

National Conclave on GST

- Subject** : Roadmap to GST Audit, Auditors Responsibility & Checklist for the Audit
- Date & Day** : Friday, 28th December, 2018
- Venue** : ICAI Tower, BKC, Bandra East, Mumbai -400051
- Faculty** : CA Naresh Sheth

Preamble

Scope of Presentation

- Analysis of sections and Rules relevant to GST Audit
- Scope of audit and responsibilities of auditor
- Relevance of Technical Guide of ICAI
- Practical and legal Issues relating to GST audit
- Challenges for auditor and auditees
- Checklist for GST Audit
- Presentation does not deal with Clause by clause analysis of Form GSTR 9C (audit report / certification)

Audit in Indirect Taxes – Historical Background

➤ Audits under earlier laws subsumed in GST:

Earlier laws	Mandatory Audit by External professional	Departmental Audit	Special Audit
Service Tax	No	Yes	Yes
Central Excise	No	Yes	Yes
Customs	No	Yes (PCA)*	Yes (OSPCCA) **
VAT (For Maharashtra) / 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

* Post clearance audit conducted in Customs premises

** On site post clearance audit conducted in Importer's premises

Statutory Provisions relating to GST Audit

Section 35(5) – Provision Mandating GST Audit

- 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 annual accounts**
 - **Reconciliation statement u/s 44(2); and**
 - Other documents
- In prescribed form and manner
- **It is the registered person's (auditee's) responsibility to submit above documents and not that of the auditor**

Rule 80(3) – Relevant Rule for GST Audit

- Every registered person whose “**aggregate turnover**” during a financial year **exceeds Rupees Two Crores** shall get his **accounts audited** as specified in Section 35(5) of the Act

- He shall furnish copy of :
 - **Audited annual accounts**; and

 - A reconciliation statement duly certified in **Form GSTR – 9C**
 - **Electronically** through the common portal either directly or through Facilitation Centre notified by the Commissioner

Section 44(1) – Submission of Annual Return

- Annual return is to be filed by **every registered person** for every financial year (irrespective of turnover) **on or before 31st December** following the end of financial year
- Annual return is to be filed electronically in **Form GSTR 9** [notified vide notification no. 39/2018 – Central Tax dated **04.09.2018**]
- Composition dealer is required to file Annual Return in **Form GSTR 9A**.
- Following persons are not required to file Annual Return:
 - Input service distributor
 - A person liable to pay TDS or TCS
 - Casual taxable person
 - Non-resident taxable person

Section 44(2) – Submission of Audit Report

- **Every registered person required to get his accounts audited under Provisions of Section 35(5)**
 - Shall furnish, electronically, the **annual return** (“**AR**”)
 - along with a copy of **audited annual accounts**; and
 - a reconciliation statement, reconciling value of supplies declared **in the return furnished for the financial year** with the **audited annual financial statements**; and
 - Such other particulars as may be prescribed

- **Issue** – Casual taxable person and non resident taxable person is obliged to get their account audited if turnover exceeds prescribed limit. However, they are not required to file AR. The audit in Form 9C means reconciliation of AR with audited accounts. Whether audit is necessary under this situation?

Penal Provisions – For Auditee

- Late filing fees for Annual return u/s 47(2):
 - Late filing fees for furnishing annual return beyond due date is Rs. 100 per day during which such failure continues subject to a maximum of quarter percent of his **turnover in the State / Union Territory**
- No specific provision prescribing penalty for not getting accounts audited or non-filing of audit report in Form No. GSTR 9C
- Section 125 of the Act provides for residuary penalty of Rs. 25,000/- for contravention of any provision of the Act or Rules for which no penalty is prescribed
- Residuary penalty U/s. 125 can be levied for:
 - Not getting the accounts audited u/s 35(5) of CGST Act r.w. Rule 80 (3) of GST Rule; and
 - Non-filing / delayed filing of GSTR 9C u/s 44(2) of CGST Act
- Similar penal provision are there in State GST Act and also under IGST Act. Would this mean that there will be separate penalties and late filing fees (under 3 different Acts) for one offence?

