



# **SPECIAL AUDIT**

# AGENDA

Provisions

1

2

Audit  
Planning

Reporting

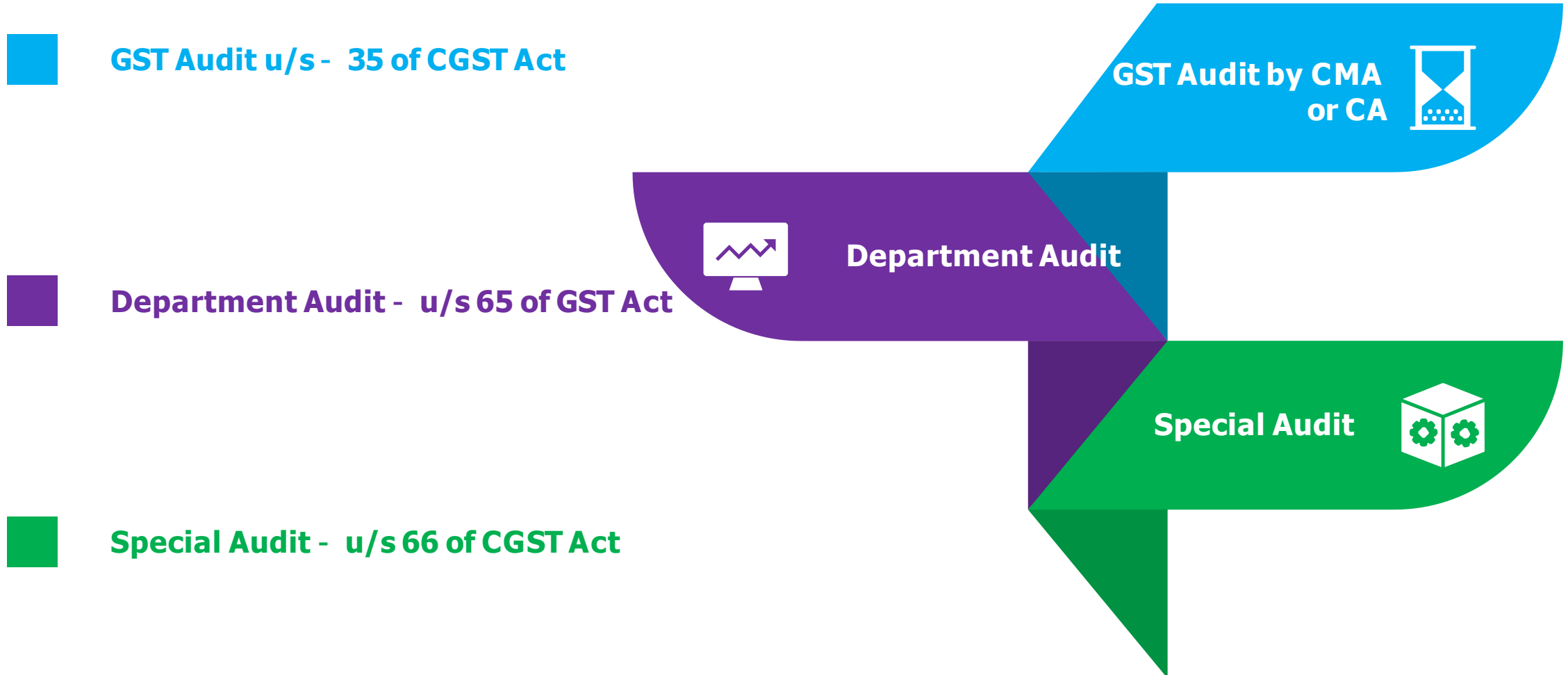
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4

