

VALUE ADDED TAX 2005

VAT AUDIT MANUAL 2012

O/o Commissioner of Commercial Taxes
Andhra Pradesh
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(For Internal Circulation only)

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Commercial Taxes Department
Government of Andhra Pradesh, Hyderabad



**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT**

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PREFACE

Audit is one of the four important pillars of VAT Administration, the other three being Registration, Returns and Refunds. The Inspection system under APGST Act 1957 is replaced by the system of Audit under VAT Regime. The word 'Audit' encompasses both the functionalities of Inspection and Assessment. In the context of self-assessment system under VAT, the function of Audit acquires paramount importance. The Audit under VAT shall not be confused with the Internal Audit or AG Audit. The main objective of Audit for bridging the gap between the tax due and the tax declared by the dealers.

This Audit Manual which is a guide for tax officers conducting audit of VAT dealers, outlines the policy, general rules and procedures to be followed. It provides a framework for planning, preparation, conducting audit and post-audit action. It sets out a professional approach to audit. The manual describes many of the standard techniques used to check or assess the correctness of a dealer's liability to VAT. It also covers most of the recognized risk areas and the means of detecting errors and under-declared tax.

In order to be effective communicators and accurate gatherer of information and interpreters of relevant information, audit officers must be courteous but firm in their approach. These skills can help to prevent a hostile environment. Most dealers will accept a professional approach to audit and will often voluntarily explain how their business operates. Many dealers will also accept that they made errors that must be corrected. Audit officers must nevertheless be alert to the possibility of tax evasion. However, it is extremely important not to treat all taxpayers as if they are trying to evade tax.

This manual is a guide book for officers who are conducting audits of VAT dealers. But it must be noted that not everything in the manual will be directly applicable to all the dealers. Audit officers are encouraged to use their own judgment to full fill the ultimate objective of Audit. However certain procedures which are mandatory must be followed in letter and spirit.

Date: June 2012


Commissioner, CT

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CHAPTER 1

INTRODUCTION

1.1 Characteristics of a VAT system

- a) Auditing of the Dealer is a vital link in the chain of tax administration. The objective of a VAT audit is to close the gap between the tax declared by Dealer and the tax legally due. Broad audit coverage should have the dual purpose of maximizing revenue collection and ensuring voluntary compliance by providing a reasonable chance that defaulters will be identified and undeclared tax & interest, and penalties thereon collected.
- b) The VAT audit is an integral part of a VAT compliance system. Each element of that system inter-relates, and to complete effective VAT audits it is necessary to appreciate and understand the function of each element in the system.
- c) **VAT Audit:** The phrase VAT Audit includes inspection, which includes access to the premises, collection and verification of books and records, and or assessment there on as a result of inspection.
- d) Reference to Dealer(s) means VAT or TOT dealers or dealers liable for registration as VAT or TOT dealer as the context requires.

1.2.1 Aim of a VAT compliance system.

- a) The aim of the VAT system is to encourage the highest level of voluntary compliance using system of self-assessment. The Dealer calculates his own liability and makes his payment of the tax due while the Commercial Taxes Department reviews the self-assessment subsequently by means of a VAT audit to ensure that tax legally due is declared and paid by the tax payers.
- b) A self-assessment system relies for its effectiveness on a number of integrated components: They are:
 - Maintenance of proper books of account and records by all VAT dealers
 - An effective system of periodic audits targeted at the 'at risk' category of VAT dealers and supplemented by physical checks
 - A proper taxpayer education campaigns so that VAT dealers are aware of their obligations
 - Simple, understandable and effective procedures and forms so that a Dealer can easily comply without undue cost.
 - Deterrent penalties for non-compliance which are enforced by the Commercial Taxes Department
 - Simple and effective controls which reduce the scope for fraud.
 - Prompt and effective action against VAT dealers who have not filed VAT returns and/or who have not paid the tax declared or assessed.

1.3 Components of a Tax compliance system.

- a) Registration of Dealers

This provides the basis for the control of VAT dealers. It identifies those dealers who have an obligation to account for VAT and brings them under the control of the administration. The registration requirements must be enforced rigorously and the AP VAT Act 2005 provides penalties for failure to apply for registration in time.

b) VAT return

VAT return is the most important form in VAT administration. It provides the basis for the audit of the Dealer and the means for collecting the tax. The first essential aspect in any VAT administration is that the filing of returns is strictly enforced on all VAT dealers and the tax declared is collected. Failure to take action in these areas may render VAT audits ineffective.

c) Maintenance of books of account and records

As VAT is levied by reference to the financial transactions of the business, adequate books of account and records must be kept by VAT dealers to enable the Commercial Taxes Department to check and confirm that the registered VAT dealers have complied with their legal obligations to maintain proper accounts and a record of the goods involved in the business. The AP VAT Act 2005 and the Rules define the requirements and the Law provides for effective penalties for a failure to comply.

d) Tax invoices

The tax invoice is a crucial document in the operation and control of a VAT system. The tax invoice establishes the VAT liability of the seller of taxable goods and most importantly is also the authority for a buyer to claim a credit for the tax paid on inputs and without which effective compliance cannot be achieved. The AP VAT Act 2005 defines the requirements and conditions related to the issue of the invoices and provides for penalties for non-compliance.

e) Access to books, records and documents

For scrutiny of VAT returns to be effective, access to books and records is essential. Some VAT dealers will attempt to hide records, which may contain evidence of VAT evasion. The AP VAT Act 2005 provides the Commercial Taxes Department with the powers of access to premises and records, and the power to copy and seize books, computers and goods. It also provides for penalties for a failure to fulfill these obligations.

1.4 Objectives of VAT audit

The overall objective of audit is to bridge the gap between tax legally due to state and tax actually paid by tax payers. In other words, maximization of Tax Revenue and improvement in self tax compliance by VAT dealers. To achieve this, the following action is required.

a) Establishing:

1. That sufficient, complete and accurate record of the activities of the business are maintained by the dealer to enable the VAT liability to be correctly determined:
2. That the assets and liabilities recorded actually exist
3. That all the transactions of sales and purchase are recorded
4. That the valuation is being correctly applied

- b) Ensuring that the Dealer understands clearly the operation of the tax laws and the requirements of the system as it affects their business.
- c) Assessing the degree to which revenue risks are present and, if there are any, what measures need to be taken to counter them.
- d) Checking the accuracy of the VAT return(s) filed and tax due paid thereon.
- e) Ensuring that any further tax or refund due is correctly identified and accounted for.
- f) Being alert for any possibility of fraud, determining the appropriate action required.
- g) Drawing the VAT dealer's attention to any unsatisfactory features discovered and either noting them in the visit report for attention next time or, if of a serious nature, arranging a further visit in the near future to ensure that they have been corrected.
- h) Ensuring that any unsatisfactory features discovered on an earlier visit have been corrected.
- i) Ensuring enforcement of relevant penalties for non-compliance.

CHAPTER 2
OFFICERS' POWERS AND RESPONSIBILITIES

2.1 Officer's powers under the AP VAT Act and Rules 2005:

- a) Section 43 and Rule 52 of the AP VAT Act and Rules 2005 empowers /authorizes officers to enter during all normal working hours any business premises to inspect records, goods, computers or any electronically stored data etc.
- b) Section 21 and Rule 25 of AP VAT Act and Rules 2005 empower assessment of VAT dealers.
- c) Rule 59 of APVAT Rules authorizes certain officers to conduct audit – Inspection and or assessment.

2.2 Responsibilities of Audit officers:

- a) Officers authorized to conduct audit shall conduct audit as per this manual as modified from time to time and the guidelines issued by Commissioner for conduct of audit from time to time.
- b) The authorized officer should identify himself and show his authorization to the Dealer and take acknowledgment for the same before commencing the audit.
- c) The officer should ensure that any information obtained in the course of the audit relating to the Dealer is treated in strict confidence.
- d) The Officer should ensure that for the period covered by the audit visit, tax has been properly accounted for, declared and discharged under the provisions of the AP VAT Act 2005.
- e) The officer should ensure that the Dealer is treated in a courteous manner and is provided with the reasonable opportunity to respond to queries raised by the officer.
- f) The Dealer should be provided with a full and proper explanation of any under declaration of tax identified.
- g) Where there is a lack of cooperation, failure to provide information or any unusual circumstances, the officer should exercise the powers of search and seizure vested in him under Section 43 of the APVAT Act 2005 and in accordance with the procedure laid down in the Code of Criminal Procedure 1973.

CHAPTER 3 TYPES OF AUDIT

3.1 VAT audit can be classified into 3 types:

- a) General audit
- b) Specific audit
- c) Special audit (fraud investigations)

i. General audit: These audits form the majority of the audits to be completed by the Commercial Taxes Department and provide the basis both for Specific Audits and Special Audit (Investigation Audits). The objective of general Audits should be to provide broad audit coverage of all VAT dealers to the extent feasible, over a period of time. The guidelines for selection of VAT dealers for general audit is defined in Chapter 4.

ii. Specific audit: Specific audits include the following:

- Refund audits
- Audits resulting from receipt of information regarding suspected tax evasion from intelligence sources and other tax departments
- Audits resulting from information that the tax declared on tax returns is not correct (Basing on information available with the department like waybills usage / check post extracts)
- Audits where prior intimation to the dealer is not required - surprise audits
- Audits of belated registrations
- Audit of the VAT dealers who are liable to be registered for VAT/TOT, but failed to apply for the same.
- Audits resulting from the receipt of urgent references (see Chapter 5.10)
- Where VAT dealer has filed revised return and not paid the tax shown on revised return along with interest, a specific audit should be undertaken.
- Refund audits are audits focused on VAT dealers claiming refunds from the Commercial Taxes Department. The objective is to ensure that no tax is refunded which is not legally due for refund. Provision should be made to enable the audits to be completed speedily to ensure deadlines are met and interest does not have to be paid on delayed refunds. It is important that the audit is sufficiently broad to ensure that the net refund claimed is justified

after taking account of all the VAT dealer's liabilities.

- Audits where prior intimation to the VAT dealers is not required - surprise audits: It may not be always very effective in terms of revenue maximization if all audits of certain VAT dealers are carried out with prior intimation. There is need for certain audits with element of surprise.
- An urgent reference requires an audit visit to verify that output tax has been accounted for in the case where another VAT dealer has claimed an input tax credit. A reference is categorized as "urgent" when it is related to a suspected fraud or evasion or involves an amount of tax in excess of Rs.1 lakh.

Note: When planning the weekly audit program, specific audits should always take priority over general audits.

- iii. **Special audits:** These are audits, which should be completed by a specialist team in Headquarters, Central Investigation Unit – CIU/Enforcement Wing and teams in Divisions under the control of the Deputy Commissioner. They result from other audits where audit officers have identified evidence of serious fraud or from information provided by intelligence or other agencies and which require in-depth investigation by special team.

CHAPTER 4

AUDIT PLANNING

4.1 General:

- a) In preparing an audit plan, the available staff has to be structured to meet the needs of the types of audit required in a VAT system.
- b) The level of audit activity and frequency of audit will depend on the staff resources available in relation to the VAT dealers population. However, it will always be necessary to ensure that the available staff are deployed to achieve the twin objectives of maximizing both revenue collection and improving voluntary tax compliance by VAT dealers.
- c) The achievement of these objectives, sometimes, can produce a conflict, targeting of risk traders should maximize revenue collection, whereas broad audit coverage is necessary to achieve maximum voluntary compliance. A balance, therefore, has to be struck between the two.
- d) **Authorization for Audit:** The broad objective of Audit is to bridge the gap between what Tax is legally due to state and what Tax is actually paid by the tax payers. In other words broad objective of audit is to maximize revenue collection and improve tax compliance by the dealer. But while doing so, dealers' legal rights must be protected and respected and audit process must be carried out in a fair manner to uphold the Law in its letter and spirit. Accordingly audit must be done strictly in accordance with Rules and Procedures enumerated in APVAT Act and Rules. Rule 59 of APVAT Rules 2005, enumerates the list of officer who are authorized to conduct Audit – Inspection/Assessment/Inspection Cum Assessment. As per this rule, within the respective jurisdiction, Assistant Commissioner, (LTU) and CTO are authorized to conduct inspection, assessment or inspection cum assessment. However for conducting inspection, assessment or inspection cum assessment by Assistant Commissioner or CTO out their respective jurisdiction; or by any other officer below the rank of CTO, within jurisdiction or outside jurisdiction, authorization from Deputy Commissioner, CT concern is a must. At State level, such authorization must be obtained from Addl Commissioner or Joint Commissioner in charge of CIU/Enforcement functions. Addl Commissioner, Joint Commissioner or Deputy Commissioner as the case may be, may issue authorization in Form ADM 1B as follows:
 1. Authorization for Inspection only
 2. Authorization for Assessment only
 3. Authorization for Inspection cum Assessment i.e. single authorization for inspection and assessment.

4.2. The structured approach to audit:

- a) Work must be planned in such a way so that an audit takes full account of available

information, assess the action required and is carried out systematically as follows.

- planning an audit programme
- arranging an appointment except where audit is planned by surprise or it is specific audit
- carrying out pre-visit preparation
- performing an initial interview
- recording the information obtained
- assessing information, including identifying potential risks, to decide the checks to be applied
- examining activities and records, testing and verifying the information found
- recording the checks made and their results
- verifying the business transactions and related declarations in the tax returns
- recording the work performed.

b) A structured approach ensures that:

For the audit Officer:

- time is spent effectively
- work is properly focused
- a professional approach is demonstrated
- Boost audit officer's confidence

For the dealer:

- time is not wasted
- he is given reasonable opportunity to answer queries of audit officer
- any problems relating to the tax are properly considered and solved to the mutual satisfaction of himself and the department

4.3. Audit organization and staffing:

a) In Large taxpayer units, VAT audit should be carried out by Assistant Commissioner or by CTO.

- b) In circle offices, VAT audit should be carried out by the CTO or by DCTOs.
- c) The number of audit staff should determine the number of audits that can be completed in each year.
- d) The largest VAT dealers in terms of complexity of transactions, level of tax throughput (input tax and output tax), tax payment each month or any other criterion fixed by Commissioner, from time to time, should be allocated to large taxpayer unit in the division.
- e) LTU should have 25 - 50 VAT dealers depending on the number of dealers in the division which meet the criteria defined in Appendix XII as amended by Commissioner, CT from time to time.
- f) The AC should be responsible for their return filing and tax payment and regular audits with a minimum of one audit per year for all VAT dealers in the LTU. In addition the unit should provide regular advice and guidance and deal with the VAT dealers' queries on a priority basis.
- g) In circle offices, VAT / TOT dealers should be selected for Audit based on criterion indicated in this Chapter as amended by Commissioner from time to time.

4.4. Selection and authorization for general audit:

- a) The selection of VAT dealers for general audits should be made by the Deputy Commissioner of the Division concern. Deputy Commissioner shall prepare monthly plan for conduct of audit. The selection of VAT dealers for general audits should be made on the basis of parameters defined in (b) as amended from time to time by Commissioner:
- b) Following parameters as amended from time to time shall be adopted for selection of VAT dealers for general audit:
 1. 1/12th of LTU VAT dealers per month so that all the LTU VAT dealers are audited at least once in 12 months
 2. TOP 0.50% of total VAT dealers in the division per month, based on Tax Payable during last financial year, excluding LTU VAT dealers, so that at least top 6% VAT dealers in the division, excluding LTU VAT dealers are audited every 12 months in the division.
 3. VAT dealers dealing in sensitive goods showing less growth by 10% from average growth rate in that area in the division excluding VAT dealers selected under above Sl. Nos.
 4. VAT dealers showing less growth by 10 % from average growth rate in the division over last year excluding VAT dealers selected under above Sl.Nos.
 5. VAT dealers levied Penalty exceeding Rs.25, 000/- in last 5 years excluding VAT dealers selected under above Sl. Nos.

6. Return defaulters, default of more than 2 Returns in last 12 months excluding VAT dealers selected under above Sl. Nos.
 7. VAT dealers filing credit returns for more than 5 months in last 12 month excluding VAT dealers selected under above Sl. Nos.
 8. Works Contractors, especially those who have not opted for composition excluding VAT dealers selected under above Sl. Nos.
 9. VAT dealers having Complex transactions such as Exports, Consignment sales, Branch transfers, Transit sales etc excluding VAT dealers selected under above Sl.Nos.
 10. VAT dealers claiming Refunds excluding VAT dealers selected under above Sl. Nos.
 11. VAT dealers whose Sale/Purchase ratio is less than 1.0 over last 12 months excluding VAT dealers selected under above Sl. Nos.
 12. Based on local intelligence or serious complaints from public excluding VAT dealers selected under above Sl. Nos.
 13. Based on Third party information like, Banks, Income Tax, Service Tax, Central Excise, Manufactures, Government departments etc excluding VAT dealers selected under above Sl.Nos.
 14. VAT dealers availing sales tax deferment / sales tax holiday converted to deferment cases, with special reference to those cases in which either the time limit for availment has lapsed or the eligibility amount is exceeded,
 15. The business premises books of accounts of TOT dealers shall also be audited on random basis
- c) In the divisions, the DC shall authorize the audit officer (AC/CTO/DCTO) as per rule 59 of APVAT Rules on Form ADM 1B for the VAT dealers selected for general audit. There will be separate authorization for Inspection, Assessment or inspection cum assessment as the case may be. At State level, Addl Commissioner/Joint Commissioner, CT in charge of Enforcement Wing/CIU will exercise this power.

4.5 Selection and authorization for Specific audit visits:

- a) The selection of cases for specific audit visits is to be done on the basis of intelligence information, requirement of surprise audits in certain cases, receipt of urgent references and information about potential dealers not registered for VAT.
- b) The selection of cases for refund audit of dealers claiming refund of excess VAT credit shall be done on the basis of guidelines in chapter 6.3.
- c) In the divisions, the DC shall authorize the audit officer (AC/CTO/DCTO) as per rule 59 of APVAT Rules on Form ADM 1B for the VAT dealers selected for the specific audit. There will

be separate authorization for Inspection, Assessment or inspection cum assessment as the case may be. At State level, Addl Commissioner/Joint Commissioner, CT in charge of Enforcement Wing/CIU will exercise this power.

4.6. Selection and authorization for Special Audit:

- a) The selection of cases for special audit visits will be resulting from other audits where audit officers have identified evidence of serious fraud or based on information provided by intelligence and other agencies which require in-depth investigation.
- b) Cases where there is evidence of inter-state fraud or international fraud or investigation involving more than one division should be passed on to CIU/Enforcement Wing at Head Quarter.
- c) In the divisions, the DC shall authorize the audit officer (AC/CTO/DCTO) as per rule 59 of APVAT Rules on Form ADM 1B for the VAT dealers selected for Special audit. There will be separate authorization for Inspection, Assessment or inspection cum assessment as the case may be. At State level, Addl Commissioner/Joint Commissioner, in charge of Enforcement Wing/CIU will exercise this power.

4.7) Allocation of VAT dealers to the Audit Officers:

- a. The Deputy Commissioner shall allocate the VAT dealers marked for audit among the staff available in the division for audit in such a way that no dealer is audited more than once by same officer within 5 years.
- b. No dealer shall be allocated to audit officer who is having territorial jurisdiction over the dealer.
- c. To the extent possible, care should be taken that VAT dealers are not allocated to audit officers whose office is located far away from dealer's business place to minimize inconvenience to VAT dealers.
- d. The authorization for audit should be issued through system in Form ADM 1B.
- e. At Head Quarter level, allocation of VAT dealers for audit, based on above guidelines, will be done by Addl Commissioner/Joint Commissioner in charge of Enforcement wing/CIU.

4.8. Management of audit activity:

4.8.1. Management of general audits:

- a) The VAT dealers for audit shall be selected based on criterion mentioned in this Chapter and availability of staff for audit.
- b) The Deputy Commissioner should be responsible for the efficient management of VAT audits in his division. At Head Quarter, Additional Commissioner / Joint Commissioner (Enforcement)/CIU will ensure effective management of VAT Audits.
- c) Audit officers planning audit visits should complete Form VAT 309 when making audit appointments.

4.8.2. Management of specific audits:

- a) The DC should select cases based on local knowledge and intelligence from other sources, with a view to audit high-risk VAT dealers. The selection should be need based.
- b) The divisional Deputy Commissioner should be responsible for the efficient management of specific audits.
- c) The head of CIU/Enforcement Wing should be responsible for the efficient management of specific audits.

4.9. Role of Officers in audit activity:

4.9.1. Role of the Additional Commissioner / Joint Commissioner in charge of CIU/Enforcement Wing:

- a) He should ensure that the VAT audit program (General, specific and special audit) meets the target of achieving at the maximizing the revenue collection, tax compliance and controlling fraud.
- b) Review audit results achieved and analyze the reasons for the under-declaration / fraud to focus audit activity to maximize revenue collection and tax compliance.
- c) Hold regular meetings with all audit staff in the unit to exchange audit information.
- d) Regular collection of inter-state data, co-ordination with other revenue earning departments like Central Excise, Income Tax etc.
- e) Issue authorization for audit

4.9.2 Role of the Deputy Commissioner:

- a) Arrange for the selection of the general audits based on the parameters in this chapter. He should ensure that the VAT audit program meets the target of achieving at the maximizing the revenue collection, Tax compliance and controlling of fraud.
- b) Ensure that the audit program is completed by deploying audit officers from circle offices.
- c) Review audit results achieved and analyze the reasons for under-declaration of tax to focus audit activity to maximize tax compliance and revenue maximization.
- d) Ensure that the audits of complex nature are allocated to the Audit Officers who are experienced or proficient in the related subjects in order to maximize the revenue generation in audits.
- e) Once in every quarter, select at least one completed audit completed each by AC, CTO and DCTO where no under or over declaration was established for scrutiny as defined in paragraph 7.3 of this manual.
- f) Oversee and control the quality of the audits undertaken, and monitor the revenue results

- achieved, and check visit reports to the visiting officer program (Form VAT 309)
- g) Hold quarterly meetings with all audit staff in the division to exchange audit information with a view to improving the targeting high risk VAT dealers to maximize tax compliance and revenue realization and to improve performance of audit officers and audit techniques based on the experiences of audit colleagues.
 - h) Issue authorization for audit.

4.9.3. Role of AC (LTU):

- a) Visit all VAT dealers allocated to the LTU at least once in each year.
- b) Audit of cases entrusted by Deputy Commissioner.
- c) Ensure that refund and special audits receive prompt attention and are completed within the prescribed deadlines

4.9.4. Role of Commercial Tax Officer:

- a) Audit of cases entrusted by Deputy Commissioner.
- b) Ensure that refund and special audits receive prompt attention and are completed within the prescribed deadlines.
- c) Ensure urgent cross references receive top priority.
- d) Maintain an under-declaration record with reasons for the under-declaration to provide management information on which to focus audit action.
- e) Once in every quarter, select one completed audit by the DCTO where no under / over-declaration was established for scrutiny as defined in para 7.3 of this manual.

4.9.5. Role of the Deputy Commercial Tax Officer:

- a) The DCTO should complete the audits allocated to him.
- b) He should support the CTO/AC when carrying out audits of the VAT dealers.
- c) He should undertake any other task allocated by the CTO/AC / DC.

4.9.6. Control of audit cases:

- a) Any case not completed in the audit quarter should be carried forward in priority order to the next month.
- b) The allocation of audit cases should be recorded on a computerized listing in divisional and circle officers with the date of allocation, the date of audit, and the date of finalization.
- c) The Deputy Commissioner should monitor the allocation, completion and quality of audits.

