

**WICASA
PIMPRI-CHINCHWAD
BRANCH OF WIRC
OF ICAI**



**Student's E-News letter
April 2019**





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Managing Committee 2019-20

CA. Santosh Sancheti	<i>(Chairman)</i>
CA. Simran Lilwani	<i>(Vice Chairperson)</i>
CA. Sachin Bansal	<i>(Treasurer)</i>
CA. Vijaykumar Bamne	<i>(WICASA Chairman)</i>
CA. Chandrakant Kale	<i>(MCM)</i>
CA. Shailesh Bore	<i>(MCM)</i>

WICASA Committee 2019-20

CA. Vijaykumar Bamne	<i>(WICASA Chairman)</i>
Mr. Omkar Dangale	<i>(WICASA Vice Chairman)</i>
Ms. Ruchi Bansal	<i>(WICASA Secretary)</i>
Mr. Omkar Dafal	<i>(WICASA Treasurer)</i>
Ms. Riddhi Pande	<i>(WICASA Member)</i>
Mr. Pratik Karande	<i>(WICASA Member)</i>
Ms. Nidhi Katti	<i>(WICASA Member)</i>



GST AUDIT

According to Section 2(13) of the GST Act, 2017, '**audit**' means detailed examination of records, returns and other documents maintained or furnished by the taxable person under this Act or Rules made thereunder or under any other law for the time being in force to verify, inter alia, 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 rules made thereunder.

Accordingly, 'audit' implies –

- (a) Detailed examination of records, returns and other documents -
 - (i) maintained/furnished by a taxable person,
 - (ii) under GST law/any other law or rules;
- (b) Verification of correctness of -
 - (i) turnover declared;
 - (ii) taxes paid;
 - (iii) refund claimed;
 - (iv) input tax credit availed; and
 - (v) assessment of compliances with provisions of GST law and rules.

GST audit is not only reconciliation of tax liability & payment, it also signifies compliance of the provisions of the GST act, law and provisions etc.



Relevant Provisions:

Section 35(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.

Section 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.

Rule 80(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.

Audit by tax authorities:

Sec. 65 (1) The Commissioner or any officer authorized by him, by way of a general or a specific order, may undertake audit of any registered person for such period, at such frequency and in such manner as may be prescribed.

Special audit:

Sec. 66 (1) If at any stage of scrutiny, inquiry, 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 the interest of revenue, is of the opinion that the value has not been correctly



declared or the credit availed is not within the normal limits, he may, with the prior approval of the Commissioner, direct such registered person by a communication in writing to get his records including books of accounts examined and audited by a chartered accountant or a cost accountant as may be nominated by the Commissioner.

Access to business premises:

Sec. 71

(1) Any officer under this Act, authorized 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 reinstalled 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 of place referred to in sub-section (1) shall, on demand, make available to the officer authorized under sub-section (1) or the audit party deputed by the proper officer or a cost accountant or chartered accountant nominated under section 66—

- 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. the income-tax audit report, if any, under section 44AB of the Income-tax Act, 1961; and
- vi. any other relevant record.



General Guidelines:

While conducting audit, the auditor is required to carry out his duties with utmost sincerity, integrity and diligence. The auditor has immense responsibility in detection of non-compliance, procedural irregularities and leakage of revenue due to deliberate action or ignorance on the part of the Taxable Person. At the same time, the auditor should keep in view, the prevalent trade practices, the economic realities as also the industry and business environment in which the Taxable Person operates. Therefore, the auditor should take a balanced and rational approach while conducting the audit. Besides, the auditor is expected to play a key role in promoting voluntary compliance by the Taxable Person.

During the course of the audit, if certain technical infractions, without any revenue implications, arising due to bona fide oversight or ignorance of the Taxable Person, are noticed, the Taxable Person should be guided for immediate correction. Such cases should also be mentioned in working papers.

An auditor is responsible for conduct of audit and should endeavor to take a final view on all issues raised by him during that audit. The working papers for each of the step of audit should be filled in as soon as that step is completed. They should be 'speaking documents' that clearly explain why a particular area was included in the audit plan as well as the basis for arriving at every objection that goes into the draft audit report after audit verification. The documentary evidence which has been relied upon in arriving at certain conclusion should invariably be cited and included.

Verification of records mandated by the statute is necessary to check the correctness of assessment and payment of tax by the Taxable Person in the present era of self-assessment. In keeping with the principles of audit outlined above, audit has to be conducted in a transparent and systematic manner with focus on business records of the Taxable Person and according to the audit plan for each Taxable Person.



