

## **Different types of Audits /Reviews under GST**

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### **Introduction:**

In a conventional sense, audit means scrutiny, verification of documents, events and processes in order to verify facts and to draw conclusions regarding the correctness of recording of facts and the efficiency of system under study. Today, the concept of audit in general has undergone change from a transactional audit to a risk based one.

GST law mainly functions under the principles of self-assessment wherein the tax payers assess / determine the tax liability and discharge the same, which brings multiple challenges. These challenges in the new GST law make assessee tend to mistakes/errors. This further leads to unnecessary departmental interventions / litigations or revenue leakages to exchequer.

One has to remember that the intention of the audit is not to threaten taxpayers but it is one of the methods to achieve transparency/accountability in the any Tax laws. The audits / review to be done under GST law as follows;

### **Audits mandated in GST law**

#### **Definition of Audit:**

Section 2(13) of CGST Act defined the term "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;

GST law provides mainly three kinds of audits all of them are not mutually exclusive and a registered person may subject to one or more of them on periodic basis as follows:

### 1. Statutory Audit (Section 35(5) & Rule 80(3)):

Every registered person whose aggregate turnover during a financial year exceeds 2 Crores rupees 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 section 44 (2)
- duly certified, in FORM GSTR-9C, electronically through the common portal either directly or through a Facilitation Centre notified by the Commissioner

Further, Section 44 states that every registered person who is required to get his accounts audited in accordance with the provisions of section 35(5) shall furnish, electronically on or before the thirty-first day of December (for FY 2017-18 – 30<sup>th</sup> Nov 2019) following year the following:

- Annual return - GSTR 9
- Audited annual accounts
- Reconciliation statement – GSTR 9C
- Such other particulars as may be prescribed.

#### Some important aspects to remember by GST auditor:

- “Aggregate Turnover” is calculated on all India basis having the same PAN.
- If a registered person is liable to get the accounts audited under section 35 (5) of the GST Act then each registration acquired under the same PAN would also be liable for GST Audit.
- Role of CA/CMA is limited to reconciling the values declared in annual return with the audited annual accounts of the taxpayer.
- The turnover for the period of July’17 to Mar’18 of all the registrations having same PAN is considered for the year 2017-18.
- The ITC relating to the expenses availed in GSTR-9 shall be reconciled with expenses in audited financial statements in Table 14 of GSTR-9C.

#### Best practices to be adopted for GST audit

- Assess risk involved and convey the intention clearly to auditee on reporting aspects.
- Offer should clear the aspects such as scope, management responsibility and limitation.
- Ensure that no conflict in accepting the offer. Ex: Internal auditor/ book keeping not eligible for GST audit.
- Take engagement letter, appointment letter.
- MRL wherever necessary.
- Have audit program & checklist.

- Observations should not be vague or based on just oral explanations of auditee
- Verify ISD mechanism & cross charge including valuation mechanism
- Follow the relevant SAs etc.

## **2. Departmental audit / audit by tax authorities (Section 65 & Rule 101):**

To ensure whether the registered person is properly calculated & discharged the tax liability, it is imperative to the department to conduct the audit of the records maintained by the assessee. In this regard, section 65 authorizes conduct of audit by the Commissioner or any other officer authorised by him by way of general or special order of the registered persons. The periodicity of audit under this shall be a financial year or part thereof or multiples thereof.

The audit will be conducted at the place of business of the registered person or office of theirs with an intimation of audit at least 15 days in advance in Form GST ADT-01 and the audit is to be completed within 3 months from the date of commencement of audit, which may be extended by the Commissioner, where required, by a further period not exceeding 6 months.

As per Rule 101(3), the proper officer authorised to conduct audit of the 'records' and the 'books of account' of the registered person shall, with the assistance of the team of officers and officials accompanying him, verify the details prescribed therein.

On conclusion of audit, the proper officer shall, within thirty days, inform the registered person, whose records are audited, about the findings, his rights and obligations and the reasons for such findings in FORM GST ADT-02.

In cases where tax liability is identified during the audit or input tax credit wrongly availed or utilized by the auditee, the procedure laid down under Section 73 or 74 is to be followed.

## **3. Special Audit (Section 66 & Rule 102):**

Availing the services of experts is an age old practice of due process of law. These experts have done indispensable service to the process of delivering justice. One such facility extended by the Act is in Section 66 wherein an officer at any stage of scrutiny, enquiry, investigation or any other proceedings under the act not below the rank of Assistant Commissioner, duly approved, may avail the services of a CA or CMA by considering the nature & complexity of the business and in the interest of revenue is of the opinion that:

- Value has not been correctly declared; or
- Credit availed is not within the normal limits.

By issuing a direction in FORM GST ADT-03, to the registered person to get his records audited by a CA or CMA specified in the said direction.

It would be interesting to know how these 'subjective' conclusions will be drawn and how the proper officers determine what is the normal limit of input credit availed etc.

The Assistant Commissioner needs to obtain prior permission of the Commissioner to issue such direction to the taxable person. Identifying the expert is not left to the registered person whose audit is to be conducted but the expert is to be nominated by the Commissioner.

The CA/CMA so appointed shall submit the audit report, mentioning the specified particulars therein, within a period of 90 days further may extended by another 90 days to the Assistant Commissioner in accordance with provision of Rule 102(2) in FORM GST ADT-04.

The registered person is to be provided an opportunity of being heard in respect of any material gathered in the special audit which is proposed to be used in any proceedings under this Act.

The remuneration to the expert is to be paid by the Commissioner whose decision will be final. In case any possible tax liability is identified during the audit, procedure under section 73 or 74 as the case may be is to be followed.

#### **Audits/reviews not mandated in GST law**

These audits/reviews are not mandated in the GST law but will be conducted at the interest & request of the management. With the expertise in prevalent indirect taxes and knowledge of business process, CA/CMA's can be preferred source of this kind of services. These will provide assurance to management that all necessary precautions as well as compliances done under GST. Those services could be any of the following type of audits/reviews;

1. Management or compliance reviews / health checks under GST
2. Area specific reviews such as sales, ITC, RCM, documentation IT/ERP systems exports and refunds, disputes and litigation management etc.
3. IT System Audit/Digital Audit: the Comptroller and Auditor General (CAG) is going to come up with an "End-to-End IT solution" to audit the Goods and Services Tax (GST) digitally soon.

**Differences in the various audits:**

Differences	Statutory Audit	Departmental audit	Special audit	Management audits/reviews
Scope	Examination of books of accounts	Examination of books of accounts	Examination of books of accounts as per the notice issued by such officer.	Verification of books of accounts and any other specific issues requested by assessee
Appointment of auditors	Appointed by assessee itself	Appointed by department	Appointed by such officer	Appointed by assessee itself
Fee	To be paid by assessee	NA	To be paid by such officer	To be paid by assessee
Time limit for completion of audit	On or before 31st Dec of following year	3 months (But may further extend not exceeding 6 months)	90 days (but may extend to further period of 90 days)	As per the agreed audit engagement letter

Special thanks to CA Subba Reddy for penning this article. For any further queries/comments please write to [subbareddy@hiregnage.com](mailto:subbareddy@hiregnage.com).

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