

## **AUDIT PROCEDURE OF COMMERCIAL TAX ORGANISATION, ODISHA**

To test the credibility of the declared tax in the returns filed under different Acts by the dealer & to make dealers aware of with provisions of Law for Correct Tax Compliance & to prevent tax evasion, visits to the business premises of the dealer [in course of] **Audit** (with prior intimation) and **Enforcement** (without prior intimation) have been made from time to time.

**FOR REGULAR AUDIT - It is the official examination of the accounts of a business for a specific period with prior intimation to the dealer. The steps followed are:**

**1. Selection of dealers for audit:**

The selection is made ordinarily before the close of the year for audit during the following year. The Commissioner may select dealers for tax audit on Computer Based Risk Parameters.

**2. Criteria of selection:**

The dealers have been selected basing upon certain risk parameters / criteria evolved from time to time. The identification of risk parameters is an essential feature of audit selection. The Units shall be selected from the database of the dealers by applying the risk parameters / criteria defined and as amended from time to time by Commissioner. In the process is of Risk Assessment the business units are ranked in descending order of risk to facilitate selection. The exercise for selection of units for audit is carried out for the entire financial year.

**3. Steps undertaken sequentially in the process of selection:**

- (i) Preparation of updated list of all registered dealers of the Organisation falling under different tax paid categories (i.e. above Rs. 1 crore, between Rs. 10 lakhs and 1 crore and below Rs. 10 lakhs).
- (ii) The available audit man-power and the total number of dealers to be selected are decided.
- (iii) The dealers are selected based on the Risk Parameters used in the computer system.

**4. Risk Parameters:**

The following risk parameters are used in the system to select the dealers to be audited during the next financial year.

- ✓ Purchase is comparatively more than sale.
- ✓ Waybill utilisation value (both out to in & in to out) is comparatively higher than the inter-State purchase/receipt value or & inter State sale/despatch value respectively.
- ✓ Waybill issued but remains unutilised or cancelled (apparently more in comparison to issue)
- ✓ C-Form & F Form taken/issued value is comparatively higher than the inter State purchase/receipt.
- ✓ Input Tax Credit is shown increase trend where as output not.

- ✓ Unmatched value of Input Tax Credit if any claimed against.
- ✓ Nil filer
- ✓ Non filer
- ✓ Cancelled dealer
- ✓ Fake / Incorrect TIN
- ✓ Tax group wise purchase to sale ratio shown abnormality.
- ✓ Enjoying any exemption under OET Act by Govt. Notification.
- ✓ Sales to SEZ / EOU / EHTP / STP etc. if any.
- ✓ Whether the dealer is an Importer. If so whether he has paid Entry Tax?
- ✓ Whether the dealer is an Exporter, Direct or Penultimate seller?
- ✓ Whether the dealer has made sale in course of import?
- ✓ Whether the dealer has made any transit sale?
- ✓ Less payment of tax /interest under any Act.
- ✓ Discrepancy if any found in the payment conformation.
- ✓ Identify tax periods where there are wide variations.
- ✓ Based on local intelligence or serious complaints from public.
- ✓ Based on Third party information like, Banks, Income Tax, Service Tax, Central Excise, Manufactures, Government departments etc

**TABLE SHOWING AUDIT PARAMETERS AND ASSIGNMENT OF POINTS TO DEALER FOR SELECTION FOR AUDIT**

<b>Risk Profile of Dealer (Period of Study ----- to -----)</b>				
<b>Sl. No</b>	<b>Category</b>		<b>Points</b>	<b>Basis / Limit of taxable turnover or tax taken to categorises the parameters</b>
<b>I</b>	<b>Business Constitution (Any one)</b>		<b>10</b>	
	(i)	Partnership	6	Dealers having TTO of Rs. 10 lakh + for 01/04/2014 to 31//03/2015
	(ii)	Proprietorship	6	
		<i>Newly Registered (last one year)</i>	4	
<b>II</b>	<b>Sensitive Commodities (Any one of the following) - Only Traders (excluding Manufacturers)</b>		<b>15</b>	
	(i)	Iron Ore		Dealers having TTO of Rs. 10 lakh + for 01/04/2014 to 31//03/2015
		OR		
	(ii)	Marble, Granites, Tiles and Sanitary Ware		
		OR		
	(iii)	Glass, Automotive Spare Parts		
		OR		
	(iv)	Iron rods, Iron sheets, sand, metal and bricks		
<b>III</b>	<b>Compliance Behaviour (i)+(ii)+(iii)</b>		<b>15</b>	

