SECTORAL AUDIT REPORT
ON
TEXTILE SECTOR
FEDERAL BOARD OF REVENUE
(INLAND REVENUE)
AUDIT YEAR 2018-19

AUDITOR-GENERAL OF PAKISTAN

PREFACE

The Auditor General of Pakistan conducts Audit subject to Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973, read with Sections 8, 12 and 17 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. The Special Audit on Textile Sector was carried out accordingly.

The Directorate General of Audit Inland Revenue & Customs (South), Karachi conducted Sectoral Audit of Textile Sector during January to June, 2019 for the financial years 2015-16 and 2017-18 with the view to report significant finding to the relevant stakeholders. Audit examined the economy, efficiency and effectiveness aspect of the Tax Exemptions. In addition, Audit also assessed, on test check basis whether the management complied with applicable laws, rules and regulations in managing the resources. The Sectoral Audit Report indicates specific actions that, if taken, will help the management to realize the objectives of the Federal Board of Revenue. Most of the observations included in this Report have been finalized in the light of discussions in DAC meetings.

The Sectoral Audit Report is submitted to the President of Pakistan in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, for causing it to be laid before the Parliament.

Dated:

Muhammad Ajmal Gondal
Auditor-General of Pakistan

TABLE OF CONTENTS

ABBREVIATIONS & ACRONYMS

AGP	Auditor General of Pakistan
AOP	Association of Persons
ATIR	Appellate Tribunal Inland Revenue
B/F	Brought Forward Business losses
C/F	Carry Forward Business Losses
CIR	Commissioner Inland Revenue
CIR(A)	Commissioner Inland Revenue (Appeal)
CPR	Computerized Payment Receipt
CRTO	Corporate Regional Tax office
DAC	Departmental Accounts Committee
DG	Director General
FBR	Federal Board of Revenue
FTO	Federal Treasury Officer/Federal Tax Ombudsman
FTR	Final Tax Regime
FY	Financial Year
INTOSAI	International Organization of Supreme Audit Institution
IR	Inland Revenue
IRIS	Integrated Revenue Information System
LTU	Large Taxpayers Unit
NTN	National Tax Number
PTR	Presumptive Tax Regime
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
PRA	Post Refund Audit
RPO	Refund Payment Order
RTO	Regional Tax Office
WWF	Workers Welfare Fund

EXECUTIVE SUMMARY

Textile Sector is the largest manufacturing sector as well as largest export industry of Pakistan and has an overwhelming impact on the economy. Pakistan is the 4th largest producer of cotton with the third largest spinning capacity in Asia after China and India and contributes 5% to the global spinning capacity. Government provided duty exemption on import of machinery for the textile industry, where the industry imported around $90 million of duty-free machinery for the textile industry. The Government had also approved additional net package of Rs.51 billion for providing cash support and slashing down electricity tariff for boosting the country's exports during next three years with the aims to improve competitiveness of the textile and non-textile export sector.

Sectoral Audit of Textile Sector (tax purpose for FBR) carried out with a view to report significant findings to stakeholders. The total population under the sectoral audit comprises 11,758 cases containing the revenue amounting to Rs.1,024,105.325 million. Out of the total population, 645 sample size were selected for test audit comprising the revenue amounting to Rs.333,639.711 million. After detail scrutiny of sample record 278 Audit Observations involving amount of Rs.17,520.622 million were identified and issued to the department. The percentage of audit observations with reference to the revenue involved in sample size comes to 5% of total sample size. Therefore, if the same percentage projects to total population then irregularities come to Rs.52,822.950 million. The key findings of the Sectoral Audit includes excess determination of refund, incorrect claim of tax credit, depreciation on machinery & equipment and incorrect computation of tax.

