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Manual for Quality Assurance Review

2007

Central Board of Excise and Customs
Ministry of Finance
Government of India

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Directorate General of Audit
Department of Revenue
Central Board of Excise and Customs
Ministry of Finance
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Contents

Introduction to the Manual

Purpose of the Quality Assurance Review Manual

1. The *Manual for Quality Assurance Review* lays down instructions, policies, and procedures related to the quality assurance review (QAR) of Central Excise and Service Tax audits, carried out by the internal audit branch of a Central Excise or Service Tax Commissionerate.

2. Guidelines provided herein are intended to ensure that quality reviews of Central Excise and Service Tax audits are carried out in a uniform, comprehensive, and transparent manner. Adherence to the policies and procedures also ensures that quality reviews are carried out in an efficient manner with observance of uniform standards across all QARs.

Scope of the Manual

3. The manual contains the methodology for conducting QARs. It defines audit quality in terms of audit elements and standards and explains how review teams should assess audit quality using these standards. The manual also defines the composition, functions, and responsibilities of the review team and prescribes standard formats for collection of information and reporting of the outcome of such reviews.

Objectives of the Manual

4. The manual provides comprehensive guidance to quality review officers as they conduct their review transparently through a set of published audit quality elements within a framework of uniform assessment methods and procedures.

5. The manual seeks to promote an understanding amongst the Commissionerates of the audit quality framework and standards against which their performance will be measured. It also promotes adoption of these quality standards.

Intended Users

6. The manual is targeted at the officers of the zonal units of the Directorate General of (Audit) (DG (Audit)), conducting QARs. It can also be used by the audit officers in the Commissionerates and other related departments.

AMENDMENTS

7. Changes in the administrative policies, procedures, and organizational structure may necessitate revisions of the quality assurance manual. Keeping the manual relevant and updated is an important priority for the Quality Assurance division in the headquarters office. Users are advised to view this manual as a 'living document that is subject to change'. It is anticipated that the manual will be reviewed periodically and updates issued whenever necessary. Suggestions for additions and improvements that can enhance the manual's usefulness may be forwarded by the users through the respective Additional Director General (Audit) to the DG (Audit).

8. The manual has been prepared as a part of the Asian Development Bank's (ADB's) Technical Assistance Project (IND: TA 4263) entitled 'Capacity Building for Tax Administration'.

Abbreviations

ADG	Additional Director General
CERA	Central excise revenue audit
CAAP	Computer assisted audit programme
DAR	Draft audit report
EOU	Export oriented unit
ERP	Enterprise resource planning
IAD	Internal audit department
LAR	Local audit report
MNC	Multinational corporations
NACEN	National Academy of Customs, Excise, and Narcotics
PLA	Personal ledger account
PSU	Public sector unit
QAR	Quality assurance review
SBE	Sanctioned budget estimate
SCN	Show cause notice

Chapter 1: Directorate General of Audit and the Quality Assurance Review Programme

1A The DG (Audit) has the functional authority of all audit and related activities in customs, excise and service tax and delivers its mandate through its headquarters located in Delhi as well as the seven zonal units spread throughout India. Development of the audit QAR programme and manual is one of the responsibilities of the headquarters office of the DG (Audit). Zonal Additional Director Generals (ADGs) are responsible for actually conducting the QARs in various Commissionerates in their respective zones.

1.B The programme is being used by the DG (Audit) for the following purposes:

1. To assess the quality of audits performed by Central Excise and Service Tax officers against the quality standards established by the *Central Excise Audit Manual*[1] (as also this manual).
2. To report the findings to the Commissioners and Chief Commissioners so that best practices are recognized and shortcomings receive immediate attention; additional training and development efforts can then be targeted where appropriate.
3. To identify national or regional trends, specific features or characteristics of particular categories of audits, areas, or sectors. Such analyses may yield insights that enable better policymaking or more focussed designing of training modules.

[1] *Central Excise Audit Manual* (2001) published by the DG (Audit), CBEC, Ministry of Finance, Government of India was last updated in 2003. It outlines clearly, the standard processes to be followed while conducting an audit. This body of guidelines defines the Excise Audit 2000 (EA 2000) processs to be strictly followed by practitioners across India.

Chapter 2: The Quality Assurance Review Programme

2.1 Introduction

2.1A EA 2000 audits are process oriented. In other words, adherence to the process of audit has a direct bearing on its outcome and efficacy. The process of the audit has been delineated in the *Central Excise Audit Manual* and the *Service Tax Audit Manual,*[2] respectively. In the anxiety to achieve maximum audit results in terms of detections and spot recoveries while completing audits in a timely manner, EA 2000 auditors may sometimes slacken the rigour of the prescribed process. From the perspective of this manual, audit quality is taken to be synonymous with strict adherence to the EA 2000 process.

2.1B Apart from process compliance, there are several other factors that determine the efficiency of the audit section in a Commissionerate. The important ones are: infrastructural support; skill level and knowledge base of auditors; the optimal deployment of audit teams and their formation keeping in mind the right balance of skills; involvement of senior officers in providing inputs and guiding the audit process particularly in complicated audits and internal reviews for assuring quality. Only if these factors are taken care of is the full compliance with the process ensured.

2.1C The basic responsibility of ensuring that quality standards are met at the time of conducting EA 2000 audits rests with the Commissionerates themselves. QARs by the Directorate General (Audit) come in as additional safety nets to ensure full compliance with the standards set for an audit process.

2.2 QAR Objectives

2.2A The objectives of the QAR programme are to assess whether:

1. The prescribed process is actually being followed in the conduct of audit by the field formations;
2. The audit process is being properly documented by the auditors;

[2] *Service Tax Audit Manual* (2003), DG (Audit), CBEC Department of Revenue, Ministry of Finance, Government of India.

3. The excise/service tax legislations are appropriately applied and such applications are adequately supported by analysis, research, and senior officers' approval;
4. High standards of professional conduct are being exhibited by the auditors;
5. Basic infrastructural facilities have been provided to the audit formation;
6. The staff is adequate and involvement of the senior staff is commensurate with the expected participation norms;
7. There are information gaps and, if so, whether the training needs of the auditors, especially in terms of financial literacy, are being provided for.

2.3 QAR Team

2.3.1 Composition of the team

The QAR team should ideally consist of:

- One senior auditor of the rank of Superintendent of Central Excise;
- One or two auditors of the rank of Inspector of Central Excise;
- The ADG of the zonal unit who should ensure that he/she is present along with the team during the 'opening meeting'.

2.3.2 Qualifications of team members

Apart from thorough knowledge of all aspects of Central Excise and Service Tax, the desirable competencies of the QAR team should include:

- Background and/or experience in accounting/auditing;
- Work experience in conducting EA 2000 audits;
- Where Computer Assisted Audit Programme (CAAP) is in place, at least one member who is trained in CAAP.

2.4 Frequency of QARs

2.4A The ideal frequency of QAR is determined by the quality of audits of the Commissionerates, availability of staff for the conduct of the review, and other factors. However, these options can be exercised only when the programme has been well established. Until this stage is achieved, the best option would be to conduct full reviews of the Commissionerates once every year with a minimum gap of six months between two consecutive reviews of the said Commissionerate.

2.4B In case of composite Commissionerates which have obtained 'excellent' QAR grading in both Central Excise and Service Tax audits and specialized Commissionerates that have received 'excellent' grading in either Central Excise or Service Tax audit in a financial year, there will be 'no review' in the succeeding year. This implies that these Commissionerates will get a year's break from being reviewed.

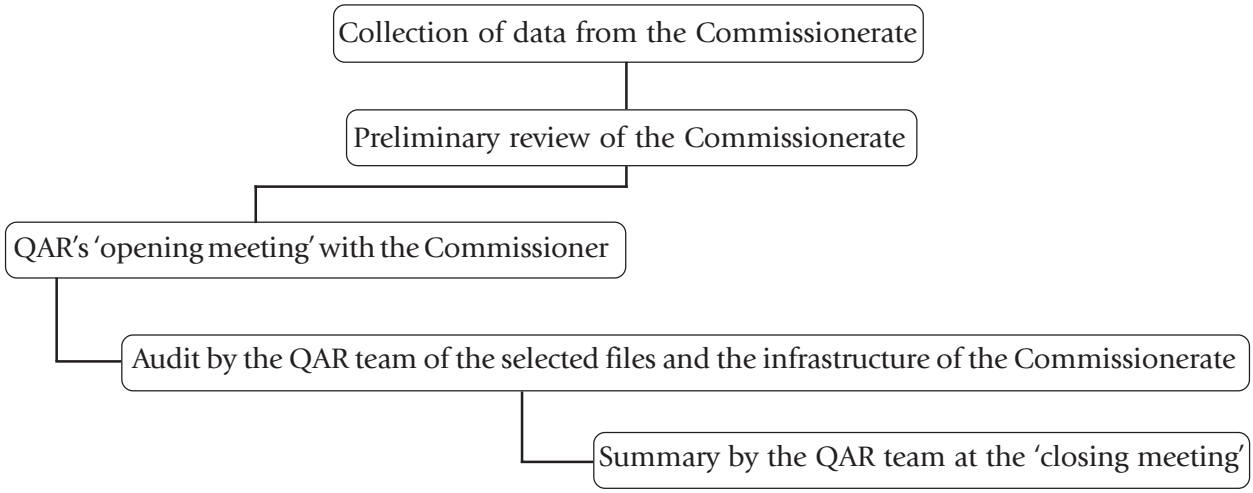
2.4C In case of composite Commissionerates which have obtained 'very poor' grading (below 20 per cent) in both Central Excise and Service Tax audits and specialized Commissionerates with 'very poor' grading (below 20 per cent) in either Central Excise or Service Tax audits in a financial year, there will be a 'follow-up' review which will be conducted six months after the said review. This will be conducted to confirm that the deficiencies pointed out in the said review have been addressed and remedial measures taken. The 'follow-up' review will be followed by an action report.

