

**Critical Issues in
Accounting and Records
GST Audit Perspective**

National Conclave on GST
WIRC OF ICAI

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Audit Background

What is Audit

- Section 2(13): “Audit” means :
 - examination of
 - records,
 - returns and
 - other documents maintained or
 - furnished by the taxable person
 - under this Act or rules made there under or under any other law for the time being in force
 - to verify, inter alia, 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 rules made there under

Need for Audit

- From Govt /Dept perspective
 - Assured compliance by tax payer's
 - Timely recovery of tax due
 - Flow of credit from tax payer to receiver
- From Assessee's perspective
 - Timely audit avoids future penalties and interest
 - Correction in time
 - Avoid cost for tax payer by recover proper tax from customers

GSTR 9C

Reconciliation Statement + Audit Report

Form 9C

Parts

Part A :
Reconciliation
Statement

Part B : Certification

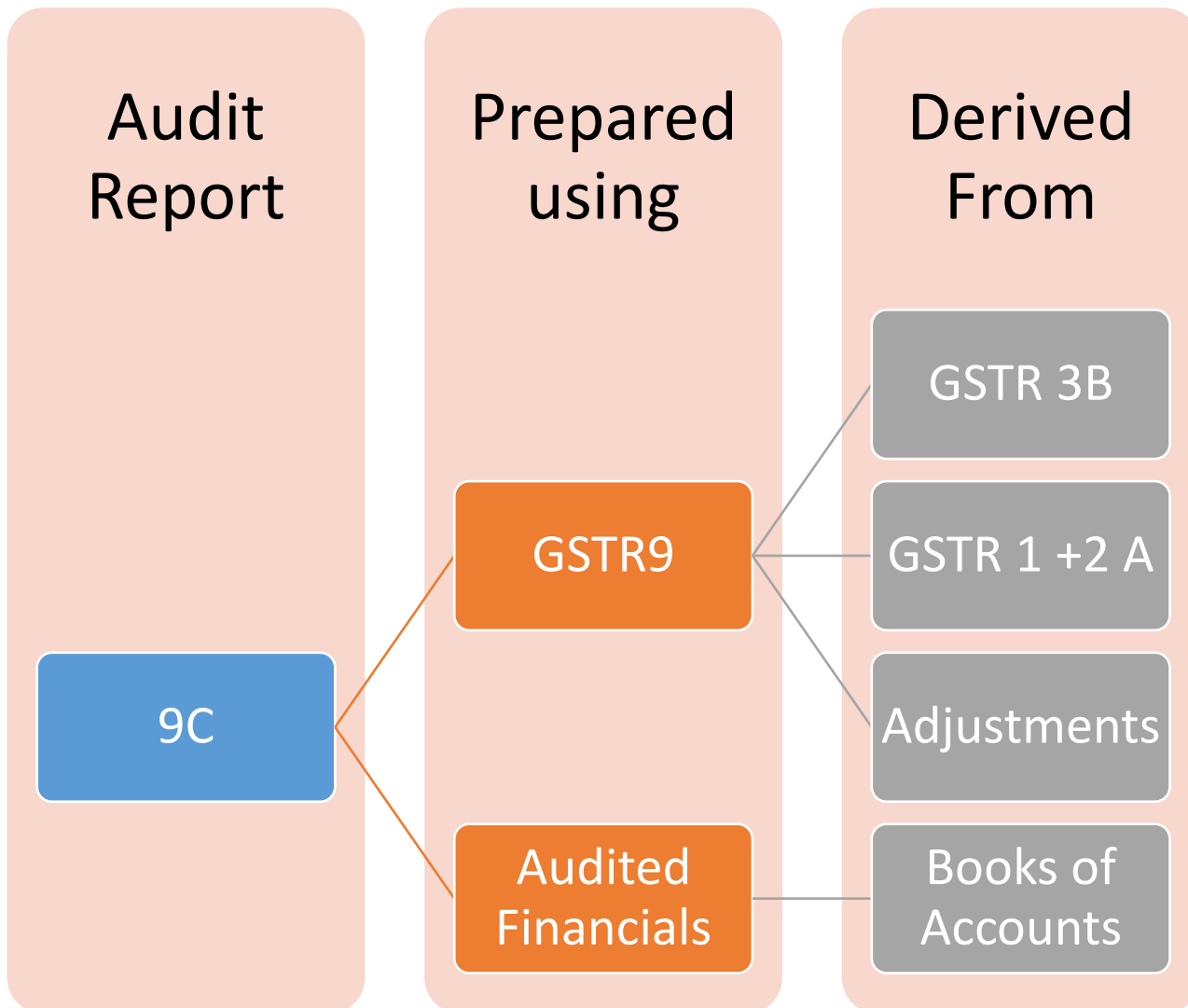
Reconciliation with
Returns

Recommendation
on Additional
Liability

B1 : Financial
Auditor and GST
Auditor is Same

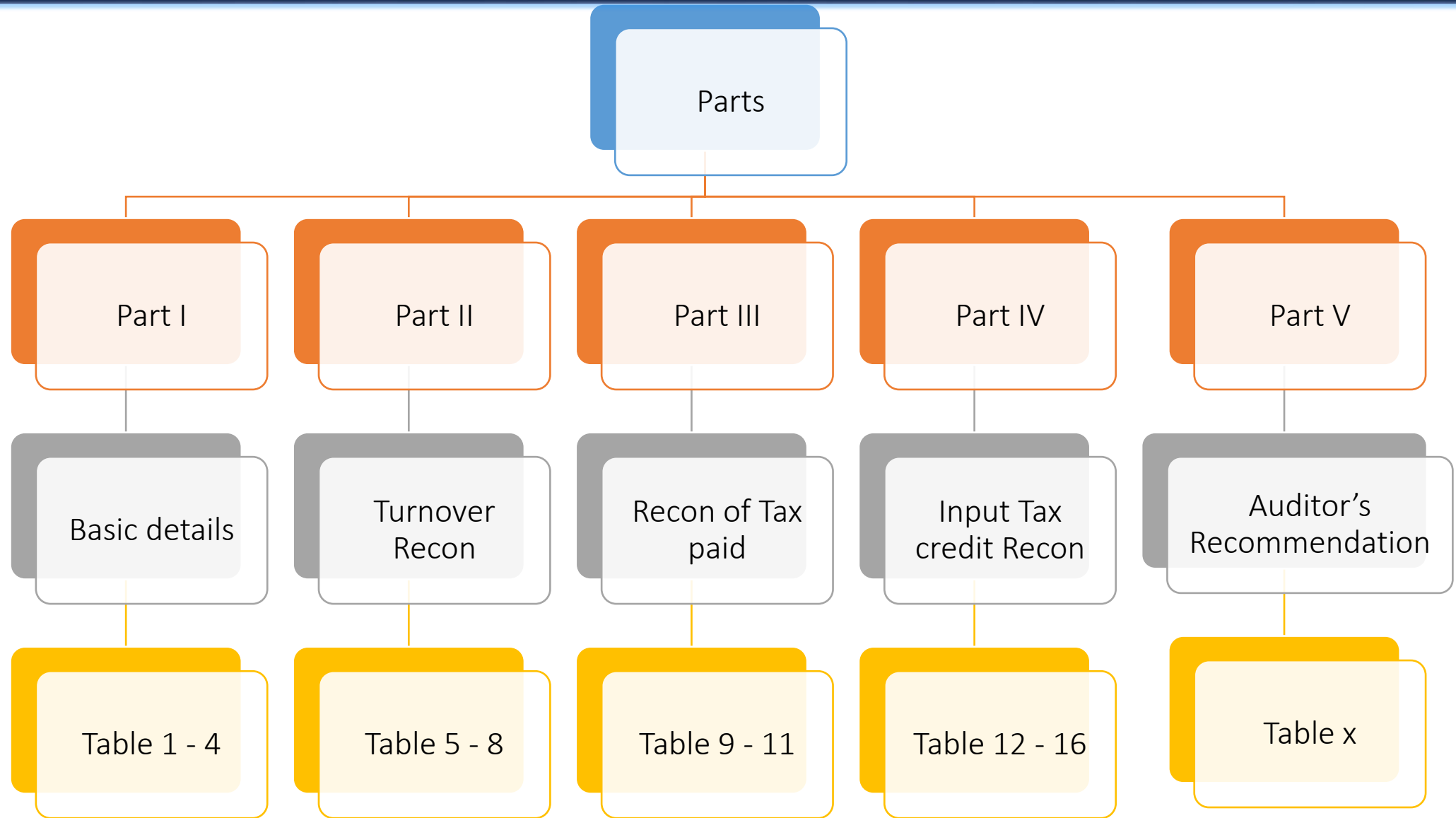
B2 : Financial
Auditor and GST
Auditor are Different

Data Source



1. Part A of 9C is NOT mere compilation of Books / Returns
2. Values to report not Actual but Expected as per Law. (Done vs Ought to have done)
3. Its an Audit between 9 and Books

