



GST Audit



S KHAITAN & ASSOCIATES

SHUBHAM KHAITAN

GST AUDIT

INTRODUCTION

The introduction of GST is a major transformation in our national taxation system which has drastically affected and impacted our business. In order to ensure compliance with the various GST provisions and find out the areas of leakage of tax revenue, audit is an essential tool for any business. This can help a business not only to rectify the latent errors which may have occurred but also strengthen their internal control system for their prevention in future. At the same time, it provides an assurance to the Government regarding the correctness of the compliances made by the registered person. So, the audit provisions have been incorporated under GST law.

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.

ANNUAL AUDIT BY CA/CWA

Section 35(5) of the CGST Act, 2017: Every registered person whose turnover during a financial year **exceeds** the prescribed limit **2 crore** 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.

Rule 80(3) of the CGST Rules, 2017: Every registered person whose **aggregate turnover** during a financial year **exceeds 2 crore** rupees shall get his accounts audited as specified under sub-section (5) of section 35 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.

Section 44 of the CGST Act, 2017: 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, **on or before the thirty-first day of December following the end of such financial year**, the annual return 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. (This provision is not applicable to ISD/TDS/TCS/CTP/NRTP).

Interpretation:

Every registered person whose turnover during a financial year exceeds Rs. 2 crores needs to get his accounts audited by a Chartered Accountant or a Cost Accountant and shall furnish electronically:

- copy of the audited annual accounts,
- reconciliation statement, reconciling the value of supplies declared in the return with the audited annual financial statement, in duly certified Form GSTR 9C
- annual return using the Form GSTR 9B by 31st December of next financial year
- such other documents, particulars as may be prescribed.

Rectifications After Return Based on Results of Audit Under GST:

If any taxable person, after furnishing a return discovers any omission/incorrect details (from results of audit), he can rectify subject to payment of interest. However, no rectification will be allowed after the due date for filing of return for the month of September or second quarter, (as the case may be), following the end of the financial year, or the actual date of filing of the relevant annual return, whichever is earlier.

Broad scope of audit

Following are the relevant areas which the auditor is required to review carefully:

- Books of account and other related records and registers are to be maintained
- Outward supplies/taxes are to be declared in the annual return and the books (including undeclared)
- Inward supplies/taxes are to be declared in the annual return and the books (including undeclared)
- Adjustments to inward/outward supplies and taxes is based on entries in books of account
- Specific transactions that are to be included / excluded from the value of supply
- Exemptions and abatements under GST law
- credits determined as ineligible
- classification of outward supplies, rate of tax applicable and computation of tax liability
- computation and classification of inward supplies, the amount of input tax paid and deductions of input tax credit

Reconciliation required between books and return for GSTR 9C

For the purpose of reconciliation between the books of accounts and the returns submitted under GST, following items should be reconciled in Form GSTR 9C:

- Reconciliation of net outward supplies (taxable, zero rated, export with IGST etc.)

- Reconciliation between output tax payable (tax, interest, fee etc.) under each head
- Reconciliation of net inward supplies (including RCM inward supplies)
- Reconciliation of tax paid on RCM
- Reconciliation of ITC on all inward supplies (including RCM)
- Reconciliation of refund claimed under the GST Acts
- Reconciliation of outward supplies on which no tax has been paid (exempt/non GST/reverse charge)
- Reconciliation of inward supplies on which no ITC has been taken (ineligible ITC, exempt, non GST)

Year end control checks for effective records

Before finalizing the books of accounts and getting it audited under any law, following control checks should be put in place:

- Check the reconciliation of output tax liability between GSTR 3B and GSTR 1
- Check the reconciliation of ITC between GSTR 2A and GSTR 3B
- Check the reconciliation of RCM (both liability and ITC) between returns and accounts
- Check reversal of ITC due to non-payment within 180 days
- Capture mistakes of last year corrected in this year separately
- Prepare GSTIN wise trial balance for reconciliation
- Reconcile the balances of electronic cash ledger and electronic credit ledger with accounts
- Check the reconciliation between books of accounts and GST returns

SPECIAL AUDIT

Section 66 of the CGST Act, 2017 (read with Rule 102 of the CGST Rules, 2017):

If at any stage of scrutiny, inquiry, investigation or any other proceedings before him, having regard to the nature and complexity of the case and the interest of revenue, any officer not below the rank of Assistant Commissioner, is of the opinion that the value has not been correctly declared or the credit availed is not within the normal

limits, he may, with the prior approval of the Commissioner, direct such registered person in FORM GST ADT-03 to get his records including books of account examined and audited by a chartered accountant or a cost accountant as may be nominated by the Commissioner.