2.5 Duration of QAR

Under normal conditions, a review should be completed within two to three working days. A break during the review, unless due to unavoidable circumstances, is disruptive and undesirable.

2.6 Overview of the QAR Process

2.6A The review process may be diagrammatically represented as follows:



2.6B The entire process starts with the collection of information from the Commissionerate to be reviewed in Part I of the prescribed proforma of QAR (see Annexe 5.1). The proforma, duly filled, is utilized as the base document to conduct a preliminary review of the Commissionerate by the QAR team before proceeding for the actual review. The QAR team then proceeds to the Commissionerate and begins its review with an introductory opening meeting with the Commissioner. Files to be audited are selected and reviewed based on the identified elements and standards. The team also reviews the organization and infrastructure of the Commissionerate. The findings are summarized and presented before the Commissioner at the closing meeting. These are then drafted in the form of the prescribed report and forwarded to the concerned Commissioner, jurisdictional Chief Commissioner, and the DG (Audit). The Commissioner is required to communicate his response within a month of receipt of the review report.

Chapter 3: Audit Quality Elements and Audit Standards

3.1 Evaluating an Audit Based on Audit Quality Elements

3.1A Quality review of audits is carried out with respect to a number of audit quality elements. Each of the elements broadly corresponds to a step or stage in the audit process. There are nine quality elements, namely:

1. Selection of units for audit
2. Preliminary review or desk review
3. Evaluation of internal controls
4. Audit planning
5. Audit verification
6. Technical issues
7. Working papers, audit report, and follow up
8. Professional conduct
9. Timeliness

3.1B Standards have been set for each of these elements. The discussion on each element covers its objective, lists out the standards, and contains an explanation of each standard. It is important that the QAR officers understand each of the standards so that they are able to assess audit quality. The overall objective of QARs is to assess whether each of these standards is being met. Barring the first of the quality elements listed above, namely, selection of units for audit, the QAR would involve examination of individual audit files in the internal audit branch of each Commissionerate on a selective basis, to assess whether each of the standards has been followed, and whether there is any shortfall that should be addressed.

3.1C For this purpose, the review team should randomly select at least 25 files of cases where audits have been completed in the previous financial year. For results to be meaningful, it is critical that the selection be carried out randomly by the review team itself and not by the auditors or other staff of the Commissionerate that is being subjected to review. In case the random selection does not throw up any 'nil' audit files and the information supplied by the Commissionerate in Part I indicates that there were 'nil' audits during the period, the

review team should also scrutinize a suitable number of such files in addition to the sample of 25 already chosen. One of the guiding factors in determining the appropriate number of 'nil' audit files to be selected could be the percentage of 'nil' audits in the Commissionerate. Under no circumstances, should 'nil' audit files be left out of the scope of the QAR.

3.1D The selection of units for audits would have to be evaluated by the review team on the basis of records/files maintained in the audit cell of the Commissionerate and not on the basis of individual case files. Normally, the audit cell would have a schedule file wherein the annual list and quarterly schedules would have been prepared and submitted for approval by senior officers. This file would also indicate whether or not there was an updated list of registered assessees[4] available at the beginning of the financial year in question.

3.2 QUALITY ELEMENTS, OBJECTIVES, AND RELATED STANDARDS

3.2.1 SELECTION OF UNITS FOR AUDIT

3.2.1A Objective

Mere emphasis on coverage of a greater number of units obviously dilutes the quality of audit. Scientific selection of units for audit is extremely important as it permits the efficient use of audit resources, namely, manpower skills for achieving effective audit results. To the extent that such selection is based on risk, it leads to deployment of audit resources where they are most needed, that is, in the audit of less compliant units. Such selection is finally subject to the availability of administrative resources.

3.2.1B Standards

1. Updated list of all the registered units and export oriented units (EOUs) in the Commissionerate should be maintained.
2. The list must be segregated into various slabs of duty payment as per the current threshold limits for audit prescribed in the manual or Board's instructions.
3. Annual list of units to be audited should be prepared with separate lists for mandatory and non-mandatory units where non-mandatory units are arranged on the basis of rupee risk circulated by DG (Audit) coupled with local risk parameters.
4. A quarterly schedule of audits should be prepared out of the list of units to be audited, based on workload analysis, that is, the availability of audit teams.
5. The selection of non-mandatory units (for preparing quarterly schedules) should invariably be done on the basis of rupee risk circulated by the DG (Audit) coupled with local risk parameters, if any. Reference units should also be included.
6. A profile of every auditor working in the audit branch must be maintained.

[4] Throughout this manual, the terms such as assessee and taxpayers are used interchangeably to refer to both excise assessees as well as service tax payers.

7. Units appearing in the quarterly schedule should be allotted to audit teams/parties by matching their size or complexity with the experience and skill level of the audit parties.

3.2.1C Explanation of Standards

1. The audit cell of each Commissionerate should maintain an updated list of all the registered assessees (including EOUs) in the Commissionerate as on 31 March of the preceding financial year. Since the activity of selection and allocation has to be carried out during April each year, the availability of the list of units is a pre-requisite for conducting the audit.
2. The list of units should be segregated into various slabs of duty payment as per the latest instructions of the Board regarding threshold limits for audit. Therefore, the list should contain revenue data of the preceding financial year.
3. The profile of each of the auditors posted in the Internal Audit Department (IAD) should be available in the Audit Cell. The format and contents of the profile are provided in the *Central Excise Audit Manual*. Auditors' profile facilitates effective deployment of units to auditors by taking into account appropriate skill levels, training, educational background, etc.
4. Workload analysis is a technique by which the audit cell can estimate the number of units which can be audited in a financial year given the norms for duration of audits and the availability of audit teams. A simple formula may be used to calculate the number of working days taking into account the norms for number of days for each category of audit and existing number of units in the Commissionerates. The mandatory units must be audited every year. Taking this into account, the audit cell is required to calculate the number of non-mandatory units that can be audited during each year/ or quarter. If necessary, the number of parties may be increased or decreased.
5. The audit cell is required to prepare an annual list of assessees to be audited. The annual list has two separate components—the list of mandatory units and the list of non-mandatory units. The list of non-mandatory units in descending order of rupee risk is provided by DG (Audit). The audit cell should pick up units from that list. A list of local risk parameters is available in the *Central Excise Audit Manual*; the auditors should also take into account these parameters and rearrange the list provided by DG (Audit). The reasons for such rearrangement should be recorded.
6. The final stage of selection is the preparation of quarterly schedules after which the audit cell is required to allocate the unit(s) to the different audit parties in line with the profile of the auditors. The allocation has to be carried out methodically with due approval of Additional/Joint Commissioner in-charge of audit.

3.2.2 Preliminary/desk review

3.2.2A Objective

Before commencing the audit of any assessee, thorough preparation involving review of all the information available about the unit, its operations, the reason for its selection for audit, and all the possible issues that can be identified at this stage must be carried out. Perusal of the assessee profile, Annual Report, Trial Balance, Cost Audit Report, and Income Tax Audit Report by the auditor is a pre-requisite for the preliminary review/desk review. For this purpose, the auditor needs to gather the assessee profile and other information about the assessee. The desk review lays emphasis on gathering data about the assessee, his operations, business practices, and developing an understanding of the potential audit issues, understanding his financial and accounting system, studying the flow of materials, cash and documentation and running tests to identify vulnerable areas. The preliminary review assists in the development of a logical audit plan and in focussing on potential issues.

3.2.2B Standard

1. For conducting the desk review, an updated assessee master file containing the profile of every registered assessee must be maintained.
2. The preliminary/desk review must:
   i. include the reason why this particular assessee was selected for audit;
   ii. include a review of information available about the assessee both in excise returns and in financial statements, including related information such as industry sector profile, rulings, latest laws and Board's circular and instructions;
   iii. include revenue risk analysis;
   iv. include trend analysis;
   v. result in a summary of observations and follow-up items.

