

F.NO.206/10/99
Government of India
Ministry of Finance
Department of Revenue
Central Board of Excise & Customs

New Delhi, the 16th February, 2000

Subject: - Excise Audit Scheme (EA-2000)-further guidelines for Implementation

It is directed to say that certain views have been expressed by various Commissionerates regarding implementation of the Excise Audit-2000 (EA-2000). The initial guidelines are contained in Board's Circular No. 491/57/99-CX.6 dated 28th of October, 1999. The view of the Commissionerate are categories as follows:-

1. Data management for Audit preparations;
2. Audit Report format;
3. Total period of the Audit;
4. Evaluation of the Audit Report through a scoring system;
5. System of institutionalised monitoring;
6. Training;
7. Availability of computer; and
8. Audit of units between Rs. 1 crore and Rs. 5 crore revenue.

Assessee Profile (database)

1. The first view expressed was that data must be collected by all Commissionerates in a standardised format so that only absolutely essential information relevant for the conduct of audit is collected. This standardised collection would also facilitate maintenance of a computerised database all over the country. In this connection, Standardised Format for Assessee's Profile has been devised to serve as a standard for collection of data relevant for Excise Audit-2000, which is enclosed as **Annexure-I**.
 1. In addition to this, it would be of advantage to the Department to know certain critical ratios relating to an assessee's factory/business from the data available in the Balance Sheets (Annual Reports) of the assessee/Assessee's profile/Other Reports before the audit is contemplated. For example, raw material cost: sale value, discount: sale, outward freight: sale, power consumption (units): production quantity, change in profit: assessable value etc.. The officers of the Audit Wing may be trained to derive these ratios. These ratios, wherever possible, should be studied at the time of "Desk Review".
 2. The Assessee's profile and the ratios will serve as a useful database for the conduct of 'Desk Review' which is the first step in the Audit Programme explained in both the Excise Audit Manual and the Standard Audit Programme. Needless to mention a comprehensive database would help in proper preparation for conduct of Audit.

Format of Audit Report

2. The Audit Manual speaks about completion of an Audit Report (Chapter 8). No format of the Audit Report has been provided. It is important that the Audit Report findings are standardised. Keeping in view the need to ensure brevity and objectiveness, a standardised format has been prepared which is enclosed at Annexure-II. The Audit Report format particularly focuses on action on old audit points; the summary of the audit objections along with reasons and important points for future compliance. This must be prepared after finalisation of the Working Papers. The Audit Report should also substantiate findings, drawing from material in the Working Papers. Both these documents should be put in computer.

Timeframe of submitting Audit Report

3. Every Audit undertaken must have a reasonably defined timeframe. This would also help to bring in the much-needed discipline in the conduct of audit. Keeping in view the fact that EA-2000 requires more pointed audit of financial records it has been decided that the total time limit for the conduct of audit and submission of the audit report should not exceed 20-25 days from the commencement of the Audit in the Assessee's unit.

Scoring System for Monitoring Cell

4. One of the keys to good audit is a system of good monitoring and evaluation of audit reports. EA-2000 makes this task easier by prescribing that all audit work must be clearly documented in the Working Papers. Senior officers at the level of Joint Commissioner/Additional Commissioner must evaluate these Working Papers. After due deliberation, a scoring system has been evolved which may be used to evaluate an audit report which consists of the Working Papers, the Summary sheet (part of the Working Papers) and the Audit report itself. The Scoring system which is enclosed as Annexure-III divided the entire process of Audit into five parts: (I) preparation of the audit plan; (ii) conduct of audit; (iii)

revenue points raised (major objections and their quality); (iv) realisation of revenue, and (v) issues relating to future compliance by the company. The scoring system has been devised so as to give greater emphasis on the conduct of the audit, which is extremely important in the initial stages of the implementation of the new Audit system. A greater responsibility, therefore, rests on the senior officers to duly assess the reports and bring out the strength and weaknesses of the audit reports. A quantitative system of measurement would help in steering the audit into areas, which are the core of the new Audit system. It is however, clarified that the scoring system is not meant for reprimanding any officer(s) or fixing any responsibility. It is meant for providing in-built synergic system so as to correct the weaknesses at the initial stages.

5. In the Board's Circular No. 491/57/99-CX.6 dated 28th of October, 1999 it was suggested at Para 18 that an Excise Audit Monitoring Cell be constituted headed by the Commissioner. It must be ensured that the Monitoring Cell meets once a fortnight and also specially examines in the audit report important points raised. Assistant Commissioner/Deputy Commissioner/Joint Commissioner/Additional Commissioner (Audit) should meet all the Audit Parties at least once in a month to review their functioning and ensure the exchange of information among the audit parties.

Monitoring by DG (AE)

6. To start with, a copy of the score sheet should be forwarded to DG (AE) as soon as it is ready. A suitable device will be worked out for seeing the Audit Reports for Rs. 5 crores and above units; selectively in due course.