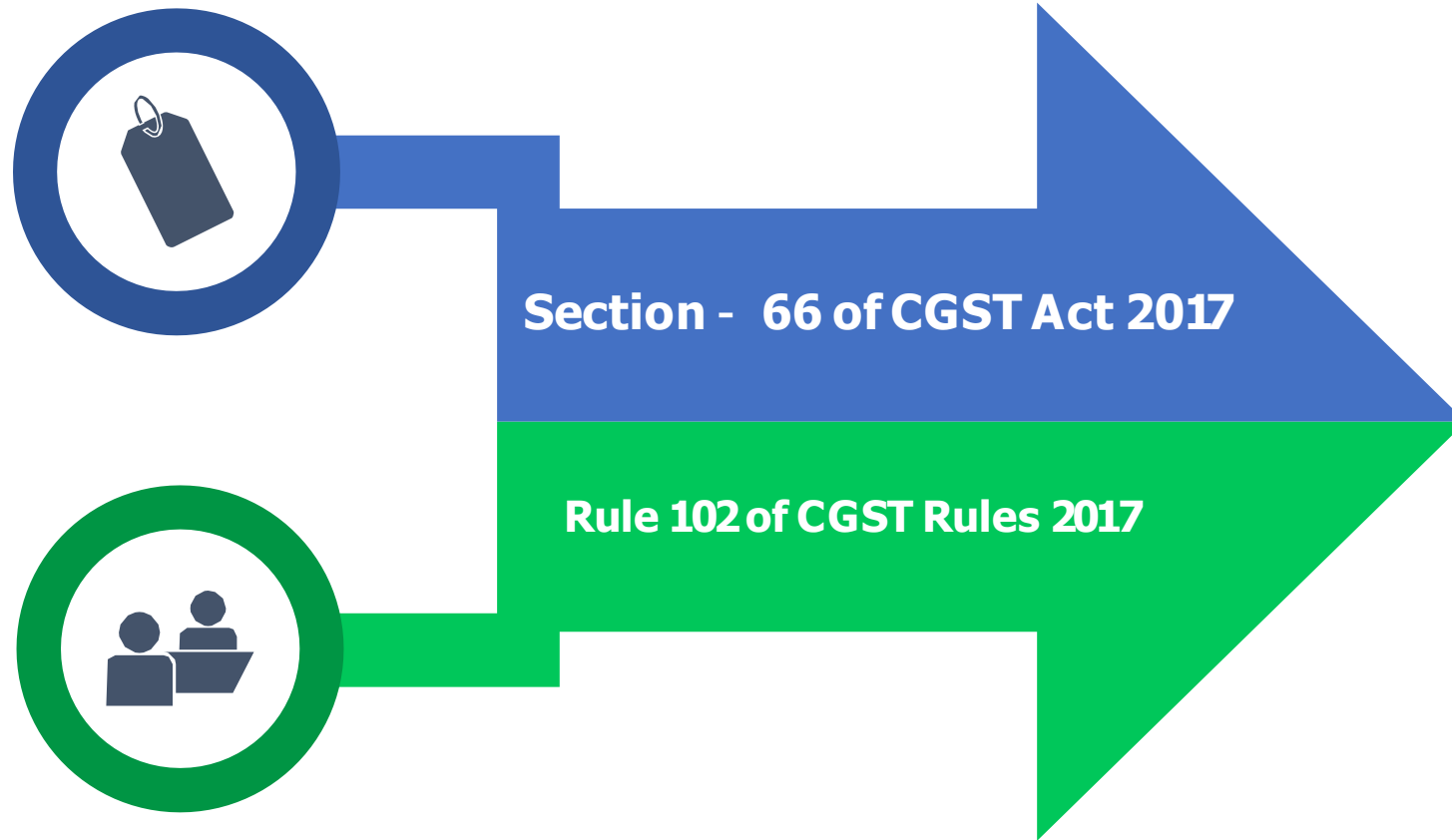
Q & A



# TYPES OF AUDIT

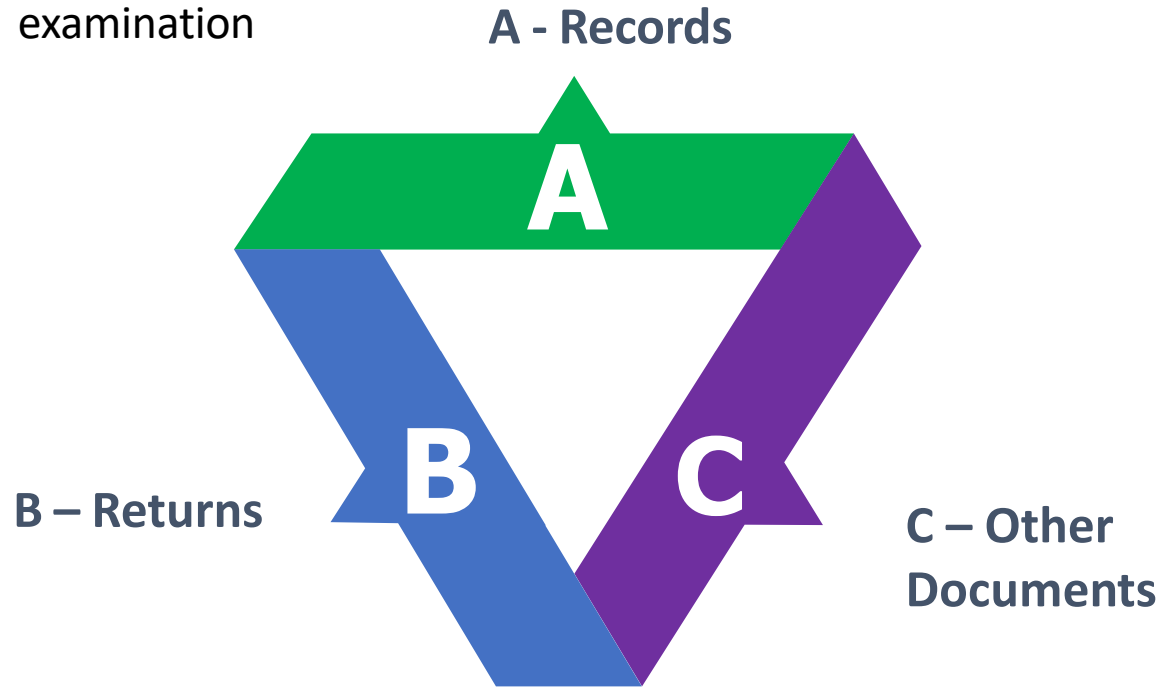


# PROVISIONS

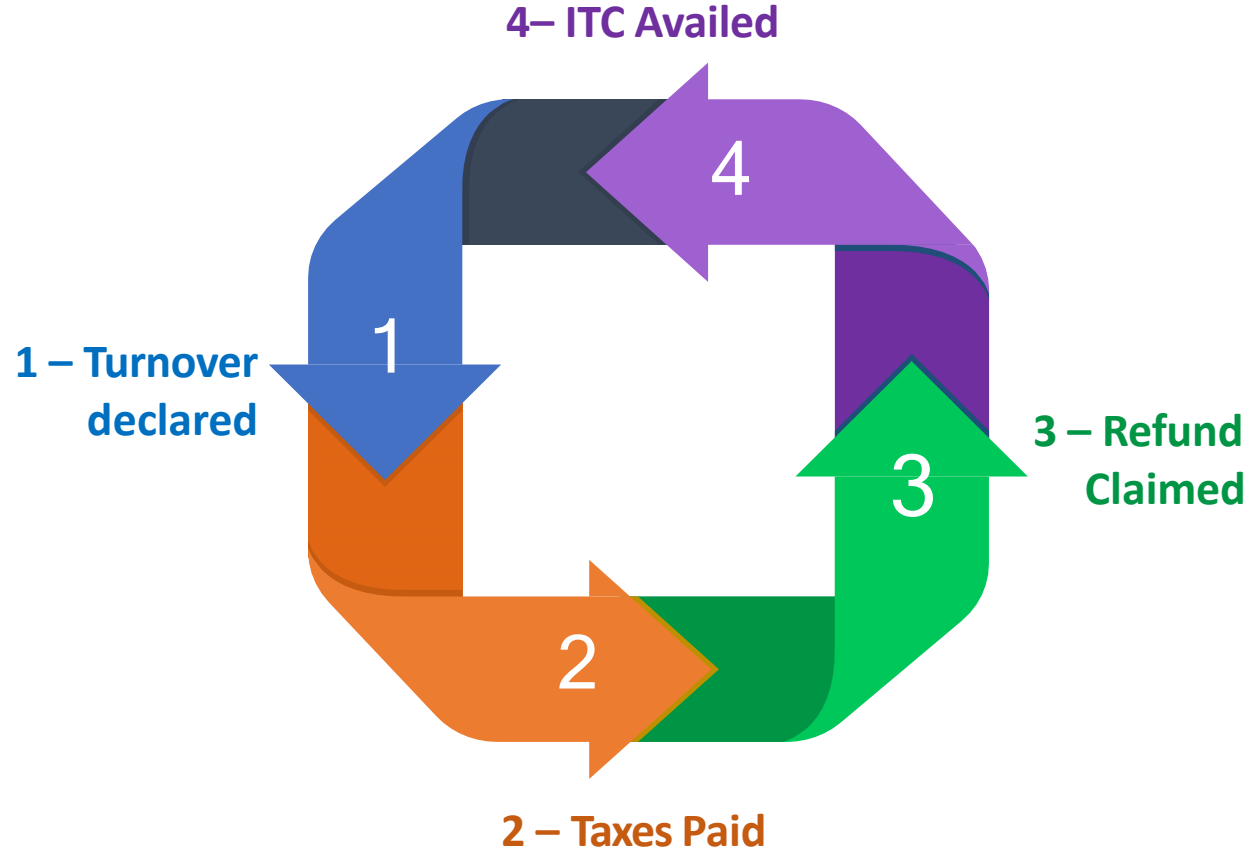


# AUDIT – SECTION 2(13)

Audit Means  
examination



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



To **assess his compliance** with the **provisions of this Act** or the rules made thereunder

# SPECIAL AUDIT SECTION 66

1

During Scrutiny or inquiry or investigation an officer not below the rank of AC on authorization by Commissioner will ask for a CMA/CA to verify records

