

SEMINAR ON GST AUDIT ORGANIZED BY WIRC OF **ICAI**

DATE : 12TH JUNE 2019

VENUE : ICAI Tower, Bandra Kurla Complex, Bandra (East), Mumbai

TOPIC : GST AUDIT

ACCOUNTANT

BY S. S. GUPTA
CHARTERED

The topics divided in following –

A) GST Audit

B) Analysis of Information required to be declared

A. GST AUDIT

The topics divided in following –

- A) Legal Provisions & Rules relating to GST Audit
- B) Scope of GST Audit
- C) Audit documentation & Audit Risk

A) Legal Provisions & Rules Relating to GST Audit

- i) Section 35(5) which provides for accounts audited by Chartered Accountant or A Cost Accountant reads as follows –

(5) 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.

***Provided** that nothing contained in this sub-section shall apply to any department of the Central Government or a State Government or a Local Authority, whose books of account are subject to audit by the Comptroller and Auditor-General of India or an auditor appointed for auditing the accounts of local authorities under any law for the time being in force.*

iii) Rule 80 which prescribes the form and the limit for auditor of the accounts reads as follows –

80.*(1) Every registered person [other than those referred to in the proviso to sub-section (5) of section 35] 94, other than an Input Service Distributor, a person paying tax under section 51 or section 52, a casual taxable person and a non-resident taxable person, shall furnish an annual return as specified under sub-section (1) of section 44 electronically in FORM GSTR-9 through the common portal either directly or through a Facilitation Centre notified by the Commissioner: Provided that a person paying tax under section 10 shall furnish the annual return in FORM GSTR-9A.*

(2) Every electronic commerce operator required to collect tax at source under section 52 shall furnish annual statement referred to in sub-section (5) of the said section in FORM GSTR -9B.

(3) Every registered person whose aggregate turnover during a financial year exceeds two 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.

iv) The definition of 'aggregate turnover' as given in Section 2(6) reads as follows –

(6) “aggregate turnover” means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-State supplies of persons having the same Permanent Account Number, to be computed on all India basis but excludes central tax, State tax, Union territory tax, integrated tax and cess;

❖ It is evident that the turnover includes exempt supplies, export of goods or services, the inter-state supplies of person having the same Permanent Account Number. Thus the definition does not include the turnover of transaction which are not considered as supply. Such transaction are specified in Schedule – III and will include transaction which can not be considered as supply under Section 7.

❖ Can the sales shown in Profit & Loss/ Income & Expenditure Account be considered as basis for determining turnover?

- v) Some of the items on which normally there is dispute regarding including the amount in turnover are –
- a) Investment income such as interest and dividend
 - b) Income from sale of securities
 - c) Income from buying and selling of foreign currencies
 - d) Waiver of loan/wrote back of expenses.
- vi) In some supplier of services like builder, travel agent, the value is determined as per Rule 32 of the GST rules. This is national value and the taxable value will not match with amount shown in profit & loss account. What should be taken as a turnover?

B) Scope of GST Audit

❖ The annual financial statement in GSTR 9 or 9A is required to be prepared by the registered person and submitted. However, reconciliation statement in form 9C is required to be certified by the auditor. The Part-B of GSTR-9C provides for following two types of certification –

I) Certification in cases where the reconciliation statement (FORM GSTR-9C) is drawn up by the person who had conducted the audit.

OR

II) Certification in cases where the reconciliation statement (FORM GSTR-9C) is drawn up by a person other than the person who had conducted the audit of the accounts:

a) The auditor is required to certify maintenance of books of account, record, documents to ascertained the payment of tax. As per Section 35(1) the registered person shall maintain the accounts in the following manner –

35(1) *Every registered person shall keep and maintain, at his principal place of business, as mentioned in the certificate of registration, a true and correct account of—*

(a) production or manufacture of goods;

(b) inward and outward supply of goods or services or both;

(c) stock of goods;

(d) input tax credit availed;

(e) output tax payable and paid; and

(f) such other particulars as may be prescribed.

b) Reconciliation statement in form 9C shall be annexed to report.

c) Regarding the particular given in form 9C. The auditor are required to certify the true or correctness of information furnished in form 9C

- c) The above nature of certification clearly determines the scope of audit.
- d) The audit is defined in very wide manner under Section 2(13) of CGST Act as follows -

(13) *“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;*

The word is defined in wide manner but certification has limited scope.

