# GST Audit – Some Basics


*The concept of audit by a Chartered Accountant in the area of Indirect Taxes was confined to only State Value Added Tax and Central Sales Tax laws of certain States till some time ago. In Central Excise and Service Tax, only in case of suspicion of undervaluation or excessive credit, special audits were prescribed (not much used) which continue in GST. While the GST regime emphasises self-assessment processes, the complexities involved in the new statute make one wary of errors leading to unintended leakage of revenue. The level of tax compliances prevailing and the complex nature of tax laws in our country make it necessary for audit of records under various laws. Therefore, the GST law provides for audit by professionals above certain limits. Read on to know more…*

## Introduction

In terms of Section 2(13) of the CGST Act, 2017, *"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.*

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## Preparation for GST Audit

The GST Audit would be undertaken for the first time this year, and, therefore, demands significant preparation from both the auditor and the auditee. While the statutory audit (under the Companies

*(This is the excerpt from the full article written by the author and reviewed by CA. S. Venkataramani and CA. Ashok Batra which is hosted on website of Indirect Taxes Committee of the ICAI. The full article can be viewed at https://goo.gl/2cHmCP.)*

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Act, 2013) and tax audit (under the Income Tax Act, 1961) primarily rely on the financial records, the GST audit coverage would be larger.

## Audit under GST Laws – Relevant Statutory Provisions

**Class of registered persons liable for GST Audit:** Every registered person whose **aggregate turnover** during a financial year exceeds the prescribed limit of ₹2 crore is liable to get his accounts audited by a Chartered Accountant or a Cost Accountant. The phrase 'aggregate turnover', as defined in Section 2(6) would mean the all-India PAN-based turnover for the financial year (inclusive of exports, inter-State supplies, exempt supplies, stock transfers, etc. but exclusive of GST and compensation cess).

Since GST has been implemented from the 2nd quarter of 2017-18, the very applicability of the threshold limits for audit purposes, whether wholly (₹2 crore) or in proportion, has not been explicitly provided for–Clarification from the Government is awaited. The ICAI has suggested a shorter audit for smaller assessees keeping in mind the cost and complexity of present law.

**Filings upon GST Audit:** The registered person shall submit a copy of the audited annual accounts, the reconciliation statement (reconciling the value of supplies declared in the return furnished for the financial year with the audited annual financial statement), in Form GSTR-9C and other documents as may be prescribed, on the GST Common Portal. The detailed Rules/Guidelines regarding the audit procedures and the Audit Report Format, etc. are yet to be prescribed/notified.

## Assessees Whose Accounts Are To Be Audited

The threshold turnover limit of ₹2 crore, as referred to in Para 3.1 *supra*:

- Is the same for assessees in all the States and UTs. No separate threshold limit is specified for Special Category States. Since each of the State GST Acts also contain the relevant provisions relating to audit, the GST audit shall be State-wise;
- Is to determine the applicability alone, and separate audits would have to be carried out for each of the distinct registrations under the same PAN.

**Every registered person whose aggregate turnover during a financial year exceeds the prescribed limit of ₹2 crore is liable to get his accounts audited by a Chartered Accountant or a Cost Accountant.**

**Only a member of ICAI having a Certificate of Practice (COP), or a firm of Chartered Accountants can take up the GST Audit. Additionally, among other things, a CA must keep in mind that Member in part time practice (including an employee having a COP) is not entitled to perform attest function.**

It would be the duty of a Chartered Accountant/ Auditor to inform the auditee about the requirement of GST audit, mandatory documents and other preparations required from the auditee.

## Audit by a Chartered Accountant or a Cost Accountant

**The Chartered Accountants Act, 1949**

- ➢ Section 2(1)(b) – a "chartered accountant" means a person who is a member of the Institute.
- ➢ Section 2(2) – a member shall be deemed to be in practice if he engages himself, for a consideration, in the specified activities, which includes *inter alia* audit.
- ➢ Section 6 provides that a member cannot practice without obtaining Certificate of Practice.

Thus, only a member of ICAI having a Certificate of Practice (COP), or a firm of Chartered Accountants can take up the GST Audit. Additionally, a Chartered Accountant must bear in mind the following:

- Member in part time practice (including an employee having a COP) is not entitled to perform attest function.
- Member having substantial interest in an assessee cannot take up its audit.
- Member responsible for writing/maintenance of books of account of an assessee should not take up its audit.
- Member is not to accept the audit of a person to whom he is indebted for more than ₹10,000/-.
- Member is not to charge professional fees based on a percentage of profit or which are

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contingent upon the finding or the result of the professional employment.