	<b>(i)</b>	<b>Non-filer (any one of the sub parts)</b>	<b>10</b>	Liabe by 31.03.2015 excluding Cancelled dealers by 01/04/2014
	i(a)	Non-filer for last one year with waybill transaction of Rs 2.00 Lakh+		Liabe by 31.03.2015 excluding Cancelled dealers by 01/04/2014
	i(b)	Non-Filers for last 1 year with purchase from/sold to registered dealers for Rs. 2.00 lakh+		Liabe by 31.03.2015 excluding Cancelled dealers by 01/04/2014 Non filer under OVAT having purchase from/sold to registered dealers for Rs. 2.00 lakh+ from SI 57 of other dealers
	<b>OR</b>			
	<b>(ii)</b>	<b>Nil-Filers (any one of the sub parts)</b>	<b>10</b>	Liabe by 31.03.2015 excluding Cancelled dealers by 01/04/2014
	ii(a)	Nil-filer for last one year with waybill transaction of Rs 2.00 Lakh+		do
	ii(b)	Nil-Filers for last 1 year with purchase from/sold to registered dealers for Rs. 2.00 lakh+		1. Purchase from SI 7+8A(v)+9A(vii)+9B(i,ii) 2. Sale from SI 41 of VAT return
	<b>(iii)</b>	Newly Registered	<b>5</b>	
<b>IV</b>	<b>ITC Mismatch (i)+(ii)+(iii)</b>		<b>40</b>	
	(i)	ITC of Rs. 50,000 + claimed being purchased from cancelled dealers, non-filers, nil-filers, suspended dealers and dealers having invalid TIN	20	Excluded PSU selling dealers
	(ii)	ITC accrual increased in Revised return	5	ITC accrual of increased Rs. 2000+ in Revised return for
	(iii)	Decreased taxable sales and tax payment in Revised Return	5	Decreased taxable sales of Rs. 2000+ and tax payment of Rs. 2000+ in Revised Return
	(iv)	ITC of Rs. 50000 + having mismatch with the Registered dealers	10	Excluded PSU selling dealers
<b>V</b>	<b>Turnover Ratios (i)+(ii)+(iii)+(iv)</b>		<b>20</b>	
	(i)	Total Sales/Total Purchase <1	5	Total Sales/Total Purchase <1 relating to the dealers who have Taxable sale of Rs. 10 lakh +
	(ii)	Output Tax/Input Tax<1	5	Output Tax/Input Tax<1 relating to the dealers whoes output tax is Rs. 50000 +
	(iii)	Sales @ 13.5%/Purchase @ 13.5% <1	5	Sales @ 13.5%/Purchase @ 13.5% <1 relating to the dealers who have Taxable sale of Rs. 10 lakh +
	(iv)	Intrastate Purchase/Total Purchase > 0.8 and Interstate Sales/Total Sales > 0.8	5	
	<b>Total</b>		<b>100</b>	

**5. Audit Programme :**

The Commissioner selects the dealers and sends the list to JCCT. Audit is conducted in accordance with audit programme approved by Commissioner.

**6. Composition of Audit Team:**

The JCCTs in charge of Ranges constitute the audit team. For audit of TIN dealers, team of two or more officers is constituted with one not below the rank of STO/ACCT/DCCT. For audit of dealers with SRIN, team comprise two or more officers with one not below the rank of ACTO. The senior most in the rank is the head the audit team. Then random allocation of dealers to these “Audit Teams” by the system.

