

### Assessment, Audit & Investigation



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#### <u>Assessment - Chapter XII</u>

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- Scrutiny of Returns (S. 61)
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### Departmental Audit in GST



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Legal Framework



Steps involved in Departmental Audit





### Departmental Audit - Objective



Why is audit required?

#### **Department perspective**

• Tax evasion needs to be checked

#### To ensure compliance

- Recording of all transactions in tax returns
- Proper valuation of goods/services
- Claim of applicable exemptions
- Validity of credits/ refunds
- Checking of returns and payments
- Observance of all procedures
- Export benefit

#### Intention

• Plug revenue loopholes



Legal Framework

### Departmental Audit - Legal Framework



- Relevant legal Provisions in the GST Act and Rules viz.,
  - ✓ Section 2(13) Meaning of the term 'Audit';
  - ✓ Section 2(85) Meaning of the term 'Place of Business';
  - ✓ Section 65 Audit by Tax Authorities;
  - ✓ Rule 101 Departmental Audit;
  - ✓ Section 71 Access to the business premises of the taxpayer;
  - ✓ Sec 35 read with Rule 56 Maintenance of Accounts, Records & Documents.
- GST Audit Manual 2019 issued by the CBIC & Model GST Audit Manual 2023;
- Manual for Quality Assurance Review & Audit Performance Index 2021 issued by the CBIC;
- Trade Circular No. 13T of 2020 General Procedure for GST Audit issued by the Commissioner of State Tax, Maharashtra.

### Departmental Audit – Legal Framework



- Meaning of the term 'Audit' u/s 2(13) of the Act:
  - **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,

#### • To assess

✓ his compliance with the provisions of this Act or the rules made thereunder



- (1) The <u>Commissioner</u> or <u>any officer authorised by him</u>, by way of a <u>general</u> or a <u>specific</u> order, may undertake audit of <u>any registered person</u> for such period, at such frequency and in such manner as may be prescribed.
- (2) The officers referred to in sub-section (1) may conduct audit at the **place of business** of the registered person or in their **office**.
- Section 2(85) **Place of business** includes
  - a. a place from where the business is ordinarily carried on, and includes a warehouse, a godown or any other place where a taxable person stores his goods, supplies or receives goods or services or both; or
  - b. a place where a taxable person maintains his books of account; or
  - c. a place where a taxable person is engaged in business through an agent, by whatever name called.

- Option given to conduct audit either at the place of business of a registered person or in their office.
- In view of emphasis on trade facilitation, intelligent enforcement and providing non-intrusive environment to taxpayers, it has been decided to move from the present system of premises-based audit to desk-based (office) audit in case of **small category of taxpayers**. However, in case of non-cooperation by the taxpayers, premises-based audit may be carried out after approval by the Commissioner. (Para 5.7.7 of the GST Audit Manual 2019)
- (3) The registered person shall be informed by way of a notice <u>not less than fifteen</u> <u>working days</u> prior to the conduct of audit in Form ADT 01.
- If department letter for conducting audit is not replied, following actions to be taken:
  - ✓ Note sent to executive Commissionerate for taking appropriate action;
  - ✓ Inclusion in the Risk Parameters for future To be identified for audit on priority;
  - ✓ Downgrading of the GST compliance ratings.



- (4) The audit shall be completed within a period of **three months** from the date of commencement of the audit.
- If commissioner is satisfied that audit in respect of such registered person cannot be completed within three months, he may, for the reasons to be recorded in writing, extend the period by a further period <u>not exceeding six months</u>.
- Commencement of audit shall mean the date on which the records and other documents, called for by the tax authorities, **are made available** by the registered person or the actual institution of audit at the place of business, **(whichever is later)**.
- (5) During the course of audit, the authorised 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 the audit.



- (6) On conclusion of audit, the proper officer shall, <u>within thirty days</u>, inform the registered person about findings, rights and obligations and the reasons for such findings in Form ADT 02. [Proper officer is AC/DC]
- (7) Where the 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 section 74. [Proper officer is Superintendent]

### Access to business Premises - Section 71

- (1) Any officer under this Act, authorised by the proper officer not below the rank of Joint Commissioner, shall have access to any place of business of a registered person
  - To inspect books of account, documents, computers, computer programs, computer software whether installed in a computer or otherwise and such other things as he may require and which may be available at such place,
  - For the purposes of carrying out any audit, scrutiny, verification and checks as may be necessary to safeguard the interest of revenue.
- (2) Every person in charge shall, make available to the audit party the following:
  - i. such records as prepared or maintained by the registered person and declared to the proper officer in such manner as may be prescribed;
  - ii. trial balance or its equivalent;
  - iii. statements of annual financial accounts, duly audited, wherever required;
  - iv. Cost audit report, if any, under section 148 of the Companies Act, 2013;
  - v. Income-tax audit report, if any, under section 44AB of the Income-tax Act, 1961;
  - vi. any other relevant record.