In order to safeguard the Government revenue, Audit has recommended / suggestions for implementation to smooth running of the business according to provisions of law. Desk audit system may be strengthened to regularly review the cases of such taxpayers to ensure that expenses must be claimed on prorate basis under presumptive and normal tax regime. Amendment of self-assessment made by the taxpayers may be undertaken by the concerned audit/ enforcement units to retrieve the loss of revenue. Management has to devise effective internal control system to ensure compliance of provisions of law in letter and spirit for its correct application in a transparent manner.

1. INTRODUCTION

Textile Sector is the largest manufacturing sector of Pakistan and has an overwhelming impact on the economy, [1][contributing to 57% - 60% in the country's exports. Pakistan is the 8th largest exporter of textile commodities in Asia. According to Pakistan Textile Journal, Pakistan is among top 10 textile exporters of the world. Textile export world over is about $400 billion out of which Pakistan's export is $11billion each year. Besides, the spinning industry being the sole consumer of cotton worth $5 billion, yields the largest cash crop of the Pakistan]. [2][Textile sector contributes 8.5% to the GDP of Pakistan. In addition, the sector employs about 45% of the total labor force in the country (and 38% of the manufacturing workers). Pakistan is the 4th largest producer of cotton with the third largest spinning capacity in Asia after China and India and contributes 5% to the global spinning capacity].

Federal Board of Revenue (FBR) [4][issued Rs.28 billion refunds to textile sector in the last 18 months (i.e. from January 2017 to June 2018); however, no refunds have been issued to textile sector during the current fiscal year 2018-19. According to "Customs Today" during the last six months around Rs.9 billion of duty was exempted on the import of textile material. Meanwhile, the government announced facilities for the textile sector till 2021 under the Duty Drawback of Tax Order 2018-2021]. Sources further added that the government also provided duty exemption on import of machinery for the textile industry, where the industry imported around $90 million of duty-free machinery for the textile industry.

---

1. Pakistan Textile Journal
2. Textile Industry in Pakistan from Wikipedia.
3. Report on Textile industry of Pakistan by Yasin Ahmed, Research Assistant
4. Federal Board of Revenue Web and Quarterly review

The Government had also approved additional net package of Rs.51 billion for providing cash support and slashing down electricity tariff for boosting the country's exports during next three years with the aims to improve competitiveness of the textile and non-textile export sector.

2. AUDIT OBJECTIVES

This Directorate General thus planned to conduct Sectoral Audit of Textile Sector for the period July, 2015 to June, 2018 with the objective to undertake a detailed assessment of tax records / returns for measuring tax irregularities. The broad objectives of the Sectoral Audit are summarized as follows:

- Whether tax payers compute their annual income tax liability after apportionment of expenses between Presumptive Tax Regime and Normal Tax Regime.
- Whether the Department has designed controls and checks over the taxpayers for such apportionment of expenses.
- Whether there is effective enforcement of such controls to deter the tax payers from filing invalid tax returns and avoiding tax.

3. SCOPE OF AUDIT AND METHODOLOGY

3.1 Scope of Audit

This office selected six field offices i.e. LTU, LTU-II, CRTO, RTO-III Karachi & RTO Hyderabad and RTO Sukkur out of eight formations falling under the jurisdiction of this office. Mainly Audit was confined to examine tax records, assessment records, tax credits allowed and special exemptions availed by taxpayers under Income Tax Ordinance 2001.

3.2 Audit Methodology

To achieve the audit objectives, following methodology has been developed:

- The audit shall be conducted in accordance with INTOSAI's auditing standards and includes such tests of record and other auditing procedure as would be considered necessary in the circumstances
- The effectiveness of Department's efforts shall be examined regarding conducting of Desk Audit of taxpayers in an accurate

and timely manner. The method of processing of tax returns adjusting and resolving erroneous tax returns, assessing penalties/additional taxes and issuing refunds would also be examined.

- A sample of cases selected for Desk Audit by the department, shall be examined to evaluate the action taken by the department in processing the Income Tax Returns.
- Evaluation of exports data regarding textile sector.
- Assessment of risk involved collection of income tax in textile sector.

4. AUDIT FINDINGS

During the course of audit of RTOs/LTU, the following shortcomings were noticed.