**7. Scope of Audit:**

The overall aim is to check the correct amount of tax is collected and deposited into Government account. It is required to ensure that:

- The records maintained are correctly reflect the business activities of the dealer.
- Proper application of the laws, rules, notifications and procedures for levy of VAT and examination of individual cases with a view to ensure that the tax legally due are collected and credited in to the Government account.
- Examination of individual errors, irregularities, frauds, forgeries, acts of negligence and omission, double refunds, delays in recovery, incorrect, irregular or fraudulent accounting or prolonged delays in accounting if any and assessment of the level of risk posed by the dealer to the VAT regime and identify the appropriate counter measures .
- For the dealers the audit is as an opportunity to develop a relationship with the Organisation and enable him to meet his legal obligations. He/she may is able to resolve any uncertainties regarding his/her VAT liabilities in a satisfactory manner.

**CONTROL CHECKS FOR TRADERS:**

Categories	Risk Factors	Control Checks.	Whether done or not
<b>1. Import goods from outside state for sale.</b>	<b>Wrong classification of the rate of Tax under OVAT &amp; ET ACT</b>	<ul style="list-style-type: none"> <li>•Physically verification the Purchase bills/challans with reference to stock available &amp; ensure the proper application of rate of tax under VAT as well as ET Act.</li> <li>•Verification of utilization of way bills received from Check gate data &amp; utilization of 'C' Form &amp; 'F' Form data with that of purchase accounts/stock receipt Accounts maintained by the dealer.</li> <li>•Verification of claims of taxable/tax free goods under OVAT Act and Scheduled &amp; non scheduled goods under OET Act are proper for a month or so. If discrepancy noticed continue verification month by month to cover the period under notice.</li> <li>• For VAT Purposes verification of proper application of rate of tax on sales. <ul style="list-style-type: none"> <li>• Comparison of the branch transfer price with sale price in a particular month.</li> <li>• Comparison of return figures of Purchase &amp; Sale with report of the Chartered Accountant furnished u/s 65 of OVAT Act.</li> </ul> </li> <li>•In case of Purchase/ stock record verification, whether freight &amp; inward expenses are added while computing Purchase Value to calculate Entry Tax.</li> </ul>	<b>Yes/No</b>
<b>2. Commission agent receiving stock by using F form from outside state Principal</b>	<ul style="list-style-type: none"> <li>• Physically receipt of stocks from outside state.</li> <li>• Disclosure of sale values at market price.</li> </ul>	<ul style="list-style-type: none"> <li>• Agreements of dealers with principal.</li> <li>• Verification of transport documents with appropriate transporter accounts &amp; mode of payment.</li> <li>• Whether Sale value is at par with sale value of similarly situated dealer in the locality? (Information of other dealer to be obtained &amp; compared).</li> </ul>	

<p><b>3) Transfer of stocks to outside State.</b></p>	<ul style="list-style-type: none"> <li>• <b>Physically stocks have been sent to outside state</b></li> <li>• <b>Receipt of Form F.</b></li> <li>• <b>Validity of Form F.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Verification of the order/documents if any which occasioned transfer/re-transfer of stocks to outside State.</li> <li>• Verification of particulars of transport with transport agencies.</li> <li>• If claims of transfer are not actually transported to outside State, the claims of deduction on that account to be determined.</li> </ul>	
<p><b>4) Traders selling goods by against Form C</b></p>	<ul style="list-style-type: none"> <li>• <b>Receipt of Form C.</b></li> <li>• <b>Validity of Form 'C'</b></li> </ul>	<ul style="list-style-type: none"> <li>• Verification of mode of transfer &amp; verification thereof if required.</li> <li>• Verification of mode of payment from bank accounts if required</li> <li>• Cross verification of way bills utilisation from check gate data.</li> <li>• Validity of <b>Form C from TYNSYX</b></li> </ul>	
<p><b>5) Traders purchasing goods from outside state hawkers at door step.</b></p>	<ul style="list-style-type: none"> <li>• <b>Avoidance of ET if any as goods are purchased within local area.</b></li> <li>• <b>Duly accounted for of goods.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Verification of the documents, mode of payments &amp; Bank accounts. If it is proved that goods are purchased from outside state, liability <b>on</b> the dealer to be fixed.</li> <li>• Verification of the physical stock of such goods with purchases &amp; sales in respect of different sample of goods (which are likely to be purchased from outside the State in particular business).</li> </ul>	
<p><b>5. Import of goods from outside the country.</b></p>	<ul style="list-style-type: none"> <li>• <b>Understating Purchase value</b></li> <li>• <b>Claim of exemption as sales in course of import.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Verification of equivalence of Foreign currency in Indian Rupees.</li> <li>• Verification of inclusion of custom duty in arriving purchases value.</li> <li>• Cross verification of order on foreign seller &amp; despatch documents with order of subsequent Indian Purchaser.</li> <li>• Verification of payment of custom duty &amp; Bill of Entry and the name of the person who have made it.</li> <li>• Verification of modes of payment by India purchaser to foreign sellers and payment by subsequent purchaser to 1<sup>st</sup> Indian Purchaser having implication on payment of VAT or CST as the case may be.</li> </ul>	