### Periodicity of Audit & Selection Criteria



- Audit to be conducted for a financial year [or part thereof] or multiples thereof;
- Audit is sample selection driven, Criteria for selection to be as under:
  - ✓ Risk Based Selection v/s earlier turnover/ taxes paid basis
  - ✓ Theme Based Selection
  - ✓ Deferment for Accredited Taxpayers 3 years from the date of last audit
- 20% cases to be identified based on the local risk parameters as under:
  - ✓ Taxpayer did not provide/delayed in providing documents sought by the Audit Team;
  - ✓ Inconsistency in filing of tax returns by the taxpayers;
  - ✓ Taxpayer's return was previously investigated for evasion;
  - ✓ Taxpayer received notices from other governmental entities;
  - ✓ Quality of the Taxpayer's books and records not well-kept;
  - ✓ Taxpayer has supplied goods on which there has been reduction in rate of duty, in order to examine the possibility of profiteering u/s 171 of the CGST Act, 2017;
  - ✓ Higher incidence of supplies without issuance of e-way Bills have been noticed.



#### **Periodicity of Audit & Selection criteria:**



Risk based selection vs earlier turnover/taxes paid basis



Theme based selection

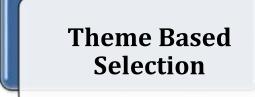


Deferment for accredited taxpayer - 3 years from the date of last audit



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(2) Zonal Level



#### Periodicity of Audit & Selection criteria:

- ✓ Taxpayer did not provide/delayed in providing documents sought by the Audit Team;
- ✓ Taxpayer was not previously audited;
- ✓ Taxpayer is newly registered;
- ✓ Length of time since last audit;
- ✓ Taxpayer had/did not have substantial assessment during previous audit
- ✓ The size of the Taxpayer's turnover/net profit;
- ✓ The size of the Taxpayer's loss, if any;
- ✓ The size of the Taxpayer's refund, if any;
- ✓ The size of change in the Taxpayer's turnover /net profit from the previous year;
- ✓ The size of the impact detected mistakes had on the Taxpayer's turnover/net profit.



#### Periodicity of Audit & Selection criteria:

- ✓ The ratio of expenses/turnover
- ✓ The ratio of turnover/total assets;
- ✓ The ratio of loans/total assets;
- ✓ The size of income from high-risk activities (e.g.: Real estate income)
- ✓ The size of exemptions, if any;
- ✓ The percent of the net/total profit in comparison to the activity average;
- ✓ The taxpayer requested waiver or is bankrupt;
- ✓ The taxpayer involved in legal dispute;
- ✓ The taxpayer receiving notices from other governmental entity;
- ✓ The quality of the taxpayer's books and records (manual/automated, not well-kept)



#### Periodicity of Audit & Selection criteria:

- ✓ The Taxpayer's returns is prepared by questionable accountants;
- ✓ The specific sector, in which the Taxpayer operates (e.g., typical high-risk activities include restaurants and hotels, apartment rentals, professionals, car rental, spare parts for vehicles, chemicals, telecommunications, retail);
- ✓ The form of the legal entity (e.g., corporation / partnership);
- ✓ The multitude of the Taxpayer's legal relationships with other entities;
- ✓ The Taxpayer has multiple branches;
- ✓ Audit differences (past audit assessments)
- ✓ The Taxpayer has supplied goods on which there has been reduction in rate of duty, in order to examine the possibility of profiteering under Section 171 of the CGST Act, 2017



#### Periodicity of Audit & Selection criteria:

- ✓ The Taxpayer has stopped filing GST returns;
- ✓ The Taxpayer has applied for surrender of its registration;
- ✓ Where there is increase in ratio of Exempted Supplies / Total supplies of a Taxpayer over time;
- ✓ Where higher incidence of supplies without issuance of e-way Bills have been noticed;
- ✓ The Taxpayer who does not file periodical return but issues e-way bill regularly;
- ✓ The Taxpayer who was not audited in the pre-GST era for the last 4 5 years;
- ✓ The Taxpayer whose turnover increased substantially after enactment of GST;
- ✓ The Taxpayer who is not filing GSTR 3B but in their electronic cash ledger, amount of TDS is reflected;
- ✓ The Taxpayer has multiple activities.



#### **Selection criteria:**

#### Deferment for accredited taxpayer:

- Segment of registered person-Accredited (similar to one given in customs),
- Based on tax compliance record,
- Audited only after 3 Years from the last audit.



