

WESTERN INDIA REGIONAL COUNCIL
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

GST AUDIT

By-
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GST Audit: Important Aspects

- Audit Planning
- Details & Documentation
- Maintenance of Accounting Records
- Execution of Audit Assignment & Verifications
- Reporting and Sign off

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Legal Provisions – Sec 35(5) of CGST Act, 2017

- Every **Registered person**
- whose **turnover** during a FY exceeds the prescribed
- limit (**INR 2 Crores**)
- shall get his accounts audited
- by a CA or ICWA and shall submit;
- a copy of the audited annual accounts,
- the reconciliation statement under Sec 44(2) in **GSTR-9C** and
- such other documents in such form and manner as may be prescribed

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Aggregate Turnover

- “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 [**Includes Non Taxable, Nil Rated and Wholly Exempted Supplies**]
- Exports of goods or services or both and
- Inter-State supplies [**Inter-State Stock Transfers**]
- 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

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Legal Provisions – Sec 35(5) of CGST Act, 2017

- Every **Registered person**
- who is required to get his accounts audited as per Sec 35(5) shall furnish, electronically
- **the annual return as per 44(1)**
- **Copy of the audited annual accounts and**
- **Reconciliation statement,**
- reconciling the value of supplies declared in the return furnished for the financial year with the audited annual financial statement, and such other particulars as may be prescribed.

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Auditor to affirm that auditee has:

- Determined taxability of Goods and / or services correctly
- Done correct classification of goods and / or services
- Determined time of supply correctly
- Determined place of supply properly
- Done proper valuation of goods and / or services
- Availed and utilized Input tax credit correctly
- Claimed exemptions and refunds correctly

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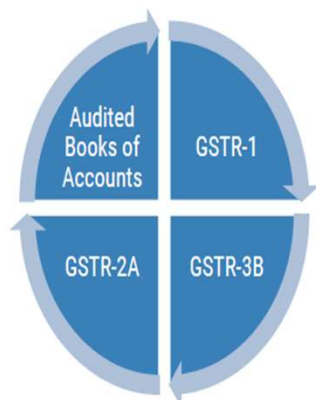
Comply with procedures with respect to:

- Registration and amendments,
- Maintenance of accounts records,
- TDS / TCS,
- Payment of taxes including RCM
- Invoicing
- Auditor practically assumes the responsibility of assessment
- Proper Reconciliation of Books/GST Returns
- * Above all – Frequent Notifications/Circulars/Orders

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Reconciliation Statements:

- Between Monthly Return Vs Annual Return
- Annual Return Vs Audited Financials
- Monthly Returns Vs Audited Financials

Miscellaneous

- Taxes
Tax Payable, Tax Paid, Interest, Late penalty etc
- Refunds
Claimed, Sanctioned, Rejected, Under Process
- Ineligible ITC
- Calculation of ITC Reversal
On account of Exempted/ Non Business Transactions with
Related entities/ Distinct person

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GSTR 9C- Overview

I. Part A- Reconciliation Statement

II. Part B- Certification

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GST Audit Report : Format (Part B)

- **Format I**

- Certification in cases where the reconciliation statement is drawn up by the person who had conducted the audit

- **Format II**

- Certification in cases where the reconciliation statement is drawn up by a person other than the person who had conducted the audit

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Issue...

Under following circumstances, which format is ABC & Co, a CA firm suppose to use while conducting GST Audit of XYZ, a proprietary concern?

- 1. ABC & Co. has conducted Tax Audit of XYZ Format I
- 2. ABC & Co. has conducted Cost Audit of XYZ Format II
- 3. ABC & Co. is Internal Auditor of XYZ No Audit

Comparison of Formats

Format I	Format II
1. Examined the balance sheet, P&L and Cash Flow	1. Enclose BS, PL, CF & annexures
2. Maintained books of accounts, records and documents required under the GST Law	2. Maintained books of accounts, records and documents required under the GST Law
3(a) Report observations/comments/discrepancies	
3(b) Report that A. Obtained all information necessary B. Proper Books of Accounts are maintained C. BS PL and CF in agreement with books	
4. Financials and Reconciliation attached	3. Financials and Reconciliation attached
5. Particulars in gC are true and correct subject to observations	4. Particulars in gC are true and correct subject to observations

Comparison with Tax Audit

Format I	Form 3CB
1. Examined the balance sheet, P&L and Cash Flow	1. Examined the balance sheet, P&L
2. Maintained books of accounts, records and documents required under the GST Law	2. BS PL and CF in agreement with books
3(a) Report observations/comments/discrepancies	3(a) Report observations/comments/discrepancies
3(b) Report that A. Obtained all information necessary B. Proper Books of Accounts are maintained C. BS PL and CF in agreement with books	3(b) Report that A. Obtained all information necessary B. Proper Books of Accounts are maintained C. True and Fair View
4. Financials and Reconciliation attached	4. Particulars enclosed
5. Particulars in gC are true and correct subject to observations	5. Particulars in Form 3-CD are true and correct subject to observations

