



GST COMPLIANCE & AUDIT

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GST audit is a process of verifying the compliance of a business with the relevant legislation through an examination of the accounts and records of that business and is essential for any tax system.

Every registered person whose aggregate turnover during a financial year exceeds rupees two crore has to get his accounts audited by a chartered accountant or a **cost accountant** and furnish a copy of audited annual accounts and a reconciliation statement, duly certified, in **FORM GSTR-9**.

“**Audit**” has been defined in section 2(13) of the **CGST Act, 2017** and it means the examination of records, returns and other documents maintained or furnished by the registered person under the GST Acts 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 the GST Acts or the rules made thereunder.

Sec 31 (4) of The Karnataka Value Added Tax Act, 2003 states that - Every dealer whose turnover in a year exceeds rupees one hundred lakh shall have his accounts audited by a Chartered Accountant or a Cost Accountant or a Tax Practitioner subject to such conditions and such limits as may be prescribed and shall submit to the prescribed authority a copy of the audited statement of accounts and prescribed documents in the prescribed manner.

On comparison of the audit requirement under the GST and VAT regime, audit under GST regime is more detailed and emphasis is on examination of records, returns and other documents maintained and compliance with the provisions of the GST Acts or the rules made thereunder.

A Compliance audit involves verifying that the GST has been properly accounted for in your business transactions, and to ensure that the information is correctly reported in your GST Returns. This includes checking if your supplies are classified correctly, if GST was properly charged and accounted for, if input tax was claimed correctly, and if the values of supplies, purchases and taxes reported are complete. Compliance audit shall demonstrate the organisation’s process of recording transactions into computer system is correct. .

The primary purpose of compliance audit is to ensure that organizations are well aware and fully compliant with the GST laws and regulations. Compliance audit

will be “advisory” in nature to facilitate the businesses to understand their compliance requirements.

Some of the critical GST compliance requirements are listed below:

- Under GST a tax invoice is an important document. It not only evidences supply of goods or services, but is also an essential document for the recipient to avail Input Tax Credit (ITC). *A registered person cannot avail input tax credit unless he is in possession of a tax invoice or a debit note.*
- Schedule II of the CGST Act, 2017 lists a few activities which are to be treated as supply of goods or supply of services. For instance, any transfer of title to goods would be a supply of goods, whereas any transfer of right in goods without transfer of title would be considered as services.
- GST is essentially a tax only on commercial transactions. Hence only those supplies that are in the course or furtherance of business qualify as Supply under GST. Hence any supplies made by an individual in his personal capacity do not come under the ambit of GST unless they fall within the definition of business as defined in the Act.
- A supplier cannot take ITC of GST paid on goods or services used to make supplies on which recipient is liable to pay tax.
- Any amount payable under reverse charge shall be paid by debiting the electronic cash ledger. In other words, reverse charge liability cannot be discharged by using input tax credit. However, after discharging reverse charge liability, credit of the same can be taken by the recipient, if he is otherwise eligible.
- Section 35 of the CGST Act, 2017 provides that every registered person shall keep and maintain, at his principal place of business, as mentioned in the certificate of registration, a true and correct account of –
 - a. production or manufacture of goods;
 - b. inward and outward supply of goods or services or both;
 - c. stock of goods;
 - d. input tax credit availed;

- e. output tax payable and paid; and
- f. such other particulars as may be prescribed.

In addition, the rules also provide that the registered person shall keep and maintain records of -

- a) goods or services imported or exported; or
- b) supplies attracting payment of tax on reverse charge

along with relevant documents, including invoices, bills of supply, delivery challans, credit notes, debit notes, receipt vouchers, payment vouchers, refund vouchers and e-way bills.

- **monthly production accounts**, showing the 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;
- accounts showing the **quantitative details** of goods used in the provision of services, details of input services utilized and the services supplied;
- **separate accounts for works contract showing** –
 - o the names and addresses of the persons on whose behalf the works contract is executed;
 - o description, value and quantity (wherever applicable) of goods or services received for the execution of works contract;
 - o description, value and quantity (wherever applicable) of goods or services utilized in the execution of works contract;
 - o the details of payment received in respect of each works contract; and
 - o the names and addresses of suppliers from whom he has received goods or services.
 - o Any entry in registers, accounts and documents shall not be erased, effaced or overwritten, and all incorrect entries, otherwise than those of clerical nature, shall be scored out under attestation and thereafter correct entry shall be recorded, and where the registers and other documents are maintained electronically, a log of every entry edited or deleted shall be maintained. Further each volume of books of account maintained manually by the registered person shall be serially numbered.
 - o Monthly reconciliation of Supplies as per E-way bill and GSTR-1.
 - o E-way bill is to be issued irrespective of whether the movement of goods is caused by reasons of supply or otherwise. In respect of transportation for reasons other than supply, movement could be in view of export/import, job-work, SKD or CKD, recipient not known, line sales, sales returns, exhibition or fairs, for own use, sale on approval basis etc.