#### **Duration of Audit:**

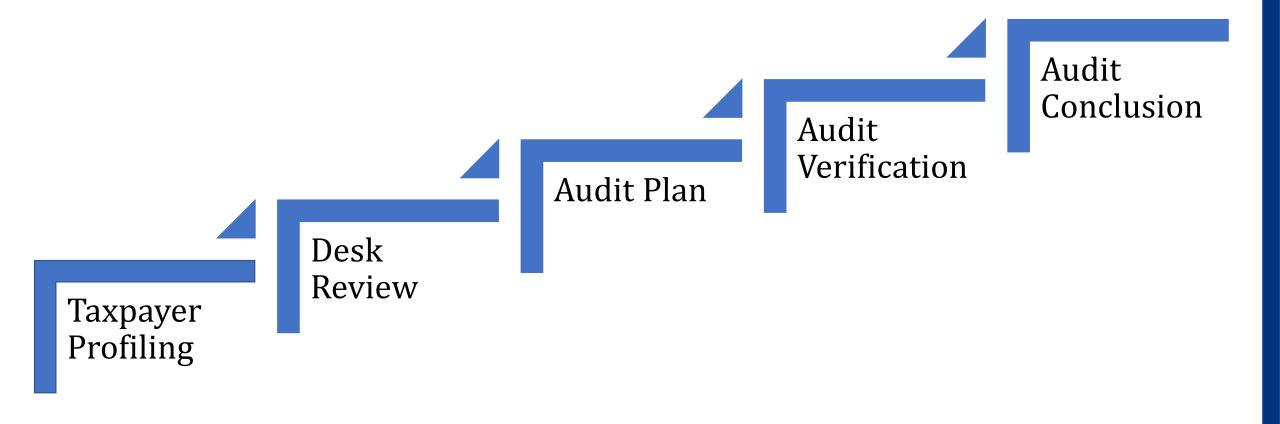
Type of Taxpayer (based on total annual value of outward supply)	Timeline (Working Days)
Small	2 to 4
Medium	4 to 6
Large	6 to 8

#### Note:

- ✓ If audit period exceeds one FY, above time limit would increase by 25% for each FY.
- ✓ The number of days can be increased to 8, 12 and 16 working days for small, Medium and Large taxpayers respectively if audit period exceeds 5 Years.



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Auditee to be selected based on Risk Parameters

Auditee to be issued ADT 01, 15 days prior to the commencement

Audit to commence at the premises of taxpayer or dept

Taxpayer to submit reply to the department

Department sends intimation in Form ADT 01A

Taxpayer submits the information and completion of audit

Department updates and sends its findings in Form ADT 01B

Audit concludes and ADT 02 is issued within 30 days

Notice u/s 73 or 74 is issued for recovery, if any

### Steps involved in Departmental Audit-Proforma Notice



[See rule 101(2)]

M/s.

GSTIN No:

Gentlemen,

Period - F.Y.(s) -

DIN-

#### Notice for conducting GST Audit

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

And whereas you are required to:-

- 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
- Furnish such information as may be required and render assistance for timely completion of the audit.

You are hereby directed to submit the documents/information as detailed below in person at GST Bhavan, B Wing, Third Floor. Opp. Wadia College. Pune, for the period or through mail on mail ID within fifteen (15) days from the receipt of this letter/mail.

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 there under against you without making any further correspondence in this regard. The list of documents required is as under:

### Steps involved in Departmental Audit-Proforma of ADT-02



ANNEXURE GSTAM XI

#### Form GST ADT - 02

[See rule 101(5)]

Reference No.:				
			Date:	
Го,				
SSTIN	-			
Name				
Address				
***************************************				
Audit Report No	dated			
	Audit	Report under sec	tion	
		65(6)		
our books of acco	unt and records for	the F.Y	has been examine	d and this
	unt and records for	the F.Y	has been examine	d and this
Audit				
Audit Report is prepared o	on the basis of info		has been examine / documents furnished	
Audit	on the basis of info			
Audit Report is prepared of the findings are as u	on the basis of info inder:	rmation available	documents furnished	l by you an
Audit Report is prepared of the findings are as u Short payment	on the basis of info			
Audit Report is prepared of the findings are as u Short payment of	on the basis of info inder:	rmation available	documents furnished	l by you an
Audit Report is prepared of the findings are as u Short payment	on the basis of info inder:	rmation available	documents furnished	l by you and
Audit Report is prepared of the findings are as under the payment of Tax Interest	on the basis of info inder:	rmation available	documents furnished	l by you an
Audit Report is prepared of the findings are as u  Short payment of Tax	on the basis of info inder:	rmation available	documents furnished	l by you and

Signature

Designation

..........

Name



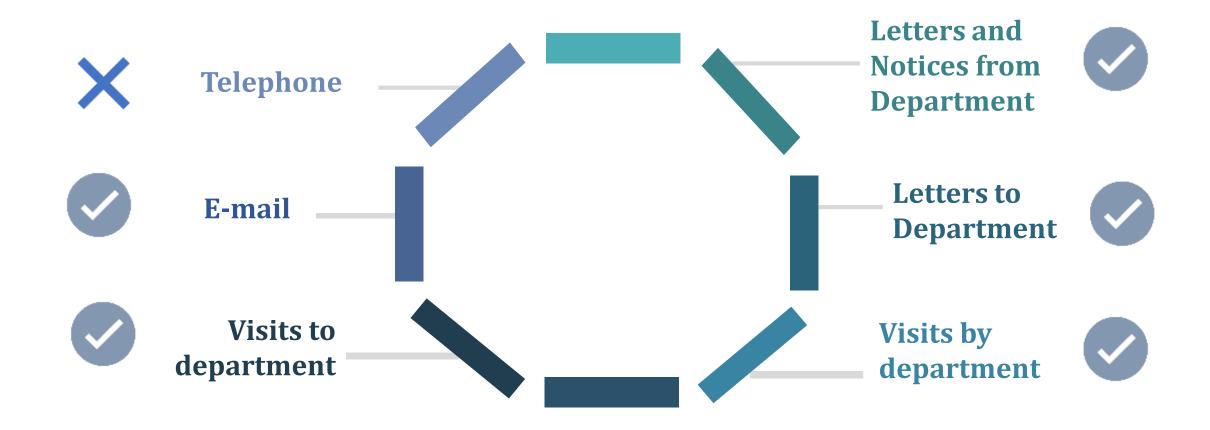
- Cooperating with the audit team and providing all the necessary information & documents called for;
- Keeping the entire information in an organized manner ready prior to the visit by the audit party;
- Seek adjournment if information/documents not ready for submission;
- Identity of the each and every member of the audit team must be verified;
- Additional time to be requested if not clear/ not sure about any facts or law;
- Get pre-audit done internally / externally;
- Oral directions for payment/ reversals Confirmation;