CHAPTER 5

Conduct of audit visits

5.1 Introduction:

- a) The VAT audit is the important link in the chain of VAT administration.
- b) If VAT audit is conducted effectively, self tax compliance by tax payers will improve leading to improvement in revenue realization.
- c) This chapter defines in some detail the action to be taken to perform effective VAT audits.
- d) Duties and Responsibilities of Audit Officer:
 - 1. The officer authorized to conduct the audit shall adhere to the instructions contained in this manual as amended from time to time and also guidelines issued separately for conduct of audit from time to time.
 - 2. The authorized officer should identify himself and show his authorization to the dealer before commencing the audit.
 - 3. The officer should ensure that the dealer is treated in a courteous manner and is provided with the opportunity to respond to queries raised by the officer.
 - 4. Where ever dealer request for time for production of records, reasonable opportunity should be given to the dealer for producing the required records.

5.2 Note books

- a) Keeping good notebooks is an essential component of an effective VAT audit. If the audit officer needs to recollect what he has done at an audit, it is not sufficient to write up the notes at a later stage. This is not a good habit and it should be discouraged. The distractions that occur at the office often mean that notes of a visit are not written until days after the visit.
- b) The scope for recollection of facts and, in particular, figures, is less after a few hours let alone after few days.
- c) If dealers are not happy with an officer taking notes it should be explained that the notes are part of the audit process and have to be written in order that the officer recalls what was checked.
- d) There is a natural aversion by some dealers and they are uneasy about audit officers' taking notes. If all audit officers' make good notes during their visits, then dealers gradually will become used to this process and soon take it for granted.
- e) The following points highlight some of the reasons why good notes are so important to the audit visit:

- They provide an accurate recording and recollection of events and facts
 - It provides information, not only to the audit officer, but for other people, including management and for any subsequent investigation
 - As outlined above, they can be the main evidence in starting a fraud investigation and can form part of the evidence that will supplement in successful penalties being levied against the dealer.
 - It provides a record of what was said between the dealer and the officer in answer to the officer's questions
 - It can assist in preventing allegations of "wrong-doing" or corruption when the officer is in the habit of keeping good notes.
- f) The audit officers notebook should be completely confidential and should not be shown or copied to the dealer. The only exception is the record of interview, which can be shown to the dealer in order to obtain his agreement.
- g) The notebook will be regarded as a security document. All notebooks issued to any officer will be fully accounted for at the time of handing over charge to any other officer.
- h) Not accounting properly for notebooks or their contents will make an official liable for disciplinary action.

5.3 Guidelines for keeping good notebooks

- a) Notebooks are only as good as the effort that is put into maintaining them. The process of note taking is important and needs the audit officer to consider what he is asking and what answers are given.
- b) On an audit the audit officer should prepare a series of fundamental questions that all dealers should be asked. The answers to these questions should be noted very clearly in order that there is no misunderstanding in the answers given.
- c) It is important that before using any form of notebook that the following points are considered:
- The notebook is to be bound one making it difficult for pages to become loose and drop out
 - The pages should be individually numbered
 - A standard list of questions should be stuck at the back of the book to act as an aide-memoir
 - An index of cases should be maintained in the book.
- d) When the above points have been considered, the audit officer should get into a routine when

writing up his notebook at the dealer's premises. The following points should be observed:

- Use the prepared standard questions as the starting point for the interview and all other questions should come from these answers
 - Start each visit with the dealers details, date, where the visit took place, the time it started and subsequently finished and who was interviewed
 - Write all entries neatly as it may be some time until they are referred to, remember other people may need to read them
- e) If audit officers visit the dealer in teams of two, one audit officer should ask the main questions and the other write the answers. This can be reversed on the next visit so both audit officers get used to both asking and noting the questions/answers. The note taking officer may also think of other questions once the interviewing officer has finished
- f) Never, under any circumstances, remove pages from the notebook. If there are mistakes, leave them in the book and cross them out so the original error can be seen alongside the new answer or point.
- g) Record precisely what has been checked, nothing more and nothing less. It is often tempting to write details of things that have not been checked in detail. This should be avoided, as it could be an important issue at a later stage and therefore embarrassing if the audit officer is unable to give pertinent detail.
- h) Record any problems, in particular anything that appears fraudulent. This note could be important evidence at a later stage.
- i) Record transactions for cross-checking (this is discussed in detail later in the manual) or for issuing cross - references.
- j) Record the dealer's replies to answers accurately.
- k) **The audit officer need not necessarily record statements from the dealer. The recording of the statement can be done in exceptional circumstances where tax implications arise.**
- l) Wherever agreement from the dealer is required on issues, it shall be done on Form 301 A. In cases of disagreement, a panchnama shall be conducted in the presence of two witnesses.

5.4 Preparation for the Audit Visit:

- a) Obtain copy of authorization issued for conducting audit as per rule 59 of AP VAT Rules.
- b) The Audit Officers who have been allocated VAT dealers for the audit shall collect the following documents from the respective office before commencement of audit.
1. Details of Registration – Place, Commodities, Status etc
 2. Returns for the previous months

3. Average growth rate registered in the division in the sector in which dealer is doing business and growth rate reported by dealer in his returns
 4. Details of Statutory forms taken by dealer and utilization reported there on
 5. Last Annual Report submitted by the dealer
 6. Any third party information received from the Banks, Central Government departments, Manufacturers, State Government departments
 7. The last audit report available if any
 8. The audit officer may obtain a copy of the latest assessment order relating to the dealer from CTD ORDERS
 9. Details of imposition of penalty if any on the dealer for mis-utilization of Statutory Forms in last 5 years
 10. Check post data about the VAT dealers from the last audit onwards
 11. Tax payment history of dealer. It can be obtained from VATIS.
 12. Details of cross-check references pending, if any, relating to the dealer
 13. Details of options for composition exercised by the dealer
 14. Whether the dealer is enjoying industrial incentives and if so, details thereof.
 15. The audit officer should go through all the documents and prepare a check list of the important issues to be examined and verified during the audit.
- c) The Audit Officer should plan to carry out audit visits on 3/4 working days of the week and the other days should be office days for the planning of audit visits, report writing, the resolution of queries and issue of assessments.
- d) Ideally, all audit staff should attend the office on the same day to allow for the discussion of the problems identified in the past week and to develop teamwork. However, the DC of the division should hold regular staff meetings with all audit staff, at least once in a quarter, to identify audit problems, exchange ideas and plan future audits.
- e) The audit visit should normally be carried out at the dealer's place of business. If it is conducted at any other notified premises, a visit must be made to the business premises to establish the credibility of the business and the nature of the activities undertaken.
- f) In cases where business premises are located in a different division, the authority for the visit must be obtained from the Addl. Commissioner/Joint Commissioner in charge of Enforcement Wing/CIU.

- g) General audit should be conducted with prior information to Dealer. All other Audits should be conducted without prior information to dealer – with an element of surprise.
- h) Composition of the Audit Team:
The audit officer should decide his inspection team and composition based on the complexity of the dealer's business. The team must move to the dealer's place in official vehicle and carry with them their official identity cards issued by the department. No person other than the audit team should enter into the business premises including the driver of the audit team vehicle.

5.5 Pre-visit checks

- a) It is essential the audit officer considers the dealers business before he arrives for the audit. This will improve the confidence of the audit officer when he establishes some knowledge of the business and the trade that he works within.
- b) In the same way, preparing basic questions present a more professional image of the audit officer,
- c) For example, if the sales or purchases of the dealer have been fluctuating the audit officer should try and establish the reason. It may be that the dealer has seasonal movements in his trade; however, it could indicate that the VAT figures are being manipulated.
- d) It is also worth consulting colleagues who have visited similar businesses and establishing what the trends could be and what possible problems may be encountered on the audit.
- e) It is valuable to gather any information, which is legally available, from other Government departments before the visit, for example details of the dealer's imports and exports, which will assist in establishing the credibility of the business.
- f) General checks on the input and output ratio can be made with reference to other businesses in the same trade to see if they are credible. Whilst these do not prove underpayment or fraud they can give the audit officer an indication of how the business is performing and whether or not it appears credible.
- g) The audit officer should consider the risk areas associated with particular dealers and plan his visit accordingly. A restaurant will receive large amounts of cash and the audit officer should consider examining the cash controls at the visit.
- h) The audit officer could consider looking at the business before his visit to establish what normally happens when an official of CTD is not present. He can then establish if there are any differences on his visit. For example, are there more cash registers being used when he is not there, the amount of staff and the general level of trade can all assist in establishing an understanding of the business before the visit takes place. It can also uncover potential areas of under-declaration or fraud.
- i) When constructing an interview, in conjunction with the basic interview questions outlined later in this manual, the audit officer should also consider supplementary questions that are specific to the type of business he is to visit.
- j) Before contacting the dealer establish what records should be available at the visit. If the dealer has not been asked for certain documents, he can blame the audit officer for not

specifying what was required.

5.6 Use of mark-up ratios:

- a) Average mark-up ratios for the past twelve months period should be produced by the computer for each combined trade category and commodity code. In addition, the markup ratio for the particular return will also be available.
- b) The audit officer should examine the data provided for the tax periods and identify any tax periods where there are wide variations from the normal pattern of mark-ups or where the mark -up for the tax period is significantly below the average for the particular category or commodity code.
- c) Mark-up ratios should be analyzed carefully and only those related to specific activities and commodities should be used to identify risk areas for audit. For example:
 - A VAT dealer selling motor vehicles and spares would provide meaningful data for the ratio for comparison purpose
 - A general store or a departmental store trading in a wide variety of goods would not provide any reliable mark-up ratio data.

5.7 Conduct of Audit:

Entry of Audit Team to business premises:

The audit team on entry into the business premises of the dealer must introduce themselves by showing their identity cards, authorization issued by the competent authority concerned and take acknowledgment from dealer thereon. The audit team must conduct itself in a professional manner without giving any scope for complaints of harassment. Its conduct must be courteous and fair.

5.8 Interviewing a dealer on an audit visit

- a) The purpose of interviewing the dealer is to obtain information about his business and the accounting records. For this reason it is essential that the interview be conducted with the dealer or responsible person on behalf of dealer. Interview person responsible for maintaining records.
- b) Reasonable opportunity must be provided to dealer to produce relevant records and answer Audit team queries.
- c) Some examples of basic questions are set out later in this chapter and should be used for every audit. Supplementary questions will follow from these and can be tailored to the particular type of business that is being audited.
- d) It is important to ask basic questions as a matter of routine as dealers will become used to this and it also gives the audit officer confidence in his interviewing skills. An audit officer who is prepared for his interview will appear more professional to the dealer and therefore command more respect.

- e) The interview should be conducted in a relaxed manner. It is not an interrogation and if this is conducted that way, the dealer will be undoubtedly guarded in his answers. A relaxed structured interview will encourage the dealer to discuss his business and consequently elicit the answers audit officer requires.
- f) The audit officer should not, however, accept a vague answer to a specific question. If the dealer is not sure of something, the question should be asked again in a different way.

5.9 Structuring the interview

- a) The interview with the VAT dealer should flow logically through the following headings:
 - 1. Personal details of the interviewee and his business
 - 2. Accounting structure
 - 3. VAT knowledge and statutory obligations under VAT Act
- b) It is important to ask the VAT dealer “closed” questions. If, for example, the audit officer is trying to establish what bank accounts the dealer is using for the business, the following examples of questions would produce different answers:
 - 1. How many bank accounts do you use for the business?
 - 2. Do you have a bank account for the business?
- c) The first question is asking the VAT dealer to tell the audit officer how many accounts he has for the business. In the second question, the audit officer is telling the VAT dealer that he has a bank account for the business and he will probably say "yes".
- d) The latter does not establish what the correct position is in relation to the business bank accounts. If the audit officer subsequently finds other bank accounts, it might lead him to believe that the VAT dealer has been evasive in his answer.
- e) The questions audit officers should be asking should be structured to gain information. It is therefore better to begin the questions with an “open” style:
 - Who
 - Why
 - When
 - What
 - Where
 - How
- f) "Closed" questions are usually answered with a "yes" or "no" and do not further the interview.
- g) If there are two audit officers at the interview, the audit officer writing the notes of the

- interview should listen carefully to the questions and answers and ensure that he records them correctly.
- h) It is important to show an interest in the dealer and his business as this will also encourage him to talk about his business and any problems he has encountered. This, in turn, might indicate areas where the audit officer could find under-declared tax if the dealer has not applied the VAT rules correctly.
 - g) Questioning should not be rushed as more can be gained by talking to the dealer than looking at the records and not understanding how the business works.
 - h) The accounts will only show the audit officer what the VAT dealer wants him to see and what has been declared, any abnormalities will be highlighted from the interview.
 - i) The VAT dealer should also be allowed to ask questions and clarify things he does not understand. This will gain his confidence and ascertain if he has any problems with VAT as it applies to his business. A good interview will:
 - **ESTABLISH THE NORMAL**
 - **QUESTION THE ABNORMAL**

5.10 Basic questions

- a) The following are examples of basic questions that should be used as a template for interviews with dealers:
 - What are the VAT dealer contact details?
 - What are his responsibilities in the business?
 - Who is the accountant?
 - What is the accounting system (in full)?
 - What books and records are kept (in full)?
 - Other records kept (for additional credibility checks)
 - Who maintains the records?
 - What are the main business activities?
 - What are the other business activities?
 - How many branches / godowns does the business have?
 - What are the principal outputs?
 - Who are the major customers?

- Who are the major suppliers?
- Who prepares VAT returns? If not the VAT dealer, does that person receive the information from the dealer?
- Does he understand VAT as it applies to his business?
- Does the dealer aware that all sales must be declared on the VAT return?
- Does the dealer aware that all purchases must be genuine?
- Are all sales and purchases correctly declared on the VAT returns?
- Does the dealer have any exempt sale or any exempt transactions?
- In case of exempt sale or exempt transactions, has he restricted input tax and arrived at what credit is eligible to him?
- Are there any purchase returns or sale returns in the past 12-month - period?
- Has the dealer opted for composition?
- Is he aware that it is an offence to render false VAT returns?

5.11 Use of audit reference system:

- a) The checking of one VAT dealers input tax claim to the selling VAT dealer's output tax is a vital control in VAT audit. Manipulation of tax invoices and false tax invoices are a major source of fraud and evasion.
- b) A checking system should be used to counter this practice. This system provides that audit officers can refer to original input tax invoices for cross checking with the VAT dealer who issued that tax invoice.
- c) This will ensure that the tax being claimed as an input credit has been accounted for and paid by the seller.
- d) The information required should be recorded, without the knowledge of the VAT dealer being audited, in case the VAT dealers are in collusion to defraud the tax department.
- e) Form VAT 311 should be completed in the VAT office and forwarded to the VAT office of the seller. Output tax declared by the seller should be checked against the Form VAT 311 details in the course of a VAT audit.
- f) There are two categories of referrals:
 - URGENT –
 - Relating to suspected fraud or evasion or transactions involving an amount of tax in

excess of Rs.1 Lakh

- These references require a response within 14 days
- ROUTINE:
- A selection should be made:
 1. Where the amount of tax exceeds Rs.25,000/- on one or more invoices and the Officer requires evidence that output tax has been properly accounted for by the seller in relation to the input tax.
 2. Where purchases of a value exceeding Rs.25,000/- on one or more invoices or repeated purchases of a lesser value are identified and no VAT has been charged a reference should be used to identify dealers who have an obligation to register for VAT.
 3. In case of the identification of a series of transactions without VAT being charged, all the transactions from that particular seller should be included on the reference.
 4. These references require a response within a period of 1 month from the date of receipt.
- g) This system requires the creation of separate records in the VAT office to record the issue of references and the receipt of references.
- h) The records should be monitored on a weekly basis by the AC/ CTO to ensure that the system is functioning effectively.
- i) The records should be used to ensure responses are received and that the time limits are met.
- j) The system should be used selectively by VAT audit officers, but officers should be encouraged to use routine references on a regular basis, a minimum of 2 routine references on each audit visit.
- k) The inter-state transactions details like out of state purchases, inter-state sales, branch transfers and consignment sales etc. shall be noted down and referred to the AC (Audit) of the Division or the Inter-state Investigation Wing in the head office.

5.12 Conducting VAT audit:

- a) All VAT audits should start with basic checks, which are mandatory. These include:
 - Check that the VAT certificate is displayed
 - Carry out an initial interview with the dealer.
 - Check if there are any changes to the registration details

- Complete, confirm and update the information required on the Form VAT 300
 - Check the VAT returns filed since the last advisory/audit visit with reference to the dealer's summary of input/output/net tax for each tax period.
 - Record any changes in the VAT dealer's business activities, accounting system, VAT activities, imports, exports, exempt sales. etc.
 - Resolve with the dealer any outstanding matters - e.g. late submission of returns, late payments, matters left over from the previous visit.
 - Make sufficient arithmetical checks on the records of sales and purchases until satisfied that they are accurately maintained. But excessive arithmetical checking is a waste of time.
 - Attempt to reconcile the figures on the VAT returns filed with the dealers certified annual accounts.
 - Inspect the business premises/ factory/ warehouse etc to establish the equipment/ capital goods in use and the outputs produced by the dealer.
- b) On completion of the basic checks the officer should proceed to audit inputs and outputs and supplementary checks.
- c) All auditing checks should be completed on the basis of test-checking and sampling techniques. Risk areas of over claims of input tax or under-declaration of output tax should have been identified prior to the visit. The test checks should commence in the risk areas by selecting a particular tax period.
- d) If the results are satisfactory, move on to the next area for testing; if unsatisfactory, the checks should be extended to identify the full and accurate extent of any tax under declaration so that an assessment is soundly based, and will stand the test of review/ appeal.

5.12.1 Auditing of inputs:

- a) Business purchases (inputs) provide the logical starting point for a VAT audit. Identification of the inputs to a business should provide the pointers to expected outputs.
- b) Appendix II provides a summary of the checks to be made when auditing input records and accounts.
- c) The audit reference system in paragraph 5.10 should be used to verify suspicious tax invoices, check on large input tax claims.

5.12.2 Auditing of outputs:

- a) Appendix III provides a summary of the checks to be used when auditing output records and accounts.

- b) Checks should be completed on references received under the audit reference system described, in paragraph 5.10.

5.12.3 Auditing of stock:

- a) Stock taking can be resorted to in cases of VAT dealers dealing in agricultural commodities, retail shops or traders of sensitive goods like plywood, timber, electrical goods, marble, Tiles, Iron & Steel and glass etc.
- b) Stock taking shall not be resorted in all audits. Stock taking may not be feasible in general audits of a manufacturing company or a big distributor or a limited company with many branches.
- c) Excess stock of inputs would indicate purchases made without proper bills whereas excess output would indicate under-declaration of related inputs. In both the cases, the dealer would not be eligible for any input tax credit as these are not VAT purchases covered by tax invoices.
- d) The audit officer shall proceed against excess input or excess output treating them as goods unaccounted for and go ahead with procedures of seizure and confiscation outlined in Section 43 read with Rule 53. The audit officer may collect security deposit of an amount, which is equal to two times the tax due on the goods, and release them.
- e) Any deficit in physical stock is attributable to the possible suppression of output or sales of goods. In such cases, the under-declared tax shall be arrived at and assessment shall be done. Appropriate penalty under the provisions of Section 53 for under-declaration of tax shall be arrived at and levied.

5.12.4 Examination of annual accounts:

- a) When reviewing the VAT dealers' annual accounts, Appendix VIII can be made use of to establish whether there are areas in the accounts which should receive an in depth check.
- b) An excessive amount of time should not be spent on this checking unless there is a wide disparity between the details on the VAT returns and the annual accounts for the period concern.

5.12.5 Auditing of Statutory Forms:

5.12.5.1. Auditing of Statutory Forms - Waybills:

- a. The utilization statement of Waybills and eWay bills submitted to the CT Department shall be verified with the value of goods transported and the values declared in the VAT Return/CST Return.
- b. Compare the value of output with the values declared in the corresponding tax invoices.
- c. Check the entries made in Register in Form 601 to ascertain whether a true and correct account of Waybills obtained, used and held in stock by him is maintained.
- d. Compare the value declared in the waybills with the relevant delivery challans, if any, mentioned in the waybill. The same should be verified with the values declared in the tax

invoices.

- e. Compare the values declared in the Waybills as well as the tax invoices with the prevailing market values of the commodities dealt with by the dealer. This check may result in unveiling the case of under-invoicing of the commodity.
- f. Check whether the dealer had used any waybill more than once - this exercise shall be done in case of VAT dealers dealing in agricultural commodities. Pay attention to over writings made on the waybill.
- g. If any triplicate waybill copy is found blank and the dealer is not able to give a convincing reply with evidence, the officer may suitably initiate action to assess the dealer by working out the under-declaration.
- h. If the values declared on triplicate copies of the waybill are too low and the waybills are shown as being used for transportation of exempt or low value goods, investigate into the genuineness of the transactions. In case of absence of credible evidence with the dealer, the audit officer may suitably initiate action to assess the dealer by working out the under-declaration treating the waybills as the ones used for normal value of output.
- i. In the case taxpayers who are not required to use waybills, the excise gate pass cum invoices issued shall be verified with the value of output.
- j. The officer doing audit shall be aware of the provisions in respect of movement of goods. Annexure XIII lists out the security features of waybills issued by the Commercial Taxes Department.

5.12.5.2. Auditing of Statutory Forms:

C Forms given by dealer to other State dealer:

- a. Verify the purchases of goods made under C Forms. Verify whether the dealer had accounted for all such purchases in the records.
- b. Verify whether the dealer had claimed any input tax credit on purchases made using the C Forms. If any input tax credit is claimed, initiate immediate action to raise assessment by treating such amount as under-declaration.
- c. Verify whether the dealer accounted for all the C Forms obtained from the department in a correct manner or not.
- d. Verify whether the dealer had utilized the C Forms for the correct purpose as per the provisions of Section 8 (3) of CST Act. **As per the provisions of CST Act, a dealer can use C Forms for the purchase of goods meant for re-sale, or for use by him in the manufacture or processing of goods for sale or in mining or in the generation or distribution of electricity or any other form of power or for use in the telecommunication network or for packing material.**
- e. If the dealer had misused the C Forms for purchasing goods other than those mentioned in the above clause, e.g. for consumption; the officer should write to the concerned circle

office. The registering authority under CST shall initiate action to levy penalty under Section 10 of CST Act as it is the registering authority who is prescribed to levy penalty.

- f. **Annexure XIV lists out the security features of C Forms issued by the Commercial Taxes Department.**

C Forms received by dealer from other State dealers:

- a. Verify the sale of goods made under C Forms. Verify whether the dealer had accounted for all such sales in the records. Cross check with Check Post data, whether goods are transported out of State or not
- b. Verify on TINXSYS or other State portal, whether the C Forms submitted by dealer are genuine. If C form is not found on TINXSYS or other State Portal, refer all such cases to inspection team which will visit other State for verification and confirmation. If on verification, it is found that C Form is not genuine, complete assessment by levying higher rate of tax as prescribed under CST Act on such turnover. Levy penalty as per provisions of CST Act. Simultaneously inform to DC and Commissioner CT office and also launch criminal action against dealer for filing fake document, claiming undue benefit from Government through deceit and cheating the Government. CTO office and DC office must maintain list of such dealers (Black List) and same should be used as input for future audit also.