- Internal auditor of an assessee cannot be appointed as his tax auditor.
- In case of joint audits, all the auditors will have to sign the audit report and should issue separate reports where they have different opinions.

The restrictions applicable for appointment of a statutory auditor where fee for other services are more than the statutory audit fee, in case of specified entities, are not applicable to GST auditors.

Further, it is suggested that the auditor should not accept the audit of accounts written in a language which he/his staff do not understand.

## Audit Engagement

In case of a company, the appointment of the GST auditor should be made through a resolution of the Board of Directors or by an officer of the company, if so authorised by the Board on this behalf. In case of a partnership firm or proprietary concern, the appointment can be made by a partner or the proprietor or a person authorised by the assessee. The acceptance of appointment should also be communicated in writing to the auditee.

**Communication with the Previous Auditor–** Since the GST audit is applicable for the first time (for the financial year 2017-18), the requirement of communication with the previous auditor prior to accepting the engagement (based on the provisions of the CA Act) does not arise. However, as a healthy practice, the GST auditor may choose to communicate with the previous auditor (under the erstwhile provisions of State Level Laws) so as to get a better insight into the auditee's business practices. Such communication would, however, become mandatory in the subsequent years (where the retiring auditor is a Chartered Accountant).

## Submission of Audit Report

Section 35(5) read with Section 44(2) of the CGST Act provides that the following documents shall be furnished electronically by the assessee upon conclusion of the audit:

a. Annual Return;
b. Copy of the audited annual accounts;
c. Reconciliation statement, reconciling the value of supplies declared in the return furnished for the financial year with the audited annual financial statement in Form GSTR 9C, duly certified;
d. Such other particulars, as may be prescribed.

Certificate Vs. Report–Para 2.2 of the 'Guidance Note on Audit Report and certificates for Special Purpose' issued by the ICAI notes the difference between the term 'certificate' and 'report' as under;

- "A ***Certificate*** is a written confirmation of the accuracy of facts stated therein and does not involve any estimate or the opinion.";
- "A ***Report***, on the other hand, is a formal statement usually made after an enquiry, examination or review of specified matters under report and includes the reporting auditor's opinion thereon".

Thus, where a certificate is issued, the Chartered Accountant shall be responsible for factual accuracy of what is stated therein. In case of a report, he is responsible for ensuring that the report is based on the factual data, true and fair (or in some cases true and correct) to the best of his belief, knowledge and information furnished to him.

**Annual Return:** Every registered person [*other than an input service distributor (ISD), person required to deduct tax at source (TDS), person required to collect tax at source (TCS), casual taxable person (CTP) and non-resident taxable person*] shall furnish an annual return for every financial year electronically in the Form GSTR-9 (*composition suppliers in GSTR-9A and e-commerce operators in Form GSTR-9B*) on or before 31$^{st}$ December following the end of the financial year. Where a registered person is required to get his accounts audited, such annual return shall be furnished along with the audited accounts.

**Reconciliation Statement**– Rule 80(3) provides that the reconciliation statement shall be furnished in the Form GSTR-9C (format yet to be notified). The provisions of Section 44(2) require reconciliation of the figures declared in *'return furnished for the financial year'* with the *'audited financial statement'*. It appears that the return furnished for the financial year refers to the annual return furnished.


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**Such other particulars, as may be prescribed** – The Government is yet to prescribe the format of audit report and annexures thereto. It is also not clear as to whether the auditor is required to identify and report the discrepancies month-wise or annually. ICAI has suggested formats to aid government in coming up with the final forms.

## Accounts and Other Records

(i) Every registered person shall maintain the details of input tax credit (ITC) availed, stock of goods – in value and quantity with description of inflow and outflow, production/manufacture of goods, inward and outward supplies of goods and/or services including imports and exports, supplies attracting tax on reverse charge, details of advances paid/received, output tax payable and paid, etc. along with the relevant documents such as invoices/bills of supply/delivery challans/credit notes/debit notes/receipt vouchers/payment vouchers/refund vouchers.

(ii) The registered person shall also maintain the names and complete addresses of suppliers and recipients, and the complete address of the premises where goods are stored (including goods stored during transit). Goods found at a place, other than so declared, without a valid tax invoice could be treated as a taxable supply.

(iii) The details contained in the records are expected to be true and correct. Entries therein shall not be erased/effaced/overwritten, and all incorrect entries, otherwise than those of clerical nature, shall be scored out under attestation and thereafter the correct entry shall be recorded in the registers. In case of electronically maintained records, a log of every entry edited/deleted shall be maintained.

