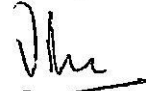


उत्तराखण्ड शासन  
वित्त अनुभाग-6  
संख्या- 197(A)/XXVII(6)-तीन-1466/2021  
देहरादून: दिनांक: 28 अक्टूबर, 2022

वित्त विभाग की अधिसूचना संख्या-197/XXVII(6)/1466/तीन/2021, दिनांक 28.10.2022 द्वारा प्रख्यापित उत्तराखण्ड राजस्व लेखापरीक्षा नियम संग्रह, 2022 की प्रति निम्नलिखित को सूचनार्थ एवं आवश्यक कार्यवाही हेतु प्रेषित:-

1. सचिव, श्री राज्यपाल, उत्तराखण्ड।
2. सचिव, मा0 मुख्यमंत्री जी, उत्तराखण्ड शासन।
3. स्टाफ आफिसर, मुख्य सचिव, उत्तराखण्ड शासन।
4. उप निदेशक, वित्त सेवार्ये विभाग, वित्त मंत्रालय, भारत सरकार नई दिल्ली।
5. समस्त अपर मुख्य सचिव/प्रमुख सचिव/सचिव/सचिव (प्रभारी), उत्तराखण्ड शासन।
6. मण्डलायुक्त गढ़वाल मण्डल, पौड़ी/कुमायूँ मण्डल, नैनीताल।
7. समस्त जिलाधिकारी, उत्तराखण्ड।
8. महानिदेशक, सूचना एवं लोक सम्पर्क निदेशालय, उत्तराखण्ड, देहरादून।
9. निदेशक, यू0के0पी0एफ0एम0एस0, उत्तराखण्ड देहरादून।
10. निदेशक, लेखा परीक्षा ऑडिट, निदेशालय, उत्तराखण्ड देहरादून।
11. निदेशक, एन0आई0सी0, सचिवालय परिसर, देहरादून।
12. संयुक्त सचिव, वित्त ऑडिट प्रकोष्ठ, सचिवालय परिसर, देहरादून।
13. अपर निदेशक, राजकीय मुद्रणालय, रुड़की, उत्तराखण्ड को इस अनुरोध के साथ प्रेषित कि कृपया अधिसूचना को असाधारण गजट, विधायी परिशिष्ट भाग-4 में मुद्रित कराकर, इसकी 200 प्रतियां वित्त अनुभाग-6, उत्तराखण्ड शासन को यथाशीघ्र उपलब्ध कराने का कष्ट करें।
14. प्रभारी मीडिया सेंटर, उत्तराखण्ड सचिवालय।
15. गार्ड फाईल।

आज्ञा से,  
  
(विक्रम सिंह राणा)  
संयुक्त सचिव।

उत्तराखण्ड शासन  
वित्त अनुभाग-6  
संख्या- 197 /XXVII(6)/1466/तीन/2022  
देहरादून, दिनांक: 28 अक्टूबर, 2022  
अधिसूचना

राज्यपाल, उत्तराखण्ड लेखापरीक्षा अधिनियम, 2012 (उत्तराखण्ड अधिनियम संख्या 2 वर्ष 2012) की धारा 20 द्वारा प्रदत्त शक्तियों का प्रयोग करते हुये उत्तराखण्ड आंतरिक लेखापरीक्षा नियम संग्रह, 2021 के नियम 6 एवं नियम 7 के खण्ड (ख) तथा इंस्टीट्यूट ऑफ इंटरनल ऑडिटर एवं सुप्रीम ऑडिट इंस्टीट्यूट (INTOSAI) के संगठन द्वारा समय-समय पर निर्धारित सिद्धांतों एवं अंतर्राष्ट्रीय मानकों, जोखिम आधारित आंतरिक लेखापरीक्षा सिद्धांतों एवं मानकों को राजस्व लेखा परीक्षा हेतु लागू किए जाने के लिए निम्नलिखित नियम संग्रह बनाये जाने की सहर्ष स्वीकृति प्रदान करते हैं, अर्थात:-

उत्तराखण्ड राजस्व लेखापरीक्षा नियम संग्रह, 2022

- संक्षिप्त नाम, विस्तार और प्रारंभ
- (1) इस लेखापरीक्षा नियम संग्रह का संक्षिप्त नाम उत्तराखण्ड राजस्व लेखापरीक्षा नियम संग्रह, 2022 है।
    - यह उन समस्त ऑडिटी पर लागू होंगे जो कि अधिसूचना संख्या 495/XXVII(11)/2012, दिनांकित 26 नवंबर, 2012 के माध्यम से लागू उत्तराखण्ड लेखा परीक्षा अधिनियम, 2012 की धारा 4 की उपधारा (1) के क्रम में अधिसूचित किए गए हैं।
    - राजस्व लेखापरीक्षा के अंतर्गत उत्तराखण्ड राज्य सरकार द्वारा समस्त कर एवं करेत्तर राजस्व प्राप्तियाँ की लेखापरीक्षा सम्मिलित है।
    - निदेशालय लेखापरीक्षा द्वारा लेखापरीक्षा हेतु कार्यरत कार्मिकों एवं अधिकारियों द्वारा या संनदी लेखाकार/फर्म या संस्था (एजेंसी) जिसे वित्त विभाग द्वारा समय-समय पर निदेशालय लेखापरीक्षा के लिए सूचीबद्ध किया गया हो, राजस्व अर्जन विभागों की लेखापरीक्षा किये जाने के समय संबंधित लेखापरीक्षा नियम संग्रह का प्रयोग किया जायेगा।
    - यह उत्तराखण्ड आंतरिक लेखापरीक्षा नियम संग्रह, 2021 एवं विशिष्ट कार्य क्षेत्रों के लेखापरीक्षा नियम संग्रह यथा निष्पादन लेखापरीक्षा नियम संग्रह, धोखाधड़ी और न्याय सम्बन्धी लेखापरीक्षा नियम संग्रह, सूचना प्रौद्योगिकी लेखापरीक्षा नियम संग्रह के साथ पढ़ा जाएगा।





(v) यह मुख्यतः उदग्रहण, संग्रहण, अपवंचन, विभिन्न मांगों का लक्ष्य, कर निर्धारण, आन्तरिक नियंत्रण का आंकलन प्रतिदाय, छूट जैसे संबंधित क्षेत्रों पर केंद्रित है।

(3) यह अधिसूचना के राजपत्र में प्रकाशन की तिथि से प्रवृत्त होगा।

राजस्व लेखापरीक्षा के मुख्य उद्देश्य

2. राजस्व लेखापरीक्षा के मुख्य उद्देश्य निम्नलिखित हैं -

(i) राजस्व निर्धारण, राजस्व संग्रहण पर प्रभावी नियंत्रण सुनिश्चित करने के लिए पर्याप्त विनियम और आंतरिक प्रक्रियाएँ मौजूद हैं।

(ii) लागू विनियमों और प्रक्रियाओं को विभागों द्वारा कार्यान्वित और अपनाया गया है।

(iii) विभाग द्वारा अधिनियम और नियमों/नियम संग्रह के प्रावधानों में उल्लिखित समय सारणी के अनुसार राजस्व आंकलन, संग्रहण और लेखांकन किया गया है।

(iv) अधिनियम और नियमों/नियम संग्रह के प्रावधानों के अनुरूप प्रतिदाय एवं छूट प्रदान की गई है।

(v) राजस्व विभागों में आंतरिक नियंत्रण का परीक्षण।

(vi) राजस्व विभाग द्वारा नवीन तकनीकी के अनुप्रयोग एवं नवीन तकनीकी प्रयोग में सामान्य एवं तकनीकी नियंत्रण की प्रस्थिति।

उत्तराखण्ड राजस्व लेखापरीक्षा नियम संग्रह के खंड एवं संबंधित खंडों में संक्षिप्त विवरण

3. उत्तराखण्ड राजस्व लेखापरीक्षा नियम संग्रह के दो भाग हैं, नियम संग्रह के विभिन्न भागों का विवरण निम्नलिखित है :-

लेखापरीक्षा नियम संग्रह

उत्तराखण्ड राजस्व लेखापरीक्षा के समस्त चरणों का विस्तृत यथा लेखापरीक्षा कार्य योजना, लेखापरीक्षा सम्पादन, लेखापरीक्षा रिपोर्टिंग और प्रलेखन, लेखापरीक्षा अनुवर्ती, अनुपालन और लेखापरीक्षा किए जाने हेतु जांच

भाग-II

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सूची जिसके द्वारा माल सेवा कर, मूल्य वर्धित कर, स्टाम्प एवं निबंधन, आबकारी, भूविज्ञान और खनन और वन विभागों की राजस्व लेखापरीक्षा संपादित किए जाने के लिए प्रयोग किया जायेगा।

राज्य में राजस्व अर्जन विभागों जिनके द्वारा राज्य के कुल राजस्व में मुख्य योगदान है, संबंधित विभागों को पृथक-पृथक भागों में विभक्त किया गया है। इन खण्डों के अन्तर्गत यथा विभाग का परिचय, विनियामक ढांचा, राजस्व के स्रोत एवं प्रचलित अधिनियम एवं नियम के लागू प्रावधानों एवं राजस्व लेखापरीक्षा के लिए चेकलिस्ट सम्मिलित है।

उत्तराखण्ड  
राजस्व  
लेखापरीक्षा  
नियम संग्रह  
भाग -II

इस भाग में केवल महत्वपूर्ण परिभाषाएँ और अधिनियम, नियमों के प्रासंगिक प्रावधान हैं, जिसके द्वारा उपर्युक्त संबंधित विभाग के राजस्व लेखा परीक्षा को संचालित किए जाने के लिए प्रयुक्त किया जाएगा।

उत्तराखण्ड राजस्व  
लेखा परीक्षा नियम  
संग्रह के मुख्य  
कार्य क्षेत्र

4. i राजस्व निर्धारण, राजस्व संग्रहण और प्रतिदायों के लिए विनियमों और क्रियाविधियों की राजस्व लेखा परीक्षा लेखापरीक्षा के सबसे अधिक महत्वपूर्ण कार्यों में -
- (क) करों, शुल्कों, प्रयोक्ता प्रभार एवं राजस्व संग्रहण के लिये निर्धारण, संग्रहण और उचित आबंटन पर प्रभावी नियंत्रण रखने के लिए राजस्व विभाग द्वारा उपयुक्त विनियम और क्रियाविधि बनाए जाने के लिए परीक्षण करना;
- (ख) उपयुक्त नमूना जाँच द्वारा विनियमों और क्रियाविधियों का वस्तुतः पालन किया जा रहा है। लेखापरीक्षा में प्रविष्टि की गई राशियों की शुद्धता के बारे में भी परीक्षण किया जायेगा।

## ii वसूलियों की आवधिकता की लेखा परीक्षा

ऐसे वित्तीय नियम या आदेश के प्रकरण जिसके द्वारा वसूलियों के लिए स्तर या आवधिकता निर्धारित की गई हो, ऐसे प्रकरणों में लेखापरीक्षा को यथासंभव यह परीक्षण करना चाहिए कि उचित प्राधिकार के बिना किसी भी प्रकार का विचलन नहीं किया गया है।

## iii बकाया अतिदेयों का अवलोकन

लेखापरीक्षा को किसी भी प्रकार के बकाया देय की सावधानीपूर्वक समीक्षा करनी चाहिए तथा विभागीय प्राधिकारियों को उनकी वसूली के लिये संभव उपाय के बारे में सुझाव देना चाहिए। जब कोई देय अवसूलनीय हैं तो उनके अधित्यजन करने और समायोजन के लिए आदेश प्राप्त करने चाहिए।

उत्तराखण्ड राजस्व  
लेखापरीक्षा द्वारा  
आन्तरिक नियंत्रणों  
की लेखा परीक्षा

## 5. आन्तरिक नियंत्रणों की लेखापरीक्षा

राजस्व लेखापरीक्षा को संपादित किए जाने के समय आन्तरिक नियंत्रण के परीक्षण करते समय लेखापरीक्षा दलों द्वारा निम्नलिखित बिंदुओं को ध्यान में रखा जाएगा।

- i. विधि के अधीन माँग या प्रतिदाय की संगणना के लिए आवश्यक आँकड़ों का संग्रहण और उनका उपयोग
- ii. वर्तमान में लागू कर कानूनों के अनुसार विभिन्न करों, फीस, किराया, रायल्टी आदि की संगणना और वसूली
- iii. माँगों, संग्रहण और प्रतिदायों का नियमित लेखाकरण
- iv. अपेक्षित एवं अनुरूप अभिलेखों को यथोचित रूप से तैयार किया जाना।
- v. करों के उद्ग्रहण या संग्रहण या प्रतिदायों को प्राधिकृत करने की लापरवाही या चूक करने के प्रति सुरक्षा के उचित प्रबंध किये गये हैं।
- vi. अपवंचन के मामलों का पता लगाने के लिए मशीनरी पर्याप्त है,

vii. दोहरे प्रतिदायों, प्रतिदाय के जाली या झूठे आदेश या जालसाजी, चूक या गलती से होने वाले राजस्व की अन्य प्रकार की हानि शीघ्र ध्यान में लाये जाने और उनकी जाँच पड़ताल किया जाए।


viii. कर दाताओं के दावों का तत्परता से परिशीलन किया जाता है और पर्याप्त औचित्य और उचित प्राधिकार के बिना उनका परित्याग या उन्हें कम नहीं किया जाता है।

ix. न्यायालय में या अपीलीय प्राधिकारियों के समक्ष अनिर्णीत मामले पर पर्याप्त रूप से कार्यवाही की जा रही है और अपीलें जहाँ औचित्य है या आवश्यक मानी गयी है, को सीमा अवधि के अन्दर दायर किया गया है।

x. राजस्व के प्राक्कलनों की वित्तीय वर्ष की समाप्ति पर वसूली प्राक्कलन के अनुरूप की गयी है।

साधारणतया लेखापरीक्षा विभाग यह देखेगा कि आन्तरिक क्रियाविधि माँगों, संग्रहण और प्रतिदायों को सही और नियमित रूप से लेखाबद्ध करने को पर्याप्त रूप से सुनिश्चित करती हैं और कि पर्याप्त कारण के बिना सरकार को देय कोई भी राशि उसकी पुस्तकों में बकाया न रहे और दावों का तत्परता से परिशीलन किया जाता है उचित प्राधिकार के बिना उसका परित्याग या उन्हें कम न किया जाना है।

आज्ञा से,

  
(एस. एन. पाण्डे)  
सचिव।



In pursuance of the provision of clause (3) of article 348 of the Constitution of India, the Governor is pleased to order the publication of the following English translation of notification no. 197 /XXVII (6)/1466/Three/2022, Dehradun, dated -----for general information

**Government of Uttarakhand,  
Finance Section- 06  
No. 197/XXVII (6)/ 1466 /Three/2022  
Dehradun, Date: 28 October 2022  
Notification**

In exercise of the powers conferred by section 20 of the Uttarakhand Audit Act, 2012 (Uttarakhand Act No. 2 of 2012) and rule 6 and clause (b) of rule 7 of Uttarakhand Internal Audit Manual 2021 read along with the Standards to be applicable for Institute of Internal Auditors and International Supreme Audit Institution (INTOSAI) to implement standards for Revenue Audit, Guidelines with complete steps for conducting Risk-Based internal audit for Revenue Audit as per with respective principles and Standards to be adopted, the Governor is pleased to allow to following manual, namely: -

**The Uttarakhand Revenue Audit Manual, 2022**

- |   |  |
|---|--|
| <b>Short<br/>title,<br/>extent<br/>and<br/>Commencement</b> | <p>1. (1) This audit manual may be called the Uttarakhand Revenue Audit Manual, 2022.</p> <p>(2) (i) These audit manuals shall apply to all the auditees notified under the Gazette Notification No. 495/XXVII(11)/2012 dated 26 November 2012 as per the provision of sub- section (1) of section 4 of the Uttarakhand Audit Act 2012.</p> <p>(ii) Audit of receipts includes the audit of all taxes and non-tax receipts of Uttarakhand State Government.</p> <p>(iii) The Directorate of Audit by the personnel and officers or Chartered Accountant firms or insitute /agencies empaneled by the Finance Department from time to time for the Directorate of Audit shall carry out audit through this audit manual while auditing such revenue departments.</p> <p>(iv) This shall be read with the Uttarakhand Internal</p> |
|---|--|





Audit Manual 2021 and other audit manuals prepared for specific areas such as Performance Audit Manual, Fraud, and Forensic Audit Manual, Information Technology Audit Manual.

(v) This mainly focuses on the audit of receipts with reference to levy, collection, evasion, the pursuit of claims, assessment, examine internal controls, refund, rebates, and other relevant areas for a revenue generating departments.

(3) This shall come in force from the date of publication of notification in the Official Gazette.

**Main  
Objectives of  
Revenue Audit**

2. The main objectives of the Revenue Audit are as follows –
  - (i) adequate regulations and internal procedures are in place to ensure an effective check on the assessment, collection of the revenues.
  - (ii) the applicable regulations and procedures have been implemented and adopted by the departments.
  - (iii) the department has assessed, collected, and accounted for the revenues on time in line with the provisions of the Act and rules.
  - (iv) the refunds and exemptions provided in line with the provisions of the Acts and rules/manuals.
  - (v) assessment of Internal Control of Revenue Generating Department
  - (vi) use of modern technologies by the revenue department and use of General and IT Controls for such modern technologies

**Uttarakhand  
Revenue Audit  
Manual Parts  
and brief  
description of  
its parts**

3. Uttarakhand Revenue Audit Manual has two parts, the detail of two parts of audit manual are mentioned below -

<b>Uttarakhand Revenue Audit Manual-Part-I</b>	Detailed audit process covering the entire audit phases viz. audit planning, audit execution, audit reporting & documentation, audit follow up,
--	---



	<p>compliance and audit checklists to be used in conducting revenue audit of the Goods and Service Tax(GST), Value Added Tax (VAT), Excise, Stamp &amp; Registration, Geology &amp; Mining and Forest Departments.</p> <p>The revenue departments that are contributing to the major share in total revenue of the state have been segregated in different sections. These departments have divided into various sections. These Sections includes viz. introduction to the department, regulatory framework, and applicable provisions of the Act and rules and checklist for revenue audit</p>
<p><b>Uttarakhand Revenue Audit Manual-Part-II</b></p>	<p>This volume merely covers important definitions and relevant provisions of the Act and rules that need to be applied in conducting revenue audit of the respective department mentioned above.</p>

**Area of  
operating  
Uttarakhand  
Revenue Audit  
Manual**

**4. Audit of regulations and procedures for assessment, collection, and refunds**

The most important function of audit is

- (a) Examination of adequate regulations and that have been framed by the Revenue Departments to secure an effective check on assessment, collection and proper allocation of taxes, fees, user charges or any other mechanism for revenue collection;
- (b) adequate test check that such regulations and procedures are being adhered to. Audit should also make such examination as in respect to the correctness of the sums brought to account.

**ii. Audit of periodicity of recoveries**

Where any financial rule or order applicable to the case

prescribes the scale or periodicity of recoveries, the Audit will as far as possible examine that there is no deviation therefrom without proper authority.

### **iii. Examination of outstanding dues**

Audit should carefully review any outstanding dues and suggest to the departmental authorities any feasible means for their recovery. Whenever any dues are irrecoverable, orders for their waiver and adjustment should be sought.

**Uttarakhand  
Revenue  
Audit  
Manual for  
audit of  
Internal  
Control**

### **5. Audit of Internal Control**

During examination of the internal controls the following points shall be taken into consideration by the audit parties while conducting Revenue Audit

- i. collection and utilization of data necessary for the computation of the demand or refund under laws.
- ii. computation and realization of various taxes, fees, rents, royalty, etc. are in accordance with the existing applicable tax laws;
- iii. the regular accounting of demands, collections, and refunds;
- iv. that the relevant and requisite records are being maintained properly;
- v. that adequate control and monitoring mechanisms have been devised to prevent loss or leakage of revenue;
- vi. that the machinery for detection of cases of evasion is adequate;
- vii. double refunds, fraudulent or forged refund orders or other losses of revenue through fraud, default or errors are promptly brought to light and their investigation;
- viii. that claims of taxpayers are pursued with due diligence and are not abandoned or reduced except with adequate justification and proper authority;
- ix. that cases pending in courts or before appellate authorities have been pursued adequately and




appeals, wherever justified or considered necessary, have been filed within the period of limitation; an

- x. that the estimates of revenue have been realized at the end of the financial. Fees, user charges or to authorize refunds;

Generally Audit department shall see that the internal procedures ensure correct and regular accounting of demands, collections, and refunds and that no amounts due to Government remain outstanding in its books without sufficient reason and that the claims are pursued with due diligence and are not abandoned or reduced except with adequate justification and with proper authority.

order by,

  
(S.N. Pandey)  
Secretary





**UTTARAKHAND  
REVENUE AUDIT MANUAL  
2022  
PART-I**

**AUDIT PROCEDURES AND AUDIT  
CHECKLIST**

**FINANCE DEPARTMENT  
GOVERNMENT OF  
UTTARAKHAND**

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## Preface

The Government of Uttarakhand collects Tax and Non-Tax revenues through its various departments and uses the proceeds in various sectors to stimulate the social and economic development of the State. The Tax and Non-Tax Revenue is a key component of the total receipts of State Government and therefore its assessment, demand, and collection shall be reviewed/audited adequately to strengthen the entire process and bridge the identified gaps in order to maximize the revenue collection of the State.

With the above objectives, this Revenue Audit Manual has been prepared to conduct the revenue audit of the State Tax Department, Excise Department, Stamp & Registration, Geology & Mining Department, and Forest Departments because these departments are major revenue contributors to the State.

This Manual shall be read in conjunction with the Uttarakhand Internal Audit Manual 2021 and other specific audit manuals which have been developed by the Government of Uttarakhand. The Manual would serve as guidance to the audit functionaries of the Directorate of Audit (DoA) and Audit Cell in conducting the revenue audit of the departments covered under this manual. The manual has been developed to achieve the following objectives.

- Practical guidance, tools, and information for conducting revenue audits of various departments using the risk-based approach in planning, executing, reporting, documentation, follow-up, and quality control assessment.
- Enhance revenue of the respective department through the reduction in tax evasion, reduction in cost and compliance, etc.
- Bring a systematic and disciplined approach to internal audit governance, risk management, and evaluation of internal control processes and assist the audit functionaries to meet the goal of adding value to the respective revenue departments.
- Enhance the quality and effectiveness of internal audit functions by paving the way to put into practice, procedures, and processes that confirms professional standards and best practices.

This manual has been divided into two parts, Part-I of the manual have been segregated into sections for each of the department and each section contain an introduction to the department, regulatory framework, sources of revenue and applicable provisions of the act and rules etc. together with the coverage of the entire audit life cycle viz. audit planning, audit execution, audit reporting & documentation, audit follow up compliance, and details audit checklists to be used in conducting revenue audit whereas Part-II of the manual would provide relevant reference material of the acts and rules which to be referred for conducting the revenue audit of the respective department.

**Changes to the manual:** This manual is supplementary to the rules, regulations, codes and other instructions issued by the Government of Uttarakhand. The Finance Department is expected to keep this manual updated and shall carry out a comprehensive review each year to improve or modify the contents of this manual including amendments in GST's respective laws, rules and regulations Law. This manual shall be read in conjunction with the government orders issued from time to time concerning the internal audit.

I would also like to express our gratitude to Shri Amit Singh Negi (Former Secretary, Finance), Shri Surendra Narayan Pandey-IAS (Director, Audit & Secretary In charge, Finance), Dr Ahmed Iqbal-IAS (Project Director and Commissioner Tax /Inspector General of Stamps and Registration), Shri B.C Tiwari (Deputy Project Director), Shri J. C. Joshi (Director CTRFA), Shri Khajan Chandra Pandey (Joint Secretary Finance Audit Cell), Shri Vipin Bihari Lal (Deputy Director Audit), Shri Sobhan Singh Nagnyal (Deputy Director, Audit), Shi Ramesh Mishra (Senior Audit Officer, Directorate of Audit), Shri Rajat Mehra (Audit Officer, Audit Cell), consultants and all other Officers of the Directorate of Audit who contributed extensively in the development of this Uttarakhand Revenue Audit manual.

A Special Note of Thanks to Director -General Mining and Geology , Inspector General Stamps and Registration , Commissioner State Tax and Excise, PCCF Forest and Managing Director Uttarakhand Forest Corporation and the officers of these Departments for providing their constant guidance and support, the Departments professionalism , guidance and support is highly appreciated .The suggestions provided by the World Bank Team have been pivotal in improving the quality and practicality of this Revenue Audit Manual.

I would be grateful for suggestions to bring about further improvements, if any, and for bringing to our notice any error, inaccuracy or omission for correction in the next edition.

Date: 28<sup>th</sup> October 2022

Place: Dehradun

**Anand Bardhan**  
**Additional Chief Secretary**  
**Finance**  
Government of Uttarakhand

## Structure of the Manual

This Revenue Audit Manual has been divided into seven sections. Each section consists of various chapters such as an introduction to the department, organization structure, regulatory framework, types of revenue, complete revenue audit life cycle and detailed audit checklist. While the important definitions and provisions of the acts and rules with respect to each of the revenue department has been provided in Part-II ‘**Reference Material**’. For conducting the revenue audit, the audit staff is expected to have basic knowledge of these relevant acts and rules of the respective department along with the audit procedure explained in this manual. The structure of the manual is provided in the table below:

Section	Heading	Chapter	Brief Description
1.	Introduction to Revenue Audit Manual	Chapter I and II	An Introduction to Revenue Audit Manual, Overview of types of revenue to the Government of Uttarakhand.
2.	State Tax Department: Goods & Service Tax (GST)	Chapter I to VII	Introduction of GST revenue, applicable regulatory framework, about the department, types of revenue, audit process and checklist for revenue audit
3.	State Tax Department: Value Added Tax (VAT)	Chapter I to VI	Introduction of VAT revenue, applicable regulatory framework, about the department, types of revenue, audit process and checklist for revenue audit
4.	Excise Department	Chapter I to V	Introduction of Excise revenue, applicable regulatory framework, about the department, types of revenue, audit process and checklist for revenue audit
5.	Stamp and Registration Department	Chapter I to V	Introduction to revenue from stamp and registration, applicable regulatory framework, about the department, types of revenue, agencies supporting the department, audit process and checklist for revenue audit
6.	Geology and Mining Unit	Chapter I to V	Introduction to revenue from geology and mining unit, applicable regulatory framework, about the department, types of concession in the mining sector, types of revenue, audit process and checklist for revenue audit
7.	Forest Department	Chapter I to VI	Introduction to revenue from the forest department, applicable regulatory framework, about the department, types of revenue, agencies supporting

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Section	Heading	Chapter	Brief Description
			the department, audit process and checklist for revenue audit

Table 1: Structure of the Audit Manual

# **Section 1: Introduction to the Revenue Audit Manual**

## Chapter I: Introduction to Revenue Audit Manual

### 1.1 About the Manual

1. The Directorate of Audit (DOA) is responsible for conducting an internal audit of the revenue departments in the State. This manual has been prepared to provide detailed guidance on the management of various functions involved at different stages of the revenue audit life cycle i.e. planning, execution, reporting, follow-up, documentation and quality assurance for internal audit engagements.
2. This manual shall be applicable for conducting revenue audits of the departments covered under this manual by the Directorate of Audit or other persons/agencies working on behalf of the Directorate of Audit. This manual shall be read in conjunction with the **Internal Audit** and other audit manuals prepared for specific areas such as performance audit, fraud and forensic audit manual etc. This manual broadly outlines the procedures for conducting revenue audits in various areas related to levy, collection, assessment, and demand of tax and non-tax revenue of the respective revenue departments.
3. This manual mainly focuses on the audit of receipts such as levy, collection, evasion, the pursuit of claims, assessment of internal controls administration, refund, assessments, rebates and other related areas of revenue generation departments.
4. The manual aims to provide guidance to the audit parties in conducting the revenue audit for assisting the departments in increasing their compliance with the Governance Structure and Internal Control system.
5. The content of this manual has been divided into two volumes.

<b>Part-I</b>	Detailed audit process covering the entire audit life cycle viz. audit planning, audit execution, audit reporting & documentation, audit follow up, compliance and audit checklists to be used in conducting revenue audit of the GST, VAT, Excise, Stamp & Registration, Geology & Mining and Forest Departments.  The revenue departments are contributing major part of revenue to the state and have been segregated in different sections such as introduction to the department, regulatory framework, sources of revenue and applicable provisions of the act and rules etc.
<b>Part-II</b>	This volume merely covers important definitions and relevant provisions of the act and rules that need to be applied in conducting revenue audit of the respective department mentioned above.

Table 2: Content of the Manual

## 1.2 Objectives of the Revenue Audit Manual

6. The objective of this manual is to provide the audit parties with a comprehensive overview of the procedures, guidelines and checklist which would assist them in conducting the revenue audit of major revenue departments covered under this manual. This manual shall outline that tax & non-tax revenue are adequately assessed, demands are raised, and amounts are collected in a timely manner by bringing a uniform and systematic risk-based approach. Thus, the objective of this manual is to ensure that:
- adequate regulations and internal procedures are in place to ensure an effective check on the assessment, collection of the revenues.
  - the applicable regulations and procedures have been implemented and adopted by the departments.
  - the department has assessed, collected and accounted for the revenues on time in the with the provisions of the act and rules.
  - the refunds and exemptions provided in line with the provisions of the acts and rules.

## 1.3 Applicability of the Revenue Audit Manual

7. This manual would be applicable for conducting revenue audit of the following departments:

Name of the Revenue Departments	Type of Revenue
State Tax Department	Tax Revenue (GST, VAT and Share in Central tax)
Excise Department	Tax Revenue (State Excise and share in central excise)
Stamp and Registration Department	Tax Revenue (Stamp duty and registration fee)
Geology and Mining Unit	Non-Tax Revenue (Product Sales, Fee, etc.)
Forest Department	Non-Tax Revenue (Product Sales, Fee, etc.)

Table 3: Applicability of this Audit Manual

8. The detailed audit procedures and audit checklist for conducting revenue audit of the above departments has been explained below in the respective section of this manual.

## Chapter II: Overview of the State Revenue in Uttarakhand

### 2.1 Types of Revenue Receipts

9. The revenue resources of the Government of Uttarakhand has been provided below.
- **Revenue Receipts:** consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the Government of India (GoI).
  - **Capital Receipts:** comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI.

Both revenue and capital receipts form part of the **Consolidated Fund** of the State

- **Net Public Accounts receipts:** there are receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances, etc. which do not form part of the Consolidated Fund. These are kept in the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker. The balance after disbursements is the fund available with the Government for use.
  - **The State's share in Central Taxes:** is determined on the basis of recommendations of the Niti Aayog; the share of Grants-in-Aid is determined by the quantum of collection of Central tax receipts and anticipated Central assistance for schemes, etc. The state's performance in the mobilization of additional resources is assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.
10. **Receipts of the State:** Besides the capital receipts and revenue receipts funds in the Public Accounts (net of disbursement made from it) are also utilised by the State to finance its deficit.



11. The below figure provides the key revenues of the State.

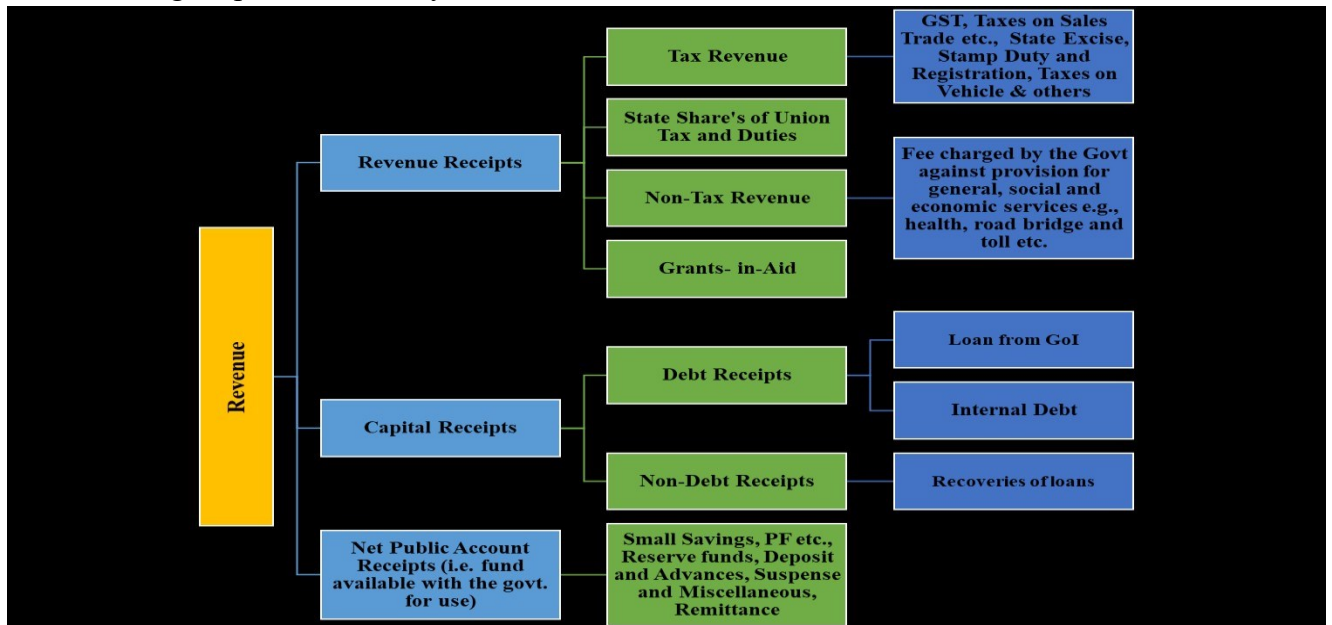


Figure 1: Key revenues of the State

## **Section 2: Goods & Service Tax (GST)**

**Abbreviations**

<b>CGST</b>	Central Goods and Service Tax
<b>DoA</b>	Directorate of Audit
<b>GST</b>	Goods and Services Tax (GST).
<b>HMM</b>	Half Margin Memo
<b>IGST</b>	Integrated Goods and Service Tax
<b>ISD</b>	Input Service Distributor
<b>ITC</b>	Input Tax Credit
<b>LUT</b>	Letter of Undertaking
<b>OAMS</b>	Online Audit Management System
<b>SEZ</b>	Special Economic Zone
<b>SGST</b>	State Goods and Service Tax
<b>UTGST</b>	Union Territory Goods and Service Tax

**Structure of this Section**

12. This section consists of the following chapters:

Chapter No.	Heading	Brief Description
<b>Chapter – I</b>	Introduction	Includes background, objective, and purpose for the revenue audit of GST in State Tax Department
<b>Chapter – II</b>	Regulatory Framework	Includes legislative framework of GST, Salient features of GST and applicable Acts and Rules
<b>Chapter – III</b>	Organisation Structure of State Tax Department	Includes Organisation Structure and objective of State Tax Department with respect to GST
<b>Chapter – IV</b>	Important provisions of the Act and Rules	Includes some of important points for revenue audit of GST in State Tax Department
<b>Chapter – V</b>	Revenue from GST	Includes various types of revenue such as GST, interest, penalties, Flow of revenue, matters for audit consideration and identification of key area and risk associated to GST
<b>Chapter – VI</b>	Audit Process	Includes point of special consideration during audit process of revenue audit of GST in State Tax Department This chapter shall be read in conjunction with Internal Audit Manual, Volume I and shall be supplementary to Internal Audit Manual, Volume I.
<b>Chapter – VII</b>	Audit Check list and Annexure	Includes audit checklist and annexures

Table 1: Structure of this Section

## Chapter I: Introduction to Goods and Services Tax (GST)

### 1.1 Background

13. The Goods and Service Tax (GST) is an integrated scheme of taxation for goods and services in an efficient and harmonized consumption-based tax system. After the introduction of Goods and Service Tax (GST) i.e. with effect from 1 July 2017, many Central, as well as State Indirect Taxes such as Central Excise Duty, Additional Excise Duty, Service Tax, Additional Customs Duty communally, known as Countervailing Duty, Special Duty of Customs, Value Added Tax ( VAT), Sales Tax, Entertainment Tax (other than the tax levied by local bodies) Central Sales Taxes (Levied by the Central and collected by the States), Octroi and Entry Tax, Purchase Tax, Luxury Tax, and Tax on Lottery, Betting and Gambling have been subsumed except the followings:
- **Alcohol for Human Consumption:** The power to levy and collection of tax on alcohol for human consumption remains with the states.
  - **Petroleum and Petroleum Products:** The GST is not imposed on five petroleum products viz crude oil, diesel, petrol, natural gas and Aviation Turbine Fuel (ATF). However, the petroleum and petroleum products shall be subject to levy of GST with effect from such date as may be notified by the Government on the recommendation of the *Goods and Services Tax (GST) Council*.
14. Under GST, tax is levied at each stage of the supply of goods and services, right from the manufacturer to the consumer with a set-off of credit of tax paid at each previous stage (called input tax credit) to nullify the cascading effect of multiple taxations.
15. However, there are some exceptions on Indian Railways Tickets, where instead of the destination, the origin of the journey is taken into consideration e.g. if Rajdhani Express is registered in Delhi, on the tickets from Delhi, CGST and SGST will be levied, while IGST will be charged when the journey originates at a place other than Delhi.

### 1.2 Objectives of the GST Audit Manual

16. As Goods and Service Tax is a trust-based regime wherein the taxpayer is required to self-assess his self-tax liability and pay the same. Therefore, the officials of the state tax department are required to examine returns, records and other documents maintained by the taxpayers in order to ensure the correctness of tax collection and level of compliance with Uttarakhand Goods and Service Tax, 2017 and Uttarakhand Goods and Service Rule 2017. Thus, the main objective of this manual is to ensure.
- Whether the department is discharging its role and responsibility towards levy, collection and accounting for GST revenue.
  - Whether refund, assessment, or exemption have been made in line with provisions of the Acts and Rules governing the GST.

- Whether the department takes prompt action on the red flags reports based on the taxpayers' audit reports an otherwise.
- Whether the department scrutinizes sufficient taxpayer data in order to ensure the correctness of the turnover declared by the taxpayer, discharge of the tax liability and compliance with the provisions of GST Acts and Rules.
- The manual also aims to bring a uniform and systematic risk-based approach to conducting an internal audit of Goods and Service Tax revenue through a clearly defined audit process.

## **Chapter II: Regulatory Framework**

### **2.1 Legislative Framework**

17. There is single legislation, Central Goods and Service Act, 2017 (CGST) for levying CGST. Similarly, Union Territories without State legislatures (Andaman and Nicobar Islands, Lakshadweep, Dadra and Nagar Haveli and Daman and Diu, Ladakh and Chandigarh) will be governed by UTGST Act, 2017 for levying UTGST. States and Union territories with their own legislatures (Delhi and Puducherry) have to enact their own GST legislation for levying SGST. Though there would be multiple SGST legislations but the basic features of law, such as chargeability, the definition of taxable event and taxable person, classification and valuation of goods and services, the procedure for collection and levy of tax would be uniform in all the SGST legislation, as far as feasible. This would be necessary to preserve the essence of dual GST.

### **2.2 Goods and Service Tax Council**

18. Articles 279A of the Constitution empowers constitution of GST Council. The council shall function under the Chairmanship of the Union Finance Minister and includes the State Union Minister of State in charge of revenue or finance and the Minister in charge of Finance or Taxation or any other Minister nominated by each State Government as its members. The responsibility of the GST council is to examine issues relating to Goods and Service Tax and make a recommendation to the Union and the States on various parameters like rates, exemption list, threshold limits and special provisions with respect to special category states which include Uttarakhand also. All the decisions of the GST Council are to be made by three-fourth majority of the weighted votes cast; the center shall have one-third of the weighted votes cast, and the states together shall have two-third of the weighted votes cast.

### **2.3 Model of Goods and Service Tax in India**

19. Keeping in mind the federal structure, India has adopted dual GST which is imposed concurrently by the Centre and States i.e. Centre and States simultaneously tax goods and services across the value chain. Centre collects the Central Goods and Service Tax (CGST) and States collect the State Goods and Service Tax (SGST) on all transactions that happen within the state. The input tax credit of CGST will be available for discharging the CGST liability on the output at each stage. Similarly, the input tax credit of SGST will be available for discharging the SGST liability on the output at each stage. No cross utilization of credit is permissible. Below figure provides working of the Dual GST model within the State.



Figure 1: Dual GST Model

20. However, in the case of interstate transactions, the center levy and collects Integrated Goods and Service Tax (IGST) on all interstate supplies of goods and services under Article 269A (1) of the constitution. The IGST would be equal to CGST plus SGST. The IGST mechanism has been designed to ensure a seamless flow of Input Tax Credit from one state to another. In interstate sale, the inter-state seller pays IGST on the sale of goods to the central government after adjusting the input tax credit of IGST, CGST and SGST on his purchase (in this order only) and the exporting state transfers to the center the credit of SGST used in payment of IGST. The importing taxpayer claims the credit of IGST while discharging his output tax liability (both CGST and SGST) in his state. And finally, the Center transfers to the importing State the credit of IGST used in the payment of SGST. Since the GST is a **Destination-Based Tax**, all SGST on the final product ordinarily accrues to the consuming State. The below figures provides the working of the IGST model for the Inter-State transactions.



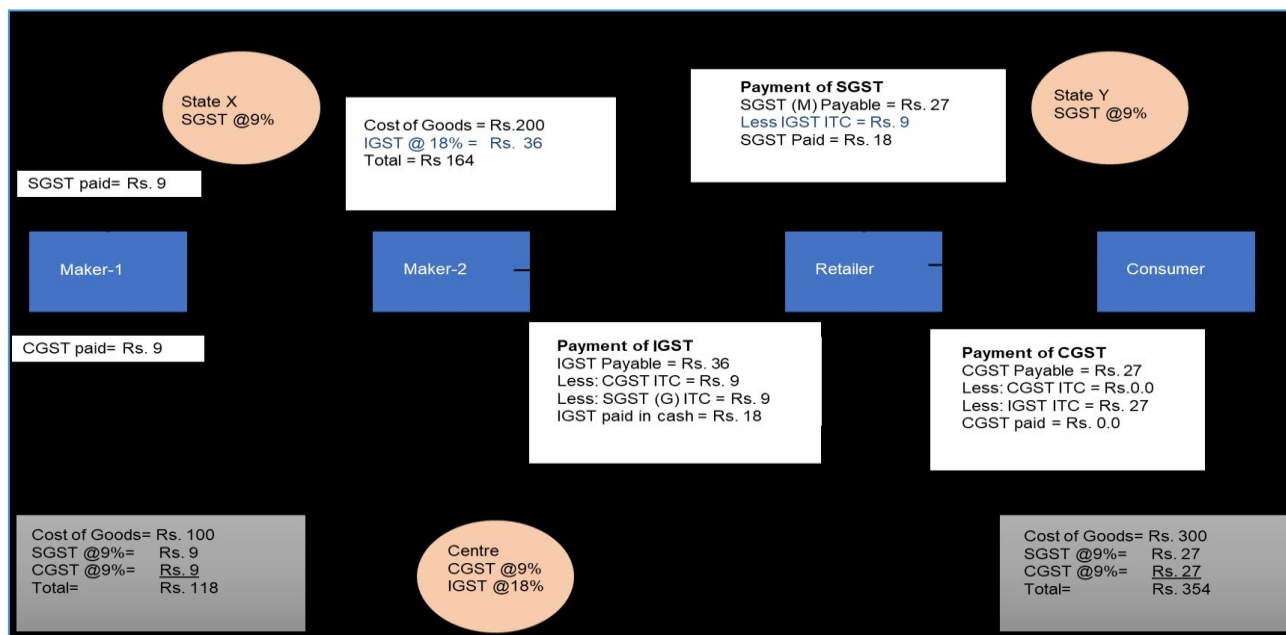


Figure 2: IGST Model for Interstate Transactions

*Note: Import will be treated as interstate supply and IGST will be chargeable along with basic custom duty. Export and SEZ supplies are treated as Zero Rated Supplies and no IGST is leviable if such supplies are against bond or letter of undertaking (LUT).*

21. The Order of setting of Input Tax Credits<sup>1</sup>(ITC) is provided in the below table:

Output Liability	Set Off with ITC in the following order	
	Upto 31.01.2019	After 01.02.2019
IGST	IGST	IGST
	CGST	CGST
	SGST	SGST
CGST	CGST	IGST
	IGST	CGST
SGST	SGST	IGST
	IGST	SGST

Table 2: Order for Setting of Input Tax Credit

*Note: With effect from 01.2.2019, IGST ITC must be first set off entirely and then only ITC of CGST and SGST can be used as shown in the above table. However, ITC Set off between CGST and SGST is not allowed. Further, SGST ITC can be utilized towards payment of IGST liability only where the balance of the CGST ITC is not available for payment of integrated tax. Further, the auditor needs to update with the latest amendment while conducting the GST Audit.*

<sup>1</sup> Section 17(5)

## 2.4 Salient Features of Goods and Service Tax Network

22. To provide shared IT Infrastructure and services to Central, State Governments, taxpayer, and other stakeholders, the Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government company. The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers and shared infrastructure and services to the Central and State Governments. The main function of the GSTN is as under:

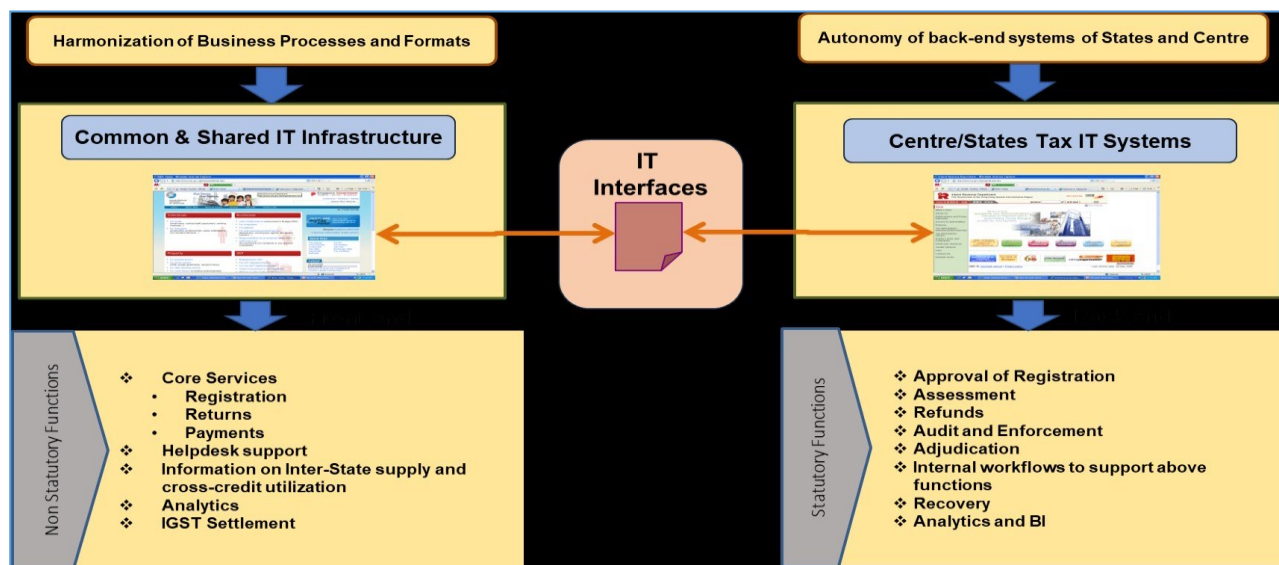


Figure 3: Features of GST network

## 2.5 Applicable Act and Rules

23. This manual is governed by the following Acts, Rules, Guidelines, and notifications issued by the Government of Uttarakhand and GST Council from time to time. The internal auditor who involve in GST revenue audit is expected to have good understanding of the provisions of these documents:
- Uttarakhand Goods and Service Tax Act, 2017,
  - Uttarakhand Goods and Service Tax Rules, 2017; and
  - Notifications, Circulars issued by the State Government from time to time.
  - Circulars/Clarifications issued by the GST Council.

## 2.6 Important Definition and Provisions of the Act and Rules

24. The important definition and Provisions of the Act and Rule related to the GST revenue has been provided in Part-II of this manual. **Refer Part-II, Reference Material, Section-I for details.**

## Chapter III: Organisation Structure of the State Tax Department

### 3.1 Organisation Structure of State Tax Department <sup>2</sup>

25. The organization structure of State Tax department is provided below:

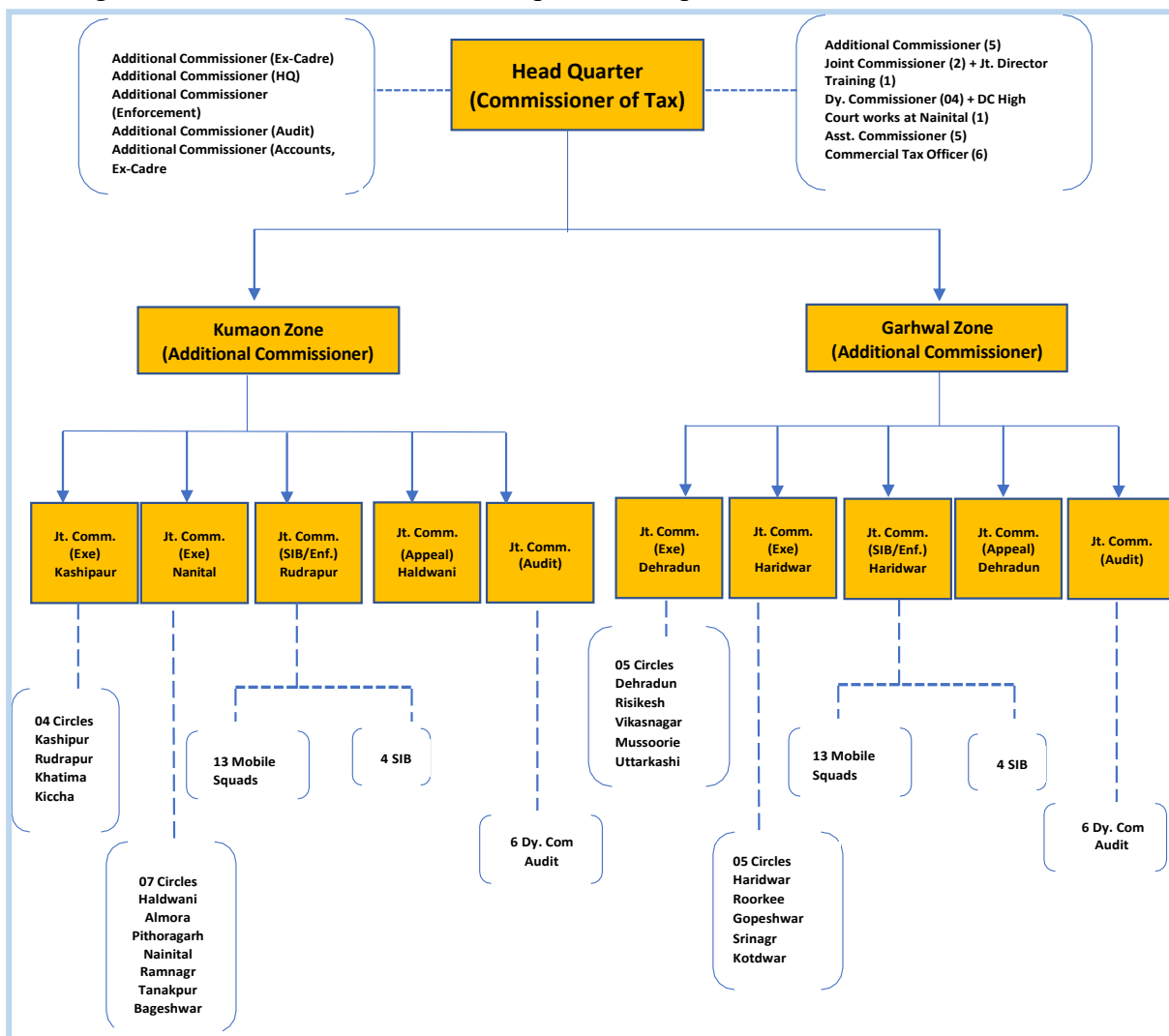


Figure 4: Organization Structure of the State Tax Department. The above structure is subject to change due to functional realignment.

<sup>2</sup> From the website of GST Department

## 3.2 About State Tax Department

26. The Commissionerate functions under the Finance Department of the Government of Uttarakhand. The Commissioner of Tax is **the Administrative Head of the Department** and most of the powers have been vested in him as per Uttarakhand GST Act, 2017. He has jurisdiction over the whole of the State and has officers of various designations to assist him in the discharge of office functions. The Commissioner is responsible for enforcement of the GST in Uttarakhand and he is responsible for work distribution among the officers and taking any action against them in case any of them fails to discharge the work assigned to them.
27. The Commissioner of Taxes is assisted by Additional Commissioners of Taxes, Joint Commissioner of Taxes at headquarters. The State is divided into two zones headed by the Additional Commissioner including 21 Circles, 15 mobile squads, and 08 Special Investigation Branch who are given the responsibility to supervise the work under the GST Act.

## 3.3 Objectives of the State Tax Department

28. The State Tax Department is responsible for:
  - (i) Proper enforcement of the Uttarakhand Goods and Service Tax Act and Rules, 2017
  - (ii) Levy and Collection of GST revenue from taxable persons.
  - (iii) Check on the tax evasion and take immediate action against the persons involved in violation of the provisions of the Act.
  - (iv) Smooth Operation of a trade by way of grating registration, assessment and providing facilities to the taxpayers for ease of doing business.

## Chapter IV: Important Points to be Considered under GST Audit

29. The relevant provisions of the GST Act and Rules, 2017 have been briefly explained in Part-II of the manual with the examples for quick reference. However, audit parties is expected to be updated with the relevant provisions of GST Act, Rules, latest notifications/circulars, and pronouncements of the GST Council from time to time before start of the GST revenue audit. **Refer Part-II, Reference Material, Section-I for details.**

## Chapter V: Types of Revenue Under GST

### 5.1 Types of Revenue Under GST

30. The main source of revenue under Goods and Services Tax is GST and other revenues such as interest, late fee & penalty. Which has been provided as under.

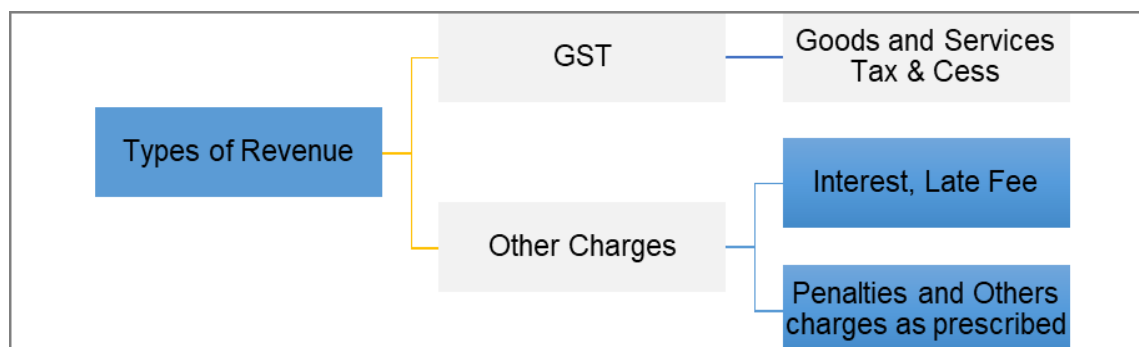


Figure 5: Types of revenues under Goods and Service Tax

### 5.2 Setting the Context before Start of the GST Revenue Audit

31. Before, proceeding to start the GST revenue audit. The audit parties is expected to obtain basic understanding of the following reports and terminologies. Understanding these reports and terminologies would enable them to understand the roles and responsibilities of the GST Department towards the administration, levy and collection of the GST revenue in the State.

S. No.	Documents	Broad Head	Reference
1	Red Flag Reports generated by the system	Red Flag Reports	5.2.1
2	Annual Return and Reconciliation Statement	Audit by Tax Authorities	5.2.2.1
3	Scrutiny of returns done by proper officer		5.2.2.2
4	Audit Report of Tax Authorities		5.2.2.3
5	Special Audit Report of Nominated Chartered Accountant or Cost Accountant		5.2.2.4
6	Best Judgement Assessment by the Proper Officer	Assessment	5.2.3.2
7	Summary Assessment by Departmental Authorities		5.2.3.1
8	Show cause Notices issued by the State GST Department	Follow up action by the department	5.2.4
9	Recovery Notices Issued by State GST Department		
10	Appeal filed by the Department against demand contested by taxpayers		

Table 3: Setting the context for conducting GST revenue Audit

32. The above documents/reports has been summarised under the following broad heads.

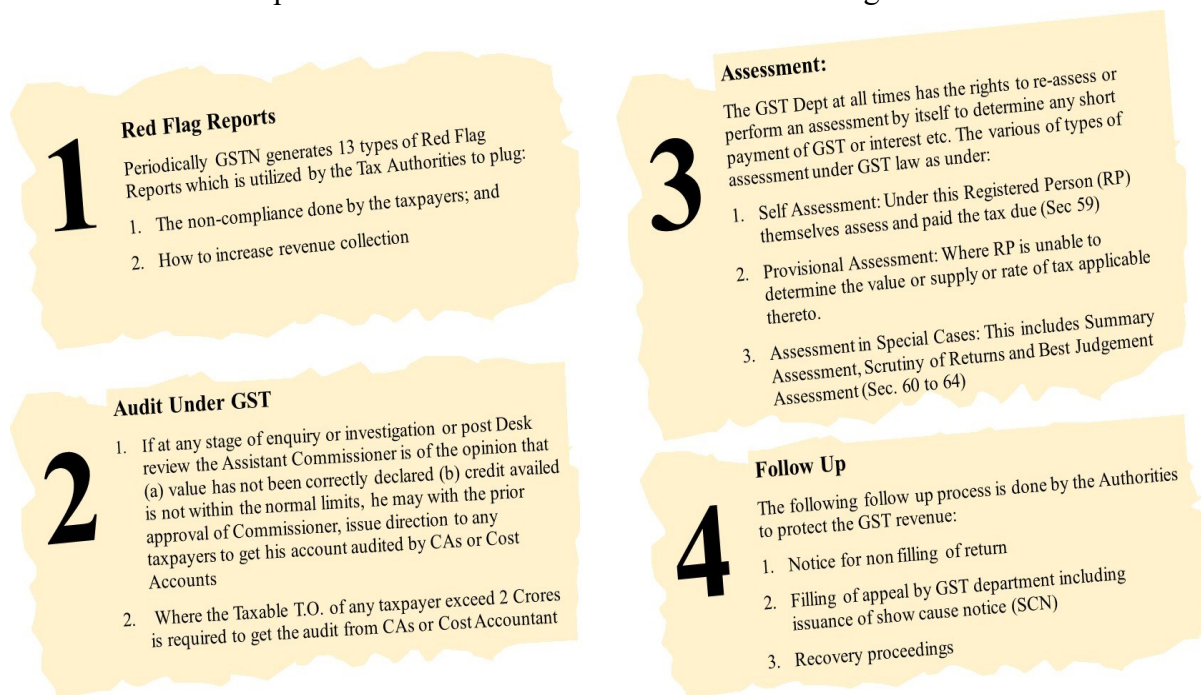


Figure 6: overview on control of GST Revenue

### 5.2.1 Red Flag Reports Generates by GSTN

33. Periodically the GSTN portal generates the various type of mismatch reports and these reports are called the “Red Flag Reports”. These reports enable the State tax department to identify potential revenue leakages and ensure compliance by the taxpayers. Based on these “Red Flag Report” generated by the GST Portal, the department carries out further compliance checks. Therefore, before the start of revenue of the GST department, it is important for the audit parties to obtain a clear understanding of these various types of “Red Flag Reports generated by the GSTN portal and its objective with respect to revenue and compliance. Additionally, the audit parties are also required to verify the action taken by the department on these “Red Flag Report” and its outcome. The various type of red flag reports generated by the GSTN portal has been provided below:

S. No.	Name of the Report
1.	Taxpayers who have not filed GSTR-3B for the Return period
2.	Mismatch in liability declared in R-1 and R-3B for the period
3.	Mismatch in liability declared in E-way Bill and that in R-3B for the period
4.	All Registered Taxpayers who never filed R-3B and registered on or before 1 <sup>st</sup> day of July 2017
5.	Taxpayers who have not filed at least three R-3B and figuring in 2A for the return period
6.	Taxpayers who have not filed R-3B but generated E-way bill
7.	Number of Taxpayers who have filed R-1 but not R-3B for return period

8.	Mismatch report R-2A v/s R-3B for the period
9.	Non- migration of eligible taxpayers to GST
10.	Non- disposal of GST Refund Cases
11.	Non- Submission of Final Return by a person who has cancelled his GST registration
12.	Non-Crediting of rejected amount of refund to Electronic credit Ledger and non-issuance of Demand notice for recovery
13.	Excess credit of Transitional Credit

Table 4: Types of Red Flag Reports generated by the GSTN portal

### 5.2.2 Audit by Tax Authorities

34. To maintain check and balance, the tax authorities examine whether correct GST is being paid and the refund is claimed, certain registered persons are subject to audit under GST law. The audit under GST is the process of examination of records, returns and other documents maintained by the taxpayers. The purpose of this audit is to verify the correctness of **turnover declared, taxes paid, refund claimed, and input tax credit availed**, and to assess the compliance with the provisions of GST law. Thus, at any stage **scrutiny U/S 61 may be initiated if the** Assistant Commissioner is of the opinion that:

- i. Value of turnover has not been correctly declared by the taxpayers.
- ii. Credit availed is not within the normal limits

35. Officer not below rank of ‘**Assistant Commissioner**’ may with the prior approval of the **Commissioner**, issue direction to any taxpayers to get his account audited by Chartered Accountants or Cost Accountants as may be nominated by the Commissioner the Taxable Turn Over of any taxpayer exceed INR 5<sup>3</sup> Crores in the financial year is required to get the audit of its taxable turnover from Chartered Accountants and Cost Accountants.

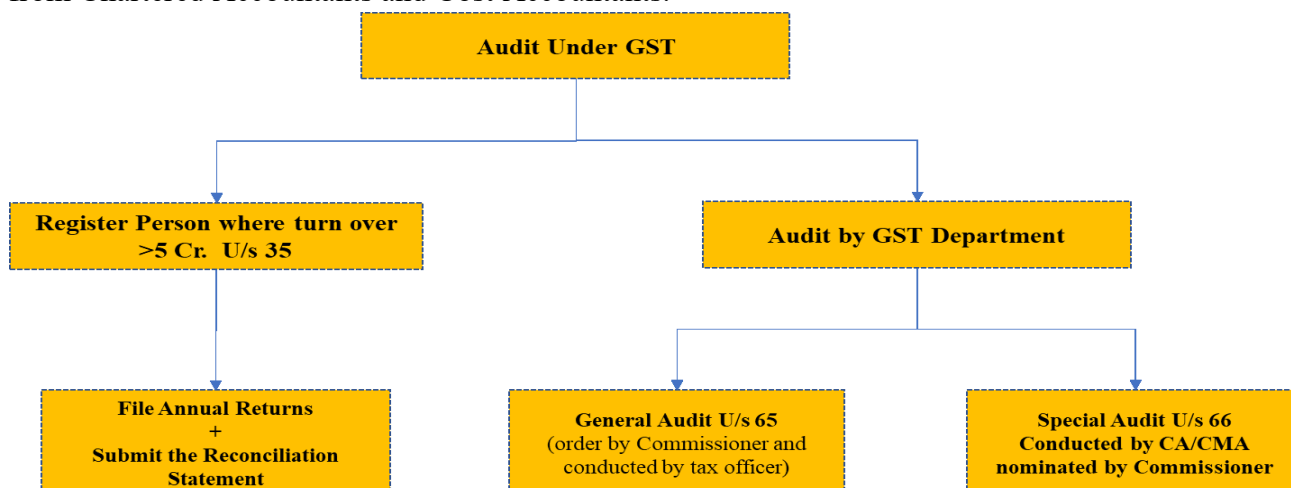


Figure 7: Different Types of Audit under GST law.

<sup>3</sup> Current limit is INR 5 Crores, the audit parties is suggested to refer the latest limit for this purpose.



### 5.2.2.1 Annual Return and Audit <sup>4</sup>

36. Under GST law, every registered person except as provided specifically is required to furnish an Annual Return in **Form GSTR-9**<sup>5</sup>. In addition, if aggregate turnover during a financial year exceeds INR 5 <sup>6</sup> Crores then an audit is also required to be carried out and a reconciliation statement in **Form GSTR 9C**<sup>7</sup> duly certified by a chartered accountant or cost accountant is also required to be furnished. **Form GSTR-9C** is essentially a reconciliation statement of the turnover, input tax credit and tax payment reported in GST annual return vis-a-vis annual books of accounts. However, this audit is not required in the following cases<sup>8</sup>:

- In the case of a department of the Central/State Government whose books of account are subject to audit by the Comptroller and Auditor-General of India (C&AG).
- In the case of a local authority whose books of account are subject to audit by an auditor appointed for auditing the accounts of local authorities under any law for the time being in force.

**The above provision stands removed. The change has been applicable from FY 20-21 onwards. Requirement of reconciliation certificate, in form GSTR-9C still exists but in form of Self Certification by a registered person whose turnover is more than 5 Cr.**

37. The Form which is used by the taxpayer to submit the audit report is provided below.

<sup>4</sup> Section 35(5), Section 44, Rule 80(3)

<sup>5</sup> Para A5(5)

<sup>6</sup> At present, please refer the latest limit

<sup>7</sup> Para A5(6)

<sup>8</sup> Inserted vide Central Goods and Services Tax (Amendment) Act, 2018 w.e.f. 01-02-2019

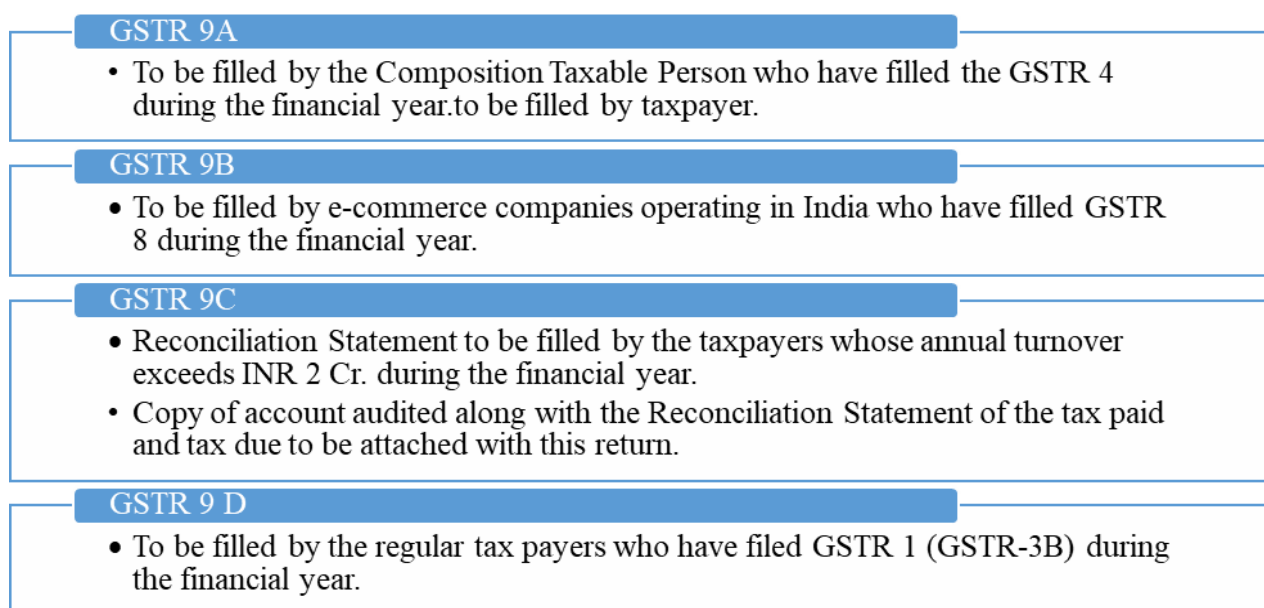


Figure 8: Different Forms to be used for submission of Audit report.

38. While conducting GST audit, the audit parties is required to examine the records, returns and other documents maintained or furnished by the taxpayers not only under GST law but also under any other law for the time being in force to verify the correctness of turnover declared, taxes paid, refund claimed, and input tax credit availed by him. The audit staff is also required to assess the compliance by the registered person with the provisions of GST law.
39. If the registered person while preparing Annual Return in GSTR 9, notices any under reporting, non-reporting or wrong reporting of turnover, short/non-payment of taxes, erroneous claim of refund or excess/wrong claim and utilisation of ITC, he may *Suo-moto* report the additional liability arising out of this in GSTR 9 and pay the tax along with interest through **DRC-03**<sup>9</sup> i.e. Demand and Recovery Challan. In case additional liability is not reported as such or after reporting payment is not made through DRC-03, the GST auditor is required to report the same in GSTR 9C.

#### 5.2.2.2 Scrutiny of Annual Returns and Audit by GST Department

40. The jurisdictional officer needs to examine whether additional tax liability reported in either GSTR9 or GSTR9C have been actually paid or not through DRC-03. The jurisdictional officer prepares a summary report containing tax payer-wise details of revenue detected, actual payment made through DRC-03, amount still due as on the date of report. In case payment has not been made, the jurisdictional officer should follow up with the taxpayers for payment. In case of non-compliance by

<sup>9</sup> Para A5(8)

the taxpayer, a show cause notice U/s 73/74 is issued. The detailed activities undertaken by the department on receipts of the GST return filed by the taxpayers is as under.

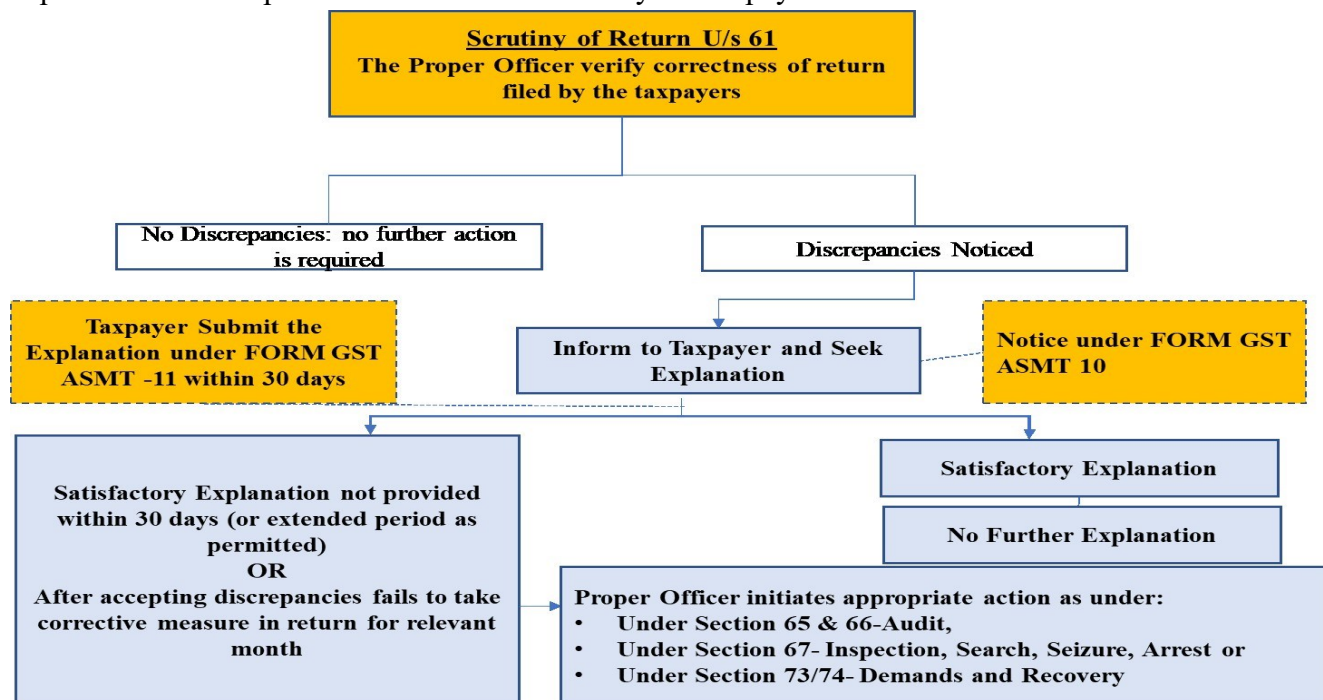


Figure 9: Activities undertaken by the department on receipts of return filled by the tax payers.

41. Process related scrutiny of return is provided below:

- i. Scrutiny of Returns<sup>10</sup>:** Where any return is furnished by a registered person is selected for scrutiny, the proper officer may scrutinize the said return and related particulars with reference to the information available with him to verify the correctness of the return field.
- ii. Intimation of Discrepancy:** If he notices any discrepancy in the return, he shall issue a notice in **FORM GST ASMT-10<sup>11</sup>**, informing such person of the discrepancy and seeking his explanation thereto within thirty (30) days from the date of service of the notice or such further period as may be permitted by him. He may also, where possible, quantify the amount of tax, interest and any other amount payable in relation to such discrepancy.
- iii. Acceptance of Discrepancies or furnishing of Explanation:** The registered person may accept the discrepancy and pay the tax, interest etc. and inform the same or furnish an explanation for the discrepancy in **FORM GST ASMT- 11<sup>12</sup>** to the proper officer.
- iv. Satisfactory Explanation or Information:** Where the explanation furnished or the information submitted is found to be acceptable, the proper officer shall inform the registered person in **FORM GST ASMT-12<sup>13</sup>** and no further action shall be taken in this regard.

<sup>10</sup> Section 61, Rule 99

<sup>11</sup> Para A5(13)

<sup>12</sup> Para A5(14)

<sup>13</sup> Para A5(15)

**v. Unsatisfactory Explanation or Failure to Take Corrective Measures:** However, if no satisfactory explanation is furnished within the said period or where the registered person, after accepting the discrepancies, fails to take the corrective measure in his return for the month in which the discrepancy is accepted, the proper officer may initiate appropriate action including those under section 65 (Audit by tax authorities) or section 66 (Special audit by Chartered accountant or Cost accountant) or section 67 (Inspection, Search and Seizure) or proceed to determine the tax and other dues under section 73 or section 74.

42. How the department select the files for scrutiny is provided below:

Step-1	<b>Selection of Returns for Scrutiny:</b> Selection of returns for scrutiny is to be based on specific risk parameters decided by the Department or instructed by the CBIC <sup>14</sup> . Based on the identified parameters State Tax Department may consider selection of taxpayers for security of returns ( this shall be done at the centralized level). List of the selected taxpayers will be shared with field functionaries/ zone/ circle/ ward etc.	
Step-2	Base on the above shared list field functionaries/ zone/ circle/ ward etc. will take the following action.	
Forms	ASMT-10 (Notice to Taxpayer)	A scrutiny notice is issued in Form ASMT-10 intimating discrepancies in GST return along with tax, interest and penalty if any.
	ASMT-11 (Taxpayer Response)	Response from Taxpayer
	If taxpayer's response is NOT satisfactory	<b>Proper officer shall the following options</b> <ul style="list-style-type: none"> <li>▪ Initiate the proceedings u/s 74 &amp; 74</li> <li>▪ Recommend the cases to initiate proceedings</li> </ul>
	ASMT-12	If the reply satisfies the officer, the taxpayer is intimated, and the proceedings are dropped without any further action in form ASMT-12 (an order of acceptance of reply). Otherwise, further action can be taken by the GST officer
<b>The Illustrative list of parameters which is normally considered by the department/ CBIC for selection of returns for scrutiny is provided below.</b>		
1. Tax liability on account of “Outward taxable supplies (other than zero rated, nil rated and exempted)” and “Outward taxable supplies (zero rated)” as declared in table 3.1(a) and table 3.1(b) respectively of FORM GSTR-3B may be verified with corresponding tax liability in respect of outward taxable supplies declared in table 4 (other than table 4B), table 5, table 6, table 7A(1), table 7B(1), table 11A and table 11B (along with the net effect of amendments thereof in Table 9, 10 and 11(II)) of FORM GSTR-1.		

14 CBIC notification reference: CBIC-20006/4/2022-GST, Instruction No-02/2022-GST dated 22.03. 2022

2. Tax liability on account of “Inward supplies (liable to reverse charge)” as declared in Table 3.1(d) of FORM GSTR-3B
3. ITC availed in respect of “Inward supplies from ISD” in Table 4(A)(4) of FORM GSTR-3B may be verified with Table 7 (along with the net effect of amendments thereof in Table 8) of FORM GSTR2A.
4. ITC availed in respect of “All other ITC” in Table 4(A)(5) of FORM GSTR-3B may be verified with Table 3 and Table 5 (along with the net effect of amendments thereof in Table 4 and Table 6 respectively) of FORM GSTR-2A.
5. It may be verified that the taxable value declared on account of “Outward taxable supplies (other than zero rated, nil rated and exempted)” in Table 3.1(a) of FORM GSTR-3B is not less than the net amount liable for **TCS and TDS** credit as per Column 6 of Table 9 of FORM GSTR-2A.
6. Liability on account of outward supplies in Table 3.1(a) and 3.1(b) of FORM GSTR-3B should be verified with the Tax liability as declared in e-way bills.
7. Claim of ITC in respect of supplies from taxpayers whose registrations have been cancelled retrospectively.
8. Ineligible ITC availed in respect of invoices / debit notes issued by the suppliers who have not filed their GSTR-3B returns for the relevant tax period.
9. Whether GSTR-3B of a tax period is filed after the last date of availment of ITC in respect of any invoice / debit note as per section 16(4). In such cases, no ITC shall be availed in the return.
10. ITC availed in respect of “Import of goods” in Table 4(A)(1) of FORM GSTR-3B may be verified with corresponding details in Table 10 and Table 11 of FORM GSTR-2A.
11. Whether the registered person has made reversals of ITC in accordance with provisions of rule 42 and rule 43 of the CGST Rules.
12. Whether the registered person has paid interest liability in terms of section 50. Covered in
13. Whether the registered person has paid late fee in terms of section 47 in respect of returns/statements.

### 5.2.2.3 General Audit

43. The Commissioner (or any officer authorized by him) may undertake audit of any registered person. The audit may be undertaken for a financial year or part of the financial year or multiple financial years put together. A prior notice of at least 15 days in advance is required to be sent by the proper officer<sup>15</sup> to the register person in **Form GST ADT-01**<sup>16</sup>. The audit may be conducted at the place of the business of the registered person or in the office of the proper officer.
44. In case the Registered Person does not respond to the letter, a reminder should be issued within reasonable time. In case the registered person does not volunteer to submit the same on the basis of letters issued by the auditor, another letter should be issued giving details of penal provisions contained in Section 122, 123 and 125 of GST Act. should be taken but if the taxpayer does not respond to ADT-01. Then the demand U/S 74 need to be issued for the protection of revenue. . As

<sup>15</sup> 'Proper officer' as per CGST Act means Deputy or Asst. Commissioner of Central Tax (As per Circular No. 3/3/2017-GST dt. 5.7.2017)

<sup>16</sup> Para A5(11)

per section 35, the taxpayer is required to keep books of accounts at his principal place of business. As per section 155 of the GST act the burden of proof of ITC is with the taxpayer. As per explanation 2 of section 74, If the taxpayer does not give information as demanded by officer, then it amounts to suppression. Therefore, demand U/S 74 need to be issued thereby denying whole ITC U/S 16 of GST act, creating maximum demand of outward supply and if any refund is there, then it is to be treated as erroneous refund. Penalty U/S 122 and interest U/S 50 of GST act need to be proposed in the SCN issued under section 74. However, in case the Registered Person fails to comply, then action under above sections may be taken and a self- contained note may be sent to the Commissioner for taking appropriate/necessary action against the Registered Person. The details of such registered persons should be forwarded to the respective zonal units for inclusion in the Risk Parameters, so that in future the said person may be identified for audit on priority. Details of said person may also be provided to the concerned authorities to downgrade his GST compliance ratings.

- i. **Audit Duration:** The audit is required to be completed within 3 months (further extendable for 6 months) from the date of the commencement of the audit. The expression “commencement of audit” here mean the date on which the records and other documents, called for by the tax authorities, are made available by the registered person or the actual institution of audit at the place of business, whichever is later.
- ii. **Conduct of Audit:** Departmental auditor is required to carry out the audit of the registered person in accordance with the procedures described in the GST audit manual. These procedures involve the following steps:
  - Review of taxpayer’s data.
  - Intimation to registered person before commencement of audit.
  - Desk Review.
  - Audit Plan.
  - Audit Verification.
  - Preparation of audit report and follow up.
- iii. **Desk Review:** After review of the taxpayer’s data maintained in the audit utility **Taxpayers at a Glance (TAG)** and intimation sent to him in **ADT-1** at least 15 days before the commencement of the audit. Desk review is done by the audit wing of the GST department which is most important stage of the audit exercise. During the desk review, the audit wing will collate the following information.

A. General Details		Response	
01.	Name & address of Principal Place of Business of the taxpayer	:	
02.	Name and contact number of the authorized person for Audit	:	
03.	GST Registration No. & Date of registration	:	
04.	Detail of other GST registration in the State	:	

A. General Details		Response
05.	Whether the assessee is also registered as an Input Service Distributor?	:
06.	Status of assessee (Proprietorship, Partnership, Limited liability Partnership firm, Pvt. Ltd Company, Public Limited Company?)	:
07.	Detail of GST registrations held in other States	:
08.	List of Related Parties as defined in Section 15 along with their address	:
09.	Brief note on the nature of business of the Company	:
<b>B. Detail of Output Tax</b>		
10.	Brief note on the nature of supplies made by the taxpayer	:
11.	List of Top 10 goods and/or services supplied during the period of audit along with their HSN codes and amount.	:
12.	Details of Taxable Supplies received for which tax must be paid under reverse charge	:
13.	Details of agreements entered with service recipients for providing services	:
14.	Details of exemptions availed, if any, and relevant entry and notification No.	:
15.	Whether any Supplies have been exported during the year.	:
16.	Detail of income netted from expenses if any	:
17.	Detail of reimbursements received and not shown in income separately, if any	
18.	Whether any advance payment is received towards providing taxable supplies. If yes, whether tax is paid on such receipts?	:
<b>C. Detail of Input Tax</b>		:
19.	List of Top 10 input services on which Input Tax Credit was availed along with their HSN Codes and amount?	:
20.	List of Top 10 inputs on which Input Tax Credit was availed along with their HSN Codes and amount?	:
21.	List of Top 10 capital goods on which Input Tax Credit was availed along with them HSN Codes and amount?	:
22.	Whether any transitional credit availed? If so, details thereof.	:
<b>D. Valuations</b>		
23.	Whether supplies have been made to related parties. If yes, details thereof	:
24.	Whether the company engage itself in contracts of supply	:

<b>A. General Details</b>		<b>Response</b>	
	and installation of any kind? If yes, brief note thereon.		
<b>E.</b>	<b>Other Points</b>		
<b>25.</b>	Whether any offence case is booked in respect of GST, Service Tax, Central Excise, Income Tax, VAT/ Sales Tax. If so, details thereof.	:	
<b>26.</b>	Detail of GST Audit/Anti evasion undertaken by department in last 5 years.	:	
<b>F.</b>	<b>Accounts and Records</b>		
<b>27.</b>	Accounting Software name and version	:	
<b>28.</b>	In case of multi-location entity, whether accounts maintained through Centrally managed ERP or independently at individual location	:	
<b>29.</b>	List of records maintained in respect of GST	:	
<b>30.</b>	List of ledgers maintained in books of accounts as relevant from GST computation	:	
<b>31.</b>	Whether any periodical report/statement is furnished to any State/ Central Govt. / Authority/ Regulatory bodies? If yes, details thereof.	:	

Table 5: Template for Desk Review

- iv. In addition to above, to carry out a detailed analysis, following documents are also called for from the taxpayers or retrieved from the GSTN portal:
- GST returns with copy of E-Cash Ledger and E-Credit Ledger
  - Audited financials for the period under review along with copy of detailed Trial Balance
  - Company's Internal Audit Report, if any.
  - Tax Audit Reports (including all Annexures) conducted under Sec 44AB of the Income Tax Act, 1961.
  - Cost Audit Reports (including all Annexures) conducted under Section 148 of the Companies Act, 2013.
  - Details of Registration(s) with any other Government Departments/ Agency / Regulatory Authority.
  - List of Show Cause Notice(s) issued if any and their present status.
- v. After collating the above details, the proper officer chalks out an audit plan and with the assistance of the team of officers and officials accompanying him, verify the:
- documents on the basis of which the books of account are maintained
  - returns and statements furnished under the provisions of the Act and the rules made thereunder,
  - correctness of the turnover,
  - exemptions and deductions claimed,



- rate of tax applied in respect of the supply of goods or services or both,
  - input tax credit availed and utilised,
  - refund claimed,
  - other relevant issues and
  - Record the observations in his audit notes.
- vi. **Communication of Discrepancies Observed in Audit:** If Proper officer observes any discrepancies in the audit, he shall inform the same to the registered person for such discrepancies. Upon reply of the registered person, the proper officer shall finalise the findings of the audit after due consideration of the reply furnished by the registered person.
- vii. **Conclusion of Audit:** On conclusion of the audit, the proper officer shall, within 30 days shall inform to the registered person about the findings, his rights and obligations and the reasons for such findings in **FORM GST ADT-02**<sup>17</sup>. Where the audit results in **detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly availed or utilised**, the proper officer<sup>18</sup> may initiate action under section 73 or section 74, as the case may be, if payment is not made by the registered person.