5.12.5.3. Auditing of Statutory Forms: F Forms:

- a) Verify the stock receipt/consignment receipt of goods made by using the F Forms. Verify whether the dealer had accounted for all such receipts in the records.
- b) Verify whether the dealer had claimed any input tax credit on such receipts made using the F Forms. If any input tax credit is claimed, initiate immediate action to raise assessment by treating such amount as under-declaration.
- c) Verify whether the dealer accounted for all the F Forms obtained from the department in a correct manner or not.
- d) **Transfer of Goods on F Forms:** In cases where the dealer has received F Forms from his other state branches or agents, verify the dealer had restricted input tax credit correctly by using the formula $A \times B/C$ or not. Check whether F Forms received are genuine or not.
- e) Verify the liability of purchase tax for purchasing the taxable goods from non-VAT/unregistered dealers or from VAT dealers under the circumstances where no tax is payable by the selling VAT dealer and the same goods are disposed of otherwise than by way of sale.
- f) In the case of consignment sales, verify the following particulars/ documents:
 - 1. Name and address of the agent to whom the goods were consigned
 - 2. Description, quantity and value of the goods dispatched for sale on each occasion

3. Contract, if any, in writing entered into between the principal and agent
4. Copies of bills issued by the agents to purchasers in other States
5. Copies of patties rendered by the agent to the principal from time to time showing the gross amount of the bills and deductions such as commission, incidental charges etc, and the net amount remitted to the principal and the date and mode of remittance.
6. Attested extract of the ledger maintained by the agent for each of the principles
7. Copy of the Railway receipt, as the case may be, under which the goods were dispatched outside the State, and
8. Copy of the authorization sent to the non-resident agent for the sale of goods consigned.

Annexure XIV lists out the security features of F forms issued by the Commercial Taxes Department.

5.12.5.4 Auditing of Statutory Forms – H Forms:

- a) Verify whether the dealer accounted for all the H Forms obtained from the department in a correct manner or not.
- b) Verify whether the dealer had received any H Forms from exporters. If so, verify whether the goods mentioned in Form H are the same as the goods that are exported. Also verify the evidence of export such as bill of lading, letter of credit and agreement with foreign buyer to ascertain the genuineness of the export claim.
- c) In case of H forms received / to be received by the VAT dealer, verify the genuineness of the exporter who issued / promised to issue the H forms. For example, a dealer who is not an exporter or who is not registered for CST would have promised to issue H forms for the sales made by the VAT dealer being audited.
- d) Also, verify the genuineness of the H forms by following the procedure prescribed in Para 5.11.5.2 for cross-verification of C forms received by the dealer from other State dealers.

Annexure XIV - lists out the security features of H Forms issued by the Commercial Taxes Department

5.12.5.5. Auditing of special focus areas:

- a) **Works contracts and TCS/TDS:**
When auditing a VAT dealer who is involved in works contracts, the following action should be taken:
 - Verify whether the works contractor is maintaining separate accounts for each contract

- Where common inputs are used for the contracts, verify the maintenance of the accounts
- Where the contractor is not in a position to maintain separate accounts for each contract, verify whether the accounts are maintained as a group or category of contracts, for example, contracts for tyre re-treading etc.
- On perusal of the accounts of the contractor, it should be established whether VAT is being accounted for on the contracts by way of composition or by normal accounting (Non Composition) and accordingly the following action should be taken.

i. VAT accounted for under composition

- Confirm that application to avail composition has been made on Form VAT 250 for each contract or group/category contracts.
- Establish the status of the contract, for example, is it a state or local authority contract, apartment builder and developer or other contract.
- Check the VAT is being accounted for at the prescribed rate on the prescribed value, at the time the VAT was due
- Check whether the VAT is being accounted for on the value of such purchases at the applicable rates.
- Ensure that TCS/TDS is being properly accounted for.
- Confirm that no input tax credit is being claimed.
- Confirm that no tax invoices have been issued.
- Check that any sub-contract arrangements have been dealt with correctly for VAT purposes.
- In the case where the contractor has allocated part or the whole of the work to a subcontractor, check for proper accounting of TDS and payment of TDS by the VAT dealer contractor.
- Where the VAT dealer is involved in building and selling of apartments, check for the proper accounting for VAT in compliance with the provisions of the Law and Rules.
- Verify whether the TDS done by Registration Department is properly accounted for by the dept
- In case of a builder, check the total consideration received and verify it with market value for the purpose of stamp duty.

ii. Accounting for VAT other than by composition:

- Check VAT is being accounted for on goods in the contract at the time of incorporation and at the rate specified in the VAT Act 2005.

- Check input tax has been claimed:
- At 75% of the VAT charged
- That original tax invoices are held by the dealer for all the goods
- The goods are not in the negative list
- That the goods purchased are used in execution of the works contract
- Check whether the contractor has claimed on turnover relating to sub-contracts? If so, verify whether the sub-contractor is a registered VAT dealer or not and also whether his VAT returns reflect the turnover or not.
- Check the basis of valuation of goods incorporated in the execution of the contract.
- Check the related expenditure like loading, transport and unloading charges, seigniorage charges, blasting and breaking charges, crusher charges, stacking and distribution charges, expenditure incurred in relation to hot mix plant and transport of hot mix to the site and distribution charges.
- Check whether tax deducted at source has been properly accounted for.
- Check whether the contractor has issued Form 501 B to his sub-contractors i.e. whether he has transfer certain portion of the TDS from the TDS received by him from contractee
- Ensure the VAT dealer has maintained proper accounts to establish the correct value of the goods
- Where the accounts have not been maintained, ensure VAT has been accounted for in accordance with VAT Rule 17, sub-rule 1 (f). In such cases ensure no input tax credit has been claimed and no tax invoices issued.
- Check whether the VAT dealer is a sub-contractor to the main contractor who has opted for composition. In that case, main contractor is liable to pay tax under the provisions of APVAT Act and not the sub-contractor.

iii. TCS/TDS:

- Check the amount declared in box 22 (a) of Form VAT 200 to the declaration on Form VAT 501/501 A.
- Check the Form VAT 501 declarations to the VAT dealer account records for each works contract.
- Ensure the amount of TCS/ TDS claimed by the VAT dealer contractor does not exceed the amount declared and accounted for by the contractee. Also ensure that

TDS claimed by contractor and sub contractor for same work does not exceed the TDS made by the contractee.

- Check whether the main contractor has apportioned a part of TDS to his subcontractor by way of Form 501 B. In such a case, the amount apportioned shall not be more than the amount of TDS received by the main contractor.

b) VAT dealers with incentives:

i) VAT dealers with a tax holiday at the introduction of VAT

- Confirm the incentive has been converted to a deferment scheme.
- Confirm whether the industry is paying the amount availed to the CT Department as per the illustration in Rule 67(3)

ii. VAT dealers with tax deferment incentives

- Check whether the dealer is in possession of a valid eligibility certificate
- Check that the balance period for availing deferment scheme under VAT regime is correctly calculated in terms of Rule 67 of APVAT Rules, 2005.
- Check the value of the declaration of deferment in Box 22(a) on Form VAT 200 and the respective Form VAT 502. For example, the net tax due on each return has been debited to the eligibility amount, in the VAT dealer records
- Ensure eligibility amount has not been exceeded on Form VAT 502 and the time limit not exceeded. Raise an assessment for the VAT due where either has occurred.
- Check whether the dealer is claiming on deferments on sales of products specified in the certificate or not. If claim of deferment is made on other products not eligible, action to collect such irregular claim shall be initiated.
- If the VAT dealer is availing tax deferment for part of the business and payment tax for the other part of his business, all records pertaining to the input tax and output tax should be checked.
- Where the VAT dealer is availing deferment after meeting the conditions in the case of expansion/modernization/diversification, check all the related records with reference to VAT liabilities.

c) VAT dealers paying entry tax:

- Check Form VAT 503 submitted with Forms VAT 200 to ensure that the credit claimed has been paid on the declared entry tax return.
- Check the description of the goods to ensure that the goods on which entry tax credit is being claimed are not in the negative list.

d) **Hotels, restaurants and eating houses:**

- Check whether the Hotel is in the category of a lodging and boarding? If so, check whether it has status of 3-star and above? If the answer is yes to both the questions, the Hotel shall account for VAT at the rate of 14.5%.
- The star Hotel accounting for VAT at the rate of 14.5% is eligible to claim input tax credit.
- If it is a hotel providing lodging and boarding not having the status of 3-star and above, the same is liable to a tax of 5% on their sales or supplies of food or drink. This hotel is not entitled to input tax credit on their business purchases.
- Check whether the VAT dealer is a hotel, restaurant or eating house not falling under the category of case providing for lodging and boarding?
- If the answer to the question is yes, then check the annual turnover of the restaurant /hotel/ eating place.
- If the annual turnover of such hotel is in excess of Rs.1.5 crores, then the hotel is liable to pay VAT at the rate of 14.5% on its turnover. It may be remembered that the VAT dealer accounting for VAT at the rate of 14.5% is eligible to claim input tax credit on all business purchases.
- If the annual turnover of such hotel is less than Rs.1.5 crores, then the hotel is liable to pay VAT at the rate of 5% on its turnover. It may be remembered that there is no eligibility of input tax credit on any business purchases.
- Check the method of calculating gross takings, for example, issue of cash register receipt records, receipts to customers, daily records.
- It may be remembered that VAT is to be calculated on the entire amount including service charges or service tax collected.

e) **Purchase point tax payable by a VAT dealer:**

- Check whether there are purchases of goods from non-VAT / un-registered dealers or from VAT dealers under the circumstances in which no tax is payable by the selling dealer, and such goods are:
 - Sent on branch transfer/consignment sales
 - Used as inputs of goods sent on branch transfer/consignment sales
 - Used as inputs for exempt goods.

Where such goods are identified, ensure that the tax has been accounted for by applying the tax rate in the APVAT Act 2005 to the purchase value. Where VAT has not been accounted for, raise an assessment on Form VAT 305.

- Where the goods purchased from unregistered dealers are processed and one of the by-products is sold locally and the other by-product is sent on a stock transfer, the value for VAT is to be calculated on the proportionate purchase value of the goods on which the VAT liability accrued.

Example: Cotton purchased is converted to lint and cotton seed; lint is sold locally, whereas cotton seed is sent on branch transfer.

Goods A purchased from un-registered dealers. The goods are processed into products B and C. Product B is sold locally and C is sent on stock transfer.

The purchase value of A = Rs.4, 50,000/-

The Sale value of B = Rs.4, 00,000/-

Stock transfer value of C = Rs.2, 00,000/-

Proportionate purchase value of A on which purchase tax is payable = $4, 50,000 \times \frac{2, 00,000}{6, 00,000}$
= Rs.1, 50,000/-

f) **Credit notes and Debit notes:**

- All amounts allowed as discount provided such discount is allowed in accordance with the regular practice of the VAT dealer, or is in accordance with the terms of contract or agreement entered into in a particular case and provided also that accounts show that the purchaser has paid only the sum originally charged less the discount.
- Check whether credit notes are issued for discounts or sales incentives by any VAT dealer to another VAT dealer after issuing tax invoice. In such cases, the selling VAT dealer shall pass a credit note without disturbing the tax component on the price in the original tax invoice, so as to retain the quantum of input tax credit already claimed by the buying VAT dealer as well as not to disturb the tax already paid by the selling dealer. (Rule 16(3)(f))
- Credit notes and debit notes in respect of any annual discounts and any price adjustments shall be issued as and when accounts are settled between seller and buyer provided the settlement is made within the twelve months from the end of the year and the discounts or price adjustments are supported by proper documentary evidence.
- Credit notes and debit notes in respect of goods returned after sales or purchases shall be issued as and when the goods have been returned within a period of twelve months from the end of the year and supported by documentary evidence.
- All the credit and debit notes shall contain the particulars enumerated in sub-rule (4) and (5) of Rule 28 of APVAT Rules.
- The effect of credit and debit notes (other than those mentioned in Rule 16(3) (f)): It will result in reduction of output tax in the hands of the seller issuing credit notes and reduction of input tax in the hands of buying dealer and it should be done in the return for the tax period in which such credit notes are issued and received.

- Please see latest amendment in Act and Rules before applying above procedure.

5.13. Potential VAT risks:

5.13.1. Disaggregation:

- a) This is a particular risk in the context of business activities in India. If a business can be split into separate entities for particular aspects of the business the taxable turnover for each part of the business can be managed below the VAT registration threshold to avoid VAT liability.
- b) It is important that the following checks are applied to ensure disaggregation of a business is not used as a means to avoid accounting for and payment of VAT.
- c) Business with common owners, which claim to be separate entities for VAT registration purposes, should be checked in the following aspects. To satisfy the status as a separate business, these conditions must be met;
 - Owners /responsible persons for each activity must be clearly defined.
 - Separate bank account must be in use.
 - Separate accounts for purchases and sales must be maintained for each business activity.
 - Separate stock for each business must be maintained and be clearly identifiable.
 - Separate stock records must exist for each business.
- d) Where the above conditions are not fully met the business activities should be treated as a single entry and registration effected in accordance with the registration instructions.
- e) The sharing of business without clearly defined separate operational areas should not, in itself, preclude treatment as a separate business for VAT registration.

5.13.2. Absence of VAT dealer records:

- a) This constitutes an offence under Section 56 of the AP VAT Act 2005 with a penalty of Rs.5000/- for offences committed after a warning has been issued for the first offence.
- b) The Officer should calculate the output tax due from the best information available. Banking records or gross takings detail should be used to calculate the tax due and only inputs for which a tax invoice can be produced should be allowed as creditable input tax.
- c) The Officer should not attempt to reconstruct the VAT dealer's VAT records, but should advise him of the tax calculated as due on the information available.
- d) An assessment order should be issued for the sum calculated if the records are not available on the second visit. If the VAT dealer produces the records on the second visit, the assessment should be recalculated based on the information produced if those records are found to be acceptable.

- e) A written warning should be issued to the VAT dealer advising that if the required records are not maintained or produced in future, a further penalty would be levied.

5.13.3. Failure to produce tax invoices:

- a. Where input tax credit has been claimed and the VAT dealer is unable to produce a tax invoice at the time of audit visit, an assessment in VAT Form 305A should be issued which provides a reasonable opportunity, for the tax invoice to be produced, prior to the issue of Form VAT 305.
- b. When there are numerous such instances, it should point towards evidence of potential evasion.

5.13.4 Failure to produce commercial evidence of export/inter-State trade:

- a. Where zero rating has been claimed for the exportation of goods internationally or to another state, and the definite evidence including transport documents is not available, the officer should specify the documents required and allow the VAT dealer 15 days to produce them at the VAT office.
- b. If the documents are not produced, the sales for which zero rating has been claimed should be classified at the appropriate rate where the classification of goods can be established, tax calculated at that rate and Form VAT 305A issued.
- c. An assessment on Form VAT 305A should be issued.
- d. When there are numerous such instances, it should point towards evidence of potential evasion.

5.13.5. Failure of VAT dealer to attend an appointment for a VAT audit:

- a) If a VAT dealer fails to keep an agreed appointment for a VAT audit without reasonable cause and the audit visit has to be aborted, this should be regarded as an offence under Section 59 of the AP VAT Act 2005.
 - a. The VAT dealer should be contacted and fresh appointment made.
 - b. The VAT dealer should be given a written warning that a liability for prosecution has occurred under Section 59 of the AP VAT Act 2005.
 - c. If the VAT dealer fails to keep the second appointment, the facts should be brought to the notice of the Deputy Commissioner with a view to pursuing punitive action.
 - d. Some specific audits would be conducted without appointment of the VAT dealer.

5.13.6. Failure to register for VAT:

- a) Where routine references or intelligence indicate that a dealer may be liable for VAT registration, the Commercial Tax Officer should designate a DCTO/ACTO to carry out an inspection visit to verify the dealers taxable turnover and establish if there is a liability for a

VAT registration.

5.13.7. Seizure of goods, books, records and computer during audit:

If the Audit Team feels it necessary to seize goods, books, records etc. it must follow the procedure laid down in Sec.43 of APVAT Act, 2005. All the goods, books must be seized under a proper panchnama signed by the witnesses available during Audit / Inspection and handed over to dealer under acknowledgment.

5.13.8 Closing of Audit visit:

The audit team must go through all the records and documents filed by the dealer to the department and also the records, documents seized and extracts obtained from the dealer during audit / inspection. Analyze the same along with other information like check post data, Statutory forms, utilization, Annual report, third party information etc. On such a scrutiny if audit officer finds there is a suppression of turnover, wrong claim of ITC, tax evasion, the audit officer shall obtain authorization for assessment as per Rule 59 of AP VAT Rules 2005, if not obtained earlier.

5.13.9 Factors to be considered in closing the audit visit:

- a) Suspicion of fraud
 - Follow the procedures outlined in Chapter 8 of this manual.
- b) Tax under-declared but no suspicion of fraud
 - **Full facts available.** Discuss discrepancies with VAT dealer and attempt to obtain his agreement to the assessment amount. If the VAT dealer agrees to the under-declared amount, obtain his signature for this agreement on Form 301A. Assessment Form VAT 305A or 305 should be prepared on return to the office. See Appendix IV also.
 - **Tax under-declared but full information or documentation not available.** Advise the VAT dealer of the amount of the assessment unless the information or documentation is produced by means of issue of Form VAT 305 A. If the documents are not produced and the VAT dealer does not respond to Form VAT 305 A, issue Form VAT 305 and assess the tax due. See Appendix IV also.
 - Notice for penalty for under-declaration of tax as per the provisions of Section 53 shall be issued separately and not on Form VAT 305 A.
 - The audit officer shall come to a conclusion as to whether the under-declaration of tax is due to willful neglect on the part of the dealer or not.
 - If the under- declaration is owing to willful neglect, maximum penalty is leviable. If it is not due to willful neglect, proceed with levy of penalty amounting to 10% or 25% depending on the quantum of under-declaration.

- c) No discrepancies
- Advise result of visit and deal with any queries from the VAT dealer. Issue Form VAT 312 on return to the office. It should be confirmed to the dealer that this does not signify that his VAT accounts are accepted as accurate up to a certain date, but only that no discrepancies were found in the areas checked.
 - Even in no variation cases, it is necessary to issue an assessment order in Form VAT 305 duly indicating the turnovers and taxes (actually due and paid) for the audited period, though without any tax variation, so that the order shall be a basis for taking up audit of the dealer for the subsequent period. This would protect the interest of the department in future if any suppression of tax comes to light. It would enable the department to re-assess or revise the order.

5.13.10. Procedure for closing the audit visit:

- a) As the audit progresses, the officer should list all discrepancies as they are noticed for discussion with the dealer at the end of the audit. If there appears to be major problems with the accounts, the issues may have to be discussed with the dealer during the audit.
- b) At the end of the visit and before leaving the VAT dealers premises the audit officer should review the work done vis - a - vis original audit strategy.
- c) The objective should be to ensure that all points originally intended to be covered have been completed, to see if anything remains to be clarified and to identify whether anything new has emerged which needs follow up.
- d) Assess the viability of the business. The purpose of this review is to assess whether a going concern is likely to become bankrupt (sole proprietor) or go into liquidation (private or public incorporated company). There are two revenue concerns:
- At the time of any default, a large amount of tax is outstanding, if prompt action is not taken to secure it, it may be lost.
 - Stock and assets of an insolvent business may be sold off without the appropriate tax being accounted for. For this reason a brief note should be made of stocks and assets held.
- e) The officer should discuss with the VAT dealer the whole range of his activities. The officer should draw attention to any lack of compliance, and offer advice to assist the VAT dealer.
- f) The officer should attempt to close the visit in a constructive and positive manner. The officer should leave the VAT dealer with a list of all discrepancies identified and detailed explanations on the omissions, which have been found.
- g) It is good practice at the end of every audit to conduct a final interview with the VAT dealer. In all cases this will be a matter of courtesy on departure, however, it should be the time when any outstanding matters are discussed and finalized, for example:

- Uncertainties in the mind of the dealer about the operation of the tax system
 - Points requiring clarification
 - Seeking rectification of aspects of accounting which are considered unsatisfactory from a revenue viewpoint
 - Explaining the basis for any assessments and, if possible, reaching agreement and, in any case, informing the VAT dealer that an assessment order will be issued.
- h) If there is a need to resolve any uncertainties at the VAT office, the officer should summarize them before closing the visit, and be sure to contact the VAT dealer within 10 days to clarify the matter.
- i) Any rulings given by the officer should be confirmed in writing, which should be copied to the dealer file and noted on Form VAT 301B.
- j) This establishes a point in time that the dealer has been directed on a particular issue and future failure to comply would result in imposition of the appropriate penalty.
- k) The officer should explain to the VAT dealer that any penalty / interest resulting from the discrepancies identified would be strictly in accordance with the APVAT Act 2005.
- l) The officer should explain the action that will follow, for example, an assessment in Form VAT 305A or Form VAT 305 will be issued for the tax and any penalty/interest due and that payment shall be made within 30 days.
- m) The VAT dealer should be informed of his rights and obligations with respect to items in dispute. The flow chart in Chapter 6.6 defines the procedures to be followed.

CHAPTER 6

REFUND AUDITS

6.1. Introduction:

- a) The objective of a refund audit is to ensure that the claim made on the VAT return is valid and accurate and that the refund claimed or the refund determined as due can be paid.
- b) Excess credits on VAT returns can result from a VAT dealer making a preponderance of zero rated sales, registration as a start up enterprise, the purchase of high value items of capital assets, or from seasonal trading or large purchases of stock resulting in excess credits over a limited period.
- c) An erroneous or fraudulent return can also result in an excess credit.

6.2. Provisions for the treatment of excess credits:

- a) All VAT dealers who file VAT returns declaring an excess credit are entitled to claim a refund of the VAT credit, if they declare zero rate sales in excess of Rs. 10 lakhs in box 13 of the VAT return, or have carried forward an excess credit to March month provided they have been registered for 12 months, or the registration is being cancelled.
- b) The Commercial Tax Department is obligated to pay interest on any refund not made to the VAT dealer within three months.
- c) If the VAT dealer has failed to produce the books or accounts requested to substantiate the claim within 7 days of being requested, the Commercial Tax Department is not obliged to pay interest if the refund is not made within the above time limit.
- d) Each tax period is treated separately and refunds claimed cannot be offset against a tax liability in a subsequent tax period.
- e) If a VAT dealer wishes to use a tax credit to meet a later tax liability, the credit should be carried forward to the next tax return by entering in box 24 of the Form VAT 200. If the VAT dealer wishes to offset a CST liability for the tax period, the amount to meet the CST liability should be entered in box 24(a) of the Form VAT 200.
- f) NO refunds will be paid where a VAT dealer has failed to file a VAT return for any preceding period, or where there is tax due related to a previous period.

6.3. Refund procedure:

- a) All VAT returns with a claim for refund should be identified and selected for special focus.
- b) They should receive the normal checks applied to the declaration on the return, and the audit officer should list any significant discrepancies for action. During the detailed checking it

should be confirmed that the declaration on the return justifies a refund claim.

- c) The date of receipt of application for refund should be recorded. Payment of the refund is normally due before the end of the third month.
- d) All refund returns should be passed to the AC (LTU) / CTO in the VAT Unit. The AC (LTU) / CTO should monitor all refund returns and select the cases of claims requiring audit in accordance with the guidelines in this section.
- e) Returns not requiring an audit should be certified for payment by the AC (LTU) / CTO and processed for payment. All other returns should be sent to the audit officers for urgent audit action.

