

## **GST AUDIT**

### **Meaning of GST Audit –**

Auditing is a systematic and independent examination of the books and records of an entity to ascertain and report on the facts regarding its financial operations and results thereof. This compulsory audit is intended to ensure proper maintenance of books of account and other records, in order to reflect the true turnover and purchase of a dealer and also to reflect the correctness of input tax claimed and output tax paid, to facilitate the administration of tax laws for his further assessment.

Audit under GST is an important compliance verification tool to measure the level of compliance of a taxpayer in the light of the provisions of the CGST Act, 2017, and the Rules made there under. The whole edifice of the GST eco-system is built on Self-assessment/self-compliance by GST Taxpayers. It is aimed to bring transparency, deter tax evasion, and guide towards compliance accuracy in businesses.

GST Audit is mandated to do a meticulous scrutiny of taxpayer's transactions to validate the accuracy of the reported GST liability. The activity of Audit by the department is to, examine the records, returns, and other documents maintained or furnished by the taxpayer, verify the correctness of turnover declared, taxes paid, refund claimed, and input tax credit availed, and assess the taxpayer's compliance with the provisions of the CGST Act, 2017 and the Rules made there-under.

As per Sec 2(13) of the CGST Act, "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."

### **Objectives of GST Audit -**

To measure the level of compliance of the taxpayers in the light of the provisions of GST Act and Rules made there under.

- **Verification of Taxpayer's Compliance:** Audits help verify whether taxpayers are complying with GST laws, including timely filing of returns, correct payment of taxes, and maintenance of accurate records.
- **Detection of Discrepancies:** Auditors examine financial statements, invoices, and other records to detect any discrepancies or inconsistencies in input-output tax calculations, thereby preventing tax evasion.
- **Revenue Protection:** By identifying non-compliance and recovering unpaid taxes, GST audits contribute to revenue protection for the government, ensuring the sustainability of public finances.
- **Improvement of Tax System:** Audit findings provide insights into the effectiveness of GST laws and procedures, enabling authorities to make necessary improvements for a fair and efficient tax system.

## Types of Audits under GST –

- **General Audit/Departmental Audits/Audits by the Tax Department** – Departmental audits, also known as audits conducted by tax authorities, are routine checks conducted by tax authorities. These audits are designed to account for and meet tax obligations accurately, and to empower tax authorities to examine records maintained by taxpayers. As per Section 65 of the GST Accounts Act and Rule 101(3), the Commissioner or their authorized officer may conduct audits and verify registered persons' 'records' and 'books of accounts'. These audits are carried out by authorized personnel and the police force. A notice will be sent to the auditee at least 15 days before. The audit will be completed within 3 months from the date of commencement of the audit.

On completion of the audit procedure, the Authorized Commissioner shall communicate the findings, rights and obligations, and the reasons thereafter to the registered taxpayer within 30 days through FORM GST ADT-02. Suppose discrepancies such as unfair returns or use of Investment Tax Credit (ITC) in the calculation are discovered. In that case, the authorized officer may initiate the proceedings in accordance with the procedures mentioned in Section 73 or Section 74.

- **Special Audit** - The Assistant Commissioner may initiate the special audit, considering the nature and complexity of the case and interest of revenue. If he is of the opinion during any stage of scrutiny/ inquiry/investigation that the value has not been correctly declared or the wrong credit has been availed then a special audit can be initiated. A special audit can be conducted even if the taxpayer's books have already been audited before.

The Assistant Commissioner (with the prior approval of the Commissioner) can order for special audit (in writing). The special audit will be carried out by a chartered accountant or a cost accountant nominated by the Commissioner. The authorized officer shall issue the direction for the special audit of GST in Form GST ADT-03.

The auditor will have to submit the report within 90 days. This may be further extended by the tax officer for 90 days on an application made by the taxable person or the auditor. The expenses for examination and audit including the auditor's remuneration will be determined and paid by the Commissioner.

The taxable person will be given an opportunity of being heard in the findings of the special audit. If the audit results in detection of unpaid/short paid tax or wrong refund or input tax credit wrongly availed then demand and recovery actions will be initiated. Conclusions of the special audit under GST are communicated to the auditee in Form GST ADT-04.

