



**Audit under
Karnataka VAT Act, 2003**

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VAT Audit - Provisions

▶ Section 31(4) of the KVAT Act, 2003 provides that:

- Every dealer (section 2(12))
- Whose **total turnover (section 2(35) read with Rule 3(1))** in a year exceeds Rs.100 lakhs
- Shall have his accounts audited by:
 - a Chartered Accountant or
 - a Cost Accountant (with effect from 01.04.2007) or
 - a Sales Tax Practitioner (refer Rule 168)

subject to the conditions and the limits prescribed

[Delhi circular no. 21 of 2013-14 dated 14th Oct 2013 - Quality and timeliness or legal - report to ICAI]

VAT Audit - Provisions...

- ▶ Total turnover – Section 2(35)
 - means the aggregate turnover in all goods of a dealer at all places of business in the State, whether or not the whole or any portion of such turnover is liable to tax.
 - And also includes:
 - The turnover of purchase or sale
 - in the course of inter-State trade or commerce / Export / Import
 - The value of goods transferred or despatched outside the State otherwise than by way of sale.

VAT Audit - Provisions...

- ▶ In terms of Rule 34 - “Every registered dealer who is not a Company defined under the Companies Act or a company incorporated outside India are required to get there accounts audited by a CA or STP or Cost accountants (effective 01.04.07)
- ▶ Every other registered dealer shall have his accounts audited by a CA / Cost Accountant.
- ▶ The audited statement of accounts shall be submitted in Form VAT 240 to the LVO / VSO within 9 months after the end of the relevant year.

Penalty

- ▶ In terms of Section 74(4) “Any dealer who fails to submit within the time prescribed a copy of the audited statement of accounts, shall be liable to pay a penalty of:
 - Rs. 5000/-; and
 - A further penalty of Rs. 50 per day so long as the failure to submit the report continues; Or
- ▶ Whoever commits a breach of any rule 34 shall on conviction by a JMFC be punishable with a fine not less than Rs. 2000 but not more than Rs. 5000/- and where the breach continues, a further fine not exceeding Rs. 100 per day – Rule 179

Content of Form VAT 240

- ▶ Form VAT 240 is divided into 4 parts
 - Certificate – issued by the CA / Cost Accountant / STP
 - Part I – General Information
 - Part II – particulars of turnover, deductions and payment of tax
 - Note to Part II
 - Part III – particulars of declarations and certificates

[AUDIT Certificate]

- ▶ The introductory para of the certificate defines the status of the Auditor.
- ▶ Details of the dealer with TIN and Year of Audit.
- ▶ The comments, observations and shortcomings on the returns filed by the dealer should be added to the report- Monthly returns

[Certificate - Clause]

a) The books of account and other related records and registers maintained by the dealer are sufficient for the verification of the correctness and completeness of the returns filed for the year.

- Sufficient is subjective
- Information in Returns with books of Accounts
- Maintenance of Books of Accounts as per KVAT law

[Certificate – Clause...]

b) The total turnover of sales declared in the returns includes all the sales affected during the year.

- All sales as per books of Accounts/ Non declared sales
- All sales invoices are Accounted
- Unaccounted removals
- Confirmation from debtors

[Certificate – Clause...]

c) The total turnover of purchases declared in the returns includes all the purchases made during the year.

- Accounting of all purchase invoices
- Confirmation from the suppliers
- All kinds of purchases like local purchases, interstate purchases, import, Stock inwards

[Certificate – Clause...]

d) The adjustment to turnover of sales and purchases is based on the entries made in the books of account maintained for the year.

- Entries for adjustment of taxes, charges, or cancellation of invoices, etc
- Entries for difference between contract receipts and total turnover

[Certificate – Clause...]

e) The deductions from the total turnover including deduction on account of sales returns claimed in the returns are in conformity with the provisions of the law.