3.2.2C Explanation of Standards

1. Each auditor is expected to undertake thorough background preparation before visiting the unit. This involves reviewing all the information available about the unit, its operations, and reasons for selection for audit and possible issues that can be identified at this stage. In the preliminary review, the auditor must go through the assessee profile, Annual Report, Trial Balance, Cost Audit Report, and Income Tax Audit Report.
2. The preliminary/desk review must include the reason why this particular assessee was selected for audit. In case it is a mandatory unit, then the file should reflect that fact. In case of a non-mandatory unit, the rupee risk amount should be mentioned. If any local risk factor has been applied for selection on priority, then the same should be mentioned and the approval of the Additional/Joint Commissioner recorded. This provides the context for the audit. Each of the reasons must be examined during the preliminary review (and specific audit steps later).

3. The preliminary/desk review must include a review of information available about the assessee to create a picture of the assessee and its operations. The availability of an updated assessee master file should be checked and noted. The auditor should have collated information with respect to the various activities of the assessee like tax accounting, procurement of raw materials, production, marketing, stocks, and sales. The preliminary/desk review must also include perusal or appraisal of other information about the assessee, its related parties, and its sector, that might be available in departmental files, systems or publicly available sources. Copies of the returns/statements filed with other departments, like balance sheet, Cost Audit Report, income tax return, ER4 return, ER5 and ER6 returns, Trial Balance, etc. should be scrutinized by the auditors.
4. A revenue risk analysis must be undertaken to assess 'potential' risk to revenue by working out the gap between the information on sales/clearances as given in the financial records/statements and the excise return. Its purpose is to test the reasonableness of financial records and to estimate risk of revenue loss as well as to identify operational areas (sales, purchases, jobbed goods, etc.) where these risks are likely to be high. The auditor should not only have performed this analysis but should also have drawn likely inferences.
5. A trend analysis must be performed to highlight unusual situations or abnormal trends in parameters that have an impact on the assessee's tax compliance. Trend analysis involves comparison of trends in gross profit margin, CENVAT, Input CENVAT, and Capital CENVAT from year to year, and duty payments.
6. The preliminary/desk review should culminate in a synthesis of documented observations or remarks in the working papers for the auditor to keep in mind and follow up during subsequent phases of an audit, particularly the audit plan.

3.2.3 Evaluation of internal controls

3.2.3A Objective

The objective of internal controls review is to assess whether the assessee has reliable systems and controls in place that would produce reliable accounting/business records. This assessment would be used by the auditor to decide the extent of verification required and focus on areas with unreliable or missing controls. It should be noted that this review must be commensurate with the size of operations. A small assessee might have little in terms of internal controls whereas a large assessee would have sophisticated internal controls in place. Most medium to large companies have ERP systems in place, which account for all transactions from entry of raw material to clearance of final products. Auditors must have a look at these systems and, more relevantly, determine whether the excise duty-based software is integrated to the main ERP system or is running parallel to it. If the internal controls are well designed and working properly, then it is possible to rely on the books maintained by the assessee. 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.

3.2.3B Standards

The review of internal controls:

1. Should be preceded by a tour of the premises and interviews for a proper understanding of the internal controls and systems.
2. Must review assessee documentation and software programme regarding accounting systems and controls therein available with the assessee.
3. Must examine controls and perform a walk-through of:
   i. general and tax accounting;
   ii. sales and other revenues;
   iii. purchases/stores/production;
   iv. other parts of operations where applicable; and
   v. conclusions and observations based on the synthesis of information obtained.

3.2.3C Explanation of Standards

The review of internal controls must include the following steps.

1. The analysis of documents and software (process and control description), reports available about the assessee (from internal/external accountants, ISO 9000 certifications, other levels of government), and any other relevant document must be carried out. This gives auditors an idea of internal controls that are (or are supposed to be) in place and what others have said about the assessee's operations in practice. A tour of the premises and interviews are meant to clarify the auditors' understanding of the way internal controls are designed to operate. It would be difficult for them to evaluate the actual working of the assessee unless they first develop a complete understanding of the system. The internal control review must include interviews with the personnel involved in these controls to obtain information about their views.
2. Detailed observations should be made during the tour of the assessee's premises/walk-through to assess if the said controls are actually in place and are being followed. The walk-through must include the following areas of scrutiny (subject to adjustment based on the assessee):
   i. general and tax accounting;
   ii. sales and other revenues;
   iii. purchases/stores/production;
   iv. other parts of operations where applicable (for example, EOUs).
3. Collated information from the above steps must culminate in an overall assessment of the internal control to evaluate if the controls can be relied upon. The findings of this evaluation should be reflected in:
   i. the extent of verification proposed for different compliance areas in the audit plan;
   ii. suggestions for better compliance by the assessee in the future;

iii. identification of weaknesses with suggested measures (additional audit steps, examination of more documents, etc.) that could be undertaken to ensure that revenue risks are minimized.

3.2.4 Audit plan

3.2.4A Objective

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

3.2.4B Standards

Audit plans must meet the following standards:

1. It must conform to the format prescribed in the audit manual.
2. It must be consistent with the complexity of the audit.
3. It must be consistent with the reason(s) for selection, including prior audit issues.
4. It must be linked to and based on the preliminary/desk review and internal control review.
5. The audit plan must consider large, unusual, or questionable items.
6. It must consider the assessee's commodity-specific issues.
7. It must be internally consistent, precise, and complete. It should point out the scope and areas of enquiry, the period under probe, the quantum of test sampling, and the documents to be scrutinized.
8. The audit plan should be approved by a senior officer.

3.2.4C Explanation of Standards

Each audit file must include an audit plan that is based, at the very least, on a preliminary review and an internal control review. The plan must be consistent with the size of assessee operations, scope, and reasons for audit and it must be consistent with the standard audit programme.

An audit plan is an integral part of the audit process. It gives the auditor the opportunity to decide on the scope of the audit and the manner in which the audit is to be conducted. Audit planning standards consist of a number of elements that ensure that an audit plan takes a holistic view of the audit.

1. The audit plan must be consistent with the complexity of the audit. In any audit, it is important that audit planning be commensurate with the complexity of the assessee being audited. The audit plan of a large public sector unit or a multinational corporation would be much more elaborate and detailed than that of a smaller assessee with a single unit and product line.

2. The audit plan must incorporate and reflect the reason for selection of the assessee for audit. For a mandatory unit, the plan should cover all aspects of assessee operations that impact tax liabilities. However, if the audit was undertaken for a specific, limited, or restricted purpose (say, due to the application of a local risk parameter), then the plans should be restricted to this area only—unless some other information comes to light and plans have to be modified.

3. The audit plan should use observations from the preliminary/desk review and evaluation of the internal control system so that issues identified during these stages of the audit are covered through appropriate testing and included in the audit plan. The coverage period and selection criteria of back-up documents should also be consistent with the results of evaluation of internal controls, so that areas where such controls are weak are subjected to a more intensive scrutiny compared to others.

4. In any audit, the plan must include the mandatory examination of large/unusual items above a certain threshold (materiality) or transactions that are, say, not consistent with the known assessee profile (own goods used for job work). The auditor must use his/her judgment in identifying large or unusual items based on the size of the assessee's operations and their impact on tax liability and compliance. One large value item or a collection of small items could have considerable impact and must be investigated.

5. The audit plan must take into consideration specific commodity-related issues. For example, an audit of an assessee involved in manufacture of dies should include a review of goods sent out for part of the manufacturing process.

6. The audit plan must be internally consistent, precise, and complete. It should point out the scope and areas of enquiry, the period under probe, the quantum of test sampling, and the documents to be scrutinized.

7. The issues identified in the audit plan should be internally consistent. For example, if an issue highlighted during the desk review relates to job work of the assessee, then the audit plan must contain the area of CENVAT utilization on CENVAT inputs used in the job work. The audit plan should contain specific areas for enquiry along with the scope of the enquiry and period of coverage. In case CENVAT utilization is an area for enquiry, the plan should give details of specific inputs or sources of inputs like purchases from dealers and the period to be covered in the enquiry. It should clearly provide a methodology for the selection of the invoices or documents to be checked, for example, a sampling method involving all invoices ending with a particular number or all invoices above a certain level of duty.

8. Approval of the audit plan by a senior officer is an important issue because it shows the involvement of higher authorities in the audit process. The audit file should also show whether any modification like additions or deletions have been carried out based on the suggestions of senior officers.

3.2.5 Audit verification

3.2.5A Objective

The objective of audit verification is to perform verification activities and document them in order to obtain and record audit evidence. The verification techniques must be appropriate to audit objectives identified in the audit plan.

3.2.5B Standards

Audit verification must include:

1. Verification of all issues appearing in the audit plan;
2. Appropriate and adequate audit techniques like ABC analysis;
3. Audit tests that are consistent with the internal control evaluation;
4. Use of indirect tests as appropriate;
5. Verification of new issues that the auditor may have come across, but not included in the audit plan;
6. Due attention to the Assistant Commissioner/supervisor's comments and referrals from other Commissionerates, if any;
7. Preparation of verification paper in the prescribed proforma.

3.2.5C Explanation of Standards

Audit verification must be commensurate with the preliminary/desk review, evaluation of internal control, and the audit plan. It must use appropriate audit techniques document verification, and disposition of all items examined.

