

Seminar for CA Students on GST Audit (FORM GSTR-9C)

Raj Khona
B.COM, C.A.

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Agenda for Discussion

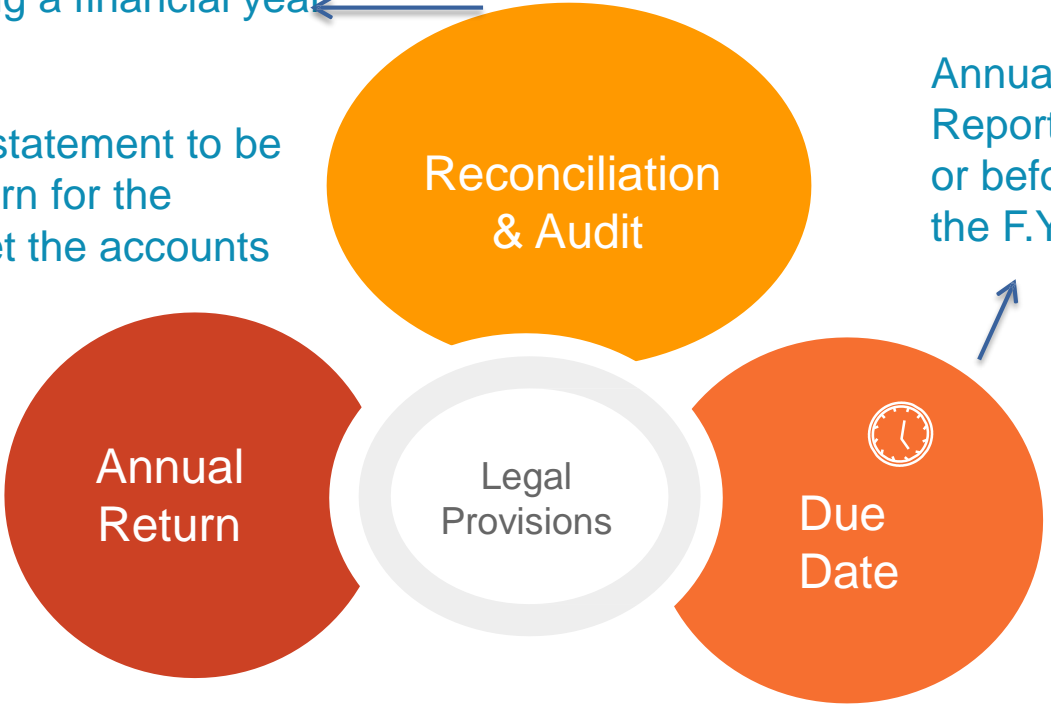
- Legal Provisions related to GST Audit and Maintenance of BOA's
- Reconciliation Statement – Key Points
- Clause by Clause Analysis
- Audit Approach and Checklist

Legal Provisions and requirements


Section 35(5): Requirement to get accounts and other records audited by a CA/CWA if turnover during a financial year exceeds prescribed limit.

Section 44(2): A reconciliation statement to be furnished along with annual return for the registered person required to get the accounts audited.

Section 44(1): A registered person is required to furnish an annual return.



Annual Return and Audit Report to be furnished on or before 30.11.2019 for the F.Y. 2017-18.



GST Audit & Reconciliation Statement: FORM GSTR 9C

Broad Structure and Connected Issues

FORMS

- Annual Returns
 - FORM GSTR-9 – Annual Return for normal taxpayers
 - FORM GSTR-9A – Annual Return for taxpayers under composition scheme.
- GSTR-9C divided into two parts
 - Part A : Reconciliation Statement
 - Part B : Certification

Threshold limit – whether turnover to be considered at PAN level or GSTIN level?

- **35. Accounts and other records**

(5) Every registered person whose turnover during a financial year exceeds the prescribed limit shall get his accounts audited by a chartered accountant or a cost accountant and shall submit a copy of the audited annual accounts, the reconciliation statement under sub-section (2) of section 44 and such other documents in such form and manner as may be prescribed.

- **RULE 80. Annual return**

(3) Every registered person whose aggregate turnover during a financial year exceeds two crore rupees shall get his accounts audited as specified under sub-section (5) of section 35 and he shall furnish a copy of audited annual accounts and a reconciliation statement, duly certified, in FORM GSTR-9C, electronically through the common portal either directly or through a Facilitation Centre notified by the Commissioner.

