



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
GST & INDIRECT TAXES COMMITTEE

GST Refresher Course

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Audit with GST Prospective





Audit with GST Prospective

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Books of
Accounts

Important
Documents

Books of Accounts





P & L Account – Income

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Supply of Goods and Services

- Taxable / Exempt
- Exports (separate disclosure)
- Other Income (are they supplies)
- Reimbursements (are they supplies)

Non-Taxable items

- Insurance claims
- Profit on sale of Asset (indicative of sale of FA)
- Financial Debit/Credit Notes



P & L Account – Income

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- Invoice dated previous period received later
- Goods received in next tax period
- Accounting of purchases after Quality Check
- Provision entries
- Accounting for ITC
 - Debited to ITC GL?
 - Ineligible ITC debited to?



Other Income / Sales

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- i) If this ratio is higher than previous period, it may be on account of the following:
 - a) Under valuation of finished goods by non-inclusion of other incomes like recovery of Advertisement expenses, Packing and Forwarding Expenses in the assessable value.
 - b) Non-payment of duty on scrap/rejects/job work.
- ii) GST liability on Other Income may also be examined.



Stock of Goods Transferred

- Invoice Issued
- Delivery Challan
- Goods Received by other Unit even in the same GSTN

Inter Branch Cross Charge

- Invoice Issued
- Services provided
- Services Shared like use of common software



P & L Account – Expenses

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Expenses can be divided into the following categories

- Expenses on which ITC availed
- Expenses on which ITC not availed
- Expenses on which GST paid on reverse charge
- Expenses on which no GST charged by supplier as below threshold
- Expenses with NIL rated GST
- Expenses on which GST not leviable
- Expenses charged to tax under old law



P & L Account – Expenses

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- *Inward supplies liable to RCM*
 - *GTA, Lawyer fees, Motor rental, Sponsorship, Director's remuneration*
- *Salaries - Perquisites*
- *Ineligible ITC expenses*
 - *insurance, servicing, repair and maintenance, renting of Motor Vehicles*
 - *Staff Welfare: food and beverages, outdoor catering, life insurance and health insurance*
 - *beauty treatment, health services, cosmetic and plastic surgery,*
 - *membership of a club, health and fitness centre*



P & L Account – Expenses

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- Recoveries credited to Expenses (Customers /Employees)
- Purchase returns disclosed as Sales in GST Returns
- Prepaid expenses?
- Provisions for expenses?
- Free samples / Promotional items / Goods written off
- Credit of GST when POS other state



P & L Account – Expenses

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- ITC claimed as refund, is expensed out
- Unjust enrichment?
 - Commissioner of S.T., Ahmedabad Vs. S. Mohanlal Services [2010 (18) STR 173 (Tri. – Ahmd.)],
 - Elantas Beck India Ltd V/s CCE & ST 2016 TIOL 1667 CESTAT- Mum
 - Balaji Pressure Vessels Ltd v/s CCex 2016 (68) taxmann.com 315 (Hyderabad)
- Merely expensed out NOT EQUAL TO Unjust Enrichment



Balance Sheet Items

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- *Advances from Customers*
 - Goods: Below Rs 1.5 cr Turnover: 13/10/2017 to 14/11/2017*
 - Above Rs 1.5 cr Turnover: 15/11/2017 onward*
 - Services: Taxable on Receipt*
- *Both need to be added to regular Turnover, and previous year's figures need to be reduced from Turnover*
- *Deposits vs Advances*



Disclosure of transactions with related parties

Section 15(1)

The value of a supply of goods or services or both **shall be the transaction value**, which is the price actually paid or payable for the said supply of goods or services or both **where the supplier and the recipient of the supply are not related** and the price is the sole consideration for the supply.



Current / Non-Current Investments

ITC Chapter of CGST Rules:

Explanation.—For the purposes of this Chapter,—

(1).....

(2) for determining the value of an exempt supply as referred to in sub-section (3) of section 17—

(a) the value of land and building shall be as adopted for stamp duty.....

(b) the value of security shall be taken as one per cent of the sale value of such security.



