

HUNDRED AND FIFTIETH REPORT  
PUBLIC ACCOUNTS COMMITTEE  
(1988-89)

(EIGHTH LOK SABHA)

OUTSTANDING AUDIT OBJECTIONS

MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)



*Presented to Lok Sabha on 12-4-1989  
Laid in Rajya Sabha on 24-4-1989*

LOK SABHA SECRETARIAT  
NEW DELHI

*April, 1989/Chaitra, 1911 (Saka)  
Price: Rs. 10.00*

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### PART II\*

Minutes of the sitting of Public Accounts Committee (1988-89) held on 22.11.1988 and 11.4.1989.

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\*Not printed. One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library.

**PUBLIC ACCOUNTS COMMITTEE  
(1988-89)**

**CHAIRMAN**

**\*Shri Amal Datta**

**MEMBERS**

*Lok Sabha*

2. Shri Abdul Hannan Ansari
3. Shri Chhitubhai Gamit
4. Shri M.Y. Ghorpade
5. Shri Dinesh Goswami
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21. Shri T. Chandrasekhar Reddy  
22. Shri Surender Singh

**SECRETARIAT**

1. Shri G.L. Batra — *Joint Secretary*
2. Shri B.D. Duggal — *Director (PAC)*
3. Shri A. Subramanian — *Senior Financial Committee Officer.*

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\*Appointed as Chairman w.e.f. 5.9.1988 vice Shri C. Madhav Reddy resigned from Chairmanship of the Committee.  
@Appointed w.e.f. 7.12.1988 vice Shri Kalpanth Rai ceased to be member of the Committee on his appointment as a Minister of State

## INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Hundred and Fiftieth Report on Paragraph 2.20 of the Report of C&AG of India for the year ended 31 March, 1987, Union Government (Revenue Receipts—Direct Taxes) relating to Outstanding audit objections.

2. The Report of the Comptroller and Auditor General of India for the year ended 31 March, 1987 (Revenue Receipts—Direct Taxes) was laid on the Table of the House on 25 April, 1988.

3. As on 31 March, 1987, 99,035 audit objections involving revenue of Rs. 558.71 crores raised by the internal audit of the department and by the statutory audit were pending without settlement; of these, 10,260 cases (only major cases) of the internal audit accounted for Rs. 322.35 crores. The remaining 88,775 were statutory audit objections involving Rs. 236.36 crores.

4. The responsibility for settlement of internal and statutory audit objections solely rests with the assessing officers numbering 2262 as on 31 March, 1988 and the Commissioners under whom they function, and the number of recorded outstanding objections is of the order of 1.34 lakhs. Thus on an average the number of outstanding cases per assessing officer will be about 60 cases only. The Committee have recommended that appropriate steps may be taken to identify outstandings with each assessing officer, to draw up a time bound programme of settlement and to ensure progress there against.

5. One of the contributory causes for heavy outstandings is reported to be inadequacy of manpower in the internal audit wing. As action for settlement of objections has to commence and end at the respective assessing officer's level. The Committee have recommended that the utility of creation of additional posts in the internal audit wing may be reviewed to ensure that creation of these posts is fully justified.

6. The Committee have noted that elaborate instructions have been issued for expeditious settlement of audit objections and have desired to know that steps have been taken to ensure effective implementation of the instructions issued from time to time.

7. As the pendency in internal audit objections is equally large, the Committee have recommended that the pursuing of objections raised in internal audit may be done in the same way as statutory audit objections.

8. The Committee have recommended that every case of objection having substantial tax effect may be taken serious note of and remedial action ensured by the Board within a prescribed time limit, in any case not exceeding 6 months from the date of raising of objections by audit.

9. Since several objections raised more than four years back are still pending, the Committee have felt that there may be a large number of such cases in which remedial action might have already been barred by time thereby resulting in loss of revenue. The Committee have recommended a review of such old outstanding cases to be conducted immediately.

10. At the Board's level also, timely action is not taken even in respect of important cases that are reported to the Board and replies to only 371 draft paragraphs out of 1193 paragraphs proposed for inclusion in the C&AG's Audit Report were furnished before the Audit Report was finalised for presentation to Parliament. The Committee have recommended that the existing procedure need to be tightened and dilatory practices need to be speeded up sufficiently to ensure that replies to audit paragraphs are invariably furnished within the prescribed period of six weeks from the date of issue.

11. The Public Accounts Committee examined the Audit Paragraph at their sittings held on 22 November, 1988.

12. The Committee considered and finalised this Report at their sitting held on 11 April, 1989. The Minutes of the sittings from Part II\* of the Report.

13. For reference, facility and convenience, the observations and recommendations of the Committee have been printed in thick type in the body of the Report and have been reproduced in a consolidated form in Appendix II to the Report.

14. The Committee express thanks to the Ministry of Finance (Department of Revenue) for the cooperation extended by them in giving information to the Committee.

15. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;  
April 11, 1989

Chaitra 21, 1911 (S)

AMAL DATTA,  
*Chairman,*  
*Public Accounts Committee.*

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\*Not printed. One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library.

## REPORT

### OUTSTANDING AUDIT OBJECTIONS

#### *1. Introductory*

The assessments made under different Direct Tax laws in the various local offices of the Income Tax Department are subjected to audit by the Internal Audit Wing of the Income Tax Department as well as to the statutory audit by the Indian Audit and Accounts Department. The Public Accounts Committee have expressed concern in their earlier reports on the large number of outstanding audit objections awaiting settlement and the delays in their settlement. This Report is based on the examination by the PAC of Paragraph 2.20\* of Report No. 6 of the Comptroller and Auditor General of India for the year ended 31 March 1987 on Union Government (Revenue Receipts—Direct Taxes) dealing with outstanding audit objections.

#### *2. Past recommendations of the Committee*

2.1 Paragraph 50(b) of the Report of the Comptroller and Auditor General of India for the year 1969-70 relating to Revenue Receipts of Union Government pointed out the omission on the part of Income Tax authorities to take corrective action in a large number of cases of objections raised during the audit of income tax receipts (14592 cases in four regions). After taking evidence of the Ministry in this regard, the Committee made several recommendations\*\*. The recommendations were accepted by Government and action taken thereon was reported to the Committee@.

2.2 Later, the need for prompt action on audit objections came up again for consideration of the Committee in 1980-81 and the Committee reiterated<sup>+</sup> their earlier recommendations for expeditious attention to the audit objections. The recommendations were accepted by the Ministry<sup>a</sup>.

#### *3. Present position of outstanding audit objections*

3.1 As on 31st March 1987, 99035 audit objections involving revenue of Rs. 558.71 crores raised by the Internal Audit of the Department and by

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\* Extract in Appendix-1.

\*\* 51st Report of PAC (1972-73) Fifth Lok Sabha.

@ 150th Report of PAC (1974-75) Fifth Lok Sabha.

+ 38th Report of PAC (1980-81) Seventh Lok Sabha.

& 114th Report of PAC (1982-83) Seventh Lok Sabha.

the Statutory Audit were pending without settlement. The details of these outstanding objections were as follows:

	No. of cases	Revenue effect (Rs. in crores)
(i) Internal Audit (major objections)	10,260	322.35
(ii) Statutory Audit	88,775	236.36
<b>Total :</b>	<b>99,035</b>	<b>558.71</b>

3.2 An internal audit, objections are classified as major and minor, the major objections being those having a tax effect of Rs. 10,000 and above under income tax and Rs. 1000 and above under other direct tax laws. The major objections are pursued and settlement monitored by the internal audit wing, while the minor objections are expected to be pursued and settled by the respective assessing authorities. Outstanding objections relating to internal audit are not analysed with reference to the assessment year. But the Ministry of Finance have intimated the year-wise analysis of the pendency of major internal audit objection as on 31 March, 1988 with reference to the year in which the objection was raised, as per details below:

Year in which objection raised	No. of cases	Amount in crores
1983-84	795	21.99
1984-85	379	4.89
1985-86	1368	7.34
1986-87	1238	13.39
1987-88	6243	156.03
<b>Total:</b>	<b>10023</b>	<b>203.64</b>

In addition, 34465 objections of a minor nature raised in internal audit, having tax effect of Rs. 5.61 crores were reported to be outstanding as on 30.6.1988.