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Clause by clause analysis of GSTR 9C

GSTR 9C- Overview

I. Part A- Reconciliation Statement

II. Part B- Certification

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Over-view of GSTR 9C (Part A)

Part	Description
I	Basic Details
II	Reconciliation of T/o declared in audited Annual Financial Statement with T/o declared in Annual Return (GSTR9)
III	Reconciliation of Tax Paid
IV	Reconciliation of Input Tax Credit
V	Auditor's recommendation on additional tax liability due to non-reconciliation

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Pt. II- 5A- Turnover

Clause 5A:

- 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)

Instructions:

- The turnover as per the audited Annual Financial Statement shall be declared here. There may be cases where multiple GSTINs (State-wise) registrations exist on the same PAN. This is common for persons / entities with presence over multiple States. Such persons / entities, will have to internally derive their GSTIN wise turnover and declare the same here. This shall include export turnover (if any). It may be noted that reference to audited Annual Financial Statement includes reference to books of accounts in case of persons / entities having presence over multiple States

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Issue 1: (Clause 5A)

XYZ Ltd. has presence in 3 states with break-down of turnover as under:

Maharashtra-	Rs. 75 lacs
Gujarat-	Rs. 1 Crore
Delhi-	Rs. 3 Crores

XYZ Ltd. needs to get his books audited only in Delhi or in all the 3 states?

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Statutory Provisions

Section 44(2) of CGST Act, 2017:

Every registered person who is required to get his accounts audited in accordance with the provisions of section 35(5), shall furnish annual return as per section 44(1) **alongwith** a copy of audited annual accounts and a reconciliation statement.

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

Rule 80(3)- Reconciliation statement in form GSTR 9C if **aggregate turnover** exceeds Rs. 2 Crores in a financial year.

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Issue 2: (Clause 5A)

ABC Ltd. for the period April 2017 to March 2018 has following turnover:

April to June 2017-	Rs. 75,00,000
July to March 2018-	Rs. 1,50,00,000
Total-	Rs. 2,25,00,000

Whether ABC Ltd. is required to get GST Audit done?

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ICAI- Technical Guide

- For the financial year 2017-18, the GST period comprises of 9 months whereas the relevant section 35(5) uses the expression financial year. Therefore, in the absence of clarification from government, also to avoid any cases of default, it is reasonable to understand that to reckon the turnover limits prescribed for audit i.e., Rs. 2 crores one has to reckon the turnovers for the whole of the financial year which would also include the first quarter of the financial year 2017-18
- Stock transfers/ cross charges/ services provided from a branch located in one state to a branch located in another state would be included in aggregate turnover of the branch supplying the goods/ services

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Issue 3: (Clause 5A)

Facts of the Case:

Turnover of A Ltd. is Rs. 250 crores PAN India. You are appointed GST Auditor only for the state of Maharashtra and as per the State PL of Maharashtra, the turnover of Maharashtra is Rs. 30 crores

Issues to discuss:

1. Whether the auditor should insist on audited/certified State PL from Statutory Auditor for the 9 months period or MRL will do?
2. What is the responsibility of the auditor to ensure that the balance Rs. 220 crores is reported in other States?
3. What would happen if through genuine error, a turnover of Rs. 1 crore attributable to Maharashtra is wrongly reported in some other State?

ICAI- Technical Guide

Page 280:

It is possible that different Auditors are appointed for certifying GSTR 9C for different registrations of the entity. As multiple Auditors are involved in certification of the GSTR 9C, the Registered Person and every Auditor must ensure that the turnovers' declared by different Auditors must reconcile and add-up to the total turnover of the entity as per the audited financial statements. Drawing analogy from SA 299 on "*Responsibility of Joint Auditors*", an Auditor must communicate with the other Auditors to obtain details of turnover declared by him to ensure that the various turnovers declared by them. Alternatively, a suitable management representation may be obtained from the entity that such turnovers declared by different Registered Persons aggregate to the audited financial statements. Such an exercise would also be required where multiple registrations are obtained within the same State / UT for different business verticals.

Pt II- 5E/5F/5J- Trade Discount & Credit Notes

- **Clause 5F** : Trade Discounts accounted for in the audited Annual Financial Statement but are not permissible under GST (+) (-)
- **Clause 5J** : Credit notes accounted for in the audited Annual Financial Statement but are not permissible under GST (+)
- **Clause 5E** : Credit Notes issued after the end of the financial year but reflected in the annual return

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Statutory Provisions

S. 34(1)- Credit Note can be issued only in following cases:

1. Taxable Value or Tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply
2. Goods supplied are returned
3. Goods/Services are found to be deficient

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Issue 10: (Clause 5E & 5J)

Apparent mistake in the adjustment signs

- Conditions for allowability of Credit Notes to be checked? Practically, for amending transactions from B2C to B2B, CNs are being issued.

