

VALUE ADDED TAX
AUDITING GUIDELINES

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CHAPTER - 1

Introduction

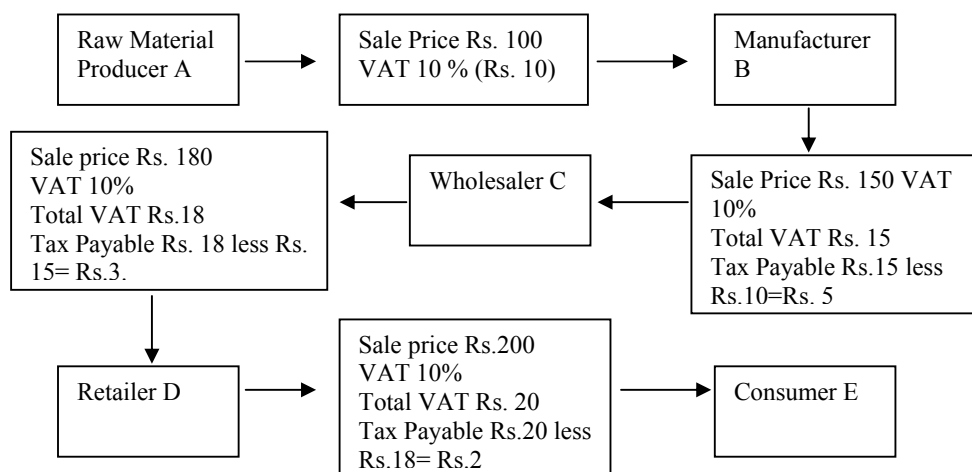
1.1 Mandate for audit

The Comptroller and Auditor General of India has the mandate to audit the receipts flowing into the Consolidated Fund of Union, States and Union Territories under Articles 149 to 151 of the Constitution of India read with the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The role of the Comptroller and Auditor General of India with regard to the audit of receipts is specified in Section 16 of the CAG's (DPC) Act, 1971. This section states:

“It shall be the duty of the Comptroller and Auditor General to audit all receipts which are payable into the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make for this purpose such examination of the accounts as he thinks fit and report thereon.”

1.2 Importance of Value Added Tax

Value Added Tax (VAT) is a modern and progressive form of sales tax. It is a multipoint tax with provision for granting setoff or credit of the tax paid on the purchases against the tax payable on sales. In simple terms 'value added' means the difference between the sale price and the purchase price. Goods pass through various stages in the manufacturing and the distribution chain till they reach the consumer. At each stage, some value is added. VAT works on the principle of tax on the value addition at each such stage. VAT is payable, when there is sale of taxable goods by a registered dealer within the state in course of his business. The tax so charged or collected is shown separately in the books of accounts and should not form a part of the turnover of the dealer. The flow chart given below explains the concept of VAT in a simple manner.



Value Added Tax, though specific to individual States, has certain common characteristics. The Act introducing VAT, repeals and replaces Sales Tax/Commercial Tax/Trade Tax Acts which existed before VAT came into existence. It similarly replaces the Acts[∞] levying taxes on transfer of property in the goods involved in the execution of Works Contract Act, Motor Spirit Taxation Act and Transfer of Right to Use in Goods for any Purpose Act. The Central Sales Tax (CST), although continuing for the present, would be gradually phased out. Further, over a longer period of time, VAT itself may get subsumed in Goods and Services Tax (GST). While the abolition of CST and introduction of GST is yet to happen, the other Acts have already been repealed and replaced by VAT introduced in most of the States in the last three-four years. Consequent upon the introduction of VAT, the organisational structure of erstwhile Sales Tax (known by different nomenclatures) Department has undergone significant change in most States.

1.3 Need for guidelines for auditing VAT

1.3.1 The approach to collection of VAT is different from the approach to the collection of its predecessor taxes. Needless to say, audit practices for the audit of VAT would also require fresh thinking. It must be noted that the rules governing collection of VAT in all the States are in evolutionary phase. Similarly, the organisation for administration of VAT Acts is yet to stabilize. Although some States have started audit of VAT, practices in this regard are also in the evolutionary phase. A formal manual for audit of VAT can be formulated by each Accountant General (AG) of a State only after the rules governing collection of VAT have sufficiently evolved, the State's organisations for administration of the VAT Act stabilised and the office of the AG gained reasonable experience. In the intervening period, these guidelines would serve, as the minimum guidance to the auditors to determine the extent of audit checks, steps and procedures to be applied in audit. This would also constitute the criteria to evaluate the audit findings.

1.3.2 Another reason for not applying the audit practices being employed for the audit of sales tax *mutatis mutandis* to the audit of VAT is the significant departure insofar as the assessment is concerned. In the earlier Sales Tax Act, the tax authorities finalised the assessments for all the registered dealers, whereas, under the Act for VAT, all the dealers are to file the returns, including annual returns, along with the specified statements. The returns so furnished, if found to be in order, would be accepted as self assessment. Unless the dealers are selected for business audit³, assessments would be subjected to no further scrutiny. Further, in cases of self assessments only the statements are to be filed, but not the invoices, all the declaration forms etc.

1.3.3 It may, therefore, be worthwhile to closely examine the process of transformation of the existing sales tax system into the VAT regime in all the States where VAT has been introduced. The lacunae in the VAT Act which may lead to leakage of revenue and malpractice by the dealers, may be analysed

[∞] As prevalent in Maharashtra. Similar Acts may be prevalent in different States by another name or may be absent/subsumed under another Act.

³ Finalisation of assessment by scrutiny of documents by the assessing officer in the business premises of the dealer.

with a view to suggesting remedial measures. This will also result in a threadbare scrutiny of the rules and procedures governing VAT collection throughout the country. Our recommendations will also help the State Governments to evolve necessary steps to plug the loopholes in the Act and Rules to ensure transparency in maintenance of records and collection of VAT. **We may, therefore, attempt a review of this aspect for possible inclusion in the Audit Report for 2008-09.**

1.4 Arrangement of the guidelines

These guidelines are sub-divided into four major parts. Chapter-2 details the steps for audit planning; Chapter-3 outlines implementation of the audit plan with reference to the field inspections; Chapter-4 lists checks to be exercised for the audit of VAT. The guidelines are indicative and at times illustrative but certainly not exhaustive. Continuous refinement of the guidelines for developing manuals over a period of time would be imperative. Feedbacks in the form of suggestions/corrections are solicited.

CHAPTER - 2

Audit Planning

2.1 Auditing standards

2.1.1 The Auditing Standards issued by the Comptroller and Auditor General of India in 1994 and revised in 2002 prescribe the basic principles and practices which the Government auditors are expected to follow. These have to be supplemented by the guidelines contained in the Manual of Standing Orders and other Manuals governing audit in IA&AD, which state that:

- The Auditor should plan the audit work to ensure high quality audit in an economic, efficient and effective manner;
- Audit should be properly guided, directed and supervised; and
- Audit should sufficiently acquaint itself with the internal control system to express an opinion on the adequacy, fidelity and integrity of the systems and procedures. Not merely the adherence to the internal control measures need be examined in audit but it should also provide a reasonable assurance that the adherence is not overridden by instances of collusion.

The audit plan should keep in view the required nature, frequency, periodicity and extent of audit checks.

