

**ANNEXURE – CE – IX**

**VERIFICATION OF RECORDS/REGISTERS DURING THE COURSE OF AUDIT VERIFICATION**

**A. Records to be verified in the marketing and sales department -**

1. Purchase Orders
2. Price Circulars
3. Delivery Challans
4. Material transfer note
5. Sales book

**II. Records to be verified in the stores department -**

1. Stores Ledger
2. Job Card/Bill of material
3. Goods Receipt Note (GRN)/Material Receipt Note/Inspection Cum Receipt Report (ICRR)
4. Material Return Note
5. Material Requisition Note and Material Issue Note
6. Badbin Register
7. Physical Stock Verification Statement
8. Job work/Sub-contract Register

**III. Records to be verified in Production department -**

1. Manufacturing Process Chart
2. Machine Log Book
3. Laboratory Test Report
4. Weighment Slips

**IV. Finance & Accounts related records -**

1. Ledgers
2. Debit Note
3. Credit Note
4. Journal Voucher
5. Internal Audit Reports
6. Purchase Book
7. Purchase Return Book
8. Income Tax Audit Report
9. Income Return
10. Sales Tax/VAT Return
11. Fixed Assets Register
12. Monthly Stock Statement to Bank

B. In addition, areas to be covered in the units availing Export Promotion Schemes:

**I. Records to be verified in the marketing and sales departments -**

Sr.No.	Name of the Record/Document	Nature of the documents and checks to be done
<b>1.</b>	<b>Purchase order</b>	
	<u>Nature of Document :</u> This document denotes the price and other conditions laid for purchase of goods/sale of goods. <u>Nature of Verification:</u> <u>Purchase order placed by Customers:</u> (a) To verify the terms and conditions specially with respect to price revision, supply of any material/component by the customer, erection and commissioning charges. The total price charged	

	<p>in the Purchase Order may be compared with the Central Excise invoice to ensure that no extra flow back is received outside the invoice through commercial invoice/debit note.</p> <p>(b) To verify whether excise invoice is raised for full amount as per the Purchase Order or part of the goods are sold as trading goods.</p> <p>(c) Dutiability of clearance of samples, if any, agreed to in the purchase order may be verified.</p> <p>(d) Tax &amp; duty structure agreed upon in the purchase order should be checked with invoices raised for clearance. In case the unit raises a separate commercial invoice, such invoices should be checked for the basic price, duty, taxes, etc. actually collected.</p>
<b>2.</b>	<b>Price Circular</b>
	<p><u>Nature of Document :-</u> Most companies issues price circular periodically explaining various conditions of sales like various types of discounts, conditions for providing the discount, recovery of freight, packing charges, interest and other charges.</p> <p><u>Type of verification :-</u></p> <p>i) Study the various elements to be recovered from the customers and whether these are required to be added to the assessable value or not like packing charges, freight charges, handling charges.</p> <p>ii) If any discount is given to a class of buyer, the exact nature of such discount may be studied in detail to find out whether the discount is admissible or not.</p> <p>iii) Verify whether any item or benefit is supplied free of cost by the buyer.</p> <p>iv) In case of cum duty prices, the various component forming part of value needs to be studied from price circular.</p>
<b>3.</b>	<b>Delivery Challan</b>
	<p><u>Nature of Document:</u> This document is raised for clearance of all types of goods (finished goods, inputs and other goods) out of the factory. It indicates the description of goods, quantity cleared and receiver of goods. D.Cs may be of two varieties viz. returnable D.C. &amp; Non-Returnable D.C.</p> <p><u>Nature of Verification:</u></p> <p>(a) Check how many series of DCs are issued and which sections are preparing these.</p> <p>(b) Returnable D.Cs are used for movement of job-work materials. D.C. Register should be verified to ascertain whether materials sent for job work has been received back within the stipulated time, if not, whether appropriate duty has been paid or not.</p> <p>(c) Non-Returnable D.Cs are used for clearance of goods, which are not to be received back. Normally it is the practice in the industry to raise D.Cs for sales made and it accompanies the Sales Invoices. Inter unit movement of goods are some time done through non-returnable D.Cs without any invoices resulting in clearance without payment of duty.</p> <p>(d) Verify whether duty has been paid on scrap cleared under N.R.D.C.</p> <p>(e) Replacements/Samples may also be cleared under the cover of NRDC's without invoices.</p>
<b>4.</b>	<b>Material Transfer Note</b>
	<p><u>Nature of Document:</u> This document is used for inter unit transfer of materials &amp; for inter branches transfers within a unit.</p> <p><u>Nature of Verification:</u> Valuation adopted for such inter unit transfers need to be checked and whether duty has been paid on such transfers be ascertained.</p>
<b>5.</b>	<b>Sales Book</b>
	<p><u>Nature of Document:</u> This is used for recording all credit sale of products manufactured/traded.</p> <p><u>Nature of Verification:</u></p> <p>(a) Invoice Numbers mentioned should be sequential and if any number is missing the same has to be examined.</p>

