

A close-up, slightly blurred photograph of a spiral-bound notebook. The notebook is open, showing several pages with handwritten notes in blue ink. The spiral binding is visible on the right side. The background is a soft, out-of-focus light color.

# Discussion on Certification in GSTR-9C

04 August 2020

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- Background
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A dark gray arrow pointing to the right, with the word "Background" written in white text inside it.

Background

# Background

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## Legislative Requirement

- Section 35(5) and 44(2) of the CGST Act, 2017 provide for submission of audited annual accounts along with
- Reconciliation Statement – duly certified and
- Annual Return Form GSTR-9
- Applicable of GSTR 9C – Taxpayer having an aggregate turnover of INR 2 crores or more during the relevant Financial Year.
  
- [*Vide Notification 16/2020 dt 23 March 2020 the turnover limits for certification of reconciliation statements have been increased to five crores for 2018-19 only*]
  
- GST Legislation has defined the term 'Audit' and has made provisions for:
- Revenue Audit by Commissioner or authorised officer in the prescribed manner (Section 65)
- Special Audit (Section 66)

# Background

- As per Section 2(13) of CGST Act, 2017

*“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;*

- As per Section 35(5) of CGST Act, 2017

*“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.*

- As per Section 44(2) of CGST Act, 2017

*“(2) Every registered person who is required to get his accounts audited in accordance with the provisions of sub-section (5) of section 35 shall furnish, electronically, the annual return under sub-section (1) along with a copy of the audited annual accounts and a 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.”*

# Background

- Para 2.2 of the 'Guidance Note on Audit Report and certificates for Special Purpose' issued by the ICAI notes the difference between the term 'certificate' and 'report' as under;

*“A Certificate is a written confirmation of the accuracy of facts stated there in and does not involve any estimate or the opinion.”*

*“A Report, on the other hand, is a formal statement usually made after an enquiry, examination or review of specified matters under report and includes the reporting auditor’s opinion thereon”.*

- Thus, where a certificate is issued, the Chartered Accountant shall be responsible for factual accuracy of what is stated therein. In case of a report, he is responsible for ensuring that the report is based on the factual data, true and fair (or in some cases true and correct) to the best of his belief, knowledge and information furnished to him.
- The word 'certificate' as described in the laws and regulations or even in the contracts that an entity might have entered into can normally be associated with reasonable assurance. However, depending upon the circumstances and based upon the nature, timing and extent of the procedures which a practitioner can perform, the practitioner can conclude that a reasonable assurance cannot be expressed on the subject matter of the “certificate” and only limited assurance/conclusion can be given. The practitioner’s procedures in case where reasonable assurance is to be expressed would be substantially different (and more extensive) from circumstances where limited assurance is to be expressed.



Key Areas

# Key Issues

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Number Reconciliation

Position on Ineligible ITC

Other Tax Positions



# Number Reconciliation

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- Various views have been expressed on different platforms to say whether certification in GSTR-9C is merely a validation of reconciliation of GST turnover with financials or deep dive into the positions adopted by the taxpayer.
- As per the clarification issued vide press release issued by Central Board of Indirect Taxes (CBIC for brevity) dated 03 July 2019, the below has been clarified-

*“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.“*

- Inference can be taken from above that the responsibility of GST Auditor is limited to the number reconciliation of GST turnover with that of the turnover of financials.
- The FAQ's issued by ICAI suggest that on the aspect of classification of inward and outward supplies, the auditor may rely on the representation provided by management in this regard. (Refer to Q36 from the FAQs on GSTR-9C)
- With regards to the aspects of time of supply and value of supply, reliance may be placed on valuation and time of supply determined by the taxpayer basis above clarification from CBIC.
- While the auditor is not validating/commenting on the tax positions adopted by the client for GST Audit Certification, it is important to highlight any potential issues based on review and obtain requisite representations from the client in the MRL to protect professional interests.

# Position on ineligible input tax credit

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- Input Tax credit is eligible to taxpayers under Section 16 of the CGST Act, 2017. The credit is eligible for goods and services used in the course or furtherance of business of supplying taxable goods/services. The auditor is expected to ensure credit claimed by the taxpayer is fulfilling the conditions subject to which credit need to be claimed.
- Section 17 of the CGST Act, 2017 has provided specific list of goods or services or both for which credit is not eligible to taxpayers irrespective of using in the course or furtherance of taxable business. The auditor will be required to verify if the taxpayer has claimed any credit which is ineligible under sub-section 5 of section 17.

