

HALF DAY SEMINAR FOR CA STUDENTS

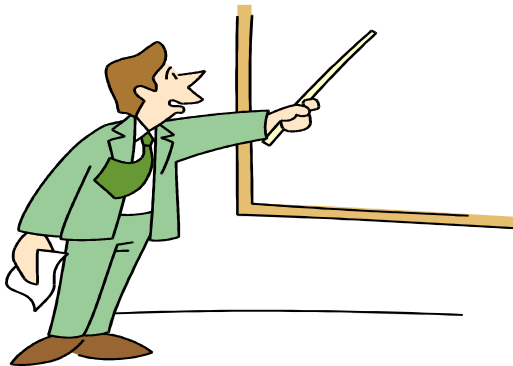
ORGANISED BY

WIRC OF ICAI

on 20th November, 2019

CA KARAN LODAYA

“GST AUDIT”



PRESENTED BY
KARAN LODAYA

AN INVESTMENT IN KNOWLEDGE PAYS THE BEST RETURN

AUDIT IN INDIRECT TAXES – Historical Background and Present Regime

LAWS	MANDATORY AUDIT BY PROFESSIONAL	DEPARTMENTAL AUDIT	SPECIAL AUDIT
Service Tax	No	Yes	Yes
Central Excise	No	Yes	Yes
Customs	No	Yes	Yes
VAT / Central Sales Tax	Yes	Yes	No
Octroi	No	No	No
Entertainment Tax	No	No	No
Luxury Tax	No	No	No
Entry Tax	No	No	No
GST	Yes , U/s 35(5) of CGST ACT	Yes , U/s 65 of CGST ACT	Yes , U/s 66 of CGST ACT

➤ Section 2(13) of CGST Act

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

Provisions

➤ Section 35(5) of CGST Act, 2017: (Audit)

Every **registered** person whose **turnover** during a **financial year** exceeds the **prescribed limit** shall get his **accounts audited** by a CA or a CWA and **shall submit**

- A copy of audited accounts,
- The reconciliation statement u/s. 44(2) and
- such other documents in such form and manner as may be prescribed

➤ Ingredients of GST Audit

- Audit By CA/CWA
- File copy of Audited Accounts
- Certify & File Reconciliation Statement in Form GSTR 9C

RELEVANT RULE FOR GST AUDIT

➤ Rule 80(3) of CGST Rule, 2017

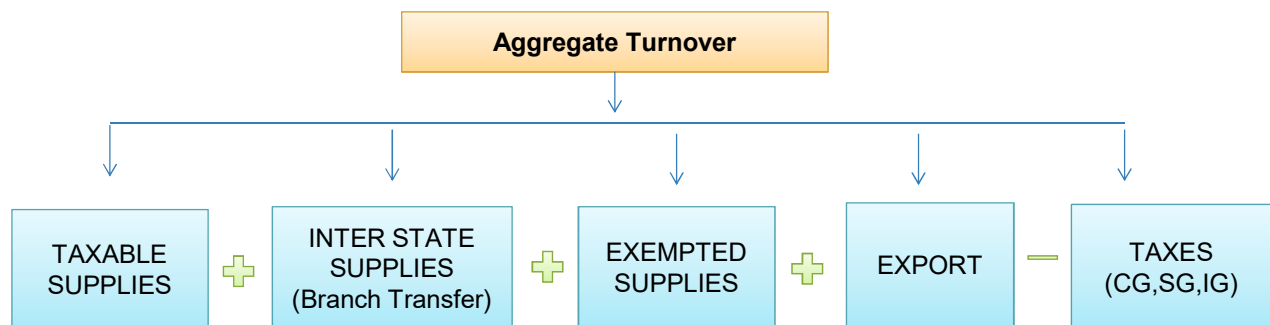
Every registered person whose **aggregate turnover** during a financial year **exceeds Rs. 2 crore** shall get his **accounts audited** as specified under section 35(5) and he shall furnish

- 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.

Provisions

- **Turnover (Section 35(5)) V/s Aggregate Turnover (Rule 80(3)) ?????**
- **Turnover-** Not defined in the Act
- **Aggregate Turnover-** Section 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



Aggregate Turnover does not include value of inward supplies on which tax is payable under RCM

ISSUES 1 - TURNOVER

- ABC Ltd has turnover of Rs. 1.20 Crore from April to June, 2017. The turnover for July to March is 1.30 Crore. Whether he is liable to get audited under GST?
- Turnover has exceed 2 crore in a financial year 2017-18.
- GST introduced in India effective from 1st July, 2017
- Clause (I) of Press release dated 3rd July, 2019 issued by CBIC clarifies that turnover to be calculated for period July, 2017 to March, 2018
- Audit not required in given case.