	<p>(b) Verify how many series of sales invoices are used for sale of goods. Whether excise invoice series and commercial invoice no. series are different.</p> <p>(c) Whether Debit Notes/Journal Vouchers are also entered in the sales register. If yes, whether excise duty is payable on additional considerations received through such Debit Notes/JVs.</p> <p>(d) Sales register normally show excise duty separately. Verify the cases where excise duty has not been paid and find out the reasons thereof.</p>
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## II. **Records to be verified in the stores department -**

Sr.No.	Name of the Record/Document	Nature of the documents and checks to be done
<b>1.</b>	<b>Stores Ledger</b>	
	<p><u>Nature of Document :-</u> It contains the details about receipt of various input or consumable, its issue for production and closing balance. It also contains details like results of physical verification, obsolete items, slow moving items and its write off etc. Now a days most of the companies maintains stock records on computer.</p> <p><u>Types of Verification :-</u></p> <p>i) Verify coding system for receipt, issue, stock verification, valuation, input cleared as such, obsolete item and other found in store records.</p> <p>ii) Compare the purchase as per CENVAT documents with a receipt in the store records.</p> <p>iii) Compare the issue of the major inputs and find out whether corresponding productions have taken place in those dates. Link with machine log books also.</p> <p>iv) Verify whether any shortage found on physical verification as per store records.</p> <p>v) Verify whether any item written off due to obsolesce.</p> <p>vi) Verify whether any input cleared as such and whether proper duty is paid or not.</p>	
<b>2.</b>	<b>Job Card/Bill of Material (BOM)</b>	
	<p><u>Nature of Document:</u> This document shows the total quantity of material required for manufacturing product (e.g. a machine) or a batch of products (e.g. batch in Pharma industry). Based on this document material is drawn from stores.</p> <p><u>Nature of Verification:</u></p> <p>(i) Major inputs required for the production of an item can be identified and input output ratio can be worked out and can be verified with actual production to find out clandestine removal/irregular availment of CENVAT.</p> <p>(ii) Cost of production can be determined and the same can be checked with A.V. of captively consumed goods.</p> <p>(iii) Based on BOM, approximate amount of CENVAT credit available for a product may also be worked out.</p>	
<b>3.</b>	<b>Materials Receipt Note/Goods Receipt Note (GRN)/Inspection cum Receipt Report (ICRR)</b>	
	<p><u>Nature of Document :</u> The MRN/GRN is prepared for all goods received in the factory. It shows the details like actual quantity received, quantity as per challan/invoice, quantity short received. It is prepared by the Stores Department. The ICRR is prepared by the quality control department and it shows the quantity accepted, quantity rejected and the reasons for rejection. A number of times these reports may not be physically available as these are maintained in computer systems. But statements may be generated on the request of Auditors for cases where goods have been short received or rejected.</p> <p><u>Nature of Verification:</u></p> <p>(i) Check the cases of short receipt and rejected goods and verify whether CENVAT credit has been reversed.</p> <p>(ii) Verify in random cases, whether for CENVAT availed invoices, corresponding GRNs are available or not.</p>	
<b>4.</b>	<b>Material Return Note</b>	
	<p><u>Nature of Document:</u> This document is raised by various departments to return the material to stores or to suppliers.</p>	