6.4. Conduct of Refund Audit:

- a) The preparation for the visit should follow the normal routine for audit visits except that the reason for the refund should be identified from the information on the return and in the VAT dealer file.
- b) In addition, on initial contact with the VAT dealer, it should be explained that any failure to provide the documentation requested will result in a delayed payment of the refund and could invalidate any right to the payment of interest by the Commercial Tax Department. A formal notice, in Form VAT 310A, shall be issued to the dealer to this effect.
- c) The audit should focus on the specific areas of the return, which gave rise to the refund. The reason for the refund must first be identified and examined in detail to establish that the reason for the excess credit is credible.

6.4.1. Refunds related to the zero rating of exports must have:

- a) Commercial evidence of export in the form of:
 - i. Copy of the document as proof of export duly certified by Customs department.
 - ii. A copy of the contract or order from a foreign buyer.
 - iii) Evidence of actual export in the form of transport documentation related directly to the goods like RAIL - RR. or, SHIP - copy of bill of lading, or AIR copy of airway bill, or ROAD - LR, or Any of other relevant transport documentation
 - iv. Evidence of payment for the goods or a copy of the letter of credit from foreign purchaser.
 - v. Copy of the invoice issued to foreign purchaser
- b) Evidence required for zero-rating of sales in the course of export:
 - i) Form H declaration in appropriate cases.
 - ii) Purchase order form the exporter

- iii) Evidence of export in the form of transport documentation as above.
- c) In the case of direct export, all items (i) to (v) must be produced to establish the claim of zero-rating.
- d) In the case of claims of zero-rating in the course of export, the dealer must produce Form H declaration. In addition, the penultimate exporter should produce a purchase order from the exporter stating that the goods purchased are intended for export, together with evidence of the export of the goods.

6.4.2. Refunds related to capital assets:

- a) There must be a tax invoice (Original) related to capital goods.
- b) A physical examination should be carried out to confirm the availability of the goods and to identify them as per documentation or alternatively if the goods have been disposed of, evidence of the disposal and payment of VAT should be obtained.
- c) In cases where the input tax exceeds Rs.25, 000/- , a routine reference should be issued unless there is suspicion of evasion in which case an urgent reference should be issued.

6.4.3. Refunds related to excess credits:

- a) Refunds related to excess credit carried forward to March month could result from very large purchases of capital goods, from large investment expenses in the case of a start up business or from a high level of inter-state sales.
- b) Such refunds should not result from seasonal variations in trade activities, or from large stock purchases. If that is the case, thorough verification may be needed.
- c) The officer's first priority should be to identify the basis for the refund claim and ensure that it is justified in accordance with the above guidelines, and that the calculations are accurate.
- d) Where a VAT dealer is involved in other taxable or exempt activities, the audit must be extended to cover the checks defined in Chapter 5 as appropriate to the VAT dealer's business. The officer should satisfy himself that the input tax credit claimed by the VAT dealer is correct.
- e) At the conclusion of the VAT refund audit the officer should be satisfied that the amount claimed on the VAT return, as amended by Forms VAT 305 or VAT 306 if necessary, is properly and legally refundable.

6.4.4 Refunds related to excess credits due to lower rate of tax on output compared to inputs:

- a) Cases of VAT dealers whose input is taxed at a standard rate and output is taxed at a lower rate could result in excess credits.
- b) There must be tax invoices relating to the inputs.
- c) The value of output sold locally and taxed at lower rate shall be more than the value of inputs on which standard rate is paid.

- d) Check whether established input / output norms, if available for the business line, are met.
- e) Pick up tax invoices where input tax exceeds Rs.25, 000/- for routine reference. Where there is a suspicion, issue urgent reference.

6.5. Conclusions of the refund audit:

- a) On completion of the audit, if the claim is found to be accurate, the VAT dealer should be advised that repayment of the sum claimed would be made.
- b) If there is a suspicion of a fraudulent claim, see Chapter 8 for the procedures to be followed. If errors are discovered on the audit the VAT dealer should be invited to agree the adjustment and sign agreement on Form VAT 301A.
- c) Forms VAT 305A, 305 or VAT 306 should be prepared in the office and issued by the officer after affording reasonable opportunity of time to the dealer.
- d) The VAT dealer should not be allowed or required to amend the legal declaration he has made on Form VAT 200.
- f) The Form VAT 200 declaration will be the amount recorded on the accounting file and, the adjustment to the account can only be made by the use of Forms VAT 305 or 306.

6.6. Process flow for VAT refunds to international exporters

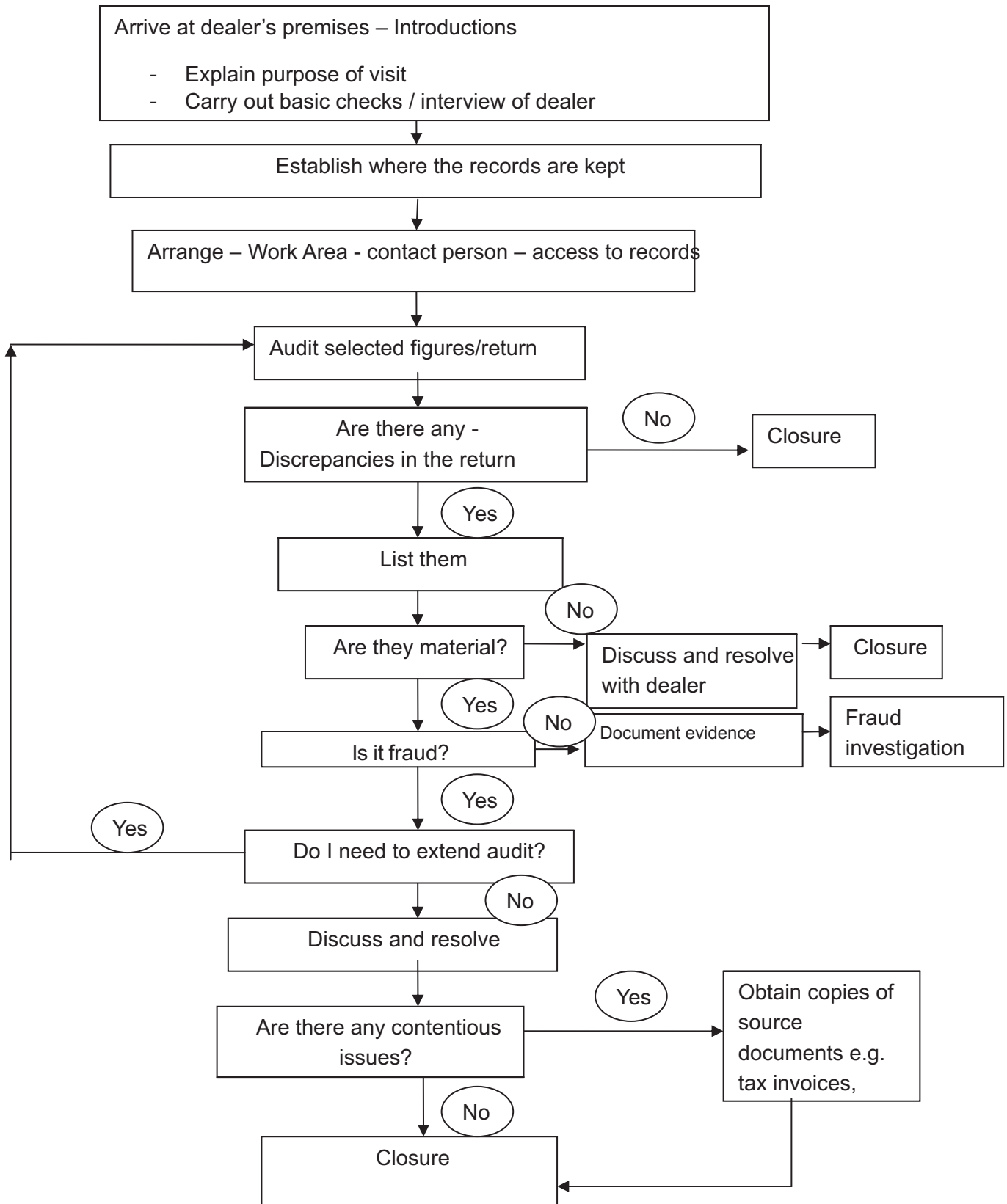
The procedure outlined below shall be followed in processing refunds to international exporters:

1. Identify tax returns on Form VAT 200 where claim for refund of excess credit is made. VATIS return module can be used to know the number of VAT dealers who have made a claim of refund in Box no.23.
2. Check for the applicability of general conditions listed in Annexure I.
3. Where conditions are not met, the VAT dealer should be advised on Form VAT 355 that his claim is not acceptable and the excess credit should be carried forward to the future tax period.
4. Where general conditions are met, check the amount of refund claimed. If the refund claim is up to Rs.50, 000/-, CTO of the circle is the approving authority. For claims in excess of Rs.50, 000 to Rs.10 lakhs, DC of the division is the approving authority. For claims in excess of Rs.10 lakhs, the JC / Addl.CCT designated by Commissioner is the approving authority. In the case dealers of LTU, the Assistant Commissioner can approve claims up to Rs.2 lakhs.
5. The return shall be processed for identifying risk parameters, if any.
 - a. Check whether all boxes in the return are filled correctly. The tax return should receive the normal checks applied to the declaration on the return. The

officer should list any significant discrepancies for action.

- b. Check the amount of input tax credit claimed by the dealer for the tax period. Pay more attention if the dealer is having exempt transactions / exempt sales in the tax period.
 - c. If the dealer is a known international exporter, risk is less. If the dealer is making sales to direct exporter and refund is a result of that, risk is more. Similarly, if the dealer is a manufacturer, risk is less. If the dealer is a trading concern dealing in exports, the risk is more. The knowledge of past transactions of a dealer may indicate these risk parameters.
6. CTO shall select those claims requiring an audit in accordance with the guidelines in Annexure - II. The Annexure also details the checks to be carried out during the refund audit.
 7. IT is to be remembered that the VAT refund shall be made within a period of ninety (90) days. The date of receipt of claim for refunds should be recorded.
 8. In some cases, the CTO before making a refund audit can issue a notice to a VAT dealer in Form 555 to produce accounts or documentary evidence in support of refund claim. If the dealer fails to produce the documents asked for within seven days of issue of notice, the time limit of 90 days will stand extended accordingly by the delay period on part of dealer.
 9. If the amount of claim is to be restricted or the claim is to be rejected, issue Form VAT 355 to the dealer.
 10. If the refund claim is correct and refund is in order, approve the refund and prepare refund voucher in Form 500 for claims below Rs.50, 000/- and notification in Form VAT 355. The notification in Form VAT 355 shall be forwarded to the dealer.
 11. For claims in excess of Rs.50, 000/-, CTO shall forward Form VAT 355 A to the Deputy Commissioner. For claims in excess of Rs.10 lakhs, the DC shall forward Form VAT 355 A to the designated Joint Commissioner, CT at HQ. In cases where there is reason to believe that the processing is not done correctly, the Joint Commissioner, CT at head quarter can order refund audit/fresh refund audit, as the case may be, to be carried out. After receiving approvals from higher authorities, the CTO shall prepare refund voucher in Form 500 and notification in Form VAT 355. The notification in Form VAT 355 shall be forwarded to the dealer.

6.7. Audit visit flow chart:



CHAPTER 7

POST AUDIT ACTION

7.1. Introduction:

- a) The essential elements of post audit action should be to:
- Complete the visit report on Form VAT 301A/B and enter the data in the computer system
 - Obtain authorization from competent authority for assessment as per Rule 59 of APVAT Rules, if not obtained already.
 - In the case of under declaration, prepare a Form VAT 305A or assessment on Form VAT 305 affording a reasonable opportunity to the dealer (see Appendix N)
 - After receiving the objections and granting of personal hearing, if any requested by the dealer, pass assessment orders in Form VAT 305.
 - Note on Form VAT 301 the appropriate code for the under-declaration (See Appendix X)
 - In the case of over-declaration, prepare an overpayment advice on Form VAT 306
 - Prepare and issue Forms VAT 311 (Audit reference form)
 - In cases where there is no under declaration or over-declaration of VAT, Form VAT 312 should be issued to the VAT dealer confirming any decisions and rulings given on the audit visit and that a VAT audit has been carried out.

7.2. Action by audit officer:

- a) The audit officer should complete his visit report on Form VAT 301A/B, update Form VAT 300 and prepare Forms VAT 311 from his workbook not later than the first office day following the date of the visit.
- b) The officer should review the work completed on the visit and ensure that all the appropriate action has been completed.
- c) Any uncertainties should be resolved with the VAT dealer, and any issues not settled on the visit should be decided by reference to the DC and the decision conveyed to the VAT dealer on Form VAT 312 within 10 days of the visit and recorded on Form VAT 301A/B.
- d) Where an under-declaration or over-declaration has been identified, the amount of tax must be calculated and the reasons for the under/over declaration stated.
- e) In the case of an under-declaration of tax where the VAT dealer has agreed to the tax due, an assessment notice (Form VAT 305 A) should be issued.

- f) Where the VAT dealer has not agreed that additional tax is due, a notice on Form VAT 305 A should be issued. After a period of 10 days, if VAT dealer fails to respond, Form VAT 305 should be issued. If the VAT dealer responds, his explanation should be taken on record before issuing Form VAT 305. VAT 305 order must be a speaking order and must give reasoning for the decision arrived at.
- g) If an over-payment of tax is identified, an over-payment advice Form VAT 306 should be prepared.
- h) The basis of all calculations should be provided on Form VAT 301A/B. The explanation of any assessment or notice of over-declaration should be provided in the Forms VAT 305A, VAT 305, and VAT 306.
- i) Forms VAT 305, 305A and 306 should be prepared in duplicate and the procedures in Appendix IV should be followed.
- j) Areas of risk for follow up action on the next visit should be highlighted on Form VAT 301B.

7.3. Action by the AC/CTO:

- a) The AC/CTO should retain copies of all officers' weekly visiting work programmes (Form VAT 309).
- b) Visit reports and VAT dealer files should be checked on a weekly basis against Form VAT 309 when received from audit officers.
- c) Checks should be carried out to ensure that the visit was completed on the specified date.
- d) All visit reports should be scrutinized by the DC / JC with at least 1 in 5, receiving scrutiny. This scrutiny should include, but not be limited to:
 - A comparison between Form VAT 300 and Form VAT 301 with particular attention to the allocation of the appropriate activity/commodity code.
 - Check the description of purchases and sales to establish that the correct liability is being declared.
 - Review the dealer file to ensure identified risks / references have been dealt with in the visit.
 - Ensure that appropriate action has been taken where discrepancies have been identified.
 - Ensure that rulings given have been confirmed in writing and recorded in the file.
- e) Special attention should be paid to reports from fresh staff or officers whose work performance may be cause for concern.
- f) It is important all officers must ensure that assessments and calculations are true and accurate.

7.4. Control of audit activities:

- a) Monthly audit work reports (MIS) should be available to all management levels including Commissioner, DC, ACs and CTOs.
- b) The DC should retain overall control of the divisional audit program, carefully review all assessments and over-payment advices and from time to time inspect a selection of routine visit reports. Overall management reporting is dealt with in Chapter 9.

CHAPTER 8

FRAUD INVESTIGATION

8.1. Introduction:

- a) The investigation of fraud is a vital element in the administration of VAT. The purpose behind a VAT fraud investigation is to deter VAT dealers from knowingly making fraudulent VAT returns.
- b) A distinction is to be drawn between innocent errors made on VAT returns and false declarations made with the intent to defraud.
- c) When intent of fraud can be proved prima facie with material on record, follow these guidelines.
- d) The following cases should be regarded as an illustrative list of evidence of presence of fraud.
 - b) Use of false Tax invoices / Statutory Forms
 - c) Issue of false Tax invoices
 - d) Alteration / amendment of tax invoices
 - e) Tampering with or misuse of statutory forms such as waybills, C-forms etc
 - f) Suppression of taxable turnovers/material information such as not disclosing place of business/godown
 - g) False claim of exports
 - h) Suppression of exempt sales/ transactions
 - i) False description and false classification of goods
- e) Suppression of inter-state purchase / import
- f) Making false declaration / promise to issue or receive statutory forms like C forms / H forms etc. to / from the dealers not eligible to receive / issue the same, with an intention to under-declare the tax liability. For instance, claiming the sale of goods to a dealer not registered for CST as a sale against H form.

8.2. The role of the audit officer in fraud investigation:

- a) The investigation of fraud is a vital element in the administration of VAT. The purpose behind a VAT fraud investigation is to deter VAT dealers from knowingly making fraudulent VAT returns.
- b) Audit is an important and integral part of the fraud investigation process. The three key

elements of the audit officers responsibilities are to:

1. **Identify** a potential fraud.
 2. **Quantify** the fraud in order to give the investigators an idea of what revenue has possibly been evaded.
 3. **Contain** (Preserve evidence) the situation when at the dealers premises
- c) There are very few ways in which an audit officer can deal with a potential fraud when it comes to deciding how to contain the situation. Before looking at these, it is important to consider what needs to be achieved when containing the potential fraud.
- d) The audit officer may have identified a potential fraud and the quantification could be relatively straightforward. When it comes to containing the matter, the audit officer is trying to preserve evidence of the commission of a possible offence without the dealer realizing that he has been discovered.
- e) The audit officer should seize the books and records thus preserving any evidence, which the investigators will need to prove that an offence has been committed.
- f) When seizing the books and records it will undoubtedly create a problem with the dealer. This can be dealt with in one of many ways, for example:
- Explain to the dealer that it is not possible to finish the visit at his premises and the records are being taken away to enable the audit to be concluded. Explain to the dealer that the records would be returned within a few days. Where the dealer refuses to part with the records, the officer may conduct panchnama in the presence of two independent witnesses and seize the necessary records that are needed to demonstrate the possible fraud.
- i) REMEMBER THAT THE PRIME OBJECTIVE IS TO SECURE THE RECORDS. IF THE DEALER IS NOT HAPPY, THIS WILL USUALLY INDICATE THAT HE KNOWS THERE IS A PROBLEM. AN INNOCENT DEALER WILL NOT OBJECT TO HIS RECORDS BEING REMOVED FOR A FEW DAYS.
- j) If it is neither feasible nor practical to lift the records, then consideration has to be given to the next best option. As outlined above, the reason for containing a situation is to secure the best evidence possible given the circumstances that occur during the audit. If the records cannot be lifted, then in order to demonstrate the identification and quantification of the suspected fraud at the office, the audit officer can only rely on his notes in the absence of the dealer records.
- k) The importance of good notes was dealt in an earlier section, however, in the context of fraud recognition, good notes are essential as potential evidence in case the original records are destroyed.
- l) If the dealer destroys the records because he fears the audit officer has discovered the fraud, then the notes that the audit officer makes of the transactions which supported the VAT return may be the only way of penalizing the dealer for alleged fraud.
- m) It should also be remembered that the dealer would have submitted a VAT return and he

should have records and invoices in order to substantiate what was written on the return.

- n) If the audit officer notes the suspicious transactions and the purchase and sales figures which made up the VAT return that is in question, this could be the evidence that helps prove a fraud has taken place.

8.3 Identification of fraud by audit officers:

- a) The purpose of VAT audit should be to identify discrepancies and deficiencies in the VAT dealer's records and ensure that the full amount of VAT due has been recorded and paid on each return.
- b) Having identified an error, the officer should attempt to establish whether it was innocently made, or made deliberately with the intention of reducing the tax to be paid.
- c) If the VAT dealer is unable to offer a reasonable explanation for any error, the officer should attempt to gather any evidence to suggest an intention on behalf of the VAT dealer to defraud the Commercial Tax Department of the VAT due.
- d) The officer should approach this task by seeking to establish the VAT dealer's normal operational and accounting methods and then seek an explanation for any variations from normal business procedures.
- e) Where the explanations offered are unconvincing, there must be a suspicion that a fraud has been committed.
- f) Where the revenue at risk is estimated to be below Rs. 500,000 the audit officer should complete his audit and follow the procedures defined in Chapter 5 of this manual.
- g) In all other cases where there are grounds for suspecting fraud, the officer should take possession of the relevant documents and any evidence under cover of a panchnama attested by two independent witnesses.
- h) As noted above, no indication should be given that fraud is suspected or that anything serious is wrong so that the VAT dealer does not attempt to destroy evidence while the case is being reviewed.
- i) The types of VAT fraud are too varied for a definitive list to be provided, but Appendix V details the more common types of fraud which have been detected in past in VAT systems.
- j) The appendix also specifies the counter measures that could be employed by administrators. The list is not exhaustive, and is for guidance only to create awareness of possible VAT frauds.
- k) There should be a list of VAT frauds (where an intention to defraud exists) and evasions (where an error is considered to be a mistake) completed & regularly updated by each office. This information should be centrally located in the Central Investigation Unit (CIU) and made available to all offices on a quarterly basis.

8.4. Classification and organization of fraud investigation:

- a) The investigation of fraud makes significant demands upon staff resources and is rarely cost effective when compared to the collection of revenues, penalties and interest.
- b) The aim of fraud investigation is to encourage voluntary compliance by VAT dealers by providing a reasonable prospect that fraudulent VAT dealers will be detected, investigated and prosecuted in the courts, or subjected to financial penalties.
- c) To achieve this objective the aim is to gain maximum publicity for the successful conclusion of major fraud cases.
- d) Cases where fraudulent intent can be proved, but the revenue at risk involved is estimated not to exceed Rs.5 lakhs, such cases should be dealt with by VAT assessment issued for the additional tax, penalty and interest due.
- e) The only exception should be where there is evidence of deliberate evidence of manipulation, for example, false tax invoices or suppression of sales.
- f) Cases where fraudulent intent can be proved, and the revenue involved exceeds Rs.5 lakhs and cases of deliberate manipulation, should be handed over to the investigating unit at the divisional office or to CIU for investigation.
- g) The DC should always pass cases to the CIU, where there is evidence of inter-state fraud or international fraud.
- h) Where the revenue involved is estimated to exceed Rs.500,000, the D.C. should pass this case to the C.I.U.
- i) Criminal prosecution under IPC should invariably be launched along with prosecution under APVAT Act, in case of repeat frauds and serious cases of frauds.
- j) The dealer file should be noted with a record of the fraud and the associated risks on Form VAT 301A/B. History sheet of dealers associated with major fraud cases should be maintained at Circle/LTU and Division level.
- k) The DC / JC should be consulted at an early stage of any potential investigation and in association with specialist investigation agencies, any evidence gathered by the audit officers should be scrutinized to establish whether there is, prima-facie, a case for investigation. Any investigation authorized should be undertaken by specialist investigators.
- l) All VAT audit officers have a responsibility to detect and identify fraud and should receive audit training to achieve this objective.
- m) The investigation of VAT fraud requires special skills and in-depth training.

CHAPTER 9

MANAGEMENT INFORMATION

9.1. Introduction:

- a) Audit programme for VAT dealers will depend on the number of registered VAT dealers, the risk associated with those dealers and the staff available for audit.
- b) The programme will be risk based, with the objective to enforce Return filing, Due Tax payment, Improvement in self Tax compliance, control on frauds and control refund claims.
- c) The development of an effective audit programme will dependent on accurate and timely management of information.
- d) Audit management information. will perform the following functions: -
 - 1. Monitor the progress of audit activity
 - 2. Record fraud and evasion trends to prevent revenue leakage, improve tax compliance and maximize collections
 - 3. Monitor staff performance to improve the quality of audit
 - 4. Monitor the audit program to ensure broad coverage resulting in improved voluntary compliance
 - 5. Provide the basis for future audit planning.