2

Submit the report with in 90 days and can be extended by another 90 days by AC

3

Special audit will not have any impact on any other proceedings under this Act or any other Act

4

Opportunity will be provided to the registered person for any material gathered during the audit

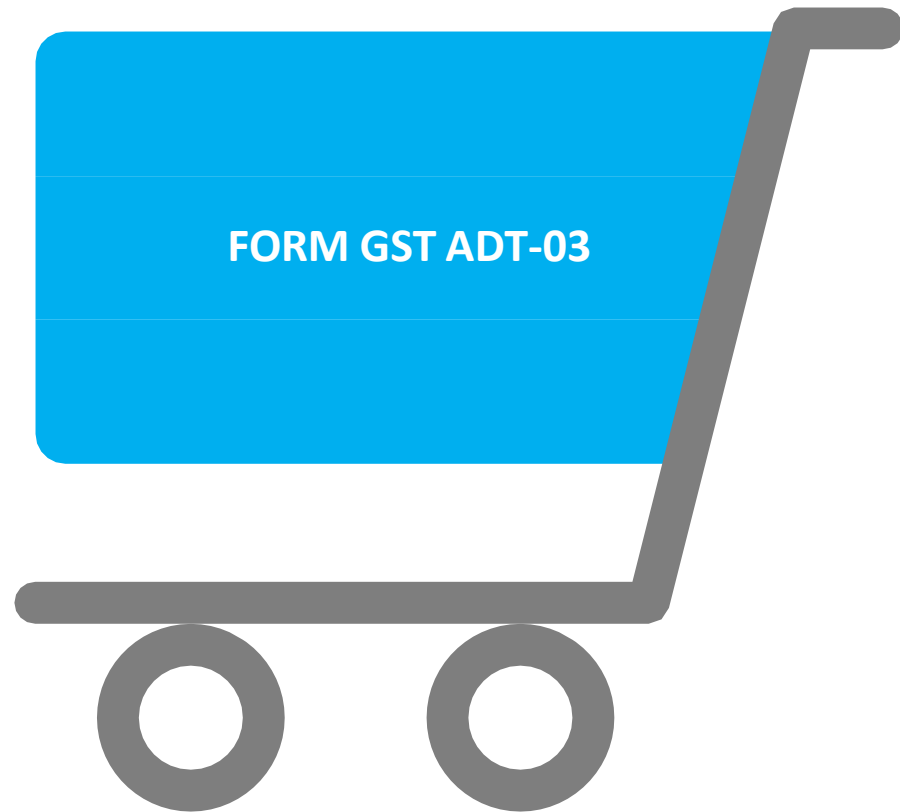
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Remuneration for the audit will be approved by Commissioner

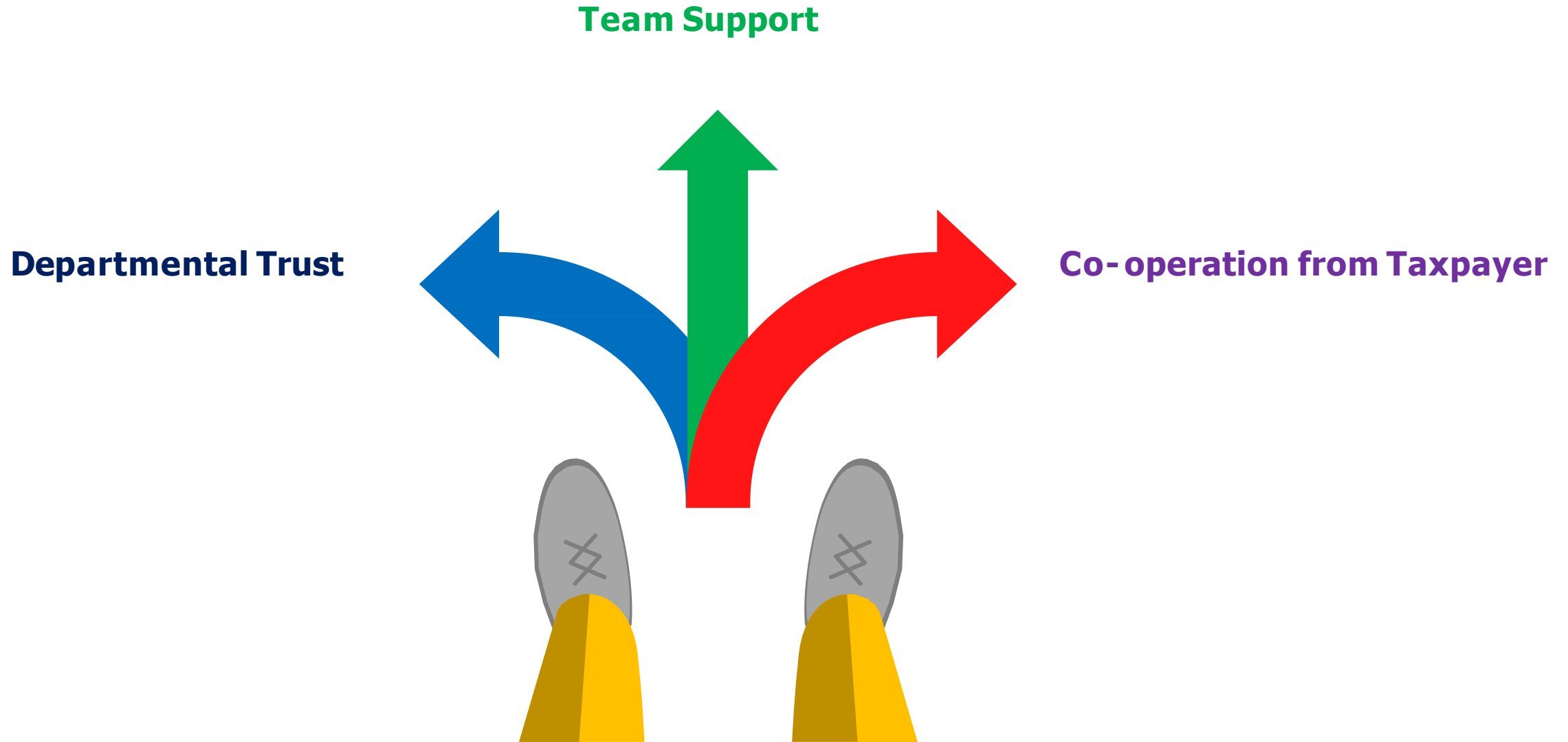
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If any material discrepancy is found proceedings can be initiated under Section 73 or 74