	<p><u>Nature of Verification:</u></p> <p>(i) In case CENVAT availed materials are returned to supplier whether appropriate duty has been discharged.</p> <p>(ii) In case MRN is raised by shop floor for rejection of raw material, the CENVAT credit treatment may be examined.</p> <p>(iii) In case MRN is raised by shop floor for rejection of partially processed material, such material should be cleared as manufactured goods on payment of duty irrespective of whether CENVAT was availed on the inputs used in manufacture of partially processed goods or not.</p>
<b>5.</b>	<b>Material Requisition Note (MRN) and Material Issue Note (MIN)</b>
	<p><u>Nature of Document:</u></p> <p>MRN is used by various sections in the factory for requisition of material from stores department. In turn, stores department issue the material on MIN. The MRN &amp; MIN contain code no. of receiving sections, description of material and code no. of material issued, and quantity of material.</p> <p><u>Nature of verification:</u></p> <p>(i) The code no. of all sections should be verified to find out non-production departments, like Repair Departments, Estate Department, Staff Welfare Department Offices. Material issued to these sections may be verified and whether CENVAT credit has been reversed or not be ascertained.</p> <p>(ii) MIN may also be used for adjustment of shortages, stock verification discrepancies, stock issued as scrap, obsolete items etc. There may be separate code no. for such adjustments. CENVAT treatment on such goods may be verified.</p> <p>(iii) For inputs cleared as such for sale, inter unit transfer, warranty period supply, MIN may be prepared showing different codes. All such clearances may be examined to verify payment of excise duty.</p>
<b>6.</b>	<b>Bad Bin Register</b>
	Where the raw material or components are not in useful condition, they are transferred to Bad Bins. The Auditor should verify the concerned records seeking reversal of credit on such unusable inputs. These goods are also known as obsolete items.
<b>7.</b>	<b>Physical Stock Verification Statement</b>
	<p><u>Nature of document:</u></p> <p>The companies undertake periodic stock verification where book stock is compared with physical stock. The statement showing book stock, physical stock and variation is prepared on each such stock verification. Most of the companies undertake quarterly, half-yearly and annual stock verification.</p> <p><u>Nature of verification:</u></p> <p>(i) Stock verification statement should be examined to find out the cases of shortages or excesses. In case discrepancies are not explained, action may be taken either for demanding reversal of CENVAT credit or demanding duty. This statement may also be available in the Cost Audit Report.</p> <p>(ii) On the basis of such statement, stock adjustments are made in the financial records by passing a Journal Voucher. The said JV may also be examined for the adjustments carried out by the unit.</p>
<b>8.</b>	<b>Such contract Register / Job Work Register</b>
	<p><u>Nature of Document :</u></p> <p>This register indicates activity sub-contracted outside.</p> <p><u>Nature of Verification :</u></p> <p>(a) To study whether all materials sent outside for job work have been received back within the time stipulated.</p> <p>(b) In case the job worker discharges duty, then valuation of such goods should be examined as to inclusion of any freely supplied material in the value.</p> <p>(c) Receipt of scrap generated at job workers premises should be verified.</p>

### III. Records to be verified in Production department -

Sr.No.	Name of the Record/Document	Nature of the documents and checks to be done

<b>1.</b>	<b>Manufacturing process chart</b>
	<u>Types of Verification :-</u> i) Study the process chart to find out whether intermediate/by-product arises attracting Excise duty, specifically in case where final product is exempted. ii) It is useful in determination of classification and availment of exemption.
<b>2.</b>	<b>Machine Log Book</b>
	<u>Types of Verification :-</u> An important verification point in walk through of production process. Verify as to how log book are linked to production records. Compare the production details as per log book with production details available in other records.
<b>3.</b>	<b>Lab Test Reports</b>
	<u>Nature of Document:</u> This document is used to report testing of inputs and finished goods. <u>Nature of Verification:</u> (a) Test Report may be helpful in ascertaining correct classification. (b) In Chemical/Pharma industry, each lot/batch is tested. The Lab Test Report may be compared with production records to confirm accounting of correct quantity of production.
<b>4.</b>	<b>Weighment Slips</b>
	<u>Nature of verification:</u> Tax Auditor should compare the weighment slips with the quantity shown in the invoice on random basis. This will be more useful in cases where the commodity is charged to specific rate of duty.