# Other Tax Positions

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- Positions in relation to
  - Supply
  - Valuation
  - Time of Supply
  - Place of Supply
  - Rate of tax – basis Customs law
  - Composite Supply Vs Mixed Supply
  - Other Issues



Planning

# Planning – Prior to commencement of engagement

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Appointment Letter

No-objection certificate from previous auditor in case of new engagements

Approval from Board of Directors in case of Companies of existing statutory audit client

# Planning – Key Features of GSTR 9C

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	(+)
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	(-)
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)	<b>AT1</b>

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)	<b>AT 2</b>

Reconciliation of Inward transactions reported in Financials vis-à-vis GST Returns (Except for FY 2018-19)

Reconciliation of Outward transaction reported in Financials vis-à-vis GST Returns

12 Reconciliation of Net Input Tax Credit (ITC)			
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)			
A	ITC booked in earlier Financial Years claimed in current Financial Year	(+)	
B	ITC booked in current Financial Year to be claimed in subsequent Financial Years	(-)	
C	ITC availed as per audited financial statements or books of account		<Auto>
D	ITC claimed in Annual Return (GSTR9)		
E	Un-reconciled ITC		<b>ITC 1</b>

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			
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			

There exists an immediate requirement to extract details at registration level to reconcile the same with the GST Return. The reconciliation report also requires a rate wise reconciliation of outward supplies

# Planning – Guidance from Technical Guide

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To start with, the following (among others) are the various steps an auditor can take in connection with the forthcoming GST audit:

- a) Inform the concerned taxpayer about the applicability of the GST audit;
- b) Confirm eligibility to be GST auditor under guidelines issued by the ICAI;
- c) Understand the nature of business, the products or services, requirements of records to be maintained, and advise the auditee to maintain accounts and records so required, beforehand;
- d) Prepare a questionnaire to focus on key areas of operations / activities of the auditee, and specifically develop questions on those issues on which the GST law would have a bearing;
- e) Preparation of the detailed audit program and list of records to be verified;
- f) Obtain the relevant reconciliations.

# Planning - GST Audit Process

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- Obtain an understanding of the client's business operations, nature of transactions, tax positions adopted; these positions can be documented by the GST Auditor;
- Understand the manner of data maintenance by the client and the mechanism adopted to draw up GSTR -1, GSTR – 3B, GSTR 9, and draft reconciliation statement in GSTR 9C;
- Decide on the sample documentation for verification of each category of supply
- Discuss the observations with the client and the requisite actions to be undertaken;
- Update the reconciliation statements accordingly and the reasons to be outlined in GSTR 9C for reconciliation differences, if any.





# Commencement and Documentation

# Working papers

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- Workpapers have a purpose as they provide evidence of the work done and sufficient support for our audit opinion, conclusions and judgments. It also provides information for subsequent audits and are useful in potential external reviews by third parties for actions such as litigations, inspections, due diligence, etc.
- International Standard of Auditing (ISA) 230 on Audit Documentation provides for guidance on documentation to be maintained by the auditors that would consist of nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements
- A workpaper can be either hard copy or electronic and take the form of document created by Auditor in the form of
  - memos,
  - calculation spreadsheets,
  - flow charts, etc.) and
  - comments on a document provided by the client or third party such as contracts, invoices, confirmation received from third party, etc.

# Test of controls and its documentation

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## Test of controls

- A test of controls is an audit procedure to test the effectiveness of a control used by a client entity to prevent or detect material misstatements. Depending on the results of this test, auditors may choose to rely upon a client's system of controls as part of their auditing activities.
- One should undertake verifications of 25 - 30 transactions which would cover all types of transactions to affirm existence of Internal controls. For e.g. these 25-30 transactions would cover, sales, purchases, expenses, capex, etc

## Documentation

- Create a list of items tested. Include enough information for an experienced auditor to re-perform the exact same test (i.e., find all the documents in client's files, including invoice number, date, and other references as appropriate).
- Procedures performed to update our test of controls, including procedures to respond to significant changes
- A summary of the nature, timing and extent of update procedures performed, whether any exceptions were identified and if so, how our testing was modified as a result of those exceptions.
- Results/findings and conclusion. Describe exceptions identified and the causes and implications of the exceptions.
- Changes to our audit strategy or modification to our planned substantive procedures.

# Test of details

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- Test of Details are cases where a direct evidence of samples for e.g. invoices are drawn and checked. In the above illustration wherein no sales order of Scrap were generated, the auditor may increase the sample size of scrap invoices to check if the figures match with the financial statements to rely on the internal controls
- Transactions to be decided basis professional judgment.
- Documentation of test of details may be maintained in line with the documentation of test of controls provided in the previous slide.

Depending on the client's ERP System and internal controls maintained, Test of Controls and Test of Details can be better quantified by the Auditor