1. Verification of all issues appearing in the audit plan

Audit verification should adhere to all procedures outlined in the audit plan, including scope/extent of scrutiny, period covered, and documents to be verified. It should be ensured that all the issues mentioned in the audit plan are covered in the verification.

2. Appropriate and adequate audit techniques

Audit verification must be undertaken using a variety of audit techniques covering an adequate number of transactions and documents as per the audit plan. Sampling might be appropriate for large volume items. Use of CAAP techniques or assistance from CAAP officers for electronic records may be advisable.. The auditor can apply ABC analysis, especially in such cases where the quantum of data/information to be analysed is large in volume. In such a case, the auditor can classify them into A, B, and C categories according to their potential risk to revenue.

3. Audit tests that are consistent with the internal control evaluation

The auditor must follow the audit plan and audit testing must be consistent with the results of preliminary/desk review and internal control evaluation. For example, weaknesses or

areas of higher risk must be followed up through audit testing. Audit time should not be spent on areas of business operations where there is little or no risk.

4. Use of indirect tests as appropriate

Indirect tests are of great value in confirming reasonableness of size and scope of business operations, both in cases where records are easily available and more so, in situations where records are not available or there is suspicion of manipulation. Perfectly balanced records should not always be taken at face value. Indirect tests may be used to verify their reasonableness. These tests can involve relating input–output ratios, labour hours, water or electricity consumption to production of goods. They can also involve third-party information from the Income Tax Department, Customs, and regulatory organizations such as SEBI.

5. Verification of new issues that the auditor may have come across, but not included in the audit plan

The audit verification is not meant to be carried out mechanically. The auditor gets maximum opportunity to go through the assessee's records in his unit. Thereby, 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 fresh irregularities requiring detailed examination. The auditor is required to go beyond the scrutiny envisaged under the audit plan and expand the scope of verification, recording full reasons thereof.

6. Must address the comments of AC/senior officer and referrals from other Commissionerates/DG (Audit), if any

Often, the AC/senior officer make notes on the audit file about why an audit was selected, about information received from third party, or other notes to the auditor. There might also be referrals on file from other Commissionerates or DG (Audit) regarding the assessee, uncovered during audits of related parties or vendors/clients. The modus operandi circulars issued by DG (Audit) should also be examined and, if applicable, verification should be carried out taking this into account. These comments must be reviewed, appropriate audit action taken to incorporate the suggestions made, and the results documented.

7. Preparation of verification paper in the prescribed proforma

The auditor is required to conduct the verification in a systematic manner, following the sequence of steps envisaged in the audit plan as far as possible. He should also complete the relevant verification paper on closure of each step in the format given in the Audit Manual. Each verification paper should be given the same serial number that appears for that issue in the audit plan. The issues which are added later should normally appear in the end.

3.2.6 Technical issues

3.2.6A Objective

It is important that in an audit, the objections raised be technically correct and able to withstand scrutiny or challenge. Since law is open to interpretation, it may be difficult to test

the technical correctness of all objections. However, the objections should be correct to the extent that any professional auditor, working with and having access to the same research material, would also arrive at the same conclusion. It also means that the auditor must demonstrate, in writing, the research and reasoning used to base his/her application of legislation, policies, and jurisprudence.

3.2.6B Standards

An audit must be supported by the following:

1. The proper application of the Central Excise Act, the Central Excise Rules, jurisprudence, and other applicable Acts, regulations, and directives.
2. The technical correctness and relevance of all objections.
3. Full explanation concerning the amounts of duty detected.
4. Referrals to other departments where applicable.

3.2.6C Explanation of Standards

1. An audit must be technically accurate. The scope of technical accuracy includes application of various administrative policies and legislations administered by the Central Excise Department, available legal jurisprudence as well as quantification of objections in a mathematically correct manner. For evaluating this quality element, the review team should examine the objections contained in the draft audit reports of the selected sample files and not the final audit report.
2. The Central Excise Act, the Central Excise Rules, jurisprudence, and other applicable Acts, regulations, and directives should be applied properly. This is perhaps one of the most important standards of technical accuracy. The auditor must apply all legislative measures, directives, and jurisprudence correctly. The auditor must research departmental reference material, document his/her research, consultations within Excise, and reasons for applying a specific provision. The idea is to carry out and document the research and reasons for using the provision. Whether the application may be opposed by the assessee or may be unsustainable in the face of legal challenges that might follow is immaterial. It is the professionalism and adequacy of research and logical explanation for taking a position that is important. The auditor should cite the relevant legal provision (that was violated) and its applicability to the facts of the case when describing the objection.
3. Amounts of duty detected should be supported and fully explained in the working papers and/or audit report. This is important, not just for review and approval by the senior officers or the Monitoring Committee meeting but also to support short-levy demands if an assessee is expected to pay it or to convince a judge in a legal proceeding.
4. An audit should make referrals to other areas of excise where applicable. Appropriate referrals should be made to Anti-Evasion or other Commissionerates in case of dealings with related parties in other geographical areas, service tax, etc. An auditor is neither a specialist in all aspects nor does he/she have the time to fulfil

multiple roles. For example, during an audit, an auditor must make referrals to anti-evasion where fraud is suspected based on evidence encountered. Similarly, where problems are detected in records with respect to an assessee located in another Commissionerate, a referral must be made so that follow-up can be undertaken.

3.2.7 Working papers, audit report, and follow up

3.2.7A Objective

The objective of this standard is to ensure that all audit documentation, which include reports, working papers, and correspondences, are complete, accurate, and of professional quality.

3.2.7B Standards

1. Working papers should support the audit effort and results. They should:
   i. be clear, concise, legible, organized, indexed, and cross-referenced;
   ii. disclose the audit trail and techniques used in the examination of each significant item;
   iii. support the conclusions reached and cover all queries raised;
   iv. include audit evidence (for example, copy of a financial statement, an invoice, a contract, a bank statement, a job-work agreement, etc.) to support the assessment;
   v. link results to supporting working papers. For instance, the objections identified in the working papers must agree with the summary of audit results or statement of audit objections and the audit report;
2. Draft Audit Reports (DARs) should be scrutinized and finalized by the Monitoring Committee.
3. DARs should be scored by the Monitoring Committee.
4. Audit reports need to be:
   i. clear and disclose all material and relevant information;
   ii. define the required follow-up action.
5. Follow up action should be taken in respect of the objections raised.

3.2.7C Explanation of Standards

Quality audit reports and working papers provide a complete account of the work put in by the auditor right from the stage of desk review till the completion of audit verification. They disclose the nature of checks exercised by the auditor and the basis for identification of all items of material importance included in the audit plan. Working papers also reveal the quality and intensity of audit effort and audit results obtained. Information obtained in the course of an audit must be handled in a secure manner.

1. Working papers should support the audit effort and results.

   Working papers 'must stand on their own', that is, be full and complete. They should indicate all of the audit efforts undertaken and must be logically organized, linked, and cross-referenced. Specifically, they must:

   i. be clear, concise, legible, organized, indexed, and cross-referenced;
   ii. disclose the audit trail and techniques used in the examination of each significant item;
   iii. support the conclusions reached and cover all queries raised; and
   iv. include audit evidence (for example, copy of a financial statement, an invoice, a contract, a bank statement, a job-work agreement, etc.) to support the assessment;
   v. link results to supporting working papers. For example, the adjustments identified in the working papers must agree with the summary of audit results or statement of audit adjustments and the audit report.

2. DARs should be scrutinized and finalized by the Monitoring Committee which decides the sustainability of the objections. They should also be scored by the Committee to evaluate the working of the individual audit group.

3. Audit reports need to be clear and contain relevant information.
   An audit report must include a range of relevant information so as to be clear about who was audited, why, what was reviewed (or not reviewed). It is important that the audit be documented in such a way that any subsequent review of the audit is possible without having to contact the auditor. The report should, therefore, include, amongst other things:

   i. assessee information, that is, business and operating names, location, type of business, size of operations (turnover, staff, etc.) and, where relevant, compliance history, principals involved, related parties, etc.;
   ii. why the audit was undertaken and whether all areas of operations were examined;
   iii. outcome of the audit, compliance problems, that is, short/over payments identified;
   iv. indications on whether the assessee is in agreement with changes being proposed and spot recoveries if any. If the assessee disagrees, it should be indicated whether the assessee has provided any reasons for disagreement.
   v. any referrals made to other parts of the Department;
   vi. if any follow-up action is required; and
   vii. recommendation for future audit, if any.

4. Follow-up action:

   The audit cell/audit party is required to forward the audit report along with supporting documents to the officer in charge of taking further action such as, issuance of show cause notice (SCN) or quantification of duty amount for the past period. In case action

is required to be taken by the officers of other Commissionerates, the audit party is responsible for sending the communication to the concerned Commissionerate through their Commissioner. This could be related to service tax where the service provider may fall in the jurisdiction of another Commissionerate or the assessee could also be manufacturing similar items in a unit falling in another Commissionerate.

3.2.8 Professional conduct

3.2.8A Objective

All dealings with the assessee and its staff should be professional and courteous in accordance with the policies of Central Excise and the Citizen's Charter.