Probable Penal Provisions under Which Auditor May be Implicated

➤ Relevant extract of Section 122(3) of Act:

- Any person who –

- (a) aids or abets any offences specified in section 122(1) of the Act

- (b)

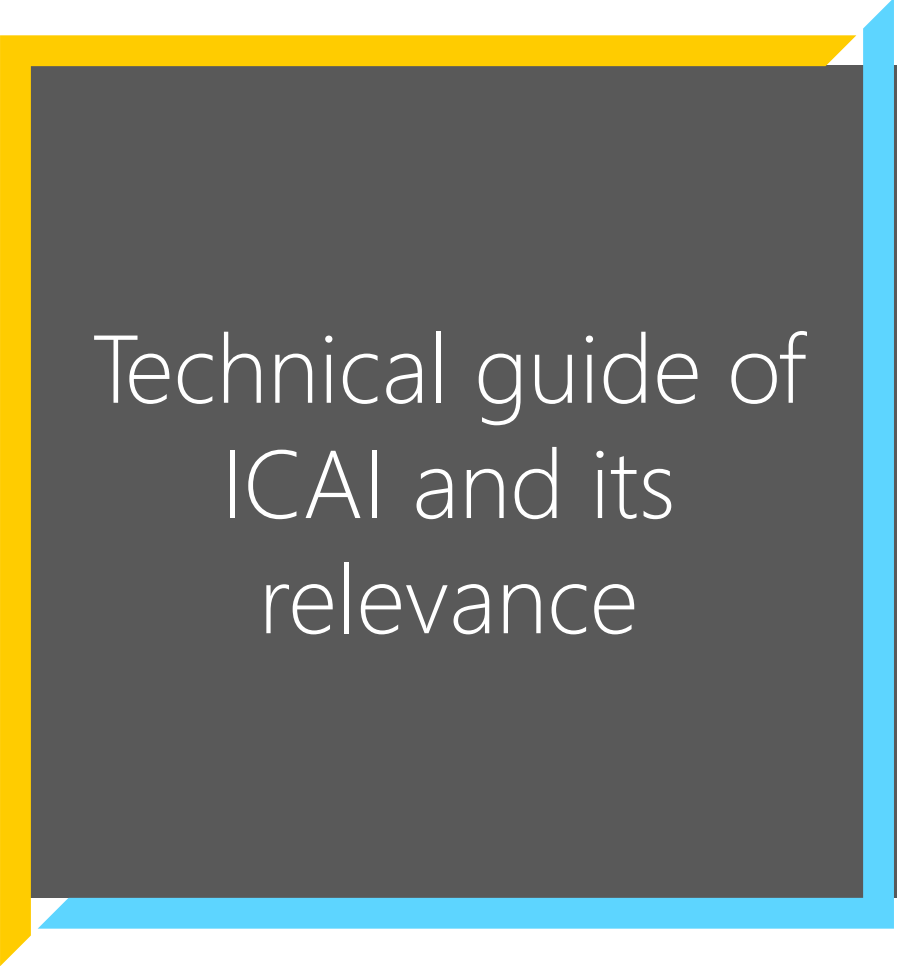
- (c)

- (d) fails to appear before officer of Central Tax, when issues with a summons for appearance to give evidence or produce a document in inquiry

- (e)

Shall be liable to penalty which **may extend to Rs. 25,000/-**

➤ Whether similar penalty can be levied separately under SGST Act, UGST Act or IGST Act?



Technical guide of ICAI and its relevance

Relevance of Technical Guide of ICAI

- ICAI has released 'Technical guide on Annual Return and GST Audit' on **16th October 2018**.
- **'Disclaimer' to technical guide-**
 - **Para no. 1:** The views expressed in this Guide are of the author(s). The Institute of Chartered Accountants of India may not necessarily subscribe to the views expressed by the author(s).
 - **Para no. 5:** It is notified that neither ICAI nor the Indirect Taxes Committee, or publisher or sellers will be responsible for any damage or loss to anyone of any kind or in any manner whatsoever if the contents of this book are used.
- **'Foreword' to technical guide-**
 - **Para no. 3:** I am confident that this publication will be of great significance and will provide assistance to our members on the critical issues arising while conducting audit. (President, ICAI)

Relevance of Technical Guide of ICAI

➤ **'Preface' to technical guide (Para no. 3)-**

- This paper does not deal with legal interpretations and rulings.
- This does not contain answers to all the problems that may arise in the day-to-day audit work.
- In such cases, the GST auditor may have to apply his mind judiciously, keeping in view the intent behind the law, principles and policies.

➤ **Conclusions can be drawn:**

- The technical guide issued by the ICAI is recommendatory.
- It has persuasive value, but not binding on the members of the ICAI.

