

# Audit Report & Departmental Audit

# AGENDA

1

Introduction

2

GST Audit – Departmental View

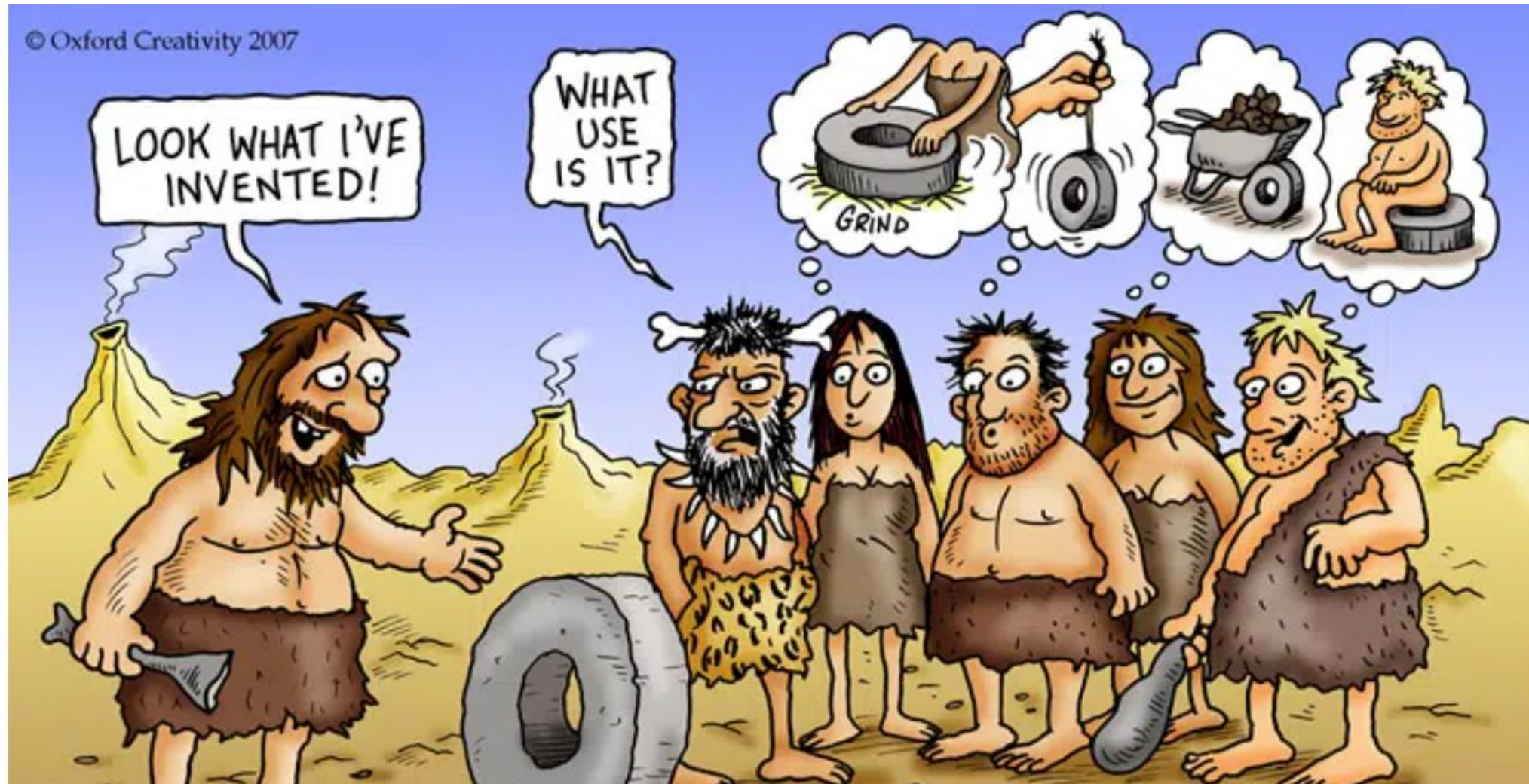
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Report Preparation