#### **IV. Finance & Accounts related records -**

Sr.No.	Name of the Record/Document	Nature of the documents and checks to be done
<b>1.</b>	<b>Ledger</b>	<u>Nature of document:</u> Ledger is a book where transactions of same nature are grouped together in the form of an account. For example, all transactions relating to excise duty payment may be entered in Excise Duty Payment Account. Ledgers are of three types: 1. <u>Debtor's Ledger:</u> This contains accounts of all debtors (customers). All transactions made with a customer are entered in the individual account of each customer. Details of sales invoices and debit note issued to a customer and payment received from a customer are entered in the customer's individual account. <u>Types of verification:</u> (i) Ledger account of the major customers should be scrutinized. In the Customer's account it should be verified as to what are the documents used for recording the sales of the goods. These documents may be sales invoices or debit notes or JVs. If debit note and JVs are also found entered in the customer's account, such documents should be verified to find out the reasons for such recoveries from the customers and whether excise duty has been paid or not. (ii) If substantial amount of advances are recovered regularly, this may also be verified from customer's account. In such cases, there may be credit balance showing receipt of advance payment. 2. <u>Creditor's Ledger:</u> This Ledger contains accounts of all creditors like suppliers and service providers. Like in the case of Debtor's Ledger, in the case of supplier's account, the details like purchase invoice, debit note or JV may be available in a supplier's account. The debit note or JV might have been prepared for rejection of purchase material or for short receipt of purchase material. <u>Types of verification:</u> (i) If the customer's account shows details of debit note or JV, the reasons thereof may be inquired into and whether CENVAT credit has been reversed or not may be verified. 3. <u>General Ledger :</u> This Ledger contains all accounts of assets, liabilities, incomes and expenses. Scrutiny of

	<p>this ledger is very important to a Tax Auditor as the income and expenditure accounts have direct impact on availment of credit, valuation of finished goods and payment of excise duty. The General Ledger may contain 100-500 accounts depending upon the size of the company. Therefore, selection of account for scrutiny is an important task for an auditor. For this purpose, accounts should be selected from the Trial Balance which gives names of all the accounts maintained by a unit. Some of the general rules which may be kept in mind while selecting the accounts for scrutiny are given below :</p> <p>(i) Credit entries in raw material purchase account  (ii) Credit entries in expenses account.  (iii) Income accounts.  (iv) Unusual account.</p> <p><u>Types of verification:</u></p> <p>(i) All the important input purchase accounts may be verified in order to find out whether any rejection of raw material or short receipt of input have taken place and whether CENVAT credit has been reversed or not.  (ii) Raw material consumption account may also be verified to find out use of raw material for non production purposes and writing off obsolete material or cases of shortages noticed during physical stock verification.  (iii) Expenditure accounts where recovery of expenses is possible like Packing and Forwarding Expenses Account, Advertisement Expenses Account, Transportation/Freight Charges Account, Sales Expenses Account etc. may be scrutinized in order to find out any recoveries being made from the customer.  (iv) From the Trial Balance, the income accounts (these accounts will have credit balances) should be selected for scrutiny and the exact nature of such incomes accounts should be found out from the study of the documents mentioned in the relevant ledger accounts. Some of these accounts might have direct impact on the valuation of finished goods or it may also affect the Service Tax liability.  (v) Unusual accounts as noticed during the study of Trial Balance may also be scrutinized as to find out the exact nature of such accounts.  (vi) The tax auditor may verify the Plant and Machinery Account to find out the additions made during the year and the disposal of plant and machinery made during the year. In the case of disposal, whether the appropriate amount of excise duty has been paid or not may be inquired into by the tax auditor.  (vii) As far as verification of claiming of depreciation on capital goods is concerned, the verification should be made from the Income tax return filed by the assessee or from the Income Tax Audit Report (3 CD report).</p>
<b>2.</b>	<b>Debit Notes</b>
	<p><u>Nature of Documents:</u></p> <p>Debit Note is a statement informing the other party that his account has been debited for the reasons given in the Debit Note. The financial impact of a Debit Note is that the addressee is liable to pay the amount mentioned in the said statement to the person who has issued the Debit Note. In other words, the person issuing the Debit Note is eligible to receive the amount from the addressee. Debit Note may be issued for various reasons like return/short receipt of goods purchased, increase in the rate/quantity of the goods sold, recovery of packing charges, warranty charges, after-sales service charges etc. from a customer. The job worker may raise a Debit Note for value of own material used by him. The principal manufacturer may issue a Debit Note to a job worker for the value of scrap generated during job work process and retained by a job worker.</p> <p><u>Types of Verification:</u></p> <p>(i) Since the number of Debit Notes issued by a unit are generally not very large, therefore all the Debit Notes must be studied by a Tax Auditor.  (ii) The Debit Note itself shows the reason for its issue and most of the time the supporting documents are enclosed with the Debit Note. Therefore such documents should be studied in detail.  (iii) Cases of additional recoveries from the customer or rejection and short receipt of inputs are generally noticed in the Debit Note.</p>
<b>3.</b>	<b>Credit Note</b>