<p><b>6. Purchasing goods from outside state &amp; claiming exemption as sale during transit</b></p>	<p><b>Spurious exemption Claims.</b></p>	<ul style="list-style-type: none"> <li>• Verification of the terms &amp; condition of Purchase order to outside state seller by the claimant and purchase order on claimant for sales.</li> <li>• Verification of sold goods whether in the same form as it was purchased.</li> <li>• Verification of the particulars of transport documents with endorsement to ascertain who takes delivery of goods.</li> <li>• Cross Verification of genuineness of 'C', 'E1', or 'E2' Forms in <b>TYNSYX</b>.</li> <li>• Proper verification of purchase &amp; sale bills in respect of same goods.</li> </ul>	
<p><b>7. Export of goods to outside the country.</b></p>	<ul style="list-style-type: none"> <li>• Evidence of actual export</li> </ul>	<ul style="list-style-type: none"> <li>• Customs clearance certificate.</li> <li>• Contract or order from the foreign buyer,</li> <li>• Evidence of actual export in the form of transport documentation related directly to the goods , if Rail-R.R., or if Ship-Bill of lading, or if Air-airway bill, or Road-L.R. or any other relevant transport document,</li> <li>• Evidence of payment for the good- letter of the credit,</li> <li>• Bank Realisation Certificate</li> <li>• Declaration in form H in appropriate cases.</li> </ul>	
<p><b>8. Sales to a dealer under SEZ/ STP/ EHTP or an EOU.</b></p>	<ul style="list-style-type: none"> <li>• Commercial evidence of sales</li> </ul>	<ul style="list-style-type: none"> <li>• Evidence that the dealer is under SEZ/STP/EHTP or EOU from the certificate by appropriate authority,</li> <li>• Evidence that the dealer is entitled to purchases free of tax-certificate issued of registration,</li> <li>• Contract or order from the dealer;</li> <li>• Evidence of actual transportation of the goods to the destination, if Rail-R.R., or if Ship-Bill of lading, or if Air-airway bill, or Road-L.R. or any other relevant transport document, Entry to the premises –Get pass</li> <li>• Evidence of payment for the goods such as D.D. / Cheque / Cash and corresponding entry in the accounts.</li> </ul>	

**CONTROL CHECK LIST FOR MANUFACTURERS:**

categories	Risk	Control Check	Whether or not
<b>1. Industries claiming more input tax than output tax on Sales.</b>	<ul style="list-style-type: none"> <li>•Wrong claim of ITC under the pretext of capital goods, which may not be capital goods.</li> <li>•Wrong claims of ITC on fuel</li> <li>•Suppression of purchases of raw materials &amp; suppression of production of finished products.</li> <li>•Suppressing VAT sale within the state.</li> <li>•Bogus CST sales or branch transfer</li> </ul>	<ul style="list-style-type: none"> <li>•Verification of purchase bills relating to claim of ITC on capital goods.</li> <li>•Verification of the admissibility of the claims of ITC.</li> <li>•Compare input output ratio vis-a-vis utilisation of energy &amp; fuel.</li> <li>•Cross verify the 'C' form or 'F' form in TYNYSX &amp; verify transport documents with respective transport agencies.</li> <li>• Verification of reversal of ITC if required for production of both taxable and tax free items.</li> </ul>	<b>Yes/No</b>
<b>2. Claiming exemption on sales effected to export oriented units or in course of export.</b>	<ul style="list-style-type: none"> <li>•Bogus sales to export oriented units</li> </ul>	<ul style="list-style-type: none"> <li>•Cross verification of the sales with respective Purchasing export oriented units if possible.</li> <li>•</li> </ul>	
<b>3. Claiming sale in course of Export.</b>	<ul style="list-style-type: none"> <li>•Bogus export.</li> </ul>	<ul style="list-style-type: none"> <li>• Verification of the orders of foreign buyers and stipulated date of supply. Verify Bills of lading whether supplies are within due dates. Whether money from foreign buyer is received.</li> <li>• Verification of Bank Realisation Certificate.</li> </ul> <p>Above verifications also in case of penultimate sale u/s 5(3) of CST. Verification of the particulars of H Form &amp; whether it is supported by order of foreign buyer &amp; bill of lading.</p>	
<b>4. Industries showing CST Sale</b>	<ul style="list-style-type: none"> <li>•Limiting of ITC to the extent of payment of CST.</li> </ul>	<ul style="list-style-type: none"> <li>•Verification of the quantities/value of goods sold in interstate trade with that of Form C.</li> <li>• Verification of whether excess ITC have been reversed.</li> </ul>	