2.2 Scope of audit

The scope of the audit of receipts in relation to VAT includes:

- 2.2.1** Examination of the rules and procedures for survey and identification of potential assesseees and persons from whom the receipts may become due.
- 2.2.2** Examination of the laws, notifications, rules and procedures for levy of VAT and individual cases with a view to ensure that the amounts legally due are demanded and are paid and credited to the Government account.
- 2.2.3** Examination of the accounts and individual cases relating to the receipt of payments and their incorporation in accounts, which is certified in audit and reported upon.
- 2.2.4** Examination of the rules and procedures for keeping subsidiary accounts of receipts, demands, collections, recoveries, refunds, compensation claims, set-offs, arrears etc.
- 2.2.5** Examination of individual errors, irregularities, frauds, forgeries, acts of negligence and omission, double refunds, delays in recovery, incorrect, irregular or fraudulent accounting or prolonged delays in accounting, write-off of irrecoverable revenues etc.
- 2.2.6** Analysis of individual failures pointing at defects in the rules and procedures and management failures.
- 2.2.7** Discussions with the executive authorities at appropriate levels and sending reports to the audited entity at various levels on the findings of

audit including analyses of findings, conclusions and recommendations of audit.

2.3 Developing the audit plan

Subject to specific instructions issued by the Headquarters from time to time, the following process/criteria may be adopted for selection of the units for audit:

2.3.1 Interaction with the audited entity

As audit of VAT is a new area, both for VAT administrators as well as for the Audit offices; there is a greater need to interact with the audited entity at various levels to decide on the quantum, methodology and periodicity of units to be taken up in Audit.

2.3.2 Audited entity profile

Preparation of the audited entity profile, in the form of electronic database, should pre-date audit planning. There should be district wise data on units indicating the names, addresses and telephone numbers of the units, number of dealers (classified into suitable ranges of turnover and commodities dealt with), important observations of the preceding years' inspection reports (IRs)/Audit Reports (ARs), revenue realised, refunds allowed during preceding year etc.

2.3.3 Database of the stock position

The opening and closing stock disclosed by the dealers and also determined by the assessing officers while finalising the assessments and while furnishing replies to the audit observations should be maintained in a database for future use in audit. For this, dealers having substantial turnover should be selected.

2.3.4 Review of the objection book, past IRs and ARs

These should be periodically reviewed to find out the age, frequency and the seriousness of irregularities noticed in the various units and abstracts prepared thereon. These abstracts should be particularly kept in view while selecting and conducting the audit of the units. Records not produced during past audits should also be taken note of and be specifically looked into by the auditor.

2.3.5 Media reports and complaints

A database on media reports- print and electronic- on non/short/incorrect assessment, levy or/and collection of revenue may also be prepared. Similarly, complaints, if any, should be entered into a complaint register. These need to be kept in view by the audit parties while conducting the audit of a unit.

2.3.6 Use of Information Technology in VAT audit

The States are expected to make in due course of time, extensive use of IT to reliably capture the data relating to all aspects of VAT. It would then become incumbent upon the auditor to use Computer Aided Audit Techniques (CAATs) for the audit of VAT. When the VAT administration's financial systems are computerised, the auditors must consider the impact of those systems on the audit plan. Specifically, they must:

- familiarise themselves with the relationship between the financial statements and the computerised systems which support them;
- assess the need to involve IT audit specialists in audit;
- consider the impact of IT on the assessment of risk both at the entity level and for each account area;
- consider the scope for using special audit software to support the audit, including identification of the most appropriate means of accessing and analysing transaction data;
- consider whether the audit approach might or should include some reliance on computer controls; and
- identify developing financial systems which will require audit involvement.

2.3.7 Horizontal audit

Since VAT has been recently introduced, there is a need to take up horizontal audit simultaneously of all aspects of VAT viz. registration, returns, assessment, collection of taxes, interest and refund of selected dealers of a unit. Once the audit process is streamlined, audits can be conducted covering a specific group of taxpayers, specific industry (construction etc) or a line of business (e.g. retail), and/or certain items from the returns. This would involve specific checks designed to address a particular risk or determine the level of tax compliance in a particular sector.

2.3.8 Audit approach

With the introduction of VAT, the States may effect changes in the structure of the machinery for administration of the erstwhile sales tax. In some States, e.g. Maharashtra, the structural changes have already been effected. Audit will also have to make suitable concomitant changes relating to selection of a unit and the frequency, quantum and periodicity of its audit.

As far as quantum of business audit is concerned, it would have to be determined on the basis of risk assessment specific to the branches of the VAT administration. The guiding factors for determination of the quantum would be the estimated propensity of tax errors (unintended mistakes in tax calculations on account of software defects, ambiguous interpretations etc.), tax avoidance (attempted short/non-payments of tax without the connivance of tax authorities) and tax frauds (non-payment of tax aided by acts of omission and commission by tax authorities).

Fraud and evasion in VAT can assume many forms (IMF working paper by Harrison and Krelove). It can be a result of traders omitting a sales transaction from their accounting records, a deliberate suppression of sale or even falsification of invoices. Some of the main types of frauds and evasion that could occur in all the States administering VAT are

- (i) Inflated refund claims:** Creation of fake invoices for purchases not made;
- (ii) Underreporting sales:** Evasion by small operators in retail services is common as in such cases the taxable inputs are small relative to taxable

- sales. By concealing sales to the domestic market, traders not only evade their own obligation to charge VAT on their output but also generate excess credits to be refunded;
- (iii) **Fictitious traders:** Some persons could register as dealers, invent fake invoices for exports on non-existent goods and claim VAT refunds. The enterprises registered may not exist in reality;
 - (iv) **Domestic sales disguised as exports/stock transfers:** Under this scheme, traders could sell goods on the domestic market but claim a refund using a fake export invoice/stock transfer documents;
 - (v) Traders may be liable to VAT but do not register;
 - (vi) Input tax credit may be claimed for taxable supplies used in exempt activities/credit may be claimed on private purchases;
 - (vii) Input tax credit may be claimed for invoices from unregistered suppliers.

Thus, refunds under VAT are a potential risk area. While it is evident that a cent percent check cannot be exercised, neither by the states nor in audit, the incidence of evasion and fraud can only be mitigated by information gathering, intelligence work (at the department level) and risk assessment in identifying business areas and traders who present the greatest risks to revenue. This may also require close co-ordination with other tax authorities and auditors in terms of **cross checking** with income tax returns and records (turnover details, depreciation availed for capital goods etc) central excise records (eg. cenvat availed, goods manufactured/commodities traded by the assessee etc), customs records (verification of exports etc) and with the database on interstate dealers (TINXSYS)¹. In the initial stages, the experience of the audit parties conducting audit of cenvat can be of use and audit parties can be composed of some officials drawn from the central excise wing.

At this stage, therefore, it is essential that audit of VAT must be conducted at once so as to also determine the extent of audit coverage. Typically, since the system encourages voluntary compliance and is based on dealers submitting their tax returns, which are largely based on self assessment, the returns are not accompanied with other financial and accounting records of the assessees. Consequently, it may be necessary to visit the premises of the manufactures/dealers, in line with the powers under Central Excise[#] and now Service Tax[‡], to check whether mandatory records are being maintained, to cross verify details in the VAT returns with the base records etc. Of course such power is to be exercised with discretion and after proper risk analysis. **This issue can be taken up by all the offices with the respective State Governments.**

¹ TINXSYS is a centralized exchange of all interstate dealers spread across the various States and Union territories of India. It is an exchange authored by the Empowered Committee of State Finance Ministers (EC) as a repository of interstate transactions taking place among various States and Union Territories. It helps the Commercial Tax Departments of various States and Union Territories to effectively monitor interstate trade.