3.2.8B Standards

1. The assessee must be fully informed of the audit process.
2. The assessee must have enough time to prepare for the audit.
3. The assessee must be given a timely response for requested information.
4. The assessee must be given an explanation for all audit objections.

3.2.8C Explanation of Standards

1. The assessee must be fully informed of the audit process.
   i. The assessee must be fully informed and kept up to date throughout the audit process. The scope of this standard ranges from the first contact with the assessee to the completion of the audit and finalization of the audit report. For example, the auditor must inform the assessee about the upcoming audit, what it will entail, how long it is likely to take. However, this does not mean daily updates or progress reports for the assessee. Rather, the assessee should be informed at specific stages of an audit.
   ii. The assessee must be informed about the records expected to be provided by the assessee and a discussion should be held about the reasonable time to produce the records.
   iii. Finally, any assessments/short levies/proposed SCNs must be fully explained and the assessee should also be informed of his/her rights to appeal against any such assessments/short levies/SCNs.

Generally, it is likely to take more time to explain issues to a large assessee with complex operations than a smaller assessee.

2. When initiating an audit, the assessee should be given adequate time to prepare for it by gathering information required in the initial stages, making staff available for interview etc.. In accordance with the Citizen's Charter, a 15-day advance notice should be provided in all routine audits. A large assessee with complex operations is likely to require more time to prepare and this should be taken into consideration. However, this does not imply acceptance of delaying tactics. Should it appear that the assessee is

unnecessarily delaying an audit, this should be documented, and appropriate action taken in consultation with senior officers.

3. The assessee must be given a timely response for requested information. An assessee might request information from the auditor on a specific issue being reviewed by the auditor or an interpretation of the legislation. The assessee might also request information on publications. All such requests should be dealt with promptly. Where the auditor is not in a position to reply or provide relevant information or the requested publication, the auditor should provide the particulars of the appropriate contact person in the Department who may be able to help the assessee. Where it is likely to take longer to respond, the auditor should intimate the assessee of the delay and provide an estimate of the turnaround time.

4. The assessee must be given an explanation for all audit objections. This is very important in order to minimize chances of misunderstanding and, hence, unnecessary appeals. Therefore, it is important to ensure that the assessee understands the objections, short levies, or penalties. It is also important that the explanation be followed up in writing, presenting full details and offering answers to any question that the assessee might have.

3.2.9 Timeliness

3.2.9A Objective

An audit needs to be carried out in a timely manner, both from the department's perspective as well as the assessee's perspective to avoid costly delays.

3.2.9B Standards

1. Audits should be planned and scheduled in such a way as to avoid major interruptions.
2. Audits should be completed within a reasonable time.
3. There should be no undue delays in finalizing an audit.
4. Audit time should be commensurate with the complexity of the audit.

3.2.9C Explanation of the Standard

1. Audits should be planned and scheduled in such a way as to avoid major interruptions. When initiating an audit, the auditor should advise the assessee on the approximate number of days it will take to complete the audit. The auditor should also ensure that there are no planned interruptions such as vacations or office closures exceeding a few days. Effort should be made to schedule an audit in such a way that it proceeds from start to end without major disruptions.

2. Audits should be completed within a reasonable time. While interruptions are not always within the auditor's control, it is important to document such interruptions and, where possible, communicate the same to the assessee in writing. For example, a request for information that was not readily available to the auditor should be made in

writing to the assessee, if the process is expected to take longer than a few days. Allowances should also be made for instances where technical information is to be verified by the Commissionerate. The assessee must be suitably informed in such cases.

3. There should be no undue delays in finalizing an audit once the audit examination and review phases are completed. Delays in finalizing an audit, such as writing of the final report, could be costly, both to the assessee and the Department. The assessee could face uncertainty and higher penalties and/or interest. It may also result in losses to the government as the amount of duty due to the government may get time barred. Auditors should, therefore, aim to finalize an audit without undue delays.

   Delays should be noted and explained in the audit file. Where necessary, senior officers should be informed, especially where it is felt that the assessee is using delaying tactics in responding to proposed changes or short-levy.

4. Audit time should be commensurate with the complexity of the audit. Audits should be finalized within the time parameters set for different sizes and complexities of assessee operations. Other factors that could impact time taken to complete an audit include involvement and use of AD (Cost) or CAAP officers, quality of assessee records, and level of cooperation from the assessee.

Chapter 4: Audit Quality Enablers

The factors which have an impact on the qualitative performance of the audit teams are defined as audit quality enablers. At the Commissionerate level, three audit quality enablers have been identified: infrastructure, manpower resources, and participation of senior officers.

4.1 Infrastructure

Infrastructure would include adequate space and furniture for all the staff as well as computers for each audit party, along with support facilities such as timely supply of manuals, library facilities, exclusive xerox and fax machines, telephone connectivity, adequate transportation, and stationery.

4.2 Manpower Resources

Human resources play a considerable role in determining the quality and coverage of audits. The quality of an audit will depend strongly on the availability of manpower in the audit branch and versatility of the staff conducting the audit.

4.2.1 Availability of manpower and organizational structure

Adequacy of staff is of utmost importance not only to achieve sufficient coverage in terms of the number of audits but also to conduct each of them in a systematic manner. The audit section should have a separate set of officers in the audit cell to carry out the functions distinct from primary audits, such as planning, selection, allocation, and coordination of monitoring and evaluation of audits. The cell should also maintain the database of auditors and master files of every assessee.

4.2.2 Training of officers and staff

In order that the auditors perform quality EA 2000 audits, it is necessary that they be well versed with the methodology of EA 2000. Moreover, EA 2000 lays great emphasis on financial accounting and auditing skills. As the staff in the audit branch is not necessarily from an accountancy or commerce background, it is essential that specialized training be provided to them in EA 2000 methodology, financial accounting, and reading of financial records.

4.3 Participation of Senior Officers

Senior officers can play a pivotal role in ensuring quality audits. Their involvement provides impetus to the entire audit process. The participation of senior officers is anticipated at various stages presented below:

4.3.1 Allocation of audits

Proper assessment of skill levels, professional qualifications, and knowledge base of auditors by senior officers helps in rational allocation of audits to the different teams.

4.3.2 Training of auditors

The role of training in performing quality audits needs no reiteration. The initiative in this regard has to come from senior officers. The training needs of auditors have to be identified and prioritized. Training sessions should be arranged with NACEN (National Academy of Customs Excise and Narcotics) or Regional Training Institutes. In-house training sessions need to be organized in consultation with specialists in the respective fields. Senior officers themselves need to be trained in financial accounting, reading of balance sheets, profit and loss accounts, and other financial records. In the absence of any statutory records, reading of financial records of the company is the only major source of detecting leakage of revenue.

4.3.3 Visit to the unit

It should be ensured that senior officers personally visit large or complex units during the conduct of their audit.

4.3.4 Finalization and scoring

Monitoring committee meetings are to be held regularly and efforts made to scrutinize and score all the DARs. This is a very important tool for senior officers to assess the performance of their audit teams, look into the quality of audit objections, and take measures to improve the performance by giving personal inputs.

4.3.5 Role of Assistant/Deputy Director (Costs)

Wherever an Assistant Director and Deputy Director (AD/DD) (Costs) is posted, his/her services should be utilized for imparting training to the auditors. Any complex issues pertaining to valuation and CENVAT utilization noticed during audit may be referred to AD/DD (Costs).

Chapter 5: Conducting the QAR

A QAR is conducted in several stages. Each of these stages has been discussed individually in this chapter.

5.1 Scheduling the Review

This is the first stage in the conduct of a QAR. This involves planning and scheduling of the Commissionerates for review.

5.1.1 Annual planning

At the beginning of the financial year, the annual plan for the year should be made. This will give the details of the Commissionerates that are to be taken up for review during the year as per the directions prescribed in Section 2.4 of Chapter 2 of the QAR manual.

5.1.2 Scheduling

Once the work plan is developed, enumerating the Commissionerates that are to be reviewed during the year, month-wise schedule of the reviews to be conducted should be finalized. This should take into consideration the minimum gap of six months between two consecutive reviews. Other administrative factors are also to be taken into consideration while scheduling the Commissionerates for review. On finalization of the schedule, the same should be intimated to the DG (Audit). The Commissionerates should be formally notified about the upcoming reviews.

5.2 Gathering of Information

The letter formally notifying the review should also enclose the format in Part I (presented in Annexe 5.1). This should be completed by the Commissionerate and sent to the zonal unit at least a month ahead of the review. The information gathered from this proforma should be used for preliminary review conducted by the zonal unit. The Commissionerate should also be requested to keep a slab-wise list of the units audited during the previous financial year readily available during the team's visit to the Commissionerate for selection of files for review.

5.3 Preliminary Review of Available Information

This is basically a desk review that involves a general review of the manpower, infrastructure, and delivery of the audit programme by the Commissionerate. In short, it gives an idea of the working of the audit branch of the Commissionerate. The different aspects that are to be reviewed and their applicability have been specified in Annexe 5.1.VI.3. The zonal unit should not proceed for QAR without taking up a preliminary review. The completed preliminary review report should find a place in the QAR file available with the zonal unit.