4.1 Irregular credit of tax allowed under Section 65 OF ITO-2001 – Rs. 4,075.391 million

According to section 65 of Income Tax Ordinance, 2001 where a taxpayer being a company invests any amount in the purchase of plant and machinery, for the purposes of extension, expansion, balancing, modernization and replacement of the plant and machinery, already installed therein, in an industrial undertaking set up in Pakistan and owned by it, credit equal to ten per cent of the amount so invested shall be allowed against the tax payable including on account of minimum tax and final taxes.

During the Sectoral Audit on Textile Sector, it was observed that in thirty three (33) cases of taxpayers under the jurisdiction of Large Taxpayer Unit, Karachi, it was observed that taxpayers claimed tax credit for Equity / non-equity investment in Plant and Machinery and also claimed brought forward tax credit for non-equity investment in Plant and Machinery under the above provision of law from tax years 2014 to 2017, whereas depreciation schedule depicts addition under the head Plant and Machinery and did not match with the claim of tax credit. Contrary to the above provision of law, tax credit @ 10 % is allowable on the value of investment/addition of Plant and Machinery. It was observed that taxpayer not only claimed previous years' balance tax credit which was, not available for adjustment but also claimed excessive tax credit in current Tax Year. However, no action has been taken by department to retrieve the loss as pointed out by Audit, Government sustained a loss amounting to Rs. 4,075.391 million, as detailed given in Annexure – "A".

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Strengthening of internal control systems to ensure compliance of provisions of law regarding claiming of tax credit.

4.2 Excess determination / Adjustment of refund – Rs. 3,763.342 million

Section 114 of the Income Tax Ordinance 2001 provides that the return filed by the taxpayer shall be complete in all respects. Further, under section 170 a taxpayer is entitled to claim refund if the paid tax is more than the due tax after adjustment of outstanding liabilities.

During the Sectoral Audit on Textile Sector, it was observed that in six field formations of FBR, the Audit observed that four hundred ninety-eight (498) taxpayers calculated their tax liability incorrectly and claimed refund instead of tax payable. They also claimed refund adjustment of the other years against demand of this year which is not correct and against the law. As per law, taxpayer may not claim this refund unless it is determined by the department. Department did not take any legal action to recover the due tax from the taxpayers until the discrepancy was pointed out. This omission resulted in excess determination of refund amounting to Rs. 3,736.342, million as detailed given in Annexure – “B”.

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7^{th} February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Strengthening of internal control systems to ensure compliance of provisions of law in respect of refund claimed and adjustment against tax demand.

4.3 Loss of revenue due to incorrect adjustment of brought forward losses - Rs. 2,954.229 million

Section 57 of the Income Tax Ordinance, 2001 provides that if a taxpayer sustained a loss in business for a Tax Year, the loss would be carried forward to the six following Tax Years and would be adjusted only against profit and gains of such business.

During the Sectoral Audit on Textile Sector, it was observed that in four (04) field formations of FBR, income of twenty-four (24) cases of taxpayers was assessed at loss. These losses were either assessed incorrectly or carried forward erroneously. The losses amounted to Rs. 8,953.489 million and were set off against business income beyond the prescribed limit. Department did not take any legal action to rectify the same until the discrepancy was pointed out. This resulted into potential tax effect of Rs. 2,954.229 million for Tax Year 2015 to 2018, as per details given in Annexure – “C”.

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Strengthening of internal control systems to ensure compliance of provisions of law in respect of Carry / Brought forward Losses.

4.4 Incorrect adjustment of tax credits/ payments – Rs. 2,043.503 million

According to Section 168 of the Income Tax Ordinance, 2001 where an amount of tax has been collected from a person, or deducted from a payment made to a person, shall be allowed tax credit in computing the tax due on taxable income for the Tax Year in which the tax was collected or deducted.

