

# GST and Cost Audit: A Step Towards Tax Governance

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By

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# Tax Governance

- To bring Transparency & Simplification in Taxation Systems
- For Right amount of taxes to be paid
- Data related to production/consumption/clearance being reported to all the authorities must remain same
  - Income Tax Department (TAR)
  - Ministry of Corporate Affairs (Through cost Audit report & Cost Records maintained at company level) (CAR)
  - Goods & Services Tax Department (GSTRs)

# Tax Governance

- Tax governance is a subset of corporate governance.
- Implementing a framework in place to identify, assess and manage (Tax Planning not Tax Avoidance) tax.
- Effective tax governance ensures paying the right amount of tax
- Whether the costing records/cost audit mechanism helps in it or not
- Tax governance to ensure that the tax benefits are passed on to the deserved one
- Whether valuation of inventories are part of Tax Governance

# GST Alignment

- GST Alignment with Cost/Financial Records, Cost Audit Annexures
- Tax Audit Report Alignment with Cost Records/Cost Audit
- Anti profiteering

# GST

- Does GST talk about manufacturing/production?
- Earlier taxes were being charged on either manufacture or sales of goods or supply of services
- Under GST, Taxes are charged on Supply of Goods or services

# GST & Cost Audit

- HSN Codes / SAC Codes under GST for Rate applicability determination, return filings etc
- Cost Audit Report under Companies Act 2013 is filed showing HSN/CETA codewise profitabilities, production, sales etc.

# Relevant Provisions: GST Audit

- Section 35 of CGST/SGST Act (Accounts & Other Records)
- Section 44 of CGST
- Rule 80 of CGST Rules
- Section 171 (Anti Profiteering)
- Section 148 of the Companies Act, 2013
- Companies (Cost Records and Audit) Rules 2014

# Alignments of GST with other documents

- Final Accounts (earlier Company/orgnisation as whole, Plant wise, statewise also)
- Income Tax (Company as whole, specific for area-wise exemption purposes also)
- Cost Audit Annexures (Part of CAR), productwise, Plantwise & at company level
  - What difference it can make if prepared at state level also
  - Whether GST annual reporting requirement can be complied with or not.
  - Date of filing CAR : 27<sup>th</sup> Sep (180days from end of financial year)
  - Date of Filing GST Annual Report : 31<sup>st</sup> Dec
  - Date of filing GST Audit Report : 31<sup>st</sup> Dec

# Relevant Sections (CGST & SGST)

- 35 (1) 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—
- **production or manufacture of goods;**
- **inward and outward supply of goods or services or both;**
- **stock of goods;**
- input tax credit availed;
- output tax payable and paid; and
- such other particulars as may be prescribed:
- Provided that where more than one place of business is specified in the certificate of registration, the accounts relating to each place of business shall be kept at such places of business:
- Provided further that the registered person may keep and maintain such accounts and other particulars in electronic form in such manner as may be prescribed.
- **Whether Cost Records under section 148 of the Companies Act show almost all the above data or not??? Mapping is must at location & state/GSTIN level**

# GSTR 1

- [GSTR1 FILE](#)

## Sample Files for HSN:

Summary For HSN(12)									<a href="#">HELP</a>
No. of HSN				Total Value	Total Taxable Value	Total Integrated Tax	Total Central Tax	Total State/UT Tax	Total Cess
4				499384.80	54.15	2147.04	8103.00	11771.00	1503.00
HSN	Description	UQC	Total Quantity	Total Value	Taxable Value	Integrated Tax Amount	Central Tax Amount	State/UT Tax Amount	Cess Amount
3401	Copper	KGS-Kilograms	2.05	99876.36	10.23	214.52	600.00	500.00	300.00
1001	Cashew	QTL-QUINTAL	2.05	99876.36	10.23	14.52	600.00	500.00	300.00
10083214	Fabric	MTR-METER	3.05	99877.36	11.23	678.00	601.00	501.00	301.00
	Biscuit	PAC-PACKS	3.05	99877.36	11.23	895.00	701.00	501.00	301.00
3456721	Aerated Drinks	LTR-LITERS	3.05	99877.36	11.23	345.00	5601.00	9769.00	301.00

# GSTR 2

- [GSTR 2 File](#)

HSNSUM (HSN Summary)

Sample File for HSNSUM:

	A	B	C	D	E	F	G	H	I	J
1	Summary For HSN(13)									HELP
2	No. of HSN				Total Value	Total Taxable Value	Total Integrated Tax	Total Central Tax	Total State/UT Tax	Total Cess
3	1				621220.00	367988.00	127332.00	23991.00	26366.00	8299.00
4	HSN	Description	UQC	Total Quantity	Total Value	Taxable Value	Integrated Tax Amount	Central Tax Amount	State/UT Tax Amount	Cess Amount
5	1234		MLT-MILILITRE	345.00	564564.00	345656.00	115466.00	22867.00	22132.00	7876.00
6		Butter	KGS-KILOGRAMS	187.00	56656.00	22332.00	11866.00	1124.00	4234.00	423.00

# GST Annual Return/Audit Sec 44

- (1) Every registered person, other than an Input Service Distributor, a person paying tax under section 51 or section 52, a casual taxable person and a non-resident taxable person, shall furnish
- **an annual return**
  - **Whether at company level/state level/GSTIN Level**
  - **(What does it contain) Can it be correlated with the data in cost records**
- for every financial year electronically in such form and manner as may be prescribed on or before the thirty-first day of December following the end of such financial year.

# GST Annual Return/Audit Sec 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
  - Company Level, State Level or GSTIN Level
- 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. Annual return GST Audit: Relevant Rules

- .-(1) Every registered person, other than an Input Service Distributor, a person paying tax under section 51 or section 52, a casual taxable person and a non-resident taxable person, shall furnish an annual return as specified under sub-section (1) of section 44 electronically in FORM GSTR-9 through the common portal either directly or through a Facilitation Centre notified by the Commissioner: Provided that a person paying tax under section 10 shall furnish the annual return in FORM GSTR-9A.
- (2) Every electronic commerce operator required to collect tax at source under section 52 shall furnish annual statement referred to in sub-section (5) of the said section in FORM GSTR -9B.
- **(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.
- GSTR 9 series not yet released finally

# Special Audit: Section 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 account examined and audited by a chartered accountant **or a cost accountant** as may be nominated by the Commissioner.
- (Valuation or Credit Audit on the parallel lines as was in Excise)

# Special Audit: Section 66

- The chartered accountant or cost accountant so nominated shall, within the period of ninety days, submit a report of such audit duly signed and certified by him to the said Assistant Commissioner mentioning therein such other particulars as may be specified:
- Provided that the Assistant Commissioner may, on an application made to him in this behalf by the registered person or the chartered accountant or cost accountant or for any material and sufficient reason, extend the said period by a further period of ninety days

# Special Audit: Section 66: Fee

- The expenses of the examination and audit of records including the remuneration of such chartered accountant or cost accountant, shall be determined and paid by the Commissioner and such determination shall be final (How : A big question as of now.)
- Should it be at par with the Special audit fees prevalent in Direct Taxes
- Should CMA/CA institute forward its fee guidelines to authorities for reference

# Certifications in CAR: CRA-3 under Companies Act 2013

- (vi) In our opinion, information, statements in the annexure to this Cost Audit Report gives a true and fair view of the cost of production of product(s)/rendering of service(s), cost of sales, margin and other information relating to product(s)/service(s) under reference. (Can it be referred to for anti-profiteering clause: year wise comparison)
- (vii) Detailed **unit-wise** and **product/service -wise** cost statements and schedules thereto in respect of the product/service under reference of the Company duly audited and certified by me are kept in the Company.
- Addition of words "**Statewise**" may do wonders

# Relevant Sections (Section 148)

- **148.** (1) Notwithstanding anything contained in this Chapter, the Central Government may, by order, in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars
- relating to the utilisation of material or
- labour or
- to other items of cost
- as may be prescribed shall also be included in the books of account kept by that class of companies:

# Annual Return

- **39. Annual return**
- (1) Every registered taxable person, other than an input service distributor, a person paying tax under section 46 or section 56, a casual taxable person and a non-resident taxable person, shall furnish **an annual return for every financial year electronically** in such form and **in such manner as may be prescribed on or before the thirty first day of December** following the end of such financial year.
- (2) Every registered taxable person who is required to get his accounts audited under sub-section (4) of section 53 shall furnish, electronically, **the annual return** under sub-section (1) along with the audited copy of the annual accounts and a reconciliation statement, reconciling the value of supplies declared in the return furnished for the year with the audited annual financial statement, and such other particulars as may be prescribed.