ISSUES 2 - TURNOVER

- Whether following Income shall form part of Turnover of M/s ABC Ltd

Interest on Bank FDR/ Interest on Loan

Dividend on share

- **Exempted Supply under entry 27 of Notification 12/2017-CT (R)**
- **Whether it is supply of service that of lending in course of business?????....Debatable**
- **Under IT return, Interest is disclosed as "OTHER INCOME"**
- **Explanation to Rule 43 of CGST Rules.....Interest on FDR is not exempt supply for purpose of reversal of ITC u/r 42 & 43**

- **Distribution of Profit....No Supply**

ISSUES 2 – TURNOVER..

- Whether following Income shall form part of Turnover of M/s ABC Ltd

Foreign Exchange Fluctuation

Liability written back

• **Result of recovery of supply.....No Supply**

• **No supply....Result of recovery of bad debt**

Profit on sale of Shares

• **No Supply Since shares are securities which is excluded from definition of goods as well as service.**

ISSUES 2 – TURNOVER..

- Whether following Income shall form part of Turnover of M/s ABC Ltd

Working partner received Remuneration, Interest on capital & share of profit

• **Appropriation of profit**
• **Not to be included for the purpose of turnover**

Issue 3 – Applicability of Audit to branches

REGISTERED PERSON – HINDUSTAN UNILEVER LTD

Located

Gujarat

Maharashtra

Andhra Pradesh

Rajasthan

- | | | | |
|--|---|---|--|
| <ul style="list-style-type: none"> • Selling only Exempted goods • Turnover – 5 Cr | <ul style="list-style-type: none"> • Selling only Taxable Goods • Turnover – 1 Cr | <ul style="list-style-type: none"> • Registered as ISD • Turnover – NIL | <ul style="list-style-type: none"> • Making Export as well as local sales • Turnover – NIL |
|--|---|---|--|

• In which all state will HUL require to get their records audited under GST?

Issue 3 – Applicability of Audit to branches

- Aggregated turnover 2(6).....means turnover computed on PAN India Basis
- Audit required for Gujarat, Maharashtra & Rajasthan
- Audit of ISD (Andhra Pradesh Branch) - Section 44(1) requires every registered person Except ISD to file annual return.
- 44(2) provides every person require to get accounts audited to furnish annual return
- In our view, ISD not required to get accounts audited

Issue 4 – Turnover



ABC Construction Ltd sold a piece of Land for Rs. 10 crore during F.Y 2017-18



ABC construction Ltd (Registered Person) has received warehouse rent of Rs. 80 Lakh during F.Y 2017-18 . Therefore P&L account shows receipt of Rs. 10.80 crore.

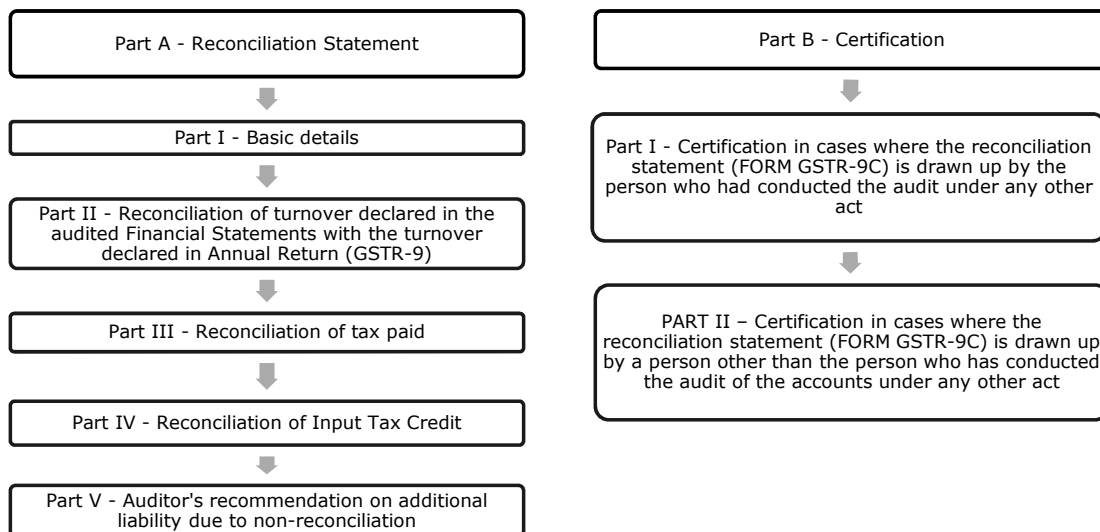
Whether ABC Construction Ltd would require to get his accounts Audited under GST?