9.2. VAT Reports:

- a) Examples of audit work reports and under-declaration classification are provided at Appendix X. This should provide the basis for the overall management of VAT audit.
- b) These reports should be generated by the computer on a monthly basis at Circle, Division and HQ level.

9.3. Classification of VAT errors and evasions:

- a) All VAT under-payments identified by audit staff, and other control staff, should be classified on a numeric basis to assist the management of fraud and evasion trends. A simple classification basis is provided at Appendix X - MIS 009.
- b) The purpose of this classification of under-declaration trends is to provide management with information, to enable resources to be targeted towards audit activity, which should maximize revenue collection, and encourage dealer voluntary tax compliance.
- c) At the same time, the measure of the levels of under-declaration detected should provide some indication of the effectiveness of the taxpayer education programme, the level of voluntary compliance, and the effectiveness of audit action.

**VALUE ADDED TAX
FORMS USED IN VAT AUDIT**

VAT 300	Summary of business activities and records
VAT 301A	VAT audit visit report
VAT 302	Miscellaneous visit reports
VAT 303	Advisory visit Report
VAT 304	Intimation of Advisory / Audit visit to a VAT Dealer
VAT 305A	Notice of assessment of Value Added Tax
VAT 305	Assessment of Value Added Tax
VAT 307	Notice of under-declaration of value added tax
VAT 308	Notice of Over -declaration of value added tax
VAT 309	VAT Visiting Officer weekly programme
VAT 310	Notice for Production of Documents and Records
VAT 310A	Notice for production of Documents and Records in Refund Audit
VAT 311	Audit reference form
VAT 312	Confirmation of audit visit
ADM 1A	Dealers proposed for audit
ADM 1B	Authorization for conduct of Audit (Inspection/Assessment).

**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT**

SUMMARY OF BUSINESS ACTIVITIES AND RECORDS

Name of VAT dealer TIN:

Address of Dealer:

Effective date of registration :

1. Authorized Person and status _____
2. Telephone number(s) _____
3. Accountant (if any) _____
5. Financial year ends on _____
6. Address of principal place of business _____
7. Other business address _____
8. Main business activity _____
9. Subsidiary business activities _____
(Provide approximate % of turnover of each activity)
10. Importer (International) YES/NO
 - a) Percentage to Inputs: _____
 - b) Brief description of imports _____
11. Purchases from other States YES/NO
 - a) Percentage to Inputs -----
 - b) Brief description of Purchase: _
12. Exporter YES/NO
 - a) Percentage to Output _____
 - b) Brief description of Exports -----
13. Sales to other States: YES/NO
 - a) Percentage to Output _____
 - b) Brief description of Inter-State Sales _____
13. Branch transfer/consignment sales to other states YES/NO
 - a) Percentage to Out Put _____

14. Brief Description of Branch Transfer/Consignment sales
15. Description of Principal outputs (Ex: Departmental Stores) _
 - 1% Rate.....
 - 5% Rate
 - 14.5% Rate
 - Special Rates.....
 - Zero-Rated ~ International Exports.....
 - Zero Rated - Inter State Sale.....
 - Sale of Exempted goods.....
 - Branch transfers etc
16. Principal inputs
 - 1% Rate.....
 - 5% Rate.....
 - 14.5% Rate.....
 - Purchase of Exempt goods.....
 - Inter State purchase.....
 - Receipt from Branches etc.....
17. Accounting Method: Invoice accounting/Cash accounting for consumers.
18. Current Accounting Records - Describe overleaf the books and records maintained by dealer. Highlight those used for accounting for VAT. Identify records where the VAT account or VAT calculations are maintained .

Recorded by : Officer Name..... Signature

Date:.....

**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT**

VAT AUDIT VISIT REPORT

1. TIN of the dealer:
2. Name and Address of VAT dealer.....
3. Address visited
- 4) Person(s) interviewed
- 5) Date and time of visit: Date from to
- 6) Summary of Trading Activities
- 7) Basic Checks applied (Tick when completed):
 - a. Checked VAT/CST/TOT Registration Certificate
 - b. Checked VAT Return Filing
 - c. Checked Tax Payments Record
 - d. Checked utilization of Statutory Forms
 - e. Records cross Checked with Check Post data
 - f. Tax Periods checked: From To.....
 - g. Note the records examined and discrepancies if any found.
 - h. Record Calculation of under declaration and assessments issued.
 - i. Recommend for further audit action if any:

Agreement from the VAT Dealer if any:

The calculation of under declaration of VAT in records and in VAT returns for the tax period from ... to is understood and I accept to pay the VAT due along with the penalty and interest as calculated above by the audit officer.

Signature of Dealer with date

Signature of Audit Officer with date.....

**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT**

MISCELLANEOUS VISIT REPORT

- 1. Dealer name
- 2. TIN Number
- 3. Address visited
- 4. Person (s) interviewed
- 5. Date and time of visit
- 6. Result of visit (Record essential details of checks completed)
.....
.....
.....
.....
.....
.....
.....
.....
.....

Date:

Officer's Name:

Officer's signature:

**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT**

ADVISORY VISIT REPORT

1. TIN Number
2. Dealer Name
3. Address visited :
.....
4. Person(s) interviewed
5. Date and time of visit from To.....
6. Registration Application checked
7. Registration Certificate checked
8. Documents in support of application checked
9. Return filing and tax payment procedures explained.....
10. Particular legal provisions specifically related to the business explained.....
11. Other subject explained
- i. Transitional issues
- ii. Value of stock on hand
- iii. Estimated value of assets on hand
12. ASSESSMENT OF REVENUE RELIABILITY: POOR / AVERAGE / GOOD
13. General comments:

Officer Name Rank Signature.....

**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT**

INTIMATION OF ADVISORY / AUDIT VISIT TO VAT DEALER

(Tick whichever is applicable)

Date

- 01. Tax Office Address:
- 02. TIN of the dealer:
- 03. Dealer Name and address

This is to inform you that an advisory / audit visit (Tick which ever is applicable) will be held on(Date) atHrs. You are requested to update your accounts & keep all your business records ready for verification / audit on the above indicated date and time.

Officer name and Signature

**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT**

NOTICE OF ASSESSMENT OF VALUE ADDED TAX

{See Rule 25 (5)}

Date.....

01. Tax Office Address:

02. Dealer TIN:

03. Dealer Name and address

Examination of your records on (Date) has shown that the correct amounts of Value Added Tax have not been declared in the VAT return for the Tax period listed below. Under the provisions of APVAT Act 2005, the following tax amounts are due for the tax periods show below:

Explanation for the above :

If you have any objections to the assessment proposed above, you are requested to file written objections along with documentary evidence if any, within 15 days of receipt of this notice failing which orders will be passed based on material on record without any further notice in the matter.

ASSESSING AUTHORITY

**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT
ASSESSMENT OF VALUE ADDED TAX**

{See Rule 25 (5)}

Date

01. Tax Office Address:

02. Dealer TIN:

03. Dealer Name and address.....

After taking into consideration, your business records which were examined on (Date), this office show cause notice in Form VAT 305A dated (Date) and your explanation to show cause notice, the correct amount of VAT under the provisions of APVAT Act 2005 for the Tax period from ... to ...has been established as follows:

Explanation for the above:

The amount of Rs..... shall be paid within 30 days of receipt of this order. Failure to make the payment will result in recovery proceedings under the APVAT Act 2005.

An appeal against this order can be filed before the Appellate Deputy Commissioner (CT) within 30 days of receipt of this order.

ASSESSING AUTHORITY

**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT**

NOTICE OF UNDER DECLARATION OF VALUE ADDED TAX

[See Rule 23 (6)(b)]

Date.....

01. Tax Office Address:

02. Dealer TIN:

03. Dealer Name and address

On examination of your application on Form VAT 213 (Revise Return) Dated it is noticed that you have under declared the VAT. As per your Revise Return, VAT payable along with interest is calculated as shown below:

Tax Period	Tax Declared On returns	Tax found to be correct as per Revise Return	Tax Under-declared	Interest for delayed payment
TOTAL				

The amount under-declared along with interest shall be paid within 30 days of receipt of this notice. Failure to make payment will result in recovery proceedings under the APVAT Act, 2005.

COMMERCIAL TAX OFFICER,
..... **CIRCLE.**

**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT**

**NOTICE OF OVER DECLARATION OF VALUE ADDED TAX
[See Rule 23 (6)(b)]**

Date

01. Tax Office Address:

02. Dealer TIN:

03. Dealer Name and Address

On examination of your application on Form VAT 213 (Revise Return) Dated it is noticed that you have over declared the VAT due. As per your Revise Return , the same is calculated as follows:

Tax Period	Input Tax Declared	Output Tax Declared	Input Tax Found to be correct	Output Tax Found to be correct	Tax Over Declared	Total Amount of credit due to dealer

You are informed that you can adjust the amount of credit indicated above in the future VAT returns due to be filed after the receipt of this order.

COMMERCIAL TAX OFFICER,
..... **CIRCLE.**

VAT VISITING OFFICER WEEKLY PROGRAMME

<p>MONDAY</p> <p>Date:</p> <p>Time:</p>	<p>VAT dealers name and TIN</p>	<p>Address</p>	<p>Telephone No.</p>
<p>TUESDAY</p> <p>Date:</p> <p>Time:</p>	<p>VAT dealers name and TIN</p>	<p>Address</p>	<p>Telephone No.</p>
<p>WEDNESDAY</p> <p>Date:</p> <p>Time:</p>	<p>VAT dealers name and TIN</p>	<p>Address</p>	<p>Telephone No.</p>

<p>THURSDAY</p> <p>Date:</p> <p>Time:</p>	<p>VAT dealers name and TIN</p>	<p>Address</p>	<p>Telephone No.</p>
<p>FRIDAY</p> <p>Date:</p> <p>Time:</p>	<p>VAT dealers name and TIN</p>	<p>Address</p>	<p>Telephone No.</p>
<p>SATURDAY</p> <p>Date:</p> <p>Time:</p>	<p>VAT dealers name and TIN</p>	<p>Address</p>	<p>Telephone No.</p>

GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT

NOTICE FOR PRODUCTION OF DOCUMENTS AND RECORDS

Date

01. Tax Office Address:
.....
.....
.....

02. TIN:

03. Name.....

Address:

.....
.....
.....

During the visit on (Date), you failed to produce the following records and documents for verification/inspection:

1.

2.

You are now required to produce these documents at this office, address as above on (Date)

You are further informed that failure to produce records is an offence under Sec.58 of the APVAT Act 2005. You are also informed that if you fail to produce records by the indicated date, you may be assessed based on material available on record or based on best judgment.

COMMERCIAL TAX OFFICER,
..... CIRCLE.

GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT

NOTICE OF PRODUCTION OF DOCUMENTS AND RECORDS IN CASE OF
REFUND AUDIT

Date

01. Tax Office Address:
.....
.....
.....

02. TIN:

03. Name.....

Address:

.....
.....
.....

You have been visited on (Date) to conduct refund audit for the refund claimed by you in the VAT return for the month of (month/Year). During the visit, you failed to produce the following records and documents for verification/inspection:

- 1.
- 2.

You are now required to produce these documents at this office, address as above on (Date)

You are further informed that failure to produce records is an offence under Sec.58 of the APVAT Act 2005. You are also informed that if you fail to produce records by the indicated date, it may result in a delayed payment of the refund and could invalidate any right to the payment of interest by the Commercial Tax Department.

COMMERCIAL TAX OFFICER,
..... CIRCLE.

**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT**

AUDIT REFERENCE FORM

Date

Issuing Officer name and address

Receiving Office name and address:

Status of reference: Urgent/Routine

Name of VAT dealer audited:

TIN No:

Address:

.....
.....
.....

Name of the dealer referred:

TIN /GRN:

Details of Invoice (s) to be audited are listed below:

These invoices are inputs/outputs to my dealer (Tick as appropriate)

Date	Invoice No.	Description of goods	Invoice Value	VAT	Receiving Officer Remarks

General Comments:

Issuing Officer Signature

**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT**

CONFIRMATION OF AUDIT VISIT

Date

01. Tax Office Address:
.....
.....

02. TIN:

03. Name and address:
.....
.....
.....

This is to confirm that VAT audit has been conducted on (Date)

The following discrepancies were identified:

- 1.
- 2.

COMMERCIAL TAX OFFICER,
..... CIRCLE.

**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT**

**DEALERS PROPOSED FOR AUDIT
FOR THE PERIOD FROM.....TO.....**

Date

- 01. Name of the Circle:
- 02. Period of audit programme:
- 03.

Sl. No.	Name of the dealer	TIN/GRN	Reasons for selection	Authorization requested for Inspection/Assessment/Inspection Cum Assessment (Indicate whichever is applicable)

Authorization is sought for the completion of the above audit programme.

COMMERCIAL TAX OFFICER /AC (LTU)

..... Circle

To
The Deputy Commissioner,
..... Division.

**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAXES DEPARTMENT**

**AUTHORISATION FOR
INSPECTION / ASSESSMENT / INSPECTION CUM ASSESSMENT**

(Tick whichever is applicable)

Date.....

- 01. Name and designation of the Audit Officer authorized:
- 02. The Audit Officer is hereby authorized to conduct Inspection/Assessment/ Inspection-cum Assessment of the following dealers.

S.No.	Name of the VAT dealer	TIN/GRN

The audit officer is instructed to follow the guidelines for conduct of audit issued from time to time and this audit manual as modified from time to time while conducting Audit (Inspection/Assessment / inspection-cum-Assessment) .

DEPUTY COMMISSIONER

..... Division

To
The Audit Officer,
.....

**VALUE ADDED TAX AUDIT
INPUTS CHECK LIST**

SELECT THE TAX PERIOD TO BE CHECKED

A. INITIAL ACTION :

1. Obtain records of all taxable purchases from local VAT dealers
2. Obtain records of all taxable purchases from non-VAT dealers / un-registered dealers
3. Obtain records of all out of state purchases
4. Obtain records of all imports from outside the country
5. Obtain records of all non-taxable purchases
6. Obtain records of all exempt sales
7. Obtain records of all branch transfers/consignment notes.

B. DETAILED CHECKS:

1. Identify all input figures (value & tax) from the dealer VAT account. Compare the figures with the VAT return.
2. Obtain worksheets in support of figures and do sample check
3. Check purchase account total to input summary.
4. Check purchase accounts, carried forward figures and calculations including totals.
5. Identify source documents – Original tax invoices, and debit and credit notes. Check entries in records to source document on a sample basis.
6. Check all purchase records of negative list items i.e., automobiles, including commercial vehicles, petroleum products purchased and used as fuel for automobiles or used as fuel for captive power generation, air conditioner other than used in plant and laboratory, restaurants or eating establishment unless the VAT dealer is in the business of dealing in such goods. All goods used in civil constructions unless the VAT dealer is involved in the execution of work contracts. Check tax invoices for personal use items by e.g. ensuring the delivery address on tax invoices is a business address.
7. If exempt sales are identified as above - check calculation of creditable input tax.
Disallow any inaccurate claims and establish correct amount of input tax creditable.
8. If sales of goods are made to TOT taxpayers and consumers (non VAT dealers), ensure purchase and input tax records are accurate as this will provide a basis for proper output tax calculation, for example, a mark-up exercise.
9. Select items for cross reference checks under Chapter 5.10.

C. ADDITIONAL CHECKS.

1. Check bank statements, cheque counterfoils for evidence of payments.
2. Check petty cash records for evidence of payments.
3. Check stock on hand and capital goods for evidence that goods shown in purchase records are on hand.
4. Check manufacturing records to establish goods in purchase records have gone into production.
5. Check delivery records to establish goods in sale record have been delivered.
6. Check annual accounts for purchases of capital goods, verify it with purchase invoice and consider possible disposal of used capital goods where output tax could be due.

The above checks are not exhaustive and officers should complete any additional audit checks considered to be relevant (Appendix - VI/VII/VIII/IX)

**VALUE ADDED TAX AUDIT
OUTPUTS CHECK LIST**

SELECT THE TAX PERIOD TO BE CHECKED

A. INITIAL ACTION

1. Obtain records of all taxable sales at each tax rate
2. Obtain records of all zero-rate sales, international exports and inter-state sales
3. Obtain records of all exempt sales
4. Obtain records of all branch transfers / consignments notes
5. Check accounting basis for sales to TOT taxpayers / consumers
6. Check purchase point liability
7. Check the sale price – check whether freight, pre-sale expenditure is forming part of the output or not
8. Verify the deductions from sale price like discounts, rebates.

B. DETAILED CHECKS

1. Identify sale figures at each rate from the dealer's VAT account – compare to the VAT return.
2. Identify zero - rated sale figures from the dealer's VAT account - compare to the VAT return.
3. Identify exempt sale figures from the dealer's VAT account – compare to the VAT return.
4. Check records of consignment sales and branch transfers. Suppression of these transactions will increase the amount of input tax that can be claimed.
5. Check CST Return if applicable and compare it with VAT Return
6. Obtain worksheets in support of figures and do sample check
7. Check sales account total to output summaries.
8. Check sales accounts, carry forward figures and calculations including total.
9. Identify source documents - tax invoices, invoices, record of daily gross taking, commercial and transport evidence of export, debit & credit notes - Check entries in records to source documents on a sample basis - selected periods/ selected items.
10. Check **LIABILITY OF ALL ITEMS CLAIMED TO BE EXEMPT**
11. Check evidence to support **ZERO RATING**. (See Chapter 6.4 of the Audit Manual for international exports). C-forms should be checked for inter-state sales on TINXSYS or on other state portal. **DISALLOW ANY CLAIMS WITHOUT SATISFACTORY EVIDENCE.**
12. Ensure **OUTPUT TAX** is accounted for in the correct tax period.
13. If there are sales to TOT dealers / consumers, check basis of output tax calculation.
14. Apply tax fraction wherever VAT element is not shown separately in the invoices.

15. In cases, where the value of sales is not credible related to the value of purchases, consider the use of mark-up calculation.

C. ADDITIONAL CHECKS

1. Check bank statements, paying-in records to attempt to establish that as a minimum receipts are reflected on the level of sales declared.
2. Check petty cash records for evidence of cash payments received.
3. Check delivery records to ensure that tax has been accounted for on goods delivered.
4. Check manufacturing records such as daily stock register of Central Excise, to stocks records and delivery records.
5. Require production of own use goods record. Verify content and accuracy.
6. Establish the basis of discounts and promotional offers.
7. Check the basis for accounting for tax on sale or return arrangements, and returnable packaging.
8. Where used, check till rolls to the record of daily gross takings.

The above checks are not exhaustive and officers should complete any additional audit checks considered to be relevant (Appendix – VI/VII/VIII/IX)

VAT AUDIT PROCEDURES

1. Obtain authorization for Inspection/Assessment/Inspection cum Assessment, as the case may be, per Rule 59 of APVAT Rules 2005.
2. For general audit, inform date of visit to dealer
3. Visit dealer on the appointed date and conduct inspection and verification of Records. Call for additional records for verification if required
4. At the end of the audit visit, the discrepancies identified should be tried to be resolved with the dealer.
5. Calculate Tax due as per provision of VAT Act. Before finalizing penalty, initially decision is to be made whether there is fraudulent intent (See paragraph 8.3 of this manual). If the officer decides that there is fraudulent intent, the penalty should be calculated as equal to the amount of tax.
6. If the officer decides there is no fraudulent intent, the penalty should be calculated as set out below:
 - a. Where the tax under declared is less than 10% of the tax due in the tax period, the penalty is 10% of the tax under declared.
 - b. Where the tax under declared is 10% or more of the tax due, in the tax period, the penalty is 25% of the tax under declared.
 - c. Where a VAT dealer voluntarily declares that tax due for a tax period has been under declared within a period of six months prior to notification to the VAT dealer of a scheduled audit visit, no penalty should be imposed.
7. Interest on delayed payment of tax should be calculated as per rate fixed under APVAT Act 2005 from time to time for each month or part of the month, based on a daily basis, from the due date to the date of actual payment..
8. The calculation should be explained to the VAT dealer and agreement obtained if possible. If agreement is obtained, the VAT dealer should be required to sign the Form VAT 301A.
9. If the VAT dealers' agreement has been obtained on Form VAT 301A, assessment show cause notice in Form VAT 305 A should be prepared in duplicate. The original should be issued to the VAT dealer by assessing officer. The duplicate copy should be placed in the VAT dealer file. Time to file objections in this case can be reduced to 7 days as dealers agreement has been obtained.
10. If the VAT dealers' agreement has not been obtained, Form VAT 305A should be prepared in duplicate. The original copy should be forwarded to VAT dealer and the duplicate placed in VAT dealer file.
11. If no response is received within 15 days of issue of VAT 305 A or the VAT dealer accepts the assessment, Form VAT 305 giving detailed reasoning for the assessment, should be prepared in duplicate and the original issued to VAT dealer. The duplicate copy should be placed in VAT dealer file.
12. If the VAT dealer responds to Form VAT 305A by disputing the basis of assessment or the quantum, the assessing officer should examine material on record and dealer explanation and pass order in Form VAT 305 giving reasons for his findings.

13. If the amount demanded on Form VAT 305 has not been paid at the end of 30 days, of the date of issue, the enforcement section should be notified for action to collect the outstanding amount.
14. In the case of an over declaration, Form VAT 308 should be completed in duplicate. The audit officer should issue the original VAT 308 to the VAT dealer. The duplicate should be placed in the VAT dealer file.
15. In the case of a voluntary disclosure of additional tax due by the VAT dealer on Form VAT 213 within 6 months, provided disclosure is accepted, Form VAT 307 should be completed in duplicate. The audit officer should issue the original VAT 307 to the VAT dealer. The duplicate should be placed in the VAT dealer file.
16. In the case of a disclosure claiming additional VAT credit on Form VAT 213, provided disclosure is accepted, Form VAT 308 should be prepared and the procedure indicated above should be followed.

VALUE ADDED TAX AUDIT
ILLUSTRATIONS OF VAT EVASIONS AND FRAUD

The list is not exhaustive and subject to revision

TYPE OF EVASION OR FRAUD	ADMINISTRATIVE MEASURES
1. Failure to register	Street survey
2. Bogus registration to obtain refunds	Audit visit prior to payment of refund
3. False export of goods	- Insist for customs clearance certificate and- - Commercial documentary evidence of export
4. False tax invoices and alterations to tax invoices	Use reference system to check genuineness of Tax invoice. Chapter 5.10
5. Suppressed sales for calculation of output tax (Retail sales off the record, sales invoices not issued)	- Use 'mark-up' techniques based on purchase records combined with an inventory check. APPENDIX VI- Check gross takings record, bank records, APPENDIX VII
6. False input tax claims	- Check tax invoice. Use reference system to check tax invoices - Chapter 5.10
7. Mis-declaration of purchases - incurred for private/ non-business or exempt activities.	- Confirm purchases, where input tax has been claimed, are used for taxable business activities. - Check stock for re-sale, or identify goods and capital assets.
8. Incorrect tax rate applied.	- Confirm eligibility of all zero rated, exempt, 1 %, 5% sales.
9. Unrecorded purchases, to suppress sales	- Check stock and sales records to purchase records. - Check banking records.
10. Incorrect deduction of input tax for non-business /exempt activities.	- Identify exempt activities. - Check creditable input tax calculation.