- Professional can be involved as an authorized representative to handle the audit and represent the taxpayer;
- Payment can be made under protest or under the right to contest Areas of interpretation
   Keeping the issue alive waiting for the apex court judgment;
- Proper officer may issue a SCN, if no SCN issued, then file a refund application;
- If department asks for original documents Make available on a sample basis backed by a CA certification
- Unofficial demands by the aggressive officers in the course of audits Suggested to keep everything in – Submit a letter with complete facts & details;
- Type of replies given during the audit would help It will make the foundation strong for future litigation;

### Departmental Communication & Correspondences



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### **To avoid Litigation:**

- 1. Tax position aggressive or conservative?
- Factors to be considered for Output -
  - ✓ Industry practice
  - ✓ Rulings to be seen
  - ✓ Recipient can claim full ITC?
  - ✓ Amount involved vs litigative costs
- 2. Intimation to dept through RPAD
- 3. Addressing department letter / advisory
  - ✓ Reply to be prompt but well informed
  - ✓ Clarify facts with dept if required.

#### Factors to be considered for Input -

- Amount involved?
- RCM transactions in case ITC is available, tax may be paid on doubtful transactions under RCM



#### **To avoid Litigation:**

#### 4. Payment of tax under protest

Benefits of payment of duty under protest (in the erstwhile laws)

- Save the interest costs
- Time limit to claim refund does not apply
- Safeguards the right of assessee to challenge an issue based on merit.

Whether there is protest concept in GST also?





### To provide reply to notices:

Understand the transaction from evidence- Not only explanation

**Understand how triggered** 

**Understand the issue** 

List the section/rules/Circula r/case laws

Give specific answer and elaborate the facts of the case

Take legal advice (if any issue of interpretation of law)

Note down the reasons for non compliance

Communicate the reply properly: E-mail/Speed post

Keep the acknowledgement of documents/reply submitted

In case no response received from departmentSubmit follow up letter within a month

Ensure timely reply-Note the receipt date/due date

Ensure no lies and be clear about the facts

Information/ Analysis by Department

## Preliminary information requested in the Audit



List of documents to be submitted / to be kept ready for verification by the registered person as per GST-ADT-01.

- 1. Financial statements and reports Balance Sheet, Tax Audit Report, Annual Financial Statement, Cost Audit Report, Trial Balance.
- 2. Inward Outward supply summary statement.
- 3. RCM ledger and supportive documents.
- 4. Inward Outward supply invoices.
- 5. Cancelled invoices due to any reason.
- 6. Goods return (inward and outward supply) register along with credit note / debit note details.
- 7. Inward Supply Register (Soft copy).
- 8. Outward Supply Register (Soft copy).
- 9. Zero rated supply register and supportive documents (commercial invoice, shipping bill, bill of lading, EGM, Bank Realization certificate or inward remittance certificate etc).
- 10. Details of exempted supply / supply to SEZ dealer.
- 11. Refund claim / availment details if any (export of goods and service, inverted duty structure etc., any type of refund claimed by dealer).
- 12. TDS payment transactions if any
- 13. TRAN-1 details (details regarding credit carried forwarded from previous Act GST Act).

# Preliminary information requested in the Audit

- 14. GSTR-2A mismatch, unmatched transaction details.
- 15. E-way bill transactions month-wise summary statement and corresponding register.
- 16. In case of service, FIRC (Foreign Inward Remittances), corresponding agreements, invoices, Annual Maintenance Contract copies and corresponding invoices if any.
- 17. Details of advances received and tax payment for the same
- 18. Other income / misc. income.
- 19. Reversal / reduction of ITC.
- 20. Scrap sales.
- 21. Details of exempted outward supply.
- 22. Details of zero-rated supply.
- 23. Non-GST supply.
- 24. Job work details (inward and outward side).
- 25. Credit ledger / Input tax credit availment summary (for Capital asset, liability, refund claim, and other deduction.
- 26. Cash ledger availment summary (for liability, RCM, and other deduction).
- 27. Reversal of ITC within 180 days due to non-payment in 180 days.
- 28. Further documents, if any to be furnished at the time of conducting audit