Meaning of Term "Audit" and Scope of "Audit"

'Audit' – Statutory Definition

- Section 2(13) of the Act defines Audit to mean:
 - examination of **records, returns and other documents** maintained or furnished by the **registered person under the Act or the rules** made thereunder or **under any law for the time being in force** to verify the **correctness** of-
 - Turnover declared,
 - Taxed paid,
 - Refund claimed,
 - Input tax credit availed
 - To assess his compliance with the provisions of the Act or rules made thereunder.

Audit - Scope and Responsibility as per section 2(13)

➤ 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

Audit - Scope and Responsibility as per section 2(13)

- Claimed exemptions and refunds correctly
- Complied with procedures with respect to:
 - Registration and amendments,
 - Maintenance of accounts records,
 - TDS / TCS,
 - Payment of tax,
 - Invoicing etc.

Form GSTR-9C –Is it an report of audit contemplated u/s 2(13)?

- **Section 35(5) and Rule 80(3)** requires;
 - Audit of accounts; **and**
 - submission of duly certified reconciliation statement prescribed in Form GSTR-9C
- Does this mean that:
 - Certificate in Form GSTR-9C (Part-B) itself is an audit report? **Or**
 - Audit of accounts and Certification in Form GSTR-9C are two independent assignments?
- Part B of the Form GSTR-9C is similar to Form 3CA/3CB issued after conducting audit u/s 44AB of Income Tax Act, 1961. Form 3CA/3CB uses the term 'Audit report' while, Form GSTR 9C uses the term 'Certification'.
- In both the Income tax and GST law, the auditor is responsible to give his opinion on True and Correctness of particulars of Form 3CD and Form GSTR-9C respectively.

Confusion as to Scope of Audit

- There is a conflict as to role of auditor as per definition of the term "audit" given u/s 2(13) of the Act and ultimate scope as laid down in form GSTR 9C. Following question arises:
 - Whether role of auditor is only to certify the arithmetical accuracy of reconciliation statement; **or**
 - Auditor is expected to verify the correctness of:
 - Turnover declared
 - Taxes paid
 - Refund claimed
 - Input tax credit availed
 - Compliance with provision of Act and Rules
- **Whether auditor is duty bound to adhere to scope stipulated in Section 2(13) of the Act or restrict himself to certification of reconciliation only?**
- Whether government intention is to restrict the scope of audit to verification of reconciliation of AR with audited financial statement of auditee?
- **If auditor goes by Section 2(13), he practically assumes the responsibility of assessment**

GST Audit - Is it Certification or Audit Assignment?

- The difference between term “Certificate” and “Report” is explained by ICAI in Para No.2.2 of its “Guidance Note on Audit Report and Certificates for Special Purpose” published in 1984 (revised 2016) as under;
 - “A **Certificate** is a written confirmation of the accuracy of facts stated therein and does not involve any estimate or 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 auditors opinion thereon”
- Chartered Accountant assures factual accuracy of contents to the users of certificate
- Chartered Accountant, through his audit report, expresses his opinion on truth and fairness of contents

GST Audit - Is it Certification or Audit Assignment?

- GST Audit Report is not an expression of opinion but it certifies the correctness of reconciliation and other particulars given in Form GSTR-9C
- GST report tilts more towards certificate than the audit report
- **Technical guide (Pg.no. 400 & Pg.no.5)**
 - Primary objective of the Auditor is to certify the truth and correctness of GSTR 9C
 - The quantum of assurance required is “**absolute**” and “**not reasonable**”. Thus, once can discern that the “**Engagement risk**” sought to be targeted is zero and not even near zero
 - “Truth and correctness” would mean a much higher level of verification but not 100%. Sampling techniques to cover substantial part of the value could be an option to be used in GST Audits.

GST Audit - Is it Certification or Audit Assignment?

- **Whether absolute assurance is possible?** - Pg. No. 400 of Technical guide reads as under:

"The Registered Person is required to keep and maintain true and correct account of his books and records u/s 35(1) of the CGST Act in contrast to section 128 of Companies Act which only requires to keep books of account which give true and fair view of the state of affairs. Hence absolute assurance about particulars of 9C can come only if underlying records and documents forming part of the books of account, the examination of which are the source of this certification, are also absolutely risk free and not nearly risk free. So, from end to end absolute assurance is the essence."