TINXSYS can be used by any dealer to verify the counter party interstate dealer in any other State. Apart from dealer verification, Commercial Tax Department officials use the system for verification of central Statutory Forms issued by other State Commercial Tax Departments and submitted to them by the dealers in support of claim for concessions. TINXSYS also provides MIS and Business Intelligence Reports to the Commercial Tax Departments to monitor interstate trade movements. The extent of use of the system and the MIS generated can be examined in audit.

[#] Rule 22 (3) of the Central Excise Rules, 2002.

[‡] Rule 5A (2) of the Service Tax Rules, 1994 as amended in December 2007.

The available literature (Primer on VAT by Dr. Raja Chelliah and others as well as other articles on VAT) suggests some guiding factors for selection of cases for optimising audit effort. The number of dealers whose records should be checked in the various branches on the whole should not exceed 10 to 20 *per cent* of the total dealers.^Ψ

Within this overall selection it is desirable that about 10 *per cent* of the cases selected should be of large tax payers. About 75 *per cent* of the cases selected should be of high risk tax payers (high risk could be determined using parameters like ratio of sales to purchases, excess of purchases over sales, decreased sales, history of involvement in tax errors, tax avoidance and tax frauds and any other parameter defined on the basis of documented risk perception.). About 15 *per cent* of the cases should be selected on the basis of stratified random sampling using turnover as the criterion for stratification.

A similar exercise on the lines enunciated above would have to be undertaken by the respective offices of the Accountants General for their respective States to determine the frequency, quantum and periodicity of audit and incorporated in their annual audit plans.

2.4 Preparation and approval of the audit plan

Audit plan should be prepared in the biennial format as per the Headquarters' circular of June 2003, duly supported by the documents like White Paper on State finances, Fiscal Responsibility Act of the State, Finance Commission's (both Union and State) projection of revenue, recommendations of taxation reforms committee, recommendations of PAC etc. The audit plan should be further split into quarterly audit programmes.

^Ψ PAsG/AsG may adopt greater percentage for test check depending upon the analysis of risk factors and availability of manpower. These should be properly analysed and proposed in the audit plan.

CHAPTER - 3

Implementation of the Audit Plan

3.1 Audit of receipts – Auditing standards

In audit of the Government revenue receipts such as taxes, duties and other levies, the auditor should satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, levy and collection and for this purpose carry out such examination of the accounts as he thinks fit.

- 3.1.1** In verifying compliance with the applicable tax laws, audit of receipts is regulated mainly with reference to the statutory provisions as judicially interpreted.
- 3.1.2** Interpretation of law is a judicial function. The auditor does not review a judicial decision. Audit may, however, point out cases where there is an apparent lacuna or loophole in law or where certain provisions in the law do not apparently bring out the true legislative intent and make suggestions for their amendments.
- 3.1.3** The auditor should see that the internal procedure adequately secures correct and regular accounting of demands, collections and refunds, that no amounts due to the Government are left 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.

3.2 Formation of VAT audit party

Once the audit plan has been approved and programmes finalised, the selected units for audit should be allocated among the available audit personnel. A VAT audit party comprising Sr. AO/AO, AAO/SO and Sr. Ar./Ar. should be drawn up. As mentioned earlier, audit parties could include personnel from central excise audit, atleast initially.

3.2.1 Deployment of manpower

For the purposes of deployment of manpower in VAT audit, the following factors should be kept in view:

- **Previous experience** – Since VAT audit is in its infancy, this factor may not be very relevant. Preferably, those personnel, who have passed Revenue Audit/are experienced in sales tax audit, should be given priority over others.
- **Training** – Training/reorientation programmes may be conducted for those who were earlier associated with sales tax audit to enable them to appreciate both the analogous provisions in the VAT Act and the erstwhile Sales Tax Act and also the provisions which are departures from the earlier Acts.

- **Technical literature** – All case laws, circulars, notifications and any other relevant material (e.g. newspaper clippings) must be circulated every month to each audit party for use in conduct of audit.

3.3 Preparing for audit – Preliminary study at SRA headquarters

Before undertaking the audit of a unit, the following may be examined in the SRA headquarters of the AG's office:

- previous IRs (sales tax);
- old outstanding paragraphs including potential draft paragraphs with a view to convert them into draft paragraphs;
- observations in the objection book;
- copies of circulars/notifications/amendments issued by the State/Central Government(s);
- important and relevant decisions of the Tribunals/High Courts/Supreme Court in regard to Sale Tax/VAT and CST Act.
- newspaper clippings and complaint cases; and
- any other information relevant to the unit to be audited.

3.3.1 Evaluation of internal controls

Internal controls are intended to provide reasonable assurance of proper enforcement of laws, rules and departmental instructions. These also help in the prevention and detection of frauds and other irregularities. The internal controls also help in creation of reliable financial as well as management information systems for prompt and efficient services and for adequate safeguards against evasion of taxes and duties.

It is, therefore, the responsibility of the department to ensure that a proper internal control structure is instituted, reviewed and updated from time to time to keep it effective.

The levy, assessment and collection of VAT are governed by the VAT Act and the rules made as well as the notifications issued thereunder from time to time by the department. On receipt of the returns, from the dealers, it is the responsibility of the department to ensure that the returns are accompanied by the stipulated documents/statements. It is also to satisfy itself that the returns and the self assessment claim are prima facie correct, consistent and complete in respect of the amount of tax, interest, adjustments and arithmetical accuracy. The department should also ensure that the envisaged business audit is conducted in the prescribed manner.

Audit examination of internal controls should ascertain the following:

- whether the internal controls are in place;
- whether these are adequate and effective;
- whether there is effective adherence to the internal controls;

- whether adherence to internal controls are being overridden by acts of collusion, omission, negligence etc.
- whether the monitoring & vigilance wing and bureau of investigation (IB) are functional and effective in safeguard the government revenue in such cases; and
- whether the Government is sensitive to the failure of any of the internal controls instituted and initiates requisite corrective steps timely.

The impact of the above should be examined and commented upon in audit bringing out the revenue implications.

3.3.2 Trend analysis

A time series analysis of the revenue for four consecutive years including that of the audited year should be done. Also, the budget estimates should be similarly compared with the actual receipts. The reasons for the unusual jumps and falls should be ascertained, analysed and commented upon. Similar analysis should be done in respect of the number of cases assessed, in arrears, refund cases, recoveries etc.

3.4 Quantum of audit

Around 65 to 70 *per cent* of the VAT revenue is contributed by the top 100 dealers and the balance 30 *per cent* by the remaining dealers. Hence, the following percentage of audit of assessments could be adopted:

- 100 *per cent* of the top 100 dealers and all the dealers with gross turnover of Rs. 5 crore^Ψ or more.
- 5 *per cent* of the next top 500 dealers and those opting for composition tax.³
- 1 *per cent* of the remaining dealers.

It is expected that by adopting these percentages, more than 75 *per cent* of the VAT revenue would be covered in audit.

3.5 Detailed audit checks

The detailed audit checks as given in chapter 4 of this book should be performed during the audit of every unit. All the columns in the check list should be answered based on the documents checked and any inconsistency noticed should be suitably commented upon giving a reference to the audit memos issued. The check list should invariably be signed by the concerned member of the VAT audit party to whom the work is allotted. The check list should be attached with the draft local audit report submitted to the VAT audit headquarter for record.

The norms for detailed scrutiny of cases of dealers can be fixed individually for the respective cadres i.e. Sr. AO/AO and AAO/SO. The indicative limit for check by Sr.AO/AO could be cases where gross turnover exceeds Rs. 2.50

^Ψ The amount would vary from State to State. PAsG/AsG would analyse these while proposing the amount for 100 *per cent* check in their respective audit plan.