3.3 The number of major objections of the internal Audit disposed of during the five year period 1982-83 to 1986-87 and the number pending as at the end of these years are given below:

Financial Year	No. of cases for disposal and amount	No. of cases disposed of and amount	Percentage of disposal of total number of cases for disposal	No. of pending cases and amount (Amount in crores of rupees)
1982-83	17,218	5,516	32.03	11,702
	143.85	49.16	34.19	94.69
1983-84	16,335	5,415	33.15	10.920
	133.74	36.43	27.24	97.31
1984-85	16,167	6,959	43.04	9,208
	138.46	47.88	34.58	90.58
1985-86	15,106	7,578	50.16	7,528*
	194.86	70.25	36.05	124.61
1986-87@	15,621	5,361	34.32	10,260
	401.33	78.98	19.67	322.35

The number of pending cases has remained above 10,000 throughout the above-mentioned period except the two years 1984-85 and 1985-86. The tax effect of the pending cases has, however, increased substantially from Rs. 94.69 crores as at the end of 1982-83 to Rs. 322.35 crores as at the end of 1986-87.

3.4 The year-wise analysis of outstanding objections relating to statutory audit as on 31st March, 1987 was reported to be as under:

Assessment Years	No. of cases	Amount (in crores of rupees)	Percentage of cases pending
For period upto	1981-82	42,972	76.55
Relating to	1982-83	8,250	19.65
"	1983-84	9,821	32.75
"	1984-85	11,469	43.96
"	1985-86	16,263	63.45
	<b>Total:</b>	<b>88,775</b>	<b>236.36</b>
			<b>100.0</b>

\* Out of pending cases at the end of 1985-86, 3,493 items of value of Rs. 49.04 crores are over (1 year old.)

@ The figure does not include the internal audit (major audit objections) for the quarter ended March 1987 in respect of Allahabad (IAP) Lucknow (IAP Part II), Bombay-VI (IAP) and Vizag (IAP) Charges.

**3.5 A further analysis relating to outstanding statutory audit objections having tax effect in each case of Rs. 10 lakhs and above as regards income tax and above Rs. 5 lakhs and above as regards other direct taxes has been furnished by Audit as under:**

Period	Income Tax		Wealth Tax		Gift Tax		Estate Duty	
	Items	Amount	Item	Amount	Item	Amount	Items	Amount
(Amount in lakhs of rupees)								
Upto 1981-82	36	895.13	7	122.06	8	113.21	8	754.39
For 1982-83	19	729.61	1	122.06	1	19.08	-	-
" 1983-84	29	1,144.52	-	-	3	155.46	-	-
" 1984-85	31	2,416.28	1	19.37	2	122.27	1	5.08
" 1985-86	63	2,359.33	6	100.47	2	25.24	-	-
<b>Total:</b>	<b>178</b>	<b>7,544.87</b>	<b>15</b>	<b>363.96</b>	<b>16</b>	<b>435.26</b>	<b>9</b>	<b>759.47</b>

**3.6 Asked to state whether the Ministry possessed details of objections involving larger tax effect say of Rs. one lakh, Rs. five lakhs etc. with a view to keeping a closer watch over the expeditious clearance of objections with larger revenue effect, the Member (Audit) stated during evidence that the Board classified the objections only as major and minor. The Board, however, agreed to have further classification of objections under cases having tax effect of Rs. one lakh, Rs. five lakhs, Rs. ten lakhs, etc.**

**3.7 The Committee asked the Ministry to state in general terms what was the nature of the internal audit objections relating to earlier years. i.e. 1983-84 and 1984-85 and what were the reasons for pendency of the audit objections, particularly those relating to earlier years. The Ministry have stated that the information pertaining to the individual cases and the reasons for pendency of these cases were being compiled and would be intimated in due course. Asked to state whether any time bound programme had been chalked out to clear the pending objections, the Ministry have stated that the Action Plan targets for the year 1988-89 had laid down that 90% of the arrears relating to major objections would be settled during the year.**

**3.8 The Committee regret to note that as on 31st March, 1987, as many as 99,085 audit objections raised by Internal Audit of the department as well as statutory audit by the CAG were pending without settlement. The revenue effect of the outstanding audit objections was as high as Rs. 558.71 crores. A large number of outstanding objections of the Internal Audit were**

raised as early as 1983-84 and a still larger number of outstanding objections raised by the statutory audit of CAG pertain to the assessment year 1981-82 and earlier. The fact that such a large number of audit objections have been pending without settlement for long periods of time show that the procedure for taking action on the audit objections is most unsatisfactory.

Internal audit has been accepted as the ears and eyes of the administration and enables it to keep a watch on the working of the department. Statutory audit on the other hand, is an important instrument in the mechanism evolved under the Constitution for ensuring accountability of the Executive in its financial management to the Legislature. Viewed in this context, the Committee consider it unfortunate that adequate attention has not been given to prompt settlement of audit objections and a very large number of objections with a considerably large tax effect continue to be outstanding for want of settlement. Such a casual attention to the results of audit and inordinate delays in settlement of audit objections not only adversely affect the interest of revenue but also negate the very objects of internal audit and statutory audit. The Committee have been given to understand that elaborate instructions have been issued for expeditious settlement of audit objections. The Committee consider that mere issuing of instructions would not be of much avail in improving the situation unless adequate steps are taken to ensure effective implementation of the instructions. The Committee would, therefore, like to know what steps have been taken to ensure effective implementation of the instructions issued from time to time for expeditious settlement of audit objections and how the number of outstanding audit objections is proposed to be reduced by taking appropriate action thereon expeditiously. The Committee would also like to know the progress made in this regard.

3.9 The Committee note that the internal audit objections are not analysed with reference to the year of assessment but are analysed with reference to the year in which objections were raised. With the result that the department is not able to keep a watch over the expeditious settlement of objections relating to earlier assessment years before action thereon becomes time barred. Moreover, the internal audit objections are classified into major and minor objections, according as the tax effect is above or below Rs. 10,000 in the case of income tax and Rs. 1000 in the case of other direct taxes. During evidence the Committee recommended that objections having substantial tax effect of Rs. 1 lakh, Rs. 5 lakhs, Rs. 10 lakhs etc. and above should also be specially identified for keeping a close watch on the settlement of cases involving larger revenue affect. The Board had agreed to have further classification on the basis of the larger value of the objections. The Committee would like to know further action in this regard. The Committee further recommend that classification of objections should be made with reference to the year of assessment also so that greater

attention can be given to the settlement of objections relating to earlier years.

3.10 Asked to state whether any time bound programme had been chalked out to clear the pending objections raised by Internal Audit, the Ministry had stated that the Action Plan targets for the year 1988-89 had laid down that 90% of the arrears relating to major objections would be settled during the year. The Committee would like to know the progress made in this regard.

**4. Administrative set-up and Monitoring arrangement for settlement of audit arrangements.**

4.1 The Chief Commissioner (Administration) exercises overall administrative control over the functioning of the Internal Audit Wing in his region. The Chief Commissioner (Administration) is assisted by a Deputy Commissioner (Audit) with a Chief Auditor and an Income Tax Officer (Internal Audit) etc. working under him. Once an audit objection is raised, the primary responsibility for settling the same rests with the concerned Assessing Officer who is required to take the appropriate remedial action expeditiously. To ensure control over settlement of objections raised, the assessing officers (numbering 2262 as on 31 March 1988) are required to maintain prescribed control registers and are solely responsible for settlement of objections under directions of their respective Dy. Commissioners and Commissioners. In the case of internal audit objections having a tax effect of Rs. 10000 and above, the internal audit wing is expected to maintain a "Compliance Card" and review progress of action thereon through those cards. The Commissioners of Income Tax are required to send quarterly reports on progress of clearance of internal audit objections to the Deputy Commissioner (Audit) who collects the information, prepares quarterly reviews and furnished them to the CBDT. He also undertakes periodical tours to review the progress. At the Board level, a Member is in overall charge of the internal audit wing and till 31 December 1987, the PAC Wing of CBDT was monitoring the progress of settlement but from 1 January 1988, the monitoring duty has been delegated to the Director General in-charge of Administration in the respective Chief Commissioners, offices and he sends reports to the Board only wherever necessary.

4.2 In respect of statutory audit objections, monitoring is reported to be done on similar lines as for internal audit objections and in addition, the Chief Auditor in each region is required to maintain self-contained files for all major objections. Apart from the above arrangement, based on recommendations of the Public Accounts Committee in their 75th Report (1981-82 7th Lok Sabha), the Board has issued instructions in February 1984 for (i) monthly meetings between Inspecting Asst. Commissioner of Income Tax (Internal Audit) and the Joint Directors of Audit of the Audit Department as also (ii) quarterly meetings between the Commissioners of

**Income Tax and Directors of Audit.** In these meetings, the officers are expected to discuss mutual administrative problems, manner for conduct of audit, discussion of outstanding objections for prompt settlement, etc.