TYPE OF EVASION OR FRAUD	ADMINISTRATIVE MEASURES
11. Input tax credit claimed for purchases from unregistered suppliers.	- Check tax invoices and confirm particulars against VAT register.
12. Input tax credit claimed for negative list goods (automobiles, fuels etc.,)	- Check invoice for input tax claims in purchase record.
13. Credit notes on purchases -VAT not adjusted.	- Check accounting records to source documents.
14. Use of false export documents to substantiate claims for zero rating of exports.	- Check documentation against requirements listed in Chapter 6.4.1.
15. VAT collected from customers - not declared and not remitted to the Department.	- Use of references system (Chapter 5.10) to check purchase records of customers. (sales to VAT dealers)Application of mark-up to purchases (Appendix-VI) to non-VAT registered dealers. - Check with banking records.
16. Part of business activities suppressed from VAT account.	- Physical inspection of all business premises, coupled with overview of all business accounts / annual accounts, if available
17. Cancellation of VAT registration and continuing to trade and charge VAT.	- Use of reference system - Chapter 5.10
18. Charging tax on sale of a business (properly exempt) with credit claim by purchaser and no tax paid by seller.	- Check all sales of business for correct VAT treatment. - Use reference system for any large input tax claim.

MARK-UP EXERCISES

1. A mark-up exercise can be used for any business where goods are bought for resale. This exercise should be completed over a period of time i.e., one calendar year, three / six months, financial year, etc.
The selected period must be representative of the whole period under review.
2. The main categories of products sold should be identified. The number of categories should be limited to broad descriptions i.e., confectionary, soaps, cosmetics, books and stationery, foodstuffs. The dealer should be asked to provide average mark-up for each category. The declaration should be checked by comparing purchase prices on purchase tax invoices to marked sale prices.
3. The VAT dealer should be favoured in arriving at of an average mark-up of each category and the audit officer should attempt to agreement on mark-up percentages with the VAT dealer.
4. The audit officer should:
 - Take stock at the end of period in question.
 - Calculate the quantity of stock sold in each category for the period of the exercise.
 - Calculate the purchase value of goods in stock in agreed categories of goods exclusive of VAT
 - Apply agreed mark-ups to the purchase value of goods in each category to establish the realistic sale value for each tax rate.
 - Apply the tax fraction for each tax rate to establish the tax payable for the period.
 - Compare the tax declared and paid on the VAT returns for the period with the tax calculated from the mark-up exercise.
5. If there is an under-declaration of tax exceeding 10% of the tax declared, an assessment should be issued for the balance due for the tax calculated as a result of the mark up exercise.
6. The dealer should be provided with the calculations, which formed the basis of the assessment.
7. If the additional tax due from the calculations does not exceed 10% of the tax declared, accept the tax declared and take no further action. The 10% allowance makes provision for the effect of stock estimation and the approximation of agreed mark ups.
8. The calculations must be soundly based, checked for accuracy, and be capable of withstanding scrutiny before an appellate tribunal.
9. Where a markup calculation has been completed over a reasonable period, and a pattern of trading can be proved to be similar over previous tax periods, an assessment based on this calculation should be used for earlier tax periods.
10. IN ALL CASES - ESTIMATIONS AND APPROXIMATIONS SHOULD BE SHOWN TO CLEARLY FAVOUR THE VAT DEALER
11. When an assessment is issued using a mark-up exercise, the procedures in Appendix IV should be followed.
12. If the audit officer takes account of all the known facts and uses those facts fairly in arriving at the assessed amount of tax due, it is much more likely that any case brought to appeal or court will be successful. Once again the importance of making full and accurate notes in building up the assessment is reiterated.

13. **Note:** Audit officers carrying out checks of this nature will use the term "mark-up", whereas dealers talk in terms of "margins" (gross profit) when referring to business performance. Although there is a constant relationship between the two they are derived as follows.

$$\frac{\% \text{ Mark-up} = \text{Gross Profit} \times 100}{\text{Purchase value of goods sold}} \qquad \frac{\% \text{ Margin} = \text{Gross Profit} \times 100}{\text{Sales value}}$$

14. The following is a very simple example to demonstrate the operation of the mark-up technique: In a given period the following figures are available.

- The total amount realized from sales is **Rs. 1,250,000**
- The total price paid for the goods sold was **Rs. 1,000,000**
- Therefore the gross profit (to cover the expenses of running the business and leave a net profit for the owner) is **Rs. 250,000**.

The owner of the business will call this his "mark-up"; that is, the percentage he has to add to his purchase prices to produce the gross profit.

This percentage is calculated by taking the amount of the gross profit, 250,000, dividing it by the total price paid for the goods resold and multiplying the result by 100 to produce a percentage:

$$\frac{250,000 \times 100}{1,000,000} = 25\% \text{ Mark-up}$$

To calculate the profit margin i.e. the percentage by which the total sales amount is greater than the total purchase amount, using the same figures the calculation is as follows.

$$\frac{250,000 \times 100}{1,250,000} = 20\% \text{ Profit Margin}$$

Put another way the "mark-up" relates to purchase prices, the "net profit" relates to sales prices.

1. Either the mark-up or the profit margin on representative transactions of a business are calculated, the percentage mark-up is then applied to the total purchases in a period and should result in a figure close to the declared sales figure.
2. Alternatively if the amount of gross profit is deducted from the total sales, the remaining figure should be similar to the declared purchases. Levels of stock has to be taken into account because they affect the figures.
3. Unsatisfactory results indicate that sales may not have been correctly accounted for. However, as with any credibility check, detailed examination would have to follow to find either the reason for the discrepancy or the extent of the apparent under declaration.
4. It makes no difference whether a mark-up or net-profit calculation is used for a credibility check **provided** they are used consistently e.g. either use the mark-up or the net profit calculation but not a mixture of both.

CASH RECONCILIATION EXERCISES

1. **General:** - Suppression of cash takings is one of the most likely evasions to be encountered by an audit officer. If it can be shown that a VAT dealer has prepared returns from a record of gross takings knowing it to be less than the total cash received from customers then a potential evasion situation exists.

Many businesses, in particular retailers, do not issue invoices or keep documentary evidence of every sale. Unless an off the record book can be found, one course open to an audit officer is a close analysis of the dealer's cash situation in order to establish the likelihood of unrecorded sales. One method of proving evasion is to analyze the cash situation using the cash reconciliation technique.

2. **Introduction:** - Gross takings plus any other forms of income paid into a business, must equal total bankings plus all cash expenditure (including wages and drawings) that has not been drawn from the bank for that purpose.

Put another way: No VAT dealer can spend more cash than it has received.

The takings figure is calculated by establishing the amount of cash banked and adding to it any pre banking cash expenditure such as personal drawings, wages, purchases of stock, expenses, payments for capital equipment etc. The ultimate degree of accuracy of the exercise depends, however, upon the extent of the completeness and honesty of the dealer's replies to questions.

Frequently the calculated takings figure exceeds the dealer's recorded figure and it should be borne in mind that any difference will be a minimum figure and that, where possible, a markup exercise should also be performed. Cash reconciliation is a particularly useful method of examining the credibility of a VAT dealer in the absence of annual accounts and at dealers where a make-up exercise is not possible.

3. **How the cash account is built up:** - Before attempting a cash reconciliation it is very important to question the dealer at length with regard to cash handling. A suggested questionnaire is provided at the end of this Appendix.

After obtaining details of all the cash disposed of by the business in the way of bankings and cash expenses, compare this total with the recorded takings figure. A cash balance can then be prepared. A very simple example of this is given below.

The following information for a 52-week period is available from the dealer—

1. VAT dealer states sales to be Rs.5,20,000 including VAT
2. Purchase of Rs.3,70,000 of which Rs.2,60,000 was by cheque

3. Bankings of Rs.3,20,000
4. VAT dealer has borrowed Rs.65,000 during the year
5. Expense items paid in cash

Petrol	Rs.150 per week
Misc.	Rs. 50 per week
Wages	Rs.1,750 per week
Postage	Rs. 100 per week.
6. Cash in hand is fairly constant at approximately Rs.2,500
7. Drawings in cash each week amounted to Rs.1,500.

The resulting reconciliation looked like this--

	Rs.		Rs.
Declared sales	520,000	Cash purchases	110,000
Loan	65,000	Bankings	320,000
Opening Cash	2,500	Cash expenses	106,600
Cash drawings	78,000		
Deficiency	29,600	Closing Cash	2,500
	<u>617,100</u>		<u>617,100</u>

In the cash balance the audit officer builds up the right hand side by listing all the ways in which cash was disposed of by the business (on information supplied by the dealer). Any payments made by cheque do not enter into the cash balance because such payments are already covered by the cash shown as going into the bank. Also, care is to be taken to exclude any expenses paid in cash with money drawn from the bank.

The example above shows Rs.614,600 as being the total amount of cash which the business handled for the year. The inference therefore, is that the business must have received at least that amount of money. However, the recorded sales figure plus the loan was only Rs.585,000 and therefore would not balance. To do this a "deficiency" figure of Rs.29,600 has to be added.

It is emphasized that this is a minimum figure to enable the reconciliation to balance and the actual figure may be higher. The effect of this exercise is to throw doubt on the credibility of the accounts and to suggest that further checking is needed.

Precise handling of cash by a cash business: questionnaire.

1. Have all sales been recorded? Any mistakes made? What corrective action has been taken?
2. Does all the money received go into the till or cash register? Who has access to the till/ cash register?
3. Who is responsible for cash? What checks are made on employees?

4. Have there been any losses of cash? Have losses been reported to the police? Have any employees been sacked as a result of cash losses? After the loss were any changes made in sales procedures?
5. What is the size of float for the till / cash register? Is it constant? (A "float" is money put into a till by the VAT dealer at the start of business to ensure that there is sufficient change for early customers) It does not, of course, constitute part of the takings of the business and has to be disregarded when it comes to checking how much money is in the till / cash register at the close of business.
6. Are there any account customers who pay by cheque through the post? If so how are the cheques accounted for?
7. Are credit cards accepted? If so how are sales against credit cards recorded and accounted for?
8. What is the procedure when goods are taken for personal use?
9. What is the procedure for credits (refunds)?
10. Are any cash purchases made? If so what procedures are adopted?
11. Are wages / drawings (money for dealer's own use) paid in cash? Where does the cash come from?
12. Is any money removed from the till/cash register during the day? If so, what records are kept?
13. What is the exact procedure for arriving at the daily gross takings figures?
14. If the till provides information about takings and also printed till rolls, how is it controlled and what information is provided?
15. If anything is sold through a meter (usually liquid), is there any reconciliation done of cash against meter readings?
16. How many bank accounts does the dealer have?
17. Who does the bankings? What is the frequency?
18. Is it only money from the business that is banked? Has any money been introduced into the business? Eg., by loan, legacies etc.,
19. Are any cheques drawn for cash?
20. Is any comparison made between bankings and daily gross takings?
21. Is a cash reconciliation done, if so – weekly or monthly?

EXAMINATION OF ANNUAL ACCOUNTS

- (a) Annual accounts may also be called final accounts or annual reports but they will outline the income and expenditure of a business for a given period. The majority will cover the preceding 12 months but some may be for longer periods.

The complexity of a business will be reflected in its accounts, therefore a large company will have a more complicated set of annual accounts than, for example, a small retail business.

The audit officer cannot demand that accounts be prepared, but where such accounts exist the officer should require their production.

Examination of annual accounts is an essential feature of an audit visit, and it is important to ensure when making the appointment that, where these accounts are prepared, they will be available for inspection.

- (b) The general review of a VAT dealer's activities is to include an examination and critical analysis of the final accounts of the company. This analysis can be made more effective by the use of relevant accounting ratios.

There are no figures that are significant in isolation; the value of a ratio is that it expresses, simply the result of a comparison between 2 figures. It is a practical aid to the study of relationships, and the critical analysis of final accounts is directed towards the study of structural relationships and the establishing of trends.

Accounting ratios are indicative, not conclusive. They provoke questions, but do not provide answers. The audit officer must seek answers to the questions so raised, confirming or modifying conclusions in the light of all that is seen of the business at the audit.

It is not possible to lay down absolute standards or limits within which the various ratios can be taken as being acceptable or safe. It is therefore important that the officer should have regard to the trend of the ratios, over a-period of time, and that positive explanations of any significant variations observed should be sought.

- (c) Details of annual accounts should be recorded in the VAT officers workbook and Form VAT 300, to allow comparison to be made with previous years, and the identification of trends.

- (d) To assist VAT audit officers to understand annual accounts, some common descriptions of more frequently used accounting phrases are set out below:

i) Trading account:

A trading account is normally prepared for every business, which buys and sells goods. The significant features in a typical trading account are the totals of sales, purchases and opening and closing stocks of goods. From these figures the gross profit is determined.

- The trading account provides a check on the accuracy of the sales records for the year under review. The sales figure should be compared with the sales declared on VAT returns, for the

- same period.
- Similarly, the volume of purchases shown in the trading account should be compared with the purchases declared on the VAT returns. The two will not correspond to the same degree because the inputs declared on the VAT return will include capital items, which will appear in the balance sheet rather than in the trading account.

The audit officer should consider the statement of assets to see if any assets have been bought and/or sold during the period. If major plant has been sold, has the tax been accounted for, etc. In some companies such as manufacturers and large retailers, management reports and internal audit reports may be produced at regular intervals. These documents, although designed for management purposes could give breakdowns of manufacturing costs, number and description of units produced, number sold and selling price. If such documents are produced, the audit officer should request to see them. They can give a useful check on markups, total output tax due for the period and input tax claims.

(ii) The Profit and Loss account

Scrutiny of the profit and loss account may reveal items of expenditure could highlight additional trading activities. Some items may serve as a guide to the source of expenditure, e.g. expenses borne in connection with imports; or to the volume of business as a whole, e.g. payments to transporters. On the other hand they may reveal the existence of sales on which output tax has not been declared. "

(iii) Balance Sheets

- The balance sheet could provide further information on the size and nature of the business, e.g. shareholding, long-term debt and fixed assets. This information could help the audit officer to fully understand the business of VAT dealer.
- The balance sheet could show if a business is running at a loss. This may indicate that the VAT dealer has other sources of income or it may be that the VAT dealer is simply doing a bad business. In the first instance, the audit officer may wish to consider a cash reconciliation or mark-up exercise (see Appendix VI and VII) to test the credibility of the dealer.
- Disposal of equipment, fixtures and fitting
Sharp fluctuations in the value of fixed assets will be of interest in connection with possible disposals of equipment, fixtures and fittings. If such disposal is not apparent in the accounts, the VAT dealer should be asked whether items of equipment have been sold and if so whether the tax has been accounted for. If equipment is 'sold' in part exchange against the receipt of new equipment, two transactions have taken place and output tax arises on the full disposal value of the item exchanged.

CASH-FLOW TEST

- a) A cash flow test is a variation on the cash reconciliation exercise, see appendix VII. It looks at the movement of cash over the shortest possible timescale, as is a useful means of identifying errors in records of takings.
- b) The cash-flow test is an extremely useful way of testing the accuracy of a record of cash takings. It works by following the stated flow of cash in and out of the business and by identifying situations where, according to the records, there was "negative" cash - a clear impossibility in real life.
- c) If negative cash is identified, the records must be wrong in at least one respect (cash brought forward, cash sales or cash outgoings). The technique is best illustrated by an example:

Opening cash balance	100			Balance
Day 1 Cash takings	1000	Cash expenses	500	600
Day 2 Cash takings	1250	Cash banked	1000	850
Day 3 Cash takings	750	Cash expenses	2000	-400
Day 4 Cash takings	1500			1100
Day 5 Cash takings	1750	Cash banked	2000	850
		Cash balance		850

- d) On the face of it, at the end the cash balance is positive. However, if we follow the cash flow day by day we find the following situation:
- e) Balance at end of Day 1 = 100 (opening balance) + 1000 (cash in) - 500 (cash out) = 600
 Balance at end of Day 2 = 600 + 1250 - 1000 = 850
Balance at end of Day 3 = 850 + 750 - 2000 = - 400
- f) At the end of Day 3 there was negative cash, i.e. according to the records, the business did not have enough cash to cover its actual cash outgoings.
- g) The cash-flow test is quick and simple and provides conclusive proof that there is something wrong with the record of cash transactions. However, it does not pinpoint what exactly is wrong. The audit officer may assume that cash sales have not been fully reported, but there are other possible explanations (e.g. incorrect opening balances). Thus, it is not conclusive proof of evasion (although in most cases it will strongly suggest it). A further disadvantage is that a detailed record of cash transactions is required before the test can be used - this rules out its application in many small businesses.

**GOVERNMENT OF ANDHRA PRADESH
COMMERCIAL TAX DEPARTMENT**

SUMMARY OF UNDER DECLARATIONS WORK REPORT

MONTH _____

Code No.	Reasons for under-declaration	Number of cases (A)	Tax under declared (B)	Penalty (C)	Penal interest (D)	Total (E)
1.	Calculation errors in VAT dealers records					
2.	Incorrect classification of goods					
3.	Incorrect classification of transactions					
4.	Over reporting of input tax					
5.	Under reporting of output tax					
6.	Input tax errors on account of negative list items					
7.	CST purchase credit claim errors					
8.	Other input tax errors					
9.	Other output tax errors "					
10.	Errors on international exports					
11.	Other zero-rated claim errors					
12.	Over claim of transitional relief AT credit on registration					
13.	Input tax errors resulting from exempt transactions					
14.	Errors in calculation of tax on account of sales to non-registered persons					
15.	Input tax errors resulting from exempt sales					
16.	Errors in declaration of purchase tax					
17.	Errors on account of incentive claims					
18.	Errors related to TCS/ TDS					
19.	Errors related to entry tax					
20.	Others					

CLASSIFICATION OF UNDER-DECLARATIONS

<u>Code No.</u>	<u>Reasons for under-declaration</u>
01	Calculation errors in VAT dealer records
02	Incorrect classification of goods
03	In correct classification of transactions
04	Over reporting of input tax
05	Under reporting of output tax
06	Input tax errors on account of negative list items
07	CST purchase credit claim errors
08	Other input tax errors
09	Other output tax errors
10	Errors on account of wrong claim of international exports
11	Other zero-rated claim errors
12	Over claim of transitional relief / VAT credit on registration
13	Input tax errors resulting from exempt transactions
14	Errors in calculation of tax on sales to non-registered persons
15	Input tax errors resulting from the effect of exempt sales
16	Errors in declaration of purchase tax
17	Errors on account of incentive claims
18	Errors related to TDS
19	Errors related to entry tax
20	Others

- a. The code should be used which most specifically related to the under-declaration.
- b. Where an under-declaration relates to more than one code, the code to be used is that related to the highest amount of tax.
- c. Code 20 should only be used as a last resort.

CRITERIA FOR SELECTION OF LARGE DEALERS FOR L.T.U.

1. The purpose of the LTU is to provide single point of contact at senior level in the department for effective communication between large turnover/large tax paying dealers and department. It also facilitates for timely and focused audit of the dealers who contribute almost 80% of the revenue. These dealers should be under the direct management of an Assistant Commissioner identified by the Deputy Commissioner.
2. The Assistant Commissioner should ensure that the dealer receives regular attention from the LTU:
 - providing ongoing advice and guidance on all aspects of VAT obligations.
 - issuing reminders regarding filing of returns by the due date.
 - ensuring that the tax due is paid by the due date.
 - designing an appropriate audit plan providing for at least one audit for each LTU dealer during each financial year.
 - monitoring the results of audit visits to target future plans to maximize the revenue collection and self tax compliance.
3. The selection of dealers for L.T.U should be based on the following criteria as amended from time to time. Deputy Commissioner, CT should conduct exercise in his division every year in the month of April for finalizing list of dealers for LTU dealers (50 Dealers).
 1. 25 dealers based on Highest Tax Payable during last year
 2. 5 dealers based on Highest Turn Over (Purchase plus Sales) during last year excluding those covered by Sl. No. 1 above
 3. 5 dealers based on Highest ITC by manufacturers during last year excluding those covered by Sl.No. 1 and 2 above
 4. 5 dealers based on Highest Deemed sales during last year excluding those covered by Sl. No. 1, 2 and 3 above
 5. 5 dealers based on Highest ITC restricted during last year excluding those covered by Sl. No. 1, 2, 3 and 4 above
 6. 5 dealers based on Highest Exempted sales during last year excluding those covered by Sl. No. 1, 2, 3, 4, 5 and 6 above

The Assistant Commissioner for L.T.U. should ensure that a good working relationship is developed with the LTU dealers under his control. A high quality of service should be provided by the C.T.D. to ensure high levels of tax compliance by these dealers.

SECURITY FEATURES OF WAYBILLS OF COMMERCIAL TAXES DEPARTMENT

1. Hologram
2. Watermark with Govt. of A.P. Logo in all three copies (i.e. Original, Duplicate, Triplicate)
3. Barcode with random generated numbering and (Check Digit) in duplicate copy (2nd copy)
4. Concealed image Technology in duplicate copy (2nd copy)
5. Ultra violet invisible printing in all copies
6. Opaque Text in all copies
7. Micro line Printing in all copies
8. Penetrating number with words in all copies

SECURITY FEATURES OF 'C' FORMS AND 'H' FORMS

1. Watermark with Government of A.P. logo.
2. Background tint printing (background tint printing of Government of Andhra Pradesh in English and Hindi which cannot be erased, or tampered with water, alcohol or any other chemical)
3. Hologram

SECURITY FEATURES OF 'F' FORMS

1. Water Mark of Government of A.P. Logo
2. Background tint printing (background tint printing of Government of Andhra Pradesh in English and Hindi which cannot be erased, or tampered with water, alcohol or any other chemical)
3. Hologram

COMMON ERRORS NOTICED ON FORM VAT 200**1.1 Errors having Revenue Impact and Statistical Impact**

- 1) Mis-classification of tax rates is very common mistake or deliberate attempt to evade tax. For example, the VAT rate on sales of Soaps and Shampoos is 14.5%. But some VAT dealers in General Consumer goods have declared output in 5% Box. The officers shall raise demands at once in all such cases of mis-classification and collect the correct amount of tax due.
- 2) VAT dealers executing works contracts and opting for composition are not eligible for any input tax credit on their purchases. It is seen that some dealers are claiming input tax credit. The tax officers shall verify such returns and collect correct amount of tax due on all composition cases.
- 3) Some VAT dealers who are opting for composition of tax on works contracts are not enclosing VAT 200 E along with VAT Return. If VAT 200 E is not enclosed, no credit should be given and full tax levied.
- 4) Some VAT dealers who are making sales of exempt goods or are effecting exempt transactions like branch transfers / consignment sales are not enclosing VAT 200 A along with VAT Return. These particulars should invariably be obtained and input tax credit should be restricted as per the formula $A \times B / C$.
- 5) Some VAT dealers are declaring sales made to 100% EOU cases in the Boxes meant for zero-rated sales or exempt sales. It is reiterated that sales to 100% EOU are neither exempt nor falling under zero-rated sale category. They are taxable sales and shall be shown in the appropriate Box (either Box 16, 17 or 19) depending on the rate of tax applicable on the goods.
- 6) Some hoteliers opting for composition are not paying tax on entire turnover and are claiming exemption on items like sales of bread. This is not permissible. The liability of the hotelier is on entire turnover without eligibility for any input tax credit.
- 7) In many cases where VAT dealers are dealing in exempt goods, the input tax credit restrictions has not been restricted and further the tax liability on the contingent purchase value under the provisions of Section 4 (4) not arrived at wherever applicable. The tax liability under the provisions of Section 4 (4) would arise in case of a VAT dealer having exempt transactions or exempt goods and has utilized some inputs purchased from non- VAT dealers.
- 8) In some cases VAT dealers are filling up Box (meant for zero-rated sales / inter-state sales) on VAT Return but are not filing return under CST Act. It should be ensured that in all such cases the CST Return is filed and CST paid.
- 9) Many works contractors executing works for State Government / Local authorities are assigning the amount of TCS (tax collected at source) to their sub-contractors. Such apportionment in Form 501B shall be closely watched as it cannot be more than the TDS received. Adjustments in Box 22 (a) should be allowed only if Form 501 /501 A issued by the contractee is in favour of the dealer.