# SPECIAL AUDIT – RULE 102

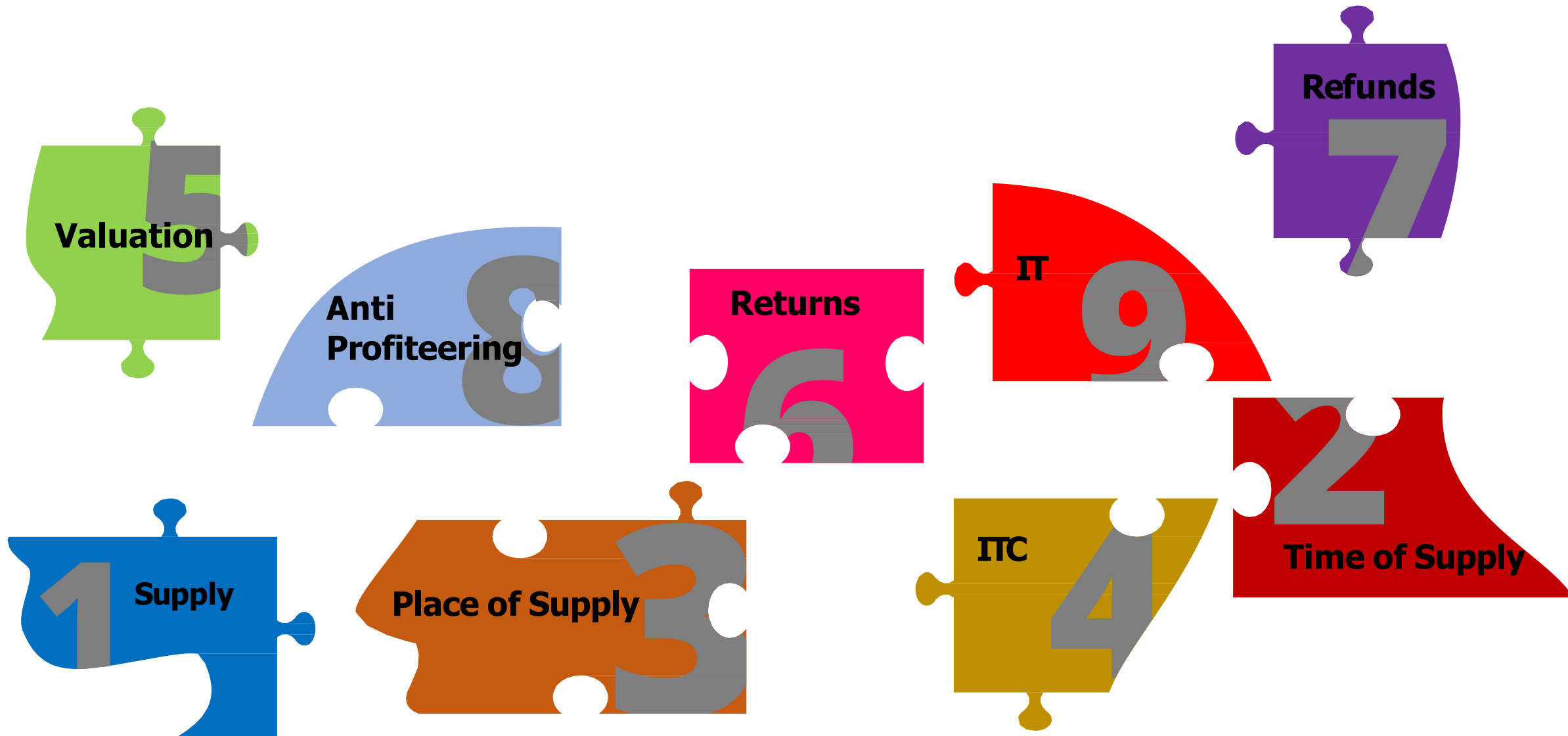


# **SPECIAL AUDIT – CHALLENGES**





# SPECIAL AUDIT – COVERAGE



# SPECIAL AUDIT – COVERAGE



## **SPECIAL AUDIT – EXMAPLE**

1. Consultancy agency based in Mumbai
2. they are into educational consulting – they tie up with foreign universities and enroll Indian Students through them
3. They collect fees from the students in INR and deduct their service charges and pay the foreign universities
4. Student A is from Pune
5. Student B is from Surat
6. University X is located in Singapore, Y in Germany
7. Amount is paid to universities in US Dollars

## SPECIAL AUDIT – EXAMPLE

The educational consultancy claims that the services provided by them are export of services and hence they not collecting taxes from the students.

Do you agree or not? If yes or not why? Under which provisions?

Say A Pays 25,000 USD in INR

Say B Pays 45,000 USD in INR

the consultancy retains 25% and pays the balance to universities

### Goods and Services have been supplied before the tax rate changes

i)) where the invoice for the same has been issued and the payment is also received after the change in rate of tax, the time of supply shall be the date of receipt of payment or the date of issue of invoice, whichever is earliest

ii) where the invoice has been issued prior to the change in rate of tax but payment is received after the change in rate of tax, the time of supply shall be the date of issue of invoice; or

iii) where the payment has been received before the change in rate of tax, but the invoice for the same is issued after the change in rate of tax, the time of supply shall be the date of receipt of payment;

## Time of Supply of Goods or Services for Tax Rates Changes – Section 14

- Goods and Services have been supplied before the tax rate changes
- Rate is decreased from 28% to 18%

| Sl. No | Date of change in Tax Rate | Date of Supply of Goods | Date of Issue of Invoice | Date of Receipt of Payment | Time of Supply | Reason                                  |
|--------|----------------------------|-------------------------|--------------------------|----------------------------|----------------|---|
| 1      | 1-Jan-18                   | 25-Dec-17               | 20-Jan-18                | 25-Jan-18                  | 20-Jan-18      | Earliest of the Invoice or Payment date |
| 2      | 1-Jan-18                   | 25-Dec-17               | 24-Dec-17                | 25-Jan-18                  | 24-Dec-17      | Date of Issue of Invoice                |
| 2      | 1-Jan-18                   | 25-Dec-17               | 20-Jan-18                | 10-Dec-17                  | 10-Dec-17      | Date of Receipt of Payment              |

### Goods and Services have been supplied after the tax rate changes

i) where the payment is received after the change in rate of tax but the invoice has been issued prior to the change in rate of tax, the time of supply shall be the date of receipt of payment

ii) where the invoice has been issued and payment is received before the change in rate of tax, the time of supply shall be the date of receipt of payment or date of issue of invoice, whichever is earlier; or

iii) where the invoice has been issued after the change in rate of tax but the payment is received before the change in rate of tax, the time of supply shall be the date of issue of invoice:

## Time of Supply of Goods or Services for Tax Rates Changes – Section 14

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| Sl. No | Date of change in Tax Rate | Date of Supply of Goods | Date of Issue of Invoice | Date of Receipt of Payment | Time of Supply - | Reason                                  |
|--------|----------------------------|-------------------------|--------------------------|----------------------------|------------------|---|
| 1      | 1-Jan-18                   | 25-Jan-18               | 20-Dec-17                | 20-Jan-18                  | 20-Jan-18        | Date of Receipt of Payment              |
| 2      | 1-Jan-18                   | 25-Jan-18               | 24-Dec-17                | 22-Dec-17                  | 22-Dec-17        | Earliest of the invoice or payment date |
| 2      | 1-Jan-18                   | 25-Jan-18               | 22-Jan-18                | 10-Dec-17                  | 22-Jan-18        | Date of issue of Invoice                |



# SPECIAL AUDIT – COVERAGE

## Section 37 - 48

Verify if returns are filed within the due dates and interest if paid as per the provisions if not along with late fee .



