

# HOW TO HANDLE DEPARTMENTAL AUDITS

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# AGENDA

**Legal Provisions**

**Challenges Faced During Audit**

**General Issues Raised By The Officers**

**How To Be Ready / Face Departmental Audit**

**Queries**

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# LEGAL PROVISIONS

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## Self Certified Audit (Section 35)

## Departmental Audit (Section 65)

## Special Audit (Section 66)

### Driving Provisions

Section 65 and Rule 101

### Period

Financial Year or Part thereof

### Who can conduct

The Commissioner or any officer authorised by him

### Timelimit for informing audit findings

Within 30 days  
(Findings, Rights and obligation, and reasons for findings)

### Place of Audit

The place of business of the registered person or  
In their office

### Completion

3 or 9 Months from the date of commencement of the audit

### Timelimit for Notice

15 working days prior to the conduct of audit  
(Form GST ADT – 01)

### Timelimit of Audit

**Section 73** Three years from due date for furnishing of annual return

**Section 74** Five years from due date for furnishing of annual return

### Extends Timelimit<sup>1</sup>

FY 201718 For recovery of tax not paid or short paid or of input tax credit wrongly availed or utilized upto 30 September 2023 and excludes period from the 1<sup>st</sup> day of March, 2020 to the 28th day of February, 2022 for recovery of erroneous refund;

<sup>1</sup>Notification No. 13/2022 – Central Tax dated 05<sup>th</sup> July 2022 (w.e.f. 01 March 2020)