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Pt II- 5G- Pre-GST Turnover

- **Clause 5G : Turnover from April 2017 to June 2017 (-)**
- **ICAI Guidance Note-** The Turnovers declared in Excise, VAT and Service Tax returns should match with this.

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Pt II- 50- Other Adjustments

Could be many (Residuary Clause)

- Sale of Assets
- Wrong / Duplicate Entries in GSTR9
- Delayed Credit Notes / Adjustments

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Pt. II- 6- Reasons for unreconciled difference in Gross T/o

- **Errors :**
 - Additional Tax Liability (10 lakhs disclosed as 1 lakh)
 - Overpaid Taxes (1 lakh disclosed as 10 lakhs)
- **Reporting Requirement:**
 - Top 3 reasons or we can add ?

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Pt. II- 7- Reconciliation of Taxable T/O

- **Clause 7B: Value of Exempted, Nil Rated, Non-GST supplies, No-Supply turnover**
- **Clause 7C : Zero rated supplies without payment of tax**
- **Clause 7D: Supplies on which tax is to be paid by the recipient on reverse charge basis**

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Issues to discuss...

- Export turnover declared in Clause 5A of GSTR 9C but not declared in GSTR 1 and therefore, not a part of GSTR 9 as well. Difference to be reported? **(Clause 7)**
- Whether Place of Supply provisions to be checked for Zero-rated transactions? **(Clause 7C)**
- Wrong classification of transactions (Taxes reported correctly). For eg. Exempt supply reported as Zero-rated supply in GSTR 1 & 9. Should auditor make any comment in GSTR 9C? **(Clause 7)**

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- Examine the existence and validity of LUT obtained for the Zero-rate supplies made.
- Following supplies should be reported as regular supply:
 - Zero- rated supplies, if conditions for exports are not fulfilled.
 - Non-compliance of conditions for claiming exemptions.

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Pt. III- 9- Reconciliation of rate wise liability

9	Reconciliation of rate wise liability and amount payable thereon					
	Description	Taxable Value	Tax payable			Cess, if applicable
			Central tax	State tax / UT tax	Integrated Tax	
	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 I

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Issues to discuss...

- Wrong classification of Tax components (Turnover reported correctly) Eg: SEZ supply, CGST & SGST is reported instead of IGST in GSTR-1 (was taking originally) and not amended, similarly IGST supply tax paid as CGST/SGST. Whether this requires reporting? **(Clause 9)**
- Rate of Tax incorrectly charged and reported. Is it the auditor's responsibility to verify and vouch for rate of taxes for all the goods & services? **(Table 9)**

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- Auditor needs to obtain a confirmation from the assessee that tax liability under RCM has been booked in accounts in compliance with Time of Supply. The Auditor could rely on reports or workings of the dates on which entries of inward supplies are made in the books of accounts for determining tax liability under RCM. Otherwise, Auditor should report that it was not possible to identify Time of Supply.
- A separate working for monthly reconciliation of value of taxable inward supply with books should be prepared and kept as part of working papers by the Auditor so as to deduce the rate wise GST Liability under RCM.
- Monthly reconciliation will help in determining interest liability, if any.

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- A disclaimer can be given in opinion paragraph if Auditor is unable to identify or comment upon each and every classification of outward and inward supplies
- The Auditor should put a qualification in opinion paragraph for interpretation differences between assessee and Auditor
- The Auditor should recommend additional tax liability if any, if dispute (between assessee and Auditor) is due to error but not a conscious interpretation

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Pt. III- 11- Additional amount payable but not paid

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)						

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Pt. IV- 12- Reconciliation of Net ITC

- **Clause 12A-** 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)

Instructions: 1) Disclose net of all reversals 2) Consolidated numbers and no bifurcation in CGST, SGST, IGST and Cess

- **Clause 12B/12C:** Prior Period Adjustments

Instructions: Include transition credits

- **Clause 12D:** Adjusted ITC as per financials
- **Clause 12E:** ITC as per annual return (clause 7J of annual return)
- Unreconciled ITC --- ITC₁

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Pt. IV- 14- Reconciliation of Eligible ITC

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.)			
I	Conveyance charges			
J	Bank Charges			
K	Entertainment charges			

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Pt. IV- 14- Reconciliation of Eligible ITC

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

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Issues to discuss...

- Whether reconciliation with GSTR 2A is expected from an Auditor?
- Sequence of submission- GSTR 9 Vs. GSTR 9C

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Verification

- I hereby solemnly affirm and declare that
 - the information given above is **true and correct** to the **best of my knowledge and belief** and
 - **nothing has been concealed** therefrom

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1. Because of the words “true and correct”, the quantum of assurance required is “absolute” and not “reasonable”. The “Engagement risk” sought to be targeted is zero and not even near zero.
2. Qualifications alone are not sufficient to be mentioned in the ‘opinion’ but every other aspect to which attention of revenue authorities needs to be drawn to, would be required.

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Thank You

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