4.3 Taking note of the elaborate monitoring system that has been organised, the Committee desired to know the reasons for pendency of a large number of objections, particularly relating to old periods. The Committee also called for data on the income tax range offices that have been identified for heavy outstandings and steps taken in those cases. No data in these respects was, however, available/furnished by the Board. Asked to identify specific causes for a large number of outstandings, the Board attributed the following reasons to accumulation of arrears of audit objections:

- (1) Inadequacy of manpower in the Internal Audit Wing of the Department.
- (2) Often, the relevant files are requisitioned by higher authorities, appellate courts etc. and are not available with the assessing officer for taking appropriate action.
- (3) In mofussil areas, delays are sometimes caused in getting the requisite reports from the field units for communication to the concerned Accountant General.
- (4) In many cases where objections are not accepted by the Department, the same are not settled by the Accountant General due to difference of opinion.
- (5) In a few cases, where remedial action is initiated, stay of proceedings is granted by the Higher Courts at the request of the assessee thereby delaying the completion of the remedial action.
- (6) Sometimes controversial points of law arise which take a longer time for settlement after due deliberation by appropriate authorities.
- (7) In many cases where assessments are set aside consequent to audit objections, the re-assessment proceedings can only be completed after giving opportunity of being heard to the assessee as per due process of law.

4.4 In regard to augmenting manpower, the Board has intimated in a note to the Committee as under:

"In view of shortage of manpower, a proposal for strengthening of Internal Audit Wing of the Department is under consideration. In this context the Ministry would like to inform the Hon'ble Committee that as a result of action taken on one of the assurances given to the PAC by the Ministry, 30 additional posts of Deputy Commissioner (Audit) have been sanctioned recently. The augmentation of the other staff strength is under consideration of the Ministry."

4.5 Clarifying further on how it is ensured that the Income Tax Officers in the field take audit objections seriously and reply to the audit objections, the Chairman CBDT stated during evidence that the DC (Audit) goes to the field and makes inspection of all the audit works. According to the Chairman CBDT, the main function of DC (Audit) is to supervise the work in the field. He further stated that the DC (Audit) is the main officer in the field, who looks after the settlement of objections relating to internal and external audits and that when the DC (Audit) observes that audit objections have not been dealt with and shortfall is great, he brings it to the notice of the Commissioner and the Board takes action. When asked to cite instances where such action was taken, the Board could not quote instances wherein action was taken.

4.6 Asked to justify the need for a separate wing for audit in CBDT whereas other departments do not have such wings and inspite of the absence, their performances are better, the Secretary of the Ministry stated that he would look into it.

4.7 On the actual implementation of the directive for periodical monthly and quarterly dialogues with Audit, following data on actual progress for the last 3 years was furnished:

Year	No. Of charges in which meetings were to be held	No. of meetings held with			Value
		Joint Directors of Audit	Directors of Audit	Objections settled Number	
1985-86	94	117	7	1447	N.A.
1986-87	95	116	5	1602	N.A.
1987-88	93	53	NIL	1307	N.A.

4.8 The Table above would indicate that the standing instructions were not, in practice, complied with to any appreciable extent, and in particular, the Commissioners (numbering over 90) had held hardly 7 and 5 meetings in all in 1985-86 and 1986-87 respectively and none in 1987-88 with the Directors of Audit, whereas as per directives about 350 meetings in all should have been held by all Commissioners put together in each year.

**4.9** The Committee note that the responsibility for settlement of internal and statutory audit objections solely rests with the assessing officers numbering 2262 as on 31 March 1988 and the Commissioners under whom they function and that an elaborate monitoring system has been established by CBDT with a Member in charge of Audit at the Board's level, Directors in Chief Commissioner's and Dy. Commissioners (Audit) in Commissioners' offices to monitor the progress of settlement. Despite availability of elaborate monitoring system, it is unfortunate that the broad nature of outstanding objections and reasons for pendency of old cases could not be furnished to the Committee.

One of the contributory causes for heavy outstandings is reported to be inadequacy of manpower in the internal audit wing. As action for settlement of objections has to commence and end at the respective assessing officer's level, the Committee are unable to comprehend how creation of additional Posts in the Internal Audit Wing can solve the problem of delays in settlement of audit objections. The Committee recommend that the utility of creation of additional posts for settlement of outstanding audit objections may be reviewed to ensure that creation of these posts is fully justified.

**4.10** There are in all 2262 assessing officers functioning in the country and the number of recorded outstanding objections is of the order of 1.34 lakhs. Thus on an average the number of outstanding cases per assessing officer will be about 60 cases only. In this context, the Committee are of the opinion that if all the assessing officers make earnest efforts to clear the outstanding objections, the number of outstanding audit objections can be brought down substantially within a short time. The Committee recommend that appropriate steps may be taken to identify outstandings with each assessing officer, to draw up a time bound programme of settlement and to ensure progress thereagainst.

##### *5. Procedure and time frame for raising and settlement of audit objections*

**5.1** On detection of a mistake or error by the internal audit, the audit party issues an audit objection Memo to the concerned assessing officer to review and report on the objection and a time limit of three months has been laid down for taking remedial action by the assessing officer. To watch compliance, the assessing officer, enters the objections in a register of internal audit objections and the responsibility to settle the objection is entirely that of the field officers viz. the assessing officers, Deputy Commissioners and Commissioners. If the reply from the assessing officer is not received within a "reasonable" time, the internal audit wing issues a reminder and in case of "further delay", the Range Deputy Commissioner is informed and if still there is no further response, the internal audit wing compiles a list of major objections in respect of which remedial action will get time barred by limitation before the end of the financial year and sends the same to the Commissioner of Income-Tax. In big cases having revenue

effect of Rs. 10,000 to Rs. 25,000 in income tax, the objections are also conveyed within a week to the respective Range Deputy Commissioners/ Commissioners of Income Tax.

5.2 When an audit objection is raised in statutory audit the audit party issues an audit Memo (Half Margin Note) and the assessing officer is required to send reply to the Audit Party within three days clarifying facts and figures involved in the objection raised. The objections that are not settled by the replies, are contained in a Draft Local Audit Report and are discussed by the Audit Officer in charge with the assessing officer. The objections that are not settled during the discussion are incorporated in a local audit report and sent to the concerned assessing officer, Deputy Commissioner (Audit) and Commissioner of Income Tax. The assessing officer is to send his report to the objections within 30 days of receipt of the local audit report to the Deputy Commissioner (Audit) and to the Range Deputy Commissioner. The Deputy Commissioner (Audit) sends a copy of the report of the assessing officer along with his comments to Audit within a fortnight. Objections that are patent for are not having any arguable case, are accepted while in others, they are discussed with Audit by the Deputy Commissioner (Audit) before his comments are furnished. In cases where differences of opinion exist between Audit and the Department, the Deputy Commissioner (Audit) reports such cases to the Commissioner of Income Tax within a fortnight of receipt of Audit's comments, pointing out the dates when remedial action would become time barred. The Commissioner of Income tax sends his comments within a fortnight to Deputy Commissioner. Keeping in view the Commissioner's directions, the Deputy Commissioner (Audit) finally informs Audit of the acceptance or otherwise of the objections. Based on this reply, Audit takes its final stand on the objection for referring to the Board, processing for mention in the Audit Report, etc.

5.3 The Ministry have prescribed the following time limits for settlement of all objections raised by the Statutory Audit.

**IMPORTANT IRREGULARITIES:** With tax effect of over Rs. 10,000/- in Income-tax and over Rs. 1,000/- for other Direct Taxes (i.e. objections appearing in Part II Section A of Local Audit Report) should be settled within 4 months from the date of receipt of LAR by the ITO.

**OTHER IRREGULARITIES:** Remedial action in case of objections appearing in Part II Section B of Local Audit Report should be taken within 3 months of receipt of LAR by the ITO.

Several \*instructions have also been issued by Government from time to time for prompt settlement of audit objections.

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\*List given in Appendix II

5.4 Preliminary observations of the statutory audit party are sent by way of half margin notes. In regard to the action taken at the time statutory audit is conducted, the Chairman, CBDT observed that at the half margin stage, the audit party raises tentative objections in a large number of cases and that the assessing officers do reply in many of these cases. As the experience of Audit has been that the half margin notes do not often come back to them with replies, the Committee enquired the machinery available with the Ministry to see that the assessing officers take action. The Chairman observed in this regard that "to some extent the department does not take action."