- Deductions within six months for sales return
- Credit notes, Debit notes, journal entries, tax adjustments
- All the deductions as per Rule 3(2) of KVAT Rules

[Certificate – Clause...]

f) The classification of goods sold, rate of tax applicable and computation of output tax and net tax payable as shown in the return is correct;

- KVAT Schedules, Central Excise Tariff, Commissioner Clarifications, Notifications, circulars, applicable judgments
- Computation of output tax and net tax payable as per KVAT law

[Certificate – Clause...]

g) The utilization of statutory forms under the KVAT Act, 2003 and the CST Act, 1956 is for valid purposes;

- Statutory forms with the Invoices, Registration certificates, Value in Invoices and Forms
- Any pending statutory forms for previous year and utilized in current year

[Certificate – Clause...]

h) Other information given in the returns is correct and complete.

- Verification of Entry tax
- Any adjustment of input tax credit against entry tax
- Information other than the above clauses like excess tax collected, etc

[Certificate]

- ▶ Summarize the additional tax liability or additional refund due to the dealer in his report.
- ▶ The Summary sheet should disclose the difference between the monthly returns (not annual statement) and the audited figure pertaining to output tax payable, Eligible input tax credit, Ineligible input tax credit, CST payable and other items.

[KVAT Audit Report]

- ▶ Audit Report consists of:
 - General Information (Part I),
 - Particulars of Turnover deductions (Part II); and
 - Payment of taxes and Declarations and Certificates (Part III)

- ▶ Each clause is reported in detail



[Clause 1 and 2 of Part I

- ▶ Name of the dealer
 - Dealer means any person who carries on the business of buying, selling, or distributing goods.....
 - Refer registration certificate
 - Regular dealer – VAT NIF / VAT 7 / Provisional certificate / Form B (CST Act, 1956)
 - Composition dealer – VAT NIC / VAT 8

- ▶ Registration Certificate No. (TIN)
 - Mandatory registration if taxable turnover exceeds more than 5 lakhs or 40000/- pm otherwise one can go for voluntary registration

[Clause 3 of Part I]

- ▶ Status of the dealer (specify whether proprietor, etc.)
 - If change in the status ????? – refer section 28

- ▶ If partnership firm, name of all the partners
 - If Company, then name of all the directors ????
 - If change in partners / directors / share holding pattern etc....do we need to report ????
 - Whether Registration certificate is amended or not

[Clause 4 of Part I]

- ▶ Trade name and full address of the principal place of business
 - Refer registration certificate
 - If there is any change – whether applied for amendment or not? – Refer Form VAT 1
 - Name of dealer vs. Trade name – in case of proprietor name of dealer is different from trade name

Clause 5 of Part I

- ▶ Full address of all additional places of business in the State
 - Refer VAT 3 and Registration Certificate
 - Branch Registration certificates for each branch within the state
 - Additional place of business means as defined under section 2(23)
- ▶ Full address of all additional places of business outside the State
 - Obtain management certificate or registration certificate of all the States

[Clause 6 and 7 of Part I]

- ▶ Address of any branch or unit in the State having a different registration number (TIN)
 - Only permitted in special case as per Rule 47 of KVAT Rules
 - Obtain certificate issued by the commissioner
- ▶ Nature of business (specify whether manufacturer, reseller, works contractor, etc.)
 - Refer VAT 1 / Registration certificate
 - If there is a change in the nature of business?

[Clause 8 & 9 of Part I]

- ▶ Description of 10 major goods sold
 - It can be based on value / quantity etc
 - Refer VAT 100
- ▶ Whether opted for composition or not
 - 4 types of dealer/s can opt of composition scheme
 - Refer VAT 1 / Registration certificate
 - Report if there is a change in option.