### 5.2.2.4 Special Audit by Chartered Accountants or Cost Accountant<sup>19</sup>

45. If at any stage of scrutiny, enquiry, investigation or any other proceedings before him, any officer not below the rank of **Assistant Commissioner** is of the opinion that:
- the taxable value has not been correctly declared by the taxpayer or;
  - the credit availed is not within the normal limits
- then he may with the prior approval of the **Commissioner**, issue direction to any registered person in **FORM GST ADT-03** to get his records including books of account examined and audited by a chartered accountant or a cost accountant as may be nominated by the Commissioner.
46. **Submission of Audit Report:** The audit report, duly signed and certified by the chartered accountant or the cost accountant is required to be submitted to the said Assistant Commissioner within a period of 90 days (extendable further for 90 days).
47. **Opportunity of being heard:** If any material gathered on the basis of special audit is proposed to be used against the registered person in any proceedings under GST law, then he shall be given an opportunity of being heard.
48. **Conclusion of audit:** On conclusion of the special audit, the registered person shall be informed of the findings in **FORM GST ADT-04**. Where the special audit results in detection of tax not paid or

<sup>17</sup> Para A5(12)

<sup>18</sup> 'Proper officer' as per CGST Act means 'Superintendent' of Central Tax (As per Circular No. 3/3/2017-GST dt. 5.7.2017)

<sup>19</sup> Section 66, Rule 102

short paid or erroneously refunded, or input tax credit wrongly availed or utilised, the proper officer may initiate action under Section 73 or 74.

5.2.3 Assessment

49. Under the GST law following types of assessment is done.

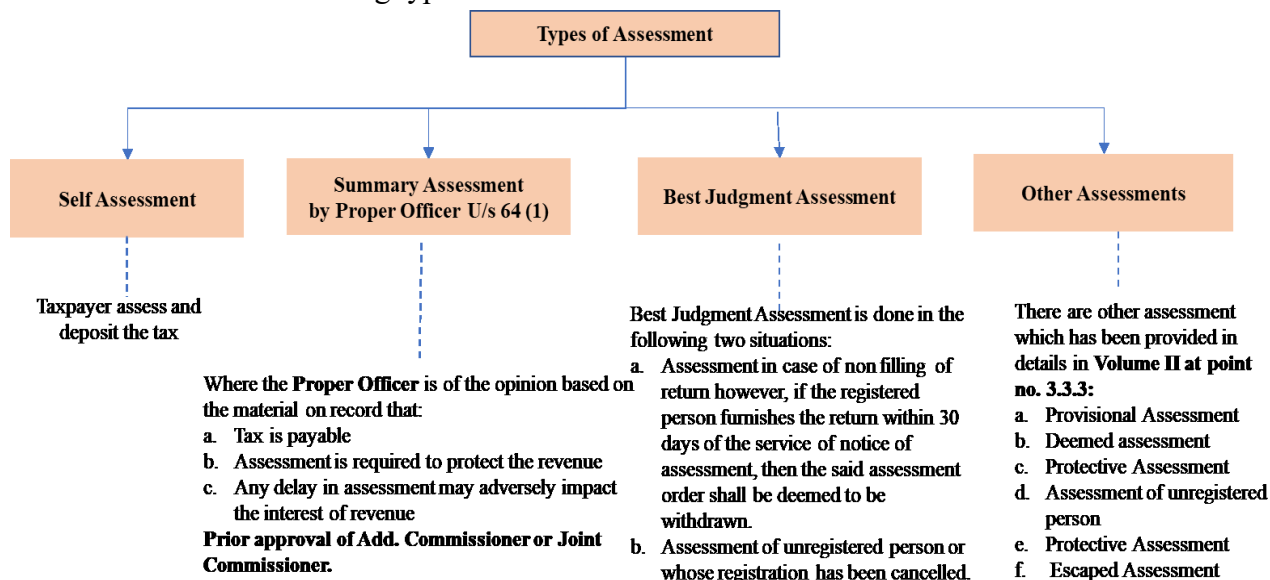


Figure 10: Types of Assessment under GST law.

5.2.3.1 Summary Assessment in Certain Special Cases<sup>20</sup>

50. If the Proper Officer come across to any evidence which shows that a person is liable to pay tax under the GST law. He may, with the prior permission of **Additional Commissioner or Joint Commissioner**, proceed to assess the tax liability of such person and issue an assessment order in **FORM GST ASMT-16<sup>21</sup>**, if he has sufficient grounds to believe that any delay in doing so may adversely affect the interest of revenue. A summary of the order shall be uploaded electronically in **FORM GST DRC-07**.

<sup>20</sup> Section 64, Rule 100(3), 100(4) and 100(5)

<sup>21</sup> Para A5(19)

51. However, if the tax liability pertains to supply of goods and the taxable person to whom such liability pertains is not ascertainable, then the person in charge of such goods shall be deemed to be the taxable person liable to be assessed and liable to pay tax and any other amount due. The condition for summary assessment is provided below:

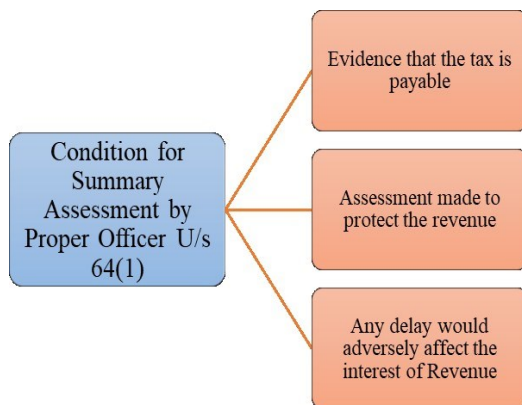


Figure 11: Conditions for Summary Assessment

52. If within 30 days from the date of receipt of the order in **FORM GST ASMT-16**, the taxable person files an application for withdrawal of the assessment order in **GST ASMT 17<sup>22</sup>**, or if the Additional Commissioner or Joint Commissioner, on his own motion, considers that such order is erroneous, he may withdraw such order and follow the procedure laid down in section 73 or section 74.

53. The order of withdrawal or, as the case may be, rejection of the application shall be issued in **FORM GST ASMT-18**<sup>23</sup>. The flow for withdrawal of the summary order is as under.

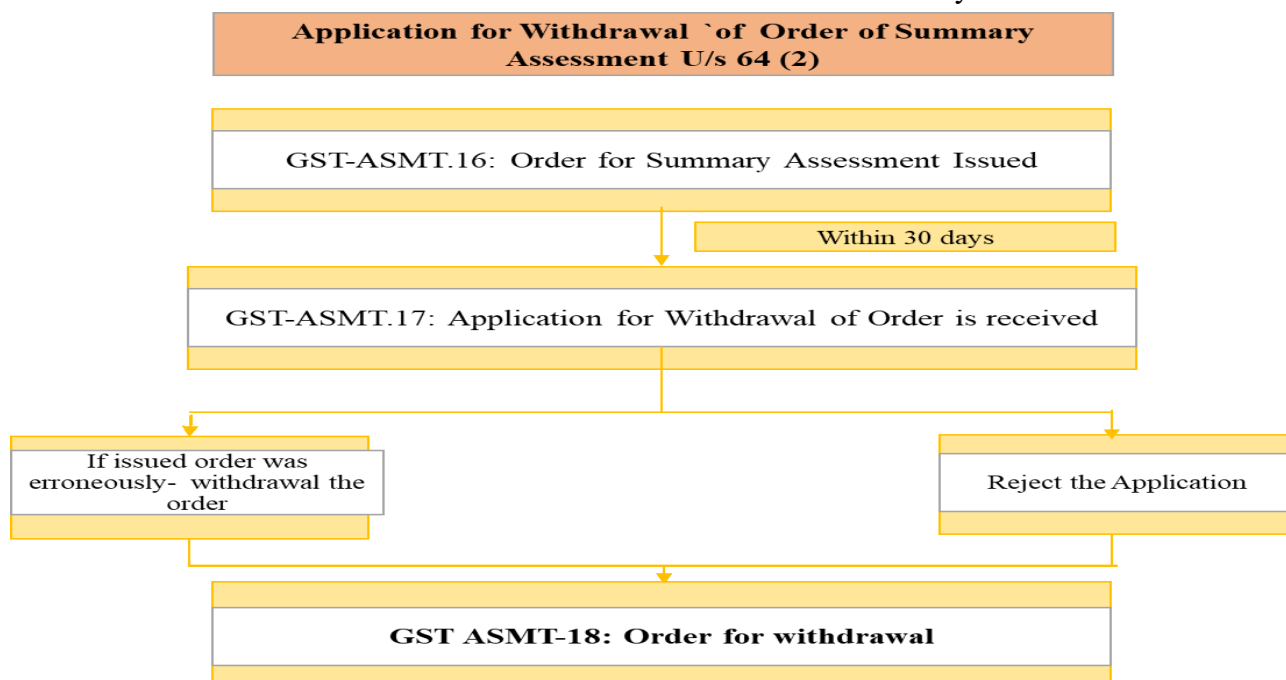


Figure 12: Application for withdrawal of scrutiny assessment

### 5.2.3.2 Best Judgement Assessment

54. The best judgement is done where the taxpayer has not filled his returns or in case of unregistered person in the following situation.

55. **Assessment of Non-filers of returns**<sup>24</sup>: Though the word ‘**Non-filer**’ is not defined in GST law, it can be understood to be a taxpayer who has not met his tax filing obligation by the due date of the return / statement or the approved extended due date. If a registered person fails to furnish **GSTR 3B**<sup>25</sup> return or Annual Return (i.e. **GSTR 9**) or a Final return in case of cancellation of registration i.e. **Form GSTR-10**<sup>26</sup>, then a notice shall be issued to him in **Form GSTR-3A**<sup>27</sup> requiring him to furnish such return within next 15 days.

56. **Assessment:** If even after service of a notice, the registered person does not submit the return, the proper officer may proceed to do a best judgement assessment to assess the tax liability of such person after taking into account all the relevant materials which is either available to him or which he has gathered.

<sup>23</sup> Para A5(21)

<sup>24</sup> Section 46, Section 62, Rule 68, Rule 100(1)

<sup>25</sup> Para A5(4)

<sup>26</sup> Para A4(7)

<sup>27</sup> Para A5(20)

57. **Issue of assessment order to a non-filer:** The time limit to issue an assessment order is five years from the due date of furnishing of the annual return for the financial year to which the tax not paid relates. However, if the registered person furnishes a valid return within 30 days of the service of the assessment order, then the said assessment order shall be deemed to have been withdrawn. However, he shall be liable to pay the interest and late fee for the default period. The procedure involve in best judgment is as under:

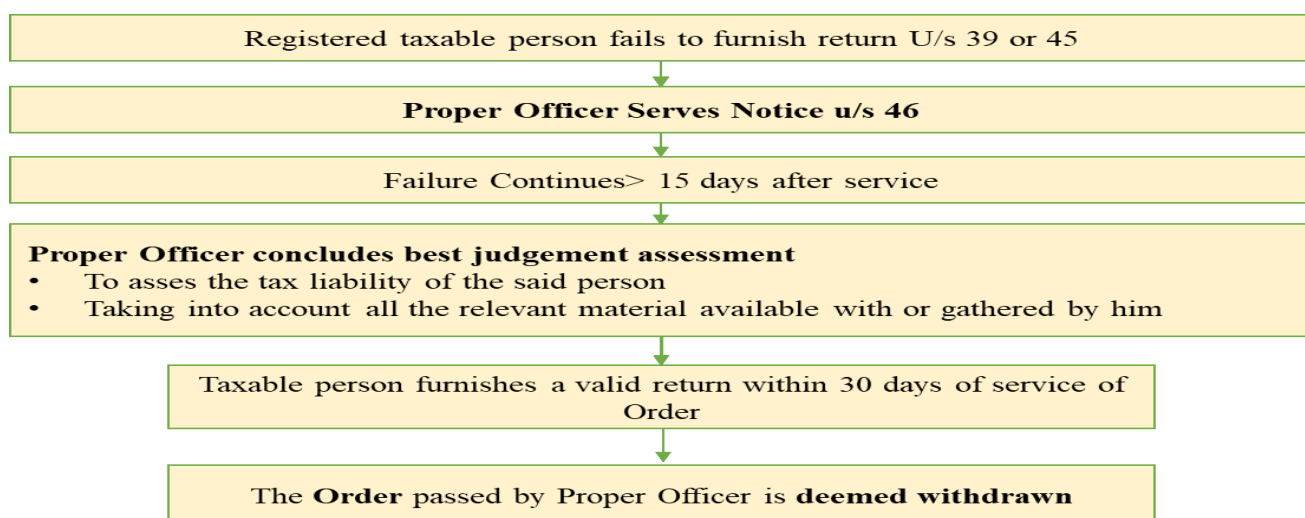


Figure 13: Best Judgment assessment for non-filler of Returns

58. **Assessment of Unregistered Person** <sup>28</sup>: Where a taxable person fails to obtain registration even though liable to do so or whose registration has been cancelled<sup>29</sup> but who was liable to pay tax, the proper officer may, after providing the said person an opportunity of being heard, assess the tax liability of the said taxable person to the best of his judgement for the relevant tax periods.

59. **Issue of Notice:** A notice shall be issued to the taxable person in **FORM GST ASMT-14**<sup>30</sup> containing the grounds on which best judgement assessment is proposed to be made and shall also be served a summary thereof electronically in **FORM GST DRC-01**. The taxable person shall be given fifteen (15) days’ time to furnish his reply, if any.

<sup>28</sup> Section 46, Section 62, Rule 68, Rule 100(1)

<sup>29</sup> Under Section 29(2)

<sup>30</sup> Para A5(17)

**60. Issue of assessment order to an unregistered person:** The assessment order shall be issued in **Form GST ASMT-15**<sup>31</sup> within a period of five years from the due date of furnishing of the annual return for the financial year to which the tax not paid relates and a summary thereof shall be uploaded electronically in **FORM GST DRC-07**<sup>32</sup>.

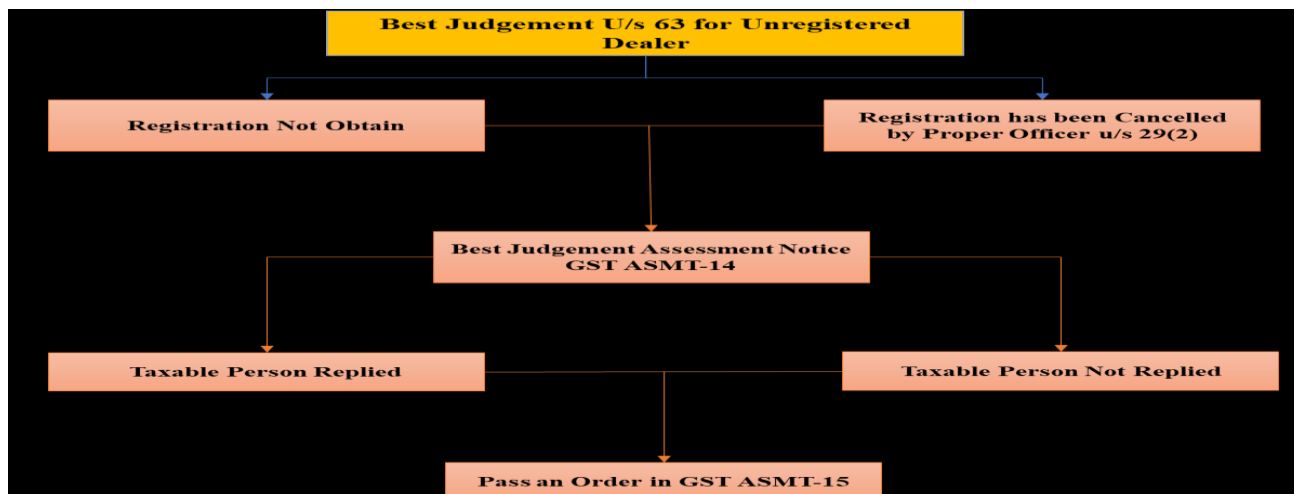


Figure 13: Assessment of unregistered dealer

### 5.2.4 Follow up Action

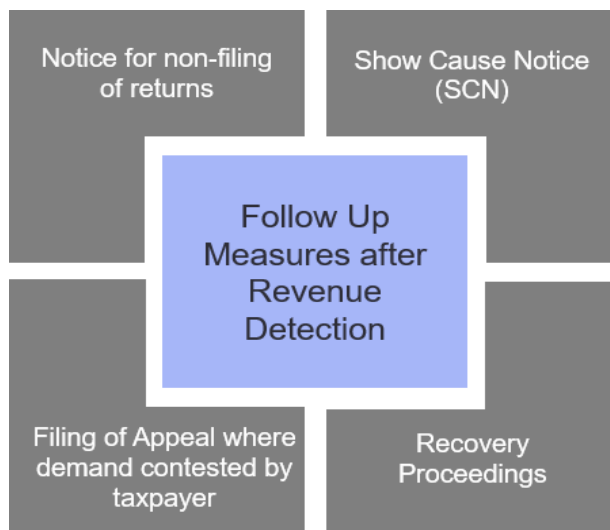


Figure 14: Follow up process

<sup>31</sup> Para A5(18)

<sup>32</sup> Para A5(9)

61. The proper officer may take up following follow up measures after revenue detection:
- Notice for non-filing of returns: **Refer Best Judgement Assessment under point no. 5.2.3.2**
  - Show Cause Notice: **Refer 2.2.15 Revenue Audit Manual Part-II, Reference Material.**
  - Recovery Proceedings: **Refer 2.2.16.2 Revenue Audit Manual Part-II, Reference Material.**
  - **Filing of Appeal by GST department:** The Commissioner may, on his own motion, or upon request from the Commissioner of State tax/UT, call for and examine the record of any proceedings in which an adjudicating authority has passed any decision or order for the purpose of satisfying himself as to the legality or propriety of the said decision or order and may, by order, direct any officer subordinate to him to apply to the Appellate Authority<sup>33</sup> within six months from the date of communication of the said decision or order for the determination of such points arising out of the said decision or order as may be specified by the Commissioner in his order.
  - Similar direction can be given by the Commissioner to file an appeal before Appellate Tribunal<sup>34</sup> where the order is passed by the Appellate Authority or the Revisional Authority within six months from the date such order.

### 5.3 Identify the Key Auditable Areas and Associated Risks

62. For conducting GST revenue audit, the auditors need to identify key auditable areas/sub-auditable areas and associated risks relating to GST operations. The auditors should also assess the adequacy of internal controls put in place by the GST department to ensure that returns are filed, correctly assessed, and amounts outstanding are collected. The auditors also need to be aware of the other activities that indirectly impact the assessment and collection of GST revenue. For this, the auditor needs to evaluate supporting IT systems and the risk of fraudulent practice. Therefore, the auditors need to identify risks posed by these systems and provide appropriate audit responses which assure the effective protection of revenue. The possibilities include the following:

S. No.	Cases
1.	Outward Liability not reported (Including Reverse Charge liability)
2.	Outward Liability under reported (Including Reverse Charge liability)
3.	Excess/Ineligible ITC availed/utilised
4.	Excess/Ineligible Refund claimed
5.	ITC/Refund claimed through fraud etc.

<sup>33</sup> Section 107(2)

<sup>34</sup> Section 112(3)

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6.	Interest not paid/short paid
7.	Non-disposal/late disposal of eligible refund cases resulting in interest liability.
8.	Non issuance of demand notice for recovery

Table 6: Possible Risk in GST revenue



Chapter VI: Audit Process

63. This section provides an overview of the audit life cycle for conducting the revenue audit for GST in the State Tax Department. Detailed audit processes are provided in the Uttarakhand Internal Audit Manual Volume-I, Part I and this manual should be read in conjunction with the Internal Audit Manual Volume-I & Volume-II. The major steps involved in an audit life cycle of revenue audit of GST in the State tax department have been provided through the following flowchart.

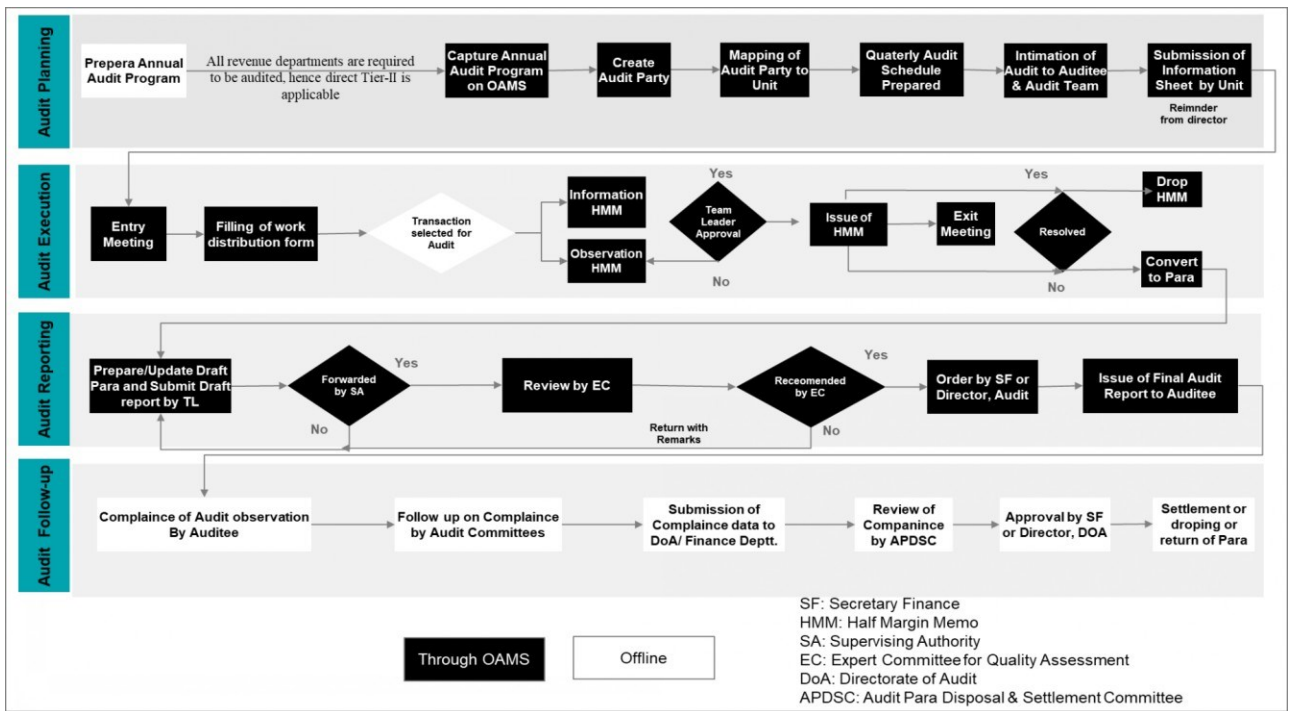


Figure 15: Audit process for conducting revenue audit of GST department

64. The activities to the carried out at each stage of audit life cycle has been explained in the below section:

6.1 Audit Planning

6.1.1 Audit Planning Activities

2. The process for an internal audit is initiated with the preparation of an internal audit plan which includes assessment of risk, selection of departments, selection of areas to be audited, selection of audit units, allocation of resources, and finalization of timeline for conducting the audit, etc. The preparation of the internal audit plan and assigning of an internal audit to an audit team shall be done in accordance with the provisions and procedures mentioned in Internal Audit Manual through the Online Audit Management system (OAMS). The risk assessment process for the preparation of the

annual audit plan is provided in Internal Audit Manual [Please refer to Chapter 8 of the Internal Audit Manual Volume I, Part-I].

65. The specific considerations related to audit planning with respect GST revenue is provided below:

<b>Risk process</b>	<b>Responsibility</b>	<b>Description and Activities to be conducted</b>															
<b>Tier – I: Selection of Department to be Audited</b>	Directorate of Audit	<p>This step is used to categorize the departments according to its risk-profile and shall be done in accordance with the <b>Internal Audit Manual Volume I, Part I</b>.</p> <p>The GST department shall automatically be classified as high-risk department considering major revenue generating department. Therefore, parameters related to selection of departments provided in Tier-I shall be not be applicable. However, parameters for selection of key auditable areas as specified in Tier-II shall be applicable.</p>															
<b>Tier – II: Selection of Key Auditable Areas</b>	Directorate of Audit	<p>This step will identify the Key Auditable Areas and the Auditable Sub Areas which will be subjected to risk assessment to determine the areas to be prioritized for audit.</p> <p>The process to be followed for risk assessment of Key auditable Areas and Auditable Sub Areas has been provided in detailed in Internal Audit Manual. <b>Refer Section 8.2.2.2 of Internal Audit Manual Volume I, Part I</b>. However, the Key Auditable Areas and Auditable Sub Areas relating to GST audit has been provided in the table below:</p> <table border="1"> <thead> <tr> <th><b>#</b></th> <th><b>Key Auditable Area</b></th> <th><b>Illustrative Auditable Sub Areas</b></th> </tr> </thead> <tbody> <tr> <td rowspan="5">A</td> <td rowspan="5">System Generated Red Flag Reports System</td> <td>A1: Outward liability not reported (including Reverse Charge Liability)</td> </tr> <tr> <td>A2: Outward liability under reported (including Reverse Charge Liability)</td> </tr> <tr> <td>A3: Excess/Ineligible ITC availed/ utilised</td> </tr> <tr> <td>A4: Excess/Ineligible refund claimed</td> </tr> <tr> <td>A5: Non-disposal/late disposal of refund cases resulting in interest liability</td> </tr> <tr> <td rowspan="3">B</td> <td rowspan="3">Audit by Tax Authorities</td> <td>B1 Annual Return and Reconciliation Statement</td> </tr> <tr> <td>B2 Scrutiny of returns done by proper officer</td> </tr> <tr> <td>B3 Special audit report of nominated Chartered accountant or Cost accountant</td> </tr> </tbody> </table>	<b>#</b>	<b>Key Auditable Area</b>	<b>Illustrative Auditable Sub Areas</b>	A	System Generated Red Flag Reports System	A1: Outward liability not reported (including Reverse Charge Liability)	A2: Outward liability under reported (including Reverse Charge Liability)	A3: Excess/Ineligible ITC availed/ utilised	A4: Excess/Ineligible refund claimed	A5: Non-disposal/late disposal of refund cases resulting in interest liability	B	Audit by Tax Authorities	B1 Annual Return and Reconciliation Statement	B2 Scrutiny of returns done by proper officer	B3 Special audit report of nominated Chartered accountant or Cost accountant
<b>#</b>	<b>Key Auditable Area</b>	<b>Illustrative Auditable Sub Areas</b>															
A	System Generated Red Flag Reports System	A1: Outward liability not reported (including Reverse Charge Liability)															
		A2: Outward liability under reported (including Reverse Charge Liability)															
		A3: Excess/Ineligible ITC availed/ utilised															
		A4: Excess/Ineligible refund claimed															
		A5: Non-disposal/late disposal of refund cases resulting in interest liability															
B	Audit by Tax Authorities	B1 Annual Return and Reconciliation Statement															
		B2 Scrutiny of returns done by proper officer															
		B3 Special audit report of nominated Chartered accountant or Cost accountant															

Risk process	Responsibility	Description and Activities to be conducted		
		C	Assessment	C1 Best Judgement assessment by proper officer
				C2 Summary Assessment by departmental Authorities
		D	Follow up action by Department	D1 Show Because notices issued by the state GST department
				D2 Recovery notices issued by state GST department
				D3 Appeal filed by the department against demand contested by taxpayers
		<p>Table 7: Key auditable Area and Auditable Sub Area for revenue audit of GST in State Tax department</p> <p>The above list of Key Auditable Areas and Auditable Sub Areas shall be reviewed and updated periodically by the DoA based on the findings during the last audits.</p> <p>DoA shall carry out the risk assessment of all the Auditable Sub Areas under each Key Auditable Areas through <i>situational analysis</i> of the risk listed for all such auditable sub areas. The risk listing/identification for each Auditable Sub Area would be done from various sources such as past audit reports, best practices, review of control environment, experience, and professional judgement of officials of the DoA conducting the risk assessment.</p> <p>The situational analysis of each identified risk shall be done by the DoA based on their discussion with management of department, past serious audit observations, review of internal control environment, media reports, professional judgement, and experience. An illustrative general risk evaluation matrix for all the currently identified Key Auditable Areas and its Auditable Sub Areas is provided at <b>Annexure I</b> to this section of the manual. The DoA shall build upon this Matrix based on the actual risks identified during each audit cycle.</p>		
<p><b>Tier – III: Selection of Audit Units (i.e. Circle to be audited)</b></p>	<p>Directorate of Audit</p>	<p>The process to be followed for selection of units to be audited for commercial tax department shall be done in accordance with the <b>Internal Audit Manual Volume I, Part I</b>.</p> <p>Risk Profiling of the audit units to be selected shall be based on financial, non-financial parameters and special parameters. An</p>		

Risk process	Responsibility	Description and Activities to be conducted						
		illustrative list of parameters along with their score, range and weightage are provided below:						
		#	Parameter Name	Description of Parameters	Scoring		Weightage	
					Variable	Range	Score	
		1	Value of serious audit Paras pending for compliance in AG report	Value of serious Audit Paras (AG audit) pending for compliance at end of the immediately preceding financial year needs to be considered .	Value of serious AG para pending for compliance for the unit (AG Audit)	0 0-0.50 Cr.	0 3	5%
		2	Value of serious Internal Audit Paras pending compliance	Cumulative Value of Internal audit serious paras pending for compliance at end of the immediately preceding financial year needs	Cumulative Value of internal audit serious paras pending for compliance for the respective audit unit	0 0-20L >20L-50L	0 3 6	5%
					>50L	10		

Risk process	Responsibility	Description and Activities to be conducted						
				to be considered				
		3	Past Internal Audit Conducted	Numbers of Years since last Internal Audit conducted for the units	Years Pending for Internal Audit	0 1 2 3 or more	0 3 6 10	20%
<b>Specific Parameters for Key Auditable Areas for Revenue Audit</b>								
		4	Nos. of Assessment by the Auditee	As per the target given to each circle	Nos. of Assessment/ Total assessment in the State.	0-5% 5-10% >10%	3 6 10	20%
		5	Nos. of GST audited done to the percentage of GST audit planned	Total Nos. planned for GST audit	Nos. of GST audit completed / Total Nos. of GST audit Planned	0-5% 5-10% >10%	3 6 10	10%
		6	No of GST Audits Conducted	Nos. of GST audit conducted by the office / Total Number of GST Audit in the State	Nos. of GST audit conducted / Total Nos. of GST audit planned for audit in the state	0-10% 10-20% 20%	3 5 10	20%
		7	No. of red flag reports not acted upon	To check number of red flag reports	Red flag reports not acted upon	0 1-2 3-5 >5	0 3 6 10	40%

Risk process	Responsibility	Description and Activities to be conducted						
				generated from the GSTN system which were not acted upon				
		<p>Table 2: Parameters for Tier III Risk assessment process for GST in State Tax department</p> <p>The above parameters and their score ranges are illustrative in nature and DoA may add/delete/modify the same related to the key auditable areas selected for audit.</p>						
<b>Tier – IV: Selection of Transaction to be audited</b>	Audit Party	<p>The Tier-IV risk assessment process is carried out to identify the transactions for which the selected key auditable area shall be audited at the audit unit level and extent of check.</p> <p>The steps involved in Tier IV risk assessment process is provided later in this section</p>						

Table 8: Risk Assessment Process for GST Revenue Audit

**Way Forward:**

In the initial years from the adoption of this manual, the revenue audit will be done at the level of the Key Auditable Area as per the process mentioned above. However, over the years the DoA shall continuously update the risk evaluation matrix for the Auditable sub-Areas under each Key Auditable Area.

In the long term, DoA shall carry out the risk assessment of auditable Sub Areas only and the revenue audit of GST in the State Tax department would be conducted for high-risk auditable Sub Areas or a mix of high and medium risk Auditable Sub Areas, as decided by the DoA. **Refer to section 8.2.2.2 of Internal Audit Manual Volume I, Part I.**

- 66. The categorization of the department (Tier I), selection of area to be audited (Tier II) and selection of units for audit (Tier III) shall be done by the Directorate of Audit on annual basis and the outcome shall be mentioned in the annual internal audit plan which shall be issued in accordance with the provision of **Internal Audit Manual Volume I, Part I**.
- 67. Post selection of units to be audited, other steps such as allocation of resources, finalization of timelines etc. shall be done in accordance with the provisions mentioned in the Internal Audit Manual Volume I, Part I. **[Refer Chapter 8 of Internal Audit Manual Volume I, Part I for details]**

**6.1.2 Audit Preparation**

68. Before proceeding for conducting revenue audit, the audit parties need to ensure that below mentioned activities are undertaken (these activities will be carried out at global level)
- **Activity 1:** Understand the Department and its operation. **Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.**
  - **Activity 2:** Understand the legal and regulatory framework. **Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.**
  - **Activity 3:** Preparation of Audit Planning Memorandum. **Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.**
69. Activities to be carried out at Individual Audit unit. Post receiving of the all the required information, the auditor shall carry out the steps for risk assessment (Tier- IV) as defined in para 6.2.3 of this section of the manual. The risk assessment process shall be completed in the audit planning & preparation stage post receipt of all required information as mentioned in below section. However, in case of non-receipt of such information, the Tier IV risk assessment process shall be carried after the entry meeting after obtaining the relevant data points. To perform the above activities for audit preparation, auditor requires information from the audit unit. Therefore, such information shall be gathered through information sheet on OAMS which contains data such as organizational structure, trend of revenue collection, cases pending for assessment/ pending for settlement, details of the personnel, budget, details of audit paras, taxpayer data etc. of the audit unit. The additional information to be obtained in the information sheet through OAMS for conducting the revenue audit of GST is provided below:
- Nos of finding of red flag report for each audit unit.
  - Nos of finding disposed off by the audit units and its outcome.
  - Nos of red flag finding which is pending for compliance along with reason thereof.
  - Nos of cases pending for action as per direction of Tribunal, High Court and Supreme Court.
  - Number of cases where desk review has been carried out by the audit units and its outcome.
  - Details where desk review could not be carried by the audit unit and reason thereof.
  - Number of cases where provisional assessment has been done by the audit units and its outcome.
  - Number of cases where summary assessment, scrutiny assessment and best judgement assessment has been done by the audit unit and its outcome.
  - Data of taxpayer who have not filled their return and whether notice for filling of return has been sent by the department or not.
  - Cases where the department has filled appeal against the taxpayer.
  - The trend of demand recovery and refund if any.
  - The trend of revenue fluctuation for last 3 years taxpayer wise and flag the taxpayer where substantial variation is noticed.
  - Cases for refund and flag the taxpayers to whom high amount of refund has been allowed.

- Any other information for conducting of Tier III risk assessment process.

## 6.2 Audit Execution

70. This is the stage where audit plans are executed, and observations are noted through the application of revenue audit procedures. The purpose of audit execution is to ensure completion of the revenue audit and gather sufficient & appropriate audit evidence to reach a conclusion on each of the objectives identified in the audit planning memorandum.
71. Following are the steps that should be followed to conduct a revenue audit:

Sr No	Activity
1.	Entry Meeting
2.	Update/Revision of Audit Planning Memorandum
3.	Tier IV Risk assessment (if not carried during the audit preparation stage of Audit Planning)
4.	Work Distribution among team member
5.	Audit of the selected transactions
6.	Audit Analysis and Evaluation
7.	Issuance of Audit Memo (Half Margin Memo)
8.	Exit Meeting

Table 3: Steps involved in audit execution phase

The section 6 of Uttarakhand Audit Act, 2012, provide the authority and power to the auditor to obtain all necessary information and records, as the auditors may think fit, required for the purpose completing audit engagement. Section 7 of the Uttarakhand Audit Act, 2012, provide the provision for imposing penalty on audit unit for disobeying or not meeting the requirement provided by auditors under section 6 of the Uttarakhand Audit Act, 2012.

72. The above execution steps has been detailed in the **Internal Audit Manual Volume I, Part I**. However, in this manual only the specific considerations related to GST revenue audit has been elaborated:

### 6.2.1 Entry Meeting- Auditee Level

73. Refer Point No. 9.1 of the Internal Audit Manual Volume I, Part I.

### 6.2.2 Update of Audit Planning Memorandum

74. Refer Point No. 9.2 of the Internal Audit Manual Volume I, Part I

### 6.2.3 Selectin of Transaction to be Audited (Tier IV)



75. The Tier-IV risk assessment process is carried out to identify the extent of transactions to be audited at the audit unit/ circle level. The risk assessment process (Tier IV) shall be completed in the audit planning & preparation stage post receipt of all required information from audit unit.
76. In order to ensure adequate coverage, the registered persons may be categorized into four categories namely very large, large, medium and small units. The criteria for such categorization would be the total annual value of outward supplies (including export and exempt supplies). The categorization of Registered Taxpayers would be done at the Directorate of Audit (DOA) level through OAMS. The suggested categorization of taxpayer & extent of checking for each category is as follows:

Sl. No.	Categorization	Annual Turnover <sup>35</sup> (INR)	Extent of Check
1	Very Large Taxpayer	>25 Crores	25% - 30% of total taxpayers
2	Large Taxpayer	> 10 Crores up to 25 Crores	15% - 20% of total taxpayers
3	Medium Taxpayer	> 2 Crores up to 10 Crores	8% - 12% of total taxpayers
4	Small Taxpayer	Up to 2 Crores	2% - 5% of total taxpayers

Table 10: Methodology for Tier IV, Risk Assessment for GST revenue

Note: The extent of check mentioned above is suggestive. As the volume of the taxpayer is high therefore, the DoA may increase the extent of checking as per their professional judgment.

#### **6.2.4 Work Distribution Among Audit Team Members**

77. Based on the understanding about the department and auditee, the audit team leader shall divide the audit work among the team members and according to the work distribution audit parties should proceed with revenue audit. The audit team leader should take up more significant items along with the supervision of other team members. The work distribution should be recorded and kept with the working papers. **Refer to Annexure “16” of Internal Audit Manual Volume-I, Part-I for the format of audit work distribution.**

#### **6.2.5 Audit of the Selected Transactions**

78. The audit team shall carry out the audit of selected transactions which involves an examination of supporting documents and occurrence of transactions. The audit team has to ensure that transactions are recorded in a timely manner after proper verification, under the appropriate head of account and shall be approved by the competent authority. For verification of the selected transaction the audit parties need to refer the **audit checklist provided under Chapter-7** of this audit manual.

#### **6.2.6 Audit Analysis and Evaluation**

<sup>35</sup> Based on the CBIC guidelines

79. Refer point no.9.6 of the Internal Audit Manual Volume I, Part-I.

### 6.2.7 Issue of Audit Memo/Half Margin Memo

80. Refer point no.9.7 of the Internal Audit Manual Volume I, Part-I.

### 6.2.8 Exit Meeting

81. Refer point no.9.8 of the Internal Audit Manual Volume I, Part-I.

## 6.3 Audit Reporting and Documentation

### 6.3.1 Audit Reporting

82. This Chapter describes the steps that is to be followed for reporting and documenting a revenue audit of GST in State tax department. The chapter has been divided into the following sections:

- Conversion of HMM into draft audit para. **Refer point no.10.1 of the Internal Audit Manual Volume I, Part-I** for details.
- Preparation of Draft Internal Audit Report. **Refer point no.10.2 of the Internal Audit Manual Volume I, Part-I** for details.
- Review, approval and issuance of Internal Audit Report. **Refer point no. 10.3 of the Internal Audit Manual Volume I, Part-I** for details.

### 6.3.2 Audit Documentation

83. Refer Chapter 11 of Internal Audit Manual Volume I, Pat-I for details.

## 6.4 Audit Monitoring Follow-up and Compliance

84. Refer Chapter 12 of Internal Audit Manual Volume I, Pat-I for details.

## 6.5 Quality Assurance and Improvement Program (QAIP)

85. Refer Chapter 13 of Internal Audit Manual Volume I, Pat-I for details.

## Chapter VII: Audit Checklist and Annexures

### 7.1 Audit Checklist

86. This section of the manual includes a detailed audit checklist (not exhaustive) which need to be referred by the audit parties for verifying various transaction relating to GST revenue.
87. The following types of the document maintained by the GST department.

Name of the Particulars Documents	
<b>Dealers' Ledger</b>	Ledger to be maintained by the assistant commissioner in respect of dealer to whom Forms are issued in Form XIV. This includes date of application, amount, number and date of treasury challan, date of issue, total number of forms, serial number of forms (from/to), balance if any.
<b>Demand Collection and Arrears Register</b>	Includes details of assessee, TIN, details of taxable turnover, tax payable, tax paid. S. No. of Daily collection register, signature of AO.
<b>Register of Refunds</b>	Includes details of refund
<b>Register of Dealer</b>	Includes of details of Dealers such registration number and registration goods

Table 11: Types of documents maintained by the GST department

88. The list of relevant GST forms is provided at **Annexure II** to this section of the manual.

#### 7.1.1. Impact of Revenue Audit During the Year

89. The auditor shall do detailed analysis as per the check list provided below and summarise the result in the given template in order to evaluate the audit unit as whole.

Irregularities	Number of Irregularities	Amount (INR)
Loss in revenue due to non-levy, short levy, non-collection, etc.	Mention number of irregularities found during the year	Assessed revenue loss
Compliances not as per the act, policy, etc.	Mention number of irregularities found during the year	
Deficiencies in Internal control	Mention number of irregularities found during the year	
	Total Number of Paras	Total revenue loss

Table 12: Template for reporting of irregularities for GST revenue audit.

**7.2 Detailed Audit Checklist**

**Key Auditable Area:** A. System Generated Red Flags reports

**Sub Auditable Area: A1: Outward liability not reported (Including Reverse Charge Liability)**

There are seven red flag reports generated from GST portal which deals with non-reporting of outward liability. These seven reports are as under:

- (i) Taxpayers who have not filed GSTR-3B for the Return period
- (ii) Registered Taxpayers who never filed R-3B and registered on or before 1st day of July 2017
- (iii) Taxpayers who have not filed at least three R-3B and figuring in 2A for the return period
- (iv) Taxpayers who have not filed R-3B but generated E-way bill
- (v) Number of Taxpayers who have filed GSTR-1 but not GSTR-3B for return period
- (vi) Non- migration of eligible taxpayers to GST
- (vii) Non- Submission of Final Return by a person who has cancelled his GST registration

**(i) Taxpayers who have not filed GSTR 3B for return period**

GSTN portal generates following report in respect of taxpayers who have not filed GSTR 3B for a particular return period:

Sl. No.	RTN_PRD	GSTIN	TRADE NAME	STATUS	REASON	REMARK (IF ANY)
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This is a very important report and helps to GST department in identifying the taxpayers who are not paying their taxes. There may be a possibility that such taxpayers have also not filed their GSTR 1 return. The reasons for not filling of GSTR 3 B may be:

- ▶ Intentional to avoid payment of tax.
- ▶ Because of working capital issues as GST is levied on billing basis whereas the taxpayer may not have received his payment.
- ▶ The amount due may be from some very large payers and may require immediate action for realization of taxes
- ▶ For any other reasons

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
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**(i) Taxpayers who have not filed GSTR 3B for return period**

<ul style="list-style-type: none"> <li>• Verify whether tax authorities have taken any action on this report or not</li> <li>• Verify, if no action has been taken, the reasons for the same and the person responsible.</li> <li>• Verify, if action has been taken, then whether they have identified the:                             <ul style="list-style-type: none"> <li>• categories of such taxpayers.</li> <li>• amount of unpaid tax involved.</li> <li>• amount paid/realized after generation of report; and the</li> <li>• amount still pending</li> </ul> </li> </ul>					
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The suggested format of reporting by the internal auditor is given as under:

Tax not paid because of non-filing of GSTR-3B:

Types of Taxpayers	No. of Tax Payers	Amount of unpaid tax	Paid/Realised subsequent to report generation	Balance still pending	Risk Level
Very Large Taxpayers					
Large Tax Payers					
Medium Tax Payers					
Small Tax Payers					
<b>Total</b>					

**(ii) Registered taxpayers who never filed GSTR-3B and registered on or before 1st July 2017**

GST portal generates following report in respect of migrated taxpayers who were registered under the VAT/Excise or any such existing Law but never filed their R-3B return:

Sl. No.	GSTIN ID	LEGAL NAME	Registered(Y/N) On 01.07.2017	GSTR 3B filed/Not filed	Reason/Observation

There may be some small taxpayers who were registered in VAT/excise but have not applied for cancellation of their registration in GST even though their aggregate turnover was below the threshold limit of INR 10 lacs required for GST registration in the state of Uttarakhand. GST Department needs to identify such cases and proceeds to cancel their registration as per the provision of GST law. Further,

**(ii) Registered taxpayers who never filed GSTR-3B and registered on or before 1st July 2017**

there may be cases where migrated taxpayers are avoiding paying tax by not filing their returns though liable to pay.

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
<p>Verify:</p> <ul style="list-style-type: none"> <li>• Whether tax authorities have taken any action on this report or not.</li> <li>• If no action has been taken, then the reasons for the same and the person responsible.</li> <li>• If action has been taken, then whether they have:                             <ul style="list-style-type: none"> <li>• identified the cases of small taxpayers whose registration is required to be cancelled; if yes, how many such cancellation has been done.</li> <li>• identified the cases where migrated taxpayers are liable to pay tax but are avoiding paying the tax.</li> <li>• issued notices to such taxpayers for filing of their returns.</li> <li>• initiated best judgement assessment process when such taxpayers have not filed return even after issue of notices.</li> </ul> </li> </ul>					
<p>The suggested format of reporting by the internal auditor is given as under:                      Migrated Taxpayers not filing R-3B                      A. Migrated small taxpayers (Registration required to be cancelled)</p>					

**(ii) Registered taxpayers who never filed GSTR-3B and registered on or before 1st July 2017**

Types of Taxpayers	No. of Tax Payers	No. of registrations cancelled	Cancellation pending	Risk Level
Small Taxpayers				

**B. Migrated taxpayers (Not paying tax)**

Types of Taxpayers	No. of Tax Payers	Amount of unpaid tax	No. of Notices issued	No. of Best Judgement Assessment done	Risk Level
Very Large Taxpayers					
Large Tax Payers					
Medium Tax Payers					
Small Tax Payers					
<b>Total</b>					

**(iii) Taxpayers who have not filed at least three R-3B and are figuring in 2A for Return period**

When a registered person receives supply of any goods and/or services, the details thereof as shown by his supplier in GSTR-1 is auto populated in his GSTR-2A. There may be cases where though the recipient is making purchases of goods or receiving services, but he is not filing his GSTR-3B return and thus not discharging his tax liability. GST portal generates following report in this regard:

Sl. No.	RTN_PRD	GSTIN	Trade Name	Status of GSTR 3B	TOTAL_ITC	TOTAL_2A	DIFF ITC-2A

In the above report, while Total ITC column will show 'zero' value as GSTR-3B has not been filed by the taxpayer, amount in difference ITC\_2A column will be the same as shown in Total\_2A column.

Audit Questions	Reference (Act / Rules/ Policy Guidance , etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)

**(iii) Taxpayers who have not filed at least three R-3B and are figuring in 2A for Return period**

Verify: <ul style="list-style-type: none"> <li>• Whether tax authorities have taken any action on this report or not.</li> <li>• If no action has been taken, then the reasons for the same and the person responsible.</li> <li>• If action has been taken, then whether they have:                         <ul style="list-style-type: none"> <li>• identified the categories of such taxpayers.</li> <li>• identified the amount of unpaid tax involved.</li> <li>• issued notice for non-filing of return.</li> <li>• realized any amount after generation of report/issue of notice.</li> <li>• issued any show cause notice or done any best judgement assessment; and</li> <li>• amount still pending</li> </ul> </li> </ul>					
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The suggested format of reporting by the internal auditor is given as under:

**Difference of GSTR-2A and GSTR-3B**

Types of Taxpayers	No. of Tax Payers	Amount of unpaid tax	Paid/Realised subsequent to report generation	Balance still pending	Risk Level
Very Large Taxpayers					
Large Tax Payers					
Medium Tax Payers					
Small Tax Payers					
<b>Total</b>					

**(iv) Taxpayers who have not filed GSTR-3B but generated E-way Bill**

Where the taxpayer has generated e-way bill for movement of goods, thus making an outward supply (inter-state or intra-state), he is required to discharge the tax liability payable thereon by filing GSTR-3B. There may be cases that the taxpayer is generating e-way bill with outward supply and output tax but



**(iv) Taxpayers who have not filed GSTR-3B but generated E-way Bill**

willfully not filing GSTR-3B to avoid payment of tax. To catch hold of such cases, GST portal generates following report:

Sl. No.	RTN_PRD	GSTIN	TRADE NAME	GSTR 3B NOT FILED	E-WAY BILL GENERATED

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
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- Verify:
- Whether tax authorities have taken any action on this report or not.
  - If no action has been taken, then the reasons for the same and the person responsible.
  - If action has been taken, then whether they have:
    - identified the categories of such taxpayers.
    - identified the amount of unpaid tax involved.
    - issued notice for non-filing of return.
    - realized any amount after generation of report/issue of notice.
    - issued any show cause notice or done any best judgement assessment; and
    - amount still pending

The suggested format of reporting by the internal auditor is given as under:

**E-way bill generated but R-3B not filed:**

**(iv) Taxpayers who have not filed GSTR-3B but generated E-way Bill**

Types of Taxpayers	No. of Tax Payers	Amount of unpaid tax	Paid/Realised subsequent to report generation	Balance still pending	Risk Level
Very Large Taxpayers					
Large Tax Payers					
Medium Tax Payers					
Small Tax Payers					
<b>Total</b>					

**(v) Number of Taxpayers who have filed R-1 but not R-3B for Return Period**

There may be some cases where taxpayers have filed GSTR-1 but failed to file GSTR-3B. The reason may be intentional to avoid payment of tax or there may be working capital issues. GST Portal tracks such cases and generates following report:

Sl. No.	RTN_PRD	GSTIN	GR	TRADE NAME	R1_Filed	R3B_Not Filed	Reason/observation

This report helps GST department to calculate the tax liability of the taxpayer based on the amount reported in GSTR-1.

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
Verify: <ul style="list-style-type: none"> <li>Whether tax authorities have taken any action on this report or not.</li> <li>If no action has been taken, then the reasons for the same and the person responsible.</li> </ul>					

**(v) Number of Taxpayers who have filed R-1 but not R-3B for Return Period**

- If action has been taken, then whether they have:
  - identified the categories of such taxpayers.
  - identified the amount of unpaid tax involved.
  - issued notice for non-filing of return.
  - realized any amount after generation of report/issue of notice.
  - issued any show cause notice or done any best judgement assessment; and
  - amount still pending

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The suggested format of reporting by the internal auditor is given as under:

**Filed R-1 but not filed R-3B**

Types of Taxpayers	No. of Tax Payers	Amount of unpaid tax based on GSTR-1	Paid/Realised subsequent to report generation	Balance still pending	Risk Level
Very Large Taxpayers					
Large Tax Payers					
Medium Tax Payers					
Small Tax Payers					
<b>Total</b>					

**(vi) Non-migration of eligible taxpayer to GST**

With the help of PAN-based information available on the GSTN portal, the Portal generates following report in respect of taxpayers who have not migrated to the GST though liable:

Sl. No.	TRADE NAME	VAT_RG. _ NO.	STATUS	PRO_GSTIN_ID	GT_201617

**(vi) Non-migration of eligible taxpayer to GST**

This report provides gross turnover figure of such taxpayers under previous tax regime e.g. VAT etc. and thus help in tracking of those taxpayers who may be avoiding tax under GST by not complying with the migration process.

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
<p>Verify:</p> <ul style="list-style-type: none"> <li>• Whether tax authorities have taken any action on this report or not.</li> <li>• If no action has been taken, then the reasons for the same and the person responsible.</li> <li>• If action has been taken, then whether they have:                             <ul style="list-style-type: none"> <li>• identified the cases who were required to be migrated based on their turnover figure under previous tax regime but have not done so.</li> <li>• issued notices to such taxpayers.</li> <li>• initiated best judgement assessment process when such taxpayers have not taken registration and filed return even after issue of notices.</li> </ul> </li> </ul>					

The suggested format of reporting by the internal auditor is given as under:

**Non-Migrated Taxpayers**

Types of Taxpayers	No. of Tax Payers	Amount of unpaid tax	No. of Notices issued	No. of Best Judgement Assessment done	Risk Level

**(vi) Non-migration of eligible taxpayer to GST**

Very Large Taxpayers					
Large Tax Payers					
Medium Tax Payers					
Small Tax Payers					
<b>Total</b>					

**(vii) Non-submission of final returns by the GSTIN cancelled taxpayers**

There may be cases where a registered person, whose registration has been cancelled has not filed his final return. GSTN portal generates following report in respect of such cases:

Sl. No.	GSTIN ID	LEGAL NAME	GSTIN Cancelled w. e. f.		
Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
Verify: <ul style="list-style-type: none"> <li>Whether tax authorities have taken any action on this report or not.</li> <li>If no action has been taken, then the reasons for the same and the person responsible.</li> <li>If action has been taken, then whether they have:                             <ul style="list-style-type: none"> <li>issued notices to such taxpayers for submission of final return.</li> <li>identified the amount of unpaid tax.</li> <li>identified the amount of late fee payable.</li> </ul> </li> </ul>					

**(vii) Non-submission of final returns by the GSTIN cancelled taxpayers**

- initiated best judgement assessment process when such taxpayers have not filed final return even after issue of notices

The suggested format of reporting by the internal auditor is given as under:

**Non-Filers of Final Return (R-10)**

Types of Taxpayers	No. of Tax Payers	Amount of unpaid tax	No. of Notices issued	No. of Best Judgement Assessment done	Risk Level
Very Large Taxpayers					
Large Tax Payers					
Medium Tax Payers					
Small Tax Payers					
<b>Total</b>					

**Sub Auditable Area: A2 Outward liability underreported (Including Reverse Charge Liability)**

There are two red flag reports generated from GST portal which deals with under reporting of outward liability. These two reports are:

- Mismatch in tax liability declared in R-1 and R-3B for the period
- Mismatch in liability declared in E-way Bill and that reported in GSTR-3B

**(i) Mismatch in tax liability declared in R-1 and tax liability as per R-3B for period**

GSTN portal generates following report in respect of difference between tax liability as per GSTR-1 and that of GSTR-3B for a particular return period:

SL. NO.	RTN_PRD	GSTIN	TRADE NAME	R3B_LIAB	R1_LIAB	DIFF R1-R3B

The Reason of mismatch of output liabilities under R-1 vis-à-vis R-3B may be due to:

- under reporting/non-reporting of output supplies in R-3B and consequently under reporting/non-reporting of output tax liability.
- correct reporting of output supplies in R-3B but under reporting of output tax liability

**(i) Mismatch in tax liability declared in R-1 and tax liability as per R-3B for period**

The reason of mismatch may be by mistake or intentional. Since R-3B is the return by which tax liability is discharged by the taxpayer, any under reporting/non-reporting here may lead to leakage of revenue.

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
Verify: <ul style="list-style-type: none"> <li>• whether tax authorities have taken any action on this report or not.</li> <li>• If no action has been taken, then the reasons for the same and the person responsible.</li> <li>• If action has been taken, then whether they have identified the:                             <ul style="list-style-type: none"> <li>○ categories of such taxpayers.</li> <li>○ amount of unpaid tax involved.</li> <li>○ amount paid/realized after generation of report; and the</li> <li>○ amount still pending</li> </ul> </li> </ul>					

The suggested format of reporting by the internal auditor is given as under:

**Tax short paid/not paid because of mismatch in R-3B vis-à-vis R-1**

Types of Tax Payers	No. of Tax Payers	Amount of unpaid tax	Paid/Realised subsequent to report generation	Balance still pending	Risk Level
Very Large Taxpayers					
Large Tax Payers					
Medium Tax Payers					

**(i) Mismatch in tax liability declared in R-1 and tax liability as per R-3B for period**

Small Tax Payers					
<b>Total</b>					

**(ii) Mismatch in liability declared in E-way Bill and that in GSTR-3B for period**

There may be cases that the taxpayer is generating e-way bill with correct amount of outward supply and output tax but either willingly or by mistake, he is under-reporting or not reporting the correct figure in R-3B. Since R-3B is the return by which actual tax liability is discharged by the taxpayer, such cases of under reporting/non-reporting in R-3B may lead to leakage of revenue. To catch hold of such cases, GST portal generates following report:

Sl. No.	RTN_PRD	GSTIN	TRADE NAME	LIAB_E-WAY	LIAB_3B	DIFF E-WAY-3B

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
Verify: <ul style="list-style-type: none"> <li>• whether tax authorities have taken any action on this report or not.</li> <li>• If no action has been taken, then the reasons for the same and the person responsible.</li> <li>• If action has been taken, then whether they have identified the:                             <ul style="list-style-type: none"> <li>○ categories of such taxpayers.</li> <li>○ amount of unpaid tax involved.</li> <li>○ amount paid/realized after generation of report; and the</li> <li>○ amount still pending</li> </ul> </li> </ul>					



**(ii) Mismatch in liability declared in E-way Bill and that in GSTR-3B for period**

The suggested format of reporting by the internal auditor is given as under:

**Underreporting/Non-reporting of tax liability in R-3B vis-à-vis R-3B**

Types of Tax Payers	No. of Tax Payers	Amount of unpaid tax	Paid/Realised subsequent to report generation	Balance still pending	Risk Level
Very Large Taxpayers					
Large Tax Payers					
Medium Tax Payers					
Small Tax Payers					
<b>Total</b>					

**Sub Auditable Area: A3 Excess/Ineligible ITC availed/Utilised**

There are two red flag reports generated from GST portal which deals with excess/Ineligible ITC availed/utilised. These two reports are:

- (i) Non-reconciliation of difference between ITC claimed as per GSTR-3B and ITC eligible as per GSTR-2A
- (ii) Excess claim of Transitional credit

**(i) Non-reconciliation of difference between ITC claimed as per GSTR-3B and ITC eligible as per GSTR-2A**

This report is similar to Para 3.1.1.3 except that while in that report, taxpayer has not filed GSTR-3B for three tax periods, here he has filed R-3B but there is a difference in the amount of ITC reported by him as compared to the ITC amount reflected in R-2A. As explained earlier, the invoice wise details of supplies reported by the supplier in his R-1 is auto populated in R-2A of the recipient. The ITC reported in R-3B should ideally match the ITC flowing from R-1. However, there may be cases, where taxpayer has claimed excess ITC. This report generated by GSTN helps to identify such cases so that corrective steps can be taken to prevent revenue leakage.

Sl. No.	RTN_PRD	GSTIN	GR	TRADE NAME	TOTAL_ITC	TOTAL_2A	DIFF ITC-2A

Audit Questions	Reference (Act / Rules/	Auditors Assessment / Remark	Document Verified	Observation noted (Y/N)	HMM No. (in case

<b>(i) Non-reconciliation of difference between ITC claimed as per GSTR-3B and ITC eligible as per GSTR-2A</b>					
	<b>Policy Guidance, etc.)</b>	<b>(i.e. response to the Question)</b>			<b>answer to the previous column in Yes)</b>
<p>Verify:</p> <ul style="list-style-type: none"> <li>• whether tax authorities have taken any action on this report or not.</li> <li>• If no action has been taken, then the reasons for the same and the person responsible.</li> <li>• If action has been taken, then whether: <ul style="list-style-type: none"> <li>○ they have identified the categories of such taxpayers and initiated scrutiny of returns.</li> <li>○ they have identified the amount of excess ITC claimed.</li> <li>○ they have intimated discrepancy to the taxpayers in <b>FORM GST ASMT-10</b>.</li> <li>○ taxpayer accepted the discrepancy and paid the taxes with interest etc. or furnished explanation for the discrepancy in <b>FORM GST ASMT-11</b>.</li> <li>○ appropriate action including those under section 65 (Audit by tax authorities) or section 66 (Special audit by Chartered accountant or Cost accountant) or section 67 (Inspection, Search and</li> </ul> </li> </ul>					

**(i) Non-reconciliation of difference between ITC claimed as per GSTR-3B and ITC eligible as per GSTR-2A**

Seizure) or issue of show cause notice u/s 73/74 have been taken if no satisfactory explanation has been furnished within prescribed period or the registered person fails to take corrective measure in his return after accepting the discrepancies.

- amount still pending

The suggested format of reporting by the internal auditor is given as under:

**Non-reconciliation of ITC between R-3B and R-2A**

Types of Tax Payers	No. of Tax Payers	Amount of excess ITC as per difference in R-2A	Paid/Realised subsequent to report generation	Balance still pending	Further action taken	Risk Level
Very Large Taxpayers						
Large Tax Payers						
Medium Tax Payers						
Small Tax Payers						
<b>Total</b>						

**(ii) Excess claim of Transitional credit**

There may be cases where migrated taxpayers have claimed excess transitional credit as compared to their entitlement based on the amount carried forward in the last return filed by them under existing laws e.g. VAT, excise, Service Tax. To catch hold of such cases, GSTN portal generates following report:

Sl. No.	GSTIN	VAT_RC_NO	TRADE NAME	ITC_CF_201706	SGST_ITC_CLAIMED	DIFFERENCE

<b>(ii) Excess claim of Transitional credit</b>						
<b>Audit Questions</b>	<b>Referen ce (Act / Rules/ Policy Guidan ce, etc.)</b>	<b>Auditors Assessm ent / Remark (i.e. response to the Question )</b>	<b>Docum ent Verifie d</b>	<b>Observat ion noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>	
<p>verify:</p> <ul style="list-style-type: none"> <li>• whether tax authorities have taken any action on this report or not.</li> <li>• If no action has been taken, then the reasons for the same and the person responsible.</li> <li>• If action has been taken, then whether: <ul style="list-style-type: none"> <li>○ they have identified the categories of such taxpayers and initiated scrutiny of returns.</li> <li>○ they have identified the amount of excess ITC claimed.</li> <li>○ they have intimated discrepancy to the taxpayers in <b>FORM GST ASMT-10</b>.</li> <li>○ taxpayer accepted the discrepancy and paid the taxes with interest etc. or furnished explanation for the discrepancy in <b>FORM GST ASMT-11</b>.</li> <li>○ appropriate action including those under section 65 (Audit by tax authorities) or section 66 (Special audit by Chartered accountant or Cost accountant) or section 67 (Inspection, Search and Seizure) or issue of show cause notice u/s 73/74 have been taken if no satisfactory explanation has been furnished within prescribed period or the</li> </ul> </li> </ul>						

<b>(ii) Excess claim of Transitional credit</b>						
registered person fails to take corrective measure in his return after accepting the discrepancies.						
○ amount still pending						
The suggested format of reporting by the internal auditor is given as under:						
<b><u>Excess claim of Transitional credit</u></b>						
<b>Types of Tax Payers</b>	<b>No. of Tax Payers</b>	<b>Amount of excess ITC claimed</b>	<b>Paid/Realised subsequent to report generation</b>	<b>Balance still pending</b>	<b>Further action taken</b>	<b>Risk Level</b>
Very Large Taxpayers						
Large Tax Payers						
Medium Tax Payers						
Small Tax Payers						
<b>Total</b>						

**Sub Auditable Area: A4 Excess/Ineligible refund claimed**

**There is one red flag report generated from GST portal which deals with this matter. This report is:** Non-Crediting of rejected amount of refund to Electronic credit Ledger and non –issuance of Demand notice for recovery

<b>(i) Non-Crediting of rejected amount of refund to Electronic credit Ledger and non–issuance of Demand notice for recovery</b>						
In cases where claim for refund of unutilized ITC is rejected on account of <b>ineligibility</b> of the said ITC, the rejected amount is re-credited to the Electronic Credit Ledger (ECL) of the claimant using <b>Form GST RFD-01B</b> . Simultaneously, for recovery of this amount, a demand notice is required to be issued to the claimant. The ineligible ITC may be due to various reasons such as blocked credit, reversal of extra credit or ITC taken in violation of section 17(2) read with rule 42 and 43. GSTN portal generates the following report in this regard:						
<b>Sl. No.</b>	<b>Refund Order No. Order &amp; Date</b>	<b>Name of the Taxpayer and GSTIN</b>	<b>Period of Refund</b>	<b>Amount of Refund Claimed</b>	<b>Amount of Refund Rejected</b>	

**(i) Non-Crediting of rejected amount of refund to Electronic credit Ledger and non-issuance of Demand notice for recovery**

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
Verify: <ul style="list-style-type: none"> <li>• whether tax authorities have taken any action on this report or not.</li> <li>• If no action has been taken, then the reasons for the same and the person responsible.</li> <li>• If action has been taken, then whether:                             <ul style="list-style-type: none"> <li>○ they have identified the categories of such taxpayers.</li> <li>○ they have identified the amount involved.</li> <li>○ they have issued demand notice for recovery of the amount where refund amount of unutilized ITC has been re-credited to ECL on account of <b>ineligibility</b> of the said ITC</li> </ul> </li> </ul>					

The suggested format of reporting by the internal auditor is given as under:

**Non-issuance of notices for demand of ineligible ITC**

Types of Tax Payers	No. of tax payers	Amount of rejected refund claim re-credited to ECL	Demand Notices not issued		Risk Level
			No.	Amount involved	
Very Large Taxpayers					

**(i) Non-Crediting of rejected amount of refund to Electronic credit Ledger and non-issuance of Demand notice for recovery**

Large Tax Payers					
Medium Tax Payers					
Small Tax Payers					
<b>Total</b>					

**Sub Auditable Area: A5 Non-disposal/late disposal of refund cases resulting in interest liability**

**There is one red flag report generated from GST portal which deals with this matter. This report is:**

- Non-disposal of GST refund cases

**(i) Non-disposal of GST refund cases**

In case refund order is not issued within 60 days from the date of receipt of application compete in all respect, interest @ 6% becomes payable from 61st day till the date of refund of such tax. So, late compliance or non-compliance on this account results in revenue loss to the government. GSTN Portal generates following report in this regard:

**Statement of un-disposed refund cases due to non-compliance to the provisions of the trade circular issued by the CCT**

Sl. No.	GSTIN	ARN	Trade Name of Taxpayer	Date of Filing	Tax Period	Amount of Refund Claimed	
Audit Questions			Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)

<b>(i) Non-disposal of GST refund cases</b>					
Verify: <ul style="list-style-type: none"> <li>• whether tax authorities have taken any action on this report or not.</li> <li>• If no action has been taken, then the reasons for the same and the person responsible.</li> <li>• If action has been taken, then whether:                             <ul style="list-style-type: none"> <li>○ they have identified the categories of such taxpayers.</li> <li>○ they have identified the reason for the delay in compliance and the amount of such refund.</li> <li>○ they have calculated the interest amount which becomes payable because of delayed refund</li> </ul> </li> </ul>					
The suggested format of reporting by the internal auditor is given as under:					
<b>Types of Tax Payers</b>	<b>No. of Tax Payers</b>	<b>Amount of unclaimed refund</b>	<b>Interest payable on such refund</b>	<b>Risk Level</b>	
Very Large Taxpayers					
Large Tax Payers					
Medium Tax Payers					
Small Tax Payers					
<b>Total</b>					

**3.1.6 Summary position of revenue leakage detected through Red Flag Reports**

**Summary position of Outward Liability not reported (Including Reverse Charge Liability)**

(INR in Lacs)

<b>Revenue Leakage (As per Red Flag Reports)</b>	<b>Cross Reference</b>	<b>Revenue Leakage Detected (Net of subsequent</b>	<b>Amount involved in litigation</b>	<b>Recovery through recovery proceedings</b>	<b>Balance (Pending to be realized)</b>



		<b>realization, if any)</b>			
Taxpayers who have not filed GSTR-3B for the Return period	A1. (i)				
All Registered Taxpayers who never filed R-3B and registered on or before 1 <sup>st</sup> day of July 2017	A1. (ii)				
Taxpayers who have not filed at least three R-3B and figuring in 2A for the return period	A1. (iii)				
Taxpayers who have not filed R-3B but generated E-way bill	A1. (iv)				
Number of Taxpayers who have filed R-1 but not R-3B for return period	A1. (v)				
Non- migration of eligible taxpayers to GST	A1. (vi)				
Non- Submission of Final Return by a person who has cancelled his GST registration	A1. (vi)				

**Summary position of Outward Liability under reported (Including Reverse Charge Liability)**

(INR in Lacs)

<b>Revenue Leakage (As per Red Flag Reports)</b>	<b>Cross Reference</b>	<b>Revenue Leakage Detected (Net of subsequent realization, if any)</b>	<b>Amount involved in litigation</b>	<b>Recovery through recovery proceedings</b>	<b>Balance (Pending to be realized)</b>
Mismatch in tax liability declared in R-1 and R-3B for the period	A1.2 (i)				
Mismatch in liability declared in E-way Bill and that reported in GSTR-3B	A1.2 (ii)				
<b>Total</b>					

**Summary position of Excess/Ineligible ITC availed/Utilised**

(INR in Lacs)

Revenue Leakage (As per Red Flag Reports)	Cross Reference	Revenue Leakage Detected (Net of subsequent realization, if any)	Amount involved in litigation	Recovery through recovery proceedings	Balance (Pending to be realized)
Non-reconciliation of difference between ITC claimed as per GSTR-3B and ITC eligible as per GSTR-2A	A1.3 (i)				
Excess claim of Transitional credit	A1.4 (ii)				
<b>Total</b>					

**3.1.6.4 Summary position of excess/ineligible refund claimed**

(INR in Lacs)

Revenue Leakage (As per Red Flag Reports)	Cross Reference	Revenue Leakage Detected (Net of subsequent realization, if any)	Amount involved in litigation	Recovery through recovery proceedings	Balance (Pending to be realized)
Non-Crediting of rejected amount of refund to Electronic credit Ledger and non –issuance of Demand notice for recovery	A1.4				
<b>Total</b>					

**3.1.6.5 Summary position of Non-disposal/late disposal of refund cases resulting in interest liability**

(INR in Lacs)

Revenue Leakage (As per Red Flag Reports)	Cross Reference	Revenue Leakage Detected (Net of subsequent realization, if any)	Amount involved in litigation	Recovery through recovery proceedings	Balance (Pending to be realized)

		<b>realization, if any)</b>			
Non-disposal of GST refund cases	A.1.5				
<b>Total</b>					

**Key Auditable Area: B. Audit by Tax Authorities**

**Sub Auditable Area: B1 Annual Return and Reconciliation Statement**

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
Obtain a list of active and cancelled taxpayers of the circle during the relevant financial year. And identified the aggregate turnover for the relevant financial year of the taxpayers.					
Out of above, how many taxpayers have aggregate turnover exceeding INR 5 crores.					
How many taxpayers filed both GSTR 9 and GSTR 9C?					
How many taxpayers filed only GSTR 9 and not GSTR 9C? In such cases, such annual returns shall be deemed not filed and consequent late fee provisions shall become applicable.					
How many taxpayers neither filed GSTR 9 nor GSTR 9C?					
Whether notices <sup>36</sup> has been issued for non-filing of return where both GSTR 9 and GSTR 9C or only GSTR 9C have not been filed.					
Obtain a summary report from the jurisdictional officer containing taxpayer-wise details of additional					

<sup>36</sup> Section 46

<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance, etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
liability reported in GSTR 9 and GSTR 9C, actual payment of tax and interest made through DRC-03 and amount still due as on the date of report. Furnish this report in the format prescribed below.					
In case payment not made through DRC-03, whether any follow up action was taken?					
In case of non-compliance, whether jurisdictional officer has issued any show cause notice under section 73/74.					

The suggested format of reporting by the internal auditor is given as under:

**1: Cases where Annual return has been filed**

<b>Types of Tax Payers</b>	<b>No. of Tax Payers</b>	<b>Additional liability reported in GSTR 9C</b>	<b>Additional liability reported in GSTR 9C</b>	<b>Payment made through DRC-03</b>	<b>Balance due</b>	<b>Risk Level</b>
Very Large Taxpayers						
Large Tax Payers						
Medium Tax Payers						
Small Tax Payers						
<b>Total</b>						

**2: Cases where both GSTR 9 and GSTR 9C have not been filed**

<b>Types of Taxpayers</b>	<b>No. of Taxpayers</b>	<b>Whether Notices issued</b>	<b>Estimated revenue leakage</b>	<b>Remarks (Please furnish a note for such estimation)</b>	<b>Risk Level</b>

<b>Audit Questions</b>	<b>Referenc e (Act / Rules/ Policy Guidanc e, etc.)</b>	<b>Auditors Assessmen t / Remark (i.e. response to the Question)</b>	<b>Documen t Verified</b>	<b>Observatio n noted (Y/N)</b>	<b>HMM No. (in case answer to the previou s column in Yes)</b>
Very Large Taxpayers					
Large Taxpayers					
Medium Taxpayers					
Small Taxpayers					
<b>Total</b>					

**3: Breakup of additional liability reported/Estimated liability**

<b>Additional Liability</b>	<b>Reported in GSTR 9</b>	<b>Reported in GSTR 9C</b>	<b>Estimated liability where GSTR-9 and 9C not filed</b>	<b>Total</b>	<b>Payment made through DRC-03</b>	<b>Balance due</b>	<b>Risk Level</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5) = (2+3+4)</b>	<b>(6)</b>	<b>(7) = (5-6)</b>	<b>(8)</b>
Outward supply not reported							
Outward supply under reported							
Excess/Ineligible ITC availed/utilised							
Excess/Ineligible refund claimed							

<b>Audit Questions</b>	<b>Referenc e (Act / Rules/ Policy Guidance, etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Documen t Verified</b>	<b>Observatio n noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
ITC/Refund claimed through fraud etc.					
Interest not paid/short paid					
<b>Total</b>					

**Sub Auditable Area: B2 Review of Scrutiny of Returns done by Proper Officer**

<b>Audit Questions</b>	<b>Referenc e (Act / Rules/ Policy Guidance, etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Documen t Verified</b>	<b>Observatio n noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
Obtain a list of the cases selected for scrutiny assessment based the parameters decided by the State Tax Department/ CIBC. <b>Indicate total no. here.</b>					
Out of above, number of cases where scrutiny started					
Number of cases where scrutiny not yet started					
Number of cases where scrutiny is in process					
Number of cases where scrutiny completed					

Audit Questions	Reference (Act / Rules/ Policy Guidance , etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
No. of cases where revenue leakage has been detected					
Amount of revenue leakage detected					
Whether any cases of ITC/refund claim through fraud etc.					
Cases where discrepancies intimated through <b>Form GST ASMT-10</b> and explanation sought- <b>No. and Amount</b>					
Cases where no such notice was issued so far – <b>No. and Amount</b>					
Cases where revenue realized, and explanation obtained in <b>Form GST ASMT-11</b> – <b>No. and amount</b>					
Cases of unsatisfactory explanation and failure to take corrective measures after accepting discrepancies- <b>No. and amount</b>					
Cases where matter referred to audit wing for Audit by tax authorities- <b>No. and Amount</b>					
Cases where matter referred for Special audit by Chartered accountant or Cost accountant- <b>No. and Amount</b>					
Cases where matter referred for inspection, search, and seizure - <b>No. and Amount</b>					
Cases where Show because notices issued u/s 73/74 where demand not accepted by taxpayers- <b>No. and Amount</b>					
<p>The suggested format of reporting by the internal auditor is given as under:  <b>1: Outward liability not reported (Including Reverse Charge Liability)</b></p>					



Audit Questions			Reference (Act / Rules/ Policy Guidance , etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
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Types of Taxpayers	No. of Tax Payers	Revenue leakage detected	Demand accepted and paid by taxpayers		SCN issued where demand not accepted		Recovery through Recovery Proceedings	Risk Level
			No.	Amt	No.	Amt		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**2: Outward liability under reported (Including Reverse Charge Liability)**

Types of Taxpayers	No. of Tax Payers	Revenue leakage detected	Demand accepted and paid by taxpayers		SCN issued where demand not accepted		Recovery through Recovery Proceedings	Risk Level
			No.	Amt	No.	Amt		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**3: Excess/Ineligible ITC availed/Utilized**

Audit Questions			Referenc e (Act / Rules/ Policy Guidance , etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Documen t Verified	Observatio n noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
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Types of Taxpayers	No. of Tax Payers	Revenue leakage detected	Demand accepted and paid by taxpayers		SCN issued where demand not accepted		Recovery through Recovery Proceedings	Risk Level
			No.	Amt	No.	Amt		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**4: Excess/Ineligible refund claimed**

Types of Taxpayers	No. of Tax Payers	Revenue leakage detected	Demand accepted and paid by taxpayers		SCN issued where demand not accepted		Recovery through Recovery Proceedings	Risk Level
			No.	Amt	No.	Amt		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**D5: ITC/Refund claim through Fraud etc.**

Audit Questions			Reference (Act / Rules/ Policy Guidance , etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
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Types of Taxpayers	No. of Tax Payers	Revenue leakage detected	Demand accepted and paid by taxpayers		SCN issued where demand not accepted		Recovery through Recovery Proceedings	Risk Level
			No.	Amt	No.	Amt		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**6 Interest not paid/short paid**

Types of Taxpayers	No. of Tax Payers	Revenue leakage detected	Demand accepted and paid by taxpayers		SCN issued where demand not accepted		Recovery through Recovery Proceedings	Risk Level
			No.	Amt	No.	Amt		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**7: Summary position of revenue leakage detected through Scrutiny of Returns by Proper Office (INR in Lacs)**

Audit Questions			Reference (Act / Rules/ Policy Guidance , etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
Sl. No.	Revenue area	Leakage	Cross Reference	Revenue Leakage Detected (Net of realization, if any)	Amount involved in litigation	Recovery through recovery proceedings	Balance (Pending to be realized)
1.	Outward liability not reported (Including RCM)		D1				
2.	Outward liability under reported (Including RCM)		D2				
3.	Excess/Ineligible ITC availed/Utilized		D3				
4.	Excess/Ineligible Refund claimed		D4				
5.	ITC/Refund claimed through fraud etc.		D5				
6.	Interest not paid/short paid		D6				
	<b>Total</b>						

**Sub Auditable Area: B3 Review of Special Audit by a Nominated Chartered Accountant or Cost Accountant**

<b>Audit Questions</b>	<b>Referenc e (Act / Rules/ Policy Guidance , etc.)</b>	<b>Auditors Assessmen t / Remark (i.e. response to the Question)</b>	<b>Documen t Verified</b>	<b>Observatio n noted (Y/N)</b>	<b>HMM No. (in case answer to the previou s column in Yes)</b>
Obtain a list of the directions issued to nominated CA/CMA's in <b>FORM GST ADT-03</b> for conduct of special audit. Indicate Total No. of such audits here					
Number of audits not yet started					
Number of audits in process					
Number of audits concluded, and reports submitted					
No. of cases where revenue leakage has been detected					
Amount of revenue leakage detected					
Whether any cases of ITC/refund claim through fraud etc.					
No. of auditee to whom revenue leakage has been communicated through <b>Form GST ADT-4</b>					
No. of auditee to whom revenue leakage has NOT been communicated through <b>Form GST ADT-4</b>					
Revenue realized subsequent to issue of <b>Form GST ADT-04 –No. and Amount</b>					
Demand not accepted by the auditee- No. and amount					
Show because notices issued u/s 73/74 where demand not accepted by auditee					

Audit Questions	Reference (Act / Rules/ Policy Guidance , etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
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The Internal auditor should prepare following report based on the information gathered from the department:

**1: Outward liability not reported (Including Reverse Charge Liability)**

Types of Taxpayers	No. of Tax Payers	Revenue leakage detected	Demand accepted and paid by auditee		SCN issued where demand not accepted		Recovery through Recovery Proceedings	Risk Level
			No.	Amt	No.	Amt		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**2: Outward liability under reported (Including Reverse Charge Liability)**

Types of Taxpayers	No. of Tax Payers	Revenue leakage detected	Demand accepted and paid by auditee		SCN issued where demand not accepted		Recovery through Recovery Proceedings	Risk Level
			No.	Amt	No.	Amt		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								

<b>Audit Questions</b>	<b>Referenc e (Act / Rules/ Policy Guidance , etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Documen t Verified</b>	<b>Observatio n noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
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Small Tax Payers					
<b>Total</b>					

**3: Excess/Ineligible ITC availed/Utilized**

<b>Types of Taxpayers</b>	<b>No. of Tax Payers</b>	<b>Revenue leakage detected</b>	<b>Demand accepted and paid by auditee</b>		<b>SCN issued where demand not accepted</b>		<b>Recovery through Recovery Proceedings</b>	<b>Risk Level</b>
			<b>No.</b>	<b>Amt</b>	<b>No.</b>	<b>Amt</b>		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**4: Excess/Ineligible refund claimed**

<b>Types of Taxpayers</b>	<b>No. of Tax Payers</b>	<b>Revenue leakage detected</b>	<b>Demand accepted and paid by auditee</b>		<b>SCN issued where demand not accepted</b>		<b>Recovery through Recovery Proceedings</b>	<b>Risk Level</b>
			<b>No.</b>	<b>Amt</b>	<b>No.</b>	<b>Amt</b>		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								

<b>Audit Questions</b>	<b>Referenc e (Act / Rules/ Policy Guidance , etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Documen t Verified</b>	<b>Observatio n noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
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Small Tax Payers					
<b>Total</b>					

**6: ITC/Refund claim through Fraud etc.**

<b>Types of Taxpayers</b>	<b>No. of Tax Payers</b>	<b>Revenue leakage detected</b>	<b>Demand accepted and paid by auditee</b>		<b>SCN issued where demand not accepted</b>		<b>Recovery through Recovery Proceedings</b>	<b>Risk Level</b>
			<b>No.</b>	<b>Amt</b>	<b>No.</b>	<b>Amt</b>		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**6: Interest not paid/short paid**

<b>Types of Taxpayers</b>	<b>No. of Tax Payers</b>	<b>Revenue leakage detected</b>	<b>Demand accepted and paid by auditee</b>		<b>SCN issued where demand not accepted</b>		<b>Recovery through Recovery Proceedings</b>	<b>Risk Level</b>
			<b>No.</b>	<b>Amt</b>	<b>No.</b>	<b>Amt</b>		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								



<b>Audit Questions</b>	<b>Referenc e (Act / Rules/ Policy Guidance , etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Documen t Verified</b>	<b>Observatio n noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
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Small Tax Payers					
<b>Total</b>					

**7: Summary position of revenue leakage detected by Special Auditors (INR in Lacs)**

<b>Sl. No.</b>	<b>Revenue Leakage area</b>	<b>Cross Reference</b>	<b>Revenue Leakage Detected (Net of realization, if any)</b>	<b>Amount involved in litigation</b>	<b>Recovery through recovery proceedings</b>	<b>Balance (Pending to be realized)</b>
B1	Outward liability not reported (Including RCM)	B1				
B2	Outward liability under reported (Including RCM)	B2				
B3	Excess/Ineligible ITC availed/Utilized	B3				
B4	Excess/Ineligible Refund claimed	B4				
B5	ITC/Refund claimed through fraud etc.	B5				
B6	Interest not paid/short paid	B6				
	<b>Total of B2</b>					

**Key Auditable Area: C. Assessment**

**Sub Auditable Area: C1 & C2 Review of Best Judgement assessments & Summary assessments**

Audit Questions	Reference (Act / Rules/ Policy Guidance , etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
Obtain a list of the non-filers of returns. <b>Indicate Total No. here.</b>					
Obtain a list of the persons who failed to obtain registration though liable to do so. <b>Indicate Total No. here.</b>					
Obtain a list of the persons whose registration has been cancelled but who are liable to pay tax. <b>Indicate Total No. here.</b>					
Whether notice <sup>37</sup> has been issued in case of non-filers. <b>Indicate Total No. here.</b>					
Whether notice <sup>38</sup> has been issued in <b>FORM GST ASMT-14</b> in case of persons who failed to obtain registration though liable to do so. <b>Indicate Total No. here.</b>					
Whether notice <sup>39</sup> has been issued in <b>FORM GST ASMT-14</b> in case of persons whose registration has been cancelled but who are liable to pay tax. <b>Indicate Total No. here.</b>					

<sup>37</sup> Under Section 46

<sup>38</sup> Under Section 46

<sup>39</sup> Under Section 46

<b>Audit Questions</b>	<b>Referenc e (Act / Rules/ Policy Guidance , etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Documen t Verified</b>	<b>Observatio n noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>			
No. of cases where revenue leakage has been detected								
Amount of revenue leakage detected								
Whether any cases of ITC/refund claim through fraud etc.								
Cases where revenue realized <b>No. and amount</b>								
Cases where no response received <b>No. and amount</b>								
Cases where Best Judgement assessment Order was passed- <b>No. and Amount</b>								
Obtain a list of the persons where proper officer came across evidence of a person's tax liability- <b>Indicate Total No. here.</b>								
Cases where Summary assessment Order was passed- <b>No. and Amount</b>								
The suggested format of reporting by the internal auditor is given as under:								
<b>1: Outward liability not reported (Including Reverse Charge Liability)</b>								
<b>Types of Taxpayers</b>	<b>No. of Tax Payers</b>	<b>Revenue leakage detected</b>	<b>Demand accepted and paid by taxpayers</b>		<b>Demand not accepted and paid by taxpayers</b>		<b>Recovery through Recovery Proceedings</b>	<b>Risk Level</b>
			<b>No.</b>	<b>Amt</b>	<b>No.</b>	<b>Amt</b>		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								

<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance , etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
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Small Tax Payers					
<b>Total</b>					

**2: Outward liability under reported (Including Reverse Charge Liability)**

<b>Types of Taxpayers</b>	<b>No. of Tax Payers</b>	<b>Revenue leakage detected</b>	<b>Demand accepted and paid by taxpayers</b>		<b>Demand not accepted and paid by taxpayers</b>		<b>Recovery through Recovery Proceedings</b>	<b>Risk Level</b>
			<b>No.</b>	<b>Amt</b>	<b>No.</b>	<b>Amt</b>		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**3: Excess/Ineligible ITC availed/Utilized**

<b>Types of Taxpayers</b>	<b>No. of Tax Payers</b>	<b>Revenue leakage detected</b>	<b>Demand accepted and paid by taxpayers</b>		<b>Demand not accepted and paid by taxpayers</b>		<b>Recovery through Recovery Proceedings</b>	<b>Risk Level</b>
			<b>No.</b>	<b>Amt</b>	<b>No.</b>	<b>Amt</b>		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								

<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance , etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
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Small Tax Payers					
<b>Total</b>					

**4: Excess/Ineligible refund claimed**

<b>Types of Taxpayers</b>	<b>No. of Tax Payers</b>	<b>Revenue leakage detected</b>	<b>Demand accepted and paid by taxpayers</b>		<b>Demand not accepted and paid by taxpayers</b>		<b>Recovery through Recovery Proceedings</b>	<b>Risk Level</b>
			<b>No.</b>	<b>Amt</b>	<b>No.</b>	<b>Amt</b>		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**5: ITC/Refund claim through Fraud etc.**

<b>Types of Taxpayers</b>	<b>No. of Tax Payers</b>	<b>Revenue leakage detected</b>	<b>Demand accepted and paid by taxpayers</b>		<b>Demand not accepted and paid by taxpayers</b>		<b>Recovery through Recovery Proceedings</b>	<b>Risk Level</b>
			<b>No.</b>	<b>Amt</b>	<b>No.</b>	<b>Amt</b>		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								

<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance , etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
Small Tax Payers					
<b>Total</b>					

**6: Interest not paid/short paid**

<b>Types of Taxpayers</b>	<b>No. of Tax Payers</b>	<b>Revenue leakage detected</b>	<b>Demand accepted and paid by taxpayers</b>		<b>Demand not accepted and paid by taxpayers</b>		<b>Recovery through Recovery Proceedings</b>	<b>Risk Level</b>
			<b>No.</b>	<b>Amt</b>	<b>No.</b>	<b>Amt</b>		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**7: Summary position of revenue leakage detected through Best Judgement/Summary Assessment (INR in Lacs)**

<b>Sl. No.</b>	<b>Revenue Leakage area</b>	<b>Cross Reference</b>	<b>Revenue Leakage Detected (Net of realization, if any)</b>	<b>Amount involved in litigation</b>	<b>Recovery through recovery proceedings</b>	<b>Balance (Pending to be realized)</b>
1.	Outward liability not reported (Including RCM)	E1				

Audit Questions		Reference (Act / Rules/ Policy Guidance , etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
2.	Outward liability under reported (Including RCM)	E2				
3.	Excess/Ineligible ITC availed/Utilized	E3				
4.	Excess/Ineligible Refund claimed	E4				
5.	ITC/Refund claimed through fraud etc.	E5				
6.	Interest not paid/short paid	E6				
<b>Total</b>						

**Key Auditable Area:** D. Follow up Action by Department

**Sub Auditable Area:** D1, D2 & D3 Show Cause Notice/ Recovery Notice issued & Appeal filed by department

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation
List of Show Cause Notice(s) issued if any and their present status				
List of Recovery Notice(s) issued if any and their present status				
Number of Appeal filed by the department against demand contested by taxpayers				

<p>Show because notices issued u/s 73/74 where demand not accepted by auditee - <b>No. and Amount</b></p>				
<p>Follow up action and issue of Show Cause Notice (SCN)                  Whether recovery of amount due has been made after issue of FAR specially on the paras admitted in writing by the registered person?                  If payment is not forthcoming, whether the audit group has prepared draft SCN (DSCN)?                  Whether SCN has been issued to the registered person?</p>				
<p>Delays in Issue of Show cause notice by department (if any)</p>				



**Other Checklists:**

**A. Sample Verification of audit files by Internal Auditor**

<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance, etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
Number of audits not yet started					
Number of audits in process					
Number of audits concluded					
No. of cases where revenue leakage has been detected					
Amount of revenue leakage detected					
Whether any cases of ITC/refund claim through fraud etc.					
No. of auditee to whom revenue leakage has been communicated through <b>Form GST ADT-2</b>					
No. of auditee to whom revenue leakage has NOT been communicated through <b>Form GST ADT-2</b>					
Revenue realized after issue of <b>Form GST ADT-02</b> –No. and amount					
Demand not accepted by the auditee- No. and amount					
Show because notices issued u/s 73/74 where demand not accepted by auditee					
<b>Review of Taxpayer’s data</b>					
Whether all the relevant information about the registered person i.e. registered Person’s Master Profile (RPMF) has been reviewed by accessing the utility named Taxpayer briefly (TAG)?					