# Indicative list of records/ documents to be kept ready – Circular 13T of 2020



- Financial statement and reports Balance sheet, tax audit report, Annual financial statement, Cost audit report, trial balance
- Inward-Outward supply summary statement
- RCM ledger and supportive documents
- Inward-Outward supply invoices
- Cancelled invoices due to any reason
- Goods return (inward and outward supply) register along with credit note/debit note details
- Inward supply Register (soft copy)
- Outward Supply register (soft copy)
- Zero rated supply register and supportive documents (commercial invoice, shipping bill, bill of lading, EGM, Bank realization certificate or inward remittance certificate etc.)
- Details of Exempted supply/Supply to SEZ dealer
- Refund claim/ availment details if any (export of good and services, inverted duty structure etc. any type of refund claimed by dealer)
- TDS payment transactions if any
- TRAN-I details (details regarding credit carried forwarded from previous Act to GST Act

# Indicative list of records/ documents to be kept ready – Circular 13T of 2020



- GSTR 2A-Mismatch, unmatched transactions details.
- E-way bill transactions month wise summary statement and corresponding register
- In case of services, FIRC (Foreign Inward Remittances), corresponding agreements, invoices Annual Maintenance Contract copies and corresponding invoices if any
- Details of advances received and tax payment for the same
- Other Income/misc.income
- Reversal / reduction of ITC
- Scrap sales
- Details of exempted outward supply
- Details of zero-rated supply
- Non-GST supply
- Job work details (inward and outward side)
- Credit ledger/Input tax credit availment summary (for Capital asset, liability, Refund claim, any other deduction)
- Cash ledger availment summary (for liability, RCM, any other deduction)
- Reversal of ITC within 180 days due to non-payment in 180 days

# Ratio Analysis



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Annexures	Particulars	Details Asked for
Annexure I	Registered Persons Master File	<ul> <li>Registered persons profile- Name, address, GSTIN, etc.</li> <li>Details of Proprietor/Partner/Director/and authorized person</li> <li>Details of registration with Other Govt departments-Customs, DGFT, CIN, Stock broker with SEBI etc.</li> <li>Bank account details</li> <li>HSN/SAC wise supplies made and taxes paid.</li> <li>Details of Zero rated supplies/deemed exports</li> </ul>
Annexure IV	Ratio Analysis of Database	<ul> <li>Separate for goods and services</li> <li>ITC availed: Tax paid through cash +ITC</li> <li>Total inward supply cost: Total outward supply value</li> <li>ITC availed on CG purchased: addition to CG</li> <li>Other income: Sales</li> <li>Outward supply of scrap: Total outward supplies</li> <li>Value of exempted: value of total outward supplies</li> <li>ITC on inputs: purchase price of inward supplies</li> <li>Value of zero rated: Total supply</li> <li>Non GST supply: Total supply</li> </ul>

# Ratio Analysis based on Returns Data



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SI.	RATIO	2017-18	2018-19	2019-20
i)	Inward supply value : outward supply value			
ii)	EWB value of inward supply : EWB value of outward supply			
iii)	Non-GST Turnover : Total Turnover			
iv)	Exempted Supply value: Total Turnover			
v)	Value of Goods Sent for Job Work : Total Turnover			
vi)	ITC on inward supply : Total inward supply			
vii)	Total ITC available : Total GST payable			
viii)	ITC availed on capital goods purchased during the years : addition to capital goods			
ix)	ITC availed on Capital Goods : Total ITC availed			
x)	Transitional ITC availed : ITC availed in the year			
xi)	Tax payable: Total turnover			
xii)	Total Ineligible & Reversed ITC : Total ITC Availed			
xiii)	Tax payment by ITC : Total Tax paid			
xiv)	Tax paid in cash : Tax paid on setting off ITC			

# Exceptional Reports used by the Auditors



- ITC claimed in Form GSTR-3B vs. ITC auto-populated in Form GSTR2A/GSTR-2B
- Turnover declared in Form GSTR-3B vis-à-vis Form GSTR-1;
- Claim of ITC from cancelled RTPs or non-existent RTP's,
- Aggregate turnover in GST return vis-à-vis Turnover disclosed in Income Tax return;
- Turnover declared by RTP in Form GSTR-3B compared to turnover on which TDS/ TCS deducted/ Collected as reflected in Form GSTR-7/8 submitted by TDS deductor/ collector;
- Turnover declared by RTP in Form GSTR-3B compared to minimum turnover expected on the basis of e-way bills generated in respect of the said RTP;
- RTPs having adverse reports in VAT/Service Tax/Central Excise who are operative in GST etc.).

# Maintenance of Books of Accounts



- Annual report and Director's report (if any)
- Profit & Loss A/C
- Balance Sheet and Trial balance if maintained
- Notes to accounts
- Tax Audit Report
- Statement of income tax TDS.
- List of HSN /SAC of the goods /or services in respect of the business.
- Reconciliation statement in respect of Form
- GSTR 9, GSTR-1 AND GSTR 3B
- Suppliers list with GSTIN (where applicable)
- Ledger accounts of the suppliers
- Statement of sales party wise and POS wise.
- Supply for which tax paid in RCM.
- Bank Statement for the period under audit
- Stock register
- Other documents and records as applicable as provided in section 35 of the Act

Preparatory measures by the Assesees

# Systems & Controls



- Flow of entry into the accounting systems Manual vs. Automated;
- Walkthrough of a transaction from an accounting entry to GST returns filing;
- Documented SOP for various steps carried out in smooth compliances;
- Validation/ Authenticity of system generated reports;
- Whether accounting system allows to extract reports for each registration separately;
- · Reconciliation between Invoicing system and accounting system;
- Back dated entries into the accounting system Tax implications;

