

Government of India.

DIRECTORATE GENERAL OF AUDIT

CENTRAL TAXES

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F. No. 381/209/2016

Dated: 12th July 2017

To

The Principal Chief Commissioners/Chief Commissioners of GST and Central Excise (All).

Madam/Sir,

Subject: Strategy for audits in 2017 - 18 consequent to GST - reg

As you are already aware, the Department has rolled out GST smoothly. However, the activity of audit in GST will take some time to start. The audits in GST regime will require availability of records / documents of at least one year period. Once a sturdy database is available a clearer picture of the tax payer along with the nature of his transactions would emerge. This would assist in better risk-based analysis for identifying taxpayers for audit.

2. Pre-GST, there were 45 Audit Commissionerates and under GST there are 48 Audit Commissionerates. There should be no break in the functioning of these Commissionerates and the records / documents for the accounting year 2016-17 would need to be adequately checked to plug any revenue leakage. The process of audits would continue as in the earlier years to that extent.

3. As per the provisions of Section 174 (2) (e) of the Central Goods and Services Tax Act 2017, the audit functions would continue to be exercised by CBEC over its tax payers. Board has considered and approved this Directorate General's proposal to create an Audit Plan for 2017 - 18 covering taxpayers who were registered with Central Excise and Service Tax. Irrespective of the distribution of administrative control of the registered taxpayers between Central and State Administration, the financial records / books of accounts pertaining to 2016 -17 and for the past period can be taken up for verification in the year 2017 - 18 by Audit Commissionerates. In any case for the past period (i.e. before the appointed date) State officers would not have any power of audit under Central Excise and Service Tax. This work would be the domain of CBEC only.

4. Board has approved that, Directorate General of Audit would identify taxpayers for audit and calculate their risk scores as has been done in the past. The list of taxpayers with the risk scores will be shared with the Chief Commissioner in charge of each State. The Chief Commissioner shall allocate the taxpayers to the appropriate Audit Commissionerates in their jurisdiction.

5. This Directorate General has already run the risk assessment programme and created list of assesseees in Large, Medium and Small categories for each of the erstwhile 45 Audit Commissionerate. Six lists each, i.e. Large, Medium and Small for Central Excise and Service Tax respectively for each Audit Commissionerate is being sent by email to the Chief Commissioner of GST and Central Excise, as well as to the zonal units of the Directorate General. In case new Audit Commissionerate has been created in your zone or the jurisdiction of the existing Audit Commissionerate has been rearranged, the assesseees from the said list should be assigned to the respective Audit Commissionerate. The list

contains the CDR code which can be used for such distribution. The salient features of the said list are as under:

- (i) The categorisation and risk evaluation has been carried out on the Central Excise Returns (ER1, ER2 and ER3) and Service Tax (ST3) data provided by EDW for the financial years 2015 -16 and 2016 -17.
- (ii) The categorisation of the taxpayers into Large, Medium and Small, has been carried out in exactly the same manner as was done in last two years. A document containing the threshold limits for Audit Commissionerates will also be sent by email. Since there has been no feedback from field formations on the assumption on working strength used by this Directorate General, the same assumption of 50% of Sanctioned Strength as Working Strength, has been used.
- (iii) The list of assessees sent by email contains the risk scores, whether the assessee is manufacturing sensitive commodity or rendering sensitive service, type of assessee,- whether proprietor, company, firm or government owned; and type of return filed by the assessee.
- (iv) The Chief Commissioner's office shall distribute the aforesaid list of taxpayers to the appropriate Audit Commissionerates in their jurisdiction and selection of taxpayers may be carried out by Audit Commissionerates by applying local risk factors, including whether it has been audited in 2016 - 17. A schedule of taxpayers to be audited by each Audit Commissionerate may be prepared by taking into account the actual working strength and prescribed norms. At the preparatory stage, the said schedule should be discussed with the Chief Commissioner's office and the jurisdictional zonal unit of this Directorate General. In case any taxpayer has been audited in 2016 - 17, they can be ignored and taxpayer

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who have not been covered for audit in 2016 - 17 or earlier may be preferred.

(v) A feedback on the local risk parameters and the efficacy of the risk parameters used after correlating with audit results may be provided to this Directorate General.

6. The Audit Commissionerates should be instructed that while conducting audit they should also focus on the transfer of accumulated / excessive CENVAT credit to CGST during the transition to GST. The officers should also be advised to educate the taxpayers with respect to the provisions under GST, should such requests arise during audit and encourage voluntary compliance. The Audit Commissionerates should also be advised that the audits should be conducted in such a manner so as to cause least inconvenience to the taxpayer, particularly to medium and small taxpayers. There should not be any disruption in the conduct of business by the taxpayers.

This issues with the approval of the Board.


(Ameeta Suri)
12/11/2017
Director General

Copy for kind information:-

- (i) Chairman, CBEC, North Block, New Delhi
- (ii) Member (All), CBEC, North Block, New Delhi
- (iii) ADG zonal units (All), with a request to ensure that they get the schedule of taxpayers selected for audit from the Audit Commissionerates.