<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance, etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
If any information about the registered person is not available, whether the same has been obtained and database updated?					
<b>Audit Intimation</b>					
Whether registered person intimated at least 15 days before commencement of audit through ADT-1?					
If registered person has not responded, then a) appropriate/necessary action has been taken against the Registered Person? b) Downgrade his GST compliance ratings.					
<b>Desk Review</b>					
Based on the updated information is there any indication of escaped GST?					
Whether significant variations have been noticed on such ratio analysis? Whether suitable explanation has been obtained or such area has been thoroughly examined during the course of audit?					
<b>Reconciliation</b>					
<b>Working Papers:</b> Whether relevant Working Paper of each of the above steps has been prepared/filled up?					
<b>Audit Plan</b>					

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
<p><b>Preparation of audit plan:</b> Based on the previous steps which affairs of the registered person may also be added to this list.</p>					
<p><b>Audit Verification</b></p> <p>is possible to rely on the books maintained by the registered person. The scope and the extent of the audit can be reduced in such a case. The reverse would be true if the internal controls are not reliable. Audit should evaluate the soundness of internal control of sub-systems/areas like sales, purchase tax.</p>					
<p><b>Verification of points mentioned in the audit plan:</b></p> <ul style="list-style-type: none"> <li>○ While conducting audit verification, whether special care has been taken to examine all the issues pointed out in the audit plan.</li> <li>○ In case where auditor has noticed any apparent weaknesses in the internal control system, whether he has examined it further</li> </ul>					
<p><b>Physical verification of documents:</b></p> <ul style="list-style-type: none"> <li>○ Whether a detailed scrutiny of documents has been carried out if any issue has been noticed at the time of desk review?</li> <li>○ Whether any supply has been</li> </ul>					

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
<p>received from unregistered persons? If yes, whether tax under RCM has been paid wherever applicable?</p> <p>○ Where a gap has been noticed in ITC availment as per GSTR 3B \ been ascertained in test cases?</p> <p><b>Working Papers:</b>  <b>The working papers form the basis of the audit objection. \</b></p>					
<p><b>Audit objections:</b>                      Whether registered person and can be used for other follow up actions?</p>					
<p><b>Apprising the registered person of irregularities noticed and ascertaining his viewpoint:</b></p> <ul style="list-style-type: none"> <li>• Whether the auditor has intimated the audit objections to the registered person in writing before preparing draft audit report (DAR) and obtained his clarifications with supporting documents?</li> <li>• Whether the findings have been revised where satisfactory evidence/explanation has been submitted after placing the same before Circle DC/ AC and obtaining his approval?</li> <li>• Whether draft audit paras</li> </ul>					

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
<p>have been prepared on the basis of available records if no response has been received from the registered person?</p>					
<p><b>Suggestions to registered person for future compliance:</b></p> <ul style="list-style-type: none"> <li>• Before leaving the registered person’s premises, whether the auditor has discussed future compliance issues with the senior management of the registered person.</li> <li>• Whether the auditor has discussed the steps that management can take to reduce specific errors detected during the audit?</li> <li>• Whether the auditor has suggested improvements in the accounting systems etc. to improve compliance?</li> <li>• Whether written or verbal assurances as given by the registered person has been recorded in the Audit Report?</li> </ul>					
<p><b>Preparation of audit report and follow up</b></p>					
<p><b>Verification Report</b></p> <ul style="list-style-type: none"> <li>• Whether the auditor has prepared a verification report for each issue of the</li> </ul>					

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
<p>approved audit plan including any additional issue (not mentioned in the original plan) which has been verified/ noticed during the course of audit verification?</p> <ul style="list-style-type: none"> <li>• Whether the auditor has discussed each of such issues with the registered person pointing out either non-payment or procedural lapses?</li> <li>• Whether initial views of taxpayer have been recorded in the verification document?</li> <li>• Whether the auditor has apprised the registered person of the provisions relating to voluntary compliance and encouraged him to take advantage of those provisions in order to avoid disputes and litigation?</li> <li>• Where the registered person has agreed with the short levy, as noticed, whether the auditor has explained the benefit available under Section 73(6) / 74 (6) as the case may be and used</li> </ul>					

Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
<p>persuasion as a measure of recovery of dues along with interest, if any, promptly.</p> <ul style="list-style-type: none"> <li>Whether details of spot recoveries and willingness of the registered person to pay short levy has been recorded.</li> </ul>					
<p><b>Monitoring Committee Meetings (MCM)</b></p> <ul style="list-style-type: none"> <li>Whether the auditor has submitted the DAR to the DC/AC of the, the final decision rests with the Audit Commissioner].</li> </ul>					
<p><b>Follow up action and issue of Show Cause Notice (SCN)</b></p> <p>Whether recovery of amount due has been made after issue of FAR specially on the paras admitted in writing by the registered person? If payment is not forthcoming, whether the audit group has prepared draft SCN (DSCN)? Whether SCN has been issued to the registered person?</p>					
<b>Specific issues to be looked into by the Internal Auditor from revenue leakage point of view:</b>					
<b>Classification</b>					
Whether goods/services have been properly classified as per applicable HSN Code as wrong HSN Code may result in payment of no/low GST?		N. No. 01/2017 for goods and 11/2017 for services			

<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance, etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
<b>Exempted Supplies</b>					
Whether registered person provides any exempted supplies? If yes, refer relevant notification under which such exemption has been claimed to check whether such claim is proper or not?		Sec 11, N. No. 02/2017 for goods and 12/2017 for services			
If both taxable and exempted supplies have been made, whether ITC pertaining to exempted supplies has been reversed?		Section 17(1), 17(2), 17(3), Rule 42, 43			
<b>Non-GST Supplies</b>					
Whether registered person provides any Non-GST supplies? If yes, whether ITC reversal has been made where both taxable and Non-GST supplies have been made?		Schedule – III Section 17(1), 17(2), 17(3), Rule 42, 43			
<b>Valuation</b>					
Whether any supply of goods/services has been made to related person? If yes, whether such supply is as per valuation rules?		Explanation to Sec 15 and Valuation Rules 27 to 35			
Whether any Goods / Services have been supplied free of cost (FOC basis) by the recipient, the expenditure of which was to be borne by the registered person? If		Section 15(2)			



Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
yes, whether supplier has included the value of such supplies in its invoices and paid GST thereon?					
Whether any other expenditure was borne by the recipient, which was otherwise required to be borne by the supplier? If yes, whether supplier has included the value of such expenditure in its invoices and paid GST thereon?		Section 15(2)			
Whether supplier has given any discount and consequently reduces its output tax liability? If yes, whether such discount is in accordance with relevant GST provisions and recipient has also reduced his ITC accordingly? <b>Note:</b> If registered person has issued financial credit notes i.e. without mentioning GST liability, then in that case, nothing to report.		Sec 15(3), Sec. 34(1) & 34(2)			
Whether GST has been paid on the gross value received including TDS amount deducted by the recipients?					
Whether supplier has received any reimbursement of expenses from the recipient otherwise than as a pure agent? If yes, whether GST has been paid on that amount?					
Whether supplier has received any interest, late fee, penalty etc. for delayed receipt of consideration? If		Section 15(2)			

<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance, etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
yes, whether GST has been paid thereon?					
<b>Time of Supply</b>					
Whether invoice has been issued as per time of supply provisions?		Sec. 12, 13, 14			
Whether supplier has received any advance payment against supply of services? If yes, whether GST has been received on such receipts?		Section 13			
<b>Place of Supply</b>					
To identify whether a particular supply is intra-state or inter-state whether place of supply has been correctly determined as per GST provisions?		Sec 7 to 13 of IGST Act			
<b>Input tax Credit</b>					
Whether ITC has been availed and utilized on blocked credits?		Section 17(5)			
Whether any capital goods have been sold/disposed of? If yes, whether proportionate ITC thereon has been reversed?		Rule 43			
Whether entire consideration payable to the supplier was paid within 180 days on inputs received? If not, whether reversal of ITC/ interest thereof was done?		2 <sup>nd</sup> proviso to sec 16(2), Rule 37			
In case the supplier is an Input service distributor (ISD), whether he is having any unit supplying only exempted outward supplies? If yes, whether he has distributed the credit					

<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance, etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
in respect of services related to that unit also?					
Whether ITC availed as per GSTR 3B has been reconciled with GSTR 2A and the reason for gap has been identified?					
Whether ITC has been claimed without actual receipt of goods/services?		E-way Bill, GSTR returns of suppliers			
Whether ITC has been availed on receipt of works contract services/receipt of goods and services for construction of immovable property for own use?		Sec 17(5)(c) & (d)			
Whether ITC has been availed on goods or services which have been distributed as free samples/gifts?		Sec 17(5)(h)			
<b>Reverse Charge</b>					
Whether registered person has received any inward supply on which reverse charge is applicable? If yes, whether GST liability thereon has been properly discharged?		Sec 9(3), 9(4), N. No. 04/2017 for goods, 13/2017 for services			
<b>Exports and SEZ Supplies</b>					
Whether registered person is engaged in export of goods/services or SEZ supplies?		Sec 16 of IGST Act			
If yes, whether such export is on payment of tax or without payment of tax?		Sec 16 of IGST Act			

<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance, etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
If without payment of tax, whether export has been made against Letter of Undertaking (LUT)?		Sec 16 of IGST Act			
If yes, whether any refund has been claimed on unutilized ITC? If yes, whether such claim is proper as per GST provisions?		Section 54, Rule 89 to —			
Is the payment for services exported received by the service provider in convertible foreign currency? If not, list those transactions where amounts are not received in foreign currency?					
Is the payment for services exported received by the service provider in convertible foreign currency within the time limit prescribed by RBI? If not, give details?					
Whether any services have been exported to “Associated Enterprises”? If yes, mention the value thereof.					
<b>Input Service Distributor</b>					
Whether the taxable person is also registered as an Input Service Distributor? If yes, whether he has distributed any input credit and whether such distribution is in accordance with the GST provisions?					
<b>Miscellaneous</b>					
Whether any offence case is booked against registered person in respect					

<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance, etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
of GST, Income Tax, VAT/ Sales Tax. If so, details thereof.					

The suggested format of reporting by the internal auditor is given as under:

**F1: Outward liability not reported (Including Reverse Charge Liability)**

<b>Types of Taxpayers</b>	<b>No. of Tax Payers</b>	<b>Revenue leakage detected</b>	<b>Demand accepted and paid by taxpayers</b>		<b>SCN issued where demand not accepted</b>		<b>Recovery through Recovery Proceedings</b>	<b>Risk Level</b>
			<b>No.</b>	<b>Amt</b>	<b>No.</b>	<b>Amt</b>		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**F2: Outward liability under reported (Including Reverse Charge Liability)**

<b>Types of Taxpayers</b>	<b>No. of Tax Payers</b>	<b>Revenue leakage detected</b>	<b>Demand accepted and paid by taxpayers</b>		<b>SCN issued where demand not accepted</b>		<b>Recovery through Recovery Proceedings</b>	<b>Risk Level</b>
			<b>No.</b>	<b>Amt</b>	<b>No.</b>	<b>Amt</b>		
Very Large Taxpayers								
Large Tax Payers								

Audit Questions		Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
Medium Tax Payers						
Small Tax Payers						
<b>Total</b>						

**F3: Excess/Ineligible ITC availed/Utilized**

Types of Taxpayers	No. of Tax Payers	Revenue leakage detected	Demand accepted and paid by taxpayers		SCN issued where demand not accepted		Recovery through Recovery Proceedings	Risk Level
			No.	Amt	No.	Amt		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**F4: Excess/Ineligible refund claimed**

Types of Taxpayers	No. of Tax Payers	Revenue leakage detected	Demand accepted and paid by taxpayers		SCN issued where demand not accepted		Recovery through Recovery Proceedings	Risk Level
			No.	Amt	No.	Amt		
Very Large Taxpayers								

Audit Questions		Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
Large Tax Payers						
Medium Tax Payers						
Small Tax Payers						
<b>Total</b>						

**F5: ITC/Refund claim through Fraud etc.**

Types of Taxpayers	No. of Tax Payers	Revenue leakage detected	Demand accepted and paid by taxpayers		SCN issued where demand not accepted		Recovery through Recovery Proceedings	Risk Level
			No.	Amt	No.	Amt		
Very Large Taxpayers								
Large Tax Payers								
Medium Tax Payers								
Small Tax Payers								
<b>Total</b>								

**F6: Interest not paid/short paid**

Types of Taxpayers	No. of Tax Payers	Revenue leakage detected	Demand accepted and paid by taxpayers		SCN issued where demand not accepted		Recovery through Recovery Proceedings	Risk Level
			No.	Amt	No.	Amt		

Audit Questions		Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
Very Large Taxpayers						
Large Tax Payers						
Medium Tax Payers						
Small Tax Payers						
<b>Total</b>						

**F7: Summary position of revenue leakage detected by Internal Auditor**

(INR in Lacs)

Sl. No.	Revenue area	Leakage	Cross Reference	Revenue Leakage Detected (Net of realization, if any)	Amount involved in litigation	Recovery through recovery proceedings	Balance (Pending to be realized)
1.	Outward liability not reported (Including RCM)		D1				
2.	Outward liability under reported (Including RCM)		D2				
3.	Excess/Ineligible ITC availed/Utilized		D3				
4.	Excess/Ineligible Refund claimed		D4				
5.	ITC/Refund claimed through fraud etc.		D5				



Audit Questions		Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
6.	Interest not paid/short paid	D6				
	<b>Total</b>					

**7.3 Annexures**

**Annexure I: Illustrative Risk Evaluation Matrix**

The risk listing is being done based on the discussion with the concerned official of the department. The list below is dynamic, and risks can be added/removed based on results from actual audits conducted and information collected from other sources.

**Key Auditable Area: A. System Generated Red Flag Reports System**

Sr. No.	Sub Areas	Audit	Risk Listing/Identification	Illustrative/Suggestive Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium , 4-7 and Low: 0-3)
A1	Outward liability not reported (Including Reverse Charge Liability)		<ul style="list-style-type: none"> <li>Loss of Revenue to tax authorities</li> <li>GST collected but not paid to the Government by not declaring output liability</li> <li>Failure to impose interest in case of non-payment/short</li> </ul>	Low or High nos. of red flag reports generated from GSTN regarding non-reporting or under reporting of outward liability and claiming of excess/ineligible.		

Sr. No	Sub Areas	Audit	Risk Listing/Identification	Illustrative/Suggestive Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium , 4-7 and Low: 0-3)
			<p>payment/delayed payment</p> <ul style="list-style-type: none"> <li>▪ Failure to impose interest in case of no-issue or delayed issue of invoice Non-filing of GSTR 3B by the taxpayer including reverse charges e.g. on legal fee, GTA service</li> </ul>	<p>Department conducts regular independent reconciliations between assessment, revenue recorded in the ledger and amount deposited in the bank.</p> <p>There are multiple dealers where huge fluctuation in monthly collection were noted</p> <p>Findings in audit report of tax authorities, special audit, annual return and reconciliation statement, scrutiny of returns, best judgement/summary assessment.</p>		
A2	Outward liability under reported (Including Reverse Charge Liability)		<ul style="list-style-type: none"> <li>• Loss of Revenue to tax authorities</li> <li>▪ GST collected but short paid to the Government by not declaring output liability</li> </ul>	There is no system for periodical reconciliation between receipts issued and amount deposited in the bank		

Sr. No	Sub Areas	Audit	Risk Listing/Identification	Illustrative/Suggestive Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium , 4-7 and Low: 0-3)
			<ul style="list-style-type: none"> <li>• Failure to impose interest in case of non-payment/short payment/delayed payment</li> <li>▪ Failure to impose interest in case of no-issue or delayed issue of invoice Non-filing of GSTR 3B by the taxpayer including reverse charges e.g. on legal fee, GTA service</li> </ul>	<p>Good procedures are in place to ensure unpaid liabilities are pursued.</p> <p>There are multiple dealers where huge fluctuation in monthly collection were noted</p> <p>Findings in audit report of tax authorities, special audit, annual return and reconciliation statement, scrutiny of returns, best judgement/summary assessment.</p>		
A3	Excess/Ineligible ITC availed/Utilised		<ul style="list-style-type: none"> <li>• Loss of Revenue to tax authorities</li> <li>• Non-reconciliation of difference between ITC claimed as per GSTR-3B and ITC eligible as per GSTR-2A</li> <li>• Excess claim of Transitional credit</li> <li>• ITC claimed without fulfilling</li> </ul>	<p>Findings in audit report of tax authorities, special audit, annual return and reconciliation statement, scrutiny of returns, best judgement/summary assessment.</p>		

Sr. No	Sub Areas	Audit	Risk Listing/Identification	Illustrative/Suggestive Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium , 4-7 and Low: 0-3)
			the conditions laid down in section 16(2) <ul style="list-style-type: none"> <li>• ITC availed on blocked credits</li> <li>• ITC availed on goods/services used for non-business purposes or for exempt outward supplies</li> <li>• ITC not reversed in case of failure to pay within 180 days from the date of supplier's invoice</li> </ul>			
<b>A4</b>	Excess/Ineligible refund claimed		<ul style="list-style-type: none"> <li>• Loss of Revenue to tax authorities</li> </ul>	Demand Written-off without authorization  Findings in audit report of tax authorities, special audit, annual return and reconciliation statement, scrutiny of returns, best judgement/summary assessment.		
<b>A5</b>	Non-disposal/late disposal of		<ul style="list-style-type: none"> <li>• Additional cost of interest payment for the department</li> </ul>	Findings in audit report of tax authorities, special		

Sr. No.	Sub Areas	Audit	Risk Listing/Identification	Illustrative/Suggestive Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
	refund cases resulting in interest liability			audit, annual return and reconciliation statement, scrutiny of returns, best judgement/summary assessment.		

**Key Auditable Area: B. Audit by Tax Authorities**

Sr. No.	Sub Areas	Audit	Risk Listing/Identification	Illustrative/Suggestive Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
<b>B1</b>	Annual Return and Reconciliation Statement		§ Unjustified delays in completion of Audits by department against the time limit defined in the act	No appropriate actions are taken against detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly availed or utilised  Non monitoring of non-payment of additional tax liability		

			declared in GSTR 9 or 9C		
<b>B2</b>	Scrutiny of returns done by proper officer	<p>§ Unjustified delays in completion of Audits by department against the time limit defined in the act</p> <p>§ Additional Tax liability reported in GSTR 9 or 9C, not actually paid through DRC-03</p>	<p>No appropriate actions are taken against detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly availed or utilised</p> <p>Non monitoring of non-payment of additional tax liability declared in GSTR 9 or 9C</p>		
<b>B3</b>	Special audit report of nominated Chartered accountant or Cost accountant	<p>§ Unjustified delays in completion of Audits by department against the time limit defined in the act</p> <p>§ special audit results in detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly availed or utilised, but the proper officer did not initiate action under Section 73 or 74.</p>	<p>Absence of tracking of time limit for completion of Audit</p> <p>No appropriate actions are taken against detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly</p>		

			availed or utilised		
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**Key Auditable Area: C. Assessment**

<b>Sr. No.</b>	<b>Sub Areas</b>	<b>Audit Risk Listing/Identification</b>	<b>Illustrative/Suggestive Situational Analysis</b>	<b>Risk Assessment (High/Medium/Low)</b>	<b>Score (High =7-10, Medium, 4-7 and Low: 0-3)</b>
<b>C1</b>	Best Judgement assessment by proper officer	<p>§ All returns are not received</p> <p>§ Failure to do the assessment of unregistered dealer</p> <p>§ Failure to complete the assessment in time</p> <p>§ Failure to raise demand in time and in accordance with the provisions of Act and Rules</p> <p>§ Failure to analyse the report of audit wings for reopening of the case based on the findings reported in the investigation report</p>	<p>Returns receipts are not regularly compared to the list of taxpayers to identify late and non-receipts of returns which result in delay of sending reminder to dealer for submission of return</p> <p>Examination done by independent official of returns for their completeness and compare information to supporting documents such as sales, purchase and banking</p>		

			records. However, this examination has not been done from last two years		
<b>C2</b>	Summary Assessment by departmental Authorities	<p>§ All returns are not received</p> <p>§ Failure to do the assessment of unregistered dealer</p> <p>§ Failure to complete the assessment in time</p> <p>§ Failure to raise demand in time and in accordance with the provisions of Act and Rules</p> <p>§ Failure to analyse the report of audit wings for reopening of the case based on the findings reported in the investigation report</p>	<p>No appropriate actions are taken against business charging and claiming VAT illegally</p> <p>Significant delay in passing assessment order and raising demand</p>		

**Key Auditable Area: D. Follow up action by Department**

Sr. No.	Sub Areas	Audit Risk Listing/Identification	Illustrative/Suggestive Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10, Medium, 4-7 and Low: 0-3)
<b>D1</b>	Show cause notices issued by the state	§ Delay in Issuance of Show cause notice	The ratio of total cost and revenue generated by		



	GST department	§ Show cause notice issued to wrong person	the department is more than the standard (i.e. cost of more than 3% of the total revenue)  Absence of action monitoring against the orders issued		
<b>D2</b>	Recovery notices issued by state GST department	§ Increasing cost of collection  § Delay in Issuance of Recovery notice  § recovery notice issued to wrong person  § Recovery pending against the amount due	The ratio of total cost and revenue generated by the department is more than the standard (i.e. cost of more than 3% of the total revenue)  Significant delay in passing assessment order and raising demand  Absence of action monitoring against the orders issued  Significant delays in recovery		

			against demand orders		
<b>D3</b>	Appeal filed by the department against demand contested by taxpayers	§ Failure to comply to the direction of Courts or Tribunal			

**Annexure II: Relevant GST Forms**

Sl. No.	GST Form No.	Title
1	GSTR-1	Details of outward supply of goods or services
2	GSTR-2A	Details of auto drafted supplies
3	GSTR-3A	Notice to return defaulter u/s 46 for not filing return
4	GSTR-3B	Details of outward supplies and inward supplies where date time limit for submitting GSTR-1 and GSTR-2 extended
5	GSTR- 9	Annual Return
6	GSTR-9C	Reconciliation Statement
7	GSTR-10	Final Return
8	DRC- 03	Intimation of payment made voluntarily or made against the show cause notice (SCN) or statement
9	DRC-07	Summary of the Order
10	DRC-07A	Summary of the Order creating demand under existing laws
11	ADT- 01	Notice for conducting audit
12	ADT-02	Audit report under section 65(6)
13	ASMT-10	Notice for intimating discrepancies in the return after scrutiny
14	ASMT-11	Reply to the notice issued under 61 intimating discrepancies in the return
15	ASMT-12	Order of acceptance of reply against the notice issued under 61
16	ASMT-13	Assessment order under section 62
17	ASMT-14	Show Cause Notice for assessment under section 63
18	ASMT-15	Assessment order under section 63
19	ASMT-16	Assessment order under section 64
20	ASMT-17	Application for withdrawal of assessment order issued under section 64
21	ASMT-18	Acceptance or Rejection of application filed under section 64(2)

## **Section 3: Valued Added Tax (VAT)**

**Abbreviations**

<b>ATF</b>	Aviation Turbine Fuel
<b>CST</b>	Central Sales Tax
<b>DD</b>	Deputy Director
<b>DoA</b>	Directorate of Audit
<b>GST</b>	Goods and Service Tax
<b>HMM</b>	Half Margin Memo
<b>MRP</b>	Maximum Retail Price
<b>OAMS</b>	Online Audit Management System
<b>SIB</b>	Special Investigation Branch
<b>TIN</b>	Tax Identification Number
<b>VAT</b>	Value Added Tax

## Structure of this section of the Manual

This section of the manual consist of the following chapters:

Chapter No.	Heading	Brief Description
<b>Chapter – I</b>	Introduction	Includes background, objectives and regulatory framework for the revenue audit of VAT in the State Tax Department.
<b>Chapter – II</b>	Organisation Structure of State Tax Department	Includes Organisation Structure and objectives of the State Tax Department with respect to VAT.
<b>Chapter – III</b>	Important provisions of the Act and Rules	Includes some of important points for revenue audit of VAT.
<b>Chapter – IV</b>	Revenue from VAT	Includes various types of revenue such as VAT, interest, penalties etc., Flow of revenue, matters for audit consideration and identification of key audit area and risk associated with that.
<b>Chapter – V</b>	Audit Process	Includes point of special consideration during audit process of revenue audit of VAT. This chapter shall be read in conjunction with Internal Audit Manual Volume I- Part-I.
<b>Chapter – VI</b>	Audit Check list and Annexure	Includes audit checklist and annexures

Table 1: Structure of this Section of the Manual

## Chapter I: Introduction to Value Added Tax (VAT)

### 1.1 Background

1. The Uttaranchal Value Added Tax Act, 2005 and the Uttaranchal Value Added Tax Rules, 2005 framed thereunder govern the levy, assessment and collection of Value Added Tax (VAT) in the State. Under VAT Act, tax is levied at each stage of sales with allowance of credit of tax paid on purchases (called input tax credit) to nullify cascading effect of multiple taxation. Thus, all the registered dealers are liable to pay tax only on value addition. The VAT Act is administered by the Commercial Tax Department (the Department) of the Government of Uttarakhand. The VAT Act provides for registration of dealers, filing of periodical returns, self-assessment by the dealers and audit assessment of the cases selected by the Department to ascertain the correctness of levy and payment of taxes.
2. VAT is levied at specified percentage on value of the goods and services purchased of and sold within the state. But after introduction of Goods and Service Tax (GST) with effect from 1 July 2017, the Central and State Indirect Taxes such as VAT, Excise Duty and Service Tax has been done away. But there are certain items which have been kept out of the purview of the GST as an exclusion mandated in the Constitutional provisions. In other words, following items are continuing to be taxed under the VAT regime even after the implementation of GST.
  - a. **Alcohol for Human Consumption:** Alcohol for human consumption has been kept outside the preview of GST.
  - b. **Petroleum Product:** Petroleum product such as petroleum crude, moto sprit (commonly known as petrol) high speed diesel, natural gas, and aviation turbine fuel (ATF)

### 1.2 Objectives of VAT Audit Manual

3. The main objectives of this audit manual is to ensure adequate examination of VAT revenue in the State. The manual shall provide to audit parties a comprehensive overview of the procedures, guidelines and checklist which will assist them for conducting VAT revenue audit. This manual shall also bring uniform and systematic risk-based approach in conducting audit of VAT revenue through a clearly defined audit process. The key objectives of this audit manual is provided below.
  - To check that adequate regulations and internal procedures have been developed to ensure an effective check on the assessment, collection and accounting of VAT revenue.
  - To check that applicable regulations and procedures have been implemented and adopted.
  - To check that departments have assessed, collected and accounted for the revenue on time and as per the manner provided in the Act and Rules.
  - To verify the efficiency of internal control and accounting systems.

- To check the effectiveness of the department's own audit system.
- To check the refunds and exemptions allowed in line with the provision of the Act and Rules.

### 1.3 Regulatory Framework

4. This manual is governed by the following Acts, Rule and guidelines and notification issued by Government of Uttarakhand from time to time. The audit parties involved in the audit of VAT revenue is expected to have good understanding of the provisions these act and rules. The applicable Act and Rules are as under:

- Uttarakhand Value Added Tax Act, 2005
- Uttarakhand Value Added Rules, 2005

### 1.4 Important Definitions and Provisions of Acts and Rules

5. The important definitions and provisions relating VAT Acts and Rules. **Refer Part-II, Reference Material, Section-2 for details.**



## Chapter II: Organisation Structure of VAT Department

### 2.1 Organization Structure of VAT Department

6. Refer point 3.1 of Chapter III under Section-2 of this manual.

### 2.2 Function of the VAT Department

7. The Commissioner of Taxes is the administrative **head of the Department** and most of the powers have been vested to him as per Uttarakhand Value Added Tax Act, 2005. He has jurisdiction over whole of the Uttarakhand and has officers of various designations to assist and discharge the office functions. The Commissioner is responsible for enforcement of the Uttarakhand Value Added Tax Act, 2005 and is also responsible for work distribution among the officers and taking any action against them in case any of them fail to discharge the work assigned.
8. The Commissioner of Taxes is assisted by Additional Commissioners of Taxes, Joint Commissioner of Taxes at headquarters. The State is divided into two zone headed by the Additional Commissioner. The organizational structure is dynamic in nature and is subject to change in line with functional realignment of Department.

### 2.3 Objectives of VAT Department

9. The VAT department is responsible for:
  - Proper enforcement of the Uttarakhand Valued Added Act, 2005.
  - Collection of VAT from Dealers.
  - Check on the tax evasion and take action against the dealers involved in violation of the provisions of the Act.
  - Smooth Operation of trade by way of granting registration, issue of statutory forms and various certificates to dealers.

## Chapter III: Revenue from VAT in Uttarakhand

### 3.1 Types of Revenue under VAT

10. After introduction of the Goods and Service Tax (GST), the Central and State indirect taxes such as VAT, Excise Duty and Service Tax has been done away except VAT on alcohol for human consumption and petroleum product which is continuing to be taxed under VAT regime. Below is the types of revenue under VAT regime.

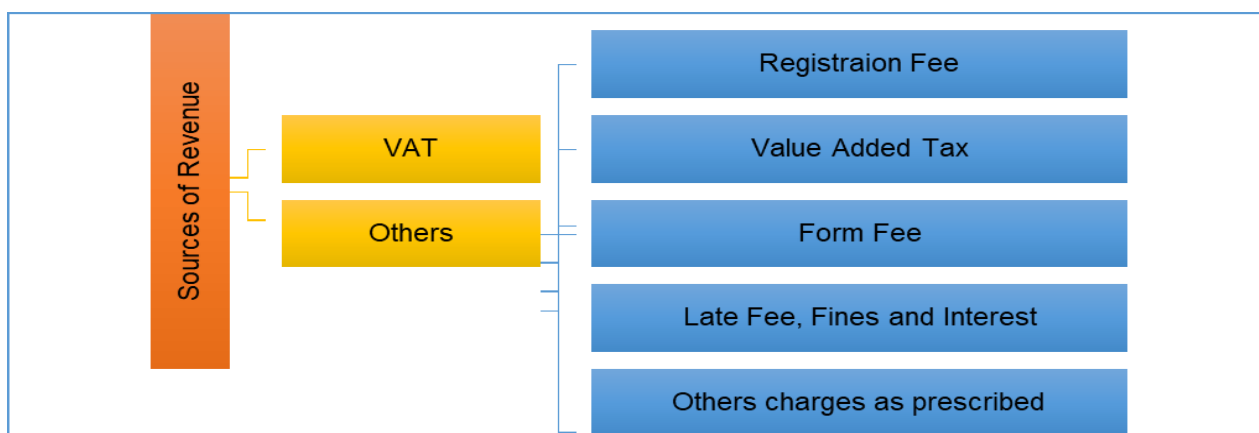


Figure 1: Types of VAT Revenue

### 3.2 Flow of Revenue

11. Revenue Process Flow for petroleum products is as under:

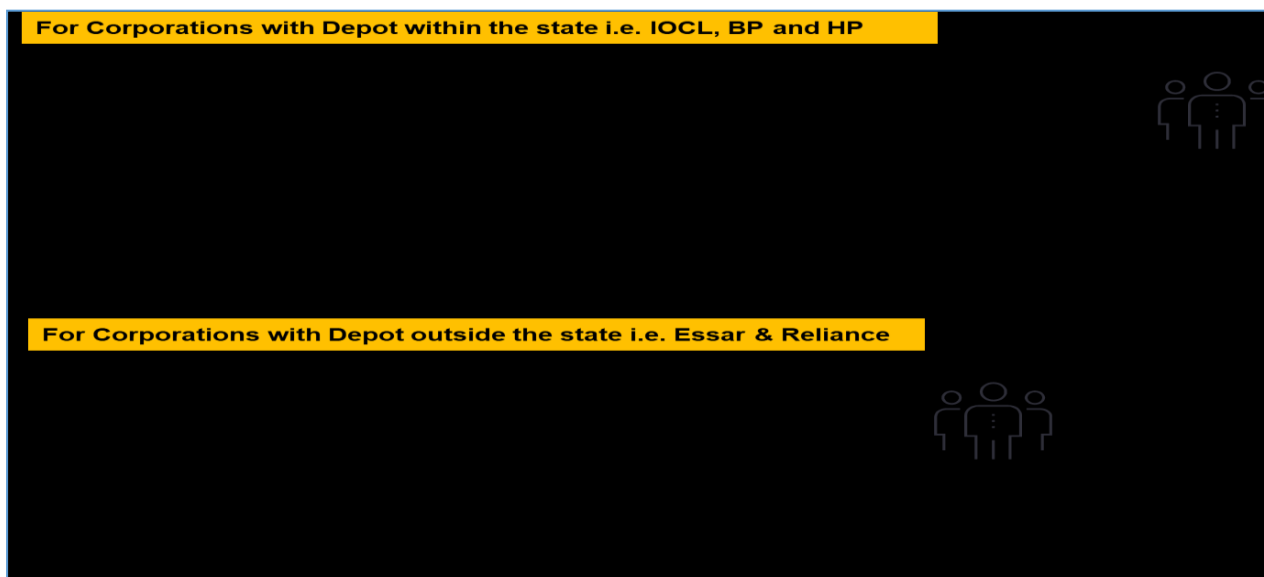


Figure 2: VAT revenue process flow for petroleum products

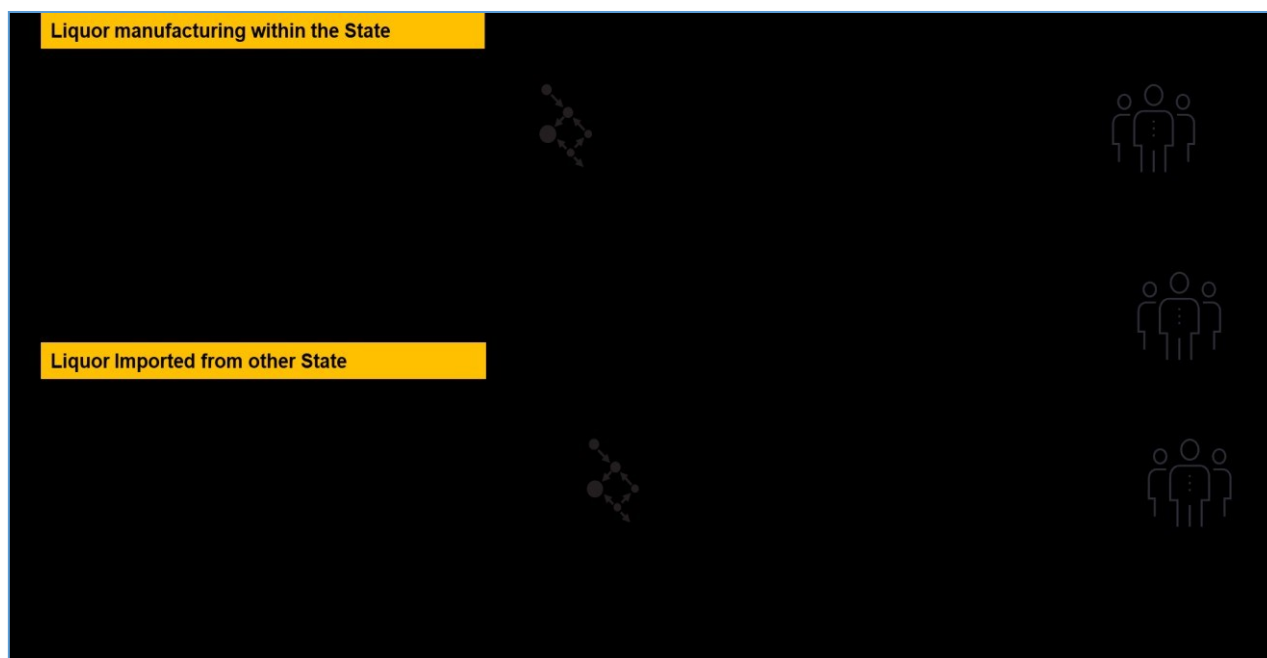


Figure 3: VAT revenue process flow for Alcohol

### 3.3 Component of Maximum Retail Price (MRP)

12. **Petrol and Diesel:** . The auditor may refer to the relevant MRP guidelines declared by the Government for the selected audit duration.
13. **Alcohol:** The MRP calculation of Liquor may be done as per Excise Policy. Relevant year's Excise policy may be referred at the time of Audit.

### 3.4 Matters for Audit Consideration

14. For the purpose of levying VAT, the value of goods and services are determined as under.
  - In case of imported goods, the value for levying VAT is determined on the basis of the value chargeable to Import Duty plus supplementary duty and other duties and taxes.
  - In case of goods supplied, VAT is determined on the basis of the value receivable by the manufactures, producers or traders which will include the value of inputs purchased, all charges, commission fee, all duties and taxes and profit except VAT.
15. **Incidence of Tax:** As per section 3 of VAT Act, 2005 Every person who is registered or is liable to register under the provisions of the VAT act shall be taxable person and liable to pay tax in the manner provided in the VAT act. And the tax shall be levied and charged in accordance with the provisions

of the VAT act on every sale made within the State by registered dealer or a person. (For further guidance please refer section (3) of The Uttarakhand Value Added Tax Act, 2005

16. **Rate of Tax:** Section 4 (1) states “Tax Payable by dealer under the VAT act shall be levied on this taxable turnover at such rate as may be prescribed in the schedules. However, rate for Petroleum and Alcohol for Human Consumption has been defined in Schedule-III (*i.e. List of Special Category of Goods taxable at the point of sale at the rate specified therein*)
17. **Input Tax Credit:** Section 6, Input tax credit shall be allowed only to a **registered dealer**, and for the purpose of calculating the net tax payable by a registered dealer for any tax period after being registered, an input tax credit as determined under the provisions of the VAT act, shall be allowed to such registered dealer for tax paid or payable in respect of all taxable sales other than sale of goods specified in **Schedule-III** or any other sales as may be prescribed. Thus, no input tax credit shall be allowed on sale of petroleum and liquor specified in schedule-III i.e., (Refer VAT Department website for rate list specified in Schedule-III) (For further guidance please refer section (3) of The Uttarakhand Value Added Tax Act, 2005.
18. **Net Tax Payable:** (1) Section (5) The net tax payable by a taxable person for a tax period shall be determined by the formula:

$$\text{Net Tax Payable} = (A+B)-C$$

where “A” is output Tax being the total of the tax payable as per sub section (2) below; and  
"B" is Tax on purchases for the said tax period under the provisions of sub-section (10) of section 3: and  
“C” is Input Tax being the total of the tax paid as per sub-section (3) (For further guidance please refer section (5) of The Uttarakhand Value Added Tax Act, 2005.

19. ‘Form ‘F’ is required for stock transfer to branches/ consignment agents or vice-versa from one state to another, without attracting charge of CST. As per section 6A (1) of the CST Act, submission of ‘F form’ with complete details of movement of goods is mandatory to prove stock transfer. Otherwise, the transaction will be treated as normal central sale for all purposes of CST Act including for charging CST at applicable rates. In fact, Form ‘F’ is an evidence to prove that the goods are sent out to other states on ‘stock transfer basis’s and not on ‘sale basis’. The consignment agent/ branch/ HO receiving such stock transfer consignment is required to issue ‘F Form’ to the selling outlet (HO/ Branch/ Consignment Agent) or transferor dealer. (Refer VAT Department website for Format of ‘Form F’)
20. ‘Form ‘C’ comes into picture when interstate trade takes place. The buying dealer from another state issues ‘Form C’ for compliance of ‘CST Rules’ of the state of selling dealer. The buyer can purchase goods at concessional rates, against ‘Form C’, in the inter-state sale. ‘Form C’ can be issued only by a registered dealer to another registered dealer. It can be issued, generally, in respect of raw materials, packing materials goods covered by the certificate of registration of the issuing dealer. If the buying

dealer fails to provide 'Form C', the selling dealer has to pay full CST in due course, therefore it is advisable to obtain appropriate security until the Form is received by the selling dealer. (Refer VAT Department website for Format of 'Form C')

### 3.5 Identify Key Area and Risk Associated to VAT Revenue

21. The auditors are required to identify key areas, risk and mitigating controls relating to VAT operations. The auditors should also assess the adequacy of internal controls put in place by the VAT department to ensure that returns are received, correctly assessed and amount outstanding are collected. The auditors are also required to be aware of other activities that indirectly impact on the assessment and collection of revenue. For this the auditor need to evaluate supporting IT systems and risk of fraudulent practice. Therefore, the auditors need to identify risk posed by these systems and provide appropriate audit response which provides assurance over the effective protection of revenue. The possibilities include the following:

- a. **Under reported Sales:** A dealer may report only proportion of the sales, falsifying records and accounts to match or may make some sales "off the books"
- b. **Misclassification of goods:** a dealer may classify good incorrectly
- c. **VAT illegally** collected but not remitted to the account of Government
- d. **False claim** of credit and refund
- e. **Rate differentiation:** multiple rates create scope for misclassification fraud

## Chapter IV: Audit Process

22. This section provides an overview of the audit life cycle for conducting the revenue audit for VAT in the State Tax Department. Detailed audit processes are provided in the Uttarakhand Internal Audit Manual Volume-I, Part-I and this manual should be read in conjunction with the Internal Audit Manual Volume-I & Volume-II. The major steps involved in an audit life cycle of revenue audit of VAT in the State tax department have been provided through the following flowchart.

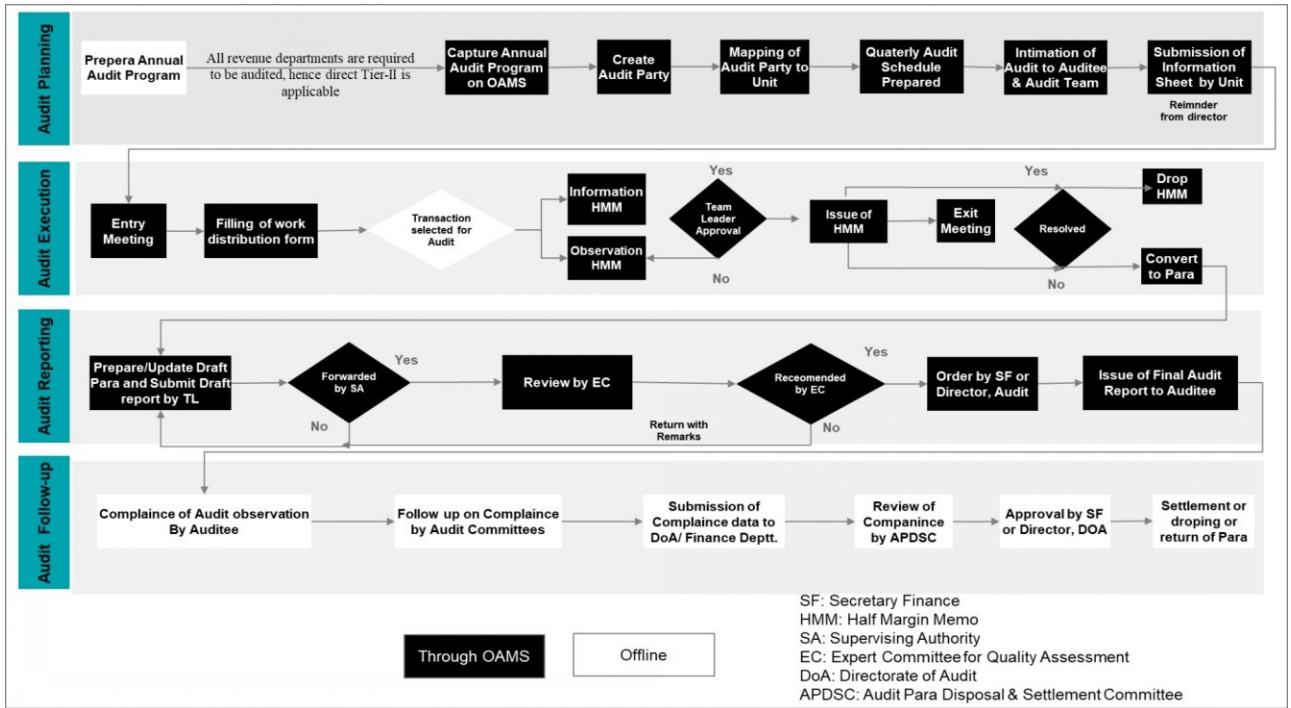


Figure 4: Audit process for revenue audit for GST Revenue of tax Department

23. The activities to the carried out at each stage of audit life cycle has been explained in the below section:

### 4.1 Audit Planning

#### 4.1.1 Audit Planning Activities

24. The process for an internal audit is initiated with the preparation of an internal audit plan which includes assessment of risk, selection of departments, selection of areas to be audited, selection of audit units, allocation of resources, and finalization of timeline for conducting the audit, etc. The preparation of the internal audit plan and assigning of an internal audit to an audit team shall be done in accordance with the provisions and procedures mentioned in Internal Audit Manual through the Online Audit Management system (OAMS). The risk assessment process for the preparation of the

annual audit plan is provided in Internal Audit Manual [Please refer to Chapter 8 of the Internal Audit Manual Volume I, Part-I].

25. The specific considerations related to audit planning with respect GST revenue is provided below:

<b>Risk process</b>	<b>Responsibility</b>	<b>Description and Activities to be conducted</b>																		
<b>Tier – I: Selection of Department to be Audited</b>	Directorate of Audit	<p>This step is to categorize the departments according to its risk-profile and shall be done in accordance with the <b>Internal Audit Manual Volume I, Part-I</b>.</p> <p>The VAT department shall automatically be classified as high-risk department. Therefore, parameters related to selection of departments provided in Tier-I shall not be applicable however, parameters for selection of key auditable areas as specified in Tier-II shall be applicable.</p>																		
<b>Tier – II: Selection of Key Auditable Areas</b>	Directorate of Audit	<p>This step will identify the Key Auditable Areas and the Auditable Sub-Areas which will be subjected to risk assessment to determine the areas to be prioritized for audit.</p> <p>The process to be followed for risk assessment of the Key auditable Area and Auditable Sub-Areas has been mentioned in detail in Internal Audit Manual Volume I, Part-I. [Refer Section 8.2.2.2 of Internal Audit Manual Volume I, Part-I]</p> <p>The Key Auditable Areas and Auditable Sub-Areas related VAT department shall be referred from the table below:</p> <table border="1" data-bbox="635 1391 1465 1671"> <thead> <tr> <th><b>Sr</b></th> <th><b>Key Auditable Area</b></th> <th><b>Illustrative Auditable Sub Areas</b></th> </tr> </thead> <tbody> <tr> <td>A</td> <td>VAT Revenue</td> <td>A1 Levy and collection</td> </tr> <tr> <td></td> <td></td> <td>A2 Assessment</td> </tr> <tr> <td></td> <td></td> <td>A3 Refund</td> </tr> <tr> <td></td> <td></td> <td>A4 Allocation</td> </tr> <tr> <td></td> <td></td> <td>A5 System</td> </tr> </tbody> </table> <p>Table 4: Key auditable area and Auditable sub area for revenue audit of VAT in State Tax department</p> <p>The list of above Key Auditable Areas and Auditable Sub-Areas shall be reviewed and updated periodically by DoA based on the findings during the last audits.</p>	<b>Sr</b>	<b>Key Auditable Area</b>	<b>Illustrative Auditable Sub Areas</b>	A	VAT Revenue	A1 Levy and collection			A2 Assessment			A3 Refund			A4 Allocation			A5 System
<b>Sr</b>	<b>Key Auditable Area</b>	<b>Illustrative Auditable Sub Areas</b>																		
A	VAT Revenue	A1 Levy and collection																		
		A2 Assessment																		
		A3 Refund																		
		A4 Allocation																		
		A5 System																		

Risk process	Responsibility	Description and Activities to be conducted																				
		DoA shall carry out the risk assessment of all the Auditable Sub Areas under each Key Auditable Areas through <i>situational analysis</i> of the risk listed for all such auditable sub areas. The situational analysis of each identified risk shall be done by the DoA based on their discussion with management of department, past serious audit observations, review of internal control environment, media reports, professional judgement, and experience. An illustrative general risk evaluation matrix for all the identified Key Auditable Areas and its Auditable Sub Areas is provided at <b>Annexure I</b> of the Manual. The DOA shall build upon this Matrix based on the actual risks identified during each audit cycle.																				
<b>Tier – III: Selection of auditable units within the Departments</b>	Directorate of Audit	This process to be followed for selection of audit unit to be audited in the revenue department and shall be in accordance with procedure provided in the Internal Audit Manual.																				
		Risk Profiling for audit unit to be shall be based on financial, non-financial Parameters and special parameters. An illustrative list for these parameters along with their score, range and weightage are provided below:																				
		<table border="1"> <thead> <tr> <th rowspan="2">#</th> <th rowspan="2">Parameter Name</th> <th rowspan="2">Description of Parameters</th> <th colspan="3">Scoring</th> <th rowspan="2">Weightage</th> </tr> <tr> <th>Variable</th> <th>Range</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Value of serious audit Parameters for compliance in AG report</td> <td>Value of serious Audit Paras (AG audit) pending for compliance at end of the immediately preceding financial year needs to be</td> <td>Value of serious AG para pending for compliance for the unit (AG Audit)</td> <td>0-0.50 Cr.</td> <td>0-3</td> <td rowspan="2">15%</td> </tr> <tr> <td></td> <td></td> <td></td> <td>0.5 to 1.5 Cr.</td> <td>6</td> </tr> </tbody> </table>	#	Parameter Name	Description of Parameters	Scoring			Weightage	Variable	Range	Score	1	Value of serious audit Parameters for compliance in AG report	Value of serious Audit Paras (AG audit) pending for compliance at end of the immediately preceding financial year needs to be	Value of serious AG para pending for compliance for the unit (AG Audit)	0-0.50 Cr.	0-3	15%			
#	Parameter Name	Description of Parameters				Scoring				Weightage												
			Variable	Range	Score																	
1	Value of serious audit Parameters for compliance in AG report	Value of serious Audit Paras (AG audit) pending for compliance at end of the immediately preceding financial year needs to be	Value of serious AG para pending for compliance for the unit (AG Audit)	0-0.50 Cr.	0-3	15%																
			0.5 to 1.5 Cr.	6																		



Risk process	Responsibility	Description and Activities to be conducted						
				considered				
		2	Value of serious Internal Audit Paras pending compliance	Cumulative Value of Internal audit serious paras pending for compliance at end of the immediately preceding financial year needs to be considered	Cumulative Value of internal audit serious paras pending for compliance for the respective audit unit	0 0-20L >20L-50L >50L	0 3 6 10	15%
		3	Past Internal Audit Conducted	Numbers of Years since last Internal Audit conducted for the units	Years Pending for Internal Audit	0 1 2 3 or more	0 3 6 10	20%
<b>Specific Parameters for Key Auditable Areas for Revenue Audit</b>								
		4	Trend of Revenue Receipts	Variation in total revenue receipts over the immediately preceding financial year (both positive & negative)	% variation in total revenue receipts over the immediately preceding financial year (both positive & negative)	5-15% 15-25% >25%	3 6 10	20%

Risk process	Responsibility	Description and Activities to be conducted						
		5	Registered Dealer	Variation in nos. of registered assesses/ taxpayers (both positive & negative)	% variation in nos. of registered assesses/ taxpayers over the immediately previous financial year (both positive & negative)	0-10%	3	10%
						10-20%	6	
						>20%	10	
		6	Revenue of Unit	Percentage share of the Vat revenue of the unit	Vat Revenue of unit as a % of total Vat revenue of the State tax department	0-5%	3	10%
						5-15%	6	
						>15%	10	
		7	Amount of Arrears	Pending arrears if any to collected	Arrears as a % of total revenue receipts for the immediately preceding financial year	0-10%	3	10%
						10-20%	6	
						>20%	10	
<p>Table 5: Parameters for Tier III Risk assessment process for VAT in State Tax department</p> <p>The above parameters and their score ranges are illustrative in nature and DoA may add/delete/modify the same related to the key auditable areas selected for audit.</p>								
<b>Tier – IV: Selection of</b>	Audit Party	The Tier-IV risk assessment process is carried out to identify the extent of transactions for the selected areas to be audited at the audit unit level.						

<b>Risk process</b>	<b>Responsibility</b>	<b>Description and Activities to be conducted</b>
<b>Transactions to be audited</b>		The steps involved in Tier IV risk assessment process which is provided later in this section of the manual

Table 6: Risk assessment process for revenue audit of VAT in State Tax department

**Way Forward:** In the initial years from the adoption of this manual, audit will be done at the level of the Key Auditable Area as per the process mentioned above. However, over the years, the DoA shall continuously update the risk evaluation matrix for the Auditable sub-areas under each Key Auditable Areas.

In the long term, DoA shall carry out the risk assessment of auditable Sub Areas only and the revenue audit of VAT would be conducted for high-risk auditable Sub Areas or a mix of high and medium risk Auditable Sub Areas, as decided by the DoA. **Refer to section 8.2.2.2 of Internal Audit Manual Volume I, Part I)**

26. The categorization of the department (Tier I), selection of area to be audited (Tier II) and selection of units to be audited (Tier III) shall be done by the Directorate of Audit on annual basis and the outcome shall be mentioned in the annual internal audit plan which shall be issued in accordance with the provision of **Internal Audit Manual Volume I, Part-I**.
27. Post selection of units to be audited, other steps such as allocation of resources, finalization of timelines etc. shall be done in accordance with the steps mentioned in the Internal Audit Manual Volume I, Part-I. **[Refer Chapter 8 of Internal Audit Manual Volume I, Part-I for details]**

#### **4.1.2 Audit Preparation**

28. Before proceeding for conducting revenue audit, the audit parties need to ensure that below mentioned activities are undertaken (these activities will be carried out at global level)
  - **Activity 1:** Understand the Department and its operation. **Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.**
  - **Activity 2:** Understand the legal and regulatory framework. **Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.**
  - **Activity 3:** Preparation of Audit Planning Memorandum. **Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.**
29. Activities to be carried out at Individual Audit unit. Post receiving of the all the required information, the auditor shall carry out the steps for risk assessment (Tier- IV) as defined in **para 4.2.3** of this section of the manual. The risk assessment process shall be completed in the audit planning & preparation stage post receipt of all required information as mentioned in below section. However, in case of non-receipt of such information, the Tier IV risk assessment process shall be carried after the entry meeting after obtaining the relevant data points. To perform the above activities for audit

preparation, auditor requires information from the audit unit. Therefore, such information shall be gathered through information sheet on OAMS which contains data such as organizational structure, trend of revenue collection, cases pending for assessment/ pending for settlement, details of the personnel, budget, details of audit paras, taxpayer data etc. of the audit unit. The additional information to be obtained in the information sheet through OAMS for conducting the revenue audit of VAT is provided below:

- Vat revenue of the unit for the preceding three years.
- Number of assessee registered with state excise department vis a vis VAT department during the period .
- Number of assessee filling annual return with excise department vis a vis VAT department and identify the number of assesses who have not yet filled their annual return.
- Stock movement detail with excise department with the stock detail submitted with the VAT department.
- Number of assessee who have not filled the annual return and number assessee who have filled annual return either with VAT department or Excise department
- Analyse the finding reported by VAT auditor or by Chartered Accountants
- Trend of revenue fluctuation dealer wise for last 3 years.
- Cases for refund.
- Cases pending for assessment and cases pending for settlement.
- Cases pending for action as per direction of Tribunal, High Court and Supreme Court.
- Cases selected for assessment during the period.

## **4.2 Audit Execution**

30. This is the stage where audit plans are executed, and observations are noted through the application of revenue audit procedures. The purpose of audit execution is to ensure completion of the revenue audit and gather sufficient & appropriate audit evidence to reach a conclusion on each of the objectives identified in the audit planning memorandum.

31. Following are the steps that should be followed to conduct the VAT revenue audit:

Sr No	Activity
1.	Entry Meeting
2.	Update/Revision of Audit Planning Memorandum
3.	Tier IV Risk assessment (if not carried during the audit preparation stage of Audit Planning)
4.	Work Distribution among team member
5.	Audit of the selected transactions
6.	Audit Analysis and Evaluation
7.	Issuance of Audit Memo (Half Margin Memo)

8.	Exit Meeting
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Table 7: Steps in Audit Execution for Revenue Audit – VAT

The section 6 of Uttarakhand Audit Act, 2012, provide the authority and power to the auditor to obtain all necessary information and records, as the auditors may think fit, required for the purpose completing audit engagement. Section 7 of the Uttarakhand Audit Act, 2012, provide the provision for imposing penalty on audit unit for disobeying or not meeting the requirement provided by auditors under section 6 of the Uttarakhand Audit Act, 2012.

32. The above execution steps has been detailed in the **Internal Audit Manual Volume I, Part I**. However, in this manual only the specific considerations related to VAT revenue audit has been elaborated:

**4.2.1 Entry Meeting**

33. Refer Point No. 9.1 of the Internal Audit Manual Volume I, Part I.

**4.2.2 Update of Audit Planning Memorandum**

34. Refer Point No. 9.2 of the Internal Audit Manual Volume I, Part I

**4.2.3 Work distribution among audit team members**

35. After completing the risk assessment process, the audit team leader shall divide the audit work among the team members and according to the work distribution, the team members should proceed for conducting the revenue internal audit of the selected unit. The audit team leader should take up more significant items along with supervision of other team members. The work distribution should be recorded through OAMS and kept with the working papers. The format of work distribution is provided in the Internal Audit Manual.

**4.2.4 Selectin of Transaction to be Audited (Tier IV)**

36. The Tier-IV risk assessment process is carried out to identify the extent of transactions to be audited at the audit unit/ circle level. The risk assessment process (Tier IV) shall be completed in the audit planning & preparation stage post receipt of all required information from audit unit. The methodology for Tier IV risk assessment to be conducted in this stage is defined in below table:

Key Auditable Area	Extent of Check
A) Revenue	<b>For selected Key Auditable Areas under Tier II risk assessment -To be checked as per following table:</b>

Key Auditable Area	Extent of Check	
	Levy and Collection	<ol style="list-style-type: none"> <li>1. Where fluctuation in monthly Levey /collection is more than 30% for any dealer, at least 40% of dealers return data to be selected for audit</li> <li>2. Where fluctuation in monthly Levey /collection is more than 20% but less than 30% for any dealer, at least 30% dealers return data to selected for audit</li> <li>3. Where fluctuation in monthly Levey /collection is more than 10% but less than 20% for any dealer, at least 15% dealers return data to be selected for audit</li> <li>4. Reconcile taxpayer data register with excise department</li> <li>5. Reconcile stock details submitted by the dealer with excise department</li> </ol>
	Assessment	<ol style="list-style-type: none"> <li>1. Select at least 10% or as determined by DoA cases where the department has completed assessment during the period under provisional assessment, deemed assessment, escaped assessment or protective assessment etc. and value of demand is more than INR 5 lacs.</li> <li>2. Select at least 10% dealers where the dealers have not submitted periodical return or annual return in time or have not submitted the periodical and annual return at all.</li> <li>3. Select at least 10% of dealer where special inspection and search seizer was carried out/ concluded by the department during the previous year</li> <li>4. Reconciles the statutory Forms issued by the department and utilized by the dealer</li> </ol>
	Refund	<ol style="list-style-type: none"> <li>1. Select at least 10% dealers to whom refund was allowed more than INR 10 lacs</li> <li>2. Select at least 5% dealers to whom refund was allowed less than INR 10 lacs</li> </ol>

Key Auditable Area	Extent of Check	
	Allocation	Reconcile the amount collected by the department under different head with challan and VAT return for at least 20-30 dealers.
	Compliance	1. Review the procedure adopted by the department for selection of cases for departmental audit/ assessment 2. Analyze the total cost incurred by the department vs total revenue collected during the period to verify the efficiency of the department
Table 9: Selection of transactions to be audited. <i>Note: The above extent of check is indicative, and an auditor may modify the same based on their professional judgment and findings during the audit.</i> After selection of transactions to be audited as mentioned above, the audit team will carry out audit of transactions which involves examination of transactions along with their supporting documents to examine its correctness. Detailed audit shall be carried out as per the audit program mentioned in <b>Chapter 5</b> of this section of the manual.		

Table 9: Tier IV risk assessment process for revenue audit of VAT in State Tax department

Note: The extent of check mentioned in above process is suggestive. It shall be kept dynamic wherein auditor shall apply their professional judgment while selecting a transaction for audit.

#### 4.2.5 Audit Analysis and Evaluation

37. Refer section 9.6 of the Internal Audit Manual (Volume I - Part I).

#### 4.2.6 Issue of Audit Memo/Half Margin Memo

38. Refer section 9.7 of the Internal Audit Manual (Volume I - Part I)

#### 4.2.7 Exit Meeting

39. Refer section 9.8 of the Internal Audit Manual (Volume I - Part I)

### 4.3 Audit Reporting and Documentation

40. This Chapter describes the steps that is to be followed for reporting and documenting a revenue audit of GST in State tax department. The chapter has been divided into the following sections:

- Conversion of HMM into draft audit para. **Refer point no.10.1 of the Internal Audit Manual Volume I, Part-I** for details.
- Preparation of Internal Audit Report. **Refer point no.10.2 of the Internal Audit Manual Volume I, Part-I** for details.
- Review, approval and issuance of Internal Audit Report. **Refer point no. 10.3 of the Internal Audit Manual Volume I, Part-I** for details.

### 4.3.1 Audit Documentation

41. Refer Chapter 11 of Internal Audit Manual Volume I, Pat-I for details.

### 4.4 Audit Monitoring Follow-up and Compliance

42. Refer Chapter 12 of Internal Audit Manual Volume I, Pat-I for details.

### 4.5 Quality Assurance and Improvement Program (QAIP)

43. Refer Chapter 13 of Internal Audit Manual Volume I, Pat-I for details.



## Chapter V: Audit Checklist and Annexures

### 5.1 Audit Checklist

44. This section of the manual includes a detailed audit checklist (not exhaustive) which to be referred by the audit parties by following a systematic process for verifying various transaction relating to VAT revenue. The following document to be verified:

#### 5.1.1 Types of documents maintained by VAT Department <sup>40</sup>

Name of the Documents	Particulars
<b>Daily Collection register</b>	Includes name and address of the dealer, TIN, and amount tax, interest penalty collected, receipt no. period to which the payment is pertains and S.No. of demand and collection register
<b>Dealers' Ledger</b>	Ledger to be maintained by the assistant commissioner in respect of dealer to whom Forms are issued in Form XIV. This includes date of application, amount, number and date of treasury challan, date of issue, total number of forms, serial number of forms (from/to), balance if any.
<b>Demand Collection and Arrears Register</b>	Includes details of assessee, TIN, details of taxable turnover, tax payable, tax paid. S. No. of Daily collection register, signature of AO.
<b>Register of Refunds</b>	Includes details of refund
<b>Register of Dealer</b>	Includes of details of Dealers with registration number and registered goods

Table 10: Types of documents maintained by VAT department

45. The list of relevant VAT forms is provided at **Annexure II** to this section of the manual.

#### 5.1.2 Analysis of Revenue Fluctuation

46. In this section auditor will analyse fluctuation in revenue collection in order to select the dealer's file for audit and this analysis will form par to the Annual Consolidated Report.

<sup>40</sup> Currently most these documents are maintained in the digital form.

Dealers Registration No.	Previous Year Collection (A)	Current Year Collection (B)	Variation excess (+)/ shortfall (-) (C= B-A)	Percentage Variation (D= C/A*100)
XXXXX				
XXXXX				
XXXXX				
XXXXX				
XXXXX				

Table 11: Template for analysis of VAT revenue

### 5.1.3 Impact of Revenue Audit During the Year

47. The audit parties need to do detailed analysis as per the check list provided below and summarise the result in the given template in order to evaluate the audit units.

Irregularities	Number of Irregularities	Amount (in Rs.)
<i>Loss in revenue due to non-levy, short levy, non-collection, etc.</i>	<i>Mention number of irregularities found during the year</i>	<i>Assessed revenue loss</i>
<i>Compliances not as per the act, policy, etc.</i>	<i>Mention number of irregularities found during the year</i>	
<i>Deficiencies in Internal control</i>	<i>Mention number of irregularities found during the year</i>	
	<i>Total Number of Paras</i>	<i>Total revenue loss</i>

Table 12: Template for reflecting the irregularities in VAT revenue

## 5.2 Detailed Audit Checklist

#	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
<b>A Levy, Demand and Collection</b>						
1.	Whether taxes payable by the dealer has been paid within the due date Whether recovery procedure has been initiated against the arrears. If no recovery procedure has been initiated record the reason for non-initiating the recovery procedure	Demand Collection and Arrears Register				
2.	Whether proper procedure has been following by the department with respect to demand: <ul style="list-style-type: none"> <li>• Demand stayed by the court</li> <li>• Demand written off</li> <li>• Demand which are recovered in installment</li> </ul>	Demand Collection and Arrears Register				
3.	Whether the dealer is filling periodical and annual return within the due date. Whether sales data has been reported correctly in return Whether correct rate has been applied for computation of tax as per schedule Where return was filled after due date whether interest for delay filling of return has been levied and paid	VAT return in Form-III				
4.	Whether adjustment of excess payment of tax with reference to last returns have been made correctly in the current return	VAT return in Form III				
5.	Whether tax paid by the dealer has been noted in the daily collection register with reference to treasury	Daily Collection register				

#	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	challan number and date. Also, the demand collection and arrears register are up to date.					
6.	Whether tax/interest noted in the daily collection register tallies with the amount recorded in the receipt schedules under the head of account “XXX” – taxes on sales, trade etc.	Daily Collection register				
7.	Reconcile the figures of VAT returns filled by the taxpayer with the certified annual accounts if available. e.g. sales, purchase, and stock details are matching with the figures disclosed in the return or not	VAT return in Form III and Financial Statements				
8.	Verify if there is any variation to registration details during the period	Registration certificate				
9.	Reconcile taxpayer’s data with excise department and ensure that all taxpayers have paid the tax					
10	Reconcile stock data of taxpayer to ensure the correctness of sales and stock of the taxpayer					
11	Whether cash receipts are banked on timely basis					
12	Misclassification of tax rates is very common mistake or deliberate attempt to evade tax. Therefore, check whether all items are classified correctly or not in the return	VAT return in Form III				
<b>B Assessment</b>						
1.	Whether all taxpayers are filling the periodical and annual return and whether appropriate action has been					

#	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	taken against the dealer who has not submitted the return within the due date					
2.	Whether there are set internal process for making assessment and selection of cases for various type of assessment	Internal control				
3.	<p>Scrutinized the VAT returns to find out the tax evasion. The following to be verified from the VAT return.</p> <ul style="list-style-type: none"> <li>• Whether purchase and input tax credit has been shown correctly (if any)</li> <li>• Whether sales, tax payable with reference to rate of tax have been shown correctly</li> <li>• Whether net tax payable has been worked out correctly</li> <li>• Whether tax has been paid within due date</li> <li>• Whether there was undue delay in deposit of tax to bank</li> <li>• Whether adjustment of excess payment of tax with reference to last returns has been made correctly</li> <li>• Whether tax paid by dealer has been noted in daily collection register with reference to treasury challan number and date</li> <li>• Whether goods dealt in have been covered by registration certificate</li> </ul>	VAT return and VAT challans				

#	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<ul style="list-style-type: none"> <li>• Whether the return contains prescribed information and is accompanied by challan and other documents</li> <li>• Check there is no arithmetical error in determining the taxable turnover and tax payable</li> <li>• Check zero rate sales and interstate sales</li> <li>• Check records of all branch transfer and consignment notes</li> </ul>					
4.	<p>Check on tax evasion and action taken against the dealers involved in the violation the provision of the Act</p> <p>Whether demand collection and arrear register has been timely updated after completion of assessment.</p> <p>Whether notice for demand has been sent to the dealer</p>	Assessment orders & demand collection and arrears register				
5.	Check the investigation report submitted by the audit wings and verify whether the assessing officer has utilized the information contained in the audit report while making assessment or for reopening the case of the dealer	Inspection report				
6.	Whether dealer has valid registration certificate in respect of VAT and CST	Registration Certificate (RC)				

#	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
7.	Check Sale price- check whether freight, presale expenditure is forming part of the of the output or not	VAT Return				
8.	Check the deductions from sale price like discount and rebates	VAT Return				
9.	Check the value of sales is corresponding with the value of purchase (import/ stock transfer). In case it is not credible consider the use of Mark-UP Calculation.	VAT Return				
10.	Check manufacturing records such as daily stock register of excise, stock record and delivery records					
11.	Check that the refund, if any, is correctly worked out and option, if any, exercised by the dealer for taking refund or carried forward of credit to the next tax period is correct;	Refund order				
12.	Verify the stock details submitted by the taxpayers. Any deviation in stock may be attributable to the possible suppression of output tax or sales of goods. In case there is under declared tax is arrived at, check whether appropriate penalty u/s 58 for under declaration of tax has been levied	Section 58 of the VAT Act				
<b>C Refunds</b>						
1	Whether the dealer applied for refund in proper form stating the details of grounds upon which claim is made.	Application of refund				

#	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	Whether the refund is related to excess of tax credit over output tax					
2	Whether appropriate order for refund has been passed where the dealer desires refund in cash or adjustment of refund against tax due and appropriate entry in Demand Collection and Arrears Register and Register of Refunds has been made	Refund order, demand collection and arrears register, and register of refund				
3	Whether payment voucher has been sent to treasury for payment within the time if not, whether interest on refund has been correctly calculated	Payment voucher				
4	Whether the refund order is approved by the approving authority where the refund amount is exceeding Rupees Twenty-five thousand	Counter signature by Joint Commissioner (executive) of region				
<b>D Allocation</b>						
1	Whether amount collected under different head is correctly classified under different head such as Tax, interest, fine and penalty and updated in daily collection register	Daily collection register				
2	Whether reconciliation of tax declared in the VAT return with the Challan is being done on regular basis	VAT return				
<b>E Compliance</b>						
1.	Whether dealer has provided correct, complete, and required details in the registration application Form	Form- I				



#	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
2.	Whether prescribed security have been obtained or not	Section 20 of the VAT Act				
3.	Whether returns have been filed on due dates. If not whether interest and penalty have been levied at the prescribed rates					
4.	Whether process for selection of audit of dealer is effective and whether dealer has been appropriately classified as per their risk criteria					
5.	Whether adequate skill set are available to conduct the audit of the dealers on regular basis					
6.	Whether utilization statement of Waybills /and e-Way bills submitted to the Department is verified with the value of goods transported and the values declared in the VAT Return.					
7.	In the case taxpayers who are not required to use waybills, verify the excise gate pass cum invoices issued with the value of output					
8.	Verify stock receipt/consignment receipt of goods made by using the <b>F Forms</b> .					
9.	Verify whether the taxpayer accounted for all the ' <b>F Forms</b> ' obtained from the department in a correct manner or not.					
10.	Verify whether taxpayer had claimed any input tax credit on such receipts made using the ' <b>F Forms</b> '. If any					

#	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	input tax credit is claimed, verify the genuines of such claim					
11.	Verify whether F Form are genuine e.g. water mark on the form or hologram or background tint print					
14.	<p>Whether appropriate penalty has been imposed in the following cases:</p> <ul style="list-style-type: none"> <li>• Being liable to pay tax carries on business as a dealer without getting himself registered</li> <li>• not being a registered dealer, falsely represents, while making any sale or purchase of goods that he is a registered dealer</li> <li>• Being a registered dealer falsely represents when purchasing any class of goods that goods of such class are covered by his certificate of registration</li> <li>• submit a false return of turnover under the VAT act or furnishes a false statement</li> </ul>	Form 2 Registration Certificate				

5.3 Annexures

Annexure I: Illustrative Risk Evaluation Matrix

The risk listing is being done based on the discussed with the concerned official. The list below is dynamic, and risks can be added/removed based on results from actual audits conducted and other sources.

A. Key Auditable Area: VAT Revenue

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
P1	Levey, Demand and Collection	<ul style="list-style-type: none"> <li>• Misclassification of goods</li> <li>• Tax rate not correctly applied</li> <li>• VAT collected but not remitted</li> <li>• All receipts not recorded or recorded in incorrect amount or in different period</li> <li>• Failure to collect overdue demand leading to huge amount arrears</li> <li>• Cash receipts are not banked on timely basis</li> <li>• Failure to impose interest and penalty</li> <li>• Incorrectly written off demand</li> <li>• Fluctuation in monthly collection</li> </ul>	<ul style="list-style-type: none"> <li>• Department conducts regular independent reconciliations between assessment, revenue recorded in the ledger and amount deposited in the bank.</li> <li>• There is no system for periodical reconciliation between receipts issued and amount deposited in the bank</li> <li>• Good procedures are in place to ensure unpaid liabilities are pursued.</li> <li>• Demand Written-off without authorization</li> </ul>	Medium	

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
		<ul style="list-style-type: none"> <li>• Reconciliation taxpayers' data registered with excise department</li> <li>• Reconciliation of stock submitted by the taxpayers with excise department</li> </ul>	<ul style="list-style-type: none"> <li>• There are multiple dealers where huge fluctuation in monthly collection were noted</li> <li>• All taxpayers registered with the excise department are not filling the periodical/ annual return under VAT</li> <li>• In multiple cases stock details submitted by the dealer with the department is not reconciling with the stock details submitted with excise department</li> </ul>		
P2	Assessment	<ul style="list-style-type: none"> <li>• All returns are not received</li> <li>• Under declaration of Out Put Tax and Turnover by the dealer</li> <li>• Over claim of Input Tax</li> <li>• Charging of VAT without registering the business</li> </ul>	<ul style="list-style-type: none"> <li>• Returns receipts are not regularly compared to the list of taxpayers to identify late and non-receipts of returns. Resulting delay in sending reminder to dealer for submission of return</li> <li>• An independent official is responsible for</li> </ul>	High	

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
		<ul style="list-style-type: none"> <li>• Failure to do the assessment of unregistered dealer</li> <li>• Failure to complete the assessment in time</li> <li>• Failure to raise demand in time and in accordance with the provisions of Act and Rules</li> <li>• Failure to analyze the report of audit wings for reopening of the case based on the findings reported in the investigation report</li> </ul>	<p>examination of returns, reviews the return for completeness and compare information to supporting documents such as sales, purchase, and banking records. However, this examination has not been done from last two years</p> <ul style="list-style-type: none"> <li>• No appropriate actions are taken against business charging and claiming VAT illegally</li> <li>• Significant delay in passing assessment order and raising demand</li> </ul>		
P3	Refund	<ul style="list-style-type: none"> <li>• Refund of wrong amount</li> <li>• Refund to wrong person</li> </ul>	Set procedure for independent verification and authorization of refunds prior to payment is not being followed	High	
P4	Allocation	<ul style="list-style-type: none"> <li>• Incorrect classification of amount collected</li> </ul>	Independent checking of classification of	High	

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
		<p>into difference heads such tax, interest, penalties, and miscellaneous items.</p> <ul style="list-style-type: none"> <li>• Failure to reconcile the amount collected under different heads with challans and VAT return</li> </ul>	<p>revenue is not done regular basis Amount collected under different head with challan has not been carried out the previous years</p>		
P5	Compliance	<ul style="list-style-type: none"> <li>• Failure to enforce dealer for registration who have obligation for VAT</li> <li>• Failure to select certain percentage of dealers for audit in every year</li> <li>• Failure to categorize dealer on certain parameters for selection of audit such as economic activity, sale volume, discrepancies resulting from cross checking of information system</li> </ul>	<p>Good procedure is in place to identify dealer who is liable to pay VAT under the Act.</p> <p>The department is not able to select enough dealers for audit due to shortage of staff</p> <p>The ratio of total cost and revenue generated by the department is more than the standard (i.e. cost of more than 3% of the total revenue)</p>	Medium	

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
		<ul style="list-style-type: none"> <li>• Failure to comply to the direction of Courts or Tribunal</li> <li>• Increasing cost of collection</li> </ul>			
	<b>Total Score</b>				
	<b>Average Score</b>				

**Annexure II: Uttarakhand VAT Forms**

Form No.	Particulars
Form I	Application for registration/ voluntary registration u/s 15 or u/s 16 of the Uttarakhand VAT Act 2005
Form 1(A)	Application for issue of voluntary registration under sub section 7 of section 15 of the Uttarakhand VAT Act, 2005
Form 1(C)	Application for Registration of a Casual Dealer under the Uttarakhand Value Added Tax Act, 2005
Form I - (D)	Information regarding change of business
Form II	Certificate of Registration
Form III	Periodical Return of Turnover of Sales and Purchases
Form IV	Annual Return of Turnover of Sales and Purchases
Form V	Notice of Assessment, and Demand for Payment of Tax
Form V (A)	Notice of Demand for Payment of Penalty
Form VI	Challan for payment of Value Added Tax /Trade Tax/ Central Sales Tax into Treasury/ Sub -Treasury/ R.B. I./ S.B.I./Authorized Bank
Form VII	Verification of Collections and Refunds
Form XII	Register to be maintained by registered dealers who obtain forms from the Commercial Tax Department
Form XIII	Register of receipt and issue of Forms to be maintained by Assistant Commissioner
Form XIV	Ledger to be maintained by the Assistant Commissioner in respect of dealers to whom Forms are issued by
Form XV	Register to be maintained in respect of Forms surrendered by Registered dealers and so cancelled by the Assistant Commissioner
Form XVI	Form of Certificate of Import
Form XVIII	Trip sheet
Form XX	Register of issue of Certificates for Import to be maintained by Assistant Commissioner
Form XXIII	Tax Refund Order
Form XXIV	Tax Adjustment Voucher
Form XXV	Advice of Refund of Tax
Form XXVIII	Register of Sales
Form XXIX	Register of Purchases
Form XXXII	Audit Report



## **Section 4: Excise Department**

**Abbreviations**

<b>CL</b>	Country Liquor
<b>DD</b>	Deputy Director
<b>DoA</b>	Directorate of Audit
<b>ED</b>	Excise Duty
<b>FL</b>	Foreign Liquor
<b>HMM</b>	Half Margin Memo
<b>HQ</b>	Head Office
<b>MRP</b>	Maximum Retail Price
<b>MMGD</b>	Monthly minimum guarantee duty
<b>OAMS</b>	Online Audit Management System

## Structure of this Section

This section consists of the following chapters:

Chapter No.	Heading	Brief Description
<b>Chapter – I</b>	Introduction to Excise Department	Includes about the manual, its objective and purpose and regulatory framework
<b>Chapter – II</b>	Organisation Structure of Excise Department	Includes organisation structure and function and objective of department
<b>Chapter – III</b>	Revenue from Excise	Includes various types of revenue such as Excise Duty, Licenses, Permits, interest, penalties, Flow of revenue, matters for audit consideration and identification of key area and risk associated to Excise
<b>Chapter – IV</b>	Audit Process	Includes point of special consideration during audit process of revenue audit of Excise Department  This chapter shall be read in conjunction with Internal Audit Manual, Volume I and shall be supplementary to Internal Audit Manual, Volume I.
<b>Chapter – V</b>	Audit Check list and Annexure	Includes audit checklist and annexures

Table 1: Structure of this section of the manual

## **Chapter I: Introduction to Excise**

### **1.1 Background**

1. The Excise Department of Uttarakhand is the second largest source of revenue for the State Government after Commercial Tax. The State Excise Department is responsible to regulate the production, manufacture, possession, transport, purchase and sale of intoxicating liquor and drugs, the levy of duties of excise on alcoholic liquor for human consumption, opium, Indian hemp and other narcotics drugs and narcotics manufactured in the State and countervailing duties on similar goods manufactured in India and imported in the State. Excise duties are levied and collected under the authority of the following Central and State Laws and Rules made thereunder:
  - a. Central Laws:
    - The Opium Act, 1878 and Rules made thereunder seeking to control the cultivation of poppy and manufacture of therefrom.
    - The Dangerous Drugs Act, 1930 and Rules made thereunder to suppress contraband traffic and control the abuse of dangerous drugs, especially those derived from opium, Indian hemp and Coca leaf etc.
    - The Medicinal and Toilet Preparation (Excise Duties), Act, 1955 and Rules made thereunder provide for the levy and collection of duties of excise on medicinal and toilet preparations containing alcohol, opium, Indian hemp or other narcotic drugs
  - b. State Laws:
    - Uttaranchal Excise Act, 2002 and the Rules framed there under
    - Uttarakhand Excise Policy (as amended from time to time):
    - Uttarakhand Excise Mall/Departmental Store Policy 2013-1
    - Uttar Pradesh Sheera Adhiniyam, 1973 and UP Sheera Niyamtran Niyamavali, 1974

### **1.2 Objectives of Excise Audit Manual**

2. The objectives of this manual is to ensure examination of Excise revenue and revenue leakage in the State by exercising the following steps:
  - To check that departments have assessed, collected, and accounted for the revenues on time and as per the manner provided in the Act and Rules.
  - To verify the effectiveness of internal control and accounting systems applied by the department.
  - To check the effectiveness of the department's audit system.
  - To check the refunds and exemptions of revenues and their legality.
3. This manual has been prepared for the guidance of those entrusted with the audit of State Excise receipts and refunds. This manual aims to bring a uniform and systematic risk-based approach to conducting an internal audit of Excise revenue through a clearly defined audit process.

## 1.3 Regulatory Framework

4. The power of the State Government to levy and collect the State Excise duties is derived from Article 246 of the Constitution of India and Entry 51 of the State List in the Seventh Schedule thereto. The following State Laws governs the levy and collection of excise duties and other excise receipts like fee, fine, etc.
- Uttaranchal Excise Act, 2002 and the Rules framed there under as amended from time to time.
  - Uttarakhand Excise Policy (as amended from time to time): Annual excise policy is issued by the Department of Excise before the beginning of the financial year. This includes the annual excise target from each district and the rates of excise duties, license fee, etc.
  - Uttarakhand Excise Mall/Departmental Store Policy 2013-14 (as amended from time to time): This policy detailed the procedure of licensing for departmental stores and malls and the applicable rate of duties
  - Uttarakhand Beer Shop Policy 2012-13 (as amended from time to time): This policy detailed the procedure of licensing for beer shops and the applicable rate of duties
  - Uttar Pradesh Sheera Adhinyam, 1964 and UP Sheera Niyamtran Niyamavali, 1974
  - Uttarakhand Sheera Policy (as amended from time to time): Annual Sheera Policy is issued by the Department of Excise Department.