5.5 As regards the difficulties experienced by the assessing officers to attend promptly to the half margin notes, the Chairman CBDT stated:

"Within the 3 days that he receives, for the half margin report, the I.T.O. may have other fixations. Then, if there is a discussion regarding validity etc., then they can be thrashed out. But that is not being done."

5.6 In regard to the necessity for the assessing officers to be available to answer to audit objections and discuss the objections with Audit, the Member (Audit) stated that the Board has also issued instructions to the field officers to the effect that on receipt of the programme of audit, the assessing officer should keep 2 or 3 days free during the period of audit. Asked to indicate how far the Board have ensured observance of the instructions, the Member (Audit) stated that at the Board's level, there are instructions and it was for commissioners to look for compliance.

5.7 According to the Chairman, CBDT one of the difficulties experienced by the assessing officers in replying to the audit memos has been that many of the objections pertain to the period of the current ITO's predecessor. Asked to indicate whether it is not the assessing officer's duty according to instructions of the Board, to go through the records, find out validity of the objections and make up his mind whether to accept or reject the objection, the Chairman, CBDT stated that in many cases, the assessing officers have looked into the old cases. Clarifying further the difficulty in replying owing to the fact that many objections pertain to the period of present ITO's predecessor, the Chairman CBDT further stated that an ITO remains on a job for about a year and then he moves to a bigger job and even if he remains at the same station for two or three years, his job may get changed. The Committee pointed out that if the ITO comes and moves away within one year then he cannot have sufficient familiarity with the work and therefore he should be there on a job for at least three years as is the practice in other departments. The Secretary (Revenue) reacted by saying: "This is a news for me also. Actually this should not happen."

5.8 Taking note of the fact that in the audit paragraph, 173 major cases of obojections involving tax effect of Rs. 10 lakhs and above have been cited with an yearwise analysis, the Committee desired to know the progress in all such cases. The Member (Audit) stated that the details could not be got initially from the Commissioners and that details subsequently collected had revealed that according to the Commissioner's records, more number of cases were pending and that certain objections already settled might not be known to the Board. The Member (Audit) later furnished date of all these cases to the\* Committee. The details so furnished indicated only the total number of cases pending against each charge with general observation on remedial action taken or proposed to be taken without any details of the specific cases.

5.9 In regard to progress of clearance of old cases, the Ministry stated that the Department attached a great deal of importance to the audit objections as it learns what mistakes are committed so as to safeguard revenue and that it was for this reason that in the action plan drawn by the Ministry, a target of clearance of 100 per cent of major arrear audit objections had been kept. The following statistical data on progress of clearance in each of the years since 1983-84 as against the target fixed was furnished by the Ministry.

#### INTERNAL AUDIT ARREARS MAJOR OBJECTIONS

Financial Year	No. of cases for disposal and amount in crores	No. of cases disposed & amount	%age of disposal to total No. of cases	Action Plan target	No. of pending cases and amount in crores
83-84	11950 (101.9928)	4733 (33.6365)	40%	100%	7217 (68.3563)
84-85	11387 (95.5227)	5549 (41.5830)	49%	100%	5838 (57.9397)
85-86	9372 (95.5747)	5879 (46.5367)	63%	100%	3493 (49.0380)
86-87	7938 (134.5546)	3598 (43.6031)	45%	100%	4340 (90.9515)
87-88	9793 (311.2557)	5186 (210.9030)	53%	90%	4607 (100.3527)

\* Given in Appendix III

## RECEIPT AUDIT ARREARS MAJOR OBJECTIONS

Financial Year	No. of cases for disposal and amount in crores	No. of cases disposed & amount	%age of disposal to total No. of cases	Action Plan target	No. of pending cases and amount in crores
83-84	23664 (203.0565)	7607 (46.9882)	32%	100%	16057 (156.0733)
84-85	21717 (248.1438)	7586 (54.9694)	35%	100%	14131 (193.1744)
85-86	20600 (344.2152)	9575 (127.6314)	46%	100%	11025 (216.5838)
86-87	18262 (330.4458)	6221 (105.333)	34%	100%	12041 (225.1125)
87-88	19527 (357.3133)	7323 (100.0332)	38%	90%	12204 (257.2801)

5.10 The foregoing table would indicate that the achievements in each of the years have been very poor and pendency continued to be high. The Ministry was asked to indicate reasons for the substantial shortfall and further steps proposed to be taken in this regard. In a written note to the Committee, The Ministry stated as under:-

“The Annual Action Plan of the Department fixes the targets for achievement in various spheres including settlement to Arrear Major Audit Objection. Earnest efforts are made to achieve these targets. In this particular sphere of settlement of Major Audit Objections although no specific reason can be ascribed for the failure to achieve the targets, yet it has been experienced that shortage of man-power has proved to be a handicap”.

5.11 The Committee note that an elaborate procedure has been laid down for prompt action on statutory audit objections and a time limit fixed for their settlement. The procedure so laid down, includes on the spot written replies, on the spot discussion, written reports to assessing authorities and their superiors, written replies by assessing authorities to their superiors, review by the superiors, discussions with Audit and finally the despatch of final reply to Audit. While appreciating the detailed instructions and procedures laid down for timely action, the Committee are however,

perturbed to note that these instructions are not, in practice, complied with because replies to the initial audit objections in the form of half margin memos are not sent, discussions, with Audit parties rarely take place etc. The explanations for failure, such as the assessing officers being otherwise busy, cases relating to periods of earlier incumbents etc. are, unconvincing and un-acceptable. The Committee recommend that steps may be taken to ensure that the Board's instructions in this regard are duly implemented and in case of failure to implement, appropriate action is taken.

5.12 The Committee note that while at least on paper an elaborate procedure has been established for clearance of statutory audit objections, even the procedure prescribed for internal audit objections do not seem to be adequate because the onus is totally left on the assessing officers and Commissioners with only the duty of periodical reminders etc. left with the internal audit wing. As the pendency in internal audit objections is equally large, the Committee recommend that the pursuing of objections raised in internal audit may be done in the same way as statutory audit objections.

5.13 While taking note of the plan of action of achievement of 100% target in settlement of internal and statutory audit objections in each year, the Committee are concerned to note that in no year, achievement has been satisfactory. The Committee trust that the CBDT will not rest with determination of a target alone but also ensure its achievement.

5.14 One of the difficulties, expressed during evidence, in replying to statutory audit objections has been that the term of an ITO on a job is generally for one year and many times the objections pertain to the current ITO's predecessor. It was agreed to by the Secretary (Revenue) during evidence that posting of an ITO in a post only for one year was not a happy arrangement and this should not happen. While the Committee hope to be apprised about the result of review of this arrangement, the Committee are unable to accept this as an explanation for delays in replying to statutory audit. Since the records are available, it is imperative that the existing incumbent acts in an objective way and take appropriate action on the basis of the available records.

5.15 The Committee are also perturbed to note that even though Audit has identified a large number of cases having tax effect of over Rs. 10 lakhs in income tax and Rs. 5 lakhs in other direct tax laws and the Committee also called for details, the Board failed to furnish details thereof and the action taken. The Committee recommend that every case of objection having substantial tax effect may be taken serious note of and remedial action ensured by the Board within a prescribed time limit, in any case not exceeding 6 months from the date of raising of objections by audit. The Committee also recommend that a broad analysis of cases of objections (both internal and statutory) of substantial tax effect pending as in February 1989 may also be furnished, indicating the age and nature of objections, steps taken for settlement and likely time by which these would be settled.

## *6. Remedial action barred by time*

6.1 As Audit has, cited 6 instances involving tax effect of Rs. 7.64 lakhs relating to statutory audit and 4 instances involving tax effect of Rs. 22.76 lakhs relating to internal audit, wherein timely remedial action was not taken and the cases become time barred for remedial action, the Committee called for the action taken in these cases. The Ministry stated that these were cases of individual lapses, that in 3 cases the Department did not accept the audit objections, in 3 cases the concerned officers had already retired, in 3 cases action has been initiated and in one case, the officer concerned has been warned to be careful in future.

6.2 According to standing instructions of the Board, appropriate remedial action must be initiated immediately on receipt of an audit objection, whether accepted or not and if remedial action is likely to get barred by limitation, the remedial action must be completed as a precautionary measure.

