not debited to the profit and loss account
16. (a) Any sum paid to an employee as bonus or commission for services rendered, where such sum was otherwise payable to him as profits or dividend. [Section 36(1)(iii)]
- (b) Any sum received from employees towards contributions to any provident fund or superannuation fund or any other fund mentioned in section 2(24)(x); and due date for payment and the actual date of payment to the concerned authorities under section 36(1) (va).

17. Amounts debited to the profit and loss account, being :-

- (a) expenditure of capital nature;
  - (b) expenditure of personal nature;
  - (c) expenditure on advertisement in any souvenir, brochure, tract, pamphlet or the like, published by a political party;
  - (d) expenditure incurred at clubs, -
    - (i) as entrance fees and subscriptions.
    - (ii) as cost for club services and facilities used.
  - (e) (i) expenditure by way of penalty or fine for violation of any law for the time being in force;
    - (ii) any other penalty or fine ;
    - (iii) expenditure incurred for any purpose which is an offence or which is prohibited by law;
  - (f) amounts inadmissible under section 40(a);
  - (g) interest, salary, bonus, commission or remuneration inadmissible under section 40(b)/40(ba) and computation thereof;
  - (h) amount inadmissible under section 40A(3) read with rule 6DD and computation thereof;
  - (i) provision for payment of gratuity not allowable under section 40A(7);
1. any sum paid by the assessee as an employer Not allowable under section 40A(9);
  2. particulars of any liability of a contingent nature.

18. Particulars of payments made to persons specified under section 40A(2)(b).

19. Amounts deemed to be profits and gains under section 33AB or 33ABA or 33AC.

20. Any amount of profit chargeable to tax under section 41 and computation thereof.

21. \*(i) In respect of any sum referred to in clause (a), (c), (d) or (e) of section 43B, the ability for which;

(A) pre-existed on the first day of the previous year but was not allowed in the assessment of any preceding previous year and was

(a) paid during the previous year;

(b) not paid during the previous year;

(B) was incurred in the previous year and was

(a) paid on or before the due date for furnishing the return of income of the previous year under section 139(1);

(b) not paid on or before the aforesaid date.

6. In respect of any sum referred to in clause (b) of section 43B, the liability for which -

(b) pre-existed on the first day of the previous year but was not allowed in the Assessment of any preceding previous year;

(a) nature of liability;

10. due date of payment under second proviso to section 43B;

(c) actual date of payment;

(d) if paid otherwise than in cash, whether the sum has been realised within fifteen days of the aforesaid due date;

(B) was incurred in the previous year;

(a) nature of liability;

(b) due date of payment under second proviso to section 43B;

(c) actual date of payment;

(d) if paid otherwise than in cash; whether the sum has been realised within fifteen days of the aforesaid due date.

\* State whether sales tax, customs duty, excise duty or any other indirect tax, levy, cess, impost etc. is passed through the profit and loss account.

22. (a) Amount of Modified Value Added Tax credits availed of or utilised during the previous year and its treatment in the profit and loss account and treatment of outstanding Modified Value Added Tax credits in the accounts.

(b) Particulars of income or expenditure of prior period credited or debited to the profit and loss account.

23. Details of any amount borrowed on hundi or any amount due thereon (including interest on the amount borrowed) repaid, otherwise than through an account payee cheque. [Section 69D]

24. \*(a) Particulars of each loan or deposit in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year

(i) name, address and permanent account number (if available with the assessee) of the lender or depositor;

(ii) amount of loan or deposit taken or accepted;

(iii) whether the loan or deposit was squared up during the previous year;

(iv) maximum amount outstanding in the account at any time during the previous year;

(v) whether the loan or deposit was taken or accepted otherwise than by an account payee cheque or an account payee bank draft.

\*(These particulars needs not be given in the case of a Government company, a banking company or a corporation established by a Central, State or Provincial Act.)

(j) Particulars of each repayment of loan or deposit in an amount exceeding the limit specified in section 269T made during the previous year :-

(ii) name, address and permanent account number (if available with the assessee) of the payee;

(ii) amount of the repayment;

(iii) maximum amounts outstanding in the account at any time during the previous year;

(iv) whether the repayment was made otherwise than by account payee cheque or account payee bank draft.

25. Details of brought forward loss or depreciation allowance, in the following manner, to the extent available :

Serial Remarks	Assessment Year	Nature of loss/ allowance (in rupees)	Amount as returned (in rupees)	Amounts as assessed (give reference to relevant order)
-------------------	--------------------	---	--------------------------------------	---

(A) Section-wise details of deductions, if any, Admissible under Chapter VIA.

27. (a) Whether the assessee has deducted tax at source and paid the amount so deducted to the credit of the Central Government in accordance with the provisions of Chapter XVII-B.

(b) If the answer to (a) above is in negative, then give the following details :

Serial of tax	Particulars of head	Amount
Number	under which tax is deducted at	
	deducted at source source (in rupees)	

Due Date for Details of Date/  
Remarks

Remittance to payment Amt

Government (in  
Rs)

28. (a) In the case of a trading concern, give quantitative details of principal items of goods traded :

(i) Opening Stock;



(ii) Purchases during the previous year;

(iii) Sales during the previous year;

(b) (iv) Closing Stock;

(v) Shortage/excess, if any

(b) In the case of a manufacturing concern, give quantitative details of the principal items of raw materials, finished products and by-products ;

**A Raw Materials :**

(i) opening stock;

(ii) Purchases during the previous  
year;

(iii) Consumption during the previous  
year;

(iv) sales during the previous yea

(v) closing stock;

(vi)\* yield of finished products;

(vii)\* Percentage of yield;

(viii)\* Shortage/excess, if any.

**B. Finished products/By-products :**

(i) opening stock;

(ii) purchase during the previous year;

(iii) quantity manufactured during the  
previous year;

(iv) sales during the previous year;

(v) closing stock;

(vi) shortage/excess, if any.

\*Information may be given to the extent available.

29. In the case of a domestic company, details of tax on distributed profits under section 115O in the following form :-

- (a) total amount of distributed profits;
- (b) total tax paid thereon;
- (c) dates of payment with amounts.

30. Whether any cost audit was carried out, if yes, enclose a copy of the report of such audit [See section 139(9)].

31. Whether any audit was conducted under the Central Excise Act, 1944, if yes, enclose a copy of the report of such audit.

32. Accounting ratios with calculations as follows :-

- (a) Gross profit/Turnover;
- (b) Net profit/Turnover;
- (c) Stock-in-trade/Turnover;
- (d) Material consumed/Finished goods produced.

Yours faithfully

Date: \_\_\_\_\_

Place: \_\_\_\_\_

(Signature of CEO / Director / Authorised signatory)

\_\_\_\_\_ (Name & Designation)

M/s \_\_\_\_\_

I, Mr / Ms \_\_\_\_\_ (name), \_\_\_\_\_ (designation), working in M/s \_\_\_\_\_, address \_\_\_\_\_, do hereby solemnly affirm that whatever is stated above is true to the best of my knowledge and belief and nothing has been concealed therein.

(Signature of CEO / Director / Authorised signatory)

\_\_\_\_\_ (Name & Designation)

**ANNEXURE – VI (To be filled by the Tax Payer)**

[ see para 6.2.8 ]

**A. Reconciliation Questionnaire data for Receipts:**

Name of the assessee being audited..... :

Service Tax Registration No..... :

Period covered for audit..... :

Type of  
accounting..... Mercantile /  
Cash**Data For Reconciliation of year wise total income/ sales as shown in the Annual Financial Accounts and Ledgers:**

Sr.No.	Particulars	Year 1	.....	Year 5	Source of data as shown in the col.-2
1	2	3	4	7	8
1	Gross Receivables as per ledgers (Credit side)				
1.1	Service Tax charged, if not included in Ledgers' receipt				
1.2	Amount of entries reversed / debited other than related to expenditure (Has no relevance with opening Gross Receipts)				
2	Gross Income as per Annual Report (Trial Balance in case of multiple registrations)				
2.1	Service Tax charged, if not included in the income				
3.1	Opening debtors (Taxable service related)				
3.2	Advance payments received (w.e.f. 16.05.2008) (Ref. S.T. Notifi. No. 19/2008 dated 10/05/2008)				
3.3	TDS received related to unpaid bills				
3.4	Value of free material received, if any				
3.5	Receipt of re-imbursement of expense (other than as a pure agent)				
3.6	Withheld retention money released by clients				
3.7	Recovery of Bad debts earlier written off				
3.8	Reimbursement of expenses made during provision of service if not billed				
3.9	Outstanding amount in respect of bills raised to Associated Enterprises [Section 65(7b) [Section 65(7b) of Finance Act 1994]				