- **Limited scrutiny** - A limited audit is conducted in specific cases where the tax authorities suspect non-compliance with the provisions of the GST laws. The objective of limited scrutiny is to verify compliance with the provisions of the GST law, including the correctness of the tax returns filed, payment of tax, and compliance with other provisions of the law.
- **Taxpayer-Initiated Audit** - The taxpayer himself can initiate an audit. The objective of a taxpayer-initiated audit is to verify compliance with the provisions of the GST law, including the

correctness of the tax returns filed, a charge of tax, and compliance with different provisions of the regulation. The GST regulation presents several results of non-compliance with the regulation's provisions, including fines, penalties, and imprisonment. Therefore, taxpayers need to comply with the GST law's provisions, including the audits' provisions. Taxpayers are warned to keep correct and complete statistics of their business transactions, including invoices, receipts, and other helpful files, to ensure compliance with the provisions of the GST regulations; taxpayers are suggested to report their tax returns on a well-timed basis and pay their tax on time.

### **Who Conducts GST Audits –**

GST audits are conducted by Cost Accountants (CMAs) or Chartered Accountants (CAs) (possible only in the case of special audit). Additionally, tax authorities, such as the Goods and Services Tax Network (GSTN) and the Directorate General of GST Intelligence (DGGI), oversee and supervise the audit process to ensure its integrity and fairness.

### **Principles of GST Audit –**

- Risk-Based Selection: The audit process begins with Risk-based selection of taxpayers to be audited. The primary objective of GST Audit is to translate the identified risk parameters into a meaningful review and an Audit Plan to ensure efficiency.
- Systematized and Comprehensive: GST Audits follow a methodical and all-encompassing approach, ensuring a meaningful and efficient audit;
- Technique based on materiality: The degree of scrutiny and application of an audit tool is applied depending upon the identified nature of risk factors;
- Record Every Detail: Proper recording of all checks and findings made during the entire audit;
- Exploring the Uncharted: Identify the unexplored compliance verification parameters;
- Educating Taxpayers: Taxpayers are educated for tax awareness and better compliance.

### **Preparation for the GST Audit –**

To start with, the following (among others) are the various steps an auditor can take in connection with the forthcoming GST audit:

- Inform the concerned auditee about the applicability of the GST audit.
- Confirm eligibility to be GST auditor under guidelines issued by the ICAI.
- Understand the nature of business, the products or services, requirements of records to be maintained, and advise the auditee to maintain accounts and records so required, beforehand;
- Prepare a questionnaire to focus on key areas of operations/ activities of the auditee, and specifically develop questions on those issues on which the GST law would have a bearing;
- Preparation of the detailed audit program and list of records to be verified;
- Obtain the relevant reconciliations.

### **General Guidelines for Auditor –**

- The Auditors while conducting audit are required to keep in view the prevalent trade practices, the economic realities and the industrial and business environment in which the registered assessee is operating its business.

- The Auditor is expected to play a key role in promoting voluntary compliance by the registered persons.
- During the course of audit, if any technical infringement or violations are observed, which do not have any revenue implications, arising due to bonafide oversight or ignorance of the registered person, the registered person should be guided for immediate correction. However, such cases should form part of the working paper notes.
- The auditor should endeavour to take final view on all issues raised by him during the audit and the working papers for each step of audit should be filled in as soon as the step is completed.
- There 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.
- Verification of statutory records is necessary to check the correctness of assessment and payment of tax by the registered person.
- Confidentiality should be maintained in respect of sensitive and confidential information furnished to an auditor during the course of audit. Maintaining such confidentiality is necessary to secure the trust and co-operation of the registered person and to obtain his participation in the course of audit.
- Audit has to be conducted in a transparent and systematic manner with focus on business records of the registered person and according to the audit plan.