Form 501 /501 A cannot be endorsed in favour of any other person including a sub-contractor.

- 10) Some VAT dealers have claimed input tax credit on purchases of items under Schedule VI like LDO. This is not permissible. Assessing authorities should ensure that no input tax credit is claimed for special rate purchases.

1.2. Other Errors with statistical impact:

- 1) Total purchases should be entered on the VAT Return. It has been observed that many VAT dealers are not declaring their import purchases / inter-state purchase volumes and purchases from unregistered dealers on the VAT Return.
- 2) In cases where Input Tax Credit is restricted, the dealer is supposed to calculate the purchase value on which credit cannot be availed and declare this value in the Box no.6. This is not being followed by many VAT dealers. The VAT dealer shall declare only the value of purchases of eligible for input tax credit on Boxes 7, 8 and 9 and shall enter the remaining purchase value in Box no.6. Compliance in these cases is essential, as this will ensure that total purchases are reflected in the tax return. The total purchases figure is essential for deducing annual turnover and comparing it to past achievement.
- 3) The VAT dealer eligible for refund under the provisions of Section 38 shall either opt for refund of excess credit in Box no.23 or carry forward the excess credit in Box no.24 but should not fill up both the Boxes. It has been seen in many cases that the VAT dealers eligible for refund are opting for both refund and also proceeded to adjust part of excess credit towards the liability under the CST Act. This is not permissible. If the dealer wants to opt for refund, he should pay CST separately by cheque. If he wants to adjust CST against VAT credit, he cannot get a refund for the balance of the adjustment.
- 4) The Box provided for adjustments - Box no.22 (a) refers to adjustment of tax by way of TCS, TDS, incentive availed and entry tax. The VAT dealer can also adjust any amounts paid at check post in this Box. Receipts / documentation should be invariably enclosed.
- 5) In many cases, it has been observed that the VAT dealer having excess input tax over output tax is filling up Box no.21. This is not correct. Wherever the input tax value in Box no. 1 exceeds the value in Box no.20, the VAT dealer shall enter NIL in Box no.21. Only VAT dealers having net tax payable (that is output tax exceeding the input tax) shall make an entry in the Box no.21.
- 6) The Circle Name can be written on the top of VAT Return. This should be insisted upon.
- 7) It has been observed that in many cases VAT dealers are declaring the turnovers in respect of transit sales or high sea sales on VAT return. This is not correct. These turnovers shall be declared on the CST Return. In any case, these sales are not eligible for input tax credit.
- 8) In many cases the VAT dealers are showing-turnover in respect of consignment sales / branch

transfers in the Box no.14 provided for zero-rate sales. This is not correct. Branch Transfers / Consignment Sales should form part of Box no.12.

- 9) Excess credit carried forward in Box no.24 can be adjusted to CST liability for the current tax period only. The excess credit under VAT cannot be adjusted to previous liabilities under CST Act.
- 10) Many VAT dealers are showing purchases from TOT dealers in the Box no.9, which is meant for 1 % VAT purchases. The purchases from TOT dealers should be shown in the Box no.6 (meant for non-creditable purchases) and not in Box no.9. Entries in 1 % Box should relate to purchases of only Schedule III items - gold, bullion etc. No input tax credit can be allowed for purchases from TOT dealers.

PRE-REGISTRATION VISIT PROFORMA

1. Date of Visit:
2. Name of the Dealer :
3. TIN/GRN No. if any :
4. Goods to be dealt by the dealer and rate of tax thereon:

<u>S. No.</u>	<u>Goods</u>	<u>Rate of tax paid</u>
----------------------	---------------------	--------------------------------

a)

b)

c)

Comment on documents produced in support for Registration:

General remarks of visiting Officer:

Whether recommended for Registration: Yes/No

Pre Registration Visit Officer and Signature

Date:

APPENDIX - XVII

CHECKLISTS FOR VAT AUDITS

**CHECK LIST FOR VAT AUDIT OF A HOTELIER
PART - A**

I. PERSONAL DETAILS OF THE DEALER:

1. Name & Address of the dealer :
2. Status of the dealer(Whether Proprietary/Partnership/
Public Ltd Co./ Private Ltd Co.etc.) :
3. Name of the person responsible for running
the business/ responding to the department :
4. Names of the Proprietor/Directors/ Partners
of the firm as the case may be : 1.
2.
3.
5. Telephone Nos. : 1.
2.
3.
6. E-mail address :

II. BUSINESS DETAILS OF THE DEALER:

1. TIN of the business :
2. Name of the Circle :
3. Name of the Division :
4. Whether registered U/CST Act :
5. Income Tax PAN No. :
6. Bank account details:
 - (a)Name of the Bank :
 - (b)Branch name :
 - (c)Account No. :
 - (a)Name of the Bank :
 - (b)Branch name :
 - (c)Account No. :
7. Whether Wholesaler/Distributor/Retailer :
8. Whether having any branches :
9. If so, specify the addresses :
10. Whether having any godowns :
11. If so, specify the addresses :
12. seating capacity :
13. Whether Air- conditioned :
14. Number of cooks, servers & cleaners :
15. Profession tax paid
 - (a) for the firm :
 - (b) for the proprietor/partner/director :
 - (c) for the employees :

III. PREVIOUS AUDIT DETAILS:

1. Date of audit last conducted :
2. Name and Designation of the Officer who conducted the last audit :
3. Period up to which the previous audit was done :
4. Result of the previous audit :
5. If under declaration, whether tax is paid :
6. Whether the dealer has filed Form VAT 213 :
7. If so, whether it is under declaration or over declaration of tax :
8. If under declaration, whether the dealer has paid tax :

IV. DETAILS OF ACCOUNTS MAINTAINED:

1. (a) Name of the person in charge of accounts :
(b) Phone No. :
2. Whether the books of accounts are maintained :
3. Whether the bills are issued through computer :
4. Obtain the extract of daily sales :
5. Check the value of the bills randomly for the Appropriateness of the value of the bill in the extract :
6. **Verify whether credit card sales are reflected in books of accounts** :
7. Check whether the dealer is charging 12.5% / 14.5% or 4% / 5% on total value :
8. Whether the accounts are computerized :
9. Books/records produced for audit :
10. Major inputs (purchases)(Commodities)
(a)from within the State :
(b)from outside the State :
11. The details of most frequent and voluminous purchases in the audit period
(a)Name of the dealer from whom purchased:
(b)TIN of the dealer
(c)Name of the goods purchased
(Obtain 10 purchase invoices randomly covering the audit period.)
(d) Quantity / Value of the goods purchased:
(a)Name of the dealer from whom purchased:
(b)TIN of the dealer
(c)Name of the goods purchased
(Obtain 10 purchase invoices randomly covering the audit period.)
(d) Quantity / Value of the goods purchased:
12. Schedule No and entry under which the goods fall :

13. Whether the dealer is charging :
14. Check whether there are any purchases liable to Entry Tax :
15. If so, whether Entry Tax is paid on such purchases :
16. Whether any ITC has been claimed on purchases from Non VAT dealers / Outside purchases :
17. If so, furnish the details on separate sheets :
18. Whether there are any Transit purchases :
19. If so, whether any ITC has been claimed on Transit purchases (furnish details) :
20. Whether any capital goods (**furniture & fittings**) are purchased from local VAT dealers :
21. **Whether any capital goods (furniture & fittings) are purchased from outside the state** :
22. Nature of capital goods purchased :
23. Whether those goods are available in the business premises :
24. Whether there are any purchases of negative list goods :
25. If so, whether any ITC has been claimed on such negative list goods (furnish details on separate sheets) :
26. Verify whether there are any sales of movable assets :
27. Obtain the financial statements like P&L account Trading account and Balance sheet and, Quarterly/Half-yearly/ annual accounts statements :
28. **whether the hotelier engaged in catering services – obtain details** :
29. **Is there a banquet hall attached to the hotel** :
30. **Value of banquet sales (examine food register)** :

PART-B

1. ITC Claimed as per the VAT 200 returns (month wise statement enclosed) : Rs.
2. ITC as result of previous audit : Rs.
3. ITC as result of filing of Form VAT 213 : Rs.
4. Total ITC claimed on the return for the audit period : Rs.
5. **INPUTS for the audit period** (as per books of accounts)
 - a) Total ITC on (4% or 5%) / (12.5% or 14.5%) and 1% purchases (Statement of tax rate wise purchases enclosed) : Rs.
7. **OUT PUT for the audit period** (as per books of accounts)
 - a) Total output tax @(12.5% / 14.5%) or (4% or 5%)

as the case may be :Rs.
Verify whether the dealer has adjusted Sales returns, credit notes, debit notes etc.

PART-C

1. Project cost of the hotel as per the project report submitted to financial institutions :
2. Loan obtained, if any :
3. Own capital :
4. Contractor who executed interior furniture and kitchen :
5. whether TDS made :

**CHECK LIST FOR VAT AUDIT OF A MANUFACTURER
PART - A**

I. PERSONAL DETAILS OF THE DEALER:

1. Name & Address of the dealer :
2. Status of the dealer (Whether Proprietary/Partnership/
Public Ltd Co./ Private Ltd Co.etc.) :
3. Name of the person responsible for running
the business/responding to the department :
4. Names of the Proprietor/Directors/ Partners
of the firm as the case may be : 1.
2.
3.
4.
5. Telephone Nos. : 1.
2.
3.
6. E-mail address :

II. BUSINESS DETAILS OF THE DEALER:

1. TIN of the business :
2. Name of the Circle :
3. Name of the Division :
4. Whether registered U/CST Act :
5. Income Tax PAN No. :
6. Bank account details:
 - (a)Name of the Bank :
 - (b)Branch name :
 - (c)Account No. :
7. Whether Wholesaler / Distributor / Retailer :
8. Whether having any branches :
9. If so, specify the addresses :
10. Whether having any godowns :
11. If so, specify the addresses :

III. PREVIOUS AUDIT DETAILS:

1. Date of audit last conducted :
2. Name and Designation of the Officer who
conducted the last audit :
3. Period up to which the previous audit was done :
4. Result of the previous audit :
5. If under declaration, whether tax is paid :
6. Whether the dealer has filed Form VAT 213 :
7. If so, whether it is under declaration or over
declaration of tax :

8. If under declaration, whether the dealer has paid tax :

IV. DETAILS OF ACCOUNTS MAINTAINED:

- 1. (a) Name of the person in charge of accounts :
- (b) Phone No. :
- 2. Whether the books of accounts are maintained :
- 3. Whether the accounts are computerized :
- 4. Whether any statutory Forms are obtained :
- If so details of the Forms obtained

S.No.	Particulars	No Obtained	No.Utilized	No.Balance
-------	-------------	-------------	-------------	------------

- | | | | | |
|-----|--|--|--|---|
| 1. | Way bills | | | |
| 2. | C Forms | | | |
| 3. | F Forms | | | |
| 4. | H Forms | | | |
| 5. | E1 Forms | | | |
| 5. | Books/records produced for audit | | | : |
| 6. | Major inputs (purchases)(Commodities) | | | : |
| | (a)from within the State | | | : |
| | (b)from outside the State | | | : |
| 7. | The details of most frequent and voluminous purchases in the audit period | | | : |
| | (a)Name of the dealer from whom purchased | | | : |
| | (b)TIN of the dealer | | | : |
| | (c)Name of the goods purchased | | | : |
| | (Obtain 10 purchase invoices randomly covering the audit period.) | | | : |
| | (d)Quantity / Value of the goods purchased | | | : |
| | (a)Name of the dealer from whom purchased | | | : |
| | (b)TIN of the dealer | | | : |
| | (c)Name of the goods purchased | | | : |
| | (Obtain 10 purchase invoices randomly covering the audit period.) | | | : |
| | (d)Quantity / Value of the goods purchased | | | : |
| 8. | Schedule No and entry under which the goods fall | | | : |
| 9. | Check whether there are any purchases liable to Entry Tax | | | : |
| 10. | If so, whether Entry Tax is paid on such purchases | | | : |
| 11. | Whether ITC has been claimed on purchases from Non VAT dealers / Outside purchases | | | : |
| 12. | If so, furnish the details on separate sheets | | | : |
| 13. | Whether there are any Transit purchases | | | : |
| 14. | If so, whether any ITC has been claimed on Transit purchases (furnish details) | | | : |

15. Whether any capital goods are purchased from local VAT dealers :
16. Nature of capital goods purchased :
17. Whether those goods are available in the business premises :
18. Whether there are any purchases of negative list goods :
19. If so, whether any ITC has been claimed on such negative list goods (furnish details on separate sheets) :
20. Major outputs (sales)(Commodities)
 - (a) Within the State sales :
 - (b) Outside the State sales :
21. Details of the major purchasers :
 - (a) Name of the purchaser :
 - (b) TIN of the purchaser :
 - (c) Name of the goods sold :
 - (d) Value/quantity of the goods sold :
 - (a) Name of the purchaser :
 - (b) TIN of the purchaser :
 - (c) Name of the goods sold :
 - (d) Value/quantity of the goods sold :
 - (Obtain 10 sale invoices randomly covering the audit period) :
22. Schedule No and entry under which the goods fall (indicate HSN code if any) :
23. Whether there are any branch transfers/consignment sales to outside the State :
24. If so, the ITC has been restricted under Rule 20 (8) :
25. If not, work out the admissible ITC and enclose to this check note :
26. Verify whether there are any sales of movable assets :
27. Obtain the financial statements like P&L account Trading account and Balance sheet and, Quarterly/ Half-yearly/ annual accounts statements :
28. Whether the unit is availing any deferment originally :
29. if so, details of Final Eligibility Certificate ref. No :
30. The date of commencement of deferment :
31. The date of cessation of deferment :
32. Amount sanctioned :
33. Amount availed :
34. Balance amount to be availed :
35. Whether any expansion/diversification is there :
36. if so, deferment proceedings No(FEC) :
37. Any base production/ base turnover/correction factor

- is fixed :
38. Whether the dealer is availing deferment of net tax :
 39. Whether the dealer is filing Form 502 :
 40. whether the unit is converted deferment unit :
 41. If so, sanction orders of original exemption :
 42. Time period availed up to 31-03-2005 :
 43. Remaining period of availment :
 44. Amount sanctioned ;
 45. Amount availed up to now :
 46. Period up to which the unit can avail deferment :
 47. Whether the unit is an exporter :
 48. Whether unit is supplying goods to a unit in SEZ a developer, co-developer of SEZ or to contractor :
 49. If so, is the unit is availing Zero rating on such Supplies :

PART-B

1. ITC Claimed as per the VAT 200 returns (month wise statement enclosed) : Rs.
2. ITC as result of previous audit : Rs.
3. ITC as result of filing of Form VAT 213 : Rs.
4. Sales Tax Relief claimed as per Form VAT 116/126 (Copy of Form VAT 116/126 enclosed) : Rs.
5. Total ITC claimed on the return for the audit period : Rs.
6. INPUTS for the audit period (as per books of accounts)
 - a) Total ITC on 4%, 12.5% and 1% purchases (Statement of tax rate wise purchases enclosed) : Rs.
 - b) Eligible ITC after arriving at the same applying AXB/C formula : Rs.
7. OUTPUT for the audit period (as per books of accounts)
 - a) Total output tax including tax on purchase value of the goods in case of transactions falling under Section 4(4) : Rs.
 - b) Base turnover, if any, up to which the unit has to pay tax : Rs.
 - c) Whether the unit has deferred any tax relating to the ineligible items : Rs.
 - b) Turnovers related to Exempted goods : Rs.
 - c) Purchase value of the Negative list goods : Rs.

Verify whether purchase tax liability, if any, is calculated correctly.

Verify whether the dealer has adjusted Sales returns, credit notes, debit notes etc.

Verify whether the dealer has adjusted tax in case of post sale incentives and discounts, where he cannot adjust the tax but can adjust only the value of discounts and incentives.

Verify whether any turnover of CST sales of exempt goods is included under Zero-rated sales (CST sales), which influence the AXB/C if added to taxable sales.

- 8. Profession tax paid
 - (a) for the firm :
 - (b) for the proprietor/partner/director :
 - (c) for the employees :

CHECK LIST FOR VAT AUDIT OF A TRADER

PART - A

I. PERSONAL DETAILS OF THE DEALER:

1. Name & Address of the dealer :
2. Status of the dealer
(Whether Proprietary/Partnership/ Public Ltd Co./
Private Ltd Co.etc.) :
3. Name of the person responsible for running the
business/ responding to the department :
4. Names of the Proprietor/Directors/ Partners
of the firm as the case may be : 1.
2.
3.
4.
5. Telephone Nos. : 1.
2.
3.
6. E-mail address :

II. BUSINESS DETAILS OF THE DEALER:

1. TIN of the business :
2. Name of the Circle :
3. Name of the Division :
4. Whether registered U/CST Act :
5. Income Tax PAN No. :
6. Bank account details :
(a)Name of the Bank :
(b)Branch name :
(c)Account No. :
(a)Name of the Bank :
(b)Branch name :
(c)Account No. :
7. Whether Wholesaler/Distributor/Retailer :
8. Whether having any branches :
9. If so, specify the addresses :
10. Whether having any godowns :
11. If so, specify the addresses :

III. PREVIOUS AUDIT DETAILS:

1. Date of audit last conducted :
2. Name and Designation of the Officer who
conducted the last audit :
3. Period up to which the previous audit was done :
4. Result of the previous audit :

5. If under declaration, whether tax is paid :
6. Whether the dealer has filed Form VAT 213 :
7. If so, whether it is under declaration or over declaration of tax :
8. If under declaration, whether the dealer has paid tax :

IV. DETAILS OF ACCOUNTS MAINTAINED :

1. (a) Name of the person in charge of accounts :
(b) Phone No. :
2. Whether the books of accounts are maintained :
3. Whether the accounts are computerized :
4. Whether any statutory Forms are obtained :

If so details of the Forms obtained

S.No.	Particulars	No Obtained	No.Utilized	No.Balance
-------	-------------	-------------	-------------	------------

- | | | | | |
|-----|--|--|--|---|
| 1. | Way bills | | | |
| 2. | C Forms | | | |
| 3. | F Forms | | | |
| 4. | H Forms | | | |
| 5. | E1 Forms | | | |
| 5. | Books/records produced for audit | | | : |
| 6. | Major inputs (purchases)(Commodities) | | | |
| | (a)from within the State | | | : |
| | (b)from outside the State | | | : |
| | (c)purchases from unregistered dealers | | | : |
| | (d)purchase from TOT dealers in A.P | | | : |
| 7. | The details of most frequent and voluminous purchases in the audit period | | | : |
| | (a)Name of the dealer from whom purchased | | | : |
| | (b)TIN of the dealer | | | : |
| | (c)Name of the goods purchased | | | : |
| | (Obtain 10 purchase invoices randomly covering the audit period.) | | | |
| | (d) Quantity / Value of the goods purchased: | | | |
| | (a) Name of the dealer from whom purchased: | | | |
| | (b)TIN of the dealer | | | |
| | (c)Name of the goods purchased | | | |
| | (Obtain 10 purchase invoices randomly covering the audit period.) | | | |
| | (d) Quantity / Value of the goods purchased: | | | |
| 8. | Schedule No and entry under which the goods fall: | | | |
| 9. | Check whether there are any purchases liable to Entry Tax | | | |
| 10. | If so, whether Entry Tax is paid on such purchases | | | |
| 11. | Whether ITC has been claimed on purchases from Non VAT dealers / Outside purchases | | | : |

12. If so, furnish the details on separate sheets :
13. Whether there are any Transit purchases :
14. If so, whether any ITC has been claimed on
Transit purchases (furnish details) :
15. Whether any capital goods are purchased from
local VAT dealers :
16. Nature of capital goods purchased :
17. Whether those goods are available in the
business premises :
18. Whether there are any purchases of negative list goods :
19. If so, whether any ITC has been claimed on
such negative list goods (furnish details on
separate sheets) :
20. Major outputs (sales)(Commodities)
 - (a) Within the State sales :
 - (b) Outside the State sales against C'Form :
 - (c) Consignment sales / branch transfers :
 - (d) Export sales :
21. Details of the major purchasers
 - (a) Name of the purchaser :
 - (b) TIN of the purchaser :
 - (c) Name of the goods sold :
 - (d) Value/quantity of the goods sold :
 - (a) Name of the purchaser :
 - (b) TIN of the purchaser :
 - (c) Name of the goods sold :
 - (d) Value/quantity of the goods sold :

(Obtain 10 sale invoices randomly covering the audit period)
22. Schedule No and entry under which the goods fall
(indicate HSN code if any) :
23. Whether there are any branch transfers/ consignment
sales to outside the State :
24. If so, the ITC has been restricted under Rule 20 (8) :
25. If not, work out the admissible ITC and enclose to
this check note :
26. Verify whether there are any sales of movable assets :
27. Obtain the financial statements like P&L account
Trading account and Balance sheet and, Quarterly/
Half-yearly/ annual accounts statements :
28. Whether the dealer is an exporter - examine
export documents available :
29. Whether the dealer is supplying goods to a unit in SEZ,
a developer, co-developer of SEZ or to contractor :
30. If so, is the dealer is availing Zero rating on such :

Supplies

PART-B

1. ITC Claimed as per the VAT 200 returns (month wise statement enclosed) : Rs.
2. ITC as result of previous audit : Rs.
3. ITC as result of filing of Form VAT 213 : Rs.
4. Sales Tax Relief claimed as per Form VAT 119/126 (Copy of Form VAT 116/126 enclosed) : Rs.
5. Total ITC claimed on the return for the audit period : Rs.
6. INPUTS for the audit period (as per books of accounts)
 - a) Total ITC on 4%, 12.5% and 1% purchases (Statement of tax rate wise purchases enclosed) : Rs.
 - b) Eligible ITC after arriving at the same applying AXB/C formula : Rs.
7. OUT PUT for the audit period (as per books of accounts)
 - a) Total output tax including tax on purchase value of the goods in case of transactions falling under Section 4(4) : Rs.
 - b) Turnovers related to Exempted goods : Rs.
 - c) Purchase value of the Negative list goods : Rs.

Verify whether purchase tax liability, if any, is calculated correctly.

Verify whether the dealer has adjusted Sales returns, credit notes, debit notes etc.

Verify whether the dealer has adjusted tax in case of post sale incentives and discounts, where he cannot adjust the tax but can adjust only the value of discounts and incentives.

Verify whether any turnover of CST sales of exempt goods is included under Zero-rated sales (CST sales), which influence the AXB/C if added to taxable sales.