“Turnover” vs. “Aggregate Turnover”

- 2(6) “**aggregate turnover**” means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-State supplies of persons having the same Permanent Account Number, to be computed on all India basis but excludes central tax, State tax, Union territory tax, integrated tax and cess.
- “**Turnover**” is not defined under the GST Law
- 2(112) “**turnover in State**” or “**turnover in Union territory**” means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis) and exempt supplies made within a State or Union territory by a taxable person, exports of goods or services or both and inter-State supplies of goods or services or both made from the State or Union territory by the said taxable person but excludes central tax, State tax, Union territory tax, integrated tax and cess.

Press Release dated 03.07.19

i) Turnover for eligibility of filing of reconciliation statement: It may be noted that the aggregate turnover i.e. the turnover of all the registrations having the same Permanent Account Number is to be used for determining the requirement of filing of reconciliation statement. Therefore, if there are two registrations in two different States on the same PAN, say State A (with turnover of Rs. 1.2 Crore) and State B (with turnover of Rs. 1 Crore) they are both required to file reconciliation statements individually for their registrations since their aggregate turnover is greater than Rs. 2 Crore.

- Whether rule can override the section?
- Whether press release has any legality?
- Whether GST Audit applicable to persons who were required to obtain GST registration but did not obtain? (Instructions says file all returns before filing GSTR-9 and 9C)

Case Studies

- Taxpayer A having total turnover of Rs 100 crore is registered in Tamil Nadu and Kerala. The turnover in the state of Tamil Nadu is Rs 50 crores and in Kerala is 50 crores. Whether GST Audit required is done in both states?
- Taxpayer B having total turnover of Rs 100 crore is registered in Tamil Nadu and Kerala. The turnover in the state of Tamil Nadu is Rs 1.5 crores and in Kerala is 98.5 crores. Whether GST Audit required is done in Tamil Nadu?
- Taxpayer C having total turnover of Rs 3 crore is registered in Tamil Nadu and Kerala. The turnover in the state of Tamil Nadu is Rs 1.5 crores and in Kerala is 1.5 crores. Whether GST Audit required is done in both states?
- M/s. A Ltd. having total turnover of Rs. 100 crores has operations only in Gujarat and is making only exempted supplies. Whether GST Audit required to be done?

Case Studies

- M/s. A Ltd. having total turnover of Rs. 101 crore is registered in Gujarat, Tamil Nadu, Kerala and Maharashtra.
 - Gujarat – Selling only exempted products – Turnover = Rs. 100 crores
 - Tamil Nadu – Selling only taxable products – Turnover = Rs. 1 crore
 - Kerala – Selling both exempted and taxable – Turnover = NIL
 - Maharashtra – ISD – Turnover = NIL

a) In which all states M/s. A Ltd. has to get its books of accounts audited under GST?

b) Whether Audit of ISD is required?
- M/s. A Ltd. having total receipts of Rs. 3 crore and is registered in Gujarat
 - Renting of land – Turnover = 1 crore
 - Sale of Land – Profit = 2 crore

a) Whether GST Audit required to be done?

What should be included in computing turnover/threshold limit for GST Audit?

- Taxable outward supplies where consideration is involved
- Supply without consideration (Taxable branch transfer of goods, cross charging of services)
- Exempt supplies (Interest on FD)
- Zero-rated supplies (Exports and SEZ supplies)
- Advances received from customers (unadjusted at the end of year)
- Sale of Movable assets
- Renting of Land
- Sale of Land
- Profit on sale of securities
- Inward supplies on which tax is payable by a person on reverse charge basis
- Outward supplies on which tax is payable by recipient on reverse charge basis
- Central tax, State tax, Union territory tax, Integrated tax and cess
- Dividend on shares

What is the Period for calculating threshold limit?

- 01.04.2017 to 31.03.2018 or 01.07.2017 to 31.03.2018?
- **Press Release dated 03.07.2019**
 - i) Turnover for eligibility of filing of reconciliation statement: It may be noted that the aggregate turnover i.e. the turnover of all the registrations having the same Permanent Account Number is to be used for determining the requirement of filing of reconciliation statement. **The aggregate turnover for this purpose shall be reckoned for the period July 2017 to March 2018.**

What is the scope of GST Audit and Role of GST Auditor?