	Credit Note is a statement informing the other person that his account has been credited for the reasons mentioned in the Credit Note. The financial impact of issue of a Credit Note is that the addressee is eligible to receive the amount of credit note. Credit Note may be issued for the reasons like return of goods by the customer (sales return).
<b>4.</b>	<b>Journal Voucher (JV)</b>
	<p><u>Nature of Document :-</u> JVs are prepared for all adjustments which may not involve direct financial dealings. For example, accounting of raw materials consumed in a particular month, providing of depreciation or making provision for payment of royalty.</p> <p><u>Types of Verification:</u></p> <p>(i) As most of the adjustments are made at the end of the half year and at the end of the year, therefore, all the JVs for the half year ending month or year ending month (September and March in the case of units following April to March as accounting year) must be verified.</p> <p>(ii) The narration given in the JVs should be studied in order to find out the exact nature of transaction being entered in the books of accounts.</p> <p>(iii) Study of JVs may reveal accounting system followed by a unit. For example, a company following the system of cost centres may account for consumption of raw material for each centre on a monthly basis. In such cases, the raw material consumption by non-production department like construction department or maintenance department may be found out from the study of JVs which is passed at the end of each month. The said JVs may also be useful in quantifying the amount of wrong availment of CENVAT credit for entire year as only one JV is required to be examined for each month.</p> <p>(iv) Adjustment entries passed for transferring the balance of one account to another related account may also be found out from the study of JVs. For example, Recovery of Packing and Forwarding Charges Account may be transferred to Packing and Forwarding Expenses account and for this purpose a JV is passed.</p> <p>(v) Some times additional consideration may be collected from customer by issuing a simple letter to the customer (without issuing any debit note or sales invoice). In such cases these transactions are accounted for through JVs.</p> <p>(vi) Similarly, for quantities short received or rejected quantity also the supplier may be compensated by way of intimation and the transaction is recorded through a JV.</p>
<b>5.</b>	<b>Internal Audit Report</b>
	<p><u>Nature of Document :-</u> This is the report submitted by internal auditors appointed by the company which looks into day-to-day activities and the systems followed by the unit. In the bigger company, it is a mandatory also.</p> <p><u>Types of verification :-</u></p> <p>i) Call for sample audit reports and examine with respect to observations on loss of any input, excess availment of CENVAT credit, collection of additional consideration</p> <p>ii) Verify whether any system changes have been advised and followed by the assessee. In that case for the past period any implication on Excise payment due to a weak internal control needs to be examined.</p> <p>iii) Internal Auditor also reports about stock verification and in case of shortages the CENVAT availment needs to be examined.</p>
<b>6.</b>	<b>Purchase Book</b>
	<p><u>Nature of Document:</u> This shows credit purchase of raw materials and other inputs.</p> <p><u>Nature of Verification:</u></p> <p>(a) To fine out major suppliers</p> <p>(b) It may also show excise duty separately. In that case excise duty recorded in the purchase register may be reconciled with credit availed as per CENVAT return.</p>
<b>7.</b>	<b>Purchase Return Book</b>
	<u>Nature of Document:</u>