## 1.4 Important Definitions and Provisions of Acts and Rules

5. The import definitions and provisions related excise act and rules has provided to Reference Material. **Refer Part-II, Reference Material, Section-3 for details.**

## Chapter II: Organisation Structure of Excise Department

### 2.1 Organisation structure of the Excise Department

6. The excise department in Uttarakhand is consist of:

- Head quarter situated at Dehradun,
- Division level offices (2) in Kumaon and Garwal,
- Zonal office (4) in Dehradun, Haridwar, Nainital and Udham Singh Nagar and
- District offices (13) in the districts

7. The organization structure of the Excise Department is provided below:

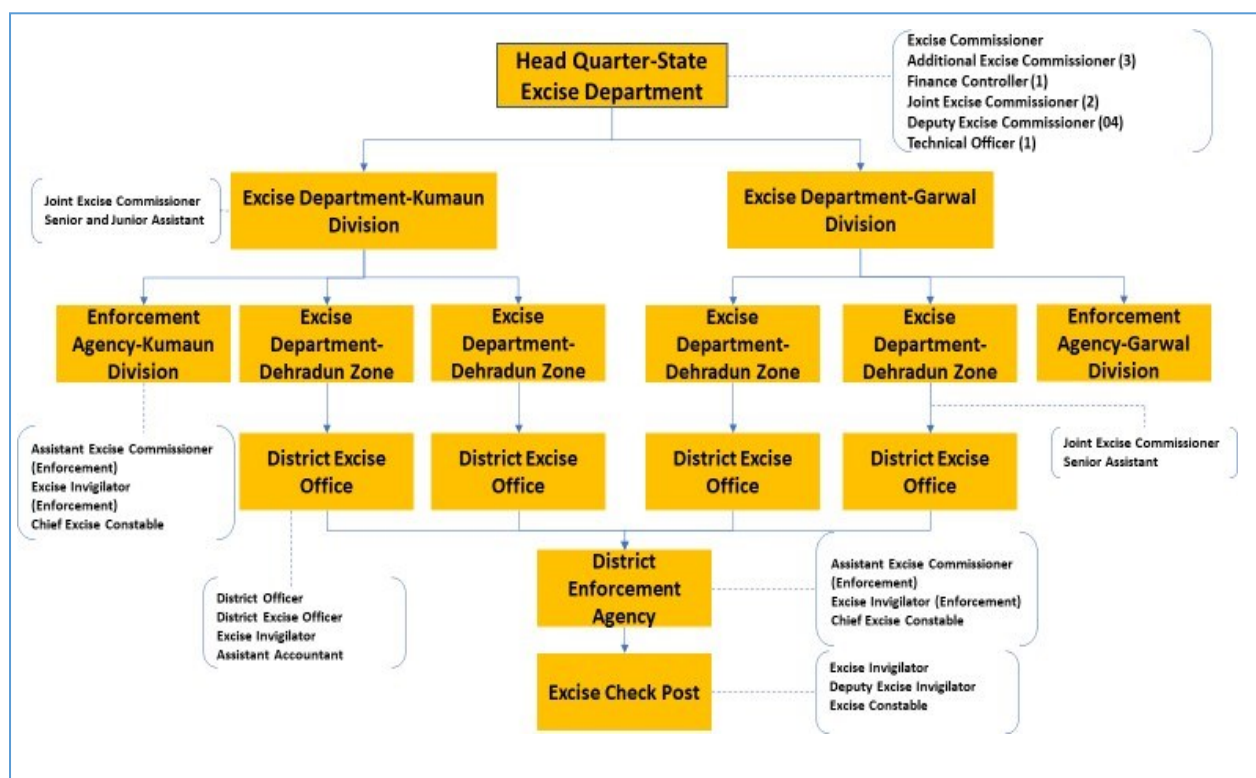


Figure 1: Organisation Structure of the excise Department taken from website. The structure of the department may change time to time through GO and audit team need to check the updated structure from the website/ GO.

### 2.2 Function of the Excise Department

8. The Commissioner of Excise is the **Administrative head of the department** and most of the powers have been vested to him as per **Excise Act 2002**. The Commissioner has jurisdiction over the whole of the State and is supported by the various other officers in discharging its duties and functions. The Commissioner is responsible for the enforcement of the **Excise Act 2002 and rules thereunder including Excise Policy; Excise Mall/Departmental Store Policy 2013-2014; Uttarakhand Beer Shop Policy 2012-13; Uttar Pradesh Sheera Adhiniyam 1964, Uttar Pradesh Sheera Niyantaran Niyamavali, 1974 and Uttarakhand Sheera Policy.**

- a. The Commissioner of Excise is assisted by Additional Commissioners of Excise at headquarters. The State is divided into different divisions (mandals) headed by the Joint Commissioner who is responsible for division level functionaries to review and supervise the inspection of zones.
- b. Under each Divisional Level Office, there are many Zonal Level Office (Parikshetra) headed by the Deputy Commissioner of Excise who is responsible for zonal level functionaries and to review & supervise the working of the officials working under him.
- c. Under the Zonal Level offices, there are many District Excise Offices headed by District Excise Officers who are responsible for success in auctions, assessments, levy, and collection of revenues in their respective districts, and the suppression of malpractices.
- d. Apart from the above, the department also has Enforcement Agencies at division and district level.

## 2.2.1 Administrative roles and responsibilities

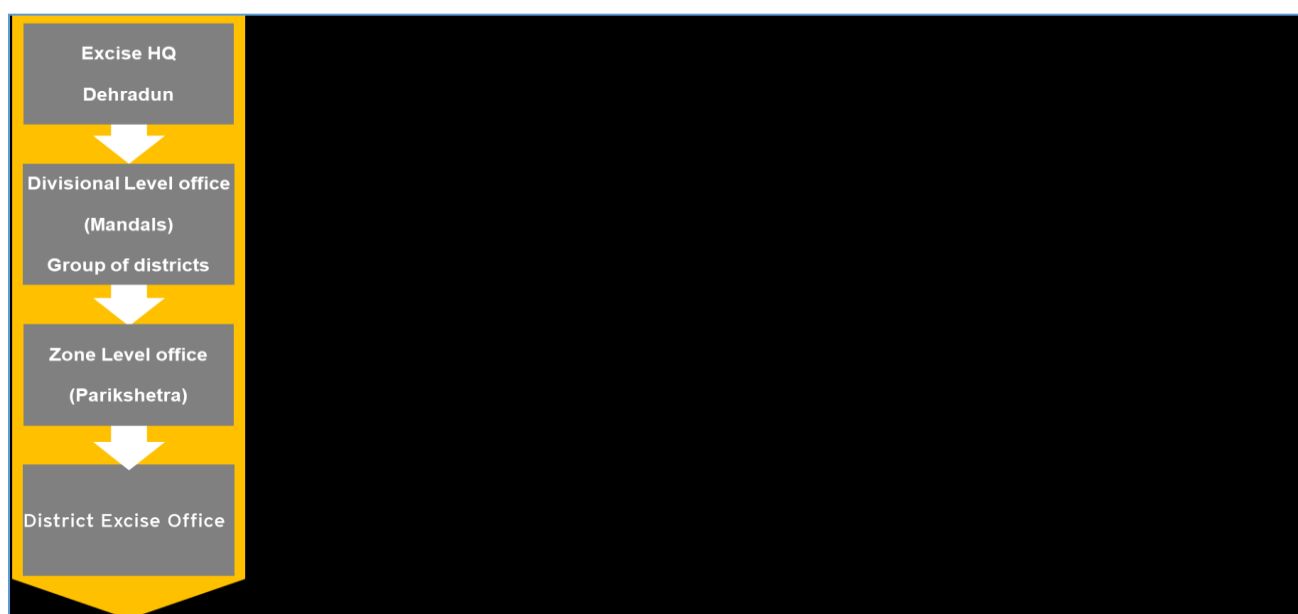


Figure 2: Administrative roles and responsibilities in excise department

## 2.2.2 Enforcement Agency - District and Division Level

9. Enforcement agencies in charge of the Divisions and Districts are mainly responsible for the detection of cases and suppression of malpractices in their respective jurisdiction. **The Assistant Excise Commissioner-Enforcement and Excise Invigilator** of every Division and District are assisted by a team of Preventive Officers i.e. Excise Constables for the due discharge of the duties and powers entrusted to him.

### 2.2.3 Assistant Excise Commissioner

10. Assistant excise commissioner is assigned any of the following role:
- In charge of the excise administration of district under the subordination of collector (district assistant excise commissioner)
  - Officer In charge of distilleries
  - In charge of Enforcement squads (Assistant Excise Commissioner-Enforcement)

### 2.2.4 District Assistant Excise Commissioner

11. Assistant Excise Commissioner posted as in charge of district is responsible in subordination to the collector
- Settlement of the number and location of shops to be licenced within the district
  - Selection of licensees
  - Renewal and cancellation of licensees
  - Collection of licence fees
  - Power to grant passes (Section 16 of the act)

### 2.2.5 Excise Inspectors

12. Excise Inspectors are posted in all the districts of the states to the following duties
- **Preventive Circles:** for supervision of shops and prevention and prosecution of excise, opium, and miscellaneous offences with which the department has to deal with
  - **Distilleries:** for the proper manufacture of potable and commercial spirits and power alcohol and their storage and issue as per the rules
  - Bonded warehouse established for storage and issue of country spirit and hemp drugs
  - Bonded manufactories licenced under the Medicinal and Toilet Preparation (Excise Duties) Act, 1955
  - **Prohibition circles:** for declaration and prosecution of excise and opium offences
  - **Check posts:** for checking of smuggling of intoxicants
  - **Special squads:** for prevention of local and interstate smuggling of ganja, charas, opium, etc,
13. An excise inspector may be placed in-charge of one or more of these duties

## 2.3 Objectives of the Excise Department

14. The department is responsible for:
- (i) Proper enforcement of the Excise Act 2002
  - (ii) Collection of Excise Duty and Countervailing duties on alcoholic liquors, production, and distribution of liquor.



- (iii) Check on the tax evasion and action against the producers and distributors involved in violation of the provisions of the Act
- (iv) Regulating the production, manufacture, possession, transport, purchase and sale of intoxicating liquor and drugs.

## Chapter III: Excise Revenue in Uttarakhand

### 3.1 Types of Revenue

15. The following types of revenues are being levied and collected by the Excised department in the states:

- Duties- on production alcohol
- License fees/ renewal of license fee from Distilleries, Bottling Unit, Warehouse/ Bonded Warehouse and Whole Sale Depot
- Vend Fee on denatured spirit
- Tree tax and surcharge
- Cost Price of intoxicants
- Miscellaneous receipts such as consumption fee, sale proceeds, fines and confiscation and receipts for services rendered

16. **Following duties are imposed in Uttaranchal<sup>41</sup>**

- a. On India-made foreign liquor (IMFL) imported or manufactured in, and issued from distilleries, a fixed still head duty is calculated on either the litres in terms of alcohol or per litre at fixed strength
- b. On plain and spiced spirit imported or manufactured in, and issued from distilleries and bonded warehouses, a fixed still head duty is calculated per bulk litre at fixed strength
- c. On spirits manufactured in distilleries and exported to places outside this state, a fixed export duty calculated on litres in terms of alcohol.
- d. On Indian made beer imported or manufactured in, issued from breweries, a fixed duty per litre irrespective of alcohol strength
- e. On Indian made wines, cordials, liquors, etc. imported or manufactured in, issued from distilleries and breweries, a fixed duty according to rates determined in the volume
- f. On medicinal and toilet preparation containing alcohol, duties at the rates given in the schedule attached to the Medicinal and Toilet Preparation (Excise Duties) Act, 1955- ***This has been subsumed with GST.***
- g. Fixed duties by weight on bhang issued to licensed vendors from warehouses.
- h. On bhang exported from warehouses or places of collection in certain districts, on prepayment of a fixed duty by weight or, in certain cases, after execution of bond for subsequent payment
- i. In areas where the tree tax system is in force, a fixed tax on every tree tapped for production of 'Tari'
- j. On excise Opium issued from a Government treasury, a fixed duty by weight collected before issue.

<sup>41</sup> Adaptation and Modification order 2002, from Uttar Pradesh Excise Act 1910

### 3.2 Important Terminology Used in Excised Department

17. The following are the important terminology which is used in the excised department.
- **LPL** means a litre containing liquor of strength of London Proof.
  - **London Proof** means the strength of liquor as ascertained by means of the Sykes's hydrometer or any other instrument prescribed for the purpose by the Commissioner and denotes that spirit which at the temperature of 10-55 degrees Centigrade weighs exactly 12/13th part of an equal measure of distilled water and which has a density of 0.91984 at the temperature of 15.55 degrees Centigrade and contains 49.24 per cent by weight of alcohol and 50.76 per cent by weight of water or 57.06 per cent by volume of alcohol;
  - **Bulk Litter** means varies according to strength of spirit.
  - **Over Proof** signifies a liquor containing a percentage of alcohol higher than in "London Proof" Liquor.
  - **Under Proof:** Under Proof signifies a liquor containing a lesser percentage of alcohol than in "London Proof" liquor.

### 3.3 Flow of Revenue

18. Revenue Flow from issuance of licenses/permits constitute a major stream of revenue. These licenses/permits are issued for the different stages of production of alcohol. The different stages (lifecycle) of production and sale of alcohol is as described below:

### 3.4 Process Lifecycle of Production and Sale of Alcohol

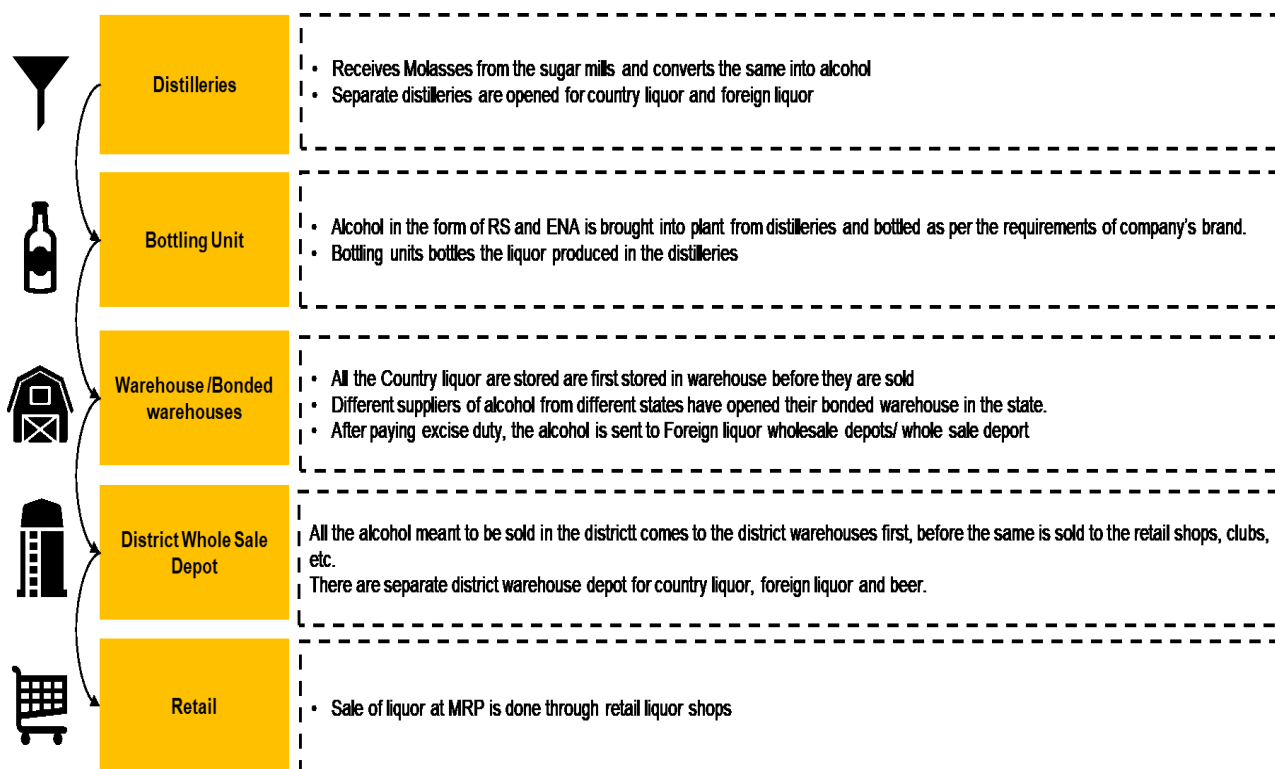


Figure 3: Process Lifecycle of production and sale of alcohol

#### 3.4.1 Distillation

19. The supply and distribution of molasses in the State is governed by the UP Sheera Niyantaran Adhinyam, 1964 and UP Sheera Niyantaran Niyamavali, 1974 as adopted by the Uttarakhand and Uttarakhand Sheera Policy as amended from time to time.

##### a. Important Definition and Provisions of Act and Rules

20. Refer Part-II, Reference Material, Section-3 for details.

b. Process Flow

Process Flow For Molasses

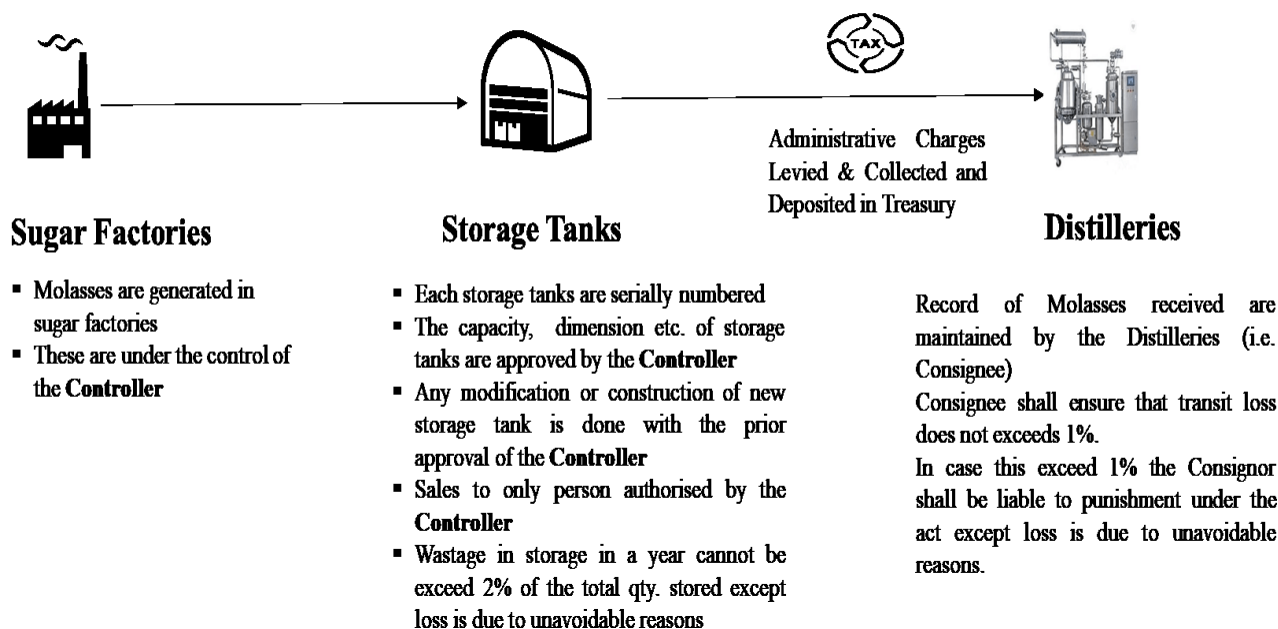


Figure 3: Process Lifecycle of production and sale of alcohol

c. Control (Storage, Transfer and Disposal of Molasses)

21. No molasses produced or stored in a factory in a particular molasses year, shall be mixed with any molasses of the previous molasses year, without prior permission of the **controller** in writing.
22. No molasses shall be stored in a factory until it has been **weighed or measured**.
23. Occupier of a sugar factory shall take adequate safeguards to see that the **wastage in the storage of molasses** in a year does not exceed **two percent**<sup>42</sup> of the total quantity stored. In case the wastage exceeds two percent, the occupier shall be liable to penalties imposed under the Act for contravention of the Rule. Provided that, if it is proved to the satisfaction of the Controller that the wastage or deficiency in excess of the limit prescribed above has been caused by accident or any other unavoidable cause, the Occupier shall not be liable to any penalty.

*Note: The provision of point no. i & ii shall also apply to storage of molasses in Distilleries*

<sup>42</sup> To be updated from time to time.

24. The Controller of molasses may by order required the occupier of any sugar factory to sell and supply in the prescribed manner, such quantity of molasses to such person, as may be specified in the order, and the occupier shall comply with the order. The molasses supplied to an allottee shall not be transferred to any other person or used for any purpose other than that for which it has been allotted except with the prior permission of the Controller.
25. The **transit loss** of molasses should not exceed **one percent**. In case wastage or deficiency exceed one percent, the consignor shall be liable to punishment under this Act for contravention of the Rule. However, the consignor (occupier of the factory) shall not be liable for such penalty if it is proved to the satisfaction of the controller that wastage in excess of the prescribed limit has been caused by accident or any other unavoidable cause which was beyond his control, the occupier shall not be liable for penalty.
26. The relevant Form for molasses has been provided in **Annexure-II**.

### d. Type of Revenue

27. The following types of revenues are being levied and collected by the Excise Department:
  - a. Administrative Charges
  - b. Penalty for Storage loss and Transit Loss if it is more than the specified limit
28. The State Government may levy **administration charges** exclusive of the price payable to sugar factory on the molasses released for sale by the Controller, towards meeting the cost of establishment for supervision or control over molasses at such rate<sup>43</sup> or rates as may be notified.
29. Every Occupier of sugar factory shall deposit the amount of Administration Charges payable on molasses and produce the treasury challan as evidence of such payment to the Excise Officer in charge of the sugar factory, before making actual delivery of the released molasses to the purchaser.
30. Apart from the above, the occupier of the factory shall also be liable for penalty under the Act for the Storage Loss and Transit loss if it is more than the specified limit except if it is proved to the satisfaction of the controller that wastage in excess of the prescribed limit has been caused by accident or any other unavoidable cause which was beyond his control, the occupier shall not be liable for penalty.

### 3.4.2 Distilleries

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<sup>43</sup> The audit team should refer the latest rate. .

31. **Distilleries** are **licensed units** where alcohol is produced mainly from fermenting and distilling molasses obtained as a by-product during the manufacturing of sugar. Chemical examination of molasses and alcohol received from a distillery is conducted in the designated **Laboratory in Dehradun** to ensure production of alcohol as per norms or not. **Excise duty leviable on liquor produced in distilleries.**
32. **Distillery/ Bottling Plant** means the manufactory where spirits are distilled, compounded, blended, processed, fortified and/or diluted to produce wines of Indian liquor other than arrack, beer, or toddy and includes an operation for bottling of such liquor. The distillery may be opened for all or any of the following purposes:
- Manufacturing and supply of **country spirit**
  - Manufacturing and supply of **foreign liquor**
  - Manufacture and supply of spirit for the manufacture of chemicals and medicated articles etc. or for other industrial purposes
33. **Distillation** means separation of the constituents of a liquid mixture by partial vaporization of the mixture and separate recovery of the vapour and residue is known as distillation. The more volatile constituents of the original mixture are obtained in increasing concentration in the vapour, the less volatile remaining in greater concentration in the residue. The apparatus or equipment in which this process is carried on is called a 'still'. The essential parts of a still are:
- a. the kettle in which the vaporization is affected,
  - b. the connecting tube or column conveying the vapours and
  - c. the condenser in which the vapour is liquefied. Modifications involving the addition of other parts to the still are introduced for various purposes, such as, the conservation of heat and to effect rectification. The fact that it is difficult to secure alcoholic concentrations in excess of 12-14 per cent by fermentation alone necessitates the application of a process of distillation for production of stronger liquors.
34. **Fermentation** means is an obscure and seemingly spontaneous change or decomposition which takes place in most vegetable and animal substances when exposed at ordinary temperatures to air and moisture. While the term 'fermentation' when broadly used "covers decay and purification also, it has been used in this manual in the restricted sense of the process for producing alcohol and alcoholic liquors from calcariferous mashes.
35. **Distillery Licences** A licence to work a distillery in premises owned by the Government is granted in form PD-1 and a licence to work a distillery in a private premise is granted in form PD-2.

36. **Licence Fee and Renewal of License:** No license in Form PD-1 & PD-2 shall be granted until the applicant has deposited security money of INR 5 lacs in cash and INR 15 lacs<sup>44</sup> fixed deposit receipts in the name of the Excise Commissioner. This license shall be renewed by giving application to the Commissioner Excise through collector on or before 28<sup>th</sup> of February each year.
37. In addition to the **security deposit** the licensee is also required to deposit advance License Fee at rate of INR 25<sup>45</sup> (as may be prescribed) per kilo litter of the installed production capacity for the year or part of the year. The commissioner on expiry of the licence shall take the following action:
- On termination of the licence, either on account of expiry of the term or on account of cancellation or suspension of the licence, the Commissioner may take over, or permit the distiller's successor to take the balance of liquor in the distillery at twenty per centum below the contract rate.
  - Consequent upon cessation of the distillery under sub-rule (1), the Officer-in-charge shall immediately seal the same and report to the Commissioner under intimation to the Collector for alternative arrangements.
38. **Excise Inspector of Distillery:** Excise Commissioner will appoint such officers of excise department as he may think fit for **charge of Distillery** . Every distillery is supervised by **Excise Inspector**. Alcohol produced in distillery comes under the direct control of the excise department. Every bottling activity if done under distillery is undertaken in direct supervision of **Excise Inspector** present in the plant. Liquor which comes out of the distillery is accompanied by permit signed by Excise Department. A written record of every activity w.r.t distillation, bottling, storage, and transportation is kept by Excise Inspector in formats provided by the Excise Department
39. **Control over Manufacturing Process of Spirit:**
- ❖ **Manufacture of Spirit:** Wash is conveyed from the wash backs to the stills in the closed pipes. When wash is to be prepared, the Distiller is required to give notice to the officer in charge and as soon as wash is ready for gauging, submit him a declaration in writing in the prescribed form (PD-8) specifying the kind and quantity of material used, the number of gallons of wash made, its initial specific gravity corrected for temperature. The officer in charge on receipts of the Distiller's declaration, proceed to verify the same and enters the result in his diary. As soon as the wash is full attenuated and ready for distillation, the distiller again informs the officer in charge, who by gauging and use of the **saccharometer and the alcoholmeter** ascertain the quality and specific gravity attenuated wash and record the particulars in his diary.

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<sup>44</sup> The audit team should refer the latest rate in force.

<sup>45</sup> The audit team should refer the latest rate in force.



- ❖ The spirit whether finished or un-finished produced by any one distillation, is run into empty receivers and such spirit is gauged and proved by the officer in charge of the receivers of the still in which it is produced ,before it is passed out or mixed with spirit produced by any other distillation.

40. **Outturn (output) of Spirit:** With a view to seeing that outturn commensurate with the wash sent in for distillation and that the wash is thoroughly exhausted of spirit, the result of each single distillation is required to be gauged and proved immediately after it is completed. The object is to see whether the working of the still is efficient in as much as the spirit outturn is not below the minimum yield prescribed in rule and regulations thereunder. In case the outturn is below the minimum prescribed yield, the variation has to be explained by the Distiller.
41. **Loss in Distilleries:** Distillers is responsible for the safe custody of stock of spirit in their distilleries and are liable to make good any loss of revenue caused to Government by their negligence.
42. **Wastage Allowance:** The storage and issue wastage allowed to diffident kinds of spirits stored in and issued from a distillery is as follows:

S. No	Category of Spirit	Allowed %	Rate of Duty
1	Plain and Rectified Spirit	0.7	Higher rate of duty leviable on country spirit
2	Sophisticated Spirit	0.4	Rate of duty leviable on that spirit
3	Denatured Spirit	0.5	Penalty at the rate of vend fee per bulk litter leviable on this sprit

Table 2: Wastage Allowances

- a. However, if the total wastage for any kind of sprit does not exceed 1.5%, the duty shall be charged on the net wastage after allowing the free allowance. On the other hand, if the total wastage is exceeding 1.5%, the duty shall be charged on the whole amount without allowing the fee allowances. This means that if the total loss is more than 1.5% then duty shall be charged on the whole quantity. For charging of duty on excess wastage if any, the officer in charge of the distillery shall prepare '**Excess Wastage Statement**' and after obtaining the explanation from the Distiller, submit the same to the Excise Commissioner, through the Assistant Excise Commissioner for order and duty shall be recovered accordingly. **Redistillation of Wastage:** In addition to the simple rectification of weaker spirit produced in a pot of still, a redistillation of spirit may become necessary. The wastage allowed in the process of redistillation is as under:

S. No	Particular	% Allowed
1.	If redistillation is done on account of the manufactured sprit not conforming to the prescribed specification whether due to negligence and inefficiency of the Distiller or due to bad and	1.5% in case of patent stills* and

	effective storage condition of the spirit, fall in strength or other defects.	2% in case of pot stills.
2.	If the redistillation is done for the purpose of manufacturing of fruits spiced or 'silent' spirit for Indian Made Foreign Liquor (IMFL)	2.% in case of patent stills and 2.5% in case of pot stills*.

\*patent still and pot still are different kind of apparatus used for manufacturing of spirit.

Table 3: Wastage Allowances

- b. **Transfer of Spirit to Other Distilleries Under Pass:** A distillery may supply spirit to another distillery in Uttarakhand or outside Uttarakhand which can be by issuing as supply pass in the prescribed form. In such case the issuing Distillery prepare as a pass in Form PD-25 (for transfer within the State) and Form PD-26 ( for transfer outside the State). The receiving Distillery after receipts of the spirit at their end, return these passes to the issuing Distillery after duly verified. On the basis of these pass actual **transit loss** is worked out and if the transit loss is more than the permissible limit i.e. 0.5%, the issuing Distillery is required to pay duty on this wastage under the order of the Excise Commissioner based on the '**Excess Wastage Statement**' submitted by the officer in charge. In case of excess transit wastage to spirit issued from distillery to a bonded warehouse, the Excise Inspector in charge of the bonded warehouse would prepare the '**Excess Wastage Statement**' and submit the same to the Excise Commissioner for orders. The duty on such wastage is however, realised from the supplier from the cost price of spirit due to the later.
- c. **Allowance for Transit Loss:** Transit loss of spirit up to 0.5% is allowed on account of leakage, evaporation or other unavoidable causes of spirit transported or exported under the bond in wooden casks or metal. No free allowance is permissible for loss in transit of spirit within the State in sealed bottles and punches. Duty on wastage in excess of free allowance is chargeable. In other words, no free allowance is permissible for loss in transit of spirit transported within the State in sealed bottles and pouches. Duty is chargeable on any wastage on such consignments.
43. **Export of spirit out of India:** The Excise Commissioner makes and advances assessment of the production of spirit in the distilleries of Uttar Pradesh during any particular year. The spirit remaining surplus after meeting the requirements of the state is allotted for export out of India. For exporting spirit out of India, the exporter is required to execute a special indemnity bond. The duty involved on the quantity of spirit issued for export from a distillery is debited to the bond account of the distiller. On receipt of proof of export viz. Certificate of actual export from the Customs authorities within the period specified in the bond, the bond of the exporter is discharged to the extent covered by such certificate. If the certificate of export is not received within the time mentioned in the bond or pass, or if not received at all, it appears that any of the conditions of the bond has been infringed, In such cases, the Collector of the exporting district or the Excise Inspector who granted the pass is required to take necessary steps to recover from the executant or his surety, the penalty as due under the conditions of the bond.

44. **Sophisticated Spirit:** The sophisticated spirit is manufactured under the bond and ledger for sophisticated spirit is maintained in **Form PD-14**. Issues of rectified Spirit from spirit stores for sophistication is shown as receipt in this register. After adding of caramel, water, flavouring agents, etc., apart loss of spirit due to obscuration is shown as an issue and the duty on obscuration @ INR 40 per alcoholic litre is chargeable from the distiller. After the spirit is sophisticated in the distillery, it is transferred to the Foreign Liquor bottling section through pipelines for bottling. The spirit so transferred is shown as issue in the ledger of sophisticated spirit. At the close of the month, the book balance of sophisticated spirit is worked out. The physical balance is also taken and then the storage wastage is calculated. If the wastage is within the permissible limits, no action is called for. If however, it exceeds the permissible limit, excess wastage statement is prepared by the officer-in-charge and sent to the Excise Commissioner for orders.
45. **Denaturation of Sprit:** The purpose of denaturing of spirit or alcohol by admixture of denaturants is to render the mixture fit for the purposes of scientific, mechanical or commercial work, arts and manufacture and unfit for human consumption whether as a beverage or internally as medicine or in any other way. The Distillery maintains the '**Denatured Spirit Ledger in Form PD-12**' whatever the spirit is taken from the sprit store for the manufactured of denatured spirit is shows as receipts in this register and after adding of **denaturants**, the stock of the finished products i.e. denatured spirit. All issue of denatured spirit and closing balance of denatured spirit are shown here. The denatured spirit is issued to:
- ❖ Licensed wholesale vendors of denatured spirit in the state on payment of the prescribed vend fee, provided that issue dot does not exceed the quantity, if any specified in the license.
  - ❖ Person or institution allowed by the Excise Commissioner to possess and use denatured spirit for special purpose on payment of the prescribed vend fee.
  - ❖ Hospital dispensaries, charitable and education institutions and other state government departments are exempt from the vend fee up to a quality allowed by the Excise Commissioner, provided that indent is countersigned by the Collector.
46. **Kind of Excisable Receipts:** In the distillery, the following State Excise receipts are mainly realised:
- ❖ License fee and renewal fee
  - ❖ Still head duty on Rectified spirit/Indian made foreign liquor
  - ❖ Administrative levy on issue of Denatured Sprit<sup>46</sup>

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<sup>46</sup> Excise duty is not leviable on industrial alcohol as it is not fit for human consumption, but in order to meet administrative cost involved of Excise Staff to the control the production, storage and issue of alcohol, a minimal charge of INR 7.50 per kilolitre is relished. This charge is known as "**Administrative Levy**".

- ❖ Vend Fee<sup>47</sup> on issue of Denatured Sprit
- ❖ Concessional duty on issue on rum manufactured under bond for supply to defence personnel
- ❖ Duty on issue of Rectified Sprit (RS) to non-bonded pharmacies (L-II License) and other agencies.
- ❖ Export duty on issue of Rectified Sprit (RS), Country Sprit, Indian Made foreign liquor meant for consumption outside the State
- ❖ Export pass fee on export of denatured sprit

47. **Distilleries** should adhere to environmental norms; re-distillation wastage should be monitored as per extant provisions; and a suitable internal control mechanism existed in the Department for ensuring compliance with Act and Rules. The following forms are used by the Distilleries for licensing and removal of distilleries.

Type of forms	Licences/ Permits
<b>Form P.D.1*</b>	Licence to work a distillery in a premise owned by government
<b>Form P.D.2*</b>	Licence to work a distillery in a premise owned by any person other than government
<b>P.D.15 and P.D. 16</b>	Form of general bond to be executed for removal of spirits from distilleries without prepayment of duty
<b>P.D.25</b>	Pass for removal of spirits from distilleries
<b>P.D.26</b>	Advice accompany pass for removal in case of issue under bond
<b>P.D.32</b>	Application to establish distillery
<b>P.D.33</b>	Licence to establish distillery
<b>P.D.34</b>	Application for grant of licence in form P.D.1 or P.D.2

Table 4: Types of forms and permits for distilleries

\*NO license in the Form PD 1 and PD 2 is granted unless the applicant has deposited a security deposit of such amount in cash and fixed deposit receipt pledge in the name of the Excise Commissioner. Further, a license fee of at the rate of INR 25 per kilo of installed production capacity in advance for the year or part thereof for which the license is to be granted.

48. Renewal of license for shall be made to the Excise Commissioner through collector on or before 28<sup>th</sup> February every year.
49. Any person wishing to establish a distillery shall submit an application in Form PD32 to the collector. On receipt of the same the collector shall forward the same to the Excise Commissioner.

<sup>47</sup> No vend is recoverable as per Supreme Court Judgement dated 25.10.1989. However, when special denatured spirit is issued from the distilleries for industrial purposes an “Administrative Levy” at the rate INR 7.50 per kilolitre is charged.

### 3.4.3 Bottling Plant

50. Alcohol in the form of RS and ENA is brought into plant from distilleries and bottled as per the requirements of company's brand which could be bottling of Indian Made Foreign Liquor (IMFL) and issue of Foreign Liquor (FL) within the State and export thereof.
51. **Indian Made Foreign Liquor (IMFL):** The bottling fee of sprit and wine will be as per rate prescribed per bottle.

Types of Forms	Licences/ Permits
<b>FL-3</b>	The bottling of IMFL is done in FL-3 which is granted to: <ul style="list-style-type: none"> <li>• a distiller to bottle plant</li> <li>• a vintner to bottle wines by the collector with the previous sanction of the Excise Commissioner.</li> </ul>
<b>F.L.3-A</b>	Licence for bottling of foreign liquor
<b>F.L.B.B-1</b>	Form of general bond to be executed for removal of Indian made foreign liquor from Indian made foreign liquor bottling bonded warehouse for transport/export without prepayment of duty
<b>F.L.B.1</b>	Application for renewal of licence to bottle Indian made/overseas spirit/wine/beer in bond/outside bond
<b>F.L.B.2</b>	Statement showing bottling of foreign liquor during the previous year and the amount of licence fees assessed for previous year and advance to be realised for the current year

Table 5: Type of forms at Bottling Plant

52. **Control:** Bottling of alcohol is done under strict supervision of Excise Inspector. On the last working day of every month, after all the transactions for that are made, the Excise Inspector in charge is required to take stock of the unbottled and bottled liquor stored in the bottling bonded warehouse. An allowance up to 1% is made on the total quantity of sprit stored during a month for actual loss in bottling and storage. Duty is chargeable from the licensee on wastage in excess of prescribed limit.
53. **Foreign Liquor (FL):** Issues of FL is made under a pass in Form FLB-11 granted by Excise Inspector empowered in this behalf. The pass is issued either on proof of full payment of duty or in case of export outside state on execution of necessary bond. In case of export outside state export pass fee, is to be realised from distiller in advance.

### 3.4.4 Breweries

54. **Brewery** means a building where beer is brewed and includes every place therein where beer is stored or wherefrom it is issued.

55. 'Brewer' means person holding licence in **Form B-1** for manufacture of beer which is issued by the **Excise Commissioner** on furnishing of security for fulfilment of all conditions of his license.
- B-1 Licence to work as brewery.
  - B-19 Application to establish brewery.
  - B-20 Licence to establish brewery.
  - B-21 Application for grant of licence to work a brewery in form- B-1.
56. **Vintnery** means wine-manufactory.
57. Vintner' means a person licenced to work a wine manufactory
- V-1 Licence to establish a Vintnery
  - V-2 Licence to manufacture wine in licenced Vintnery
  - V-3 Application to establish Vintnery
  - V-4 Application to grant licence in V-2
58. Beer cannot be removed from the brewery until the duty imposed under section 28 of Excise Act 1910 has been paid or until a bond has been executed by the brewer for export of beer outside the State.
59. **Control:** The brewery is placed under the supervision of and Excise Officer who works under the supervision of Additional Excise Commissioner in whose range the brewery is situated.

### 3.4.5 Bonded Warehouse

60. **Foreign Liquor Bonded Warehouse:** Governed by 'The Uttaranchal Foreign Liquor Bonded Warehouse Rules 2001'
- 61.61.

Bonded warehouse- means a warehouse licenced by the **Excise Commissioner**, Uttaranchal under section-18 (d) of the Act for receipts and storage under bond of bottled foreign liquor of Indian manufacture, transported or imported into Uttaranchal from any place within Indian Union, as approved by the government of Uttaranchal for its transport and sale within Uttaranchal to wholesale vendors of foreign liquor.

**Foreign Liquor for the purpose of these rules shall means:**

- a) Spirit made in India and sophisticated or coloured so as to resemble in flavour or colour liquor imported into India
- b) Beer brewed in India
- c) Wines and liquors made in India

62. The Licence to establish bonded warehouse is granted by **Excise Commissioner** as per the conditions laid down in the Rules and Excise Policy of the year.

63. **Forms and Registers:** Following are the form and register:
- B.W.F.L.-1: Application for licence to establish and run Foreign Liquor bonded warehouse
  - B.W.F.L.-2: Licence shall be granted to establish and run Foreign Liquor bonded warehouse
  - B.W.F.L.-3: Bond to be executed by the licensee of **foreign liquor bonded** warehouse
64. **Import in Bond:** “Import of intoxicants. - (1) No intoxicant shall be imported unless-
- a. the State Government has given permission, either general or special, for its imports.
  - b. such conditions (if any) as the State Government may impose have been satisfied; and<sup>48</sup>
  - c. the duty (if any) imposed under Section 28 has been paid or a bond has been executed for the payment thereof.”
65. **Indian made foreign liquor and foreign liquor can be imported under bond**
66. **Forms and Registers:** Following are the forms and registers
- FL-21 Application for import of Indian-made foreign liquor on pre-payment of duty
  - FL-22 Permit for the import of Indian-made foreign liquor
  - FL-23 Pass covering export by a wholesale vendor of duty paid foreign liquor manufactured in Uttarakhand
  - FL-24 Details of application received for import of FL under FL-22 permit, available at collector’s office
  - FL-33 Application for import of overseas foreign liquor other than denatured spirit in the scheduled areas of Uttarakhand
  - FL-34 Pass for the imports of overseas foreign liquor other than denatured spirit in the scheduled areas of Uttarakhand
  - FL-36 Pass for transport of foreign liquor from wholesale vend
67. No liquor shall be removed from the bonded warehouse unless the duty has been paid on it at the prescribed rate or bond has been executed for payment of the same by the license. Issues from the bonded warehouse on payment of duty shall be made only to the wholesale vendors for foreign liquor of the state. An account of issue liquor for the bonded warehouse shall be maintained in the registers in Form BWFL-6. All issues shall be made only application accompanied with treasury challan evidencing payment of prescribed duty by the license

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<sup>48</sup> Excise Act, 1910

68. On last working days of every month after all transactions of that day are made, the officer in charges shall take the stock of the foreign liquor stored in the bonded warehouse and entered into the prescribed registers in Form BWFL-10.
69. **Controls:** All the records of import and supply of liquor is maintained at the bonded warehouse by **Excise Inspector** and stock is kept in double lock with **Excise Inspector** having key
70. All imports and supply of alcohol is done in presence of **Excise Inspector**.

### 3.4.6 Retail Sale Country Liquor

71. Different types of retailers are:

Sr. No.	Type of retailer	Type of License
1	Retail shops	CL-5, FL-5
2	Hotel License	FL-6
3	Restaurant and hotel bar license	FL-7
4	Beer shops	FL-7-B
5	Clubs	FL-7-C
6	Unit Canteen	FL-11

Table 6: Types of Retailers for sale of Alcohol

72. **Retail Shops:** Governed by:
- The Uttaranchal Excise (Settlement of Licences for retail sale of country liquor) Rules 2001
  - The Uttaranchal Excise (Settlement of Licences for retail sale of foreign liquor and beer) Rules 2001
  - The excise policy of the year
73. Sale of liquor is done at MRP through retail liquor shops.
74. **Control:** Retail shops maintain stock registers of daily stock in and out which is signed by EI on daily basis
75. **Revenue form Retail Shops<sup>49</sup>:** Revenue receipts from the retail shops are as under.
- a. **Assessment of retail shop revenue-** Collector's office forms a committee to assess the revenue from the retail shop in his district. The committee so formed fixes the revenue target from the shop basis last year sale or any procedure as per the act, rules or GOs.

<sup>49</sup> Basis the Excise Act, 1910, Uttarakhand Excise Policy 2019-20 and discussions Excise department



- b. **Allotment of retail shops-** Once the revenue target is fixed, the shop is opened for allotment either by tendering procedure or lottery as mentioned in excise policy for that year.
- c. **Application fees-** The interested parties (Licensees) apply for the retail shop by depositing the application fees at such rate as may be prescribed in the as the excise policy for that year. The interested parties also deposit a percentage security amount as fixed in the excise policy.
- Assessment – as per the policy
  - Collection- in the form of challan through online payment gateway
- d. **License Agreement** – After the tendering/ lottery process is completed and all the documents mentioned in the excise policy are verified, the license is finally allotted to the selected licensee and **Minimum Month wise Guarantee Duty (MMGD)** is fixed on the basis of annual bid amount or lottery amount as the case maybe.
- e. **Monthly Revenue-** The license holder pays MMGD through e- challans through online payment gateways. The copy of the e-challan is submitted to the district excise office and the revenue is compiled in district excise office G-6.
- f. **Penalties-** Penalties shall be imposed as per Excise Act, 1910 and the rules thereunder at the rates specified and revised as per government orders issued from time to time.
76. **Lifting of Liquor:** The licensee shall obtain supplies of country liquor from any whose sale license of the district after making full payment of cost price of country liquor including all taxes, duties, and cess levied from time to time. The licensee shall place indent at least 72 hours in advance to the whole sale licensee in the district from he intends to procure the supply of country liquor. The whole sale licensee with whom indent has been placed shall record the time and date of receipts of indent and shall ensure supplies of desired quantity of liquor within 48 hours of receipts of indent. If the whole sale supplier fails to supply liquor within 48 of the receipts of the indent the retailer shall approach to the concerned Excise Inspector. Who will arrange the supply of indented quantity of liquor from any other whole sale shop of the district in case there is no country liquor available on any whole sale licensee of the district the Excise Inspector shall made alternative arrangement of the indented quantity from some other district withing 24 hours of the receipt of such intent.
77. **Failure to Lift the Monthly Minimum Quantity:** In case the retailer fails to lift the monthly minimum quantity the district excise officer shall immediately report the matter to the Licensing Authority, who shall suspend the license and adjust the amount of duty leviabale on the unlifted part of the Monthly Minimum Quantity fixed for that month from the security deposit and also issue a notice to the licensee, latest by end of the month to replenish the shortfall in security amount within a week and also a show cause as to why license should not be cancelled.

78. **Lifting of Excess Monthly Minimum Quantity:** May be lifted up to 20% in excess of Monthly Minimum Quantity for the month at the same rate of duty. Any further quantity may be lifted on permission of additional excise duty as may be fixed.
79. **Maximum Rate Price:** The licensee shall not charge from the consumers more than the MRP printed on the bottle and pouch.
80. **Disposal of excess stock or refund of stock to the whole sale licensee:** Upon expiry of the licensee the balance country liquor found unsold at the end of the day shall be returned to the wholesale licensee and the licensee shall be entitled to refund of cost price excluding duty and other taxes.
81. **Cancellation and suspension of License and Penalties:** The licensing authority may cancel the license:
- If any bottle or pouch in the licensee premises on which duty has not been paid and which does not carry security hologram duly approved by the Excise Commissioner as proof of payment of duty
  - If any other kind of liquor or intoxicating drugs is found in the licensed premises
  - If the affidavit submitted by the licensee at the time of application is found incorrect and assertion made therein are found to be false
  - If the licensee fails to lift the Minimum Monthly Guaranteed Quantity during the month and also fails to replenish the shortfall in the security deposit with the period prescribed
  - If the licensee is convicted of any offence punishable under the act or any other law for the time being in force relating to revenue, or any of the cognizable or non-bailable offence, or any offence punishable under narcotic drug etc.
  - If any bottle or pouch is found in licensed premises on which MRP is not printed
82. The licensing authority shall immediately suspend or cancel and forfeit the security deposit on above mentioned grounds. The licensing authority will also service show cause notice for cancellation of the license and the licensee shall submit his explanation within seven days of the receipt of the notice. Thereafter the licensing authority shall pass the suitable order after giving opportunity of being heard if he so desires.
83. In case the license is cancelled on any of the above ground, the licensee shall be blacklisted and debarred from holding any excise license.

### 3.4.7 Uttarakhand Excise Management

84. As a Part of e-Governance initiative, Uttarakhand Excise Department, has implemented a **Web-based solution** called as Excise **Management System**. Uttarakhand Excise Management System is an Online Business Application to generate **online Permits & Issue passes to various Licensees** of Uttarakhand

Excise Department as well as monitor the **inventory levels** at various Distilleries, Breweries, Bonds, and wholesales.

85. The **Excise Management System** facilitate following online services.

- ❖ Shop settlement e-tender
- ❖ All Suppliers are directed to submit EDP & FL2 registration papers to their concerning District Excise Offices.
- ❖ From September 2019, e-challans are mandatory, All Retail Shop Licensees (IMFL/CL) and Hotel/Bar are requested to make e-Challan mandatory.
- ❖ FL-22 (Import Permit): FL-22 Permit (Import Permit) will issue from related District Excise Office (DEO Office).

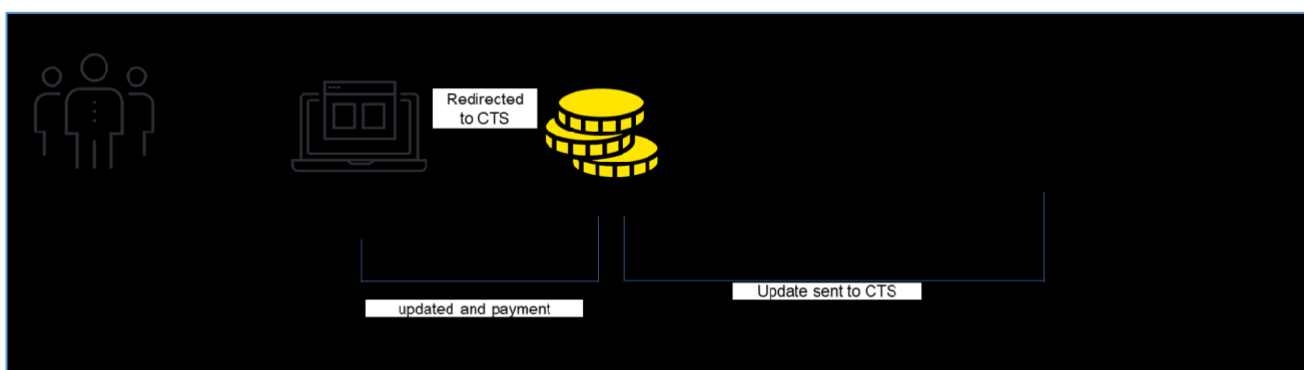


Figure 4: Process Lifecycle of production and sale of alcohol

## Chapter IV: Audit process

86. This section provides an overview of the audit life cycle for conducting the revenue audit of excised department. Detailed audit processes are provided in the Uttarakhand Internal Audit Manual Volume-I, Part-I and this manual should be read in conjunction with the Internal Audit Manual Volume-I & Volume-II. The major steps involved in an audit of excise department has been provided through the following flowchart.

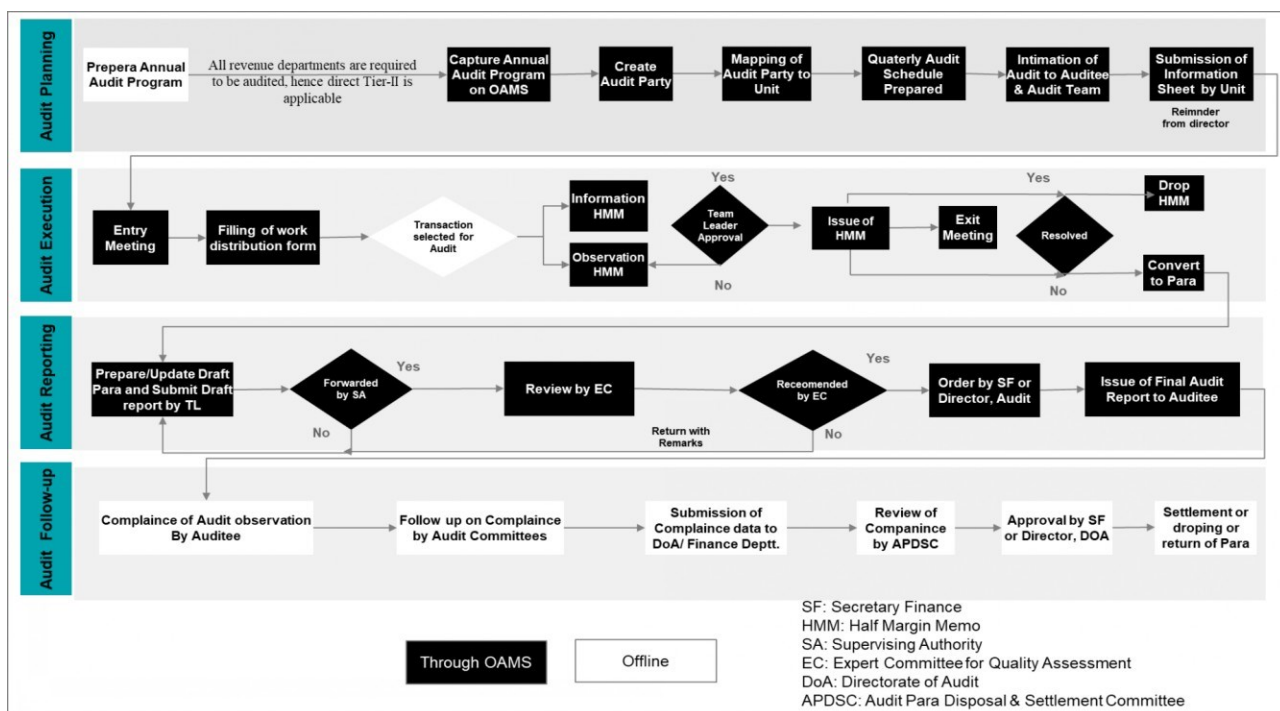


Figure 5: Audit process for revenue of excised department

## 4.1 Audit Planning

### 4.1.1 Audit Planning Activities

87. The process for an internal audit is initiated with the preparation of an internal audit plan which includes assessment of risk, selection of departments, selection of areas to be audited, selection of audit units, allocation of resources, and finalization of timeline for conducting the audit, etc. The preparation of the internal audit plan and assigning of an internal audit to an audit team shall be done in accordance with the provisions and procedures mentioned in Internal Audit Manual through the Online Audit Management system (OAMS). The risk assessment process for the preparation of the annual audit plan is provided in Internal Audit Manual [Please refer to Chapter 8 of the Internal Audit Manual Volume I, Part-I].

88. The specific considerations related to audit planning with respect excise revenue is provided below:

Risk process	Responsibility	Description and Activities to be conducted
Tier – I: Selection of Department to be Audited	Directorate of Audit	<p>This step is to categorize the departments according to its risk-profile and shall be done in accordance with the Internal Audit Manual Volume I, Part I.</p> <p>The Excise department shall automatically be classified as high-risk department. Therefore, parameters related to selection of</p>

		departments provided in Tier-I shall be not be applicable however, parameters for selection of key auditable areas as specified in Tier-II shall be applicable.																														
Tier – II: Selection of Key Auditable Areas	Directorate of Audit	<p>This step will identify the Key Auditable Areas and the Auditable Sub Areas which will be subjected to risk assessment to determine the areas to be prioritized for audit.</p> <p>The process to be followed for risk assessment of the Key auditable Area and Auditable Sub Areas is mentioned in detail in the Internal Audit Manual Volume I, Part-I. [Refer Section 8.2.2.2 of Internal Audit Manual Volume I, Part-I]</p> <p>The Key Auditable Areas and Auditable Sub Areas specific for revenue audit of Excise department shall be referred from the table below:</p> <table border="1"> <thead> <tr> <th>#</th> <th>Key Auditable Area</th> <th>Illustrative Auditable Sub Areas</th> </tr> </thead> <tbody> <tr> <td rowspan="2">A</td> <td rowspan="2">Stock taking of excisable good</td> <td>Movement of excisable good from excise unit to another excise unit</td> </tr> <tr> <td>Input and output of excisable good with the excise unit</td> </tr> <tr> <td rowspan="7">B</td> <td rowspan="7">Assessment of excise revenue</td> <td>License fee paid by excise units</td> </tr> <tr> <td>Excise duty paid by excise unit</td> </tr> <tr> <td>Import duty paid by excise unit</td> </tr> <tr> <td>MMGD paid by excise unit</td> </tr> <tr> <td>Additional duty paid by excise unit</td> </tr> <tr> <td>Label registration fee</td> </tr> <tr> <td>Brand registration fee</td> </tr> <tr> <td rowspan="8">C</td> <td rowspan="8">Collection of excise revenue</td> <td>License fee paid by excise units</td> </tr> <tr> <td>Excise duty paid by excise unit</td> </tr> <tr> <td>Import duty paid by excise unit</td> </tr> <tr> <td>MMGD paid by excise unit</td> </tr> <tr> <td>Additional duty paid by excise unit</td> </tr> <tr> <td>Label registration fee</td> </tr> <tr> <td>Brand registration fee</td> </tr> <tr> <td>Delay in collection of excisable revenue</td> </tr> <tr> <td rowspan="2">D</td> <td rowspan="2">Excise compliance</td> <td>Application for license by excise unit</td> </tr> <tr> <td>Maintenance of records by excise departments</td> </tr> </tbody> </table>	#	Key Auditable Area	Illustrative Auditable Sub Areas	A	Stock taking of excisable good	Movement of excisable good from excise unit to another excise unit	Input and output of excisable good with the excise unit	B	Assessment of excise revenue	License fee paid by excise units	Excise duty paid by excise unit	Import duty paid by excise unit	MMGD paid by excise unit	Additional duty paid by excise unit	Label registration fee	Brand registration fee	C	Collection of excise revenue	License fee paid by excise units	Excise duty paid by excise unit	Import duty paid by excise unit	MMGD paid by excise unit	Additional duty paid by excise unit	Label registration fee	Brand registration fee	Delay in collection of excisable revenue	D	Excise compliance	Application for license by excise unit	Maintenance of records by excise departments
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D	Excise compliance	Application for license by excise unit																														
		Maintenance of records by excise departments																														

				Receipt of monthly or annual returns from excise units	Receipt of monthly or annual returns from excise departments			
<p>Table 7: Key auditable area and Auditable sub area for revenue audit of Excise Department.</p> <p>The above list of Key Auditable Areas and Auditable Sub Areas shall be reviewed and updated periodically by the DoA based on the findings during the last audits.</p> <p>DoA shall carry out the risk assessment of all the Auditable Sub Areas under each Key Auditable Areas through <i>situational analysis</i> of the risk listed for all such auditable sub areas. The risk listing/identification for each Auditable Sub Area would be done from various sources such as past audit reports, best practices, review of control environment, experience, and professional judgement of officials of DoA conducting the risk assessment</p> <p>The situational analysis of each identified risk shall be done by the DoA based on their discussion with management of department, past serious audit observations, review of internal control environment, media reports, professional judgement, and experience. An illustrative general risk evaluation matrix for all the currently identified Key Auditable Areas and its Auditable Sub Areas is provided at <b>Annexure I</b> to this section of the manual. The DOA shall build upon this Matrix based on the actual risks identified during each audit cycle.</p>								
Tier – III: Selection of auditable units within the Departments	Directorate of Audit	<p>This process to be followed for selection of units to be audited of the Excise Department and shall be in accordance with Internal Audit Manual Volume I, Prat-I.</p> <p>Risk Profiling for the units to be selected shall be based on financial, non-financial Parameters and special parameters. An illustrative list of parameters along with their score, range and weightage are provided below:</p>						
		<b>#</b>	<b>Parameter Name</b>	<b>Description of Parameters</b>	<b>Scoring</b>		<b>Weightage</b>	
					<b>Variable</b>	<b>Range</b>		<b>Score</b>
		1				0	0	15%

			Value of serious audit Paras pending for compliance in AG report	Value of serious Audit Paras (AG audit) pending for compliance at end of the immediately preceding financial year needs to be considered .	Value of serious AG para pending for compliance for the unit (AG Audit)	0-0.50 Cr.	3	
						0.5 to 1.5 Cr.	6	
		2	Value of serious Internal Audit Paras pending compliance	Cumulative Value of Internal audit serious paras pending for compliance at end of the immediately preceding financial year needs to be considered	Cumulative Value of internal audit serious paras pending for compliance for the respective audit unit	0	0	15%
						0-20L	3	
						>20L -50L	6	
						>50L	10	
		3	Past Internal Audit Conducted	Numbers of Years since last Internal Audit conducted for the units	Years Pending for Internal Audit	0	0	20%
						1	3	
						2	6	
						3 or more	10	
<b>Specific Parameters for Key Auditable Areas for Revenue Audit</b>								

		4	Trend of Revenue Receipts	Variation in total revenue receipts over the immediately preceding financial year (both positive & negative)	% variation in total revenue receipts over the immediately preceding financial year (both positive & negative)	5-15%	3	20%
						15-25%	6	
						>25%	10	
		5	Registered Dealer	Variation in nos. of registered assesses/ taxpayers (both positive & negative)	% variation in nos. of registered assesses/ taxpayers over the immediately preceding financial year (both positive & negative)	0-10%	3	10%
						10-20%	6	
						>20%	10	
		6	Revenue of Unit	Percentage share of the revenue of the unit	Revenue of unit as a % of total revenue of the excise department	0-5%	3	10%
						5-15%	6	
						>15%	10	
		7	Amount of Arrears	Pending arrears if any to collected	Arrears as a % of total revenue receipts for the immediately preceding	0-10%	3	10%
						10-20%	6	
						>20%	10	



					financial year			
		<p>Table 8: Parameters for Tier III Risk assessment process for revenue audit for Excise department</p> <p>The above parameters and their score ranges are illustrative in nature. DoA may add/delete/modify any of the above parameters as per the requirements.</p>						
Tier – IV: Selection of Transactions to be audited	Audit Party	<p>The Tier-IV risk assessment process is carried out to identify the transactions for which the selected areas shall be audited at the audit unit level.</p> <p>The steps involved in Tier IV risk assessment process to be followed is explained in later part of this section of the manual</p>						

Table 9: Risk assessment process for revenue audit of Excise department

**Way Forward:** In the initial years from the adoption of this manual, audit will be done at the level of the Key Auditable Area as per the process mentioned above. However, over the year the DoA shall continuously update the risk evaluation matrix for the Auditable sub-Areas under each Key Auditable Areas.

In the long term, DoA shall carry out the risk assessment of auditable Sub Areas only and the revenue audit of Excise would be conducted for high-risk auditable Sub Areas or a mix of high and medium risk Auditable Sub Areas, as decided by the DoA. Refer to section 8.2.2.2 of Internal Audit Manual Volume I -Part-I.

89. The categorization of the department (Tier I), selection of area to be audited (Tier II) and selection of units for audit (Tier III) shall be done at the Directorate of Audit level on annual basis and the outcome shall be mentioned in the annual internal audit plan which shall be issued in accordance with the provision of **Internal Audit Manual Volume I, Part-I**.
90. Post selection of units to be audited, other steps such as allocation of resources, finalization of timelines etc. shall be done as per the provision mentioned in the Internal Audit Manual Volume I, Part-I. **[Refer Chapter 8 of Internal Audit Manual Volume I, Part-I for details]**

#### 4.1.2 Audit Preparation

91. Before proceeding for conducting revenue audit, the audit parties need to ensure that below mentioned activities are undertaken (these activities will be carried out at global level)
  - **Activity 1:** Understand the Department and its operation. **Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.**
  - **Activity 2:** Understand the legal and regulatory framework. **Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.**
  - **Activity 3:** Preparation of Audit Planning Memorandum. **Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.**

92. Activities to be carried out at Individual Audit unit. Post receiving of the all the required information, the auditor shall carry out the steps for risk assessment (Tier- IV) as defined in **para 4.2.3** of this section of the manual. The risk assessment process shall be completed in the audit planning & preparation stage post receipt of all required information as mentioned in below section. However, in case of non-receipt of such information, the Tier IV risk assessment process shall be carried after the entry meeting after obtaining the relevant data points. To perform the above activities for audit preparation, auditor requires information from the audit unit. Therefore, such information shall be gathered through information sheet on OAMS which contains data such as organizational structure, trend of revenue collection, cases pending for assessment/ pending for settlement, details of the personnel, budget, details of audit paras, taxpayer data etc. of the audit unit. The additional information to be obtained in the information sheet through OAMS for conducting the revenue audit of excise department is provided below:

## 4.2 Audit Execution

93. This is the stage where audit plans are executed, and observations are noted through the application of revenue audit procedures. The purpose of audit execution is to ensure completion of the revenue audit and gather sufficient & appropriate audit evidence to reach a conclusion on each of the objectives identified in the audit planning memorandum.

94. Following are the steps that should be followed to conduct a revenue audit:

Sr No	Activity
1.	Entry Meeting
2.	Update/Revision of Audit Planning Memorandum
3.	Tier IV Risk assessment (if not carried during the audit preparation stage of Audit Planning)
4.	Work Distribution among team member
5.	Audit of the selected transactions
6.	Audit Analysis and Evaluation
7.	Issuance of Audit Memo (Half Margin Memo)
8.	Exit Meeting

Table 10: Steps in Audit Execution for Revenue Audit – VAT

The section 6 of Uttarakhand Audit Act, 2012, provide the authority and power to the auditor to obtain all necessary information and records, as the auditors may think fit, required for the purpose completing audit engagement. Section 7 of the Uttarakhand Audit Act, 2012, provide the provision for imposing penalty on audit unit for disobeying or not meeting the requirement provided by auditors under section 6 of the Uttarakhand Audit Act, 2012.

95. The above execution steps has been detailed in the **Internal Audit Manual Volume I, Part I**. However, in this manual only the specific considerations related to excised revenue audit has been elaborated:

**4.2.1 Entry Meeting**

96. Refer Point No. 9.1 of the Internal Audit Manual Volume I, Part I.

**4.2.2 Update of Audit Planning Memorandum**

97. Refer Point No. 9.2 of the Internal Audit Manual Volume I, Part I

**4.2.3 Work distribution among audit team members**

98. After completing the risk assessment process, the audit team leader shall divide the audit work among the team members and according to the work distribution, the team members should proceed for conducting the revenue internal audit of the selected unit. The audit team leader should take up more significant items along with supervision of other team members. The work distribution should be recorded through OAMS and kept with the working papers. The format of work distribution is provided in the Internal Audit Manual.

**4.2.4 Selectin of Transactions to be Audited (Tier IV)**

99. The Tier-IV risk assessment process is carried out to identify the extent of transactions to be audited at the audit district level. The risk assessment process (Tier IV) shall be completed in the audit planning & preparation stage post receipt of all required information from audit unit. The methodology for Tier IV risk assessment to be conducted in this stage is defined in below table:

Key Auditable Area		Extent of Check	
<b>E) Stock taking of excisable good</b>  <b>B) Assessment of excise revenue</b>  <b>C) Collection of excise revenue</b>  <b>D) Excise compliance</b>	<b>For selected Key Auditable Areas under Tier II risk assessment -The Director of Audit (DoA) should select the sample size so as to cover at least 20% - 30% revenue of the selected Audit unit. Methodology for coverage of sample size is Illustrated below:</b>		
	#	Categorization	Extent of Check
	1	Where fluctuation in monthly Levy /collection is more than 30% for any dealer,	At least 30% of dealers return data to be selected for audit
2	Where fluctuation in monthly Levy /collection is more	At least 20% of dealers return data to be selected for audit	

E) Others (As Applicable)		than 20% but less than 30% for any dealer	
	3	Where fluctuation in monthly Levey /collection is more than 10% but less than 20% for any dealer	At least 10% of dealers return data to be selected for audit
<p>Table 11: Extent of Checking</p> <p>Note: The above extent of check is indicative, and an auditor may modify the same based on their professional judgment and findings during the audit.</p> <p>After selection of transactions to be audited as mentioned above, the audit team will carry out audit of transactions which involves examination of transactions along with their supporting documents to examine its correctness. Detailed audit shall be carried out as per the audit program mentioned in <b>Chapter 5</b> of this section of the manual.</p>			

Table 12: Tier IV risk assessment process for Revenue audit of Excise department

Note: The extent of check mentioned in above process is suggestive. It shall be kept dynamic wherein auditor shall apply their professional judgment while selecting a transaction for audit.

#### 4.2.5 Work distribution among audit team members

100. After completing the risk assessment process, the audit team leader shall divide the audit work among the team members and according to the work distribution, the team members should proceed for conducting the revenue internal audit of the selected unit. The audit team leader should take up more significant items along with supervision of other team members. The work distribution should be recorded through OAMS and kept with the working papers. The format of work distribution is provided in the Internal Audit Manual.

#### 4.2.6 Audit of the Transaction Selected

101. The audit team will carry out the audit of selected transactions which involves examination of supporting documents and occurrence of transactions. The checklist prepared is comprehensive but not exhaustive and auditor shall apply his own professional experience and unbiased judgment during the verification of any transaction/area related to audit of Excise revenue.

#### 4.2.7 Audit Analysis and Evaluation

102. Refer section 9.6 of the Internal Audit Manual Volume I, Part-I.

### 4.2.8 Issue of Audit Memo/Half Margin Memo

103. Refer section 9.7 of the Internal Audit Manual Volume I, Part-I.

### 4.2.9 Exit Meeting

104. Refer section 9.8 of the Internal Audit Manual Volume I, Part-I.

## 4.3 Audit Reporting and Documentation

105. This Chapter describes the steps that is to be followed for reporting and documenting a revenue audit of excise department. The chapter has been divided into the following sections:

- Conversion of HMM into draft audit para. **Refer point no.10.1 of the Internal Audit Manual Volume I, Part-I** for details.
- Preparation of Internal Audit Report. **Refer point no.10.2 of the Internal Audit Manual Volume I, Part-I** for details.
- Review, approval and issuance of Internal Audit Report. **Refer point no. 10.3 of the Internal Audit Manual Volume I, Part-I** for details.

### 4.3.1 Audit Documentation

106. Refer Chapter 11 of Internal Audit Manual Volume I, Pat-I for details.

## 4.4 Audit Monitoring Follow-up and Compliance

48. Refer Chapter 12 of Internal Audit Manual Volume I, Pat-I for details.

## 4.5 Quality Assurance and Improvement Program (QAIP)

107. Refer Chapter 13 of Internal Audit Manual Volume I, Pat-I for details.

## Chapter V: Audit Checklist and Annexures

### 5.1 Audit Checklist

108. This section of the manual includes a detailed audit checklist (not exhaustive) to be referred by the audit parties for conducting revenue audit of excise department by a systematic process for verifying various transaction relating to excise revenue.

#### 5.1.1 Types of documents maintained by Excise Department

109. Following documents maintained by the excised department.

Name of the Documents	Particulars
Permits	
Stock register	
G-4 (daily entry book)	
G-6 monthly compilations	
Records of excise inspector	
Returns filed by distilleries	
Monthly returns sent by district excise officer to commissioner	
License file	
Breach register	
Challans of duty	
Notice file	
Excise policy of the year	
Auction files	
One day bar register	
Import Register for Foreign Liquor and Clubs/Bars	
G.1- Register for all the licences issued under graduated surcharge system	
G-16 A complete list of shops	
G-3 A register of all foreign liquor licences issued under fixed fee system	

<b>G-25 extracts relating to termination of licences for wholesale and retail to be submitted to excise commissioner</b>	
<b>All other documents maintained under district office and state office (detailed in Annexure-1)</b>	
<b>Returns received from excise units</b>	
<b>Returns received from district excise office – Monthly return in the form of ‘Sankhiki prarup’</b>	

Table 13: Types of documents maintained by Excise Department

110. The list of relevant Excise forms is provided at **Annexure II** to this section of the manual.

**5.1.2 Analysis of Revenue movement over last year for the dealers/licensee**

111. In this section auditor will analyse fluctuation in revenue collection in order to select the dealer’s or manufacturer’s file for audit

<b>Dealers Registration /Licence no.</b>	<b>Previous No. Collection (A)</b>	<b>Year Current Collection (B)</b>	<b>Year Variation (+)/ shortfall (-) (C= B-A)</b>	<b>excess Percentage Variation (D= C/A *100)</b>
<b>XXXXX</b>				
<b>XXXXX</b>				
<b>XXXXX</b>				
<b>XXXXX</b>				
<b>XXXXX</b>				

Table 14: Template for Analysis of Excise revenue movement over last year for licensee

**5.1.3 Analysis of Budget**

112. In this section the auditor will analyse the budget of the year

<b>Documents to be referred</b>	State budget of the year Excise policy of the year Any order revising the yearly budget for the state excise department				
<b>Analysis Template</b>	<b>Budget assigned for the year in the FY as per the state budget</b>	<b>Budget fixed by the finance department as per the excise policy</b>	<b>Any revision in the budget fixed by the finance department during the year</b>	<b>Actual target achieved during the year</b>	<b>Difference between the target fixed and achieved</b>
	A	B	C	D	C-D or B-D
<b>Check points</b>	Is there any difference in target and actual receipts and the auditor should discuss the reasons with the department and quote the same in this section				

Table 15: Template for Analysis of Budget vs Actual revenues

**5.1.4 Trends of Receipt**

113. In this section auditor will compare actual receipts of the state excise department against the target for last 5 years in the below template:

Year	Budgeted revenue target	Actual receipts	Variation excess (+)/shortfall (-)	Total tax and non-tax receipts of the state	Percentage of actual receipts to total tax and non-tax receipts of the state
<b>Current year</b>	A	B	A-B	C	(B/C) *100
<b>Previous year</b>					
<b>Previous year</b>					
<b>Previous year</b>					
<b>Previous year</b>					

Table 16: Template for Analysis of excise revenue trends over the years

**5.1.5 Analysis of arrears of revenue**



114. In this section we will compare the opening and closing arrears in demands and collection of excise department for last 5 years

Documents to be verified		Demands and collection register Financial management system of excise department	
<b>Analysis Template</b>	Amount in INR Lacs		
	<b>Financial Year</b>	<b>Opening balance of arrears</b>	<b>Closing balance of arrears</b>
	Current audit year		
	Previous year		
	Previous year		
	Previous year		
<b>Additional check points</b>	<ul style="list-style-type: none"> <li>➤ Analyse whether there has been increasing trend in arrears. If yes quote reasons thereof</li> <li>➤ Analyse whether any recovery procedure has been initiated against the arrears. If no recovery procedure is initiated quote the reasons thereof.</li> <li>➤ For this prepare the following Schedule</li> </ul>		
	<b>Particulars</b>		<b>Amount (in lakhs)</b>
	Demands covered by recovery certificates		
	Demands stayed by the court		
	Demands to be written off		
	Demands which are being recovered in installments		
	Demands held at different stages << quote the stage>>		
	Demands against which no action is taken		
	Total		

Table 4: Template for analysis of cost of collection of excise revenue

### 5.1.6 Cost of collection of revenue

115. In this section, the total cost of revenue collection will be compared with all India average cost of collection in order to determine the efficiency of the department.

Documents refer	to Total revenue collection of Excise department Total expenses incurred by the Excise department All India average cost of collection of revenue				
<b>Analysis Template</b>	<b>Financial Year</b>	<b>Total revenue receipts</b>	<b>Expenditure by the department</b>	<b>Percentage of expenditure to total revenue receipts</b>	<b>All-India average cost of collection</b>
	Current Year				
	Previous Year				
	Previous Year				
	Previous Year				
	Previous Year				
<b>Check points</b>	Where state cost of collection is more than all-India average percentage of collection. Find out the reason and report the same for improvement.				

Table 18: Template for analysis of arrears of excise revenue

### 5.1.7 Impact of revenue audit during the year

116. The auditor will do detailed analysis as per the check list provided below and summarise the same in the given template:

Irregularities	Number of Irregularities	Amount (in Rs.)
<i>Loss in revenue due to non-levy, short levy, non-collection, etc.</i>	<i>Mention number of irregularities found during the year</i>	<i>Assessed revenue loss</i>
<i>Compliances not as per the act, policy, etc.</i>	<i>Mention number of irregularities found during the year</i>	
<i>Deficiencies in Internal control</i>	<i>Mention number of irregularities found during the year</i>	
	<i>Total Number of Paras</i>	<i>Total revenue loss</i>

Table 5: Template for reflecting the irregularities in Excise revenue

## 5.2 Detailed Audit Check List

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
<b>A Audit Checklist for Molasses</b>						
1	<p><b>Documents to be verified:</b></p> <ul style="list-style-type: none"> <li>▶ Estimated requirement of the molasses during the period of twelve months to be submitted by the distilleries to the controller</li> <li>▶ Estimated production of molasses during the following cane-crushing season by the sugar factory to be submitted to the controller: on receipts of the estimates, the controller prepares a consolidated statement showing requirements for each distillery indicating the sugar factor from which the requirement is to be met and makes a provisional allotment to each distillery.</li> <li>▶ After close of the cane-crushing season, every sugar factory shall furnish a report showing the total production of molasses within a week of the close of every crushing season.</li> <li>▶ The controller may call for revised requirements of molasses from the distilleries and on receipts of thereof, the provisional assessment may be made final with such modification as the controller may consider</li> </ul>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>necessary. The final allotment of molasses shall be communicated to all the concerned.</p> <ul style="list-style-type: none"> <li>▶ Every distillery shall submit to the controller a weekly return showing receipts and consumption of the molasses.</li> <li>▶ The owner sugar factory shall maintain current account of production and sale of molasses and furnish return.</li> </ul>					
2	<ul style="list-style-type: none"> <li>• Whether all the conditions prescribed under the Excise Act and Rules made thereunder have been satisfied before a license is granted for a distillery?</li> <li>• Whether the distillery has obtained requisite license for establishment of distillery?</li> <li>• Whether the distillery has obtained requisite license for working of distillery?</li> <li>• Whether the requisite fee for obtaining such licenses has been deposited timely by the distillery into the State Exchequer?</li> <li>• Whether the license granted to distillery is renewed in time on payment of the prescribed fee?</li> <li>• Whether the distillery has maintained requisite records</li> </ul>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>such as the License File and Revenue Deposit Register with respect to licensing</p> <p><b>To verify the above the following records to be checked:</b></p> <ul style="list-style-type: none"> <li>i. License file containing copy of requisite license and Treasury challans of license fee deposited</li> <li>ii. Revenue Deposit Register containing all the receipts of the Excise Department</li> </ul>					
3	<p><b>Verification of Procurement and Storage:</b></p> <ul style="list-style-type: none"> <li>• Whether receipt of raw material (molasses, grain, malt etc.) has been acknowledged on the gate- pass by the competent authorities as prescribed under the relevant rules? \</li> <li>• Whether norms for transit wastage of raw materials (quantity as well as quality) exist and whether the transit wastage of raw material as recorded in Transit Passes is as per such norms?</li> <li>• Whether penal provisions for excess transit wastage of raw materials exist and whether penalty for excess transit</li> </ul>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>wastage of raw materials is charged from the distillery?</p> <ul style="list-style-type: none"> <li>• Whether norms of transit wastage were compared with other States?</li> <li>• Whether the distillery has maintained requisite records with respect to procurement of raw material?</li> </ul> <p>To verify the above, the following records will be checked.</p> <ol style="list-style-type: none"> <li>1. Transit passes duly authorized by the State Excise Department for transportation of molasses.</li> <li>2. Purchase invoices in respect of other raw materials</li> </ol>					
4	<p><b>Storage of Raw Material:</b></p> <ul style="list-style-type: none"> <li>• Whether the distillery is maintaining a proper monthly/quarterly/ annual accounts of the raw materials (molasses, grains, malt etc.), received and consumed?</li> <li>• Whether norms for storage wastage of raw materials exist and whether the storage wastage of raw material recorded in Monthly Stock Taking (MST) Register is as per such norms?</li> <li>• Whether penal provisions for excess storage wastage of raw</li> </ul>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>materials exist and whether penalty for excess storage wastage of raw materials is charged from the distillery?</p> <ul style="list-style-type: none"> <li>• Whether all the storage vats/vessels of raw materials in a distillery have been properly gauged by the Excise Department and certified by the Weights and Measurement Department (In context to Uttarakhand), and whether double lock facility has been provided?</li> <li>• Whether) norms of storage wastage was compared with other States?</li> <li>• Whether the distillery has maintained requisite records with respect to storage of raw material?</li> </ul> <p>The following records to be checked to verify the above:</p> <ol style="list-style-type: none"> <li>i. Raw material (molasses, grain, malt, etc.) account registers.</li> <li>ii. Monthly/Quarterly/Annual Stock Taking registers</li> </ol>					
5	<ul style="list-style-type: none"> <li>• Whether all the storage tanks are serially numbered by the distiller and number allotted to each storage tank along with dimension and storage</li> </ul>					



S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>capacity of each tank have been displayed and recorded in the register to be maintained.</p> <ul style="list-style-type: none"> <li>The serial once altered cannot be altered without the prior permission of the controller.</li> </ul>					
6	<ul style="list-style-type: none"> <li>Whether gauge charts in respect of each storage tank have been maintained in the register.</li> <li>Any change in the capacity of the storage tank and provision for additional storage tank should be done with the approval of the Controller</li> <li>Whether distillery has submitted a <b>Statement in Form-8</b> to the Controller and account of Molasses in Form-11 and verify that the allotted quantity has been received in full by the Distillery and there is no pilferage.</li> <li>Check who is responsible for transit loss (In case of transit loss by rail, the loss of molasses prior to actual deliver at the distillery for any reason shall be vest on the occupier of the sugar factory and not on the distiller however, in case of transit loss by road this should be on the distiller.)</li> </ul>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<ul style="list-style-type: none"> <li>• Verify the molasses has been used for the purpose for which it was allotted, and it has not been transferred to any person without prior approval of the controller.</li> <li>• Verify the correct of records of all molasses received, utilized for distillation and the balance in the register in Form MF-6.</li> <li>• Verify receipts on account of administrative charges and other money has been credited to the government account.</li> </ul>					
7	<p><b>Production and storage of alcohol:</b> The following points with respect to production of alcohol are required to be reviewed/seen during the course of audit:</p> <ul style="list-style-type: none"> <li>• Whether the quantity of raw material declared by the distillery used for fermentation was correct as per the entries in the register?</li> <li>• Whether the quantity and initial gravity of the wash as declared by the distiller is correct as per entries in the register?</li> <li>• Whether norms for minimum fermentation and distillation efficiencies and minimum recovery of alcohol from raw</li> </ul>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>material consumed exist and whether such norms are achieved by the distillery?</p> <ul style="list-style-type: none"> <li>• Whether penal provisions for deviation from such norms exist and whether distillery is penalized for deviation from such norms?</li> <li>• Whether distilleries carrying on bottling of IMFL/CL are holding required license for such bottling and whether the requisite fee for such license has been deposited by the distillery?</li> <li>• Whether distillery is producing alcohol within the annual installed capacity fixed for production</li> <li>• Whether penal provisions for production of alcohol in excess of the installed capacity fixed, exist, and whether the distillery has been imposed with the prescribed penalty for such excess production?</li> <li>• Whether norms for wastage of re-distillation of spirit (alcohol) exist and whether wastage on re-distillation of spirit is allowed is within the permissible limit?</li> </ul>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<ul style="list-style-type: none"> <li>• Whether IMFL/CL bottled by the distillery is of the same strength as mentioned on the label affixed on the sealed bottles?</li> <li>• Whether norms for wastage in the process of maturation, obscuration and for pipeline supply of alcohol from vessel to vessel exist and whether such norms are adhered to by the distilleries?</li> <li>• Whether distillery has obtained license from Petroleum and Explosive Safety Organization (PESO) for manufacture and storage of Ethanol and whether penalty is imposed on the distillery for failure to obtain such license?</li> <li>• Whether norms of production were compared with other State?</li> <li>• Whether the distillery has maintained requisite records with respect to production of Alcohol?</li> </ul> <p>To verify the above the following record to be checked:</p> <p>(i) Continuous out Turn / Out Turn Registers showing the quantity of molasses consumed and alcohol produced.</p>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>(ii) Government Laboratory Report showing quantity of Fermentable Sugar (FS), Unfermentable Sugar (UFS) and Total Reducing Sugar (TRS) present in the molasses used for production of alcohol.</p> <p>(iii) All Production and Distillation Registers. (iv) Bottling register. (v) Dip Book and Gauge charts of Vats/Vessels</p> <p><b>Storage:</b> The following points with respect to storage of alcohol are required to be reviewed/seen during the course of audit: -</p> <ul style="list-style-type: none"> <li>• Whether all the storage vats/vessels of alcohol in a distillery have been properly gauged by the Excise Department and certified by the Weights and Measurement Department, and whether excise lock and double lock facility have been provided?</li> <li>• Whether norms for storage wastage of alcohol exist and whether the storage wastage of alcohol is as per such norms</li> <li>• Whether penal provisions for excess storage wastage of alcohol exist and whether penalty for excess storage wastage of alcohol is charged from the distillery?</li> </ul>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<ul style="list-style-type: none"> <li>• Whether norms of storage wastage were compared with other States? (v) Whether the distillery has maintained requisite records with respect to storage of alcohol? Records to be checked</li> </ul> <p>To verify the above the following records with to be checked during the course of audit:</p> <p>(i) Warehouse ledger. (ii) Monthly Stock Taking (MST) Register. (iii) Dip Book and Gauge Charts of the Vats/Vessel</p> <p><b>Pricing of Indian Made Foreign (IMFL)/Country Liquor (CL):</b> The following points with respect to pricing of liquor are required to be seen during the course of audit:</p> <p>(i) Whether the distillery has obtained the approval of Excise Department of brands of liquor produced/bottled in the distillery after depositing requisite fee commonly referred to as brand approval fee? \</p> <p>(ii) Whether the distillery has obtained approval of Excise Department for labels affixed on the bottles of liquor produced/bottled in the distillery</p>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>after depositing requisite fee commonly referred to as label approval fee?</p> <p>(iii) Whether Ex-Distillery Price (EDP) of liquor has been fixed arbitrarily by the distilleries /State Government with proper justification and in transparent manner?</p> <p>(iv) Whether the distillery has submitted a cost sheet comprising all the components of EDP to the Excise Department? Whether the same has been certified by a Cost Accountant?</p> <p>(v) Whether Maximum Retail Price (MRP) of liquor fixed is correct and in accordance with the provisions of Excise Policy issued by the State Government each year?</p> <p>(vi) Whether all other components of MRP such as Excise Duty, Wholesalers' margin, Retailers' margin and Additional Excise Duty were calculated correctly or not?</p> <p>(vii) Whether Ex-Distillery Price (EDP) of liquor of smaller bottles fixed by the Department is in accordance with the Excise Policy?</p>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>(viii) Whether all other components of MRP such as Excise Duty, Wholesalers' margin, Retailers' margin and Additional Excise Duty of smaller bottles were calculated correctly or not?</p> <p>(ix) Whether process of fixation of MRP was compared with other States?</p> <p>(x) Whether the distillery has maintained requisite records with respect to pricing of liquor?</p> <p><b>The following records with respect to pricing of IMFL are required to be checked during the course of audit:</b> (i) Brand approval files. (ii) Label approval files. (iii) MRP (comprising of EDP, Excise duty, Wholesaler's margin, Retailer's margin, etc.) fixation files.</p> <p><b>Issue of alcohol:</b> The following points with respect to issue of alcohol are required to be reviewed/seen during the course of audit:</p> <p>(i) Whether alcohol is issued from distillery through the prescribed excise pass?</p> <p>(ii) Whether alcohol is issued from distillery on deposit of Excise duty prevailing at the time of</p>					



S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>issue or on the execution of bond?</p> <p>(iii) Whether the distillery had maintained an accurate and up-to-date account of issue of alcohol made from the distillery in the prescribed format?</p> <p>(iv) Whether potable liquors are issued from distilleries after affixing the security holograms/barcodes?</p> <p>(v) Whether liquors supplied by the distillery is of the required standard and supported by the chemical analysis report of any Government Laboratory?</p> <p>(vi) Whether specific time for removal/issue of bottled liquor from storeroom to avoid sedimentation and deterioration in quality of liquor exist and whether it is adhered to by the distillery?</p> <p>(vii) Whether penal provisions for delay in removal/issue of bottled liquor also exist and whether it is imposed in case of such failure?</p> <p>(viii) Whether penal provisions for excess transit wastage of alcohol exist and whether penalty for excess transit wastage of alcohol is charged from the distillery?</p>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>(ix) Whether norms of transit wastage of alcohol were compared with other States?</p> <p>(x) Whether the distillery has maintained requisite records with respect to issue of alcohol?</p> <p><b>The following records with respect to issue of alcohol are required to be checked during the course of audit:</b></p> <p>(i) Transit passes for alcohol authorized by the State Excise Department. (ii) Alcohol (ENA, RS, Power Alcohol, IMFL, CL, etc.) issue registers. (iii) Excise Duty deposit</p> <p><b>Assessment, Collection and Allocation of excise revenue:</b> The following points with respect to assessment, collection and allocation of excise revenue are required to be reviewed/seen during the course of audit:</p> <p>I. Whether Excise duty, Export duty, Import duty, Additional Excise duty, License fee and other fees are assessed correctly?</p> <p>II. Whether Excise duty, Export duty, Import duty, Additional Excise duty, License fee and other fees are deposited timely?</p>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>III. Whether interest was calculated and realised in case of delay in deposit of excise revenue?</p> <p>IV. Whether penalty was imposed and realised on breaches of excise provisions?</p> <p>V. Whether the classification of excise receipts has been done in accordance with the list of Major and Minor Heads of Account?</p> <p>VI. Whether Excise duties on dispatches of alcohol are deposited by the distillery in advance?</p> <p>VII. Whether verification and reconciliation of deposited excise revenue from treasury records were exercised by the State Excise Department</p> <p>The following records with respect to assessment, collection and allocation of excise revenue are required to be checked during the course of audit: -</p> <p>(i) Revenue deposit register maintained by the excise offices having all the receipts of the excise department ii) Challans deposited in government account in favor of excise department. (iii) Advance Account Register for different sub heads of account. (iv) Over time fee register if</p>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>provisions for overtime exist in the State. (v) Establishment files of excise staff posted in the distillery</p> <p><b>Other points which need to be verified.</b></p> <ul style="list-style-type: none"> <li>• Whether any special fees and cess if any, levied by the State Government is deposited by the distillery at the prescribed rate?</li> <li>• Whether holograms/barcodes affixed on the bottles of liquor are properly accounted for by the distilleries and whether duty is made good by the distillery for wastage, loss or misuse of holograms/barcodes?</li> <li>• Whether interest at such rate that is prescribed by the State Government is paid by the distillery on the Excise Revenue which has not been paid within prescribed time limit?</li> <li>• Whether Excise locks used for several parts of the distillery are changed at irregular intervals as provided in the excise rules of the State/Union Territory?</li> </ul>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<ul style="list-style-type: none"> <li>• Whether bonds executed by the distilleries are registered in the office of the Sub-Registrar under the Indian Stamp Act, 1899?</li> <li>• Whether provisions for excise locks in storeroom for bottled liquor exist and whether the provisions are adhered to by the distilleries?</li> <li>• Whether the distillery has maintained requisite records with respect to the above points of check for audit? Records to be checked</li> <li>• Lock ticket books for safe custody of alcohol in the excise officers posted in distilleries</li> <li>• Bond files for checking that the alcohol issued from the distilleries without payment of excise duty should reach timely and safely to the destination and any deviation can impacted on levy of excise duty.</li> <li>• Excise Duty Deposit Register to check that the due excise duties are deposited in time and in proper head of accounts.</li> <li>• Hologram/ Bar code stock registers and files for checking</li> </ul>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>that liquors were genuinely bottled and dispatched to genuine place and all the due fee and duties were realized appropriately.</p> <ul style="list-style-type: none"> <li>• Over time register to check whether over time allowance were properly deducted in case of excise perform duty over normal hours.</li> <li>• Establishment files of excise staff posted in the distillery to check whether expenditure made on excise staff posted in the distillery were recovered through excise revenue as provided in the excise act and rule made thereunder</li> </ul> <p><b>Other regulatory checks under supervisory control of other departments:</b></p> <ol style="list-style-type: none"> <li>a. Whether license from Petroleum and Explosives Safety Organisation (PESO) has been obtained?</li> <li>b. Whether environmental clearance from Pollution Control Board of the State has been obtained</li> <li>c. Whether the distillery has been registered under GST?</li> <li>d. Whether factory license from Labor Department has been obtained?</li> </ol>					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	e. Whether Vats/Vessels have been certificated by the Weights and Measurement Department of the State?					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
<b>A Stock taking of excisable good</b>						
8.	Documents to be verified: <ul style="list-style-type: none"> <li>▶ Permits</li> <li>▶ Stock register</li> <li>▶ G-4 (daily entry book)</li> <li>▶ Records of excise inspector</li> <li>▶ Returns filed by distilleries</li> </ul>					
9.	Check whether stock registers are maintained for movement of goods in excise unit					

<b>S. No.</b>	<b>Checklist</b>	<b>Reference (Act/ Rules etc.)</b>	<b>Auditors Assessment</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
10.	Check whether all the permits issued correspond the entries made in G-4					
11.	Check the stock registers on random basis whether the stock-out from one excise unit matches with stock-in of other					
12.	Check whether the MMGD paid by the retailer matches the quantity received by the retailer					
13.	Compare the challans of the duty paid entered in G-4 with the permits issued					
14.	Check whether there is proper Trace and track system as per the excise policy of the year					
15.	Check the input of raw material with the output of alcohol at distillery, compare it across units and across years					
16.	Compare the quantity of alcohol transferred from distillery to bottling to the quantity of alcohol bottled					
17.	Compare current production of RS and ENA in distillery with that of previous year and record if there is any decrease in production ad quote reasons thereof					
<b>B Assessment of excise revenue</b>						
1.	Documents to be verified: ▶ <b>G-4 (daily records)</b> ▶ <b>G-6 monthly compilations</b>					



S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<ul style="list-style-type: none"> <li>▶ Monthly returns sent by district excise officer to commissioner</li> <li>▶ License file</li> <li>▶ Breach register</li> <li>▶ Challans of duty</li> <li>▶ Notice file</li> <li>▶ Excise policy of the year</li> </ul>					
2.	Check whether the license has been issued for different excise units i.e. different license are issued for liquor or beer, brewery or vintery, distillery or bottling plants, etc.					
3.	Check whether license fee is assessed as per the rates specified in the excise policy. Compare the license agreement from license with challan for license fee or G-6					
4.	Check whether excise duty is assessed on all the goods produced under bond or imported under bond					
5.	Check whether wastage or breakage allowance is given as per the policy or any GO in this regard.					
6.	Check whether Excise duty is assessed at the correct rates as per the excise policy. Compare the quantities in permits with the challans mentioned in G-6					
7.	Check whether import duty is assessed on all liquor imported under bond					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
8.	Check whether the import duty is assessed at correct rate, different rates from India made foreign liquor and foreign liquor					
9.	Check whether MMGD is assessed at the correct rate as per excise policy. Compare the permit with the challan entered in the G-6					
10.	Check whether any additional duty is paid is paid by the excise unit					
11.	Check whether the additional duty is paid at the correct rate					
12.	Check whether no additional duty is assessed on the goods beyond the permissible limit. For example, as per the excise policy the retailer can get issued additional liquor by paying additional duty. However, the additional duty cannot be more than 25% of MGD fixed at the starting of the year					
13.	Check whether the brands sold in the state have their labels registered					
14.	Check whether correct fee is assessed for label registration as per excise policy or GO					
15.	Check whether the brands sold in the state are registered					
16.	Check whether correct fee is assessed for brand registration as per excise policy or GO					
17.	Check whether interest is assessed for all the delayed payments.					