During the Sectoral Audit on Textile Sector, it was observed that in four hundred thirty-eight (438) cases of five (05) field formations of FBR, the assessing authorities, while giving tax credit of withholding/advance tax deductions, allowed, excessive tax credit of Rs. 2,043.503 million. Either the tax deductions claimed were not verified from Integrated Tax Management System (ITMS) or not admissible under the law. This resulted into loss of revenue amounting to Rs. 2,043.503 million during Tax Years 2016 to 2018, as detailed below:

(Rs. in million)

Sr. No.	AO. No.	Name of Taxpayer	Tax Year	Amount
1.	196 (i)	LTU-II, Karachi – 52 Taxpayer (as per Annexure)	2016 to 2018	687.114
2.	241(i)	CRTO-Karachi – 99 Taxpayer (as per Annexure)	2016 to 2018	239.127
3.	242(i)	RTO-III, Karachi – 107 Taxpayer (as per Annexure)	2016 to 2018	796.625
4.	276(ii)	RTO-Hyderabad – 58 Taxpayer (as per Annexure)	2016 to 2018	199.391
5.	278(i)	RTO-Sukkur – 122 Taxpayer (as per Annexure)	2016 to 2018	121.246
			Total:	**2,043.503**

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Strengthening of internal control systems to ensure compliance of provisions of law in letter and spirit for its correct application in a transparent manner.

4.5 Short levy of tax due to incorrect computation of taxable income - Rs. 898.403 million

Section 114 (2) (b) of the Income Tax Ordinance, 2001 required that taxpayer shall fully state all the relevant particulars or information as specified in the form of return.

During the Sectoral Audit on Textile Sector, it was observed that in four (04) field formations of FBR, total income is to be computed for charging of tax under the heads, Income from Salary, Income from Property, Income from Business, Income from Capital Gain and Income from Other Sources.

Taxable income was under-assessed due to calculation errors and omissions, allowing inadmissible expenses which resulted in short imposition of tax for Rs.898.403 million in twenty-two (22) cases for the Tax Years 2016 to 2018, as detailed below:

(Rs. in million)

Sr. No.	AO. No.	Name of Taxpayer	NTN	Tax Year	Amount
1.	10(i)	Dewan Mushtaq Textile Mills Limited	0698609	2015	25.647
2.	11(i)	Dewan Mushtaq Textile Mills Limited	0698609	2016	9.059
3.	13(i)	Dewan Mushtaq Textile Mills Limited	0698609	2018	38.549
4.	34(i)	Reliance Cotton Spinning Mills Limited	0698621	2017	12.268
5.	35(i)	Reliance Cotton Spinning Mills Limited	0698621	2018	11.833
6.	65(i)	Siddiqsons Tin Plate Limited	1252572	2016	7.642
7.	66(i)	Siddiqsons Tin Plate Limited	1252572	2017	25.580
8.	80(i)	Din Textile Mills Limited	0803132	2016	36.765
9.	81(i)	Din Textile Mills Limited	0803132	2017	43.531
10.	82(i)	Din Textile Mills Limited	0803132	2018	58.700
11.	85(i)	Indus Lyallpur Limited (Mima Cotton Mills Ltd)	0803054	2016	30.257

12.	86(i)	Indus Lyallpur Limited (Mima Cotton Mills Ltd)	0803054	2017	29.492
13.	87(i)	Indus Lyallpur Limited (Mima Cotton Mills Ltd)	0803054	2018	33.026
14.	105(i)	Island Textile Mills Limited	0819180	2017	57.083
15.	106(i)	Island Textile Mills Limited	0819180	2018	47.948
16.	126(i)	Indus Dyeing & Manufacturing Company Limited	0804269	2016	131.166
17.	239	Hussain Textile	2590460	2016	0.119
18.	265(i)	New Shan Cotton Gin. & Oil Mills	1270110	2017	40.392
19.	271(i)	Jupiter Textile Mills (Private) Limited	0860438	2017	215.611
20.	272(i)	Jupiter Textile Mills (Private) Limited	0860438	2018	1.399
21.	273(i)	S. S. D Cotton Ginning Pressing Factory and Oil Mills	4015327	2017	12.620
22.	274(i)	S. S. D Cotton Ginning Pressing Factor and Oil Mills	4015327	2018	29.716
Total:					**898.403**

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Strengthening of internal control systems to ensure compliance of provisions of law in letter and spirit for its correct application in a transparent manner.