- **Definition of Audit under CGST Act**

2(13) “audit” means the examination of records, returns and other documents maintained or furnished by the registered person under this Act or the rules made thereunder or under any other law for the time being in force to verify the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess his compliance with the provisions of this Act or the rules made thereunder.

- **Types of Audit prescribed under CGST Act**

- Audit by CA/Cost Accountant - Section 35(5)
- Audit by Tax Authorities – Section 65
- Special Audit – Section 66

What GST Auditor must certify?

- **Auditor must examine**
 - Balance Sheet
 - Profit and Loss Account / Income and Expenditure Account
 - Cash Flow Statement (if applicable)
- **Auditor must report / certify that**
 - Books of accounts, records and documents as required under GST Law are properly maintained or not
 - Particulars furnished in Form GSTR-9C are true and correct

- Whether state-wise Balance Sheet and P&L required?

GST Auditor's Responsibility

Instruction to Part V (Point No. 7)

- Part V consists of the auditor's recommendation on the additional liability to be discharged by the taxpayer due to non-reconciliation of turnover or non-reconciliation of input tax credit.
- The auditor shall also recommend if there is any other amount to be paid for supplies not included in the Annual Return.
- Any refund which has been erroneously taken and shall be paid back to the Government shall also be declared in this table.
- Lastly, any other outstanding demands which is recommended to be settled by the auditor shall be declared in this Table.