#### **Pre-requisites of an audit officer –**

An audit officer, acting in close coordination with other members of his/her team and supervisory officers, is the lynchpin of an effective audit and should be equipped with a number of skills and relevant knowledge. These are summarized below.

| <b>Area of Competence<br/>(Skill-set/ Knowledge)</b>  | <b>Illustrative Questions</b>  |
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| <b>Have a well-drafted pre-plan for identifying areas of concern.</b>   | <ul style="list-style-type: none"> <li>➤ What to examine?</li> <li>➤ How to examine?</li> </ul>  |
| <b>Be well aware of the procedural aspects.</b>   | <ul style="list-style-type: none"> <li>➤ Is the Officer well aware of the online/offline Audit modules?</li> <li>➤ Is the Officer aware of the departmental guidelines?</li> <li>➤ Have all the points noted in the audit plan been covered?</li> <li>➤ Is the officer aware of the workflow and documentation/ recording system followed by the auditee?</li> </ul> |
| <b>Possess legal knowledge of legal provisions, changes in law, notifications, circulars, relevant case law, rates.</b> | <ul style="list-style-type: none"> <li>➤ Is the officer well aware of the legal provisions and changes thereto?</li> <li>➤ Is there any specific guideline in any circular?</li> <li>➤ Are there any court judgments that are applicable?</li> </ul>   |
| <b>Possess knowledge of the industry / sector in which the taxpayer is active.</b>                                      | <ul style="list-style-type: none"> <li>➤ Does the officer have a primary knowledge about the business pattern of the auditee with</li> </ul>   |

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|                                       | <p>respect to the auditee's particular trade &amp; industry?</p> <ul style="list-style-type: none"> <li>➤ Is the audit officer aware of the existing trade practices, conventions, and market trends?</li> <li>➤ Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014 provides that the Final Accounts should comply with the Accounting Standards. Does the audit officer possess the knowledge of the prevalent Indian Accounting Standards?</li> </ul>   |
| <b>Be able to compute dues.</b>       | <ul style="list-style-type: none"> <li>➤ If the auditee is willing to deposit the dues, what to do?</li> <li>➤ If the auditee is not willing to deposit the dues in accordance with the audit report, what are the next steps?</li> </ul>  |
| <b>Skills for taxpayer engagement</b> | <ul style="list-style-type: none"> <li>➤ Is the audit officer unbiased and judicious in the course of audit?</li> <li>➤ Is he/she tactful to gain the goodwill and confidence of the auditee and act as a motivator and a facilitator who ensures voluntary compliance?</li> <li>➤ Does the auditor record technical lapses by the auditee which do not have any revenue implication, and have occurred due to oversight or ignorance, and ignore them on merit? Does the auditor discuss these with the auditee to improve the quality of compliance and make internal controls more robust?</li> <li>➤ Does the auditor apprise the auditee of the provisions of the GST Act, Rules, and relevant notifications, circulars, and court decisions to encourage the taxpayer to make voluntary payment in the course of audit?</li> <li>➤ Is the auditor transparent and discuss any discrepancies found in the course of audit with the auditee?</li> <li>➤ Does the auditor give auditee an opportunity for filing his/her explanation in respect of such discrepancies as intimated by the auditor and consider all the explanations and documents provided by the auditee regarding the points of dispute before drawing the Final Audit Report?</li> <li>➤ Does the auditor consult his/her immediate functional head to resolve any issue in the</li> </ul> |

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|  | <p>course of the audit?</p> <ul style="list-style-type: none"> <li>➤ Does the auditor inform his/her immediate supervisory officer of any lack of co-operation or deliberate failure to provide information and records by the auditee and follow it up with a written report?</li> <li>➤ Does the auditor preserve all the important documents submitted by the auditee in the course of audit which are relevant to findings as office records, preferably in electronic format?</li> <li>➤ Does the auditor maintain confidentiality in respect of sensitive and confidential information furnished in the course of audit?</li> </ul> |
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### **GST Audit Process –**

The GST Audit process includes the following steps:

- The auditee is formally notified of an upcoming audit through the prescribed format (FORM GST ADT-01) at least 15 working days before the conduct of the audit.
- FORM GST ADT-01 also enlists the documents and data to be submitted to the Auditor for a preliminary review. A period of 15 days is prescribed for submission of the documents.
- The audit will officially commence when the auditor accepts the documents submitted by the auditee
- or initiates verification of the business premises, whichever is later.
- During the audit, the authorized officer may request access to verify the books of accounts or other necessary documents. Auditee/taxpayer's cooperation is crucial for the timely completion of the audit.
- On completion of the audit verification, the Auditee/taxpayer receives the preliminary findings, and his views/comments are recorded to finalize the observations.
- On finalization of observations, the results are sent to the Auditee/taxpayer in the form of a Final Audit Report (Form GST ADT-02) within 30 days.
- The Auditee/taxpayer is given the option to make the payment of tax short paid / not paid with a waiver of show cause notice. The final audit findings are informed to the Auditee/taxpayer within 30 days along with his rights and obligations and the reasons for such findings.
- The entire audit process is to be completed within 3 months from the date of commencement, with the provision of a further 6-month extension if necessary.
- The Auditee/taxpayer is not required to provide most of the digital information, as this data is already available with the department.
- Audit verification may be conducted at the place of business of the registered taxpayer or at the office of the authorized officer.
- The emphasis of the audit is on trade facilitation and providing a non-intrusive environment to taxpayers.