6.3 The Committee have also been informed by the CBDT in this regard that generally a period of about 4 years are available for issue of notices for revision of assessment from the end of relevant assessment year and an equal period is also available for completion of reassessment. The Department has also been emphatic in its observation that provisions in existing laws are adequate to meet contingencies that would arise for revision of assessment based on audit objections.

6.4 Cases of objections becoming time barred for appropriate remedial action can arise only if the assessing authorities fail to act in time, as existing legal provisions are stated to be adequate. Since several objections raised more than four years back are still pending, it is felt that there may be a large number of such cases in which remedial action might have already been barred by time thereby resulting in loss of revenue. The Committee recommend that the Board may have a review of the old outstanding cases conducted immediately in coordination with Audit and its own internal audit wing, compile a list of all such cases and report the action taken to the Committee.

## *7. Disposal of Audit Paras for inclusion in Audit Report*

7.1 According to Audit, though sufficient time of about 7 to 8 months is available to the Board for dealing with important audit objections with substantial tax effect that are proposed as draft paragraphs for inclusion in the Audit Report of the Comptroller and Auditor General, there have been inordinate delays in receipt of Department's replies. In support of this observation, Audit has pointed out that for Audit Report 1986-87, 1193 draft paragraphs involving revenue effect of Rs.79.89 crores were issued to the Board but replies were received only in respect of 371 draft paragraphs before the report was finalised. The Committee were also informed during evidence on 22 November 1988 that replies to 612 paragraphs have been sent to Audit.

7.2 Asked to intimate the reasons for the inordinate delay in giving replies, the Ministry stated as under:

"On receipt of the draft paras, the Commissioners are asked to verify the correctness of audit's observations and submit their reports; the Commissioners in turn obtain the same from the assessing officers through the concerned Deputy Commissioners. Often the Deputy Commissioners and the assessing officers have their offices located in moffusil towns. At times it becomes necessary to call for fresh information from the assessing officers. Often the assessment records are not readily available, since civil courts, appellate authorities, or higher administrative authorities also requisition such records. All these factors contribute towards delay in certain cases."

7.3 Clarifying the points further during evidence, the Member (Audit) stated as under:

"The real reason is that when the paras are received, we have to refer the matter to the field officers for complete and correct facts. Unfortunately, we do not have all the facts available with us to reply to the question. We have to refer some of the portions to the remote areas where the Income-tax Officer submits a report in a proforma; then it goes to the Deputy Commissioner and then to the Commissioner. This seems to be the main reason."

7.4 The Committee are concerned to note that at the Board's level also, timely action is not taken even in respect of important cases that are reported to the Board and replies to only 371 draft paragraphs out of 1193 paragraphs proposed for inclusion in the CAG's Audit Report were furnished before the Audit Report was finalised for presentation to Parliament. It is also unfortunate to note that till November 1988, replies to only 612 paragraphs had been furnished to Audit. The reasons given viz., objections relate to far flung areas, non-availability of date with Board, etc. are not tenable because of the present level of communication facilities available in the country and at best, such causes can account for a week or fortnight's delay. The Committee recommend that the existing procedure need to be tightened and dilatory practices need to be speeded up sufficiently to ensure that replies to audit paragraphs are invariably furnished within the prescribed period of six weeks from the date of issue. In case of failure to do so and to explain the reason therefor adequately, the concerned officers should be penalised for their lapses in accountability.

NEW DELHI;

April 11, 1989

Chaitra 21, 1911 (S)

AMAL DATTA  
Chairman,  
Public Accounts Committee.

## APPENDIX I

*Paragraph 2.20 of the Report of Comptroller and Auditor General of India for the year ended 31 March 1987, No.6 of 1988 Union Government (Revenue Receipts-Direct Taxes)*

### 2.20 Outstanding audit objections.

As on 31 March 1987, 99,035 audit objections involving revenue of Rs. 558.71 crores (approximately) raised by the Internal Audit of the Department and by the Statutory Audit, are pending without settlement. Of these 10260 cases (only major cases) of the Internal Audit accounted for Rs. 322.35 crores. The remaining 88,775 cases were Statutory audit objections involving Rs. 236.36 crores.

#### (i) Internal Audit

Mention was made in Audit Report 1984-85, regarding the organisational set up, the scope of audit work of the Internal Audit Department and the pendency in the disposal of the Internal Audit objections.

As per the monthly reports drawn up by the Directorate of Inspection (Income-tax and Audit) of the Department, the number of major objections (with tax effect of Rs. 10,000 and above, under the income-tax and Rs. 1,000 and above under the other direct taxes) of the Internal Audit disposed of during the five year period 1982-83 to 1986-87 and the number pending as at the end of these years are given below:—

Financial Year	No. of cases for disposal and amount	No. of cases disposed of and amount	Percentage of disposal to total number of cases for disposal	No. of pending cases and amount
(Amount in crores of rupees)				
1982-83	17,218	5,516	32.03	11,702
	143.85	49.16	34.19	94.69
1983-84	16,335	5,415	33.15	10,920
	133.74	36.43	27.24	97.31
1984-85	16,167	6,959	43.04	9,208
	138.46	47.88	34.58	90.58
1985-86	15.106	7,578	50.16	7,528*
	194.86	70.25	36.05	124.61
1986-87@	15,621	5,361	34.32	10,260
	401.33	78.98	19.67	322.35

\* Out of pending cases at the end of 1985-86, 3,493 items of value of Rs. 49.04 crores are over 1 year old.

@The figure does not include the internal audit (major audit objections) for the quarter ended march 1987 in respect of Allahabad (IAP) Lucknow (IAP Part II), Bombay-VI (IAP) and Vizag (IAP) Charges.

No year-wise analysis of the age of the pending items is being separately kept by the Central Board of Direct Taxes to enable them to keep a watch over the expeditious clearance of old items.

**(ii) Statutory Audit**

As on 31 March 1987, 88,775 objections involving a revenue of Rs. 236.36 crores, are outstanding without final action. The year-wise particulars of the pendency, as compared to the position as on 31 March 1986 are as follows:

**(a) Statement showing year-wise particulars of pendency of objections, as compared to the position as on 31 March 1986:**

Year	Position	Income-tax		Wealth-tax		Gift-tax		Estate Duty		Total		
		Items	Revenue effect	Items	Revenue effect	Items	Revenue effect	Items	Revenue effect	Items	Revenue effect	
(Amount of tax effect — In crores of rupees)												
<b>Upto 1981-82 and earlier years</b>												
	(i) 31.3.86	42,320	87.90	7,276	8.24	1,897	4.00	983	8.92	52,476	109.05	
	(ii) 31.3.87	34,612	56.63	6,393	7.59	1,264	3.79	703	8.54	42,972	76.55	
1982-83	(i) 31.3.86	8,900	22.10	1,355	2.04	255	0.64	162	0.30	10,672	25.08	
	(ii) 31.3.87	6,972	17.10	962	1.83	202	0.45	114	0.27	8,250	19.65	
1983-84	(i) 31.3.86	10,293	37.43	1,634	1.49	272	2.04	196	0.36	12,395	41.32	
	(ii) 31.3.87	8,151	29.30	1,313	1.20	224	1.93	133	0.32	9,821	32.75	
1984-85	(i) 31.3.86	12,323	63.15	1,918	2.24	425	2.24	390	0.72	15,056	68.35	
	(ii) 31.3.87	9,382	39.81	1,502	1.53	315	2.09	270	0.53	11,469	43.96	
1985-86	(i) 31.3.87	13,492	58.47	2,115	3.11	358	1.21	298	0.66	16,263	63.45	
Total	(i) 31.3.86	73,836	210.58	12,183	14.01	2,849	8.92	1,731	10.30	90,599	243.81	
	(ii) 31.3.87	72,609	201.31	12,285	15.26	2,363	9.47	1,518	10.32	88,775	236.36	

During the year 1986-87, there is a marginal decrease in the number of outstanding objections and the revenue effect of the outstanding objections by 1824 (2 per cent) items and Rs. 7.45 crores (3 per cent) respectively over those of the earlier years.