³ The selection should be done by using the statistical sampling techniques.

crore and for AAO/SO the cases where the gross turnover falls between Rs.50 lakh and Rs. 2.50 crore. The responsibility/duty of the party members can be adopted from those existing for sales tax audit. Depending upon the circumstances which emerge, the duties could subsequently be redefined by the offices.

3.6 Preparation of working papers

It is necessary that the audit work is properly documented in the working papers and maintained unit-wise. The complete and updated working paper file must be made available to the next audit party visiting the unit to enable them to understand the audited unit's working system and the areas that warrant their particular attention.

The working papers should be prepared in two parts:

3.6.1 Current audit

- Complete and updated address of the unit along with the telephone numbers.
- Nature of the work being performed by the unit.
- Details of analysis of the risk factors.
- Details of the number of cases assessed by each assessing authority – below Rs. 50 lakh and above Rs. 50 lakh.
- Details, including legality and arithmetical accuracy, of the acceptance of claimed input tax credit (ITC).
- Details of the closing balance and the opening balance of the year (on the appointed day) in which VAT is implemented.
- Details of the refund cases.
- Details of cases checked by each member of the audit party.
- Audit assurance about the records checked.
- List of records/information not produced to Audit for check during next audit.

3.6.2 Future audit (for further action of the SRA headquarters or the next audit party)

- Details of documents/information not made available by the audited unit. A clear note should be made giving details of the specific purpose for which these documents had been requisitioned. The matter should then be taken-up by the Group Officer/Accountant General with the appropriate levels in the department/Government.
- Details of other specific information, which need to be cross-verified from specific records not made available by the unit.
- Any other important instruction to the party for next audit.

The working papers should be signed by the AAO and Sr. AO/AO and reviewed by the Group Officer, in addition to periodical supervision of field parties by the latter as per the instructions issued by the Headquarters from time to time.

CHAPTER - 4

Audit Checks

4.1 Questionnaire

The detailed checks of the various aspects of VAT in respect of the following areas are enumerated in the annexes indicated against them. These check are largely indicative in nature and are certainly not exhaustive. The findings after applying these checks should be analysed to reach sustainable audit conclusions.

- **Registration of dealers (Annex I)**
- **Submission and scrutiny of returns (Annex II)**
- **Self/provisional assessment (Annex III)**
- **Business/Tax Audit assessment (Annex IV)**
- **Refunds, set off and compensation claims (Annex V)**
- **Input Tax Credit (ITC) (Annex VI)**
- **Payment and recovery of tax, penalty and interest (Annex VII)**
- **Miscellaneous (Annex VIII)**

4.2 Illustrative audit observations

Some illustrative audit observations are given in Annex IX for reference.

ANNEX I

Registration of dealers

**Date
audit**

of

Sr. No.	What to check	Y/N/NA	Comments
(i)	Whether the dealer had submitted an application for registration within the prescribed time from the date of his liability as per the applicable provisions of the VAT Act.		The audit party should prepare a section wise list of the applications that were not made in the prescribed forms. The details of the forms may also be indicated. The list should also indicate whether such cases were referred to the Business audit branch.
(ii)	Whether all dealers registered under the repealed Act, submitted the application for registration within the prescribed time?		The audit party should prepare a list of those who have not applied indicating against each the action taken by the department.
(iii)	Whether the dealers, whose applications for registration under the repealed Act were pending for decision before the Act was repealed, submitted applications for registration under the VAT Act within the prescribed time?		The audit party should prepare a list of those who have not applied indicating against each the action taken by the department.
(iv)	Whether the VAT dealers have properly carried forward the closing stock of goods under the existing Sales Tax Acts as opening stock under the VAT Act.		The audit party should make a list of cases in which there is a discrepancy in the closing and opening stock of the goods and work out the consequent revenue loss/impact.
(v)	Whether market survey was conducted on periodic basis to unearth the errant dealers? Have departmental instructions been followed regarding the frequency of surveys?		The audit party should make a list of date-wise surveys conducted, no. of dealers unearthed, no. of dealers registered and reasons for non-registration of those unearthed. A similar list must also be made in respect of those dealers in respect of whom input tax credit has been claimed (i.e. purchases above Rs. 1 lakh in a single transaction have been included in the return of any dealer) but whose returns are not available.

(vi)	Are prescribed registration fees and security paid by all the applicants?		The audit party should make out a list of registration applications without the prescribed fees and security.
(vii)	Whether the registration certificate is issued by the competent authority within the prescribed time and with correct TIN.		TIN should consist of 11 digits, the first two being the State code. The audit party should prepare a list of all the dealers whose TIN is not correct and no return is available.
(viii)	Whether the registration certificate indicates the goods being produced/dealt in with correct description.		The audit party should ascertain the correct classification of the goods and make a list of such cases where the dealers are dealing in the goods not mentioned in their RC and work out the consequent loss of revenue.
(ix)	Whether any dealer has been issued duplicate TIN.		The audit party should prepare a list of all dealers who have been allotted more than one TIN after running duplicate key detection test using CAATs. In case this is not possible, the party should get a certified CD containing all the details with TINs. The returns submitted by these dealers should be cross verified with the statutory forms issued to them.
(x)	Whether in case of any change in the nature and/or place of business, the RC has been suitably amended.		The audit party should make a list of all such cases where the returns are not submitted as per the amended RC.

(xi)	Whether the prescribed registers/records like VAT register, default register, late registration register, issue of RC register etc are being maintained/updated properly.		The audit party should ke a list of all registers/lists which are either not updated or are incomplete or have discrepancies. The extent of discrepancies should be clearly indicated.
(xii)	Whether the application for cancellation was made within the prescribed time of the closure of the business and whether the cancellation order was issued in time.		The audit party should make a list of all the cases where cancellation orders were issued but the electronic database was not corrected indicating the arrears of tax due against each.
(xiii)	Whether cancellation of VAT dealers, registered under the appropriate provisions of the VAT Act, has been made after the expiry of the prescribed period from the date of registration.		The audit party should make a list of all the cases where cancellation orders though due have not been made.
(xiv)	Whether the VAT dealer whose registration is cancelled has paid back Input Tax Credit (ITC) availed in respect of all the taxable/capital goods on hand on the book value on the day of cancellation.		The audit party should make a list of all the cases where cancellation orders have been issued but ITC has not been refunded.

(xv)	Whether the certificate of a VAT dealer who has failed to pay the tax, interest or penalty payable, failed to furnish the monthly returns and has committed any other offence, has been suspended.		The audit party should make a list of all such cases referred by the returns branch where RC was not suspended.
(xvi)	Whether before cancelling the certificate of registration it has been ensured that the certificate merits cancellation on the basis of prescribed conditions.		Make a list of cases where the registration certificates have been cancelled in disregard to the conditions prescribed and bring out the financial implications of the tax foregone. Check the prescribed conditions e.g. where the business has been discontinued, where the firm stands dissolved, where in respect of a dealer his turnover and taxable turnover is within the prescribed threshold (e.g. total turnover during the year immediately preceding the appointed day is less than Rs. 5 lakh and taxable turnover is less than Rs. 10,000 in a year) (Gujarat VAT Act, 2003).
(xvii)	Whether the dealer whose certificate of registration has been cancelled has paid the tax, penalty or interest due for any period prior to the date of cancellation whether such tax, penalty or interest is assessed before the date of cancellation but remains unpaid or is assessed thereafter?		A list of cases where the provisions have not been followed may be prepared and the financial impact may be calculated.
(xviii)	Whether the dealer whose certificate of registration has been cancelled has paid, in respect of the taxable goods held in stock on the date of cancellation, an amount equal to the tax which would have been payable if the goods had been sold at fair market price on that date or the total tax credit previously claimed in respect of such goods, whichever is higher?		A list of cases where the provisions have not been followed may be prepared and the financial impact of the tax not collected or the input tax credit not refunded by the dealer may be calculated.