## **Audit Approach (Audit Planning, Strategy and Execution) –**

There are no prescribed or specified approaches for conduct of an audit under the GST laws.

- **Knowledge of the business:** An auditor is expected to have a basic or general knowledge of the economy and the nature of the trade or industry in particular. In today's digital world enough, material is available in public domain for an auditor to become aware of the basics of the particular business / trade. A proper understanding of the nature of the trade / business would enhance the business acumen of the auditor in the conduct of an audit and to make appropriate decisions.
- **Master file:** Every client's documents should be bifurcated into permanent file and the working papers file. Generally, the following documents should be included in the permanent file:
  - Name address and contact number of the clients;
  - Brief profile of the client, its promoters, directors, partners etc., details of his businesses and locations of his branches along with the details of the concerned persons in charge;
  - A list of products / services being dealt with, the various notifications and clarifications applicable, copies of important judgement, advance ruling copies and clarification with reference to the client in specific and products in general;
  - Copies of the registration certificates issued under the GST Laws and / or other allied laws;
  - Previous years signed VAT/GST/Service Tax/ Central Excise Audit Report, if any;
  - Copies of signed financials, internal audit or special audit reports etc.,
  - Copies of the constitution of the organization, like Memorandum and Article of Association, Partnership Deed, Addendum to the Deeds etc;
  - Copies of the Application made for Composition Scheme etc;
  - Details of software used, and methodology of systems and controls set up in the software.
  - A list of visits by the various department officials, notices received and replies thereof, pending litigations before various authorities and other important issues unresolved.
- **Discussion with the Audit Team:** Before the commencement of the audit, the GST auditor should have a pre-audit meeting with his audit team. In the meeting, the auditor should brief the team on matters such as general background of the registered person, nature of business, history of the registered person, industry specific points, key financial parameters and accounting policies, organization of the business, organization of the accounts, key-products dealt by the dealer, assessment history, litigation, etc.
- **Systems and internal control:** The systems, processes and controls put in place by the business entity will largely define the scope of the auditor in conducting an audit. While conducting a GST audit, a study of the internal control systems would be an important step for assessing the risks of the audit as well as for planning the audit. A note on the software used by the client and the specific merits and demerits of the software will help the audit teams.
- **Assessment of audit risk and deployment of personnel:** It would also be worthwhile for an auditor to seek expert opinions in certain circumstances to mitigate audit risks. The extent of check by the auditor would depend on the nature of audit risk and the knowledge and expertise in indirect tax of the personnel deployed by the business. There is an inherent limitation of

audit, instead of exercising extensive audit procedure (unless automated tools to verify 100% are available), audit risk cannot be reduced to zero which may not be practicable today.