Clause 10 and 11 of Part I

- ▶ Whether permitted under special accounting scheme or not
 - Applicable only to retailers
 - Permission needs to be obtained from the commissioner / Joint Commissioner (Rule 134)
- ▶ Whether availing incentive as a new industrial unit (specify whether exemption/deferment)
 - Obtain GO
 - Under VAT law there is no incentive scheme

Clause 12 of Part I

- ▶ Whether registered under the KTEG Act, 1979 and enrolled / registered under the KTPTC & E Act, 1976
 - Refer VAT 1
 - Obtain PT registration certificate as both employer and employee
 - Check whether Professional Tax has been discharged or not for all the branches.

Clause 13, 14 & 15 of Part I

- ▶ Books of account maintained
 - Cash Book, General Ledger, Bank book, Sales Register, Purchase Register, , etc which are generated from the computer system
- ▶ List of books of account examined
- ▶ Method of valuation of opening and closing stocks
 - How does one go about valuing the opening stocks
 - How does one go about valuing the closing stocks???????

Clause 1 of Part II

- ▶ Total and taxable turnover
 - Refer Rule 3 for the purpose of both total and taxable turnover;
 - URD taxes shall not form part of total turnover
 - Stock transfer should be disclosed at prevailing market value or the amount for which the goods are ordinarily sold by the dealer;
 - Advances received prior to commencement of the work in case of works contractor;
 - Purchase return beyond six months generally considered as sales and offered to tax.

Clause 2 of Part II

▶ Deductions

- Freight charges ????
- Labour charges – Rule 3(2)(1) read with explanation 1 ?
- Discounts / Returns etc – whether supported by debit note / credit note as the case may be.
- VAT collected should be shown separately
- Forfeiture of VAT in case of excess collection
- TAX on URD whether form part of deduction?
- Export / CST sales also needs to be disclosed
- Tracking of credit notes for sales return with reference to original sales within six months or above six months
- Stock transfer of capital goods

[Clause 3 of Part II]

- ▶ Details of taxable sales within the State
 - One needs to provide – description of goods, taxable turnover, rate of tax and tax payable
 - Tax payable and tax collected is different
 - Sale of fixed assets which is not subject to tax – can the sale value be considered as inclusive of taxes or one needs to charge on the whole sale value
 - VAT on Freight charges



[Clause 4 of Part II

- ▶ Details of purchase and receipts
 - Imports
 - What value one needs to declare – landed cost or invoice value
 - Will foreign exchange fluctuation form part of import value
 - Inter-state purchase
 - Inter-state stock transfer
 - Purchases from registered / unregistered dealers within the State
- ▶ Non disclosure of interstate purchases, Imports , E-1 purchases and other interstate purchases in the monthly return- comments

[Clause 5 of Part II]

- ▶ Details of input tax paid on purchases
 - One needs to provide – description of goods, taxable turnover, rate of tax and tax payable
 - All purchase which is covered within the definition of input needs to be disclosed;

Clause 6 of Part II

- ▶ Details of input tax paid on purchases eligible for deduction (give details of capital goods separately and specify whether calculated on the basis of partial rebating formula)
 - Need to provide – description of goods.....
 - Input credit based on original/Duplicate copies and not Xerox copies
 - Input tax credit on purchase invoices where the invoices does not bifurcate the tax component.
 - Input tax credit based on date of invoice or Accounting of Invoice in the books of Accounts.
 - Refer Section 11, 12, 14, 17, 19 for the purpose of restriction of input tax credit. Only the balance, can be claimed as input tax credit

[Clause 7 of Part II]

- ▶ Details of input tax paid on purchases ineligible for deduction (give details of capital goods and special rebate separately and specify whether calculated on the basis of partial rebating formula)
 - As per section 3(2), Whether Unregistered purchase tax is to be paid on consumables, printing and stationery (Input tax restricted goods)?
 - Goods sent for job work
 - Restriction of input tax credit against the use of exempted goods? And also Apportionment of input tax credit for sale to SEZ, EOU, E-1 sales, Form I Sales
 - True apportionment must be based on Rule 132
 - Stock transfer of capital goods – Apply section 12 read with rule 133.

[Clause 7.....]