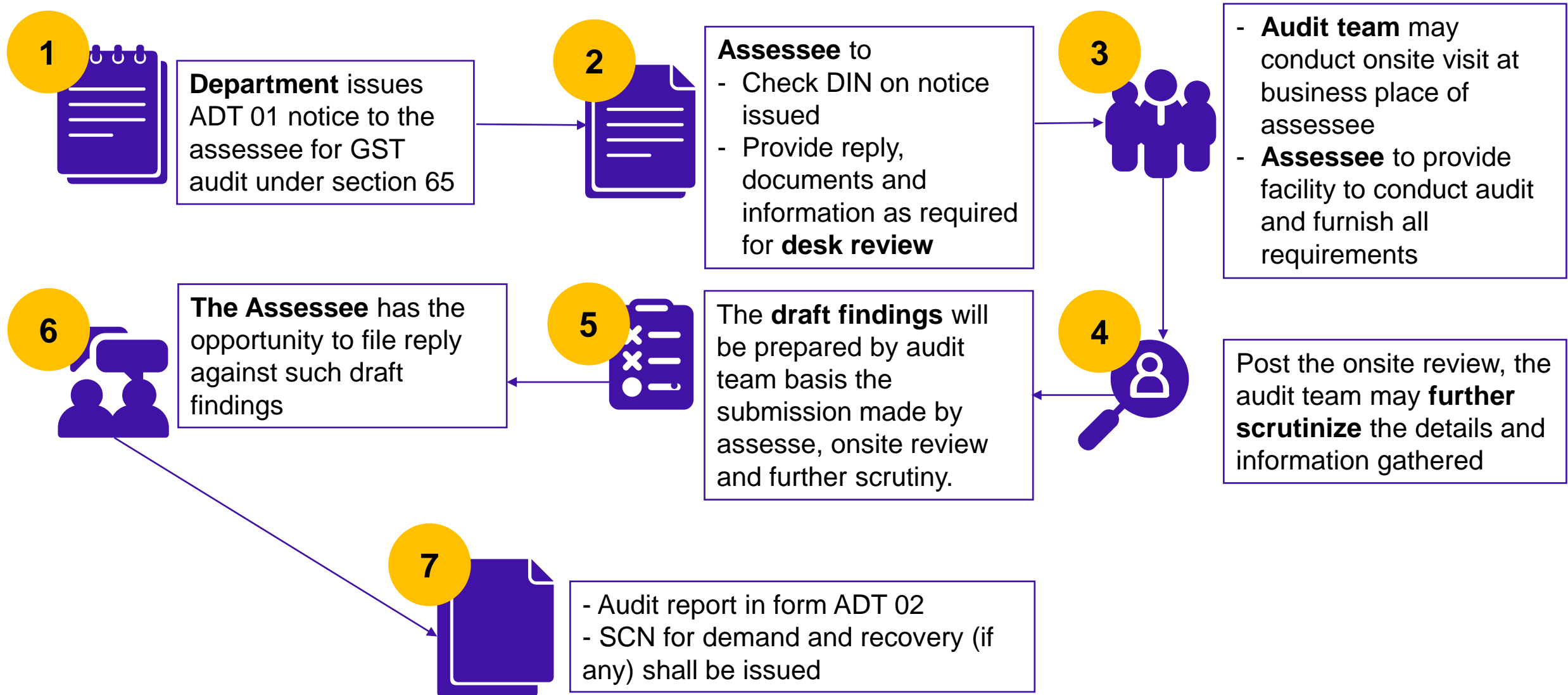
# LEGAL PROVISIONS

## Audit Objective

**GST Audit** is not only for reconciliation of tax liability and payment thereof but, it also encompasses the verification of compliance of the provisions of the GST Acts, laws, etc.