3.10	Others additions (specify):				
4.1	Closing debtors (Taxable services related)				
4.2	Exported service income (PI see Foot note 1)				
4.3	Exempted service income (PI see Foot note 2)				
4.4	Non-taxable service income (PI see Foot note 3)				
4.5	Trading income, if any				
4.6	Sales of goods not linked with provision of service (if any)				
4.7	Sale of goods linked to Service under Notification No.12/2003-ST				
4.8	Interest income				
4.9	Dividend income				
4.10	Short Term / Long Term Capital gains				
4.11	Tax refund (including IT, Central Excise, ST, Customs, VAT, Sales Tax, etc)				
4.12	TDS received in previous year related to bills paid in current year (related to taxable services)				
4.13	Receipt of re-imbursement of expenses incurred as a pure agent (related to taxable services)				
4.14	Bad debts related to taxable services written off				
4.15	Advance payments adjusted on which S.T. paid in previous year(s)				
4.16	Adjustment for Previous year in respect of bills raised to Associated Enterprises [Section 65(7b)]				
4.17	Others deductions (specify):				

Signature of the Taxpayer / Representative

**FOOT NOTES:**

- |   |   |
|---|---|
| <p>1 Export of services..... :</p>                                      | <p>Please furnish here details as to under which category exports fall, as well as what conditions have been fulfilled</p>                          |
| <p>2 Exempted service income (excluding non taxable services).....:</p> | <p>Please furnish here Exemption Notification No. and date. If the exemption is conditional, please comment as to fulfilment of such conditions</p> |
| <p>3 Non-taxable service income..... :</p>                              | <p>Please furnish details of each type of non-taxable service(s) and offer comment(s) as to non-taxability</p>                                      |
| <p>4 Abatement claimed..... :</p>                                       | <p>Please indicate Notification No. and date</p>  |

- 5 Cash basis accounting system..... In the case of cash basis accounting system, Opening Debtors and Closing Debtors to be taken as zero

S.No.	Explanations:	
1	Gross receivable/ income as per all income ledgers (Credit side):	The Gross receivable/ income consists of all the income receivable by the service provider and shown in the income ledger. Some entries of the income ledger should be checked with journal entries, vouchers and invoices at the time of walk through. In case of discrepancies all the entries should be checked with invoices.
1.1, 2.1	Service Tax charged, if not included in Ledgers' receipt/ income in Annual Report/ Trial balance	If Service tax charged is not included in the income ledger then the same should be added to get the Gross Receipts as per Ledgers inclusive of Service Tax
3.1, 4.1	Opening/ Closing balance of debtors (Taxable Services related)	Adjustment for opening and closing balance of debtors has to be made in case the Service provider is following accounting on Mercantile basis. In cases of Cash basis of accounting, it should be nil
3.5	Receipt of re-imbursement of expense (other than as a pure agent)	Any reimbursement in any form is to be added to the Gross Income except the reimbursements received as pure agent
3.6	Withheld retention money released by clients	Some times on the basis of a contract or otherwise the customer withholds a part of the money which is paid after satisfactory completion of the Service. This money could be in the form of retention money, caution money etc. Any such receipt must be added in the Gross income.
4.13	Receipt of re-imbursement of expenses incurred as a pure agent	Reimbursements received as pure agent are deductible from the Gross income receipts

**B. Reconciliation Questionnaire data for GTA (Expenditure):**

Period covered for audit..... :

**Data for Reconciliation of year-wise expenditure incurred by the recipient of services towards transportation of goods by road (GTA), as shown in the Annual Financial Accounts/ Ledgers:**Type of Accounting.....: **Mercantile /Cash**

Sr.No.	Particulars		(YEAR)	(YEAR)	Source of data as shown in the col.-2
1	2		3	4	5
1	1.1	Gross expenditure towards transportation of goods by road (expenditure ledger debit side)			
	1.2	Transportation charges capitalised			
	1.3	Amount of entries reversed / credited for expenditure booked. (i.e. Services not received)			
2					
	2.1	Opening creditors (Relating to taxable GTA service)			
	2.2	Opening provisions for GTA expenditure			
	2.3	Creditors related to GTA service earlier written off and now written back			
	2.4	Any Other Additions (please specify)			
3					
	3.1	Closing creditors (Relating to taxable GTA service)			
	3.2	Closing provisions for GTA expenditure			
	3.3	Transportation expenses, if any, on which ST paid by transporters			
	3.4	Creditors related to GTA service, written off			
	3.5	Freight expenses for exempted GTA service (Notification No.33/2004)			
	3.6	Freight expenses for exempted GTA service (Notification No. 34/2004)			
	3.7	Any Other Deductions (please specify)			
5	Abatement - admissible (----%) Notification No.13/2008, dated 1.3.2008				

**FOOT NOTES:**

1 Cash basis accounting system..... :

In the case of cash basis accounting system, opening creditors, closing creditors and opening provisions, closing provisions to be taken as zero.

Signature of the Taxpayer / Representative

**(C) Reconciliation Questionnaire data for Expenditure other than GTA:**

Name of the Assessee being  
audited.....:

Service Tax Registration No..... :

Period covered for audit..... :

Type of Accounting..... **Mercantile  
/Cash**

**Data for Reconciliation of year-wise expenditure by recipient of specified service other than  
GTA, as shown in the Annual Financial Accounts:**

Sr.No.	Particulars		Year	Year	Source of data as shown in the col.-2
1	2		3	4	8
1	1.1	Gross expenditure on the services received from abroad as per Taxation of Services (Provided from Outside India and Received in India) Rules, 2006 (expenditure ledger debit side)			
	1.2	Gross expenditure in case of service provided by insurance agent			
	1.3	Gross expenditure for receipt of business auxiliary service of distribution of mutual fund by a mutual fund distributor or an agent			
	1.4	Gross expenditure for receipt of sponsorship service by a body corporate or firm			
	1.5	Amount of entries reversed / credited other than related to expenditure			
	Gross expenditure for services mentioned in 1 above as shown in Annual Report / Trial Balance				
2					
	2.1	Opening Creditors for services mentioned in 1 above.			
	2.2	Opening provisions for services mentioned in 1 above			
	2.3	TDS/ Withholding tax, if any, paid on behalf of the service provider			
	2.4	Outstanding amount in respect of bills raised to Associated Enterprises [Section 65(7b)]			
	2.5	Other additions, if any (Please specify)			
3					

	3.1	Closing Creditors relating to services mentioned in 1 above			
	3.2	Closing provisions for services mentioned in 1 above			
	3.3	Expenditure made against non-taxable service (Please specify)			
	3.4	Expenditure made against exempted services (Please specify)			
	3.5	Adjustment for Previous year in respect of bills raised to Associated Enterprises [Section 65(7b)]			
	3.6	Other deductions from expenditure (Please specify)			
4		Abatement admissible, if any ( ---- %) Notification No. & date			

**FOOT NOTES:**

- 1 Cash basis accounting system..... : In the case of cash basis accounting system, opening creditors, closing creditors and opening provisions, closing provisions to be taken as zero.

Yours faithfully

Date: \_\_\_\_\_

Place: \_\_\_\_\_

(Signature of CEO / Director / Authorised signatory)

\_\_\_\_\_ (Name & Designation)

M/s \_\_\_\_\_

I, Mr / Ms \_\_\_\_\_ (name), \_\_\_\_\_ (designation), working in M/s \_\_\_\_\_, address \_\_\_\_\_, do hereby solemnly affirm that whatever is stated above is true to the best of my knowledge and belief and nothing has been concealed therein.

(Signature of CEO / Director / Authorised signatory)

\_\_\_\_\_ (Name & Designation)



**ANNEXURE – VII** (To be filled by Departmental Auditor)

[ see para 6.2.8 ]

**(A) Reconciliation Format for year wise total Receipts:**

Name of the assessee being audited..... :

Service Tax Registration No..... :

Period covered for audit..... :

**The Reconciliation of year wise total income/sales as shown in the Balance Sheet as per accounting period i.e. MERCANTILE BASIS / CASH BASIS:**

Sr.No.	Particulars		Year	Year	Source of data as shown in the col.-2
1	2		3	4	8
1	Gross Receivables as per ledgers (Credit side)				
1.1	Add:	Service Tax charged, if not included in Ledgers' receipt			
1.2	Less:	Amount of entries reversed / debited other than related to expenditure (Has no relevance with opening Gross Receipts)			
A	(=)	Gross Ledgers' receipt inclusive of Service Tax			
2	Gross Income as per Annual Report (Trial Balance in case of multiple registrations)				
2.1	Add:	Service Tax charged, if not included in the income			
B	(=)	Gross income inclusive of Service Tax			
3	Additions: (related to taxable services)				
	3.1	Opening debtors (Taxable service related)			
	3.2	Advance payments received (w.e.from 16.05.2008) (Ref. to S.T. Notifi. No. 19/2008 dated 10/05/2008)			
	3.3	TDS received related to unpaid bills			
	3.4	Value of free material received, if any			
	3.5	Receipt of re-imbursement of expense (other than as a pure agent)			
	3.6	Withheld retention money released by clients			
	3.7	Recovery of Bad debts earlier written off			
	3.8	Reimbursement of expenses made during provision of service if not billed			
	3.9	Outstanding amount in respect of bills raised to Associated Enterprises [Section 65(7b)] of Finance Act 1994			
	3.10	Others (specify):			