Concerns in Audit Report (GSTR 9C)

Part III – Table 9 of GSTR 9C

Relevant Clause	Particulars	Remarks
9A to 9K	Reconciliation of rate wise liability and amount payable thereon	Auditor is required to disclose the Actual Tax Payable (rate-wise) under straight charge and reverse charge by the auditee: <i>Does this mean that auditor needs to report Actual tax payable under straight charge and reverse charge on all transactions undertaken by auditee? If yes;</i>
9L to 9 O	Also to report: <ul style="list-style-type: none"> • Interest • Late fees • Penalty • Other dues 	<ol style="list-style-type: none"> a. Whether auditor is obliged to examine the tax implications of each & every transaction recorded in financial statements? b. What about transactions with related parties & associated concern which are recorded in the books? c. What about transactions with related parties & associated concern which are not recorded in the books? d. What about barter & exchanges not recorded in the books?

Part III – Table 11 of GSTR 9C

Relevant Clause	Particulars	Remarks
11	Additional amount payable but not paid	<p>Auditor to report additional tax liability arising out of unreconciled amounts</p> <p>Short tax to be worked out by applying appropriate tax rate (<i>auditor has to find out relevant HSN code, value of each such unreconciled transaction and applicable tax rate</i>)</p> <p>Short tax to be bifurcated between CGST/SGST/UTGST and IGST (<i>auditor has to find out place of supply for each such unreconciled transactions</i>)</p> <p>Interest liability also to be worked out (<i>auditor has to determine time of supply for each such unreconciled transaction</i>)</p>

Part III – Table 14 of GSTR 9C

- Auditor is required to **certify amount of eligible Input Tax Credit** availed by auditee
- For certifying correctness of eligible ITC, auditor has to verify whether each credit taken is proper or not
- For verification of eligible ITC, auditor has to ensure whether:
 - ITC claimed is input tax as defined u/s 2(62) of the Act
 - ITC claimed on input, input services or capital goods as defined under CGST Act
 - All these above are used or intended to be used in course or furtherance of business
 - Auditee possess invoice on which ITC is claimed?
 - Auditee has received goods / services on which ITC is claimed?
 - Vendor has paid tax to the credit of government
 - Invoices for which ITC is claimed is paid within prescribed time limit
 - Reversal in respect of non-business purpose and exempted supplies is done properly
 - Reversal of ITC in respect of blocked credits u/s 17(5) is done properly

Prescribed Turnover Limit for Audit & Some issues

Meaning of Turnover and Prescribed Limit

- Every **registered person** whose **turnover** during a **financial year** exceeds **prescribed limit** shall get his accounts audited [**Section 35(5)**]
- Every registered person is liable to get his accounts audited where the **aggregate turnover** during the **financial year** exceeds **two crore** rupees [**Rule 80(3)**]
- '**Aggregate turnover**' as defined U/s 2(6) of the Act:

Means - Aggregate value of:

- Taxable supplies
 - Exempt supplies u/s 11
 - Nil rated supplies
 - Non-taxable supplies
 - Export of goods or services or both
 - Inter-state supplies
- } Exempt Supplies
u/s 2(47)

computed on all India basis of person having same PAN

Excludes

- Value of **inward supply** on which tax is payable on reverse charge basis
- CGST, SGST, UTGST, IGST and Cess

Meaning of Turnover and Prescribed Limit

➤ **'Turnover in a state'** as defined U/s. 2(112) of the Act :

Means - Aggregate value of:

- Taxable supplies
- Exempt supplies u/s 11
- Nil rated supplies
- Non-taxable supplies
- Export of goods or services or both
- Inter-state supplies made from the state

Made within a state by a taxable person

Excludes

- Value of **inward supply** on which tax is payable on reverse charge basis
- CGST, SGST, UTGST, IGST and Cess

Meaning of Turnover and Prescribed Limit

- **Section 35(5)** speaks of '**turnover**' while **rule 80(3)** speaks of '**aggregate turnover**'. This creates confusion as to computation of prescribed turnover limit for assessee having multiple registrations
- View may be taken that "Turnover" here means "Turnover in state" for the reasons stated below:
 - Section 35(5) uses the term 'Every registered person **whose** turnover.....'
 - GST Audit is GSTN wise reconciliation
 - Every separate registration is separate person (Auditee)
 - Penal provisions and late fees are also registration wise
 - Rule cannot override the Act and hence section 35(5) should prevail over Rule 80(3) for calculating the threshold limit for audit
- **Technical guide (Pg.no. 4) – relevant extract**
 - It is therefore, reasonable to interpret that the word 'turnover' used in section 35(5) ought to be understood as aggregate turnover.