<b>S. No.</b>	<b>Checklist</b>	<b>Reference (Act/ Rules etc.)</b>	<b>Auditors Assessment</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
	Compare G-4 and G-6 with license file (Due date is 20th of the month)					
<b>18.</b>	Check whether interest is assessed as per the Excise Act and the rate as per the act					
<b>19.</b>	Check whether the notices issued for all the breaches in the district are addressed from the notice file					
<b>20.</b>	Check whether all the breaches have been reported in the breach register. Check the notice file					
<b>21.</b>	Check whether penalty has been assessed for all the breaches					
<b>22.</b>	Check whether the penalty has been assessed at the correct rate or amount for all the breaches					
<b>23.</b>	Check the circle register of excise cases of circle inspectors and check whether all the notices have been issued against their findings					
<b>C Collection of excise revenue</b>						
<b>1.</b>	Documents to be verified: <ul style="list-style-type: none"> <li>▶ <b>G-4 (daily records)</b></li> <li>▶ <b>G-6 monthly compilations</b></li> <li>▶ <b>Monthly returns sent by district excise officer to commissioner</b></li> <li>▶ <b>License file</b></li> <li>▶ <b>Breach register</b></li> <li>▶ <b>Challans of duty</b></li> <li>▶ <b>Notice file</b></li> <li>▶ <b>Excise policy of the year</b></li> </ul>					

<b>S. No.</b>	<b>Checklist</b>	<b>Reference (Act/ Rules etc.)</b>	<b>Auditors Assessment</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
2.	Check whether all the license fees has been collected					
3.	Check whether for all licenses were license fee is not received or not received in time, corrective actions have been taken					
4.	Check whether separate license fee is collected for separate license					
5.	Check whether all the excise duty has been collected on all the production in bond and import under bond					
6.	Check whether separate rates of excise duty is collected for separate alcohol as per the excise policy					
7.	Check whether action is taken against non-receipt					
8.	Check whether all the import duty has been collected					
9.	Check whether action is taken against non-receipt					
10	Check whether all the MMGD has been collected					
11	Check whether action is taken against non-receipt					
12	It should be checked that no licensee is allowed quota of liquor more than that sanctioned for the shop without payment of additional license fee.					
13	Check whether all the additional duty assessed has been collected					
14	Check whether action is taken against non-receipt					

<b>S. No.</b>	<b>Checklist</b>	<b>Reference (Act/ Rules etc.)</b>	<b>Auditors Assessment</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
15	Check whether no additional duty is collected on the goods beyond the permissible limit. For example, as per the excise policy the retailer can get issued additional liquor by paying additional duty. However, the additional duty cannot be more than 25% of MGD fixed at the starting of the year					
16	Check whether the all the registered labels have paid duty					
17	Check whether action has been taken in case of non-receipt					
18	Check whether the all the registered brands have paid duty					
19	Check whether action has been taken in case of non-receipt					
20	Check whether interest is collected for all the delayed payments. Compare G-4 and G-6 with license file and breach register (Due date is 20th of the month)					
21	Check whether all the breaches reported in the breach register have paid penalty or interest as the case may. Check the notice file, breach register and challans					
22	Check whether penalty has been paid for all the breaches					
23	Check whether action has been taken against non-receipt of penalties or interest					

S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)																																																																																											
24	Compare the opening balance and closing balance of accrued excise revenue																																																																																																
25	<p>Analyze the revenues as per the following templates</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">Year</th> <th style="width: 10%;">Budget Head</th> <th style="width: 10%;">Opening balance of arrears</th> <th style="width: 10%;">Arrears during the year</th> <th style="width: 10%;">Arrears collected</th> <th style="width: 10%;">Remains arrears</th> <th style="width: 10%;">Reasons of non-collection of arrears</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> </tbody> </table> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 25%;">Period</th> <th style="width: 40%;">Amount outstanding</th> <th style="width: 35%;">Actions taken</th> </tr> </thead> <tbody> <tr> <td>0 – 3 months</td> <td>XXX</td> <td> </td> </tr> <tr> <td>3 – 6 months</td> <td>XXX</td> <td> </td> </tr> <tr> <td>6 – 12 months</td> <td>XXX</td> <td> </td> </tr> <tr> <td>More than a year</td> <td>XXX</td> <td> </td> </tr> </tbody> </table>	Year	Budget Head	Opening balance of arrears	Arrears during the year	Arrears collected	Remains arrears	Reasons of non-collection of arrears																																																																							Period	Amount outstanding	Actions taken	0 – 3 months	XXX		3 – 6 months	XXX		6 – 12 months	XXX		More than a year	XXX					
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	<ul style="list-style-type: none"> <li>▶ G-4 Statement of all shops sold under auction method.</li> <li>▶ G-6 Register of Excise Receipts</li> <li>▶ Breach register</li> <li>▶ One day bar register</li> <li>▶ Import Register for Foreign Liquor and Clubs/Bars</li> <li>▶ G.1- Register for all the licenses issued under graduated surcharge system</li> <li>▶ G-16 A complete list of shops</li> <li>▶ G-3 A register of all foreign liquor licenses issued under fixed fee system</li> <li>▶ G-25 extracts relating to termination of licenses for wholesale and retail to be submitted to excise commissioner</li> <li>▶ All other documents maintained under district office and state office (detailed in Appendix -1)</li> <li>▶ <b>Returns received from excise units</b></li> </ul> <p>Returns received from district excise office – Monthly return in the form of ‘Sankhiki prarup’</p>					
2.	Check whether the allotment of shops is as per the manner prescribed in the annual excise policy of the year					

<b>S. No.</b>	<b>Checklist</b>	<b>Reference (Act/ Rules etc.)</b>	<b>Auditors Assessment</b>	<b>Document Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
3.	Check whether the period of license is as per period mentioned in the annual excise policy					
4.	Check whether application for license was as per the excise policy of the year					
5.	Random check whether the licenses granted meet the eligibility criteria mentioned in the excise policy of the year					
6.	It should be seen that defaulters of excise dues have not been allowed to take part in auction and the solvency of bidders stands verified.					
7.	Applications for the grant and renewal of licenses were received in the manner prescribed in annual Excise Policy					
8.	Check whether any license has been surrendered by the shop					
9.	Check whether proper recovery mechanism was initiated for the surrendered licenses.					
10	Check whether different license is issued for different alcohol types like CL, FL, etc.					
11	Check whether all the records are mentioned in Annexure-1 are maintained by the excise departments					
12	Check whether monthly or annual returns are required by the statute are submitted by all the excise unit.					



S. No.	Checklist	Reference (Act/ Rules etc.)	Auditors Assessment	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	In case of any default, report the same					
13	Check whether monthly return – “Sankhadip prarup” is submitted by the district excise office to the office of excise commissioner					

**Appendix-1**

**Types of books maintained by Distilleries**

- ▶ A stock book of all property belonging to government and kept at distillery must be maintained in P.D.4.
- ▶ A diary in the form of P.D.5 is kept with the inspector in charge
- ▶ P.D.6 – Receivers and Vats are entered in this register
- ▶ P.D.7- wash-backs are recorded
- ▶ P.D.8- Distilleries declaration of wash
- ▶ P.D.-9 Wash and spirit turnout
- ▶ P.D.-10 Weighment register
- ▶ P.D.-11 All issues are recorded in this register
- ▶ P.D.-12 Warehouse ledger for plain and rectified spirit
- ▶ P.D.-13 Register for denatured spirit
- ▶ P.D.14- Ledger for sophisticated spirit
- ▶ B.W.L.5 Monthly stock taking will be matched with P.D.12,13,14
- ▶ P.D.17- Register of bonds
- ▶ P.D.22- Register of issue of spirit against advance deposit of duty

**Types of books maintained by Brewery**

- ▶ B-2 Brewery entry in respect to premises and utensils
- ▶ B-3 Register of gauging tables
- ▶ B-4 Brewer books
- ▶ B-9 Application for tendering duty on beer
- ▶ B-16 Register of beer manufactured, issued and balance remaining in store in the brewery
- ▶ B-17 Register of beer returned unsold to brewery
- ▶ B-18 Statement of brewery in operation

## **Types books maintained by Bottling unit**

- ▶ F.L.B.-3- Register for entering quantity, description and strength of liquor received and issued from the bottling plant
- ▶ F.L.B.-4 Licensee shall enter bottling operations carried
- ▶ F.L.B.-5 daily accounts of foreign liquor bottled and stored in licenced premises
- ▶ F.L.B.-6 abstract of all transactions of licenced premises
- ▶ F.L.B.-7 Stock of unbottled and bottled liquor at the end of month
- ▶ F.L.B.-8 Gauge register of vats
- ▶ F.L.B.-9 Dip book
- ▶ F.L.B.-6-A Monthly abstract submitted to excise inspector, from excise inspector to collector

## **Types books maintained by Bonded warehouse**

- ▶ B.W.F.L.-4 Register of receipts into foreign liquor bonded warehouse
- ▶ B.W.F.L.-5 An application for issue accompanied by Treasury Challan evidencing the payment of prescribed duty
- ▶ B.W.F.L.-6 An account of issues of liquor from bonded warehouse
- ▶ B.W.F.L.-7 Pass granted by officer in charge after checking for removal of liquor from bonded warehouse
- ▶ B.W.F.L.-8 List of persons employed in the foreign liquor bonded warehouse
- ▶ B.W.F.L.-9 Monthly stock taking of bottled foreign liquor in licensed premises of bonded warehouse
- ▶ B.W.F.L.-10 Foreign liquor bonded warehouse ledger

## **Types books maintained by Retailer**

- ▶ Books are maintained in FL-25 format
  - Part -1 Remarks of inspecting officer
  - Part-2 All receipts by the licensee
  - Part-3 reserved for sale

## **Types books maintained**

### **By Department-**

- ▶ G-37C Stock book
- ▶ P.D.-4 Register of department apparatus
- ▶ D-2- Register of registers
- ▶ D-1 Establishment order Book
- ▶ D-15 Register of complaints
- ▶ D-21 Register of punishment proceedings
- ▶ D-3B Monthly crime and consumption register maintained in Assistant Excise Commissioner's office
- ▶ D-27 Register of monthly expenditure
- ▶ D-28 Register of bills

## **By Excise Inspectors**

- ▶ D-8 Daily diary
- ▶ D-10 Shop inspection register
- ▶ D-12 Village register
- ▶ D-11 Register of licenced vendor
- ▶ D-13A Circle register of excise cases
- ▶ D-14 Consumption register
- ▶ P.D.14- Register of government property
- ▶ G-42 Defect register
- ▶ D-13B Index register
- ▶ D-13D Court dairy
- ▶ D-36 Monthly crime and consumption register maintained by Excise Inspector

## **By district excise office**

- ▶ G.1- Register for all the licences issued under graduated surcharge system
- ▶ G-5 Register of sanctioned shops
- ▶ G-16 A complete list of shops
- ▶ G-3 A register of all foreign liquor licences issued under fixed fee system
- ▶ G-25 extracts relating to termination of licences for wholesale and retail to be submitted to excise commissioner
- ▶ G-4 Statement of all shops sold under auction method. This register shall also include all the licences disposed of at the time of an auction. This register shall be divided into separate parts for each branch of the revenue
- ▶ G-6 Register of Excise Receipts
- ▶ G-7 An account of receipts of account of price of country spirit and periodical refunds thereof to supply contractors of country spirit
- ▶ G-43 all the cases under the Act administered by excise shall be maintained in the district office

## **5.3 Annexures**

### **Annexure I: Illustrative Risk Evaluation Matrix**

The risk listing is being done based on the discussed with the concerned official. The list below is dynamic, and risks can be added/removed based on results from actual audits conducted and other sources.

#### **A. Illustrative Risk Assessment of Auditable Areas**

Name of the Department: Excise

**Key Auditable Area: Stock taking of excisable goods**

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
A1	Movement of excisable good from excise unit to another excise unit	<ul style="list-style-type: none"> <li>• Under estimation of quantity of excisable good from one unit to another</li> <li>• Mismatch in records of sending unit and receiving unit</li> <li>• Sending or receiving excisable goods more than the permissible limits</li> <li>• Transportable of goods under invalid or wrong permits</li> </ul>			
A2	Input and output of excisable goods within excisable unit	<ul style="list-style-type: none"> <li>• Underutilization of inputs by the excise unit</li> <li>• Wastage or breakage is not reported by the excise unit</li> </ul>			
	<b>Total Score</b>				
	<b>Average Score</b>				

**Key Auditable Area: Assessment of excise revenue**

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
B1	License fee paid by excise units	<ul style="list-style-type: none"> <li>Wrong assessment license fee which may lead to short levy or wrong levy of license fee</li> <li>License fee assessed under wrong head</li> </ul>	<ul style="list-style-type: none"> <li></li> </ul>		
B2	Excise duty paid by excise unit	<ul style="list-style-type: none"> <li>Wrong assessment of excise duty</li> <li>Non-assessment of excise duty on breakage or wastage</li> </ul>			
B3	Import duty paid by excise unit	<ul style="list-style-type: none"> <li>Wrong assessment of import duty</li> <li>Non-assessment of import duty</li> </ul>			
B4	MMGD paid by excise unit	<ul style="list-style-type: none"> <li>Wrong assessment of MMGD</li> <li>Non-assessment of MMGD</li> <li>Wrong assessment of excise goods against MMGD assessed</li> </ul>			
B5	Additional duty paid by excise unit	<ul style="list-style-type: none"> <li>Wrong assessment of additional duty</li> <li>Additional duty is assessed on goods which are more than the permissible limit</li> </ul>			
B6	Label registration fee	<ul style="list-style-type: none"> <li>Wrong assessment of label registration fee</li> </ul>			

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
B7	Brand registration fee	<ul style="list-style-type: none"> <li>Wrong assessment of brand registration fee</li> </ul>			
B8	Interest and penalties	<ul style="list-style-type: none"> <li>Non-compilation of all the penalties</li> <li>Wrong assessment of penalties and interest like wrong penalty rate or interest rate or wrong number of days</li> <li>Non cancellation of license as per the penal provisions</li> </ul>			
	<b>Total Score</b>				
	<b>Average Score</b>				

**Key Auditable Area: Collection of excise revenue**

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
C1	License fee paid by excise units	<ul style="list-style-type: none"> <li>• Mismatch between the collection and the assessment</li> <li>• License fee collected under wrong head</li> <li>• Non-collection of license fee</li> <li>• Renewal of license without payment of fee</li> </ul>			
C2	Excise duty paid by excise unit	<ul style="list-style-type: none"> <li>• Mismatch between the collection and the assessment</li> <li>• Excise duty recorded under wrong head</li> <li>• Non-collection of excise duty</li> <li>• Major source of revenue for the excise department</li> </ul>			
C3	Import duty paid by excise unit	<ul style="list-style-type: none"> <li>• Mismatch between assessment and collection</li> <li>• Goods imported without payment of duty</li> </ul>			
C4	MMGD paid by excise unit	<ul style="list-style-type: none"> <li>• Mismatch between assessment and collection</li> </ul>			

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
C5	Additional duty paid by excise unit	<ul style="list-style-type: none"> <li>• Mismatch between assessment and collection</li> <li>• Highest source of revenue for excise department</li> </ul>			
C6	Label registration fee	<ul style="list-style-type: none"> <li>• Mismatch between assessment and collection</li> </ul>			
C7	Brand registration fee	<ul style="list-style-type: none"> <li>• Mismatch between assessment and collection</li> </ul>			
C8	Collection of accrued excisable revenue	<ul style="list-style-type: none"> <li>• No show cause issued</li> <li>• Accrued revenue increases year on year</li> <li>• No efforts are taken to collect delayed excise revenue</li> </ul>			
C9	Interest and penalties	<ul style="list-style-type: none"> <li>• No Non-issue of any notice for non-payment or any penalty imposed</li> <li>• Non</li> </ul>			
	<b>Total Score</b>				
	<b>Average Score</b>				



**Key Auditable Area: Excise Compliance**

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
D1	Application for license by excise unit	<ul style="list-style-type: none"> <li>License are issued without meeting all the requirements of excise policy</li> <li>Application for renewal is not filed within the time and still license is renewed</li> </ul>			
D2	Maintenance of records by excise departments	<ul style="list-style-type: none"> <li>No proper records are maintained</li> <li>No notices are served against breaches</li> </ul>			
D3	Receipt of monthly or annual returns from excise units	<ul style="list-style-type: none"> <li>Non-compliance</li> </ul>			
D4	Receipt of monthly or annual returns from excise departments	<ul style="list-style-type: none"> <li>Non-compliance</li> </ul>			
	<b>Total Score</b>				
	<b>Average Score</b>				

## Annexure II: Uttarakhand Excise Forms

### 1. Forms applicable for Molasses

Type of forms	Licences/ Permits/records
<b>Form MF 1 &amp; 2</b>	Daily account of molasses produced, stored, issued, sold, or wasted submitted to controller.
<b>Form MF 4</b>	Pass for removal of molasses from sugar factory
<b>Form MF 5</b>	Record of sample testing of molasses produced every day for brix and total sugar content by occupier of factory.
<b>Form MF 6 &amp; 10</b>	Record of molasses received, utilized for distillation and balance submitted by distilleries.
<b>Form MF 7</b>	Record of testing of top, middle, and bottom layers sample of molasses, during the period between Nov to May (on 1 <sup>st</sup> and 16 <sup>th</sup> of each month) and June to Oct (1 <sup>st</sup> , 8 <sup>th</sup> , 16 <sup>th</sup> and 23 <sup>rd</sup> of each month) each molasses year.
<b>Form MF 8</b>	Statement of estimate quantity of molasses required for the purpose of distillation during the molasses year by 31 <sup>st</sup> August of each molasses year by every distillery.
<b>Form MF 9</b>	Statement of estimate quantity of molasses to be produced during the molasses year by 31 <sup>st</sup> August of each molasses year by occupier of sugar factory.
<b>Form MF 11</b>	Accounts of receipt of molasses are maintained at distillery submitted to Controller on 5 <sup>th</sup> of each following month.
<b>Form MF 12</b>	Inspection books maintained by occupiers of sugar factories.
<b>Form MF 14</b>	Record of dimensions of Storage tanks provided by occupier of sugar factory

### 2. Forms applicable for distilleries

Form No.	License/Permits
Form P.D.1	Licence to work a distillery in a premise owned by government
Form P.D.2	Licence to work a distillery in a premise owned by any person other than government
P.D.15 and P.D.16	Form of general bond to be executed for removal of spirits from distilleries without prepayment of duty
P.D.25	Pass for removal of spirits from distilleries
P.D.26	Advice accompany pass for removal in case of issue under bond
P.D.32	Application to establish distillery
P.D.33	Licence to establish distillery
P.D.34	Application for grant of licence in form P.D.1 or P.D.2

### 3. Forms applicable for bottling plants

Form No.	License/Permits
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F.L.3	Licence for the bottling of India made/ overseas spirit/wine/beer in bond without payment of duty or after payment of duty
F.L.3-A	Licence for bottling of foreign liquor
F.L.B.B-1	Form of general bond to be executed for removal of Indian made foreign liquor from Indian made foreign liquor bottling bonded warehouse for transport/export without prepayment of duty
F.L.B.1	Application for renewal of licence to bottle Indian made/overseas spirit/wine/beer in bond/outside bond
F.L.B.2	Statement showing bottling of foreign liquor during the previous year and the amount of licence fees assessed for previous year and advance to be realised for the current year

#### 4. Forms applicable for bonded warehouses

Form No.	Forms/Registers
B.W.F.L.-2	Application for licence to establish and run foreign liquor bonded warehouse
B.W.F.L.-2	Licence to establish and run foreign liquor bonded warehouse
B.W.F.L.-3	Bond to be executed by the licensee of foreign liquor bonded warehouse
FL-21	Application for import of Indian-made foreign liquor on pre-payment of duty
FL-22	Permit for the import of Indian-made foreign liquor
FL-23	Pass covering export by a wholesale vendor of duty paid foreign liquor manufactured in Uttarakhand
FL-24	Details of application received for import of FL under FL-22 permit, available at collector's office
FL-33	Application for import of overseas foreign liquor other than denatured spirit in the scheduled areas of Uttarakhand
FL-34	Pass for the imports of overseas foreign liquor other than denatured spirit in the scheduled areas of Uttarakhand
FL-36	Pass for transport of foreign liquor from wholesale vend

**Section 5: Stamp and Registration  
Department**

## Abbreviations

<b>ACC</b>	Authorized Collection Centre
<b>AG</b>	Auditor General
<b>AIG</b>	Additional/Assistant Inspector General
<b>CAG</b>	Comptroller & Audit General
<b>CG</b>	Central Government
<b>CRKA</b>	Central Record Keeping Agency
<b>CRS</b>	Core Registration System
<b>CSS</b>	Central Sponsored Scheme
<b>DD</b>	Deputy Director
<b>DOA</b>	Directorate of Audit
<b>DSS</b>	Decision Support System
<b>GRAS</b>	Government Receipt Accounting System
<b>GST</b>	Goods & Service Tax
<b>IGR</b>	Inspector General of Registration
<b>ISA</b>	Indian Stamp Act 1899 as applicable to Uttarakhand
<b>IT Systems</b>	Information Technology Systems
<b>MIS</b>	Management Information System
<b>OAMS</b>	Online Audit Management System
<b>PDE</b>	Public Data Entry
<b>PMGSY</b>	Prime Minister Gram Sadak Yojana
<b>PWD</b>	Public Works Department
<b>SOE</b>	Statement of Expenditure
<b>SRO</b>	Sub-Registrar Office
<b>SRS</b>	Software Requirement Specifications
<b>SSS</b>	State Sponsored Scheme
<b>UK</b>	Uttarakhand
<b>UP</b>	Uttar Pradesh

## Structure of this section of the manual

Chapter No.	Heading	Brief Description
<b>Chapter – I</b>	Introduction	Includes background, objective, and purpose for the revenue audit of Stamp & Registration Department along with the applicable regulatory framework
<b>Chapter – II</b>	Organisation Structure of Stamp & Registration department and agencies supporting the department	Includes organisation structure of Stamp & Registration department and agencies supporting the department
<b>Chapter – III</b>	Revenue from Stamp & Registration department	Includes various sources of revenue for Stamp & Registration department
<b>Chapter – IV</b>	Audit Process	Includes point of special consideration during audit process of revenue audit of Stamp & Registration Department  This chapter shall be read in conjunction with Internal Audit Manual, Volume I and shall be supplementary to Internal Audit Manual, Volume I.
<b>Chapter – V</b>	Audit Check list and Annexure	Includes audit checklist and annexures

Table 1: Structure of Section of the manual

## Chapter I: Introduction Stamp Duty and Registration

### 1.1 Background

- Stamp Duty is levied on any kind of property transactions such as power of attorney, sale deed, conveyance deed, etc. Levy of stamp duty, other than duties or fees collected by means of judicial stamps, is included in the Concurrent List of the **Seventh Schedule** of the Constitution of India. It comes under the Indian Stamps Act of 1899 thus the stamp duty is governed by the legislations of both the Government of India (GoI) as well as the State Government. The extent of distribution of legislative powers regarding levy of stamp duties between the Central and the States Governments as indicated in the Seventh Schedule of the Constitution of India is as under.

Union List	The State Legislature	Amendments, entry 44
<ul style="list-style-type: none"> <li>• Union List, Entry 91 gives power to the Union Legislature to levy stamp duty with regard to certain instruments (mostly of a commercial character). They are bill of exchange, cheques, promissory notes, bill of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipt. The power to reduce or remit duties on these instruments is vested in the Union Government as per Section 9 of the Act.</li> </ul>	<ul style="list-style-type: none"> <li>• State List, entry 63 confers on the States power to prescribe the rates of stamp duties on other instruments. As per "Principles" for levy of duty fall in the Concurrent List, entry 44.</li> </ul>	<ul style="list-style-type: none"> <li>• The amendments to the Central Act effected by the States are in the shape of amendment of sections of the Central Act, adding new sections, adding separate schedules, modifying in schedules, etc. Some States, for their convenience, have passed separate legislation to cover the matters coming under State's domain. As a result, the rates of stamp duties in different States on other instruments category differ from State to State for the same instrument.</li> </ul>

Table 2: background of Stamp and Registration

- Stamp duty is tax paid by the executor of an instrument<sup>50</sup> either by using impressed stamp paper or by affixing stamps of proper denominations as per the rates specified in Schedules I, I-A and I-B of 'The Indian Stamp Act, 1899 it holds a value in court and can be presented as a proof of right. Besides, **Registration Fee** is also to be paid in respect of those instruments which are registered with the Registering Authority under 'The Indian Registration Act, 1908'.

<sup>50</sup> Instrument includes every document and record by which any right or liability is, or purports to be, created; transferred; limited; extended; extinguished or recorded.

3. Registration of a document with a Registering authority involves both levy of Stamp Duty and registration fee. They are levied by the State Government by virtue of the power given to the State Legislative by entries 63 and 66 of List II of the Seventh Schedule to the Constitution of India. Stamp duties other than duties on fees collected by means of judicial stamp but not included rates of Stamp duty is a subject included in the concurrent list of the Seventh Schedule to the Constitution (entry 44 of list III). As such there are both the Union and State Legislation.
4. Every person, in charge of a public office, before whom any such chargeable instrument is produced, has a duty to impound the instrument and refer the matter to the District Collector, if he is of the opinion that it is not duly stamped. In Uttarakhand, the Finance Department is responsible for the levy and collection of Stamp Duty and Registration Fee in the State through the Office of the Inspector General (Registration).

### **1.2 Objective of Revenue Audit of Stamp and Registration Department**

5. The objective of the conducting revenue audit of Stam and Registration department is to ascertain:
  - the levy and collection of Stamp Duty and Registration Fees was in accordance with the provisions of the Acts and Rules applicable.
  - a suitable internal control mechanism existed in the Department for ensuring compliance with laws, regulations and policies and to detect the revenue leakages. and
  - information technology resources employed for the purpose of registration of instruments ensured error free registration with no loss of revenue.

### **1.3 Regulatory framework**

6. Following are the applicable acts and rules:

<b>Act/ Rule</b>	<b>Centra l/State</b>	<b>Name</b>	<b>Brief about the act/rule</b>
Act	Central	The Indian Stamp Act, 1899 [Includes the Indian Stamp (Uttaranchal Amendment) Act, 2002, Indian Stamp (Uttarakhand Amendment) Act 2015]	<ul style="list-style-type: none"> <li>• Enacted to prescribe and provide for the collection of proper stamp duty on an instrument is based on the chargeability of instrument and not of the transactions</li> <li>• Provides types of instruments chargeable to duty, methodology of levy of stamp duty for all types of instruments, and rates thereon.</li> <li>• The Act also provides different types of stamps, authority to sale, methodology of valuation of properties in an instrument.</li> </ul>



Act/ Rule	Central/ State	Name	Brief about the act/rule
Act	Central	The Indian Registration Act, 1908 [Includes the Indian Registration (Uttarakhand Amendment) Act, 2011]	<ul style="list-style-type: none"> <li>• The law relating to registration of documents. The object and purpose of the Act among other things is to give information to people regarding legal rights and obligations arising or affecting a particular property, and to perpetuate documents which may afterwards be of legal importance, and also to prevent fraud.</li> <li>• It also provides methodology of calculation of registration fee for various type of instruments and rates thereof</li> </ul>
Rule	State	U.P. Stamp rules, 1942	<ul style="list-style-type: none"> <li>• Provides details procedures for administration of Stamps</li> <li>• In includes physical control over stamps, responsibilities of various officials, sale and deposit procedure in detail, books &amp; records to be maintained etc.</li> </ul>
Rule	State	The Registration Manual, Uttarakhand	<ul style="list-style-type: none"> <li>• Provides detailed procedure and methodology for registration of Instruments</li> </ul>
Rule	State	The Uttarakhand Stamp (Payment of Duty by means of E-Stamp certificates) Rules, 2011	<ul style="list-style-type: none"> <li>• Object is to prevent the use of paper and processes resulting in fraudulent practices.</li> <li>• To set up a consumer friendly, secure, and reliable Stamp Duty collection mechanism; and</li> <li>• To ensure storage of information in secured electronic Form and building up a central data repository to facilitate easy verification and generation of Management Information System and the Decision Support System Reports.</li> <li>• Elaborate the process from application for E-stamp to issue of e-stamp, maintenance of records</li> </ul>
Rule	State	Uttarakhand Stamp Duty (Valuation of Property) (Amendment) Rules, 2015	<ul style="list-style-type: none"> <li>• Provides the detailed mechanism for determination of circle rate and annual rental value based on detailed market-based valuation procedure for immovable properties</li> </ul>
Rule	Central	The Indian Stamp (Collection of Stamp Duty through Stock Exchanges, Clearing Corporations and	<ul style="list-style-type: none"> <li>• Rule to regulate the liability of instruments of transaction in stock exchanges and depositories to duty</li> <li>• The stamp duty leviable under Section 9A (1) of the Stamp Act on issue and sale of securities shall be collected by the authorized collecting agents in the</li> </ul>

<b>Act/ Rule</b>	<b>Centra l/State</b>	<b>Name</b>	<b>Brief about the act/rule</b>
		Depositories) Rules, 2019	manner prescribed under the Rules on the specified transactions and on prescribed value

Table 3: Overview of Regulatory Framework for Stamp &amp; Registration Department

## **1.4 Important Definitions and Provisions of Acts and Rules**

7. Refer Part-II, Reference Material, Section-4 for details.

## Chapter II: Organisation Structure of Stamp & Registration Department and Agencies Supporting to the Department

### 2.1 Organization structure of stamp and registration department

8. The Finance Department is responsible for the levy and collection of Stamp Duty and Registration Fee in the State through the Office of the **Inspector General (Registration)**. The Department is responsible for recording and safe keeping of various property related transactions of the citizens. With e-registration initiative department is offering citizen-friendly, hassle-free & transparent services to the stake holders, and web-based application offers services to register property transactions through online Public Data Entry (PDE) under Registration Act, 1908 and marriages in more hassle-free manner according to the Uttarakhand Compulsory Marriage Act, 2010.
9. Headquarter of the department is situated at Dehradun which is headed by the **Inspector General (Registration)** here are two Deputy/Additional Inspector General, one each for Kumaon and Garwal Division.
10. Below is the organisational structure of the Stamp and Registration department of Uttarakhand:

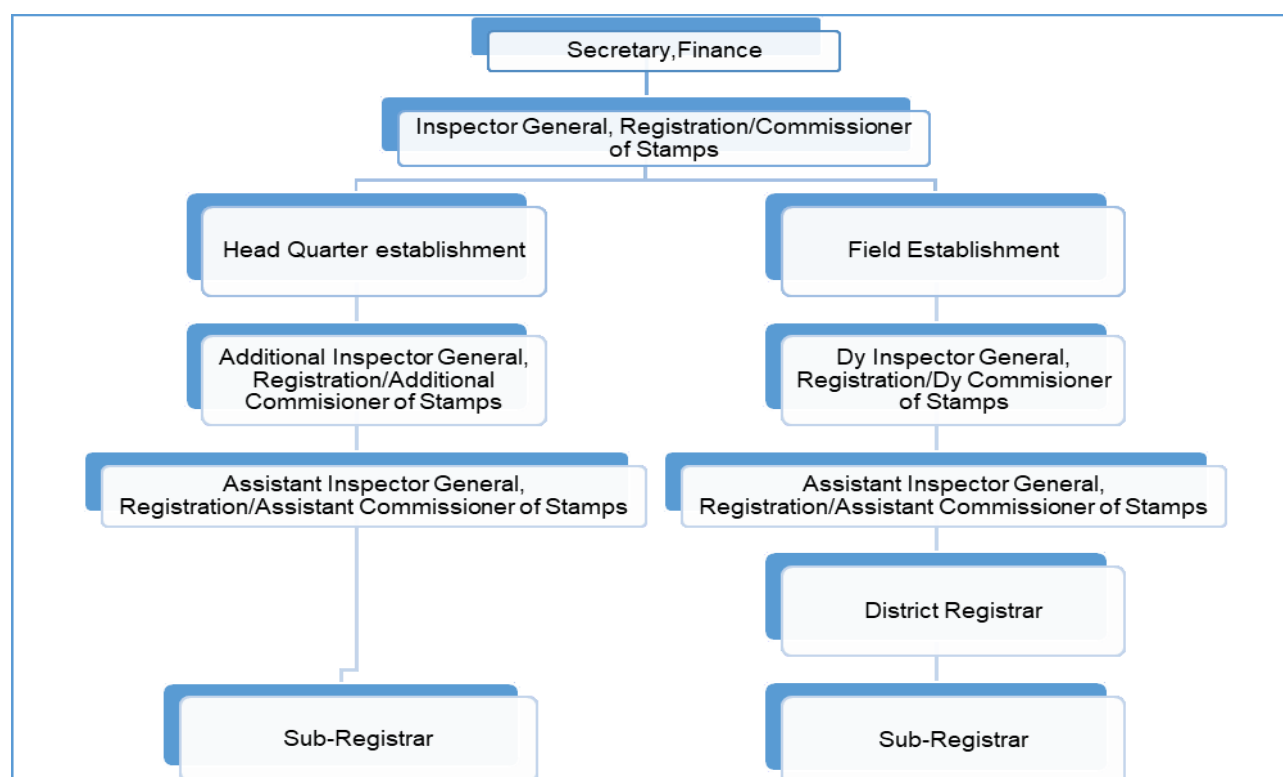


Figure 1: Organisation Structure of the department taken from website. The structure of the department may change time to time through GO and audit team need to check the updated structure from the website/ GO.

11. The State Government has also appointed Deputy Inspector General of Registration and Stamps at division level with main functions of the Collector Stamps. At present, the whole-time sub-registrars at 42 Sub-Registrar offices, have been posted under 13 District/Tehsil Headquarters, looking at the volume of registration work involved there.

### 2.2 Central Record Keeping Agency (CRKA)

12. In order to eliminate the present deficiencies and increase the efficiency of the system of supply and sale of stamps and collection of stamp duty, the State Government after considering the aspect of losses of the Government revenue has decided to implement Computerized Stamp Duty Administration System for supply and sale of Non-Judicial Stamp in the State.
13. For this purpose, the Central Record Keeping Agency (CRKA) is appointed with the prior approval of the Government, to act as an intermediary between the Government and the Stamp Duty Payer for collection of stamp duty as per the rules. The government of Uttarakhand has tied up with ***Stock Holding Corporation of India Limited (SHCIL)*** to act as the CRKA for the State, which has been authorised by the Centre to introduce e-stamping in the country. The CRKA shall be responsible for the computerization of Stamp Duty Administration System in the State or in such places of the State as may be determined from time to time by the Appointing Authority.
14. The CRKA appoints the Authorized Collection Centres (ACC) with prior approval of the Government (Rule 12). Authorised Collection Center acts as an intermediary between CRKA and Stamp Duty Payer for collection of Stamp Duty (Rule 14)

#### 2.1.1 Duties and Responsibilities of CRKA

15. The CRKA shall be responsible for:
  - Creating need-based infrastructure, hardware, and software in designated places in consultation with the Government and its connectivity with its main server.
  - Creating need-based software in the offices of Sub-Registrars, Assistant Commissioner of Stamps, Commissioner of Stamps and at Authorized Collection Centres (the point of contact for payment of stamp duty), within the State or in such places of the State as specified from time to time by the Appointing Authority.
  - Training the identified manpower/personnel of the department.
  - Role of facilitation in selection of ACCs for Stamp Duty.
  - Role of coordinator between the ACCs and the offices of the Sub-Registrar, the Assistant Commissioner of Stamps, or the Commissioner of Stamps.
  - Collection of Stamp Duty and remitting it to the Account of the State in accordance with the rules.  
Preparing and providing various reports as required under the rules and as required by the Appointing Authority from time to time.

## Chapter III: Revenue from Stamp & Registration Department

### 3.1 Important Concept Related to Stamp Duty & Registration

#### 3.1.1. What is Stamp Duty

16. Stamp Duty means a tax payable on certain legal documents specified by the statute. The duty payable may be **fixed or a volorem**. That means there are certain instrument on which tax payable is fixed and there are certain instruments on which tax varies based on their value of the products, services or property. Thus, the stamp duty is basically a kind of tax paid on any transaction based on exchange of documents or execution of instruments.

#### 3.1.2. Difference Between “Documents and Instruments”

17. Document is the record of the conditions agreed upon by the parties involved in a transaction in a proper format. And the documents on which stamp duty has been paid is called stamped document and the same is considered an authentic and legal document. It gets evidentiary value and can be admitted as evidence in Courts under the provisions of the Indian Stamp Act, 1899. Thus, the instrument is a document by which a right or liability is created, transferred, extended, limited, extinguished or recorded.

#### 3.1.3. Types of Stamps

18. There are two types of stamps are used in India.

a. **Impressed Stamp** can be:

- Labels affixed and impressed by proper officer,
- Stamps embossed or engraved on stamp paper, and
- Impressions by franking machines generally done by the bank by depositing the necessary amount of stamp duty with the banks.

b. **Adhesive Stamp** are labels which is stuck on the instruments. Adhesive stamps can be further categorised into two categories (1) Postal and (2) Non-Postal Stamps. Postal stamps are used only for the transaction related for the post office and related function and non-postal stamp can be a court fee stamp, revenue stamp, notarial stamp, special adhesive stamp, foreign bill stamp, brokers' note, insurance policy stamp or a share transfer stamp.

## 3.2 Sources of Revenue

### 1.2.1 Instrument Liabile for Stamp Duty:

19. As per the Indian Stamp Act, 1899, the source of revenue of **Stamp duty** on various types of **instruments**<sup>51</sup> as given in **Schedule I, Schedule IA or Schedule IB** of the Act 1899. The following instruments which are chargeable with duty as per the rate indicated in the respective schedules of the Act:

- Every **Instrument** mentioned in the schedule, which has not been previously executed by any person, and which is executed in India.
- Every **Bill of Exchange or Promissory Note** drawn or made out of India and accepted or paid, or presented for acceptance or payment, or endorsed, transferred, or otherwise negotiated in India.
- Every instrument mentioned in the schedule, which is executed out of India, relating to any property situated in India or any matter or thing done in India.

### 1.2.2 Instrument Not Liabile for Stamp Duty

20. The following instrument are not liable for payment of stamp duty.

- any instrument executed by or on behalf or in favour of **Government**.
- any instrument for the sale, transfer or other disposition, either absolutely or by way of mortgage or otherwise of **any ship or vessel**.
- The instruments that require adhesive stamps to be affixed. The following instruments may be stamped with the adhesive stamps, namely.
  - a. Instruments chargeable with duty (not exceeding 10 paise), except parts of bills of exchange payable otherwise than on demand and drawn in sets.
  - b. Bills of exchange and promissory notes drawn or made out of India.
  - c. Entry as an advocate, vakil, or attorney on the roll of a High Court.
  - d. Notarial acts
  - e. Transfers by endorsement of shares in any incorporated Company or body corporate.

**Note:** Where adhesive stamps are affixed to any instrument chargeable with duty, these should be cancelled, so that they are not re-used. In cases where the instrument is written on a paper stamped with impressed stamp, the stamp should appear on the face of the instrument so that it cannot be used or applied to any other instrument. No second instrument chargeable with duty, should be written on the stamp paper that is already used for another instrument chargeable with duty.

<sup>51</sup> Instrument includes every document and record by which any right or liability is, or purports to be, created; transferred; limited; extended; extinguished or recorded

21. These includes deed of Conveyance, Certificate of sale, Exchange of property, Lease, Gift, Mortgage, Transfer, etc through which right of a property is extinguished and another right is created. There are other several types of instruments/ documents which are to be stamped as per these articles, such as Insurance policy, Letter of Credit, Debenture, Securities, Affidavit, Bond, Memorandum of Association of Company, Notarial act, Power of attorney etc.

### 1.2.3 Registration

22. Registration fee on registering various types of instruments are given in Article-I of the Registration Act 1908. In addition to the registration fee, other sources of revenue include Copying fee, Comparison fee, filing fee, search fee, translation fee, Fee for attendance by a Registering Officer at a private residence, fee for issuing certified copy etc are given in Article-II to Article-XV of the Registration Act 1908.
23. Some of the above instruments as per Stamp Act, require “Stamping” only, and these are not liable for “Compulsory Registration” under the Registration Act. In other words, some of the instruments are liable for both Stamp duty and Registration fee.
24. The instruments for transacting immovable property which are liable for both Stamp duty and Registration fee are generally attract major sources of revenue. Accordingly, the sources may be categorised as:
- 1) **Major Sources:** Transfer of immovable properties liable for both Stamp duty and Registration fee; and
  - 2) **Other Sources:** Stamp duties other than above which are liable for stamping only (like Insurance policy). Also, such instruments where both Stamp duty and Registration fee is applicable, but revenue impact is negligible (Like registration of authenticated Power of Attorney).
25. Given below is the major sources of revenue and their inclusions:

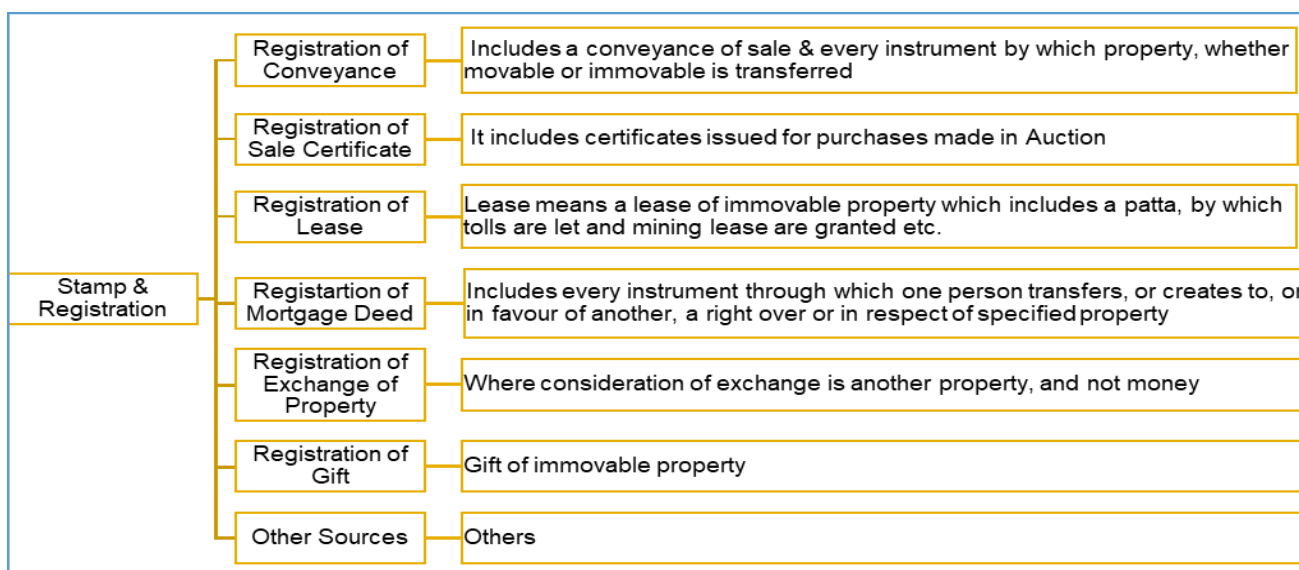


Figure 2: Sources of Revenue

### 1.2.4 Optional Registration

26. With respect to the following documents, registration is optional:

- Instruments (other than instruments of gifts and wills) which purport or operate to create, declare, assign, limit or extinguish, any right, title or interest whether vested or contingent, of a value less than Rs.100 in immovable property.
- Instruments acknowledging the receipt of payment of any consideration on account of the creation, declaration, assignment, limitation or extinction of any such right, title or interest.
- Leases of immovable property for any term not exceeding one year, and leases exempted under Section 17 of the Act.
- Instruments (other than wills) which purport or operate to create, declare, assign, limit or extinguish any right, title or interest to or in movable property.
- Instruments transferring or assigning any decree or order of a Court for less than Rs.100 in immovable property.
- Wills, and
- All other documents not required by Section 17 to be registered.

### 3.3 Workflow of Transfer of immovable properties liable for both Stamp duty & Registration fee

27. Considering the major sources of revenue earned by the Department of Stamp and Registration as mentioned above and considering the administration of Stamp & Registration through IT systems (E-Stamp and Online registration), following workflow has been developed. The stages for e-Stamping and online Registration is as follows:



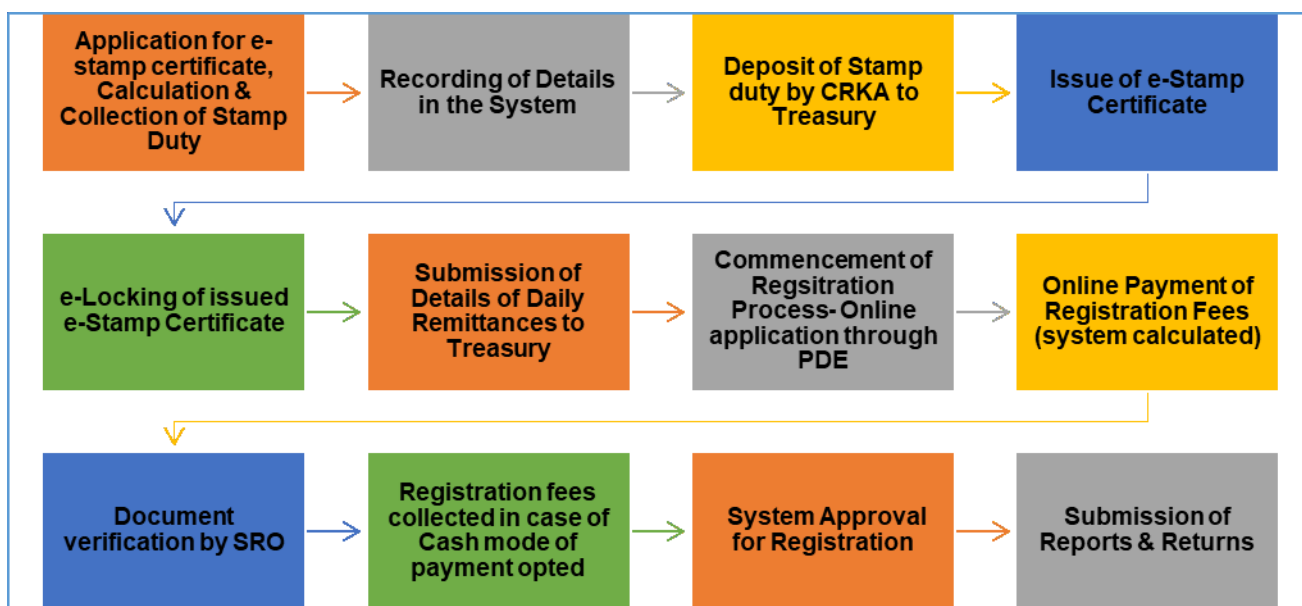


Figure 3: Stages for e-Stamping and online Registration

## 1.2.5 Application for e-stamp certificate & Collection of Stamp Duty

### 1.2.5.1 Application

28. The first step towards revenue generation from stamps is the application received from the person desirous to obtain an e-Stamp Certificate for execution of a transaction/legalizing the instrument. The offices of CRKA, ACC or the Approved Intermediaries shall receive Applications in Form 3 or Form 4 (for additional stamp duty) for issue of e-Stamp Certificate.
29. Form 3 would include details such as Document Description, Stamp duty amount, Consideration of Property, Stamp Duty Payment Details, etc. Similarly, Form 4 would include details like Base Certificate Number, Base Certificate Stamp Duty Amount, Additional Stamp Duty Amount, mode of payment of Additional Stamp Duty, etc.
30. Form 3 is the basic document required to apply of an e-Stamp Certificate. Hence, a proper control over Form 3 is required so as to keep a check over the number of Form 3 issued v/s the number of e-Stamp Certificate issued.

### 1.2.5.2 Methodology of calculation of Duty

31. The amount of Stamp Duty payable shall be as calculated by the e-Stamp Calculator. The methodology and basis of calculation of Stamp Duty for various instruments has been enumerated **below in point no. 1.2.12.**

### 1.2.5.3 Collection of Stamp Duty by CRKA through ACC

32. All the offices/branches of the CRKA or any agency of CRKA in specified places of the state as declared by Appointing Authority from time to time will be entitled to collect the payment of stamp duty from the applicant. Along with the Application made above in Form 3, the applicant shall also pay the Stamp Duty by means of cash, cheque, bank draft, Electronic Clearing System (ECS), Real Time Gross Settlement (RTGS) or any other mode of transferring funds as directed by the Appointing Authority.
33. If for any reason, a person who has one e-Stamp Certificate of certain denomination issued for an instrument, has to pay an additional amount of Stamp Duty on the same instrument, he may make an application in Form 4 to the Approved Intermediary. The applicant may at its discretion, use impressed stamps together with the e-Stamp Certificate to pay stamp duty chargeable on such instrument. The use of one type of stamp shall not exclude the use of other type of stamp in same instrument.

### 1.2.6 Recording of Details in the System

34. The Authorized Official of the Approved Intermediary will, on confirmation of the payment made:
- Enter the requisite information and details as provided by the applicant in application Form 3 in his computer system.
  - Get the correctness of such entered details by verifying supporting documents provided by the applicant.
  - Taking the signature of the applicant on the preview of the e-Stamp Certificate as proof of verification; and
  - Issue the e-Stamp Certificate only after the amount has been credited and realized in the account of the Approved Intermediary in case where the payment is made by any means other than cash or RTGS.

### 1.2.7 Deposit of Stamp duty by CRKA to Treasury

35. The CRKA shall be responsible to remit the consolidated amount of Stamp Duty collected by its offices/branches and by its ACCs less the amount of discount as decided in the agreement, within 2 working days after the day of collection of Stamp Duty or within such period as may be mutually agreed in “0030 Stamp & Registration Fees – 02 Stamp Non-Judicial “ treasury head account of the state.
36. The method of remittance of the amount of Stamp Duty shall be:

- Electronic Clearing System (ECS).
  - Challan; or
  - As directed in writing by the Appointing Authority from time to time.
37. The CRKA will be liable to **pay interest** at the prescribed rate for delay in remittance of Stamp Duty amount. The CRKA will also have to compensate for any loss of revenue due to any act, omission, irregularity, or violation on the part of the CRKA, in the form of the amount of loss, interest and penalty. Such dues including penalty recoverable from CRKA shall be recovered as arrears of Land Revenue.

### 1.2.8 Issue of E-stamp Certificate

38. After conducting the process of verification as mentioned above, the Authorized Official shall download and print the e-Stamp Certificate from the website and put on his signature and seal (showing name and designation of the issuing officer and name and address of the branch of Approved Intermediary). Every e-Stamp Certificate shall have a Unique Identification Number for distinguishing it from other e-Stamp Certificates and prevent the generation of duplicate certificates.
39. The details of the issued e-Stamp Certificate shall be made available on the e-Stamping Server maintained by the CRKA and shall be accessible to any person authorized by the Appointing Authority in this behalf including the Sub-Registrar holding a valid code or password which shall be provided by the CRKA. The e-Stamp Certificate may be issued for any denomination.
40. The CRKA shall issue e-Stamp Certificate for such Additional Stamp Duty on separate sheet of paper. The CRKA shall also ensure that the person who has been given the duty to issue e-Stamp Certificate is regular full-time employee having given adequate security to him and is having adequate length of service with him. Any person who is working as part-time or trainee or who is working on a contract basis or on commission basis must not be entrusted with the job.

### 1.2.9 E-Locking of issued e-Stamp Certificates

41. The Sub-Registrar, before accepting documents presented for registration shall verify the details of the e-Stamp Certificate used in the instrument by entering its distinguishing unique identification number and other details in his computer system by accessing the e-stamping website of the CRKA.
42. On completion of such verification, the Sub-Registrar by the use of his computer shall compulsorily lock the distinguishing Unique Identification Number of the e-Stamp Certificate to prevent repeated use of such e-Stamp Certificate.

### 1.2.10 Submission of Details of Daily Remittances to Treasury

43. The remittances of the Stamp Duty collected by the CRKA shall be made in the government business branches of the State Bank of India/Agency Banker in the prescribed format as decided by the Appointing Authority in hard and soft copy under intimation to the concerned Treasury Officer.

#### 1.2.11 Commencement of Registration process - Online application through PDE

44. Instruments that are subject to compulsory registration, after obtaining the applicable e-Stamp Certificate as per previous steps, the applicant/executor of such instrument will have to visit the official website of Registration and Stamps Department (<http://online.eregistrationukgov.in/esearch/FrmvillWise.aspx>) for registering the instrument through the **Public Data Entry (PDE)** option. For registration the following details are required to be entered in the system by the applicant:

- Rate List.
- Location/Area for land rate Calculation.
- Village or Mauza for Index.
- Khewat No., Khasra No. and Khatoni No.;
- Area/Unit, House/Flat number;
- Details of RIDER and Deed Writer's Name;
- Appropriate land rate for the Location Area from the land rate table;
- Appropriate rebate option (Disabled Person, Female Buyer, Army Buyer, Co-owner, Family Member);
- Details of the Construction (Residential/Industrial);
- Mode of payment (Cash, cheque, Bank draft, RTGS).

#### 1.2.12 System calculated Stamp duty and Registration Fees

45. After providing the above details, the system will calculate the registration fees payable by the applicant. The methodology and basis of calculation of Stamp Duty and Registration Fees (As per the Acts) for the major instruments as mentioned earlier, has been enumerated below:

Sl. No.	Registration of	Basis of Calculation of Stamp Duty	Basis of Calculation of Registration Fees
1	Conveyance Deed	As a percentage of the amount which is the subject of such deed	As a percentage of Transaction Value or Market Value whichever is greater, subject to a maximum of INR 25,000/-
2	Sale Certificate	The same duty as a Conveyance, for a consideration equal to the auction amount.	
3	Lease	As a percentage of entire Rental Value or Annual Average Rent as the case	As a percentage of Rental Value or Annual Average Rent as the
4	Mortgage Deed		

		maybe on the basis of the term of the lease or mortgage.	case maybe on the basis of the term of the lease or mortgage.
5	Exchange of Property	The same duty as a conveyance, for a consideration equal to the value of the property of greatest value as set forth in such instrument.	As a percentage on the amount of the consideration and on the market value of the property.
6	Gift of immovable property	The same duty as a Conveyance, for a consideration equal to the value of the property	As a percentage of Transaction Value or Market Value whichever is greater.

Table 4: Methodology and basis of calculation of Stamp Duty and Registration Fees

### 1.2.13 Process of document verification by Sub Registrar Office (SRO)

46. Consequent upon making the payment and on generating the PDE number, the applicant will re-login and provide details such as Name, Address, occupation, ID card Details and Mobile Number, submit the details, download and print for physical submission to the Sub-Registrar Office (SRO).
47. For physical submission the applicant has follow the below mentioned steps:
- Book an Online Time Slot for visit to the SRO;
  - Visit the SRO on the date and time with the Original Documents & Fee Receipt (in case of e-payment). Some of the required documents are:

Sr no.	List of documents
1	Original Document/Conveyance Deed
2	Print copy of e-challan Duty/Fees. a. Stamp Duty. b. Registration Fees. c. Document Handling Charges
3	Print copy of PDE details
4	Revenue record of land as khasra, khatoni as applicable in deed.
5	Map of transferred property
6	Current passport size photographs of parties
7	Current photograph of transferred property.
8	Photo-Identity cards
9	Copy of Pan Card is compulsory where valuation is above 5Lakhs.
10	For Sale of only Agricultural Lands whose Consideration Amount Is More Than 50 Lakh, T.D.S Challan Under Income Tax Act is Required.

Table 6: List of documents to be submitted to SRO

- The SRO will verify the details and the documents, update the same in Online Land Records Website & scan the deed for future references.
- In case of rejection of Application, the Returned Deed with reasons for rejection will be updated online through the portal.

### 1.2.14 Registration fees collected in case of Cash mode of payment opted

48. On verification of the details and documents in case the applicant has opted for payment of fees in cash, the SRO will direct the applicant to deposit the fees and in return shall issue a receipt to the applicant for such fees.

### 1.2.15 System Approval for Registration

49. If the details and documents are found to be complaint, the SRO shall approve the same in the system and the applicant will then be able download and print the Registration Certificate by logging in to the Portal

### 1.2.16 Submission of Reports & Returns

#### 1.2.16.1 Weekly Report

50. Every sub-registrar will submit to the District Registrar of his district a weekly report of documents and applications for copies remaining undelivered or undisposed of after three days from the expiration of date of presentation.

#### 1.2.16.2 Monthly Return

51. Every sub-registrar shall submit to the District Registrar of his district by the 5th of each month a statement showing the transactions of his office for the preceding month in form no. 2.
52. The monthly return will be prepared not according to the calendar month, but according to the month of account as it is absolutely necessary, that the figures given in the different accounts and returns should exactly agree with those shown in the treasury accounts.

#### 1.2.16.3 Quarterly Return

53. Every **District Registrar** will submit to the **office of the Inspector General** (Registration) the following in quarterly returns for his district:

- Districts return no. I-Statement showing the transaction of the quarter.
- District returns no. II-Budget allotments and expenditure.

### 1.2.16.4 Annual Return

54. Every Sub-Registrar shall prepare, as soon as possible, after the close of the year, a statement in Form no. 6 and submit the same to the District Registrar not later than the 10th of January;
55. Every district registrar shall in like manner, prepare a consolidated statement for his district in Form no. 6 and submit the same to the **Inspector General** (Registration) not later than the 1st of February, accompanied by a report reviewing the operations of the year. District registration should be careful to check this annual return by the monthly ones to see that the figures in the former exactly coincide with the aggregate of the corresponding figures in the latter. Inattention to these matters may lead to unnecessary delay, trouble and correspondence.

### 3.4 Maintenance of Important Books & Reports

56. The following are the key Books and Registers are required to be maintained for immovable properties and updated on a periodic interval by the CRKA and at the Registration Office with respect to recording of details related to e-Stamping & Registration:

Sl. No	Books/Registers	Purpose
1.	Book No I	Register of non-testamentary documents relating to immovable property as defined in the Registration Act. The book shall contain details of all documents registered under sections 17 and 18 which relate to immovable property and are not wills.
2.	Book No II	Register for recording reasons for refusal to register
3.	Audit Trail Report	Tracking of all system-based actions performed by users of collecting branches/offices of the CRKA & the ACC pertaining to any specified day or period.
4.	Government Payable Reports	ACC-wise total collection report of any specified day or period.
5.	Additional Stamps Duty Certificate Reports	For all or any of the collecting branches/offices of the CRKA and ACC pertaining to any specified day or period.
6.	Locked e-Stamp Certificate Report	Relating to all or any of the Sub-Registrars pertaining to any specified day or period.
7.	Remittance Reports	A district-wise detail of the remittances made by the CRKA into the Government Account pertaining to any specified day or period.
8.	Report of cancelled e-stamp certificates	Pertaining to any specified day or period relating to any particular or all the Assistant Commissioner(s) of Stamps.

9.	Certificate Generation Report	Reports of e-stamp certificate generated for any/all collecting branches /offices of the CRKA and ACC pertaining to any specified day or period.
10.	Yearly Stamp Duty Collection Report	Yearly Report of stamp duty collected by any/all of the collecting branches/offices of the CRKA and the ACC
11.	Stamp Duty Type Collection Report	Showing category of instrument-wise monthly Stamp Duty Collections of any calendar year for any/all collecting branches/offices of the CRKA and ACC
12.	Stamp Fees- Report by Account	Stamp duty monthly collection Report for any/all of the collecting branches/offices of the CRKA and the ACC

Table 6: List of important books and register to be maintained for Immovable properties

### 3.5 Schedule of Inspections and Audit of the CRKA and the ACC

57. The proper internal control assist in prevention of any loss or leakage of revenue. The Registration Manual stipulates that each Sub- Registrar office should be inspected twice in a year by the **Assistant Inspector General** to ensure proper compliance of all the provisions of the act and rules in every sub-registrar office. As per Registration Manual the frequency of the inspection is under.

Name of the Authority/Agency	Jurisdiction	Frequency of Inspection	Points of Inspection
Collector	Within the District	Annually	General Working, Public Complaints
Additional District Magistrate (Finance & Revenue)	Within the District	Half Yearly	Reconcile the remittance reports of the treasury with the report of CRKA
Deputy Commissioner of Stamps	Within Registration Zone	Quarterly	Verify the collection made by CRKA & the remittance report of the treasury with that of the CRKA and the remittance reports of the treasury with that of the CRKA of each district in the zone
Assistant Commissioner of Stamps	Within Registration Zone	Monthly	Compare the stamp income figures (from e-stamps) of the sub-registrar offices with the remittance figures of the CRKA as received from the treasury of the district
Technical cum Financial Expert/Agency	Whole State	Quarterly	Verify the overall collection made by the CRKA & the ACC with the remittances made by CRKA to the Government Account and the technical working & fairness of the accounting of the e-stamping system

Figure 6: Schedule of Inspection & Audit of CRKS & ACC



### 3.6 Revenue from Manual Stamping

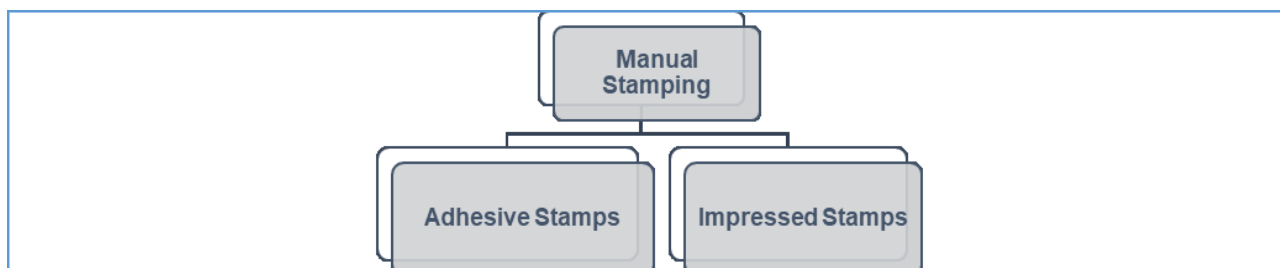


Figure 7: Schedule of Inspection & Audit of CRKS & ACC

#### 3.6.1 Adhesive Stamps

58. The following instruments may be stamped with adhesive stamps:
- (a) instruments chargeable with the duty of not exceeding [.....INR] except parts of bills of exchange payable otherwise than on demand and drawn in sets.
  - (b) bills of exchange and promissory notes drawn or made out of India.
  - (c) certificate of enrolment under section 22 of Advocates Act, 1961, issued by the State Bar Council of Uttar Pradesh and certificates of enrolment issued to Revenue Agents or Mukhtars.
  - (d) notarial acts; and
  - (e) transfer by endorsement of shares in any incorporated company or other body corporate.

#### 3.6.2 Impressed Stamps

59. Every instrument written upon paper stamped with an impressed stamp shall be written in such manner that the stamp may appear on the face of the instrument and cannot be used for or applied to any other instrument.
60. No second instrument chargeable with duty shall be written upon a piece of stamp paper upon which an instrument chargeable with duty has already been written.
61. Provided that nothing in this section shall prevent any endorsement which is duly stamped or is not chargeable with duty being made upon any instrument for the purpose of transferring any right created or evidenced thereby, or of acknowledge the receipt of any money or goods, the payment or delivery of which is secured hereby.

62. The stages of operation with respect to manual stamping is as follows:

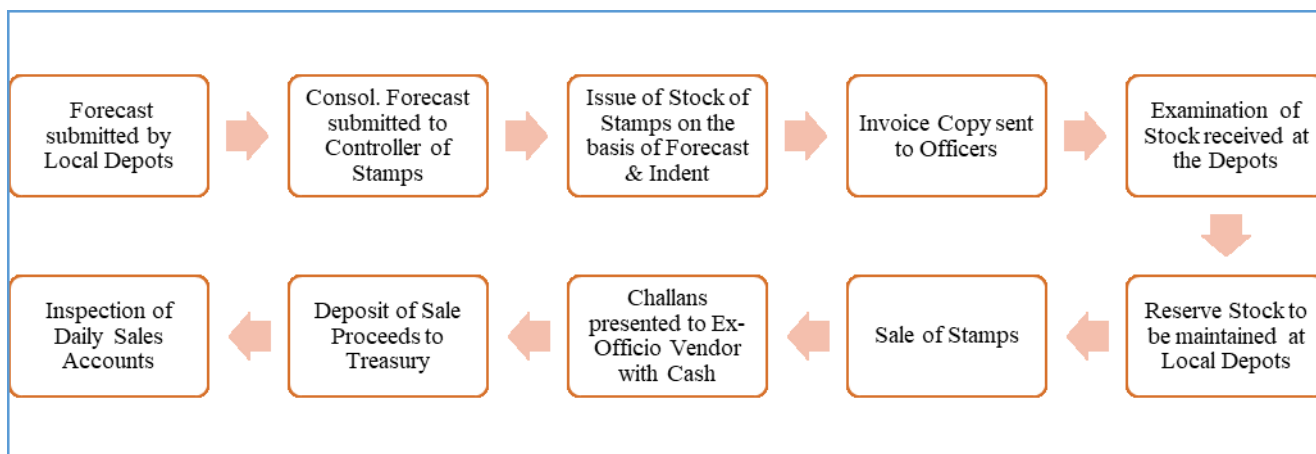


Figure 8: Stages of operation with respect to manual stamping

### 3.6.1.1 Forecast submitted by Local Depots

63. The Officers-in-charge of local depots shall submit forecasts of all judicial and non-judicial stamps to the District Office on or before the 15<sup>th</sup> of April each year.
64. The purpose of district forecasts is to inform regarding the requirements of each district. The forecast should, therefore, be for the whole district, that is the local depot as well as branch depots (including branch depots receiving supplies direct from the Central Stamp Store).

### 3.6.1.2 Consolidated Forecast submitted to the Controller of Stamps

65. To enable the Master to provide for adequate stocks of raw materials (e.g., paper ink, etc.), in the Security Press, the consolidated provincial forecast on the basis of district forecast received from the Officer In-charge of the Local Depots shall be submitted by the District Office to the Controller of Stamps, not later than 15<sup>th</sup> of June each year in the form prescribed under the rules.
66. In the case of labels which are issued in sets as laid down by the Controller of Stamps the consolidated forecast shall show the number of sheets and not the number of labels. In other cases, the number of stamps required shall be shown.
67. The forecast shall be prepared in Form No. I, Appendix B and shall contain the following details:

- All denomination of Stamps.
- actual issues in the district during the preceding three financial years.
- average annual consumption based on the issues of the preceding three years.
- balance of stamps both in single and double locks on the First of April.
- estimated issues for the current financial years if these figures differ from the average annual consumption.
- quantity required for the ensuing financial year.
- the surplus stock.
- quantity transferred to other treasuries in each of the preceding three years.

### 3.6.1.3 Issue of Stock of Stamps on the basis of Forecast and Indent

68. The stock of Stamps shall be issued by the Controller of Stamps from the Central Stamp Store to each local or branch depots on the basis of the forecast and indents submitted from time to time as per the available stock at the Store.

### 3.6.1.4 Invoice Copy Sent to Officers

69. The Controller of stamps shall furnish the officers mentioned below with copies of invoices relating to the issues during each month from the Central Stamp Store to each local or branch depot: the heads of Postal Circles- copies of invoices relating to supplies of postage stamps; The copies of invoices should reach the officers noted above not later than the 15th of the month following that in which the supply is made. In respect of supplies of non-postal stamps (other than match excise banderols), the Controller of Stamps shall send an invoice in triplicate to the local depot to which supplies are sent from the Central Stamps Store, showing their in the denominations, the quantities, the face value, the manufacturing rate and the manufacturing value of the stamps supplied. The original copy of the invoice will be retained in the local depot and the duplicate returned to the controller of stamps with the acknowledgement of the officer-in-charge of the local depot ordinarily not later than seven days and the special case not later than fifteen days after the receipt of the consignment of the stamps. The triplicate will also be acknowledged and forwarded at the same time to the officer-in-charge of the local depot.

### 3.6.1.5 Examination of Stock received at Depots

70. On arrival of supply of stamps from the central stamps store and from other local depot, the officer in-charge of the local depot shall:
- personally, examine outward appearance of the boxes or pockets and satisfy himself that they bear no marks of tampering.
  - then have the boxes or packets opened in the presence, and the contents of each box or packet counted either by himself or in the presence, immediately on being opened in accordance with rule.
71. Where the treasury is the local depots, the boxes or packet should invariably be placed immediately on arrival in the strong room of the treasury and three opened, one at a time, in the presence of the treasury

officer, who must be watching all the time the boxes or packets are being opened and their contents examined and counted. In no case must a second box or packets be opened until the contents of the first have been completely examined and verified and placed in proper receptacles.

- 72. The number and value of stamps received shall be compared by the officer-in-charge with the invoice submitted and a receipt shall be sent to the officer who sent the stamps as soon as may be convenient and no case later than fifteen days arrival of the stamps.

**3.6.1.6 Stamp Unfit for Use**

- 73. If any of the stamps received are found unfit for issue due of faulty manufacture, they should be returned at once to the Controller of Stamps. The press will not be liable to replace free of charge stamps found unfit for issue from causes other than faulty manufacture. Stamps that are through any cause rendered unfit for issue at any time after receipt shall be disposed of in accordance with the prescribed rules.
- 74. “Faulty manufacture of stamps” means “Defective printing, defective paper, insufficient gumming, bad perforation, cutting etc. The sticking of stamps is not due to bad gumming but to bad storage, conditions and exposure or damage in transit by water”.

**3.6.1.7 Reserve Stock to be maintained at Local Depots**

- 75. Each local depot shall, unless the Government otherwise directs, maintain a reserve stock of stamps not less than the probable consumption of three months in the case of postage stamps and other stamps which are the property of the Central Government, tobacco excise duty labels and match excise banderols and four months in the case of non-postal stamps in addition to the stock required for the quarterly or four-monthly or annual consumption as the case may be. The Government may direct that the supply to be maintained either generally or in respect of any particular kind of stamp or in certain local depots, shall be equal to the probable consumption of such other period as they deem expedient.

**3.6.1.8 Sale of Stamps**

- 76. There are mainly two classes of Vendors for effecting the sale of stamps:

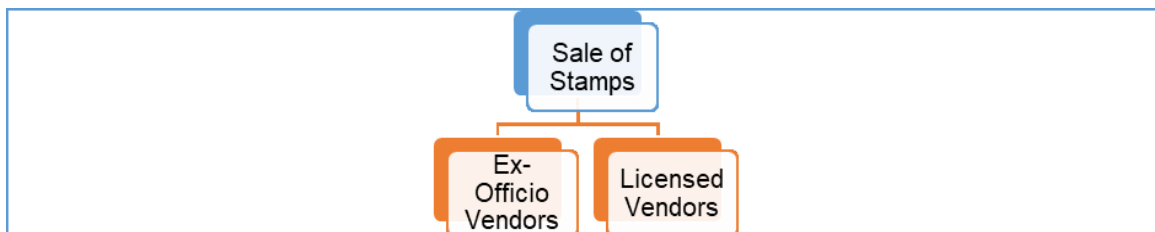


Figure 9: List of class vendors for effecting the sale of stamps

**a. Sale of Stamps by Ex-officio Vendor**

- The treasurer, or such other officer as the District Officer may direct, shall be the ex officio vendor for sale of all descriptions of stamps in each local depot.
- Ex officio vendors shall supply stamps from the stock made over to his charge and kept by him under single lock to the public and to licensed vendors for cash and shall allow discount to the latter at the rates and under the conditions prescribed.
- The ex officio vendor will maintain a register of receipts into and issues for each month and will prepare an indent for the quantity required for the month in a form showing the balances in his hands an average month's consumption and the quantity required.
- The Officer in-charge of the depot shall verify the balance of stamps in the hands of the ex officio vendor four times a month at irregular intervals without giving any notice to the treasurer.
- The Treasury Officer shall either give out the stamps from the store with his own hands or shall count every sheet taken out and scrutinize the value before making them over to the ex officio vendor.

**b. Sale of Stamps by Licensed Vendor**

- Licensed vendors shall sell to the public such stamps as are indicated in their licenses. Licensed vendors shall ordinarily be allowed to sell:
  - court-fee stamps not exceeding the aggregate value of INR 500/- for one document;
  - non-judicial stamps not exceeding the aggregate value of INR 500/- for one instrument.
- Licensed vendors shall be allowed to purchase stamps from the local or branch depot ordinarily once a week, equal to their estimated demand for one week, based on the average sales of the last few weeks. If after a weekly purchase, the sales of any vendor have been heavy and his stock have run short within the week, he shall be allowed to purchase on another day of the week when the treasury is open, equal to the probable consumption for the remaining part of the week.
- Licensed vendors shall obtain stamps from ex officio vendors at local and branch depots on payment of ready money (less the discount allowed).

**3.6.1.9 Challans presented to Ex Officio Vendor with Cash**

77. Challans separately for each class, i. e., non-judicial, court-fee and postage stamps will be presented by the purchaser to the Accountant, who shall check the correctness of the particulars thereof especially the discount claimed and note in a simple register. The check by the Accountant should be present with cash to the ex officio vendor for the issue of stamps. The ex officio vendor shall enter the sales chronologically in his single lock register. The register should be inspected, and the correctness of entries made therein checked every day by the officer-in charge of the depot who should initial the register in token of having exercised this check.

**3.6.1.10 Deposit of Sale Proceeds to the Treasury**

78. The Ex officio vendor shall pay daily into the treasury under the head "30- stamps and Registration fees. C- Stamps- Non- Judicial- Sale of stamps" the cash received by him for stamps sold, the amount

realized on account of each of the various descriptions of stamps-namely, non-judicial, court-fee, postage, insurance agent licence fee stamps, etc., being paid in separately.

### 3.6.1.11 Inspection of Daily Sales Accounts

79. The account of the daily sales should be inspected, and the correctness of the calculations shown therein checked every day by the officer-in charge of the depot.

## 3.7 Marriage Registration

80. Section 8 of the Hindu Marriage Act, 1955 empowers the State Government to make rules for recording particulars of Hindu Marriage if the parties so desire in register known as "Marriage Register". In Uttarakhand,

81. Marriages that are solemnized in the State of Uttarakhand are to be compulsorily registered and get their Marriage Certificate in Uttarakhand under the Marriage Registration Act, 2010 under Hindu Marriage Act or the Special Marriage Act. The Hindu Marriage Act is applicable in cases where both husband and wife are Hindus, Buddhists, Jains, or Sikhs or where they have converted into any of these religions. But when one of them or both of them are not Hindus, Buddhists, Jains, or Sikhs the marriage is registered under the Special Marriage Act, 1954.

82. The Government of Uttarakhand has made mandatory to register the marriage in Uttarakhand under the law to prevent marriage frauds, child marriages, bigamy, and desertions of women by their husbands and it also serves as proof for applying for a passport and helps in claiming bank deposits, in case of demise of a partner.

### 3.7.1 Condition for Applying Marriage Registration

83. The following criteria should be fulfilled to get a marriage registered and marriage certificate.

- The age of the bridegroom/husband to be should be a minimum of 21 years and above.
- The age of bride/wife should be a minimum of 18 years and above.
- At the time of marriage registration, there should not be more than one spouse for the groom or the bride.
- The applicant needs to be a permanent resident of Uttarakhand State .
- Any one of the following places should fall within the jurisdiction of the Registering officer. (a) Permanent Residence of Bridegroom Solemnization; (b) Place of Marriage.

### 3.7.2 Process for Applying for Marriage Registration

84. The following are the process for applying the marriage registration.

**Step 1:** Complete Application Form for Marriage Certificate on **e-Marriage service** provided on the website of Stamps and Registration Department.

**Step 2:** After all the details are verified system will send e-Application Number along with a soft copy of marriage certificate form within 72 Hours of the registration.

**Step 3:** Get two hard copies of the form sent and attach the photographs of Bride and Groom on it and get it signed by all the concerned i.e. By the Bride, Groom, Father/Guardian of both the parties and Witnesses.

**Step 4:** Get a print of the certificate form attached with this file on plain paper. The certificate and the marriage application shall be sent to the concerned authority of the area for verification.

**Step 5:** Both the Bride and Groom along with 2 witnesses should be present at the Registrar's Office. After the physical verification of the documents, the marriage shall be registered and marriage certificate will be issued.

Note: (1) The downloaded copy of the e-Application is Valid for 30 days after filling up the online application form.(2) The certificates can be verified by- Member of Parliament, Member of State Legislature, Gazetted officer, Pradhan of the gram sabha, Sarpanch of Nyay Panchayat, Member/Chairman of Zila Panchayat, Member/Head of Regional Committee, Member/Chairman of Municipal Board/Municipal Corporation, Town Board, Cantonment Board, i.e. Corporator /Member /Councilor/Chairman and in case any party to the marriage is a resident outside of India, a letter of confirmation /NOC given by the consul / Deputy Consul of the country of his citizenship, situated in India.

### 3.7.3 Fee and Time Limit for Registering Marriage and Marriage Certificate

85. Rupees one hundred in case the application is made within 90 days from the date of solemnization of marriage. It shall be paid in cash to the registering officer or through e-payment.
86. Rupees two hundred in case the application is made after 90 days from the date of solemnization of marriage. It shall be paid in cash to the registering officer or through e-payment.
87. For receiving a copy of marriage registration certificate, fee of rupees 50 shall be paid in cash to the registering officer in cash or through e-payment.
88. Application for certified copy. In order to receive certified copy of marriage certificate, a court fee of one rupee be affixed to it and ten rupees stamp fee payable. For ordinary copy, fee shall be rupees twenty-five and the copy shall be provided within a week. For urgent copy fee rupees fifty shall be paid and copy shall be provided in three days. For very urgent copy the fee shall be rupees one hundred and the copy shall be provided within next days.