- **ITC is not available** in some cases as mentioned in section 17(5) of CGST Act, 2017. Some of them are as follows:

- a. motor vehicles and other conveyances except under specified circumstances.
- b. goods and/or services provided in relation to
 - food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, except under specified circumstances;
 - membership of a club, health and fitness center;
 - Rent-a-cab, life insurance, health insurance except where it is obligatory for an employer under any law;
 - travel benefits extended to employees on vacation such as leave or home travel concession;
- c. Works contract services when supplied for construction of immovable property, other than plant & machinery, except where it is an input service for further supply of works contract;
- d. Goods or services received by a taxable person for construction of immovable property on his own account, other than plant & machinery, even when used in course or furtherance of business;
- e. goods and/or services on which tax has been paid under composition scheme;
- f. goods and/or services used for private or personal consumption, to the extent they are so consumed;
- g. Goods lost, stolen, destroyed, written off, gifted, or free samples;

- The compensation cess is a cess that will be collected on the supply of select goods and or services or both till 1st July 2022. The cess will compensate the states for any revenue loss on account of implementation of GST. This cess will not be payable by exporters and those persons who have opted for compensation levy. The input tax credit of this cess can be only used to pay compensation cess and not the other taxes like CGST, SGCT or IGST.
- Supply of goods or services or both to a Special Economic Zone developer or a unit shall be treated as inter-State supply and shall be subject to levy of integrated tax.
- Deemed exports are not zero rated supplies by default, unlike the regular exports. Hence all supplies notified as supply for deemed export will be subject to levy of taxes i.e. such supplies can be made on payment of tax and cannot be supplied under a Bond/LUT.

- Before supply of goods to job-worker, principal would be required to intimate the Jurisdictional Officer containing the details of description of inputs intended to be sent by the principal and the nature of processing to be carried out by the job-worker. The said intimation shall also contain the details of another job-worker, if any. *The responsibility for keeping proper accounts for the inputs or capital goods shall lie with the principal.*
- Pursuant to section 143 (5) of the CGST Act, 2017, waste generated at the premises of the job-worker may be supplied directly by the registered job worker from his place of business on payment of tax or such waste may be cleared by the principal, in case the job-worker is not registered.
- Under GST laws, the definition of “Works Contract” has been restricted to any work undertaken for an “Immovable Property” unlike the VAT and Service Tax provisions where works contracts for movable properties were also considered.
- As per Rule 56 (14) of the CGST Rules, 2017, every registered person executing works contract shall *keep separate accounts* for works contract showing - (a) the names and addresses of the persons on whose behalf the works contract is executed; (b) description, value and quantity (wherever applicable) of goods or services received for the execution of works contract; (c) description, value and quantity (wherever applicable) of goods or services utilized in the execution of works contract; (d) the details of payment received in respect of each works contract; and (e) the names and addresses of suppliers from whom he received goods or services.

Cost Audit and GST Audit are complimentary to each other and hence Cost Accountants have a natural advantage in GST audit. Though the last date of filing GSTR-9 (Annual Return) is 31st December of next financial year, Cost Accountants should ensure that they commence the GST audit concurrently and complete the GST audit along with the cost audit, within a period of one hundred and eighty days from the closure of the financial year. This will facilitate the concerned organization to avail all the input credit of the relevant financial year and ensures that the consumption and inventory values are more accurate.

Anti - profiteering measure –

- Sec 171 (j) Any reduction in rate of tax on any supply of goods or services or the benefit of input tax credit shall be passed on to the recipient by way of commensurate reduction in prices.

The intensification of audits should be a wake-up call to all GST registered businesses to take the necessary steps to assess their indirect tax compliance levels. Failure to comply with GST law requirements can result in significant fines, invite greater scrutiny from GST Department in future, and cause disruptions to the business operations.

Cost Audit ascertains the accuracy of cost accounting records to ensure that they are in conformity with **Cost** Accounting principles, plans, procedures and objective.

GST Audit is the examination of records maintained by the taxable person to verify the correctness of information declared, taxes paid and to assess the compliance with the provisions of GST.

Cost audit aims to identify the undue wastage or losses and ensure that costing system determines the correct and realistic cost of production. Similarly GST Audit ensures that test of unjust enrichment is satisfied by the business in claiming the input tax and payment of appropriate tax.