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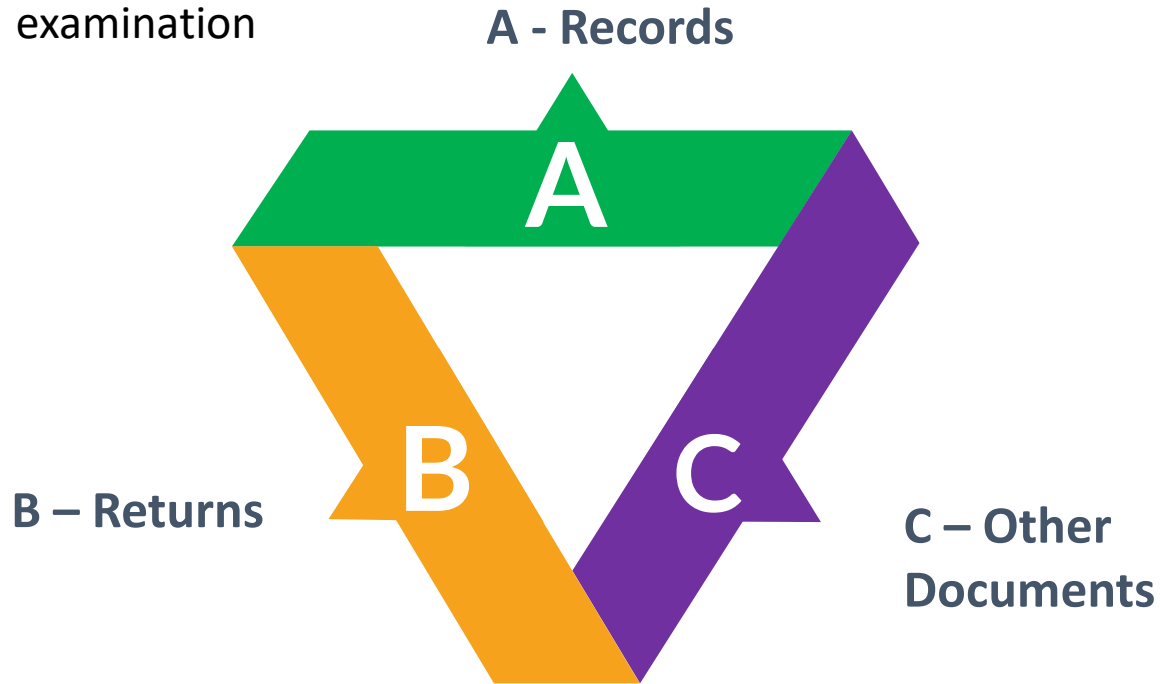
Q & A

# INTRODUCTION

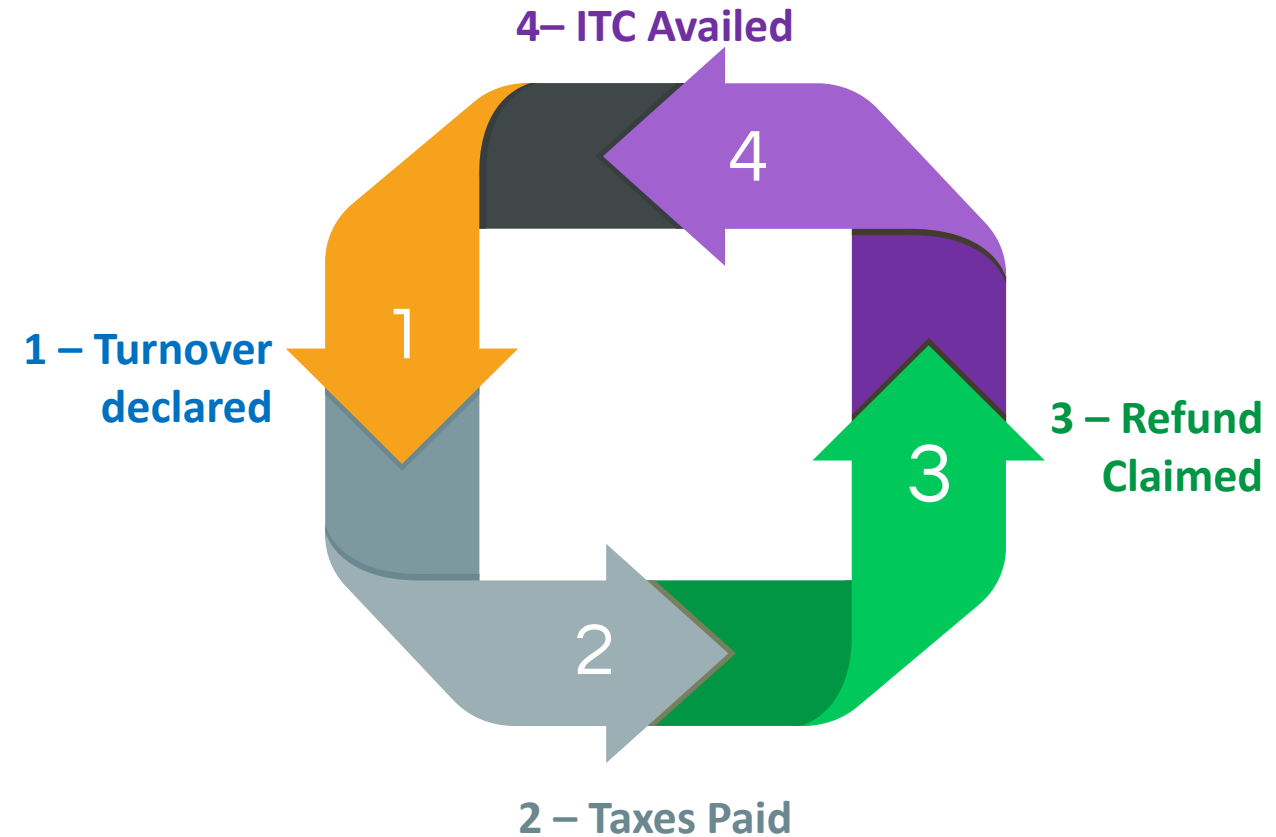


# AUDIT – SECTION 2(13)

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

# AUDIT

**Audit** - is a systematic and independent examination of books, accounts, statutory records, documents and vouchers of an organization to ascertain how far the financial statements as well as non-financial disclosures present a true and fair view of the concern. It also attempts to ensure that the books of accounts are properly maintained by the concern as required by law. Auditing has become such a ubiquitous phenomenon in the corporate and the public sector that academics started identifying an "Audit Society".