### 3.7.4 Marriage Register and Other Record

89. A Hindu marriage register shall be kept in the officer of the Registrar of Hindu Marriages and should be serially numbered.
90. All the entries in the Hindu Marriage Register shall be indexed and the indices shall be in two forms, namely one in the name of the bridegroom and other in the name of the bride and such indices shall be available for inspection to any person on payment of inspection fee.
91. The Hindu Marriage Register and indices shall, after six year of their completion, be consigned to and preserved permanently in the central record room at the headquarter of the registrar of district.
92. All other record and paper such as receipts books, cash book application for extract from the register etc. shall be destroyed by the Registrar after the expiry of six years.



## Chapter IV: Audit Process

93. This section provides an overview of the audit life cycle for conducting the revenue audit of stamp and registration department. Detailed audit processes are provided in the Uttarakhand Internal Audit Manual Volume-I, Part-I and this manual should be read in conjunction with the Internal Audit Manual Volume-I & Volume-II. The major steps involved in an audit of excise department has been provided through the following flowchart.

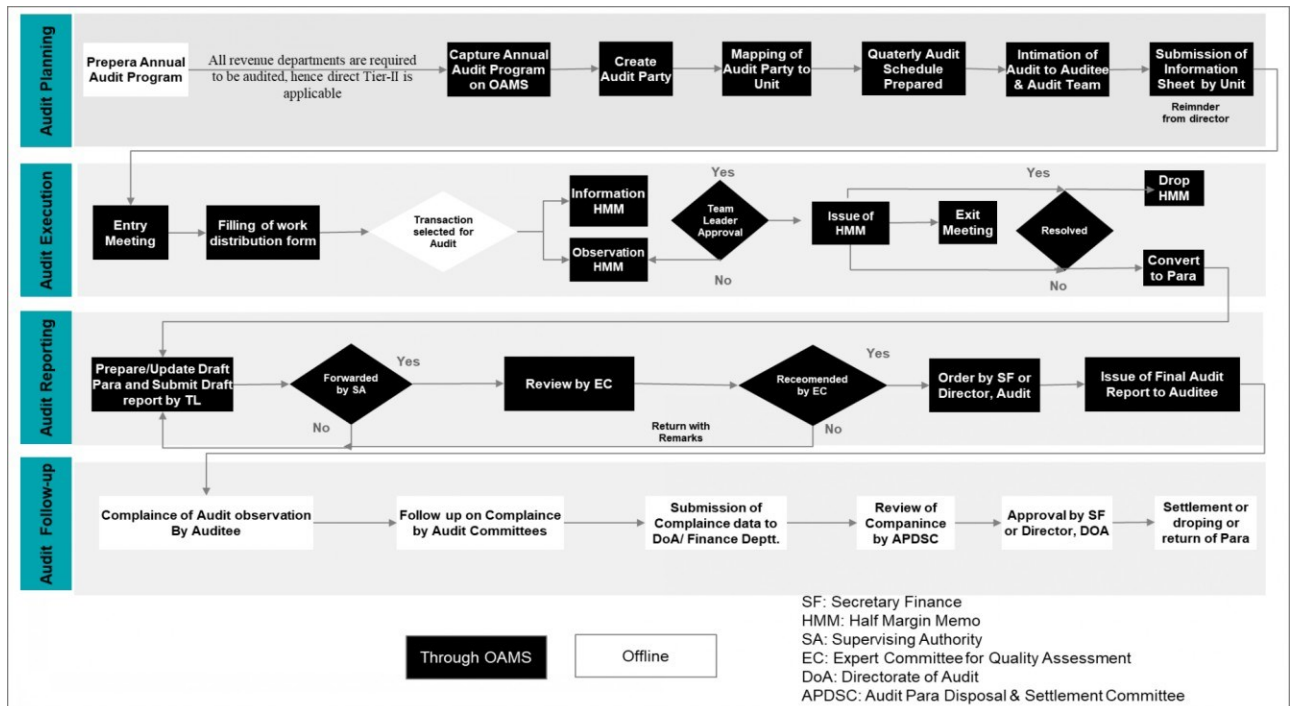


Figure 10: Audit process for revenue of Stamp & Registration Department

### 4.1 Audit Planning

#### 4.1.1 Audit Planning Activities

94. The process for an internal audit is initiated with preparation of an internal audit plan which includes assessment of risk, selection of departments, selection of areas to be audited, selection of audit units, allocation of resources, finalization of timeline for conducting the audit etc. The preparation of internal audit plan and assignment of audit team shall be done in accordance with the provisions and procedures mentioned in the Internal Audit Manual through Online audit management system (OAMS). The risk assessment process for preparation of annual audit plan is provided in Internal Audit Manual **[Please refer chapter 8 of the Internal Audit Manual Volume I, Part-I]**. The specific considerations related to audit planning for revenue departments is provided below:

Risk process	Responsibility	Description and Activities to be conducted									
<b>Tier – I: Selection of Department to be Audited</b>	Directorate of Audit	<p>This step is to categorize the departments according to its risk-profile and shall be done in accordance with the Internal Audit Manual Volume I, Part-I.</p> <p>The Stamp Duty department shall automatically be classified as high-risk department. Therefore, parameters related to selection of departments provided in Tier-I shall be not be applicable however, parameters for selection of key auditable areas as specified in Tier-II shall be applicable.</p>									
<b>Tier – II: Selection of Key Auditable Areas</b>	Directorate of Audit	<p>This step will identify the Key Auditable Areas and the Auditable Sub Areas which will be subjected to risk assessment to determine the areas to be prioritized for audit.</p> <p>The process to be followed for risk assessment of the Key auditable Area and Auditable Sub Areas is mentioned in detail in the Internal Audit Manual Volume I, Part-I. [ <b>Refer Section 8.2.2.2 of Internal Audit Manual Volume I, Part-I</b>]</p> <p>The Key Auditable Areas and Auditable Sub Areas specific for revenue audit of Stamp and registration department shall be referred from the table below:</p> <table border="1" data-bbox="614 1176 1465 1377"> <thead> <tr> <th>#</th> <th>Key Auditable Area</th> <th>Illustrative Auditable Sub Areas</th> </tr> </thead> <tbody> <tr> <td rowspan="4">A</td> <td rowspan="4">Revenue audit of Stamps and Registration</td> <td>A1 Levy &amp; Assessment</td> </tr> <tr> <td>A2 Collection &amp; Deposit</td> </tr> <tr> <td>A3 Valuation</td> </tr> <tr> <td>A4 Control Aspects</td> </tr> </tbody> </table> <p>Table 7: Key auditable area and Auditable sub area for revenue audit of Stamp &amp; Registration Department</p> <p>The above list of Key Auditable Areas and Auditable Sub Areas shall be reviewed and updated periodically by DoA based on the findings during the last audits.</p> <p>DoA shall carry out the risk assessment of all the Auditable Sub Areas under each Key Auditable Areas through <i>situational analysis</i> of the risk listed for all such auditable sub areas. The risk listing/identification for each Auditable Sub Area would be done from various sources such as past audit reports, best practices, review of control environment, experience, and professional judgement of officials of DoA conducting the risk assessment</p>	#	Key Auditable Area	Illustrative Auditable Sub Areas	A	Revenue audit of Stamps and Registration	A1 Levy & Assessment	A2 Collection & Deposit	A3 Valuation	A4 Control Aspects
#	Key Auditable Area	Illustrative Auditable Sub Areas									
A	Revenue audit of Stamps and Registration	A1 Levy & Assessment									
		A2 Collection & Deposit									
		A3 Valuation									
		A4 Control Aspects									

Risk process	Responsibility	Description and Activities to be conducted																																	
		<p>The situational analysis of each identified risk shall be done by the DoA based on their discussion with management of department, past serious audit observations, review of internal control environment, media reports, professional judgement, and experience. An illustrative general risk evaluation matrix for all the currently identified Key Auditable Areas and its Auditable Sub Areas is provided at <b>Annexure I</b> to this section of the manual.</p> <p>The DOA shall build upon this Matrix based on the actual risks identified during each audit cycle.</p>																																	
<b>Tier – III: Selection of auditable units within the Departments</b>	Directorate of Audit	<p>The process to be followed for selection of units to be audited of stamp and registration department covered in this manual shall be in accordance with the Internal audit manual.</p> <p>Risk Profiling of the Units of the selected department shall be based on financial, non-financial Parameters and special parameters. An illustrative list of parameters along with their score, range and weightage are provided below:</p>																																	
		<table border="1"> <thead> <tr> <th rowspan="2">#</th> <th rowspan="2">Parameter Name</th> <th rowspan="2">Description of Parameters</th> <th colspan="3">Scoring</th> <th rowspan="2">Weightage</th> </tr> <tr> <th>Variable</th> <th>Range</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td rowspan="2">1</td> <td rowspan="2">Value of serious audit Paras pending for compliance in AG report</td> <td rowspan="2">Value of serious Audit Paras (AG audit) pending for compliance at end of the immediately preceding financial year needs to be considered .</td> <td rowspan="2">Value of serious AG para pending for compliance for the unit (AG Audit)</td> <td>0</td> <td>0</td> <td rowspan="2">15%</td> </tr> <tr> <td>0-0.50 Cr.</td> <td>3</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>0.5 to 1.5 Cr.</td> <td>6</td> <td></td> </tr> <tr> <td>2</td> <td></td> <td></td> <td></td> <td>0</td> <td>0</td> <td>15%</td> </tr> </tbody> </table>	#	Parameter Name	Description of Parameters	Scoring			Weightage	Variable	Range	Score	1	Value of serious audit Paras pending for compliance in AG report	Value of serious Audit Paras (AG audit) pending for compliance at end of the immediately preceding financial year needs to be considered .	Value of serious AG para pending for compliance for the unit (AG Audit)	0	0	15%	0-0.50 Cr.	3					0.5 to 1.5 Cr.	6		2				0	0	15%
		#				Parameter Name	Description of Parameters	Scoring			Weightage																								
Variable	Range		Score																																
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				0-0.50 Cr.	3																														
				0.5 to 1.5 Cr.	6																														
2				0	0	15%																													



Risk process	Responsibility	Description and Activities to be conducted							
			Nos. of Instruments	registered in the unit	registered in the unit as % of the total instrument in the department at the end of immediately previous financial year	10-20%	6		
			6	Revenue of Unit	Percentage share of the revenue of the unit	Revenue of particular unit as a % of total revenue of the stamp & registration department	0-5% 5-15% >15%	3 6 10	10%
			7	Amount of Arrears	Pending arrears if any to collected	Arrears as a % of total revenue receipts for the immediately preceding financial year	0-10% 10-20% >20%	3 6 10	10%
<p>Table 8: Parameters for Tier III Risk assessment process for revenue audit for Stamp and Registration department</p> <p>The above parameters and their score ranges are illustrative in nature and DoA may add/delete/modify the same related to the key auditable areas selected for audit.</p>									

Table 9: Risk assessment process for revenue audit of Stamp and Registration department

**Way Forward:** In the initial years from the adoption of this manual, audit will be done at the level of the Key Auditable Area as per the process mentioned above. However, over the year the DoA

shall continuously update the risk evaluation matrix for the Auditable sub-Areas under each Key Auditable Areas.

In the long term, DoA shall carry out the risk assessment of auditable Sub Areas only and the revenue audit of Excise would be conducted for high-risk auditable Sub Areas or a mix of high and medium risk Auditable Sub Areas, as decided by the DoA. Refer to section 8.2.2.2 of Internal Audit Manual Volume I -Part-I.

95. The categorization of the department (Tier I), selection of area to be audited (Tier II) and selection of units for audit (Tier III) shall be done at the Directorate level on annual basis and the outcome shall be mentioned in the annual internal audit plan which shall be issued in accordance with the provision of **Internal Audit Manual Volume I, Part-I**.
96. Post selection of units to be audited, other steps such as allocation of resources, finalization of timelines etc. shall be done as per the provision mentioned in the Internal Audit Manual Volume I, Part-I). **[Refer Chapter 8 of Internal Audit Manual Volume I, Part-I for details]**

### 4.1.2 Audit Preparation

97. Before proceeding for conducting revenue audit, the audit parties need to ensure that below mentioned activities are undertaken (these activities will be carried out at global level).
- **Activity 1:** Understand the Department and its operation. **Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.**
  - **Activity 2:** Understand the legal and regulatory framework. **Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.**
  - **Activity 3:** Preparation of Audit Planning Memorandum. **Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.**
98. Activities to be carried out at Individual Audit unit. Post receiving of the all the required information, the auditor shall carry out the steps for risk assessment (Tier- IV) as defined in **para 4.2.3** of this section of the manual. The risk assessment process shall be completed in the audit planning & preparation stage post receipt of all required information as mentioned in below section. However, in case of non-receipt of such information, the Tier IV risk assessment process shall be carried after the entry meeting after obtaining the relevant data points. To perform the above activities for audit preparation, auditor requires information from the audit unit. Therefore, such information shall be gathered through information sheet on OAMS which contains data such as organizational structure, trend of revenue collection, cases pending for assessment/ pending for settlement, details of the personnel, budget, details of audit paras, taxpayer data etc. of the audit unit. The additional information to be obtained in the information sheet through OAMS for conducting the revenue audit of stamp and registration department is provided below:

## 4.2 Audit Execution

99. This is the stage where audit plans are executed, and observations are noted through the application of revenue audit procedures. The purpose of audit execution is to ensure completion of the revenue audit and gather sufficient & appropriate audit evidence to reach a conclusion on each of the objectives identified in the audit planning memorandum.

100. Following are the steps that should be followed to conduct a revenue audit:

Sr No	Activity
1.	Entry Meeting
2.	Update/Revision of Audit Planning Memorandum
3.	Work Distribution among team member
4.	Tier IV Risk assessment (if not carried during the audit preparation stage of Audit Planning)
5.	Audit of the selected transactions
6.	Audit Analysis and Evaluation
7.	Issuance of Audit Memo (Half Margin Memo)
8.	Exit Meeting

Table 10: Steps in Audit Execution for Revenue Audit – Stamp and Registration

The section 6 of Uttarakhand Audit Act, 2012, provide the authority and power to the auditor to obtain all necessary information and records, as the auditors may think fit, required for the purpose completing audit engagement. Section 7 of the Uttarakhand Audit Act, 2012, provide the provision for imposing penalty on audit unit for disobeying or not meeting the requirement provided by auditors under section 6 of the Uttarakhand Audit Act, 2012.

101. The above execution steps has been detailed in the **Internal Audit Manual Volume I, Part I**. However, in this manual only the specific considerations related to excise revenue audit has been elaborated:

#### **4.2.1 Entry Meeting**

102. Refer Point No. 9.1 of the Internal Audit Manual Volume I, Part I.

#### **4.2.2 Update of Audit Planning Memorandum**

103. Refer Point No. 9.2 of the Internal Audit Manual Volume I, Part I

#### **4.2.3 Work distribution among audit team members**

104. After completing the risk assessment process, the audit team leader shall divide the audit work among the team members and according to the work distribution, the team members should proceed for conducting the revenue internal audit of the selected unit. The audit team leader should take up more

significant items along with supervision of other team members. The work distribution should be recorded through OAMS and kept with the working papers. The format of work distribution is provided in the Internal Audit Manual.

**4.2.4 Selectin of Transactions to be Audited (Tier IV)**

105. The Tier-IV risk assessment process is carried out to identify the extent of transactions to be audited at the audit district level. The risk assessment process (Tier IV) shall be completed in the audit planning & preparation stage post receipt of all required information from audit unit. The methodology for Tier IV risk assessment to be conducted in this stage is defined in below table:

Key Auditable Area	Extent of Check
<b>A) Revenue Receipts</b>	<p>A range between 40% to 60% of Instruments are to be examined from the total population of the selected areas.</p> <ol style="list-style-type: none"> <li>1. Where revenue in respect of Stamp duty and Registration fee during the audit period is more than 20% under any category (such as Conveyance, Lease, Power of Attorney etc.) out of total revenue - at least 50% instruments/transactions of that category shall be selected for audit.</li> <li>2. Where budgeted revenue falls short from actual revenue under any category by more than 25% - at least 25% of such instruments/transactions will be selected for audit.</li> <li>3. Where value of any individual instrument exceeds 0.125% of total value of instruments stamped and registered by the Department- at least 75% of such instruments/transactions will be audited.</li> <li>4. Complex nature on levy of stamp duty of certain type of instruments (such as Several instruments used in single transaction of sale, mortgage or settlement as per Section 4 of the Act, Instrument relating to several distinct matters as per Section 4 of the Act, Instruments coming within several description as per Section 5 of the Act, etc.) – at least 20% of all such transactions will be audited.</li> <li>5. In such instruments where exemption has been applied – Auditor will select at least 10% of such cases.</li> <li>6. In case of such type of instruments, where “market value” is the basis of duty as per section 47A of the Act - at least 50% of all such instruments are to be taken-up for audit.</li> <li>7. If in some category of instruments, where the valuation process (circle rate) is not automated in the system – at least 20% of such category of registered instruments are to be audited.</li> <li>8. Where, by virtue of Law, duty is collected by some other Govt department/Agency, and such departments are supposed to collect,</li> </ol>



	<p>deposit, and provide appropriate return – at least 25% of such transactions are to be taken up for audit.</p> <p>After selection of transactions to be audited as mentioned above, the audit team will carry out audit of transactions which involves examination of transactions along with their supporting documents to examine its correctness. Detailed audit shall be carried out as per the audit program mentioned in <b>Chapter 5</b> of this section of the manual.</p>
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Table 11: Tier IV risk assessment process for Revenue audit of Stamp & Registration department

*Note: The extent of check mentioned in above process is suggestive. It shall be kept dynamic wherein auditor shall apply their professional judgment while selecting a transaction for audit.*

#### 4.2.5 Audit of the Transaction Selected

106. The audit team will carry out the audit of selected transactions which involves examination of supporting documents and occurrence of transactions. The checklist prepared is comprehensive but not exhaustive and auditor shall apply his own professional experience and unbiased judgment during the verification of any transaction/area related to revenue audit of Stamp & Registration department.

107. After distribution of work among the team members, the following will be collected by the audit team from the Head Office of the Department for selection of instruments/ transactions to be audited.

#### 108. Documents to be collected

- Annual Returns data from the software that will be integrated in OAMS,
- Annual Administrative Reports of the department for past five years,
- Budget of the Department,
- Past Internal Audit Reports, Performance Audit Reports, etc., and the Action Taken Reports,
- Departmental Inspection Reports,
- The following will be collected from the system Login authorisation provided by Central Record Keeping Agency to Commissioner of Stamps:
  - Audit Trail Report- for tracking system based actions performed by Users;
  - Government Payable Report – Authorised collection centre wise total collection report;
  - Additional Stamp Duty Certificate Report – any additional stamp duty collected in any place;
  - Locked e-Stamp Certificate Report – Sub-registrar wise e-stamp locking report;
  - Remittance Report – remittance to treasury during any specified period;
  - Report of cancelled e-stamp certificates
  - Certificate Generation Report – report on area-wise e-stamp certificate issued;
  - Yearly Stamp duty collection Report;
  - Stamp Duty Type Collection Report – Instrument/ Transaction category-wise duty collection report.
- The following will be collected from the Core Registration System (CRS)-

- List of registered Instruments for any period – category wise/ type wise/ location wise,
  - Details of e-stamps pending for locking process,
  - Area/SR office wise collection and deposit report,
  - Returns, Registers
  - Details of instruments where valuation is being conducted manually.
- For Stamp duty collected through Stock Exchanges, Clearing Corporations and Depositories, the following will be collected from the State AG office through online system [Indian Stamp (Collection of Stamp-Duty through Stock Exchanges, Clearing Corporations and Depositories) Rules, 2019]- Monthly, Semi-annually, Annual Returns as required
  - For Stamp duty collected by other Govt Dept/Agency by virtue of Law – Return/ Statement submitted to the Department from time to time
  - The following will be collected from the online Treasury-
    - Detailed head-wise receipts for “Head 0030-Stamps and Registration Fees-Receipts from Non-Judicial Stamps”

### 4.2.6 Audit Analysis and Evaluation

109.Refer section 9.6 of the Internal Audit Manual Volume I, Part-I.

### 4.2.7 Issue of Audit Memo/Half Margin Memo

110.Refer section 9.7 of the Internal Audit Manual Volume I, Part-I.

### 4.2.8 Exit Meeting

111.Refer section 9.8 of the Internal Audit Manual Volume I, Part-I.

## 4.3 Audit Reporting and Documentation

112.This Chapter describes the steps that is to be followed for reporting and documenting a revenue audit of excise department. The chapter has been divided into the following sections:

- Conversion of HMM into draft audit para. **Refer point no.10.1 of the Internal Audit Manual Volume I, Part-I** for details.
- Preparation of Internal Audit Report. **Refer point no.10.2 of the Internal Audit Manual Volume I, Part-I** for details.
- Review, approval and issuance of Internal Audit Report. **Refer point no. 10.3 of the Internal Audit Manual Volume I, Part-I** for details.

### 4.3.1 Audit Documentation

113.Refer Chapter 11 of Internal Audit Manual Volume I, Pat-I for details.

#### **4.6 Audit Monitoring Follow-up and Compliance**

114.Refer Chapter 12 of Internal Audit Manual Volume I, Pat-I for details.

#### **4.7 Quality Assurance and Improvement Program (QAIP)**

115. Refer Chapter 13 of Internal Audit Manual Volume I, Pat-I for details.

## Chapter V: Audit Checklist & Annexures

### 5.1 Audit Checklist

Sl No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditor's Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
<b>Conveyance Deed, Sale Certificate, Gift of Immovable property, Exchange of property, Lease, Mortgage</b>						
<b>Levy &amp; Assessment</b>						
1	Whether the instruments have been appropriately classified as per the various types of instruments and the recitals and transactions appended therein.	Section 2 of the Stamp Act. List of Registered instruments from E-registration portal and Copy of registered instruments				
2	Whether the duty charged correctly at the instances of: -multiple instruments used in single transaction. -instruments comprising or relating to several distinct matters or distinct transactions. -instrument contains two or more descriptions in Schedule I, and where the duties chargeable thereunder are different;	Section 4, 5 and 6 of the Stamp Act. Rate schedule I-A and I-B as per the Stamp Act. List of Registered instruments from E-registration portal and Copy of registered instruments				
3	Whether duty has been levied on Agricultural property which is Agricultural property in substance of the Deed? The	List of Registered instruments (details of past land transactions) from E-registration portal and				

SI No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditor's Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>following points needs to be checked:</p> <ul style="list-style-type: none"> <li>- The recitals (and not the title) of few agricultural deeds to assess whether these are agricultural plot.</li> <li>- Assess whether the land surrounding such plot has been sold as residential or commercial.</li> <li>- In case in the above point the property is other than Agricultural property and has been wrongly registered as agricultural property, whether the deficiency in stamp duty and registration fee has been collected for the same.</li> </ul>	Copy of registered instruments				
4	Whether the stamp duty have been levied under correct classification <sup>52</sup> . For this the auditor can check the following:	Section 143 to 145 of the Uttarakhand (Uttar Pradesh) Zamindari Abolishment and Land Reform Act, 1950.				

<sup>52</sup> Section 145 of the Uttarakhand (Uttar Pradesh) Zamindari Abolishment and Land Reform Act, 1950, provides that a copy of declaration certificate under Sections 143 (use of agriculture land for industrial or residential purpose) and 144 (use of non-agriculture land for agriculture purpose) shall be sent to the concerned SRs by the Assistant Collector in charge of the Sub Division. The SR should register it without any fee and declaration certificate should be sent to the Assistant Collector. If the declaration certificates are not sent to SR offices under the above provisions, the SRs cannot register these certificates which could help them in calculating proper Stamp Duty on the properties situated nearby by dividing them on the lines of non-agriculture or agriculture properties on the basis of such declaration certificates. [AG report]

SI No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditor's Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<ul style="list-style-type: none"> <li>- Whether the part of land has been sold as residential land, if the answer is yes, then residential rate should apply to such deed.</li> <li>- Whether the land has been declared as residential land in the circle rates, if answer is yes, then residential rates should apply to such property.</li> <li>- Whether the land surrounding such plot has been sold as residential land then such plot shall be deemed to be a residential plot.</li> </ul>	List of Agricultural Deed, Declaration Certificates, Record of past land transactions in similar surroundings				
5	Whether sale deed has been misclassified as correction deed. <sup>53</sup>	Article 34 A of Schedule 1-B of the Stamp Act Sale and Correction Deeds				

<sup>53</sup> Article 34 A of Schedule 1-B of IS Act, provides for correction of purely clerical error in an instrument, chargeable with duty and in respect of which the proper duty has been paid. Under the provision of IS Act, every instrument mentioned in the schedule shall attract stamp duty at the rates prescribed therein. An instrument is required to be classified on the basis of its recitals given in the document and not on the basis of its title. SRs are to ensure that copies of maps certified by the competent authorities have been attached with the sale deed of buildings.

Sl No	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditor's Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
6	Whether there was any delay in levy of additional stamp duty <sup>54</sup> The auditor may try to identify the delay in implementation of Government orders, if any, which led to non-levy of additional stamp duty on the deeds of transfer of the immovable property situated in the areas notified as developed by the Government	UP Urban Planning & Development Act. Section 3A of the Stamp Act. List of Registered instruments from E-registration portal and Copy of registered instruments				
7	Whether the provisions for charging differential duty have been applied correctly in respect of instruments described in Schedule I to the Act, which have been executed out of the State and subsequently received in the State.	Section 19A of the Stamp Act.				
<b>Collection &amp; Deposit</b>						
8	Whether the Central Record Keeping Agency (CRKA) remits the consolidated amount of Stamp Duty after	Rule 20 of the Uttarakhand Stamp (Payment of duty by means of e-Stamp Certificates) Rules, 2011.				

<sup>54</sup> Under the provisions of UP Urban Planning and Development Act, if in the opinion of the State Government, any area within the State, requires to be developed according to plan, it may by notification in the gazette, declare the area to be a development area and levy additional stamp duty on the deeds of transfer of immovable property situated in that area.

Sl No	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditor's Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	making the required adjustments of the discount/commission from the consolidated amount to the Govt. Account/treasury within two working days					
9	Whether collected amount was remitted into treasury under respective head of Govt. account. Also check whether the Relevant Reports/ MIS have been submitted on time	Details of collections by the Authorized Collection Centre (ACC), CRKA, remittances made in the prescribed format, Deposit Slips, Challans, Regular Reconciliations.  Reports and MIS Submitted as per Rule 57 of the Uttarakhand Stamp (Payment of duty by means of e-Stamp Certificates) Rules, 2011				
10	Whether the following procedure has been followed for issue of e-stamp certificate: - Requisition has been received in Form 3 along with payment of stamp duty amount. - E-stamp certificate has been issued only after receipt of stamp duty in full.	Rule 21 to 35 of the Uttarakhand Stamp (Payment of duty by means of e-Stamp Certificates) Rules, 2011.  Form 3, Challan/Receipt of payment, Form 4, payment received for additional stamp duty				



SI No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditor's Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<ul style="list-style-type: none"> <li>- Applications in Form 4 has been made appropriately in case Additional stamp duty is required to be paid.</li> <li>- Sub-Registrar verifies the details of the e-stamp certificate used in the instrument<sup>55</sup> and locks the distinguishing unique identification number in the system to prevent repeated use of such e-stamp certificate;</li> </ul>					
11	Whether penalties have been levied and recovered from the defaulters in case of payment of stamp duty and registration fees	Section 45, 48, 62 to 69 of the Indian Stamps Act and Sections 80A to 82 of the Registration Act.				
12	Whether amount recovered from CRKA on account of interest for delay in remittance of Stamp Duty amount. Whether the CRKA has compensated for any loss of revenue due to any act,	Rule 45 to 48 of the Uttarakhand Stamp (Payment of duty by means of e-Stamp Certificates) Rules, 2011.				

<sup>55</sup>Rule 31(1): The Sub-Registrar, after making the enquiry envisaged by the Registration Act, 1908 (Act no. xvi of 1908) & before proceeding to act under section 52 of the said Act, will verify the details of the e-stamp certificate used in the instrument by entering its distinguishing unique identification number & other details in his computer system by accessing the e-stamp website of the CRKA by using the user code & password provided by the CRKA, and compare the details of the certificate with the details displayed on the computer system.

Sl No	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditor's Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	omission, irregularity, or violation on its part					
13	<p>Whether stamp duty paid on any of the following instances are collected on behalf of the State Government and transferred within three weeks from the end of each month to the State treasury:</p> <ul style="list-style-type: none"> <li>- On sale of any securities made through a stock exchange – Stock exchange or clearing corporation appointed by it.</li> <li>- On transfer of securities for consideration made by a depository otherwise than based on any transaction referred to above – Depository.</li> <li>- On issue of securities leading to creation or change in the records of depository – Depository.</li> </ul>	<p>Section 9A Indian Stamp Act.</p> <p>Rule 3, 7 and 8 of The Indian Stamp (Collection of Stamp Duty through Stock Exchanges, Clearing Corporations and Depositories) Rules, 2019</p>				
14	Whether the collecting agent has furnished a consolidated return of stamp-duty collected during a financial year manually or electronically on or before the 30th June immediately following that	Consolidated Return of Stamp Duty collected submitted by the collecting agency				

SI No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditor's Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	financial year to the concerned State Government and the Accountant General of each State.					
<b>Valuation</b>						
15	Whether the procedure for determination of Circle Rate/ Annual Rental value have been done as per the latest provisions of the Stamp Act and the Valuation Rules	Section 47 & 47A of the Stamp Act, UK Valuation Rules as amended in 2015.  Latest Circle Rate book. Circle Rates from the e-Payment Calculator,				
16	When market value is the base of valuation of property in registered Deed, whether correct value has been determined. For this the following needs to be checked: - Verify whether circle rates are updated in due course in the e-Payment Calculator. - Ensure whether latest available circle rates are updated in the system for automatic calculation of duty. - Collect the list of instruments on which exemption has been applied and verify the exemptions	Article 23, 35 & 48 of Schedule 1-B of the Stamp Act.  Respective instruments, Estimates of Market Value, Records collected through online registration portal;				

SI No	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditor's Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>with latest Circulars/ Orders/ Notification.</p> <ul style="list-style-type: none"> <li>- Check whether the system automatically picks up the highest value out of Agreement value and Circle Rate.</li> <li>- Collect information of deed registered in urban area to check whether ammonia printed map has been submitted along with sale deed<sup>56</sup>.</li> </ul>					
17	<p>Whether the developer has been using the land for the purpose as per provisions of Policy for Energy Generation from Pine Litter and Other Biomass-2018.<sup>57</sup> The following points may be checked:</p> <ul style="list-style-type: none"> <li>- Check whether any such land has been registered and</li> </ul>	<p>Provisions of Policy for Energy Generation from Pine Litter and Other Biomass-2018.</p> <p>List of Registered instruments from E-registration portal and Copy of registered instruments.</p>				

<sup>56</sup> Instructions of the Inspector General of Registration (Letter no. 26/IGR/complaint- 21/2010 dated 08.04.2010) made it mandatory, the submission of approved copy of maps in ammonia print for executing sale deeds of buildings situated in urban areas so that evasion of stamp duty could be detected- Ref: CAG Report

<sup>57</sup> As per provisions of Policy for Energy Generation from Pine Litter and Other Biomass-2018, if the power generation unit is set up in private land, the developer shall be exempted from payment of stamp duty for registration of documents. In case developer used this land for other purpose, the amount of stamp duty shall be recovered from the developer.

Sl No	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditor's Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	<p>whether registration fee has been exempted.</p> <ul style="list-style-type: none"> <li>- Whether the Department has ever physically verified the actual usage of land.</li> <li>- In case there is deviation in usage, whether the Department has recovered the fee exempted earlier.</li> </ul>	<p>Physical Verification Report of the Department on actual usage of land</p>				
18	<p><b>Additional Checkpoints for Lease:</b> Whether market-based valuation has been applied appropriately for certain type of Lease agreements. The following points may be considered:</p> <ul style="list-style-type: none"> <li>- Collect the list of lease deeds which were for a term exceeding thirty years or in perpetuity or does not purport to be for any definite term, but not exceeding one hundred years.</li> <li>- Check whether same duty has been calculated as a conveyance (No. 23 clause (a) of Stamp act), for a consideration equal to the market value of property which is the subject of the lease.</li> </ul>	<p>Article 23, 35 &amp; 48 of Schedule 1B. List of Lease Deeds. Estimates of Market Value. Records collected through online registration portal.</p>				

Sl No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditor's Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	- In case of deviation, calculate the deficiency in duty collected					
19	<p><b>Additional Checkpoints for Lease:</b> Whether Mining department<sup>58</sup> have shared the documents, orders, certificates, and instruments with the registering officers to file in their records</p> <ul style="list-style-type: none"> <li>- Collect the return/ statement received from Mining department which states the registration of lease deed and collection of duty therefrom (deeds executed at least 2 years ago)</li> <li>- Verify copies of mining lease deed to check the basis of collection of duty<sup>59</sup>;</li> <li>- Check the Mining lease documents whether the Lease amount has been increased annually or not,</li> </ul>	<p>Section 89 of the Indian Registration Act.</p> <p>Returns/Statements received from Mining Department.</p> <p>Mining Lease Deeds.</p>				

<sup>58</sup> Section 89 of the IR Act makes it mandatory for some officers to send copies of certain orders, certificates and instruments to registering officers to file in their records

<sup>59</sup> In the case of mining lease, stamp duty is payable on consideration value of dead rent or royalty whichever is higher. Mining policy, 2013 stipulates that the lease amount is required to be increased @ 25 per cent annually.

Sl No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditor's Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	which has an impact on Stamp Duty.					
20	<b>Additional Checkpoints for Exchange of Property:</b> Whether the highest market value of the properties concerned has been considered for stamp duty	Article 31 of The Stamp Act. List of all Exchange Property Registration and the respective deeds.				
21	<b>Additional checkpoint for Sale Certificate:</b> Whether appropriate public auction information is sent to the Department by a Court or by an officer, authority or body empowered under any law for the time being in force to sell such property by public auction and to grant such certificate	Check the copy of sale certificate has been received by the Department as per section 89(2), 89(4) of Registration Act and Article 18 of Stamp Act Verify whether the copy has been filed in Book-1				
<b>Control Aspects</b>						
22	<ul style="list-style-type: none"> <li>- Whether adequate inspection was conducted for preventing of leakage of Govt. revenue.</li> <li>- Whether there is a system of immediate implementation (or w.e.f the date mentioned) of any change in provision of law.</li> <li>- Whether regular system of reconciliation is in place,</li> </ul>	Registration Manual Uttarakhand. E-Stamp Rules, 2011. Records/files, orders, instructions and notifications, Records of cases of different nature of executed deeds, approved Circle Rate, Remittance Register along with the copy of challans, referred				

SI No	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditor's Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	and whether the reconciliation statements have been escalated and filed appropriately.	cases register, fee register, search register etc., Spot Verification Register including report/Inspection report.				
23	Check whether the District Registrar on verifying and examining of Registers has reported on any non-compliance as per Rule 387 of the Registration Manual, Uttarakhand:	Book- I-VIII, Register of Fees, Receipt Book as mentioned in the Registration manual. Copies of amendments received and communicated to field offices.				
24	Check whether the District Registrar on verifying and examining the indices, other Subsidiary Books and Records has reported on any non-compliance as per Rule 389 of the Registration Manual, Uttarakhand	Copies of instructions issued regarding the procedure for fulfilment of conditions, maintenance of supporting records;				
25	Whether Books and Registers are maintained as per Registration Manual:					
26	Whether the Returns and Reports are being prepared and submitted by the District Registrar to the Inspector General within the specified due dates	Rule 140 to 142 and 144 to 146 of the Registration Manual Uttarakhand. District Return No. I (Form 2, Appendix III), District Return No. II (Form 4, Appendix III), Form 6, Appendix III.				



**Others – Where physical Stamps are being used and manual process is being followed, given below additional checkpoints**

<b>Sl No.</b>	<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance, etc.)</b>	<b>Auditor's Assessment / Remark (i.e. response to the Question)</b>	<b>Document Verified</b>	<b>Observation note (Y/N)</b>	<b>HMM No. (in case answer to the previous column in Yes)</b>
<b>1</b>	Whether the Consolidated Forecast is being prepared by the Officers specified for the different categories of Stamps and sent to the Collector of Stamps within the specified date <sup>60</sup> every year to enable provision for adequate stock.	Rule 56 & 57 of the U.P. Stamp Rules 1942. Forecast prepared by the Officers as per in Form I prescribed under rule 56 (ii);				
<b>2</b>	Whether the sales of stock of all description of stamps is affected by the Ex-officio Vendor <sup>61</sup> who is also the custodian of the stamps which is kept under single lock.	Rule 84 and 85 of the U.P. Stamp Rules 1942. Register of Receipts, Monthly Indent;				
<b>3</b>	Whether the Officer In-charge conducts the verification <sup>62</sup> of the balance of stamps in single	Rule 86 of the U.P. Stamp Rules 1942. The Verification Sheet Checked, Verified and Signed;				

<sup>60</sup> Consolidated Forecast to be sent to the Controller before 15<sup>th</sup> June every year by the Officers designated for each category of Stamps.

<sup>61</sup> The Treasurer, or such other officer as the District Officer may direct, shall be the Ex-Officio Vendor of all descriptions of Stamps in each Local Depots

<sup>62</sup> In token of the verification the Officer In-Charge shall write the word "Checked" or "Verified" against the balances of Stamps in the hands of the Ex-Officio Vendor at the time the verification is made & sign & date the entry (Vide Paragraph 457-B of the Financial Handbook, Volume V, Part II)

	lock at the respective intervals specified in the rules					
4	Whether the Ex-Officio Vendor maintains a Single Lock Register in the form mentioned in Rule 85 for recording Receipts, Daily Sales made to public and Licensed Vendor for cash <sup>63</sup> and the balance in hand for each denomination at the end of each day.	Rule 87 & 87A of the U.P. Stamp Rules 1942. Single Lock Register, Register of Challans <sup>64</sup> , Simple Register;				
5	Whether the sale of stamps is as per the limits fixed <sup>65</sup> by the District Officers.	Rule 89 of the U.P. Stamp Rules 1942. Latest limits fixed through Circulars/Orders. Return received from Licensed Vendors for identifying any denomination more than prescribed limit.				
6	Whether the Collector sends report of any deficiency or embezzlement of stamps coming to light.	Rule 199 of the U.P. Stamp Rules 1942. Preliminary Report to the Board of Revenue and the Accountant General. Report of Discrepancies shared by the Accountant General with remarks;				

<sup>63</sup> The ex officio vendor shall sell stamps to the public and to licensed vendors for cash. Challans separately for each class, i. e., nonjudicial, court-fee and postage stamps and match excise banderols, will be presented by the purchaser to the Accountant, who shall check the correctness of the particulars thereof, especially the discount claimed and note in a simple register. the challans checked by the Accountant should be present with cash to the ex officio vendor for the issue of stamps.

Similar is the case for Post of Requisitions for Postage and other stamps that are required to be sold through Post Office.

<sup>64</sup> Treasuries banking with a branch of the Imperial Bank of India maintain a register of challans prescribed in Article 322 of the Civil Account Code, Volume II. The same register may be used for noting the challans and requisitions for stamps.

<sup>65</sup> A district officer may direct that the sales to the public or judicial and non-judicial stamps by ex officio vendors shall be limited to stamps of a value higher than a named amount, the sale to the public of stamps of lower value being left to licensed vendors.

7	<p>Whether the officer In-charge of each local depot conducts physical verification of the stamps.</p> <p>Whether reconciliation has been carried out for the quantity of stamps received as against the quantity entered in the invoice</p>	<p>Rule 97 and 120 of the U.P. Stamp Rules 1942.</p> <p>Verify Half-yearly Certificate<sup>66</sup> of Verification, Plus &amp; Minus Memoranda<sup>67</sup>, Single &amp; Double Lock Register, Register of Advances (Form 28), Reconciliation reports;</p>				
8	<p>Whether Licensed Vendor have proper control over management of Stamps.</p> <p>Whether the collector or any officer duly authorized by the collector, or by the State Government conducts inspection.</p>	<p>Rule 179, 180, 182, 184, 185 of the U.P. Stamp Rules 1942.</p> <p>Inspection report and Physical verification Report of the stock of stamps with the vendor.</p> <p>List of “cancelled licenses of vendors”.</p>				
9	<p>Whether a Register of Demand and Collection in Form No.29, Appendix B is being maintained in the office of the collector showing all demands and collection imposed under chapter V of the Stamp Act and the progress in realization and the arrears reported in the annual note</p>	<p>Rule 208 of the U.P. Stamp Rules 1942.</p> <p>Register of Demand and Collection in Form No.29, Annual Note.</p>				
10	<p>Whether the Quarterly Statements showing the receipts and charges under the Stamp and Court Fees Acts (as</p>	<p>Rule 278 of the U.P. Stamp Rules 1942.</p>				

<sup>66</sup> Rule 98: The local depot certificate should be in B. R. Form No. 358 and branch depot certificate in the form prescribed by paragraph 1526, Chapter LXXII of the Revenue Manual.

<sup>67</sup> Rule 99: Officers in charge of local depots shall forward to the local Accountant General may direct, in the form of plus and minus memoranda or otherwise. A copy of the returns shall be sent simultaneously to the heads of Postal Circles.

	well as water-marked paper) is being submitted every quarter by the collector of each district to the Board of Revenue in Form No. 11 (B. R. Form No. 346) of Appendix B.	Quarterly Statement in Form No. 11 (B.R. Form No. 346)				
<b>11</b>	Whether quarterly reconciliation is being done of the figures of receipts and disbursements in collector's quarterly stamp statements which should invariably correspond with those of the treasury account.	Rule 279 of the U.P. Stamp Rules 1942. Quarterly Reconciliation prepared				
<b>12</b>	Whether Departmental Accounts are being maintained and is being forwarded to the Treasury Officer for verification on completion of the quarterly accounts. Also, whether any discrepancies between the departmental and treasury amounts are being enquired and reported by the Collector.	Rule 280 & 281 of the U.P. Stamp Rules 1942. Quarterly Accounts of the Department, Treasury Certificate.				
<b>13</b>	Whether the returns as per Rule 310 are being submitted by the District Officers to the Board of Revenue within the specified due date	Monthly Statement showing Collector's Action in respect of instruments brought to his notice as unstamped or insufficiently stamped during the month (Form 10, Appendix B). Quarterly Statement showing receipt and charges (Form 11, Appendix B). Four-monthly indent of stamps, August-November (Form 2, Appendix B).				

		Forecast of Non-postal stamps (Form 1, Appendix B);				
<b>14</b>	Whether correct fee is charged for according to the number of days for the date of marriage for registration of marriage.	Specified fee for marriage registration as per the number of days from the date of the marriage				
<b>15</b>	Whether fee for providing the certified copy of registration is charged or not	Fee for taking certified copy of marriage				

## 5.2 Annexure

### Annexure I: Illustrative Risk Evaluation Matrix

Tier II: Assessment of Sub-Areas of each auditable area

#### A. Determination of sub areas for key auditable areas related to the Stamp and Registration Department

Sr. No.	Key Auditable Areas	Sub-Areas
A	Revenue audit of Stamps and Registration	A1 Levy & Assessment
		A2 Collection & Deposit
		A3 Valuation
		A4 Control Aspects

**Note:** The above list of sub-areas under the auditable area revenue is indicated list and DoA may modify/add/delete the above list based on their past experience, previous audit done and professional judgement. DoA should periodically review the sub-areas and updated the same if required.

**B. Assessment of Sub Auditable Area:** DoA will determine the risk identification of sub areas on the basis of past experience, previous audit and professional judgement. Detailed risk assessment shall be done by DOA every three years but should update the same on annual basis on the results of the audit.

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
P1	Levy and Assessment	<ul style="list-style-type: none"> <li>Misclassification of instruments</li> <li>Failure to apply correct rate</li> <li>Delay in applying duty as per latest notification</li> <li>Failure to apply proper exemption</li> <li>Failure to impose interest and penalty</li> <li>Non-availability of appropriate information</li> </ul>			

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
		<p>where Stamp duty has been collected by other Govt bodies</p>			
P2	Collection and deposit	<ul style="list-style-type: none"> <li>• All receipts not recorded or recorded in incorrect amount or in different period</li> <li>• Failure to deposit cash received on time</li> <li>• Failure to conduct reconciliation between collection and deposit with state treasury</li> <li>• Delay/Failure in furnishing returns</li> <li>• Non-imposition of interest and penalty on CRKA</li> </ul>			
P3	Valuation	<ul style="list-style-type: none"> <li>• Delayed revision of circle rate</li> <li>• Update latest circle rate in the systems</li> <li>• Failure of apply Market value in certain type of instruments</li> </ul>			
P4	Internal control	<ul style="list-style-type: none"> <li>• Misuse of Stamps</li> <li>• Failure of determine duty and fee based on substance of the instrument</li> <li>• Lack of co-ordination with such other departments which are supposed to collect duty</li> <li>• Failure to implement monitoring/ inspection mechanism</li> </ul>			

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =7-10. Medium, 4-7 and Low: 0-3)
		<ul style="list-style-type: none"> <li>• Improper maintenance of books and records</li> <li>• Failure to implement Core Registration System (CRS) fully. For example, the valuation is not done automatically in the system.<sup>68</sup></li> <li>• Failure to update system on time with the details of unlocked e-stamps</li> <li>• Failure to submit returns by Sub-Registrar and District Registrar</li> </ul>			

**C. Illustrative Risk Assessment of Auditable Areas**

**Name of the Department: Stamp and Registration Department**

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =10. Medium, 5 and Low:3)
P1	Levey and assessment	<ul style="list-style-type: none"> <li>• Misclassification of instruments</li> <li>• Failure to apply correct rate</li> </ul>	<ul style="list-style-type: none"> <li>•Rate of duty applied on a Lease Deed [Ref....] based on average annual rent. However, the</li> </ul>	High	10

<sup>68</sup> Stamp and Registration Department initiated Core Registration System (CRS) project in 2003 for electronic registration of documents. It is an intranet-based module aimed at removing the flaws inherent in the manual maintenance of registration records, making the registration process easier and improving maintenance of registration records as well as access to registration records.



Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =10. Medium, 5 and Low:3)
		<ul style="list-style-type: none"> <li>• Delay in applying duty as per latest notification</li> <li>• Failure to apply proper exemption</li> <li>• Failure to impose interest and penalty</li> <li>• Non-availability of appropriate information where Stamp duty has been collected by other Govt bodies</li> </ul>	<p>agreement was for a perpetual term, which attracts duty on a consideration equal to the market value of property.</p> <ul style="list-style-type: none"> <li>•Duty has been levied on [..... Instrument] at the rate applicable to Agricultural land. However, the recital of the document reveals that the land was a residential land, thereby causing undervaluation.</li> <li>•100% Stamp duty exemption has been applied on a transfer of space [Instrument reference.....]as per MSME Policy. However, the property falls under “Category D”, on which 50% exemption is available.</li> <li>•Reconciliation has not been conducted between Central Record Keeping Agency [name of CRKA] and Authorized</li> </ul>		

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =10, Medium, 5 and Low:3)
			Collection Centers (ACC);		
P2	Collection and Deposit	<ul style="list-style-type: none"> <li>• All receipts not recorded or recorded in incorrect amount or in different period</li> <li>• Failure to deposit cash received on time</li> <li>• Failure to conduct reconciliation between collection and deposit with state treasury</li> <li>• Delay/Failure in furnishing of Returns</li> <li>• Non-imposition of interest and penalty on CRKA</li> </ul>	<ul style="list-style-type: none"> <li>•Collection made on [DD/MM/YY] by [name of SR office] has been deposited after 18 days from collection.</li> <li>•An amount of Rs..... remain unreconciled due to absence in reconciliation procedure for collection of revenue and deposit with State Treasury.</li> <li>•Department could not impose interest on CRKA on an amount of Rs..... for delay in remittance of duty collected to the State Treasury;</li> </ul>	Medium	5
P3	Valuation	<ul style="list-style-type: none"> <li>• Delayed revision of circle rate</li> <li>• Update latest circle rate in the systems</li> <li>• Failure of apply Market value in certain type of instruments</li> </ul>	<ul style="list-style-type: none"> <li>•Circle rate has not been revised since last 4 years.</li> <li>•[name of instrument], on which duty is leviable on market value of property, has been calculated on agreement value, which is lower than circle rate.</li> </ul>	High	10

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =10. Medium, 5 and Low:3)
			<ul style="list-style-type: none"> <li>It was noted that w.e.f. DD/MM/YY, the Govt has increased the Circle rate on Residential Land by 15%. However, such increased rate has not been updated in the e-Payment Calculator.</li> </ul>		
P4	Internal control	<ul style="list-style-type: none"> <li>Misuse of Stamps</li> <li>Failure of determine duty and fee based on substance of the instrument</li> <li>Lack of co-ordination with such other departments which are supposed to collect duty</li> <li>Failure to implement monitoring/ inspection mechanism</li> <li>Improper maintenance of Books &amp; Records</li> <li>Failure to implement Core Registration System (CRS)</li> </ul>	<ul style="list-style-type: none"> <li>Independent checking of classification of revenue is not done on regular basis.</li> <li>Stamp duty has been collected by [name of other Govt authority] on [...] number of instruments. However, due to non-receipt of return from such authority, the Stamp &amp; Registration department could not identify that the duty has been collected at lower rate.</li> <li>Inspection has not been conducted to [.....] number of SR offices during last ..... years.</li> <li>[...] number of e-stamps are pending</li> </ul>	Medium	5

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High =10, Medium, 5 and Low:3)
		<p>fully. For example, the valuation is not done automatically in the system.<sup>69</sup></p> <ul style="list-style-type: none"> <li>• Failure to update system on time with the details of unlocked e-stamps</li> <li>• Failure to submit Returns by Sub-Registrar and District Registrar</li> </ul>	<p>for locking. However, these are not appearing in CRS.</p> <ul style="list-style-type: none"> <li>• Duty calculation for [name of instrument] is done manually because the system is not providing auto-calculation facility for such instrument.</li> <li>• No provision for removing user accounts on transfer or retirement of a user.</li> </ul>		
	<b>Total Score</b>				<b>30</b>
	<b>Average Score</b>				<b>7.50</b>

<sup>69</sup> Stamp and Registration Department initiated Core Registration System (CRS) project in 2003 for electronic registration of documents. It is an intranet-based module aimed at removing the flaws inherent in the manual maintenance of registration records, making the registration process easier and improving maintenance of registration records as well as access to registration records.

## **Section 6: Geology and Mining Unit**

## Abbreviation

IBM	Indian Bureau of Mines
Go	Government of India
GoUK	Government of Uttarakhand
MMDR	Mines & Minerals (Development and Regulation)
MC	Mineral Concession
MCDR	Mineral Conservation & Development Rules
NMET	National Mineral Exploration Trust
UK	Uttarakhand
MCR	Mineral Concession Rules
RP	Reconnaissance Permit
PL	Prospecting License
ML	Mining Lease
UKMMCR	Uttarakhand Minor Mineral Concession Rules
DMF	District Mineral Foundation
Govt.	Government
MTS	Mining Tenement System

## Chapters in this Section of the Manual

This section has been divided into the following chapters:

Chapter No.	Heading	Brief Description
<b>Chapter – I</b>	Introduction of Mining	Describes the background and regulatory framework of mining in India & in Uttarakhand including classification of minerals and roles & responsibility of geology & mining unit with its functions & objectives, life cycle of mining project
<b>Chapter – II</b>	Types of permits in Mining sector	Describes the concessions system for mining including the types of permit in mining and its granting process
<b>Chapter – III</b>	Revenue from Mining in Uttarakhand	Describes the various sources of revenue from mining, revenue framework for royalty and revenues from the phases of a mining project, importance of revenue auditing
<b>Chapter – IV</b>	Audit Process	Includes point of special consideration during audit process of revenue audit of Geology and Mining Unit  This chapter shall be read in conjunction with Internal Audit Manual, Volume I and shall be supplementary to Internal Audit Manual, Volume I.
<b>Chapter – V</b>	Audit Check list & Annexures	Contains the non-exhaustive checklist and guidance for auditing the revenues in the mining of minerals

Table 1: Structure of this section of the manual

## Chapter I Introduction of Mining

### 1.1 Background

1. Minerals are a valuable natural resource being the vital raw material for the core sectors of the economy. exploration, extraction and management of minerals have to be guided by national goals followed by state objectives and perspectives. Minerals are a shared inheritance where the State is a trustee on behalf of the people and therefore it is imperative that allocation of mineral resources is done in a fair and transparent manner to ensure equitable distribution of mineral wealth to sub-serve the common good. The mining of minerals contributes significantly to state revenues and state government should have an efficient regulatory mechanism to prevent illegal mining and revenue leakages.

### 1.2 Mining in the state of Uttarakhand

2. Uttarakhand is located at the foothills of the Himalayan mountain ranges and largely a hilly State. Dehradun is the Capital of Uttarakhand. The State is rich in mineral deposits like limestone, marble, rock phosphate, dolomite, magnesite, copper, gypsum, etc. The details list of Mineral deposits and occurrence in the state of Uttarakhand is given in Annexure I to this section of the manual.
3. In the federal structure of India, the State Governments are the owners of minerals located within their respective boundaries. The mining industry in India is regulated both at the Central and state level.



Figure 1: Federal Structure of Mining in India

4. Indian Bureau of Mines, a subordinate office of the Ministry of Mines is mainly responsible for regulation of mining in the country. It carries out inspection of mines, approves mining plans and mine closure plans and conducts environmental studies to minimize environmental impact due to mining. Besides as a regulator, it also maintains a repository of information relating to minerals and mining activity in the country and all the mines are required to file mandatory returns with IBM.



## 1.3 Regulatory framework of Mining

### 1.3.1 Regulatory Framework in India

5. Under the Constitution of India, the states have the power to regulate mines and mineral development. However, this power is subject to the federal laws and regulations on mining. The central government has the power under Entry 54 of the Union List to regulate mines and mineral development to the extent that such regulation is declared by the Parliament to be in public interest. The State government power to regulate mines and mineral development under Entry 23 of the State List is subject to the power of the central government.
6. Central government has framed the Mines & Minerals (Development and Regulation) Act 1957 (MMDR Act) and rules thereunder which are the principal legislation governing the mineral sector in India. The provisions of the act or rules are amended from time to time. The latest amendment in some provisions of the act was done through Mineral Laws (Amendment) Ordinance 2020 which was approved by the cabinet. The legal framework for the mining sector along with the rules and regulations are as follows:

Act / Rules	Brief Description
<b>Mines &amp; Minerals (Development and Regulation) Act 1957 (MMDR Act)</b>	The MMDR Act sets out the legal framework for the development of all minerals and for the regulation of mines.
<b>The Mineral Concession Rules 1960 (MC Rules)</b>	These rules outline the framework for, among other things, granting concessions, rejecting applications, maintaining accounts and the submission of reports to the State Governments.
<b>Mineral Conservation &amp; Development Rules (MCDR), 2017</b>	These rules prescribe guidelines for the conservation and development of minerals as per the provisions of Section 18 of the MMDR Act, 1957. The rules prescribe procedures for carrying out prospecting and mining operations and the general requirements relating to preparation of mining and prospecting plans and filing of notices and returns.
<b>National Mineral Exploration Trust Rules, 2015 (amended in 2018)</b>	The National Mineral Exploration Trust (NMET) was established by the Government of India with the objective to expedite mineral exploration in the country. These Rules are effective from 12th of January 2015.
<b>The Mineral (Auction) Rules 2015 (Auction Rules)</b>	These rules provide the framework for granting concessions for major minerals through an online electronic auction process.
<b>Mines and Minerals (Contribution to District Mineral Foundation) Rules 2015</b>	These rules specify the amount to be paid by a holder of a mining lease or prospecting license/mining lease to the relevant District Mineral Foundation.

Table 2: Legal framework for the mining sector

7. There are many other rules frame under the MMDR Act 1957 apart from the national policy on mining which is prepared and updated by Ministry of Mines on regular basis. The details of the latest Act, rules & regulation on mining along with latest policy on mining as issued by Central government is provided in the Annexure II of this section of the manual.

**1.3.2 Regulatory Framework in Uttarakhand**

8. The MMDR Act, 1957 recognizes a substantial role for the State Government. As per Section 15 of the MMDR Act, 1957, State Government have complete powers for making rules for grant of concessions in respect of minor minerals and levy and collection of royalty on minor minerals. In exercise of powers under section 3(e) of the MMDR Act, 1957, the central government notifies minor minerals. As per section 23(c) of MMDR Act, 1957, State Government have complete powers to make rules for prevention of illegal mining and for purposes connected therewith. Therefore, matters relating to regulation of mining and control of illegal mining of minor minerals are all matters which lie in the domain of State Governments.
9. The Central Government retains the power of revision, fixation of royalty etc. in respect of major minerals. The state has the responsibility of management of mining sector jointly with Central Government. Following are the rules, regulation, policy and guidelines governing mining sector in the state of Uttarakhand:

<b>Minor Mineral Amendment Rule 2017</b>	<b>Secondary Mineral Policy 2015 (Amendment 2016)</b>	<b>Soapstone Royalty Partial Amendment 2016</b>
UK Minor Mineral (Sand, Gravel & Boulder) Picking Policy 2016	Uttarakhand Stone Crusher, Screening Plant, Mobile Stone Crusher, Mobile Screening Plant, Hot Mix Plant, Ready Mix Plant Permit Policy 2016	UK Mineral (Prevention of Illegal Mining, Transportation & Storage) Rule-2005 Partially Amended 2016
Uttarakhand Minor Mineral (Sand, Bajri, Boulder, Brick etc.) Policy 2015	Uttarakhand Secondary Mineral Policy 2015	UK Stone Crusher, Screening Plant, Pulveriser, Mobile Stone Crusher Permit Policy-2015
UK Mineral (Prevention of Illegal Mining, Transportation and Storage) (Amendment) Rules-2015	UK Minor Mineral policy (Concession) (Amendment) Rules 2015 ROYALTY Related	Soapstone Khanij Policy Amendment 2015
Avadh Parivahan Bhandaran Rule 13 Amendment 2015	Royalty Amendment 2015	Illegal Transportation Amendment Rule 9 2015

Minor Mineral Policy Amendment 2015	Stone Crusher Amendment 2015	Guideline Mine Plan, Mine Closure Plan & Scheme of Mining October 2015
Brick Application Fee Amended October 2015	Brick Royalty Amended October 2015	Uttarakhand Minor Mineral Concession Rules 2001 (amendment up to 2013)
Uttarakhand Mineral Policy 2011	Crusher Policy 2011 (Plains)	Crusher Policy 2011 (Hills)
Uttarakhand Mineral (Prevention of Illegal Mining, Transportation and Storage) Rules 2005	Uttarakhand Minor Mineral Concession Rules 2001	Guideline Mine Plan, Mine Closure and Scheme of Mining with complete annexures

Table 3: Rules, regulation, policy and guidelines governing mining sector in the state of Uttarakhand

### 1.4 Classification of Minerals

10. Under the MMDR Act 1957, minerals are classified into minor minerals and major minerals. Minor minerals include building stones, gravel, ordinary clay, ordinary sand and other minerals that the central government declares to be a minor mineral. Minerals that cannot be categorized as minor minerals are considered to be major minerals and include coal, manganese ore and iron ore, as well as other minerals used for industrial purposes. State governments have the power to frame policy and regulate the exploration, extraction and processing of all minor minerals such as building stones, clay and sand. The central government has the power of revision, fixing of royalty, issuing regulations, etc, in respect of major minerals.

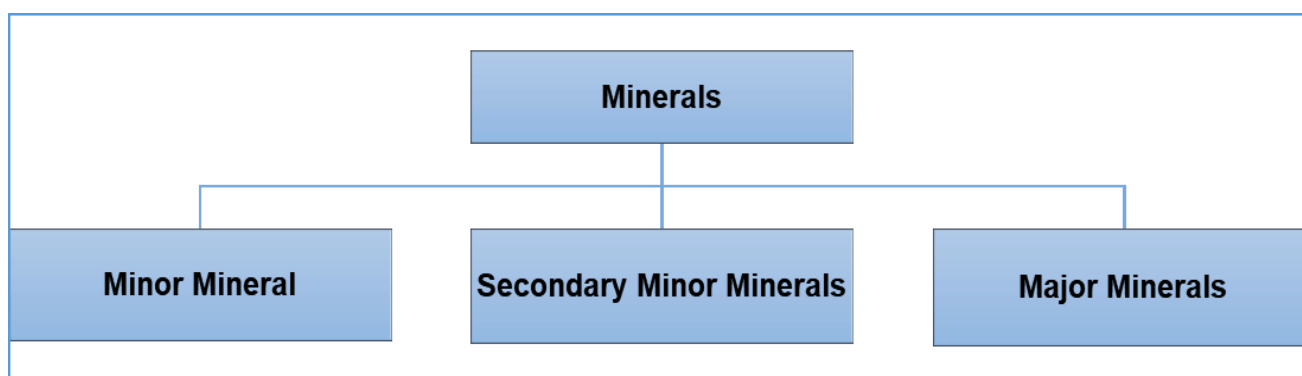


Figure 2: Classification of Minerals

11. There is one more type of mineral called “Secondary Minor Minerals” The secondary minor minerals are converted minor minerals from major minerals as notified vide notification no. 423A dated 10 February 2015 of Ministry of Mining, Government of India. The secondary minor minerals are also considered as minor minerals and accordingly state has the power to make rules & regulation with respect to that. The secondary minor mineral currently found in State of Uttarakhand are soapstone,

dolomite, barytes and silica sand. Refer **Annexure III** of this section of the manual for list of Minor and Secondary Minor Minerals as notified by Government of India.

- 12. Geology and mining unit under administrative control of the Department of the Industrial Development, Government of Uttarakhand is responsible for regulating the mining in the state.

**1.5 Organisation Structure of Geology & mining unit in Uttarakhand**

- 13. Geology and mining unit is an individual unit under the administrative control of the Department of Industries Government of Uttarakhand. The Headquarter of Geology and mining unit is situated in Dehradun. It has two regional offices in Garhwal division and in Kumaon division and thirteen Task Force Offices in 13 districts.

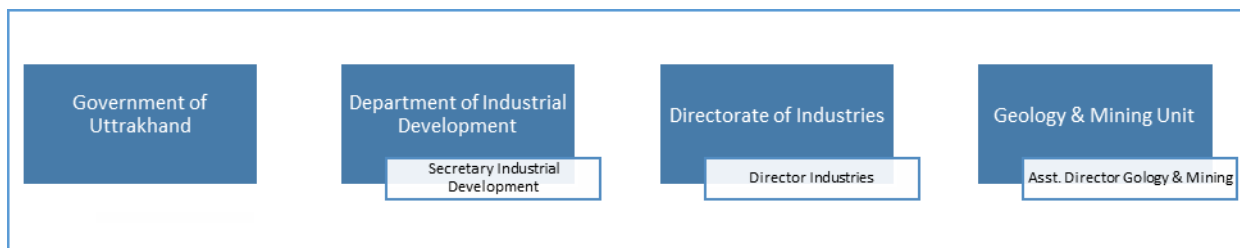


Figure 3: Structure for Mining Unit in Uttarakhand

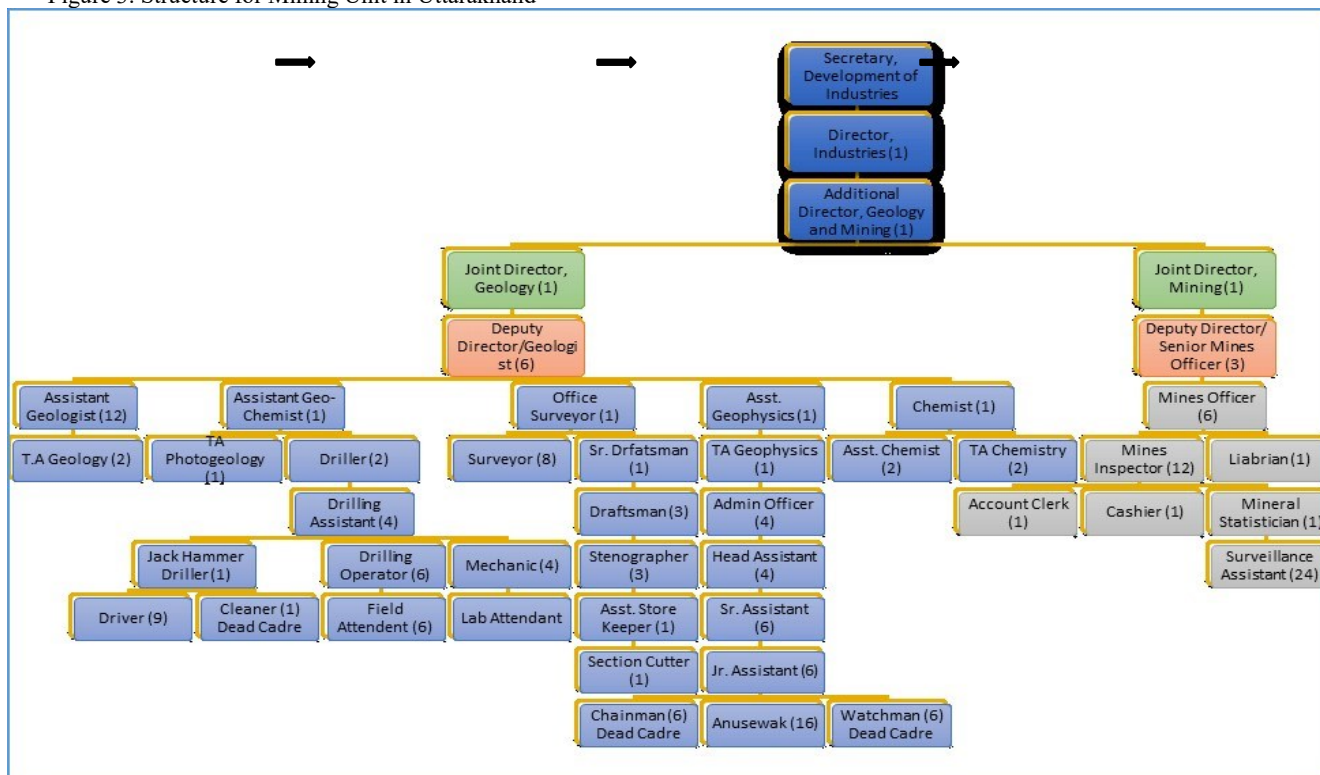


Figure 1: Organization structure of Director, Industries - Geology & Mining Unit

### 1.5.1 Functions of Geology and Mining Unit

14. The functions of Geology and Mining Unit of Uttarakhand are as under:
- Geotechnical Studies and works for development and management of mineral resources, which are essential for the economic development of the State.
  - Detailed geological-technicality study of any proposed construction site and clarification of the project according to site suitability.
  - Providing the geological/mineral information to the State and entrepreneurs.
  - Processing of Mineral Concession Applications, monitoring of royalty, periodical revision of minor mineral royalties, and the related legal aspects are also looked after.
  - The Unit also grants permissions for Stone Crusher/Screening Plant/Pulverizing Plants etc.

### 1.5.2 Objectives of Geology and Mining Units

15. The objectives of Geology and Mining Unit of Uttarakhand are as under:
- Maintaining and collecting mineral based data and providing mineral map to entrepreneurs and for mineral exploration and subsequent eco-friendly exploitation of mineral resources of the state.
  - Promoting Foreign and Local Capital Investment in Mineral development sector of Uttarakhand.
  - To persuade the compaction in mineral industry through optimal use of mineral potential.
  - To incorporate mineral administration including grant of mineral concessions, collection of mineral revenue, ensuring systematic and eco- friendly mining, mineral conservation and to minimize the environment damage and ecology of the area.
  - Providing technical assistance and information for scientific development of minerals.
  - Providing supplementary infrastructure facilities.
  - To ensure safety and welfare of the people engaged in mining industry.
  - To encourage the employment opportunities in remote mineral bearing areas through mining and geological activities.
  - To ensure geo-environmental protection and assisting Nature in maintaining the ecological balance during and after mining operations.

### 1.5.3 Government of Uttarakhand responsibilities in the Mining Sector

16. To be able to make sound scoping decisions for audit of the mining sector, auditors need to clearly understand the diversity and extent of government of Uttarakhand responsibilities in overseeing the mining sector. These responsibilities can be separated into five categories:
- a. **Evaluating mining development options:** This involves processes that help governments to make policy decisions on whether to develop a particular sector or not (for example, deciding whether to allow the development of uranium mines in its jurisdiction), including environmental impact assessments, socio-economic impact assessments, strategic environmental assessments, and cumulative impact assessments.

- b. **Ensuring the responsible development of natural resources:** This involves putting in place laws and regulations that will set clear requirements that must be met by mining organisations to limit the impacts of mining activities on the environment and local communities. For example, regulations may prohibit certain extraction practices, set site remediation standards, or establish limits on the release of contaminants in the air, soil, and water.
- c. **Monitoring natural resource extraction:** This involves oversight activities carried out by government departments and agencies to ensure that mining organisations are in compliance with all applicable laws and regulations. This involves, among other tasks, conducting compliance inspections, issuing fines and remediation orders when necessary, and certifying that decommissioned mines have been properly remediated.
- d. **Collecting revenues from natural resource extraction:** This involves setting rates and collecting all fees, fines, penalties, and royalties related to the extraction of minerals, and conducting audits to ensure that all due payments have been received in full.
- e. **Collecting financial assurances for site remediation and monitoring financial liabilities:** This involves collecting financial assurances from leaseholders, assessing the adequacy and completeness of remediation plans submitted by organisations, monitoring progress on remediation work, verifying that remediated sites have met all applicable standards and requirements, and regularly updating estimates of future remediation costs.

## 1.6 The Life Cycle of Mining Projects

17. The typical life cycle of a mining project (surface or underground mining) includes four phases Exploration and feasibility, planning and construction, operations, and closure

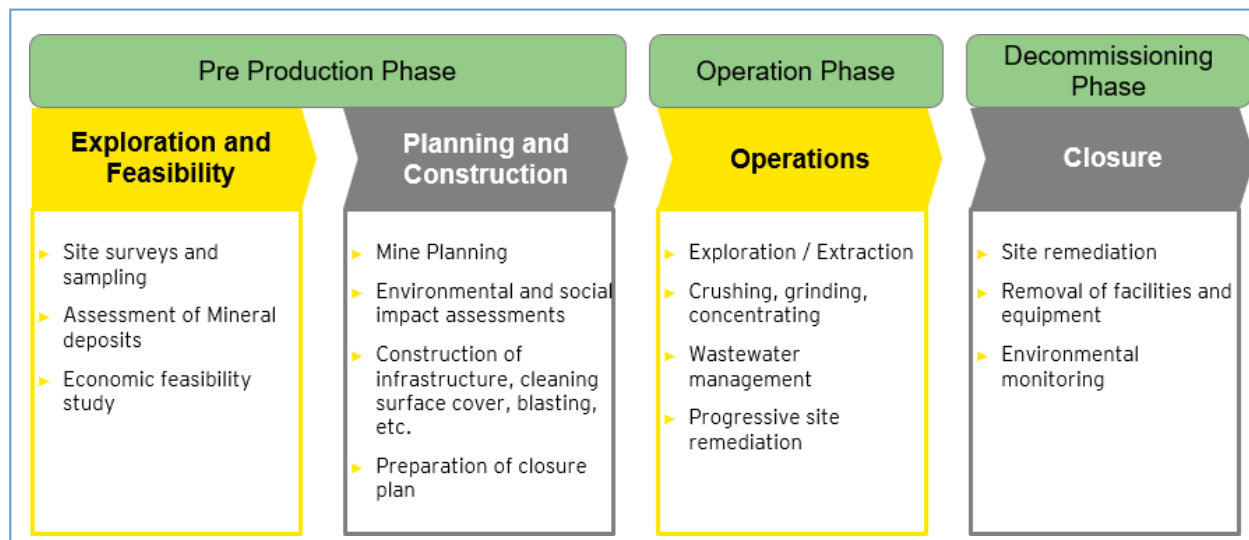


Figure 2: Typical Life Cycle of a Mining Project (from an industry perspective)

### 1.6.1 Revenues from the Phases of a Mining Project

18. In terms of government revenue, there are significant differences between the pre-production (exploration and feasibility; planning and development), operations, and closure (or decommissioning) phases.

### 1.6.1.1 The pre-production phases

19. Revenues from the pre-production phases come from **the permit / licensing fees** paid by mining companies for the right to conduct exploration and extraction activities in specific areas. These revenues are depending upon how permits / licenses are allocated (whether through auctions or an application process). Revenues may also be derived from **penalties (or “cash in lieu”)** imposed on leaseholders when they fail to comply with regulations that require them to carry a minimum amount of extraction / exploration work every year on their allocated lands. These penalties are relatively small for each hectare or acre of land but can add up if the lease covers large area of land.

### 1.6.1.2 The operations phase

20. It is during the operations (or production) phase that holder of mining lease to finally realize a profit on their investment. It is also during this phase that governments can receive **substantial royalty payments**. Operations can last several decades but can be paused for long periods when low market prices make extraction unprofitable

### 1.6.1.3 The decommissioning phases

21. When a mining deposit is exhausted or when operations are deemed to be no longer profitable, a mining site needs to be decommissioned. Closing a mining site involves removing all structures and equipment and returning the site to its original condition or to an agreed-upon condition that will serve future community needs. It may be necessary to decontaminate the soil and, in some circumstances, provide ongoing monitoring and site maintenance over many years or in perpetuity. Decommissioning a mine can take from **one to five years** (sometimes longer) and represents a significant expenditure for holder or mining lease. It also represents a significant risk for governments. If a holder of mining lease does not meet its obligation to remediate a site, government can impose fines and penalties.
22. The decommissioning phase **is therefore not a revenue-generating phase for governments**, but rather a liability-management phase. As such, it differs from the pre-production and operations phases. The Audit Methodology is prepared for the area concerns revenues from the pre-production phases and operations phases.

## Chapter II: Types of Concessions in Mining Sector

The State Government grant the mineral concessions for all the minerals located within the boundary of the State, under the provisions of the Mines and Minerals (Development and Regulation) Act, 1957 (MMDR) and Mineral Concession Rules, 1960 (MCR) framed thereunder. Under the provisions of the MMDR Act, 1957 and MCR, 1960, prior approval of the Central Government is required in the following cases:

- ▶ Granting mineral concessions in respect of minerals specified in the First Schedule to the Mines and Minerals (Development and Regulation) Act, 1957.
- ▶ Granting areas under prospecting licence and mining lease to a person in excess of limits prescribed under Section 6(1)(a) and Section 6(1)(b) of the Act.
- ▶ Imposing special condition(s) in mining lease under Rule 27(3), in prospecting licence under Rule 14(3) and in reconnaissance permit under Rule 7(3) of Mineral Concession Rules, 1960 over and above the conditions prescribed in MCR, 1960.
- ▶ Granting mineral concession in an area previously reserved by the Government, or previously held under a mineral concession, without first notifying the same by relaxing the provisions of Rule 59(1) under Rule 59(2) of MCR, 1960.
- ▶ Revision of any order made by State Government with respect to any mineral except a minor mineral. (Section 30 of MMDR Act.)
- ▶ Relaxation of Rules in special cases under Section 31 of the Act, keeping in view the interest of mineral development.

### 2.1 Types of Mineral Concessions

23. There are four kinds of mineral concessions, viz Reconnaissance Permit (RP), Prospecting License (PL), Mining Lease (ML) and Prospecting Licence cum-Mining-Lease (also called composite licence).

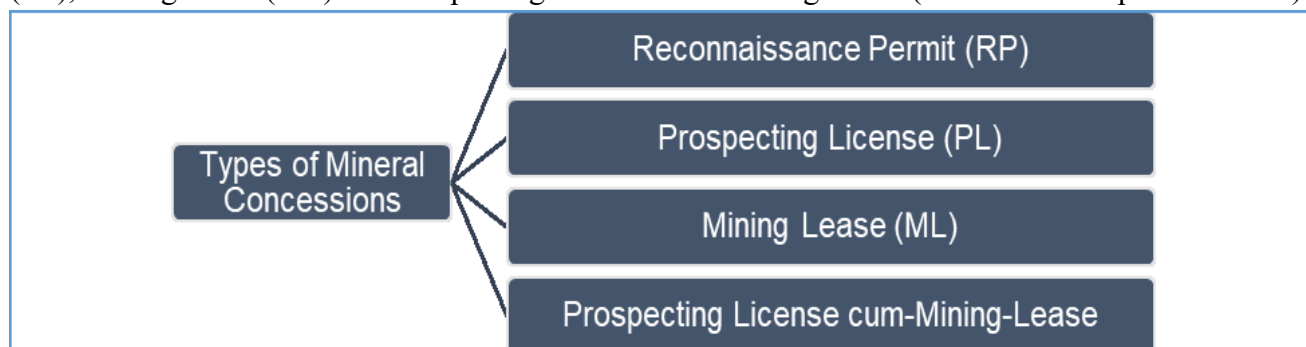


Figure 6: Types of Minerals

#### 2.1.1 Reconnaissance Permit

24. Reconnaissance Permit (RP) is granted for preliminary prospecting of a mineral through regional, aerial, geophysical or geochemical surveys and geological mapping. The RP for any mineral or prescribed group of associated minerals is granted for 3 years and for a maximum area of 5,000 sq. kms, to be relinquished progressively. After 2 years, the area should be reduced to 1,000 sq. kms or



50% of the area granted, whichever is less. At the end of 3 years, area held under an RP should be reduced to 25 sq. kms. In a State, a person can be granted a maximum area of 10,000 sq. kms under RP subject to the condition that area in a single RP does not exceed 5000 sq. kms. A RP holder has preferential right to obtain PL(s) in the area concerned.

### 2.1.2 Prospecting Licence

25. Prospecting Licence (PL) is granted for undertaking operations for the purpose of exploring, locating or proving mineral deposit. A PL for any mineral or prescribed group of associated minerals is granted for a maximum period of 3 years. A PL can be renewed in such a manner that the total period for which a PL is granted does not exceed 5 years. In a State, a person can be granted a maximum area of 25 sq. kms in one or more PLs, but if the Central Government is of the opinion that in the interest of development of any mineral it is necessary to do so, the maximum area limit can be relaxed. A PL holder has preferential right to obtain ML in the area concerned.

### 2.1.3 Mining Lease

26. Mining Lease (ML) is granted for undertaking operations for winning any mineral. A ML for any mineral or prescribed group of associated minerals is granted for a minimum period of 20 years and a maximum period of 50 years. There will be no renewal of licenses, only re-auction. In a State, a person can be granted a maximum area of 10 sq. kms in one or more MLs, but if the Central Government is of the opinion that in the interest of development of any mineral it is necessary to do so, the maximum area limit can be relaxed.

27. The State Government issues a Notice Inviting Tender where eligible bidders could participate in a 2-round ascending forward online electronic auction process. A bidder is required to quote a percentage (of the value of mineral dispatched) that he is willing to share with the State Government. In the first round of auction, the bidder submits a technical bid and an initial price offer [equal to or more than the Reserve Price i.e. minimum percentage (of the value of mineral dispatched)] and top 50% of the Technically Qualified Bidders or 5 whichever is higher proceed to the second round of auction. The highest initial price offer discovered in the first round becomes the floor price in the second round and the bidder who submits the highest final price offer is declared as the Preferred Bidder. **Mining Lease Grant Process**



Figure 7: Mining lease grant process

28. The upfront payment can be adjusted in full within the first five years of commencement of mineral production. The Mining Lease will be valid for a period of 50 years from the date of execution of Mining Lease. A concessionaire is not permitted to acquire one or more Mining Leases covering a total area of more than 10 sq. km. in a particular State. The concessionaire is permitted to extract the other minerals found in the concession area subject payment of applicable levies. The concessionaire is required to complete detailed exploration and prepare a detailed feasibility study report conforming to the Mineral (Evidence of Mineral Contents) Rules, 2015 over the entire area under the mining lease, within a period of five years from the date of commencement of the Mining Lease.

#### 2.1.4 Prospecting License cum-Mining-Lease (also called composite license)

29. As per MMDR amendment Act 2015, prospecting licence-cum-mining lease means a two-stage concession granted for the purpose of undertaking prospecting operations followed by mining operations. Where there is inadequate evidence to show the existence of mineral contents of any notified mineral in respect of any area, a State Government may, after obtaining the previous approval of the Central Government, grant a prospecting licence-cum-mining lease for the said notified mineral in such area in accordance with the procedure laid down in the provisions of MMDR amendment act 2015. **Composite License Grant Process**

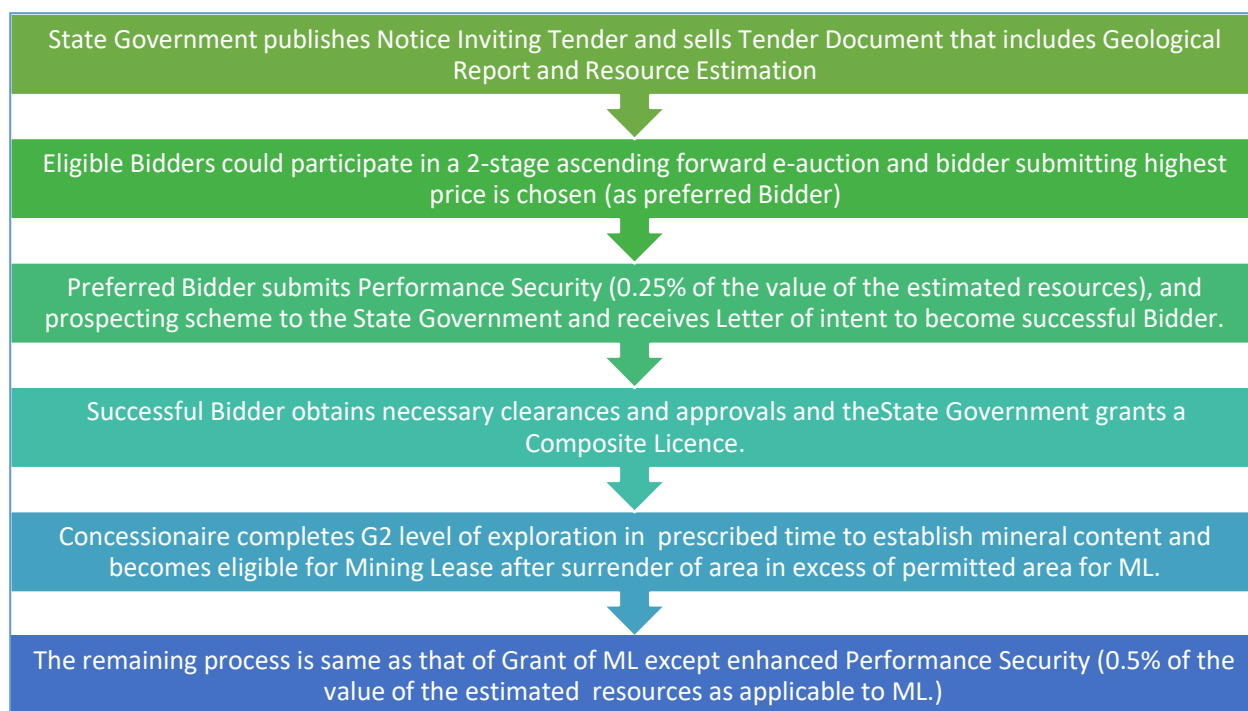


Figure 8: Composite lease grant process

30. The concessionaire will be eligible for grant of a Mining Lease, after establishing the economically extractable mineral content and obtaining necessary clearances and approvals needed for grant of a Mining Lease. The concessionaire is required to follow similar procedure and make payments as applicable to a Mining Lease (as described above). On surrendering the area in excess of maximum area limit permitted for a Mining Lease, the concessionaire can execute a Mining Lease deed. A concessionaire is not permitted to acquire one or more Prospecting Licenses covering a total area of more than 25 sq. km. in a particular State.

## Chapter III: Revenue from Mining in Uttarakhand

### 3.1 Sources of Revenue from Mining

31. The major source of revenues is royalty and other sources of Revenues are application fee, dead rent, surface, fines & penalty and other payment as per the prescribed rules and regulations.

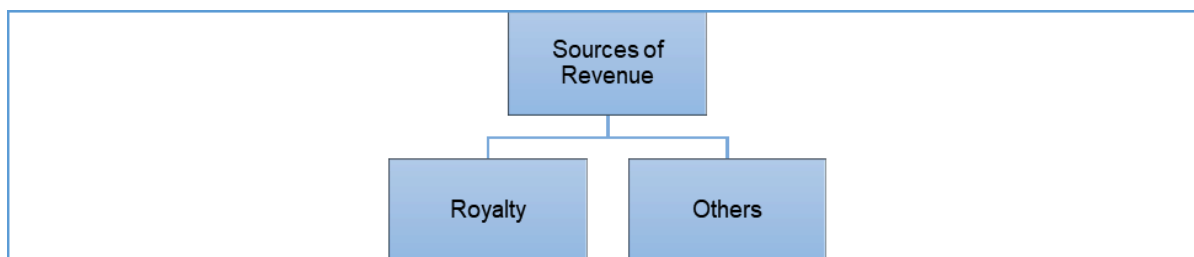


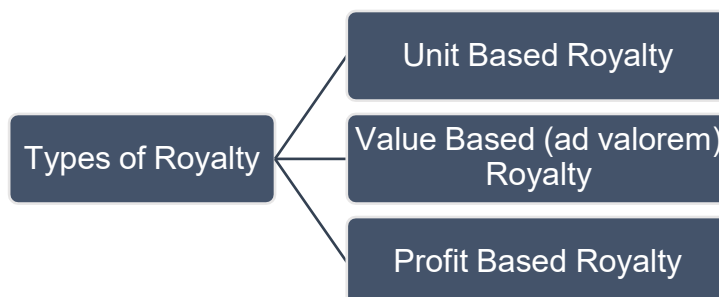
Figure 9: Sources of revenue from Mining unit

#### 3.1.1 Royalty

32. As per section 9 of the MMDR Act 1957, the holder of a mining lease shall pay royalty in respect of any mineral removed or consumed by him or by his agent, manager, employee, contractor or sub-lessee from the leased area at the rate specified. In other words, royalties are the price that the owner of a natural resource charges from a holder of mining lease against the right to exploration / extraction of the resources. The right of state governments to levy royalties from the holder of mining lease derives from their ownership of natural resources. Government own mineral resources and manage their development on behalf of their citizens. Government are therefore entitled to collect royalties.