Reconcile Accounts - GST data

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- Balance of Electronic Credit ledger with ITC in books
- Balance of Electronic Cash ledger with excess cash paid in books
- GST paid by cash in March return, with payable as per books
- Refund claimed in GST portal with GST ITC Refund receivable in books
- Refund rejected in GST portal with Rates and Taxes in books
- Turnover and output liability in GST returns and books



Reconcile Accounts - GST data

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- ITC claimed in GST returns and books
- ITC reversed in GST returns and books
- Ineligible ITC in GST returns and books
- Set-off entries passed in GST returns and in books
- SCN/ ASMT 10/ Demand order with contingent liability/ liabilities
- Adjustments of previous year, done in subsequent GST returns

Important Documents

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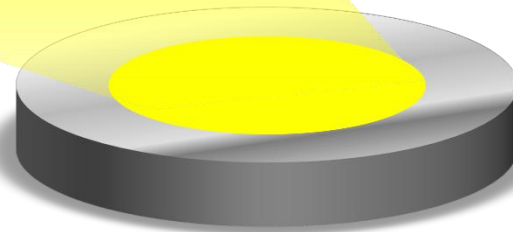




Directors'
Report

Auditor's
Report

Notes on
Accounts





Directors' Report

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- Expenditure in foreign currency - Paid for services - GST on RCM
- Earnings in foreign currency – Check whether LUT filed
- GST on remuneration to directors (other than salary) - RCM
- GST on sitting fees – RCM



Directors' Report

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- CSR activities - Whether GST paid if any has been claimed as ITC
- Correctness of any reference in the report to GST paid (under contributions to exchequer) if any
- Response to Auditor's comments (EoM or Qualification)
- Any extra-ordinary events like fire etc (loss of material)
- New products, marketing techniques



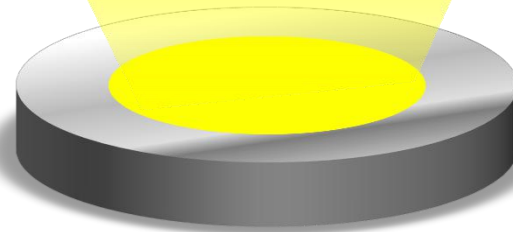
Important Documents

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Directors'
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Auditor's Report

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- *Company Audit Report (CARO)*
- *Tax Audit Report (Form 3CB/3CD)*
- *Internal Audit Report (Internal/External)*



Statutory dues: Clause 3(viii)

Whether the company is regular in depositing undisputed statutory dues including **Goods and Services Tax** Provident Fund, employees' State Insurance, Income-tax, **Sales-tax**, **Service Tax**, duty of customs, **duty of excise**, **value added tax**, cess and **any other statutory dues** to the appropriate authorities and

if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;



Statutory dues

- *Regularity of payment*
- *Undisputed*

Disputed vs Undisputed

- *Need positive evidence or action on the part of the company to show that it has not accepted the demand for payment of tax or duty*

“Dues” would include taxes, penalty and interest



1. **Satisfied** : undisputed statutory dues including “GST.....etc” have been regularly deposited by the company with the appropriate authorities in all cases during the year
2. **Partially Satisfied** : undisputed statutory dues including “GST etc” have been regularly deposited by the company with the appropriate authorities though there has been a slight delay in a few cases.



3. **Partially Not Satisfied** : undisputed statutory dues including “GST.....etc” have not generally been regularly deposited with the appropriate authorities though the delays in deposit have not been serious.
4. **Not Satisfied** : undisputed statutory dues including “GST.....etc” have not been regularly deposited with the appropriate authorities and there have been serious delays in a large number of cases



Auditor's report - CARO

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Statement of Arrears of Statutory Dues Outstanding for More than Six Months

<i>Name of the Statute</i>	<i>Nature of the Dues</i>	<i>Amount (Rs.)</i>	<i>Period to which the amount relates</i>	<i>Due Date</i>	<i>Date of Payment</i>	<i>Remarks, if any</i>
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- The auditor should obtain a **written representation** with reference to:
- Specifying the cases and amounts considered disputed; specifying the cases and amounts considered disputed
 - Containing a list of the cases and amounts in respect statutory dues which are undisputed and have remained outstanding for more than 6 months since when they became payable
 - Containing a statement certifying the completeness of the data provided



Statutory dues:

Where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax have not been deposited **on account of any dispute**, then the amounts involved and the forum where dispute is pending shall be mentioned. {A mere representation to the concerned Department shall not be treated as a dispute.}

Disputed vs Undisputed

Need positive evidence or action on the part of the company to show that it has not accepted the demand for payment of tax or duty



Auditor's report - CARO

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- A show-cause or similar notice generally contains the requirements/queries of the assessing officer
- Normally, issuance of a show cause notice by the concerned department should not be construed to be a demand payable by the company.
- Even if SCN and Demand notice have come together: “disputed” “dues”
- Cancelled demand is not “dues”
- Granting of stay on demand continues to be “dues”
- If Demand not appealed and time limit of appeal has passed = Statutory Due