Reconciliation Statement – GSTR 9C Broad View 5 Parts 16 Tables



Critical Issues

General issues

Accounting Deviation understanding

In Complete Records

Missing Data Controls in Audit

General Issues

1. Segregation of PAN based Financials to GSTIN based Financials
2. Preparation of 9Months and 3Months Financials
3. Unreconciled GSTR9 with Books
4. Consolidated Books of Accounts
5. Stock maintained in Godowns Not registered as Place of Business
6. In Complete GST Configurations in Accounting Applications, resulting in adequate reports

Critical issues flowing from Accounting

1. Industry specific Accounting Treatment

1. Real Estate
2. Long Term Contract
3. Principal Agent
4. Job Work vs Supply

2. From Notes to Financial Statement

1. Related party Transactions
2. Contingent Liabilities
3. Internal Financial Control Observations
4. Observations in CARO
5. Expenditure / Income in Foreign Currency
6. CSR Activities

Critical issues flowing from Accounting

3. Debit Note and Credit Notes

1. Tax Effects on financial credit notes from Supplier
2. Sales Returns Accounted as Purchase
3. Purchase Returns Accounted as Sales
4. Bad debts and Discounts marked in Credit Notes

4. Netting of Transactions

1. Reimbursements credit to Expenses
2. Single Ledger for
 1. GST Input / Output / Payment (or)
 2. CGST/SGST/IGST
3. In Eligible ITC recorded to cost Directly
4. Advance from Customers vis-à-vis Billing

Critical issues flowing from Accounting

5. In complete Accounting

1. Missing Bill wise Adjustment for Vendor Payments
2. Missing Track of
 1. Unbilled Revenue to Sales
 2. Provision for expenses to Bills Received
3. Goods Sent to Job work
4. Goods Sent on Consignment

6. Un Available Information

1. Barter Transactions
2. Sch I Supplies esp. Services
3. Inward Supplies from Composition Dealers

Critical issues flowing from Accounting

7. Transactions with SEZ

1. Supplies made with Taxes wrongly reported
2. Taxes Collected and refunds claimed

8. Tax Audit Report Observations

1. Comments made for Stock register.
2. Personal expenses disclosed.
3. 14A disclosure.
4. 27(a) GST input tax, availed & utilised.
5. TP transaction plus Primary & Secondary adjustment.
6. Break-up of GST expenditure – Not applicable for 17-18 – Company ITR - if Tax audit is not applicable.
7. Addition to FA – ITC credit vs. Depreciation.
8. Capital Vs Revenue Expenses.

Critical issues flowing from Accounting

9. Miscellaneous

1. Valuation adjustment
2. Affirmations on NON- GST Receipts
3. Understanding 5O vs 5R Reporting in 9C
4. Books Data not matching with VAT and Service Tax Returns
5. Expenses Liabile for RCM not tracked.
6. Sale of Assets – Depreciation Schedule
7. Transition Credits not recorded in Books

Issues in Record Keeping

1. ITC Segregation poorly handled
 1. Eligible vs In eligible
 2. Input / Input Service / Capital Goods
 3. Recorded / Aailed / Deferred
2. Relevant Records Not Maintained at each Place of Business
3. Track of change in Tariff rates
4. Missing information in Stock Registers
 1. HSN Details
 2. Goods Lost , Stolen , destroyed etc
 3. Free Samples given
 4. Non Maintenance by Service providers

Issues in Record Keeping

5. Invoicing

1. Unsigned Invoices
2. Absence of Self Tax Invoice

6. Receipt and Refund vouchers Not maintained

7. Missing Information in Table 13 of GSTR 1

8. Non Execution of LUT for Zero Rated Supplies

Missing Data Controls in Audit

1. Monthly Book Closure Entries – Post Return Filing
2. Audit Trail in Edited entries
3. Pending Reconciliation with e Ledgers
4. Usage of Multiple Software and Not Integrated.

General Notes– Annual Audit

Auditor to take care of

- Engagement letter with the Auditee
- Representation letter with the management
- Recent updates in the audit
- Proper staff with technical competence
- Continuous evaluation of knowledge
- Proper software
- Discussion on various issues and conclusions there-off

Points for Qualification or MRL

- Part B :
 - Comment on Maintenance of Books of Accounts
 - Adherence to invoicing Rules viz., 46.....55
 - Dis Agreement
 - Quantification in 9C Part A
 - Qulaification in Part B
 - Confirmation from MRL
- Branches not registered
- Huge mismatch in Table 8D of GSTR 9

Thank You