

F. No.246/94/2013-A&PAC.I
Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes

New Delhi, the 18th October, 2013

To

All CCsIT (CCA), CCsIT/DGsIT

**Subject: Revision of Instruction No.03 of 2007 on New Internal Audit System-
Strengthening the role of Supervisory Authorities**

Sir/Madam,

Reference is invited to Board's Instruction No.3 of 2007 dated 17.4.2007 on the New Internal Audit System (hereinafter Instruction). The slow progress of work relating to settlement of Internal Audit Objections and also quality & coverage of internal audit have been a matter of serious concern. The Public Accounts Committee has also commented adversely on the present state of affairs and directed proper monitoring mechanism for desired improvement.

1.2 In order to streamline the system, it has been decided to strengthen roles of supervisory authorities as detailed below:

2.1 **Role of CCIT (CCA)**: The CCIT (CCA) shall also-

- (i) Review the performance of Internal Audit Wing on a monthly basis to monitor the conformity to the Action Plan drawn for audit in terms of para III (ii) of Instruction. Such Action Plan must be drawn by April 15 of each year.
- (ii) Assess the progress in settlement of audit objections in terms of targets prescribed through Central Action Plan and submit report in the Proforma at Annexure-I to the DIT (Audit) by the 10th of the succeeding month with a copy to CIT (A&J).
- (iii) Obtain the particulars of such cases from the CIT (Audit) by April 30th of the year, where Major revenue audit objections were accepted in the preceding year but the Internal Audit had failed to point out the mistake in their audit and monitor whether appropriate action against the erring auditing officer as given in para 7.6 of the Instruction no. 9 of 2006, with CIT (Audit) being the CIT concerned in whose charge the mistake had occurred, has been taken.

2.2 Role of Jurisdictional CCIT / DGIT: The CCIT / DGIT shall also-

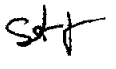
- (i) Review the performance of settlement of Audit objections of his region, including reconciliation of pendency reported by the CIT (Audit) & the CIT (Admn), on a monthly basis and submit report in the Proforma at Annexure-I to CCIT (CCA) by the 5th of the succeeding month.
- (ii) Cover in the review, inter-alia, adherence to the timelines for submission of replies as per Central Action Plan & taking of remedial actions wherever called for, in terms of para V and VI of the Instruction.
- (iii) Strategise to use the input in Half-yearly report submitted by the CIT (Audit) to the CCIT/DGIT in respect of repeated / common errors noticed in the audit in preceding two quarters, to educate and alert the Assessing Officers so that such mistakes do not recur.
- (iv) Exercise supervision in a manner as to facilitate zero-error assessments.
- (v) Monitor on a quarterly basis the progress in the matter of calling for explanation of officers / staff concerned in terms of para VII of the Instruction & suitable actions against defaulting officers/staff within 15 days of the end of the quarter.

3.1 Role of CsIT (Audit): The CsIT (Audit) shall also-

- (i) Hold a monthly meeting with each of the Administrative Commissioners to review the progress in settlement of objections
- (ii) Furnish statement in Annexure-I as per his records to each jurisdictional CCIT/DGIT by the 3rd of the succeeding month.
- (iii) Vet each objection involving tax effect of Rs.10 crore and more, proposed to be raised by Addl.CIT/Jt.CIT (Audit) / DCIT/ACIT (SAP) / ITO (IAP) before the objection is raised.
- (iv) Submit a half-yearly report to the CCIT (CCA) in respect of repeated / common errors noticed in the audit in preceding two quarters. The report shall be submitted by the 15th October & 15th of April with a copy to every CCIT/ DGIT.
- (v) Submit a CIT charge wise list of cases of accepted revenue audit objections compiled from the LAR to the CCIT (CCA), where the internal audit was conducted but had failed to notice the mistake subsequently pointed out in an audit objection raised by the Revenue audit, and take appropriate action against the erring auditing officer in accordance with the procedure as given in para 7.6 of the Instruction no. 9 of 2006 with

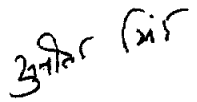
CIT(Audit) being the CIT concerned, in whose charge the mistake had occurred

- 3.2 **Role of Additional CsIT (Audit):** The Addl. / Jt. CsIT (Audit) shall also, vet each objection involving tax effect of Rs.1 crore and more & less than Rs.10 crore, proposed to be raised by ITO (IAP) before the objection is raised.
- 4.1 **Revision of classification of Major and Minor Audit Objections:** There is a need for revision of the present classification of Major and Minor Audit Objections to make these consistent with the monetary limits introduced by C&AG with effect from Audit Report Year (ARY) 2005.
- 4.2 As per existing Instruction on Internal Audit, audit objections in case of Income-tax/Corporation tax exceeding Rs.1,00,000 and Rs.30,000 in case of Other Taxes are classified as Major & the remaining as Minor. In supersession of these limits and adopting a consistent approach with C&AG, the definition of Major audit objection, for the purposes of Internal Audit, is henceforth revised as one where the revenue effect is Rs.2,00,000 or more for the purposes of Corporation Tax and Income Tax. This will apply to all pending objections & reports shall be revised for quarter ending December, 2013.
5. The Instruction no 3 of 2007 is amended and supplemented with effect from October 28, 2013 to the extent indicated above.
6. This may be brought to notice of all officers working under your jurisdiction for compliance.
7. Hindi version of the Instruction will follow.


(Sunita Singh)
Director (A&PAC)

Copy to:-

- 1) Chairperson, CBDT
- 2) All Members, CBDT
- 3) All other officers of CBDT of the rank of Under Secretary and above
- 4) DIT(PR,PP&OL), Mayur Bhawan, New Delhi
- 5) The Comptroller and Auditor General of India
- 6) The DGIT (Vigilance), New Delhi
- 7) The DGIT (NADT), Nagpur
- 8) ITCC Division, CBDT (3 copies)
- 9) Web manager irsofficersonline.gov.in
- 10) Hindi Section – for Hindi translation


(Sunita Singh)
Director (A&PAC)

CCIT (CCA)/CCIT/DGIT CHARGE _____
MONTHLY INTERNAL AUDIT OBJECTIONS PENDING REPORT
FOR _____, 20__

PART - I – MAJOR AUDIT OBJECTIONS

Objections - up to the end of the month preceding the month of report						Objections - during the Month				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
No. of Objections pending as on 1.4.20.....	Received up to the end of the preceding month	Settled up to the end of the preceding month	Replies sent but not settled up to the end of the preceding month	Balance (a+b-c) up to the end of the preceding month	Revenue effect for objections in Col. (e)	Received during the month	Settled during the month	Replies sent during the month but not settled	Balance at the end of the month (e+g-h)	Revenue effect for objections in Col. (j)

PART II – MINOR AUDIT OBJECTIONS

Objections – up to the end of the month preceding the month of report						Objections - during the Month				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
No. of Objections pending as on 1.4.20.....	Received up to the end of the preceding month	Settled up to the end of the preceding month	Replies sent but not settled up to the end of the preceding month	Balance (a+b-c) up to the end of the preceding month	Revenue effect for objections in Col. (e)	Received during the month	Settled during the month	Replies sent during the month but not settled	Balance at the end of the month (e+g-h)	Revenue effect for objections in Col. (j)