33. The rates of royalty are notified by the Central Government (in case of major minerals) or the State Government (in case of minor minerals). The rates may vary from mineral to mineral and may be enhanced or reduced. Any enhancement, however, can be done only once in three years.

34. There are different types of royalties, the details as follows.



### a. Unit-based royalty

35. Unit-based royalties are a regulated price per unit of production (an ounce of gold or a tones of iron ore, for example). This type of royalty requires controls to monitor production and to ensure there is no illegal (unrecorded) production.

### b. Value-based (ad valorem) royalty

36. Value-based (ad valorem) royalties are based on the value of the extracted minerals. The value is quantity multiplied by price, so the difficulty of establishing price (which is set by the market and can vary day to day) is added to the difficulty of establishing quantity (the mine's production for a given period of time). Some production costs (transport, handling, insurance, smelting, and refining) are deductible from the royalty calculation.

### c. Profit-based royalty

37. Profit-based royalties are based on organisation profits. While this is in many ways similar to an income tax, it is an additional charge for extracting public natural resources. Like an income tax, this type of royalty requires government departments with strong financial, technical, and administrative capacity to regulate and collect the royalties while minimizing the risk of tax evasion.

## 3.2 Levy of Royalty

38. Royalties apply once production has begun at a new site.

### 3.2.1 Provisions of MMDR 1957 on levy of Royalties in respect of mining leases

39. **Section 9 (1):** The holder of a mining lease granted before the commencement of this Act shall, notwithstanding anything contained in the instrument of lease or in any law in force at such commencement, **pay royalty** in respect of **any mineral removed or consumed** by him or by his agent, manager, employee, contractor or sub-lessee from the leased area after such commencement, **at the rate** for the time being **specified in the Second Schedule** in respect of that mineral.
40. **Section 9 (2):** The holder of a mining lease granted on or after the commencement of this Act shall **pay royalty** in respect of any **mineral removed or consumed** by him or by his agent, manager, employee, contractor or sub-lessee from the leased area **at the rate** for the time being **specified in the Second Schedule** in respect of that mineral.
41. Refer **Annexure IV** of this section of the manual for rates of royalty.

### 3.2.2 Provisions of MCR 1960 on levy of Royalties in respect of mining leases

42. **Rule 64B of MCR 1960: Charging of Royalty in case of minerals subjected to processing**
43. **Rule 64(B)(1):** In case processing of run-of-mine mineral is carried out within the leased area, then, **royalty shall be chargeable on the processed mineral removed** from the leased area.
44. **Rule 64(B)(2):** In case run-of-mine mineral is removed from the leased area to a **processing plant which is located outside** the leased area, then, **royalty shall be chargeable on the unprocessed run-of-mine mineral** and not on the processed product.

### 3.2.3 Provision of UKMMCR 2001 on levy of Royalties in respect of mining leases

45. **Rule 21(1):** The holder of a mining lease granted on or after the commencement of these rules shall **pay royalty** in respect of any **mineral removed** by him **from the lease area** at the rates for the time being specified in the **First Schedule** to these Rules,
46. **Rule 21(2):** The State Government may, by notification in the Gazette, amend the First Schedule so as to include therein or exclude there from or enhance or reduce the rate of royalty in respect of any mineral with effect from such date as may be specified in the notification.

## 3.3 Collection of Royalty

47. The collection process often requires mining companies to make monthly payments to the state government based on minerals removed or consumed from leased area. The geology and mining unit responsible for ensuring that all mining companies submit their royalty payments on time and for collecting penalties and interest as prescribed by regulations.

### 3.3.1 Provision of MCR 1960 on payment and collection of Royalties in respect of mining leases

48. **Rule 64 D Manner of payment of royalty on minerals on ad valorem basis:**
49. **Rule 64D (1):** Every mine owner, his agent, manager, employee, contractor or sub-lessee shall compute the amount of royalty on minerals where such royalty is charged on ad valorem basis as follows:
50. **Rule 64D(1)(i):** For all non-atomic and non-fuel minerals **sold in the domestic market or consumed in captive plants** or exported by the mine owners (other than bauxite and laterite dispatched for use in alumina and metallurgical industries, copper, lead, zinc, tin, nickel, gold, silver and minerals specified under Atomic Energy Act), the **State-wise sale prices for different minerals as published by Indian**

**Bureau of Mines** shall be the **sale price for computation of royalty** in respect of any **mineral produced** any time **during a month** in any mine in that State.

The royalty shall be computed as per the formula given below:

**Royalty = Sale price** of mineral (grade wise and State-wise) published by IBM X **Rate** of royalty (in percentage) X **Total quantity** of mineral grade **produced/ dispatched**

51. **Rule 64D(1)(ii):** For the grades of **minerals produced for captive consumption** (other than bauxite and laterite **despatched for use** in alumina and metallurgical industries, copper, lead, zinc, tin, nickel, gold and silver) and **those not despatched for sale in domestic market or export**, the sale price published by the Indian Bureau of Mines shall be used as the benchmark price for computation of royalty.
52. **Rule 64D(1)(iii):** For primary gold, silver, copper, nickel, tin, lead and zinc, **the total contained metal** in the ore or **concentrate produced** during the period for which the royalty is **computed and reported in the statutory monthly returns** under Mineral Conservation and Development Rules, 1988 or **recorded in the books of the mine owners** shall be **considered** for the purposes of **computing the royalty in the first place** and **then the royalty** shall be **computed as the percentage of the average metal prices** published by the Indian Bureau of Mines for primary gold, silver, copper, nickel, tin, lead and zinc during the period of computation of royalty as follows:

**Royalty = sale price X rate of royalty in percentage**

**Where sale price =** Average price of metal as published by Indian Bureau of Mines during the month X Total contained metal in ore or concentrate produced X Rupee or Dollar exchange rate selling as on the last date of the month of computation of royalty

53. **Rule 64D(2):** In case of metallic ores based on metal contained in ore and metal prices based on benchmark prices, the **royalty shall be charged on dry basis**, and the mine owner shall establish suitable facilities for collection of samples and its analysis on dry basis at the mine site.

### 3.3.2 Provision of UKMMCR 2001 on payment and collection of royalties in respect of mining leases

54. **Rule 54: Deposit of royalty:** The applicant shall, **within fifteen days** of the communication of the order, **deposit the royalty** for the **total quantity of the mineral permitted** in the said order at the rate of the time being specified in the first Schedule to these rules and, if the holder of the permit, due to any reason attributable on his part, could not remove the mineral within the permitted time, any amount deposited as royalty shall not be refunded.

3.4 Filling return for Royalty

3.4.1 Provisions of MCDR 2017 on filling of returns in respect of mining

55. **Rule 45(5):** The holder of a **mining lease** shall submit **online returns** in respect of **each mine** to the Regional Controller or any other authorized official of the Indian Bureau of Mines in the following manner:

Rule	Who	For	Type of Return	Manual / Online	Timeline	Form	To
<b>Mineral Conservation &amp; Development Rules (MCDR), 2017</b>							
<b>Rule 45(5)(a)</b>	Holder of Mining Lease	All Minerals Extracted	<b>Daily</b>	Online – IBM MTS portal	by 1800 hours of the third day following the day of reporting		Regional Controller or any other authorized official of the Indian Bureau of Mines
<b>Rule 45(5)(b)(i)</b>	Holder of Mining Lease	for all minerals except copper, gold, lead, pyrite, tin, tungsten, zinc, precious and semi-precious stones	<b>Monthly</b>	Online – IBM MTS portal	before the tenth day of every month in respect of the preceding month in electronic form along with a signed print copy of the same if it is not digitally signed	Form F1	
<b>Rule 45(5)(b)(ii)</b>		for copper, gold, lead, pyrite, tin, tungsten and zinc				Form F2	
<b>Rule 45(5)(b)(iii)</b>		for precious and semi-precious stones				Form F3	
<b>Rule 45(5)(c)(i)</b>	Holder of Mining Lease	for all minerals except copper, gold, lead, pyrite, tin, tungsten, zinc, precious and semi-precious stones	<b>Annually</b>	Online – IBM MTS portal	before the 1st day of July each year for the preceding financial year in electronic form, along with a signed print copy of the	Form G1	
<b>Rule 45(5)(c)(ii)</b>		for copper, gold, lead, pyrite, tin,				Form G2	



		tungsten and zinc			same if it is not digitally signed		
<b>Rule 45(5)(c)(iii)</b>		for precious and semi-precious stones				Form G3	

Table 4: Provisions of MCDR 2017 (Rule 45(5)) on filling of returns in respect of mining

56. **Rule 45(6):** Any person or company engaged in **trading or storage or end-use or export** of minerals, shall submit online to the **Indian Bureau of Mines and concerned State Government**, where the said person or company is sourcing the minerals, the returns in electronic form, along with a print copy of the same if it is not digitally signed, in the following manner, namely:-

Rule	Who	For	Type of Return	Manual/ Online	Timeline	Form	To
<b>Mineral Conservation &amp; Development Rules (MCDR), 2017</b>							
<b>Rule 45(6)(a)</b>	Person or company engaged in trading or storage or end-use or export of minerals	All Minerals	<b>Monthly</b>	Online – IBM MTS portal	before the tenth day of every month in respect of the preceding month	Form L	to the Indian Bureau of Mines and concerned State Government,
<b>Rule 45(6)(b)</b>			<b>Annually</b>		before the first day of July of each year for the preceding financial year	Form M	where the said person or company is sourcing the minerals

Table 5: Provisions of MCDR 2017 (Rule 45(6)) on filling of returns in respect of mining

**3.4.2 Provisions of UKMMCR 2001 on filling of returns in respect of mining**

Rule	Who	For	Type of Return	Manual/ Online	Timeline	Form	To
<b>Uttarakhand Minor Mineral Conservation Rules (UKMMCR), 2001</b>							
<b>Rule 73(1)</b>	holder of a Minor mineral concession	Minor Minerals	<b>Quarterly</b>	<b>Online</b>	in the second week of July, October, January and April every year	Form MM-12	District Officer and to the Regional Office of the Director

Table 6: Provisions of UKMMCR 2001 on filling of returns in respect of mining

57. **Rule 73(2):** Whenever any holder of mineral concession fails to submit the return within the time specified in sub-rule (1) he shall be liable to a penalty of INR 400.00.

### 3.5 Procedure for levy and collection of Royalty

58. **For** the purpose of assessment of royalty on mineral removed or consumed, the quantity, grade and rate of royalty then current are to be determined. The quantity of mineral raised and removed or consumed in initially recorded by the lessee in the accounts kept by him at the mine site. The minerals raised in arranged in convenient stocks by the lessee as may be directed by the Mining Officer.



Figure 10: Procedure for Levy & collection of Royalty

- **Note 1:** The results of state Geological Laboratory would be binding on all (i.e. Mining Inspector & Lessee). No analysis for all grades or where the lessee declared the mineral to be of the highest grade.
- **Note 2:** The clearances of minerals in Lorries, etc. are supported by issue of transit passes in duplicate to the carrier. The permit is valid for 90 days. The transit pass books of 50 leaves each are obtained from the Mining Officer to the extent of 3 months requirements (i.e. dispatch requirement) on payment of cost. The weight of mineral in each vehicle is ascertained as per weighment of conversion ratio accepted by Mining Officer and recorded in the transit passes together with the grade.
- **Note 3:** The mineral produced or extracted at the mining lease area cannot be removed without payment of royalty (i.e. the royalty is to be paid in advance on the quantity and grade as prescribed in the transit permit before the removal is made by the lessee).
- **Note 4:** The minerals produced or extracted is posted in the register of production. The mineral removed from mining area are recorded in the register of dispatch. The figures of production as reported in the monthly returns are verified periodically with the original records kept by the lessee. The figures of dispatch as reported in the monthly returns are verified periodically with the counter foils of the transit passes with lessee and the lorry receipts.
- **Note 5:** On the basis of quantities reported in the monthly returns of the lessee check of initial accounts of the lessee and any other cross checking exercised by the Mining Officer, and the grade

of mineral reported by the lessee or the state geological laboratory, the royalty payable is assessed. The differential royalty (excess / short / no due), if any, is calculated on the basis of assessment.

- **Note 6:** The amount of demand includes interest leviable on the due up-to the date of issuance of demand notice. The demand is noted in the appropriate columns of Demand Collection and Balance Register (in Form 26 Mines). Amounts already paid are deducted at the time of assessment and a demand notice for the net amount payable is issued. In this demand notice, other dues, like differential royalty, surface rent etc. is also included. **Check of Calculation of Royalty and other Demand:** The Calculations required for preparation of the assessment order and for preparation of the demand notice are initially made by the clerk in- charge of the assessment. These calculations are checked by the Head Clerk before the orders of the Mining Officer/Assistant Mining Officer are obtained, and before issue of the Demand Notice.

### 3.6 Other Sources of Revenues

59. In addition to royalties, governments can collect other revenues at different phases of the life cycle of mining projects.

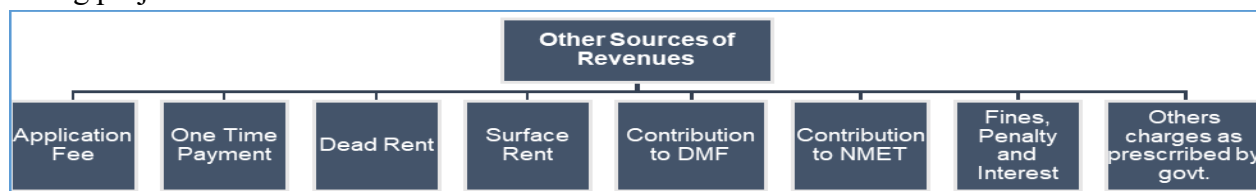


Figure 11 Other sources of revenue from Geology and Mining Unit

#### 3.6.1 Application fee

60. Also called as License and permit fees. Through the successive phases of mining projects, project may be required by regulations to obtain a number of licenses or permits to conduct specific exploration, production, or decommissioning activities (a license to build a tailings dam, for example). Governments may charge a fee for these licenses and permits. However, these fees are usually small and often do not provide significant revenues for governments. In other words, fees payable as per the relevant act, rule, policy towards obtaining the lease/permit/license.
61. For e.g. an amount of INR 1,000 per sq. km. is the application fee payable for Non-Exclusive Reconnaissance Permit.

#### 3.6.2 One Time payments

62. One Time payments are one-time payments made when signing a contract, launching activities at a project site, or meeting certain goals laid out in regulations or in conditions of the contracts. Because onuses are one-time payments, collecting them does not require as much administration as collecting royalties. One Time payments also do not generate as much revenues as royalties.

**For Example:****Lottery form and fee for maintaining of minerals lease to the river based minor minerals**

As per The Uttarakhand minor mineral (sand, bajri, boulder, brick etc.) Policy 2015, Every lottery giver shall obtain a lottery form MM-17 Form I (lottery form), MM-17 Form II (Financial Lottery) with non-refundable lottery fee/lottery form price INR 5000 deposited in the treasury of concerning district through treasury challan with 13.5% VAT i.e. INR 675.

**3.6.3 Dead Rent**

63. As per Section 9A of MMDR Act 1957, the holder of a mining lease shall pay to the State Government, every year, dead rent at such rate, as may be specified in Third Schedule (of MMDR Act 1957) for all the areas included in the instrument of lease. Provided that where the holder of such mining lease becomes liable to pay royalty for any mineral removed or consumed by him or by his agent, manager, employee, contractor or sublessee from the leased area, he shall be liable to pay either such royalty, or the dead rent in respect of that area, whichever is greater. The Central Government may enhance the rate of the dead rent in respect of any such area not more than once during any period of three years. Similar provision is there in the Rule 22 of UKMMCR 2001. Refer **Annexure V to this section of the audit manual** for rates of dead rent.

**3.6.4 Surface rent**

64. As per rules 27 (d) of MCR 1960, the lessee shall pay, for the surface area used by him for the purposes of mining operations, surface rent and water rate at such rate, not exceeding the land revenue, water and cesses assessable on the land, as may be specified by the state Government in the lease.
65. Further, As per Rule 72(1) of MCR 1960 the holder of a reconnaissance permit or prospecting licence or mining lease shall be liable to pay to the occupier of the surface of the land over which he holds the reconnaissance permit or prospecting licence or mining lease, as the case may be, such annual compensation as may be determined by an officer appointed by the State Government by notification in this behalf in the manner provided in sub-rules (2) to (4).]

**3.6.5 Contribution to District Mineral Foundation**

66. The MMDR Amendment Act 2015 envisages the establishment of the District Mineral Foundation (DMF) in all districts affected by mining related operations and contribution received are utilized for local area development and to promote sustainable development in mining and exploration. A concessionaire holding mining lease granted on or after the date of commencement of the MMDR

Amendment Act, 2015, is required to contribute a particular amount to the DMF, besides the royalty payable. The amount of contribution shall not exceed one-third of the royalty prescribed.

### 3.6.6 Contribution to National Mineral Exploration Trust

67. The MMDR Amendment Act 2015 envisages the establishment of the National Mineral Exploration Trust (NMET) with an objective of regional and detailed exploration. As per the Act, the lease holder is required to pay a sum equal to two percent of the royalty as a contribution to the Trust. The contributions received by the NMET will be used for exploration activities.

### 3.6.7 Fines, Penalty and Interest

68. Penalty will be payable as a punishment imposed for breaking any law, rule, or contract. Holder of mining lease are bound to carry the activity for which the license / permit is granted in accordance with rules, regulation, policy and guidance as prescribed by central or state government. Hence, they are of obligations to follow them. For example, leaseholders may be required to carry out a minimum amount of work each year on a parcel of land or to hire a minimum number of workers. Penalties (or “cash in lieu”) may apply when these requirements are not met, and leases may be rescinded under certain conditions. While such penalties will rarely yield significant revenues for governments, they should be set high enough to effectively deter undesirable behaviour.

**For Example, 1:** As per rule 15 of MCR 1960, If the holder of a prospecting license or a mining lease or his transferee or assignee fails, without sufficient cause, to furnish the documents or information, or returns referred to in

Rule 46- Transfer or assignment

Rule 47- Submission of copy of license or lease

Rule 48- Communication of transfer or assignment

Rule 51- Returns and Statements

or acts in any manner in contravention of

Rule 49- Prohibition of premium

Rule 50- Prohibition of working of mines

he shall be punishable with imprisonment for a term which may extend to one year or fine which may extend to **five thousand rupees** or with both.

**For Example, 2: Levy of Interest for Belated Payment - rule 64A**

As per rule 64A of MCR 1960, the simple interest at the rate of **twenty-four per cent per annum** is chargeable **on any rent, royalty or fee** (other than under sub-rule (1) of rule 54) or other sums due to the Government from the sixtieth day of the expiry of the date fixed by the Government for payment of such royalty, rent, fee or other sum and until payment of such royalty, rent, fee or other sum is made.

### 3.6.8 Others charges as prescribed by government

69. Other charges as may be prescribed by the central or state government as per the act, rules & regulation governing mining sector. Such as Cess. Cess is levied on mineral ore under various legislations. For instance, Cess on iron ore, manganese ore and chrome ore are levied under the Iron Ore Mines, Manganese Ore Mines and Chrome Ore Mines Labour Welfare Cess Act, 1976.

### 3.7 The Importance of Auditing Revenues

70. The revenues that Uttarakhand government derive from natural resources are significant and are used to finance valuable social programs, services, and infrastructure. When they are not collecting all revenues they are entitled to, it may diminish their ability to pay for existing programs, to repay debts, and to create new initiatives. Auditors can play a key role in ensuring Uttarakhand government received all the revenues from their natural resources they are entitled to.

71. There are many situations that can result in Uttarakhand government not receiving all the revenues it should from the extraction of minerals. For example, this can happen in the following situations:

- The right to operate is granted to organisations that are financially unstable (higher risk of unfunded liabilities for site remediation).
- The list of operating organisations has not been updated and is incomplete (risk of unreported extraction / exploration).
- Mining holder declarations of production volumes are understated.
- Mining holder declarations of production value are understated.
- Claims for allowable expenditures (which reduce amounts payable) are overstated.
- Mining holders use tax avoidance practices to reduce amounts otherwise owed to governments.
- Mining holder resort to fraud or corruption with government officials.
- Unclear or misunderstood legislation and regulations result in incomplete payments.
- Royalty rates are out of date and do not reflect changing market values of extracted resources or changing government policy objectives.

72. To ensure that they receive all the mining revenues they are entitled to, governments need to establish clear rules for industry and put in place controls to ensure that the rules are being followed. These controls are of particular importance in the mining sector because governments tend to rely heavily on data provided by industry to determine what sums are to be paid for the extraction of minerals. For this reason, the Audit Methodology emphasizes the audit of controls. Controls are also useful to protect Uttarakhand government from liabilities associated with the remediation of mines. For example, governments can take the following steps to reduce their exposure to future liabilities.

- Establish documented standards on how site remediation cost estimates should be conducted.
- Have access to sufficient expertise to review cost estimates provided by operating organisations.

- Periodically visit operational sites and update remediation cost estimates in accordance with current circumstances (such as site condition, operational plans, new technologies, and new regulatory requirements).
- Auditors should develop their knowledge of business and identify risk areas, gaining insight from the prior analysis and audit work performed by auditors. In such circumstances, it is beneficial that auditor having deep knowledge and experiences of auditing the mining sector allocated for audit the revenue generated from mining.

## Chapter IV: Audit Process

73. This section provides an overview of the audit life cycle for conducting the revenue audit of Mining and geology department. Detailed audit processes are provided in the Uttarakhand Internal Audit Manual Volume-I, Part-I and this manual should be read in conjunction with the Internal Audit Manual Volume-I & Volume-II. The major steps involved in an audit of excise department has been provided through the following flowchart.

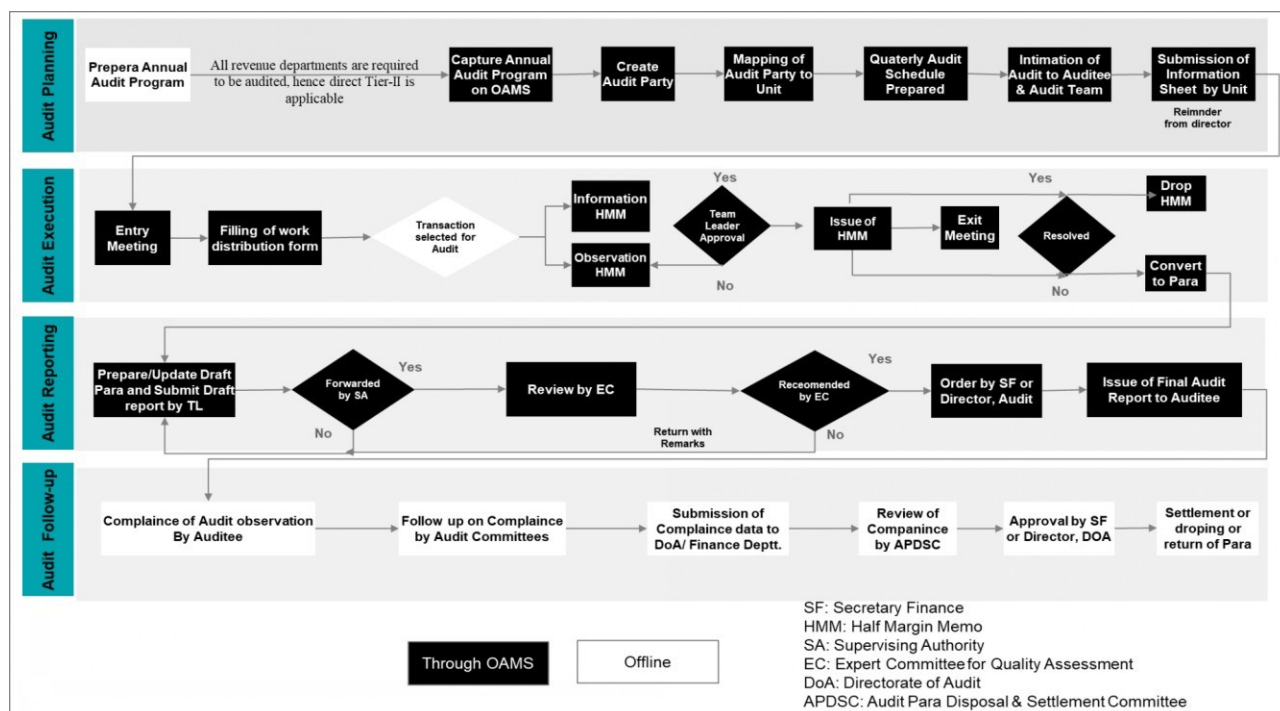


Figure 12: Audit process for revenue audit of Mining & Geology

### 4.1 Audit Planning

#### 4.1.1 Audit Planning Activities

74. The process for an internal audit is initiated with preparation of an internal audit plan which includes assessment of risk, selection of departments, selection of areas to be audited, selection of audit units, allocation of resources, finalization of timeline for conducting the audit etc. The preparation of internal audit plan and assigning of an internal audit to an audit team shall be done in accordance with the provisions and procedures mentioned in Internal Audit Manual through Online audit management system (OAMS). The risk assessment process for preparation of annual audit plan is provided in Internal Audit Manual [Please refer chapter 8 of the Internal audit manual (Volume I Part-I)]. The specific considerations related to audit planning for revenue departments is provided below:



Risk process	Responsibility	Description and Activities to be conducted										
<b>Tier – I: Selection of Department to be Audited</b>	Directorate of Audit	<p>This step is to categorize the departments according to its risk-profile and shall be done in accordance with the Internal Audit Manual Volume I, Part-I.</p> <p>The Mining department shall automatically be classified as high-risk department. Therefore, parameters related to selection of departments provided in Tier-I shall be not be applicable however, parameters for selection of key auditable areas as specified in Tier-II shall be applicable.</p>										
<b>Tier – II: Selection of Key Auditable Areas</b>	Directorate of Audit	<p>This step will identify the Key Auditable Areas and the Auditable Sub Areas which will be subjected to risk assessment to determine the areas to be prioritized for audit.</p> <p>The process to be followed for risk assessment of the Key auditable Area and Auditable Sub Areas is mentioned in detail in the Internal Audit Manual Volume I, Part I. <b>[ Refer Section 8.2.2.2 of Internal Audit Manual Volume I, Part-I]</b></p> <p>The Key Auditable Areas and Auditable Sub Areas specific for revenue audit of Geology and Mining unit shall be referred from the table below:</p> <table border="1" data-bbox="614 1093 1465 1375"> <thead> <tr> <th>Sr. No.</th> <th>Key Auditable Areas</th> <th>Sub-Areas</th> </tr> </thead> <tbody> <tr> <td rowspan="5">A</td> <td rowspan="5">Revenue (Geology &amp; Mining Unit)</td> <td>A1 Levy</td> </tr> <tr> <td>A2 Valuation of Minerals</td> </tr> <tr> <td>A3 Collection &amp; Deposit</td> </tr> <tr> <td>A4 Allocation</td> </tr> <tr> <td>A5 Internal control</td> </tr> </tbody> </table> <p>Table 7: Key auditable area and Auditable sub area for revenue audit of Geology and Mining Unit</p> <p>The above list of Key Auditable Areas and Auditable Sub Areas shall be reviewed and updated periodically by DoA based on the findings during the last audits.</p> <p>DoA shall carry out the risk assessment of all the Auditable Sub Areas under each Key Auditable Areas through <i>situational analysis</i> of the risk listed for all such auditable sub areas. The risk listing/identification for each Auditable Sub Area would be done from various sources such as past audit reports, best practices, review of control environment, experience, and professional judgement of officials of DoA conducting the risk assessment</p>	Sr. No.	Key Auditable Areas	Sub-Areas	A	Revenue (Geology & Mining Unit)	A1 Levy	A2 Valuation of Minerals	A3 Collection & Deposit	A4 Allocation	A5 Internal control
Sr. No.	Key Auditable Areas	Sub-Areas										
A	Revenue (Geology & Mining Unit)	A1 Levy										
		A2 Valuation of Minerals										
		A3 Collection & Deposit										
		A4 Allocation										
		A5 Internal control										

Risk process	Responsibility	Description and Activities to be conducted																																			
		<p>The situational analysis of each identified risk shall be done by the DoA based on their discussion with management of department, past serious audit observations, review of internal control environment, media reports, professional judgement, and experience. An illustrative general risk evaluation matrix for all the currently identified Key Auditable Areas and its Auditable Sub Areas is provided at <b>Annexure VI</b> to this section of the manual. The DOA shall build upon this Matrix based on the actual risks identified during each audit cycle.</p>																																			
<p><b>Tier – III: Selection of auditable units within Geology and Mining Units</b></p>	<p>Directorate of Audit</p>	<p>The process to be followed for selection of units to be audited of stamp and registration department covered in this manual shall be in accordance with the Internal audit manual.</p> <p>Risk Profiling of the Units of the selected department shall be based on financial, non-financial Parameters and special parameters. An illustrative list of parameters along with their score, range and weightage are provided below:</p> <table border="1" data-bbox="612 1010 1463 1939"> <thead> <tr> <th rowspan="2">#</th> <th rowspan="2">Parameter Name</th> <th rowspan="2">Description of Parameters</th> <th colspan="3">Scoring</th> <th rowspan="2">Weightage</th> </tr> <tr> <th>Variable</th> <th>Range</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Value of serious audit Para pending for compliance in AG report</td> <td>Value of serious Audit Paras (AG audit) pending for compliance at end of the immediately preceding financial year needs to be considered</td> <td>Value of serious AG para pending for compliance for the unit (AG Audit)</td> <td>0 0-0.50 Cr.</td> <td>0 3</td> <td rowspan="2">15%</td> </tr> <tr> <td></td> <td></td> <td></td> <td>0.5 to 1.5 Cr.</td> <td>6</td> <td></td> </tr> <tr> <td>2</td> <td>Value of serious</td> <td>Cumulative Value of</td> <td>Cumulative Value of</td> <td>0 0-20L</td> <td>0 3</td> <td>15%</td> </tr> </tbody> </table>						#	Parameter Name	Description of Parameters	Scoring			Weightage	Variable	Range	Score	1	Value of serious audit Para pending for compliance in AG report	Value of serious Audit Paras (AG audit) pending for compliance at end of the immediately preceding financial year needs to be considered	Value of serious AG para pending for compliance for the unit (AG Audit)	0 0-0.50 Cr.	0 3	15%				0.5 to 1.5 Cr.	6		2	Value of serious	Cumulative Value of	Cumulative Value of	0 0-20L	0 3	15%
#	Parameter Name	Description of Parameters	Scoring			Weightage																															
			Variable	Range	Score																																
1	Value of serious audit Para pending for compliance in AG report	Value of serious Audit Paras (AG audit) pending for compliance at end of the immediately preceding financial year needs to be considered	Value of serious AG para pending for compliance for the unit (AG Audit)	0 0-0.50 Cr.	0 3	15%																															
			0.5 to 1.5 Cr.	6																																	
2	Value of serious	Cumulative Value of	Cumulative Value of	0 0-20L	0 3	15%																															

Risk process	Responsibility	Description and Activities to be conducted						
			Internal Audit Paras pending compliance	Internal audit serious paras pending for compliance at end of the immediately preceding financial year needs to be considered	internal audit serious paras pending for compliance for the respective audit unit	>20L -50L	6	
		3	Past Internal Audit Conducted	Numbers of Years since last Internal Audit conducted for the units	Years Pending for Internal Audit	0 1 2 3 or more	0 3 6 10	20%
<b>Specific Parameters for Key Auditable Areas for Revenue Audit</b>								
		4	Trend of Revenue Receipts	Variation in total revenue receipts over the immediately preceding financial year (both positive & negative)	% variation in total revenue receipts over the immediately preceding financial year (both positive & negative)	5-15% 15-25% >25% 10-20% >20%	3 6 10 6 10	25%
		5	Revenue of the district mining unit	Percentage share of the revenue of the unit	Revenue of district mining unit as a % of total	0-10% 10-20% >25%	3 6 10	25%

Risk process	Responsibility	Description and Activities to be conducted							
		<table border="1"> <tr> <td></td> <td></td> <td></td> <td>revenue of the Geology &amp; Mining Unit</td> <td></td> <td></td> <td></td> </tr> </table> <p>Table 8: Parameters for Tier III Risk assessment process for revenue audit for Geology and Mining Unit The above parameters and their score ranges are illustrative in nature and DoA may add/delete/modify the same related to the key auditable areas selected for audit.</p>				revenue of the Geology & Mining Unit			
			revenue of the Geology & Mining Unit						
<b>Tier – IV: Selection of Transactions to be audited</b>	Audit Party	<p>The Tier-IV risk assessment process is carried out to identify the transactions for which the selected areas shall be audited at the audit unit level.</p> <p>The steps involved in Tier IV risk assessment process to be followed is explained in later part of this section of the manual</p>							

Table 9: Risk assessment process for revenue audit of Geology and Mining Unit

**Way Forward:** In the initial years from the adoption of this manual, audit will be done at the level of the Key Auditable Area as per the process mentioned above. However, over the year the DoA shall continuously update the risk evaluation matrix for the Auditable sub-Areas under each Key Auditable Areas.

In the long term, DoA shall carry out the risk assessment of auditable Sub Areas only and the revenue audit of mining department would be conducted for high-risk auditable Sub Areas or a mix of high and medium risk Auditable Sub Areas, as decided by the DoA. Refer to section 8.2.2.2 of Internal Audit Manual Volume I -Part-I.

- 75. The categorization of the department (Tier I), selection of area to be audited (Tier II) and selection of units for audit (Tier III) shall be done by the Directorate of Audit on annual basis and the outcome shall be mentioned in the annual internal audit plan which shall be issued in accordance with the provision of Internal Audit Manual (Volume I).
- 76. Post selection of units to be audited, other steps such as allocation of resources, finalization of timelines etc. shall be done as per the provision mentioned in the Internal Audit Manual (Volume I - Part I). **[Refer Chapter 8 of Internal Audit Manual (Volume I - Part I) for details]**

**4.1.2 Audit Preparation**

- 77. Before proceeding for conducting revenue audit, the audit parties need to ensure that below mentioned activities are undertaken (these activities will be carried out at global level).

- **Activity 1:** Understand the Department and its operation. Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.
- **Activity 2:** Understand the legal and regulatory framework. Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.
- **Activity 3:** Preparation of Audit Planning Memorandum. Refer Section 8.3 of the Internal Audit Manual Volume I, Part I.

78. Activities to be carried out at Individual Audit unit. Post receiving of the all the required information, the auditor shall carry out the steps for risk assessment (Tier- IV) as defined in **para 4.2.3** of this section of the manual. The risk assessment process shall be completed in the audit planning & preparation stage post receipt of all required information as mentioned in below section. However, in case of non-receipt of such information, the Tier IV risk assessment process shall be carried after the entry meeting after obtaining the relevant data points. To perform the above activities for audit preparation, auditor requires information from the audit unit. Therefore, such information shall be gathered through information sheet on OAMS which contains data such as organizational structure, trend of revenue collection, cases pending for assessment/ pending for settlement, details of the personnel, budget, details of audit paras, taxpayer data etc. of the audit unit. The additional information to be obtained in the information sheet through OAMS for conducting the revenue audit of mining department is provided below:

## 4.2 Audit Execution

79. This is the stage where audit plans are executed, and observations are noted through the application of revenue audit procedures. The purpose of audit execution is to ensure completion of the revenue audit and gather sufficient & appropriate audit evidence to reach a conclusion on each of the objectives identified in the audit planning memorandum.

80. Following are the steps that should be followed to conduct a revenue audit:

Sr No	Activity
1.	Entry Meeting
2.	Update/Revision of Audit Planning Memorandum
3.	Work Distribution among team member
4.	Tier IV Risk assessment (if not carried during the audit preparation stage of Audit Planning)
5.	Audit of the selected transactions
6.	Audit Analysis and Evaluation
7.	Issuance of Audit Memo (Half Margin Memo)
8.	Exit Meeting

Table 10: Steps in Audit Execution for Revenue Audit – Stamp and Registration

The section 6 of Uttarakhand Audit Act, 2012, provide the authority and power to the auditor to obtain all necessary information and records, as the auditors may think fit, required for the purpose completing audit engagement. Section 7 of the Uttarakhand Audit Act, 2012, provide the provision for imposing penalty on audit unit for disobeying or not meeting the requirement provided by auditors under section 6 of the Uttarakhand Audit Act, 2012.

81. The above execution steps has been detailed in the **Internal Audit Manual Volume I, Part I**. However, in this manual only the specific considerations related to excised revenue audit has been elaborated:

**4.2.1 Entry Meeting**

82. Refer Point No. 9.1 of the Internal Audit Manual Volume I, Part I.

**4.2.2 Update of Audit Planning Memorandum**

83. Refer Point No. 9.2 of the Internal Audit Manual Volume I, Part I

**4.2.3 Work distribution among audit team members**

84. After completing the risk assessment process, the audit team leader shall divide the audit work among the team members and according to the work distribution, the team members should proceed for conducting the revenue internal audit of the selected unit. The audit team leader should take up more significant items along with supervision of other team members. The work distribution should be recorded through OAMS and kept with the working papers. The format of work distribution is provided in the Internal Audit Manual.

**4.2.4 Selectin of Transactions to be Audited (Tier IV)**

85. The Tier-IV risk assessment process is carried out to identify the extent of transactions to be audited at the audit district level. The risk assessment process (Tier IV) shall be completed in the audit planning & preparation stage post receipt of all required information from audit unit. The methodology for Tier IV risk assessment to be conducted in this stage is defined in below table:

Key Area	Auditable	Extent of Check
A) Receipts	Revenue	A range between 30% to 60% of revenue is to be examined from the total population of the selected areas. The following guideline may be referred for selection of Transactions.

Contract Category	Parameter	% Coverage
Category A	The Contracts with value (as per the original contract) greater than INR 1.50 Crores	55% to 60%
Category B	The Contracts with value (as per the original contract) is between INR 1 to 1.5 Crores	40% to 50%
Category C	The Contracts with value (as per the original contract) is between INR 60 lakhs to 1 Crores	30% to 35%

**Note: The above extent of check is indicative, and an internal auditor may modify the same based on their professional judgment and findings during the audit.**

After selection of transactions to be audited as mentioned above, the audit team will carry out audit of transactions which involves examination of transactions along with their supporting documents to examine its correctness. Detailed audit shall be carried out as per the audit program mentioned in **Chapter 5** of this section of the manual.

Table 11: Tier IV risk assessment process for Revenue audit of Geology and Mining Unit

***Note: The extent of check mentioned in above process is suggestive. It shall be kept dynamic wherein auditor shall apply their professional judgment while selecting a transaction for audit.***

**4.2.5 Audit of the Transaction Selected**

86. The audit team will carry out the audit of selected transactions which involves examination of supporting documents and occurrence of transactions. The checklist prepared is comprehensive but not exhaustive and auditor shall apply his own professional experience and unbiased judgment during the verification of any transaction/area related to revenue audit of Geology and Mining department.

**4.2.6 Audit Analysis and Evaluation**

87. Refer section 9.6 of the Internal Audit Manual (Volume I - Part I).

**4.2.7 Issue of Audit Memo/Half Margin Memo**

88. Refer section 9.7 of the Internal Audit Manual (Volume I - Part I)

**4.2.8 Exit Meeting**

89. Refer section 9.8 of the Internal Audit Manual (Volume I - Part I)

### 4.3 Audit Reporting and Documentation

90. This Chapter describes the steps that is to be followed for reporting and documenting a revenue audit of excise department. The chapter has been divided into the following sections:

- Conversion of HMM into draft audit para. **Refer point no.10.1 of the Internal Audit Manual Volume I, Part-I** for details.
- Preparation of Internal Audit Report. **Refer point no.10.2 of the Internal Audit Manual Volume I, Part-I** for details.
- Review, approval and issuance of Internal Audit Report. **Refer point no. 10.3 of the Internal Audit Manual Volume I, Part-I** for details.

#### 4.3.2 Audit Documentation

91. Refer Chapter 11 of Internal Audit Manual Volume I, Pat-I for details.

### 4.4 Audit Monitoring Follow-up and Compliance

92. Refer Chapter 12 of Internal Audit Manual Volume I, Pat-I for details.

### 4.5 Quality Assurance and Improvement Program (QAIP)

93. Refer Chapter 13 of Internal Audit Manual Volume I, Pat-I for details.



## Chapter V: Audit Check list and Annexures

### 5.1 Checklist for Revenue Audit from Mining

94. Revenues from mining activities come from the exploration and production phases of mining projects. For each source of revenues selected for audit, a number of areas can be examined, as follows:

#### A. Minor Mineral Checklist

**Audit of Mining Lease:** The receipts arising out of the operation of mining leases are security deposit, dead rent and royalty. The audit of these receipts will be conducted as per the checklist as follows:

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
<b>A. Royalty on Minor Mineral</b>						
1	Check whether estimates of royalty from minor mineral extracted by leaseholder has been prepared and maintained by each district mining office. Whether the same is consolidated at HQ level.  If not, obtain the reason for non- preparation or non-consolidation of same.	Each mining office is required to prepare the estimated revenue for each of minerals extracted by the leaseholders in the district.				
2	Check whether the estimated royalty from each mineral is calculated based on productions of minerals as per the approved mining plan.					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	If not enquire, how the district mining office is ensuring that the production is carried out as per the approved mining plan.					
<b>B.</b>	<b>Levy of royalty from Minor Mineral</b>					
3	Check whether the royalty is levied on all the minerals extracted. Reconcile the minerals extracted with survey report of district mining officer with the minerals reported in returns.					
4	Check whether the royalties are also levied on mineral used for captive consumptions (i.e. consumed by leaseholder) as per the rates prescribed by state govt. If not, Calculate the loss of revenue to state govt. by calculating the royalty due on captive consumption by correlating the records of captive consumptions maintained by leaseholder and correlate with the return and survey / inspection report of mining officer.	Records of captive consumptions by leaseholder and correlate with the return.				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
5	Whether the district mining office was aware of latest rate of royalty. Obtain the Copy of notification amending the rates of royalty.					
<b>C. Valuation royalty from Minor Mineral</b>						
6	When was the rates of royalty last updated? Note down the details of notification.					
7	<p>Whether the rates of royalty updated in timely manner or not? The gap of years since when the rates of royalties are not updated.</p> <p>If rates are not updated since, long, there may be loss of revenue to the state govt.</p> <p><i>(As per Rule 21(2) of UKMMCR 2001, the State Government shall not enhance the rate of royalty in respect of any mineral for more than once during any period of three years and shall not fix the royalty at the rate of more</i></p>	Rule 21(2) of UKMMCR 2001				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	<i>than 20 percent of the pit's mouth value)</i>					
8	Check whether the auction procedure was followed by the district mining unit. Further, check the rate at which the minor minerals (for which the royalties are calculated in advance based on auction) have been auctioned.					
9	Identify cases where minor minerals were auctioned below the market price? Find out the reason for the same. Calculate the loss in revenue to the state govt..					
<b>D.</b>	<b>Collection and Deposit of Royalty from Minor Minerals</b>					
10	Check if the royalty was collected as per the rates prescribed for each quality / grade of minor minerals by the state govt. If the royalty is collected at incorrect rates. Recalculate the royalty with correct rates and identify the short or excess levy & collection of royalty which may lead to loss of revenue to the state govt.	Latest Rates of royalty as prescribed by state govt. and revenue register				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
11	Whether the dispatches are made only after written permission of the Mining Officer and after issue of a proper transit permit.					
12	<p>Check whether the royalty is collected on all the material dispatched as per the transit permit. Reconcile the quantities so dispatched with documents such as: -</p> <ul style="list-style-type: none"> <li>▶ Railway receipt weight in the case of rail dispatches.</li> <li>▶ Actual receipt by the purchasing organization.</li> <li>▶ Returns submitted by the lessee.</li> <li>▶ Actual Dispatch register maintained by leaseholder</li> </ul> <p>If there is discrepancy in quantity dispatched with the other documents, then recalculate the royalty with correct quantity dispatched and identify the short or excess levy &amp; collection of royalty</p>	<ul style="list-style-type: none"> <li>▶ Transit Pass</li> <li>▶ Railway receipt weight in the case of rail dispatches.</li> <li>▶ Actual receipt by the purchasing organization.</li> <li>▶ Returns submitted by the lessee.</li> <li>▶ Actual Dispatch register maintained by leaseholder</li> </ul>				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	which may lead to loss of revenue to the state govt.					
13	Is there a database of leaseholders that are expected to pay royalties? If so, is this database regularly reviewed for completeness and updated?					
14	Calculate the amount of royalty due to be received from the leaseholders by comparing with the actual royalty received by the mining unit and the reason for the same. Identify the short collection of royalty by mining unit which is loss to the state govt.					
15	Is the district mining unit maintaining a payment schedule and ensuring that mining companies comply with this schedule?					
16	Identify cases where the collection of royalty by the district mining units has been delayed. Calculate the interest to be levied on the delay in deposit of royalty and reconcile the same with actual collection of	Date when the royalty was levied (as per the production / dispatch records) and when the same was collected (as				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	interest. Identify the short collection of interest by mining unit which is loss to the state govt.	per collection register).				
17	Check whether the district mining unit have deposited the revenue collected (i.e. royalty or interest on royalty) with the state treasury under appropriate head.	Check the challan and the revenue register				
18	Identify cases where the district mining unit has delayed the deposit of royalty to the state treasury Enquire the reason for delay in deposit of revenue.	Date when the royalty was collected and when the same was deposited to the state treasury.				
19	Are there significant variations in actual revenue from royalty compared with projected revenue from royalty? If yes, whether the significant is explained adequately?					
20	Whether the weighbridges have been installed the weighments are recorded by and automatic process or are watched by a district mining unit representative					

<b>S. No.</b>	<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance, etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Doc. Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the prev. column in Yes)</b>
21	Whether the weighing machines are regularly inspected for correctness or where any discrepancy is noticed the royalty on past dispatches is recalculated accordingly.					
22	Is there significant variation in actual production as compared with projected production as submitted in mining plan and whether the variations have been properly investigated and explained by the leaseholder?					
23	Are regular inspections / survey and physical verification being carried out by mining officer to provide assurance on production data provided by the leaseholders?					
<b>E.</b>	<b>Return Filing and assessment of returns on production &amp; dispatch of Minor Minerals</b>					
24	Are there segregation of duties in staff administering royalty returns and staff assessing the returns?					
25	Whether the leaseholder furnishes all the quarterly returns showing the	Rule 73(1) and 58(2) of UKMMCR 2001				



S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	<p>production and dispatches / consumption of minerals on time. If not, whether interest is levied and collected on delayed submission of return. Calculate the interest leviable in the delay in submission of return and compare with the actual interest deposited by the leaseholder. Identify the short collection which is a revenue loss to the state govt.</p> <p><i>(As per the rules 73(1), of UKMMCR 2001, the holder of a mineral concession shall submit quarterly return in respect of the preceding quarter in Form MM-12 to the District I Officer and to the Regional Office of the Director, in the second week of July, October, January and April every year</i></p> <p><i>Further Rule 58(2) simple interest at the rate of 24 percent per annum may be</i></p>	<p>Compare the date of royalty return submitted with the due date of royalty return as per rules</p>				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	<i>charged on any rent, royalty, demarcation fee and any other dues under these rules, due to the State Government after the expiry of the period of notice under sub-rule (1).)</i>					
26	<p>Whether the penalty on delay in submission of return has been deposited by the leaseholder as per the provisions of UKMMCR 2001.</p> <p><i>(As per the rules 73(1), of UKMMCR 2001, whenever any holder of mineral concession fails to submit the return within the time specified, he shall be liable to a penalty of INR 400.00)</i></p>	Rule 73(2) of UKMMCR 2001				
27	Whether the returns are assessed regularly (i.e. quarterly and half yearly as prescribed in the lease deed) by Inspector of Mines and Mining Officer with the original records kept by the lessee.					
28	Whether demand notices have been issued in					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	respect of outstanding dues of royalty.					
29	Is follow-up action promptly taken in cases of late payment or underpayment (above a certain percentage of the amount due)? Are penalties applied? Are there increased penalties for persistently late payers? Are penalties sufficiently high to deter non-compliance?					
<b>F.</b>	<b>Mining Permit</b>					
30	Whether a register of application (MM-8) of mining permit and details of mining permit issued is maintained by district mining office in the prescribe format (MM-9).	Rule 52 & 56 of UKMMCR 2001				
31	In case of mining permit issued for particular area whether the royalty is deposited within 15 days of communication of order on the quantity of mineral permitted as per the said order within the time limit as specified in the first schedule of the rule UKMMCR 2001.	Rule 54 of UKMMCR 2001				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	Calculate the royalty due as per the schedule 1 and reconcile with the actual royalty deposited. Identify the difference which is loss of revenue to the state govt.					
32	If royalty is not deposited in advance in case of mining permit within the time limit as specified in the first schedule of the rule UKMMCR 2001, whether the permit is revoked. If not calculate, the loss of revenue to the state govt.					
<b>G.</b>	<b>Levy of fee for storage of minerals</b>					
33	Check whether the fee for storage of minerals by stockholders have been levied and realized by the district mining officer at the district.  Calculate the levy of fee for storage of minerals on the stockholders at the District and reconcile the same with actual levy and realization records maintained with DMO.	Rule 8(3), Uttarakhand Minerals (Prevention of Illegal mining, transportation, and storage) Rules, 2021				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	<p>As per the rule 8(3), the registration application of storage of minerals shall be as follows:</p> <ul style="list-style-type: none"> <li>▶ For sub-mineral storage at retail level – registration fee of INR 25000 shall be payable. The Fee is of non-refundable nature. In case of stone crusher/ screening plant/ mobile phone crusher/ mobile screening plant/ pulverize/ hot-mix/ ready mix plant – the registration fee for storage shall not be sperate but be included in the registration of the concerned unit.</li> </ul>					
34	<p>Registration of storage of minerals:</p> <ul style="list-style-type: none"> <li>▶ Check whether the applicant for the license of the storage of the minerals have advertised the details in local newspaper as per rule 8 (3) of the Policy.</li> </ul>	<p>Rule 8(3), Uttarakhand Minerals (Prevention of Illegal mining, transportation, and storage) Rules, 2021</p>				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
35	<p>Renewal of License for the storage of the minerals:</p> <ul style="list-style-type: none"> <li>▶ Check whether the application for renewal of license is made by the applicant at least two months before the license is to be expired.</li> <li>▶ Check whether district mining officer after receiving of application with requisite documents and completion of all the formalities as forwarded the application within a week to DM's office.</li> <li>▶ Check whether the constituted committee under these rules shall provide the report to the DM's office for the extension of storage of mineral's license.</li> </ul>					
36	<p>Standards for storage and other conditions:</p> <ul style="list-style-type: none"> <li>▶ Check whether the distances of retail storage of minerals from public places, forest, railway heads,</li> </ul>					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	<p>educational institutions, religious institutions, parallel and no parallel rivers have been followed.</p> <ul style="list-style-type: none"> <li>▶ Check whether payments for E forms/ J forms are paid through the e-application software developed by DG mining.</li> <li>▶ Check whether the stone crusher or screening plant operator / operator for hot and ready-mix plants/ operator for soap stone, silk sand, magnesite, lime stone, storage license holder have paid environment and mineral resource fees as per the rate prescribed.                             <ul style="list-style-type: none"> <li>a. Retail storage Re 0.25 per quintal</li> <li>b. Hot and ready-mix plant – Re. 1 per quintal</li> </ul> </li> </ul> <p>3. Mining of minerals and soap stone, silk sand, magnesite, lime</p>					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	<p>stone etc. – 2% of the royalty amount.</p> <ul style="list-style-type: none"> <li>▶ Check whether minerals imported from the other states have been added within a week in the online stock.</li> </ul>					
37	<p>Accounting of minerals:</p> <ul style="list-style-type: none"> <li>▶ Check whether the license holder has maintained correct account of the minerals as per the form K.</li> <li>▶ Check whether the monthly accounts are submitted by 15<sup>th</sup> of next month to the DM’s office/ State Tax Office and District Mining Officer as per for Form L.</li> <li>▶ Check whether the accounts of the license holder has been maintained in double entry system.</li> <li>▶ Check whether any transaction exceeding INR 2 Lakh have been incurred through Bank account only.</li> </ul>					



S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
38	<p>Penalties and Fines:</p> <ul style="list-style-type: none"> <li>▶ Check whether the fine has been imposed on the illegal transportation of mining, as per rule 14 (2).</li> </ul>					
<b>H. Levy and realization of Application fee and Annual renewal fee</b>						
39	<p>Check whether the regularization fee and annual renewal fee from the owners of the stone crushers has been levied and realized as per the Uttarakhand Stone Crusher, Screening Plant, Mobile Stone Crusher, Mobile Screening Plant, Hot Mix Plant, Ready Mix Plant Permit Policy 2021. Calculate the levy of regularization fee and annual renewal fee for the District and reconcile the same with actual levy and realization records maintained with DMO.</p> <p><i>(As per the Chapter-I to V of the license policy, 2021)</i></p> <p><b><u>Application fee:</u></b></p> <ul style="list-style-type: none"> <li>▶ <b><i>For stone crusher of plain area: 20 lakh</i></b></li> </ul>	<p>Chapter II &amp; Chapter III of Uttarakhand Stone Crusher, Screening Plant, Mobile Stone Crusher, Mobile Screening Plant, Pulverizer Plant Hot Mix Plant, Ready Mix Plant Permit Policy 2021</p>				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	<p>(capacity 100 ton per hour) and 2 lakhs (every 100 additional ton per hour or additional part thereof)</p> <ul style="list-style-type: none"> <li>▶ <b>For stone crusher of Hilly area:</b> 10 lakh (capacity 100 ton per hour) and 1 lakh (every 100 additional ton per hour or additional part thereof).</li> <li>▶ <b>For Screening Plant of Plain area:</b> 4 lakh (capacity 100 ton per hour) and 1 lakh (every 100 additional ton per hour or additional part thereof)</li> <li>▶ <b>For Screening Plant of hilly area:</b> 2 lakh (capacity 100 ton per hour) and 25000 (every 100 additional ton per hour or additional part thereof).</li> <li>▶ <b>For Mobile Stone crusher and mobile Screening Plant of</b></li> </ul>					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	<p><b>Plain &amp; Hilly area:</b>                      25000 (capacity 10 ton per hour or less) for per mining season, 50000 (more than 10 ton per hour less than 25 ton per hour) for per mining season, 1 lakh (more than 25 ton per hour less than 50 ton per hour) for per mining season and 2 lakhs (capacity more than 50 ton per hour) for per mining season .</p> <p>▶ <b>For Hot Mix Plant &amp; Ready-mix plant of plain and hilly area:</b>                      Rupee 25000</p> <p>Chapter-III of the license policy, 2021</p> <p><b><u>Annual renewal fee:</u></b></p> <p>▶ <b>Equal to the registration fee of prescribed application fee was to be deposited by the owner of stone crusher plant as annual renewal fee.)</b></p>					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	▶ Pulverize plant – Registration fee Rs. 1 Lakh					
40	Check whether the application of plant and storage includes authorised consultant architect certified report including details of forest area, approach area of office, electronic weighing machine and the map of storage area.					
41	After receiving the license for stone crusher and screening plant, a consent to establish and a consent to operate acceptance has been received from UK Environmental Protection and Pollution Control Board.					
42	Check whether stone crusher plant/ screening plant annual crushing capacity (in ton) is calculated as follows: Capacity of the Plant x 10 hours Operation daily for Screening Plant/ Stone Crushing Plant x 360 days.					
43	Check whether the following conditions for					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	<p>the operation of stone crusher and screening plant are followed:</p> <ul style="list-style-type: none"> <li>▶ Within two years issuance of license, stone crusher plant should be compulsory operated.</li> <li>▶ Temper proof electronic meter shall be mandatory and its opening and closing units shall be recorded by the owner in writing on daily basis.</li> <li>▶ The accounts are maintained in double entry accounting system.</li> </ul>					
44	<p>Conditions, standards, license and approvals for mobile stone crusher plant:</p> <ul style="list-style-type: none"> <li>▶ Whether the project manager of the State executing agency has provided in written, the sources of sub-material and the quantity to be crushed in the mining session.</li> <li>▶ Prepare a list of small lots established for</li> </ul>					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	mobile screening plant to be operated such that, there is value addition.					
<b>I.</b>	<b>Other Internal control checks in district mining units</b>					
45	Is there segregation of duties at the district mining office between the collection of revenues and the assessment of the completeness of revenues received?					
46	Is relevant training provided to staff on royalty calculation and its assessment?					
47	Are there policies on conflicts of interest, ethics, and independence? Is there practice in place to obtain prior declaration from mining unit staff on conflict of interest (if any).					
48	Are there clear independence requirements for inspectors? Have these requirements been communicated to staff?  Are annual independence declarations required from inspectors? Are all					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	required declarations on file?					
<b>J.</b>	<b>Register of applications for Mining Lease</b>					
49	Whether register for application or renewal of mining lease is maintained in the form MM-2 as per UKMMCR 2001	Rule 5 of UKMMCR 2001				
50	Whether applications were submitted by the applicants in Form MM-1 (for application) & Form MM-1(a) (renewal application), in quadruplicate to the District Officer with requisite fee of ₹ 1000 and deposit of ₹2000 for meeting preliminary expenses and other necessary documents.	Rule 5 & 6 of UKMMCR 2001				
51	Whether all valid applications have been entered into register.					
52	Whether disposal of the applications, i.e. whether granted or refused has been mentioned in the register under authentic signature.					
53	Whether the security deposit as per the provision of UKMMCR	Rule 13 of UKMMCR 2001				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	<p>2001 has been deposited to state government by the applicant.</p> <p><i>(As per Rule 13 of UKMMCR 2001, an application for a mining lease shall, before the deed referred to in rule 14 is executed and in such manner as the State Government may by order specify deposit as security, for the due observance of the terms and conditions of the lease, a sum equal to twenty five percent of the annual dead rent or annual lease amount of the leased area subject to the minimum of INR 2,000.00 No interest shall be payable on such security deposit.)</i></p>					
54	Where an order has been made for mining lease, whether the amount of 25% of annual lease amount (for sand or morrum or bajri or boulder) deposited by the applicant within 7 days of such order as per	Rule 14 of UKMMCR 2001				



S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	prescribed rules of UKMMCR 2001. Recalculate the amount due as per the said rules and reconcile the same with amount so collected. Identify the difference which may be loss of revenue to state govt.					
<b>K.</b>	<b>Register of Mining Lease</b>					
55	Whether the register is maintained in Form MM-4 / MM-7 in case of auction lease	Rule 20(b) & Rule 27 of MMCR 2001				
56	Whether all the Mining Lease granted have been entered into register.					
57	Whether entries regarding renewal of Mining Lease have been made in register.					
<b>K.</b>	<b>Dead Rent</b>					
58	Whether the dead rent has been recovered as per the provisions of UKMMCR 2001. Calculate the amount of dead rent due and compare the same with actual dead rent collected by the district mining unit.	Rule 22 of UKMMCR 2001				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	<p>Identify the difference which may be loss of revenue to state govt.</p> <p><i>(As per rule 22 of UKMMCR 2001, the holder of a mining lease shall, during the terms of the lease, pay advance, in instalments for every year of the lease, such amount as dead rent at the rates mentioned in the second schedule to these rules, as may be specified in the lease deed by the State Government, and if the terms of lease permit the working of more than one mineral in the same area, the said dead rent shall be paid separately for each such minerals.</i></p> <p><i>Provided that the lessee shall in respect of each mineral, pay the dead rent or the royalty, whichever is higher in amount and not both.)</i></p>					

**B. Major Mineral Checklist**

**Audit of Mining Lease:** The receipts arising out of the operation of mining leases are security deposit, dead rent and royalty. The audit of these receipts will be conducted as per the checklist as follows:

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
<b>A. Royalty on Major Mineral</b>						
1	Check whether estimates of royalty from Major mineral extracted by leaseholder has been prepared and maintained by each district mining office. Whether the same is consolidated at HQ level.  If not, obtain the reason for non- preparation or non-consolidation of same.	Each mining office is required to prepare the estimated revenue for each of minerals extracted by the leaseholders in the district.				
2	Check whether the estimated royalty from each mineral is calculated based on productions of minerals as per the approved mining plan.  If not enquire, how the district mining office is ensuring that the production is carried out as per the approved mining plan.					
<b>B. Levy of royalty from Major Mineral</b>						
3	Check whether the royalty is levied on all the minerals extracted.					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	Reconcile the minerals extracted with survey report of district mining officer with the minerals reported in returns.					
4	Check whether the royalties are also levied on mineral used for captive consumptions (i.e. consumed by leaseholder) as per the rates prescribed by central Govt. in accordance with MMDR Act 1957. If not, Calculate the loss of revenue to state govt. by calculating the royalty due on captive consumption by correlating the records of captive consumptions maintained by leaseholder and correlate with the return and survey / inspection report of mining officer.	Records of captive consumptions by leaseholder and correlate with the return.				
5	Whether the district mining office was aware of latest rate of royalty. Obtain the Copy of notification amending the rates of royalty.					
<b>C.</b>	<b>Valuation royalty from Major Mineral</b>					
6	When was the rates of royalty last updated? Note					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	down the details of notification.					
7	<p>Whether the rates of royalty updated in timely manner or not? The gap of years since when the rates of royalties are not updated.</p> <p><i>(As per proviso to Rule 9(3) of MMDR 1957, the Central Government shall not enhance the rate of royalty in respect of any mineral more than once during any period of three years.)</i></p>	Proviso to Rule 9 of MMDR 1957				
<b>D. Collection and Deposit of Royalty from Major Minerals</b>						
8	<p>Check if the royalty was collected as per the rates prescribed for each quality / grade of major minerals as prescribed by central Govt. in accordance with MMDR Act 1957.</p> <p>If the royalty is collected at incorrect rates. Recalculate the royalty with correct rates and identify the short or excess levy &amp; collection of royalty which may lead to loss of revenue to the state govt.</p>	Latest Rates of royalty as prescribed by central Govt. in accordance with MMDR Act 1957 and revenue register				
9	Whether the dispatches are made only after written					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	permission of the Mining Officer and after issue of a proper transit permit.					
10	<p>Check whether the royalty is collected on all the material dispatched as per the transit permit. Reconcile the quantities so dispatched with documents such as:</p> <ul style="list-style-type: none"> <li>▶ Railway receipt weight in the case of rail dispatches.</li> <li>▶ Actual receipt by the purchasing organization.</li> <li>▶ Returns submitted by the lessee to IBM.</li> <li>▶ Actual Dispatch register maintained by leaseholder</li> </ul> <p>If there is discrepancy in quantity dispatched with the other documents, then recalculate the royalty with correct quantity dispatched and identify the short or excess levy &amp; collection of royalty which may lead to loss of revenue to the state govt.</p>	<ul style="list-style-type: none"> <li>▶ Transit Pass</li> <li>▶ Railway receipt weight in the case of rail dispatches.</li> <li>▶ Actual receipt by the purchasing organization.</li> <li>▶ Returns submitted by the lessee.</li> <li>▶ Actual Dispatch register maintained by leaseholder</li> </ul>				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
11	Is there a database of leaseholders that are expected to pay royalties? If so, is this database regularly reviewed for completeness and updated?	<i>As per Rule 40 of MCR 1960</i>				
12	Calculate the amount of royalty due to be received from the leaseholders by comparing with the actual royalty received by the mining unit and the reason for the same. Identify the short collection of royalty by mining unit which is loss to the state govt.					
13	Is the district mining unit maintaining a payment schedule and ensuring that mining companies comply with this schedule?					
14	Identify cases where the collection of royalty by the district mining units has been delayed. Calculate the interest to be levied on the delay in deposit of royalty and reconcile the same with actual collection of interest. Identify the short collection of interest by mining unit	Rule 72 of Mineral Concession Rules 1960  Date when the royalty was levied (as per the production / dispatch records) and when the same				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	which is loss to the state govt.	was collected (as per collection register).				
15	Check whether the district mining unit have deposited the revenue collected (i.e. royalty or interest on royalty) with the state treasury under appropriate head.	Check the challan and the revenue register				
16	Identify cases where the district mining unit has delayed the deposit of royalty to the state treasury Enquire the reason for delay in deposit of revenue.	Date when the royalty was collected and when the same was deposited to the state treasury.				
17	Are there significant variations in actual revenue from royalty compared with projected revenue from royalty? If yes, whether the significant is explained adequately?					
18	Whether the weighbridges have been installed the weighments are recorded by and automatic process or are watched by a district mining unit representative					
19	Whether the weighing machines are regularly inspected for correctness or					



S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	where any discrepancy is noticed the royalty on past dispatches is recalculated accordingly.					
20	Is there significant variation in actual production as compared with projected production as submitted in mining plan and whether the variations have been properly investigated and explained by the leaseholder?					
21	Are regular inspections / survey and physical verification being carried out by mining officer to provide assurance on production data provided by the leaseholders?					
<b>E. Return Filing and assessment of returns on production &amp; dispatch of Major Minerals</b>						
22	Are there segregation of duties in staff administering royalty returns and staff assessing the returns?					
23	Whether the leaseholder furnishes all the daily, Monthly, and yearly returns showing the production and dispatches / consumption of minerals on time. If not, whether interest is levied	Rule 45 of MCDR 2017  Compare the date of royalty return submitted with the due date				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	and collected on delayed submission of return. Calculate the interest leviable in the delay in submission of return and compare with the actual interest deposited by the leaseholder. Identify the short collection which is a revenue loss to the state govt.	of royalty return as per rules				
24	Whether the penalty on delay in submission of return has been deposited by the leaseholder as per the provisions of MMDR 1957, MCDR 2017 and MCR 1960.	Various provisions of MMDR 1957, MCDR 2017 and MCR 1960				
25	Whether the returns are assessed regularly (i.e. quarterly and half yearly as prescribed in the lease deed) by Inspector of Mines and Mining Officer with the original records kept by the lessee.					
26	Whether demand notices have been issued in respect of outstanding dues of royalty.					
27	Is follow-up action promptly taken in cases of late payment or					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	underpayment (above a certain percentage of the amount due)? Are penalties applied? Are there increased penalties for persistently late payers? Are penalties sufficiently high to deter non-compliance?					
<b>F. Revenue Recovery Certificates</b>						
28	Whether Revenue Recovery Certificates have been issued in cases where rent, royalty or other sums are outstanding for a considerable period.	Section 25 of the Mines and minerals (Development and Regulation) Act, 1957				
<b>G. Establishment of District Mineral Foundation (DMF)</b>						
29	Whether a trust, as a non-profit body has been established in the district by notification to work for the interest and benefit of persons and areas affected by mining related operations.	Section 9B (1) of the Mines and minerals (Development and Regulation) Act, 1957				
30	Whether any amount has been recovered on removal of major minerals from each lessee at the rate prescribed by the State	Section 9B (4) of the Mines and minerals (Development and Regulation) Act, 1957				

<b>S. No.</b>	<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance, etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Doc. Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the prev. column in Yes)</b>
	Government as contribution towards DMF. Recalculate the amount due and reconcile with the amount collected by the DMF. Identify the difference if any which may be loss of revenue to the state government.					
31	Whether contribution recovered has been deposited to the DMF in a manner prescribed by state government.					
<b>H. Surface Rent</b>						
32	Whether surface rent has been recovered on total area of the lease at the prescribed rate. Recalculate the amount due and reconcile with the amount collected by the DMF. Identify the difference if any which may be loss of revenue to the state government.	Rule 22a of Mineral Concession Rules 1960				
<b>I. Other Internal control checks in district mining units</b>						
33	Is there segregation of duties at the district mining office between the collection of revenues and the assessment of the					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	completeness of revenues received?					
34	Is relevant training provided to staff on royalty calculation and its assessment?					
35	Are there policies on conflicts of interest, ethics, and independence? Is there practice in place to obtain prior declaration from mining unit staff on conflict of interest (if any).					
36	Are there clear independence requirements for inspectors? Have these requirements been communicated to staff?  Are annual independence declarations required from inspectors? Are all required declarations on file?					
<b>J. Dead Rent</b>						
37	Whether the dead rent has been recovered as per the provisions of MMDR 1957. Calculate the amount of dead rent due and compare the same with actual dead rent collected by the district mining unit. Identify the difference which may be	Section 9A of MMDR 1957				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	loss of revenue to state govt.					
<b>K.</b>	<b>Register of applications for Reconnaissance Permits:</b>					
38	Whether register of applications for Reconnaissance Permits is maintained in the prescribed proforma i.e. Form G 1 <i>(Section 12(1)(e) of MMDR Act 1957 requires for maintenance of register)</i>	Rule 7D of Mineral Concession Rules 1960				
39	Whether the applications were submitted in prescribed proforma, i.e. Form A, in triplicate along with <b>requisite fee at the rate of five per sq km</b> and other necessary documents.	Rule 4 of Mineral Concession Rules 1960				
40	Whether all valid applications have been entered into the register. Any left-out applications may be investigated with reasons for not entering.					
41	Disposal of all the applications, i.e. whether granted or refused has been mentioned in the register under authentic signature. Which is the authority to sing? Whether					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	authenticated person has signed the disposal.					
42	Any other check as deemed fit, may be applied.					
<b>L. Register of Reconnaissance permits:</b>						
43	Whether register is maintained in the prescribed proforma i.e. Form H1. <i>(Section 12(1)(f) of MMDR Act 1957 requires for maintenance of register)</i>	Rule 7D of Mineral Concession Rules 1960				
44	Whether all the Reconnaissance Permits issued have been entered into register. Discrepancies may be pointed out.					
45	Whether a deed granting Reconnaissance Permits have been executed in Form F1 within 90 days of the date of the communication of order or such further period as the State Government may allow.  If not, whether order granting Reconnaissance Permit has been revoked by the State Government where non-execution of deed due to any fault on the part of the applicant and fee	Rule 7A of Mineral Concession Rules 1960				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	paid has been forfeited to the State Government.					
46	Whether Security deposit has been paid by the applicant before execution of the deed of Reconnaissance Permit at the rate of ` 20 per sq.km. or part thereof for which permit has been granted.	Rule 7B of Mineral Concession Rules 1960				
47	Whether the permit fee paid by the holder of permit. Calculate the applicable permit fee and compare with the actual fee receipt. Discuss the reason for discrepancies (if any).  <i>(As per Provision of MCR 1960, the permit fee may be fixed by the State Government, being not less than five rupees per square Km and not more than twenty rupees per square Km of land held by the permit holder for each year or part thereof)</i>	Rule 7(1)(Xi) of Mineral Concession Rules 1960				
<b>M.</b>	<b>Register of applications for Prospecting Licenses</b>					
48	Whether register is maintained in the prescribed proforma, i.e. Form G.	Rule 21 of Mineral Concession Rules 1960				



S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	<i>(Section 12(1)(a) of MMDR Act 1957 requires for maintenance of register)</i>					
49	Whether applications were submitted by the applicants in prescribed proforma, i.e. Form B, in triplicate along with requisite fee calculated in accordance with the provisions of schedule II and other necessary documents.	Rule 9 of Mineral Concession Rules 1960				
50	Whether the application fee has been paid in accordance with provisions of MCR 1960.  <i>(As per schedule II of MCR 1960, the application fee for prospecting license for first Sq. Km or part thereof INR 250 and for each additional Sq. Km INR 50. Is payable.)</i>	Rule 9(2)(a) of Mineral Concession Rules 1960				
51	Whether all valid applications have been entered into the register.					
52	Whether disposal of all the applications, i.e. whether granted or refused has been mentioned in the register under authentic signature.					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
53	Whether applications for renewal, if any were submitted in Form E in triplicate along with necessary documents and / or fee.	Rule 9 of Mineral Concession Rules 1960				
54	Whether renewal application submitted at least before 90 days of completion of validity of the Prospecting license originally granted or renewed.	Rule 11 of Mineral Concession Rules 1960				
55	Whether all valid renewal applications have been entered into the register.					
56	Whether disposal of the renewal applications, i.e. whether renewed or refused has been mentioned in the register under authentic signature.					
57	Any other check as deemed fit, may be applied.					
<b>N.</b>	<b>Register of Prospecting License</b>					
58	Whether the register is maintained in Form H. <i>(Section 12(1)(b) of MMDR Act 1957 requires for maintenance of register)</i>	Rule 21 of Mineral Concession Rules 1960				
59	Whether all the Prospecting License issued have been entered into the register.					

<b>S. No.</b>	<b>Audit Questions</b>	<b>Reference (Act / Rules/ Policy Guidance, etc.)</b>	<b>Auditors Assessment / Remark (i.e. response to the Question)</b>	<b>Doc. Verified</b>	<b>Observation noted (Y/N)</b>	<b>HMM No. (in case answer to the prev. column in Yes)</b>
60	Whether entries regarding renewal of the Prospecting Licenses have been made in the register.					
61	Whether a deed granting Prospecting License has been executed in Form-F within 90 days of the date of the communication of order or such further period as the State Government may allow.  If not, whether order granting Prospecting License has been revoked by the State Government in case non-execution of deed due to any fault on the part of the applicant and fee paid has been forfeited to the State Government.	Rule 15 of Mineral Concession Rules 1960				
62	Whether security deposit has been paid by the applicant before execution of the deed of Prospecting License at the rate of ₹ 2,500 per sq.km. or part there of which license has been granted.	Rule 20 of Mineral Concession Rules 1960				
63	Whether the permit fee paid by the holder of permit. Calculate the applicable	Rule 14(1)(I) of Mineral				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	<p>permit fee and compare with the actual fee receipt. Discuss the reason for discrepancies (if any).</p> <p><i>(As per Provision of MCR 1960, the permit fee may be fixed by the State Government, being not less than rupees one and not more than rupee ten per hectare of land covered by the license for each year)</i></p>	Concession Rules 1960				
<b>O.</b>	<b>Register of applications for Mining Lease</b>					
64	<p>Whether register is maintained in Form L. <i>(Section 12(1)(c) of MMDR Act 1957 requires for maintenance of register)</i></p>	Rule 40 of Mineral Concession Rules 1960				
65	<p>Whether applications were submitted by the applicants in Form I, in triplicate along with requisite fee of ₹ 2,500 and deposit of ₹1,000 for meeting preliminary expenses and other necessary documents.</p>	Rule 22 of Mineral Concession Rules 1960				
66	<p>Whether all valid applications have been entered into register.</p>					
67	<p>Whether disposal of the applications, i.e. whether granted or refused has been</p>					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	mentioned in the register under authentic signature.					
68	Whether on receipt of communication from State govt. the area of land to be granted for mining purpose a mining plan duly approved by Central Govt. / state govt. has been submitted to State Govt. within 6 months from the receipt of such communication from state govt.	Rule 22(4) & 22(4A) of Mineral Concession Rules 1960				
69	Whether the Central Government or the State Government disposed the application for approval of the mining plan within a period of 90 days from the date of receiving of such application	Rule 22(4B) of Mineral Concession Rules 1960				
70	Whether renewal applications, if any, were submitted in Form J in triplicate along with requisite fee and necessary documents/ information at least before 12 months of the date of expiry of the lease period originally granted or renewed.	Rule 24A of Mineral Concession Rules 1960				

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
71	Whether all valid renewal applications have been entered into register and forwarded to the State Government.					
72	Whether disposal of the renewal applications, i.e. Whether renewed or refused applications has been mentioned in the register under authentic signature.					
<b>P.</b>	<b>Register of Mining Lease</b>					
73	Whether the register is maintained in Form M ( <i>Section 12(1)(d) of MMDR Act 1957 requires for maintenance of register</i> )	Rule 40 of Mineral Concession Rules 1960				
74	Whether all the Mining Lease granted have been entered into register.					
75	Whether entries regarding renewal of Mining Lease have been made in register.					
76	Whether lease deed has been executed in Form-K within six months of the order granting lease or within such further period as the State Government may allow.	Rule 31 of Mineral Concession Rules 1960				
77	If not, whether the order granting Mining Lease has					

S. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Doc. Verified	Observation noted (Y/N)	HMM No. (in case answer to the prev. column in Yes)
	been revoked by the State Government wherein non-execution due to any fault on the part of the applicant and application fee has been forfeited to the State Government.					
78	Whether security deposit of ₹ 10,000 has been paid by the applicant before execution of lease deed.	Rule 32 of Mineral Concession Rules 1960				

## 5.2 Annexures

### Annexure I: Details list of Mineral deposits and occurrence in the state of Uttarakhand



Annexure 1 List of Mineral Deposits in U

### Annexure II: Latest Act, rules & regulation on mining along with latest policy on mining as issued by Central government



Annexure 2 Legal Framework of Mining

### Annexure III: List of Minor and Secondary Minor Minerals as notified by Government of India



Annexure 3 List of Minor and Secondary

### Annexure IV: Rates of royalty



Annexure 4 - Rates of Royalty as per UKMM



Annexure 4A - Rate of Royalty for Major I

### Annexure V: Rates of dead rents



Annexure 5 - Rates of Dead Rent as per Mn



Annexure 5A - Rates of Dead Rent as per

### Annexure VI: Illustrative risk assessment register for Tier II risk assessment

#### A. Determination of sub areas for key auditable areas related to the Geology and Mining Unit

Sr. No.	Key Auditable Areas	Sub-Areas
A	Revenue (Geology & Mining Unit)	A1 Levy
		A2 Valuation of Minerals
		A3 Collection & Deposit
		A4 Allocation
		A5 Internal control



**Note:**

- The above list of sub-areas under the auditable area revenue is indicated list and DoA may modify/add/delete the above list based on their past experience, previous audit done and professional judgement. DoA should periodically review the sub-areas and updated the same if required.

**B. Assessment of Sub-Areas of the auditable area**

**DoA will determine the risk identification of sub areas on the basis of past experience, previous audit and professional judgement. Detailed risk assessment shall be done by DOA every three years but should update the same on annual basis on the results of the audit.**

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High / Medium / Low)	Score (High=10, Medium=5 and Low=3)
A1	Levy	<ul style="list-style-type: none"> <li>• Rate (Royalty rate/sale price) not correctly applied</li> <li>• Delay in applying rate as per the latest notification</li> <li>• Non-availability of appropriate information where revenue has been levied</li> </ul>			
A2	Valuation of Minerals	<ul style="list-style-type: none"> <li>• Royalty calculated at lower rate</li> <li>• Delayed revision of royalty rate</li> </ul>			
A3	Collection and deposit	<ul style="list-style-type: none"> <li>• All receipts not recorded or recorded in incorrect amount or in different period</li> <li>• Delay in collection leading to huge amount of arrears</li> <li>• Revenue collected but not deposited in state treasury</li> <li>• Failure to conduct reconciliation between collection and deposit</li> </ul>			
A4	Allocation	<ul style="list-style-type: none"> <li>• Incorrect classification of amount collected into difference heads such royalty, sale price, penalties</li> <li>• Failure to reconcile the amount collected under different heads with challans and return</li> </ul>			

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High / Medium / Low)	Score (High=10, Medium=5 and Low=3)
A5	Internal Control	<ul style="list-style-type: none"> <li>Non/ improper implementation of monitoring/ inspection mechanism</li> <li>Improper maintenance of books and records</li> </ul>			

**C. Illustrative Risk Assessment of Auditable Areas**

**Name of the Department: Geology and Mining Unit under Department of Industrial Development**

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High / Medium / Low)	Score (High=10, Medium=5 and Low=3)
A1	Levy	<ul style="list-style-type: none"> <li>Rate (Royalty rate/sale price) not correctly applied</li> <li>Delay in applying rate as per the latest notification</li> <li>Non-availability of appropriate information where revenue has been levied</li> </ul>	<ul style="list-style-type: none"> <li>The latest rate of royalty has not been applied</li> <li>The latest rate of royalty applicable from [date]..... has been applied from [date]..... Thus, there is a delay in application of latest notification</li> </ul>	High	10
A2	Valuation of Minerals	<ul style="list-style-type: none"> <li>Royalty calculated at lower rate</li> <li>Delayed revision of royalty rate</li> </ul>	<ul style="list-style-type: none"> <li>The minerals extracted sold at rate lower than avg. sale price as defined by IBM and as prescribed by state govt. which has affected the revenue for the Geology &amp; Mining Unit</li> <li>Royalty rate has not been updated since last ..... years</li> </ul>	High	10

<b>Sr. No.</b>	<b>Sub Areas</b>	<b>Risk Listing/Identification</b>	<b>Situational Analysis</b>	<b>Risk Assessment (High / Medium / Low)</b>	<b>Score (High=10, Medium=5 and Low=3)</b>
A3	Collection and deposit	<ul style="list-style-type: none"> <li>All receipts not recorded or recorded in incorrect amount or in different period</li> <li>Delay in collection leading to huge amount of arrears</li> <li>Revenue collected but not deposited in state treasury</li> <li>Failure to conduct reconciliation between collection and deposit</li> </ul>	<ul style="list-style-type: none"> <li>Good procedure exists for conducting reconciliation of collection and deposit with State Treasury</li> <li>Collection made on [DD/MM/YY] by [name of division] has been deposited after ..... days from collection</li> </ul>	Medium	5
A4	Allocation	<ul style="list-style-type: none"> <li>Incorrect classification of amount collected into difference heads such royalty, sale price, penalties</li> <li>Failure to reconcile the amount collected under different heads with challans and return</li> </ul>	<ul style="list-style-type: none"> <li>Amount collected was correctly classified into heads</li> <li>Good procedure exists for conducting reconciliation</li> </ul>	Low	3
A5	Internal Control	<ul style="list-style-type: none"> <li>Non/ improper implementation of monitoring/ inspection mechanism</li> <li>Improper maintenance of books and records</li> </ul>	<ul style="list-style-type: none"> <li>The monitoring mechanism of the external agencies are not effective</li> <li>The books and records are being maintained</li> <li>The returns have been submitted by the DMO on time.</li> </ul>	Medium	5
<b>Total Score</b>					<b>33</b>

<b>Sr. No.</b>	<b>Sub Areas</b>	<b>Risk Listing/Identification</b>	<b>Situational Analysis</b>	<b>Risk Assessment (High / Medium / Low)</b>	<b>Score (High=10, Medium=5 and Low=3)</b>
<b>Average Score</b>					<b>6.6</b>
<b>Categorization</b>					<b>Medium</b>

## **Section 7: Forest Department**

## Abbreviation

<b>CF</b>	Assistant Conservator of Forests
<b>ACS/PS</b>	Additional Chief Secretary/ Principal Secretary
<b>APCCF</b>	Additional Principal Chief Conservator of Forests
<b>APCCF, IRO</b>	Additional Principal Chief Conservator of Forests, Integrated Regional Office, Govt. of India
<b>CCF</b>	Chief Conservator of Forests
<b>CF</b>	Conservator of Forests
<b>DCF</b>	Deputy Conservator of Forests
<b>DFO</b>	Divisional Forest Officer
<b>DoA</b>	Directorate of Audit
<b>GMVN</b>	Garhwal Mandal Vikas Nigam
<b>GO</b>	Government Order
<b>GoI</b>	Government of India
<b>HMM</b>	Half Margin Memo
<b>HRDI</b>	Herbal Research & Development Institute
<b>JHT</b>	Joint Harvesting team
<b>KMVN</b>	Kumaon Mandal Vikas Nigam
<b>MAPs</b>	Medicinal and Aromatic Plants
<b>MoEF &amp; CC</b>	Ministry of Environment, Forests and Climate Change
<b>NGO</b>	Non-Government Organisation
<b>NWPC</b>	National Working Plan Code
<b>OAMS</b>	Online Audit Management System
<b>PCCF</b>	Principal Chief Conservator of Forests
<b>PCCF (HoFF)</b>	Principal Chief Conservator of Forests (Head of Forest Force)
<b>RME</b>	Rapid Mapping Exercise
<b>RO</b>	Ranger Officer
<b>SOE</b>	Standard Object Expenditure Codes
<b>UFDC</b>	Uttarakhand Forest Development Corporation
<b>UP</b>	Uttar Pradesh
<b>WP</b>	Working Plan
<b>WPO</b>	Working Plan Officer
<b>WPU</b>	Working Plan Unit

## Structure this section of the Manual

This section is divided into the following chapters:

Chapter No.	Heading	Brief Description
<b>Chapter – I</b>	General Background	Outlays the legislative background and the act and rules issued by the Central Government and Government of Uttarakhand which will act as a guide to audit the receipts.
<b>Chapter – II</b>	Organization structure of Forest Department, Uttarakhand	The structure of forest department and about the forest department
<b>Chapter – III</b>	Agencies/Corporations supporting the Forest Department	The Agencies/corporation working with the forest department for sale of timber and MAPs
<b>Chapter – IV</b>	Sources of Revenue	Provides the types of revenue receipts in Forest Department, Uttarakhand
<b>Chapter – V</b>	Audit Process	Includes point of special consideration during audit process of revenue audit of Forest Department  This chapter shall be read in conjunction with Internal Audit Manual, Volume I and shall be supplementary to Internal Audit Manual, Volume I.
<b>Chapter – V</b>	Audit Check list & Annexures	This chapter includes audit checklist and annexures

Table 7: Structure of Section 7 – Forest Department

## **Chapter I: General Background**

### **1.1 Legislative**

1. The subject 'Forests' is included in the List III i.e. the Concurrent List of the seventh schedule to Article 246 of the Constitution of India. It includes the power to be considered by both the Union and State government.
2. Recognizing the importance of forests in the life and economy of the country, the Constitution of India, in Article 48-A, stipulates that the State shall endeavour to safeguard the forest and wildlife of the country, to protect and improve the environment.
3. With the above objectives the Parliament through the 42nd Amendment in 1976 brought Forest and Wildlife under the Concurrent List in the VIIth schedule to enable the Central Government to play a more effective role in the management of forests. Further changes have also been made in 1980, wherein Government of India imposed certain restrictions on de-reservation of forests and use of forest land for non-forest purposes without the prior approval of the Central Government. The Indian Forest act, 1927, the Wildlife (Protection) Act, 1972 and the Forest (Conservation) Act, 1980 are the three major legislations in force today.
4. The forests are natural unique resources which are capable of sustaining themselves automatically. The Forest Department has the primary duty of managing the forests in a sustainable manner and protect, conserve and augment them with plantation activities. Sustainability of forest resources is also important for providing steady revenues to the Government from silvicultural operations<sup>70</sup>.