# Relevant GST Rules

- Draft GST Return Rules (Sep16)
- Rule 21(1) : Annual Return :
  - GSTR 9 by Normal RTP
  - GSTR 9A by Composition Assessee

# Relevant GST Rules

- Rule 21(2) : GST Audit
- Every registered taxable person whose aggregate turnover during a financial year exceeds one crore rupees shall get his accounts audited.

# GSTR 9 Annual Return

- Details of Income
  - Total Value of supplies HSN wise on which GST was paid:
    - : Inter State (HSN wise : IGST)
    - : Intra State ( SGST & CGST HSN wise)
    - : Exports (GST Paid)
  - Total Value of Exports on which GST was not paid
  - Total Value of supplies on which GST was not paid

**PART-A**

**4. Product/Service Details (for the company as a whole)**

Name of Product(s) /Service(s)	UOM	CETA Heading(wher ever applicable)	Whether Covered under Cost Audit Yes/No	Net Operational Revenue(net of taxes, duties etc.)	
				Current Year Rs.	Previous Year Rs.
1 .					
2 .					
3 .					
4 .					
.....					
<b>Total net revenue from operations</b>					
<b>Other Incomes of company</b>					
<b>Total revenue as per financial accounts</b>					
<b>Extra ordinary income,if any</b>					
<b>Total revenue including extra ordinary income, if any</b>					
<b>Turnover as per Excise/Service Tax Records</b>					

Note: Explain the difference, if any, between Turnover as per Annual Accounts and turnover as per Excise/Service Tax Records.

# GSTR 9 Annual Return

- Details of Expenditure
  - Total Value of Purchases on which ITC was availed : Inter State (HSN wise)
    - : Intra State (HSN wise)
    - : Imports
  - Total Value of Purchases on which ITC was not availed

**For Manufacturing Sector**

**2A. Details of Materials Consumed**

<b>Name of Product</b>								
<b>CETA heading</b>								
Description of Material	Category	UOM	Current year			Previous year		
			Quantity	Rate per unit	Amount	Quantity	Rate per unit (Rs.)	Amount
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								

**Category : Indigenous/Imported/Self Manufactured**



# Audit Form

- RTP shall furnish a copy of audited annual accounts and a reconciliation statement,
- duly certified, in **FORM GSTR-9B** alongwith
- **GSTR 9A**

# Contents of GST9A

- FORM GST 9A :
- Eight Certifications
  - Complete Documents available for verification
  - Total outward turnover includes all outward TO
  - Total inward turnover includes all inward supplies
  - Confirmation regarding compliance with provisions in case of deductions from TO

# Contents of GST9A

- The adjustments in Outward to or Inward have been reflected in books of accounts
- Confirmation regarding **classification of outward goods/services supplied** and inward supplies, **rate of tax applicable** and computation of output tax and input tax and net tax payable
- Confirmation regarding computation of classification of goods supplied, the amount of input tax paid and deductions of input tax credit claimed and reversed in the return
- Correctness of Other information given in the returns

**FORM GST 9A**

(See **Section**\_\_ of the Central/ State Goods and Services Tax Act, 2016 and **Rule** \_\_ of the Central/ State Goods and Services Tax Rules, 2016)

**Audit Report certified by a .....**

Certified that I/we being a ..... have audited the accounts of \_<<Name>>\_ at <<Address>> having a registration number (GSTIN) \_\_\_\_\_ for the year ending 31st March 20\_\_ and subject to my/our observations and comments about non compliance, short comings and deficiencies in the returns filed by the Taxable person, as given in the attached report,

- 1 The books of accounts and other related records and registers maintained by the **taxable person** are sufficient for the verification of the correctness and completeness of the returns filed for the year;
- 2 The total turnover of outward supplies declared in the returns includes all the outward supplies effected during the year;
- 3 The total turnover of inward supplies declared in the returns includes all the inward supplies made during the year;
- 4 The deductions from the total turnover including deduction on account of sales /supplies returns claimed in the returns are in conformity with the provisions of the
- 5 The adjustment to turnover of outward supplies and inward supplies is based on the entries made in the books of account maintained for the year;
- 6 The classification of outward goods/services supplied and inward supplies, rate of tax applicable and computation of output tax and input tax and net tax payable as shown in
- 7 The computation of classification of goods supplied, the amount of input tax paid and deductions of input tax credit claimed and reversed in the return is correct and in conformity with the provisions of law;
- 8 Other information given in the returns is correct and complete.