(b) There were 178 cases where the income-tax involved in each individual case exceeded rupees 10 lakhs. The charge-wise and year-wise break up of these cases are:

(Amount in lakhs of rupees)

S. No.	Name of Charge	Upto 81-82 & earlier years		1982-83		1983-84		1984-85		1985-86		Total	
		Items	Amount	Items	Amount	Items	Amount	Items	Amount	Items	Amount	Items	Amount
1. Maharashtra	11	277.93	7	331.22	14	525.21	6	133.68	24	1,258.13	62	2,526.17	
2. Uttar Pradesh	2	27.02	1	14.33	—	—	1	998.62	—	—	4	1,039.97	
3. Assam	3	44.62	—	—	—	—	1	19.70	1	14.26	5	78.56	
4. Bihar	—	—	—	—	—	—	1	36.06	1	17.52	2	53.58	
5. Madhya Pradesh	—	—	—	—	—	—	—	—	11	473.71	11	473.71	
6. Kerala	—	—	—	—	—	—	1	15.53	—	—	1	15.53	
7. Calcutta	7	324.62	6	300.33	1	14.55	9	471.75	4	99.79	27	1,211.04	
8. Punjab	—	—	—	—	—	—	1	11.56	—	—	1	11.56	
9. Tamil Nadu	4	59.63	4	70.28	6	252.51	5	657.40	10	220.61	29	1260.43	
10. Karnataka	2	28.16	—	—	2	125.78	2	30.07	3	59.99	9	244.00	
11. Andhra Pradesh	—	—	—	—	1	12.77	3	26.24	4	74.20	8	113.21	
12. Gujarat	1	12.51	—	—	2	52.89	1	15.67	1	12.18	5	93.25	
13. Delhi	6	120.64	1	13.45	3	160.81	—	—	4	128.94	14	423.84	
<b>Total</b>		36	895.13	19	729.61	29	1,144.52	31	2,416.28	63	2,359.33	178	7,544.87

(c) The particulars of the number of cases where the Wealth-tax involved in each case exceeded Rupees 5 lakhs are as under:

(Amount in lakhs of rupees)

Sl. No.	Name of charge No.	Upto 81-82 & earlier years		1982-83		1983-84		1984-85		1985-86		Total	
		Item Nos	Amount	Item Nos.	Amount								
1.	<b>Maharashtra</b>												
2.	<b>Bihar</b>	2	39.49	—	—	—	—	—	—	—	—	2	39.49
3.	<b>Madhya Pradesh</b>	—	—	—	—	—	—	—	—	2	28.95	2	28.95
4.	<b>Karnataka</b>	3	56.23	—	—	—	—	—	—	3	65.90	6	122.13
5.	<b>Andhra Pradesh</b>	—	—	—	—	—	—	1	19.37	—	—	1	19.37
6.	<b>Delhi</b>	1	5.03	1	122.06	—	—	—	—	—	—	2	127.09
		1	21.30	—	—	—	—	—	—	1	5.62	2	26.92
<b>Total</b>		7	122.06	1	122.06	—	—	1	19.37	6	100.47	15	363.95

(d) The particulars of the number of cases where the total gift-tax involved in each case exceeded Rupees 5 lakhs are given below:

(Amount in lakhs of rupees)

Sl. No.	Name of charge earlier years	Upto 81-82 &		1982-83		1983-84		1984-85		1985-86		Total
		Item Nos.	Amount									
1. Maharashtra												
2. Tamil Nadu	3	40.41	—	—	—	—	—	2	122.27	—	—	5 162.68
3. Gujarat	—	—	—	—	—	—	—	—	—	2	25.24	2 25.24
	5	72.80	1	19.08	3	155.46	—	—	—	—	—	9 247.34
	8	113.21	1	19.08	3	155.46	2	122.27	2	25.24	16	435.26

(c) The particulars of the number of cases where the total estate duty involved in each case exceeded Rupees 5 lakhs are as shown below:

Sl. No.	Name of charge No.	Upto 81-82 & earlier years		1982-83		1983-84		1984-85		1985-86		Total	
		Item Nos.	Amount	Item Nos.	Amount	Item Nos.	Amount	Item Nos.	Amount	Item Nos.	Amount	Item Nos.	Amount
1.	Madhya Pradesh												
2.	West Bengal	1	46.81	—	—	—	—	—	—	—	—	1	46.81
3.	Andhra Pradesh	1	5.96	—	—	—	—	1	5.08	—	—	2	11.04
		6	701.62	—	—	—	—	—	—	—	—	6	701.62
<b>Total</b>		8	754.39	—	—	—	—	1	5.08	—	—	9	759.47

The Total number and amount of pendency in respect of major audit objections involving Rs. 10 lakhs and above as regards income-tax, and Rs. 5 lakhs and above, as regards other direct taxes, is given below:

	No.of cases	Amount (Rs. in crores)
(i) Income tax	178	75.45
(ii) Other Direct Taxes	40	15.59
<b>Total</b>	<b>218</b>	<b>91.04</b>

Out of a total pendency of 88,775 cases, involving a revenue effect of Rs. 236.36 crores, 218 cases accounted for a revenue effect of Rs. 91.04 crores. This indicates that cases involving larger revenue effect were not given priority in the matter of settlement.

### (iii) Steps taken to settle objections

(a) The inadequacy of control machinery in the department in the matter of timely action on audit objections, particularly in the light of Public Accounts Committee's observations and loss of revenue to time bar in certain cases, was pointed out in Audit Reports 1984-85 and 1985-86.

The machinery of inter-departmental periodical meetings between the officers of the two departments introduced from February 1984, for the settlement of outstanding audit objections and to sort out contentious issues as indicated in the Audit Report 1984-85, has also not borne desired result during the year 1986-87 also in as much as 42,972 outstanding objections involving revenue effect of Rs. 76.55 crores relating to 1981-82 and earlier years were outstanding as on 31 March 1987.

The control system apparently continues to be inadequate and the pace of settlement of the outstanding objections continues to be slow.

The Action Plan target of the department for 1986-87 included 100 per cent disposal of all arrear major audit objections (both of internal and statutory audits) and in respect of all objections received upto 31 December 1986 replies should be sent by 31 March 1987. This is like last year, nowhere near achievement during the current year 1986-87 also.

(b) Remedial action barred by time

As indicated in the Audit Report 1984-85 there are specific instructions issued by the Central Board of Direct Taxes to take timely action on audit objections to avoid cases becoming time-barred leading to loss of revenue. Nevertheless instances have come to notice in test check during 1986-87 where remedial action became barred by limitation of time resulting in loss of revenue. Some such cases are:

Sl. No.	Commissioner's Charge/Assessment year	Nature of objection	Date of pointing out of the mistake by Receipt Audit	Date upto which rectificatory action could be taken	Loss of revenue (Rupees)
1.	A 1975-76, 1976-77 and 1979-80	Non-completion of assessments penalty proceedings within time limit.	December 1985	31 March 1984 and 31 March 1985	1,18,964
2.	B 1978-79	Non-revision of assessments within time limit	September 1986	31 March 1985	83,600
3.	C 1981-82 and 1982-83	Non-Levy of additional income-tax within time limit.	November 1986	31 March 1986	1,55,812
4.	D 1979-80 and 1980-81	Non-initiation of remedial action in time	September 1986	31 March 1986	2,75,000
5.	E 1980-81	Non-completion of assessment within time limit	July 1986	February 1986	85,426
6.	F 1972-73 and 1973-74	Omission to re-open the assessment	August 1983	31 March 1981 and 31 March 1982	44,770

According to the executive instructions issued by the Central Board of Direct Taxes in 1977, mistakes pointed out by Internal audit parties of the department should be rectified by the assessing authorities promptly and remedial action initiated within a month and completed as far as possible, within three months of the report of the internal audit. Inspite of the internal audit wing pointing out mistakes in assessments and despite the above instructions of the Board, failure to take remedial action on internal audit objections resulted in loss of revenue amounting to Rs. 22.76 lakhs. The details by cases are given below:

Sl. No.	Commissioner's Charges/Assess- ment Year	Name of objection	Date of point- ing out of the mistake by Internal Audit
1	2	3	4
1.	I 1975-76	Carry forward of re- lief in respect of newly established in- dustrial undertaking beyond the pre- scribed period	April 1982
2.	J 1970-71 to 1974-75	Omission to levy ad- ditional wealth-tax	September 1979
3.	K 1970-71 to 1974-75	Under valuation of shares excess allo- wance of Income-tax liability, grant of ini- tial exemption twice etc.	September, 79 and October, 79
4.	L 1971-72 and 1972-73	Non-levy of addition- al wealth-tax	November 1979

Date of pointing out omission by Receipt Audit	Date upto which rectificatory action could be taken	Loss of Revenue
5	6	7
September 1986	21 February 1985	20,42,492
27		
September/ October 1981	31 March, 1983	1,09,029
October, 1984	31 March 1983	79,187
December, 1986	31 March 1983	44,800

(iv) *Non-receipt of Board's comments on draft paragraphs*

As indicated in the Audit Report 1984-85, sufficient time (about 7-8 months) is available to Income-tax department for dealing with Audit Para cases in respect of important objections with substantial tax effect. However, despite Board's instructions that all draft paragraph cases should receive the personal attention of the Commissioners' of Income-tax for expeditious action, there are inordinate delays in the receipt of Department's replies. For Audit Report 1986-87, 1193 draft paras (on Income-tax, Wealth-tax, Gift-tax and Estate Duty cases) involving a revenue effect of Rs. 79.89 crores were issued to the Board but Board's replies have been received only in respect of 371 draft paragraphs.

