

Excise Audit

Question 1

Write a short note on desk review under Excise Audit, 2000.

Answer

Desk Review is the first step in Excise Audit, 2000. Upon assignment of an audit, the auditor is required to be sufficiently prepared before the visit to the unit. For this purpose, the auditor reviews all the information available about the unit, its operations, and reasons for selection for audit and possible issues that can be identified at desk review stage. Perusal of assessee's profile, annual report, trial balance, cost audit report and income-tax audit report is involved in desk review.

Department has also decided to take help of **practicing chartered/cost accountants in desk review** of Excise Audit 2000

Question 2

Under Excise Audit, 2000, the selection of unit for audit is based on 'risk factors'. Explain in brief the term 'risk factors' giving any five examples.

Answer

Risk factors under Excise Audit, 2000 means that the assessees who have a **bad track record** are taken up for audit on priority as opposed to those who enjoy a clean track record.

For example:

- (i) assessee having past duty evasion cases
- (ii) late payment of duty/late filling returns
- (iii) major audit objections against them
- (iv) no cash payment of duty (all CENVAT adjustment)
- (v) past duty dues, etc

Question 3

What is the frequency for conducting audit as per Excise Audit 2000 ?

Answer

The frequency for conducting audit as per Excise Audit 2000 is given in the following table:

Amount of annual duty [in cash + CENVAT Credit] paid by assessee	Frequency of Audit
Above ₹ 3 crores	Every year
Between ₹ 1 crore and ₹ 3 crores	Once in every two years
Between ₹ 50 lakhs and ₹ 1 crore	Once in every five years
Less than ₹ 50 lakh	10% of the units audited every year

Question 4

Explain the validity of the following statement with reference to the Central Excise Laws:

Special audit under section 14A and 14AA can be done by a Cost Accountant only.

Answer

No, the statement is not valid. **In addition to** Cost Accountants, **Chartered Accountants** are also eligible for special audits under sections 14A and 14AA of the Central Excise Act, 1944.

Question 5

Explain briefly the provisions relating to Special Audit in certain cases under section 14A of the Central Excise Act, 1944.

Answer

If at any stage of enquiry, investigation or any other proceedings before him, any Central Excise Officer not below the rank of an Assistant/Deputy Commissioner of Central Excise having regard to the nature and complexity of the case and the interest of revenue, is of the **opinion that the value has not been correctly declared or determined** by a manufacturer or any person, he may, with the previous approval of the Chief Commissioner of Central Excise, direct such manufacturer or such person to get the accounts of his factory, offices, depots, distributors or any other place, as may be specified by the said Central Excise officer, audited by a Cost/Chartered Accountant, nominated by the Chief Commissioner of Central Excise in this behalf.

The Cost/Chartered Accountant shall submit the audit report duly signed and certified to the said Central Excise Officer within the period specified by him or the period further extended on an application made to him. However, in any case the aggregate of the original and extended period cannot exceed 180 days. The expenses of audit and audit fees for special audit shall be paid by excise department.

The manufacturer shall be given **an opportunity of being heard** in respect of any material gathered on the basis of audit and proposed to be utilized in any proceedings under the Central Excise Act or Rules. This special audit can be conducted notwithstanding that the accounts of the manufacturer or the person have been audited under any other law for the time being in force or otherwise.

Question 6

Indicate headings under which excise audit procedure is explained in EA – 2000.

Answer

The headings under which excise audit procedure under EA-2000 is outlined are:

- (i) Selection of assessee
- (ii) Desk review
- (iii) Documenting information
- (iv) Tour of the factory
- (v) Audit plan
- (vi) Verification
- (vii) Audit objection and audit para
- (viii) Audit report
- (ix) Conclusion

Question 7

Briefly explain the procedure for Excise Audit, 2000.

Answer

Procedure of Excise Audit, 2000:-

- (a) **Selection of Assessee:** Depending upon the manpower availability, about 300 to 400 units are selected for conducting audit during a financial year. Selection of the unit is based taking into account the 'risk-factors'.
- (b) **Desk Review:** The auditors are assigned the assessee to be audited at the beginning of the financial year. They are required to gather as much information about the assessee as possible by interacting with the assessee.
- (c) **Gathering and documenting information:** The auditor may also require certain documents or information from the assessee to complete his preliminary investigation. For this, he may write letter to the assessee or send him a questionnaire to obtain this information.
- (d) **Touring of the premises:** The auditor then visits the unit of the assessee to see the actual running of the unit, the systems that are followed for maintaining records in various sections and the system of movement of goods and the related documents within the unit.
- (e) **Audit Plan:** Based on his experiences and the information gathered so far about the assessee, the auditor prepares an 'audit plan'. The idea of developing audit plan is to list

the areas which, as per the auditor are the vulnerable areas from the revenue point of view. A well thought audit plan generally increases the success of audit result manifolds.

- (f) **Verification:** The auditors visit the unit of the assessee on a scheduled date (informed to the assessee in advance) and carry out the scrutiny of the records of the assessee as per the audit plan. The purpose of verification (carried out in presence of the assessee) is to reasonably ensure that no amount, which as per the Central Excise law is chargeable to duty, escapes taxation.
- (g) **Audit Objection and Audit Para:** Where the auditor finds instances of short payment of duty or non-observance of Central excise procedures, he is required to discuss the issue with the assessee. After explanation provided by the assessee, if the auditor is satisfied that such non-tax compliance has occurred, he records the same as an 'Audit Objection' or 'Audit Para' of the 'draft audit report' that he would be preparing at the end of the verification process.
- (h) **Audit Report:** At the end of the process of verification, the auditor prepares an 'Draft Audit Report' which provides (issue or para wise) the issue in brief, the reply or the explanation of the assessee, the reason for the auditor not being satisfied with the reply, the amount of short payment (if tabulated) and the recoveries of the same (if could be made at the spot). It is then submitted to the superior officers for review after which it becomes final and in cases where the disputed amounts have not already been paid by the assessee at the spot, demand notices are issued by the Department for their recoveries.

Exercise

1. *Write a note on Central Excise Receipt Audit.*
2. *Discuss the provisions in respect of submission of records at the time of audit under Rule 22(3) of the Central Excise Rules, 2002.*
3. *Briefly explain the provisions of section 14AA in respect of CENVAT credit audit.*