C	(=)	Total Additions:			
4		Deductions:			
4.1		Closing debtors (Taxable services related)			
4.2		Exported service income (Please see Foot note 1)			
4.3		Exempted service income (Please see Foot note 2)			
4.4		Non-taxable service income (Please see Foot note 3)			
4.5		Trading income, if any			
4.6		Sales of goods not linked with provision of service (if any)			
4.7		Sale of goods linked to Service under Notification No.12/2003-ST			
4.8		Interest income			
4.9		Dividend income			
4.10		Short Term / Long Term Capital gain			
4.11		Tax refund (including IT, Central Excise, ST, Customs, VAT, Sales Tax, etc)			
4.12		TDS received in previous year related to bills paid in current year (related to taxable services)			
4.13		Receipt of re-imbursement of expenses incurred as a pure agent (related to taxable services)			
4.14		Bad debts related to taxable services written off			
4.15		Advance payments adjusted on which S.T. paid in previous year(s)			
4.16		Adjustment for Previous year in respect of bills raised to Associated Enterprises [Section 65(7b)]			
4.17		Others (please specify):			
D	(=)	Total Deductions:			
5		Taxable Receipt as per Ledgers (including of ST) (Details A + C - D)			
6		Taxable income as per Annual Report/ Trial Balance (including of ST) (details B + C - D)			
7		Receipt as per S.No. 5 or 6 above, whichever is higher			
8		Abatement admissible, if any ( --- %) Notification No. & date			
9		Net taxable income (including ST) (Details 7-8)			
10		Taxable value (including ST) as per ST-3 returns			

11	Difference of taxable value (Details 9 -10)			
12	Service Tax liability / payable, if any			

Signature of the officer

**FOOT NOTES:**

- |   |  |  |
|---|--|--|
| 1 | Export of services..... :  | Please furnish here details as to under which category exports fall, as well as what conditions have been fulfilled                          |
| 2 | Exempted service income (excluding non taxable services) ..... : | Please furnish here Exemption Notification No. and date. If the exemption is conditional, please comment as to fulfilment of such conditions |
| 3 | Non-taxable service income ..... :                               | Please furnish details of each type of non-taxable service(s) and offer comment(s) as to non-taxability                                      |
| 4 | Abatement claimed ..... :  | Please indicate Notification No. and date  |
| 5 | Cash basis accounting system..... :                              | In the case of cash basis accounting system, Opening Debtors and Closing Debtors to be taken as zero   |

S.No.

**Explanations:**

1	Gross receivable / income as per all income ledgers (Credit side):	The Gross receivable/ income consists of all the income receivable by the service provider and shown in the income ledger. Some entries of the income ledger should be checked with journal entries, vouchers and invoices at the time of walk through. In case of discrepancies all the entries should be checked with invoices.
1.1, 2.1	Service Tax charged, if not included in Ledgers' receipt/ income in Annual Report/ Trial balance	If Service tax charged is not included in the income ledger then the same should be added to get the Gross Receipts as per Ledgers inclusive of Service Tax

3.1, 4.1	Opening/ Closing balance of debtors (Taxable Services related)	Adjustment for opening and closing balance of debtors has to be made in case the Service provider is following accounting on Mercantile basis. In cases of Cash basis of accounting, it should be nil
3.5	Receipt of re-imbursement of expense (other than as a pure agent)	Any reimbursement in any form is to be added to the Gross Income except the reimbursements received as pure agent
3.6	Withheld retention money released by clients	Some times on the basis of a contract or otherwise the customer withholds a part of the money which is paid after satisfactory completion of the Service. This money could be in the form of retention money, caution money etc. Any such receipt must be added in the Gross income.
4.13	Receipt of re-imbursement of expenses incurred as a pure agent	Reimbursements received as pure agent are deductible from the Gross income receipts

**(B) Reconciliation Format for year wise total Expenditure on GTA:**

Name of the Assessee being audited..... :

Service Tax Registration No..... :

Period covered for audit..... :

**Reconciliation of year-wise expenditure incurred by the receipt of services towards transportation of goods by road (GTA), as shown in the financial accounts as per accounting method i.e. MERCANTILE / CASH BASIS:**

Sr.No.	Particulars		(YEAR)	(YEAR)	Source of data
1	2		3	4	5
1	1.1	Gross expenditure towards transportation of goods by road (expenditure ledger debit side)			
	1.2	Add: Transportation charges capitalised			
	1.3	Less: Amount of entries reversed / credited for expenditure booked. (ie. Services not received)			
A	(=)	Gross expenditure towards transportation charges (1.1 + 1.2 + 1.3) as shown in Annual Report/ Trial balance			
2	Additions:				
	2.1	Opening creditors (Relating to taxable GTA service)			
	2.2	Opening provisions for GTA expenditure			
	2.3	Creditors related to GTA service earlier written off and now written back			
	2.4	Any Other Additions (please specify)			
B	(=)	Total Additions:			
3	Deductions:				
	3.1	Closing creditors (Relating to taxable GTA service)			
	3.2	Closing provisions for GTA expenditure			
	3.3	Transportation expenses, if any, on which S.T. paid by transporters			
	3.4	Creditors related to GTA service, written off			
	3.5	Freight expenses for exempted GTA service (Noti. No.33/2004)			
	3.6	Freight expenses for exempted GTA service (Noti. No. 34/2004)			
	3.7	Any Other Deductions (please specify)			
C	(=)	Total Deductions:			
4	Total expenditure made towards transportation (as GTA) as per expenditure ledgers (Details A+B-C)				

5	Abatement admissible ( %) Noti. No. 13/2008 dated 1.3.2008			
6	Net taxable transportation expenses (Details 4 - 5)			
7	Net Taxable value declared as per ST-3 returns			
8	Difference of taxable value (Details 6 -7)			
9	Service Tax liability / payable, if any			

**FOOT NOTES:**

1 Cash basis accounting system..... :

In the case of cash basis accounting system, opening creditors, closing creditors and opening provisions, closing provisions to be taken as zero.

Signature of the officer.

Signature of Assistant /  
Deputy Commissioner  
(Audit)

**(C) Reconciliation Format for year wise total Expenditure on other than GTA:**

Name of the Assessee being audited..... :

Service Tax Registration No..... :

Period covered for audit..... :

**Reconciliation of year-wise expenditure by receipt of specified service other than GTA,  
as shown in the financial accounts as per accounting method i.e.  
MERCANTILE BASIS / CASH BASIS:**

Sr.No.	Particulars	Year	Year	Source of data as shown in the col.-2
1	2	3	4	8
1	1.1 Gross expenditure on the services received from abroad as per Taxation of Services (Provided from Outside India and Received in India) Rules, 2006 (expenditure ledger debit side)			
	1.2 Gross expenditure in case of service provided by insurance agent			
	1.3 Gross expenditure for receipt of business auxiliary service of distribution of mutual fund by a mutual fund distributor or an agent			
	1.4 Gross expenditure for receipt of sponsorship service by a body corporate or firm			
	1.5 Less: Amount of entries reversed / credited other than related to expenditure			
A	(=) Gross taxable expenditure booked			
B	Gross expenditure for services mentioned in 1 above as shown in Annual Report/ Trial Balance			
2	Additions:			
	2.1 Opening Creditors for services mentioned in 1 above.			
	2.2 Opening provisions for services mentioned in 1 above			
	2.3 TDS/ Withholding tax, if any, paid on behalf of the service provider			
	2.4 Outstanding amount in respect of bills raised to Associated Enterprises [Section 65(7b)]			
	2.5 Other additions, if any (PI specify)			
C	(=) Total Additions:			
3	Deductions:			

	3.1	Closing Creditors relating to services mentioned in 1 above			
	3.2	Closing provisions for services mentioned in 1 above			
	3.3	Expenditure made against non-taxable service (Please specify)			
	3.4	Expenditure made against exempted services (Please specify)			
	3.5	Adjustment for Previous year in respect of bills raised to Associated Enterprises [Section 65(7b)]			
	3.6	Other deductions from expenditure (Please specify)			
D	(=)	Total Deductions:			
4		Taxable expenditure as per ledgers (Details A+C-D)			
5		Taxable expenditure as per Annual Report/ Trial Balance (Details B+C-D)			
6		Taxable expenditures: Details 4 or 5, whichever is higher			
7		Abatement admissible, if any ( %) Noti. No. & date			
8		Net taxable expenditure (Details 6-7)			
9		Taxable value declared as per ST-3 returns			
10		Difference of taxable value (Details 8 - 9)			
11		Service Tax liability / payable, if any			

**FOOT NOTES:**

1 Cash basis accounting system..... :

In the case of cash basis accounting system, opening creditors, closing creditors and opening provisions, closing provisions to be taken as zero.

Signature of the officer.