Stage wise action for audit

- i. Preparation/updating of Taxable Person master file containing comprehensive Taxable Person profile.
- ii. Collection of all relevant documents, data reconciliation statement and reply to questionnaire.
- iii. Desk review on the basis of relevant documents and interview of the Taxable Person.
- iv. Formulation and approval of audit plan based on desk review.
- v. Conducting audit verification on the basis of the approved audit plan.
- vi. Suggestions on correction/improvements to Taxable Person for future guidance.
- vii. Preparation of draft audit report and its submission, along with working papers for discussion.
- viii. Issue of final audit report.
- ix. Follow up action, for monitoring the compliance of various points.

The objective of review of internal controls is to assess whether the Taxable Person has reliable systems and controls in place that would produce reliable accounting business records. Most medium to large companies have ERP systems in place, which account for all transactions from entry of raw material to clearance of final products. Auditors must have a look at these systems and more relevantly determine whether software being used exclusively for the transactions related to GST tax matters is integrated to the main ERP system or is running parallel to the main ERP. This assessment would be used by the auditor to decide on the extent of verification required and to focus on areas with unreliable or missing controls. It should be noted that this review must be commensurate with the size of operations.

A small Taxable Person might have little in terms of internal controls where as a large Taxable Person would have sophisticated internal controls in place. If the internal controls are well designed and working properly, then it is possible to rely on the books maintained by the Taxable Person. The scope and the extent of the audit can be reduced in such a case. The reverse would be true if the internal controls are not reliable. Audit should evaluate the soundness of internal control of sub-systems/areas like supplies, purchase tax, accounting etc., and grade them as good, acceptable and poor.



The objective of audit verification is to perform verification activities and document them in order to obtain and record audit evidence. The verification techniques must be appropriate for audit objectives identified in the audit plan. It is important that in an audit, the objections that are raised are technically correct and stand up against scrutiny or challenge. Law being open to interpretation, it may be difficult to test the technical correctness of all objections. However, it should be correct to the extent that any professional auditor, working with and having access to the same research material would likely to come to the same conclusion. It also means that the auditor must demonstrate, in writing, the research and reasoning used to base his/her application of legislation, policies and jurisprudence. The documents to be examined include Annual Financial Accounts containing Director's Report, Statutory Auditor's Report, Balance Sheet, Profit & Loss Account and Cost Audit Report. The auditor must go into details of the figures mentioned in the Annual Financial Statements and for that he must examine Trial Balance, Ledgers, Journal Vouchers, Invoices and Stock Ledgers. He may also examine Cash Flow Statement, Groupings, Cost Audit Report and Tax Audit Report. He should also check whether the Taxable Person is maintaining the statutory records as required under various statutes especially under the CGST & IGST Act, 2017.

A **physical tour** provides confirmation of much of the information gathered. It helps the auditor to familiarize himself with the manufacturing processes, identify the intermediate goods, by-products and wastes/rejects and locate other activities of the Taxable Person. During the tour to a particular section, the auditor should physically verify the samples of each of the listed documents maintained in that section. The plant tour should cover all areas, from receipt of raw material, through manufacturing process, to the finished goods, storage and the shipping areas. The auditor should ensure that he encompasses each and every aspect necessary for him to complete the Audit Working Papers. The purpose of this tour is to gather information from the Taxable Person about the various systems followed by him in the areas of purchase, stores, sales, job work, tax reporting etc.



An **evaluation of Internal controls** helps in formulating a detailed programme of verification of relevant internal controls of the taxable person. The level of deficiencies in internal controls would determine the coverage and depth of audit verification required for a particular sub-system in the business unit. In this regard, an auditor would normally examine the following:

- i. Characteristics of the company's business and its activities.
- ii. System of maintenance of records and accounts.
- iii. Identifying the persons handling records for GST purposes.
- iv. Allocation of responsibilities at different levels.
- v. System of internal checks.
- vi. System of movement of documents having relation to GST assessment.
- vii. Inter-departmental linkages of documents and information, and
- viii. System of taxable person's own internal audit.

An auditor needs to acquaint himself with the systems of control and documentation in operation. This knowledge is obtained either by discussion with various managers or by going through documents like procedure manuals, organization charts, job descriptions, flow-charts and records maintained. In the case of first audit, the auditor needs to maintain detailed written record of his observations of the internal control system.

During these verifications, the following information should be correctly obtained and recorded.