The paragraph was referred to the Ministry of finance for comments in October 1987, the reply from the Government has not so far been received (15 December 1987.)

## APPENDIX II

<i>List of Instructions for settling of Audit Objections.</i>	
<i>S.No.</i>	<i>Instruction No.</i>
1.	<i>F.No. 83/103/66-IT(B)</i>
2.	<i>F.No. 83/22/87-IT(B)</i>
3.	<i>F.No. 9/1/68-IT(Audit)</i>
4.	<i>F.No. M(6)(1)/70/DIT</i>
5.	<i>Instruction No. 159</i> <i>F.No. 5/6/69-IT(Audit)</i>
6.	<i>Chairman (Direct Taxes)</i> <i>D.O. No.8/MI/Ch./DT/72</i>
7.	<i>Instruction No. 484</i> <i>(F.No. 246/76/72-A&amp;PAC)</i>
8.	<i>Instruction No. 499</i> <i>F.No. 246/17/72-A&amp;PAC</i>
9.	<i>Instruction No. 552</i> <i>F.No. 238/3/73-A&amp;PAC</i>
10.	<i>Instruction No. 584</i> <i>F.No. 236/237/72-A&amp;PAC</i>
11.	<i>Instruction No. 340</i> <i>F.No. 5/6/69-IT(Audit)</i>
12.	<i>Instruction No. 1552</i> <i>F.No. 241/2/82-A&amp;PAC-II</i>
13.	<i>Instruction No. 828</i> <i>F.No. 236/272/74-A&amp;PAC-II</i>
14.	<i>Member (CBDT's) D.O.No. 288/11/76-A&amp;PAC-I</i>
15.	<i>Instruction No. 1046</i> <i>F.No. 238/25/76-A&amp;PAC-I</i>
16.	<i>Instruction No. 1598</i> <i>F.No. 246/30/84-A&amp;PAC-II</i>

### APPENDIX III

*II-Cases involving revenue effect of Rs. 10 lakhs and above pending as on 31.3.1988*

S.No.	Name of charge	Pendency as on 31.3.88	Remedial steps proposed/taken
1	2	3	4
1.	Assam	5	Replies already sent in 4 cases before 31st March, 1988 not accepting the objection.
2.	Kerala	4	In one objection remedial action taken as a protective measure. One objection pending with AG for local verification. Two objections not accepted and pending with AG.
3.	Karnataka	12	Order u/s 263 passed in 3 cases. Rectification order passed in 1 case. Reopened assessment completed in 2 cases. Remedial action not considered necessary in 7 cases. (Report includes OT).
4.	Gujarat	22	13 objections not accepted and under correspondence with AG Rectification completed in 2 cases. Reassessments pending in 4 cases. One objection already settled on 13.9.1988. Remedial action under process in 1 case. In 1 case details not received from the field.
5.	West Bengal	47	2 objections have been settled before 31.10.88. In 27 cases remedial action has been taken. In remaining cases remedial actions are in advanced stages of completion-meetings already held in August/September, 1988 with local C&AG officers to expedite settlement of objections.
6.	Delhi	65	6 objections have been settled by 31.10.88. Remedial action being taken in remaining 59 cases.

1	2	3	4
7.	Bihar	12	Remedial action in 4 cases has been completed. In 4 cases, the objection has not been accepted and final report sent to the AG. In the remaining 4 cases, the settlement of the objection is in process.
8.	Tamil Nadu	134	Remedial action taken in 20 cases before 31.10.88.
9.	Uttar Pradesh Lucknow Kanpur	1	Report awaited from the field.
10.	Punjab	NIL	Remedial action taken and settlement pending with AG.
11.	Andhra Pradesh	10	Final reply sent in 1 case. Action u/s 263 taken in 2 cases.
12.	Orissa	NIL	
13.	Madhya Pradesh Jabalpur	13	Remedial action being taken.
	Bhopal		
14.	Rajasthan (Jaipur)	3	Remedial action being taken (In 3 other cases, reports have been received from AG in the year 1988-89 i.e., after 31.3.1988).
15.	Maharashtra Nasik	2	Remedial action taken in all cases pending for settlement with AG.
	Pune	6	Objections not accepted and replies sent to AG.
	Bombay	59	Remedial action has been taken in 28 cases. Objection has been resisted in 22 cases. In 4 cases, objection has been settled by the AG. Remedial action being taken in 3 cases. In 2 cases, remedial action time barred.
	Nagpur	4	Compliance report submitted to AG in 2 cases, assessment set aside u/s 263. Proposal u/s 263 under consideration in 1 case.

**(b) WT/GT/ED OBJECTION INVOLVED A REVENUE EFFECT OF RS. 5 LAKHS AND ABOVE PENDING AS ON 31.3.1988.**

S.No.	Name of charge	Pendency as on 31.3.88	Remedial steps proposed/taken
1	2	3	4
1.	Assam	3	One objection not accepted and pending with AG remedial action initiated as a protective measure. Regarding remaining two objections, report not received from the field.
2.	Karnataka	1	Refer to II statement.
3.	Gujarat	1	Objection not accepted. Remedial action initiated.
4.	West Bengal	1	Remedial action in advance stage of completion.
5.	Delhi	3	Remedial action being taken.
6.	Bihar	2	Remedial action in 1 case completed and report to AG. In the other case, objection not accepted and reply sent to AG accordingly.
7.	Tamil Nadu	14	Remedial action taken in 2 cases before 31.10.88.
8.	Andhra Pradesh	3	Remedial action taken in 1 case. Reassessment proceeding stayed by AP High Court in 1 case. In 1 case, assessment set aside u/s 25(3) of WT Act.
9.	Kerala	3	2 objections not accepted and under correspondence with AG. Remedial action has however, been initiated as a protective measure. In 1 case, report awaited from the field.
10.	Punjab	NIL	

1	2	3	4
11.	U.P. Luck- now & Kanpur	NIL	
12.	Orissa	NIL	
13.	Madhya Pradesh Bhopal Jabalpur	3 8	Reply sent to AG/CBDT in all cases. Remedial action being taken
14.	Rajasthan (Jaipur)	NIL	
15.	Maharashtra Nasik Pune Nagpur Bombay	NIL NIL 1 8	According to AG. Gift tax proceedings are attracted in this case. The relevant Income tax assessment in the case is, however, pending. Remedial action taken in 2 cases. Ac- tion time barred in 1 case. Objections resisted in 5 cases.

**APPENDIX IV**  
*Statement of conclusion / Recommendations*

Sl. No.	Para Ministry/ No. Deptt.	Recommendation	
1	2	3	4
1	3.8 Finance (Dept. of Revenue)	<p>The Committee regret to note that as on 31st March, 1987, as many as 99,035 audit objections raised by Internal Audit of the department as well as statutory audit by the CAG were pending without settlement. The revenue effect of the outstanding audit objections was as high as Rs. 558.71 crores. A large number of outstanding objections of the Internal Audit were raised as early as 1983-84 and a still larger number of outstanding objections raised by the statutory audit of CAG pertain to the assessment year 1981-82 and earlier. The fact that such a large number of audit objections have been pending without settlement for long periods of time show that the procedure for taking action on the audit objections is most unsatisfactory.</p>	

Internal audit has been accepted as the ears and eyes of the administration and enables it to keep a watch on the working of the department. Statutory audit on the other hand, is an important instrument in the mechanism evolved under the Constitution for ensuring accountability of the executive in its financial management to the Legislature. Viewed in this context, the Committee consider it unfortunate that adequate attention has not been given to prompt settlement of audit objections and a very large number of objections with a considerably large tax effect continue to be outstanding for want of settlement. Such a casual attention to the results of audit and inordinate delays in settlement of audit objections not only adversely affect the interest of revenue but also negate the very objects of internal audit and statutory audit. The Committee have been given to understand that elaborate instructions have been issued for expeditious settlement of audit objections. The Committee