Signature of Assistant / Deputy  
Commissioner (Audit)



**ANNEXURE – VIII**  
[ see para 7.2 ]

**WORKING PAPERS IN RESPECT OF SERVICE TAXPAYERS**

**A GENERAL INFORMATION**

- i) Name of the Commissionerate -
- ii) Audit Group No. -
- iii) Names of members of Audit Team -
- iv) Period of Audit -

**B. DESK REVIEW**

01. Name & address of Taxpayer

02 Give reasons for selection of the service provider for audit this time (as informed by Planning Cell) -

[(a) The reasons for selecting the unit must be clearly brought out so as to ensure transparency.

(b) The local factors responsible for selection may also be mentioned.]

02A. Service tax Code No. & date

03 Whether the Service Tax Registration is Centralized or not ?

04 Whether the taxpayer is also registered as an Input Service Distributor?

05 Whether the taxpayer is a Proprietary, Partnership firm, Pvt. Ltd Company, Public Limited Company?

06 Details of Taxable Services provided –

Sr. No.	Description of Services provided	Date since which service is taxable	Date of taking registration
---------	----------------------------------	-------------------------------------	-----------------------------

1

2

07 Whether e-payment of Service Tax is mandatory and whether Service Tax is being paid through E-payment?

08 Brief details of the annual turnover and the Service Tax paid for the last five years –

Year	Turnover as per P&L A/c	Value of taxable services	Total Service tax paid	Paid through CENVAT	Paid through Cash (GAR-7)
------	-------------------------	---------------------------	------------------------	---------------------	---------------------------

09 Brief details about service tax paid for each service (in case of more than one service) for last five years –

Name of service	Value of taxable service	Total tax paid	Service Paid through CENVAT	Paid through Cash (GAR-7)
-----------------	--------------------------	----------------	-----------------------------	---------------------------

10 Mention changes in the law, if any, pertaining to the service(s) provided by the taxpayer, since the time of his taking registration –

11 Mention any Board Circulars, DGST Circulars, Clarifications or Modus Operandi Circulated by DGST with respect to the Service(s) provided by the Taxpayer –

12 Details of exempted Services provided if any, & Notification No.

12A Details of any non taxable services provided if any

12B Details of any export of services.

13 Whether list of records maintained is filed with the S.T. department in terms of Rule 5(2) of the Service Tax Rules?

14 Whether any trading of goods/ materials carried out by assessee? If so details thereof.

15 Whether any Anti-evasion cases booked, by any agency, in recent past or are in progress?

16 Whether there are any past internal audit objections, which have not been settled so far?

17 Whether the taxpayer has been issued any Show Cause Notices on any issue. If yes, what are the issues and which period is covered?

18 Whether there are any CERA audits done. If yes, give information about acceptance or otherwise of the paras made, with details of Show Cause Notices issued, if any, regarding the issue and period covered.

18A Whether the taxpayer was subjected to any Tax Audit? If yes, whether any material discrepancies noticed vis-à-vis information submitted by the taxpayer and whether the same has been explained by the taxpayer?

18B Whether the taxpayer was subjected to any Cost Audit? If yes, whether any material discrepancies noticed vis-à-vis information

submitted by the taxpayer and whether the same has been explained by the taxpayer?

- 19 Is there any case where services were provided in the State of Jammu & Kashmir? If yes, whether the exemption in that respect is claimed properly or not?
- 20 Whether CENVAT Credit on input / input services availed? If so, details of 10 major input / input services, along with ratio of CENVAT taken on that as a proportion of total CENVAT taken and whether the credit has been taken correctly ?
- 21 Whether CENVAT Credit on capital goods availed? If so whether the credit has been taken correctly? Whether any capital goods were cleared from registered premises and if so, whether CENVAT credit reversed / duty paid on such clearances?
- 22 Whether CENVAT credit on input services is taken after making payment of the bill (value of services & service tax thereon) to the service provider?
- 23 In case the assessee is also registered as an Input service distributor, whether he is having any unit in which only exempted products manufactured or exempted services provided? If yes, whether credit is being distributed in respect of services relatable to the exempted unit?
- 24 Check whether any amount payable/ paid to the service recipient has been adjusted against the receipt/ receivable and net income shown in the P&L Account. If yes, whether that amount is liable for payment of service tax ?
- 25 Whether any advance payment is received towards providing services? If yes, whether Service Tax is paid on such receipts?
- 26 Whether any services provided to Associated Enterprises as defined under Section 92A of the Income Tax Act, 1961. If yes, whether service tax is paid in terms of Explanation (C) to Section 67 of the Finance Act, 1994.
- 27 Whether the taxpayer is receiving any services specified under Section 68(2) of the Finance Act, 1994 on which tax is payable by the service recipient and if yes, whether service tax has been paid?
- 28 Verify the taxability of any expenditure paid to any entity abroad which has been made but on which assessee has **not** paid service tax under reverse charge mechanism.
- 29 Whether service tax is paid on the gross value received by adding TDS amount deducted by the Clients?
- 30 Whether any reimbursements are claimed by the service provider or whether any materials are received FOC by the service provider and whether the same are included in the taxable value of services?

- 31 Whether PF/ ESI or any other charges of the personnel of the service provider are being directly paid by the clients? If so, whether service tax is paid on such amount?
- 32 Whether the Service Tax on the value of taxable services received during any Calendar months is credited to the Central Government account by the 5<sup>th</sup> day (6<sup>th</sup> day in case of e-payment) of the month immediately following said Calendar month. Similarly, in respect of individual or Proprietary Firm or Partnership Firm, whether the Service Tax is paid by the 5<sup>th</sup> of the month immediately following the Quarter.
- 33 Whether the interest is paid at the appropriate rate on the amount for which the payment is delayed, if any.
- 34 Whether the taxpayer has opted for provisional payment of Service Tax by making a special request in writing to the jurisdictional D.C. / A.C. giving cogent reasons for payment of Service Tax on provisional basis. In case the taxpayer is filing application for provisional assessment, has the taxpayer filed the Quarterly / Half Yearly returns along with a statement in form ST-3(A) giving details of the difference between the Service Tax deposited and the Service Tax liable to be paid for that month?
- 35 Check whether the remittance of Service-Tax is done to a designated Bank?

36 Undertake analysis of trends as below –

Sr.No.	Data Type	Year	Year
1	Sales Value of Services rendered		
2	Gross Operating Profit		
3	Export clearance (value)		
4	Value of Services undertaken on sub-contract		
5	Total Service Tax Paid		

**C. DISCUSSIONS WITH THE TAXPAYER**

Date of Discussion \_\_\_\_\_

Person(s) with whom discussions held with, their designation and dates of interview \_\_\_\_\_

Even where the business processes and accounting practices are documented, the auditor may need to discuss them with the Management of the taxpayer for their proper understanding. From this point of view, discussions with the Senior Management of the taxpayer are critical for developing a meaningful audit. Keeping in mind the objective of gathering accurate and complete information it may be useful not to conduct a formal

interview, but to engage the taxpayer in informal discussions. At this stage the Auditors should get all the clarifications related to the documents supplied by the Taxpayer as well as issued related the Questionnaire and reconciliations submitted by the Taxpayer. Important non-compliance issues derived from the profiles should also be discussed during the discussions. Special emphasis should be placed on any organization or systemic changes that may have occurred since the last audit.

#### **D. AUDIT PLAN**

Date of Approval \_\_\_\_\_

Audit Plan approved by \_\_\_\_\_

The audit plan must be based on the issues identified in the previous steps as to be verified during the conduct of audit and must be specific in the following format

Sr. No.	Subject	Specific Issue	Source document	Coverage Period	Selection Criteria
1					
2					

#### **E. AUDIT VERIFICATION**

Dates of visits \_\_\_\_\_

While the process of verification for each audit would be unique in terms of Audit Plan, it should involve some general steps as discussed below:

##### **1 Physical Verification of Documents (para 7.6.1 of the Manual) :**

All important documents are already verified at the time of Desk Review. However, these need to be cross verified at this stage. If necessary, details of the figures mentioned in the Annual Financial Statements must be examined with help of Trial Balance, Ledgers, Journal Vouchers, Invoices, Cash Flow Statement, Groupings, Cost Audit Report and Tax Audit Report.

##### **2 Verification of points in the Audit Plan (para 7.6.2 of the Manual) :**

With respect to each point in the Audit plan, auditor must indicate findings. If any of the audit plan point could not be verified the same must be communicated to the Deputy/ Assistant Commissioner (Audit) and the reasons must be recorded.

### **3 Evaluation of Internal Control (para 7.6.3 of the Manual) :**

#### **Walkthrough (para 7.6.4 of the Manual) :**

Auditor should select few transactions by sampling method and trace its movement from the beginning to the end through various sub-systems. If there are any loopholes or system deficiencies in the accounting process which may lead to misrepresentation of financial accounts and leakages of revenue, these should be mentioned. The process of compiling a tax return for half year, tracing amounts returned in tax return through to their sources should also be verified and results mentioned.

Other than walkthrough and interview of Taxpayer, the following points must be seen –

- i) Type of accounting methods adopted and accounting standards followed.
- ii) Existence of internal audit and its reliability.
- iii) Existence of any system audit
- iv) Whether Cost Accounting Records are required to be maintained and if yes whether they are maintained?
- v) Whether any cost audit has been conducted, if required by law?
- vi) The reporting on internal control by the statutory auditors.