5.4 Opening Meeting with the Jurisdictional Commissioner

The physical review of the Commissionerate begins with the opening meeting with the Commissioner. The review party should fix a meeting with the Commissioner so that he is aware of the review party's arrival, scope of the review, and the expected timeframe. A walkthrough of the QAR process should be provided. It is essential that the Additional Director General attend the opening meeting with the Jurisdictional Commissioner.

5.5 Selection of Files for Review

This is one of the most important steps determining the efficiency of the review. The files should be selected at random from the slab-wise list of units audited during the financial year. The number of files selected in each category should be in line with the number prescribed in the format of the QAR.

5.6 Verification of Information provided in Part I

The veracity of information provided in Part I needs to be ascertained. Most of this information is provided from the records and registers maintained. Proper maintenance of the registers is essential to provide accurate information. In order to examine the maintenance and upgradation of registers, a few files should be randomly selected and relevant entries cross checked in the corresponding registers. Moreover, the data provided in Part I should be tallied with the relevant records and registers.

5.7 Review of Audit Organization and Infrastructure

A review of the audit organization and infrastructure provides an insight into the availability of staff and the prevailing working conditions. It also brings to the fore, emphasis being laid on staff training in the audit branch.

1. Review of organization with respect to:
    - i. Adequate strength of officers;
    - ii. Vacancy positions and training details;
    - iii. Existence of a separate audit cell;
    - iv. Exclusive charge of audit branch to senior officers;

v. Availability of the services of AD (Cost).

vi. Regular conducting of the Monitoring Committee Meetings.

2. Review of infrastructure with respect to the following aspects:

   i. Facilities available exclusively for the audit branch:
      - number of vehicles;
      - number of computers;
      - number of fax, telephones.

   ii. Adequacy of the following:
      - office accommodation;
      - furniture, storage options;
      - library facilities, availability of manuals and books, etc.

   iii. Literacy of officers in computer operations.

5.8 Review of Selected Files

The review of individual files should cover the following quality elements (already discussed above) and should be conducted as prescribed in the proforma.

1. Selection of units for audit;
2. Preliminary review or desk review;
3. Evaluation of internal controls;
4. Audit planning;
5. Audit verification;
6. Technical issues;
7. Working papers, audit reports, and follow-up;
8. Professional conduct;
9. Timeliness.

5.9 Summarizing the Findings

The review team should study all the issues covered in the selected files and summarize these findings for discussion with the Commissioner during the closing meeting. The findings can then be presented in detail in the final review report.

5.10 Closing Meeting with the Commissioner

The review team should hold a closing meeting with the Commissioner at the end of the review. During this meeting, the team should mention the major observations made during the review and any other observation which may need immediate attention. Specific recommendations should be discussed taking into account the feasibility factor.

5.11 Finalization of the Review Report

The review team should, on return to their headquarters, consolidate all the work done during the review and prepare the report as prescribed. The report should acknowledge all the positive findings of the review. The report should be finalized and communicated to the jurisdictional Commissioner, jurisdictional Chief Commissioner, and the Director General (Audit) within a month of conduct of the review.

5.12 Evaluation of Quality by DG (Audit)

The process of QAR has been developed by DG (Audit) with the objective of assessing the quality of audits being conducted by the Commissionerates. During the evaluation of quality by DG (Audit):

1. The quality of Central Excise and Service Tax audits performed by the audit officers of the Commissionerate is assessed. The conformity of the audit process to that prescribed in the Central Excise/Service Tax Audit manual is evaluated. The best practices as well as shortcomings are identified.
2. The assessment report along with the major observations is presented to the jurisdictional Chief Commissioner and Commissioner in order to enlighten them to the existing level of audit quality. This also helps them to take up issues on a priority basis.
3. The data collected through Part I of the QAR report (Annexe 5.1) is not only used to create and update the national databank but is also used to identify trends of different aspects at a national or zonal level.

5.13 Response from the Commissionerate

On receipt of the QAR report from the zonal unit, the Commissioner should send a written response to the ADG of the zonal unit with a copy to the Director General's office. The Commissioner can state the remedial actions that have been initiated. The response from the Commissioner should reach the zonal unit within a month of receipt of the said report.

Annexe 5.1 Proforma for QAR of the Internal Audit Department of the Central Excise Commissionerate

VISIT NOTE No./EX.QAR/AZ or BZ or CZ or DZ or KZ or MZ or HZ

Part I General Information
(to be filled before proceeding for visit)

1. Name of the Commissionerate

2. Names of the visiting officers 1.

2.

3.

4.

3. Date of visit From to

4. Financial year (year under review)

5. Date of last review

A. Revenue profile of the commissionerate

S. no.	*Year*	*Personal Ledger Account (PLA) revenue (Rs in crore)*		*CENVAT utilization*
		Sanctioned budget estimate (SBE)	*Actual*	
(1)	*(2)*	*(3)*	*(4)*	*(5)*
1.	2006–07			

B.1 No. of registered units slab-wise (as on 1.4.2006):

Paying total duty (in cash + CENVAT credit) above Rs 3 crore per annum	*Paying total duty (in cash + CENVAT credit) between Rs 1 crore and Rs 3 crore per annum*	*Paying total duty (in cash + CENVAT credit) between Rs 50 lakh and Rs 1 crore per annum*	*Paying total duty (in cash + CENVAT credit) below Rs 50 lakh*

B.2 Details regarding other registered assessees:

S. no.	*Type of assessee*	*No. of assessees*	*No. of audits conducted*	*Total short levy detected (Rs in lakh)*	*Total recoveries made (Rs in lakh)*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
1.	Regd. dealer				
2.	Service tax				
3.	EOU				

C.1 Details of audit officers/parties (for the previous financial year):

S. no.	*No. of audit parties*	*Total no. of officers posted in IAD*	*No. of officers mentioned in column 4 who have under-gone training in EA 2000 audits*	*Vacancies in IAD*
		1. AC/DC	1. AC/DC	1. AC/DC
		2. Superintendent	2. Superintendent	2. Superintendent
		3. Inspector	3. Inspector	3. Inspector
		4. DOS	4. DOS	4. DOS

C. 2 In-house training details:

S. no.	*Year*	*Name of the course*	*Frequency*	*No. of officers trained*
1.	2006–07			
2.	2006–08 (up to the last quarter)			

Note: The in-house training details should provide all audit related training courses conducted by the Commissionerate during the year under review. Frequency refers to the number of times the said course was conducted during the year.

D. Details of IAD audits conducted during the previous financial year:

S.no	*Year*	*No. of units scheduled for audit*					*No. of units audited*					*Total no. of revenue paras raised*	*Total short levy detected (Rs in lakhs)*	*Amount of recoveries made during the financial year (Rs in lakhs)*
		> Rs 3 Crore	*Rs 1 crore to Rs 3 crores*	*Rs 50 lakh to Rs 1 crore*	*Below Rs 50 lakh*	*EOUs*	*> Rs 3 crore*	*Rs 1 crore to Rs 3 crore*	*Rs 50 lakh to Rs 1 crore*	*Below Rs 50 lakh*	*EOUs*			
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*	*(12)*	*(13)*	*(14)*	*(15)*
1.	2006–07													
2.	2007–08 (up to last quarter)													

E. Preparation and finalization of DARs:

S.no	*Year*	*No. units audited*	*No. of DARs pending with ADG for vetting*	*No. of DARs submitted to the audit cell*		*No. of DARs put up to the monitoring committee*		*No. of DARs reviewed by the monitoring committee*		*No. of DARs finalized*		*No. of DARs scored by the scoring cell*	
				Nil	*Others*	*Nil*	*Others*	*Nil*	*Others*	*Nil*	*Others*	*Nil*	*Others*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*	*(12)*	*(13)*	*(14)*
1.	2006–07												
2.	2007–08 (up to last quarter)												

F. Age-wise pendency of the DARs (report as on the last quarter prior to review):

DARs pending finalization by monitoring committee			
Less than 3 months	3–6 months	6–9 months	Over 9 months

Note: Mention details of such cases.

G. Finalization of audit paras:

S. no.	*Year*	*Total no. of audit paras raised*		*Audit paras dropped*		*Audit paras upheld*	
		No.	*Amt (Rs in lakh)*	*No.*	*Amt (Rs in lakh)*	*No.*	*Amt (Rs in lakh)*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*
1.	2006–07						
2	2007–08 (up to last quarter)						

H. Follow-up action of upheld audit paras:

S.no	*Year*	*Opening balance of audit paras at the beginning of the financial year*		*Audit paras upheld during the year*		*No. of audit paras closed during the year*						*Closing balance*	
						Closed after recovery		*Closed after issue of SCN*		*Others*			
		No.	*Amt (Rs in lakh)*	*No.*	*Amt (Rs in lakh)*	*No.*	*Amt (Rs in lakh)*	*No.*	*Amt (Rs in lakh)*	*No.*	*Amt (Rs in lakh)*	*No.*	*Amt (Rs in lakh)*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*	*(12)*	*(13)*	*(14)*
1.	2006–07												
2.	2007–08 (up to last quarter prior to review)												

I. Age-wise pendency of the audit paras (pending as in the quarter prior to review):

Pending audit paras							
Less than 3 months		*3–6 months*		*6–12 months*		*Over one year*	
No.	*Amt (Rs in lakh)*	*No.*	*Amt (Rs in lakh)*	*No.*	*Amt (Rs in lakh)*	*No.*	*Amt (Rs in lakh)*

Note: Mention details of such cases.