Role of GST Auditor

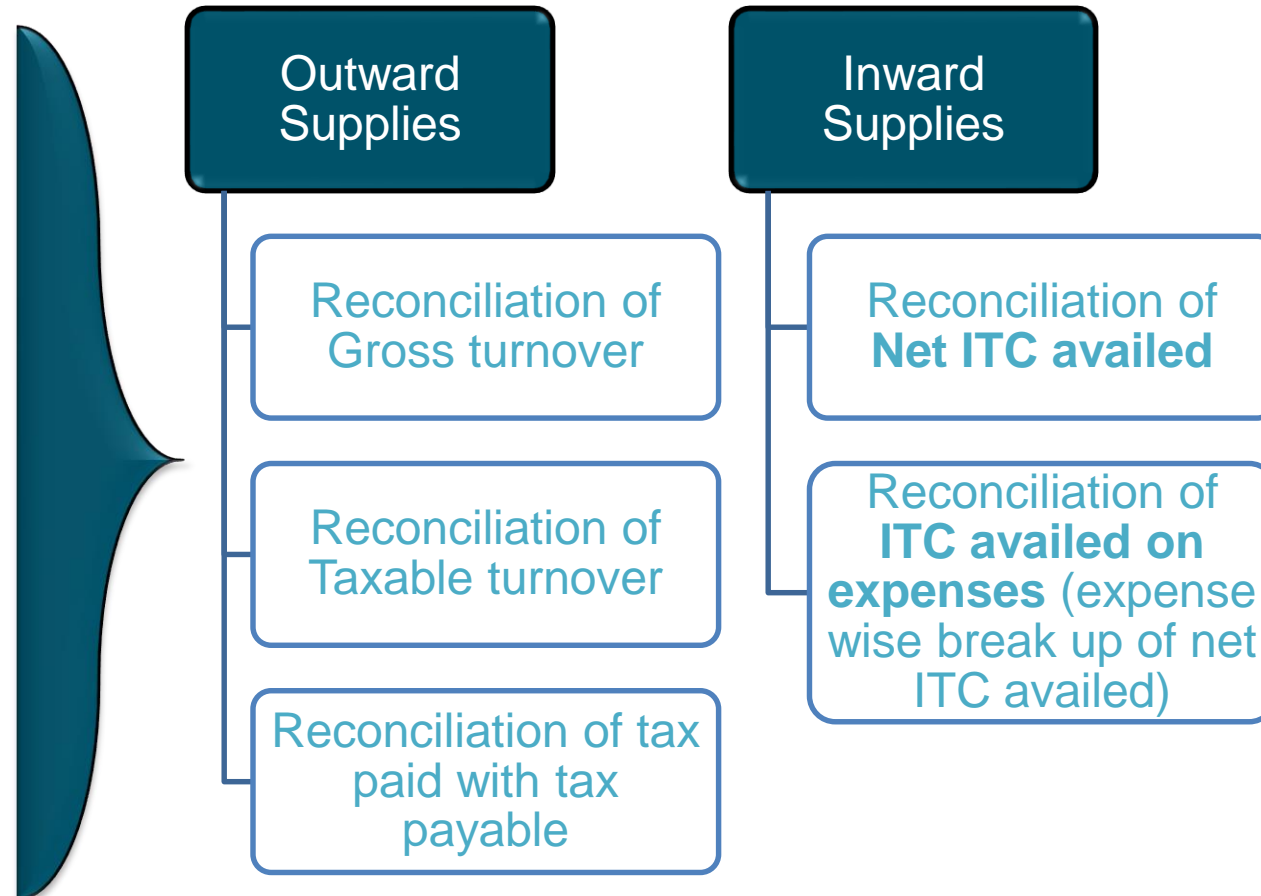
Press Release dated 03.07.19

- h) Role of chartered accountant or a cost accountant in certifying reconciliation statement -**
There are apprehensions that the chartered accountant or cost accountant may go beyond the books of account in their recommendations under FORM GSTR-9C. The GST Act is clear in this regard. With respect to the reconciliation statement, their role is limited to reconciling the values declared in annual return (FORM GSTR-9) with the audited annual accounts of the taxpayer.

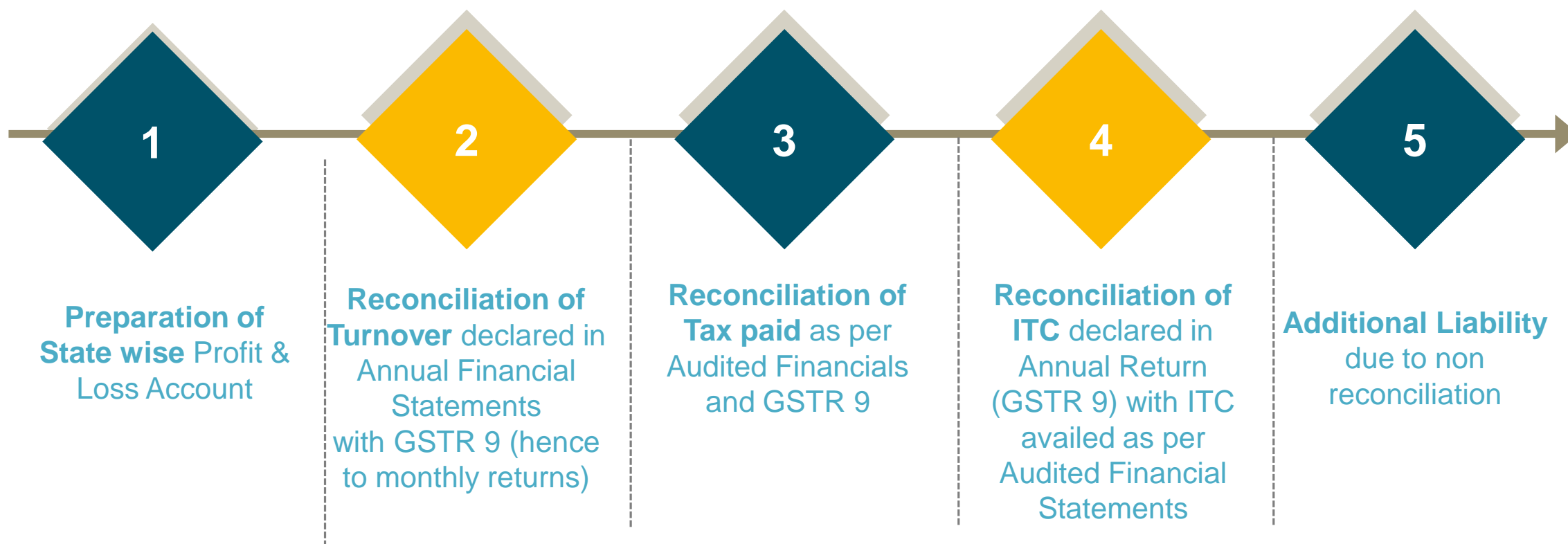
- Whether Press release has any legality?
- ICAI Regulations and Auditing Standards

Type of Reconciliations in Form GSTR-9C

Type of reconciliations involved in Form GSTR-9C, between the audited financials/ books of accounts of the specific GSTIN and the Annual return in Form GSTR-9