(xix)	Any dealers registered, as on the appointed day under any of the central acts or earlier laws are deemed to be registered under the Act. Whether it has been verified that details of all such dealers have been taken into account in the new dispensation?		List of dealers registered under the other acts may be cross checked with the dealers registered under this act and infirmities pointed out. In case the turnovers of the dealers are ascertainable from the records, financial impact of the tax not levied (on unregistered but eligible dealers) and collected can be worked out Alternatively, insufficiency/ lack of adequate database/ survey can be pointed out.
(xx)	Whether there are any cases where certificates of registration have been found to be transferred by one dealer to another?		In case of irregular transfer of the certificates, there is a danger of corruption of the database of dealers and evasion of tax. Any change in the nature, ownership, place etc of business will have to be covered by amendment of the certificate within six months (period may vary under different Acts) and not transfer.
(xxi)	Whether at the time of amendment of a certificate of registration, the amendment was without prejudice to any liability for tax, interest or penalty or for any prosecution of offence under the Act?		Make a list of cases where consequent to amendment, the tax, penalty and interest has not been collected correctly and work out the financial implication.
(xxii)	Whether the assessing officer has imposed penalty as provided under the Act after following due procedure in case of a dealer who fulfils conditions necessitating amendment in his registration certificate but has not brought facts to the notice of the assessing officer?		A list of cases where the provisions have not been followed may be prepared and the financial impact may be calculated.
(xxiii)	The Act provides for cancellation of the certificate of registration by the departmental authority in certain circumstances, such as failure of the dealer to file three consecutive returns within the prescribed time period, knowingly furnishing incorrect details in his returns etc. Whether such instances have been detected and certificates cancelled as provided under the Act?		A list of cases where the provisions have not been followed may be prepared. Where the certificates have not been cancelled, trade would continue and tax credit could continue to be availed. The financial impact of less payment of tax and tax credit irregularly availed may be calculated.

(xxiv)	Whether on the failure of the dealer to surrender his certificate of registration on cancellation, the necessary penalty has been imposed and recovered by the assessing officer?		The financial impact of non-levy of penalty may be calculated. Also the point made above may hold true in this circumstance also.
(xxv)	Whether the Commissioner has published the particulars of the dealers whose certificate of registration has been cancelled as provided under the Act?		A list of such dealers may be prepared and irregular availing of tax credit by such dealers may be worked out. Also a dealer purchasing goods from an unregistered dealer has to pay purchase tax; the non-levy of purchase tax can be calculated.
(xxvi)	Whether every registered dealer has filed a declaration stating the name of the person or persons who shall be deemed manager/managers of business of such dealer?		Compliance with the provisions in the Act may be seen.
(xxvii)	Whether a periodical survey/ enumeration of the dealers whose registration certificates have been cancelled has been done to check if their total turnover and taxable turnover calculated from the commencement of any year exceeds the thresholds of turnover on any day within the year?		In case no survey has been done, this may be commented upon. Alternatively, if a survey has been done, the action taken may be seen.
(xxviii)	Any other point(s) specify		
	Checked by	Signature:	
		Name:	
		Designation:	

Annex II

**Submission and scrutiny of
returns**

**Date of
audit**

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Sr. No.	What to check	Y/N/NA	Comments
(i)	Whether all regular registered VAT dealers/presumptive tax dealers submitted their monthly/quarterly/annual returns in time and in the prescribed proforma* indicating that the payment of tax was made on or before the prescribed period.		The audit party should make a list of all the dealers who are not submitting the returns regularly. The list should indicate whether references to business audit branch were made.
(ii)	Whether revised returns have been filed within the specified time indicating the reasons for such revision.		The audit party should make a list of all such dealers and ascertain the suitability of the reasons assigned by the dealers for the revision of returns.
(iii)	Whether the VAT dealer whose registration has been cancelled has filed the final return within the specified time.		The audit party should make a list of all such dealers in whose case this has not happened and work out the revenue implication.
(iv)	Whether the casual dealers have filed declarations within the specified time of arrival of goods in the state and paid the advance tax and filed final declaration on the last day of business along with the details of payment of tax		The audit party should make a list of all the dealers who filed a purchase declaration but did not file sale declaration.
(v)	Whether the dealers whose gross turnover exceeded the prescribed limit have furnished the audited accounts within the specified time.		The audit party should make a list of all such dealers in whose case this has not happened and ask for the Annual Audited Accounts.

* The commodities in the schedules of the VAT Acts are allotted Code Numbers, which are developed by the International Customs Organisation as Harmonised System of Nomenclature (HSN) and adopted by the Customs Tariff Act, 1975. However, there could be certain entries in the schedules for which HSN numbers are not given. Those commodities which are cited with HSN number should be given the same meaning as given in the Customs Tariff Act, 1975 (as aligned with the Central Excise Tariff Heading). Those commodities, which are not cited with HSN numbers, should be interpreted, as the case may be, in common parlance or commercial parlance. While interpreting a commodity, if any inconsistency is observed between the meaning of a commodity without HSN number and the meaning of a commodity with HSN number, the commodity should be interpreted by including it in that entry which has the HSN number.

(vi)	Whether the VAT dealer, who is a manufacturer also, has filed a true and complete statement showing the quantity and value of goods received for use/consumption in manufacture, closing stock of such goods and quantity and value of goods manufactured.		The audit party should make a list of purchases, on selection basis, reflected in returns which need cross verification with Income tax/Central excise records and offer comments on such cases referred to them by Headquarters.
(vii)	Whether penalty at the prescribed rate on the tax and interest payable from the date it has become due to the date of its payment or to the date of order of assessment, whichever is earlier, has been levied.		The audit party should make a list of all such dealers in whose case this has not happened and work out the revenue loss case wise.
(viii)	Whether a VAT dealer or any other person or dealer liable to pay tax, interest and penalty, has deposited the amount on the date prescribed in the notice.		The audit party should make a list of all such dealers in whose case this has not happened and work out the revenue due including interest/penalty scrutinised case wise.
(ix)	Whether returns were scrutinised by the assessing authorities to verify the correctness of calculation, application of correct rate of tax and interest and input tax credit claimed therein and full payment and interest payable by the dealer for any tax period.		The audit party should make a list of mistakes case wise and work out the revenue loss.
(x)	Whether the details of returns received were entered in the register/computer within the specified time and bank scrolls reconciled with tax amounts mentioned in the return where applicable.		The audit party should make a list of all such dealers in whose case this has not happened.
(xi)	Whether notice has been issued requiring the dealer to pay the amount of tax along with interest in case the amount paid is less than the amount to be paid.		The audit party should make a list of all such dealers in whose case this has not happened. Interest payable for non/delayed payment may be worked out.