Audit Protocol

7. Audit Protocol is a limited initiative within the overall EA-2000. Out of the eight corporate with whom discussions had been held, five, namely, Indian Oil Corporation, Maruti Udyog Ltd; TISCO, Steel Authority of India Ltd. And Hindustan Lever have already signed Protocol. MRF has given a letter agreeing to sign the Protocol. As stated in Chairman's letter on Audit Protocol, Assistant Director (Cost) must accompany the audit teams for Protocol audits. In case the Commissionerate does not have an Assistant Director (Cost), the AD (Cost) from any Commissionerate within the zone should be a part of the audit team.

Involvement of AD (Cost) in audit

8. Normally, for all Rs. 5 crores and above units, AD (Cost) should, as far as possible, be also involved in audit.

Training

9. The success of Ea-2000 is critically dependent on the requisite training imparted to Auditors. Since in a number of Commissionerates the Audit teams have not been exposed to any training on Accountancy, it is necessary, keeping in view the emphasis being placed on scrutiny of business records, that Commissioners ensure that this training programme on Accountancy is organised for staff not covered so far. The faculty may be drawn either from serving officers like AD(Cost). Such training should have a practical orientation so that the lectures are linked to practical application which is necessary to sustain interest.

Computer for Audit Branch

10. It is learnt some of the Commissionerates have not been able to provide a computer to Audit Branch. This should be done priority basis.
11. Field formations may be suitably informed. Any difficulties noticed in this regard may be brought to the notice of the Director general (Anti-Evasion) immediately.

ANNEXURE-I

Assessee Profiles for Ea-2000

1. Name of the Assessee :
2. Registration Certificate No. :
3. New ECC No. :
4. General Details :

PART-I

Serial No.	Description of Goods manufactured	Tariff sub-heading	Exemption Notification availed	Rate of Duty
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PART-II

Year	Personal Ledger Account	Modvat Account	Total duty payment
		RG23A RG23C	

5. Commodity-wise details

Commodity/Year	Production	Clearance for home consumption		Clearances forgoing duty		
		Qty.	Value	Exports Qty. Value	Imports Value	Qty
(1)	(2)	(3)	(4)	(5A) (5D)	(5B)	(5C)
Commodity-1						
1996-97						
1997-98						
1998-99						
Commodity-2						
1996-97						
1997-98						
1998-99						
Commodity-3						
1996-97						
1997-98						
1998-99						

Duty debited in PLA	Duty debited in RG23A/RG23C (Total)	Payment from Modvat account as Percentage of Total duty paid
(6)	(7)	(8)

6. Major Input and Output in the Modvat declaration.

Declaration made under Rule 57G/in respect of 57A inputs.

Sl.No	Input	Final Product
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- Major item/sub-heading declared as Capital Goods under Rule 57Q.
- Major Audit Points:

Serial No.	Present Status	Commodities	Duty involved	Issue
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- Major Preventive Points:

Serial No.	Present Status	Commodities	Duty involved	Issue
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10. Marketing pattern, clearance pattern etc.

Sl. No.	Nature of Sale/Transfer Etc.	Yes	No	If Yes, Description of Products (s)
1.	Sale at the factory gate			
2.	Sale through the depot/distributors/consignment agents/Marketing intermediaries.			
3.	Sale in retail			
4.	Retail Sale Price (Maximum)-Section 4A			
5.	Inter plant transfer			
6.	Captive Consumption			

7.	Clearance to U.N. and other aided projects			
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[These details must tally with the declaration given by the assessee in the Declaration specified under sub-rule (3A) of rule 173C of the Central Excise Rules, 1944]

ANNEXURE-II

Audit Report Format For EA-2000

PART-I

- 1) Name of the unit :
- 2) Commissionerate/Division/Range in which :
it is located
- 3) Prodcuts manufactured :
- 4) Tariff Item
- 5) Gist of main exemption Notification :
- 6) Date of last audit :
- 7) Period for which current audit undertaken :
- 8) Dated on which audit undertaken :

PART-II

1. Summary of major audit objections from the **Working Paper:**

Sl. No.	Gist of Objection	Revenue impicator,if any	Assessee Agreement Yes/No if no, reasons for disagreement	Department's conclusions with reasons
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Revenue Law Times

2. Suggestions for better compliance including systemic improvements and notifications in the legal arrangements:

Assistant Commissioner/Deputy Commissioner/Joint
Commissioner/Additional Commissioner(Audit)

ANNEXURE-III

Scoring system for EA-2000

- 1) Name of the Unit :
- 2) Commssionerate/Division :
- 3) Range in which it is located :
- 4) Constitution of the Audit Party :
(with Names and Designation of the Officers)
- 5) Reference to the Audit Report taken
for this Scoring :

Areas	Points (Maximum)	Sl.No.on Working Papers
(a) Quallity of Audit Plans	15	Point No. 7
(b) Systematic conduct of Audit with a view to taking and integrated ad comprehensive look at the systems especially those which have a bearing on revenue compliance	50	Points 1to 6 and 8 (within this evalaation of Internal Control could be assigned 20 points)

©Revenue points flowing from finalisation of Audit	15	Point 9&10
(d) Recovery of Audit Assessments	10	Point 11
(e) Suggestion for better compliance including systemic improvements and modifications in the legal arrangements.	10	Point 12
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