GSTR 9C- Step by Step Process



Few Reasons for Difference in Turnover

Transaction Description	Financial Statements	GST Returns
Revenue recognition as per Ind AS/ AS E.g. Revenue recognition as per percentage of Completion method	✓	✗
Supplies without consideration as per Schedule I (Deemed Supply) E.g. Free Samples, Cross Charge, etc.	✗	✓
Commercial Credit Note	✓	✗
Supplies with Consideration E.g. Employees recoveries, Liquidated Damages, etc.	✗	✓
Unadjusted Advances at the end of year (for services)	✗	✓
Sale of capital goods	✗	✓

Clause by Clause Analysis of FORM GSTR-9C



Form GSTR-9C - Part - A (Part I)

“FORM GSTR-9C

See rule 80(3)

PART – A - Reconciliation Statement

Pt. I	Basic Details	
1	Financial Year	
2	GSTIN	
3A	Legal Name	< Auto>
3B	Trade Name (if any)	<Auto>
4	Are you liable to audit under any Act?	<<Please specify>>

Form GSTR-9C - Part - A (Part II)

Pt. II	Reconciliation of turnover declared in audited Annual Financial Statement with turnover declared in Annual Return (GSTR9)		
5	Reconciliation of Gross Turnover		
A	Turnover (including exports) as per audited financial statements for the State / UT (For multi-GSTIN units under same PAN the turnover shall be derived from the audited Annual Financial Statement)		
B	Unbilled revenue at the beginning of Financial Year	(+)	
C	Unadjusted advances at the end of the Financial Year	(+)	
D	Deemed Supply under Schedule I	(+)	
E	Credit Notes issued after the end of the financial year but reflected in the annual return	(-)	
F	Trade Discounts accounted for in the audited Annual Financial Statement but are not permissible under GST	(+)	

Form GSTR-9C - Part - A (Part II)

G	Turnover from April 2017 to June 2017	(-)	
H	Unbilled revenue at the end of Financial Year	(-)	
I	Unadjusted Advances at the beginning of the Financial Year	(-)	
J	Credit notes accounted for in the audited Annual Financial Statement but are not permissible under GST	(+)	
K	Adjustments on account of supply of goods by SEZ units to DTA Units	(-)	
L	Turnover for the period under composition scheme	(-)	

Form GSTR-9C - Part - A (Part II)

M	Adjustments in turnover under section 15 and rules thereunder	(+/-)	
N	Adjustments in turnover due to foreign exchange fluctuations	(+/-)	
O	Adjustments in turnover due to reasons not listed above	(+/-)	
P	Annual turnover after adjustments as above		<Auto>
Q	Turnover as declared in Annual Return (GSTR9)		
R	Un-Reconciled turnover (Q - P)		AT1



Adjustment to be made here only when forex fluctuation included in computing turnover in Table 5A

Form GSTR-9C - Part - A (Part II)

6	Reasons for Un - Reconciled difference in Annual Gross Turnover	
A	Reason 1	<<Text>>
B	Reason 2	<<Text>>
C	Reason 3	<<Text>>

Form GSTR-9C - Part - A (Part II)

7	Reconciliation of Taxable Turnover	
A	Annual turnover after adjustments (from 5P above)	<Auto >
B	Value of Exempted, Nil Rated, Non-GST supplies, No-Supply turnover	
C	Zero rated supplies without payment of tax	
D	Supplies on which tax is to be paid by the recipient on reverse charge basis	
E	Taxable turnover as per adjustments above (A-B-C-D)	<Auto>
F	Taxable turnover as per liability declared in Annual Return (GSTR9)	
G	Unreconciled taxable turnover (F-E)	AT 2

Form GSTR-9C - Part - A (Part II)

8	Reasons for Un - Reconciled difference in taxable turnover	
A	Reason 1	<<Text>>
B	Reason 2	<<Text>>
C	Reason 3	<<Text>>

Form GSTR-9C - Part - A (Part III)

Pt. III	Reconciliation of tax paid					
9	Reconciliation of rate wise liability and amount payable thereon					
			Tax payable			
	Description	Taxable Value	Central tax	State tax / UT tax	Integrated Tax	Cess, if applicable
	1	2	3	4	5	6
A	5%					
B	5% (RC)					
C	12%					
D	12% (RC)					
E	18%					
F	18% (RC)					
G	28%					
H	28% (RC)					
I	3%					
J	0.25%					
K	0.10%					
L	Interest					
M	Late Fee					
N	Penalty					
O	Others					
P	Total amount to be paid as per tables above		<Auto>	<Auto>	<Auto>	<Auto>
Q	Total amount paid as declared in Annual Return (GSTR 9)					
R	Un-reconciled payment of amount				PT 1	