- ▶ Restriction of input tax credit against the use of exempted goods? And also Apportionment of input tax credit for sale to SEZ, EOU, E-1 sales, Form I Sales
- ▶ True apportionment must be based on Rule 132
- ▶ Stock transfer of capital goods - Apply section 12 read with rule 133.

[Clause 8 of Part II]

- ▶ Details of input tax deduction claimed on purchases relating to inter-State sales and export sales (give details of capital goods and special rebate separately and specify whether calculated on the basis of partial rebating formula)
 - Refer Rule 127

[Clause 9 of Part II]

- ▶ Details of un-adjusted excess input tax credit carried over from the previous year and to the next year
 - Refer previous year VAT Audit report / March months return / Annual Statement

[Clause 10, 11, 12 of Part II]

- ▶ Total and taxable turnovers under the CST Act, 1956
- ▶ Deductions claimed (specify in respect of each deduction its nature, whether it is in order and supported by prescribed documents)
- ▶ Details of taxable sales

[Clause 13 of Part II]

- ▶ If the dealer has opted for composition indicate the type of composition scheme opted and details of the composition amount paid its rate and the basis
 - Change in the scheme from regular to composition or vice versa

Clause 14 & 15 of Part II

- ▶ Details of returns filed
- ▶ Details of inspection of the business premises / books of account of the dealer by departmental authorities on inspection / visit
 - Statement/ Notices from the departments- observations by the Auditor
 - Any application for Commissioner clarifications or Appeal pending
 - Visits by the VAT officials in the current year asking the details for financial year

[Note



- ▶ Trading account in respect of each class of goods and manufacturing account in respect of each class of goods (whether taxable or not) along with accounting ratios on sales and other non-sale transactions has to be furnished separately. Wherever the Profit and Loss Account and Balance Sheet contain the details of transactions made outside the State, then the details relating to transactions within the State shall be suitably computed and declared separately.

[Additions]

- ▶ Reconciliations of Trading Account under Income tax and VAT law- Adjustments.
- ▶ Reconciliation of Centralized Financial statement with trading Account for each classification of goods and balance sheet for the transactions within the state and outside the state.
- ▶ Reconciliation of Accounting ratios with Financial statements.

[Clause 1, 2 & 3 of Part III]

- ▶ Details of sales / purchase as commission agent
 - Principal and Agent transactions where principal/Agent, within/outside the state and or Agent/ principal, within/outside the state

- ▶ Details of tax deducted at source from the amounts payable to the dealer
 - VAT 156 / 158 / 159
 - TDS deductions- Compliance like industrial canteens, Government works contract and notified goods for that year (held as unconstitutional)

Clause 4 & 5 of Part III

- ▶ Stock of declarations / certificates / delivery notes under the KVAT Act, 2003 / CST Act.
 - Opening Stock
 - Forms obtained during the year from CTD
 - Forms utilized during the year
 - Loss, if any
 - Closing Balance
- ▶ Details of any misuse of Forms

Clause 4 & 5 of Part III

- ▶ Compliance of Statutory forms: TDS certificates, C form, E-1 forms, E-2 forms, Form -H.
- ▶ Even the forms issued pertaining to the Financial Year 2011-2012 and issued in the Financial Year 2012-2013 has to be accounted in the KVAT Audit Report for Financial Year 2012-2013.

Issues under KVAT Audit

- 1) Whether exempt sales, stock transfers within State, stock transfer outside the State, inter-State purchases, E-1 sale should be considered for computing total turnover for the purpose of KVAT Audit under Section 31(4) of the KVAT Act.
- 2) Whether Total Turnover includes excise duty, freight & insurance & Stock transfers?
- 3) Whether, the Auditor has to compute interest and penalty for short payment of taxes determined in the course of audit? If yes, should the interest and penalty be computed till the date the taxes are paid or till the date of filing the Form VAT 240?

Issues under KVAT Audit...