4.6 Loss of Rs.850.078 million due to non-apportionment of expenses between final and normal tax regimes

Section 67 of the Income Tax Ordinance, 2001 read with Rule 13 of the Income Tax Rules, 2002 provides for apportionment of expenses amongst various business activities carried out by a taxpayer under final tax regime and normal tax regime.

During the Sectoral Audit on Textile Sector, it was observed that thirteen (13) taxpayers registered with 03 field formations of FBR carried out business under final and normal tax regimes. The expenses under both tax regimes were not apportioned accordingly. The Department did not take remedial legal action for assessment of income as per law. This resulted into short assessment of income and consequent loss of revenue amounting Rs.850.078 million in the Tax Years 2016 to 2018, as detailed below:

(Rs. in million)

Sr. No.	AO. No.	Name of Taxpayer	NTN	Tax Year	Amount
1.	02(i)	Ahmed Fine Textile Mills Limited	0698059	2016	67.734
2.	03(i)	Ahmed Fine Textile Mills Limited	0698059	2017	40.969
3.	04(i)	Ahmed Fine Textile Mills Limited	0698059	2018	39.562
4.	19(i)	Diamond Fabric Limited	0698620	2016	20.773
5.	20(i)	Diamond Fabric Limited	0698620	2017	80.898
6.	24(i)	Sapphire Fiber Limited	0676820	2016	75.238
7.	25(i)	Sapphire Fiber Limited	0676820	2017	104.014
8.	26(i)	Sapphire Fiber Limited	0676820	2018	73.406
9.	45(i)	Tata Textile Mills Limited	0698400	2017	28.017
10.	46(i)	Tata Textile Mills Limited	0698400	2018	69.012
11.	125(i)	Indus Dyeing & Manufacturing Company Ltd	0804269	2017	187.835
12.	173(i)	Unique Spinning Mills (Private) Limited	4095929	2018	6.010
13.	264(i)	Sada Bahar Kohistan Cotton Ginning Pressing Oil & Rice Mill	3552138	2017	56.610
Total:					**850.078**

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.

- Loss of government revenue be made good under intimation to Audit.

- Strengthening of internal control systems to ensure tax payers compute their annual income tax liability after apportionment of expenses between FTR/PTR and NTR.

4.7 Loss of Rs.814.498 million due to non-levy of Minimum Tax

Section 113 of the Income Tax Ordinance, 2001 provides that Minimum Tax on the turnover of the taxpayers at prescribed rate is payable, if no tax is payable due to any reason, including assessment of losses or allowing any tax credit, or the tax payable is less than the Minimum Tax. This provision of the law is applicable to the resident company, association of persons and individuals having turnover of rupees ten million or above.

During the Sectoral Audit on Textile Sector, it was observed that in three (03) field formations of FBR, one hundred and eleven (111) taxpayers did not pay Minimum Tax as required under the aforesaid provisions of law, or adjusted the previous year minimum tax against current year tax liability which is not correct due to non-availability of any evidence to ascertain the factual position. This resulted into loss of revenue amounting Rs.814.498 million during Tax Years 2016 to 2018, as detailed below:

(Rs. in million)