- i. Whether any input is exclusively consumed for fully exempted supplies.
- ii. Whether any inputs consumed for fully exempted as well as taxable supplies.
- iii. Whether any Capital goods on which input credit is availed are exclusively used for fully exempted supplies.



A financial audit may show that the financial records agree with the basic documents. This does not necessarily mean that the GST return is correct. Various factors may be the cause of an incorrect return e.g.: - taxable supplies may not have been recorded; purchase invoices may have been forged; input tax may have been paid and deducted but the deduction may not be allowable; discounts may have been allowed to related companies that may reduce the taxable value incorrectly; or goods may have been taken from stock for non-business reasons and not recorded in the accounts resulting in an evasion of the tax. These examples are not comprehensive but indicative why, only, the carrying out of a financial audit is not sufficient for the verification of a GST return.

A stock take is the responsibility of the taxable person and the auditor's actions should be restricted to the extent necessary to be satisfied that the stock records are correct. If they are considered to be suspect then best judgment based upon all available documentary evidence, (e.g. cost records), is to be used to assess the true stocks.

Cost accounting is the process of recording, classifying, analyzing, summarizing, and allocating costs associated with a process, and then developing various courses of action to control the costs. Cost accounting examines the cost structure of a business. It does so by collecting information about the costs incurred by an organization's activities, assigning selected costs to products and services and other cost objects, and evaluating the efficiency of cost usage. Cost Audit represents the verification of cost accounts and check on the adherence to cost accounting plan. Cost Audit ascertains the accuracy of cost accounting records to ensure that they are in conformity with Cost Accounting principles, plans, procedures and objective.

Cost audit objective is to establish the accuracy of costing data and ensure efficient functioning of the industry. The objective of maintaining cost records is to track the resources consumed and only relevant costs are considered for pricing of the product or services. Similarly GST audit should ensure that the input tax credit is availed by the organization for taxable supplies only and the taxable value of the product or service is accurately determined and tax liability discharged accordingly.



For GST audit, the auditor is required to understand the following:

The nature of the entity, (including its operations covering Business Processes, major inputs, major outputs, wages etc.,) and the entity's ownership and governance structure.

Relevant industry, regulatory and other external factors including the applicable cost and financial reporting framework.

Understanding of internal controls and Information Technology and control system of the entity.

Updated knowledge of the GST Act, Rules, notifications and clarifications issued by the GST authorities.

Reconciliation Requirement:

HSN code wise Taxable Turnover and Quantity Taxable Turnover – Tax Rate wise – Monthly Determination of Taxable Turnover, tax amount under IGST, CGST/SGST.

Tax liability under Reverse charge mechanism, Reconciliation of Turnover as per books of accounts and monthly return submitted (GSTR3B/GSTR1) and identify the additional tax liability if any.

Complied by,
Mrs. Riddhi Pande
WRO0550628



WICASA Events (April 2019)

Date	Event	Speaker
27 th April 2019	Voting Awareness meeting	Election Nodal Officer & Asstt. Commissioner PCMC
30 th April to 17 th May 2019	Refresher Course on GST-"Dnyan Satra"	CA. Pritam Mahure, Pune



SNAPSHOTS FOR EVENTS (April 2019)



*Voting Awareness Program held
At ICAI Pimpri-Chinchwad Branch*



लेखापाल संघटनेची मतदानाची शपथ

पिंपरी : पिंपरी-चिंचवड महानगरपालिकेच्या स्वीप मतदार जनजागृती कार्यक्रमांतर्गत पिंपरी-चिंचवड सनदी लेखापाल संघटनेच्या सभासदांनी येत्या लोकसभा निवडणुकीसाठी मतदान करण्याची शपथ घेतली. या वेळी पिंपरी-चिंचवड महानगरपालिकेचे मतदान नोंदणी अधिकारी संदीप खोत, स्वीप सचिव रमेश भोसले, समन्वयक प्रफुल्ल पुराणिक, तानाजी सावंत यांच्यासह संघटनेचे अध्यक्ष संतोष संचेती, सदस्य पंकज पाटणी, सचिन बंसल, सिमरन लिलवानी, संतोष रांका, अशोककुमार पगारिया, पंकज सुराणा, कुंतीलाल शिंगी, वैभव मोदी, भरतकुमार पटेल यांनी शपथ घेतली. रमेश भोसले यांनी सर्वांना शपथ दिली.

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WICASA PIMPRI CHINCHWAD BRANCH OF WIRC OF ICAI

ICAI Bhawan Plot No. 17/8 A,
at Nigdi, Dattanagar,
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Behind Indian Oil Petrol Pump, Pune 411044.

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