ABC Construction Ltd would not require to get its Accounts audited under GST since Sale of Land is covered under Schedule III – Items which are neither supply of goods nor supply of service.

Forms

Form Number	Particular
Form GSTR 9	Annual Return for Normal Tax payer
Form GSTR 9A	Annual Return for composite dealer
Form GSTR 9C	
Part A	Reconciliation
Part B	Certification

GSTR 9C - Overview



“FORM GSTR-9C” PART – A – Reconciliation Statement

Pt. I	Basic Details	
1	Financial Year	April, 2017 to March, 2018
2	GSTIN	27AAAPL1267C1ZD
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 – Reconciliation Statement**

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)	<ul style="list-style-type: none"> • Turnover for April, 2017 to March, 2018 to be mentioned • Mention Turnover of the State as per Audited accounts • Do no include supply transaction or any other transaction except turnover in state E.g. Sale of Fixed Asset, Donation of Asset on which ITC was claimed • Do not included income from other source Such as dividend income, Recovery of bad Debts etc.

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

5B	Unbilled revenue at the beginning of Financial Year	(+)	<p>Example</p> <ul style="list-style-type: none"> • Rental of Commercial Premises for 16th March, 2017 to 15th April, 2017 – Rs. 1 Lac • In the books of F.Y 2016-17, rent income is disclosed Rs. 50,000/- based on periodicity • On 16th April, 2017, Invoice raised for 1 lac • Here, Rs. 50,000/- is unbilled revenue
5C	Unadjusted advances at the end of the Financial Year	(+)	<ul style="list-style-type: none"> • Declare here advance received on which GST is paid but not recognised as revenue in Financial Statement

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

5D	Deemed Supply under Schedule I	(+)	<ul style="list-style-type: none"> • As per Instruction annexed to audit report.....Any “Deemed supply” which is already part of “Audited Financial Statement” is not to be included here. • <i>“Deemed supply” means supply without consideration which will never appear in audited financial statement</i> • Stock transfer (without consideration) between 2 branches having separate GSTN • Cross charge • Gift to employee <p>E.g. Sony Ltd selling TV at Rs. 40,000/- to employee whose selling price to Distributor is Rs. 1,00,000/-. Here Rs. 60,000/- is gift which will not appear in Financial Statement.</p>
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**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

5E	Credit Notes issued after the end of the financial year but reflected in the annual return	(-)	<ul style="list-style-type: none"> • Credit Note issued after end of the financial year corresponding to supply made during the year & not accounted in financial year is required to be mentioned here.
5F	Trade Discounts accounted for in the audited Annual Financial Statement but are not permissible under GST	(+)	<ul style="list-style-type: none"> • Trade discount accounted in books but not eligible under section 15(3) of CGST for deduction to be added here
5G	Turnover from April 2017 to June 2017	(-)	<ul style="list-style-type: none"> • Out of the total Turnover for F.Y 2017-18, turnover of period April, 2017 to June, 2017 is required to be deducted since GST is leviable on supply made on or after 1st July, 2017.

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

5H	Unbilled revenue at the end of Financial Year	(-)	<ul style="list-style-type: none"> • Reduce the Unbilled revenue at end of Financial year • E.G. Rental income of commercial Premises for 16th March, 2018 to 15th April, 2018 is Rs. 1 Lakh. In books of accounts for F.Y 2017-18, rental income was disclosed as Rs. 50,000/- as unbilled revenue based on periodicity. On 16th April, 2018 Invoice was raised for Rs. 1 lakh. In such case, Rs. 50,000/- to be disclosed as an unbilled revenue for F.Y 2017-18
5I	Unadjusted Advances at the beginning of the Financial Year	(-)	<ul style="list-style-type: none"> • Advance received till 30th June, 2017 on which service Tax/excise/VAT was paid, as applicable & corresponding supply thereto is made during F.Y 2017-18 without payment of GST, the same should be reflected here. • E.g. Rs. 5 lac received as fees on 10th June, 2017 on which ST was paid for which invoice raised on 1st July, 2017

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

5J	Credit notes accounted for in the audited Annual Financial Statement but are not permissible under GST	(+)	<ul style="list-style-type: none"> • This clause should contain the figure that of credit notes issued & accounted for in the audited financial statement of the year but same is not permissible u/s 34 of CGST Act, 2017 • E.g. Credit note for Cash discount, Credit note for goods return beyond the month of September following end of financial year in which supply was made or date of furnishing annual return which every is earlier.
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**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

5K	Adjustments on account of supply of goods by SEZ units to DTA Units	(-)	<ul style="list-style-type: none"> This clause will be applicable only when reconciliation of SEZ is being made Aggregate value of all goods supplied by SEZ to DTA units for which the DTA units have filed bill of entry shall be declared here. DTA units places order for purchase of Goods to unit of SEZ with instruction to deliver the goods out of India. In this scenario Bill of entry in not require to be filed.
5L	Turnover for the period under composition scheme	(-)	<ul style="list-style-type: none"> Turnover for period under composition scheme to be mentioned here.