Sl. No.	Para Ministry/ Deptt.	Recommendation	
1	2	3	4
consider that mere issuing of instructions would not be of much avail in improving the situation unless adequate steps are taken to ensure effective implementation of the instructions. The Committee would, therefore, like to know what steps have been taken to ensure effective implementation of the instructions issued from time to time for expeditious settlement of audit objections and how the number of outstanding audit objections is proposed to be reduced by taking appropriate action thereon expeditiously. The Committee would also like to know the progress made in this regard.			
2	3.9 Finance (Dept. of Revenue)	The Committee note that the internal audit objections are not analysed with reference to the year of assessment but are not analysed with reference to the year in which objections were raised. With the result that the department is not able to keep a watch over the expeditious settlement of objections relating to earlier assessment years before action thereon becomes time barred. Moreover, the internal audit objections are classified into major and minor objections, according as the tax effect if above or below Rs. 10,000 in the case of income tax and Rs. 1000 in the case of other direct taxes. During evidence the Committee recommended that objections having substantial tax effect of Rs. 1 lakh, Rs. 5 lakhs, Rs. 10 lakhs etc. and above should be especially identified for keeping a close watch on the settlement of cases involving larger revenue affect. The Board had agreed to have further classification on the basis of the larger value of the objections. The Committee would like to know further action in this regard. The Committee further recommend that classification of objections should be made with reference to the year of assessment also so that greater attention can be given to the settlement of objections relating to earlier years.	

Sl. No.	Para No.	Ministry/ Dept.	Recommendation
1	2	3	4
3	3.10	Finance (Dept. of Revenue)	Asked to state whether any time bound programme had been chalked out to clear the pending objections raised by Internal Audit, the Ministry had stated that the Action Plan targets for the year 1988-89 had laid down that 90% of the arrears relating to major objections would be settled during the year. The Committee would like to know the progress made in this regard.
4	4.9	Finance (Dept. of Revenue)	The Committee note that the responsibility for settlement of internal and statutory audit objections solely rests with the assessing officers numbering 2262 as on 31 March, 1988 and the Commissioners under whom they function and that an elaborate monitoring system has been established by CBDT with a Member in charge of Audit at the Board's level, Directors in Chief Commissioners' and Dy. Commissioners (Audit) in Commissioners' offices to monitor the progress of settlement. Despite availability of elaborate monitoring system, it is unfortunate that the broad nature of outstanding objections and reasons for pendency of old cases could not be furnished to the Committee.

One of the contributory causes for heavy outstandings is reported to be inadequacy of manpower in the internal audit wing. As action for settlement of objections has to commence and end at the respective assessing officer's level, the Committee are unable to comprehend how creation of additional posts in the Internal Audit Wing can solve the problem of delays in settlement of audit objections. The Committee recommend that the utility of creation of additional posts for settlement of outstanding audit objections may be reviewed to ensure that creation of these posts is fully justified.

Sl. No.	Para No.	Ministry/ Dept.	Recommendation
1	2	3	4
5	4.10	Finance (Dept. of Revenue)	<p>There are in all 2262 assessing officers functioning in the country and the number of recorded outstanding objections is of the order of 1.34 lakhs. Thus on an average the number of outstanding cases per assessing officer will be about 60 cases only. In this context, the Committee are of the opinion that if all the assessing officers make earnest efforts to clear the outstanding objections, the number of outstanding audit objections can be brought down substantially within a short time. The Committee recommend that appropriate steps may be taken to identify outstanding with each assessing officer, to draw up a time bound programme of settlement and to ensure progress there against.</p>
6	5.11	Finance (Dept. of Revenue)	<p>The Committee note that an elaborate procedure has been laid down for prompt action on statutory audit objections and a time limit fixed for their settlement. The procedure so laid down, includes on the spot written replies, on the spot discussion, written reports to assessing authorities and their superiors, written replies by assessing authorities to their superiors, review by the superiors, discussions with Audit and finally the despatch of final reply to Audit. While appreciating the detailed instructions and procedures laid down for timely action, the Committee are however, perturbed to note that these instructions are not, in practice, complied with because replies to the initial audit objections in the form of half margin memos are not sent, discussions, with Audit parties rarely take place etc. The explanations for failure, such as the assessing officers being otherwise busy, cases relating to periods of earlier incumbents etc. are, unconvincing and un-acceptable. The Committee recommend that steps may be taken to</p>

Sl. No.	Para No.	Ministry/ Dept.	Recommendation
1	2	3	4
ensure that the Board's instructions in this regard are duly implemented and in case of failure to implement, appropriate action is taken.			
7	5.12	Finance (Dept. of Revenue)	<p>The Committee note that while at least on paper an elaborate procedure has been established for clearance of statutory audit objections, even the procedure prescribed for internal audit objections do not seem to be adequate because the onus is totally left on the assessing officers and Commissioners with only the duty of periodical reminders etc. left with the internal audit wing. As the pendency in internal audit objections is equally large, the Committee recommend that the pursuing of objections raised in internal audit may be done in the same way as statutory audit objections.</p>
8	5.13	Finance (Dept. of Revenue)	<p>While taking note of the plan of action of achievement of 100% target in settlement of internal and statutory audit objections in each year, the Committee are concerned to note that in no year, achievement has been satisfactory. The Committee trust that the CBDT will not rest with determination of a target alone but also ensure its achievement.</p>
9	5.14	Finance (Dept. of Revenue)	<p>One of the difficulties, expressed during evidence, in replying to statutory audit objections has been that the term of an ITO on a job is generally for one year and many times the objections pertain to the current ITO's predecessor. It was agreed to by the Secretary (Revenue) during evidence that posting of an ITO in a post only for one year was not a happy arrangement and this should not happen.</p>

Sl. No.	Para No.	Ministry/ Dept.	Recommendation
1	2	3	4
While the Committee hope to be apprised about the result of review of this arrangement, the Committee are unable to accept this as an explanation for delays in replying to statutory audit. Since the records are available, it is imperative that the existing incumbent acts in an objective way and take appropriate action on the basis of the available records.			
10	5.15	Finance (Dept. of Revenue)	<p>The Committee are also perturbed to note that even though Audit has identified a large number of cases having tax effect of over Rs. 10 lakhs in income tax and Rs. 5 lakhs in other direct tax laws and the Committee also called for details, the Board failed to furnish details thereof and the action taken. The Committee recommend that every case of objections having substantial tax effect may be taken serious note of an remedial action ensured by the Board within a prescribed time limit, in any case not exceeding 6 months from the date of raising of objections by audit. The Committee also recommend that a broad analysis of cases of objections (both internal and statutory) of substantial tax effect pending as in February 1989 may also be furnished, indicating the age and nature of objections, steps taken for settlement and likely time by which these would be settled.</p>
11	6.4	Finance (Dept. of Revenue)	<p>Cases of objections becoming time barred for appropriate remedial action can arise only if the assessing authorities fail to act in time, as existing legal provisions are stated to be adequate. Since several objections raised more than four years back are still pending, it is felt that there may be a large number of such cases in which remedial action might have already been barred by time thereby resulting in loss of revenue. The Committee recommend that the Board may have a review of the old outstanding cases conducted immediately in coordination with Audit and its own internal audit wing, compile a list of all such cases and report the action taken to the Committee.</p>

Sl. No.	Para No.	Ministry/ Dept.	Recommendation
1	2	3	4
12	7.4	Finance (Deptt. of Revenue)	<p>The Committee are concerned to note that at the Board's level also, timely action is not taken even in respect of important cases that are reported to the Board and replies to only 371 draft paragraphs out of 1193 paragraphs proposed for inclusion in the CAG's Audit Report were furnished before the Audit Report was finalised for presentation to Parliament. It is also unfortunate to note that till November 1988, replies to only 612 paragraphs had been furnished to Audit. The reasons given viz. objections relate to far flung areas, non-availability of data with Board, etc. are not tenable because of the present level of communication facilities available in the country and at best, such causes can account for a week or fortnight's delay. The Committee recommend that the existing procedure need to be tightened and dilatory practices need to be speeded up sufficiently to ensure that replies to audit paragraphs are invariably furnished within the prescribed period of six weeks from the date of issue. In case of failure to do so and to explain the reason therefor adequately, the concerned officers should be penalised for their lapses in accountability.</p>