Sr. No.	AO. No.	Name of Taxpayer	NTN	Tax Year	Amount
1.	88	Indus Lyallpur Limited (Mima Cotton Mills Ltd)	0803054	2017	46.789
2.	89	Indus Lyallpur Limited (Mima Cotton Mills Ltd)	0803054	2016	62.392
3.	92	Gul Ahmed Textile Mills Limited	0698283	2016	50.079
4.	93	Gul Ahmed Textile Mills Limited	0698283	2018	83.429
5.	121	Indus Dyeing & Manufacturing Company Limited	0804269	2016	182.690
6.	122	Indus Dyeing & Manufacturing Company Limited	0804269	2017	293.218
7.	130	N. P. Cotton Mills Limited	0698347	2018	39.210
8.	138(i)	Artistic Fabric & Garment Industries (Private) Ltd	0709709	2016	12.249
9.	139(i)	Artistic Fabric & Garment Industries (Private) Ltd	0709709	2017	1.449
10.	140(i)	Artistic Fabric & Garment Industries (Private) Ltd	0709709	2018	5.257
11.	200(i)	M. Jalaldin And Brothers	0525456	2017	0.132
12.	209(i)	A. Moosajee Sons (Private) Limited	1689293	2017	0.614
13.	215(i)	Ahmad Manufacturing Corporation (Private) Ltd	3424671	2017	6.933
14.	226(i)	IPC Textile	1141549	2016	0.272
15.	245(i)	97 Taxpayer (As Per Annexure - "F")		2016	29.785
Total:					**814.498**

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Strengthening of internal control systems to ensure compliance of provisions of law for minimum tax liability.

4.8 Non-recovery of tax under section 154 of ITO-2001 – Rs.775.034 million

Every authorized dealer in foreign exchange shall, at the time of realization of foreign exchange proceeds on account of the export of goods by an exporter, deduct tax from the proceeds at the specified rate in First Schedule of Income Tax Ordinance, 2001. The tax deductible under this section shall be the final tax on the income arising from the transactions referred to in this section. The provisions of sub-section (4) shall not apply to a person who opts not to be subject to final taxation, provided that this sub-section shall be applicable from tax year 2015 and the option shall be exercised every year at the time of filing of return under section 114, further provided that the tax deducted under this sub-section shall be minimum tax.

During the Sectoral Audit on Textile Sector, it was observed that in eight (08) cases of taxpayers falling under the jurisdiction of Large Taxpayer Unit, Karachi, the tax deducted on export under Section 154, was incorrectly adjusted against the tax credit under Section 65 of Income Tax Ordinance 2001 without justifying the same. The Department did not initiate any legal proceedings to justify the factual position of tax credit. This resulted into loss of Rs.775.034 million due to short levy of Tax or treated deducted tax as minimum tax, as detailed below:

(Rs. in million)

Sr. No.	AO. No.	Name of Taxpayer	NTN	Tax Year	Amount

1.	19(iv)	Diamond Fabric Limited	0698620	2016	102.337
2.	20(iv)	Diamond Fabric Limited	0698620	2017	59.835
3.	21(iii)	Diamond Fabric Limited	0698620	2018	137.464
4.	24(iv)	Sapphire Fiber Limited	0676820	2016	211.599
5.	25(iv)	Sapphire Fiber Limited	0676820	2017	71.490
6.	26(iv)	Sapphire Fiber Limited	0676820	2018	117.758
7.	106(iii)	Island Textile Mills Limited	0819180	2018	36.292
8.	125(iii)	Indus Dyeing & Manufacturing Co. Ltd	0804269	2017	38.259
Total:					**775.034**

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Strengthening of internal control systems to ensure compliance of provisions of law in respect of tax liability under FTR/PTR.

4.9 Loss of Rs.531.261 million due to non/short levy of Super Tax

According to Section 4B of the Income Tax Ordinance 2001, a Super Tax shall be imposed for rehabilitation of temporarily displaced persons, for the Tax Years 2015 to 2020 on the income of every banking company at the rate of four percent and persons other than a banking company having income equal to or exceeding Rs.500 million at the rate of three percent of the income as specified in First Schedule to the Ordinance.