**CONTROL CHECK LIST FOR WORKS CONTRACTORS**

Categories	Risk	Control checks	Whether done or Not
<b>Principal Contractor/Sub contractor</b>	verification of mode of supply of goods	<ul style="list-style-type: none"> <li>• Terms &amp; conditions of the agreements.</li> <li>• Mode of supply of goods how &amp; when title to goods is actually transferred.</li> <li>• The terms of warranty &amp; guarantee rendered by works contractor are to be thoroughly verified,</li> </ul>	<b>Yes/No</b>
	Purchase of goods by works contractors by using declaration form in C.	<ul style="list-style-type: none"> <li>• Verification that whether goods purchased by using C form are covered by the registration certificate?</li> <li>• Verification that whether goods purchased against Form 'C' are transferred in the contract in the execution of works contract.</li> </ul>	
	Percentage of labour and services	<ul style="list-style-type: none"> <li>• Any supporting documents in support of percentage of labour and services claimed otherwise refer Appendix to Rule -6 of OVAT Rule.</li> </ul>	
	TDS	<ul style="list-style-type: none"> <li>• Properly deducted and timely deposited by the deducting authority</li> </ul>	
	NDC	<ul style="list-style-type: none"> <li>• If issued verify the correctness of percentage of no deduction of tax.</li> </ul>	

**CONTROL CHECK LIST FOR MINING SECTOR**

Categories	Risks	Control Check	Whether done or not
1. Purchase	<ul style="list-style-type: none"> <li>•Claiming ITC on purchase of capital goods &amp; consumables</li> <li>•Understating of Production.</li> <li>•Export –Claims. May not be in course of Export</li> </ul>	<ul style="list-style-type: none"> <li>•Verification of the claims of ITC in respect of mining activities. Whether any ITC claimed on capital goods or consumables.</li> <li>• Cross verification of accounts with figures reported to Mining / Central excise.</li> <li>•Verification of the agreement with foreign buyer, Transport particulars from mining to port head, bill of lading etc. Letter of credit with the respective Bank.</li> <li>• Examination of Penultimate sales in the similar manner to direct export.</li> </ul>	Yes/No

**CONTROL CHECK LIST FOR HOTELIERS**

Risk	Control Check	Whether done or not
Capital goods meant for lodging purposes.	•Verification of utilisation of ‘C’ forms in <i>bonafide</i> manner.	Yes/No
Claims of ITC on goods meant for lodging purpose.	•Verification of claims of ITC with Tax invoice, goods wise as to if such goods ever qualify for availing ITC.	
Non issue of Tax invoice	•Verification by arranged purchases for the non-issuance of tax invoice at the time of surprise visit. It can be made before the date fixed for audit.	

**TRANSFER OF RIGHT TO USE CASES**

Risk	Control check:
<p>Machineries are purchased by using 'C' form for hiring purposes. But turnover is not shown.</p>	<ul style="list-style-type: none"> <li>•Ascertain where the machines are deployed. Contact those agencies, how much they have paid to dealer. Verification of the contract or agreement document. Comparison of the figures with the return.</li>   <li>•Utilisation of Form C.</li> </ul>