Prescribed Turnover Limit – Some Issues

➤ Consider following situations:

Registration in 10 states	Turnover in each state Rs. 25 lacs
Registration in Maharashtra and Gujarat	Turnover in Maharashtra – Rs. 2.5 Cr. and in Gujarat Rs. 50 lacs
Registration in Maharashtra and 10 other states	Turnover in Maharashtra – Rs. 3 Cr. and in each other state Rs. 5 lacs
Registration in Maharashtra and having branch in Gujarat as it deals with in exclusively exempt supply	Turnover in Maharashtra – Rs. 5 Cr. and turnover of exclusively exempt supply in Gujarat Rs. 10 Cr.

➤ **Whether “turnover” means turnover as per accounts or turnover as per GST returns?**

- It should mean turnover as per GST legislation
- Turnover definition speaks of **value of the supplies**
- The term ‘value’ is defined u/s 15 of the Act read with Rule 27 to 35 of CGST Rules
- Example – Inter state branch transfers do not form part of turnover reflected in accounts. However, it is a supply liable to tax under GST legislation

Prescribed Turnover Limit – Some Issues

- Rule 32 prescribes presumptive valuation for following suppliers and hence their turnover as per accounts would be much higher than the turnover as per the GST returns:
 - Forex dealers and money changers [Rule 32(2)]
 - Air travel agents [Rule 32(3)]
 - Life insurance companies [Rule 32(4)]
 - Dealers in second hand goods [Rule 32(5)]
- Whether one has to take actual turnover or presumptive value for considering threshold limit? For example value of the tickets sold by travel agent would be Rs. 10 Crores but taxable value of such services might be Rs. 75 Lakhs.
 - In GSTR 1 Return (Row No. 4 – taxable outward supplies), the assessee is obliged to declare value as per Invoice raised and also taxable value of such invoice
 - Whether value of supply would mean taxable value of the supply or invoice value of supply ?

Whether following persons are liable to GST audit?

- A medical practitioner having medical practice of Rs. 1.90 crores and shop rental income of Rs. 20 lakhs
- A law firm having legal services billing of Rs. 1.98 crores and scrap sales of Rs. 3 lakhs
- Hospital having health care services receipts of Rs. 20 crores and pharmacy sales of Rs. 70 lakhs
- Petrol Pump with turnover of Rs. 50 crores and revenue of Rs. 5 lakhs from PUC , repairs and sale of lubricants
- Wine Shop having Alcohol turnover of Rs. 5 Crore and small turnover of Rs 10 lakhs of Namkeen Packets?
- Share broker having brokerage income of Rs. 50 lakhs and own share trading of Rs. 10 crores
- Builder / developer having sale of land of Rs 50 crores in the FY and not having any other income
- Composition dealer after achieving turnover of Rs.1.50 Crore opt for normal scheme and turnover in Financial year exceeds Rs. 2 Crores

Financial Year - Ambiguity

- Section 35(5) as well as Rule 80(3) speaks of turnover in **financial year**
- Term '**Financial year**' is not defined in the Act or Rules
- Two possible views for determining threshold:
 - To consider turnover for full year April 2017 to March 2018 even though GST was not applicable during the period April 2017 to June 2017; or
 - To consider turnover only for the period July 2017 to March 2018
- Take example where a turnover of an assessee during the period April to June 2017 is Rs. 110 lacs and Rs. 95 lacs during the period July 2017 to March 2018:
 - If first view is taken, assessee is required to get VAT as well as GST audit done
 - If second view is taken, GST audit is not applicable

Financial Year - Ambiguity

Technical guide (Pg.no. 4)

- In the absence of clarification from government, also to avoid any cases of default, it is reasonable to reckon the turnover for the whole financial year

➤ How to proceed in case where auditee follows calendar year or year end other than March ?

Technical guide (Pg.no. 412)

- Section 35(5) of CGST/ SGST Act and Rule 80(3) of CGST/ SGST Rule both refer to financial year
- Financial year has not been defined under GST Acts. Therefore, reference ought to be made to General Clauses Act as per which financial year means a year which starts from first of April
- Hence GSTR 9C cannot be filed for accounting year, which is different from financial year

How to get audited figures for relevant financial year?