During the Sectoral Audit on Textile Sector, it was observed that in two (03) field formations of FBR, the Super Tax on income of the persons was not paid by twelve (12) taxpayers. The Department did not initiate any legal proceedings to levy the Super Tax. This resulted into loss of Rs.531.261 million due to non/short levy of Super Tax for rehabilitation of temporarily displaced persons, as detailed below:

(Rs. in million)

Sr. No.	AO. No.	Name f Taxpayer	NTN	Tax Year	Amount
1.	29	Sapphire Fiber Limited	0676820	2016	59.146
2.	30	Sapphire Fiber Limited	0676820	2017	62.390
3.	31	Sapphire Fiber Limited	0676820	2018	58.719
4.	50	Liberty Mills Limited	0803125	2017	110.816
5.	51	Liberty Mills Limited	0803125	2018	31.138
6.	76	Sapphire Finishing Mills Limited	1257866	2017	19.196
7.	77	Sapphire Finishing Mills Limited	1257866	2018	18.863
8.	98	Gul Ahmed Textile Mills Limited	0698283	2017	30.079
9.	99	Gul Ahmed Textile Mills Limited	0698283	2018	55.522
10.	123	Indus Dyeing & Manufacturing Company Limited	0804269	2016	23.483
11.	124	Indus Dyeing & Manufacturing Company Limited	0804269	2017	40.503
12.	271(ii)	Jupiter Textile Mills (Private) Limited	0860438	2017	21.406
Total:					**531.261**

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Strengthening of internal control systems to ensure compliance of provisions of law for imposition of Super Tax.

4.10 Loss of Rs. 399.127 million due to non-collection of advance tax under Section 236 G&H of Income Tax Ordinance, 2001

Section 236 G & H of the Income Tax Ordinance 2001, provides for collection of advance tax from every manufacturer, distributor, dealer, wholesaler or commercial importer of textile, at the time of sale to retailers, or distributor, the tax agent shall collect advance tax at prescribed rates, from the aforesaid person to whom such sales have been made.

During the Sectoral Audit on Textile Sector, it was observed that **i**n five (05) field formations of FBR, one hundred thirty-nine (139) tax withholding agents did not deduct/collect advance tax from manufacturer, wholesalers, retailers, persons who made sales of textile articles. The Department did not take any remedial action to recover the government revenue. This resulted into non-collection of advance tax amounting Rs. 399.127 million, as per details given in Annexure – “D”.

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Strengthening of internal control systems to ensure compliance of provisions of law in letter and spirit for its correct application in a transparent manner.

4.11 Miscellaneous irregularities – Rs.415.756 million

During Sectoral Audit on Textile Sector, it was observed various irregularities amounting to Rs.415.756 million have also been come into notice, details are as under:

a) Non-realization of Workers Welfare Fund - Rs.198.275 million

Under Section 4 of the Workers Welfare Fund Ordinance, 1971 every industrial establishment, whose total annual income exceeded a statutory threshold, is required to pay Workers Welfare Fund @ 2 percent of its total income.

In four (04) field formations of FBR, Workers Welfare Fund was not paid by two hundred and eleven (211) taxpayers for the Tax Years 2016 to 2018. The Department did not take any action to recover the amount. This resulted into non-realization of Workers Welfare Fund amounting to Rs.198.275 million, as per details given in Annexure – "E".

b) Non-levy of default surcharge on payment of Tax after due date - Rs. 143.158 million

According to Section 205 of the Income Tax Ordinance, 2001 where a taxpayer fails to discharge his tax liability on or before the due date of payment, he is required to pay default surcharge at the prescribed rate in addition to the original tax liability.

In five (05) field formations of FBR, one hundred and forty-five (145) taxpayers did not pay the due tax within the specified time for the Tax Years 2016 to 2018. The Department failed to discharge its statutory obligation to levy and recover the default surcharge as per above provisions of law. This resulted in loss of revenue amounting to Rs.143.158 million, as per details given in Annexure – "F".

c) Non-imposition of penalty under Section 182(15) – Rs.45.161 million

According to section 182 (15) of the Income Tax Ordinance 2001, Any person who fails to collect or deduct tax as required under any provision of this Ordinance or fails to pay the tax collected or deducted as required under section 160, such person shall pay a penalty of twenty-five thousand rupees or the 10% of the amount of tax which-ever is higher.