#### Current Liabilities



- Unsecured loans vis-à-vis advances;
- Mobilization advances whether in the nature of deposits For goods/ services;
- Security deposits are to be included in taxable value if adjusted against consideration;
- Long due creditors 180 days, 2A payments held etc.;
- Working capital blockage on long advances;
- Tax implication due to vendor non-compliances;
- Customer Advances Early payment of GST & adjustment at the time of invoicing;
- Employees, debtors, creditors adjustment accounts;
- Reimbursements not in the nature of pure agent knocked off in the balance sheet;
- TDS Payable

#### Current Liabilities



#### **Duties and Taxes:**

- Matching of GST accounting CGST records with SGST;
- Reconciliation of tax availing entries passed as per books with Electronic credit ledger;
- Reconciliation of ITC balances with the Electronic Credit ledgers;
- Review of tax utilization entries passed in the books vis a vis Electronic liability ledger;
- Accounting of RCM entries;
- Blocking/removal of redundant tax codes;
- Entry for advance received / paid;
- Accumulation of credits / particular type of credits.
- Status of refund claims filed.

#### **Key Ratio's:**

- Non-compliance vendors / Total vendors;
- Tax paid in cash / Total tax liability;
- Tax liability/ Turnover;
- Total Tax/ Total taxable value.

#### Fixed Assets



#### **Fixed Assets:**

- Review/ reconciliation with Fixed Assets register;
- ITC on Motor vehicles Demo vehicles, leasing, repairs, insurance;
- GST payable on sales/removal/write off:
  - Transaction value vs. Dep value based on 5% points per quarter collection of taxes??;
  - Sale of motor vehicles;
  - Removals to other branches/FOC etc.
- If ITC is claimed, cannot be added in value for depreciation;
- 50% depreciation on capital goods available for Banks;

#### Fixed Assets



#### **Fixed Assets:**

- Eligibility of ITC on Plant & Machinery, Furniture & Fixtures, electrical fitting, office equipment's, computers.
- ITC on works contract, construction classification of capital expenses into building account or other assets account or expensing the same as repairs and maintenance;
  - Excavation, Earthwork, Site-levelling etc.;
  - Tiling, flooring, waterproofing, plastering etc. completion & finishing works;
  - Scope of the term immovable property??
- Reporting of Capital goods vs. inputs/ input services:
  - License purchased etc. treated as intangible assets CG or input services;
  - Eligibility of refunds on Capital goods.

#### Current Assets



#### **Inventories:**

- If written off/lost/stolen/gifted/removed as samples, etc. whether ITC is to be reversed Sec. 17(5);
- Job work movement return within the timelines, ITC 04, Documentation compliance;
- Movement of inventory o/s the state;
- FOC imports;

#### **Trade Receivable:**

- Customer Advances;
- Billing pattern Delays
- Debtors ageing report;
- Tax implication on customers due to GST non-compliances;
- Review of customer masters.

#### Current Assets



#### **Investments:**

Associated enterprises, group companies, valuation impact & impact on sale of investments;

#### **Short Term Advances/ Other current assets:**

- Review of other accounts receivables
- No ITC available unless goods / service are received Sec. 16

#### **Key Ratios:**

- ITC availed / Total ITC;
- ITC availed/ ITC utilized;
- ITC/ Total tax liability;
- ITC as per 2A / ITC as per GSTR 3B

# Revenues & Outward Supplies



- Taxability Non-business, FOC removals, incentives, Actionable claim, Expat payments, Employees recoveries etc.;
- Exempt supply Strict interpretation vs. Purposeful interpretation;
- Composite/ mixed supply Schemes, Training & Coaching services, Logistics & warehousing contracts, Builder contracts etc.
- Classification and rate of tax for goods Automobile parts/ components, Instant food;
- Classification of services Restaurant, Training service;
- Time of Supply Tax on advances and its adjustments, Vouchers, Billing at 1<sup>st</sup> of every month, Installation works, Warehousing JIT supplies, Continuous supply of services etc.
- Place of supply Hybrid trainings/ events, Intermediary, Job work (performance based), Cross border warehousing contracts.

# Revenues & Outward Supplies



- Type of Tax GTA, Installation of goods, Not always regn no. wise, Tooling supplies;
- Valuation Related party transactions, Treatment of secondary discounts, sale of assets, Price is not the sole consideration, JDA agreements, Disposal of asset v/s scrap sale;
- Credit/ Debit notes Tax rate, adjustment, time-limit;
- Tax treatment in case of change in rate of tax Paid on advances @ 28%;
- Procedural compliances Issuing Tax invoice, E-way bill, Proper disclosure in returns;
- Transaction structuring possibilities:
  - ✓ Manpower supply vs. Job work contracts,
  - ✓ Job work vs. deemed supplies,
  - ✓ Intermediary transactions vs. marketing support services etc.,
  - ✓ Contractors supply to developers etc.