#### **4 Verification of CENVAT documents (para 7.6.1 of the Manual)**

Whether CENVAT Credit on input services availed? If so give details of major input services, along with ratio of CENVAT taken on that service as a proportion of total CENVAT taken and verify whether it has been taken correctly?

- i) Whether CENVAT Credit on inputs availed? If so give details of major inputs, along with ratio of CENVAT taken on that input as a proportion of total CENVAT taken and verify whether it has been taken correctly?
- ii) Whether CENVAT Credit on Capital Goods availed? If so give details of major Capital goods, along with their CETH and verify whether it has been taken correctly?
- iii) Verify whether CENVAT credit is taken after making payment of the bill (value of services as well as service tax thereon) to the input service provider and mention results thereof.

5 If the auditor comes across any new or additional document apart from those already known, which may be useful for future audits, he may report the same through proper channel to the Directorate General of Audit, New Delhi.

## 6 Verification Paper:

The result of verification of each of the issues should be mentioned in the format below, whether or not there is any detection of discrepancy / audit point. Each verification paper should be given the same V/P Sr. No. as the Sr. no. given in Audit Plan. The issues verified which were not parts of original Audit Plan but verified later should be mentioned at the end. A Proforma of verification paper is as follows:

1. Date of verification
2. Name of the auditor verifying the issue
3. Issue involved in brief
4. Ref. No. of the Audit Plan
5. Documents verified
6. Brief account of the process and extent of verification
7. Auditor's observation and conclusion in brief
8. Quantification of revenue involved, if any (also give the calculation sheet)
9. Documents relied upon to support the conclusion

Signature  
(Name of the auditor)

## F. POST VERIFICATION:

Date of Preparation \_\_\_\_\_

- (1) Once the verification, as per the Audit Plan, is complete, all the findings with taxpayer's agreement / disagreement must be consolidated in the format of Audit Report [ see ANNEXURE – X ] for presentation to and discussions with the superiors and the taxpayer. The details of spot recovery made during the course of audit should also be mentioned in the relevant column of the format.
- (2) All important findings specially those pertaining to non/short payment of service tax should be discussed with the taxpayer and his explanation/clarification with supporting material, if any, should be duly taken into consideration before taking a definitive view. The details in this behalf should be recorded.
- (3) Indicate information provided and specific actions suggested to the taxpayer to improve future compliance. Where the taxpayer is in agreement with the suggestions, request a commitment in writing and include it in the Audit Report. If the taxpayer is unwilling to give a written undertaking, obtain a verbal commitment. Mention results.

**ANNEXURE – IX**

[ see para 7.7.6 ]

**DRAFT OF THE LETTER TO BE WRITTEN BY THE ASSESSEE TO THE  
COMMISSIONER OF SERVICE TAX, UNDER SECTION 73(3) OF THE  
CHAPTER V OF THE FINANCE ACT 1994, FOR AVOIDING PENALTY /  
SCN**

To,

The Commissioner of Service Tax / Central Excise

\_\_\_\_\_  
\_\_\_\_\_

Sir,

Subject: Letter given under Section 73(3) of the Chapter V of the  
Finance Act 1994 for avoiding penalty and non-issuance of  
show cause notice – req.

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

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

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

4. In terms of the provisions of Section 73(3) of Chapter V of the Finance Act, 1994, we request that the demand show cause



notice may not be issued to us in this case and no penalty may be imposed on us as the above short levy / short payment / non levy / non payment / wrong availment of Cenvat credit are not intentional on our part.

5. We request that the above issues may be treated as closed with this letter since we have complied with the provisions of the Service Tax law.

Yours faithfully

Date: \_\_\_\_\_

Place: \_\_\_\_\_

Signature CEO / Director / Authorised Signatory

(Name & Designation)

M/s \_\_\_\_\_

I, Mr / Ms \_\_\_\_\_ (name), \_\_\_\_\_ (designation), working in M/s \_\_\_\_\_, address \_\_\_\_\_, do hereby solemnly affirm that whatever is stated above is true to the best of my knowledge and belief and nothing has been concealed therein.

Signature CEO / Director / Authorised Signatory

**ANNEXURE - X**  
**[ see para 8.1.2 ]**

**FORMAT OF AUDIT REPORT**  
**Part – I**

1.	Name & Address of the Taxpayer	M/s. ABC-----
2.	Head Office, Regional /Branch offices etc	
3.	Status of the taxpayer	
4.	Jurisdictional Commissionerate / Division / Range  Name of the Range Superintendent / Inspector	Commissionerate _____ Division _____ Range _____  S/Shri _____
5.	Name of taxable services provided / received (in case of payment of service tax under reverse charge mechanism)	
6.	STC No. & Date of Issue	
7.	Exemption Notification No. and its effective date along with gist of exemption notification in case exemption is claimed	
8.	Date of last audit	
9.	Period for which current Audit undertaken	
10.	Dates on which audit undertaken	
11.	Unconfirmed demand, if any	
12.	Confirmed demand, if any	
13.	Appeal filed, if any a. by Department b. by Taxpayer	
14.	Tax, Interest and penalty paid during the current audit period	
15.	No. of Revenue Paras	
16.	No. of procedural Paras	
17.	Total Revenue involved in audit paras	

1.1.1.1.1.1.1

### **SUMMARY OF AUDIT RESULTS**

**[PROVIDE AN OUTLINE OF IMPORTANT AND MATERIAL NON COMPLAINE ISSUES IDENTIFIED DURING THE AUDIT. INDICATE IF THE TAXPAYER HAS AGREED TO COMPLY]**

The important and material non compliance issues identified and reaction of the taxpayer is indicated in the table given below:-

<b>Audit Para No.</b>	<b>Gist Of Objections</b>	<b>Revenue Implications, If Any (In Rs.)</b>	<b>Tax Payer's Agreement Yes / No, If No, Reasons For Disagreement</b>	<b>Department's Conclusion With Reasons</b>
<b>TOTAL REVENUE INVOLVED</b>		<b>RS.</b>		

(XYZ)

Suggestions to improve tax compliance

Assistant Commissioner (Service Tax Audit)

**ANNEXURE - XI**

[ see para 8.1.3 ]

**TYPE OF AUDIT POINTS WITH THEIR CODES**

Sr. No.	Code No.	Subject
<b>CLASSIFICATION</b>		
1	CSR01	Improper classification of taxable services resulting in non-payment or short-payment of Service Tax.
2	CSR02	Availment of ineligible exemption notification resulting in non-payment or short-payment of Service Tax.
3	CSR03	Non-fulfillment of condition(s) of exemption notification resulting in non-payment or short-payment of Service Tax.
4	CSR04	Non-fulfillment of condition(s) for export of services, resulting in non-payment or short-payment of Service Tax.
5	CSR99	Classification issues not specified above resulting in non-payment or short-payment of Service Tax.
6	CSN99	Classification issues not resulting in non-payment or short-payment of Service Tax.
<b>VALUATION</b>		
7	VSR01	Under valuation on account of non-inclusion of certain commission, cost, etc. in terms of Rule 6(1) of the Service Tax (Determination of Value) Rules, 2006, while arriving at value of taxable services.
8	VSR02	Additional consideration (through cash / account adjustment / debit or credit note etc) of any type not included in the taxable value.
9	VSR03	Under valuation on account of escalation in price charged and received subsequently.
10	VSR04	Under valuation on account of non-inclusion of the advances received for service to be provided, in the taxable value.
11	VSR05	Under valuation on account of exclusion of reimbursed expenses incurred other than as a pure agent.
12	VSR06	Under valuation of value of taxable services as per reconciliation.
13	VSR07	Taxable value improperly calculated for any other reason.
14	VSR08	Under valuation of any type, in case the valuation based on contract price.
15	VSR99	Under valuation resulting in non-payment or short payment of service tax for any other reason.
16	VSN99	Valuation issue of any kind not resulting in non-payment or short payment of Service Tax.
<b>CENVAT CREDIT ON INPUT SERVICES</b>		
17	SSR01	Credit availed without documents / on incorrect or forged documents resulting in wrong availment of Cenvat credit.