**Reconciliation Statement**

S.No.	Particulars	Consolidated amount as per annual return	Amount as per audited financial statements (for the GSTIN)	Difference	Reference
<b><u>A) Details of supplies and corresponding taxes</u></b>					
1	Total outward supplies				<i>Annex 1</i>
2	Total inward supplies				<i>Annex 2</i>
3	Total tax liability on output supply and supplies liable to reverse charge				<i>Annex 3</i>
4	Input tax credit availed during the year				<i>Annex 4</i>
<b><u>B) Payment of tax liability on output supply and supplies liable to reverse</u></b>					
5	By utilising cash in cash ledger				<i>Annex 5</i>
6	By utilising input tax credit ledger				<i>Annex 5</i>
7	By utilising TDS in cash ledger				<i>Annex 5</i>
<b><u>C) Other details</u></b>					
8	Deposit by challans				<i>Annex 6</i>
9	Transfer of TDS from deductors				<i>Annex 7</i>
10	Refunds				<i>Annex 8</i>
11	Amounts paid under protest/ as pre-deposit against demand				<i>Annex 9</i>
12	Balances as on date of financial statements (GST payable)				<i>Annex 10</i>
13	Balances as on date of financial statements (ITC)				<i>Annex 11</i>
14	TDS deducted				<i>Annex 12</i>



**PART-D**

**1 . Product and Service Profitability Statement (for audited products/services)**

S.No.	Particulars/HSN	Current Year			Previous Year		
		Sales Rs.	Cost of sales Rs.	Margin Rs.	Sales Rs.	Cost of sales Rs.	Margin Rs.
	Product 1						
	Product 2						
	Product 3						
	.....etc.						
	Service 1						
	Service 2						
	Service 3						
	.....etc.						
	<b>Total</b>						

# Anti-profiteering : Section 171: An Opportunity for CMAs

- (1) 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.
- (2) The Central Government may, on recommendations of the Council, by notification, constitute an Authority, or empower an existing Authority constituted under any law for the time being in force, to examine whether input tax credits availed by any registered person or the reduction in the tax rate have actually resulted in a commensurate reduction in the price of the goods or services or both supplied by him.
- (3) The Authority referred to in sub-section (2) shall exercise such powers and discharge such functions as may be prescribed.

# Articles on Antiprofitteering: 17<sup>th</sup> Mar 2017

- <http://www.firstpost.com/business/anti-profitteering-rule-in-gst-draft-bill-has-potential-to-wreak-havoc-for-businesses-3339434.html>
- Anti-profitteering provision in GST Act has potential to wreak havoc for businesses
- AP could unleash a furious fight between the department and manufacturers who may be constrained to defend themselves howsoever through **extra cost audit**

# Anti profiteering : Australia

- Australia was the first country to have implemented anti profiteering provisions with a GST in July 2000.
- The Australian Competition and Consumer Commission (ACCC) was assigned the task of monitoring prices.
- Only Eleven cases were filed

# Anti profiteering : Malyasia

- Malaysia, which adopted GST in 2015, introduced an anti-profiteering law besides intensifying enforcement through its National Pricing Council to protect consumers and ensure businesses didn't take undue advantage of the levy to charge more and make excessive profits.
- [https://static.mygov.in/rest/s3fs-public/mygov\\_147741244316314781.pdf](https://static.mygov.in/rest/s3fs-public/mygov_147741244316314781.pdf)

# Government's views on anti-profiteering

- One of the requirement under the Anti-profiteering Law is that the business is required **to maintain information at the stock keeping units (SKU) level** in order to prove that they are not profiteering. The importance of record keeping is more emphasized and **the organizations with good costing system will be ever ready** to prove that their organization is not profiteering with the introduction of GST.
- The ultimate intention of the Government is to ensure that consumers don't suffer because of GST.
- Ref: [https://static.mygov.in/rest/s3fs-public/mygov\\_147741244316314781.pdf](https://static.mygov.in/rest/s3fs-public/mygov_147741244316314781.pdf)

# A long way to go

- Let's work together to achieve more

• **THANKS**

- CMA NAVNEET KUMAR JAIN