**Audit** - refers to a financial statement audit. A financial audit is an objective examination and evaluation of the financial statements of an organization to make sure that the financial records are a fair and accurate representation of the transactions they claim to represent. The audit can be conducted internally by employees of the organization or externally by an outside professional

## Sec 65

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- **Audit – Audit By the Authorities - Section 65**

## Sec 66

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- **Special Audit – By CMAs / CAs nominated by Department – Section 66**

## Sec 44

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- **GSTR -9C – Audit statement to be filed which is signed by a CMA/CA – Section 44**

## Compliance

### 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





## Intimation for Audit

Notice is sent to taxpayer wide GST AD01 (Annexure – 1) before 15 days of the audit

Reasonable time is given for the taxpayer

If the tax payer does not respond then another letter is sent with penal provisions under Section 122, 123 & 125

If the tax payer still does not respond then the details are communicated to the Executive Commissioner for taking necessary action

Details are sent to the Director General of Audit for including his name in the Risk Parameters

GST compliance rating will be reduced once it is implemented



# GST DEPARTMENT AUDIT

## Objective of Audit



### Verify

The data between the returns filed and the accounting data



### Desist

Its should stop the tax payers from doing any frauds in the future



### Detect

The objective is to detect any frauds being committed by the taxpayer

The Objective of the Audit is to measure the level of compliance of the taxpayer in the light of the provisions of the CGST Act 2017 and the rules made there under.

## Principles of Audit

**01**

Audit will be conducted in a Comprehensive and in a systematic manner

**02**

Emphasis is on the identified risk areas and scrutinizing the records maintained in the course of business

**03**

Audit techniques based on materiality – degree and nature of risk factors

**04**

Proper recording of all the checks and findings during the audit

**05**

Identifying the unexplored compliance verification process

## Duration of Audit



2 to 4 days including the  
desk work and for taxpayers  
under Section 51 and  
Section 52



4 to 6 working days



6 to 8 working days

## Desk Review

The audit team will do the desk review with the available data with them basis of the TAG – Taxpayer at a Glance. Information available on

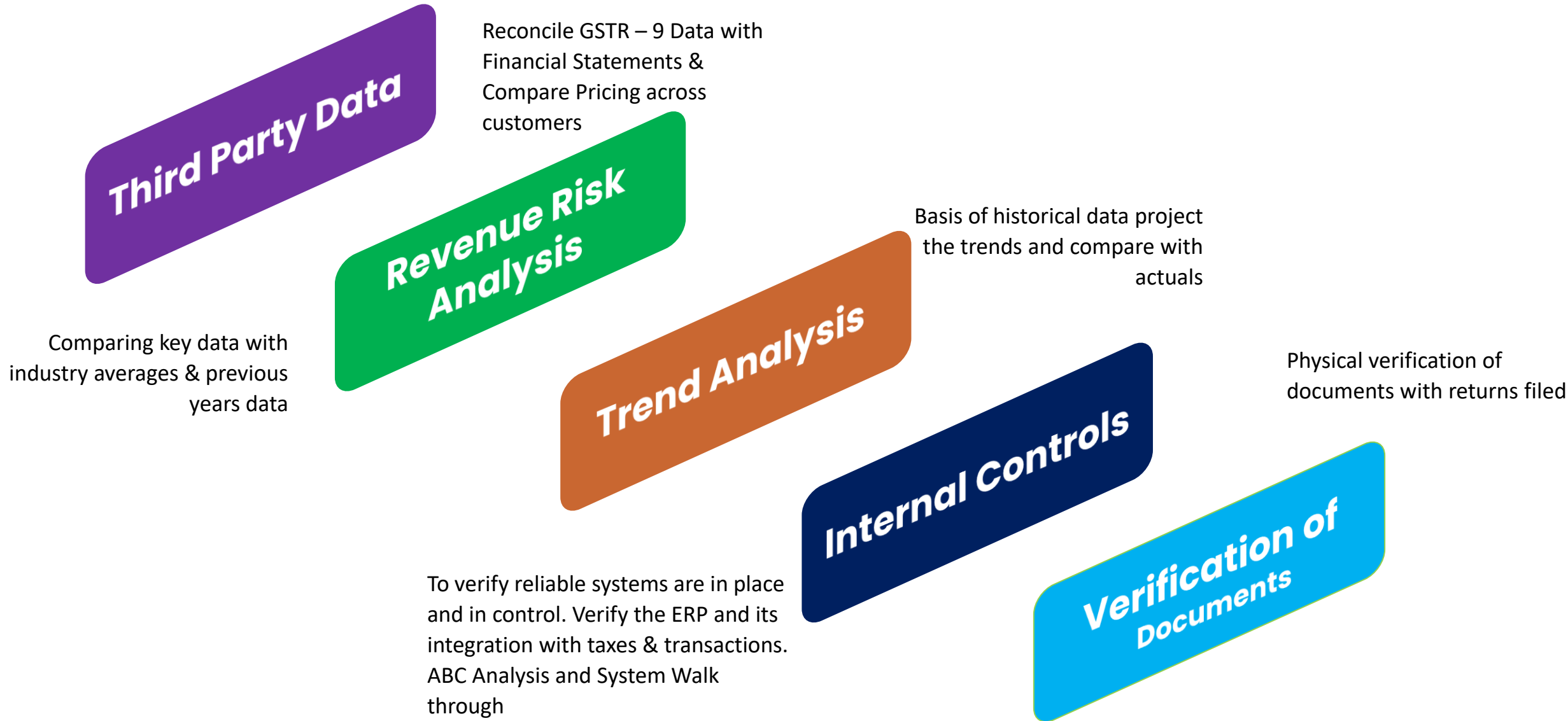
- Registration Portal,
- Returns filed, Annual Return & Reconciliation Statement
- e-waybills Issued,
- Returns filed with other departments,
- Cost Audit Report,
- Income Tax Audit Report,
- C&G Report, Audit reports of earlier tax periods &
- contracts with customers