18	<b>SSR02</b>	Credit availed prior to making payment for value of input service and the Service Tax, resulting in wrong availment of Cenvat credit..
19	<b>SSR03</b>	Credit availed on input services exclusively used in exempted or non-taxable out put services, resulting in wrong availment of Cenvat credit.
20	<b>SSR04</b>	Credit availed on input services which is not related to out put service provided, resulting in wrong availment of Cenvat credit..
21	<b>SSR05</b>	Credit availed on common input services used in exempted as well as taxable service, involving non-payment of amount at applicable rate, of the value of exempted services, in terms of Rule 6(3) of the Cenvat Credit Rules, 2004.
22	<b>SSR06</b>	Credit debited from Cenvat credit account without sufficient balance.
23	<b>SSR07</b>	Cenvat Credit availed on input services wrongly classified.
24	<b>SSR99</b>	Ineligible credit availed for other reasons resulting in wrong availment of credit.
25	<b>SSN99</b>	Procedural lapse of any kind not-resulting in excess availment of credit.
<b>CENVAT CREDIT ON INPUTS</b>		
26	<b>ISR01</b>	Credit availed without / on short receipt of goods or goods diverted before receipt resulting in wrong availment of Cenvat credit.
27	<b>ISR02</b>	Credit availed without documents / on incorrect or forged documents resulting in wrong availment of Cenvat credit.
28	<b>ISR03</b>	Credit availed on inputs used in exempted or non-taxable out put service, resulting in wrong availment of Cenvat credit.
29	<b>ISR04</b>	Credit availed on damaged / destroyed / written off / not usable inputs, whether or not insurance claimed, resulting in wrong / excess availment of Cenvat credit.
30	<b>ISR05</b>	Duty not paid on inputs on which credit has been taken, removed and sold as such.
31	<b>ISR06</b>	Credit availed on common inputs used in exempted as well as taxable service, involving non-payment of amount at applicable rate, of the value of exempted services, in terms of Rule 6(3) of the Cenvat Credit Rules, 2004.
32	<b>ISR07</b>	Duty debited from Cenvat credit account without sufficient balance.
33	<b>ISR99</b>	Ineligible credit availed for other reasons resulting in wrong availment of credit.
34	<b>ISN99</b>	Procedural lapse of any kind not-resulting in excess availment of credit.
<b>5 CENVAT ON CAPITAL GOODS (CG)</b>		
35	<b>GSR01</b>	Credit availed without / on short receipt of goods or goods diverted before receipt resulting in wrong availment of Cenvat credit.
36	<b>GSR02</b>	Credit availed without documents / on incorrect or forged documents resulting in wrong availment of Cenvat credit.
37	<b>GSR03</b>	Credit availed on CGs used in exclusive provision of exempted services, resulting in wrong availment of Cenvat credit.

38	<b>GSR04</b>	Credit availed on damaged / destroyed / written off / not usable CGs, whether or not insurance claimed, resulting in wrong / excess availment of Cenvat credit.
39	<b>GSR05</b>	Credit not reversed on CGs sold / removed resulting in wrong availment of credit.
40	<b>GSR06</b>	100% CG credit availed in the first year of its procurement resulting in wrong availment of credit.
41	<b>GSR07</b>	Simultaneous availment of CG credit and depreciation on the CG duty resulting in wrong availment of credit.
42	<b>GSR08</b>	Second instalment of CG credit availed without having CG in possession and use, resulting in wrong availment of credit.
43	<b>GSR99</b>	Ineligible CG credit availed for other reasons.
44	<b>GSN99</b>	Procedural lapse of any kind not-resulting in excess availment of credit.
<b>OTHERS</b>		
45	<b>OSR01</b>	Taxable service provided without charging applicable Service Tax.
46	<b>OSR02</b>	Amounts collected as Service Tax not remitted.
47	<b>OSR03</b>	Non-payment of Service Tax by claiming service provided as non-taxable.
48	<b>OSR04</b>	Recurring short payments on issues already detected in past.
49	<b>OSR05</b>	Non-payment or short payment of interest on late payment of Service Tax.
50	<b>OSR06</b>	Central Excise issues.
51	<b>OSR07</b>	Customs issues
52	<b>OSR08</b>	Cess issues
53	<b>OSR99</b>	Non-payment or short payment of Service Tax due to any other reasons.
54	<b>OSN99</b>	Audit points / objections pertaining to procedural lapse of any other kind not-resulting in non-payment or short payment of Service Tax.

ANNEXURE – XII  
[ see para 8.5.7 ]

**DIRECTOR GENERAL (AUDIT)'S LETTER F.NO.381/56/2008 DATED 30.09.2009**

**DIRECTORATE GENERAL OF AUDIT  
CUSTOMS & CENTRAL EXCISE  
CENTRAL REVENUE BUILDING, I.P. ESTATE  
NEW DELHI -110 109**

F.No.381/56/2008/

Dated: 30.09.2009

To,

All Chief Commissioners of Central Excise & Customs  
All Chief Commissioners of Central Excise  
All Chief Commissioners of Customs  
All Directors General under CBEC  
Chief Departmental Representative, CESTAT  
Chief Commissioner (Tax Arrears Recovery)  
Commissioners (Directorate of Publicity & Public Relations / Directorate of Logistics /  
Directorate of Data Management / Directorate of Legal Affairs)  
All Additional Directors General (Audit), Zonal Units

Sir,

**Sub: Grading of Commissionerate on the basis of Audit parameters – reg.**

The Board in its meeting held on 15.07.09 on the above subject has interalia decided as follows in respect of revised audit parameters of Central Excise & Service Tax:

I. **The delinking of Quality Assurance Review (QAR) and Audit Performance Index (API)**

Beginning FY 2009-10, the Annual grading in Audit will not be a combination of QAR and API parameters. The QAR parameters have been delinked from API gradings and hence the present system of Composite grading shall be discontinued.

II **The monthly Monitoring Committee Meetings (MCM's) as a parameter under API**

The Board decided that holding of MCM's by Commissionerates will be incorporated as sixth parameter of Audit under the API. While discussing the issue, the Board also decided that henceforth these MCM's will be attended by Divisional DC/AC, AC(Preventive/Anti-Evasion).Additional/Joint Commissioner concerned will also participate in these Meetings. In addition, the Board decided that the Zonal Additional Director General (Audit) will be informed sufficiently in advance of such meetings so as to enable him to either attend personally or send one of his representatives as far as possible.

III. **Changes in other parameters under API**

Board also approved removal of distortion of existing parameters by carrying out modifications in the same. It was decided that the percentage of total amount of detections and recovery will be assessed to the total revenue of the Commissionerate for the previous financial year rather than relating to such detections and recovery to All India detections and recovery.

Accordingly, the Annual API grading would have the following parameters.

Percentage of total detection to total revenue of the Commissionerate of the previous financial year. (instead of earlier parameter i.e. *Percentage of detections to All India detections*)

Detections per audit

Percentage of total recovery to total revenue of the Commissionerate of the previous financial year. (instead of earlier parameter i.e. *Percentage of recovery to All India recovery*)

Recovery per audit

Percentage of total recovery to total detections of the Commissionerate

Percentage of number of Monitoring Committee Meetings held during the year. (*This is a new parameter added and will be taken as number of MCM's held divided by 12 and multiplied by 100*)

In view of the above, Part A of the Quarterly Audit Report of API has been revised and enclosed as **Annexure 'A'** for Central Excise & **Annexure 'B'** for Service Tax.

IV. POL/non POL Revenue to be assessed separately

The Board approved reporting of POL/non POL revenue and detections and recovery thereof separately for assessment of audit performance. These details are being incorporated under Part I of the QAR proforma. Accordingly, a Table 5(A)(I) after 5(A) be inserted and the same is enclosed as Annexure-C.

V. Verification of Audit Reports by Cost Accountant

The Board directed the verification of the Audit Reports of the Cost Accountant in respect of listed commodities to be incorporated as a part of the working paper of the QAR.

Under Part III(A)(2) of the QAR proforma a new serial No 10 viz. "Whether audit conducted by Cost Accountant under Sec.233(B) of the Companies Act, 1956, in respect of listed commodities was verified" (wherever applicable), may be incorporated. The existing S.No.10 may be read as S.No.11.

VI. The Board also desired that more and more officers should be trained in CAAP (Computer Assisted Audit Programme) at NACEN. ADG (Audit), Chennai, is the nodal officer for implementation of CAAP. Chief Commissioners are requested to coordinate with the aforesaid nodal ADG (Audit) as well as jurisdictional ADG, NACEN for conducting in-house training.

Further, the Board desired conduct of training in "Tally" and "SAP" software's at NACEN for a small group of audit officers from each Commissionerate. The services of these trained officers could be utilized for imparting in-house training programmes in their respective Commissionerates.



VII. Number of Audits conducted vis-à-vis mandatory audits required – matter regarding

The issue of number of audits conducted against those mandatorily required to be undertaken was discussed. In view of variety of constraints, it was decided to have suggestions from the Chief Commissioners whether this parameter needs to be incorporated under API scheme or otherwise.

It is reiterated that the phrase "*those mandatorily required to be undertaken*" refers to the number of mandatory units required to be audited annually i.e. those paying total annual duty of Rs.3 crore and above in Cash + Credit in Central Excise and Service providers paying annual duty of more than Rs.50 lakhs in Cash + Credit in Service Tax. Accordingly all Chief Commissioners are requested to send their views to Zonal ADG's (Audit) at the earliest. The ADG's (Audit) will then compile the data and forward the same to this office.

VIII. Another issue, on which Board wanted suggestions/views from the Chief Commissioners is with regard to incorporation of following new parameters (under consideration) relating to:

- 29. Detection of new audit techniques;
- 30. Initiative by officers beyond normal call of audit;
- 31. Detection/identification of new modus operandi;
- 32. Audit objections leading to stoppage of a recurring effect;
- 33. Audit objections having All India implications;

IX. Differential Weightage to audit parameters

The Chief Commissioners are also requested to give their inputs on the proposal of assigning differential weightage to the now devised new six parameters under API.