Whether auditee needs to recast his accounts and get recasted financial statements audited by Chartered Accountant?

Other Issues

- The audited financial accounts for first year will be for April 2017 to March 2018 while GST returns will be for the period July 2017 to March 2018:
 - Relevant figures for quarter ended on June, 2017 is to be worked out for reconciling the financial statements and GST annual return. This is to be done for all registered locations
- Entity having multiple registrations will have single consolidated audited financial statement.
 - Separate annual returns are to be filed in respect of each registered establishment of an entity
 - Issues in reconciling annual returns of multiple registered locations with consolidated financial statement of an entity as a whole
 - There could be different GST auditors for different registered locations resulting into delays in getting authenticated / audited figures of other registered locations in time
 - Co-ordination issues between different auditors for different locations

Technical guide (Pg.no. 280)

- 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.
- Typical accounting treatment or disclosure in financial statements by some sectors:
- Accounts of Builders, Developers, Infrastructure Companies, Mutual Funds
 - Companies with IND AS accounting

Other Issues

- Whether non-corporate entity (not having obligation to get the accounts audited under any other law) is required to get his accounts audited u/s 35(5) where he has following revenue / transactions:
 - Commercial rental income
 - Interest income
 - Sale proceeds of fixed asset
 - Value of deemed supply under Schedule I
 - Advances received from customers
 - Stock transfer among branches located in different states (Single PAN based entity)

Pre-Audit Process

Audit Engagement

- Audit engagement / appointment:
 - Obtain board resolution and appointment letter by officer duly authorised by board
 - In case of non corporate auditee, obtain appointment letter duly signed by proprietor, partner or any person authorised by the auditee
 - Appointment letter should include:
 - Objective and scope of engagement
 - Responsibility of the auditor
 - Responsibility of auditee (Appointing person)
 - Agreeing to provide unrestricted access to records, documents and information required for audit
 - Professional fees for assignment
- Communication with previous auditor
- Issue formal acceptance of appointment

Audit Planning

- Understanding the organisation and business setup of the auditee
- Understanding the nature and complexities of business of the auditee:
 - Its products and services
 - Methodology and types of operation
- Past history of indirect tax litigation of auditee
- Listing out the GST issues common for auditee's industry / trade / business
- Auditee specific GST issues
- Nature and complexities of IT systems, ERP, Accounting Software used by auditee
- Assess current level of GST compliance by the auditee
- Risk assessment – Decision of extent of test checking based on ABC analysis
- Areas to be covered under audit
- Extent of test checking and sample size based on risk assessment

Audit Planning

- Composition of audit team - right mix of seniors and juniors
- Responsibility allocation among team members
- Estimate manpower requirement
- Scheduling and time allocation
- Compilation of general as well as auditee specific checklist
- Designing exhaustive questionnaire calling relevant details and documents from auditee

Collection of Relevant Details and Documents

- Notes on nature of business
- Business set up i.e. details of offices, warehouses, factory units, retail outlets, job worker premises etc.
- GST Registration Certificates for all locations
- List of associate concerns and related parties
- Dealings with associate concerns, related parties and branches / entities in other States even if such dealings are without monetary consideration. These details should be obtained for overseas entities / parties also
- GST implementation report, if any
- Goods or services in which auditee deals along with HSN code / service accounting code (SAC)
- Software used by the auditee
- Accounts and records maintained by the auditee
- MIS Reports
- Location wise stock records

Collection of Relevant Details and Documents

- Outward supplies without consideration
- Legal position and stand taken by auditee
- Audited annual accounts
- Detailed transaction trial balance and/or financial statements for each registered location
- Detailed groupings of income and expenditure
- Important contracts and agreements with customers, vendors, business associates etc.
- User ID and password for GSTN common portal
- Sample invoices for all streams of revenue
- Sample invoices for major inputs, capital goods and input services on which ITC is claimed
- Notices or communication received from GST authority

Collection of Relevant Details and Documents

- Copy of show cause notices (if any) received and replies thereto
- Copy of adjudication orders / appeal orders (if any) received
- Departmental audit observations, if any
- Copy of written opinions, if any, taken on GST matters
- Legal position and stand taken by the auditee in GST matters
- Relevant extract of internal auditors report on GST compliances
- Monthly GST Workings for each registered location:
 - Monthly outward supply register
 - Tax payable on reverse charge basis