J. Details of Central Excise Revenue Audits (CERAs) conducted during the previous financial year:

S. no.	*Year*	*No. of local audit reports (LARs) received during the year*	*No. of revenue (rev.) paras raised in these LARs*	*No. of rev. paras admitted*	*Total short levy involved (Rs in lakh)*		*Total recovery on the rev. paras admitted (Rs in lakh)*	*Subsequent recovery on the rev. paras admitted (Rs in lakh)*
					Detected	*Admitted*		
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*
1.	2006–07							
2.	2007–08 (up to last quarter)							

K. Details of pre-audits/post audits conducted during the previous financial year:

S. no.	*Year*	*Refund claims pre/post audited*			*Rebate pre/post audited*		
		No. of claims audited	*No. of erroneous grants detected*	*Amt. involved (Rs in lakh)*	*No. of claims*	*No. of erroneous rebates detected*	*Amt. involved (Rs in lakh)*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*
1.	2006–07						
2	2007–08 (up to last quarter)						

L. Comparison of detection and recovery per audit in case of audit of mandatory units vis-à-vis non-mandatory audits for the previous financial year:

1. Detection per audit in respect of units paying duty above Rs 3 crore is equal to

   (Total detections in the year in respect of such units) divided by (Total number of audits conducted in the year of such units.)

2. Recovery per audit in respect of units paying duty above Rs 3 crore is equal to

   (Total recovery in the year in respect of such units) divided by (Total number of audits conducted in the year of such units.)

3. Detection per audit in respect of units paying duty below Rs 3 crore is equal to

   (Total detection in the year in respect of such units) divided by (Total number of audits conducted in the year of such units.)

4. Recovery per audit in respect of units paying duty below Rs 3 crore is equal to

   (Total recovery in the year in respect of such units) divided by (Total number of audits conducted in the year of such units.)

M. Details regarding special audit conducted if any (to include details of audits conducted under Section 14A/14AA).

N. Details of rewards sanctioned to auditors:

S. no.	*Year*	*No. of cases in which reward was sanctioned*	*No. of officers to whom reward was sanctioned*	*Amount of reward sanctioned (Rs in lakh)*
1.	2006–07			
2.	2006–08 (up to the last quarter)			

Points to be Remembered While Filling Up the Part I Proforma

1. In (A), figures pertaining to the current year, that is, April 2007 onwards need not be given.

2. In (B), the figures of all the registered central excise units in the Commissionerate should be given in the prescribed slabs for the financial year preceding the year in which review is conducted, that is, in this case, figures presented should be as on 1.4.2006.

3. In (C), the number of audit parties should include the visiting teams as well as the audit cell.

4. Column D

   i. The figures pertaining to service tax audits should not be included. Figures pertaining to number of units scheduled, number of units audited, and short levy detected should tally with the figures given in the quarterly audit reports for the year.

   ii. The number of revenue paras raised should tally with the figures given in the quarterly audit reports.

   iii. The total short levy detected as shown in this column should tally with the figures provided in the quarterly audit reports for the relevant year. In cases where the amount of detection is quantified on a later date, it is to be shown in the subsequent year.

   iv. The amount of recoveries made during the financial year should include on-the-spot recoveries and any recoveries made up to the issue of SCN in that year.

5. Column E

   The number of units audited should tally with that given in (D). The number of DARs finalized should include both those finalized by the monitoring committee as well as those finalized otherwise, if any.

6. Column G

   The total audit paras raised should include both revenue and non-revenue paras.

7. In (H), the number and amount of audit paras upheld should tally with that given in (G)

8. The total number and amount of pending audit paras in (I) should tally with the closing balance of 2007–08 (up to the last quarter prior to review) given in (H).

Part II, provided below, is to be filled up during the visit

PART II

Verification of information contained in Part I and review of records:

A. 1. Quality, completeness, and accuracy of the records/registers maintained by IAD

S. no.	*Name of the register*	*Maintained Yes/No*	*Updated Yes/No*	*Scrutinized by senior officer Yes/No*	*Remarks*

2. A few files may be randomly selected and relevant entries in the corresponding registers may be verified.

S. no.	*File no.*	*Audit planning register*		*Audit follow-up register*	
		Entry no.	*Complete Yes/No*	*Entry no.*	*Updated Yes/No*

B. Whether the information contained in Part I is tallying with the records maintained by the IAD:

In case the answer is 'No', the discrepancy may be reconciled and Part I may be corrected and a remark to that effect may be appended under the relevant sub-part so that the data bank can be corrected if necessary. Only the reconciled Part I should be submitted to the headquarters.

PART III

A. FUNCTIONS

1. Selection of units for audit:

S.no.	*Procedures*	*Yes*	*No*
1.	Whether updated list of registered units & EOUs are available?		
2.	Whether the list is arranged slab-wise as per the threshold limits prescribed?		
3.	Whether non-mandatory units in the list are arranged in descending order of rupee risk?		
4.	Whether selection is based on rupee risk calculations for non-mandatory units circulated by DG(Audit)? [The units scheduled for audit should be cross-verified with the list circulated by DG(Audit).]		
5.	Local risk parameters taken into consideration for the selection of non-mandatory units?		
6.	Whether 5 per cent reference units were selected for audit?		
7.	Whether auditor's profiles are maintained?		
8.	Whether the allotment of selected units to audit teams/parties is commensurate with their experience and skill levels?		

2. Preliminary/Desk Review:

S. no.	*Procedure*	*Yes (no.)*	*Yes %*	*No (no.)*	*No %*	*Total*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
1.	Whether assessee master file is maintained and is[a] i. updated ii. complete?					
2.	Whether the reason for selection of assessee is mentioned?					

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S. no.	Procedure	Yes (no.)	Yes %	No (no.)	No %	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
3.	Whether the information available about the assessee both in excise returns and financial statements was reviewed?					
4.	Whether revenue risk analysis was undertaken?					
5.	Whether trend analysis was carried out?					
6.	Whether ratio analysis has been conducted?					
7.	Whether returns filed with Sales Tax, Income Tax Department, etc. have been studied?					
8.	Whether ER4 and ER5/6 returns were scrutinized (wherever applicable)?					
9.	Are copies of financial records, income tax return, cost audit report, etc. placed in the master file?					
10.	Whether the results of desk review are mentioned as a summary of observations and follow-up items?					

[a] To be reported as per Annexe 5.1.VI.1

Notes: Please comment on the performance of the audit cell with respect to 'Planning of Audit' and evaluate the standard of conduct of audit based on the files reviewed.

For filling up the proforma (Points 2 to 5), the visiting review team should select a minimum of 25 files with at least 5 files in each of the three revenue slabs. At least one nil report file should be selected for scrutiny. Under no circumstances, should the files be selected by the Commissionerate audit branch. Random sampling should be adopted for the selection. The reporting is to be done in the following manner:

If out of 25 files, desk review has been carried out in 20 cases, then 20 should be written in column 3, the relevant percentage, that is, 80, should be written in column 4, 5 should be written in column 5, 20 in column 6, and 25 in column 7. The same procedure is to be followed for all the functions presented in proformas IIIA2 to IIIA9

3. Evaluation of Internal Controls:

S. no.	*Procedure*	*Yes (no.)*	*Yes %*	*No (no.)*	*No %*	*Total*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
1.	Whether tour of premises has been carried out?					
2.	Whether the interview of the assessees' employees has been carried out?					
3.	Whether evaluation of internal control has been carried out, based on assessees' documentation regarding accounting systems					
4.	Whether walk-through was performed in the following areas: (i) general and tax accounting; (ii) sales and other revenues; (iii) purchases/stores/production; (iv) CENVAT utilization; (v) new items produced; (vi) classification?					
5.	Whether observations made and conclusions drawn are based on synthesis of information obtained?					

4. Preparation of Audit Plan

S. no.	*Procedure*	*Yes (no.)*	*Yes %*	*No (no.)*	*No %*	*Total*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
1.	Whether the audit plans conform to the format prescribed in the audit manual?					
2.	Whether the audit plans are consistent with the i. complexity of the audit ii. reason for selection?					

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S. no.	Procedure	Yes (no.)	Yes %	No (no.)	No %	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
3.	Whether the audit plans are linked to and based on the preliminary/desk review and evaluation of internal controls					
4.	Whether the audit plans consider large, unusual, or questionable items?					
5.	Whether the audit plans consider assessee's commodity specific issues?					
6.	Whether the audit plans are internally consistent, precise, and complete?					
7.	i. Whether the draft audit plans are approved by Addl/Jt Commissioner ? ii. Has any modification to draft audit plans been made by the senior officers					

Note: Evaluate the efficacy of the audit plans.