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

5M	Adjustments in turnover under section 15 and rules thereunder	(+ /-)	<ul style="list-style-type: none"> This clause contains the data resulting on account of difference in turnover as per Invoice raised during the year & valuation thereof as per section 15 of CGST Act. Section 15(2) provide for inclusion of various items for purpose of computing value of Turnover <p><u>Example</u></p> <ul style="list-style-type: none"> Goods sold to related party (B2C) at price lower than Market price.
5N	Adjustments in turnover due to foreign exchange fluctuations	(+ /-)	<ul style="list-style-type: none"> Adjustment of Foreign exchange fluctuations to be made here only when you have included the foreign exchange fluctuation in computing Turnover over as per Clause 5A
5O	Adjustments in turnover due to reasons not listed above	(+ /-)	

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

5P	Annual turnover after adjustments as above		<AUTO>
5Q	Turnover as declared in Annual Return (GSTR 9)		<ul style="list-style-type: none"> As mentioned in FORM GSTR 9
5R	Un-Reconciled turnover (Q – P)		

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

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 – Reconciliation Statement**

7	Reconciliation of Taxable Turnover	
7A	Annual turnover after adjustments (from 5P above)	<<AUTO>>
7B	Value of Exempted, Nil Rated, Non-GST supplies, No-Supply turnover	<p>Example</p> <ul style="list-style-type: none"> • Petrol/Diesel • Services by a hotel, inn, guest house, club or campsite, by whatever name called, for residential or lodging purposes, having declared tariff of a unit of accommodation less than ` 1000/- per day”. • sale of shares
7C	Zero rated supplies without payment of tax	<p>Example</p> <ul style="list-style-type: none"> • Supply to SEZ • Export of Goods /Service

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

7D	Supplies on which tax is to be paid by the recipient on reverse charge basis	E.g. GST on Sponsorship service received by corporate.
7E	Taxable turnover as per adjustments above (A-B-C-D)	<<Auto>>
7F	Taxable turnover as per liability declared in Annual Return (GSTR9)	
G	Unreconciled taxable turnover (F-E)	AT2

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

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

This part of GSTR 9C identifies the taxable turnover differences to be placed on record for explaining the differences between the GST annual Returns and the Audited Financials.

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

PT III	Reconciliation of tax paid				
9	Reconciliation of rate wise liability and amount payable thereon				
Description	Taxable Value	Central tax	State tax / UT tax	Integrated Tax	Cess, if applicable
5%					
5% (RC)					

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

Description	Taxable Value	Central tax	State tax / UT tax	Integrated Tax	Cess, if applicable
12%					
12% (RC)					
18%					
18% (RC)					
28%					
28% (RC)					
3%					
0.25%					
0.1%					

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

Description	Taxable Value	Central tax	State tax / UT tax	Integrated Tax	Cess, if applicable
Interest					
Late Fees					
Penalty					
Others ???					
Total amount to be paid as per tables above		<Auto>	<Auto>	<Auto>	<Auto>
Total amount paid as declared in Annual Return (GSTR 9)					

Point 9 - Reconciliation of tax paid

- After reconciling the turnover declared and reported in the Audited Financial Statement with turnover declared in Annual Return along with reasons for reconciliation if any, the relevant Part III of Form 9C requires an Auditor to reconcile the rate-wise liability of tax, total amount payable thereon with tax actually paid as declared in the Annual Return and recommendation of additional tax payable due to non-reconciliation of the taxable value.
- The details of any liability of Interest under Section 50 of the GST Acts accounted for in the books of accounts or any Late Fees for Late filing of GSTR 3B or penalty leviable under any relevant sections of the Act needs to be reported here.