# Revenues & Outward Supplies



- Computation of interest Rate of interest, ITC availed/ utilised, refunds for the past, balance lying in the electronic cash ledger;
- Penalties and taxes paid on interception of vehicle due to e-way bill compliance;
- CGST & SGST incorrectly charged as IGST or vice-versa;
  - ✓ Payment of correct tax & claiming refund;
  - ✓ Tax to be paid upon being so held by the department;
  - ✓ Adjustment of excess tax paid against taxes short paid.

# Key Reconciliations



- Two-way reconciliation from Books to returns and vice-versa Adequate data in returns;
- Reconciliation of outward supplies GSTR 3B and GSTR 1;
- Electronic cash ledger v/s Tax paid as per returns/ books
- Reconciliation of ERP reports to the Books of accounts
- Reconciliation with E-way bill & E-invoicing reports;
- Reconciliation of job work movements & its returns;
- Reconciliation of exports with shipping bill data;
- Reconciliations of refunds eligible, claimed, rejected and sanctioned.



- Analysis of Key Expense ledgers:
  - Direct Procurements & COGS,
  - Direct wages & labour contractor payments,
  - Salaries & Employee benefit expenses,
  - Bank charges and processing fees, Telephone & Internet expenses,
  - CSR expenses,
  - CHA/ Travel agent expenses,
  - Repairs & maintenance expenses building, motor vehicles etc.
  - Business promotion, marketing & advertisement,
  - Duties & Taxes GST, interest, penalties, duties etc.,
  - Depreciation,
  - Staff welfare, Office expenses,
  - Travelling & Accommodation expenses,
  - Insurance expenses,
  - Subscription & renewals.



Analyse GST on expenses that could be possibly liable to tax under RCM:

- Freight Payments Reco, Type of tax, exemptions, forward charge etc.,
- Ocean Freight Mohit Minerals Guj HC,
- Legal Expenses Advocates, reimbursements,
- Professional expenses Directors, Foreign payments etc.,
- Security services Body corporate etc.,
- Travelling & conveyances Body corporates, Employees reimbursements etc.,
- Forex gain/loss,
- Advertisement & marketing Sponsorships & Donations,
- Duties & Taxes Fees & licences Exemptions,
- Expenses in Builders expenses Procurement less than 80% from unregistered person in case of builders, Cement, Procurement of TDR's etc.,
- Cashew Nuts (not shelled or peeled), bidi wrapper leaves (tendu), tobacco leaves & raw cotton, Silk Yarn procured from Agriculturist.



- Non-reversal of proportionate common input tax credit in respect of exempted supplies and non-business use – Monthly & Annual basis;
- Methodology of bifurcating the inputs used for taxable/ exempt supplies;
- Credit on Capital Goods to be allocated over 60 months Value add where exempt supplies later become taxable Proportionate ITC eligibility;
- Incorrect type of ITC availed i.e., CGST & SGST availed in place of IGST or vice-versa;
- IGST credit with PoS of other states
- ITC not being availed on RCM transactions considering the same to be beyond the due date;



- Blockage of ITC in one GSTIN and cash outflow of taxes in other Transaction structuring;
- Blockage of a particular type of ITC and cash payments in other i.e., CGST/SGST or IGST Timing of taking credit to be optimized;
- Reconciling the balances in the ITC as per books with the Electronic Credit ledger vs. Computation sheets vs. GSTR 2B;
- Reverse charge as per books with returns;
- RCM Tax paid v/s ITC availed;



- Blockage of ITC in one GSTIN and cash outflow of taxes in other Transaction structuring;
- Blockage of a particular type of ITC and cash payments in other i.e., CGST/ SGST or IGST Timing of taking credit to be optimized;
- Reconciling the balances in the ITC as per books with the Electronic Credit ledger vs. Computation sheets vs. GSTR 2B;
- Reverse charge as per books with returns;
- RCM Tax paid v/s ITC availed;

#### Notes to Accounts



- Business understanding:
  - Business verticals,
  - Places of business Principal place, additional places, registration requirement etc.,
  - Future expansion plans,
  - Procurement mix, type Indigenous/ Imports etc.,
  - Sales mix local/ exports, List of products, product categories etc.
- Related Party Disclosures Group companies/ Associated enterprises, Deemed supply, RCM liabilities, Export refunds, Distinct persons etc.,
- Foreign Expenses and Income Disclosures Whether RCM paid,
- Pending cases under litigation Departmental correspondence review, status of pending cases SCNs,
- Contingent liability.