C) Audit Documentation & Audit Risk

- ❖ The auditor is required to prepared reconciliation statement and give report as discussed above. The nature of documentation would depend upon the manner of accounting and also the reasons for reconciliation. For example, unbilled amount credited to profit & loss account. The auditor will have to verify the nature of contract and quantum of work completed. Similarly auditing of person engaged in construction activities or following cash method of accounting.
- ❖ The nature of risk will depend upon the reliance being placed by department. The similar audit is being conducted under the Income Tax and VAT Act. All Chartered Accountant have substantial experience on this issue.

B. Analysis of Information Required to be Declared

1) The annual return is required to be filed as per provisions of Section 44(1) and audit reconciliation statement as per Section 44(2) are reads as follows –

44 (1) *Every registered person, other than an Input Service Distributor, a person paying tax under section 51 or section 52, a casual taxable person and a non-resident taxable person, shall furnish an annual return for every financial year electronically in such form and manner as may be prescribed on or before the thirty-first day of December following the end of such financial year.*

44 (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.*

Explanation. – *For the purposes of this section, it is hereby declared that the annual return for the period from the 1st July, 2017 to the 31st March, 2018 shall be furnished on or before the 30th June, 2019*

2) The form GSTR-9A and GSTR 9 have been notified for filing of annual return by person opting for composition scheme and persons other than who are not required to file annual return respectively.

3) The headings in various part of form 9 reproduced below also gives the nature of information required to be submitted –

FORM 9

Part No.	Description of information
4	Details of advances, inward and outward supplies made during the financial year on which tax is payable
5	Details of outward supplies made during the financial year on which tax is not payable
6	Details of ITC availed during the financial year
7	Details of ITC reversed and intelligible ITC for the financial year
8	Other ITC related information
9	Details of tax paid as declared in returns filed during the financial year.
10	Supplies/tax declared through amendments (+) (net of debit notes)
11	Supplies/tax reduced through amendments (-) (net of credit notes)
12	Reversal of ITC availed during previous financial year

Part No.	Description of information
13	ITC availed for the previous financial year
14	Differential tax paid on account of declaration in 10 & 11 above
15	Particulars of Demand and Refunds
16	Information on supplies received from composition taxpayers, deemed supply under Section 143 and goods sent on approval basis
17	HSN wise summary of outward supplies
18	HSN wise summary of Inward supplies
19	Late fee payable and paid

❖ There was lot of confusion in initial stages of GST - The amount declared in GSTR-3B and GSTR-I do not tally in more than 80% cases. The basis is for declaration of amount. How should the amount be declared in GSTR-3B subsequent to financial year be indicated GSTR-9

4) Study Accounting System

The system of accounting adopted by the registered person needs to be studied before filing up details in various column of annual return. Some of the points are as follows –

- A. Reverse charge** – Registered person may make supply on which tax is payable by the recipient as per the notification issued under section 9 of GST Act. The turnover of such supply is required to be disclosed in para 4B of GSTR-1 and para 5C of annual return. The registered person may also receive certain inward supply on which tax is payable by the registered person. Information relating to such supply shall not be required to be disclosed in GSTR-1. However, the information is disclosed in para 3.1(d) of GSTR-3B and in para 4G of Annual Return.

Normally, the amount shown in Sales Account in financial ledger is not prepared product wise. Therefore, information relating to product/service on which tax is payable on reverse charge will have to be determined either manually or by software. The option to pay tax by the registered person for some of the services which attracts GST under reverse charge was given during the financial year. For example, GTA were provided an option to pay GST under forward charge w.e.f. 22.08.2017. Therefore, the turnover will have to be bifurcated.

B. Exports and supply to SEZ are considered as zero-rated supply. These are required to be disclosed in para 3.1(b) of GSTR-3B and para 6A, 6B of GSTR-1. In Annual Return, these are required to be disclosed in para 4C, 4D, 5A and 5B. Export and supply to SEZ on payment of tax has to be disclosed in para 4C and 4D respectively. Export and supply to SEZ without payment of tax has to be disclosed in 5A and 5B respectively. Generally, exports are accounted separately in the financial ledger. However, bifurcation of sales between exports made under LUT and exports on payment of tax is not generally maintained in the financial ledger. Therefore, this amount also has to be determined manually or by software.