8. Profession tax paid
 - (a) for the firm :
 - (b) for the proprietor/partner/director :
 - (c) for the employees :

**CHECK LIST FOR VAT AUDIT OF A WORKS CONTRACTOR –
NOT OPTED FOR COMPOSITION**

PART - A

I. PERSONAL DETAILS OF THE DEALER:

1. Name & Address of the dealer :
2. Status of the dealer (Whether Proprietary/
Partnership/Public Ltd Co./ Private Ltd
Co.etc.) :
3. Name of the person responsible for running
the business/ responding to the department :
4. Names of the Proprietor/Directors/ Partners
of the firm as the case may be : 1.
2.
3.
4.
5. Telephone Nos. : 1.
2.
3.
6. E-mail address :

II. BUSINESS DETAILS OF THE DEALER:

1. TIN of the business :
2. Name of the Circle :
3. Name of the Division :
4. Whether registered U/CST Act :
5. Income Tax PAN No. :
6. Bank account details :
(a)Name of the Bank :
(b)Branch name :
(c)Account No. :
(a)Name of the Bank :
(b)Branch name :
(c)Account No. :
7. Whether having any branches :
8. If so, specify the addresses :
9. Whether having any godowns :
10. If so, specify the addresses :

III. PREVIOUS AUDIT DETAILS:

1. Date of audit last conducted :
2. Name and Designation of the Officer who
conducted the last audit :
3. Period up to which the previous audit was done :

4. Result of the previous audit :
5. If under declaration, whether tax is paid :
6. Whether the dealer has filed Form VAT 213 :
7. If so, whether it is under declaration or over declaration of tax :
8. If under declaration, whether the dealer has paid tax :

IV. DETAILS OF ACCOUNTS MAINTAINED:

1. (a) Name of the person in charge of accounts :
(b) Phone No. :
2. Whether the books of accounts are maintained :
3. Whether the accounts are computerized :
4. Whether any statutory Forms are obtained :
If so details of the Forms obtained

S.No.	Particulars	No Obtained	No.Utilized	No.Balance
1.	Way bills			
2.	C Forms			
3.	F Forms			
4.	H Forms			
5.	E1 Forms			

Examine the goods incorporated in the CST registration certificate:

5. Whether the contractor is paying tax under Section 4(7) (a) – Non-composition. :
6. If so, whether he has maintained books of A/c Showing the value of the goods incorporated :
7. Whether the contractor has restricted his ITC to 90% of the tax paid on purchases :
8. If not maintained books of A/c whether paying tax @12.5% / 14.5% after claiming standard deductions :
9. Value of the TDS made by the contractee work wise :
10. Whether the contractor engaged any sub contractor :
11. Whether sub-contractor is registered for VAT :
12. Whether TDS is made against the contractor :
13. If so, whether the contractor has devolved the TDS by issuing Form 501B :
14. Major inputs (purchases)(Commodities)
 - (a)from within the State :
 - (i)from Non VAT dealers :
 - (j)from VAT dealers :
 - (b)from outside the State :

15. The details of most frequent and voluminous purchases in the audit period :
 - (a) Name of the dealer from whom purchased :
 - (b) TIN of the dealer :
 - (c) Name of the goods purchased :
 - (Obtain 10 purchase invoices randomly covering the audit period.)
 - (d) Quantity / Value of the goods purchased:
 - (a) Name of the dealer from whom purchased:
 - (b) TIN of the dealer :
 - (c) Name of the goods purchased :
 - (Obtain 10 purchase invoices randomly covering the audit period.)
 - (d) Quantity / Value of the goods purchased:
16. Schedule No and entry under which the goods fall:
17. Check whether there are any purchases liable to Entry Tax :
18. If so, whether Entry Tax is paid on such purchases :
19. Whether ITC has been claimed on purchases from Non VAT dealers / outside purchases :
20. If so, furnish the details on separate sheets :
21. Whether there are any Transit purchases :
22. If so, whether any ITC has been claimed on Transit purchases (furnish details) :
23. Whether any capital goods are purchased from local VAT dealers :
24. Nature of capital goods purchased, :
25. purchase value :
26. invoice no and date :
27. whether purchased from outside the state :
28. Whether those goods are available in the business premises :
29. Whether there are any purchases of negative list goods :
30. If so, whether any ITC has been claimed on such negative list goods (furnish details on separate sheets) :
31. Whether there are any branch transfers/ consignment sales to outside the State :
32. If so, the ITC has been restricted under Rule 20 (8) :
33. If not, work out the admissible ITC and enclose to this check note :
34. Verify whether there are any sales of movable assets :

35. Obtain the financial statements like P&L account Trading account and Balance sheet and, Quarterly/Half-yearly/ annual accounts statements :
36. Whether the contractor is engaged in inter state Works contracts :
37. If so, whether the contractor is paying CST :
38. Whether the contractor is doing any work to a unit in SEZ, or to a developer, co-developer of SEZ :
39. If so, is the contractor availing Zero rating on such Works :
- 40. Contract details (presently under execution) or for the tax period**

Sl.No	Name & Address of the Contractor	Nature of Work	Value of Work	Date of commencement of work	Amounts received so far	Balance work on hand

- 40. Value of the goods at the time of incorporation ;(See rule 17(1)(e) . (This shall be arrived as per the income & expenditure a/c prepared by the Chartered Accountant for each work separately)**
- 41. If expenditure towards labour, hiring of machinery and consumables is very high obtain evidence for each item for labour - obtain returns filed to PF& Labour department, cash vouchers. for hiring of machinery charges – obtain lease agreement, method of payment etc For consumables – obtain invoices, vouchers etc.**
- 42. Enquire whether the lessor of the machinery has paid tax U/ Section 4(8)- if not obtain name and address of the lessor :**
- 43. Profession tax paid**
- (a) for the firm :**
- (b) for the proprietor/partner/director :**
- (c) for the employees :**

PART-B

1. ITC Claimed as per the VAT 200 returns (month wise statement enclosed) : Rs.
2. ITC as result of previous audit : Rs.
3. ITC as result of filing of Form VAT 213 : Rs.
4. Sales Tax Relief claimed as per Form VAT 119/ 126 (Copy of Form VAT 116/126 enclosed) : Rs.
5. Total ITC claimed on the return for the audit period : Rs.

6. **INPUTS for the audit period** (as per books of accounts)
- a) Total ITC on 4% / 5%, 12.5% / 14.5% and 1% purchases (Statement of tax rate wise purchases enclosed) : Rs.
 - b) Eligible ITC after arriving at the same applying AXB/C formula : Rs.
7. **OUT PUT for the audit period** (as per books of accounts)
- a) Total output tax including tax on purchase value of the goods in case of transactions falling under Section 4(4) : Rs.
 - b) Turnovers related to Exempted goods : Rs.
 - c) Purchase value of the Negative list goods : Rs.

Verify whether the contractor has adjusted Sales returns, credit notes, debit notes etc.

**CHECK LIST FOR VAT AUDIT OF A WORKS CONTRACTOR
WHO OPTED FOR COMPOSITION
PART - A**

I. PERSONAL DETAILS OF THE DEALER:

1. Name & Address of the dealer :
2. Status of the dealer
(Whether Proprietary/Partnership/
Public Ltd Co./ Private Ltd Co.etc.) :
3. Name of the person responsible for running the
business/ responding to the department :
4. Names of the Proprietor/Directors/ Partners
of the firm as the case may be : 1.
2.
3.
4.
5. Telephone Nos. : 1.
2.
3.
6. E-mail address :

II. BUSINESS DETAILS OF THE DEALER:

1. TIN of the business :
2. Name of the Circle :
3. Name of the Division :
4. Whether registered U/CST Act :
5. Income Tax PAN No. :
6. Bank account details:
 - (a)Name of the Bank :
 - (b)Branch name :
 - (c)Account No. :
 - (a)Name of the Bank :
 - (b)Branch name :
 - (c)Account No :
7. Whether having any branches :
8. If so, specify the addresses :
9. Whether having any godowns :
10. If so, specify the addresses :

III. PREVIOUS AUDIT DETAILS:

1. Date of audit last conducted :
2. Name and Designation of the Officer who
conducted the last audit :
3. Period up to which the previous audit was done :

4. Result of the previous audit :
5. If under declaration, whether tax is paid :
6. Whether the dealer has filed Form VAT 213 :
7. If so, whether it is under declaration or over declaration of tax :
8. If under declaration, whether the dealer has paid tax :

IV. DETAILS OF ACCOUNTS MAINTAINED:

1. (a) Name of the person in charge of accounts :
(b) Phone No. :
2. Whether the books of accounts are maintained :
3. Whether the accounts are computerized :
4. Whether any statutory Forms are obtained :

If so details of the Forms obtained

S.No.	Particulars	No Obtained	No.Utilized	No.Balance
1.	Way bills			
2.	C Forms			
3.	F Forms			
4.	H Forms			
5.	E1 Forms			
5.	Whether the contractor is paying tax under Section 4(7) (b) or (c) or (d) – composition.			:
6.	If so, whether he has filed form 250 for each contract			:
7.	Whether the contractor has paid tax @4% on total Amount realized in case of Section 4(7) (b) and (C)			:
8.	Whether the contractor has paid tax @4% on 25% of the value of the building contract in case of Sec 4(7)(d), (or 5% on 25% as the case may be).			:
9.	Whether the contractor has purchased any goods from out side the state			:
10.	Whether the contractor has purchased goods from Non VAT dealers in the State			:
11.	Whether the contractor has paid tax on outside the State and non VAT purchases			:
12.	Whether the contractor has obtained any goods from outside the State in pursuance of contract (Examine the contract agreement)			:
13.	Whether the contractor has claimed exemption on such purchases			:
14.	Whether the contractor engaged any sub-contractor			:
15.	Whether sub-contractor is registered for VAT			:

16. Whether TDS is made against the contractor :
17. If so, whether the contractor has devolved the TDS by issuing Form 501B :
18. Major inputs (purchases)(Commodities)
 - (a) from within the State :
 - (i)from Non VAT dealers :
 - (j)from VAT dealers :
 - (b)from outside the State :
19. The details of most frequent and voluminous purchases in the audit period :
 - (a) Name of the dealer from whom purchased :
 - (b) TIN of the dealer
 - (c) Name of the goods purchased
(Obtain 10 purchase invoices randomly covering the audit period.)
 - (d) Quantity / Value of the goods purchased:
 - (a) Name of the dealer from whom purchased:
 - (b) TIN of the dealer
 - (c) Name of the goods purchased
(Obtain 10 purchase invoices randomly covering the audit period.)
 - (d) Quantity / Value of the goods purchased:
20. Schedule No and entry under which the goods fall :
21. Check whether there are any purchases liable to Entry Tax :
22. If so, whether Entry Tax is paid on such purchases:
23. Whether ITC has been claimed on purchases :
24. If so, furnish the details on separate sheets :
25. Whether there are any Transit purchases :
26. If so, whether any ITC has been claimed on Transit purchases (furnish details) :
27. Whether any capital goods are purchased from local VAT dealers/ outside A.P :
28. Nature of capital goods purchased :
29. Whether those goods are available in the business premises :
30. Whether there are any purchases of negative list goods :
31. If so, whether any ITC has been claimed on such negative list goods (furnish details on separate sheets)
32. Verify whether there are any sales of movable assets :
33. Obtain the financial statements like P&L account Trading account and Balance sheet and, Quarterly/Half-yearly/ annual accounts statements :
34. Whether the contractor is engaged in inter state :

Works contracts

35. If so, whether the contractor is paying CST :
36. Whether the contractor is doing any work to a unit in SEZ, or to a developer, co-developer of SEZ :
37. If so, is the contractor availing Zero rating on such Works. :
38. Contract details (presently under execution) or for the tax period

Sl.No	Name & Address of the Contractor	Nature of Work	Value of Work	Date of commencement of work	Amounts received so far	Balance work on hand

39. Enquire whether the lessor of the machinery has paid tax U/ Section 4(8)- if not obtain name and address of the lessor :
40. Profession tax paid :
- (a) for the firm :
- (b) for the proprietor/partner/director :
- (c) for the employees :

CHECK LIST FOR VAT AUDIT OF A LESSOR
PART - A

I. PERSONAL DETAILS OF THE DEALER:

1. Name & Address of the dealer :
2. Status of the dealer (Whether Proprietary/Partnership/
Public Ltd Co./ Private Ltd Co.etc.) :
3. Name of the person responsible for running
the business/ responding to the department :
4. Names of the Proprietor/Directors/ Partners
of the firm as the case may be : 1.
2.
3.
4.
5. Telephone Nos. : 1.
2.
3.
6. E-mail address :

II. BUSINESS DETAILS OF THE DEALER:

1. TIN of the business :
2. Name of the Circle :
3. Name of the Division :
4. Whether registered U/CST Act :
5. Income Tax PAN No. :
6. Bank account details :
- (a) Name of the Bank :
- (b) Branch name :
- (c) Account No. :
- (a) Name of the Bank :
- (b) Branch name :
- (c) Account No. :
7. Whether having any branches :
8. If so, specify the addresses :
9. Whether having any godowns :
10. If so, specify the addresses :

III. PREVIOUS AUDIT DETAILS:

1. Date of audit last conducted :
2. Name and Designation of the Officer who
conducted the last audit :
3. Period up to which the previous audit was done :
4. Result of the previous audit :
5. If under declaration, whether tax is paid :
6. Whether the dealer has filed Form VAT 213 :
7. If so, whether it is under declaration or over
declaration of tax :
8. If under declaration, whether the dealer has

paid tax :

IV. DETAILS OF ACCOUNTS MAINTAINED:

- 1. (a) Name of the person in charge of accounts :
- (b) Phone No. :
- 2. Whether the books of accounts are maintained :
- 3. Whether the accounts are computerized :
- 4. Whether any statutory Forms are obtained :

If so details of the Forms obtained

S.No.	Particulars	No Obtained	No. Utilized	No. Balance
-------	-------------	-------------	--------------	-------------

- | | | | | |
|-----|--|--|--|---|
| 1. | Way bills | | | |
| 2. | C Forms | | | |
| 3. | F Forms | | | |
| 4. | H Forms | | | |
| 5. | E1 Forms | | | |
| 5. | The nature of the goods Purchased | | | : |
| 6. | Whether purchased against tax invoice | | | : |
| 7. | Whether the tax invoice is raised by the seller on the lessor or in the name of lessee | | | : |
| 8. | If the invoice is raised on lessee check the Contract for terms to decide whether it is a Lease contract or mere financial arrangement | | | : |
| 9. | The nature of the goods leased out | | | : |
| 10. | Whether the lessor is collecting tax as per Scheduled rate on the goods leased out. | | | : |
| 11. | Whether the lessor is collecting tax @1% | | | : |
| 12. | Whether he is collecting the tax on total Value of the lease rentals | | | : |
| 13. | Whether he is showing any exempt turnovers on which he is not collecting tax | | | : |
| 14. | Nature of deductions claimed by the lessors | | | : |
| 15. | Whether such deductions are taxable | | | : |
| 16. | Whether the lessor has purchased any goods from out side the state | | | : |
| 17. | Whether the lessor has purchased goods from Non VAT dealers in the State | | | : |
| 18. | Whether he has claimed any ITC on such purchases | | | : |
| 19. | Profession tax paid | | | : |
| | (a) for the firm | | | : |
| | (b) for the prop rioter/partner/director | | | : |
| | (c) for the employees | | | : |
| 20. | Whether the lessor had opted to pay tax under composition, | | | : |
| | (a) If so the details of Compositions and tax payment there of | | | : |

CHECKLIST FOR THE AUDIT UNDER CST ACT

1. Whether the dealer is registered under CST Act :
2. TIN of the dealer :
3. Whether the dealer has specified the goods in which he is trading In Form A :
4. Whether the goods purchased are listed in the registration Certificate :
5. If not, penal action for misuse of 'C' Forms can be considered :
6. Whether there are any stock transfers/consignment sales:
7. If so, whether the value of consignment sales is in commensuration with the market value :
8. Whether 'F' Forms are obtained for each month :
9. Whether 'C' Forms are obtained for each quarter :
10. Whether the dealer is assessed for non filing of Statutory Forms :
11. Whether there are any transit sales :
12. If so, whether he is claiming exemption :
13. Whether there are any exports :
14. Whether there are any sales in the course of exports :
15. If so, whether the goods purchased and the goods sold in the course of exports are one and the same :
16. Whether the goods sold in the course of exports are against a purchase order placed by the foreign buyer on the exporter :
17. Whether there are any sales in the course of imports (High sea sales) :
18. If so, whether the dealer is in possession of a purchase order from the local buyer prior to such import :
19. Whether any statutory Forms are obtained from the tax office :
20. If so details of the Forms obtained

S.No.	Particulars	No Obtained	No.Utilized	No.Balance
1.	Way bills			
2.	C Forms			
3.	F Forms			
4.	H Forms			
5.	E1 Forms			
	I. Total turnover (GTO)			: Rs.
1.	Interstate Sales			:Rs.

2.	CST Collected	:Rs.
3.	Sales in Transit	: RS.
4.	Stock transfers to branches	: Rs.
5.	Consignment sales through Agents	: Rs.
6.	Export Sales	: Rs.
7.	High sea sales	: Rs.
	B. Exempted turnover (ETO)	: Rs.
1.	CST Collected	: Rs.
3.	Sales in transit covered by E1/C forms	: Rs.
4.	Stock transfer covered by F forms	: Rs.
5.	Consignment sales covered by F forms	: Rs.
6.	Export sales covered by documents	: Rs.
7.	Discounts / Sales returns covered by details / documents	: Rs.
8.	High sea sales covered by proof	:Rs.

C. NET TAXABLE TURNOVER:

1.	Interstate sales covered by C Forms	: Rs.@ Tax Rs.
2.	Interstate sales not covered by C forms	: Rs.@ Tax Rs.
3.	Sales in transit not covered by E1 forms	: Rs.@ Tax Rs.
4.	Sales in transit not covered by C forms	: Rs.@ Tax Rs.
5.	Stock transfers not covered by F forms	: Rs.@ Tax Rs.
6.	Consignment sales not covered by F forms	: Rs.@ Tax Rs.
7.	Export sales not covered by documents	: Rs.@ Tax Rs.
8.	High sea sales not covered by proof	:Rs. @ Tax Rs.
	Total tax payable under the CST Act, 1956	:Rs.
	Less: amount of tax adjusted against the VAT credits on VAT return	:Rs.
	Less: Amounts adjusted against tax deferment	:Rs.
	Less: Tax paid through CST VI Returns	:Rs.
	Balance payable	:Rs.

APPENDIX - XVIII

Circular instructions issued by the commissioner(CT) on Audits

Certain guidelines and instructions on procedure for conducting of Audit , improvement of quality of Audit and to maximize revenue by proper selection of cases for Audit, Parameters for selection of cases , steps , check list , Action plan, use of effective Audit Reference System were issued in CCT's Circulars. The Circular No's and gist of instructions are mentioned below.

All authorities and Audit Officers are instructed to follow the instructions and guide lines for conducting of VAT Audits and if more details on circular instructions are needed, then they shall verify the original Circulars.

Sl.No.	Circular No. and date	Gist of instructions issued
1)	CCT's Ref.No. B.II(2)/122/2006 dt. 29-5-2006	Instructions to exercise powers U/s. 43 of APVAT Act, 2005. Instructions to take up General Audits in the first year and also audit of credit returns on priority. Selection of audits as provided in Audit Manual.
2)	CCT's Ref.No. B.II(2)/122/2006 dt. 19-6-2006	Strategy and steps for conducting of General Audits. Instructions to issue penalty proceedings separately.
3)	CCT's Ref.No. B.II(2)/122/2006 dt. 8-9-2006	Instructions to higher authorities to scrutinize the assessments made by Audit officers wherever such assessments are expected to result in an increase of more than 25% from the self assessment of the dealer. Check list suggested for effective VAT audits (copies of check lists for various categories of dealer appended in this VAT manual).
4)	CCT's Ref.No. B.II(2)/122/2006 dt. 4-10-2006	Instructions to Deputy Commissioner's to authorize audits by "jumbling process" to any officer of the division, not below the rank of DCTO, other than territorial CTO and DCTO concerned under Rule 59 of APVAT Rules. Instructions not to inspect the same dealer by the same officer within a period of 3 years.
5)	CCT's Ref.No. BVI(3)/120/2007 dt. 31-5-2007	Instructions to Deputy Commissioner's to improve quality of audits by gathering pre-audit information like cross check data, invoices etc and to verify Form – VAT 200B and other annual returns.
6)	CCT's Ref.No. BI(3)/120/2007 dt. 13-6-2007	Instructions to Deputy Commissioner's to follow certain parameters during selection of cases to improve the quality of audit and also depending on the patterns of trade in their respective divisions.
7)	CCT's Ref.No. BV(3)/120/2007 dt. 22-9-2007	Instructions to Audit Officers to complete the audits within a period of fifteen days after the completion of visit to the business premises. Field Visits to I be completed within the month of allotment as far as possible.
8)	CCT's Ref.No. BV(3)/120/2007 dt. 5-10-2007	Instructions to Deputy Commissioner's to submit review copy in audit cases where revenue involved is less than Rs. One lakh. In cases where revenue involved on audit is Rs. One lakh and above in a case, Deputy Commissioner's submit such cases in statement-III to the Joint Commissioner (CT)(Audit-II).
9)	CCT's Ref.No. BV(3)/120/2007 dt. 25-10-2007	Statement 1B prescribed to obtain the revenue involved in the uncollected balance arisen on audits up to the month.

- It is to know the exact balances pending collection on Audit up to the month.
- 10) CCT's Ref.No. BV(3)/120/2008 dt. 16-4-2008 Instructions to Deputy Commissioner's to pool all the assessment files pertaining to a audits allotted in that month to a particular Audit officer in the O/o. DC(CT) and to place cross-check references of one or more types suggested in the circular in these files before giving it to the Audit Officers.
- Instructions to Deputy Commissioner's to ensure that the demands raised according to the audits to be taken into account by the relevant circle of the dealer concerned.
- 11) CCT's Ref.No. BV(3)/120/2007 dt. 30-10-2008 Instructions to Deputy Commissioner's to use the Audit reference system and to monitor the verification of cross check references received from others Deputy Commissioners and send the verification reports directly to the Deputy Commissioners.
- 12) CCT's Ref.No. BV(3)/60/2009 dt. 11-5-2009 Instructions to Audit Officers to fill in check lists before handing over assessment files to the DC(CT).
- 13) CCT's Ref.No. BV(3)/37/2010 dt. 29-3-2010 Guidelines for selection of cases to be audited and general instructions on audit.
- 14) CCT's Ref.No. BV(3)/27/2010 dt. 5-9-2011 Instructions to Audit Officers to fill up 'check memos' invariably on completion of audit and put up in assessment file for record.
- The Officers authorized to do assessment to discuss all the aspects observed in the check memo in the show cause notice and to give remarks/ conclusions on each issue in the assessment order.
- The Deputy Commissioners to identify some cases for re-check of the correctness/ authenticity of audits.
- 15) CCT's Ref.No. BV(3)/37/2010 dt. 21-5-2012 Instructions to Deputy Commissioner's to ensure that audit and assessments are completed by the audit and assessment officers respectively without delay.
- Audit Officers also to pass orders in cases where no irregularities are noticed.
- Deputy Commissioners to select some of the cases for super-check.
- Instructions to all the Audit Officers to transfer the records if any pending with them to the Enforcement wing even in cases where SCN are issued and orders are yet to be passed, if authorization is issued by Addl.CCT,Enft., / Joint Commissioner(CT), Enft. Wing.
- 16) CCTs Ref.No All/(1)/267/2012, dt.20-7-2012 Instructions to all the Assessing Authorities **to conduct Post Registration Advisory Visit** on those TOT dealers who apply for way bill for transport of their goods.
- Instructions to all the Audit Officers **to conduct audit of at least 1% of TOT dealers** on random basis every month based on the sales details obtained from the manufacturers, distributors and data gathered from other sources to unearth the suppression of sales turnovers, if any by TOT dealers.