# PROCESS FLOW OF DEPARTMENT AUDIT

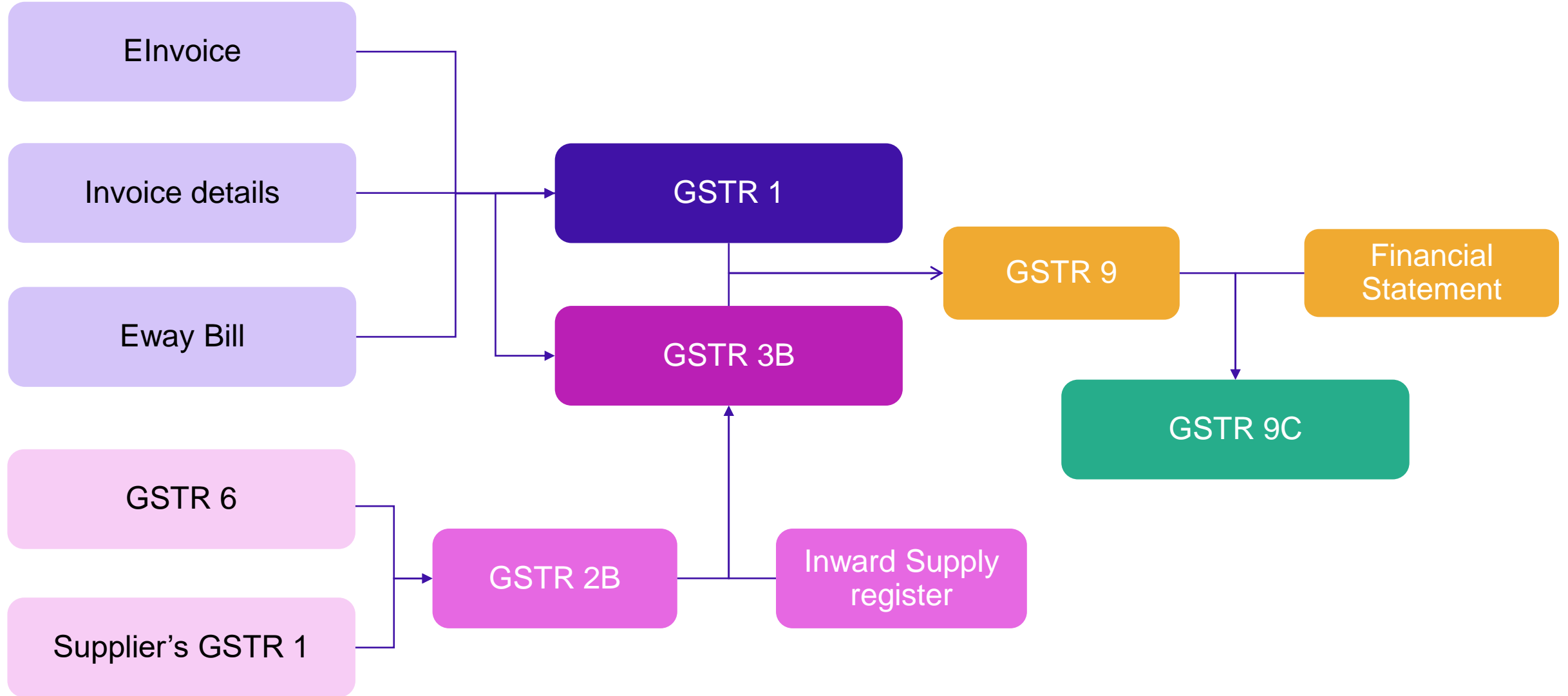


# RISK PARAMETERS FOR SELECTION OF AUDIT

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- Size of the Taxpayer's **refund**;
- Size of the Taxpayer's **turnover / net profit**
- Size of **Exemptions**
- **Change** in the Taxpayer's turnover/net profit from the previous year;
- Financial **ratio analysis** and major **variations**
- Multitude of the Taxpayer's legal **relationships with other entities**;
- Higher incidence of supplies without issuance of away bill;
- Taxpayer who does not file periodical return but issues away bill
- Taxpayer has multiple **branches**;
- Taxpayer who has requested waivers or is **bankrupt**;
- Taxpayer who has been audited in preGST era;
- Taxpayer who has not been audited in the preGST era for a long period such as 4 – 5 years;
- Taxpayer's return was **previously investigated** for evasion;
- Specific information received from other Government authorities like **Income Tax, ROC, RBI**, etc.

# GST COMPLIANCE FLOW





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# CHALLENGES FACED DURING AUDIT

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# GENERAL ISSUES RAISED BY THE OFFICERS

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Issues	Outward	Inward	RCM and Other
01	Eligibility of Export / Reimbursement of expenses		
02	Classification of supply and Tax rate charged		
03	GST Applicability on Other Income		
04	Short Payment of taxes (Change in tax rate)		
05	Recoveries from employees and suppliers		
		06	Sales of fixed assets
		07	Reconciliations: GSTR3B – 19 – 9C
		08	Applicability of EInvoicing
		09	Tax benefit on time barred Credit Notes
		10	Export realization within prescribed timelines

# GENERAL ISSUES RAISED BY THE OFFICERS

Issues	Outward	Inward	RCM and Other
01	ITC Eligibility and Time barred ITC		
02	Reversals under Rule 37, 42 and 43		
03	Gift to employees / Free Samples		
04	CSR Expenses		
05	Tran1 Verification		
		06	GSTR2A/2B Reconciliation
		07	RCM Liability < ITC Availed
		08	Interhead / wrong availment of credit
		09	ITC Claim : Cancelled Registration
		10	Stock Destroyed / Written off

# GENERAL ISSUES RAISED BY THE OFFICERS

Issues	Outward	Inward	RCM and Other
01	Director Remuneration		06 Registration Amendment
02	GSTR2A : RCM Reconciliation		07 Refund Applications
03	Import of Service : RPT		08 ITC – 04: Job Work transactions
04	Issue of Self – Invoice and Payment Voucher		09 Interest on Date of filing
05	Display of name board		10 EWay bill not issued

# GENERAL ISSUES RAISED BY THE OFFICERS

Issues	Outward	Inward	RCM and Other
11	Mandatory invoice details not mentioned	13	HSN digit not mentioned as per turnover
12	Credit availed basis incomplete disclosure on input invoice	14	EInvoicing applicability of vendors

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# How To Be Ready



# RIGHTS AND OBLIGATIONS OF TAXPAYER

## Rights

- Check identity of every member of audit team
- Get at least 15 days prescribed time for compilation of data
- Engage authorized representative to act and appear on his behalf in audit proceedings
- Seek adjournment in case of unavoidable circumstances
- Submissions through email communication
- Opportunity of being heard
- Ensure audit is completed by audit team within timeline
- Receive findings of audit from audit officer in 30 days of conclusion of audit
- Take benefits of voluntary tax payments (incl. penalty waiver) as per Sec. 73 / 74

## Duties

- Comply in time to ADT01 notice and all other necessary correspondences received from audit officer
- Make available all necessary books of accounts (physical / electronic records) GSTIN wise
- Provide necessary facility to verify books
- Ensure presence of registered person or his authorized representative at place of business when audit activity is conducted to answer all queries raised by audit officer
- Extend cooperation to audit team
- Follow statutory timelines for payment of liability found in audit / reply to notice issued u/s. 73/74

