KVAT ACT, 2003

KVAT AUDIT

by

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KVAT Audit

Particulars	Legal Provisions
Dealers	All Types Of Dealers Whose Total Turnover Exceeds ₹ 1 Crore
Format	FORM VAT 240
Time limit	Within Nine Months from the end of the Financial Year (i.e. 31st December)
Submission	To Local VAT Jurisdictional Authority
Penalty	₹ 5,000/- Plus ₹ 50/- Per Day under Section 75 of the KVAT Act 2003

Who To Audit…..?

Sl. No	Category of dealer	Auditor
1	***Registered dealers not being a company*** defined under the companies Act, 1956 or a ***company incorporated outside India***, having "**Total Turnover**" not exceeding ₹ 1 crore in a year	• Chartered Accountant or • Cost Accountant or • Tax Practitioner enrolled under *Rule 168 (1) of the KVAT Rules, 2005*
2	Company defined under the Companies Act, 1956 or a company incorporated outside India	Chartered Accountant [*See Rule 168 of the KVAT Rules, 2005*]

FORM VAT 240

Methodology :

- ✓ Knowledge of Business
- ✓ Systems and Internal Control
- ✓ Audit Risk, Audit Plan and Audit Program
- ✓ Conducting the Audit
- ✓ Drawing out the conclusion
- ✓ Reporting the Observations.

Audit Plan / Programme For KVAT Audit

1) Separate Audit Plan/ Programme for each class of dealer

2) Objective of Audit is Compliances of the KVAT law

- Analyze the nature of business
- Supporting sections, Rules, Notifications, Circular, Clarifications applicable
- Documentations required from the dealer like Registration certificates, details of Statutory forms, agreements, Invoices, Financial statements, Monthly returns, etc
- Verification of relevant documentations
- Verification of correspondence with departments if any
- Discussion with the dealer on any relevant compliance-Legal or procedural

Audit Report : (Part I)

General Information like

Compliance of information of dealer with the data filed with the department like

- Status of dealer
- Commodities details
- Scheme opted
- Entry Tax
- Professional Tax Registration
- Commodities dealt, and
- TIN, etc.,

Audit Report: (Part II)

- Total & Taxable Turnover under the CST Law
- Deductions for Freight as part of sale price
- Applicability of Local KVAT Rule for deductions
- Sales bifurcated with the different statutory forms
- Details of original Monthly return filed including revised return filed
- For comparison revised return with Books of Accounts
- Details of Correspondence with the department

Audit Report: (Part III)

- Sales as Commission Agent
- Purchase as Commission Agent
- Tax deducted at source by Govt Contractee, Dealer for canteen and for Notified goods
- Stock of Statutory forms under the KVAT law
- Stock of Statutory forms under the CST law

Supporting Documents

Auditor has to verify the following documents:

- Local Sales Invoice
- Sales Return & Discounts
- Deductions
- Stock Transfer within State
- URD Purchase
  - Total Purchases with Input tax credit
  - Eligible Input Tax Credit with Special & Partial Rebating formula
  - Ineligible Input Tax Credit
  - Input tax credit apportioned to CST Sales/Export

Supporting Documents

Auditor has to verify the following documents with regards to Purchases

- Purchase Invoices
- Debit Note
- Stock Inwards
- Special Rebate
- Partial Rebate

Audit Certificate

i. Part I – Certificate and Part II – Report.
ii. The introductory Para of the certificate defines the status of the Auditor.
iii. Details of the dealer with TIN and Year of Audit.
iv. The comments, observations and shortcoming on the returns filed by the dealer should be added to the report – Monthly returns.

Audit Certificate – Clauses

- 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
- 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

Audit Certificate – Clauses

- The total turnover of purchases declared in the returns includes all the purchases made during the year
  - Accounting of all purchases invoices
  - Confirmation from the suppliers
  - All kinds of purchases like Local Purchases, Interstate Purchases, Import, Stock inwards
- 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

Audit Certificate – Clauses

- The deductions from the total turnover including deduction on account of sales returns claimed in the returns are in conformity with the provisions of 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

- 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
  - Computation of output tax and net tax payable as per KVAT law

- 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

Audit Certificate – Clauses

- 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.,
    - 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 and the audited figure
    - For output tax payable, Eligible input tax credit, Ineligible input tax credit, CST Payable and other items
    - Tax liability with interest and penalty
    - Refund
    - Input tax credit carry forward – opening and closing
    - Revision of Returns along with VAT 240 - ????
    - Tax Payment along with VAT 240 - ????
    - Enclosures like Audited Financial Statements

Special Aspect of KVAT Audit

i. Branch Registration and consolidated Report (with Rule 47)
ii. Commodity Classification
iii. Eligibility for composition scheme
iv. Electronic Obtaining the statutory forms
v. Any Forfeiture of Taxes
vi. Stock transfer within State
vii. VAT on Freight Charges
viii. Tracing of Credit Note within Six months
ix. Stock transfer of Capital Goods
x. Input Tax credit on Capital goods used for Factory and Official Purposes
xi. Effect of non disclosure of Interstate Purchases, E-1 Purchases, Imports
xii. VAT not declared in Invoices but shown as inclusive of taxes
xiii. URD tax on consumable / Printing & Stationery
xiv. Goods sent for Job work Reversal of Input Tax Credit
xv. 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.

Special Aspect of KVAT Audit

xvi. Visit by dept in 2010-11 and till the date of Audit
xvii. Matter pending before Commissioner/Appellate Authority
xviii. Statutory forms pertaining to previous year can be declared
xix. Principal and Agent transactions within the state or outside the state should be declared
xx. Rectification entries in Books of Accounts
xxi. Adjustment of input tax credit against Entry Tax payable to be declared
xxii. Reconciliation of Financials statements with VAT Audit Statements
xxiii. Relevant documents/data to be enclosed along with KVAT Audit Report
xxiv. Relevant documents to be retained by KVAT Auditor like Management Representation, Audit Check list, Audit Programme, details of dealer, etc.

Thank You