"FORM GSTR-9C" PART – A – Reconciliation Statement

10	Reasons for un-reconciled payment of amount	
A	Reason 1	<<TEXT>>
B	Reason 2	<<TEXT>>
C	Reason 3	<<TEXT>>

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

11	Additional amount payable but not paid (due to reasons specified under Tables 6,8 and 10 above)				
Description	Taxable Value	Central tax	State tax / UT tax	Integrated Tax	Cess, if applicable
5%					
12%					
18%					
28%					
3%					
0.25%					
0.10%					

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

Description	Taxable Value	Central tax	State tax / UT tax	Integrated Tax	Cess, if applicable
Interest					
Late Fees					
Penalty					
Others					

No column for arrears for Tax payable under RCM

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

Pt. IV	Reconciliation of Input Tax Credit (ITC)		
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)		ITC Suspense is also ITC availed
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	(-)	ITC Suspense
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	

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

13	Reasons for un-reconciled payment of amount	
A	Reason 1	<<TEXT>>
B	Reason 2	<<TEXT>>
C	Reason 3	<<TEXT>>

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

14 Reconciliation of ITC declared in Annual Return (GSTR 9) 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
A	Purchases			
B	Freight/Carriage			
C	Power/Fuel... Coal			
D	Imported Goods (incl. received from SEZs)			
E	Rent & Insurance			
F	Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples???			

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

	Description	Value	Amount of Total ITC	Amount of eligible ITC availed
G	Royalties			
H	Employees' Cost (Salaries, wages, Bonus etc.)			
I	Conveyance charges			
J	Bank Charges			
K	Entertainment charges			
L	Stationery Expenses (including postage etc.)			
M	Repair and Maintenance			
N	Other Miscellaneous expenses			

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

	Description	Value	Amount of Total ITC	Amount of eligible ITC availed
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			
15	Reasons for un – reconciled difference in ITC			
A	Reason 1	<<Text>>		
B	Reason 2	<<Text>>		
C	Reason 3	<<Text>>		

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

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

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

PT V	Auditor’s recommendation on additional Liability due to non-reconciliation					
	<u>Description</u>	<u>Value</u>	<u>CGST</u>	<u>SGST/UGST</u>	<u>IGST</u>	<u>CESS</u>
	5%					
	12%					
	18%					
	28%					
	3%					
	0.25%					
	0.1%					
	Input Tax credit					
	Interest					
	Late fees					

**“FORM GSTR-9C”
PART – A – Reconciliation Statement**

<u>Description</u>	<u>Value</u>	<u>CGST</u>	<u>SGST/UGST</u>	<u>IGST</u>	<u>CESS</u>
Penalty					
Any other amount paid for supplies not included in Annual Return					
Erroneous refund to be paid back					
Outstanding demands to be settled					
Other (Pl. specify)					

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

PART B – CERTIFICATION - I

- Balance sheet , Profit and Loss account & **Cash flow** to be examined by GST Auditor.
- **Examination ????**
- Cash Flow statement if not required under any law, does GST auditor is required to prepare the cash flow statement ???
- Auditor to report whether books of accounts , records & documents required under law is maintained
- Auditor has to report his observation/comments/discrepancy & inconsistency if any
- Every where in report there is **Asteric (*)** in certification ,however there are no corresponding note in the report

Issue 5 – Scope of GST Audit

- Which certification will be required by auditor in following circumstance?

Statutory Auditor/ Tax Auditor	GST Auditor	Certification
Mr. A	Mr. B	II of Part B
Mr. A	Mr. A	I of Part B
Not Applicable	Mr. B	I of Part B

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Issue 6 – Scope of GST Audit

- ABC Ltd is operating from office at Dadar, which is their own office.
- There associated concern XYZ Ltd also operate from same office, however no rental/compensation is paid for use of office?
- Whether Auditor should report about “No cross charge” of such transaction?
- Section 15 of CGST deal with value of supply.
- Rule 28 provide that where the recipient is eligible for full ITC, the value declared in the invoice shall be deemed to be the open market value of the goods or services.
- It is advisable to disclose this fact in clause 5 of Part B – certification of Form 9C

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Issue 7 – Observation & Qualification in Certification - Part B

Few Observation

- Verification of payment made to vendor within 180 days from date of Invoice as required in Proviso section 16(2) for ITC reversal
- Generation of Invoice for Inward supply liable for Tax under RCM under Section 9(3) & 9(4) – Section 31(3)(f)
- GSTIN wise Turnover for the Financial year has been considered based on self – certification provided by Management
- Turnover for the period April, 2017 to June, 2017 has been considered based on self-certification provide by Management
- In case of Manufacturing concern, the Taxpayer has not maintained Production account as provided in Rule 56(12) of CGST Rule, 2017

CA KARAN LODAYA



WITH KNOWLEDGE..... WE KNOW THE WORDS,
BUT WITH EXPERIENCE..... WE KNOW THE MEANING



CA. KARAN LODAYA

CHARTERED ACCOUNTANTS

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