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<sup>70</sup>**Silvicultural operations** are procedures that aim to achieve stand-specific objectives by using **silvicultural** techniques. Such techniques include, for example, canopy alterations to induce natural regeneration, the harvesting of mature trees, planting, and thinning to improve timber quality and stand growth.



## 1.2 Forest Act & Rules

5. The following are the Acts/Rules issued by the Central Government and Government of Uttarakhand which will be referred while auditing of Forest Revenue.

- Indian Forest Act, 1927
- Private Forest Act, 1948
- The Wildlife (Protection) Act 1972
- Uttar Pradesh Forest Development Corporation (Uttarakhand Amendment) Act, 2001
- Recognition of Zoo Rules 2009
- The Wildlife (Transaction and Taxidermy) Rules 1973
- The Biological Diversity Act 2002
- UP Protection of Trees Act 1976
- UP Establishment and Regularisation of Sawmill Rules, 1978
- Uttarakhand Timber & Other Forest Produce Transit Rules-2012
- U.P. Resin and other Forest produce (Regulation of Trade) Rules 1976

Act/ Rule	Centra l/State	Name	Brief about the act/rule
Act	Central	Indian Forest Act 1927	<ul style="list-style-type: none"> <li>▶ The 1927 act sought to consolidate and reserve the areas having forest cover, or significant wildlife, to regulate movement and transit of forest produce, and duty leviable on timber and other forest produce.</li> <li>▶ It also defines the procedure to be followed for declaring an area to be a Reserved Forest, a Protected Forest or a Village Forest.</li> <li>▶ It defines what is a forest offence, what are the acts prohibited inside a Reserved Forest, and penalties leviable on violation of the provisions of the Act.</li> </ul>
Act	Central	The Wildlife (Protection) Act	The Act provides for the protection of wild animals, birds and plants; and for matters connected there with or ancillary or

Act/ Rule	Centra l/State	Name	Brief about the act/rule
		1972, the Wildlife (Protection) Amendment Act 2002 and the Wildlife (Protection) Amendment Act 2006	<p>incidental thereto. It extends to the whole of India. It has six schedules which give varying degrees of protection.</p> <ul style="list-style-type: none"> <li>▶ Schedule I and part II of Schedule II provide absolute protection - offences under these are prescribed the highest penalties.</li> <li>▶ Species listed in Schedule III and Schedule IV are also protected, but the penalties are much lower.</li> <li>▶ Schedule V includes the animals which may be hunted.</li> <li>▶ The specified endemic plants in Schedule VI are prohibited from cultivation and planting.</li> </ul> <p>Competent authorities have the power to compound offences as per the provisions of the Act.</p>
<b>Rule</b>	Central	Recognition of Zoo Rules 2009	This rule provides for the application form and set out procedures and requirements for obtaining recognition of a zoo.
<b>Rule</b>	Central	The Wildlife (Transactions and Taxidermy) Rules 1973	This rule provides for acquiring, receiving, or keeping specified animal, etc. in control, custody, or possession or put under process of taxidermy or make articles, etc., sale of specified animal. etc., taxidermy or making animal article and transport of specified animal. etc.
<b>Rule</b>	Central	The Biological Diversity Act 2002	The act provides for conservation of biological diversity, sustainable use of its components and fair and equitable sharing of the benefits arising out of the use of biological resources, knowledge and for matters connected therewith or incidental thereto.
<b>Act</b>	State	Tree Protection Act 1976	The act provides for the regulation on felling and removal of trees.

Act/ Rule	Centra l/State	Name	Brief about the act/rule
Rule	State	Uttarakhand Timber & Other Forest Produce Transit Rules-2012	The rule provides for transit of timber and other forest produce by land and water, collection of drift and stranded timber and penalties for contravention of the rules.
Rule	State	U.P. Resin and other Forest produce (Regulation of Trade) Rules 1976	The rule provides for regulation of sale, purchase and transport of resin, permit for sale, transport of resin, registration of Resin tappers.
Act	State	Uttar Pradesh Forest Development Corporation (Uttarakhand Amendment) Act, 2001	The Uttarakhand Forest Development Corporation has been created with the responsibility of carrying out harvesting and sale of timber and NTFPs from the forest areas. However, resin being state monopoly item, its disposal by auction is solely and frequently done by the Forest Department.  The sale list of the timber and NTFPs in the forest is provided by the Forest Department to the Forest Corporation within the time schedule.

The Conservator of forests and the Divisional Forest Officer having jurisdiction over the respective administrative areas, exercise the powers conferred on them under these Acts and Rules.

Apart from the above, there are some forest areas in the state that are not directly under the control of the forest department although the forest department renders certain services to the owners as per G.O. no. 4824/ XIV-A-230/ 56, dt. Dec 27, 1962. These are as under:

- a. **Cantonment Forest:** There are certain Cantonment Forests which are not under the direct control of the Forest Department however, these are inspected annually by the forest officers and report of the inspection is forwarded to the concerned Cantonment Authorities. **With the exception of Almora Cantonment all these forests are managed through the Working Plan prepared by the Forest Department and sanctioned by the Central Government.** List of Cantonment Forest is provided below.

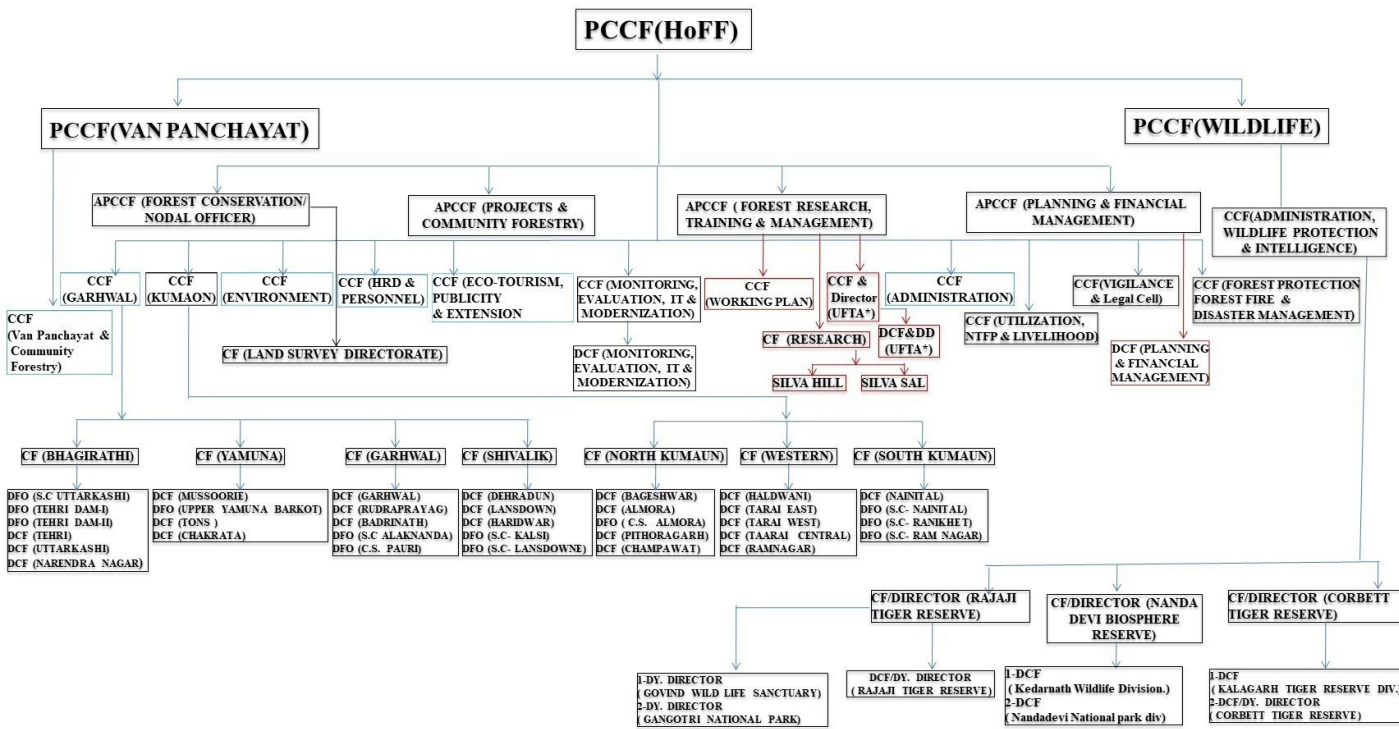
S. No.	Name of Cantonment	Inspecting office
1.	Chakrata.	D.F.O. Chakrata.
2.	Landour.	D.F.O. Mussoorie.
3.	Lansdowne.	D.F.O. Lansdowne.
4.	Nainital.	D.F.O. Nainital.
5.	Ranikhet.	D.F.O. Almora.
6.	Almora.	D.F.O. Almora.

- b. Forest Transferred to the Irrigation Department:** There are certain strips of reserved and protected forest in Haldwani and Tarai divisions which have been transferred to PWD & Irrigation branch. Certain officers of these department have been given powers of **Forest Officer** in these areas.
- c. Canal Plantation:** The Forest department does the canal side plantation in certain areas on behalf of the Irrigation department
- d. Roadside Avenues on the Side of the PWD Roads:** Certain Road side avenue plantations have been declared as Protected Forests under the relevant rules in the past, and these continue to be manage by Uttarakhand Forest Department. Road avenues have been declared as Protected Forests vide G.O.no.4480-C/XXIII PWA-1900-C/52 dt.2.2.1954 and 2950-XIV-A-714 (14)/ 65, dt. 13.4. 1996.) All officers of the P.W.D. not below the rank of Junior Engineer are "**Forest officers**" to exercise the power under section 64, 65 and 66 of the Indian Forest Act to enable them to protect trees on the avenues of the P.W.D. road within their jurisdiction.

## Chapter II: Organization structure of Forest Department, Uttarakhand

6. The Forest Department, GoUK is the line department for administrating the forest, environment, wildlife, biodiversity, and other natural resources (flora & fauna) of Uttarakhand state. Forest Department is the custodian of Government notified forest areas of the state. The Forest Department is also responsible for implementation of national and state level forestry policies.

7. The organogram of the forest department is as under: -



UFTA-Uttarakhand Forestry Training Academy

Figure 1: The structure of the department may change time to time through GO and audit team need to check the updated structure from the website/ GO.

8. The PCCF (HoFF) is the in charge for administration and management of forest and implementing government policies related to forest in the State. The PCCF (HoFF) is also the technical advisor on forestry issues to the State Government.
9. The territorial jurisdiction of state forest has been divided into two zones- Kumaon and Garhwal. The Chief Conservator of Forests (CCF) is the officer in the administrative charge for each zone. There are 44 Forest/Wildlife Forestry Divisions under the charge of Divisional Forest Officers/Deputy Conservators of Forests. The forest ranges under each of these divisions are looked after by Range Officer. Based on the accounts/ information submitted by these Range Officer to their respective controlling divisions, the Divisional Offices prepare complete accounts of receipts and expenditure. Some of the important concept related to territorial ranges of the Forest Department is provided below:

<b>Territorial Entity</b>	<b>Headed By</b>	<b>Explanation</b>
Beat/Section	Forest Guard/ Forester	A range is divided into beats and each beat is headed by a Forest Guard also known as Beat officer. The total number of Beats are 1569.
Section	Forester/Deputy Rangers	Section is an administrative unit in the territorial ranges usually consist of 2 or more Beats.
Range	Range Officer/ Deputy Rangers	A forest division or sub-division is divided into Ranges.
Sub-Division	Sub-Divisional Forest Officer (SDO)	Forest divisions have been sub- divided into Sub-Divisions.
Division	Divisional Forest Officer (DFO)	The forest circle is ordinarily divided into divisions.
Circle	Conservator of Forests (CF)	The forest area is divided into circles. There are 10 Territorial Circles including 03 Protected areas.
Zone	Chief Conservator of Forest (CCF)	Each zone is headed by a CCF.
State	Principal Chief Conservator Forest (PCCF) (HoFF)	PCCF (HoFF) is the head of the Forest Department

Chapter III: Agencies/Corporations Linked to the Forest Department

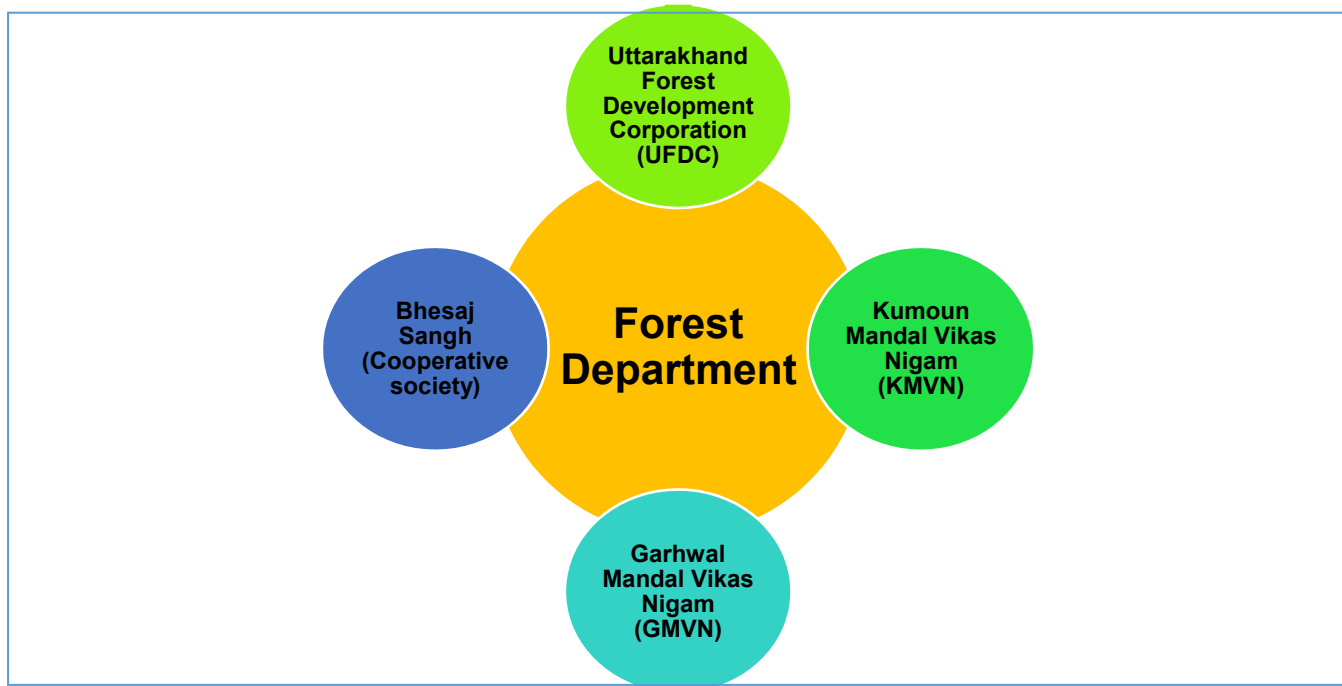


Figure 3: Agencies/Corporations linked to the Forest Department

3.1 Uttarakhand Forest Development Corporation (UFDC)

10. Uttarakhand Forest Development Corporation (UFDC) is a statutory body constituted by the State Government. The Corporation was formed for the harvesting of forest produce<sup>71</sup> within the State and for matters connected there with. The main functions of the UFDC is as under:

<sup>71</sup> forest-produce includes–

- (a) the following whether found in, or brought from, a forest or not, that is to say timber, charcoal, caoutchouc, catechu, wood-oil, resin, natural varnish, bark, lac, mahua flowers, mahua seeds, kuth and myrobalans, and
- (b) the following when found in, or brought from a forest, that is to say
  - (i) trees and leaves, flowers and fruits, and all other parts or produce not herein before mentioned, of trees,
  - (ii) plants not being trees (including grass, creepers, reeds and moss), and all parts or produce of such plants,

- To undertake removal and disposal of trees and harvesting of forest resources entrusted to it by the State Government.
- To prepare projects relating to forestry within the State.
- To undertake research programmes relating to forests and forest products and render technical advice to State Government on matters relating to forestry.
- To manage, maintain and develop such forests as are transferred or entrusted to it by the State Government.
- To perform such functions as the State Government may from time to time require.

### 3.2 KMVN, GMVN and Bhesaj Sangh (Cooperative society)

11. These institutions are responsible for collection and marketing of the medicinal herbs and plants.

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(iii) wild animals and skins, tusks, horns, bones, silk, cocoons, honey and wax, and all other parts or produce of animals, and

(iv) peat, surface soil, rock and minerals (including limestone, laterite, mineral oils, and all products of mines or quarries)



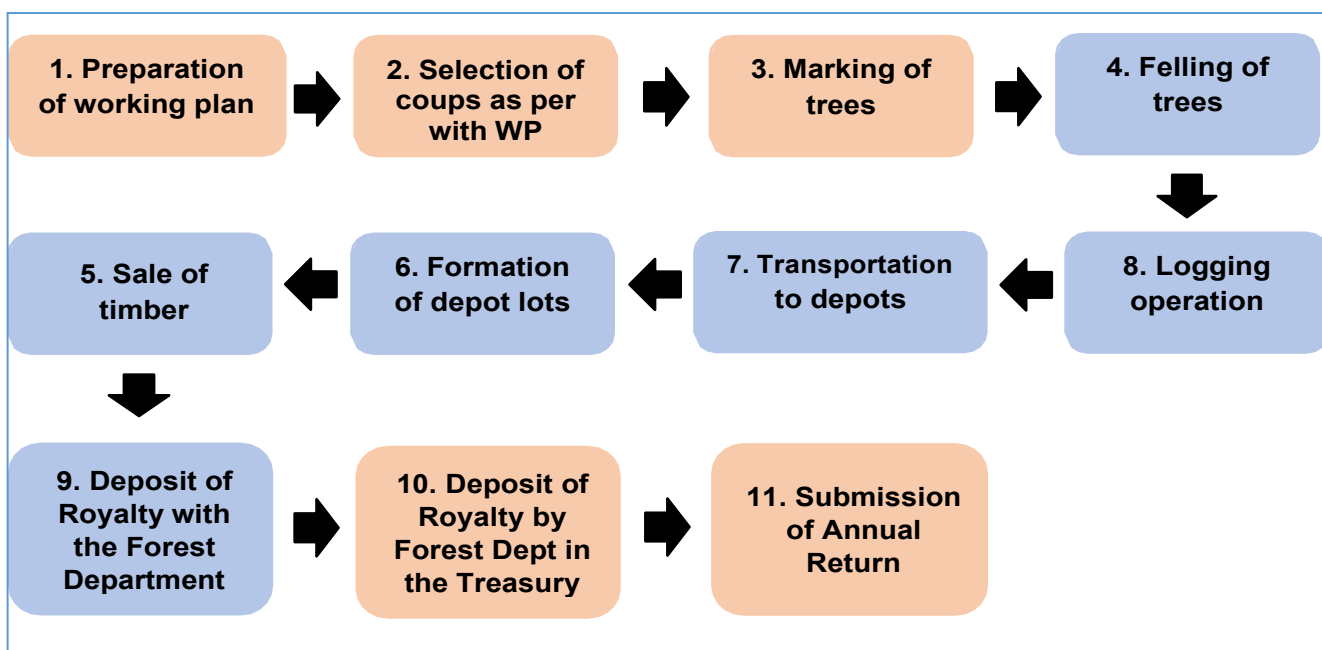
## Chapter IV: Sources of Revenue

12. The revenue from the Forest Department is mainly derived from the sale of forest produce, that includes Timber, Fuel wood, Resin, Grasses, Catechu (khair trees) and non-timber forest produce like river bed material and MAPs.

The revenue is also derived from Eco-tourism activities, transit fees, forest road fees, compounding of forest offences, lease rent etc.

### 4.1 Royalty from Timber

13. Royalty from timber<sup>72</sup> is the major source of revenue of the Forest Department. Some of these are logging, planning, organisation of labour and equipment's, felling of trees<sup>73</sup> and conversion of trees into logs, errors in measurement, transportation arrangement of lots for sale etc. The stages of timber operations are provided below.



<sup>72</sup> Timber includes trees, when they have fallen or have been felled, and all wood whether cut up or fashioned or hollowed out for any purpose or not.

<sup>73</sup> Tree includes palms, bamboos, skumps, brush wood and canes.

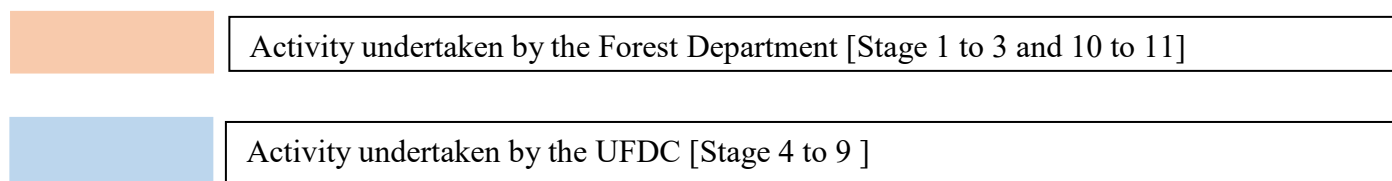


Figure 3: Process flow of Revenue from Timber (Royalty)

#### 4.1.1 Preparation of Work Plans

14. Working Plan (WP) is the main instrument for forest planning in the country for scientific management of forestry. It is a very useful document for evaluating the status of forests and biodiversity resources of a forest division, assessing the impact of past management practices and deciding about suitable management interventions for future. Periodic preparation of working plan is mandatory as per National Working Plan Code. Working Plans (WPs) are prepared for each forest division for a period of ten years by the Forest Department and are approved by the Ministry of Environment, Forest and Climate Change, Government of India (GoI). Forests are managed according to provisions of WPs which contain detailed plans for management of forests and silvicultural operations. Silvicultural activities or commercial operations cannot be carried out without approved WPs.
15. Action for its preparation starts generally three years before the expiry of the existing plan. . For the preparation/revision of working plans, Working Plan Divisions are constituted by appointing Working Plan Officers.
16. The preparation/revision of a Working Plan is entrusted to a Working Plan Officer, who is of the rank of a Conservator of Forests. It is the duty of the territorial Divisional Forest Officer and his staff to cooperate with and give every possible assistance to the Working Plan Officer and his staff. The budget provision for the Working Plan Officer in connection with the Working Plan is provided in the state sector scheme.
17. National Working Plan Code 2014
  - As per Paragraph 31 of the Code 2014, preparation of one working plan may take two years.
  - As per Paragraph 60 of Code 2014, Additional Principal Chief Conservator of Forests (APCCF), Integrated Resional Office of Ministry of Environment Forests and Climate Change (MoEF & CC), is required to accord approval to the Working Plan.
  - National Working Plan Code (NWPC), 2014 provides for constitution of permanent Working Plan Units (WPU) for preparation of WPs. As per paragraph 29 of NWPC 2014, a WPU at the field level should be headed by a Working Plan Officer (WPO) of the rank of Conservator of Forest who should be assisted by

a minimum of two ACFs, four FROs, 12 Foresters and one subject matter expert in each of the specialised field such as remote sensing, biodiversity assessment, socio-economic analysis, taxonomy, etc.

- Paragraph 30 specifies creation of adequate posts for the WPU. Otherwise, the subject matter experts and staff are to be engaged on contract basis. Irrespective of the circumstances, the responsibility of WP preparation cannot be transferred to a territorial DFO/CF of the forest division.
- Paragraph 31 of NWPC specifies that generally, one WPU may undertake the work of preparation/review of WP of four or five forest divisions in a cycle of 10 years. In Uttarakhand, out of 40 divisions, there are 27 divisions which are governed by WPs. Hence, at least six WPUs would be required for preparation/revision of all 27 WPs in the State.

### 4.1.2 Selection of Coupes in Accordance with Working Plan

18. Coupes<sup>74</sup> identified in the WPs for felling in a particular year are selected. Working Plan of each division has area/species wise detail of trees required to be felled in each year.

### 4.1.3 Marking of Trees

19. Lots<sup>75</sup> of trees in the coupes selected for felling in a particular year are marked and allotted to Uttarakhand Forest Development Corporation (UFDC) for felling. Specific marks are affixed on trees eligible for felling for facilitating identification so that only prescribed trees are felled by the UFDC. This process is called marking operation. After marking operation is complete, the marked trees are allotted to UFDC for felling.

20. The record of marking of trees to be felled is maintained in **Register of Marking** showing marking list and title sheet bearing details of coupe under working, year of operation. The marking list bears Sr. No. of trees, the species, the girth of each tree at breast height, the quality of the wood, specific remarks if any are also given.

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<sup>74</sup> Coupes are areas specifically demarcated for extracting forest produce

<sup>75</sup> Lot is a list of trees marked by the Department for felling. A Coupe can contain one or more lots as per convenience.

4.1.4 Felling of Trees

21. Felling operations can be divided in four broad categories as shown in table below:

Type of felling		Felling operations involved
Green Felling (such felling is carried out as per provisions of WPs in areas not more than 1,000 metres above sea level)	Clear Felling	Felling of trees and extraction of roots
	Canopy Opening/ Thinning	Removal of trees to allow sunlight/create space
	Development works related felling	Felling due to construction of roads, <i>etc.</i>
Felling of dead, diseased and uprooted trees as provided in WPs		Dead, diseased and uprooted trees are harvested in annual coupes (areas identified for felling) as provided in working plan
Felling of dead, diseased and uprooted trees by approval of specialist committee		Dead, diseased and uprooted trees are harvested on recommendations of a specialist committee

Table 8: Types of operations in Felling of Trees

UFDC is the agency responsible for felling and selling timber from forests in the State. The felling operations are carried out through joint inspection by the Forest Department and the UFDC. The trees felled are noted down in the **Felling Register**. **The royalty is levied as and when the trees are felled**. The felling register bears the Sl. No. of trees felled, the species, the girth of each tree at breast height, the quality of the wood, specific remarks if any are also given.

4.1.5 Logging (Classification)Operation

22. Trees as obtained on felling often cannot be transported and used as such. They need to be converted into such size and form as would be suitable for utilization. The first step for conversion is logging or log making, which renders logs or round timber of chosen dimensions. Logging or log making consists of cutting of felled trees into sections. The process includes trimming of branches and sawing the clean bole

and sometimes the larger branches into logs or round timber of required lengths. **Logging operation is undertaken by UFDC.**

### 4.1.6 Transportation to Depots

23. There are two classes of depots which is as under:

- a. **Forest Depot** to which material is transported from the coupe to a suitable loading point called as '**Forest Depots.**'
- b. **Sale Depots: Sale depots are established for sale of timber and forest produce where material from one or more divisions or circles are bought and sold through auctions.**

The UFDC disposes off the harvested timber and other forest produce through public auction at sale depots. has been using four methods for marketing the forest received from the forest. The sales proceeds so received by the UDFC are kept by itself to meet it operation expenses and royalty on the same is paid to the Forest Department.

- **By Auction/Tenders:** Products are bid out to purchasers at depots situated at different places in Uttarakhand. Auctions are carried out on specific dates that are published in the newspapers.
- **By Allotment to Industries:** The allotment of wood as raw material to forest-based industries established before 11-12-86 is being made by the State Government as per the policy guidelines through the Corporation. Allotment is being made only to the paper industries on a year to year basis. The rates of allotment are fixed based on rates the received through auctioning.
- **By Order Supply to Government Departments:** The UDFC also supplies timber and firewood directly to government departments and corporations.
- **By Retail Sales:** To serve the general public directly Corporation sells round timber, firewood, charcoal and sawn timber of Sal, Shisham, Teak, Chir Pine, Deodar and Kail through auction and retail depots.

### ii. Forest Lease:

24. No fresh lease or renewal of lease in Forest Land is permitted after the promulgation of Forest (Conservation) Act, 1980 without obtaining the prior permission of the Central Government. The Premium and the annual lease rent and the procedure to be followed for leases will be as per as per the lease policy of Government of Uttarakhand.

**4.1.7 Deposit of Royalty Amount with the Forest Department**

25. The Forest Department receives royalty from the UFDC through Challans. The royalty is being deposited by UFDC collected in three instalments.

- First instalment in the month of March of the financial year in which lots are allotted by Forest Department.
- Second instalment in the month of June of the next financial year
- Third instalment in the month September of the next financial year.

The royalty received is recorded in the **Revenue Register** maintained by the Forest Department. **Late Fee is to be charged from the UFDC as per sale rules.**

26. The procedure for fixation of royalty was amended vide G.O.no.4888/14-4-83-1(7)/76 dt.20.9.1983 read with G.O. no. 2977/14-4-89-1(7)/76 dt. 31.10.1989. The Royalty for the year is calculated as per the details below:

Particulars	Amount (INR)
Royalty fixed for the years	XXX
Add: Percent increase in the timber sale rate in current year in comparison to the rate of last year	XXX
Add: abnormal increase in market rate if any (Negative increase in the sale rate will be taken into account in royalty)	XXX
Fixation	
Rate of Royalty for the year	XXX

27. However, in the following regions rate of royalty is fixed based on the weighted average of royalty fixed for the previous year.

- a. Yamuna, Bhagirathi and Garhwal circles except broad leaved species of Lansdowne
- b. North and South Kumaon circles
- c. Broad leaved species of Shiwalik and Lansdowne Division of Garhwal Circle.
- d. Western circles.
- e. Khatima and Surai

**Note:** Royalty of timber felled from reserved forests<sup>76</sup> belongs entirely to the Forest Department. On the other hand, royalty for the timber of civil forests<sup>77</sup> is divided between the Department, the District Magistrate and Zila Panchayat. Government order (June 1968) in this regard stipulates deduction of administrative charges @10% of royalty received for timber of civil forests by the Forest Department. The remaining royalty is to be divided by the Department in the ratio of 40:40:20 between itself (Forest Department), District Magistrate and Zila Panchayat.

### 4.2 Royalty on Fuel Woods and Tree Roots

28. During the process of felling, if any trees species and small branches are produced, these branches etc. are classified as fuel wood<sup>78</sup>. As per the department's instruction (August 1998), royalty will be recovered at scheduled rates fixed by the Forest Department on the quantity of fuel wood which is auctioned by the UFDC. Whole trees of some native species like banz, kharsu, mauru, tiloj, burans, etc. are classified as fuel wood category trees. For these trees, royalty is paid to the Forest Department on the basis of whole volume allotted to the UFDC. In the case of normal felling, if the trees are felled above 15 centimetres from the ground and roots are left to check soil erosion. However, in the case of clear felling, the trees are felled, and their roots are uprooted. Hence, in the case of clear felling, the UFDC auctions roots in addition to normal commercial timber and pays royalty to the Department on the basis of whole volume allotted to the UFDC.

29. The rest of the process is same as given in section 4.1.

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<sup>76</sup> The State Government may constitute any forest land or waste land which is the property of Government, or over which the Government has proprietary rights, or to the whole or any part of the forest produce of which the Government is entitled, a reserved forest.

<sup>77</sup> Civil forests do not come under reserve forest and are under the control of Revenue Department.

<sup>78</sup> Fuel wood comprises timber with diameter less than 15 cm in case of eucalyptus, less than 21 cm in case of teak and less than 30 cm (in case of other species) produced along with round timber.

### 4.3 Revenue from Resin (Leesa)

#### 4.3.1 Sale price from auction of Resin i.e., Leesa

30. Resin in local parlance is a highly viscous and inflammable substance which is secreted from Chir (pine) trees. Resin contains two constituents; turpentine oil and rosin, and is widely used in pharmaceutical preparations, cosmetics, perfumes, paper industry, adhesives, paint, varnish and polish, etc.

31. Resin is extracted from Chir trees during March to October and is auctioned at designated sale depots by the Forest Department itself.

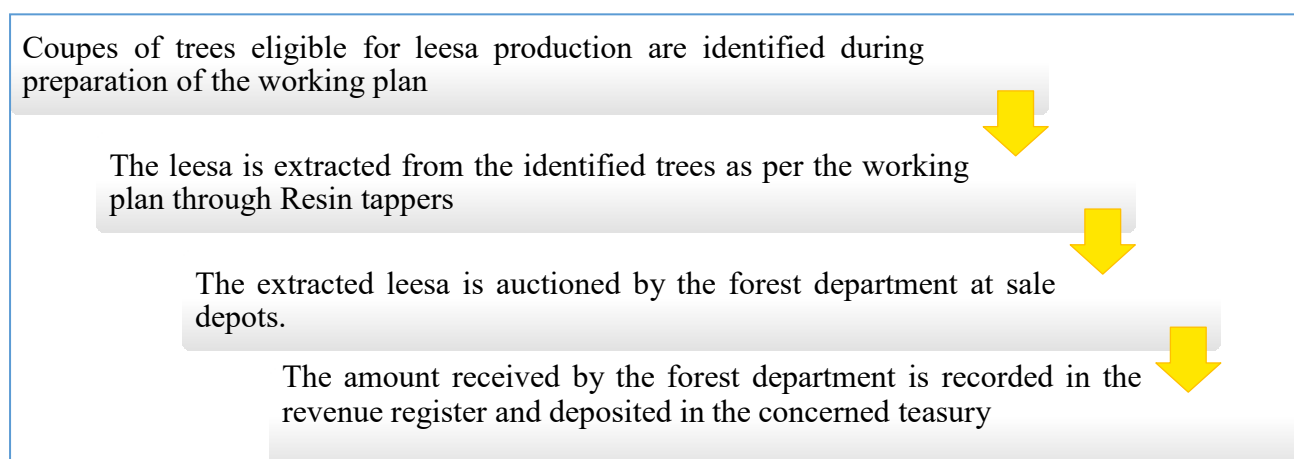


Figure 4: Process flow of revenue from Leesa

#### 4.3.2 Method of Extraction (Tapping) of Resin

32. The following process are involved in resin extracting work:

- a. Mate (Contractor) Method
- b. Himanchal Method
- c. Departmental

##### a. Mate Method of Tapping

33. Under this system the extraction work of resin is entrusted to resin mates(contractors)who undertake to supply the stipulated quantity of resinper100 channels allotted for tapping in a particular season. The



agreement with the contractors provides for forfeiture of security and the imposition of fine for short supply of resin and also for the payment of bonus for tapping of Resin in excess of the allotted quantity.

34. Whatever the quantity of Resin extracted by the contractor has to be handed over to the Department and they are not allowed to take away any quantity of resin extracted in excess of the stipulated quantity. The appointment of the contractor for Resin tapping is done through invitation of tender in October or November every year for the next Resin crop.

### **b. Himanchal Pattern of Tapping (Lumpsum)**

35. Under this system Resin channels are auctioned. The contractor in the auction offered the lumpsum bid for each lot or group of lots with the stipulation of quantity to be supplied to the Department per 100 channels. In this method quantity of Resin extracted by the contractors in excess of the allotted quantity is allowed to be taken away by them for sale in open market. Under this system, the extraction of Resin is generally high, but it suffers from the disadvantages that the contractor is tempted to make deeper, wide or longer cuts on the trees to make unauthorised blazes to extract more Resin which affect the lie and strength of the trees. Therefore, the department has to follow exercise greater vigilance in this arrangement. There are two methods of contract under his system.

- a. **Loaded System:** In this system, if the contractor supplies short quantity than the agreed quantity, recovery is made from them at market rates.
- b. **Unloaded System:** In this system, the contractor is not required to supply any quantity of the Resin to the Department. They only have to pay auction money for the lots allotted and take away the entire quantity of Resin extracted by them. In this system the contractor has to make their own arrangement of resin tools and lips etc., unlike the mate system.

### **c. Departmental Tapping**

36. The department also tried to extract Resin in some the divisions by employing daily labour on muster roll. However, currently department is rarely doing tapping.

**4.3.3 Process for Resin Extraction**

37. Physical and financial targets are fixed by the Forest Department every year for extraction of Resin on the basis of trees available of extraction in each Division and the average yield of Resin per 100 channels during the previous two or three years. The Divisional Forest Officer (DFO) prepares and submit to Conservator of Forests (CF) around June each year called the 'All in Cost Statement' showing the total number of channels to be worked, the quantity of Resin yield anticipated on the basis of average yield during the previous two or three years and the anticipated expenditure per quintal of resin on setting up of channels, tapping, collection, carriage and packing etc. during the ensuing resin season. Upon receipts of the "All in Cost Statement' form the division, the Conservator of Forest prepares a 'Consolidated All in-Cost Statement' for his circle and then it is sent to the Additional Chief Conservator of Forests (Management) for approval.
38. Before preparing the 'All in Cost Statement' the Divisional Forest Officer selects the areas to be worked and estimates the number of channels to be tapped. Then the Chir areas are divided into a number of Resin coupes, each coupe comprising a number of block sand compartments in which trees are enumerated and marked for tapping on the basis of girth and other factors.
39. The number and size of blazes(channels) to be fixed on each tree for light and heavy tapping depending on its girth, number of tapping done earlier and other technical factors. Thus, the number of channels to be tapped during a particular season is fixed in advance and printed sale Lists are prepared lot wise how ing the names of Resin coupes blocks and compartment sand the number of channels in each lot. Thereafter, tenders are invited calling for rates for doing the tapping work on the terms and conditions of the Department on mate system or steps are taken to auction the resin channels for tapping under 'Himachal Pattern'. Necessary equipment and containers are arranged by the Department and the Resin contractors have only to arrange labour for tapping of Resin.

**4.3.4 Resin Tapping Rules**

40. The contractor must have to follow Resin tapping rules, regulation and departmental instructions relating to Resin Industry issued from time to time by the Divisional Forest Officer concerned. As per the 'Conditions of Sale', the width and depth of a channel (blaze) should not exceed 9.38

cms., 10cms., 1.88cms., 2.5cms. respectively in any case. The length of blazes in the first year should not exceed 22.5cms. and for the subsequent years the blazes should not exceed 37.5cms. in length at the end of the tapping season. The intervening space between two blazes on the same tree should not be less than 11.25cms. in light tapping and 8.75 cms. under heavy tapping.

41. If the contractors fix blazes or make irregular or defective blazes (i.e. when they cut wider, deeper or longer than the prescribed limits, penalty is imposed on the according to the terms of the Agreement or 'Conditions of Sale'. Normally penalty not exceeding INR 10 per blaze is imposed for illicit blazes for blazes tapped contrary to instructions.

### 4.3.5 Equipment Required for Resin Tapping

42. The tool and material required for resin tapping is provided in the "Instruction related to Resin Industry". Refer Appendix for XXX.
43. However, the main equipment required to be purchased in connection with the tapping is Empty Tins Tumblers (conical or round in shape, made of tin), lips, nails, adze (besula), collecting baltis, stainer, coaltar and soldering material etc. The department every year purchases large number of first-class empty tins (rustles and cleaned) keeping in view the balance in stock from the previous year and estimated requirement for the current year.

### 4.3.6 Transportation of Empty Tins

44. Generally, agreements are made for carriage of empty tins etc. to the resin depots in the interior of forests and resin filled tins vice versa and this arrangement is made is included in the agreements with tapping mates. These agreements and payments made should be examined during the audit to see that no irregularity or excess payment has been made and cases of transport losses, if any, should be scrutinized to see that necessary recoveries were made from the contractors according to the terms of the agreements. The department adopts standard method for calculating the quantity of the received Resin at the depot. The standard rate for filled Resin is 20 Kgs. and tare weight for empty tin is vary from 1.15 kgs. to 1.4 kgs.

**4.3.7 Extraction Procedures**

45. The following steps are involved during in the extraction Resin:

- a. Girthing serial numbering and booking the tree,
- b. Marking the position of new channels, including khurchan
- c. Before khurchan an L shaped mark is made with the help of a risser to indicate the position of the channel and serve as a guide line for freshening.
- d. Basal clearance of trees (Jar safan) and control burning. This is done to guard against fire hazard. The contractor is required to keep the ground clear.
- e. Resin collected in 'baltis' is strained in the forest and emptied in the empty tins at the Resin Depot. After the Resin settles down, the tin should be promptly sealed. The Resin Moharrirs or Forest Guards is responsible to see that all tins are in sound condition before giving export.
- f. Cart-road moharrirs must watch that no tins at their depots are leaking and that immediate repairs are done to all damaged tins. The cost of resoldering such tins must be borne by the carrier due to whose carelessness the tins leaked or the tin-smith due to whose bad workmanship tin was not properly sealed.
- g. A register. showing monthly consumption of solder and flux shall be maintained in range offices and reported each month to the Divisional Forest Officer.
- h. Weighments at forest and motor-road depots will continue to be recorded to the nearest whole half Kg. Discrepancies in the weights of individual tins between forest and motor-road depot weighments must always be duly recorded.
- i. Where the contractor fails to carry out any operation and the same is got done by the department, the expenditure incurred by the department including supervision charges will be recovered from the contractor.

**4.3.8 Important Records to be Maintained**

46. Forms 'R-1 to R-8' are used for maintaining records in connection with resin tapping in the Depots and the divisional office which is as under:

- **R1:** This register is maintained by the Muharrir of the resin Depot in the forest to record the details of Resin filled tins, giving the number and weight of each individual tin delivered by the Mate.
- **R2:** Monthly abstract of R1 register.
- **R3:** This register is maintained at the motor-road depot giving the same details as in R1. Register maintained in the Forest Depot.
- **R4:** Shows the account of dispatch of Resin filled tins.
- **R4G:** This for mis for the Rwanra for export of crude Resin which is carried by the driver of the transport to railhead.

- **R5:** Register of resin yield and export. The returns of depots in Form 5 are consolidated at the Divisional Office. This is the most important monthly record which contains a progressive record of yield of Resin showing the following details:
  - Compartment No.
  - Name of mate.
  - Allotted quantity
  - No. of channels
  - Resin yield in the forest depot (previous, during the month and total).
  - Resin in transit,
  - Resin exported to rail-head depot
  - Balance (in forest depot/in transit)
  - Yield per 100 channels.
- **R6:** Includes taking over resin from the Mates. It shows gross weight, tare weight and net weight of resin supplied by each Mate in a month.
- **R7:** It is the Rawanna to accompany the empty tins.
- **R8:** Register of Resin carriage tins. This is also an important record showing details of receipt and disposal of empty tins.

#### **4.3.9 Other Important Points related to Resin**

#### **47. Registration of Tappers of Resin (U.P. Resin and other Forest produce (Regulation of Trade) Rules 1976)**

Tappers of resin shall be of two types:

- a. **Government tapper** means a person who is authorised in writing by the Divisional Forest Officer to tap trees standing in the Reserve forest, Protected Forests or Panchayat Forests within his forest division for extraction of resin
- b. **Private tapper** shall either be the owner of the trees other than the State Government who gets them tapped through labourers engaged by him for extraction of resin or one authorised in writing by the owner of the trees other than the State Government to get them tapped through laborers. Labourers engaged in tapping work shall not be considered as tappers. The private tapper shall register himself as a tapper. An application fee is payable for the same.

#### **48. Target of production:** The state level committee fixed (July 2014) standard of production as 3.50 quintal per 100 wounds in a season (March-October) for Badrinath and Tehri. In Nainital, the target of production was fixed as 4.30 quintal per 100 wounds in a season.

**Note:** Revenue from the Resin extracted from the Civil Forests shared in the following Ratio:

- Forest Department: 10% as administrative charge plus extraction cost plus 40% of the remaining amount
- District Magistrate- 40% of remaining amount
- Zila Panchayat- 20% of remaining amount

### 4.3.10 Permit for sale, purchase, transport of resin and its products

As per the U.P. Resin and other Forest produce (Regulation of Trade) Rules 1976, the Forest Department shall issue permits in:

49. **Form 2** for manufacture of Resin products by the applicant from the quantity of Resin purchased from the state government. For this, an application is required to be submitted in **Form 1** by the interest applicant.
50. **Form 3:** The permit holder shall obtain authenticated subsidiary permit forms (Resin Form 3) from the Range Officer- within whose jurisdiction the place of manufacture of Resin products is situated and shall be responsible to fill in and issue the subsidiary permit himself in a proper manner subject to the following conditions-
- a. Each consignment of Resin product during movement by any mode of transport by road, rail, water or air, shall be accompanied by a subsidiary permit;
  - b. Resin products shall be transported only by the route specified in the permit and shall be produced for checking at each forest export chauki within a unit.
  - c. Except with the permission in writing of the Range Officer, resin products shall be transported within a unit at any time after sunset and before sunrise.
  - d. All subsidiary permits after transporting resin products or after expiry of the period mentioned therein, whichever is earlier, shall be returned within a fortnight to the nearest Range Officer of the unit.
51. **Form 4: For sale or purchase of resin to or from any person other than the State Government or an authorised officer and to transport the same.**
52. **Form 5: a) For** transport of resin purchased from the State Government or an authorised officer for manufacture of resin products. **b) For** transport and/or sale of resin unutilised in the manufacture of resin

products out of resin purchased from the State Government or an authorised officer for manufacture of resin products.

53. **Form 6: For transport** of resin purchased from outside Uttarakhand to a place within the State either for manufacture of resin products or to again transport the resin elsewhere outside Uttarakhand.

**Refer the rule for the amount of permit fees chargeable.**

#### 4.4 Royalty from Medicinal and Aromatic Plant (MAP)

54. State of Uttarakhand is a natural habitat of the prosperous varieties of herbs, medicinal and aromatic plant species. The Government of Uttarakhand state has also realised this big potential and is continuously trying to tap this wealth. The State Government has notified three lists of MAPs for this purpose.

- MAP completely prohibited from collection.
- Free species (species which can be collected freely without any restriction), and
- Species, those will be collected on a sustainable manner.

55. The stages of MAP operations in a forest division are as follows:



Figure 5: Stages of MAP operations in a forest division

##### 4.4.1 Conduct of Rapid Mapping Exercise (RME)

56. Primarily, initial inventory (identification and listing of medicinal plants along with quantity available) and periodic mapping is required. This exercise will help in identifying & inventorying the endemic population. These inventories will serve as important tools in the future for monitoring the impact of management and use. The inventories of MAPs will also enable the staff to designate levels of sustainable harvesting to the different areas according to the species present there and to the density of the populations. This is done at Range level in all territorial divisions.

### 4.4.2 Collection of MAPs

57. The Kumaon Mandal Vikas Nigam (KMVN), Bhesaj Sangh's (Cooperative societies) and Garhwal Mandal Vikas Nigam (GMVN) are the nodal agencies for collection and marketing of MAP products in Uttarakhand. The main roles of these organizations fixed by government are:

- **Direct Purchase:** Under this role these organizations can purchase MAP products direct from the cultivators and pay them for their crops. All the other responsibility like warehousing, processing, transportation, record maintenance, auction etc., is done by these organizations.
- **Bandhak (Mortgage):** Under this role these organization can give advance payment, nearly about 70% to cultivators for their commodity value for their urgent need before auction, and rest of amount 30% after the auction.
- **Commission agent:** Under this role of commission agent, these organizations works as commission agents and arrange auction in Mandies. They are nothing to do with other activities like warehousing, processing, transportation. The KMVN is taking royalty of 12.5% and the district Bhesaj Corporations are taking the royalty of 10% of the commodity auction prices.

58. According to the GO 813/XVI/07/12(20)/2004 dated 10.8.07, every year in the month of September, State Nodal Agency (Rajya Vidohan Samiti) will approve/decide allotment of ranges to the above -mentioned agencies for collection of MAP and purchase rate of MAP.

### 4.4.3 Collection of Royalty from the Government Agencies

59. The royalty is collected by the Forest Department from these government agencies and deposited in the state treasury. According to the GO 813/XVI/07/12(20)/2004 dated 10.8.07, every year in the month of September, State Nodal Agency (Rajya Vidohan Samiti) will approve/decide the royalty rate of MAPs.



The supply chain of MAPs is given below:

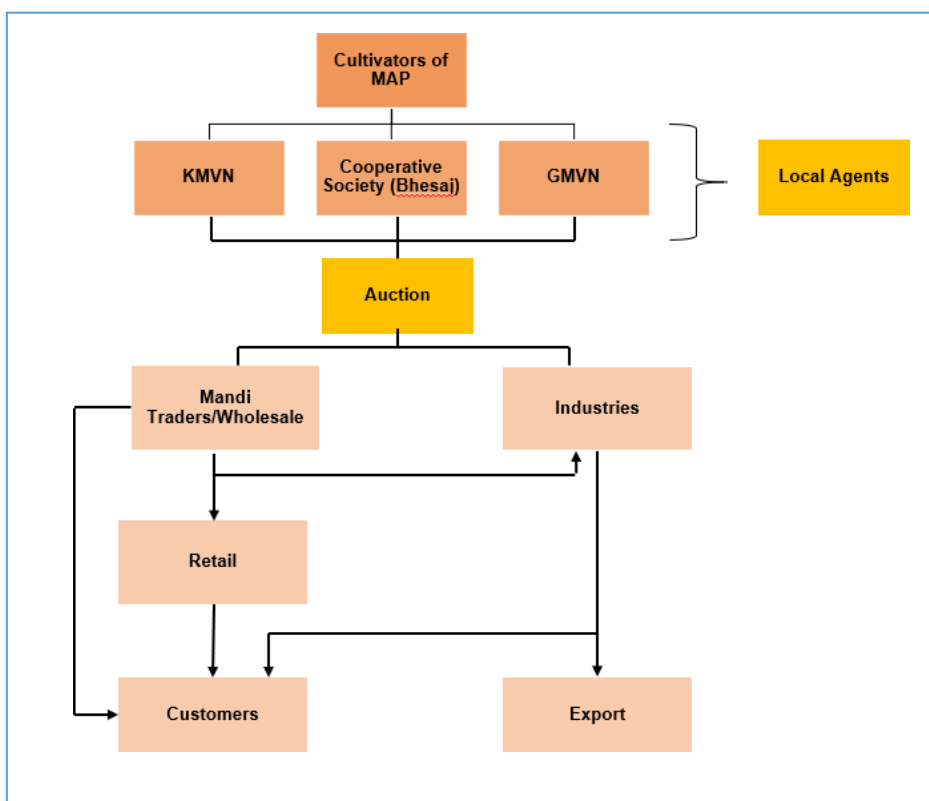


Figure 6 : Supply Chain of MAP

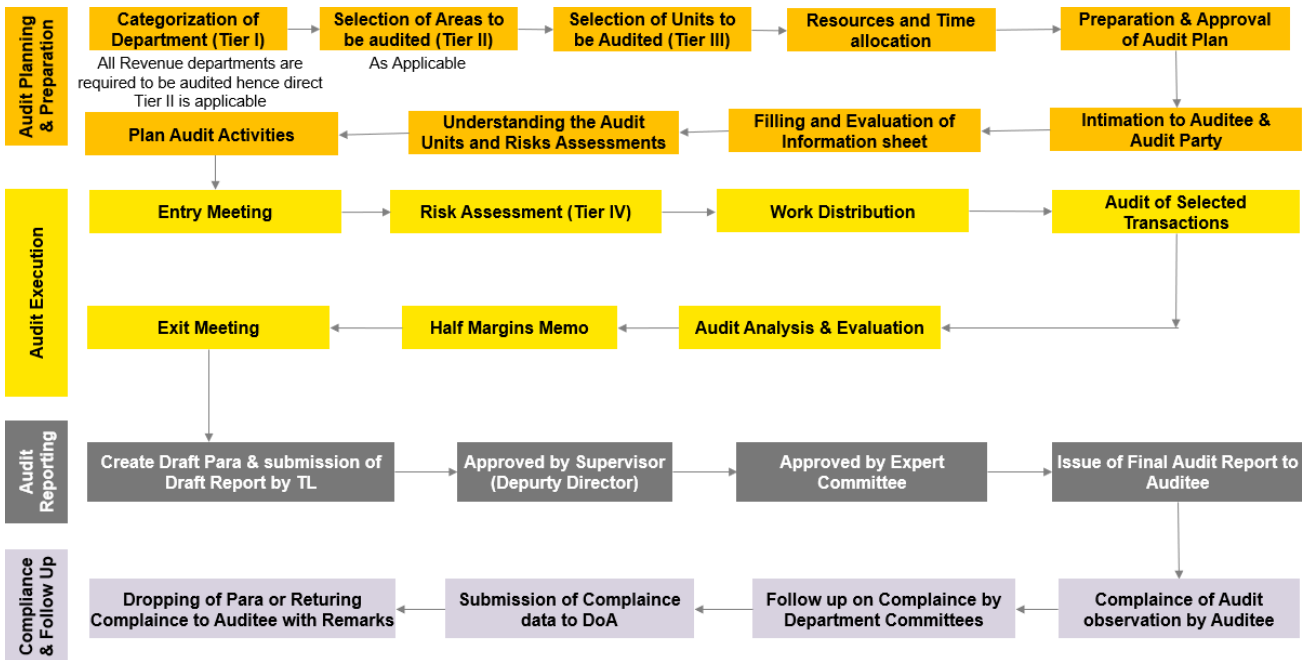
#### 4.4.4 Transit Fee and Road Maintenance Fee

Collection of minor minerals (sand, bajri and boulder) from rivers flowing through reserved forests is an essential flood control measure and a good source of revenue for the Government. After approval of GoI, particular area of forest land i.e., riverbed is leased to the UFDC for a period of ten years to conduct the mining operations. UFDC recovers management fees, royalty, goods and services tax, income tax, river training fee, labour welfare fees, etc. while the Forest Department levies transit fees ( and road maintenance fees on the minerals being transported.

## Chapter V: Audit process

60. This section provides the overview of the audit life cycle for conducting the revenue audit for forest department. Detailed audit processes are provided in the Uttarakhand Internal Audit Manual (Volume I - Part I) and this manual should be read in conjunction the Internal Audit Manual (Volume 1 & Volume II).

The major steps involved in an audit life cycle of revenue audit of forest department has been explained in the below flowchart:



**Figure 7 :** Audit process for revenue audit for forest Department

The activities to the carried out at each stage of audit life cycle has been explained in the below section:

**5.1 Audit Planning**

**5.1.1 Audit Planning Activities**

61. The process for an internal audit is initiated with preparation of an internal audit plan which includes assessment of risk, selection of departments, selection of areas to be audited, selection of audit units, allocation of resources, finalization of timeline for conducting the audit etc. The preparation of internal audit plan and assigning of an internal audit to an audit team shall be done in accordance with the provisions and procedures mentioned in Internal Audit Manual through Online audit management system (OAMS). The risk assessment process for preparation of annual audit plan is provided in Internal Audit Manual [Please refer chapter 8 of the Internal audit manual (Volume I Part-I)]. The specific considerations related to audit planning for revenue departments is provided below:

<b>Risk process</b>	<b>Responsibility</b>	<b>Description and Activities to be conducted</b>
<b>Tier – I: Selection of Department to be Audited</b>	Directorate of Audit	<p>This step is to categorize the departments according to its risk-profile and shall be done in accordance with Internal Audit Manual (Volume I - Part I).</p> <p>The Forest department shall automatically be classified as high-risk department. Therefore, parameters related to selection of departments provided in Tier-I shall be not be applicable however, parameters for selection of key auditable areas as specified in Tier-II shall be applicable.</p>
<b>Tier – II: Selection of Key Auditable Areas</b>	Directorate of Audit	<p>This step will identify the Key Auditable Areas and the Auditable Sub Areas which will be subjected to risk assessment to determine the areas to be prioritized for audit.</p> <p>The process to be followed for risk assessment of the Key auditable Area and Auditable Sub Areas is mentioned in detail in the Internal Audit Manual</p>

Risk process	Responsibility	Description and Activities to be conducted																			
		<p>(Volume I - Part I). [ Refer Section 8.2.2.2 of Internal Audit Manual (Volume I - Part I)]</p> <p>The Key Auditable Areas and Auditable Sub Areas specific for Forest department shall be referred from the table below:</p> <table border="1" style="width: 100%; border-collapse: collapse; margin: 10px 0;"> <thead> <tr style="background-color: #b8cce4;"> <th style="width: 10%;">Sr</th> <th style="width: 40%;">Key Auditable Area</th> <th style="width: 50%;">Illustrative Auditable Sub Areas</th> </tr> </thead> <tbody> <tr> <td rowspan="5" style="text-align: center; vertical-align: middle;">A</td> <td rowspan="5" style="vertical-align: top;">Royalty on Timber/fuel woods/tree roots</td> <td>A1 Levy</td> </tr> <tr> <td>A2 Valuation of products</td> </tr> <tr> <td>A3 Collection &amp; Deposit</td> </tr> <tr> <td>A4 Allocation</td> </tr> <tr> <td>A5 Internal Control</td> </tr> <tr> <td style="text-align: center;">B</td> <td>Revenue from Leesa</td> <td></td> </tr> <tr> <td style="text-align: center;">C</td> <td>Revenue from MAP</td> <td></td> </tr> <tr> <td style="text-align: center;">D</td> <td>Revenue from other Sources</td> <td></td> </tr> </tbody> </table> <p>Table 9: Key auditable area and Auditable sub area for revenue audit of forest department</p> <p>The list of above Key Auditable Areas and Auditable Sub Areas shall be reviewed and updated periodically by DoA based on the findings during the last audits.</p> <p>DoA shall carry out the risk assessment of all the Auditable Sub Areas under each Key Auditable Areas through <i>situational analysis</i> of the risk listed for all such auditable sub areas. The situational analysis of each identified risk shall be done by the DoA based on their discussion with management of department, past serious audit observations, review of internal control environment, media reports, professional judgement, and experience. An illustrative general risk evaluation matrix for all the</p>	Sr	Key Auditable Area	Illustrative Auditable Sub Areas	A	Royalty on Timber/fuel woods/tree roots	A1 Levy	A2 Valuation of products	A3 Collection & Deposit	A4 Allocation	A5 Internal Control	B	Revenue from Leesa		C	Revenue from MAP		D	Revenue from other Sources	
Sr	Key Auditable Area	Illustrative Auditable Sub Areas																			
A	Royalty on Timber/fuel woods/tree roots	A1 Levy																			
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		A3 Collection & Deposit																			
		A4 Allocation																			
		A5 Internal Control																			
B	Revenue from Leesa																				
C	Revenue from MAP																				
D	Revenue from other Sources																				

Risk process	Responsibility	Description and Activities to be conducted					
		currently identified Key Auditable Areas and its Auditable Sub Areas is provided at <b>Annexure I</b> to this section of the Manual. The DOA shall build upon this Matrix based on the actual risks identified during each audit cycle.					
<b>Tier – III: Selection of auditable units within the Departments</b>	Directorate of Audit	The process to be followed for selection of units to be audited in a revenue department covered in this manual shall be in accordance with the internal audit manual.					
		Risk Profiling of the Units of the selected department shall be based on financial, non-financial Parameters and special parameters. An illustrative list of parameters along with their score, range and weightage are provided below:					
		#	Parameter Name	Description of Parameters	Scoring		
			Variable	Range	Score		
1	Value of serious audit Parameter pending for compliance in AG report	Value of serious Audit Parameters (AG audit) pending for compliance at end of the immediately preceding financial year needs to be considered.	Value of serious AG parameter pending for compliance for the unit (AG Audit)	0 to 0.50 Cr.	0 to 3	15%	
			0.5 to 1.5 Cr.	6			
2				0	0	15%	

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Risk process	Responsibility	Description and Activities to be conducted						
			Value of serious Internal Audit Paras pending compliance	Cumulative Value of Internal audit serious paras pending for compliance at end of the immediately preceding financial year needs to be considered	Cumulative Value of internal audit serious paras pending for compliance for the respective audit unit	0-20L >20L-50L >50L	3 6 10	
		3	Past Internal Audit Conducted	Numbers of Years since last Internal Audit conducted for the units	Years Pending for Internal Audit	0 1 2 3 or more	0 3 6 10	20%
<b>Specific Parameters for Key Auditable Areas for Revenue Audit</b>								
		4	Trend of Revenue Receipts	Variation in total revenue receipts over the immediately preceding	% variation in total revenue receipts over the immediately previous	5-15% 15-25% >25%	3 6 10	20%

Risk process	Responsibility	Description and Activities to be conducted						
				financial year (both positive & negative)	financial year (both positive & negative)			
		5	Working Plan	Whether the division has a working plan	No or Yes	No Yes	10 6	15%
		6	Revenue of division	Percentage share of the revenue of the unit/division	Revenue of division as a % of total revenue of the department	0-5% 5-15% >15%	3 6 10	15%
		<p>Table 10: Parameters for Tier III Risk assessment process for Forest department</p> <p>The above parameters and their score ranges are illustrative in nature and DoA may add/delete/modify the same related to the key auditable areas selected for audit.</p>						
<b>Tier – IV: Selection of Transactions to be audited</b>	Audit Party	<p>The Tier-IV risk assessment process is carried out to identify the transactions for which the selected areas shall be audited at the audit unit level.</p> <p>The steps involved in Tier IV risk assessment process to be followed is provided later in this section of the manual</p>						

Table 11: Risk assessment process for revenue audit of forest department

## Note – Way Forward:

During the initial years from the adoption of this manual, audit will be done at the level of the Key Auditable Area as per the process mentioned above. However, over the year DoA shall continuously update the risk evaluation matrix for the Auditable sub-Areas under each Key Auditable Areas.

In the long term, DoA shall carry out the risk assessment of auditable Sub Areas only and the revenue audit of forest department would be conducted for high-risk auditable Sub Areas or a mix of high and medium risk Auditable Sub Areas, as decided by the DoA. Refer to section 8.2.2.2 of Internal Audit Manual (Volume I -Part I)

- 62.** The categorization of the department (Tier I), selection of area to be audited (Tier II) and selection of units for audit (**Tier III**) shall be done by the Directorate of Audit on annual basis and the outcome shall be mentioned in the annual internal audit plan which shall be issued in accordance with the provision of Internal **Audit Manual (Volume I)**.
- 63.** Post selection of units to be audited, other steps such as allocation of resources, finalization of timelines etc. shall be done as per the provision mentioned in the Internal Audit Manual (**Volume I - Part I**). [**Refer Chapter 8 of Internal Audit Manual (Volume I - Part I) for details**]

### 5.1.2 Audit Preparation

64. Before proceeding to conduct a revenue audit, the auditors shall ensure that below mentioned activities are undertaken:

#### **Activities to be carried out for all the units in a department at the global level**

**Activity 1:** Understand about the Department and its operation (Refer Section 8.3 of the Internal Audit Manual (Volume I - Part I))

**Activity 2:** Understand the legal and regulatory framework (Refer Section 8.3 of the Internal Audit Manual (Volume I - Part I))



**Activity 3:** Preparation of Planning Memorandum (Refer Section 8.3 of the Internal Audit Manual (Volume I - Part I))

65. To perform the above activities for audit preparation, auditor requires information from the audit unit. Therefore, such information shall be gathered through information sheet on OAMS which contains data such as organizational structure, trend of revenue collection, cases pending for assessment/ pending for settlement, details of the personnel, budget, details of audit pars, taxpayer data etc. of the audit unit.

**5.2 Audit Execution**

66. Audit Execution is the stage where audit plan which is prepared in the previous stage is executed through audit engagements and observations are noted through systematic application of audit procedures.

67. Following are the steps that should be followed to conduct a revenue audit

Sr No	Activity
1.	Entry Meeting
2.	Update/Revision of Audit Planning Memorandum
3.	Tier IV Risk assessment (if not carried during the audit preparation stage of Audit Planning)
4.	Work Distribution among team member
5.	Audit of the selected transactions
6.	Audit Analysis and Evaluation
7.	Issuance of Audit Memo (Half Margin Memo)
8.	Exit Meeting

Table 12: Steps in Audit Execution for Revenue Audit –Forest Department

The section 6 of Uttarakhand Audit Act, 2012, provide the authority and power to the auditor to obtain all necessary information and records, as the auditors may think fit, required for the purpose completing audit engagement. Section 7 of the Uttarakhand Audit Act, 2012, provide the provision for imposing penalty on audit unit for disobeying or not meeting the requirement provided by auditors under section 6 of the Uttarakhand Audit Act, 2012.

68. The detailed steps to be undertaken in audit execution shall be referred from Internal Audit Manual (Volume I - Part I). In this section, the specific considerations related to audit execution for revenue audit of forest department is elaborated:

**5.2.1 Entry Meeting**

69. Refer Chapter 9.1 of the Internal Audit Manual (Volume I - Part I).

**5.2.2 Update/Revision of Audit Planning Memorandum**

70. Refer Chapter 9.2 of the Internal Audit Manual (Volume I - Part I)

**5.2.3 Risk assessment -Tier IV**

71. The Tier-IV risk assessment process is carried out to identify the transactions for which the selected process/areas shall be audited at the audit unit level. The methodology for Tier IV risk assessment to be conducted in this stage is defined in below table:

Key Auditable Area	Extent of Check												
A) Revenue Receipts	<p>A range between 30% to 60% of revenue is to be examined from the total population of the selected areas.</p> <p>The following guideline may be referred for selection of Transactions.</p> <table border="1" data-bbox="467 1059 1369 1776"> <thead> <tr> <th data-bbox="467 1059 675 1167">Contract Category</th> <th data-bbox="675 1059 1070 1099">Parameter</th> <th data-bbox="1070 1059 1369 1099">% Coverage</th> </tr> </thead> <tbody> <tr> <td data-bbox="467 1167 675 1391">Category A</td> <td data-bbox="675 1167 1070 1391">The Contracts with value (as per the original contract) greater than INR 1.50 Crores</td> <td data-bbox="1070 1167 1369 1391">55% to 60%</td> </tr> <tr> <td data-bbox="467 1391 675 1559">Category B</td> <td data-bbox="675 1391 1070 1559">The Contracts with value (as per the original contract) is between INR 1 to 1.5 Crores</td> <td data-bbox="1070 1391 1369 1559">40% to 50%</td> </tr> <tr> <td data-bbox="467 1559 675 1776">Category C</td> <td data-bbox="675 1559 1070 1776">The Contracts with value (as per the original contract) is between INR 60 lakhs to 1 Crores</td> <td data-bbox="1070 1559 1369 1776">30% to 35%</td> </tr> </tbody> </table>	Contract Category	Parameter	% Coverage	Category A	The Contracts with value (as per the original contract) greater than INR 1.50 Crores	55% to 60%	Category B	The Contracts with value (as per the original contract) is between INR 1 to 1.5 Crores	40% to 50%	Category C	The Contracts with value (as per the original contract) is between INR 60 lakhs to 1 Crores	30% to 35%
Contract Category	Parameter	% Coverage											
Category A	The Contracts with value (as per the original contract) greater than INR 1.50 Crores	55% to 60%											
Category B	The Contracts with value (as per the original contract) is between INR 1 to 1.5 Crores	40% to 50%											
Category C	The Contracts with value (as per the original contract) is between INR 60 lakhs to 1 Crores	30% to 35%											

Key Auditable Area	Extent of Check
	<p><b>Note: The above extent of check is indicative, and an internal auditor may modify the same based on their professional judgment and findings during the audit.</b></p> <p>After selection of transactions to be audited as mentioned above, the audit team will carry out audit of transactions which involves examination of transactions along with their supporting documents to examine its correctness. Detailed audit shall be carried out as per the audit program mentioned in <b>Chapter 6</b> of this section of the manual.</p>

Table 13: Tier IV risk assessment process for Revenue audit of Forest department

*Note: The extent of check mentioned in above process is suggestive. It shall be kept dynamic wherein auditor shall apply their professional judgment while selecting a transaction for audit.*

**5.2.4 Work distribution among audit team members**

72. After completing the risk assessment process, the audit team leader shall divide the audit work among the team members and according to the work distribution, the team members should proceed for conducting the revenue internal audit of the selected unit. The audit team leader should take up more significant items along with supervision of other team members. The work distribution should be recorded through OAMS and kept with the working papers. The format of work distribution is provided in the Internal Audit Manual.

**5.2.5 Audit of the Transaction Selected**

73. The audit team will carry out the audit of selected transactions which involves examination of supporting documents and occurrence of transactions. The checklist prepared is comprehensive but not exhaustive and auditor shall apply his own professional experience and unbiased judgment during the verification of any transaction/area related to revenue audit of forest department.

**5.2.6 Audit Analysis and Evaluation**

74. Refer section 9.6 of the Internal Audit Manual (Volume I - Part I).

**5.2.7 Issue of Audit Memo/Half Margin Memo**

75. Refer section 9.7 of the Internal Audit Manual (Volume I - Part I)

**5.2.8 Exit Meeting**

76. Refer section 9.8 of the Internal Audit Manual (Volume I - Part I)

## 5.3 Audit Reporting and Documentation

77. This Chapter describes the steps that is to be followed for reporting and documenting a revenue audit of Forest department.

### 5.3.1 Audit reporting

78. An audit report is a written document, which is responsible for formally communicating the results of the audit to the audit unit. The audit team would consolidate the unresolved HMM issued during the execution stage which will then discuss the same with the audit unit during the exit meeting.

79. The process, guideline, format, timeline and methodology for preparing, approving and issuing of the audit report shall be in accordance with the provisions mentioned in the Internal Audit Manual (Volume I - Part I). The preparation, approval and issuance of the audit report shall be done **through OAMS. [Refer Chapter 10 of Internal Audit Manual (Volume I - Part I) for details].**

There shall be two levels of audit reports to be submitted:

- a. **Internal Audit Reports to be issued to audit units:** An internal audit report shall be issued to individual audited units as per the provision mentioned in Chapter 10 of the Internal Audit Manual (Volume I - Part I). The main categorization of a para shall be done in accordance with the provision of Internal Audit Manual (Volume I - Part I). However, the audit para related to revenue shall be sub-categorized based on the areas audited as per Tier II risk assessment process (refer para 5.1.1 of this section of the manual) on OAMS for further analysis of key areas audited.

The format of individual revenue audit report shall be same as provided in the Internal Audit Manual (Volume I - Part II).

- b. **Annual Consolidated Internal Audit Report for Department (Refer section 10.3.2 of Internal Audit Manual (Volume I - Part I):**

The main objective of the revenue audit is to strengthen various areas and process involved in a revenue life cycle. Therefore, an annual consolidated report shall be prepared for the department, based on individual internal audit reports containing key findings and observations related to the areas/processes

audited. With the sub-categorization of audit para for individual revenue audit report, the consolidated report shall be prepared with the use of OAMS. The DoA shall develop the process and set out responsibility for their officials to prepare a consolidated report on the findings of internal audit carried out for various units in a department.

The main objective of the annual consolidated revenue audit report is to highlight the key and common issues faced by various units of the same department. The consolidated internal audit report would aim to highlight key issues and challenges which might not be resolved at the unit level and may need intervention from the top management of department i.e. Concerned Secretary or Head of the department such as contradiction in the provisions of various applicable rules, weak internal controls, ambiguity in the application & implementation of rules, outdated process, delays in approvals etc. The consolidated annual audit report would provide a macro level view to the top management of the department about the various activities being conducted and key challenges being faced by various units, which in turn would support in decision making process such as changes in policy, strategic long-term planning etc.

The annual consolidated Internal Audit Report shall be presented to the Secretary of the respective department. The format of consolidated Internal Audit Report shall be same as provided in the Internal Audit Manual (Volume I - Part II).

### 5.3.2 Audit Documentation

80. Refer Chapter 11 of Internal Audit Manual (Volume I - Part I)

## 5.4 Audit Follow-up and Compliance

81. The detailed methodology for follow-up and compliance on the audit para related to works audit shall be done in accordance with the provision of Internal Audit Manual (Volume I - Part I). [Refer Chapter 12 of Internal Audit Manual (Volume I - Part I)]

## Chapter VI: Audit Check List and Annexures

### 1.1 Audit Checklist

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
1.	<p>Check whether Working Planning Units (WPU) have been constituted at the field level.</p> <p>Check whether the WPU is headed by a Working Plan Officer (WPO) of the rank of Conservator of Forest.</p>	<p>Out of 40 divisions, there are 27 divisions which are governed by WPs. Hence, at least 6 WPUs would be required for preparation/revision of all 27 WPs in the State.</p> <p>(National Working Plan Code 2014)</p>				



Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
2.	<p>Check whether the division is working as per the approved working plan.</p> <p>Check whether the working plan has not expired.</p>	<p>a. Check the working plan of the division</p> <p>b. The CCF-WP is responsible for ensuring that all the forests are worked under approved working plans and is directly involved in all the matters of preparation of working plans.</p>				
<b>Royalty on timber/fuel woods/tree roots</b>						
<b>Audit of levy of Royalty on timber/fuel woods/tree roots</b>						
3.	<p>Check whether the trees are marked for felling as per the approved WP.</p>	<p>Check the register of marking with the working plan</p>				

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	Calculate the loss of revenue if the trees have not been marked for felling.					
4.	<p>Check if the trees marked have been felled by the UFDC.</p> <p>Calculate the loss of revenue if the trees marked have not been felled by UFDC.</p>	Check the register of marking with the felling register.				
5.	Check if the felling operations were carried out through joint inspection by the forest department and the UFDC	Check the signatures in the felling register				

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
6.	Check if the quantity of timber/ fuel woods/tree roots produced is transported to depots.  Any shortfall in the quantity may be examined and commented suitably	Check the felling register with the receipt register				
7.	Check the rate at which the royalty has been levied? Was the rate as per the latest notification?	Revenue register				
<b>Audit of valuation of timber/fuel woods/tree roots</b>						
8.	Check whether the auction procedure was followed by the UFDC. Further, check the rate at which the	-				

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	timber/fuel woods/tree roots have been auctioned.					
9.	Identify cases where timber/fuel woods/tree roots were auctioned below the market price?  Find out the reason for the same.  Calculate the loss in revenue.	Register of disposal				
10.	Check the last time when rate of royalty was amended. If required suggest an increase as per the best practice.	Latest amendment				
<b>Audit of collection and deposit of royalty</b>						

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
11.	Check if the forest department has collected the royalty for timber/ fuel woods/tree roots as per the prescribed rates within the prescribed time.	<p>a. Check the felling register with the transit pass and the receipt register maintained at depot to see if the quantity felled was correctly received at depot. Any shortfall in the quantity may be examined and commented suitably.</p> <p>b. Check the lot register</p> <p>c. Check the register of disposal with the lot register to check the quantity sold</p>				

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
		<p>d. Check the revenue register to check whether the royalty was received correctly and in time.</p> <p>e. Check the annual return submitted by DFOs.</p>				
12.	Identify cases where the collection of royalty by the forest department has been delayed	Date when the royalty was levied and when the same was collected.				
13.	Calculate the amount of royalty due to be received from UFDC and the reason for the same.	Check the revenue register with the felling register				
14.	Check whether the Forest Department have deposited the	Check the challan and the revenue register				

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	revenue collected with the state treasury under appropriate head					
15.	Identify cases where the forest department has delayed the deposit of royalty to the state treasury	Date when the royalty was collected and when the same was deposited to the state treasury.				
16.	Conduct stock reconciliation of the opening stock-stock added-stock sold and the closing stock.  Further check that whether the royalty for the sold stock is received by the forest department.	a. Match the marking register with the felling register  b. Match the felling register with the receipt register  c. Match the receipt register with the disposal register				
<b>Audit of allocation and internal controls</b>						

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
17.	Check the monitoring mechanism of the UFDC by the Forest Department.	Understand the system				
18.	Check whether the registers maintained at depots are inspected regularly by a responsible officer of the Department	-				
19.	Check whether adequate steps have been taken by the Forest Department to recover the outstanding amount of royalty	-				
20.	Check the annual return submitted by the DFOs.	Check the return along-with the felling register, receipt register, disposal register, revenue register, challans				



Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
21.	Check whether the amount collected has been recorded under correct head	Annual return				
22.	Check if all the records and registers to be maintained by the forest department is being maintained.	-				
<b>Revenue from Leesa</b>						
<b>Audit of levy</b>						
23.	Check if the extraction of lees has been made as per the working plan. If not, calculate the loss of revenue.	Refer the working plan of the division along-with the register where the quantity extracted is recorded.				
<b>Audit of valuation of leesa</b>						
24.	Check the auction procedure followed	-				

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
25.	Check the rate at which the leesa was auctioned. Was the same less than the market rate? If yes, note the reason for the same and calculate the loss in revenue.	Refer the rates issued by the state				
26.	Check where the leesa is stored. Impurities due to in-adequate storage of leesa might be one of the reasons for sale at reduced price	-				
27.	Check the quantity of leesa un-sold. Calculate the loss of revenue	Register to record the quantity extracted and register of disposal				
28.	Conduct stock reconciliation of the opening stock-stock added-stock sold and the closing stock.	-				

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
<b>Audit of collection and deposit of revenue</b>						
29.	Check whether the sale price was received by the forest department for the leesa auctioned.	Revenue register				
30.	Check whether the Forest Department have deposited the revenue collected with the state treasury under appropriate head	Check the challan and the revenue register				
31.	Identify cases where the forest department has delayed in deposit of revenue to the state treasury	Date when the revenue was collected and when the same was deposited to the state treasury.				
<b>Audit of allocation and internal controls</b>						
32.	Check the annual return submitted by the DFOs.	Check the return along-with the revenue register, challans				

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
33.	Check if all the records and registers to be maintained by the forest department is being maintained	-				
34.	Check whether the amount collected has been recorded under correct head	Annual return				
<b>Revenue from MAP</b>						
<b>Audit of levy of Royalty on MAP</b>						
35.	Check the areas identified in the working plan for cultivation/availability of medicinal and aromatic plants.	Working Plan				
36.	Check the MoU with the government agencies [KMVN, Bhesaj Sangh's (Cooperative societies) and GMVN]	MoU				

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
37.	Check whether the MAPs are being cultivated in the areas identified as per the WP.	-				
38.	Check the rate at which the royalty has been levied? Was the rate as per the latest notification?	Revenue register				
<b>Audit of valuation of MAP</b>						
39.	Check the auction procedure followed by the agencies. Further, check the rate at which the MAP has been auctioned.  Was the same less than the market rate?	-				

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	If yes, note the reason for the same and calculate the loss in revenue.					
40.	Identify cases where MAPs were sold below the market price?  Find out the reason for the same.  Calculate the loss in revenue.	Disposal register				
41.	Check the last time when rate of royalty was amended. If required suggest an increase as per the best practice.	Latest amendment				
<b>Audit of collection and deposit of royalty</b>						

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
42.	Check if the royalty was collected as per the prescribed rates within the prescribed time.	Rates as per the state and revenue register				
43.	Identify cases where the collection of royalty by the forest department has been delayed	Date when the royalty was levied and when the same was collected.				
44.	Calculate the amount of royalty due to be received from the agencies and the reason for the same.	Check the revenue register with the disposal register				
45.	Check whether the Forest Department have deposited the revenue collected with the state treasury under appropriate head	Check the challan and the revenue register				

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
46.	Identify cases where the forest department has delayed in deposit of royalty to the state treasury	Date when the royalty was collected and when the same was deposited to the state treasury.				
<b>Audit of allocation and internal controls</b>						
47.	Check the monitoring mechanism of the government agencies by the Forest Department.	Understand the system				
48.	Check whether adequate steps have been taken by the Forest Department to recover the outstanding amount of royalty	-				
49.	Check the annual return submitted by the DFOs.	Check the return along-with the revenue register, challans				



Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
50.	Check whether the amount collected has been recorded under correct head	Annual return				
51.	Check if all the records and registers to be maintained by the forest department is being maintained.	-				
<b>Other revenue sources</b>						
52.	Whether the necessary application fees/renewal fess have been collected and accounted for.	Revenue register				
53.	Whether the transit fees have been collected and accounted for.	Revenue register				
54.	Whether the penalties have been collected in case the act/rules are not followed	Offence case records				

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
55.	Check whether the Forest Department have deposited the revenue collected with the state treasury under appropriate head	Check the challan and the revenue register				
56.	Identify cases where the forest department has delayed in deposit of revenue to the state treasury	Date when the revenue was collected and when the same was deposited to the state treasury.				
<b>Other Internal Control checks</b>						
57.	Whether adequate inspection was conducted by the officials of the forest department for preventing of leakage of Govt. revenue.	-				
58.	Conduct an analysis of revenue collected for the division to be	Annual Return				

Sl. No.	Audit Questions	Reference (Act / Rules/ Policy Guidance, etc.)	Auditors Assessment / Remark (i.e. response to the Question)	Document Verified	Observation noted (Y/N)	HMM No. (in case answer to the previous column in Yes)
	audited for the last 3 years source wise. Understand the reason for decrease/increase in revenue.					

1.2 Annexures

Annexure I: Illustrative Risk Register

A. Determination of sub areas for key auditable area related to the Forest Department

Sr. No.	Key Auditable Areas	Sub-Areas
A	Revenue (Forest Department)	A1 Levy
		A2 Valuation of products
		A3 Collection & Deposit
		A4 Allocation
		A5 Internal control

Note:

- The above list of sub-areas under the auditable area revenue is indicated list and DoA may modify/add/delete the above list based on their past experience, previous audit done and professional judgement. DoA should periodically review the sub-areas and updated the same if required.

B. Assessment of Sub-Areas of the auditable area

DoA will determine the risk identification of sub areas on the basis of past experience, previous audit and professional judgement. Detailed risk assessment shall be done by DOA every three years but should update the same on annual basis on the results of the audit.

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High=10, Medium=5 and Low=3)
A1	Levy	<ul style="list-style-type: none"> <li>Rate (Royalty rate/sale price) not correctly applied</li> <li>Delay in applying rate as per the latest notification</li> <li>Non-availability of appropriate information where revenue has been levied</li> </ul>			
A2	Valuation of products (Timber, resin, MAP)	<ul style="list-style-type: none"> <li>Sold the products at lower rate</li> <li>Delayed revision of royalty rate</li> </ul>			
A3	Collection and deposit	<ul style="list-style-type: none"> <li>All receipts not recorded or recorded in incorrect amount or in different period</li> <li>Delay in collection leading to huge amount of arrears</li> <li>Revenue collected but not deposited in state treasury</li> </ul>			

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High=10, Medium=5 and Low=3)
		<ul style="list-style-type: none"> <li>Failure to conduct reconciliation between collection and deposit</li> </ul>			
A4	Allocation	<ul style="list-style-type: none"> <li>Incorrect classification of amount collected into difference heads such royalty, sale price, penalties</li> <li>Failure to reconcile the amount collected under different heads with challans and return</li> </ul>			
A5	Internal Control	<ul style="list-style-type: none"> <li>Lack of co-ordination with the supporting agencies which are supposed to deposit revenue with forest department</li> <li>Non/ improper implementation of monitoring/ inspection mechanism</li> <li>Improper maintenance of books and records</li> <li>Failure to submit return by DFOs</li> </ul>			

C. Illustrative Risk Assessment of Auditable Areas

Name of the Department: Forest Department

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High=10, Medium=5 and Low=3)
A1	Levy	<ul style="list-style-type: none"> <li>• Rate (Royalty rate/sale price) not correctly applied</li> <li>• Delay in applying rate as per the latest notification</li> <li>• Non-availability of appropriate information where revenue has been levied</li> </ul>	<ul style="list-style-type: none"> <li>• The latest rate of royalty has not been applied</li> <li>• The latest rate of royalty applicable from [date]..... has been applied from [date]..... Thus, there is a delay in application of latest notification</li> <li>•[number] trees felled by UFDC was not intimated to the forest department.</li> </ul>	High	10
A2	Valuation of products	<ul style="list-style-type: none"> <li>• Sold the products at lower rate</li> </ul>	<ul style="list-style-type: none"> <li>• The timber/resin/MAP have been sold at rate lower than market price which</li> </ul>	High	10

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High=10, Medium=5 and Low=3)
	(Timber, resin, MAP)	<ul style="list-style-type: none"> <li>• Delayed revision of royalty rate by the division</li> </ul>	<p>has affected the revenue for the forest department</p> <ul style="list-style-type: none"> <li>• Royalty rate has not been updated since last ..... years</li> </ul>		
A3	Collection and deposit	<ul style="list-style-type: none"> <li>• All receipts not recorded or recorded in incorrect amount or in different period</li> <li>• Delay in collection leading to huge amount of arrears</li> <li>• Revenue collected but not deposited in state treasury</li> <li>• Failure to conduct reconciliation between</li> </ul>	<ul style="list-style-type: none"> <li>• Rs..... as royalty is pending to be received from UFDC/KMVN/GMVN/....</li> <li>• Good procedure exists for conducting reconciliation of collection and deposit with State Treasury</li> <li>• Collection made on [DD/MM/YY] by [name of division] has been deposited after days from collection</li> </ul>	Medium	5



Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High=10, Medium=5 and Low=3)
		collection and deposit with state treasury.			
A4	Allocation	<ul style="list-style-type: none"> <li>• Incorrect classification of amount collected into difference heads such royalty, sale price, penalties</li> <li>• Failure to reconcile the amount collected under different heads with challans and return</li> </ul>	<ul style="list-style-type: none"> <li>• Amount collected was correctly classified into heads</li> <li>• Good procedure exists for conducting reconciliation</li> </ul>	Low	3
A5	Internal Control	<ul style="list-style-type: none"> <li>• Lack of co-ordination with the supporting agencies which are supposed to deposit revenue with forest department</li> </ul>	<ul style="list-style-type: none"> <li>• The monitoring mechanism of the external agencies are not effective</li> <li>• The books and records are being maintained</li> </ul>	Medium	5

Sr. No.	Sub Areas	Risk Listing/Identification	Situational Analysis	Risk Assessment (High/Medium/Low)	Score (High=10, Medium=5 and Low=3)
		<ul style="list-style-type: none"> <li>• Non/ improper implementation of monitoring/ inspection mechanism</li> <li>• Improper maintenance of books and records</li> <li>• Failure to submit return by DFOs</li> </ul>	<ul style="list-style-type: none"> <li>• The returns have been submitted by the DFOs on time.</li> </ul>		
<b>Total Score</b>					<b>33</b>
<b>Average Score</b>					<b>6.6</b>
<b>Categorization</b>					<b>Medium</b>