**In the absence of any prescribed format for reporting of information to be furnished after the audit, preparation of the GST audit program would not be complete. However, based on past experience in audits, and considering the applicable provisions of the GST laws, one can start preparing the audit program and finalise the same once the reporting requirements are notified.**

(iv) Such records are required to be maintained at the principal place of business, and in case of additional places of business specified in the certificate, the records must be maintained in the respective places. The registered person is also permitted to maintain the records in an electronic form.

(v) Every owner or operator of warehouse/godown/other storage spaces, and every transporter, shall maintain records of the consigner, consignee and other relevant details of the goods, even if he is not a registered person.

(vi) Every registered person manufacturing goods shall maintain monthly production accounts showing quantitative details of raw materials or services used in the manufacture and quantitative details of the goods so manufactured including the waste and by products thereof.

(vii) A registered person supplying services shall maintain the accounts showing quantitative details of goods used in the provision of services, details of input services utilised and the services supplied.

(viii) Where records are generated and maintained electronically, proper backup is to be maintained and preserved, and shall be authenticated using a digital signature. On demand by the officers, the registered person shall give the electronic record file with the password.

## GST Audit Program

In the absence of any prescribed format for reporting of information to be furnished after the audit, preparation of the GST audit program would not be complete. However, based on past experience in audits, and considering the applicable provisions of the GST laws, one can start preparing the audit program and finalise the same once the reporting requirements are notified.

## Understanding the Business of the Auditee

The GST audit casts a huge responsibility on the auditor, and it is very important that the auditor is aware of the nature and complexity of the business/operations of the auditee. When an auditee approaches a Chartered Accountant for the first time, he must exercise due caution in assessing how compliant the auditee is, from a GST standpoint. It may be advisable that he prepares a suitable standard questionnaire (depending on the nature of business and facts and circumstances of each case) in order to become familiar with the business, modus operandi of operations, etc.

## Special Attention to Transactions Not Appearing in Financial Accounts

There are several transactions which may not appear in the financial accounts and records maintained by the registered persons such as stock transfers, free samples, services received from outside India from related parties, other supplies made without consideration, etc. Due care must be exercised by the auditor to identify such transactions as there may be no direct reference to these transactions in the financial records.

## Use of Software

It is important for auditors to be conversant with various related software. Different software tools are available for conducting an audit, and the one appropriate to the auditee must be chosen based on nature of the audit and size of the auditee. While selecting the software or software tool, the auditor must check on whether the same is updated with the latest amendments. Since the audit under the GST laws is being carried out for the first time, the auditor must be attentive to the possible errors that could arise while using the software.

## Challenges for the Year 2017-18

There would be many challenges that an auditor as well as an auditee will have to face while carrying out the GST audit for the financial year 2017-18, being the first year of GST audit. Among others, some of them are listed below:

a. Multiple audits under indirect tax laws: VAT audits may be required to be carried out for the first quarter and GST audit for the next three quarters;
b. Lack of clarity in the GST law, frequent changes in the law, issuance of more than 300+ notifications;
c. Failure of the matching concept – whether it would be possible to identify if the supplier has failed to remit taxes to determine eligibility of credits;
d. Complex procedural compliance under GST;
e. Reliability of the audit software is not tested;

**There is no specific penalty prescribed in the GST Law for not getting the accounts audited by a Chartered Accountant or a Cost Accountant. Therefore, in terms of Section 125 of CGST Act, 2017, he shall be subjected to penalty up to ₹25,000/-.**


f. Absence of/incomplete mandatory records;
g. High volume of procedural lapses and non-compliances by the assessees, incorrect documents/documentation procedures;
h. Transitional issues (law does address all types of transactions).

Auditors should not take up the audits where he is not confident of being updated and be able to conduct his audit adequately.

## Consequence of Failure to Submit the Annual Return

Section 47(2) provides that in case of failure to submit the annual return within the specified time, a late fee shall be leviable– Computation: ₹100 per day during which such failure continues subject to a maximum of a quarter percent of the turnover in the State/UT.

There is no specific penalty prescribed in the GST Law for not getting the accounts audited by a Chartered Accountant or a Cost Accountant. Therefore, in terms of Section 125 of CGST Act, 2017, he shall be subjected to penalty up to ₹25,000/-.

## Conclusion

An auditor is expected to exercise due and adequate care, prudence, diligence and adopt the best practices considering the complexity of each business and its surrounding circumstances. ■



*Failures, repeated failures, are finger posts on the road to achievement. One fails forward toward success.* - C. S. Lewis