# GST Certification – Key Reconciliations

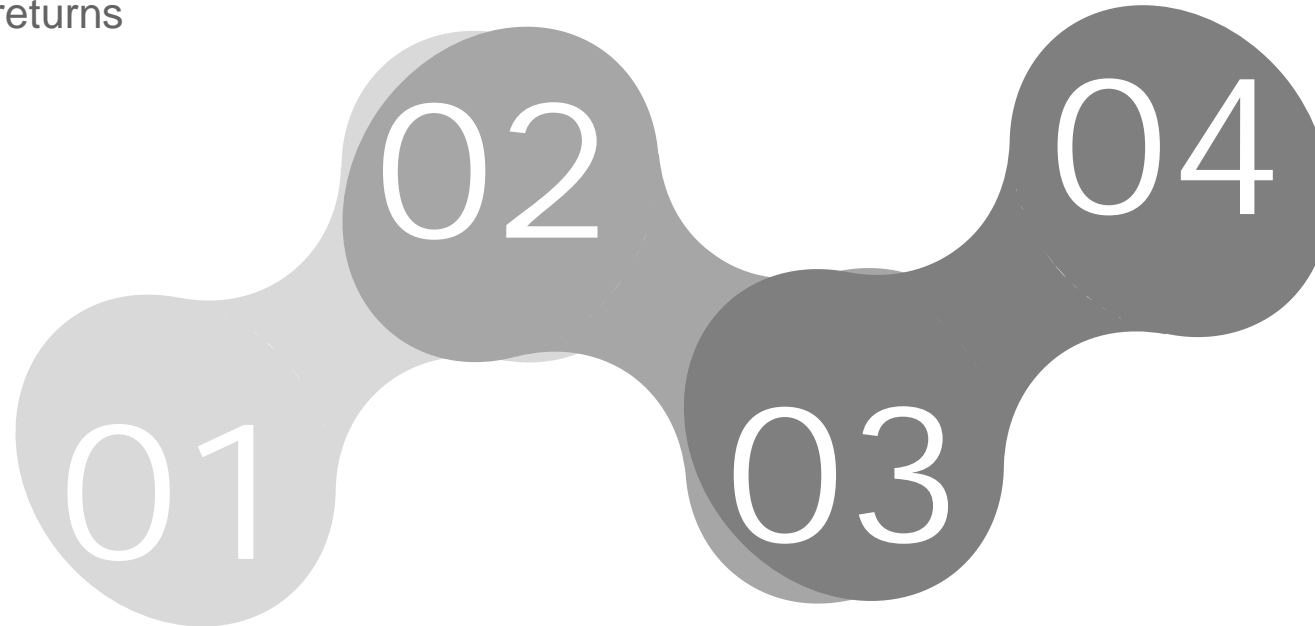
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## ITC Reconciliation

The entries in Input Tax Credit GL needs to be reconciled with the corresponding ITC disclosed in the monthly returns

## Master Reconciliation

A master reconciliation needs to be prepared for each of the three categories in case there are multiple GSTIN under one PAN



## Sales / Turnover Reconciliation (including RCM)

The backup workings needs to be linked and the reconciliation items should be appropriately categorized.

## Outward Tax liability reconciliation

The entries in Liability GL needs to be reconciled with the liability as disclosed in GSTR 9

# GST Certification – Documentation at various stages

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1

## General Information

Audited books of accounts (signed+excel)

GSTIN wise Trial Balance / books of accounts

List of records maintained

Business understanding memo

2

## Compliance data

Copies of returns filed in excel + pdf format

Backup workings of returns

Extract of ITC ledger balances and Cash ledger balances from GSTN portal

Copy of GSTR 9

3

## ITC / Liability payment related

Details of reversals and workings

Details of additional liability payable under DRC – 03

Payment Challans

4

## Sample Documentation

Sample copies of outward and inwards invoices, agreements, contracts, Purchase Orders, Sales order, etc should be readily available

5

## Reconciliation

Reconciliation of turnover as per GSTR-9 with that of the financial statements

# Approach to Financial Statements

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- Reporting in Financial Statements is governed by the Accounting Standards whereas reporting is for GST is as per the provisions of GST Law. While revenue is recognised on the basis of milestones provided as per the accounting standards, GST is paid on “Supply”. With this, the need to reconcile the GST turnover with that of the turnover of financial statements arises. This is a major part of certifying the GST turnover of taxpayers in GSTR-9C
- Typically “Supply” covering all parts of Financial Statement comprise of-
  - Business’s main stream of revenue
  - Scrap sale
  - Sale of fixed assets
  - Movements through Balance Sheet
  - Other income that may be liable to GST
  - Understanding transactions in foreign currency to track any liability under reverse charge

Business Knowledge  
Document

# Documentation to be maintained by GST Auditor

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- **Management Representation**

- Management Representation is advised be taken on a GSTIN level rather than for a client group as a whole;
- Management Representation to be taken for facts and positions taken by the client.
- Industry Specific Issues may also be incorporated in the MR

- **Notes to GSTR-9C**

- Standard Notes are advised be taken on a GSTIN level rather than for a client group as a whole;
- Standard Notes to include auditors notes based on which the audit has been conducted
- The GST Auditor is advised to ensure that the standard notes get uploaded along with filing of GSTR-9C

- **UDIN Generation**

- As per the guidelines of ICAI, UDIN needs to be generated within 15 days of uploading GSTR-9C
- The auditor has to maintain a record of all the UDINs generated by him





# Record Keeping

# Record Keeping

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- Section 35(1) of the CGST Act, 2017 and Rule 56 of the CGST Rules, 2017 deals with maintenance of records
- Auditor should maintain key documentation in their Permanent and Working File basis the professional judgement.
- Preparation and Maintenance of records should be in a manner to be assessment ready.

Questions?



A photograph of two men in business attire shaking hands. The man on the left is wearing a light blue button-down shirt and dark grey trousers. The man on the right is wearing a light blue button-down shirt and dark grey trousers. They are standing in front of a window with vertical blinds. A large grey arrow-shaped graphic is overlaid on the left side of the image, pointing towards the handshake.

Thank You