## Rules 46 - 55

Verify if relevant documents are issued for all the transactions as per the provisions .



## Section 16& 17

Verify if Input tax credit is claimed as per Provisions – eligibility / blocked / restricted .



## Section 7

Supply – all transaction are classified as supply as per GST



## Section 12, 13& 14

Verify if the tax invoice is issued as per provisions of Time of Supply



## Section 10 to 14 IGST Act

Verify if the provisions of place of supply are followed or not



## **SPECIAL AUDIT – COVERAGE**

Annual Maintenance invoice for 25 laptops is issued on 2<sup>nd</sup> May 2019

AMC Period is from May 2019 to April 2020

The auditee pays the service providers invoice on 5<sup>th</sup> May 2019

The accountant claims the ITC on the AMC while filing the GST Returns for the month of May 2019.

Q1. As a special auditor, what is your observation?

Q2. Is the Auditee eligible to take ITC in the month of May 2019?

An OEM gives Ipad to the dealer for attaining the target of selling 1 ton cement during the monsoon season.

The OEM purchases and gives Ipad to the dealer?

Q1. Can the OEM take ITC on the ipad purchased and given to the dealer?

A Ltd is based out of Bangalore and orders pvc from C Ltd from Chennai ₹2,500 per ton.

The contract says Ex-works C Ltd.'s Factory

Q1. What is the place of supply? Why? Under Which provisions?

Q2. What are the applicable taxes?

B Ltd is running software company and for the server room, B Ltd has purchased and installed chilling machines to control the temperature of the Server Room?

Q1. Can B Ltd take input tax credit of the Chiller?

Q2. If yes, under which provision and if not no under which provision?

Q3. If it not No, what should be treatment of ITC already claimed in your observations/report?

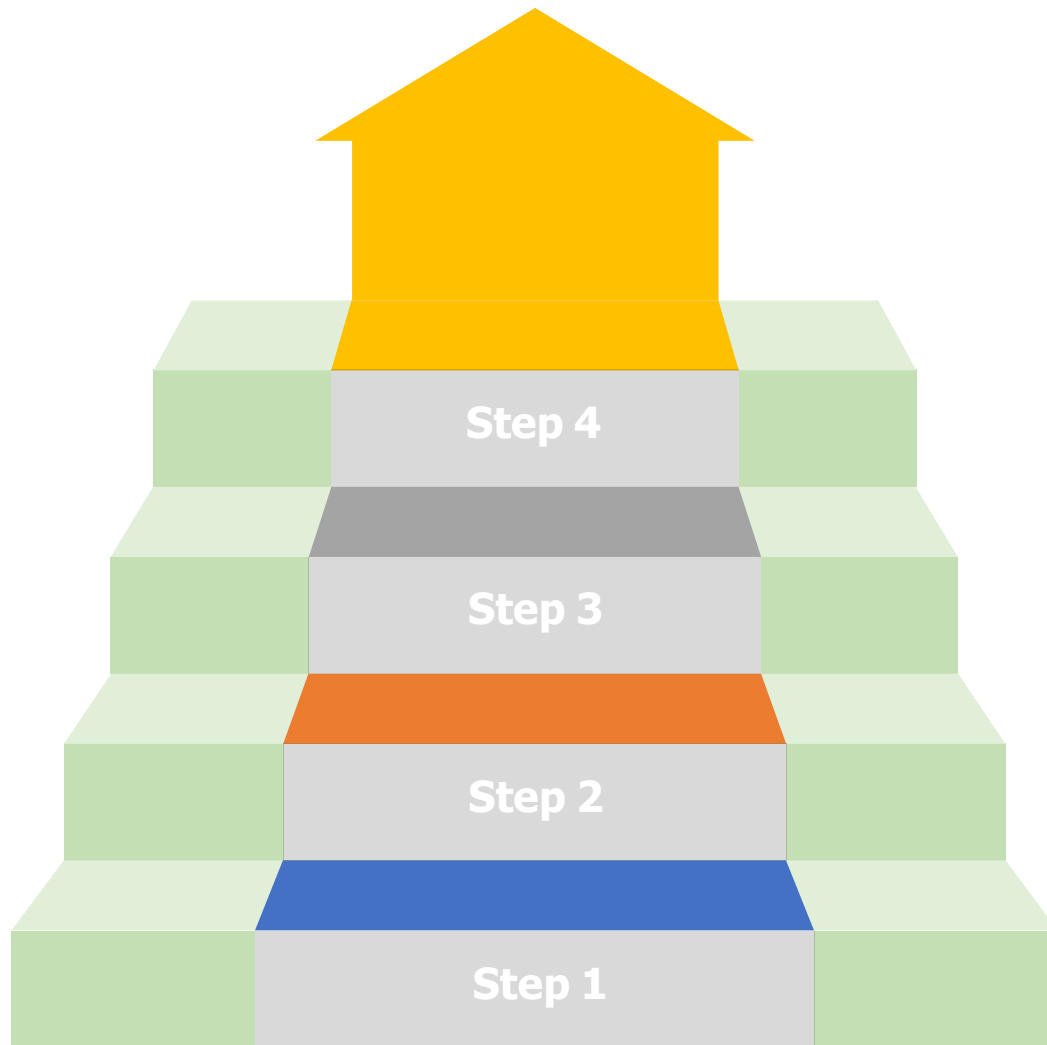
## SPECIAL AUDIT – COVERAGE

(119) "works contract" means a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration or commissioning of any immovable property wherein transfer of property in goods (whether as goods or in some other form) is involved in the execution of such contract;

(c) works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract service;

(d) goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business.