Form GSTR-9C - Part - A (Part III)

10	Reasons for un-reconciled payment of amount					
A	Reason 1					<<Text>>
B	Reason 2					<<Text>>
C	Reason 3					<<Text>>
11	Additional amount payable but not paid (due to reasons specified under Tables 6,8 and 10 above)					
			To be paid through Cash			
	Description	Taxable Value	Central tax	State tax / UT tax	Integrated tax	Cess, if applicable
	1	2	3	4	5	6
	5%					
	12%					
	18%					
	28%					
	3%					
	0.25%					
	0.10%					
	Interest					
	Late Fee					
	Penalty					
	Others (please specify)					

*No column for arrears of Tax payable under RCM

Form GSTR-9C - Part - A (Part IV)

Pt.	Reconciliation of Input Tax Credit (ITC)	
IV		
12	Reconciliation of Net Input Tax Credit (ITC)	
A	ITC availed as per audited Annual Financial Statement for the State/ UT (For multi-GSTIN units under same PAN this should be derived from books of accounts)	
B	ITC booked in earlier Financial Years claimed in current Financial Year	(+)
C	ITC booked in current Financial Year to be claimed in subsequent Financial Years	(-)
D	ITC availed as per audited financial statements or books of account	<Auto>
E	ITC claimed in Annual Return (GSTR9)	
F	Un-reconciled ITC	ITC 1

- ITC availed after reversal for the specific GSTIN as per the books.
- Even in case where the books of accounts are maintained PAN India basis, ITC has to be identified on GSTIN basis.

- ITC booked in FY 16-17 financials but ITC claimed in FY 17-18 in the GST returns

- ITC booked in FY 17-18 financials but ITC to be claimed in FY 18-19 in the GST returns.

Form GSTR-9C - Part - A (Part IV)

13	Reasons for un-reconciled difference in ITC	
A	Reason 1	<<Text>>
B	Reason 2	<<Text>>
C	Reason 3	<<Text>>

Form GSTR-9C - Part - A (Part IV)

14	Reconciliation of ITC declared in Annual Return (GSTR9) with ITC availed on expenses as per audited Annual Financial Statement or books of account			
	Description	Value	Amount of Total ITC	Amount of eligible ITC availed
	1	2	3	4
A	Purchases			
B	Freight / Carriage			
C	Power and Fuel			
D	Imported goods (Including received from SEZs)			
E	Rent and Insurance			
F	Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples			
G	Royalties			
H	Employees' Cost (Salaries, wages, Bonus etc.)			

Form GSTR-9C - Part - A (Part IV)

14 Reconciliation of ITC declared in Annual Return (GSTR9) with ITC availed on expenses as per audited Annual Financial Statement or books of account				
	Description	Value	Amount of Total ITC	Amount of eligible ITC availed
	1	2	3	4
I	Conveyance charges			
J	Bank Charges			
K	Entertainment charges			
L	Stationery Expenses (including postage etc.)			
M	Repair and Maintenance			
N	Other Miscellaneous expenses			
O	Capital goods			
P	Any other expense 1			
Q	Any other expense 2			
R	Total amount of eligible ITC availed			<<Auto>>
S	ITC claimed in Annual Return (GSTR9)			
T	Un-reconciled ITC			ITC 2

Form GSTR-9C - Part - A (Part IV)

15	<i>Reasons for un - reconciled difference in ITC</i>	
A	Reason 1	<<Text>>
B	Reason 2	<<Text>>
C	Reason 3	<<Text>>

Form GSTR-9C - Part - A (Part IV)

16	Tax payable on un-reconciled difference in ITC (due to reasons specified in 13 and 15 above)	
	Description	Amount Payable
	Central Tax	
	State/UT Tax	
	Integrated Tax	
	Cess	
	Interest	
	Penalty	

Form GSTR-9C - Part - A (Part V)

Pt. V	Auditor's recommendation on additional Liability due to non-reconciliation					
	To be paid through Cash					
Description	Value	Central tax	State tax / UT tax	Integrated tax	Cess, if applicable	
1	2	3	4	5	6	
5%						
12%						
18%						
28%						
3%						
0.25%						
0.10%						
Input Tax Credit						
Interest						
Late Fee						
Penalty						
Any other amount paid for supplies not included in Annual Return (GSTR 9)						
Erroneous refund to be paid back						
Outstanding demands to be settled						
Other (Pl. specify)						

Form GSTR-9C - Part - A – Verification

Verification:

I hereby solemnly affirm and declare that the information given herein above is true and correct to the best of my knowledge and belief and nothing has been concealed there from.