To sum up, it may be stated that whereas points No. I – VI as aforesaid, are the decisions taken by the Board and have to be implemented as such; the issues raised at paras VII to IX will need concrete suggestions from the Chief Commissioners and after inputs are received from them, the matter will be placed before the Board for final decision.

Yours faithfully,

Encl: Annexures 'A' to 'C'

(G.S. Narang)  
Director General

# Annexure 'A'

REVISED PROFORMA FOR QUARTERLY AUDIT REPORTS												
(A) DETAILS OF IAD AUDITS CONDUCTED (SERVICE TAX)												
Sl. No.	Commissionerate	Revenue realised during corresponding quarter of previous financial year		No. of units scheduled for audit	No. of units audited		No. of revenue paras raised	Total short levy detected (Rs. In lakhs)		Total recovery (Rs. In lakhs)		Number of MC Ms held
		PLA	CENVAT		POL	Non POL		POL	Non POL	POL	Non POL	
1	2	3	4	5	6	7	8	9	10	11	12	13

\* Note- for column 6&7, a unit shall be construed to be POL unit if its products manufactured are predominately in POL category.

## EXISTING PROFORMA (To be discontinued)

### 1. DETAILS OF IAD AUDITS CONDUCTED (CENTRAL EXCISE)

Sl. No.	Commissionerate	No. of units scheduled for audit	No. of units audited	No. of revenue paras raised	Total short levy detected (Rs. In lakhs)	Total recovery (Rs. In lakhs)

# Annexure 'B'

REVISED PROFORMA FOR QUARTERLY AUDIT REPORTS												
(A) DETAILS OF IAD AUDITS CONDUCTED (CENTRAL EXCISE)												
Sl. No.	Commissionerate	Revenue realised during corresponding quarter of previous financial year		No. of units scheduled for audit	No. of units audited		No. of revenue paras raised	Total short levy detected (Rs. In lakhs)		Total recovery (Rs. In lakhs)		Number of MCMs held
		PLA	CENVAT									
1	2	3	4	5	6	7	8	9	10	11	12	13

EXISTING PROFORMA (To be discontinued)					
(A) DETAILS OF IAD AUDITS CONDUCTED (SERVICE TAX)					
Sl. No.	Commissionerate	No. of Units Scheduled For audit	No. of Units audited	No. of Revenue paras Raised	Total short levy detected (Rs. In lakhs)

Annexure 'C'

QUALITY ASSURANCE REVIEW												
PART I : 5A (1)												
REVENUE FROM PETROLEUM (POL) AND NON PETROLEUM (NON POL) GOODS												
Sr. No	Year	Revenue Realized during year		No.of audits conducted		Total	Detections (Rs in Lacs)		Total	Recovery (Rs in Lacs)		Total
		POL	Non POL	POL	Non POL		POL	Non POL		POL	Non POL	
1	2	3	4	5	6	7	8	9	10	11	12	13

ANNEXURE – XIII  
[ see para 8.5.7 ]

LETTER DATED 19.01.2010 FROM DIRECTOR GENERAL (AUDIT)

DIRECTORATE GENERAL OF AUDIT  
CUSTOMS & CENTRAL EXCISE  
C. R.BLDG, I.P. ESTATE  
NEW DELHI-110109



Government of India

F.No. 381/56/2008

Dated: January, 2010

To

All Chief Commissioners of Central Excise.

All Chief Commissioners of Central Excise & Customs.

All Additional Directors General (Audit), Zonal Units.

Sir/Madam,

Subject: Modification of Quarterly Audit Report being submitted by Commissioners-Reg.

At present, Commissioners are sending a quarterly report to the Zonal ADG's (Audit) as per para 12.3.7 of the Audit Manual and this office letter of even number dated 30.09.2009. It is in three Annexures 'A', 'B' and 'C'. While this information is quite relevant, it is felt that it is not quite adequate for a comprehensive review of the audit procedure and development of risk parameters. For instance, it is not possible to find out what is the frequency of various types of audit objections and the amounts involved in each such objection.

2. It is now proposed that along with the three Annexures of the quarterly report which is being submitted, a fourth Annexure 'D' in the proforma enclosed may also be sent. Preparation of this report would not take much time, but will be extremely useful for reviewing the various risk parameters.

3. This new Annexure 'D' to the quarterly report will segregate all the audit objections on the basis of codes given in Annexure-T-5 of the Audit Manual, 2008 (4<sup>th</sup> Edition). For the present, such segregation will be confined only to Central Excise Audits, since no such codes have been prescribed for Service Tax Audit. As and when codes are prescribed for various types of objection in Service Tax Audit, segregation will be extended to Service Tax Audit reporting also.

4. This is how the data should be incorporated in the Annexure 'D' which will have two parts. Part-I of Annexure 'D' would include all the audits done. This part is self-explanatory, and does not require any elaboration. Part-II of the Annexure-II also would cover all audits and this is what is envisaged.

5. Let us suppose there are two audit objections involving two units with respect to improper classification of excisable goods resulting in non-payment/ short payment of duty. For this type of objection, the code prescribed in the Audit Manual is CR01. Also let us suppose that the detection in the two cases was total Rs. 30 lakhs and the realization was Rs.10 lakhs. This will be reflected in the report in the following manner:

S.No.	Audit point Code No	No. of objections	Amount detected	Amount realised (5)
(1)	(2)	(3)	(4)	
1.	CR 01	2	30	10

6. To illustrate the report further, a hypothetical report has been prepared and is shown below:

[Rs. in lakhs]

S.No.	Audit point Code No	No. of objections	Amount detected	Amount realised (5)
(1)	(2)	(3)	(4)	
1.	CR 01	2	30	10
2.	CR 02	1	10	0
3.	CR 99	5	40	20
4.	VR 03	1	10	2
5.	VR 99	5	20	30
6.	IR 02	10	5	2
7.	IR 99	1	20	0
8.	GR 01	2	4	2
9.	GR 99	5	6	3
10.	ER 01	7	8	1
11.	ER 99	1	12	5
12.	OR 99	2	50	20
13.	ON 99	3	10	2

Obviously, there is no need to mention any code in respect of which no objections were detected.

7. It may be noted that number of units audited as reflected in part-I of the new Annexure-D may not match the number of objections in column (3) of Part-II as there may be more than one audit objection falling under different/same code for a particular unit. But total amounts (detected or realized) would have to be the same for both Part-I and Part-II, and also should be consistent with what is reported in Annexures 'A', 'B' and 'C' of present quarterly report.

8. It is requested that while submitting the quarterly reports as at present to the Zonal Units, this new Annexure-D is also submitted giving the above information. It is also requested that for the period October-December, 2009, the above Annexure-D is furnished to the Zonal ADG's (even in cases where quarterly reports have already been furnished) in its present form. And from April 2010 onwards, the quarterly report should be sent alongwith all the four Annexures (including the Annexure 'D' prescribed in this letter).

9. Further, to have a qualitative analysis for reviewing risk parameters, and for looking at new modus operandi, the Commissioners are requested to give a brief gist of the issues involved when the audit objections are classified under Code No. CR99, VR99, IR99, GR99, ER99 and OR99.

10. Member (Central Excise) has desired that acknowledgment of receipt of this letter may please be sent to him. Further, if any Chief Commissioner has any reservation to the proposals explained above, this may be communicated directly to Member (Central Excise) with a copy to the undersigned.

Yours faithfully,

Encl.: As above.

(Gautam Ray)  
Director General

ANNEXURE -D PRESCRIBED UNDER LETTER NO. 381/56/2009 DATED 30.9.2009

"ANNEXURE – D"

Quarter

(April-June), (July-September), (October – December) (January-March)

[As applicable]

PART-I

[Rs. in lakh]

Type of Audit	No. of units audited	Amount detected	Amount realized
(1)	(2)	(3)	(4)
Excise Duty			
Service Tax			

Part-II

[Rs. in lakhs]

S. No.	Audit point Code No. as in Annexure XI of Service Tax Audit Manual, 2010	No. of objections	Amount detected	Amount realised
(1)	(2)	(3)	(4)	(5)

- Note : This Annexure 'D' will form part of the quarterly reports now being sent in terms of DG(Audit) letter F.No.381/56/2008 dated 30.09.2009.



**ANNEXURE – XIV**

[ see para 9.1.3 ]

**QUESTIONNAIRE FOR CONDUCTING THE ELIGIBILITY TEST BY THE  
ADDITIONAL DIRECTOR GENERAL (AUDIT)**

The following Questionnaire would enable a decision whether the group merits treatment as a Multi Location Service Provider (MLSP) in respect of service providers :-

1. Does the company generate unit-wise financial statements such as the balance sheet and the Profit & Loss Account Statement? If not, what is the mechanism for maintenance and consolidation of accounts? Also, whether registrant-wise statements would be available in the Head Office / Corporate Office?
2. Whether any of the following business functions are centralized in the Head Office / Corporate Office:
  - a. Purchase of inputs/ capital goods on which CENVAT credit is taken
  - b. Procurement of input services
  - c. Booking of business / orders
  - d. Price-fixation of Services
  - e. Scrapping of assets or their write-off
  - f. Any other (please specify)

[If so, who in the Head Office is responsible for this function? What are the records/ documents with regard to purchases that are maintained in the Head Office? In what form does information about this activity flow to the constituent units? What are the corresponding records maintained in the registrants?]