# Broad Areas of Verification



Area	Particulars		
Registration	Details of directors, places of business, type of registration etc.		
Outward Supplies	Levy, Classification, Rate of tax, Time of supply, Valuation, Exemption, Place of supply, Nature of Tax etc., Reconciliation with books		
<b>Inward Supplies</b>	Eligibility of credit, 2A reconciliation, Incorrect type of credit taken, Tax reversed by the supplier under CN, Reconciliation with books, 180 days payment, ITC availed beyond due date, Reversal of ITC etc.		
Reverse Charge	Reconciliation with books, Paid in cash, Interest payment for delay, URD for first 3 months		
Refunds	Eligibility, correctness of the claim, supporting documents etc.		
Transitional issues	ITC transferred, Correctness & calculations, Supporting documents etc, Taxability of spill over transactions		
Procedural compliances	Manner of documentation maintained (Proper documentation & systematic arrangement), Jobwork, E-way bill compliances etc.		
Accounts & Records to be maintained			

Issues involved in Departmental audit



#### **GST Audit Manual:**

- A substantial amount of data is already available in GSTN. Some of the data like those contained in annual financial statements keeps changing every year. Utility named Taxpayer at a Glance (TAG) containing all the available information of the registered person will be accessible to the auditor. [Para 5.1.2 of the Audit Manual]
- Whenever GST audit of a registered person is taken up, the audit team conducting the audit should review the data already available and the data that is not available and collect the information not available and update the data of the registered person. [Para 5.2.1 of the Audit Manual]



#### **GST Audit Manual:**

- The provisions of Section 9(4) of the CGST Act, 2017 specify a class of registered person who shall, in respect of supply of specified categories of goods or services or both received from an unregistered supplier, pay the tax on reverse charge basis as the recipient of such supply of goods or services or both. As such during the course of Audit, the auditors may examine the details of procurements from such un-registered persons. [Para 5.8.2 of the Audit Manual]
- For verifying the gap in ITC availment as identified in para 5.5.4, the auditor should carry out a test check of the invoices of such suppliers whose details are not figuring in GSTR 2A and identify some of such suppliers with high tax value and get the particulars of tax payment verified at the supplier's end. [Para 5.8.3 of the Audit Manual]



#### **GST Audit Manual:**

- It has been observed that asking for all the books of accounts and records from an auditee with a large volume of business on the very first day of audit causes inconvenience for both the auditee and the auditor. It is difficult and impractical for an audit officer to examine all the documents with equal importance on one single occasion. [Para 4.2 of Model Audit Manual 2023]
- Investigation/verification by some other wing/agencies are going on If the taxpayer is found existent and active and the records of the auditee are available although the investigation into certain activity of the taxpayer is being carried out by the other investigating agencies it suggested that the audit of such taxpayer should be carried out irrespective of the fact that another agency is also investigating the taxpayer. The audit wing should be expected to coordinate with the other investigating authority so as to be abreast of the aspect being examined by the said authority and its repercussions on the audit being carried out. However, different GST tax administrations may, in the interest of administrative exigencies, adopt a different approach in such cases. [Para 7.1.4 of Model Audit Manual 2023]



#### **GST Audit Manual:**

- Avoid making repeated requests for information.
- Obtain as much information as possible from the data sources available in the system.
- Seek information only with respect to areas of audit's interest.
- Develop a white list of documents, to be shared with the taxpayers that would not be sought for from the taxpayers.
- Avoid asking for original copies of invoices/debit-credit/notes, as far as possible; further, ALL/complete set of all invoices issued/received may also not be insisted on, particularly in large taxpayers
- Documents and transactions should be scanned/examined thoroughly on the basis of sampling and the sample should be drawn based on a careful consideration of the implicit risk areas/revenue implication.

[Para 4.2 of Model Audit Manual 2023]

# Issues involved in departmental audit



- Jurisdiction General or specific orders, whether central or state Below 1.5 Crore (90% to the state) & Above 1.5 Crore (50% by both) Need to know who has the jurisdiction,
- Who is the proper officer to do audit and various functions of the audit,
- Faceless v/s Physical verification V/s Virtual interaction,
- Hard copy v/s Soft copy records,
- Anything incorrectly reported in the audit report How to handle,
- SCN is handled by the adjudicating authority and not by the audit authorities,
- Accounts & records not maintained/accessible at each and every GSTIN.

# Issues involved in departmental audit



- Already assessment completed, returns scrutinized etc., investigation carried out ASMT
   10
- Audit team asking for the Internal audit reports S. 71(1)
- Whether audit team can seize the goods?
- Whether physical verification of stocks and cash be carried out?
- Liability detected during the audit, whether to be paid in cash or by utilization of ITC –
   Pre-Audit reviews
- The best part of audit as compared to the assessment is that assessment was mandatory for each FY while audit is risk based and selective and to be conducted on a sample basis,
- Any liability payable under the audit, whether can be recovered from the recipient,

# Issues involved in departmental audit



- Whether receiver can avail input tax credit on the liability detected and paid by the supplier as a part of audit and recovered from the recipient It is not covered u/s 17(5)(i),
- Whether assessee is liable to pay penalty of 15% since the tax liability is been determined in the course of the audit S. 73(11), 73(9),
- Data not kept in an organized manner;
- ITC Back up matching with GSTR 3B not properly available with the matching of GSTR 2A and also reconciled with the ITC ledgers;
- Central departments perform audit on a conceptual basis, whereas states performs line item wise and a rupee-to-rupee verification.

#### Environment Tomorrow?



- More Transparency in system;
- More Accountability for CAs + Tax Officers;
- Electronic Interface increasing;
- Tax Harmonization in India + World;
- Less tolerance for unethical activities;
- Profession/ Professionals to play bigger role in addressing concerns of fraud, money laundering, corruption and enhancing governance



# THANK YOU



CA Ravi Kumar Somani (ravikumar@hnaindia.com)