5. Audit Verification

S. no.	Procedure	Yes (no.)	Yes %	No (no.)	No %	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Whether verification of all issues mentioned in the audit plan has been carried out?					
2.	Whether ABC analysis has been conducted?					
3.	Whether audit tests are consistent with the internal control evaluation?					
4.	Whether any new issue that was not mentioned in the audit plan has been verified?					
5.	Whether comments of senior officers and references received from other offices have been taken into account during verification?					
6.	Whether discussion of major audit points was carried out with the assessee					

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S. no.	Procedure	Yes (no.)	Yes %	No (no.)	No %	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	i. orally ii. in writing					
7.	Whether assessee's submissions are recorded?					
8.	Whether the verification paper is prepared in the prescribed proforma?					

Note: Evaluate the process of audit verification.

6. Technical Issues

S. no.	Procedure	Yes (no.)	Yes %	No (no.)	No %	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Whether the relevant Acts and Rules, policies, and directives are applied properly?					
2.	Whether objections are technically correct and relevant?					
3.	Whether amounts assessed/reassessed are fully supported and explained in the working papers and the audit report?					
4.	Whether references (where applicable) are made to other departments?					

Note: Whether the audit objections that have been raised are technically correct and legally sustainable:

7. Working papers, audit report, and follow up

S. no.	Procedure	Yes (no.)	Yes %	No (no.)	No %	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Whether working papers are: i. complete; ii. clear;					

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S. no.	*Procedure*	*Yes (no.)*	*Yes %*	*No (no.)*	*No %*	*Total*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
	iii. concise; iv. legible; v. organized; vi. cross-referenced?					
2.	Whether working papers disclose the audit trail and techniques used?					
3.	Whether working papers support the conclusions reached and cover all queries raised?					
4.	Whether working papers include the required evidence, supporting documents, records, and annexes?					
5.	Whether the working papers support the audit results?					
6.	Wheher the DARs are scrutinized and finalized by the Monitoring Committee?					
7.	Wheher the DARs are scored by the Monitoring Committee?					
8.	Whether the audit report discloses all material and relevant information?					
7.	Whether the follow-up action was carried out as required by the audit objections?					

Note: Judge whether due attention has been paid to the completion of the working papers, preparation of audit reports and undertaking of follow up action.

8. Professional Conduct:

S. no.	Procedure	Yes (no.)	Yes %	No (no.)	No %	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Whether the assessee was fully informed about the audit process?					
2.	Whether the assessee was given enough time to prepare for the audit?					
3	Whether the assessee was given timely response for requested information?					
4.	Whether the assessee was given explanations for all audit objections?					

Note: Evaluate the professionalism exhibited by the audit team.

9. Timeliness:

S. no.	Procedure	Yes (no.)	Yes %	No (no.)	No %	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Whether the time taken for the audit was commensurate with the complexity of the audit?					
2.	Whether the draft audit reports were prepared and submitted within a reasonable period?					
3.	Whether the final audit reports were prepared and issued within a reasonable period?					

Note: Assess if timelines are being strictly adhered to.

B. EVALUATION OF AUDIT QUALITY ENABLERS

1. Manpower Resources:

   i. Does the audit branch has adequate strength of officers? Substantiate with calculations (refer Annexe 5.1.VI.2 for sample calculation).

   ii. Please comment on the present vacancy positions giving details in a tabulated form with information on sanctioned strength, requirement of officers as per norms, working strength and, shortage.

iii. Evaluate the training coverage of the officers posted in audit branch in terms of three subjects, namely, EA 2000, financial literacy, and computer skills. The training aspect of senior officers should be evaluated separately. The comment should include any improvements/decline in staff strength and number of trained staff between last financial year and up to the last quarter of the year of review.

iv. Does the audit branch have a separate audit cell? If so, the composition thereof.

v. In case DD/AD (Costs) is posted (or his/her services are available), has he/she been involved in imparting training to auditors and have complex cases of valuation, CENVAT availment, or costing been referred to him/her for advice?

vi. How many monitoring committee meetings were held during the year of review? The comments should include both the composition of the monitoring committee and the number of meetings held during the financial year.

vii. Is the approval of the Additional/Joint Commissioner taken for:

(a) formation of audit parties; and

(b) allocation of audits to individual parties?

viii. In case the percentage of trained auditors was less than 50 per cent, did the Additional/Joint Commissioner take steps to:

(a) organize in-house training;

(b) nominate officers for training at RTI/NACEN?

ix. Did the Additional/Joint Commissioner or Deputy/Assistant Commissioner visit the important duty-paying units at the time of audit?

x. Are all DARs and working papers being scored?

xi. Were audit parties that scored less than 50 per cent marks consistently for three or more audits sent for training?

2. Infrastructure:

i. Facilities available exclusively for IAD:

(a) no. of vehicles;

(b) no. of computers;

(c) No. of fax, telephones.

ii. Whether the following facilities are available for audit branch?

(a) adequate office space; Y/N

(b) own table for each auditor; Y/N

(c) access to library; Y/N

(d) availability of audit manuals; Y/N

(e) availability of ELTs/other publications; Y/N

(f) internet facilities. Y/N

C. Results

What is the general level of quality and sustainability of audit objections raised by IAD? Please assess this on the basis of the proportion of audit objections that are dropped by the monitoring committee meetings.

Part IV

The compliance level of objections raised in the previous QAR should be discussed. The visiting team should verify whether all previous deficiencies have been rectified. If the deficiencies have been repeated, such instances should be specified.

Part V Suggestions and Recommendations

In this part, the review team should provide an analysis on the improvement/decline in the overall performance of the audit branch with reference to the previous QAR.

Part VI Suggestions And Recommendations for DG (Audit) by the Commissionerate

ANNEXE 5.1.VI.1

S. no.	*File no. and name*	*Assessee profile maintained in*		*Complete as per Annexe A in CE audit manual Yes/No*	*Updated Yes/No*
		Hard copy Yes/No	*Electronic format Yes/No*		

ANNEXE 5.1.VI.2

SAMPLE CALCULATION FOR DETERMINATION OF NUMBER OF AUDIT PARTIES REQUIRED

If a Commissionerate has X number of units in the mandatory category (to be audited every year) , Y number of units in the Rs 1 crore to Rs 3 crore category (to be audited once in every 2 years) , Z number of units in the Rs 50 lakh to Rs 1 crore category to be audited once in every 5 years), W number of units in the < Rs 50 lakh category (10 per cent of the units to be audited every year), and V number of 100% EOUs (25 per cent of the 100% EOUs) the required number of audit parties is to be calculated in the following manner:

No. of units to be audited :	Mandatory	=	X
	Rs 1 crore to Rs 3 crore	=	Y/2

	Rs 50 lakh to Rs 1 crore	=	Z/5
	less than Rs 50 lakh	=	W
	100 per cent EOUs	=	V
No. of working days require:	Mandatory	=	X * 10
	Rs 1 crore to Rs 3 crore	=	Y/2 * 7
	Rs 50 lakh to Rs 1 crore	=	Z/5 * 5
	less than Rs 50 lakh	=	W * 3
	100% EOUs	=	V * 7

Total working days required for audit (WD): (X*10)+(Y/2*7)+(Z/5*5)+(W*3)+(V*7)

Total no. of visiting groups required (VG) : WD/249

Total no. of audit groups required : VG + 1

Annexe 5.1.VI.3
Desk Review of the QAR Team Based on Part I

A revenue profile of the Commissionerate is drawn up for an idea of the size of the Commissionerate to be reviewed.

1. Information on slab-wise registered units:
   i. to be used to calculate the audit party requirements;
   ii. to determine whether adequate number of units are being scheduled;
2. Details regarding other registered units: Details of EOUs can be used to find out whether selection criteria have been properly applied for scheduling and auditing as per the norms prescribed by the Board.
3. Details of audit officers/parties and in-house training details: Availability of staff and vacancy positions can be ascertained. Priority given to training can also be assessed.
4. Details of IAD audits conducted: The data on actual audits conducted can be used to :
   i. determine the slab-wise coverage of units;
   ii. ascertain whether the available manpower has been fully utilized.
5. Details regarding preparation and finalization of DARs: Study of this data can be used to assess the following:
   i. Comparison of number of units audited with that submitted to the audit cell provides an indication of the timely preparation of DARs.
   ii. Comparison of the number of DARs put up to the Monitoring Committee and those reviewed by it provides a glimpse of the working of the Monitoring Committee.
   iii. Comparison of the number of DARs finalized with the number of units audited provides an estimate for the percentage of reports finalized in the year.

These together offer a comprehensive picture of the functioning of the audit branch of the Commissionerate.

6. Follow up action of upheld audit paras: Study of the details of paras upheld and closed during the year gives an insight into the follow-up action taken by the audit branch.

7. Improvements with respect to previous review in respect of staff, training, etc.: The gist of major observations should be noted down from the previous QAR. Any improvement noticed in the staff position, training, coverage, etc. should be noted.