(xii)	Whether in case of a seller who has accounted for, either in the tax invoice or in the return, an incorrect amount of tax (in case of the events mentioned in the Act), the adjustment in calculating the tax payable by him has been carried out in the return for the tax period during which it has become apparent that the tax is incorrect, and not in any tax period prior to that?		A list of cases where the provisions have not been followed may be prepared and the financial impact may be calculated.
(xiii)	Any other point(s) specify		
	Checked by	Signature:	
		Name:	
		Designation:	

Annex III

Self/Provisional assessment

**Date of
audit**

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Sr. No.	What to check	Y/N/NA	Comments
(i)	Whether the dealer has filed all the returns and annual returns in respect of any tax period within the prescribed time.		The audit party should see that the following documents have been filed with the annual returns within the specified period for the purpose of self assessment: • A declaration, duly issued by a selling dealer, in the prescribed form. • Copy of the audited accounts along with the form of audit certificate in the prescribed form if the turnover exceeds the prescribed limit or manufacturing, trading and P&L Account as the case may be. • Statement showing the purchases, stock transfer receipts or import of goods under the CST Act, 1956. • Statement of the purchases and sales to the registered dealer within the state along with the details of tax invoices received or issued and particulars thereof. • Statement showing the details of all the Central/State declaration forms received or issued in support of the claims.
(ii)	Whether arithmetical errors have been checked before accepting the self-assessment.		
(iii)	Whether the return and revised returns, if any, have been furnished by a dealer within the prescribed period and in the prescribed manner and self assessment claims are correct, consistent and complete, the prescribed authority has checked the arithmetical errors and accepted the self assessment after necessary adjustments.		

(iv)	Whether the returns of the VAT dealers are in order as compared with the records of the dealers under the CST Act.		The audit party should verify whether all classes of goods purchased from outside the State through declaration forms are properly exhibited in the returns under the VAT Act. Besides, up-to-date submission of the utilisation statements of the declaration forms may also be verified from the CST file of the dealer and discrepancy, if any, found in the return furnished under the VAT Act be highlighted.
(v)	Whether a final assessment was made by the prescribed authority keeping in view whether the returns/revised returns were not filed in time and were not sufficient/relevant for self assessment. Whether such adjustments as may be necessary in disallowing input tax credit, exemptions, concessions, refunds, levy of interest etc. were made, wherever required, in the final assessment.		The audit party should make a list of all such dealers in whose case provisional assessment was resorted to but final assessment is pending. Suitable comments should be made pointing out the errors and omissions in such assessment and its impact on revenue.
(vi)	Whether assessment for any tax period was made after the expiry of the permissible period from the end of the tax period		The audit party should make a list of all such dealers in whose case this has not happened and comment on the revenue implications.
(vii)	Whether a demand notice in the prescribed form has been issued if the tax assessed along with interest and penalty is more than the amount paid along with the self-assessment.		The audit party should make a list of all such dealers in whose case this has not happened and comment on whether the notice has taken care of the difference or not. Besides, interest payable for delayed/non-payment of tax may also be worked out.
(viii)	Whether provisional assessments have been carried out in the cases fulfilling the conditions mentioned in the Act?		Provisional assessments have been specified in certain cases, e.g. where net tax payable is nil, where tax credit is carried over to the subsequent return, where a dealer has not filed the return etc. Lack of provisional assessments can be commented upon suitably.
(ix)	Any other point(s) specify		
	Checked by	Signature:	
		Name:	
		Designation:	

Annex IV

Business/Tax Audit Assessment Date of

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Sr. No.	What to check	Y/N/NA	Comments
(i)	Whether the dealers have been properly selected for Business Audit/Tax Assessment and justifications for selection are available on record.		The registered dealers are selected for audit assessment by the prescribed authority on the basis of specified criteria or on random basis. The criteria are:
(ii)	Whether the dealers who should have been selected for Business Audit/ Tax Assessment have been left out. Some applicable parameters may be the continuation of the following conditions in the returns of the dealers: • ITC > OUTPUT TAX • SALES < CLOSING STOCK • PURCHASES <= WAY BILLS • PURCHASES = 0		a) The registered dealer has failed to furnish any return in respect of any tax period. b) If the prescribed authority is not satisfied with the correctness of the return filed or genuineness of any evidence like declaration forms or bonafides of any claims like exemption, input tax credit etc. c) If the prescribed authority has reasons to believe that detailed scrutiny of the case is necessary.
(iii)	What is the percentage of selection of the total number of registered dealers in the State selected for Business Audit/Tax Assessment?		Audit party should see that the provisions of the Act/instructions have been adhered to so as to cover all dealers under Business Audit/ Tax Assessment within a specified period. If not done, its effect on revenue may be worked out, if feasible.
(iv)	Whether cross verification of any information gathered during the course of an audit assessment was made to establish the implication of revenue.		The audit party should examine whether the required cross verification has been correctly done and comment on revenue implications.
(v)	Whether input tax credit, exemptions and other credits or concessions claimed by the dealer in the returns were disallowed for which no supporting documents were filed/produced.		
(vi)	Whether the tax audit report was handed over to the dealer and the dealer filed his final reply within the specified period after receipt of the report.		

(vii)	Whether the prescribed authority assessed the dealer to the best of his judgment.		
(viii)	Whether the prescribed penalty was imposed if the prescribed authority was prevented from conducting the proceedings or if the dealer committed any act of omission in order to evade or avoid payment of tax.		
(ix)	Whether a demand notice was issued for additional amount of tax with penalty.		
(x)	Whether audit assessments have been completed within the time provided under the Act?		Delay in assessments and impact thereof may be commented upon suitably.
(xi)	Whether in the case of a dealer, the amount of tax assessed or reassessed for any period exceeds the amount of tax already paid for this period by 25 <i>per cent</i> (percentage could vary across States) of the amount so paid, the amount of penalty as provided under the Act has been levied?		A list of cases where the provisions have not been followed may be prepared and the financial impact may be calculated.
(xii)	Whether in case of a dealer whose part turnover has escaped assessment is assessed within the prescribed time under the Act?		A list of cases where the provisions have not been followed may be prepared and the financial impact may be calculated.
(xiii)	Whether the liability of the dealer, registered under different clauses, to pay tax has been calculated from the correct date?		Make a list of cases where the liability to pay tax has been calculated from incorrect dates to ascertain the financial implication e.g. where the turnover exceeds the threshold, liability to pay tax takes effect from the appointed day, where turnover in any year exceeds the threshold for the first time, liability takes effect immediately from the date the turnover exceeds the threshold etc.
(xiv)	Whether on assessment, if the provisional refund granted is found to be in excess, it has been recovered as if it is a tax due from the dealer and interest has been charged at the rate of 18 <i>per cent</i> *per annum?		A list of cases where the provisions have not been followed may be prepared and the financial impact may be calculated.

* Percentage of interest leviable may vary across the States.

(xv)	Whether in the cases of assessments under audit assessment, on refund becoming due, simple interest of 6 percent only has been allowed for the period from the date of closure of the accounting year to the date of payment of such amount?		Financial impact of excess refund may be worked out.
(xvi)	Whether purchase tax has been levied on a dealer who purchases goods from an unregistered dealer?		Non-levy of tax may be calculated.
(xvii)	Whether appeal against assessment order has been accepted without proof of payment of the tax (a minimum of 20 <i>per cent</i> of the tax assessed has to be paid) in respect of which the appeal has been preferred?		The incorrect acceptance of such appeals may be pointed out and the amount of the tax not collected including the interest due on it may be calculated and commented upon.
(xviii)	Whether the liability for tax to be paid in a works contract (in some Acts goods used in the execution of works contract are deemed as sale of such goods) has been computed correctly as per the provisions in the Act?		The provisions in the Act for payment of tax on Works Contract may be seen. There is a provision of lump sum tax on work contract (Maharashtra) or in other places (Delhi, for instant) a particular percentage of labour, services and other like charges have been given which are to be deducted from the total contract price to arrive at the taxable price of a contract. In case the contractor can establish the cost of the labour utilised in the contract, he may deduct the same for arriving at his liability of a particular contract. When goods are sold in the execution of works contract, the rate of tax applicable to the goods shall be the rate of tax applicable to such goods.
(xix)	Any other point(s) specify		
	Checked by	Signature:	
		Name:	
		Designation:	