In four (04) field formations of FBR, one hundred and thirty-seven (137) taxpayers did not penalize due non-payment of default amount for the Tax Years 2016 to 2018. The Department failed to discharge its statutory obligation to levy and recover the penalty as per above provisions of law. This resulted in loss of revenue amounting to Rs.45.161 million, as per details given in Annexure – "G".

d) Non-levy penalty on concealment u/s 182(12) – Rs.28.747 million

According to Section 205 of the Income Tax Ordinance, 2001 where a person has concealed income or furnished inaccurate particulars of such income, including but not limited to the suppression of any income or amount chargeable to tax, the claiming of any deduction for any expenditure not actually incurred or any act referred to in sub-section (1) of section 111, in the course of any proceeding under this Ordinance before any Income Tax Authority or the Appellate Tribunal. Such person shall pay a penalty of twenty five thousand rupees or an amount equal to the tax which the person sought to evade whichever is higher.

M/s. New Shan Cotton Ginning & Oil Mills (NTN – 1270110), taxpayer concealed the business of trading of fertilizer and also seems that the investment for purchasing of fertilizer was made from some undisclosed sources of income. Hence, the concealed investment amounting to Rs.83,718,286/- is required to be added back in the total income and taxes accordingly. This action of taxpayer also attracts the provision of penalty under Section 182(12) of the Income Tax Ordinance 2001. The Department failed to discharge its statutory obligation to levy and recover the penalty as per above provisions of law. This resulted in loss of revenue amounting to Rs.28.747 million.

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Strengthening of internal control systems to ensure compliance of provisions of law in letter and spirit for its correct application in a transparent manner.

5. CONCLUSION

After the promulgation of Income Tax Ordinance, 2001 the tax system in Pakistan is operating on self-assessment basis. There is no physical control on the persons (including industrial concerns) registered under different taxes, except under special circumstances i.e. special or total audit. The system promotes voluntary-compliance, self-documentation, self-assessment, and self-policing. Audit is the only instrument in the FBR to control through which compliance level of registered persons is monitored i.e. whereby the government checks whether a registered person/taxpayer has correctly determined his tax liability, deposited due tax to the Government treasuries. During Sectoral Audit it was also observed that taxpayers were not properly allocating expenses between presumptive income and normal income. In a number of cases, it was noticed that taxpayers were not paying even their admitted tax liability along with return. Further, taxpayers were adjusting excess business and depreciation losses and the Department has not designed any checks and controls over such adjustment of losses.

5.1 Key Audit Findings

This Sectoral Audit Report on Textile Sector includes eleven (11) paras on loss of revenue amounting to Rs. 17,520.62 million on account of Irregular Credit of Tax Allowed, Excess determination of refund, incorrect proration/computation Irregular claim / Adjustment of minimum tax and non-realization of Advance Tax under Services.

5.2 Recommendations

In order to safeguard the government's interests, it is recommended/ suggested that Desk audit system may be strengthened to regularly review the cases of such taxpayers, who derive income under presumptive tax regime and normal tax regime, so amendment of self-assessment made u/s120 by the taxpayers may be undertaken u/s 122 of the Income Tax Ordinance 2001 by the concerned audit / enforcement units to retrieve the loss of revenue. As well as Information Processing Division (IP) may be directed to regularly check the cases where audited accounts not filed by the taxpayers for enforcement of filing of audited accounts as such accounts are the basis of return for computation of income and tax liability of taxpayers. Detail of admissible and inadmissible expenses and apportionment of expenses between normal income and presumptive income may be sought through annexure with the return as no detail is available on present return.

ACKNOWLEDGEMENT

We wish to express our appreciation to the management and staff of Field Offices of Federal Board of Revenue for assistance and cooperation extended to the auditors during this assignment.