3. Whether the practices with regard to classification of services provided or availment of exemption notification, if any, differ across registrants for similar services provided? If so, is there a valid explanation for it?
4. Whether the practices with regard to the method of valuation applied to similar services provided are different across registrants? If so, is there a valid explanation for the same?

**Questionnaire to accompany draft Audit Plan of MLSP.**

1. What is the big picture of the MLSP group? How the registrant fits into the definition of MLSP?
2. What is the level of control exercised by the Head Office/Central Office? (Extent of interference in the working of each registrant under MLSP)

3. Is the purchase of inputs or input services centralised and what is the payment policy and accounting treatment? Are any guidelines issued/ available?
4. What is the policy regarding treatment of CENVAT credit availed? Is there any issue that has any bearing to the registrant being a MLSP? Mention the issue.
5. Whether the aspect of Inter registrant transfer of CENVAT Inputs checked? Has it any bearing on the registrant being MLSP?
6. Has the pattern related to CENVAT credit utilisation checked? Is there any issue peculiar to the registrant being a MLSP that needs in depth study? Mention the issue.
7. Are there any issues relating to sales and distribution that are peculiar to the registrant because of it being MLSP? Mention the issues.
8. Whether any MIS report pertaining to sales, expenses etc. submitted by MLSPs to the Head office?
9. Any other issue of any nature that have been identified due to registrant being MLSP or inter-connected.

## ANNEXURE - XV

[ see Annexure IV ]

### **QUESTIONNAIRE FOR ASSESSEE –** **(Information to be given for the period covered in Audit)**

(i) **General:**

01.	Name & address of Service Provider	:	
02.	Name and contact number of the Authorized person for Audit.	:	
03.	Service tax Registration No. & date	:	
04.	Whether Service Tax Registration is Centralized?	:	
05.	Whether the assessee is also registered as an Input Service Distributor?	:	
06.	Whether the assessee is a Proprietary, Partnership firm, Limited liability Partnership firm (LLP), Pvt. Ltd Company, Public Limited Company?	:	
07.	Details of transactions with Associated Enterprise as defined in Section 65(7b) of Chapter V of the Finance Act, 1994.	:	
08.	Details of Taxable Services provided.	:	
09.	Details of Taxable Services received for which tax has to be paid under reverse charge.	:	
10.	Details of exempted Services provided, if any, & Notification No.	:	
11.	If both Taxable and Exempted Services are provided, whether separate accounts are maintained in terms of Rule 6 of the CENVAT Credit Rules, 2004.		
12.	Details of Taxable Service Exported	:	
13.	Whether e-filing of returns and e-payment are mandatory? If so, whether complied or not?	:	
14.	Whether list of records maintained is filed with the S.T. department? [Rule 5(2) of the Service Tax Rules 1994]	:	
15.	Whether any periodical report/statement is furnished to any State / Central Government / Authority / Regulatory bodies? If yes, details thereof.	:	
16.	Whether any trading of goods/ materials carried out? If so details thereof.	:	

17.	Whether Registered with Central Excise? If so, details thereof.	:	
18.	Whether any offence case is booked in respect of Service Tax, Central Excise, Income Tax, VAT/ Sales Tax. If so, details thereof.	:	
19.	Whether any service is sub-contracted partially or wholly? If so, details thereof.	:	
20.	Is there any case where services provided in the State of Jammu & Kashmir?	:	
21.	Whether CENVAT Credit on input services availed? If so, details of major input services may be indicated.	:	
22.	Whether CENVAT Credit on inputs availed? If so, details of major inputs may be indicated.		
23.	Whether CENVAT Credit on Capital Goods availed? If so details of such Capital goods, along with their Central Excise Tariff Heading (CETH).		
24.	Whether CENVAT credit is taken after making payment of the invoice amount (including Service Tax) to the input service provider?	:	
25.	In case the assessee is also registered as an Input service distributor, whether he is having any unit in which only exempted products are manufactured? If yes, whether he is distributing the credit in respect of services related to that unit also?	:	
26.	Whether any amount payable/ paid to the Client has been adjusted against the receipt/ receivable and net income shown in the P&L Account.	:	
27.	Whether any advance payment is received towards providing services? If yes, whether Service Tax is paid on such receipts?	:	
28.	Is there any expenditure to any entity abroad which has been made but on which assessee is <b>not</b> required to pay service tax under reverse charge mechanism? If yes, details thereof.	:	
29.	Whether service tax is paid on the gross value received including TDS amount deducted by the service recipients?	:	
30.	Whether PF/ ESI or any other charges of the personnel of the service provider are being directly paid by the service recipients? If so whether service tax is paid on such amount.	:	
31.	Details of agreements entered into by the assessee for providing / receiving services	:	

32.	Details of expenditure in foreign currency on which service tax has neither been charged by the assessee nor it is payable under Sec. 66 A i.e. under reverse charge mechanism	:	
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**(ii) Invoicing pattern**

01.	Is invoice issued in all transactions? If not, reasons for not issuing invoice.	:	
02.	How many series of invoices are being used?	:	
03.	If more than one series is used, give details of each such series.	:	
04.	If there are more than one series of invoices, is service tax paid on all the series of invoices?	:	
05.	If not, then the reasons for not paying service tax on such series of invoices (e.g. exempted / exports / trading / non taxable services). Give details	:	
06.	Whether the invoice contains the STC number?	:	
07.	Is invoice issued on the date of provision of service or before or later?	:	
08.	List the different heads under which amounts are billed in invoices and their corresponding heads in the Trial Balance.	:	
09.	Name the heads in the invoice on which Service Tax is not paid.	:	
10.	Is there any sale of goods involved?	:	
11.	Is sales tax or VAT paid on value of goods sold?	:	
12.	Is the value of sale of goods included in the Gross amount charged declared in ST-3?	:	
13.	Are there any reimbursements billed in the invoice?	:	
13.1	Are there any debit/ credit notes issued for claiming reimbursements?	:	
14.	If yes, is service tax paid on these reimbursements? If not, reasons thereof.	:	
15.	Whether invoices are generated on Computer. If yes, then whether the Invoice Numbers are generated automatically or is fed manually. What safe guards are provided in the system for data security? Give the name and designation of the person having the authority to cancel an invoice.	:	

16.	Whether any amount is recovered by issue of debit note and whether it is included in the gross value of services?	:	
17.	Give a brief on sale pattern of services liable to service tax	:	
18.	Are any goods or services provided by the service receiver free of cost or at subsidized price?	:	

**(iii) Accounts and records**

01.	Whether accounts are prepared on mercantile basis or cash basis?	:	
02.	Whether the Accounts are maintained electronically? If yes, the name of accounting packages / computer software installed for maintaining accounts in the units like Tally, FAS etc	:	
03.	Whether accounting software was switched over to some other software during the audit coverage period.	:	
04.	Whether any changes have been made in the accounting policies affecting ST liability relating to reimbursement of expenses, timing of payment of Service Tax and treatment of payments in foreign currency?	:	
05.	Whether accounts are audited by Statutory Auditor? If so, name and address of the auditor.	:	
06.	Whether Cost Accounting records as prescribed under Section 233 B of the Companies Act, 1956 are required to be maintained?	:	
07.	Whether Cost Audit Report is conducted and if yes report thereof is prepared?	:	
08.	Whether there is any system of Internal Auditing?	:	

**4. Making of ST-3 return**

01	Whether payment of Service Tax is on Billing basis or receipt basis?	:	
02	List the ledger/ accounts from where the monthly gross amount received is taken for taxable service.	:	

03	List the ledger/accounts from where the amount received towards gross monthly amount of Exports is taken.	:	
04	List the ledger/accounts from where the amount received towards gross monthly amount of exempted service is taken.	:	
05	List the ledger/accounts from where the gross monthly amount of amount received as pure agent is taken.	:	
06	List the ledger/ accounts from where the gross monthly amount billed is taken.	:	

**(i) Exports**

01	What is the sub clause of section 64(105) of the Finance Act, 1994 where the service claimed to have been exported categorized.	:	
02	Under which clause of sub rule 1 of rule 3 of Export of Services Rules, 2005 is this service categorized? [Rule 3(i), 3(ii) or 3(iii)]	:	
03	Please elaborate how the conditions of the said rule are fulfilled.	:	
04	Is the service provided from India and used outside India for all such transactions (prior to 27.02.2010)?	:	
05	Is the payment for such service received by the service provider in convertible foreign currency for all such transactions?	:	

**(ii) Exemption**

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

**(iii) MIS**

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