

**OFFICE OF THE DIRECTOR GENERAL (AUDIT)
CUSTOMS & CENTRAL EXCISE, R. NO.172,
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Sub: Revision of thresholds for frequency of audit in respect of Central Excise and Service Tax audits – regarding.

I am directed to say that the frequency for audit of Central Excise and Service Tax assessees, currently prescribed in the respective Audit Manuals, is as under:

For Central Excise

S. No.	Quantum of annual duty payment in cash	Frequency of audit
1.	Units paying more than Rs. 1 crore	Every year
2.	Units paying between Rs. 10 lakhs and Rs. 1 crore	Once in two years
3.	Units paying below Rs. 10 lakhs	Once in five years

Besides, all Export Oriented Units (EOUs) are required to be audited mandatorily every year. For the categories at S. No. 2 & 3 above, the selection of units is to be based on a combination of unit-wise rupee risk calculations circulated by DG (Audit) and local risk parameters.

For Service Tax

S. No.	Quantum of annual duty payment (in cash + CENVAT Credit)	Frequency of audit
1.	Taxpayers paying more than Rs. 10 lakhs	Every year
2.	Taxpayers paying below Rs. 10 lakhs	Not prescribed

The selection of taxpayers at S. No.2 above is to be done on the basis of risk parameter S1 and Local Risk Parameters listed in the Service Tax Audit Manual. However, in the absence of adequate data for their computation, it has been prescribed in the Manual that the top 2 assesseees from the top 20 duty paying services in each Commissionerate should be selected for audit each year, as an interim measure.

2. Owing to the fact that payment of duty through CENVAT credit is quite substantial in many industries, a more representative selection can be achieved in Central Excise by using the total duty payment (i.e. cash and CENVAT credit taken together) as the basis for selection. A view was also expressed that the existing norms yield a workload that is not in sync with the availability of audit staff. As a result, the stress of audit effort has shifted to quantity (i.e. number of audits) rather than quality.

3. In the light of all these factors and in order to achieve more focussed targeting of units, Board has decided **to revise these frequency norms with immediate effect.** The revised frequencies are as under:

Central Excise

S. No.	Quantum of annual total duty payment in (<u>in cash + CENVAT Credit</u>)	Frequency of audit
1.	Units paying more than Rs. 3 crores	Every year
2.	Units paying between Rs. 1 crore and Rs. 3 crores	Once every two years
3.	Units paying between Rs. 50 lakhs and Rs. 1 crore	Once every five years
4.	Units paying below Rs. 50 lakhs	10% of the units every year

For the categories mentioned at S. Nos. 2 to 4 of the table above, the selection of units would continue to be based on the unit-wise rupee risk calculations circulated by DG (Audit) combined with local risk parameters, if any.

4. In respect of EOUs the Board has decided that about 500 EOUs should be audited mandatorily **all over the country.** It has also been decided that the selection of these units should be made as per the criteria circulated by DG (Audit). Based on the data available with this Directorate it is observed that this target would be achieved if each Commissionerate audits about 25 % of the EOUs engaged in the manufacture of excisable goods that are registered and functioning. Within this category, the selection may be made on the basis of the **'total value of inputs and capital goods received by the EOU without payment of duty'** during the last financial year. This figure is available in column (5) of S.No.5 of the ER.2 return filed by the unit and would have to be aggregated for the full year for each unit. All such EOUs in the Commissionerate should be arranged in descending order of this total value and the top 25% should be selected for audit from the list. Thus, EOUs with a higher value of inputs/capital goods received in a year should be given priority over an EOU having a lower value. EOUs manufacturing non-excisable goods (such as primary produce or software) need not be audited

mandatorily. However, the order of selection obtained by this method may be circumvented in case it is felt that there are overarching local risk factors (such as past compliance history, recent closure etc.) that apply in individual cases. In the latter situation, a unit may be audited on priority even though it does not figure in the top 25% by the total value of duty-free inputs and capital goods. The remaining EOUs may be taken up for audit depending on the availability of staff.

5. The revised norms for Service Tax would be as under:

Service Tax

S. No.	Quantum of annual total duty payment in (in cash + CENVAT Credit)	Frequency of audit
1.	Taxpayers paying more than Rs. 50 lakhs	Every year
2.	Taxpayers paying between Rs. 25 lakhs and Rs. 50 lakhs	Once in two years
3.	Taxpayers paying between Rs. 10 lakhs and Rs. 25 lakhs	Once in five years
4.	Taxpayers paying below Rs. 10 lakhs	2% of the total number every year

For the categories mentioned at S. No. 2 to 4 the selection of assesseees would be based on S1 parameter and local risk parameters mentioned in the Service Tax Audit manual.

6. The revised frequency norms may be implemented with immediate effect. However, units that have already been audited during the first quarter of this financial year need not be audited again even if they are due as per the revised norms. Any difficulties encountered in the implementation of these norms may be brought to the notice of this Directorate.