## Cost Audit/Cost Accounting Records

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

# GST DEPARTMENT AUDIT

## Process of Audit



## Registered Person Master File

- It contains all the information of the taxpayers
- Updated at regular intervals



# DEPARTMENT 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

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## Section 10 to 14 IGST Act

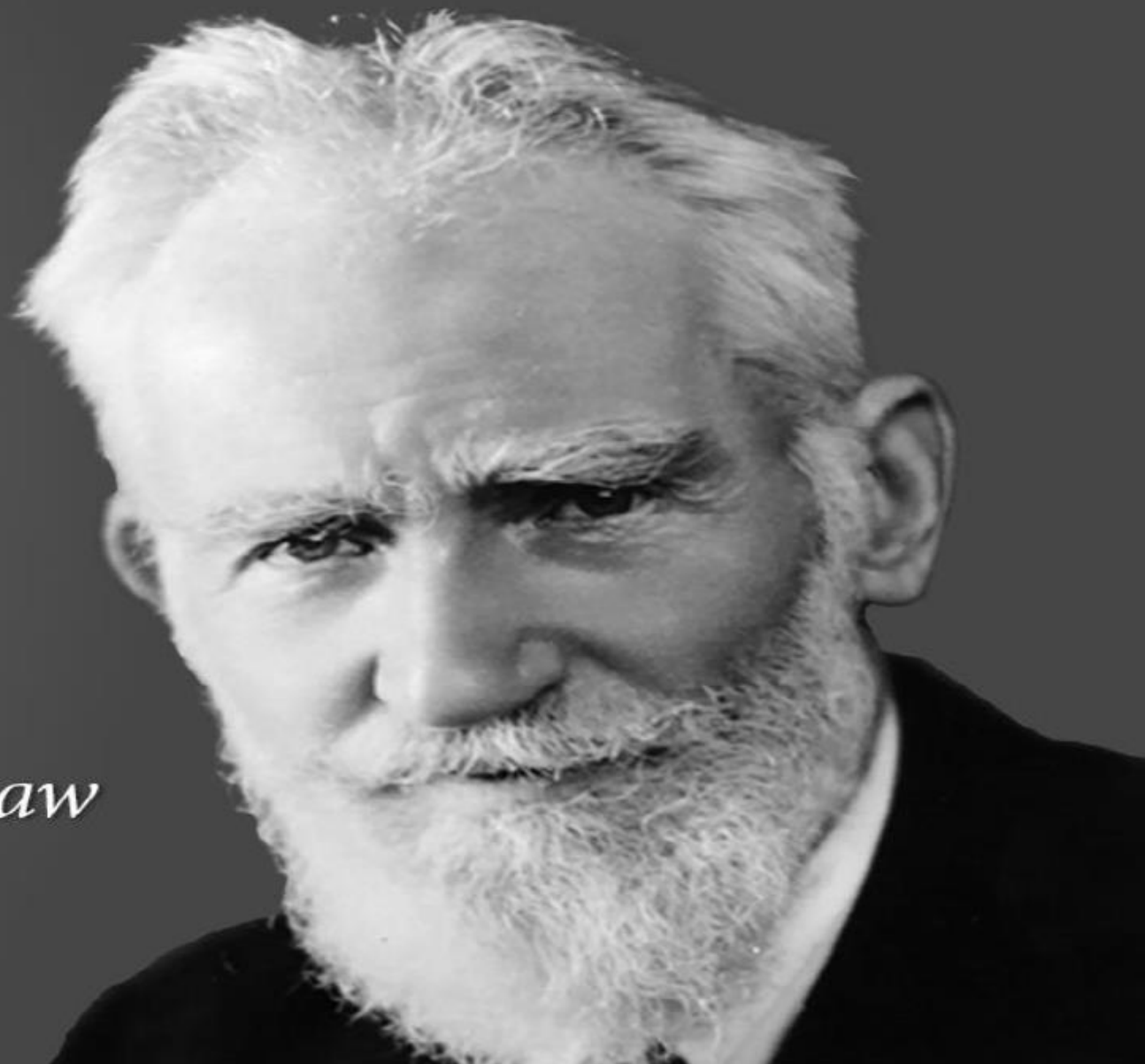
Verify if the provisions of place of supply are followed or not