******(Signature and stamp/Seal of the Auditor)

Place:

Name of the signatory

Membership No.....

Date:

Full address

Audit Approach and Checklist



Audit Approach

- Understanding client business
- Break down of financials at GSTIN level
- Evolving law and contradictory AAR Rulings
- Audit Program – Checklist, Documentation, MRL (Entity level vs. state level data)
- Review of position taken while return and course correction.

Checklist of Documents

- GST Registration Certificates
- List of Products and services (with HSN codes)
- Annual Report – Audited financials and other documents
- Tax Audit Report/ Transfer Pricing Report
- GST Transition and Implementation Report
- Gist of Litigations / Assessment Orders/ Audit Letters (Past/Current)
- Work-flow for GST Compliances
- Copy of all GST returns filed during July 2017 to March 2018

Checklist of Documents

- Details of Other Incomes, Sale of Fixed Assets, Scrap sales etc.
- Sample Documents – Invoices, Lorry Receipt, Shipping Bills, Bill of Entry, LUT, FIRC, Customer POs, Stock registers, Self Invoices etc.
- Key Procurement and Sales Contracts - Check the Tax Clauses
- Creditors Ageing Report – Compliance with section 16(2)(b) – second proviso (Payment within 180 days from date of invoice)
- State-wise profit and loss account
- Comparison of dates when the GST returns are filed with due date for filing GST returns
- Electronic Credit and Cash Ledger – downloaded from GST portal

Critical Areas to be verified

- GST is paid under reverse charge on services not specified u/s 9(3).
- ITC in cases where payment is not made to supplier within 180 days from the date of invoice is not reversed.
- Non-reversal of ITC availed on supplies specifically blocked u/s 17(5).
- ITC is availed when the same is restricted by rate notification.
- ITC is availed merely on receipt of invoice without actual receipt of goods/services.
- Non-reversal of proportionate ITC in respect of exempted supplies, non-business purpose use
- Non-reversal of ITC in respect of goods lost, stolen, destroyed, written off or distributed as gifts/free samples.

Critical Areas to be verified

- Identifying tax implications on transactions beyond books such as like
 - _ Cross charge
 - _ Supplies between related parties like corporate guarantee / common building
- Free Supplies
- Verification of existing Classification for each and every transaction
 - _ Correctness of rate of tax
 - _ Availability of exemption Notification
 - _ Whether transaction is single supply / composite supply / mixed supply
- Verifying implications on transaction with employees
 - _ Provision of various facilities and perquisite provides
 - _ Deductions from Salary
 - _ Welfare schemes

Critical Areas to be verified

- Verification of Nature of Supply of every business transaction
 - IGST vs CGST/SGST
 - Correctness of Place of Supply
 - B2B to B2C and vice versa
- Verifying tax implication on Cross Border Transactions
 - Transaction b/w various offices (HO / BO / LO)
- Verification of entire Input Tax Credit mechanism
 - Eligible vs Non Eligible Credit
 - Conditions of Credit
 - Compliance of Rule 42/43 mechanism
 - Retention Money / Deductions / Quality issues / Shortages etc

Critical Areas to be verified

- Verification of documentation required to be maintained for GST like tax invoice, bill of supply, debit note / credit note, payment voucher, advance voucher, self-invoice etc., and to verify whether all the substantive and procedural requirements of GST Laws are being complied with or not.
- Verification of Anti Profiteering Compliance
- Verifications of Key procurement and sales contracts
- Checking applications like LOU, refund applications etc.
- Verification of Transitional Credit availed in Tran-1 Form and Tran-2 Form as may be applicable.

Presentation by
CA Raj Khona
Associate Director

Khimji Kunverji & Co. LLP
Chartered Accountants

M: +91 7208331470
E: raj@kkc.in

THANK YOU