Company Audit Report (CARO)

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The information required by the clause may be reported in the following format

<i>Name of the Statute</i>	<i>Nature of the Dues</i>	<i>Amount (Rs.)</i>	<i>Period to which the amount relates</i>	<i>Forum where dispute is pending</i>	<i>Remarks, if any</i>
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Related Party Transaction: Clause 3(xiii)



Auditor's Report

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- *Company Audit Report (CARO)*
- *Tax Audit Report (Form 3CB/3CD)*
- *Internal Audit Report (Internal/External)*



3CA/3CB:

2. We certify that the balance sheet and the profit and loss account are in agreement with the books of account maintained at the head office atand NIL **branches**.

3(B) In our opinion, proper books of account have been kept by the head office and **branches** of the assessee so far as appears from our examination of the books.

- Branches vs Additional Place of Business
- Obtain registration certificate



3CD:

4. Whether the assessee is **liable to pay** indirect tax like excise duty, service tax, sales tax, **goods and service tax**, customs duty, etc. if yes, please furnish the registration number or GST number or any other identification number allotted for the same
- “Liable to Pay” vs “Leviable to Pay”
 - Includes liability on RCM
 - Mention all GSTINs across the country



3CD:

11(b) i) List of books of account maintained and the ii) **address at which the books of accounts are kept.**

Requirements under GST Act:

35. (1) Every registered person shall keep and maintain, at his principal place of business,

Provided that where more than one place of business is specified in the certificate of registration, the **accounts relating to each place of business shall be kept at such places of business:**



3CD:

18: Particulars of depreciation allowable as per the Income-tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following form :-

- Cost includes ITC? (Sec 16(3))
- Sale of Fixed Assets



3CD:

21(a): Please furnish the details of amounts debited to the profit and loss account, being in the nature of capital, personal, advertisement expenditure etc.

- Sec 16, Sec 17(5) c and Sec 17(5) d



3CD:

- 35.(a) *In the case of a trading concern, give quantitative details of principal items of goods traded :*
35. (b) *In the case of a manufacturing concern, give quantitative details of the principal items of raw materials, finished products and by-products :*
- *Auditor's remarks on availability*



3CD:

40: Details regarding turnover, gross profit, etc., for the previous year and preceding previous year:

S No.	Particulars
1	Total Turnover
2	Gross Profit/Turnover
3	Net Profit/Turnover
4	Stock in trade/Turnover
5	Material Consumed/Finished Goods Produced

- Ratios: GP, NP, Stock, RM consumption



3CD:

41: Please furnish the details of demand raised or refund issued during the previous year under any tax laws other than Income tax Act, 1961 and Wealth tax Act. 1957 along with details of relevant proceedings

- Demands or Refund under any other Act*



Tax Audit Report (Form 3CB/3CD)

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3CD:

<i>Sl. No.</i>	<i>Total amount of Expenditure incurred during the year</i>	<i>Expenditure in respect of entities registered under GST</i>				<i>Expenditure relating to entities not registered under GST</i>
		<i>Relating to goods or services exempt from GST</i>	<i>Relating to entities falling under composition scheme</i>	<i>Relating to other registered entities</i>	<i>Total payment to registered entities</i>	
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)</i>	<i>(7)</i>



Auditor's Report

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- *Company Audit Report (CARO)*
- *Tax Audit Report (Form 3CB/3CD)*
- *Internal Audit Report (Internal/External)*



Internal Audit Report (Internal/External)

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Check for observations/comments on:

- a) accounting for GST liability
- b) Frequent claim of ineligible ITC
- c) Claim of ITC based on GSTR 2A without actual receipt of goods or services.
- d) Comments on efficacy of controls in accounting for Input & output GST.