# SPECIAL AUDIT – COVERAGE



Depute Team and Complete the Audit

Take the Taxpayer in to Confidence

Understand the Requirements

Identify the Need of the Department

## Preparation Steps

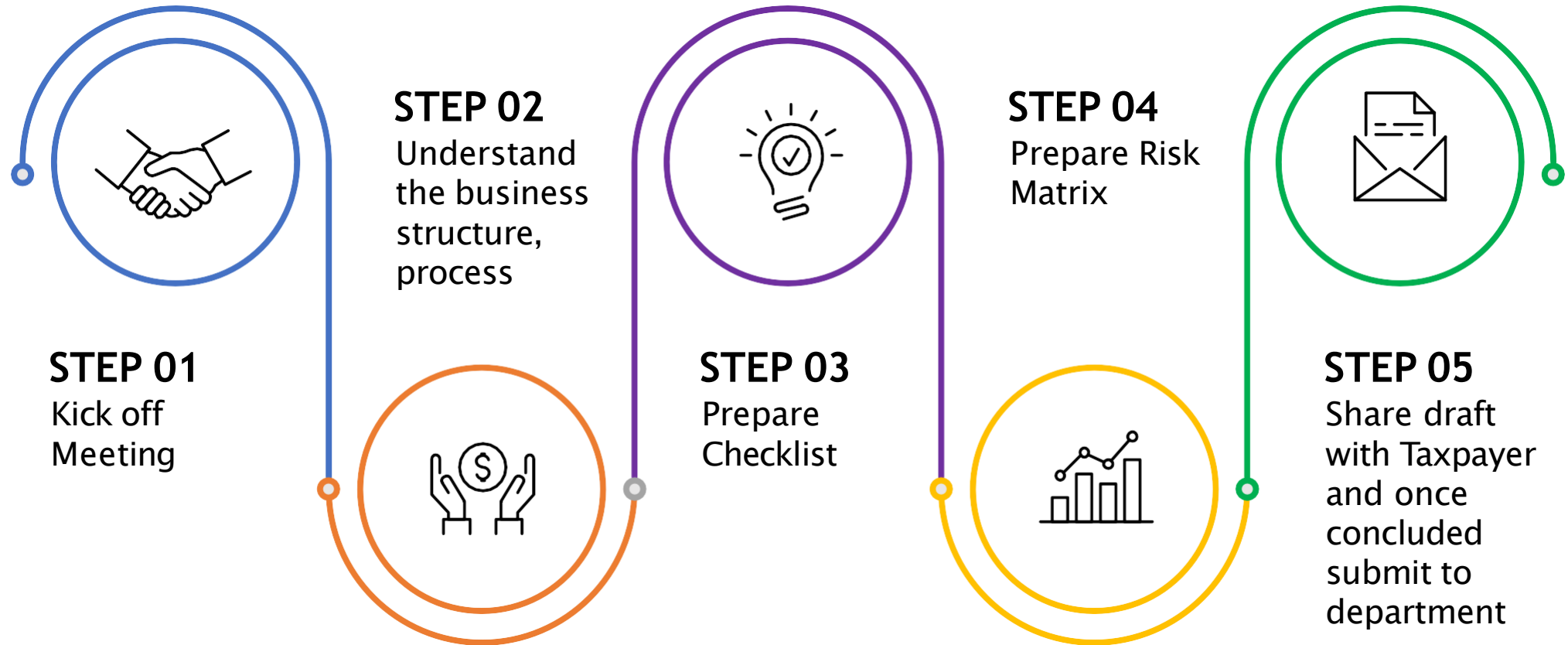




# AUDIT UNIVERSE

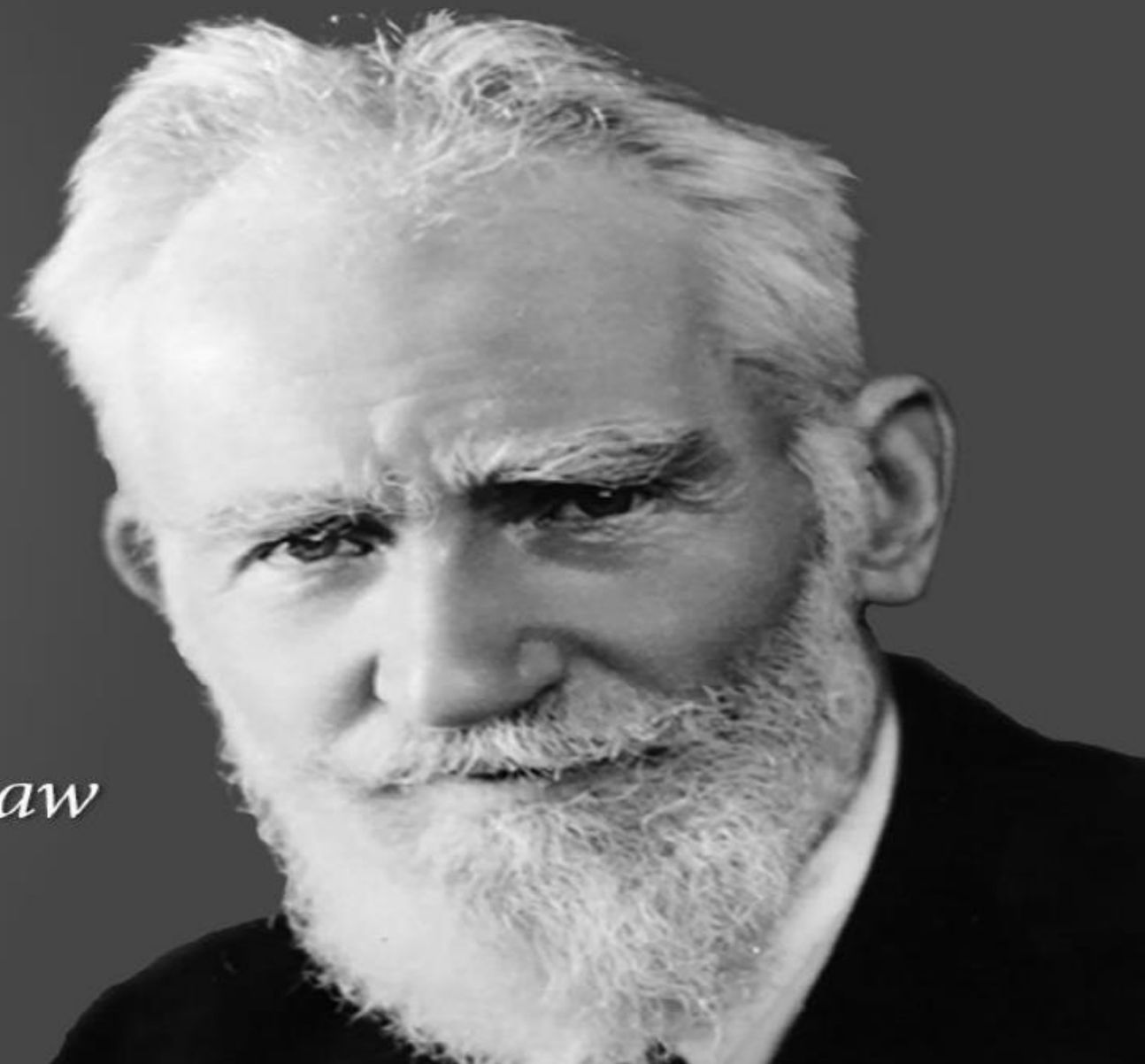


# SPECIAL AUDIT METHODOLOGY

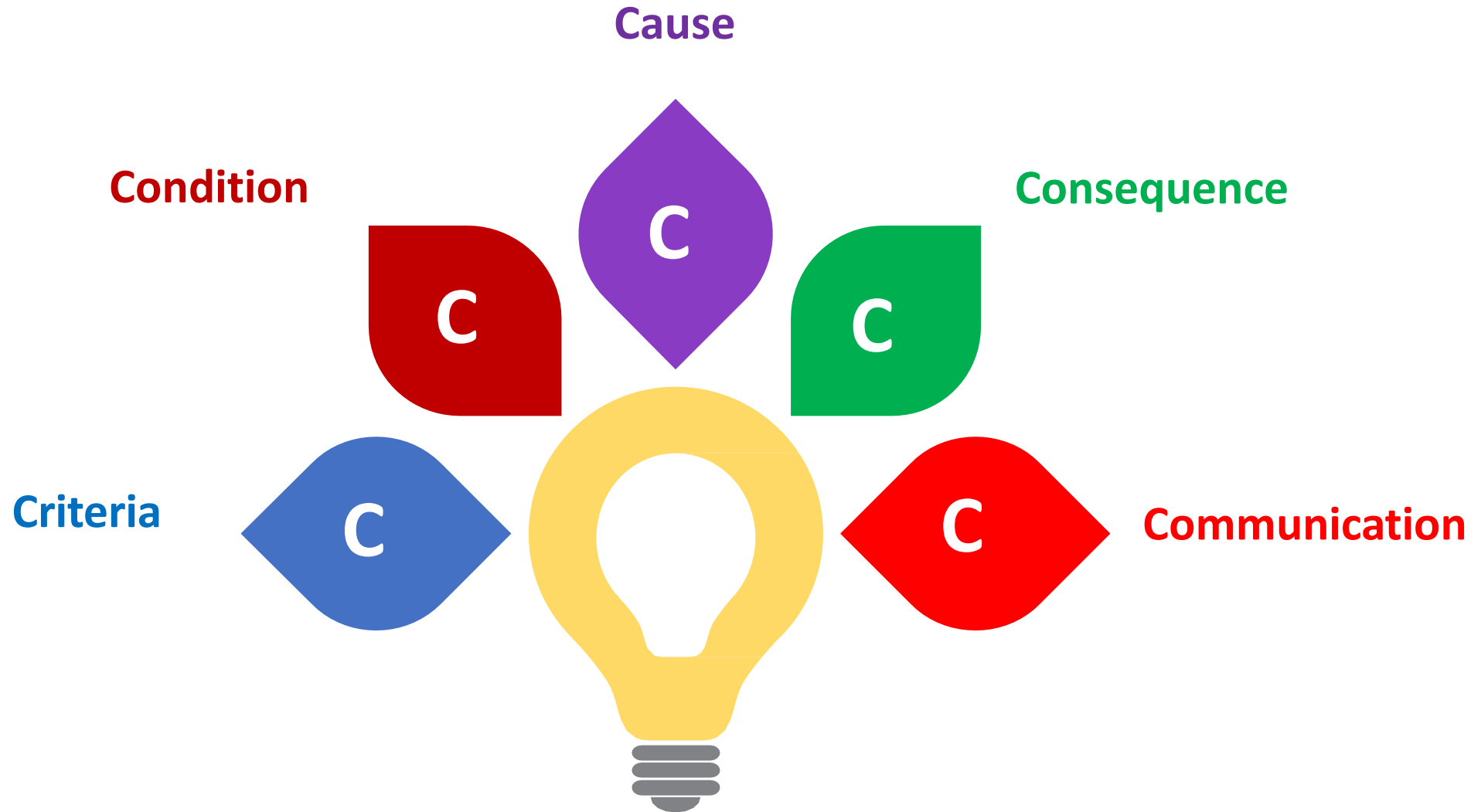


“The single biggest  
problem in  
communication is  
the illusion that  
it has taken place.”

*~ George Bernard Shaw*



# 5 C'S OF SPECIAL AUDIT REPORTING








# SPECIAL AUDIT REPORT

## Special Audit Report - Essentials

| Accurate  | Objective  | Clear   | Concise   | Constructive   | Complete   | Timely   |
|---|--|---|---|--|--|--|
| Free from errors and distortions and faithful to the underlying facts | Fair, impartial, and unbiased and is a result of a fair-minded and balanced assessment of all relevant facts and circumstances | Easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information | To the point, avoid unnecessary elaboration, superfluous detail, redundancy, repetitiveness and wordiness | Helpful to the auditee /client and the organization and leads to improvements where needed | Lacking nothing that is essential to the target audience and includes all significant and relevant information and observations to support recommendations and conclusions | Opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action |

SPECIAL AUDIT REPORT

Special Audit - Executive Summary Sample