C. Credit Notes -

In GSTR-1, information relating to debit note and credit note is required to be disclosed in para 9B & 9C. In Annual Return, this information is disclosed in clause 4I to 4L. Credit notes issued are of two types which are –

- a) Adjustment of value along with tax
- b) Adjustment of value without tax

The credit notes in table 4I of Annual Return relates to only where credit notes are issued with adjustment of tax. If the credit notes are without adjustment of tax, it will not be disclosed either in table 9 of GSTR-1 or clause 4 of Annual Return.

D. Non-GST outward supply are the items on which GST is not leviable. These are alcoholic liquor for human consumption and 5 petroleum products viz petrol, diesel, natural gas, crude petrol and aviation turbine fuel. These will not include items which are nil rated or exempted under various notifications. After amendment it includes transaction which are not considered as supply.

E. 4E- Deemed Exports

- Notification for deemed exports was issued on 18th October 2017 (Notification No. 48/2017-Central Tax). The accounting software may or may not allow to change the same customer from normal customer to deemed exports in the same year?
- Supplies made on or before 17th October 2017 are shown as deemed exports only such supplies shall be declared as “deemed export”.

F. The exempted supply, Nil rated supply and no GST Supply including no supply is required to be declared in Para 5D, 5E & 5F of GSTR – 9 respectively.

5) The heading prior to amendment for part which was amended in Form 9 read as follows –
FORM 9

Part No.	Description of information
4	Details of advances, inward and outward supplies on which tax is payable as declared in returns filed during the financial year
5	Details of outward supplies on which tax is not payable as declared in returns filed during the financial year
6	Details of ITC availed as declared in return filed during the financial year
7	Details of ITC reversed and intelligible ITC as declared in return filed during the financial year

6) Bifurcation of Input Tax Credit –

a) The credit in Form GSTR-9 is required to be bifurcated into following –

6 Details of ITC availed during the financial year						
A	Total amount of input tax credit availed through FORM GSTR-3B (sum total of Table 4A of FORM GSTR-3B)		<Auto >	<Auto >	<Auto>	<Auto >
B	Inward supplies (other than imports and inward supplies liable to reverse charge but includes services received from SEZs)	Inputs				
		Capital Goods				
		Input Services				
C	Inward supplies received from unregistered persons liable to reverse charge (other than B above) on which tax is paid & ITC availed	Inputs				
		Capital Goods				
		Input Services				
D	Inward supplies received from	Inputs				
	registered persons liable to reverse charge (other than B above) on which tax is paid and ITC availed	Capital Goods				
		Input Services				
E	Import of goods (including supplies from SEZs)	Inputs				
		Capital Goods				

b) Such bifurcation was not required in GSTR-3B. The credit details in GSTR-3B was required to be declared in Para 4 are as follows –

4. Eligible ITC

Details	Integrated Tax	Central Tax	State/UT Tax	Cess
1	2	3	4	5
(A) ITC Available (whether in full or part)				
(1) Import of goods				
(2) Import of services				
(3) Inward supplies liable to reverse charge (other than 1 & 2 above)				
(4) Inward supplies from ISD				
(5) All other ITC				
(B) ITC Reversed				
(1) As per rules 42 & 43 of CGST Rules				
(2) Others				
(C) Net ITC Available (A) – (B)				
(D) Ineligible ITC				
(1) As per section 17(5)				
(2) Others				

c) The details of ITC reversal is required to be bifurcated as follows –

Sr. No.	Rule No.	Reason for reversal
1	37	Payment not made to supplier within 180 days from date of invoice.
2	39	ISD credit note
3	42	Credit partly used for business purpose/taxable supply and partly for non-business purpose/exempt supply.
4	43	Reversal of Common credit on capital goods

d) Difference in GSTR-2A and actuals are required to be

8	Other ITC related information				
A	ITC as per GSTR-2A (Table 3 & 5 thereof)	<Auto	<Auto	<Auto>	<Auto
		>	>		>
B	ITC as per sum total of 6(B) and 6(H) above	<Auto			
C	ITC on inward supplies (other than imports and inward supplies liable to reverse charge but includes services received from SEZs) received during 2017-18 but availed during April to September, 2018				
D	Difference [A-(B+C)]				
E	ITC available but not availed				
F	ITC available but ineligible				

THANK YOU

BALANCED VIEW

PRESENTED BY

S. S. GUPTA
CHARTERED ACCOUNTANT