The chartered accountant or cost accountant so nominated shall, within the period of 90 days with maximum extension of further 90 days, submit a report of such audit duly signed and certified by him to the said Assistant Commissioner mentioning therein such other particulars as may be specified.

Special audit can be conducted even if accounts of the registered person have been audited under any other provisions of this Act or any other law for the time being in force. The expenses of audit including the remuneration of such chartered accountant or cost accountant, shall be determined and paid by the Commissioner and such determination shall be final.

The registered person shall be informed of the findings of the special audit in FORM GST ADT-04 and shall be given an opportunity of being heard in respect of any material gathered on the basis of special audit. The proper officer may initiate action under section 73 or section 74 where the special audit conducted results in detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly availed or utilised.

AUDIT BY TAX AUTHORITIES

Section 65 of the CGST Act, 2017 (read with Rule 101 of the CGST Rules, 2017):

The Commissioner or any officer authorised by him, by way of a general or a specific order, may undertake audit of any registered person for a financial year or multiples thereof, at such frequency and in such manner as may be prescribed. Audit may be conducted at the place of business of the registered person or in the office of the said officers and shall be completed within a period of 3 months from the date of commencement of the audit. It may be further extended for a maximum period of 6 months by the Commissioner.

The registered person shall be informed by way of a notice in FORM GST ADT-01, not less than 15 working days prior to the conduct of audit. During the course of audit, the authorised officer may require the registered person:

- to afford him the necessary facility to verify the books of account or other documents as he may require
- to furnish such information as he may require and render assistance for timely completion of the audit.

The authorised officer with the assistance of the team of officers and officials accompanying him thereby verify

- the documents on the basis of which the books of account are maintained
- the returns and statements furnished under the provisions of the Act and the rules made thereunder
- the correctness of the turnover, exemptions and deductions claimed
- the rate of tax applied in respect of the supply of goods or services or both
- the input tax credit availed and utilized
- refund claimed
- and other relevant issues

and record the observations in his audit notes. The discrepancies noticed are informed to the registered person where after he may file his reply and the officer shall finalise the findings of the audit after due consideration of the reply furnished. On conclusion of audit, the officer shall, within 30 days, inform the registered person, about the findings, his rights and obligations and the reasons for such findings in FORM GST ADT-02.

The proper officer may initiate action under section 73 or section 74 where the audit results in detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly availed or utilised.

CONCLUSION

From the above, it may be concluded that audit is an important compliance review function for all businesses. It is pertinent that the professionals should be diligent and

exercise due professional care in carrying out their function. This function can help in building a stronger technological system and perhaps lead to substantial savings in terms of cost and revenue leakage. The businesses should provide all possible information / documents and have transparent dialogues with the auditor for the overall improvement of their internal control system.

Shubham Khaitan

B.Com(Hons), ACA, ACS, CFA(US), DISA(ICAI)

Partner, Tax & Regulatory

S. Khaitan & Associates | Chartered Accountants

T: +91 33 4068 7062 | M: +91 9831912725

E: shubham@cakhaitan.com

A: Mookerjee House, 2nd Floor

17, Brabourne Road, Kolkata 700 001

W: www.cakhaitan.com



REGD OFFICE : 24/25, RUPCHAND ROY STREET,
3RD FLOOR,
KOLKATA – 700007

ADMIN OFFICE : MOOKERJEE HOUSE,
17, BRABOURNE ROAD, 2NDFLOOR
KOLKATA - 700001

PHONE NO : 03340687062, +919831912725

EMAIL ID : info@cakhaitan.com
shubham@cakhaitan.com

WEBSITE : www.cakhaitan.com