Collection of Relevant Details and Documents

- Input tax credit register
 - Refunds claimed
 - Import and export of goods / services
 - Advances received and tax discharged on the same
- Monthly returns (GSTR 1, GSTR 2, GSTR 3, GSTR 3B etc.) filed by the auditee
 - Annual return for each registered location
 - List of foreign inward and outward remittances along with copies of form 15CA / CB
 - Form No. 26AS as appearing on income tax (NSDL) portal
 - **Reconciliation of revenue as per P & L account and GST Returns**

Timings and Modality for GST Audit

- Monthly / bi-monthly / quarterly / half yearly audit would be most ideal for auditor as well as auditee:
 - Work load is evenly spread over the year
 - Periodic reconciliation of financial statements with GST returns smoothens year end reconciliation and closure
 - Facilitates timely corrective actions, prompt rectifications and prevents recurrence of lapses
- In case where periodical audit is not feasible, GST audit for the year in any event should be done before 30th September. This will enable auditee to issue credit notes where there is excess charging of GST or to claim input tax credit which are missed out while filing monthly returns
- If possible, simultaneous conduct and closure of all audits i.e. statutory audit, tax audit, transfer pricing audit and GST audit. This will eliminate or minimise possibilities of major omissions and errors and ensures efficient closure of accounts

Execution of Audit Assignment and Verifications

Tax Liability on Outward Supply

- Verification of revenue with base documents such as invoices, debit notes, credit notes, receipt vouchers, stock records and e-way bills to ensure:
 - GST is levied on all outward taxable supplies effected during the year
 - Invoice has been raised within the time limit prescribed in the Act and Rules, keeping in view provisions of time of supply
 - Invoices / debit notes / credit notes / receipt vouchers contain the prescribed particulars
 - In case of advances received, receipt vouchers are issued and tax liability has been discharged
 - Transaction is properly valued as per section 15 of the Act read with Rule 27 to 35 of CGST Rules
 - Place of supply has been correctly determined and accordingly appropriate tax is charged
 - Correct classification of transaction under proper HSN / SAC code

Tax Liability on Outward Supply

- Correct rate of tax is applied
 - Exemption, if any, is rightly claimed
- Discussions with auditee and perusal of various agreements to ensure that GST is discharged on transactions specified in Schedule I (without monetary consideration) as these transactions may not appear in the financial statements or accounts
- Verification of fixed asset schedule to ensure that proper GST is discharged on sale of assets and ITC credit is reversed on disposal of such assets

Tax Liability on Inward Supply on Reverse Charge

- Obtain groupings, ledger accounts or dumps of expenses to identify supplies liable to tax on reverse charge
- Verify relevant invoices / bills for expenses liable on reverse charge
- Verify the invoices and ledger details of working of tax paid on reverse charges by the auditee to ensure:
 - Transaction is properly valued as per section 15 of the Act and Rule 27 to 35 of CGST Rules
 - Place of supply has been correctly determined and accordingly appropriate tax is charged
 - Correct classification of transaction and proper HSN / SAC code is applied
 - Correct rate of tax is applied
 - Exemption, if any, is rightly claimed
- Verify whether the RCM liability is properly accounted for and tax is timely discharged keeping in view the time of supply provisions
- Verify whether input tax credit of tax paid under RCM is properly claimed in timely manner

Availment and Utilization of Input Tax Credit

- Verify the ITC register with invoices on the basis of which ITC is claimed
- Verify whether all the conditions necessary to avail the ITC has been complied with:
 - Goods / services in respect of which ITC claimed have been received
 - Invoice for the supply has been received
 - The vendor has made the payment of tax
 - Vendor and the auditee have furnished the returns in prescribed form
- Ensure that ITC has not been claimed in respect blocked credits specified in Section 17(5) of the Act
- Verify whether reversal of ITC has been made in respect of invoices not paid within 180 days from the date of such invoices [Second proviso to section 16(2) of the Act]
- Verify whether proportionate reversal of ITC has been made in respect of exempt supplies and goods / services used for non business purpose

Availment and Utilization of Input Tax Credit

- Verify whether proper reversal has been made by the auditee in terms of section 17(5)(h) in respect of:
 - Goods lost,
 - Goods stolen,
 - Goods destroyed,
 - Goods written off or
 - Goods disposed off by way of gift or free sample
- Verify whether proper reversal has been made by auditee in terms of section 18 in respect of:
 - Auditee migrating from normal scheme to composition scheme
 - Auditee's supplies becoming wholly exempt
- Reconciliation of ITC as per accounts and ITC as reflected in GSTR 2A
- Whether year end ITC balance as per accounts is matching with balance as per electronic credit ledger appearing in GSTN Portal.