Annex V

Refunds, set-off and compensation claims Date of audit

Sr. No.	What to check	Y/N/NA	Comments
A. Regular refunds			
(i)	Whether the application of refund was submitted in the prescribed form within the specified period.		
(ii)	Whether all the returns due have been filed and the taxes, interest or penalties due have been paid and a notice of excess demand has been issued by the prescribed authority and received by such dealer.		
(iii)	Whether any tax, penalty etc. is outstanding against the dealer under the Repealed Act or CST Act.		
(iv)	Whether any refund has been made within the specified period of filing of such claims and after examination of the case by Business/tax audit wing and after verifying the proof of deposit of tax.		
(v)	Whether the VAT dealer claiming refund under the scope of section 5(1) or 5(3) of CST Act have furnished all the required documents according to the provisions of Act/Rules.		
(vi)	Whether any amount has been paid as interest.		
B. Provisional refund			
(vii)	Whether the application of refund has been submitted in the prescribed proforma within the specified period from the date of filing of the return and all the documents showing that the sales made by him is zero rated sales and he is entitled to input tax credit, have been enclosed with the application.		
(viii)	Whether the VAT dealer has filed an affidavit that input tax has been paid by him to the registered VAT dealers against the tax invoices under the provisions of the Act.		

(ix)	Whether the VAT dealer claiming provisional refund has furnished security either in the form of a bank guarantee or in some other form.		
(x)	Whether the amount of provisional refund found to be in excess on assessment has been recovered as tax due.		
(xi)	Whether interest at the prescribed rate has been charged on the excess amount of provisional refund from the date of refund to the date of assessment.		

C. Refund to Special Category

(xii)	Whether the application of refund has been submitted in the prescribed proforma within the specified period of the tax so paid with the documents as required under the relevant VAT Rules.		
(xiii)	Whether the refund order in the prescribed proforma was passed within the specified period from the date of receipt of the application.		

D. Set-off/Compensation claims

(xiv)	Whether refunds have been accurately accounted for before claiming compensation.		
(xv)	Whether the details/break up of VAT and non-VAT receipts were available since refunds are allowable only on the VAT receipts.		
(xvi)	Whether set-off/concessional rates of tax were wrongly allowed for refund and compensation claims.		
(xvii)	Whether ITC has been adjusted against CST dues.		
(xviii)	Whether any interest on refund has been allowed on the tax paid by the dealer after the closure of the accounting year, from the date of the latter to the date of payment of such amount?		In case the dealer has paid the amount of tax after closure of the accounting year and it is to be refunded, interest shall not be payable. If interest has been paid, its financial impact may be calculated.
(xix)	Any other point(s) specify		
	Checked by	Signature:	
		Name:	
		Designation:	

Annex VI

Input Tax Credit (ITC)

Date of
audit

Sr. No.	What to check	Y/N/NA	Comments
(i)	Whether ITC has been allowed in any inadmissible case.		The audit party should check whether ITC was allowed in the following cases where ITC is not admissible**:
** Transactions not eligible for input tax credit • In respect of any taxable goods given by way of free sample or gift; • To such dealers, who have been granted "Presumptive Tax" or "Composition of Tax"; • In respect of such capital goods, which are used for manufacturing or processing of tax free goods; • In respect of such goods, brought/purchased from other States, against the CST paid in other State. Thereby, any CST paid to a registered dealer of other State, shall not be qualified for ITC. • In respect of stock of goods, remaining unsold at the time of closure of business; • In respect of goods, which are not sold on account of any theft; • In respect to such goods, for which no Tax Invoice has been issued or available; • In respect of goods purchased from a dealer, whose registration certificate has been suspended; • In respect to the sales of goods exempted from tax, as specified in the schedule appended to the Act. • In respect of such Capital Goods used for manufacturing or processing of goods for sale or directly for use in mining, where the finished products are despatched, other than by way of sales; • ITC shall also not be extended to the goods mentioned in Appendix-I of the Act, i.e. Negative List of Capital Goods and also to such goods, as specified in other Schedules, where the goods are specified for special rate of tax i.e. @ 20% and above. • In respect to such goods, which are mentioned in the Schedule of the Act for first point levy of tax. (The list is only illustrative; other ineligible claims for inadmissible credit which may vary from State to State may also be checked.)			
(ii)	Whether ITC has been allowed to be carried over without the excess credit being 'set-off' against any outstanding tax, penalty or interest payable.		The audit party should prepare a list of all such cases and comment on impact on revenue.
(iii)	Whether ITC has been correctly adjusted against CST dues before carrying forward.		The audit party should prepare a list of all cases where wrong credit was allowed and comment on impact on revenue.

(iv)	Whether in the case of a dealer, who purchased goods intended for the purposes specified in the Act and used the same fully or partly for other unspecified purposes/prohibited circumstances, the tax credit has been reduced from the tax credit being claimed for the tax period during which such use has taken place?		A list of cases where the provisions have not been followed may be prepared and the financial impact may be calculated.
(v)	Whether in the case of a purchaser (registered dealer), if the tax credit availed by him in any period in respect of which the purchase of goods relates, becomes short/excess (due to issue of credit/debit note or return of goods), the adjustment of the amount of tax credit allowed to him is permitted only in the tax period in which the credit or debit note has been issued/goods have been returned?		A list of cases where the provisions have not been followed may be prepared and the financial impact may be calculated.
(vi)	Whether all dealers who have been deemed to be registered under the provisions of the Act, have submitted a statement of taxable goods held in stock as on the appointed date (for instance, 31 March 2003 in the Gujarat Act) for which the dealer intends to claim tax credit?		This statement once submitted cannot be changed subsequently if the changes increase the tax credit claimed. If this has been permitted, the financial implication may be worked out.
(vii)	Whether the input tax benefit to dealers in respect of the stock lying with them as on the appointed day in the respective Acts has been correctly availed?		There are certain categories of opening stock which are ineligible for availing input tax credit. A list of cases where input credit tax has been incorrectly availed may be prepared and the financial impact may be calculated.
(viii)	Whether tax credit has been allowed correctly in respect of inputs if the goods are sold in another State?		Purchases intended for inter State sales as well as exports are eligible for tax credit in excess of 4 percent CST. Any instances where tax credit has been incorrectly availed/allowed may be brought out in audit.

(ix)	Whether ITC has been reduced proportionately where inputs are used partly to make taxable goods and partly for exempted goods?		As an illustration, X purchased machinery for Rs. 1 lakh and paid a tax of Rs 12,500 on it and used it in the manufacture of taxable as well as exempted goods. If the share of taxable goods made by that machinery is 80 <i>per cent</i> , his ITC would have to be restricted to Rs. 10000 (80 <i>per cent</i> of Rs.12,500).
(x)	Any other point(s) specify		
	Checked by		
		Signature:	
		Name:	
		Designation:	

Annex VII

Payment and recovery of tax, Date of penalty and interest audit

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Sr. No.	What to check	Y/N/NA	Comments
(i)	Whether a notice of demand has been served on the dealer for payment of assessed tax, interest and penalty. The date specified should not be more than the period allowed from the date of service of notice.		The audit party should prepare a list of all cases where it was not done and comment on the impact on revenue.
(ii)	Whether the prescribed authority has applied his mind in the interest of revenue while allowing payment of any demand in installment and for reasons to be recorded in writing on the condition that the said dealer furnishes sufficient security for such facility.		The audit party should prepare a list of all cases where it was not done and comment on the impact on revenue.
(iii)	Whether the rate of penalty, interest or any other amount due, as prescribed in the Act, have been levied for failure to make payment of the assessed tax etc. for every month for the period for which payment has been delayed by him after the date on which such amount was due to be paid.		The audit party should prepare a list of all cases where it was not done and comment on the impact on revenue.
(iv)	Whether a proceeding has been initiated to recover the unpaid amount even after the due date in pursuance to the notice of demand issued to the dealer.		The audit party should prepare a list of all cases where it was not done and comment on the failure of department/impact on revenue.
(v)	Whether the cases where whole or part of the tax, penalty or interest payable by any dealer or class of dealers has been remitted or of any specified class of sales or purchase has been remitted, this has been done by an order of the State Government?		The existence of an order of the State Government may be checked. Else the financial impact of the irregular remission may be commented upon.
(vi)	Whether the dealer has paid the amount of tax (assessed, reassessed etc.), penalty and interest that have become payable within 30 days of the demand notice served upon him?		It may be seen whether a system of monitoring such delays exists in the offices.