| Sr. No. | Audit Observation | Action Plan | Risk Rating   |
|---------|-------------------|-------------|---|
| 1       |                   |             |    |
| 2       |                   |             |    |
| 3       |                   |             |    |
| 4       |                   |             |    |
| 5       |                   |             |  |
| 6       |                   |             |  |

“If you talk to a man in  
a language he understands,  
that goes to his head.  
If you talk to him in his  
language, that goes to  
his heart.”

**Nelson Mandela**



# Empanelment



# SPECIAL AUDIT – ELIGIBILITY

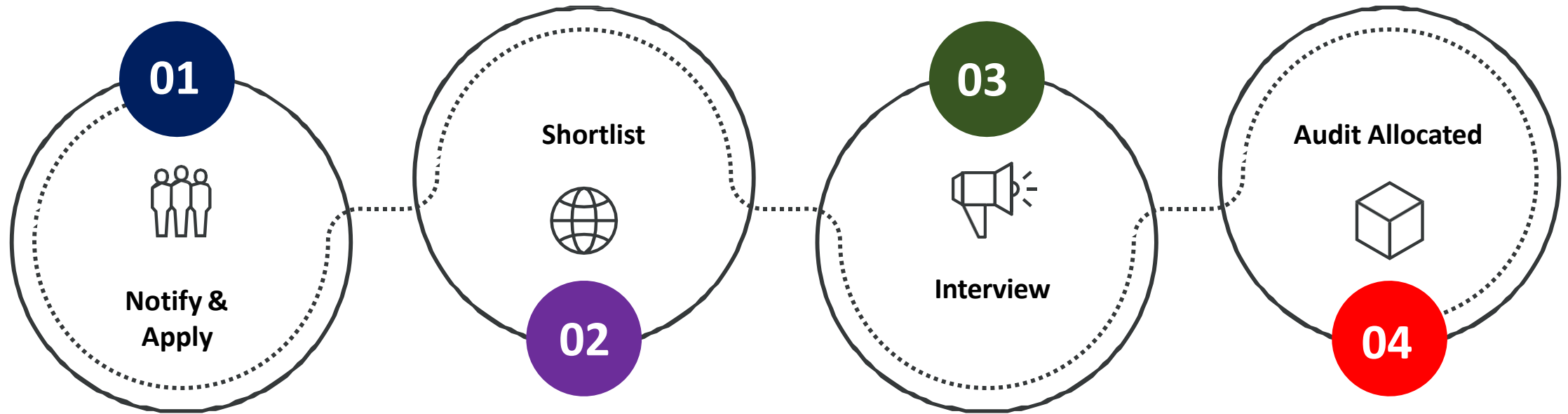
1. Be a member of the CA,/ICWA and should have valid full time Certificate of practice issued by the respective institutions

2. Possess experience of at least five years of practice in the field of Central Excise, Service Tax and GST matters:

3.iii. Not have been held guilty of any professional misconduct under the Cost and Works Accountants Act, 1959 (as amended) or Chartered Accountants Act. 1949 (as amended) during past five years or penalized under Chapter V of the Finance Act, 1991 or Customs Act, 1962 or Central Excise Act, 1944 or The Central Goods & Services Tax Act, 2017

4. Not be facing any investigation or enquiry by the CBIC or any of its subordinate offices for many violations under the Service Tax Law or the Customs Act, 1962 or the Central Excise Act 1944 or The Central Goods & Services Tax Act, 2017.