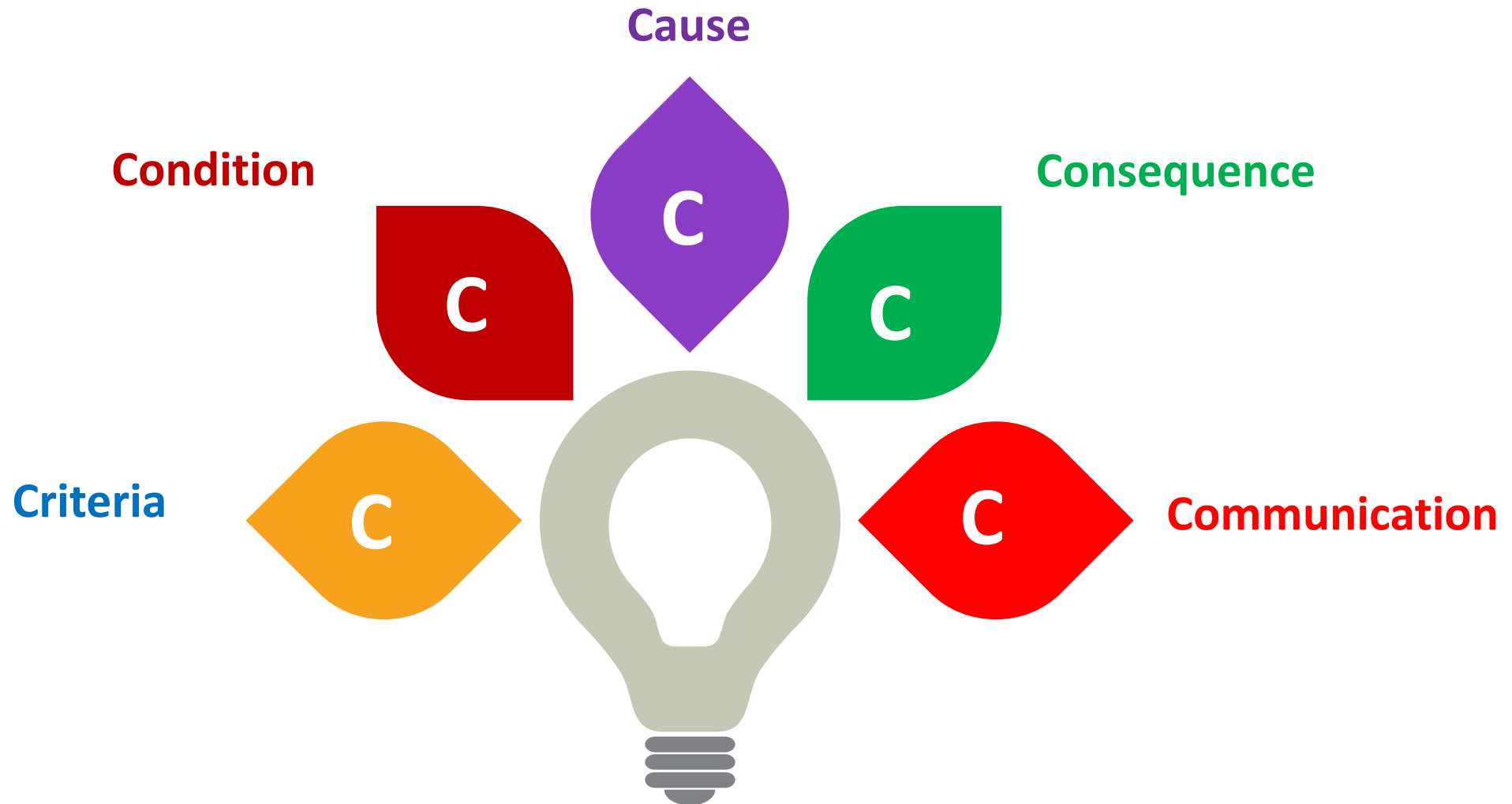
# Audit Report

“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**





## CASE STUDIES

# CASE STUDIES

1. An OEM gives Ipad to the dealer who attains the target of selling 10 tons 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?

2. A Ltd is based out of Bangalore and orders pvc from C Ltd from Chennai ₹2,500 per ton and the contract is Ex-works C Ltd.'s Factory

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

Q2. What are the applicable taxes?

## CASE STUDIES

(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.

# CASE STUDIES

3. B Ltd is running a 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 is not No, what should be the treatment of ITC already claimed in your observations/report?