(vii)	Whether, if payment of tax has been allowed in instalments and the dealer has defaulted in paying an instalment, the dealer has been held to be in default in respect of the whole amount then outstanding and all other instalments have been held to have become due on the same date as the date of the instalment in default?		A list of cases where the provisions have not been followed may be prepared and the financial impact may be calculated.
(viii)	As a special mode of recovery, whether the assessing officer, in case of a defaulting dealer on whom demand notice has been served in respect of tax, penalty or interest, has served a notice to any person from whom any amount of monies is due or may become due to the dealer or to any person who holds monies for or on account of such dealer?		The financial documents on the basis of which the demand was raised/ assessment files of such dealers may be scrutinised to check if such persons are discernible on whom notices could be served in respect of the defaulting dealer. The efforts made by the assessing officer towards use of this mode of recovery may be selectively commented upon and substantiated.
(ix)	Whether interest has been charged at the prescribed rate of eighteen <i>per cent</i> for the delay in payment of dues from the due date until the date of payment?		A list of cases where the provisions have not been followed may be prepared and the financial impact may be calculated.
(x)	Whether interest has been charged at the prescribed rate of eighteen percent for the period as has been extended or the instalments that have been granted?		A list of cases where the provisions have not been followed may be prepared and the financial impact may be calculated.
(xi)	Whether the assessing officer has imposed the penalty of the sum equal to the amount of the tax in case of dealers furnishing incorrect information/availing incorrect tax credit etc in an attempt to evade/avoid payment of tax?		A list of cases where the provisions have not been followed may be prepared and the financial impact may be calculated.
(xii)	Any other point(s) specify		
	Checked by		
		Signature:	
		Name:	
		Designation:	

Annex VIII

Miscellaneous

Date of
audit

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Sr. No.	What to check	Y/N/NA	Comments
(i)	Whether opening stock on the appointed date is correctly calculated using the prescribed formula (e.g. Tax amt. = rate of tax * purchase value of opening stock/100+ rate of tax in the State)		The audit party should prepare a list of all cases where it was not done and comment on the failure of department/impact on revenue.
(ii)	All inter-state sales, export sales, sales made to an unit located in “SEZ” or “EOU” or “STP” or “EHTP” shall be termed as ‘ZERO RATED SALES’. In these types of sales, no VAT is payable, but such dealers shall qualify for “input tax credit”. Calculation of ITC and its admissibility should be properly checked.		The audit party should prepare a list of all cases where ITC was wrongly allowed and comment on the failure of the department/impact on revenue.
(iii)	All inter-state branch transfers or stock transfers or consignment sales or such transactions that involve inter-state movement otherwise than by way of sale is termed as “Exempt Transactions”. In such transactions, no VAT or CST is payable. No ITC up to 3% input tax is, thereafter, admissible. Only proportionate ITC in excess of 3% shall be admissible. It should be checked whether the ITC on exempt transactions was correct.		The audit party should prepare a list of all cases where ITC was wrongly allowed and comment on the failure of department/impact on revenue.
(iv)	All dealers who are neither importers nor manufacturers and whose turnover does not exceed the prescribed limit for VAT (e.g., Rs. 50 lakh in Jharkhand) shall be eligible for Composition or Presumptive Tax Scheme. They shall not be eligible for any ITC, nor can they issue tax invoice. It should be checked whether any ITC was allowed to such dealers covered under the <i>Composition or Presumptive Tax Scheme</i> .		The audit party should prepare a list of all cases where ITC was wrongly allowed and comment on the failure of department and loss of revenue.

(v)	Whether there are any instances in case of a dealer who has been permitted to pay lump sum tax in lieu of tax on sales, where purchase tax leviable on specified instances in the Act has not been paid?		A list of cases where purchase tax has not been levied may be prepared and the financial impact may be calculated.
(vi)	Whether the time limits for filing appeals, filing of memorandum of cross objections (By the Commissioner on appeals decided by the Deputy Commissioner) and revision cases is being adhered to?		
(vii)	Whether the goods, vehicles or documents seized at the check-post/barrier have been released after payment of tax, penalty and interest or on furnishing security?		A list of cases where the provisions have not been followed may be prepared and the financial impact may be calculated.
(viii)	Whether a transit pass issued at a check post for a boat, vehicle or animal carrying goods coming from outside the state and bound for a place outside the state, is shown at the last check post before exit from the state?		The issue and receipt of the transit passes of all check posts within the state must be cross checked. In case the transit pass is not shown at the last check post before exiting the state, it is to be presumed that the goods so carried have been sold within the State and tax and penalty payable has to be levied. Instances of non levy of such tax and penalty may be aggregated and the amount ascertained.
(ix)	Whether a survey has been done of the owners/lessee of cold storage/ware houses, godowns who store taxable goods for hire or reward to ascertain if correct and complete records are being maintained by them in respect of the particulars of the person whose goods are stored in such places and in respect of the quantity, value and date of delivery of such goods?		
(x)	Any other point(s) specify		
	Checked by	Signature:	
		Name:	
		Designation:	

Annex-IX

SOME ILLUSTRATIVE AUDIT OBSERVATIONS**1) Non-levy of tax on sale of fixed asset(s) and non-levy of penalty and interest**

An assessee sold fixed assets and did not pay VAT at the prescribed rate. Demand should be raised for VAT including penalty and interest.

2) Incorrect allowance of input tax credit

An assessee is required to file the revised return within six months from the end of the relevant tax period. Though the assessee did not claim any ITC in the monthly returns in the prescribed form for certain months, he filed the revised returns after six months and claimed ITC. Such ITC allowed is irregular.

3) Non-levy of penalty and interest

In the assessment concluded for a period, tax at prescribed rate was levied on the short declared sales. But penalty and interest though leviable under the VAT Act was not levied.

4) Incorrect exemption under VAT Act

As per returns filed in prescribed form for a tax period, the assessee declared net turnover after deducting retention money, mobilisation advance recovered, material advance recovered etc. The dealer opted for composition scheme, to pay tax at 4%, on the total consideration received towards works contract executed. However, the assessing authority concluded assessment without taking into accounts the deductions, contrary to the Act.

5) Incorrect allowance of input tax credit on ineligible capital goods

Under the Act, capital goods not eligible for ITC are listed. In the assessment concluded, ITC was allowed on ineligible capital goods.

6) Excess allowance of input tax credit

In an assessment concluded, ITC was allowed at higher rate resulting in allowance of excess ITC.

7) Non-forfeiture of excess tax collected

The assessee collected tax in excess of the tax payable by him. The excess collection was neither forfeited nor penalty imposed under the Act.