- 4) Whether the Auditor should give specific or general opinion for verification of compliance of KVAT law?
- 5) How are the retrospective Amendments, if any, to be considered in the audit report? (Ex: allowability of depreciation or ITC on capital goods). In case of adjustments on account of retrospective amendments, whether the audit reports filed for the previous years are to be revised? Or such adjustments can be incorporated in the audit reports of the current year?
- 6) Are there possibilities of difference between Income tax Audited statements and VAT Audited Statements?

Issues under KVAT Audit...

- 7) Are there possibilities of difference between Income tax Audited statements and VAT Audited Statements?
- 8) Whether the Auditor can comment on non compliance under KTEG law or Professional Tax law?
- 9) Whether filing of KVAT audit report is only a procedural aspect or whether the audit report filed is a valid record for department? In other words, can the assessment or re-assessment be completed based on detailed KVAT audit report?
- 10) How is the clause 4 of Audit Certificate to be analyzed - Adjustment to turnover of sales and purchase based on entries in books of accounts?

[Issues under KVAT Audit...]

- 11) Whether the tax liability at the beginning of the financial year can be adjusted against the excess input tax credit at end of financial year in computation of tax liability for Form VAT 240?
- 12) Whether an Auditor, in the course of audit of a composition dealer is required to verify the purchases even though he is ineligible to claim input tax of VAT paid on local purchases?
- 13) Whether an auditor has to verify E-uploading of the data and the declaration Forms in the course of audit?

[Issues under KVAT Audit...]

- 14) Whether VAT is payable on the goods purchased from unregistered dealer which are used for the purpose of administration like printing and stationery materials etc.,?
- 15) What relevant documents which the Auditor should file along with the reports and the documents which are to be recorded by the Auditor?
- 16) Whether the tax liability pertaining to non submission of statutory forms has to be determined and reflected in Audit Reports?
- 17) Who should give the details of statutory forms under KVAT law in Part III?

[Issues under KVAT Audit...]

- 18) How should the auditor rely on electronic data maintained in complicated software?
- 19) How should the Auditor can conclude the interpretation issues which are pending before higher Authorities?
- 20) Whether the auditor can undertake the audit of books of accounts of the dealer who has not filed monthly VAT returns? Can the dealer file VAT audit report / certificate even though monthly returns are not filed?

[Issues under KVAT Audit...]

- 21) Where a part of the records of the dealer have been seized by the VAT authorities before the due date for submission of the Audit Report / Certificate and the dealer has not been able to get his accounts audited under KVAT Act, 2003, will the penalties still be applicable?
- 22) How does a casual dealer who has carried on business for a brief period in the State and has left the State immediately thereafter, file the Audit Report / Certificate? Are there any exceptions for casual dealers to file the audit report within the same year?

[Issues under KVAT Audit...]

- 23) Whether valuation of closing stock includes closing work in progress? What is the relevance of this clause for VAT Audit Report?
- 24) If the selling dealer has not been able to obtain Forms such as C/F/H/I from its customers as on the date of submitting the audit report, whether he can seek extension of time? In that case will the auditor be liable to disclose the additional/differential tax payable by the dealer in his audit certificate/report?

[Issues under KVAT Audit...]

- 25) Whether revised returns as per audit report in Form VAT 240 can be filed along with Form VAT 240?
- 26) Whether KVAT audit is applicable for service provider registered with VAT authorities?
- 27) Whether KVAT audit is applicable for a dealer selling exempted goods?
- 28) If the financial year of the dealer is a calendar year say from January to December, can the KVAT audit Certificate / Report be filed for the said period?

Issues under KVAT Audit...

- 29) KVAT audit of works contractor?
- 30) Under Clause 8, how does one disclose each purchase corresponding to the relevant export or CST sale?
- 31) Where there is a sale of business, whether buyer or vendor is required to comply with Audit?
- 32) Whether tax is payable or the refund can be claimed based on KVAT Audit Report without filing any refund documents?