	<p>This book gives details of goods returned to suppliers.</p> <p><u>Nature of Verification:</u> Verify whether CENVAT credit has been expunged / such goods cleared on payment of duty.</p>
<b>8.</b>	<b>Tax Audit Report</b>
	<p><u>Nature of document:</u> As per the provisions of the Income Tax Act, all assessees having a turnover of above Rs.40 lakhs are required to have their records audited by a Chartered Accountant and the Audit Report known as Tax Audit Report is given by Chartered Accountant. The said report is given in the form 3 CD and it is required to be enclosed along with the Income tax return filed by the assessee.</p> <p><u>Nature of verification:</u> Depreciation statement as per the provisions of Income Tax Act enclosed with Tax Audit Report may be verified to confirm the correctness of availment of CENVAT credit on capital goods.</p> <p>(i) As per Clause 27(a) of the said report, amount of CENVAT credit availed or utilized during the year and its treatment in the Profit &amp; Loss Account and treatment of outstanding CENVAT credit in the account is required to be given. Tax Auditor may compare the said information with the information as per excise records.</p> <p>(ii) As per clause 35(a) to 35(c), details like opening stock, purchases, sales and closing stock of trading activities and in the case of manufacturing unit quantitative details or principal items of raw materials, finished goods and by-products showing opening stock, purchases, consumption, sales, closing stock, yield of finished goods, percentage of yield and shortages/excesses is required to be given. This information may be used by Tax Auditor to verify the input-output ratio. The reasons for excessive shortage/ excesses and whether duty has been paid on the sale of raw material as reported in the tax audit report may be inquired into.</p>
<b>9.</b>	<b>Income Tax Returns</b>
	<p><u>Nature of document:</u> This return is filed by the assessee with the Income Tax department showing the calculation of income tax on the profit / loss earned by them. The return is filed in the prescribed format and alongwith the return a statement namely computation of income is enclosed.</p> <p><u>Nature of verification:</u> In the computation of income statement, a depreciation statement is also enclosed. The said depreciation statement shows depreciation claimed on various assets as per the provisions of Income Tax Act. The auditors should verify whether the value considered for claiming depreciation is inclusive of CENVAT credit availed by the assessee or not.</p>
<b>10.</b>	<b>Sale Tax/VAT returns</b>
	<p><u>Types of verification:-</u></p> <p>i) Reconcile the total sales as per Central Excise returns, Sale Tax/VAT returns and financial records.</p> <p>ii) Verify whether any exemption has been claimed from payment of Excise duty and how the same item is being claimed for payment of Sale Tax / VAT.</p> <p>iii) Verify the credit availment on purchases as per VAT returns and compare with CENVAT Credit as per Excise records.</p> <p>iv) Verify the abatements claim in Sale Tax/VAT return and its implication on Excise payment, if any.</p> <p>v) Verify works contract tax payment as per Sale Tax/VAT return and its implication for payment of Excise duty/Service Tax.</p>
<b>11.</b>	<b>Fixed Assets Register</b>
	<p><u>Nature of Document :</u> This register contains the details of purchase invoice, date of installation, place of installation, addition/deletion to the asset and depreciation charged.</p> <p><u>Nature of Verification:</u> (a) Deletion of Assets – Payment of duty on clearance needs to be verified.</p>

	(b) Location – This will help the auditor to know the place of use so that the eligibility of credit can be determined e.g. in case UPS is used in office then such CENVAT credit cannot be allowed. (c) For physical verification, the location may be found out from this register.
<b>12.</b>	<b>Monthly stock statement to bank.</b>
	<u>Types of verification :-</u> Companies are required to file a stock statement every month to the banks when the stock is hypothecated for loans. In such cases, verify the stock position as per statement given to the bank and the stock position as per company's private and financial records.

<b>B</b>	<b>Units availing Benefits of various Export Promotion Schemes:</b>
	In case of the units availing the benefits of various export promotion schemes require special attention. Most of these schemes are available to the manufacturer exporters. Further, the quantum of export benefits depends on fulfilment of prescribed conditions and the value of goods exported. Sales to DTA also constitute a sensitive area. The auditor should scrutinise the records and returns pertaining to these schemes for verification of fulfilment of such conditions. The auditor should go through the provisions of relevant FTP, Foreign Trade Procedures and Customs/ Central Excise notifications issued thereon. The auditor should also verify the actual receipt and utilization of capital goods as well as raw material, imported or procured indigenously at concessional rates of duty under these schemes. In this regard the auditor may please go through the relevant check lists and documents required to be verified in case of each export promotion scheme for having an over view.