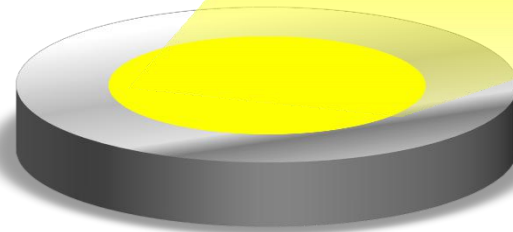
Consider the impact of Internal Audit report while drafting Audit report & Internal Financial Control Report



Directors'
Report

Auditor's
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Notes on
Accounts





Notes on Accounts

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- Helps in understanding the *business of the entity*
- Revenue recognition Policy – Revenue stream and related tax implications can be analyzed.
- Leasing Transactions – Capital Lease / Revenue Lease
- Notes relating to Taxes / Contingent Liabilities
- Valuation of Inventory – Cost or Net realizable Value (Assistance in valuation provision under GST)



- **Related Party Disclosures**
 - Check for Reimbursement of expenses to related parties – RCM liability
 - Payment made to Foreign holding / Subsidiary companies / Associate concerns. Check if they are liable to GST and if yes, has the same been discharged
 - Check for any extraordinary note or item and examine whether the same attracts the provisions of GST
- Payments made to Foreign subsidiaries/ Associated concerns
- Helps in Identification of extra-ordinary items

Audit under GST





Audit under GST

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Section

Audit of Reconciliation Statement

35

Section

Audit by GST Department

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Section

Special Audit on Department Direction

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Audit by GST Department

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Audit by GST Department

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Who can
do Audit

Notice for
Audit

Purpose
of Audit

Scope of
Audit



Period Under
Audit

Where
Audit to
be
conducted

Time
Allowed

Audit
Report





Who can do Audit

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- *Audit can be conducted by*
 - *The Commissioner or*
 - *Any officer authorised by the Commissioner by general or specific order*





Period Under Audit

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- The period of audit to be conducted under sub-section (1) of section 65 shall be
 - a financial year or
 - part thereof] or
 - multiples thereof.





Notice for Audit

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- The registered person shall be informed by way of a notice
- Not less than fifteen working days prior to the conduct of audit
- the proper officer shall issue a notice in FORM GST ADT-01





Where Audit to be conducted

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- *Audit may conduct audit*
 - *at the place of business of the registered person or*
 - *in their office.*





Purpose of Audit

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- *Audit officer may require the registered person,*
- (i) *to afford him the necessary facility to verify the books of account or other documents as he may require;*
- (ii) *to furnish such information as he may require and render assistance for timely completion of audit.*





Time Allowed

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- The audit shall be completed within a period of
- three months from the date of commencement of audit:
- Audit cannot be completed within three months, may extend the period by a further period not exceeding six months.





Scope of Audit

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- Verify the documents on the basis of which
- the books of account are maintained and
- the returns and statements furnished under the provisions of the Act



- 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 utilised,
- refund claimed, and
- other relevant issues and record the observations in his audit notes.



Audit Report

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On conclusion of the audit, the proper officer shall inform the findings of audit to the registered person in accordance

- in FORM GST ADT-02.

Audit results in detection of

- tax not paid or short paid or
- erroneously refunded, or
- input tax credit wrongly availed or utilised,

the proper officer may initiate action under Section 73 or 74.

Special Audit on Department Direction





Special Audit

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Who can
do special
Audit

Time
Allowed

Overriding
other
Audit

Fees &
Expenses



When Audit
Can be
conducted

Scope of
Audit

Opportunity
of heard

Audit
Report





Who can do special Audit

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- *Audit can be conducted by*
 - *Chartered Accountant or*
 - *Cost Accountant*
- *Assistant Commissioner or above officer may direct registered person to get his record examined or audited.*





When Audit Can be conducted

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If at any stage of

- *scrutiny,*
- *enquiry,*
- *investigation or*
- *any other proceedings*



before him, any officer not below the rank of Assistant Commissioner, having regard to the nature and complexity of the case and interest of revenue.



Time Allowed

65

- The chartered accountant or cost accountant so nominated shall, within the period of ninety 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:
- Provided that the Assistant Commissioner may, on an application made to him in this behalf by the registered person or the chartered accountant or cost accountant or for any material and sufficient reason, extend the said period by a further period of ninety days.





Scope of Audit

66

- Officer of the opinion that
 - the value has not been correctly declared or
 - the credit availed is not within the normal limits
- Where special audit is required to be conducted in accordance with the provisions of section 66, the officer referred to in the said section shall issue a direction in **FORM GST ADT-03** *to the registered person to get his records audited* by a chartered accountant or a cost accountant specified in the said direction





Overriding other Audit

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- notwithstanding that the accounts of the registered person have been
 - audited under any other provision of this Act or
 - any other law for the time being in force.





Opportunity of heard

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- The registered person shall be given an
- opportunity of being heard in respect of
- any material gathered on the basis of special audit under sub-Section (1) which is proposed to be used in any proceedings against him under this Act or the rules made thereunder.