# 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?

# CASE STUDIES

3. The promoter signed personal guarantees on 17<sup>th</sup> April 2015, and 2<sup>nd</sup> May 2017 to an extent of Rs 100 Crores and ₹ 235 Crores.

As on the date of your visit the outstanding loan amount for the first guarantee is ₹ 24 cores and for the second one it is ₹ 198 cores.

- a. What is your take on the taxation of personal guarantees by the director?
- b. If taxable which rule will you invoke to do the valuation and what will be GST Rate?

4. In your audit observations, you have come across that the assessee has paid an amount of ₹ 5 crores per annum to the local area development board for the land acquired by the state industrial corporation apart from the land cost?

- a. Is GST applicable on the amount paid to the Local Area Development Authority?, if yes, under which provision and if no, under which provision?

# CASE STUDIES

5 During the audit you have found that the Auditee has transferred capital goods from TN to MH and the value of the capital goods transferred is ₹ 4,65,00,000.

- a. What should be the tax treatment?
- b. Is there any Revenue Leakage?

6. The auditee has received an amount of ₹ 25,00,00,000 for the construction of a school building under article 243W from the main contractor and he is paid the said amount. Apart from that, the main contractor has supplied materials worth, Steel ₹ 36,00,000; cement ₹ 76,00,000 and other items worth ₹ 89,00,000. The contract says the subcontractor has to buy the material and do the construction.

- a. What are your observations?
- b. Material given by main contractor is it supply?



# CASE STUDIES

7. In the previous question, the taxpayer has not raised any tax invoice to the sub contractor but has claimed Input tax credit on the inputs purchased from him.

- a. What are your observations?
- b. Is the treatment correct? If so under which provision?
- c. Can the taxpayer claim the input tax credit?

8. You are also informed that the taxpayer has received an amount of ₹ 4,50,00,0000 as mobilization advance, and the same is being adjusted against the RA Bills.

- a. What are your observations?
- b. Is the treatment correct? If so, under which provision?

## Check List

## Desk Review – Goods

Sr.No	Documents	
1	Trial Balance	<ul style="list-style-type: none"><li>• Understand the grouping of ledgers</li><li>• Verify and understand which accounts have direct impact with GST</li><li>• Verify any ledgers having unusual balances – loss, scrap, other income</li><li>• Verify the credit balances and check if they are part of the GST Liability computation</li></ul>
2	Profit & Loss Account	<ul style="list-style-type: none"><li>• Compare major heads with previous years amounts</li><li>• Verify the expenditure accounts potential for reverse charge</li><li>• Scrutiny of supplies – SEZ (LUT)</li></ul>
3	Balance Sheet	<ul style="list-style-type: none"><li>• Verify the Share Capital accounts – subsidiaries etc.,</li><li>• Assets</li></ul>
4	Notes to Accounts	<ul style="list-style-type: none"><li>• Accounting policies – assets worth below Rs 5000 no updated in FA Register</li><li>• Quantitative information – Cross check with GSTR – 9 Data</li><li>• Information Accounting Standard followed and disclosed</li></ul>

## Desk Review – Goods

Sr.No	Documents	
5	Annual Report & Directors Report	<ul style="list-style-type: none"><li>• Verify Audit report for any potential areas impacting the GST</li><li>• Tax Disputes pending or likely to</li><li>• CARO Report – tax liabilities are matching with GST Liability in GSTR – 9</li><li>• C&amp;AG Report in case of public sector undertakings</li></ul>
6	Cost Audit Report	<ul style="list-style-type: none"><li>• Check Serial No 4 for quantitate details will be verified with GSTR – 9 data and any differences should be able to be addressed</li><li>• Check Serial No 5 for costing of each product and if any differences with Rule 30 of CGST Rules</li><li>• Check Serial No 6 for operating rations for over a period of time and see any major differences, understand the reasons for the same</li><li>• Check Serial No 10 for related party transactions and verify if valuation is carried out as per Rule 28 of the CGST Rules</li></ul>

## Desk Review – Goods

Sr.No	Documents	
7	Tax Audit Report	<ul style="list-style-type: none"><li>• Clause 18 for Depreciation and ITC availed on capital goods</li><li>• Clause 27(a) input tax credit availed and carried forward, match with GST Ledgers and prepare reconciliation if required</li><li>• Clause 21(b) prior period items and time of supply as per GST applicability and payment, any differences prepare a statement for the same</li><li>• Clause 38, Cost Audit Report</li><li>• Clause 40, check important accounting ratios</li></ul>

# CMA B Mallikarjuna Gupta

*B. Com, ACMA, MFM, M.IOD, PGDCS*

**Certified Product Manager from Indian School of Business**

Over two decades of experience in the areas of Taxation, GST, Product Management, Brand Management, Finance, Accounting, Sales, Operations, Marketing, Project Accounting ERP & BI Implementation. Worked for Oracle, Infor, Logo, Systime & Dempo Group. Designed & implemented a Costing system for a Steel Plant, Biaxially Oriented Polypropylene (BOPP) & Upholstery plant. Certified Product Manager for **Indian School of Business (ISB)**