Payments Verification

- Whether auditee has timely discharged its tax obligation
- Whether taxes has been properly discharged under appropriate heads

- Major heads:

CGST	SGST	UTGST	IGST	Compensation cess
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- Minor heads

Tax	Interest	Late fees	Penalty	
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- Whether the tax paid as per accounts matches with the entries in electronic cash ledger appearing in GSTN
- Whether year end balance of tax paid as per accounts matches with balance in electronic cash ledger appearing in GSTN portal

Other Verifications

- Amendments in registration
- Whether GSTIN is displayed in Name Board viz., Godown /Branches / other places of business
- Issue of tax invoices, credit notes and debit notes as per section 31 to 34 of the Act
- Maintenance of accounts and records as per section 35 and 36 of the Act
- Whether claim of refund is as per section 54 and 55 of the Act
- Matching of e-Way bill summary with outward supply
- Cross verification of inventory records with purchase and sales register
- Stock and inventory reconciliations
- Liabilities in following special cases:
 - Transfer of business
 - Amalgamation or merger of the company
 - Cessation of business

Other Verifications

- Transitional credits in the first year i.e. F.Y. 2017-18
- Compliance of Section 143 relating to job work
- Compliance of Section 20 of the Act relating to Input service distributor
- Compliance of Section 171 in respect of anti-profiteering
- Ratio analysis :
 - Input / output ratio
 - Gross profit ratio
 - Wastage, shortage and production loss
- Cross verification of revenue with Form No. 26 AS of Income Tax
- Liability on import of services with reference to certificate in Form No. 15 CA and CB
- Cross verification of expense with TDS returns

Reporting and Sign off

- Partner / proprietor's review
- Confirmations from other auditors as to turnover declared by them in registered unit audited by them or alternatively, certificate signed by the auditee giving details of turnover of other registrations.
- Staff reporting and filter the queries of the audit team and compile draft audit observations
- Communication of draft audit observations to the auditee, preferable written communication
- Discussion on draft audit observations with auditee and to obtain clarifications, preferably in writing
- Wherever auditee agrees to the audit observations, rectifying the same in subsequent monthly returns or in annual return by ensuring the payment for shortfall of tax along with interest
- In case where auditee is not agreeing to audit observations:
 - List out such transactions and the tax position taken by auditee on such transaction
 - Assess the probable tax impact of such transactions
 - Report it appropriately in audit report in form GSTR 9C

Reporting and Sign off

- Where auditor's views on debatable / litigative issues matches with legal position taken by the auditee, put appropriate disclosures in the report as to position taken by auditee for discharging his tax liability
- Put appropriate disclaimers and caveats in report where auditor is not in a position to verify certain details or documents impacting GST liability or refund claims of the auditee
- Obtain detailed representation letter from the auditee covering explanations, affirmations, confirmations given by him in course of audit and relied upon by the auditor
- Sending draft audit report to the auditee for his inputs, concurrence or comments
- Ensure that report is issued in the prescribed form duly signed and sealed in the manner prescribed by ICAI
- Prompt billing for audit services rendered as service supplier is legally obliged to raise invoice within 30 days of completion of service

Documentation and Preservation of Records

- Preserve relevant documents and working papers either in hard or soft copy till expiry of limitation period i.e. 6 years and 9 months from the end of financial year for which audit is done
- Advisable to preserve hard copies of following documents till the expiry of limitation period:
 - Appointment letter
 - Acceptance letter
 - Management representation letter
 - Notes on nature of business, organisational structure, written opinion and other such notes
 - Draft audit observation reports and written response to it by auditee
 - Annual return filed by auditee
 - Copy of duly signed report

Words of Caution

- Views expressed in the presentation are the personal views of faculty based on his interpretation of law
- Presentation needs to be revised and revisited on amendment in GST Law or release of guidance note by ICAI
- Presentation is made for educational meeting arranged with a clear understanding that neither the Faculties nor the WIRC will be responsible for any error, omission, commission and result of any action taken by a participant or anyone on the basis of this presentation
- Views expressed by the faculty should not be treated as professional advice or legal opinion on the issue discussed



THANK YOU