Fees & Expenses

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- The **expenses of the examination and audit** of records
- under sub-Section (1), including the remuneration of such chartered accountant or cost accountant, shall be
- **determined and paid by the Commissioner** and such determination shall be final.





Audit Report

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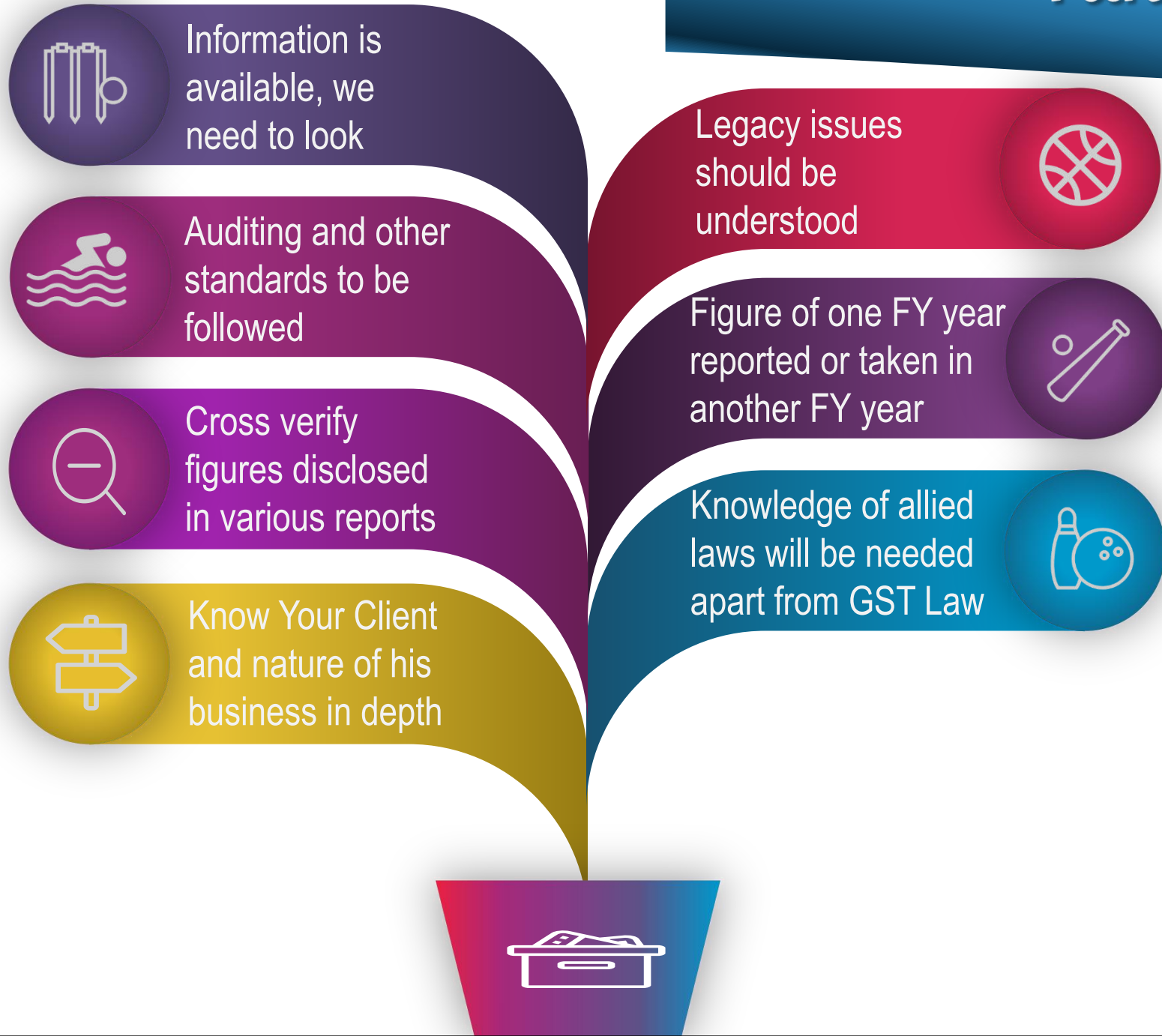
On conclusion of the special audit, the registered person shall be informed of the findings of the special audit in FORM GST ADT-04.



Audit results in detection of

- *tax not paid or short paid or*
- *erroneously refunded, or*
- *input tax credit wrongly availed or utilised,*

the proper officer may initiate action under Section 73 or 74.





Issues !!!



Thank You



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YouTube

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