# SPECIAL AUDIT – EMPANELMENT PROCESS



# SPECIAL AUDIT – AUDITOR OBLIGATIONS



Audit should be conducted based on the Reference Communicated

He may be required to travel to the Taxpayer's Location/s

Tax on Tax / Tax Cascading

Audit should be conducted in co-ordination with department office and he/she may also visit

The nominated Auditor should not have any business relation with the taxpayer directly

Audit report has to be submitted within the time period to Commissioner – detailed report

On receipt of audit report, the department may call for clarifications and if required have to complete the audit

# SPECIAL AUDIT - FEES

## Audit Fee – As per Delhi Audit II

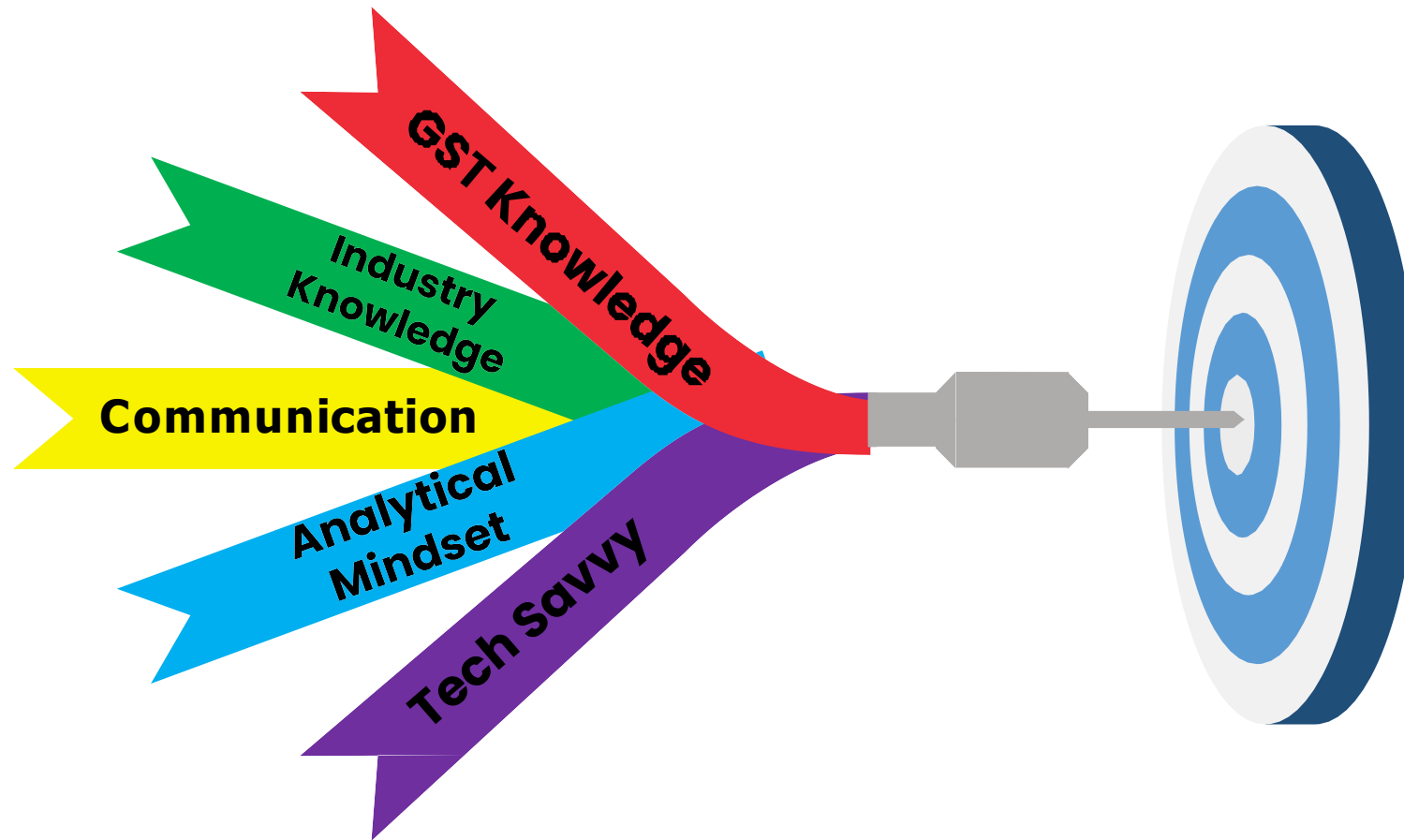
| Sr.No | Tax Paid by the Unit        | Fee Amount |
|-------|-----------------------------|------------|
| 1     | Up to ₹ 10 Crores           | ₹ 15,000   |
| 2     | ₹ 10 Cores to ₹ 100 Crores  | ₹ 25,000   |
| 3     | ₹ 100 Cores to ₹ 200 Crores | ₹ 35,000   |
| 4     | Above ₹ 200 Crores          | ₹ 50,000   |

# SPECIAL AUDIT - FEES

## Audit Fee – As per Kolkata

| Sr.No | Tax Paid by the Unit        | Product Range                                | Fee Amount   |
|-------|-----------------------------|--|--|
| 1     | Up to ₹ 60 Crores           | Up to 2 products<br>More than 2 products     | ₹ 25,000<br>₹ 35,000   |
| 2     | ₹ 60 Cores to ₹ 250 Crores  | Up to 2 products<br>More than 2 products     | ₹ 35,000<br>₹ 50,000   |
| 3     | ₹ 250 Cores to ₹ 500 Crores | Up to 2 products<br>More than 2 products     | ₹ 50,000<br>₹ 75,000   |
| 4     | Above ₹ 500 Crores          | Up to 2 products<br><br>More than 2 products | ₹ 50,000 + ₹ 10,000 for<br>additional ₹ 100 crores<br>₹ 75,000 + ₹ 10,000 for<br>additional ₹ 100 crores |

# SPECIAL AUDIT – SUCCESS SUTRAS FOR SPECIAL AUDITOR



## **Case Studies**

# CASE STUDIES

1. During the audit at the auditee's place you find from the trail balance there is a fire accident and the auditee has claimed from the Insurance Company.
  - a. How many legs of transactions are to be verified and what are they?
  - b. What are the probable areas which are to be verified from the GST Perspective?
  - c. What should be the treatment of Input Tax Credit on the inventory and fixed assets destroyed in the fire accident?
  
2. In the pharma company you have visited you observed that the auditee is sending the material on job work and from there only he is invoicing?
  - a. What should be your checklist?
  - b. If you have to update the same in observations, who will you do it and under what sections?



**MISSION ACCOMPLISHED**