# HOW TO BE READY / FACE DEPARTMENTAL AUDIT

01

Mock Audit and ensure internal controls

03

Maintain thorough documentation and have backups

05

Keep Reconciliations ready

07

Health Check / Due Diligences

09

Advisory Papers

11

Ensure contact details on GST Portal

Greet officer with courtesy

02

Build strong relationship

04

Returns filed within due dates

06

Be aware of the law / Contact experts

08

Trainings to work-force and setting up audit handling team

10

Do Panic and do not follow the instructions blindly

12

# HOW TO BE READY / FACE DEPARTMENTAL AUDIT

13

Seek Adjournment

15

Do not act on Oral directions : Seek for written requests

17

Ensure rate of interest applied

19

Pre-checking of documents before submission

Payment must not be demanded under coercion/harrsement

14

Audit replies/submission : Basis for Litigation

16

Opt for penalty wavier

18

Check jurisdictional officer

20

# GST FORM ADT 01 – AUDIT NOTICE

Reference No.:

Notice reference number along with DIN is mentioned here. The DIN number can be verified on

<https://esanchar.cbic.gov.in/DIN/DINSearch>

Date:

To,

\_\_\_\_\_

GSTIN .....

Name .....

Address .....

Period - F.Y.(s) -

Check for which period the GST audit notice is issued

## Notice for conducting audit

Whereas it has been decided to undertake ~~audit of your books of account~~ and records for the financial year(s) ..... to ..... in accordance with the provisions of section 65. I propose to conduct the said audit at my office/at your place of business on .....

And whereas you are required to:-

(i) afford the undersigned the necessary facility to verify the books of account and records or other documents as may be required in this context, and

(ii) furnish such information as may be required and render assistance for timely completion of the audit.

You are hereby directed to attend in person or through an authorised representative on ..... (date) at ..... (place) before the undersigned and to produce your books of account and records for the aforesaid financial year(s) as required for audit.

In case of failure to comply with this notice, it would be presumed that you are not in possession of such books of account and proceedings as deemed fit may be initiated as per the provisions of the Act and the rules made thereunder against you without making any further correspondence in this regard.

Signature ...

Name

Designation .....

Commissioner of CGST/SGST (or any officer authorized by him)



# DOCUMENTATION (TRAIL OF AUDIT)

A taxpayer/ entity is required to issue a variety of documents for different transactions under the GST law. The following are some of the documents issued under the GST law :

Tax Invoice

Bill of  
Supply

Credit  
Note

Debit Note

Receipt  
Voucher

Refund  
Voucher

Delivery  
Challan

Payment  
Voucher

E-Way Bill

E-Invoice

RCM-Self  
Invoice

# SAMPLE CHECKLIST OF DOCUMENT SOUGHT BY DEPARTMENT

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1. Copies of various returns filed (Eg. GSTR-1, GSTR-3B, GSTR-9), Audit Report (GSTR-9C)
2. Copies of Balance Sheets, Annual Reports, Income Tax Returns, Form 26AS
3. Income Tax Audit Reports (Form 3CA/3CD and 3CEB), Cost Audit Report, Transfer pricing and Internal Audit Reports (wherever applicable)
4. Reconciliation between the Turnover Report in Profit & Loss Statement with the Turnover reported in GSTR-1, GSTR-3B & GSTR-9 and Form 26AS (if not done in detail while filing GSTR 9C)
5. Reconciliation of liability paid under Reverse Charge with corresponding expenditure booked in books of accounts
6. Reconciliation between Input Tax Credit Availed by the Assessee with the invoices being reflected in GSTR-2A.
7. Input Credit Register maintained by the assessee along with Electronic Credit and Cash Registers
8. Copies of invoices issued by the assessee
9. Copies of invoices on which input tax credit has been availed by the assessee
10. Sample copies of Work Orders, Purchase Orders and Agreements entered into by the assessee
11. Nature of business activities undertaken by the Company

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# BEFORE WE GO...

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