**vCFO, GST, Management & Product Management Consultant**  
**COO, Nextgen Learning And Consulting Private Limited**

## Member of

- GST Grievance Redressal Committee – Telangana
- Member – MSME & Startups Promotion Board at Institute of Cost Accountants of India, Kolkata
- Expert Member of Technology Development Fund Scheme of DRDO
- Co-Chair for Customs & GST Committee at Federation of Telangana Chamber of Commerce & Industry (FTCCI)
- Member - Regional Advisory Committee, Dattapanth Thengadi National Board for Workers Education and Development, Ministry of Labour and Employment, Govt. of India.
- Resource Person/Faculty - Institute of Cost Accountants of India, Regional Training Institute (CAG Auditors), National Academy of Customs, Indirect Taxes & Narcotics, Indian Navy, and National Institute for Micro Small and Medium Enterprises (NI-MSME)
- Served as a Member at National Council for Indirect Taxes at ASSOCHAM and at the Institute of Cost Accountants of India at the Central Council Level & Chapter Level

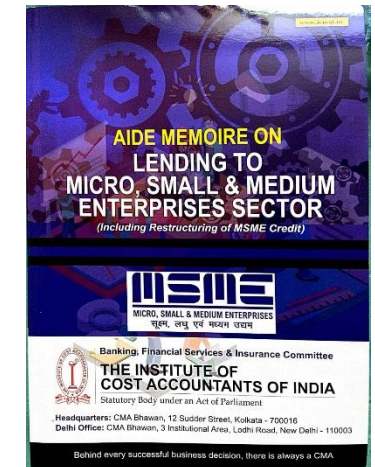
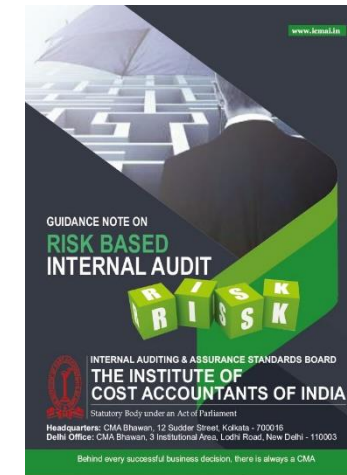
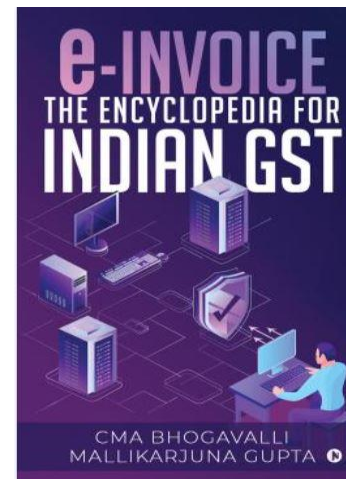
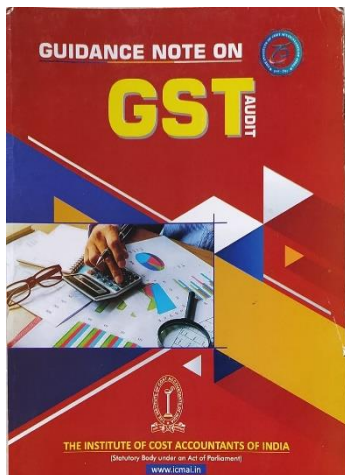
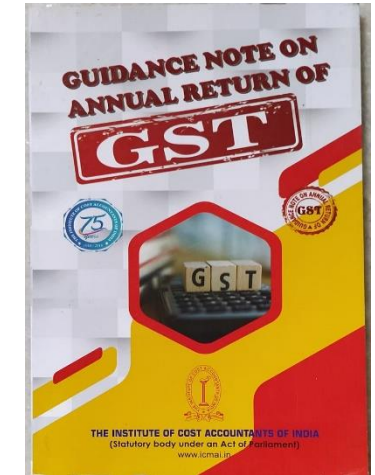
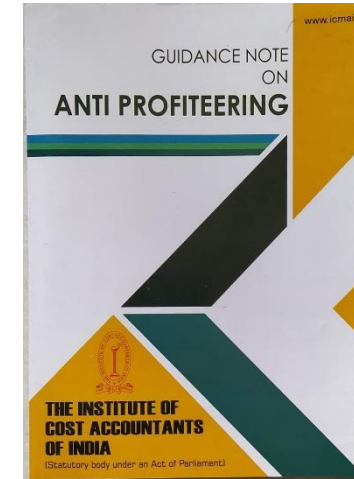
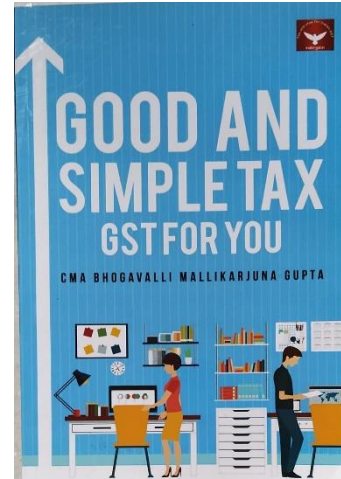
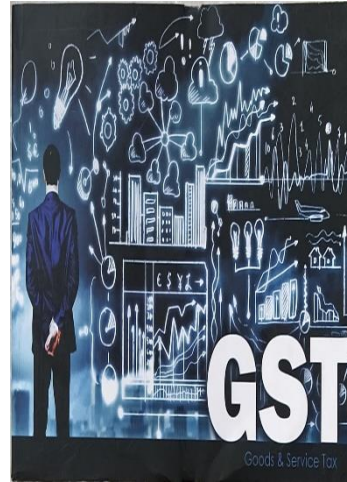
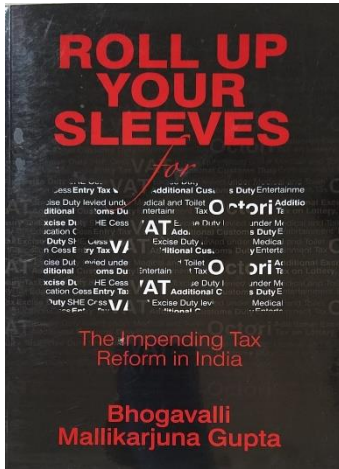


