

# SALEM CHAPTER OF COST ACCOUNTANTS

## GST AUDIT MANUAL 2019 – ROLE OF CMAs

## **Provisions of CGST Act, 2017 for Audit:-**

Section 2(13) of the CGST Act, 2017, defines

‘Audit’ as “the examination of records, returns and other documents maintained or furnished by the registered person under this Act or Rules made there under 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 there under”.

# GST AUDIT MANUAL 2019 (GSTAM 2019)

- GST regime commenced w.e.f 1st July 2017.
- However, the audits under GST had been put on hold primarily for the reason so that the database of returns including Annual Return is available for one full accounting period.
- The manual does not deal with
  - (A) Legal interpretations and rulings on GST matters.
  - (B) Future changes in the CGST ACT 2017 ; and
  - (C) The Rules made there under, administrative policies and procedures may require changes to this manual.
- Experience gained during the conduct of audit would also necessitate periodic updating of the manual to maintain its utility.

# INTENTION OF GSTAM 2019

Guidelines provided in GSTAM 2019 are intended to ensure that the audit of taxpayers is carried out in a uniform, efficient and comprehensive manner, adhering to the stipulated principles and policies and as per best international practices.

## 'Audit' implies –

### (A) Detailed examination of

- i. records,
- ii. returns and
- iii. other documents -

maintained / furnished by a registered person, 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.

**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

- i. a chartered accountant; or**
- ii. a cost accountant**

as may be nominated by the Commissioner.

## GUIDANCE NOTE ON GST AUDIT BY ICAI

Tax Research Department of The Institute of Cost Accountants of India has prepared Guidance Note on GST Audit which will be of immense benefit to the members of the Institute, accounting professionals and tax payers at large.

The Guidance Note on GST Audit contains background on introduction of GST in India, GST Audit Guidelines, Significant Concepts and Definitions under GST, Input Tax credit, Reverse Charge Mechanism, Anti- Profiteering Rules, GST Audit Formats etc.



## **Cost Accounting Records/Cost Audit:**

(i) In respect of **Regulated sectors** like Telecommunication, Electricity, petroleum and Gas, Drugs and Pharma, fertilizers and Sugar, Cost audit requirement has been made subject to a turnover based threshold of Rs 50 crores for all products and services and Rs 25 crores for individual product and services.

(ii) In respect of **Non-Regulated sectors** - The threshold is Rs 100 crores and Rs. 35 crores respectively.

For latest amendments and existing norms the Companies (Cost Records and Audit) Rules 2014 may be referred to.

# COST AUDIT REPORT

Cost Audit Report provides quantitative and financial details regarding production, clearance, capacity utilization, input-output ratio, related party transaction, valuation of production along with reconciliation of annual turnover with taxable value of Goods produced as per the GST returns.

The Cost Auditor in his report gives the information/details on the cost data for the Company as a whole as well as in the respect of each plant/unit of the company located at different locations, thus study of the report helps the audit officer in comparison of various information/details across the plants and units.

Cost Audit Report provides quantitative and financial details as per GSTR 9 / Periodical returns under GST.

In case Registered person is not covered under the cost audit, the Audit Officer may examine the Cost Accounting records Maintained by them on the lines of Cost Audit Report.

**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.

## **Relevant Statutory Provisions:**

### **A) General Audit: Audit by tax authorities**

Sec. 65 of CGST Act, 2017:

*(1) The Commissioner or any officer authorized by him, may undertake audit of any registered person 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.*

*(3) The registered person shall be informed by way of a notice not less than fifteen working days prior to the conduct of audit*

*(4) The audit shall be completed within a period of three months from the date of commencement of the audit*

*Provided that where the 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 not exceeding six months.*

*(5) On conclusion of audit, the proper officer shall, within thirty days, inform the registered person, whose records are audited, about the findings, his rights and obligations and the reasons for such findings.*

## **RESPONSIBILITY OF REGISTERED PERSON**

*Every person in charge of place referred to in sub-section(1)shall, on demand, make available to the officer authorized 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 section148 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 for Auditor**

While conducting audit, the auditors are required to keep in view, the prevalent trade practices, the economic realities as also the industry and business environment in which the Registered 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 Registered persons.

During the course of the audit, if certain technical infractions, without any revenue implications, arising due to bona fide oversight or ignorance of the Registered person, are noticed, the Registered 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 the 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.

## **Duration of audit**

**Efforts should be made to complete each audit within the following general time limits:-**

- i. Large taxpayers – 6 to 8 working days
- ii. Medium taxpayers – 4 to 6 working days.
- iii. Small taxpayers – 2 to 4 working days

The above mentioned working days are indicative and applicable for conduct of GST audit covering one year period.

In case the audit coverage is for five years, the number of days may be increased to maximum of 16/12/8 days for Large, Medium and Small taxpayers respectively.

In other words the number of days for conduct of audit may be increased proportionately, with an increase of 25% of working days for every additional year of coverage

## SELECTION OF REGISTERED PERSON FOR AUDIT

The selection of Registered persons would be done based on the risk evaluation method prescribed by the Directorate General of Audit.

The risk evaluation method would be separately communicated to the GST Audit Commissionerates during the month of February/ March of every year.

The risk assessment function will be jointly handled by the Directorate General of Audit in consultation with the Directorate General of Analytics and Risk Management and the Risk Management section of Audit Commissionerates.

It helps the GST Audit Commissionerates in selection of units for audit during the audit year.



## **Physical Verification of Documents**

A detailed scrutiny of the financial records of the registered person becomes imperative.

The documents to be examined include Annual Financial Accounts containing Director's Report, Statutory Auditor's Report, Balance Sheet and Profit & Loss Account.

If necessary, 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, 26AS Statement, Invoices and E-way bills.

He may also examine Cash Flow Statement, Groupings, Cost Audit Report and Tax Audit Report.

He should also check whether the registered person is maintaining the statutory records as required under various statutes especially under the Companies Act, 2013.

THANK YOU

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