- **Audit Plan:** Audit plan for a particular auditee is the roadmap for a sound performance of the audit. This plan will serve as a schema of the entire process. All the officers of an audit team should be involved in the process of preparation of the audit plan under the supervision of the immediate Senior Officer of the Audit vertical to draw up a good audit plan. Teamwork ensures buy-in from an early stage, brings forth a greater variety of ideas and can be reasonably expected to improve audit outcomes.
- **Audit Program:** Audit program is a written document setting forth the procedures to implement the audit plan. Planning encompasses developing a plan for the conduct of the audit and developing an audit program showing the nature, timing, and extent of audit procedures in accordance with the scope of the audit. Planning is a continuous process and changes in case of unexpected results during audit, would require a relook of the audit program. Along with the procedures the program must also contain the audit objective for each area of the business and should have sufficient details to serve as a set of instructions to the audit assistants involved in the audit and as a means to control proper execution of audit work. For this a detailed checklist should be devised which clearly states the various details to be checked, manner of checking and the extent of checking.
- **Risk appetite of an entity:** Risk appetite of an entity cannot be defined in a clear-cut manner. Normally risk appetite would mean the extent of chance that an entity would be willing to take. For e.g. claiming an exemption or classifying a product at a lower rate of tax based on certain interpretations or judicial pronouncements. In a situation where the risk appetite of a business entity is extremely high it would be worthwhile for an auditor to place reliance on external expertise and suitably issue a note or disclose or qualify the report. An auditor can decide upon the extent of check depending upon the risk appetite of the entity.
- **Conduct of an audit:** The success of an audit primarily depends upon the quality of the audit, the verification of the records and transactions in accordance with the audit plan and program and which would help collect audit evidence to form an opinion or draw conclusion on the transactions upon which the auditor is called upon to comment. The conduct of the audit must not be mechanical as per the plan and program, but it must be done with an open mind. The staff that conduct the compliance testing or the substantive verification should be knowledgeable about the provisions of the GST Laws and the rules framed there under. They should have knowledge of the judicial pronouncements, government orders, circulars, notifications, advance rulings, flyers issued, FAQs issued etc.
- **Responsibilities of Joint Auditors:** In case of joint auditors, the roles and responsibilities of each of the joint auditors should be clearly defined. Some of the points, based on SA 299, which have to be kept in mind for this purpose are:
  - Division of work - The division of work among the joint auditors should be based on identifiable units. Where owing to the nature of the business of the registered person, division is not possible as above, the division can be done based on items of assets and liabilities or income or expenditure or with reference to period of time.



- Co-ordination - During the audit, if the GST auditor comes across any matter which are relevant to the areas covered by the other auditors and deserve their attention, the same should be communicated in writing to them. This should be done before the final audit report has been submitted.
- **Periodical meeting with the Audit Team:** It is advised to have regular and periodical review meeting with the Audit Team. A preview meet will help remove the bottlenecks and the hurdles rather than making the whole audit procedure redundant.
- **Reporting:** An auditor has to form an opinion and draw conclusions on the basis of the audit evidence and decide upon the issues, which are required to be reported and commented upon which has the bearing on the GST law and procedure to be adhered by the assessee. In forming such an opinion, the auditor should be diligent to ensure that no material misstatement creeps into the report and also no material matters have been left out from reporting.
- **Discussion with registered person and Management Representation:** The auditor is required to discuss the observations with the registered person and seek clarification before forming conclusion on the reporting points. It is also advised to obtain all the relevant management representation certificates from the client before the GST Audit Report is signed.
- **Audit working papers file:** Once the audit is completed ensure that all working papers are segregated and inserted in the respective files of the client. It is also very important to ensure the Audit working file (both master file and current file) is updated and the filing is done systematically according to the different areas covered in the audit. This will ensure compliance with the professional practice guidelines including peer review objectives.
- **Inherent limitation of an audit:** It is important to note that an audit does not guarantee that all material misstatements will be detected because of the following inherent limitations:
  - Test nature of the audit
  - The audit evidence available is persuasive in nature than conclusive
  - Certain levels of management may be in a position to override the internal controls
  - Professional Skepticism

#### **Documents Required for GST Audit –**

- **Financial statements**
  - Balance Sheet
  - Profit and Loss Account
  - Trading Account
  - Directors/Auditors Report
  - Trial Balance
  - Ledger entry and Journal Entry
  - Income tax audit report and Income tax returns
  - Cost audit report
  - Purchase book

- Purchase return book
- Debit Notes
- Credit Notes
- Monthly Stock statement
- Fixed Asset Register

➤ **Other Documents**

- Purchase Orders
- Price Circulars
- Delivery Challans
- Material transfer note
- Sales Book
- Outward supply book
- Any agreement/MOU
- Stores Ledger
- Goods Receipt Note (GRN)/Material Receipt Note/Inspection cum Receipt Report (ICRR)
- Material Return Note
- Rejected Goods Register

➤ **Returns under GST:-**

- GSTR3B filed monthly details of liability, ITC and Payment.
- GSTR 1M details of outward supplies
- GSTR 4 details of supplies by composition tax payer filed quarterly.
- GSTR 9/9A/9C and reconciliation statement or GST audit report for Rs. 2 Cr and above tax payers.
- GSTR 7 Tax deducted at source
- E way bills (Generated and accepted both)