## AWARDS/RECOGNITIONS

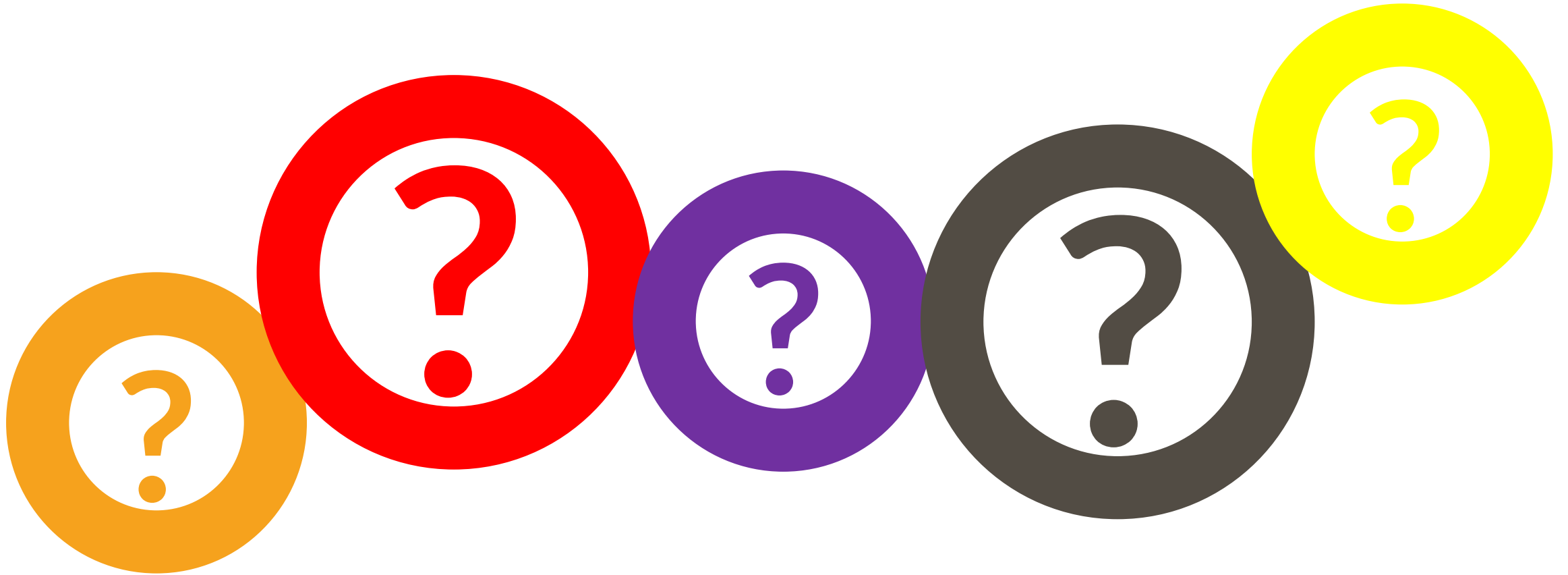
- Conferred the Indian Achievers' Award 2021 - In Recognition of Outstanding Professional Achievement & Contribution in Nation Building
- GUINNESS WORLD RECORDS title holder as a team member for the “Most people running up a single mountain.”
- Selected one among the 100 Digital Influences for 2020 by [YourStory](#)
- His podcasts find place in the top 10 Taxation podcasts in India for 2021
- Recognized by the Cyberabad Police for Traffic Volunteering for 100 hours & for conducting drunken drive.



# Books – Authored/Co Authored







# My Coordinates



[india-gst.in](https://india-gst.in)



[CMA Bhogavalli Mallikarjuna Gupta](#)



[mgbhogavalli](#)



[mallikarjunagupta@india-gst.in](mailto:mallikarjunagupta@india-gst.in)



**+91 93268 95843**



[India-gst.in](https://india-gst.in)    [cmagupta.com](https://cmagupta.com)

